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Strong US portfolio to help Lupin sustain growth

While increasing competition for a key product is a negative, the company's broad US portfolio as well as new launches will help offset any potential revenue loss

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The Lupin stock has underperformed its peers in the recent past with its shares falling four per cent over the last month as compared to the two per cent gain of the BSE Healthcare Index. The Street is a bit worried about competition from US-based generic major Mylan for Lupin's cholesterol-lowering brand Antara. Mylan recently got the go-ahead from the USFDA to launch the generic version of the drug which fetches Lupin an estimated $35 million in annual sales. While Lupin has received an injunction, which prevents Mylan from launching the product, an adverse ruling, going ahead, coupled with launches from Apotex and Dr Reddy's could impact sales. Bank of America Merrill Lynch (BofA-ML) analysts, S Arun and Arvind Bothra, say while the possible generic launch is a threat, the same has likely been priced in. Citi analysts believe the financial impact could be limited to three to four per cent for FY14 profit before tax estimates.

While the launches will impact earnings (estimates at $15 million), the two BofA-ML analysts say it will be offset by stronger-than-anticipated market share in cholesterol reducing generic Tricor ($1.1 billion sales) and scale-up of key oral contraceptive products.

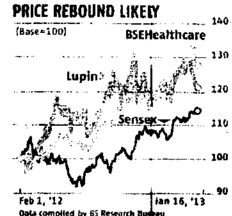
Most analysts have a buy on Lupin due to a strong US product portfolio and steady growth in the Indian business. Arijay Prasad of Espirito Santo believes that the underperformance is a good opportunity to accumulate the stock. What the Street will also keep an eye on is progress on achieving revenue target of $3 billion by FY15. Given that Lupin will reach just over half that number by end-FY13, it would need to grow inorganically to achieve the 30-35 per cent growth target over the next two fiscals. Bloomberg consensus estimates peg the one-year target at ₹646, which from the current level of ₹580 offers an upside of 11 per cent.

MARGINS TO IMPROVE

In ₹ crore	FY12	FY13E	FY14E
Sales	7,082	8,517	10,157
% ch y-o-y	21.5	20.3	19.3
Ebitda	1,444	1,824	2,245
% ch y-o-y	21.2	26.3	23.1
Ebitda (%)	20.4	21.4	22.1
Net profit	867	1,143	1,411
% ch y-o-y	0.6	31.8	23.5
P/E (x)	29.7	22.5	18.2

E: Estimates Source: Centrum Research

PRICE REBOUND LIKELY



Data compiled by BS Research Bureau

Strong US portfolio

The company recently introduced its oral contraceptive drug Yasmin ($250 million brand) in the US after securing regulatory approval. This is the fourth drug in the December quarter to get the USFDA go-ahead and would add to the company's product base in a geography which gets a third of its overall revenues. While the company received approvals to launch contraceptives Nordette and Seasonale in October, it got the approval to launch Tricor in November.

Says Arijay Prasad, "We expect these recent product launches to add to its US base, and the approval and launch of Suprax drops (a product extension) in February 2013 is also likely to improve the sustainability of the company's key US branded franchise." The Suprax antibiotic is the single largest brand for Lupin in the US market. It has seen a pick-up in the December quarter after sluggish sales in the preceding quarter. Espirito Santo estimates more than 15 disclosed launches (out of a potential 80) in FY14/FY15, which it believes could drive meaningful upgrades to estimates. Hitesh Mahida of Fortune Research estimates that Lupin has 21 first-to-files out of which nine are exclusives with a cumulative market size of $850 million.

Niche focus

A key reason why analysts are bullish is due to Lupin's presence in complex segments, which have lower competition and need higher investment in R&D as well as marketing. CLSA believes that such therapies include oral contraceptives, inhalers, transdermals and opthalmics, among others. It is this focus on niche segments that has helped Lupin reap the benefits. In the oral contraceptives space, for example, competition is limited to five players and the company has a strong product basket. Analysts estimate upwards of $100 million from the sale of these products for FY14. In addition to this, Lupin has filed 11 abbreviated new drug applications in the ophthalmic space, which Mahida says would be another growth driver for its US generic business.

December quarter

Driven by revenues from recent launches of Tricor and Yasmin, strong Suprax sales and growth from Japanese acquisition, revenues for the December quarter are expected to jump 25-30 per cent, feel analysts. From acquisition though, is likely to impair growth of earnings before interest, tax, depreciation and amortisation, which is expected at 14 per cent according to Motilal Oswal Securities' analysts. Margins are expected to decline 220 basis points year-on-year to 18.5 per cent partly due to high raw material and staff costs. Most analysts thus, have pegged net profit growth at 13-14 per cent for the quarter. However, over the next two fiscals, Lupin is expected to post earnings growth of 23-25 per cent, driven by robust revenues and margin gains.

Industry.