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## Lupin Ltd.

## F3Q In Line: Medium-term Pipeline Delivery Keeps Us OW

Stock Rating  
Overweight

Industry View  
In-Line

Price Target  
Rs1,846.00

New approvals in the US remain key to offset erosion from gFortamet/Glumetza. This should commence towards the end of F17 and then pick up in F18 and F19. This, along with steady EM growth, improving pipeline (with inhalers, injectables, specialty) and reasonable valuations, drive our OW rating.

**Business outlook:** Management expects to launch over 25 products in the US over the next 12 months, which could offset erosion in gGlumetza/Fortamet. Some of these niche launches include drugs, such as gMinastrin, gEpzicom, bupropion XL, potassium CL, gVigamox, etc. In addition, FY18 should see a good number of controlled substances (ramp up in F19) and derma launches along with Gavis ramp up. Lupin has filed albuterol MDI (ProAir - brand size US\$3bn) and expect this to be 3-4 player market. gAdvair is on track for FY18 filing (Lupin expects to commence clinical trials, and has completed pivotal studies). Sevelamer/colesevelam products are delayed due to pending FDA queries. Lupin expects to respond to these in Q4FY17 and hopefully get approval in late FY18/early FY19. R&D productivity is gaining traction with significant higher filing in complex generic space. It expects to file 30 ANDA in FY17. It is seeing high single-digit price erosion in US market.

**Other Concall highlights:** US business improved sequentially due to ramp up in gGlumetza, Methargine (US\$4mn/mt) and 3-4 small launches. It expects Sun and Teva to enter the market in the next 12 months. Entry of AG (authorized generics) should overall expand generic market. gFortamet faced some price erosion/ share loss due to Mylan's entry, full impact of which will be visible in Q4. Aurobindo filing will have a 30-month stay (Lupin expects brand to litigate). Indian business should grow ~15% in medium to long term but GST could create some disruption in FY18. Japan business (including Shionogi) should see double-digit growth in FY18. Company expects tax rate for FY17 to be c.26-28%. Capex to be Rs19bn (R&D site in Pune, Japan manufacturing) in FY17 and Rs13-14bn in FY18.

**F3Q Broadly In Line:** Lupin reported sales of Rs44.8bn, up 36.4% yoy (4.5% qoq), driven by US (up 8.9% qoq due to gGlumetza) and India business (up 12% yoy despite demonetization). Japan, EMEA, LATAM markets were up 21%/17%/32%, respectively. OPM expanded 330 bps yoy (320bps qoq) to 27.1% due to better product mix and FX impact of Rs270mn (across multiple line items). All this along with higher other income of Rs1035mn led to net profit of Rs6.3bn (down 4.4% qoq/up 20.8% yoy, vs. MSe of Rs6.5bn).

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## Lupin Ltd. ( LUPN.NS, LPC IN )

India Healthcare / India

Stock Rating	Overweight
Industry View	In-Line
Price target	Rs1,846.00
Up/downside to price target (%)	24
Shr price, close (Feb 9, 2017)	Rs1,491.35
52-Week Range	Rs1,911.90-1,280.00
Sh out, dil, curr (mn)	451
Mkt cap, curr (mn)	Rs672,002
EV, curr (mn)	Rs740,222
Avg daily trading value (mn)	Rs0

Fiscal Year Ending	03/16	03/17e	03/18e	03/19e
ModelWare EPS (Rs)	50.45	66.48	77.08	90.74
Prior ModelWare EPS (Rs)	-	-	-	-
Consensus EPS (Rs)§	49.25	63.56	73.75	84.92
Revenue, net (Rs mn)	142,08	170,75	194,75	222,50
	5	8	9	5
EBITDA (Rs mn)	37,535	47,281	53,336	63,509
ModelWare net inc (Rs mn)	22,707	29,954	34,733	40,886
P/E	29.3	22.4	19.3	16.4
P/BV	6.1	6.1	6.1	6.1
RNOA (%)	24.1	15.0	18.9	21.8
ROE (%)	25.6	27.3	31.6	37.2
EV/EBITDA	19.6	15.3	13.7	11.6
Div yld (%)	0.5	0.4	0.4	0.4
FCF yld ratio (%)	(10.1)	6.7	3.9	4.8
Leverage (EOP) (%)	61.8	47.3	53.5	59.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Thomson Reuters Estimates

e = Morgan Stanley Research estimates

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## Results Summary

Exhibit 1: Results Summary

(Rs mn)	F3Q17	F3Q16	%chg	F2Q17	%chg
(period ending)	Dec-16	Dec-15	YoY	Sep-16	QoQ
<b>Sales (Net)</b>	<b>44,049</b>	<b>33,503</b>	31.5%	<b>42,112</b>	4.6%
Other Operating Income	779	1,973	-60.5%	793	-1.7%
<b>Total Revenues</b>	<b>44,829</b>	<b>35,477</b>	26.4%	<b>42,905</b>	4.5%
Material Cost	13,016	11,232	15.9%	12,429	4.7%
Staff Costs	7,312	5,434	34.5%	7,124	2.6%
R&D Expenditure	5,682	3,916	45.1%	5,716	-0.6%
Other Expenditure	12,343	10,349	19.3%	13,072	-5.6%
<b>Total Expenditure</b>	<b>32,670</b>	<b>27,015</b>	20.9%	<b>32,624</b>	0.1%
<b>Operating profit</b>	<b>12,158</b>	<b>8,461</b>	43.7%	<b>10,281</b>	18.3%
Other Income	1,036	664	56.0%	271	282.1%
<b>EBITDA</b>	<b>13,194</b>	<b>9,125</b>	44.6%	<b>10,552</b>	25.0%
Interest (Net)	459	99	364.4%	263	74.6%
Depreciation	2,309	1,216	89.9%	2,112	9.3%
<b>PBT and Extra-ordinaries</b>	<b>10,426</b>	<b>7,811</b>	33.5%	<b>8,177</b>	27.5%
Tax	4,095	2,557	60.1%	1,589	157.6%
<b>Core PAT</b>	<b>6,331</b>	<b>5,254</b>	20.5%	<b>6,587</b>	-3.9%
Minority interest and share of lc	(0)	13	-101.6%	(34)	NM
<b>Reported PAT</b>	<b>6,331</b>	<b>5,241</b>	20.8%	<b>6,622</b>	-4.4%
GPM	71.0%	68.3%	2.6%	71.0%	-0.1%
OPM	27.1%	23.9%	3.3%	24.0%	3.2%
NPM	14.1%	14.8%	-0.7%	15.4%	-1.3%
Effective tax rate	39.3%	32.7%	6.5%	19.4%	19.8%

Lupin – Sales Breakdown

(Rs mn)	F3Q17	F3Q16	%chg YoY	F2Q17	%chg QoQ
<b>Formulations</b>	<b>41,365</b>	<b>30,668</b>	34.9%	<b>39,194</b>	5.5%
US (including IP)	21,755	13,805	57.6%	19,978	8.9%
EMEA (inc EU, South Africa)	2,555	2,187	16.8%	2,355	8.5%
India	9,912	8,860	11.9%	9,959	-0.5%
APAC (Japan)	5,601	4,634	20.9%	5,520	1.5%
LATAM	1,175	885	32.8%	986	19.2%
Rest of world	367	297	23.6%	396	-7.3%
<b>API</b>	<b>2,684</b>	<b>2,835</b>	-5.3%	<b>2,919</b>	-8.1%
<b>Total net sales</b>	<b>44,049</b>	<b>33,503</b>	31.5%	<b>42,113</b>	4.6%

Source: Morgan Stanley Research, Company Data

## Valuation

**Our price target is Rs1,846 is based on 22x Sep F18e EPS.** Our target multiple of 22x is in line with the average industry multiple over the past three years. We view this as appropriate, based on the following:

- Strengthening fundamentals (deepening product pipeline and global footprints), especially diversification into low-competition therapies, including oral contraceptives, ophthalmologics, dermatology and respiratory care;

- Possibility of lower-risk generic competition in the branded product portfolio in the US market; and
- Good visibility of niche generic launches every year for the next two to three years.

Versus:

- Some contribution from slow-growth legacy therapies (anti-TBs, APIs, etc.) to its base business;
- EPS vulnerability to competition in the key US generic and branded portfolio and impact of customer consolidation; and
- Regulatory risk (FDA issues worsening at Goa and Mandideep sites) in EMs, especially India.

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
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<b>Equal-weight/Hold</b>	<b>1449</b>	<b>44%</b>	<b>300</b>	<b>45%</b>	<b>21%</b>	<b>706</b>	<b>45%</b>
<b>Not-Rated/Hold</b>	<b>62</b>	<b>2%</b>	<b>8</b>	<b>1%</b>	<b>13%</b>	<b>8</b>	<b>1%</b>
<b>Underweight/Sell</b>	<b>656</b>	<b>20%</b>	<b>76</b>	<b>11%</b>	<b>12%</b>	<b>279</b>	<b>18%</b>
<b>TOTAL</b>	<b>3,309</b>		<b>664</b>			<b>1559</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Lupin Ltd. (LUPN.NS) - As of 2/9/17 in INR  
Industry : India Healthcare

Stock Rating History: 2/1/14 : 0/I

Price Target History: 10/31/13 : 1072; 5/8/14 : 1208; 10/29/14 : 1553; 12/11/14 : 1682; 9/24/15 : 2227;  
10/28/15 : 2133; 5/20/16 : 1986; 11/10/16 : 1846

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target --      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) —      Stock Price (Covered by Current Analyst) ■  
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**INDUSTRY COVERAGE: India Healthcare**

COMPANY (TICKER)	RATING (AS OF)	PRICE* (02/09/2017)
<b>Sameer Baisiwala, CFA</b>		
Biocon Ltd (BION.NS)	O (04/05/2016)	Rs1,089.80
Cadila Healthcare Ltd. (CADI.NS)	O (01/29/2016)	Rs366.25
Cipla Ltd. (CIPL.NS)	U (08/13/2013)	Rs587.65
Dr. Reddy's Lab (REDY.NS)	E (11/26/2015)	Rs3,023.10
GlaxoSmithKline Pharma (GLAX.NS)	U (02/28/2013)	Rs2,735.85
Glenmark Pharmaceuticals (GLEN.NS)	O (12/13/2012)	Rs955.80
IPCA Laboratories (IPCANS)	E (07/25/2014)	Rs527.95
Lupin Ltd. (LUPN.NS)	O (10/03/2006)	Rs1,491.35
Sun Pharmaceutical Industries (SUN.NS)	E (12/21/2015)	Rs655.50

Stock Ratings are subject to change. Please see latest research for each company.

\* Historical prices are not split adjusted.