

EARNINGS REVIEW

Lupin (LUPN.BO)

Neutral

Equity Research

3Q in-line: gGlumetza driven performance offset below the line

What surprised us

LUPN reported 3QFY17 sales/net income of Rs44.8bn/6.3bn, broadly in line with GSe/Bloomberg consensus. That said, EBITDA beat GSe/consensus by 16%/14% as continued limited competition for gGlumetza, cost control initiatives and FX benefits aided profitability. **Price erosion** was in the high single digit range. **(1) Margin beat:** The EBITDA beat vs expectations, driven by lower other expenses, was almost completely offset at the net level by a higher tax rate (39% vs FY guidance for 28%) due to unwinding of certain deferred tax assets related to lossmaking subsidiaries. Interest costs also jumped qoq as debt servicing on the Shionogi branded drug portfolio acquisition (closed December 2016) commenced in 3Q. **(2)**

Pipeline/competition: Key FY18 launches include gMinastrin (exclusive), gEpzicom, gWellbutrin XL. LUPN expects gAdvair to be an FY18 filing while gProAir (Albuterol MDI) has now been filed. LUPN said on the earnings call that it expects SUN to launch its gGlumetza in 3Q18 while Teva is expected to enter the market in FY18. **(3) Gavis to pick up in FY19:** The major focus for Gavis is on controlled substance launches, and these take time to gain market share. LUPN said it expects traction on launches in FY18 and share gain in FY19. **(4) Cross border tax reaction:** LUPN said it expects that if cross border taxation were to be implemented by the US government, imported generics prices in the US would adjust upwards to reflect the higher cost, which would be counter intuitive in their view.

What to do with the stock

We revise our 2017E-19E EBITDA by 4%-6% to factor in better than expected margin development. Accordingly, our 12m TP increases to Rs1,612 (from Rs1,541), 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 3Q17 results summary

Rs. Mn	3Q17	Gse	vs Gse	YoY (%)	QoQ (%)
Sales	44,829	45,237	-1%	26%	4%
EBITDA	12,158	10,522	16%	44%	18%
EBITDA margins	27.1%	23.3%	386bps	327bps	316bps
Net income	6,331	6,183	2%	21%	-4%

Source: Company data, Goldman Sachs Global Investment Research.

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Neutral

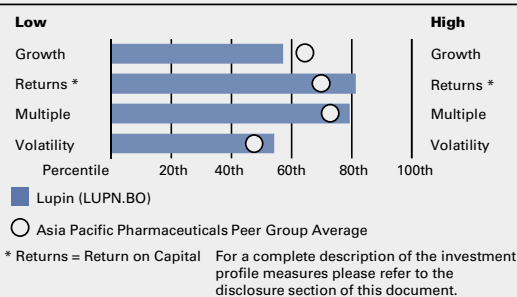
Coverage View: Neutral

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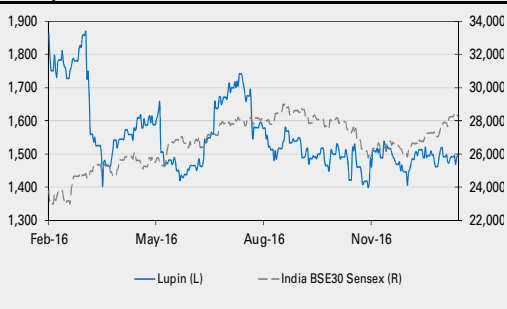
Investment Profile



Key data	Current
Price (Rs)	1,495.35
12 month price target (Rs)	1,612.00
Market cap (Rs mn / US\$ mn)	674,067.9 / 10,025.2
Foreign ownership (%)	--

	3/16	3/17E	3/18E	3/19E
EPS (Rs) New	50.15	61.37	70.85	79.57
EPS revision (%)	0.0	1.5	5.9	4.0
EPS growth (%)	(5.7)	22.4	15.4	12.3
EPS (dil) (Rs) New	50.15	61.37	70.85	79.57
P/E (X)	36.1	24.4	21.1	18.8
P/B (X)	7.4	5.1	4.3	3.6
EV/EBITDA (X)	23.6	15.8	13.9	12.3
Dividend yield (%)	0.4	0.7	0.9	1.0
ROE (%)	22.8	22.9	22.0	20.7
CROCI (%)	12.5	17.4	17.2	17.2

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(2.2)	(7.0)	(21.5)
Rel. to India BSE30 Sensex	(5.9)	(7.8)	(33.4)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/09/2017 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	142,003.1	177,536.9	197,486.3	216,497.3	Cash & equivalents	8,399.3	24,632.6	38,828.8	58,050.9
Cost of goods sold	(43,096.2)	(51,462.9)	(57,943.5)	(62,749.0)	Accounts receivable	45,498.1	43,776.2	48,695.2	53,382.9
SG&A	(45,845.8)	(57,883.5)	(65,871.1)	(73,970.5)	Inventory	31,787.4	34,308.6	38,629.0	41,832.7
R&D	(16,038.3)	(21,928.2)	(22,230.6)	(23,133.3)	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	114,822.9	138,258.6	165,372.0
EBITDA	37,022.8	46,262.3	51,441.1	56,644.5	Net PP&E	42,437.1	53,740.5	59,815.9	65,321.0
Depreciation & amortization	(4,736.8)	(8,696.6)	(8,924.6)	(9,494.9)	Net intangibles	73,586.0	83,636.0	83,636.0	83,636.0
EBIT	32,286.0	37,565.7	42,516.5	47,149.6	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	(453.3)	(1,501.4)	(1,358.7)	(848.3)	Total assets	224,377.5	262,763.5	292,274.6	324,893.1
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	21,918.5	27,403.2	30,482.5	33,416.8
Others	2,093.6	2,653.2	2,962.3	3,247.5	Short-term debt	17,454.1	17,454.1	17,454.1	17,454.1
Pretax profits	33,926.3	38,717.5	44,120.1	49,548.8	Other current liabilities	14,499.8	14,499.8	14,499.8	14,499.8
Income tax	(11,183.7)	(10,863.2)	(11,912.4)	(13,378.2)	Total current liabilities	53,872.4	59,357.1	62,436.4	65,370.7
Minorities	(87.6)	(59.9)	(119.6)	(134.3)	Long-term debt	53,739.0	63,789.0	63,789.0	63,789.0
Net income pre-preferred dividends	22,655.0	27,794.4	32,088.1	36,036.3	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)	22,655.0	27,794.4	32,088.1	36,036.3	Total liabilities	114,213.0	129,747.7	132,827.0	135,761.3
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	22,655.0	27,794.4	32,088.1	36,036.3	Total common equity	109,843.7	132,635.1	158,947.3	188,497.0
EPS (basic, pre-exception) (Rs)	50.45	61.66	71.18	79.94	Minority interest	320.8	380.7	500.4	634.7
EPS (basic, post-exception) (Rs)	50.45	61.66	71.18	79.94	Total liabilities & equity	224,377.5	262,763.5	292,274.6	324,893.1
EPS (diluted, post-exception) (Rs)	50.15	61.37	70.85	79.57	BVPS (Rs)	243.15	292.85	350.95	416.19
DPS (Rs)	7.46	11.05	12.75	14.32	Ratios	3/16	3/17E	3/18E	3/19E
Dividend payout ratio (%)	14.8	17.9	17.9	17.9	CROCI (%)	12.5	17.4	17.2	17.2
Free cash flow yield (%)	(7.7)	3.4	3.2	3.9	ROE (%)	22.8	22.9	22.0	20.7
Growth & margins (%)	3/16	3/17E	3/18E	3/19E	ROA (%)	12.7	11.4	11.6	11.7
Sales growth	11.2	25.0	11.2	9.6	ROACE (%)	18.8	16.0	17.0	17.8
EBITDA growth	2.3	25.0	11.2	10.1	Inventory days	240.6	234.4	229.7	234.0
EBIT growth	1.4	16.4	13.2	10.9	Receivables days	92.6	91.8	85.5	86.0
Net income growth	(5.7)	22.7	15.4	12.3	Payable days	175.7	174.9	182.3	185.8
EPS growth	(5.8)	22.2	15.4	12.3	Net debt/equity (%)	57.0	42.6	26.6	12.3
Gross margin	69.7	71.0	70.7	71.0	Interest cover - EBIT (X)	71.2	25.0	31.3	55.6
EBITDA margin	26.1	26.1	26.0	26.2	Valuation	3/16	3/17E	3/18E	3/19E
EBIT margin	22.7	21.2	21.5	21.8	P/E (analyst) (X)	36.1	24.4	21.1	18.8
Cash flow statement (Rs mn)	3/16	3/17E	3/18E	3/19E	P/B (X)	7.4	5.1	4.3	3.6
Net income pre-preferred dividends	22,655.0	27,794.4	32,088.1	36,036.3	EV/EBITDA (X)	23.6	15.8	13.9	12.3
D&A add-back	4,635.0	8,696.6	8,924.6	9,494.9	EV/GCI (X)	4.2	3.0	2.7	2.5
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	0.4	0.7	0.9	1.0
Net (inc)/dec working capital	(22,946.2)	4,685.4	(6,160.2)	(4,956.9)					
Other operating cash flow	(19,708.8)	(9,361.8)	(10,553.8)	(12,529.9)					
Cash flow from operations	(4,093.7)	42,737.7	36,330.7	41,556.9					
Capital expenditures	(58,157.2)	(20,000.0)	(15,000.0)	(15,000.0)					
Acquisitions	(12,282.0)	(10,050.0)	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)	(30,050.0)	(15,000.0)	(15,000.0)					
Dividends paid (common & pref)	(3,368.3)	(5,003.0)	(5,775.9)	(6,486.5)					
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)	(1,501.4)	(1,358.7)	(848.3)					
Cash flow from financing	58,126.2	3,545.6	(7,134.5)	(7,334.8)					
Total cash flow	(15,401.8)	16,233.3	14,196.2	19,222.1					

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

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Exhibit 1: Lupin 3QFY17 variance table

in Rs mn, except per share data

Lupin 3Q17 Variance table	3Q16	2Q17	3Q17	3Q17E	vs Gse	yoy gr	qoq gr
Sales (incl. other operating income)	35,477	42,905	44,829	45,237	-1%	26%	4%
YoY (%)	11.6%	29.2%	26.4%	27.2%			
Cost of goods sold	(11,232)	(12,429)	(13,016)	(13,760)	-5%	16%	5%
CoGS as a % of sales	31.7%	29.0%	29.0%	30.4%			
Gross Margin	68.3%	71.0%	71.0%	69.6%	138bps	263 bps	-7 bps
R&D expenditure	(3,916)	(5,716)	(5,682)	(5,570)	2%	45%	-1%
R&D exp. as a % of sales	11.0%	13.3%	12.7%	12.3%			
EBITDA	8,461	10,281	12,158	10,522	16%	44%	18%
EBITDA margin	23.8%	24.0%	27.1%	23.3%	386bps	327 bps	316 bps
EBITDA yoy growth	-4.2%	53.0%	43.7%	20.0%			
EBITDA margin as stated by company	27.3%	25.2%	30.0%	25.3%	469bps	275 bps	485 bps
Sales base for EBITDA	33,495	42,112	44,049	44,237			
EBITDA as stated by company	9,130	10,594	13,218	11,200	18%	45%	25%
Net Income	5,246	6,622	6,331	6,183	2%	21%	-4%
Net Margin	14.8%	15.4%	14.1%	13.7%	45bps	-66 bps	-131 bps
NI yoy growth	-12.8%	62.0%	20.7%	16.7%			
Split by segment / geography							
Formulations Sales	30,668	39,193	41,365	39,084	6%	35%	6%
US Sales	13,805	19,978	21,755	19,519	11%	58%	9%
EMEA (Europe earlier) Sales	2,187	2,355	2,555	2,473	3%	17%	8%
India Sales	8,860	9,958	9,912	9,757	2%	12%	0%
APAC Sales (Japan earlier)	4,634	5,520	5,601	6,023	-7%	21%	1%
LATAM + ROW Sales (Rest of the World earlier)	1,182	1,382	1,542	1,313	17%	30%	12%
API Sales	2,835	2,919	2,684	2,760	-3%	-5%	-8%

Source: Company data, Goldman Sachs Global Investment Research

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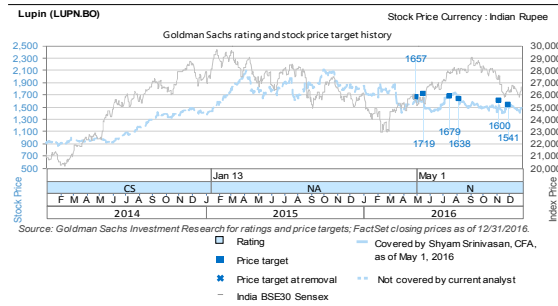
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