Lupin

India Research

RESULT REVIEW

Bloomberg: LPC IN
Reuters: LPC.BO

BUY

Revenues in-line, margins outperform

Lupin's revenues increased 31% YoY to Rs 44bn in Q3FY17 in line with our estimates of Rs 44 bn on back of better performance in US, APAC, LATAM and ROW business. Operating margins increased by 327bps YoY to 27.1% (higher than our estimate of 25.2%) due to positive forex impact. Net Profit grew by 21% YoY to Rs 6331 mn lower than our estimates of Rs 6871 mn due to higher tax on account of inventory liquidation.

Revenue Details: US business outperformed at Rs 21175 mn on account of no competition in Glumetza and limited competition in Fortamet and better business in other products. Domestic formulation business grew by 11.9% YoY to Rs 9912 mn (below our estimate of Rs Rs10019 mn). EMEA grew by 16.8% YoY clocking net sales of Rs 2555 mn. Brazil also showed good growth. Operating income was also lower at Rs 799 mn as against our expectation of Rs 1500 mn.

Margin lower than expectation: Gross margins were in line with preceding quarter as there was no competition in Glumetza. The major savings was in other expenses was down 290 bps yoy and 300 bps q-o-q, lower R & D exps as a % of revenues and other expenses were the reason for the same. The profit growth could have higher than 21 % but for the higher tax rate of 39 %.

Outlook & Valuation: We downgrade our revenues for FY17E/FY18E by 4.2%/1.2% on account of downgrade in US, Japan and other EM business. We however upgrade our EBITDAM by 130bps /20 bps to 26.9%/26.7% for FY17E/FY18E on account of better gross margins and lower overheads. We downgrade our EPS by 5.2%/0.8% to Rs 55.4/Rs 72.6 for FY17E/FY18E respectively. We maintain our BUY rating on the stock with a TP of Rs 1670. based on 23x FY18E.

Key Financials

Y/E Mar (Rs Mn)	FY14	FY15	FY16	FY17E	FY18E
Net sales	112,866	127,700	142,085	183,074	219,417
EBITDA	30,028	36,196	37,535	46,833	58,084
Net Profit	17,706	22,384	19,743	26,304	31,929
EPS(Rs)	39.5	49.8	43.8	58.4	70.9
EPS growth (%)	39.9	26.1	-12.0	33.2	21.4
EBITDA margin(%)	26.6	28.3	26.4	25.6	26.5
PER(x)	38.7	30.7	34.9	26.2	21.6
EV/EBITDA (x)	22.9	19.0	20.0	15.7	12.2
P/S (x)	6.2	5.5	5.0	3.9	3.2
RoCE(%)	40.6	40.7	25.9	21.7	24.7
RoE(%)	27.6	28.5	22.2	23.6	23.3

Source: Company, Karvy Stock Broking……..……..Indian GAAP Consolidated

Recommendation

CMP:	Rs1,495
Target Price:	Rs1,670
Previous Target Price:	Rs1,702
Upside (%)	11%

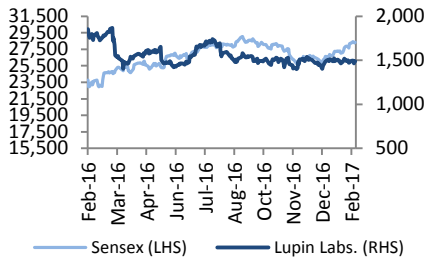
Stock Information

Market Cap. (Rsbn / US$ mn)	673/10051
52-week High/Low (Rs)	1,911/1,280
3m ADV (Rsmn /US$ mn)	1,385/20.3
Beta	0.7
Sensex/ Nifty	28,330/8,778
Share outstanding (mn)	451

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	0.1	(2.5)	(21.7)	0.3
Rel. to Sensex	(5.5)	(6.2)	(33.6)	(5.7)

Performance



Source: Bloomberg

Earnings Revision

(%)	FY17E	FY18E
Revenue	↓ 4.2	↓ 1.2
EBITDA	↑ 0.6	↓ 0.8
EPS	↓ 5.2	↓ 0.8

Source: Karvy Stock Broking

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Key highlights:

US

Lupin filed 6 ANDAs and received 11 approvals from the US FDA during the quarter. There have been 4 launches during the quarter. The company is market leader in 45 products in the US generics market and has 128 products in the US generics market.

The Company now has 44 First-to-Files (FTF) filings including 23 exclusive FTF opportunities. Cumulative DMF filings stand at 173 as of December 31st, 2016.

On the company's key products gFortamet, Mylan has entered the space, while Valent has recently launched an AG in Glumetza. Lupin currently has 75 % market share in this product. Teva is expected to launch in Q2 CY 17 while Sun Pharma launch is expected in Q3/Q4. Methergin as a brand has performed well with revenues of USD 4 mn sales per month. The branded sales were to the tune of USD 22 mn for the quarter as against USD 18 mn in the preceding quarter. The key brands for the company are Methergin, Antara and Suprax.

Some of the complex molecules such as Renvela and Welchol are getting queries from USFDA which in turn would result in delayed launches. Lupin is looking at 25 launches in FY18E. These would include Minasterin FTF, Epsicom. Other important products which could be launched include Oxycodone, Hydrocodone, Vigamox and Namenda. Some of these products are currently being litigated. The company's pending ANDAs including Gavis addresses a market size of USD 20 bn.

Japan

The Government has withdrawn some incentives for the generic space which has been the reason for the tepid growth. With the company acquiring Shinogi in Japan with 21 products, this will give Lupin some respite.

Other Takeaways:

Capex guidance for the FY17 is Rs 19 bn (new R&D plant is coming up in Pune.) and for FY18 the company is expecting a capex of 13-14 bn.

One of the reasons for q-o-q improvement in margins has been due to a forex gain of Rs 270 mn for the quarter as against a forex loss of Rs 560 mn in the preceding quarter.

The other income of Rs 1 bn has a forex gain of Rs 740 mn for the quarter.

Exhibit 1: Quarterly performance

Y/E Mar (Rs mn)	Q3FY17	Q2FY17	Q3FY16	QoQ %	YoY %
Net Revenues	44828	42,905	35,477	4.5	26.4
Cost	32670	32,624	27,016	0.1	20.9
EBITDA	12158	10,281	8,461	18.3	43.7
EBITDA Margin (%)	27	24.0	23.8		
Other Income	1035.	271	664	282.1	56.0
Interest	459	263	99	74.6	364.4
Depreciation	2309	2,112	1,216	9.3	89.9
Profit before Tax	10425	8,177	7,811	27.5	33.5
Tax	4094	1,589	2,557	157.6	60.1
Tax rate (%)	39	19.4	32.7		
Profit After Tax	6330	6,588	5,254	(3.9)	20.5
Minority Interest.	23	8	13	206.5	88.8
Share of associates	-23	42.10	-4.50		
Net Profit	6331	6,622	5,246	(4.4)	20.7

Source: Company, Karvy Stock Broking

Exhibit 2: Change in Estimates

Y/E Mar (Rs. Mn)	FY17E			FY18E			Comments
	New	Old	% change	New	Old	% change	
India Formulations	37,712	37,477	0.6	42,803	43,099	(0.7)	lowered growth for FY 18E
US	85,954	92,932	(7.5)	118,800	120,136	(1.1)	lowered base business
Japan	16,554	17,284	(4.2)	17,337	18,935	(8.4)	Lowered Japan biz in lieu of new directives on generic front
EU	1,992	1,800	10.6	2,100	2,100	-	
South Africa	4,702	4,798	(2.0)	5,642	5,757	(2.0)	
API	11,166	11,282	(1.0)	11,389	11,508	(1.0)	
Revenues	175,613	183,252	(4.2)	220,012	222,772	(1.2)	
Raw material costs	50,689	55,050	(7.9)	64,350	66,265	(2.9)	better gross margins factored in FY 17 and FY18
Staff Cost	28,944	28,600	1.2	33,291	32,895	1.2	marginal upgrade in lieu of 9 mths
Other expense	48,811	52,698	(7.4)	63,243	64,035	(1.2)	lowered nos in lieu of 9 mths
EBITDA	47,169	46,904	0.6	59,128	59,577	(0.8)	
EBITDA margin (%)	26.9	25.6		26.9	26.7		
Other Income	1,875	2,043	(8.2)	2,528	2,552	(1.0)	
Depreciation & amortisation	8,798	8,493	3.6	9,294	9,294	-	
Interest	1,512	1,375	10.0	1,442	1,444	(0.2)	
PBT	38,734	39,079	(0.9)	50,919	51,391	(0.9)	
Tax	10,834	9,770	10.9	15,276	15,417	(0.9)	Higher tax rate for FY 17 in lieu of guidance
Tax rate	28.0	25.0	11.9	30.0	30.0	-	
Amortisation of GW	2,964	2,964	-	2,964	2,964	-	
Net Profit	24,974	26,357	(5.2)	32,729	32,979	(0.8)	
EPS (Rs.)	55.4	58.5	(5.2)	72.6	73.2	(0.8)	

Source: Company, Karvy Stock Broking

Financials

Exhibit 3: Profit & Loss

Y/E mar (Rs Mn)	FY14	FY15	FY16	FY17E	FY18E
Domestic	24,795	29,679	33,916	37,712	42,803
Exports	86,071	96,318	103,100	134,270	171,646
Other Operating Income	1,999	1,703	5,069	3,631	5,564
Net Revenues	112,866	127,700	142,085	175,613	220,012
Raw Material	38,174	41,570	43,094	50,689	64,350
Staff	14,647	17,473	21,077	28,944	33,291
Other Exps	30,018	32,460	40,379	48,811	63,243
Total Expenditure	82,838	91,504	104,550	128,444	160,885
EBITDA	30,028	36,196	37,535	47,169	59,128
EBITDA margin (%)	26.6	28.3	26.4	26.9	26.9
Other income	1,165	2,398	1,877	1,875	2,528
Interest	267	98	446	1,512	1,442
Depreciation and Amortisation	2,610	4,347	4,635	8,798	9,294
Profit Before Tax	28,317	34,148	34,331	38,734	50,919
Tax	9,622	9,705	11,538	10,834	15,276
Minority Interest	331	412	88	50	50
Net Profit	18,364	24,032	22,707	27,939	35,694
less Amortisation of GW	658	1,648	2,964	2,964	2,964
PAT After Amortisation	17,706	22,384	19,743	24,974	32,729

Source: Company, Karvy Stock Broking

Exhibit 4: Balance Sheet

Y/E Mar (Rs Mn)	FY14	FY15	FY16	FY17E	FY18E
Equity	897	899	901	901	901
Reserves	65,608	83,383	101,520	121,524	148,187
Net worth	66,505	84,282	102,421	122,425	149,089
Deferred Tax Liabilities	2,487	2,024	2,045	2,045	2,045
Short-term Loans	4,024	3,692	17,454	8,599	8,578
Long-term Loans	2,514	1,680	54,270	49,750	49,750
Total Loans	6,537	5,371	71,724	68,359	68,338
Minority Interest	669	241	321	321	321
Total Liabilities	**76,198**	**91,918**	**176,510**	**193,150**	**219,792**
Gross Block	46,459	51,093	87,094	99,913	109,345
Depreciation	19,283	23,329	27,715	36,513	45,807
Net Block	27,176	27,764	59,379	63,401	63,538
Capital work-in-progress	2,843	5,197	9,812	8,992	6,561
Goodwill on Consolidation	6,579	16,481	29,644	29,644	29,644
Less Amortisation	2,811	4,459	7,423	10,388	13,352
Goodwill	3,768	12,022	22,221	19,256	16,292
Long-term Investments	1,785	16,584	75	10,085	10,085
Deferred Tax assets	708	842	806	806	806
Inventories	21,295	25,036	31,787	31,713	36,341
Debtors	24,641	26,566	45,498	42,407	52,878
Cash	7,975	4,814	8,379	24,225	47,394
Other Current assets	9,060	8,095	21,808	19,233	21,884
Total Current assets	62,970	64,510	107,473	117,577	158,496
Creditors	15,941	19,561	21,919	25,337	31,736
Other current liabilities	7,110	15,440	18,526	17,953	20,572
Total current liabilities	23,051	35,001	40,445	43,290	52,308
Net current assets	39,919	29,509	67,029	74,287	106,188
Total Assets	**76,198**	**91,918**	**176,510**	**193,150**	**219,792**

Source: Company, Karvy Stock Broking

Exhibit 5: Cash Flow Statement

Y/E Mar (Rs Mn)	FY14	FY15	FY16	FY17E	FY18E
EBIT	26,760	30,201	29,936	35,407	46,869
Change in working capital	(3,508)	7,248	(33,954)	8,587	(8,732)
Cash flow from operations	23,252	37,449	(4,018)	43,994	38,137
Other income	1,165	2,398	1,877	1,875	2,528
Depreciation and Amortisation	3,268	5,995	7,599	11,762	12,259
Interest paid (-)	(267)	(98)	(446)	(1,512)	(1,442)
Dividends paid(-)	(3,147)	(4,058)	(4,067)	(4,881)	(5,966)
Tax paid (-)	(9,622)	(9,705)	(11,538)	(10,834)	(15,276)
Minority interest	(331)	(412)	(88)	(50)	(50)
Goodwill on Consolidation	(1,506)	(9,902)	(13,163)	-	-
Deferred tax liabilities	150	(463)	21	-	-
Deferred tax asset	(4)	(134)	36	-	-
Net cash from operations	12,959	21,071	(23,823)	40,354	30,190
Capital Expenditure	(4,593)	(7,289)	(58,054)	(12,000)	(7,000)
Free Cash Flow	8,366	13,782	(81,877)	28,354	23,190
Change in short-term borrowing	(3,244)	(332)	13,763	(8,855)	(21)
Change in long-term borrowing	(1,863)	(834)	52,590	5,490	-
Change in borrowings	(5,108)	(1,166)	66,353	(3,365)	(21)
Change in Investments	(1,764)	(14,799)	16,509	(10,010)	-
Equity issue/buyback	1,545	(318)	1,838	-	-
Cash from Financial Activities	(5,327)	(16,283)	84,700	(13,375)	(21)
Others	587	(660)	743	866	
Opening cash	4,349	7,975	4,814	8,379	24,225
Closing cash	7,975	4,814	8,379	24,225	47,394
Change in Cash	324	3,626	(3,162)	3,566	15,845

Source: Company, Karvy Stock Broking

Exhibit 6: Key Ratios

YE Mar	FY14	FY15	FY16	FY17E	FY18E
EV/EBDITA(x)	22.3	18.6	19.6	15.2	11.7
ROE (%)	27.6	28.5	22.2	22.8	23.9
ROCE(%)	40.6	40.7	25.9	21.8	25.4
PE(x)	37.8	29.9	34.0	26.9	20.5
P/S(x)	6.0	5.3	4.9	3.9	3.1
P/BV(x)	10.1	8.0	6.6	5.5	4.5

Source: Company, Karvy Stock Broking

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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Disclosures Appendix

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Analyst certification

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