

Lupin

India Research

RESULT REVIEW

 Bloomberg: LPC IN
 Reuters: LPC.BO

BUY

EBDITA margins falter, long term outlook intact

Lupin's revenues increased 32% YoY to Rs 42.1 bn in Q2FY17 marginally lower than our estimates of Rs 43 bn on back of better performance in US, Kyowa APAC, LATAM and ROW business. Operating margins increased by 406bps YoY to 23.9% (lower than our estimate of 26%) due to higher R & D and forex loss. Net Profit grew by 58% YoY to Rs 6622 mn in line with our estimates of Rs 6671 mn.

Revenue Details: US business outperformed at Rs 19978 mn on account of no competition in Glumetza and less competition in Fortamet. Kyowa grew by 10.4% to JPY 6700 mn in line with our estimate of JPY 6678 mn. Domestic formulation business grew by 12.1% YoY to Rs 9958 mn (below our estimate of Rs Rs10168 mn). EMEA grew by 6.18% YoY clocking net sales of Rs 2355 mn. Brazil also showed good growth. Operating income was also lower at Rs 794 mn as against our expectation of Rs 1550 mn.

Margin lower than expectation: Gross margins were in line with preceding quarter as there was no competition in Glumetza and minimal price erosion in Fortamet. Higher Other expenses on account of forex loss of Rs 450 mn and R & D expenses of 13.6 % of revenues were the primary reason for lower margins.

Outlook & Valuation: We downgrade our revenues for FY17E/FY18E by 9.8%/3.8% on account of downgrade in US and API business. We however downgrade our EBITDAM by 320bps to 25.6% and 130 bps to 26.5% for FY17E/FY18E respectively due to higher staff cost. We downgrade our EPS by 20.5%/9.3% to Rs 58.4/Rs 70.9 for FY17E/FY18E respectively. We increase our multiple from 22.5x to 24x due to resolution of the Goa plant and better visibility in the US market. We downgrade our price target by 3.2 % to Rs 1702 based on 24x FY18E and maintain our BUY rating on the stock.

Key Financials

Y/E Mar (Rs Mn)	FY14	FY15	FY16	FY17E	FY18E
Net sales	112,866	127,700	142,085	183,074	219,417
EBITDA	30,028	36,196	37,535	46,833	58,084
Net Profit	17,706	22,384	19,743	26,304	31,929
EPS(Rs)	39.5	49.8	43.8	58.4	70.9
EPS growth (%)	39.9	26.1	-12.0	33.2	21.4
EBITDA margin(%)	26.6	28.3	26.4	25.6	26.5
PER(x)	38.7	30.7	34.9	26.2	21.6
EV/EBITDA (x)	22.9	19.0	20.0	15.7	12.2
P/S (x)	6.2	5.5	5.0	3.9	3.2
RoCE(%)	40.6	40.7	25.9	21.7	24.7
RoE(%)	27.6	28.5	22.2	23.6	23.3

Source: Company, Karvy Stock Broking.....Indian GAAP Consolidated

Recommendation

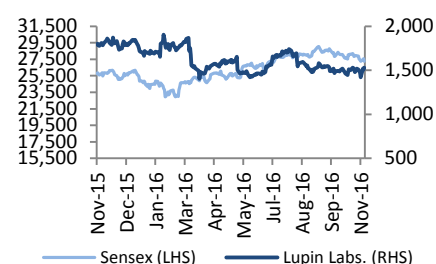
CMP:	Rs1,530
Target Price:	Rs1,702
Previous Target Price:	Rs1,757
Upside (%)	11%

Stock Information

Market Cap. (Rsbm / US\$ mn)	690/10368
52-week High/Low (Rs)	1,911/1,280
3m ADV (Rsmn /US\$ mn)	1,906/28.4
Beta	0.7
Sensex/ Nifty	27,253/8,432
Share outstanding (mn)	451

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	2.0	(4.8)	(18.1)	(16.7)
Rel. to Sensex	5.0	(1.9)	(21.5)	(20.2)

Performance


Source: Bloomberg

Earnings Revision

(%)	FY17E	FY18E
Revenue	↓ 9.2	↓ 3.8
EBITDA	↓ 19.3	↓ 8.3
EPS	↓ 20.5	↓ 9.3

Source: Karvy Stock Broking

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Key highlights:

US

During the quarter, Lupin filed 4 ANDAs and received 9 approvals from the US FDA during the quarter. The Company now has 45 First-to-Files (FTF) filings including 25 exclusive FTF opportunities. The company does not anticipate competition in Glumetza in Q3 FY17, competition would be staggered with two players coming over a period of time. With competition coming in, the price erosion has been moderate in Fortamet.

Despite competition coming in Glumetza and Fortamet, the price erosion is expected to be moderate and which would be compensated by less competition products include Methergin, Potassium Chloride, Minastrein, Lansoprazole ODT and Fosrenol and others.

Due to scale up and other issues the company has postponed the USD 250 mn revenue guidance for Gavis to FY18E.

The company has launched 5 products till date and plans to launch 15 products in the current year including Gavis. The company is hopeful of launching 30 products in FY18E.

India

The company has launched 8 new products in H1. The company has 23 % of its revenues currently under price control. On the FDC front, the company is awaiting the Supreme Court verdict.

Japan

With the Shinogi acquisition, company's ranking is expected to move up Japan from No 7 to No 5. Lupin believes it can achieve a 10 % growth in Yen terms.

Other Takeaways:

The company expects R & D to be around Rs 2500 mn for the current year and a growth of 10-15 % in FY 18E.

Exhibit 1: Quarterly performance

Y/E Mar (Rs mn)	Q2FY17	Q1FY17	Q2FY16	QoQ %	YoY %
Net Revenues	42905.10	44,394	33,297	(3.4)	28.9
Cost	32624.40	31,314	26,671	4.2	22.3
EBITDA	10280.70	13,080	6,626	(21.4)	55.2
EBITDA Margin (%)	24.0	29.5	19.9		
Other Income	271.10	826	578	(67.2)	(53.1)
Interest	263.00	320	240	(17.8)	9.6
Depreciation	2111.90	2,027	1,155	4.2	82.9
Profit before Tax	8176.90	11,560	5,809	(29.3)	40.8
Tax	1589.40	2,734	1,591	(41.9)	(0.1)
Tax rate (%)	19.4	23.7	27.4		
Profit After Tax	6587.50	8,826	4,219	(25.4)	56.2
Minority Interest + Shr of asso.	7.70	6	27	24.2	(71.2)
Net Profit	6621.90	8,820	4,198	(24.9)	57.7
Other Comprehensive Income	179	911	-1522		
Adjust PAT	6800	9731	2675	30	154.2

Source: Company, Karvy Stock Broking

Exhibit 2: Change in Estimates

Y/E Mar (Rs. Mn)	FY17E			FY18E			Comments
	New	Old	% change	New	Old	% change	
India Formulations	37,477	37,308	0.5	43,099	42,904	0.5	marginal upgrade in domestic formulations
US	92,759	101,527	(8.6)	116,882	114,758	1.9	downgrade in certain opportunities and base business, higher traction in approvals in FY18
Japan	17,284	16,814	2.8	18,935	18,308	3.4	upgrade in lieu of H1
EU	1,800	1,800	-	2,100	2,100	-	
South Africa	4,798	4,798	-	5,757	5,757	-	
API	11,282	12,074	(6.6)	11,508	12,315	(6.6)	downgrade in biz in lieu of H1 nos
Revenues	183,074	201,514	(9.2)	219,417	228,105	(3.8)	
Raw material costs	54,993	61,282	(10.3)	65,362	67,870	(3.7)	better gross margins in FY 18
Staff Cost	28,600	26,500	7.9	32,895	30,480	7.9	in lieu of H1
Other expense	52,647	55,760	(5.6)	63,075	66,433	(5.1)	lower ramp up in exps and R & D
EBITDA	46,833	57,972	(19.2)	58,084	63,322	(8.3)	
EBITDA margin (%)	25.6	28.8		26.5	27.8		
Other Income	2,042	1,434	42.4	2,542	2,073	22.7	higher excess cash
Depreciation & amortisation	8,493	8,493	-	9,294	9,294	-	
Interest	1,375	1,394	(1.4)	1,441	1,448	(0.5)	
PBT	39,009	49,519	(21.2)	49,891	54,652	(8.7)	
Tax	9,752	13,370	(27.1)	14,967	16,396	(8.7)	lower tax in FY 17
Tax rate	25.0	27.0	(7.4)	30.0	30.0	-	
Amortisation of GW	2,964	2,964	-	2,964	2,964	-	
Net Profit	26,304	33,096	(20.5)	31,929	35,204	(9.3)	
EPS (Rs.)	58.4	73.4	(20.5)	70.9	78.1	(9.3)	

Source: Company, Karvy Stock Broking

Financials

Exhibit 3: Profit & Loss

Y/E mar (Rs Mn)	FY14	FY15	FY16	FY17E	FY18E
Domestic	24,795	29,679	33,916	37,477	43,099
Exports	86,071	96,318	103,100	140,989	170,781
Other Operating Income	1,999	1,703	5,069	4,608	5,537
Net Revenues	112,866	127,700	142,085	183,074	219,417
Raw Material	38,174	41,570	43,094	54,993	65,362
Staff	14,647	17,473	21,077	28,600	32,895
Other Exps	30,018	32,460	40,379	52,647	63,075
Total Expenditure	82,838	91,504	104,550	136,241	161,333
EBITDA	30,028	36,196	37,535	46,833	58,084
EBITDA margin (%)	26.6	28.3	26.4	25.6	26.5
Other income	1,165	2,398	1,877	2,042	2,542
Interest	267	98	446	1,375	1,441
Depreciation and Amortisation	2,610	4,347	4,635	8,493	9,294
Profit Before Tax	28,317	34,148	34,331	39,009	49,891
Tax	9,622	9,705	11,538	9,752	14,967
Minority Interest	331	412	88	30	30
Net Profit	18,364	24,032	22,707	29,268	34,894
less Amortisation of GW	658	1,648	2,964	2,964	2,964
PAT After Amortisation	17,706	22,384	19,743	26,304	31,929

Source: Company, Karvy Stock Broking

Exhibit 4: Balance Sheet

Y/E Mar (Rs Mn)	FY14	FY15	FY16	FY17E	FY18E
Equity	897	899	901	901	901
Reserves	65,608	83,383	101,520	122,901	148,864
Net worth	66,505	84,282	102,421	123,802	149,766
Deferred Tax Liabilities	2,487	2,024	2,045	2,045	2,045
Short-term Loans	4,024	3,692	17,454	8,923	8,555
Long-term Loans	2,514	1,680	54,270	49,750	49,750
Total Loans	6,537	5,371	71,724	68,683	68,315
Minority Interest	669	241	321	321	321
Liabilities	76,198	91,918	176,510	194,850	220,446
Gross Block	46,459	51,093	87,094	99,913	109,345
Depreciation	19,283	23,329	27,715	36,207	45,501
Net Block	27,176	27,764	59,379	63,706	63,844
Capital work-in-progress	2,843	5,197	9,812	8,992	6,561
Goodwill on Consolidation	6,579	16,481	29,644	29,644	29,644
Less Amortisation	2,811	4,459	7,423	10,388	13,352
Goodwill	3,768	12,022	22,221	19,256	16,292
Long-term Investments	1,785	16,584	75	10,085	10,085
Deferred Tax assets	708	842	806	806	806
Inventories	21,295	25,036	31,787	32,388	36,526
Debtors	24,641	26,566	45,498	44,005	52,737
Cash	7,975	4,814	8,379	24,545	47,876
Other Current assets	9,060	8,095	21,808	19,962	21,816
Total Current assets	62,970	64,510	107,473	120,900	158,956
Creditors	15,941	19,561	21,919	26,875	31,825
Other current liabilities	7,110	15,440	18,526	18,343	20,594
Total current liabilities	23,051	35,001	40,445	45,218	52,419
Net current assets	39,919	29,509	67,029	75,682	106,537
Total Assets	76,198	91,918	176,510	194,850	220,446

Source: Company, Karvy Stock Broking

Exhibit 5: Cash Flow Statement

Y/E Mar (Rs Mn)	FY14	FY15	FY16	FY17E	FY18E
EBIT	26,760	30,201	29,936	35,376	45,826
Change in working capital	(3,508)	7,248	(33,954)	7,512	(7,523)
Cash flow from operations	23,252	37,449	(4,018)	42,888	38,303
Other income	1,165	2,398	1,877	2,042	2,542
Depreciation and Amortisation	3,268	5,995	7,599	11,457	12,259
Interest paid (-)	(267)	(98)	(446)	(1,375)	(1,441)
Dividends paid(-)	(3,147)	(4,058)	(4,067)	(4,881)	(5,966)
Tax paid (-)	(9,622)	(9,705)	(11,538)	(9,752)	(14,967)
Minority interest	(331)	(412)	(88)	(30)	(30)
Goodwill on Consolidation	(1,506)	(9,902)	(13,163)	-	-
Deferred tax liabilities	150	(463)	21	-	-
Deferred tax asset	(4)	(134)	36	-	-
Net cash from operations	12,959	21,071	(23,823)	40,350	30,700
Capital Expenditure	(4,593)	(7,289)	(58,054)	(12,000)	(7,000)
Free Cash Flow	8,366	13,782	(81,877)	28,350	23,700
Change in short-term borrowing	(3,244)	(332)	13,763	(8,531)	(368)
Change in long-term borrowing	(1,863)	(834)	52,590	5,490	-
Change in borrowings	(5,108)	(1,166)	66,353	(3,041)	(368)
Change in Investments	(1,764)	(14,799)	16,509	(10,010)	-
Equity issue/buyback	1,545	(318)	1,838	-	-
Cash from Financial Activities	(5,327)	(16,283)	84,700	(13,051)	(368)
Others	587	(660)	743	866	
Opening cash	4,349	7,975	4,814	8,379	24,545
Closing cash	7,975	4,814	8,379	24,545	47,876

Source: Company, Karvy Stock Broking

Exhibit 6: Key Ratios

YE Mar	FY14	FY15	FY16	FY17E	FY18E
EV/EBDITA(x)	30.7	22.9	19.0	20.0	15.7
ROE (%)	26.3	27.6	28.5	22.2	23.6
ROCE(%)	32.2	40.6	40.7	25.9	21.7
PE(x)	54.2	38.7	30.7	34.9	26.2
P/S(x)	7.2	6.2	5.5	5.0	3.9
P/BV(x)	13.7	10.3	8.2	6.7	5.6

Source: Company, Karvy Stock Broking

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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Disclosures Appendix

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Analyst certification

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