

# LUPIN - Margin Pressure Highlight The Weakness of US Portfolio

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Date: November 2011

Pages: 6

Price: US\$ 140.00 (Single User License)

ID: L545EDDA935EN

## Abstracts

We reiterate our Underperform on Lupin after its Q2FY12 result that was largely in line with our estimates. Ex-Medicis milestone income, sales growth (up 17%) and gross margin increased by 289 bps Y-o-Y, yet EBITDA grew by a modest 2.6% with a decrease in Y-o-Y margin by 230 bps! The decrease in EBITDA margin is despite (1) favorable forex that was largely absorbed in the income statement as evident from the `966m of milestone payment received representing \$20m, (2) launch of 4 new products in US (including additional strengths of Lotrel) – much higher than the usual run-rate of one per quarter and (3) Suprax growing by 43% Y-o-Y.

We believe all these highlights (1) the dependence on generic Lotrel (2) increased sales force expense for a declining Antara and (3) high R&D expenses that may not be productive in the near future. While the expenses are unlikely to come down, Geodon under shared exclusivity is the only saving grace for Lupin to compensate for Lotrel price erosion.

We do not change our estimates for FY 12 We reiterate our Underperform rating on LPC with a target price of Rs.360.

## Contents

### COMPANIES MENTIONED

LUPIN

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