

## Lupin: Product launches to drive earnings' upgrades

### New launches, a strong US pipeline and high-growth India operations justify the premium valuations

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Even while the broader indices were down, Lupin's stock extended its gain for two trading sessions on launch of the anti-inflammatory Celebrex drug in the US. Lupin is one of the four generic players in the US for the drug, which has annual sales of \$2.5 billion. Analysts

at Motilal Oswal Securities (MOSL) expect the company to gain a market share of 15-20 per cent and believe staggered launch of the product by new generic

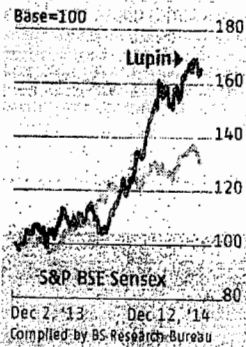
players would mean a lucrative opportunity. They peg sales from the product in the first year to touch \$75 million and expect the company to generate net profits of \$23-\$25 million over next year, adding two to three per cent to earnings per share in FY16/FY17.

In addition to the near-term trigger of Celebrex, the company had launched eight products so far in FY15. It also has a robust pipeline of 200 cumulative Abbreviated New Drug Application (ANDA) filings with the US FDA, of which over a 100 have been approved. US formulation sales were up 21 per cent over a year to \$202 million (₹1,271 crore) in the September quarter and analysts expect a similar trajectory (20-25 per cent y-o-y growth) for sales in the US over three years.

The triggers for the strong growth, according to MOSL analysts, are scaling up of niche portfolios like oral contraceptives and ophthalmology and low competition products such as Renagel (kidney disease), Welchol (anti-cholesterol) among others. In fact, launches can potentially lead to an earnings upgrade by analysts.

The US is the largest market for the company, generating revenues of 44 per cent.

The India business is also expected to add to the company's top line. Lupin registered sales of ₹1,560 crore in the first



half of the current financial year in the domestic market, growing 23 per cent, is expected to maintain this momentum. For the trailing 12-month ended November, the company outperformed the sector with sales growth of 12.5 per cent versus the sector average of 10.1 per cent. The company gets 22 per cent of revenues from the Indian market.

Given the consistent performance, the stock has been re-rated and commands premium valuations. Despite premium valuations at 19 times its FY17 earnings estimates, analysts say, it is justified, given the US pipeline, scaling up of Japanese opportunity and strong top line growth in India. In addition to niche launches and base business growth, key trigger would be acquisitions in other world markets.

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