

# Lupin: Correction an opportunity

While Merck Sereno and Salix deals will add to earnings in long run, existing geographies will continue driving growth

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**L**upin's deal with Merck Sereno might have disappointed the market, given that the stock fell six per cent intra-day on Tuesday post the announcement, to finally close four per cent lower. It also put some brakes on the strong rally the stock has seen, led by a robust performance in the June quarter and the improving growth outlook.

But, this deal along with last week's agreement with another US-based firm, Salix Pharmaceuticals, will help the company expand its geographical presence and product portfolio, adding to long-term growth drivers. As a result, and given the strong prospects, the correction is a good opportunity to enter the stock, believe analysts, most of whom are bullish.

Analysts at Motilal Oswal Securities, for instance, see core earnings growing 34 per cent CAGR over FY14-17, and maintain a 'Buy' on the stock, with a revised target price of ₹1,650 (based on 22x FY17 estimated



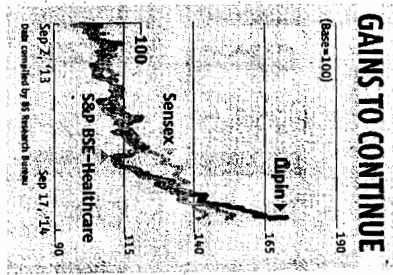
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earnings per share, plus Para IV pipeline valued at ₹8 a share). Many other foreign brokerages, too, have upgraded the target price to ₹1,600-1,650 for the stock trading at ₹1,365. The consensus target price, according to analysts polled on Bloomberg post the event, of ₹1,478 also indicates an upside of over eight per cent.

**Earnings-accretive deals**  
 Even as the company contin-

ues to see the US market driving overall growth, the two agreements with the leading global pharmaceutical companies (signed in a span of a week) are likely to be earnings accretive and longer term drivers.

The first agreement with US-based Salix Pharmaceuticals will strengthen fortunes in the Canadian market where Lupin is establishing its presence, and the second with Merck Sereno's for emerging markets as Latin



America, Asia, Central Eastern Europe, and Africa.

The long-term strategic partnership with Merck Sereno, biopharmaceutical division of Merck, Lupin will help Merck Sereno to expand its general medicine and endocrinology portfolio in the emerging markets. The agreement builds on an established working relationship between the two companies and could add up to 20 new products to the current portfolio. The first launches are expected in 2016. However, market par-

participants had expected much more than a pure contract manufacturing deal with Merck Sereno and hence the stock corrected on Tuesday. However, there could be more in the offing. Analysts as those at Motilal Oswal Securities feel a pure contract manufacturing arrangement is not Lupin's philosophy and there could be larger commercial arrangements following.

As of now, once the products are launched, Lupin will be getting a regular revenue flow, as well as milestone-based payments in addition to some upfront payment. Details of financials have not been disclosed. Since the revenues are expected to start flowing from FY17, analysts have not upgraded their near-term earnings estimates. The agreement with Salix is for exclusive rights to market, distribute and sell some of Salix products in Canada. This is being looked as a positive step since Lupin is in the process of establishing its Canadian presence. Thus, the addition of this significant product portfolio opens growth opportunities.

**US remains key driver**  
 Most analysts remain bullish on Lupin's prospects, looking at the strong growth in the US market, driven by existing products and new launch plans.

The generics of anti-depressant Cymbalta, cholesterol lowering Niaspan, anti-bacterial Zymarid and HIV treatment drug Trazivir had driven US sales growth in the June quarter and continue to do well. Zymarid and Trazivir have remained a two-player market, despite three quarters of generication. Though oral contraceptives are doing well, new launches are expected that will help expand the portfolio.

The limited competition products and specialty focus will boost growth. On this front, the respiratory and dermatology filings, as well as scaling up of complex injectables (through acquisition of Dutch company Nanomim in February) and biosimilar portfolio (joint venture with Japanese company Yoshindo in April) will emerge as long-term growth drivers.

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