

BSE SENSEX	S&P CNX
28,330	8,778
Bloomberg	LPC IN
Equity Shares (m)	451
M.Cap.(INRb)/(USD\$b)	668.6 / 9.1
52-Week Range (INR)	1912 / 1294
1, 6, 12 Rel. Per (%)	-6/-6/-39
Avg Val, INRm	2281
Free float (%)	53.3

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	142.1	178.7	210.2
EBITDA	37.5	47.2	56.3
PAT	22.7	27.9	35.6
EPS (INR)	50.4	61.8	79.0
Gr. (%)	-5.7	22.7	27.8
BV/Sh (INR)	243.8	295.9	364.4
RoE (%)	22.9	22.9	23.9
RoCE (%)	16.8	15.4	16.7
P/E (x)	29.6	24.2	18.9
P/BV (x)	6.1	5.0	4.1

Estimate change

TP change

Rating change

CMP: INR1,490 TP: INR1,850(+24%)
Buy
Mixed quarter; margin improvement is key

- Revenue grew 26% YoY to INR44.8b (~6% above est.). Gross margin was stable QoQ at 71.0%. EBITDA rose 27% YoY to INR12.2b (~16% above est.), with margin of 27% above our estimate of 24.7%. EBITDA margin improvement was primarily driven by strong growth in US sales (+53% YoY, +8% QoQ; despite R&D as % of sales at 12.9%) and forex gain of INR270m. PAT of INR 6.3b was impacted by ~1% due to a high tax rate of 39%.
- **US sales strong; limited impact of demonetization on domestic business:** US sales rose to USD316m from USD292m in 2QFY17, driven by market share gains for Glumetza and a 25% QoQ rise in branded business sales (led by Methergen price increase). Four new launches in 3Q also helped drive growth. We expect strong US sales over near term as Glumetza may not see new competition (Teva launch not expected before mid-2017), and as Minastrin FTF launch is expected in Mar-2017. India business grew ~12% YoY. LPC expects domestic business to grow 15% YoY in FY18. APAC, LatAm and ROW grew 20% YoY led by stable currency and strong core business.
- **Key earnings call takeaways:** 1) 25+ ANDA launches in FY18E. 2) Plans to file 30 ANDAs in US; 3) Tax rate guidance of 28%. 4) 23% of products in domestic market under NLEM. 5) Higher tax rate in 3Q was attributed to unwinding of deferred tax and subsidiary losses. 6) High-single-digit price erosion in base business in FY18E (post Walmart-Mckesson deal). 7) Albuterol ANDA filed in 3Q. 8) See low probability of border tax in pharma. 9) Branded sales in 3Q at ~USD22m (Methergen followed by Antara were largest contributors).
- **Valuation view:** Glumetza/Fortamet continue to be the key contributors to profits. Glumetza may continue to see limited competition in near term. Along with this, strong launch pipeline and ramp-up of Methergen sales can help drive US business over near term. Maintain **Buy** with TP of INR1,850 @ 22x 1HFY19E PER (v/s INR1,825 @ 22x 1H FY19E PER). We raise FY17E/18E EPS by 2-3% as we build impact of limited competition in Glumetza.

Quarterly Performance (Consolidated)

Y/E March	FY16				FY17				FY16	FY17E	3QE	% Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	31,561	33,297	35,558	41,707	44,677	42,905	44,828	46,246	142,085	178,657	42,453	5.6
YoY Change (%)	-5.5	4.9	11.9	35.5	41.6	28.9	26.1	10.9	11.3	25.7	19.4	
EBITDA	8,248	6,626	8,772	13,050	13,080	10,281	12,158	11,645	37,534	47,165	10,499	15.8
Margins (%)	26.1	19.9	24.7	31.3	29.3	24.0	27.1	25.2	26.4	26.4	24.7	
Depreciation	1,014	1,155	1,114	1,487	2,027	2,112	2,309	1,874	4,635	8,322	2,110	
Interest	70	241	92	213	320	263	459	382	446	1,424	350	
Other Income	757	578	653	349	826	271	1,036	167	1,877	2,300	600	
PBT	7,921	5,809	8,219	11,699	11,560	8,177	10,426	9,556	34,330	39,719	8,639	20.7
Tax	2,258	1,591	2,909	4,188	2,734	1,589	4,095	2,703	11,536	11,121	2,300	
Rate (%)	28.5	27.4	35.4	35.8	23.7	19.4	39.3	28.3	33.6	28.0	26.6	
Minority Interest	-3	27	13	51	6	8	24	337	88	375	98	
Recurring PAT	5,686	4,198	5,298	7,479	8,820	6,622	6,331	6,516	22,707	28,223	6,241	1.4
YoY Change (%)	-9.0	-33.4	-11.9	36.7	55.1	58.0	19.5	-12.9	-5.5	24.3	17.8	
Margins (%)	18.0	12.6	14.9	17.9	19.7	15.4	14.1	14.1	16.0	15.8	14.7	

Kumar Saurabh (Kumar.Saurabh@MotilalOswal.com); +91 22 6129 1519

Investors are advised to refer through important disclosures made at the last page of the Research Report.

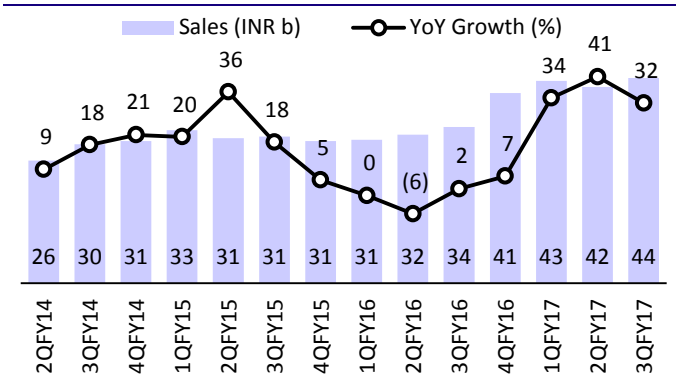
 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Lower R&D, other expenses led to above estimated margin

Lupin's 3QFY17 net revenues grew 26% YoY to INR44.8b (~6% above estimate). 4 new product launches, higher market share of gGlumetza molecule, ramp up in Methergen and 11 USFDA approvals continued to support US revenues (up 53.4% YoY). India business grew 12%YoY to INR9.9b, largely in line with estimates. Japan business recorded 16.2%YoY growth during this quarter. Japan constant currency growth remained modest at 5.3%YoY. ROW business (EMEA, APAC ex-Japan, LATAM) exhibited better performance, with revenues growing 1.4% YoY in 3QFY17.

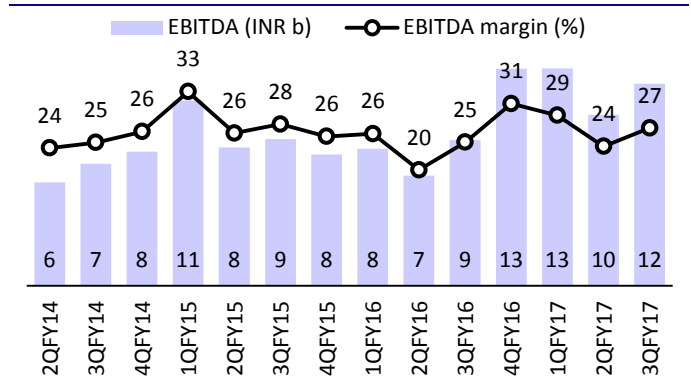
EBITDA increased 38.6%YoY to INR12.2b (v/s estimate of INR 10.5b, ~15% above est). EBITDA margin increase of 240bp (27.1% vs 24.7% est) was primarily attributable to lower than expected R&D expenses and other expenses. R&D expenses were up 120bpYoY to 12.9% of sales.

Exhibit 1: Revenues exhibited growth of 32% YoY



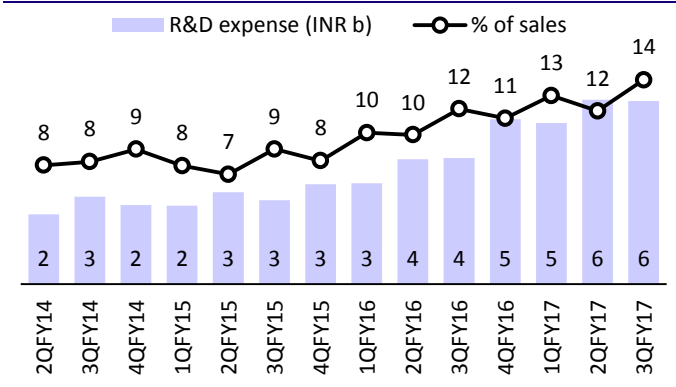
Source: Company, MOSL

Exhibit 2: Improved Ebitda margins due to controlled costs



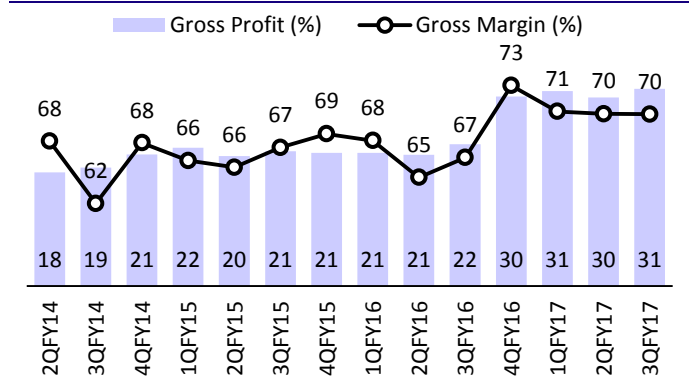
Source: Company, MOSL

Exhibit 3: Scale up in R&D expense to continue through FY17



Source: Company, MOSL

Exhibit 4: Gross margins remain same sequentially

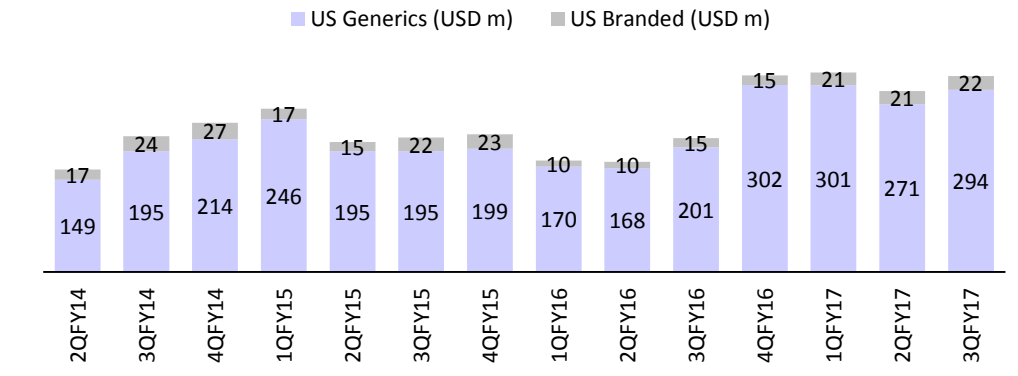


Source: Company, MOSL

US Generic business - (49% of sales)

- US business grew 57.6%YoY to INR21.76b (USD316m), led by new product launches and approvals, ramp up in Methergine, higher share of gGlumetza.
- The Company launched 4 products in the US in 3QFY17. Cumulatively LPC is marketing 128 products in US market, as of end 3QFY17. LPC is the market leader in 45 products and amongst top 3 in 78 of its marketed products. The company currently has 137 ANDA's pending approval in the US which includes 44 FTF opportunities (23 exclusive opportunities). Going forward, LPC expects to launch 25-30 generic products in FY18E, which will support 29% growth momentum over FY16-19E, along with Gavis' portfolio.

Exhibit 5: US revenues: Generic business continues to drive growth



Source: Company, MOSL

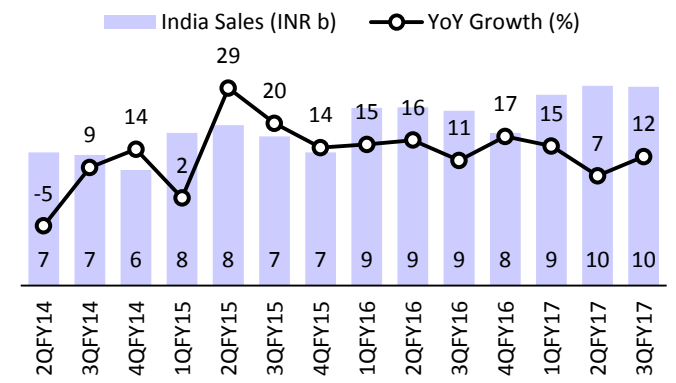
India business – (~22% of sales)

- In 3Q, domestic business exhibited a robust performance and grew 12%YoY to INR9.9b despite demonetisation. Currently 23% of the company’s domestic portfolio is under price control
- Management commentary indicated domestic business growth to rebound to 15%-20%YoY in the near term. We build in 14% CAGR over FY16-19E.

Japan (~10% of sales)

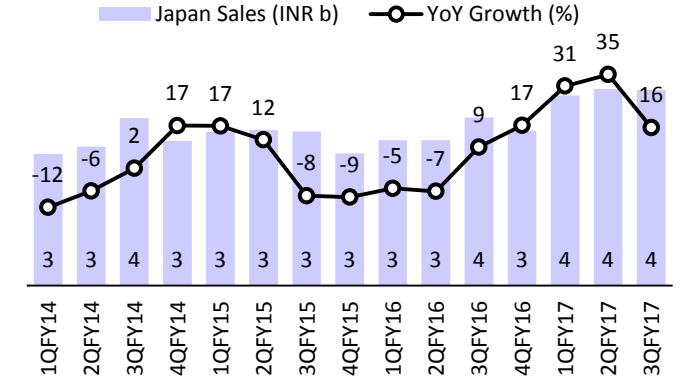
- Japanese business increased 16%YoY to INR4.3b, buoyed by steep rupee depreciation YoY. In constant currency, business grew 5.3% YoY to JPY7.2b.
- The company completed acquisition of 21 products from Shionogi in 3Q FY17.

Exhibit 6: Domestic growth despite demonetisation



Source: Company, MOSL

Exhibit 7: Japan sales grew 16% YoY



Source: Company, MOSL

Highlights from Earnings call

- US branded business witnessed sales of USD22m (up 4% QoQ) primarily attributable to new launches and approvals.
- LPC plans to file 30 ANDAs in US. Albuterol ANDA filed during the quarter
- Management has given tax rate guidance of 28%. Higher tax rate during the quarter was attributed to unwinding of deferred tax and subsidiary losses.
- 23% of products in domestic market under NLEM.
- High single digit price erosion expected in base business in FY18 (post Walmart-Mckesson deal).
- Branded sales during 3Q was ~USD22m (Methergen followed by Antara were the largest contributor)..
- Capital expenditure outlay of ~19b in FY17.

Valuation and view

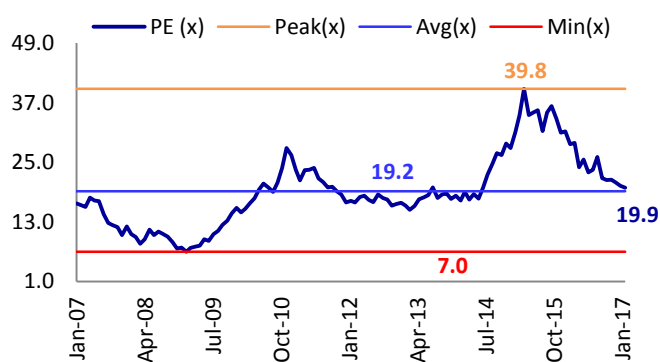
Lupin has consistently re-rated over the last five years following consistent earnings performance, improvement in Balance Sheet health and return ratios.

Long term outlook remains firm

Glumetza and Fortamet continue to be a key contributor to profits. We believe that Glumetza may continue to see limited competition in near term. Along with this, strong launch pipeline and ramp-up of Methergen sales can help drive US business growth in the near term.

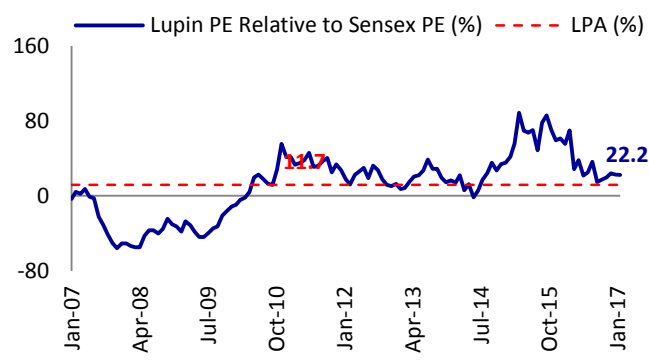
We maintain **Buy** with TP of INR1,850 @ 22x 1HFY19E PER (v/s INR1,825 @ 22x 1H FY19E PER). We have increased our FY17/ 18E EPS by 2-3% as we build impact of limited competition in Glumetza.

Exhibit 8: P/E valuation band (10 years)



Source: Company, MOSL

Exhibit 9: Higher premium relative to Sensex



Source: Company, MOSL

Operating metrics

Exhibit 10: Key operating metrics

	FY14			FY15			FY16			FY17				
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Revenue Mix (%)														
US	39.3	45.5	48.2	48.9	40.8	44.7	45.1	38.7	36.1	41.8	53.5	50.4	47.4	49.4
India	25.2	21.8	18.9	23.2	25.6	23.7	21.7	28.8	27.8	25.9	18.6	21.9	23.6	22.5
Japan	11.8	12.5	10.5	10.4	11.1	10.9	9.6	10.5	10.1	11.1	8.4	9.7	10.4	9.9
Europe	2.8	2.2	2.6	2.1	2.8	2.6	2.9	2.8	3.8	3.0	3.1	2.9	2.6	3.2
ROW	10.0	8.1	10.2	6.5	9.4	9.5	10.5	8.6	11.7	9.8	9.5	8.2	9.0	9.0
APIs	10.9	10.0	9.5	8.9	10.2	8.8	10.1	10.6	10.4	8.2	6.9	6.8	6.9	6.1
Revenue Growth (%)	17.5	21.0	20.3	35.7	18.4	5.4	0.1	(6.4)	2.4	6.8	34.0	41.2	31.9	30.5
US	32.4	30.6	28.2	60.3	22.9	3.5	(6.3)	(25.8)	(9.3)	0.0	58.7	83.8	73.1	54.9
India	9.4	13.9	1.8	29.2	20.4	14.4	15.2	16.2	11.2	17.1	14.7	7.3	12.1	13.8
Japan	(6.3)	1.7	16.9	16.8	11.8	(8.0)	(8.5)	(5.4)	(6.5)	9.3	17.0	31.0	35.1	16.2
Europe	18.4	10.5	20.5	(29.3)	18.2	21.8	12.1	24.1	39.3	25.5	40.7	49.5	(8.6)	39.3
ROW	20.2	23.2	30.0	8.8	11.7	24.0	2.8	23.5	26.4	10.9	21.1	34.6	1.4	19.3
APIs	19.6	26.3	10.0	20.4	11.2	(7.2)	5.5	11.4	4.6	0.1	(7.7)	(8.9)	(12.3)	(2.8)
As % of sales	76.3	75.4	73.5	67.8	75.1	73.0	74.9	75.7	83.5	79.8	70.2	72.8	77.5	74.2
Raw material	32.0	37.6	32.1	33.7	34.3	32.5	31.3	31.9	35.2	33.4	27.0	29.3	29.5	29.5
Staff cost	14.0	12.7	12.8	12.5	14.1	13.2	15.8	16.1	16.7	15.7	14.2	16.3	16.9	16.6
R&D cost	8.3	9.1	8.0	7.4	9.1	8.3	10.1	10.2	12.1	11.7	12.5	11.5	13.6	12.9
Other expenses	22.1	16.0	20.6	14.1	17.6	18.9	17.7	17.4	19.5	18.9	16.5	15.7	17.5	15.1
Tax Rate	38.2	34.4	29.2	39.0	23.1	28.0	19.5	28.5	27.4	35.4	35.8	23.7	19.4	39.3
Margins (%)														
Gross Margins	68.0	62.4	67.9	66.3	65.7	67.5	68.7	68.1	64.8	66.6	73.0	70.7	70.5	70.5
EBITDA Margins	24.7	25.6	28.1	33.4	26.2	27.8	25.6	26.1	19.9	24.7	31.3	29.3	24.0	27.1
EBIT Margins	25.9	24.9	26.5	31.5	24.0	27.2	22.9	25.9	18.9	24.8	29.2	27.4	20.0	24.7
PAT margins	15.4	16.0	18.1	19.0	20.2	19.1	17.9	18.5	13.1	15.8	18.3	20.3	15.7	14.4

Source: Company; MOSL

Story in charts

Exhibit 11: Revenue mix in 3QFY17

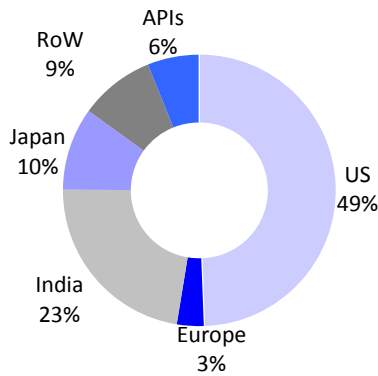


Exhibit 12: Healthy revenue growth on expanded base

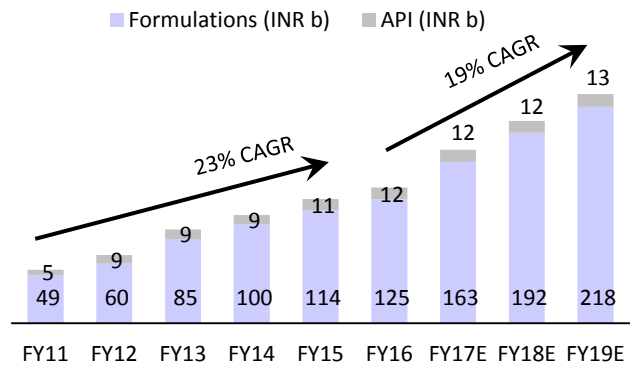


Exhibit 13: US business to be driven by strong ANDA pipeline + Gavis acquisition

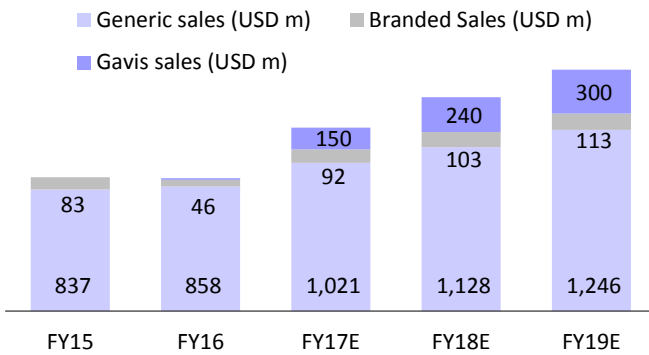


Exhibit 14: Forecast sustained improvement in margins

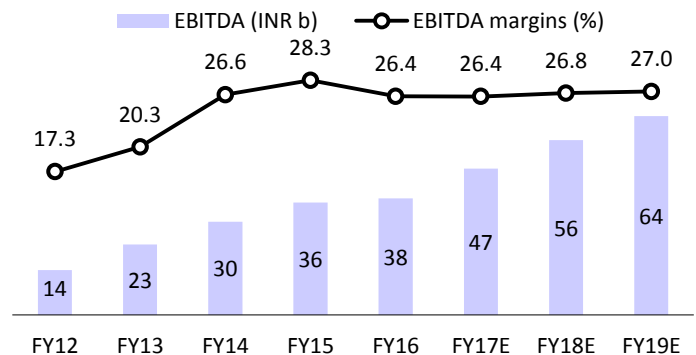


Exhibit 15: Expect strong EPS CAGR of 21% over FY16-19E

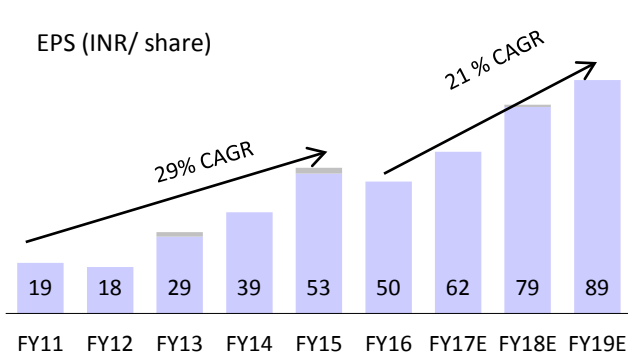


Exhibit 16: Lower tax outflow to support PAT margins

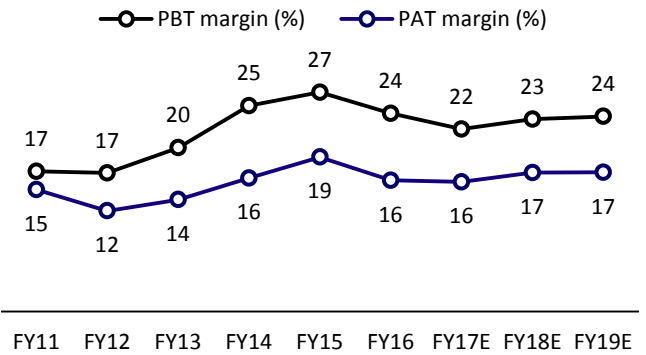


Exhibit 17: Industry leading return ratios

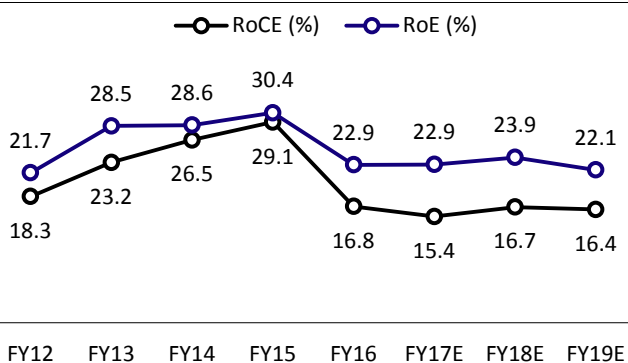
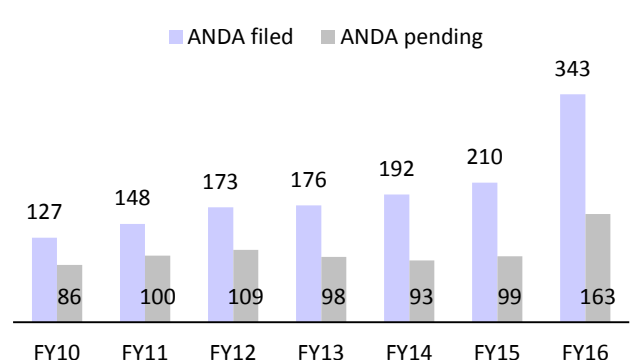


Exhibit 18: Rich ANDA pipeline



Source: Company, MOSL

Source: Company, MOSL

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Net Sales	70,829	96,413	112,866	127,700	142,085	178,657	210,204	237,207
Change (%)	21.7	36.1	17.1	13.1	11.3	25.7	17.7	12.8
EBITDA	14,446	22,700	30,028	36,196	37,534	47,165	56,335	64,046
EBITDA Margin (%)	20.4	23.5	26.6	28.3	26.4	26.4	26.8	27.0
Depreciation	2,275	3,322	2,610	4,347	4,635	8,322	8,268	8,948
EBIT	12,171	19,378	27,418	31,849	32,899	38,843	48,066	55,098
Interest	355	410	267	98	446	1,424	1,182	1,182
Other Income	143	279	165	2,398	1,877	2,300	2,400	2,500
Extraordinary items	0	0	1,000	0	0	0	0	0
PBT	11,960	19,246	28,317	34,148	34,330	39,719	49,284	56,416
Tax	3,086	5,842	9,622	9,704	11,536	11,121	13,307	15,797
Tax Rate (%)	25.8	30.4	34.0	28.4	33.6	28.0	27.0	28.0
Min. Int. & Assoc. Share	196	263	331	412	88	375	375	375
Reported PAT	8,678	13,142	18,364	24,032	22,707	28,223	35,603	40,245
Adjusted PAT	7,917	13,142	17,364	24,032	22,707	27,858	35,603	40,245
Change (%)	-8.4	66.0	32.1	38.4	-5.5	22.7	27.8	13.0

Balance Sheet						(INR Million)		
Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Share Capital	893	895	897	899	901	901	901	901
Reserves	39,236	51,147	68,419	87,842	108,943	132,421	163,279	198,779
Net Worth	40,129	52,042	69,316	88,741	109,844	133,322	164,180	199,680
Debt	15,557	10,240	5,992	4,710	71,193	71,193	71,193	71,193
Deferred Tax	1,442	1,632	1,779	1,182	1,239	1,239	1,239	1,239
Total Capital Employed	57,852	64,509	77,756	94,874	182,596	206,449	237,683	273,558
Gross Fixed Assets	36,274	41,138	45,638	45,445	55,887	99,945	111,968	122,827
Less: Acc Depreciation	14,422	16,840	19,283	19,174	23,262	33,535	40,150	47,308
Net Fixed Assets	21,852	24,298	26,355	26,271	32,625	66,409	71,817	75,518
Capital WIP	4,437	3,107	3,041	5,760	9,812	5,156	2,828	1,664
Investments	28	21	1,785	16,584	75	2,055	2,055	2,055
Current Assets	47,393	55,305	62,970	64,510	107,473	124,276	158,129	195,802
Inventory	17,327	19,489	21,295	25,036	31,787	30,518	36,276	40,658
Debtors	17,800	21,870	24,641	26,566	45,498	46,765	55,023	62,091
Cash & Bank	4,025	4,349	7,975	4,814	8,379	33,734	52,760	78,091
Loans & Adv, Others	8,241	9,597	9,060	8,095	21,808	13,259	14,070	14,962
Curr Liabs & Provns	21,503	23,926	23,597	35,662	40,975	38,279	43,980	48,314
Curr. Liabilities	17,565	19,241	18,818	28,299	32,318	28,692	34,106	38,226
Provisions	3,939	4,684	4,779	7,363	8,658	9,587	9,874	10,088
Net Current Assets	25,889	31,379	39,374	28,848	66,498	85,997	114,149	147,488
Total Assets	57,851	64,509	77,756	94,874	182,596	206,449	237,682	273,558

Financials and Valuations

Ratios								
Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Basic (INR)								
EPS	17.7	29.4	38.7	53.5	50.4	61.8	79.0	89.3
Cash EPS	22.8	36.8	44.5	63.1	60.7	80.3	97.4	109.2
Book Value	89.9	116.3	154.6	197.4	243.8	295.9	364.4	443.2
DPS	3.4	4.0	6.0	7.5	7.5	9.0	9.0	9.0
Payout (incl. Div. Tax.)	20.5	15.9	16.0	16.9	17.9	16.8	13.3	11.8
Valuation(x)								
P/E	84.3	50.9	38.6	27.9	29.6	24.2	18.9	16.7
Cash P/E	65.5	40.6	33.5	23.7	24.6	18.6	15.3	13.7
Price / Book Value	16.6	12.8	9.7	7.6	6.1	5.0	4.1	3.4
EV/Sales	9.6	7.0	5.9	5.2	5.1	4.0	3.3	2.8
EV/EBITDA	47.1	29.7	22.2	18.5	19.5	15.0	12.2	10.3
Dividend Yield (%)	0.2	0.3	0.4	0.5	0.5	0.6	0.6	0.6
Profitability Ratios (%)								
RoE	21.7	28.5	28.6	30.4	22.9	22.9	23.9	22.1
RoCE	18.3	23.2	26.5	29.1	16.8	15.4	16.7	16.4
RoIC	20.9	25.4	29.7	34.4	18.8	17.0	20.3	21.3
Turnover Ratios (%)								
Asset Turnover (x)	1.2	1.5	1.5	1.3	0.8	0.9	0.9	0.9
Debtors (No. of Days)	92	83	80	76	117	96	96	96
Inventory (No. of Days)	89	74	69	72	82	63	63	63
Leverage Ratios (%)								
Net Debt/Equity (x)	0.3	0.1	0.0	0.0	0.6	0.5	0.4	0.4
Cash Flow Statement						(INR Million)		
Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Adjusted EBITDA	14,446	22,700	30,028	36,196	37,534	47,165	56,335	64,046
Non cash opr. exp (inc)	143	278	165	2,398	1,877	2,300	2,400	2,500
(Inc)/Dec in Wkg. Cap.	-5,370	-5,166	-4,368	7,364	-34,084	5,856	-9,126	-8,008
Tax Paid	-3,055	-5,652	-9,475	-10,300	-11,479	-11,121	-13,307	-15,797
Other operating activities	0	0	1,000	0	0	0	0	0
CF from Op. Activity	6,164	12,160	17,349	35,657	-6,152	44,200	36,302	42,741
(Inc)/Dec in FA & CWIP	-8,736	-4,497	-6,098	-17,191	-71,217	-10,696	-11,349	-11,485
Free cash flows	-2,572	7,663	11,251	18,466	-77,369	33,503	24,953	31,256
(Pur)/Sale of Invt	4	7	-1,764	-14,799	16,509	-1,980	0	0
Others	0	0	0	0	0	0	0	0
CF from Inv. Activity	-8,733	-4,490	-7,862	-31,991	-54,708	-12,676	-11,349	-11,485
Inc/(Dec) in Net Worth	430	475	1,593	-1,389	2,459	0	0	0
Inc / (Dec) in Debt	4,094	-5,317	-4,248	-1,282	66,483	0	0	0
Interest Paid	-355	-410	-267	-98	-446	-1,424	-1,182	-1,182
Divd Paid (incl Tax) & Others	-1,777	-2,095	-2,939	-4,058	-4,071	-4,745	-4,745	-4,745
CF from Fin. Activity	2,392	-7,348	-5,861	-6,828	64,425	-6,169	-5,926	-5,926
Inc/(Dec) in Cash	-177	323	3,626	-3,161	3,565	25,355	19,027	25,330
Add: Opening Balance	4,202	4,025	4,349	7,975	4,814	8,379	33,734	52,760
Closing Balance	4,025	4,348	7,975	4,814	8,379	33,734	52,760	78,090

Corporate profile

Company description

Lupin is amongst the larger pharma companies that is actively targeting the regulated generics markets. Historically very strong in the anti-TB segment, it has over the years built up expertise in fermentation-based products and segments like cephalosporins, prils and statins. Lupin is now a fully integrated company, with manufacturing capabilities in APIs and formulations and a direct marketing presence in the target markets.

Exhibit 1: Sensex rebased

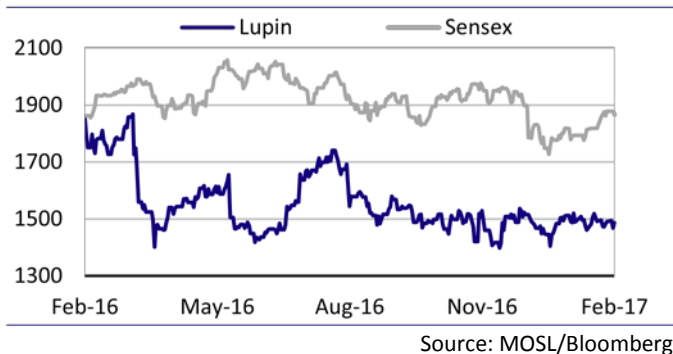


Exhibit 2: Shareholding pattern (%)

	Dec-16	Sep-16	Dec-15
Promoter	46.7	46.7	46.5
DII	8.2	7.2	6.5
FII	33.3	34.7	37.0
Others	11.8	11.4	9.9

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
National Westminster Bank PLC	2.4
Rakesh Jhunjunwala	1.8
Government of Singapore	1.8
New Perspective Fund	1.8
ICICI Prudential	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
D B Gupta	Chairman
Kamal K Sharma	Vice Chairman
Nilesh Gupta	Managing Director
Ramesh Swaminathan	Director & CFO
M D Gupta	Executive Director
R V Satam	Company Secretary
Vinita Gupta	CEO & Director

Source: Capitaline

Exhibit 5: Directors

Name	Name
Dileep C Choksi	Jean-Luc Belingard
K U Mada	R A Shah
Richard Zahn	Vijay Kelkar

*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells LLP	Statutory
Ernst & Young LLP	Internal
Neena Bhatia	Secretarial Audit
S D Shenoy	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	61.6	63.7	-3.4
FY18	77.0	73.7	4.5
FY19	89.0	84.6	5.2

Source: Bloomberg

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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Varun Kumar

Varun.kumar@motilaloswal.com

Contact : (+65) 68189232

Office Address: 21 (Suite 31), 16 Collyer Quay, Singapore 04931



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com