Lupin Limited

ICRA has a long-term rating of [ICRA]AAA (pronounced ICRA triple A) with a stable outlook outstanding on the Rs. 100.0 crore[1], Non-Convertible Debenture programme, the Rs. 150.0 crore, long-term, fund-based facilities and the Rs. 40.0 crore, long-term, non-fund based facilities, and a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 950.0 crore, short-term, fund-based facilities and the Rs. 360.0 crore, short-term, non-fund based facilities of Lupin Limited (Lupin)[2].

ICRA takes note of Lupin's proposed acquisition of the US-based GAVIS Pharmaceuticals LLC (GAVIS) and its affiliate Novel Laboratories, as announced on July 23, 2015, at a cost of USD 880 million. The acquisition, which is the fourth in the current year by Lupin – ZAO Biocom (Russia) acquired in July 2015, Medquimica Industria Farmaceutica S.A (Brazil) acquired in May 2015, Pharma Dynamics (South Africa) acquired in March 2015 (acquisition of balance 40% stake) – is expected to be closed by Q3 FY 2016. GAVIS is engaged in the development (through its manufacturing arm Novel Laboratories) and marketing of formulations for the US generics market. The acquisition complements the existing generics portfolio of Lupin in the US by accelerating its entry into the complex generics segment (controlled substances, dermatology products, colonoscopy products etc.) and access to a manufacturing facility and wider distribution channels in the US. GAVIS' current portfolio comprises of 20 products, with another 66 ANDA filings (pending approval from the USFDA), in addition to 25 Para IV filings and 8 first-to-file (FTFs). Combined with Lupin's portfolio of 81 commercialised products and 98 ANDAs pending approval as on date, the combined entity is estimated to have a market potential of ~USD 64 billion.

The acquisition, valued at 9 times CY 2014 sales of USD 96 million and 16 times CY 2015 EBITDA (management estimates), is to be primarily debt funded. Given the current cash surplus position of Lupin, ICRA does not expect the debt-funded acquisition to have any material impact on the credit profile and liquidity position of the company, which continue to be supported by healthy cash accruals from the existing established business and additional cash flows from the acquired businesses.

Lupin has also announced the acquisition of the speciality product portfolio of the Germany-based Temmler Pharma Gmbh & Co. KG (Temmler), on July 25, 2015. Temmler's product profile includes key Central Nervous System (CNS) products and other speciality products, which have strong synergies with the existing product portfolio of Hormosan Pharma Gmbh, which was acquired by Lupin in 2008.

ICRA also notes issue of 483s by the USFDA during its audit at the Goa manufacturing facility of Lupin in July 2015, citing nine observations. However, ICRA takes comfort from the management's clarification that these observations are not severe in nature and that the observations have already been complied with, thereby not likely to have any impact on the production or further receipt of approvals.

The ratings continue to reflect Lupin's strong and well diversified business model supported by branded formulations business (in India and US), generic business (with leadership position in certain therapeutic segments) and backward integration through presence in APIs. Aided by well diversified business model, strong product launches with increasing share of complex or limited competition products, backward integration through presence in APIs together with prudent capital management with respect to new investments, Lupin's financial profile is marked by steady margin expansions, strong cash flow generation and enhanced debt protection metrics. While Lupin is expected to continue to pursue its acquisition strategy in order to augment the existing branded drugs portfolio, expand geographical presence in other markets, further strengthen its presence in the Japanese market and its R&D through acquisition of technology based companies, ICRA expects Lupin's credit

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website, www.icra.in, or other ICRA Rating Publications

profile and liquidity position to remain healthy supported by strong pipeline of products yet to be commercialized across all its key markets.

Company Profile

Lupin (erstwhile Lupin Chemicals) was founded in 1968 by Dr. Desh Bandhu Gupta, the current Chairman, when he bought over the Lupin trade mark from a company called Charak Pharmaceuticals. Set up originally as a proprietary concern, it was converted into a private limited company in 1972, and became a public limited company in 1992. In June 2001, Lupin Chemicals Limited merged with Lupin Laboratories Limited, following which the name of the merged entity was changed to Lupin Limited. The amalgamation was aimed at leveraging the strengths of the two companies. Lupin is an integrated pharmaceutical company with presence across research, manufacturing and marketing of formulations and APIs. The company's business mix can be broadly divided into two segments – formulations (accounted for ~91% of Lupin's revenues in FY 2015) and APIs (~9%). Lupin has a well diversified geographic presence with sales to the advanced markets (US, Europe and Japan) accounting for nearly 57% of the company's total formulation sales (in FY 2015). In addition to being amongst the top five generic players (in terms of prescriptions) in the US market, Lupin is also amongst the few Indian pharmaceutical companies to have a successful presence in the high potential branded formulations market in the US. Lupin continues to remain an established player in the domestic formulations market where it has diversified its presence across therapeutic segments with fast-growing lifestyle related segments contributing 66% to its domestic formulations sales (in FY 2015).

Recent Results

For the three months ended June 30, 2015, Lupin (consolidated) reported a profit after tax (PAT) of Rs. 524.7 crore on an operating income of Rs. 3,150.2 crore as against a PAT of Rs. 2,442.4 crore on an operating income of Rs. 12,735.6 crore for the twelve months ended March 31, 2015.

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