

**Lupin----- Maintain UNDERPERFORM**

**Cut estimates due to further delay in Renvela and Welchol**

EPS: ▼ TP: ◀▶

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- 3Q was strong due to higher stocking of Glumetza before the entry of Authorised Generic (AG). This should impact sales in 4Q17. The key disappointment in 3Q was the delay of Renvela and Welchol which were 8% of FY18 EPS as Lupin also received more queries like other players. However, we cut FY18 EPS by 4% only as it is partly offset by the delay in Sun's entry in Glumetza (now 2Q18).
- We stay cautious as the top-3 products account for 50% of FY18 EPS, and market values these products at full multiple. Lupin expects 25 launches in 12 months—the key ones: Minastrin, Epzicom, Vigamox (~\$20 mn sales), Bupropion XL, Paxil CR, Potassium Chloride and controlled substances (Hydrocodone & Oxycodone APAP).
- The other reason for EBITDA beat was lower other expenses (-9% QoQ) which had forex gains of Rs 270 mn. R&D intensity is at the lower end of guidance at 12.4% of sales for 9M17 (guidance: 12-14%). Clinical trial for Advair DPI is shifted to FY18 and thus we reduce R&D for 4Q17 and this increases FY17 EPS by 4%.
- India growth was good at 11% YoY but Japan and South Africa were weak. Minastrin should see competition from Amneal from Day 181.

but likely that before AG launch, Lupin may have stocked for higher Glumetza sales. This was the key reason for a beat on US sales in addition to (1) seasonally higher sales of Ceph's and (2) 16% price increase in Methergine (brand sales up from \$18 mn to \$22mn QoQ). We model moderation of Glumetza sales in 4Q17 as AG should start taking share and also due to higher inventory of 3Q17.

The other reason for the EBITDA beat was lower other expenses (-9% QoQ) which had forex gains of Rs270 mn. R&D intensity is currently running at the lower end of the guidance at 12.7% of sales (guidance of 12-14% sales vs actual at 12.4% for 9M FY17).

**Sun's delay in Glumetza gives two more quarters of upside**

Lupin earlier guided for Sun's entry in 4Q17 but now expects Sun to enter in 2Q FY18. Teva has put Glumetza under the bucket of risk adjusted products, likely to enter by 2Q FY18. This gives Lupin higher sales in Glumetza for two quarters.

**Negatives: (1) delay in Renvela & Welchol, (2) Amneal to enter Minastrin on Day 181, (3) clinical trials on DPIs delayed**

Renvela and Welchol accounted for 8% of FY18 EPS. However, Lupin has received more queries and will likely respond by 4Q FY17. Therefore the approval could be delayed by a couple of quarters. Further in Minastrin, Amneal is expected to enter on Day 181, while Mylan should enter at the start of FY19. The clinical trial for Advair DPI and Tiotropium is delayed to FY18 but Lupin plans to file the application by FY18 end.

**Strong India, but weak Japan and South Africa**

India growth was good at 11% YoY despite demonetisation. Lupin expects GST impact to be limited in 1Q18. On the other hand Japan (+5.3% YoY) and South Africa (+2.8% YoY) were weak. Japan sales included the Shinogi acquisition for a few days and growth was impacted by a change in government policy leading to lower dispensing benefit for pharmacies for generic substitution.

**Earnings call takeaways:**

- **Key launches in the next 12 months.** 25 launches with Minastrin and Epzicom in next 12 months. Others - Vigamox (\$250 mn brand, four generics settled and two are litigating. This should be \$20 mn for Lupin), Bupropion XL, Paxil CR, Potassium Chloride and controlled substances (Oxycodone APAP and Hydrocodone APAP).
- **Methergine.** 50% of the prescriptions at the retail level are brand prescriptions now and Methergine brand size is \$48 mn now.

Bbg/RIC	LPC IN / LUPN.BO	Price (09 Feb 17, Rs)	1,495.35		
Rating (prev. rating)	U (U)	TP (prev. TP Rs)	1,350 (1,350)		
Shares outstanding (mn)	451.50	Est. pot. % chg. to TP	(10)		
Daily trad vol - 6m avg (mn)	1.0	52-wk range (Rs)	1868.5 - 1398.2		
Daily trad val - 6m avg (US\$ mn)	22.6	Mkt cap (Rs/US\$ bn)	675.1/ 10.1		
Free float (%)	47.0				
Major shareholders	Promoter 53%				
		<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
		Absolute (%)	0.5	2.4	(19.7)
		Relative (%)	(4.8)	(3.2)	(39.0)
<b>Year</b>	<b>03/15A</b>	<b>03/16A</b>	<b>03/17E</b>	<b>03/18E</b>	<b>03/19E</b>
Revenue (Rs mn)	127,700	142,085	177,872	200,819	232,497
EBITDA (Rs mn)	36,196	37,535	48,180	52,009	59,365
Net profit (Rs mn)	24,032	22,118	29,111	31,544	36,341
EPS (CS adj. Rs)	53.5	49.1	64.6	70.0	80.6
- Change from prev. EPS (%)	n.a.	n.a.	4.2	(4.5)	0
- Consensus EPS (Rs)	n.a.	n.a.	63.6	73.7	84.9
EPS growth (%)	30.5	(8.2)	31.5	8.4	15.2
P/E (x)	28.0	30.5	23.2	21.4	18.6
Dividend yield (%)	0.5	0.5	0.6	0.7	0.8
EV/EBITDA (x)	18.2	19.7	15.3	13.9	11.9
P/B (x)	7.6	6.1	5.0	4.2	3.5
ROE (%)	30.4	22.3	23.8	21.3	20.5
Net debt(cash)/equity (%)	(18.0)	57.5	45.3	28.0	14.8

Note 1: Lupin Limited is an India-based pharmaceutical company. The company develops and markets a range of generic formulations and Active Pharmaceutical Ingredients (APIs) in markets around the world. It focuses on chronic therapies and the lifestyle segment.

[Click here](#) for detailed financials

**Figure 1: Sales split: strong growth in the US, weak Japan and SA**

Rs Mn	3Q17A	3Q17E	Diff (%)	3Q16A	Y/Y %	2Q17A	Q/Q %
Formulations	40,908	40,599	0.8%	30,477	34.2%	38,762	5.5%
US	21,298	20,704	2.9%	13,708	55.4%	19,547	9.0%
Japan	4,492	5,134	-12.5%	3,741	20.1%	4,383	2.5%
India	9,912	9,845	0.7%	8,712	13.8%	9,958	-0.5%
South Africa	1,113	1,234	-9.8%	1,048	6.2%	1,199	-7.2%
Rest of EMs	4,093	3,682	11.2%	3,268	25.2%	3,676	11.3%

Source: Company data, Credit Suisse estimates

**Strong quarter driven by higher Glumetza sales**

On the call, Lupin mentioned that as per settlement with Valeant, the launch of Authorised Generic was scheduled on 1 February 2017. Lupin has gained market share in Glumetza from 72% to 80% in 4Q17

**Figure 2: EBITDA beat by 7% due to higher Glumetza sales & lower R&D**

Rs Mn	3Q17A	3Q17E	Diff (%)	3Q16A	Y/Y %	2Q17A	Q/Q %
<b>Net Sales</b>	<b>44,829</b>	<b>44,561</b>	<b>0.6%</b>	<b>35,477</b>	<b>26%</b>	<b>42,905</b>	<b>4%</b>
Gross Margin	71.0%	71.0%	0.0%	68.3%	2.6%	71.0%	-0.1%
R&D	12.7%	13.5%	-0.8%	14.1%	-1.4%	13.3%	-0.6%
Personnel cost	16.3%	16.0%	0.3%	15.3%	1.0%	16.6%	-0.3%
SG&A	15.5%	16.6%	-1.1%	15.1%	0.4%	16.1%	-0.6%
<b>EBITDA</b>	<b>11,888</b>	<b>11,096</b>	<b>7%</b>	<b>8,461</b>	<b>41%</b>	<b>10,731</b>	<b>11%</b>
<b>EBITDA Margin</b>	<b>26.5%</b>	<b>24.9%</b>	<b>1.6%</b>	<b>23.8%</b>	<b>2.7%</b>	<b>25.0%</b>	<b>1.5%</b>
<b>Pretax Income</b>	<b>10,426</b>	<b>9,417</b>	<b>11%</b>	<b>7,811</b>	<b>33%</b>	<b>8,627</b>	<b>21%</b>
Income Taxes	4,095	2,731	50%	2,557	60%	1,589	158%
<b>Net Income</b>	<b>6,331</b>	<b>6,686</b>	<b>-5%</b>	<b>5,246</b>	<b>21%</b>	<b>7,072</b>	<b>-10%</b>

Source: Company data, Credit Suisse estimates

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**Companies Mentioned** (Price as of 09-Feb-2017)

**Lupin Ltd** (LUPN.BO, Rs1495.35, UNDERPERFORM, TP Rs1350.0)  
**Sun Pharmaceuticals Industries Limited** (SUN.BO, Rs656.75)  
**Teva Pharmaceutical Industries Ltd.** (TEVA.N, \$32.38)

Disclosure Appendix

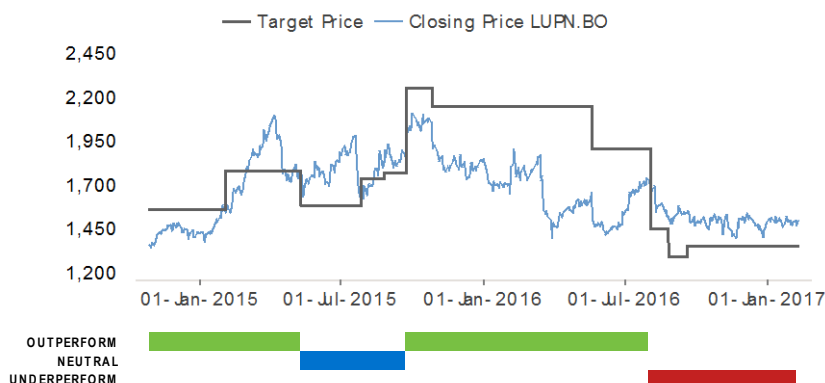
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**3-Year Price and Rating History for Lupin Ltd (LUPN.BO)**

LUPN.BO	Closing Price	Target Price	
Date	(Rs)	(Rs)	Rating
28-Oct-14	1357.65	1560.00	O
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	

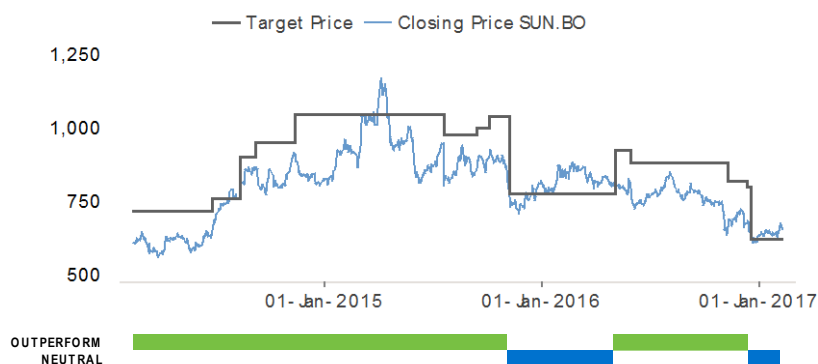
\* Asterisk signifies initiation or assumption of coverage.



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

SUN.BO	Closing Price	Target Price	
Date	(Rs)	(Rs)	Rating
14-Feb-14	608.95	715.00	O
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	
10-Nov-16	666.95	820.00	
13-Dec-16	683.00	800.00	
19-Dec-16	632.20	620.00	N

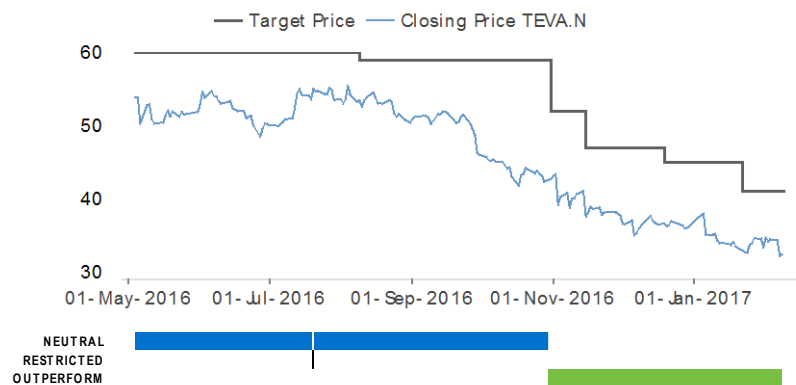
\* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for Teva Pharmaceutical Industries Ltd. (TEVA.N)

TEVA.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
04-May-16	53.83	60.00	N *
20-Jul-16	54.96		R
21-Jul-16	54.63	60.00	N
09-Aug-16	53.45	59.00	
31-Oct-16	42.74	52.00	O
15-Nov-16	37.60	47.00	
19-Dec-16	36.57	45.00	
22-Jan-17	33.23	41.00	

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Restricted	2%	

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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 the last twelve months ending Sep-2018. The price-to-earnings multiple used for Lupin is at a 10% discount to other large cap peers as Lupin has high contribution from one-off drugs. Our UNDERPERFORM rating is based on its high profit concentration, and expensive valuation.

**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; and (3) a better-than-expected ramp-up in its Gavis portfolio.

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