

Lupin Ltd ----- Maintain UNDERPERFORM
Weak quarter and near-term weak outlook

EPS: ◀▶ TP: ▶▶

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- 2Q17 quarter and the near-term outlook by Lupin was weaker than expected. (1) Lupin cut Gavis' sales guidance from US\$300 mn to US\$250 mn in FY18. (2) It guided for Sun and Actavis to enter in Glumetza in 4Q17. (3) The Renagel, Renvela, Welchol launch only in 2HFY18. (4) A delay in Advair DPI clinical trial to end of FY17. We maintain that consensus estimates for base business margins are high for Lupin and consensus has downside for both FY17 and FY18.
- 2Q17 EBITDA missed CS estimate by 18% due to weak US sales (-9% QoQ). Sequential decline was expected due to Mylan's entry in Fortamet in Sep-16 and seasonally soft quarter for Cephs, but base business also declined QoQ. Lupin lost 6% market share in 2Q17 in Fortamet, and price erosion should be about 20%.
- Lupin provided a strong outlook on the number of launches with 10+ approvals in the rest of FY17 (4-5 between Goa & Indore – Minastrin, Bupropion, Paxil CR, Epsicom and 4-5 from Gavis including Oxycodone APAP and Hydrocodone APAP) and 30 in FY18.
- Takeaways. (1) Methergine—Lupin expects to scale to US\$70 mn. (2) Lupin is yet to respond to CRLs on Renagel, Renvela and Welchol.

currency (Yen appreciated 23% YoY). South Africa sales growth in constant currency was 27% (Rand -5% YoY).

R&D to increase in 2HFY17 from 12% to the range of 12-14%
 R&D cost in 1HFY17 was 12.3% and Lupin has guided for the 12-15% range for FY17. R&D will increase in 2HFY17 as Lupin will initiate clinical trial on generic Advair DPI.

Key takeaway from the conference call

- Fortamet hit from Mylan's entry—Lupin has lost 6% market share and price erosion has been typical of a new entrant.
- Glumetza competition—Lupin expects competition from Sun and Actavis to enter in 4Q17
- Update on Renagel, Renvela and Welchol approvals—Lupin currently has CRLs on these and needs to respond to queries and expect approval in 2HFY18
- Advair DPI Inhaler trial—Lupin is working on scaling up the product (Advair has challenges on stability for all strengths) and Lupin expects to initiate trial by the year end.
- Gavis ramp-up guidance reduced from US\$300 mn to US\$250 mn in FY18 and the capacity expansion has been completed but market share ramp-up should be slower than consensus expectations.
- Methergine—Lupin expects that peak sales of the product could be US\$70 mn where so far Lupin was stabilising volumes as prescriptions were shifted from generic to brand. Lupin is also working on an extended release version for life-cycle management.
- Post Goa clearance, Lupin expects 10+ approvals in remainder of FY17 (4-5 between Goa and Indore—Minastrin, Bupropion, Paxil CR, Epsicom and 4-5 products from Gavis including Oxycodone APAP and Hydrocodone APAP).

Bbg/RIC	LPC IN / LUPN.BO	Price (09 Nov 16 , Rs)	1,529.05		
Rating (prev. rating)	U (U)	TP (prev. TP Rs)	1,350 (1,350)		
Shares outstanding (mn)	451.24	Est. pot. % chg. to TP	(12)		
Daily trad vol - 6m avg (mn)	1.35	52-wk range (Rs)	1904.0 - 1401.5		
Daily trad val - 6m avg (US\$ mn)	31.0	Mkt cap (Rs/US\$ bn)	690.0/ 10.3		
Free float (%)	47.0	Performance	1M	3M	12M
Major shareholders	Promoter 53%	Absolute (%)	0.8	(3.2)	(14.6)
		Relative (%)	2.0	(1.1)	(17.4)
Year	03/15A	03/16A	03/17E	03/18E	03/19E
Revenue (Rs mn)	127,700	142,085	177,198	208,028	233,329
EBITDA (Rs mn)	36,196	37,535	43,772	52,210	58,031
Net profit (Rs mn)	24,032	22,118	27,053	32,283	36,342
EPS (CS adj. Rs)	53.5	49.1	60.0	71.6	80.6
- Change from prev. EPS (%)	n.a.	n.a.	0.0	0	0
- Consensus EPS (Rs)	n.a.	n.a.	65.8	76.7	86.7
EPS growth (%)	30.5	(8.2)	22.2	19.3	12.6
P/E (x)	28.6	31.2	25.5	21.4	19.0
Dividend yield (%)	0.5	0.5	0.6	0.7	0.8
EV/EBITDA (x)	18.6	20.1	17.2	14.2	12.4
P/B (x)	7.7	6.3	5.2	4.3	3.6
ROE (%)	30.4	22.3	22.3	22.0	20.6
Net debt(cash)/equity (%)	(18.0)	57.5	47.3	31.2	16.1

Note 1: Lupin Limited is an India-based pharmaceutical company.

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Weak quarter driven by sharp decline in US sales QoQ

2Q17 EBITDA missed CS estimates by 18% mainly due to lower sales and higher other expenses. A large part of the sales miss was driven by the US where sales declined by 9% QoQ. US sales were expected to decline sequentially due to Mylan entering Fortamet and 2Q being a seasonally soft quarter for antibiotics. However US sales decline was much higher and given the gross margins were flattish sequentially, base sales also declined for Lupin. We maintain that consensus estimates on Lupin's base business margins are high and consensus numbers have downside for both FY17 and FY18.

Good Japan growth; slow recovery in India

India sales growth was moderate at 12% YoY (despite 1Q17 being a soft quarter with 5% growth). Japan growth in constant currency was 10.4% and in INR terms was high at 35% YoY due to favourable

Figure 1: 2Q17 miss was largely driven by weak US sales

Rs Mn	2Q17A	2Q17E	Diff (%)	2Q16A	Y/Y %	1Q17A	Q/Q %
Net Sales	42,905	45,796	-6.3%	33,297	29%	44,394	-3%
Gross Margin	71.0%	71.5%	-0.5%	66.2%	4.8%	71.3%	-0.3%
R&D	13.3%	11.9%	1.5%	15.0%	-1.7%	11.2%	2.1%
Personnel cost	16.6%	15.6%	1.0%	16.0%	0.6%	15.9%	0.7%
SG&A	17.1%	16.7%	0.4%	15.3%	1.8%	14.7%	2.4%
EBITDA	10,281	12,522	-18%	6,626	55%	13,080	-21%
EBITDA Margin	24.0%	27.3%	-3.4%	19.9%	4.1%	29.5%	-5.5%
Net Income	6,622	7,888	-16%	4,198	58%	8,819	-25%

Source: Company data, Credit Suisse estimates

Figure 2: Geographical sales split for 2Q17

Rs Mn	2Q17A	2Q17E	Diff (%)	2Q16A	Y/Y %	1Q17A	Q/Q %
Formulations	38,791	40,865	-5%	28,367	36.7%	39,911	-2.8%
US	19,576	21,251	-8%	11,310	73.1%	21,530	-9.1%
Japan	4,368	4,373	0%	3,234	35.1%	4,232	3.2%
India	9,958	10,050	-1%	8,881	12.1%	9,313	6.9%
South Africa	1,198	1,071	12%	996	20.3%	912	31.3%
Rest of EMs	3,691	4,119	-10%	3,946	-6.5%	3,924	-5.9%
API	2,919	3,475	-16%	3,330	-12.3%	2,869	1.7%
Other op income	1,195	1,456	-18%	1,670	-28.4%	1,603	-25.4%

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 09-Nov-2016)

Lupin Ltd (LUPN.BO, Rs1529.05, UNDERPERFORM, TP Rs1350.0)
Mylan Inc. (MYL.OQ, \$37.11)
Sun Pharmaceuticals Industries Limited (SUN.BO, Rs661.1)

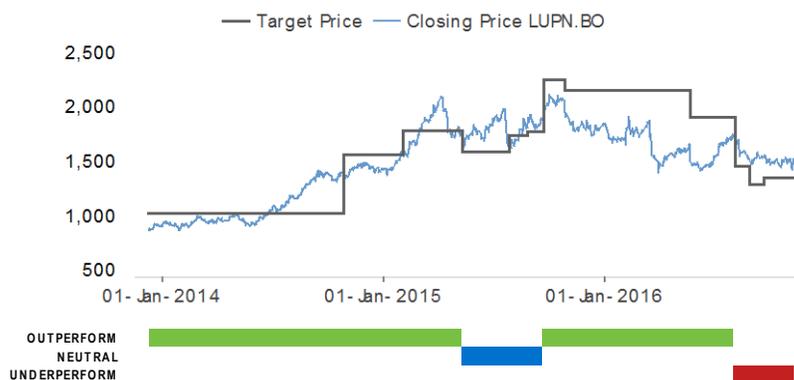
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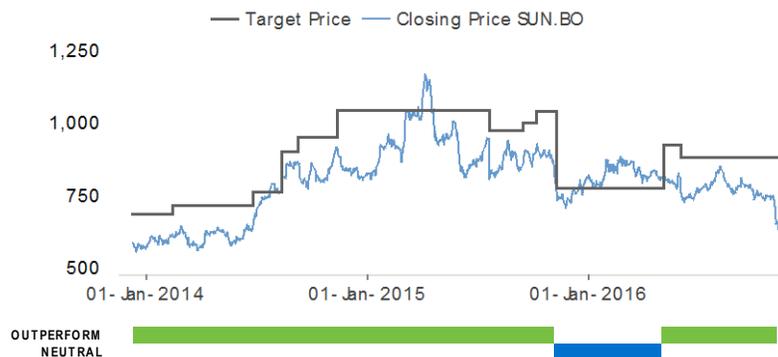
LUPN.BO	Closing Price	Target Price	
Date	(Rs)	(Rs)	Rating
10-Dec-13	872.45	1025.00	O
28-Oct-14	1357.65	1560.00	
03-Feb-15	1545.30	1780.00	
11-May-15	1770.15	1585.00	N
27-Jul-15	1617.50	1735.00	
26-Aug-15	1811.80	1770.00	
23-Sep-15	1921.30	2250.00	O
27-Oct-15	1945.65	2150.00	
20-May-16	1505.15	1905.00	
03-Aug-16	1679.75	1450.00	U
26-Aug-16	1512.25	1290.00	
19-Sep-16	1542.80	1350.00	



* Asterisk signifies initiation or assumption of coverage.

3-Year Price and Rating History for Sun Pharmaceuticals Industries Limited (SUN.BO)

SUN.BO	Closing Price	Target Price	
Date	(Rs)	(Rs)	Rating
10-Dec-13	587.25	685.00	O
14-Feb-14	608.95	715.00	
27-Jun-14	660.65	760.00	
13-Aug-14	800.25	900.00	
08-Sep-14	866.05	950.00	
13-Nov-14	908.60	1045.00	
21-Jul-15	805.30	975.00	
14-Sep-15	857.15	1000.00	
06-Oct-15	909.70	1040.00	
08-Nov-15	803.70	775.00	N
04-May-16	802.75	925.00	O
31-May-16	762.70	880.00	



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Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

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Underperform/Sell*	15%	(56% banking clients)
Restricted	3%	

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Method: Our Rs1,350 target price for Lupin is arrived at by applying 18x price-to-earnings multiple to its profits for last twelve months ending Sep-18. The price-to-earnings multiple used for Lupin is in 10% discount to other large cap peers as Lupin has high contribution from one-off drugs. Our UNDERPERFORM rating is based on high profit concentration, and expensive valuations

Risk: Upside risks to our Rs1,350 target price and UNDERPERFORM rating for Lupin include: (1) delayed competition in Minastrin; (2) faster than expected new product approvals in the United States; (3) better than expected ramp-up in Gavis portfolio

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