

Rating  
**Hold**Asia  
IndiaHealth Care  
Pharmaceuticals /  
BiotechnologyCompany  
**Lupin Alert**Reuters  
LUPN.NSBloomberg  
LPC INExchange  
NSITicker  
LUPNDate  
9 November 2016**Results**

Price at 9 Nov 2016 (INR)	1,529.65
Price target - 12mth (INR)	1,513.00
52-week range (INR)	1,905.65 - 1,401.55
Bombay Stock Exchange (BSE 30)	27,591

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Market cap (INRm)	690,025
Market cap (USDm)	10,343
Shares outstanding (m)	451.7
Major shareholders	Gupta family (46.9%)
Free float (%)	0
Avg daily value traded (USDm)	25.3

Source: Deutsche Bank

**Key data**

FYE 3/31	2016A	2017E	2018E
Sales (INRm)	136,816	159,190	169,775
Net Profit (INRm)	22,706.1	27,116.1	32,550.3
DB EPS (INR)	51.02	60.03	72.06
PER (x)	35.4	25.5	21.2
Yield (net) (%)	0.4	0.6	0.7

Source: Deutsche Bank

**Related Research**

Lupin Alert - Goa plant cleared, however approvals already built in, Maintain Hold Kartik Mehta	6 Nov 2016
Lupin Alert - R&D spurt to dent earnings; downgrading to Hold Kartik Mehta	20 May 2016

Source: Deutsche Bank

**Increasing competition in key products to weigh on medium term****Weak Q2, higher other expenses led to EBITDA miss; maintaining Hold**

Lupin's Q2 sales/ gross margin came in line. However, EBITDA margin at 22.5% (down 488bps QoQ, higher other expenses) led to PAT miss by c7%. We believe with increasing competition in gFortamet, additional competition in gGlumetza, pricing pressure in base business (single digit) will continue to weigh on near term growth/earnings. We forecast sales and EPS CAGR of c11% and c19% CAGR over FY16-18E. Maintain Hold. TP of INR 1,513.

**2Q snapshot**

Revenue grew 32% YoY (down c2% QoQ), Gross margin remained flat (70.5% QoQ). EBITDA margin fell to 22.5% (down 488bps QoQ) led by higher R&D (+300bps) and other expenses (+230bps QoQ). Tax rate came lower at 19.4% (c31% in FY16).

**Key regions performance**

US sales (USD 292mn, down 30mn QoQ) were impacted by price erosion in base business, adverse seasonality and increased competition in gFortamet (6% market share loss, modest price erosion). India sales grew 12% YoY. APAC (+24% YoY) was led by strong growth in Japan (10% YoY in JPY terms).

**Key call takeaways**

a) Expects to maintain EBITDA margin the range of 26-28%; b) Pending ANDAs: 142, 45 FTF, 4 ANDAs filed in Q1; c) Price erosion: 8-9% in base business; d) US approvals: gRenvela, gRenagel, gWelchol, gTamiflu (2HFY18); Methergine brand can scale up to USD 70mn annually; e) Other exp includes INR 450mn of forex loss; f) Gavis revenue expectation down to USD 250mn in FY18 (from 300mn)

**Figure 1: Q2FY17 – Weak EBITDA margin led to PAT miss despite lower tax**

(Rs. mn)	Sep-16	Sep-15	% Chg	Jun-16	% Chg
Net Sales	42,112	31,926	31.9	43,136	(2.4)
<b>EBITDA</b>	<b>9,488</b>	<b>5,255</b>	<b>80.5</b>	<b>11,822</b>	<b>(19.7)</b>
Other income*	1,064	1,949	(45.4)	2,085	(48.9)
PBITD	10,552	7,204	46.5	13,907	(24.1)
Depreciation	2,112	1,155	82.9	2,027	4.2
Interest	263	241	9.3	320	(17.8)
PBT	8,177	5,809	40.8	11,560	(29.3)
Tax	1,589	1,591	(0.1)	2,734	(41.9)
Minority	-34	20	(268.6)	6	(654.8)
<b>Adjusted PAT</b>	<b>6,622</b>	<b>4,197</b>	<b>57.8</b>	<b>8,820</b>	<b>(24.9)</b>
EBITDA margins (%)	22.5	16.5	607bps	27.4	-488bps

Source: Deutsche Bank, Company data, \*other operating income is included below EBITDA in other Income

Deutsche Bank AG/Hong Kong

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