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Launches boost Lupin's March qtr

Higher margins on the back of strong US performance, rebound in domestic growth expected to be a trigger for stock

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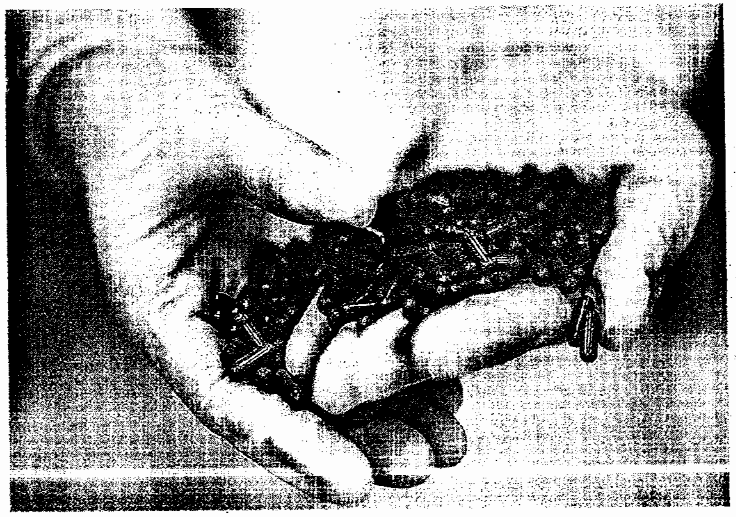
With strong operational performance in the US market, Lupin's financials for the March quarter were ahead of Street estimates. The heat was on the company's operating profits, which came in at ₹808 crore, as well as margins, up 250 basis points (bps) than in the year-ago quarter.

Superior margins of 26.4 per cent percolated down to the net profit level and this metric was up 35.5 per cent over a year. Sales, at ₹3,052 crore (up 20.3 per cent) were almost in lines with estimates. The boost to operating performance was led by product launches in the US market, in the December quarter. Exports to Europe and markets in the rest of the world also contributed well, showing good growth of 20 per cent and 38 per cent, respectively, albeit on a lower base.

A strong US growth momentum is likely to be driven by generic launches, as the company is looking at suitable brand acquisition opportunities to drive further growth. The disappointment is on account of a muted show in the domestic market, due to the new drug policy and trade-related issues. The trend is likely to get corrected and growth is expected to return in a few quarters.



Among segments, the oral contraceptives portfolio is shaping well and the company is likely to see $100 million per annum sales in a few quarters. PHOTO: BLOOMBERG

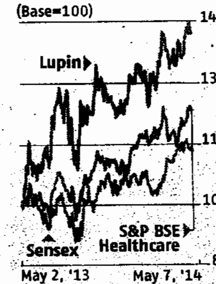
The margin improvement in the quarter might lead analysts to revise their earnings estimates. Ranjit Kapadia at Centrum Broking says 26 per cent will become the base margin number for Lupin. While he has a target price of ₹1,370 for the stock, Sarabjit Kour Nangra of Angel Broking has set a target price of ₹1,122 after the results. Bloomberg's consensus target price is ₹1,097, a 11 per cent upside from the current ₹990.20.

US prospects remain strong

US sales at ₹1,470 crore grew a respectable 28 per cent during the quarter, with its contribution up to 48 per cent of the overall sales. Product launches at the end of the December 2013 quarter, such as Trizivir (for HIV treatment) Triplix (cholesterol lowering) and Cymbalta (anti-depressant) have contributed.

The momentum is expected to continue. The company launched the generic version of cholesterol-lowering brand Niaspan at the end of March. Further, the ongoing quarter has seen approval for the generic launch of anti-diabetic drug Pioglitazone (Actos). With the base business in the US also growing well, the run rate of 15-20 new approvals and launches every year is likely to continue.

MORE GAINS SEEN



Compiled by BS Research Bureau

While generics are performing, the grey area remains the branded business, showing subdued growth. The cholesterol-lowering Antara brand's growth was impacted by launch of generics; anti-bacterial brand Suprax did not contribute much. The company is looking at acquiring brands in the US to grow its branded business.

Among segments, the oral contraceptives portfolio is shaping well and the company is likely to see $100 million per annum sales in a few quarters. The speciality to generics drug ratio continues to be 10:90. Though this might remain so for a few years, the company's efforts on speciality segments such as respiratory and dermatology are likely to benefit it.

Domestic market rebound

The disappointment in the quarter was India sales, which contributed about 19 per cent to overall sales. The lumpiness in growth seen in previous quarters continued. Sales at ₹576 crore grew a meagre two per cent over a year during the quarter, much lower than the 14 per cent growth in the December 2013 quarter. Nilesh Gupta, managing director, said growth in domestic sales will take a few quarters to get back to 18-20 per cent. However, one could expect around 10 per cent growth in the coming few quarters and this could be a trigger for the stock.

Respite from Japan

A seventeen per cent growth from Japan that contributed around 11 per cent to revenues showed some spark in the last quarter of financial year 2014, after disappointment in earlier quarters. While its Japanese subsidiary, Kyowa, is growing at a healthy 10-15 per cent, the challenge will be to improve the performance of its other Japanese subsidiary, I'rom. The company continues to focus on improvement in Japan, on the back of product launches in areas such as injectibles.

Company