

EARNINGS REVIEW

Lupin (LUPN.BO)

Neutral

Equity Research

Below expectations: Fortamet loses share, Glumetza still attractive

What surprised us

LUPN reported 2QFY17 Sales/EBITDA of Rs43bn/10bn, 3%/10% below GSe. The topline was lower than GSe due to softer other operating income. Higher employee expense (+36% yoy) and R&D spend (+47% yoy) drove the wider move on EBITDA. Price erosion was in the high single digit range. **(1) gFortamet competition impact at 6% market share loss:** Following Mylan's launch of gFortamet in September 2016, Lupin disclosed that it has given up close to 6% market share and has seen a moderate impact on pricing. **(2) gGlumetza competition not expected until end of F'3Q:** Given that Glumetza is a difficult product to formulate, stabilize and scale up for manufacturing, LUPN said it was not surprised that new entrants are taking time to enter. It is hopeful that new competition, including Sun Pharma and the smaller competitor Nostrum, will stay away until the end of the December quarter. **(3) Gavis guidance rebased downward:** Gavis sales guidance, which was initially US\$300mn in sales for FY18, was rebased to US\$250mn as the company is close to 6 months behind on original integration and ramp-up plans. That said, new capacity at Gavis came onboard in September 2016 and a key approved product pending launch (Potassium Chloride) could launch over the next couple of months according to LUPN. **(4) Pipeline update:** LUPN targets 10 launches including Hydrocodone APAP, Oxycodone APAP, Minastrin and Bupropion XL.

What to do with the stock

We lower 2017E-19E EBITDA by 4%-5% to factor in the 10% miss in the quarter. Accordingly, our 12m TP is cut to Rs1,600 (from Rs1,638) derived by discounting FY20E EBITDA/share forecast back 3 years at 11% WACC. Stay Neutral on limited TP upside. **Key risks:** Upside: Product launch rate.

Downside: Price erosion, execution at Gavis.

LUPN 2Q17 results summary

Rs. Mn	2Q17	Gse	vs Gse	YoY (%)	QoQ (%)
Sales	42,905	44,150	-3%	29%	-3%
EBITDA	10,281	11,421	-10%	53%	-21%
EBITDA margins	24.0%	25.9%	-191bps	372bps	-550bps
Net income	6,622	6,932	-4%	62%	-25%

Source: Company data, Goldman Sachs Global Investment Research.

INVESTMENT LIST MEMBERSHIP

Neutral

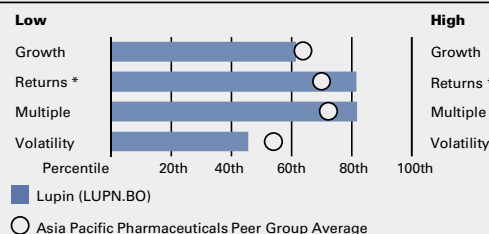
Coverage View: Neutral

Shyam Srinivasan, CFA
+91(22)6616-9346 shyam.srinivasan@gs.com Goldman Sachs India SPL

Richard Yeh
+852-2978-0526 richard.yeh@gs.com Goldman Sachs (Asia) L.L.C.

Chandramouli Muthiah
+91(80)6637-8541 chandramouli.muthiah@gs.com Goldman Sachs India SPL

Investment Profile

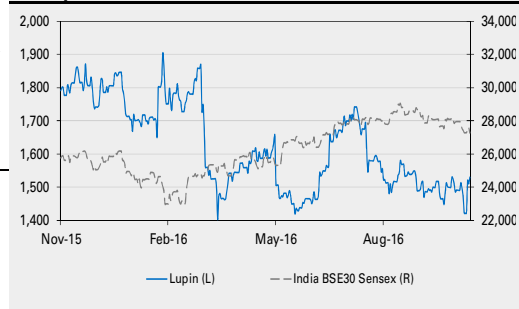


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	1,529.05
12 month price target (Rs)	1,600.00
Market cap (Rs mn / US\$ mn)	689,259.1 / 10,345.4
Foreign ownership (%)	--

	3/16	3/17E	3/18E	3/19E
EPS (Rs) New	50.15	60.36	70.40	80.15
EPS revision (%)	0.0	(3.9)	(2.7)	(2.5)
EPS growth (%)	(5.7)	20.4	16.6	13.8
EPS (dil) (Rs) New	50.15	60.36	70.40	80.15
P/E (X)	36.1	25.3	21.7	19.1
P/B (X)	7.5	5.2	4.4	3.7
EV/EBITDA (X)	23.5	16.9	14.4	12.4
Dividend yield (%)	0.4	0.7	0.8	0.9
ROE (%)	22.9	22.6	21.9	20.9
CROCI (%)	12.7	17.6	18.1	18.4

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(4.9)	(4.7)	(18.0)
Rel. to India BSE30 Sensex	(2.0)	(10.2)	(21.4)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 11/09/2016 close.

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Lupin: Summary Financials

Profit model (Rs mn)	3/16	3/17E	3/18E	3/19E	Balance sheet (Rs mn)	3/16	3/17E	3/18E	3/19E
Total revenue	142,084.7	172,647.6	197,860.1	217,010.9	Cash & equivalents	8,399.3	35,358.6	48,005.6	67,337.3
Cost of goods sold	(43,094.1)	(50,129.0)	(57,843.9)	(62,671.8)	Accounts receivable	45,498.1	42,570.6	48,787.4	53,509.5
SG&A	(45,619.1)	(57,948.5)	(67,373.4)	(74,614.3)	Inventory	31,787.4	33,419.3	38,562.6	41,781.2
R&D	(16,038.3)	(20,921.0)	(22,278.8)	(23,202.0)	Other current assets	12,105.5	12,105.5	12,105.5	12,105.5
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	97,790.3	123,454.0	147,461.1	174,733.6
EBITDA	37,333.2	43,649.1	50,364.1	56,522.9	Net PP&E	42,437.1	53,981.6	60,045.8	65,535.5
Depreciation & amortization	(4,635.0)	(8,455.5)	(8,935.8)	(9,510.3)	Net intangibles	73,586.0	73,586.0	73,586.0	73,586.0
EBIT	32,698.2	35,193.6	41,428.3	47,012.5	Total investments	10,564.1	10,564.1	10,564.1	10,564.1
Interest income	--	--	--	--	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(446.2)	(1,108.8)	(668.8)	(484.4)	Total assets	224,377.5	261,585.7	291,657.0	324,419.2
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	21,918.5	26,633.2	30,522.6	33,476.9
Others	2,078.3	2,419.7	2,967.9	3,255.2	Short-term debt	17,454.1	17,454.1	17,454.1	17,454.1
Pretax profits	34,330.3	36,504.6	43,727.4	49,783.3	Other current liabilities	14,499.8	14,499.8	14,499.8	14,499.8
Income tax	(11,535.8)	(9,140.5)	(11,806.4)	(13,441.5)	Total current liabilities	53,872.4	58,587.1	62,476.5	65,430.8
Minorities	(87.6)	(27.7)	(37.1)	(42.2)	Long-term debt	53,739.0	63,789.0	63,789.0	63,789.0
Net income pre-preferred dividends	22,706.9	27,336.3	31,883.9	36,299.6	Other long-term liabilities	6,601.6	6,601.6	6,601.6	6,601.6
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	60,340.6	70,390.6	70,390.6	70,390.6
Net income (pre-exceptionals)	22,706.9	27,336.3	31,883.9	36,299.6	Total liabilities	114,213.0	128,977.7	132,867.1	135,821.4
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	22,706.9	27,336.3	31,883.9	36,299.6	Total common equity	109,843.7	132,259.5	158,404.3	188,169.9
EPS (basic, pre-exception) (Rs)	50.45	60.64	70.73	80.53	Minority interest	320.8	348.5	385.6	427.8
EPS (basic, post-exception) (Rs)	50.45	60.64	70.73	80.53	Total liabilities & equity	224,377.5	261,585.7	291,657.0	324,419.2
EPS (diluted, post-exception) (Rs)	50.15	60.36	70.40	80.15	BVPS (Rs)	242.60	292.02	349.75	415.47
DPS (Rs)	7.44	10.86	12.67	14.43	Ratios	3/16	3/17E	3/18E	3/19E
Dividend payout ratio (%)	14.7	17.9	17.9	17.9	CROCI (%)	12.7	17.6	18.1	18.4
Free cash flow yield (%)	(7.6)	3.3	2.8	3.8	ROE (%)	22.9	22.6	21.9	20.9
Growth & margins (%)	3/16	3/17E	3/18E	3/19E	ROA (%)	12.8	11.3	11.5	11.8
Sales growth	11.3	21.5	14.6	9.7	ROACE (%)	18.8	16.0	17.5	18.6
EBITDA growth	3.1	16.9	15.4	12.2	Inventory days	240.6	237.4	227.1	234.0
EBIT growth	2.7	7.6	17.7	13.5	Receivables days	92.6	93.1	84.3	86.0
Net income growth	(5.5)	20.4	16.6	13.8	Payable days	175.7	176.8	180.3	186.4
EPS growth	(5.8)	20.2	16.6	13.8	Net debt/equity (%)	57.0	34.6	20.9	7.4
Gross margin	69.7	71.0	70.8	71.1	Interest cover - EBIT (X)	73.3	31.7	61.9	97.0
EBITDA margin	26.3	25.3	25.5	26.0	Valuation	3/16	3/17E	3/18E	3/19E
EBIT margin	23.0	20.4	20.9	21.7	P/E (analyst) (X)	36.1	25.3	21.7	19.1
Cash flow statement (Rs mn)	3/16	3/17E	3/18E	3/19E	P/B (X)	7.5	5.2	4.4	3.7
Net income pre-preferred dividends	22,706.9	27,336.3	31,883.9	36,299.6	EV/EBITDA (X)	23.5	16.9	14.4	12.4
D&A add-back	4,635.0	8,455.5	8,935.8	9,510.3	EV/GCI (X)	4.2	3.3	3.0	2.7
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	0.4	0.7	0.8	0.9
Net (inc)/dec working capital	(22,946.2)	6,010.3	(7,470.7)	(4,986.4)					
Other operating cash flow	(19,708.8)	(8,031.7)	(11,137.7)	(12,957.1)					
Cash flow from operations	(3,689.7)	42,938.6	34,054.9	41,350.1					
Capital expenditures	(58,157.2)	(20,000.0)	(15,000.0)	(15,000.0)					
Acquisitions	(12,282.0)	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	1,004.9	0.0	0.0	0.0					
Cash flow from investments	(69,434.3)	(20,000.0)	(15,000.0)	(15,000.0)					
Dividends paid (common & pref)	(3,368.3)	(4,920.5)	(5,739.1)	(6,533.9)					
Inc/(dec) in debt	62,080.9	10,050.0	0.0	0.0					
Common stock issuance (repurchase)	2.2	0.0	0.0	0.0					
Other financing cash flows	(588.6)	(1,108.8)	(668.8)	(484.4)					
Cash flow from financing	58,126.2	4,020.7	(6,407.9)	(7,018.3)					
Total cash flow	(14,997.8)	26,959.3	12,647.0	19,331.7					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

Analyst Contributors

Shyam Srinivasan, CFA

shyam.srinivasan@gs.com

Richard Yeh

richard.yeh@gs.com

Chandramouli Muthiah

chandramouli.muthiah@gs.com

Exhibit 1: Lupin 2QFY17 variance table

in Rs mn, except per share data

Lupin 2Q17 Variance table	2Q16	1Q17	2Q17	2Q17E	vs Gse	yoy gr	qoq gr
Sales (incl. other operating income)	33,213	44,394	42,905	44,150	-3%	29%	-3%
YoY (%)	4.7%	40.9%	29.2%	32.9%			
Cost of goods sold	(11,294)	(12,719)	(12,429)	(13,040)	-5%	10%	-2%
CoGS as a % of sales	34.0%	28.7%	29.0%	29.5%			
Gross Margin	66.0%	71.3%	71.0%	70.5%	57bps	504 bps	-32 bps
EBITDA	6,721	13,080	10,281	11,421	-10%	53%	-21%
EBITDA margin	20.2%	29.5%	24.0%	25.9%	-191bps	372 bps	-550 bps
EBITDA yoy growth	-19.3%	60.2%	53.0%	69.9%			
EBITDA margin as stated by company	22.5%	32.2%	25.2%	28.2%	-301bps	270 bps	-708 bps
Sales base for EBITDA	31,783	43,136	42,112	42,891			
EBITDA as stated by company	7,136	13,907	10,594	12,083	-12%	48%	-24%
Net Income	4,088	8,819	6,622	6,932	-4%	62%	-25%
Net Margin	12.3%	19.9%	15.4%	15.7%	-27bps	312 bps	-443 bps
NI yoy growth	-35.1%	68.0%	62.0%	69.6%			
EPS - Diluted	9.03	19.47	14.62	15.31	-4%	62%	-25%
Split by segment / geography							
Formulations Sales	28,596	40,453	39,193	37,441	5%	37%	-3%
US Sales	11,539	21,886	19,978	18,902	6%	73%	-9%
EMEA (Europe earlier) Sales	2,218	2,194	2,355	2,413	-2%	6%	7%
India Sales	8,881	9,499	9,958	9,612	4%	12%	5%
APAC Sales (Japan earlier)	4,462	5,416	5,520	4,983	11%	24%	2%
LATAM + ROW Sales (Rest of the World earlier)	1,496	1,458	1,382	1,531	-10%	-8%	-5%
API Sales	3,330	2,966	2,919	3,058	-5%	-12%	-2%

Source: Company data, Goldman Sachs Global Investment Research

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Reg AC

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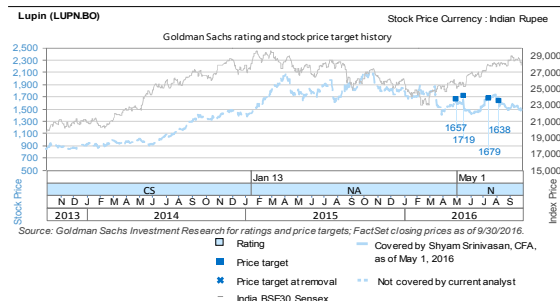
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