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 Pharmaceuticals
 Asia | India

Lupin (LUPN.BO)

Results: Healthy Quarter Offset by More Launch Delays

- Citi's Take** — Lupin reported a healthy quarter (adj. PAT ahead 12%) aided mainly by higher gGlumetza sales in the US. Revenue growth was healthy across markets though the India business lost out a bit due to demonetization. Management commentary was mixed – potentially staggered competition in its large products (Fortamet, Glumetza), stabilizing price erosion but approvals for large products (Welchol, Renvela, Renagel) could be delayed further.
- Key to note** — a) Received further queries on some complex ANDAs (Welchol, Renvela, Renagel), launch could get delayed beyond 2HFY18; b) meaningful progress on respiratory plans: filed US ANDA for ProAir HFA, Advair clinical trials to start in 4QFY17/early FY18; c) US price erosion has stabilized in the high single-digit range; d) expect incremental competition in gGlumetza through CY18: possibly Teva in 2Q & Sun in 2H; e) key near-term opportunities in the US include Minastrin Fe, Wellbutrin, Epzicom, Vigamox, Prevacid Solutab
- Implications** — We tweak our estimates to build in delayed competition in gGlumetza and potential delays in some of Lupin's big launches – we raise FY17E EPS by 4.2% and cut FY18E/19E EPS by 4.2%/2.2%. Our new TP is Rs1,890/sh, based on 27x March'18E EPS. We continue to like Lupin's US pipeline and overall business mix and maintain our Buy rating. We however also acknowledge the potential risk to earnings if competitive intensity in key products (gFortamet & gGlumetza) is higher than expected and not timely offset by other chunky launches.

- Estimate Change
- Target Price Change

Buy	1
Price (09 Feb 17)	Rs1,495.35
Target price	Rs1,890.00
	<i>from Rs1,970.00</i>
Expected share price return	26.4%
Expected dividend yield	0.5%
Expected total return	26.9%
Market Cap	Rs675,144M
	US\$10,069M

Price Performance (RIC: LUPN.BO, BB: LPC IN)



Figure 1. Glumetza drives beat on margins

Headline Numbers		Key Regions (Growth)		Operational Metrics	
Revenues	26%	US	58%	R&D (% of Sales)	12.9%
EBIDTA	49%	India	12%	ANDAs filed / total	6 / 137
Adj. Net Income	17%	APAC	21%	ANDA approvals/ total	11 / 207
Adj. EBIDTA Margin	28.2% (+432bps)	EMEA	17%	FTFs / Sole FTFs	44 / 23

Source: Citi Research

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2015A	24,032	53.16	30.3	28.1	7.6	30.4	0.5
2016A	22,934	50.73	-4.6	29.5	6.1	23.1	0.5
2017E	28,942	64.02	26.2	23.4	5.0	23.7	0.5
2018E	31,495	69.67	8.8	21.5	4.1	21.2	0.5
2019E	40,148	88.81	27.5	16.8	3.4	22.3	0.5

Source: Powered by dataCentral

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Figure 2. Lupin – 3QFY17 Consolidated Income Statement (Rs m, %)

	3QFY16	3QFY17	% Ch YoY	2QFY17	% Ch QoQ	Citi Research Comments
Net Sales	33,503	44,049	31.5	42,112	4.6	Lupin reported a healthy quarter aided mainly by higher gGlumetza sales in the US. US sales are up (US\$24m QoQ).
Other Operating Income	1,973	779	(60.5)	793	(1.8)	
Total Revenues	35,477	44,829	26.4	42,905	4.5	Revenue growth was healthy across markets, though the India business lost out a bit due to demonetization (2-3% impact). Other markets such as Japan, Latam witnessed strong growth.
Raw material cost	11,232	13,016	15.9	12,429	4.7	
as a % sales	31.7	29.0	-263 bps	29.0	7 bps	
Staff cost	5,434	7,312	34.5	7,124	2.6	EBITDA margin up 295bps QoQ, largely driven by strong US.
as a % sales	15.3	16.3	99 bps	16.6	-29 bps	R&D spent was at 12.9% of revenue
Other expenditure	10,349	11,873	14.7	12,532	(5.3)	
as a % sales	29.2	26.5	-269 bps	29.2	-272 bps	There is a forex gain of Rs c740m in other income and Forex loss of cRs470m above EBITDA
Total expenditure	27,016	32,200	19.2	32,084	0.4	
EBITDA	8,461	12,628	49.3	10,821	16.7	
EBITDA Margins (%)	23.8	28.2	432 bps	25.2	295 bps	
Depreciation	1,216	2,309	89.9	2,112	9.3	
Interest	99	459	364.4	263	74.6	
Other Income	664	296	(55.5)	271	9.1	
PBT	7,811	10,156	30.0	8,717	16.5	
Tax	2,557	4,095	60.1	1,589	157.6	
Effective Tax Rate (%)	32.7	40.3	758 bps	18.2	2209 bps	
Minority Interest	8	(0)	(102.5)	(34)	(99.4)	
Recurring PAT	5,246	6,115	16.6	7,054	(13.3)	
EO Exp. / (Income)	-	(270)		540		
Reported PAT	5,246	6,331	20.7	6,622	(4.4)	

Source: Company, Citi Research

Figure 3. Lupin – 3QFY17 Revenue Breakdown (Rs m)

	3QFY16	3QFY17	% Ch YoY	2QFY17	% Ch QoQ	Citi Research Comments
Formulations	30,668	41,365	34.9	39,193	5.5	US Sales: Market share ramp up in Glumetza, aided by few new launches. Expect additional competition from Sun Pharma and Teva in Glumetza in FY18
% of Total Sales	91.5	93.9		93.1		
North America	13,805	21,755	57.6	19,978	8.9	India: 2-3% impact of Demonetization
India	8,860	9,912	11.9	9,958	(0.5)	Japan: Shionogi acquisition is complete, sales of few days in 3Q, 4Q will see full quarter impact
Asia Pacific	4,634	5,601	20.9	5,520	1.5	Latam: Brazil / Mexico up 22.9% / 31.4% YoY in CC
EMEA	2,187	2,555	16.8	2,355	8.5	EMEA: South Africa was muted at 2.7% YoY growth in CC, Germany up by 26.1% YoY in CC
LATAM	885	1,175	32.8	986	19.2	
RoW	297	367	23.6	396	(7.3)	
APIs	2,835	2,684	(5.3)	2,919	(8.1)	
Total Sales	33,503	44,049	31.5	42,112	4.6	

Source: Company, Citi Research

Figure 4. Lupin – 3QFY17 Revenues in Constant Currency (m)

	3QFY16	3QFY17	% Ch YoY	2QFY17	% Ch QoQ
North America (US\$)	206	316	53.4	292	8.2
Japan (JPY)	6883	7244	5.2	6700	8.1
Philippines (PHP)	320	399	24.7	448	(10.9)
South Africa (ZAR)	223	230	3.1	252	(8.7)
Germany (EUR)	5.7	7.2	26.3	6.4	12.5
Brazil (BRL)	24	29	20.8	31	(6.5)
Mexico (MXN)	120	157	30.8	93	68.8

Source: Company, Citi Research

Figure 5. Earnings Revision

EPS	FY17E	FY18E	FY19E
New	64.0	69.7	88.8
Old	61.4	72.7	90.8
Change (%)	4.2%	-4.2%	-2.2%

Source: Citi Research estimates

Lupin

Valuation

Given that pharma is a growth sector, we use P/E as our primary method to value the base business of pharma companies. We value Lupin at 27x March'18E forward earnings, at a 20% premium to the upper-end of the valuation band (21-23x) for the sector. We believe this is warranted, given Lupin's consistent delivery (in terms of business mix, return ratios and execution) and superior preparedness to target longer-term growth opportunities. At 27x Mar'18E recurring FDEPS, we arrive at a target price of Rs1,890.

Risks

Key risks that could impede the stock from achieving our target price include: 1) Rising competitive intensity in its US business, given faster pace of approvals for the industry; 2) Delay in approval of products especially from the niche portfolio in the US; and 3) Inability to effectively scale up the Japanese operations would hurt one of the longer term growth drivers.

Appendix A-1

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Lupin (LUPN.BO)

Ratings and Target Price History Fundamental Research

Analyst: Prashant Nair, CFA



	Date	Rating	Target Price	Closing Price
1	21-Mar-14 14:01:31	1	*1,280.00	944.20
2	09-May-14 17:43:50	1	*1,290.00	966.35
3	31-Jul-14 22:22:04	1	*1,650.00	1,182.05
4	28-Jan-15 07:04:49	1	*2,020.00	1,513.35

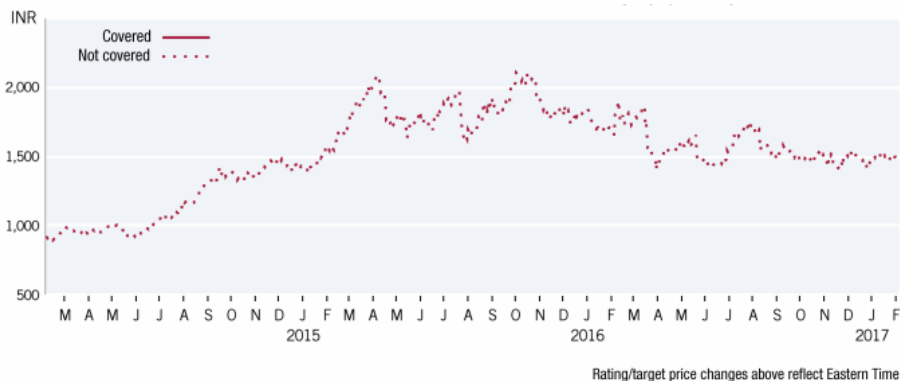
	Date	Rating	Target Price	Closing Price
5	13-Aug-15 19:53:45	1	*2,270.00	1,757.00
6	24-Sep-15 18:24:09	1	*2,550.00	1,989.45
7	27-Oct-15 17:42:15	1	*2,360.00	1,945.65
8	24-Feb-16 04:33:01	1	*2,130.00	1,762.15

	Date	Rating	Target Price	Closing Price
9	19-May-16 21:28:11	1	*1,930.00	1,655.80
10	27-Oct-16 07:43:51	1	*1,970.00	1,485.00

*Indicates Change

Rating/target price changes above reflect Eastern Time

Lupin (LUPN.BO)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Prashant Nair, CFA



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