

3Q17 results broadly in line

Quick Note

Fig. 1: LPC: 3QFY17 results synopsis

Above or below	Revenue was in line. Reported EBITDA was 3.7% higher than our expectation; however, adjusted for forex gain, EBITDA was in line as well. Net profit was 13.1% lower than our estimate due to higher-than-expected taxes paid during the quarter.
What to make of it	US sales growth q-q was driven by higher sales contribution from gGlumetza, Methergine and Cephalosporin products. India business recorded double-digit y-y growth despite demonetization. Reported EBITDA was bolstered by forex gain of ~INR270mn.
Key numbers	US sales at USD316mn were up USD24mn q-q. India sales at INR9.9bn were up 11.9% y-y. Japan sales were muted at INR4.4bn. EBITDA at INR12.1bn was up 44% y-y and 18% q-q. EBITDA margin at 27.1% was up 327bps y-y and 316bps q-q.
What next	Near-term earnings trajectory looks good, given: 1) staggered entry of competition in gGlumetza and 2) key launches such as gMinastrin 24Fe and gEpzicom over the next few quarters. However, over the medium term, sales declines in on gFortamet and gGlumetza seem imminent and given the pricing pressure on the US-based portfolio, new approvals and timely launches in the US remain key for maintaining growth and profitability, in our view.

Source: Company data, Nomura estimates

Key takeaways for the 3Q17 post results conference call US business

- US sales during 3Q were at USD316mn, up USD24mn q-q. The q-q sales increase was driven by: 1) higher gGlumetza sales during 3Q due to market share gains; 2) sequential improvement in branded product sales of ~USD4mn largely driven by Methergine; 3) higher cephalosporin product sales owing to seasonality and 4) four new launches during the quarter.
- In gGlumetza, Lupin has ~75% share currently. The company expects Actavis and Sun to enter the market during 2Q18 and 3Q18, respectively.
- In Methergine, Lupin has a monthly sales run-rate of USD4mn, according to company management. Methergine accounted for over 50% of branded products sales of ~USD22mn during the quarter.
- In gFortamet, the company witnessed a loss for share to Mylan and a drop in prices during the quarter.
- Pricing pressure in the base US business at high single digits, according to management.
- Lupin expects to launch 25+ ANDAs in the US during FY18F. The company expects to launch derma products and controlled substances next year from the Gavis portfolio. Sales from controlled substances are expected to gain traction only in FY19F.
- Some key launches over the next 12 months include: gMinastrin24Fe, gEpzicom, gVigamox, and Bupropion XL. Other key products which could be launched next year based on litigation outcome consist of gRestasis, gNamenda XR, and gPrevacid ODT.

Global Markets Research

10 February 2017

Rating Remains	Neutral
Target Price Remains	INR 1626
Closing price 9 February 2017	INR 1491

Research analysts

India Pharmaceuticals

Saion Mukherjee - NFASL
saion.mukherjee@nomura.com
+91 22 4037 4184

Ayan Deb - NFASL
ayan.deb@nomura.com
+91 22 4037 4023

- gRenvela, gRenagel and gWelchol approval likely only during 4QFY18F/early FY19F as per company management. The company is in the process of responding to queries raised by the USFDA for the products.
- The company expects to file its ANDA for gAdvair by FY18F-end. However, the clinical trial for the product has yet to commence. We note that the company filed its ANDA for gProair HFA during 2QFY17.
- Management expects to file more than 30 ANDAs in the US by FY17F-end.

India

- India business recorded growth of 11.9% y-y despite demonetization. The impact on growth due to demonetization was estimated by management at 2-3%.
- Management expects to deliver y-y growth in excess of 15% from 1QFY18F onwards.

Margins

- Reported EBITDA margin during 3Q was at 27.1%, up 316bps q-q. Reported EBITDA was bolstered on account of forex gain of ~INR270mn during 3Q. Adjusted EBITDA margin was at 26.5%. The company expects to maintain that level.

Capex

- FY17F capex at INR19bn; whereas FY18/19F capex at INR13-14bn, according to company management.

Tax rate

- FY17F tax rate at 26-28%

In Figs 2 and 3, we present the company's quarterly revenue breakdown and P&L.

Fig. 2: Quarterly revenue breakdown

INRmn

	3QFY16	2QFY17	3QFY17	% Chg (Y-Y)	% Chg (Q-Q)	3QFY17 Nom ests	vs Nom ests (%)
Formulations	30,668	39,193	41,365	34.9%	5.5%	40,750	1.5%
US	13,085	19,978	21,755	66.3%	8.9%	21,318	2.0%
India	8,860	9,958	9,912	11.9%	-0.5%	9,855	0.6%
Japan	4,247	4,384	4,470	5.2%	2.0%	4,677	-4.4%
RoW (incl South Africa)	3,323	3,717	3,788	14.0%	1.9%	3,800	-0.3%
Europe & Middle East	1,152	1,155	1,440	24.9%	24.6%	1,100	30.9%
API	2,835	2,919	2,684	-5.3%	-8.1%	3,000	-10.5%
Total Sales	33,503	42,112	44,049	31.5%	4.6%	43,750	0.7%

Source: Company data, Nomura estimates

Fig. 3: Quarterly P&L

INRmn

	3QFY16	2QFY17	3QFY17	% Chg (Y-Y)	% Chg (Q-Q)	3QFY17 Nom ests	vs Nom ests (%)
Net Sales	33,503	42,112	44,049	31.5%	4.6%	43,750	0.7%
Other Operating Income	1,973	794	779	-60.5%	-1.8%	1,000	-22.1%
Total Revenue	35,477	42,906	44,829	26.4%	4.5%	44,750	0.2%
Material Cost	11,232	12,429	13,016	15.9%	4.7%	12,819	1.5%
Staff Cost	5,434	7,124	7,312	34.5%	2.6%	7,206	1.5%
Other Expense	10,349	13,072	12,343	19.3%	-5.6%	13,000	-5.1%
EBITDA	8,461	10,281	12,158	43.7%	18.3%	11,725	3.7%
Other Income	664	271	1,036	56.0%	282.1%	500	107.2%
Interest Expense	99	263	459	364.4%	74.6%	270	70.1%
Depreciation	1,216	2,112	2,309	89.9%	9.3%	2,244	2.9%
PBT	7,811	8,177	10,426	33.5%	27.5%	9,711	7.4%
Tax	2,557	1,589	4,095	60.1%	157.6%	2,428	68.7%
Net Profit	5,254	6,588	6,331	20.5%	-3.9%	7,283	-13.1%
Minority interest	13	8	24			0	
Share of Profit from JVs	5	42	24			14	
Net profit after MI	5,246	6,622	6,331	20.7%	-4.4%	7,297	-13.2%
				bps Chg (Y-Y)	bps Chg (Q-Q)		vs Nom ests
Gross margin (%)	66.5%	70.5%	70.5%	398	(3)	70.7%	(25)
EBITDA margin (%)	23.8%	24.0%	27.1%	327	316	26.2%	92
Tax rate (%)	32.7%	19.4%	39.3%	654	1,984	25.0%	1,428

Source: Company data, Nomura estimates

Valuation methodology

We attribute 19x March 2019F EPS and then discount it with a cost of equity of 11% to arrive at our November 2017 target price of INR1,626. The benchmark index for this stock is the MSCI India.

Risks

Upside risks: Positive surprise from US product approvals and launches.
Downside risks: failure to gain timely approval for key products in the US; adverse currency movements, particularly USD and JPY; and regulatory concerns following USFDA inspection.

Appendix A-1

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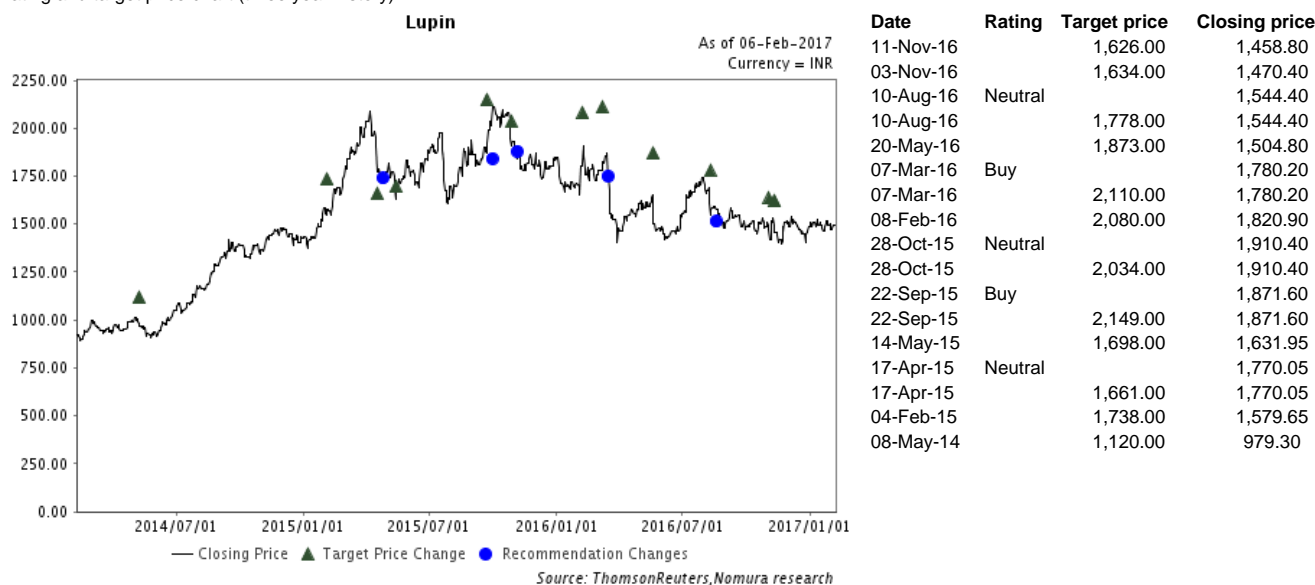
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Lupin	LPC IN	INR 1491	09-Feb-2017	Neutral	N/A	

Lupin (LPC IN)

INR 1491 (09-Feb-2017) Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We attribute 19x March 2019F EPS and then discount it with a cost of equity of 11% to arrive at our November 2017 target price of INR1,626. The benchmark index for this stock is MSCI India.

Risks that may impede the achievement of the target price Upside risk: positive surprise from US product approvals and launches. Downside risks: failure to gain timely approval for key products in the US; adverse currency movements, particularly USD and JPY; and regulatory concerns following USFDA inspection.

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