

**Lupin**

# Timely approvals a concern; Maintain HOLD

<b>CMP</b> Rs1,530	<b>Target Price</b> Rs1,630 (▼)
<b>Rating</b> HOLD (➔)	<b>Upside</b> 6.5 %

- Q2FY17 reported sales were in-line with our estimates. However, there was a miss on EBITDA and earnings. PAT was impacted by higher R&D expenses and forex loss, although the impact was partially compensated by lower tax
- Guidance on launch of long awaited products like gRenagel, gRenvela and gWelchol is further pushed by a quarter. We factor launch of gEpzicom, gTamiflu, gMinastrin, gPrevacid solutab in the near term, which would partially compensate for additional competition in high value gFortamet and gGlumetza
- FY17 to be a year of seeding investments as the company builds capabilities in non-orals (respiratory, biologics and derma) and raises capex over the next 3 years (over Rs45bn). These investments are to meaningfully contribute towards the top-line from FY19 onwards
- We lower estimates by 10/4% for FY17/18 and retain our HOLD rating with new target price of Rs1,629/share (earlier Rs1,695) on limited near term revenue visibility even as Lupin builds meaningful capabilities

## Emkay View

- US business; timely approvals for complex generics remains a worry** Lupin has guided to launch gRenagel, gRenvela and gWelchol in FY18-end vs earlier guidance of mid-FY18. Company had already revised its guidance on these products several times earlier. We have factored launch of these products in 4QFY18; however, risk of further delay remains. We continue to factor launch of gEpzicom, gTamiflu, gMinastrin and gPrevacid solutab in the near to mid-term, which will partially compensate for the decline in gGlumetza and gFortamet owing to additional competition in these products.
- Fundamental structural issue with generic industry** Though generic companies' commentary is of abating pricing pressure in FY17 (high-single digit erosion) from the high levels in FY16 (c10-15%), result trends are mixed with base businesses indicating continuing sharp erosion although partially masked by volume gains. Moreover commentary from pharma trade channels point at further deterioration. A fundamental shortcoming is a fragmenting generics industry vs significantly consolidated distribution channel. Regulatory structures delaying approvals and lowering growth rates across companies have overshadowed what would be a difficult growth period anyways.
- Current valuation fully discounts all the high value launches** in near to mid-term. We revise downward our earnings estimates by 10%/4% for FY17/FY18. Despite Goa plant EIR coming through, high value launch visibility still remains low. We value Lupin at a multiple of 22x FY18E EPS of Rs72/share which gives us our new target price of Rs1,629/share. Maintain our HOLD rating.

## Financial Snapshot (Consolidated)

(Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	112,866	127,700	142,085	173,790	203,419
EBITDA	30,028	36,196	37,535	45,646	55,115
EBITDA Margin (%)	26.6	28.3	26.4	26.3	27.1
APAT	18,874	24,032	22,707	27,627	33,378
EPS (Rs)	42.1	53.5	50.4	61.3	74.1
EPS (% chg)	35.6	27.0	(5.7)	21.7	20.8
ROE (%)	31.1	30.4	22.9	22.7	22.7
P/E (x)	36.3	28.6	30.4	24.9	20.7
EV/EBITDA (x)	22.8	18.6	20.2	16.7	13.1
P/BV (x)	9.9	7.7	6.3	5.2	4.3

Source: Company, Emkay Research

## Change in Estimates

EPS Chg FY17E/FY18E (%)	(10/4)
Target Price change (%)	(4)
Previous Reco	HOLD

## Emkay vs Consensus

EPS Estimates		
	FY17E	FY18E
Emkay	61.3	74.1
Consensus	66.2	76.9
Mean Consensus TP	Rs 1,744	

## Stock Details

Bloomberg Code	LPC IN
Face Value (Rs)	2
Shares outstanding (mn)	451
52 Week H/L	1,912 / 1,280
M Cap (Rs bn/USD bn)	690 / 10.37
Daily Avg Volume (nos.)	1,241,470
Daily Avg Turnover (US\$ mn)	28.7

## Shareholding Pattern Sep '16

Promoters	46.7%
FII's	34.7%
DII's	7.1%
Public and Others	11.5%

## Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	2	(5)	(5)	(18)
<b>Rel. to Nifty</b>	5	(2)	(10)	(22)

## Relative price chart



Source: Bloomberg

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**Exhibit 1: Actual Vs. Estimates**

Rs mn	Actual	Emkay Estimate	Consensus Bloomberg	% variation		Comments
				Emkay	Consensus	
Revenue	42,905	43627	43589	-2%	-2%	Revenue came in line with estimates.
EBITDA	10,281	12636	11801	-19%	-13%	Higher R&D, lower other income and forex loss weighed down the EBITDA.
EBITDA margin (%)	24%	29%	27%	-500bps	-300bps	
APAT	6,622	7181	7084	-8%	-7%	Lower tax partially compensated for higher operating expense.

Source: Company, Emkay Research

**Exhibit 2: Quarterly Financials**

Rs mn	Q2FY16	Q1FY17	Q2FY17	YoY (%)	QoQ (%)	YTD FY16	YTD FY17	YoY (%)
Revenue	33,213	44,394	42,905	40.7	6.4	64773	87299	35%
Expenditure	26,491	31,314	32,624	34.3	9.3	49804	63938	28%
as % of sales	80%	71%	76%			77%	73%	
Consumption of RM	11,294	12,719	12,429	29.3	15.5	21129	25148	19%
as % of sales	34%	29%	29%			33%	29%	
Employee Cost	5,242	7,059	7,124	42.0	22.1	10214	14183	39%
as % of sales	16%	16%	17%			16%	16%	
Other expenditure	9,956	11,535	13,072	35.6	-2.8	18461	24607	33%
as % of sales	30%	26%	30%			29%	28%	
EBITDA	6,721	13,080	10,281	58.6	0.2	14969	23361	56%
Depreciation	1,068	2,027	2,112			2082	4139	
EBIT	5,653	11,053	8,169	52.8	-4.4	12887	19222	49%
Other Income	415	826	271			1172	1097	
Interest	102	320	263			172	583	
PBT	5,967	11,560	8,177	45.9	-1.2	13888	19737	42%
Total Tax	1,851	2,734	1,589			4110	4324	
PAT before MI	4,115	8,826	6,588	55.9	17.5	9778	15413	58%
Minority interest (MI)	-27	-6	34			-4	28	
Adj. PAT before extraordinary	4,088	8,820	6,622	55.1	17.9	9773	15441	58%
Extraordinary expenses	-	-	-			-	-	
Reported PAT	4,088	8,820	6,622	55.1	17.9	9773	15441	58%
AEPS (Rs)	9.1	19.6	14.7	54.9	17.9	22	34	58%

Margins (%)			(bps)	(bps)			(bps)	
Gross	66.0	71.3	71.0	251	-225	69	71	251
EBIDTA	20.2	29.5	24.0	333	-183	26	29	333
EBIT	17.0	24.9	19.0	198	-283	23	25	198
PBT	18.0	26.0	19.1	94	-201	25	26	94
Adj. PAT	12.3	19.9	15.4	185	193	18	20	185
Effective Tax rate	31.0	23.7	19.4	-486	-1214	29	24	-486

Source: Company, Emkay Research

**Exhibit 3: Quarterly segmental Revenue breakup**

Rs mn	Q2FY16	Q1FY17	2QFY17	YoY (%)	QoQ (%)
India	8,881	9,499	9,958	7%	26%
as % of sales		22%	24%		
North America	11,539	21,886	19,978	82%	0%
as % of sales		50%	47%		
APAC	1,158	5,416	5,520	33%	20%
as % of sales		12%	13%		
EMEA	3,234	2,194	2,355	21%	-11%
as % of sales		5%	6%		
LATAM	998	1,089	986	77%	18%
as % of sales		3%	2%		
ROW	2,886	369	396	117%	-39%
as % of sales		1%	1%		
API	3,330	2,966	2,919	-9%	4%
as % of sales		7%	7%		
<b>Total</b>	<b>32,026</b>	<b>43,419</b>	<b>42,112</b>	<b>41%</b>	<b>6%</b>

Source: Company, Emkay Research

**Summary of Quarterly Financials**

INR mn	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	Comments
India Formulations	9,958	8,881	12%	9,499	5%	Growth led by new launches, mainly first time launch in Indian market.
<b>Export Formulations</b>						
North America	19,978	11,539	73%	21,886	-9%	QoQ decline owing to price erosion in gFortamet and gGlumetza led by new competition.
APAC	5,520	4,462	24%	5,416	2%	Strong growth in Japan of ~30% qoq supported the overall growth for APAC.
EMEA	2,355	2,218	6%	2,194	7%	
LATAM	986	1,082	-9%	1,089	-9%	
ROW	396	414	-4%	369	7%	
API	2,919	3,330	-12%	2,966	-2%	
Income from Operations	42,112	31,926	32%	43,419	-3%	
Other Operating Income	793	1,430	-45%	1,259	-37%	Significant decline sequentially and yoy.
Total Revenues	42,905	33,356	29%	44,678	-4%	
<b>Gross Profit</b>						
Gross Margins (%)	71	66		71		Sequentially margins remained intact despite decline in high value gFortamet and gGlumetza sales. Margins were aided by favorable sales mix and better USD/INR realization.
Ebitda	10,281	6,721	53%	13,080	-21%	
Ebitda margins	24.0%	20.2%		29.3%		Higher R&D expense, lower other operating income and forex loss of Rs. 450mn weighed over EBITDA margin. Even after adjusting for it, margins were 200bps lower than our estimates.
Depreciation	2,112	1,068		2,027		
Interest Expenses	263	102		320		
Non Op Income	271	415		826		
PBT	8,177	5,967		11,560		
Tax	1,589	1,851		2,734		
Tax Rate	19%	31%		24%		Significantly lower sequentially and yoy. Full year tax rate guided to revert to 25-27%.
PAT before MI	6,588	4,115		8,826		
Minority Interest	34	-27		-6		
PAT	6,622	4,088		8,820		
No Of Shares	451	450		450		
EPS	14.7	9.1		19.6		

Source: Company, Emkay Research

**Exhibit 4: Financial Assumption Snapshot**

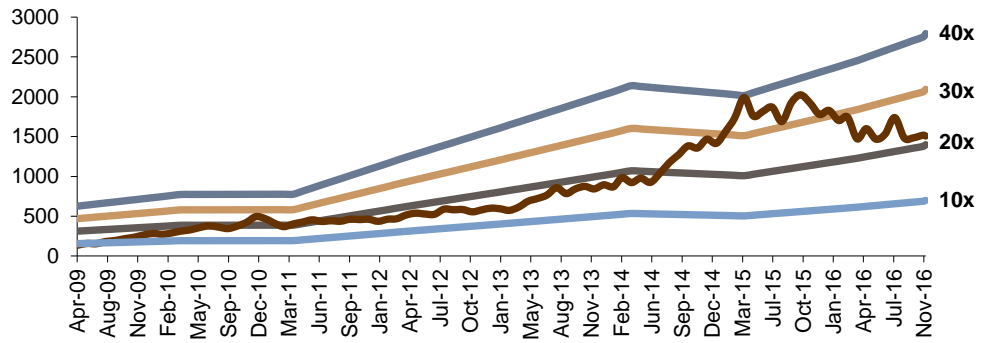
INR mn	FY17E	FY18E	YoY (%)	Comments
India Formulations	38,008	44,090	16%	We are expecting robust growth on the back of niche launches in the domestic market, mainly first time launches in the domestic market.
Export Formulations				
US	81,497	97,507	20%	We are factoring launch of gRenagel, gRenvela, gWelchol, gEpzicom, gTamiflu, gMinastrin, gPrevacid solutab, which are expected to drive growth and offset erosion in gFortamet and gGlumetza.
EMEA	9,253	10,385	12%	We believe that this geography will keep growing in constant currency terms. However currency depreciation (ZAR and EURO) remains a risk to INR growth from this geography.
APAC	22,431	25,478	14%	We are expecting robust growth in Japan business to drive overall business growth.
LATAM	4,317	5,148	19%	We assume Brazil to report higher growth going forward on the back of acquisition made and thus aid the overall growth for LATAM business.
ROW	1,766	1,766	0%	
API	12,478	14,504	16%	We assume API business to grow in lower single digit in FY17 and to pick up in FY18.
Income from Operations	169,750	198,877	17%	
Total Revenues	173,280	203,419	17%	
EBITDA	45,646	55,115		
EBITDA margins (%)	26%	27%		
Depreciation	8,772	9,424		Expecting robust increase owing to Gavis.
Interest Expenses	2,018	2,871		
Non Op Income	1,897	2,464		
PBT	36,753	45,283		
Tax	9,088	11,774		
Tax Rate	25%	26%		Management has guided tax rate to remain at around 25-27%.
PAT before MI	27,665	33,510		
Minority Interest	-80	-132		
PAT	27,585	33,378		
No Of Shares	451	451		
EPS	61	74		

Source: Company, Emkay Research

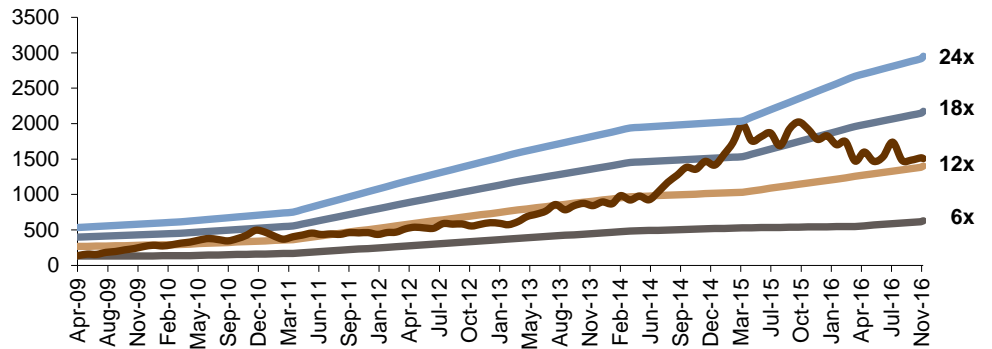
**Exhibit 5: Revision in Earnings Estimates**

Y/E, Mar (Rs mn)	FY17E			FY18E		
	Earlier	Revised	%Change	Earlier	Revised	%Change
Revenues	181267	173,790	-4%	208466	203,419	-2%
EBITDA	52725	45,646	-13%	60381	55,115	-9%
EBITDA margin (%)	29%	26%	282bps	29%	27%	187bps
APAT	30718	27,627	-10%	34590	33,378	-4%
EPS	68	61	-10%	77	74	-4%

Source: Company, Emkay Research

**Exhibit 6: Forward P/E trajectory over the past 5 years**

Source: Emkay Research, Company

**Exhibit 7: Forward EV/EBITDA trajectory over the past 5 years**

Source: Emkay Research, Company

**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
<b>Net Sales</b>	<b>112,866</b>	<b>127,700</b>	<b>142,085</b>	<b>173,790</b>	<b>203,419</b>
<b>Expenditure</b>	<b>82,838</b>	<b>91,504</b>	<b>104,550</b>	<b>128,144</b>	<b>148,305</b>
<b>EBITDA</b>	<b>30,028</b>	<b>36,196</b>	<b>37,535</b>	<b>45,646</b>	<b>55,115</b>
Depreciation	2,610	4,347	4,635	8,772	9,424
<b>EBIT</b>	<b>27,418</b>	<b>31,849</b>	<b>32,900</b>	<b>36,874</b>	<b>45,690</b>
Other Income	1,006	2,267	1,689	1,897	2,464
Interest expenses	108	(33)	258	2,018	2,871
<b>PBT</b>	<b>28,317</b>	<b>34,148</b>	<b>34,330</b>	<b>36,753</b>	<b>45,283</b>
Tax	9,112	9,698	11,536	9,088	11,774
Extraordinary Items	(510)	0	0	(42)	0
Minority Int./Income from Assoc.	0	(6)	0	42	0
<b>Reported Net Income</b>	<b>18,364</b>	<b>24,032</b>	<b>22,707</b>	<b>27,585</b>	<b>33,378</b>
<b>Adjusted PAT</b>	<b>18,874</b>	<b>24,032</b>	<b>22,707</b>	<b>27,627</b>	<b>33,378</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Equity share capital	897	899	901	901	901
Reserves & surplus	68,419	87,842	108,943	132,189	160,685
<b>Net worth</b>	<b>69,316</b>	<b>88,741</b>	<b>109,844</b>	<b>133,090</b>	<b>161,586</b>
<b>Minority Interest</b>	<b>669</b>	<b>241</b>	<b>321</b>	<b>401</b>	<b>533</b>
<b>Loan Funds</b>	<b>9,804</b>	<b>8,795</b>	<b>78,377</b>	<b>78,377</b>	<b>78,377</b>
Net deferred tax liability	0	0	0	0	0
<b>Total Liabilities</b>	<b>79,789</b>	<b>97,777</b>	<b>188,541</b>	<b>211,867</b>	<b>240,496</b>
<b>Net block</b>	<b>26,977</b>	<b>27,201</b>	<b>59,379</b>	<b>80,807</b>	<b>73,383</b>
<b>Investment</b>	<b>7,307</b>	<b>17,351</b>	<b>30,505</b>	<b>30,547</b>	<b>30,547</b>
<b>Current Assets</b>	<b>64,734</b>	<b>81,066</b>	<b>107,493</b>	<b>113,976</b>	<b>156,842</b>
Cash & bank balance	9,739	21,372	8,399	3,433	44,172
Other Current Assets	2,313	1,929	4,734	5,793	6,781
<b>Current liabilities &amp; Provision</b>	<b>22,272</b>	<b>33,601</b>	<b>35,836</b>	<b>40,421</b>	<b>47,234</b>
<b>Net current assets</b>	<b>42,463</b>	<b>47,465</b>	<b>71,657</b>	<b>73,555</b>	<b>109,608</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>79,789</b>	<b>97,777</b>	<b>188,541</b>	<b>211,910</b>	<b>240,538</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>27,310</b>	<b>31,881</b>	<b>32,641</b>	<b>34,856</b>	<b>42,819</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(4,569)	6,631	(37,165)	(6,864)	4,686
<b>Operating Cashflow</b>	<b>17,428</b>	<b>31,731</b>	<b>(8,713)</b>	<b>29,694</b>	<b>48,027</b>
Capital expenditure	(4,593)	(7,289)	(58,054)	(30,200)	(2,000)
<b>Free Cash Flow</b>	<b>12,835</b>	<b>24,442</b>	<b>(66,767)</b>	<b>(506)</b>	<b>46,027</b>
Investments	(1,509)	(10,044)	(13,154)	(42)	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(5,096)</b>	<b>(15,066)</b>	<b>(69,518)</b>	<b>(28,345)</b>	<b>464</b>
Equity Capital Raised	2	2	2	0	0
Loans Taken / (Repaid)	(3,898)	(1,009)	69,582	0	0
Dividend paid (incl tax)	(2,938)	(4,058)	(4,068)	(4,339)	(4,881)
Other Financing Cash Flow	0	0	0	0	0
<b>Financing Cashflow</b>	<b>(6,942)</b>	<b>(5,031)</b>	<b>65,258</b>	<b>(6,357)</b>	<b>(7,752)</b>
<b>Net chg in cash</b>	<b>5,390</b>	<b>11,633</b>	<b>(12,974)</b>	<b>(5,008)</b>	<b>40,739</b>
Opening cash position	4,349	9,739	21,372	8,399	3,433
<b>Closing cash position</b>	<b>9,739</b>	<b>21,372</b>	<b>8,399</b>	<b>3,391</b>	<b>44,172</b>

**Key Ratios**

<b>Profitability (%)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
EBITDA Margin	26.6	28.3	26.4	26.3	27.1
EBIT Margin	24.3	24.9	23.2	21.2	22.5
Effective Tax Rate	32.2	28.4	33.6	24.7	26.0
Net Margin	17.0	19.1	16.0	15.9	16.5
ROCE	38.9	38.4	24.2	19.4	21.3
ROE	31.1	30.4	22.9	22.7	22.7
RoIC	48.6	56.4	37.4	27.0	31.5

<b>Per Share Data (Rs)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
EPS	42.1	53.5	50.4	61.3	74.1
CEPS	47.9	63.1	60.7	80.8	95.0
BVPS	154.6	197.4	243.8	295.4	358.6
DPS	6.6	9.0	9.0	9.6	10.8

<b>Valuations (x)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
PER	36.3	28.6	30.4	24.9	20.7
P/CEPS	31.9	24.2	25.2	18.9	16.1
P/BV	9.9	7.7	6.3	5.2	4.3
EV / Sales	6.1	5.3	5.3	4.4	3.6
EV / EBITDA	22.8	18.6	20.2	16.7	13.1
Dividend Yield (%)	0.4	0.6	0.6	0.6	0.7

<b>Gearing Ratio (x)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Net Debt/ Equity	0.0	(0.1)	0.6	0.6	0.2
Net Debt/EBIDTA	0.0	(0.3)	1.9	1.6	0.6
Working Cap Cycle (days)	105.8	74.6	162.5	147.3	117.4

<b>Growth (%)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Revenue	17.1	13.1	11.3	22.3	17.0
EBITDA	32.3	20.5	3.7	21.6	20.7
EBIT	36.2	16.2	3.3	12.1	23.9
PAT	39.7	30.9	(5.5)	21.5	21.0

<b>Quarterly (Rs mn)</b>	<b>Q2FY16</b>	<b>Q3FY16</b>	<b>Q4FY16</b>	<b>Q1FY17</b>	<b>Q2FY17</b>
Revenue	33,213	35,558	41,707	44,394	42,905
EBITDA	6,721	8,772	13,050	13,080	10,281
<b>EBITDA Margin (%)</b>	<b>20.2</b>	<b>24.7</b>	<b>31.3</b>	<b>29.5</b>	<b>24.0</b>
PAT	4,088	5,298	7,460	8,819	6,580
<b>EPS (Rs)</b>	<b>9.1</b>	<b>11.8</b>	<b>16.6</b>	<b>19.6</b>	<b>14.6</b>

<b>Shareholding Pattern (%)</b>	<b>Sep-15</b>	<b>Dec-15</b>	<b>Mar-16</b>	<b>Jun-16</b>	<b>Sep-16</b>
Promoters	46.6	46.5	46.5	46.8	46.7
FIIs	36.9	37.0	35.2	34.9	34.7
DII	6.6	6.5	7.0	7.4	7.1
Public and Others	10.0	9.9	11.3	11.0	11.5