

## Uphill Journey

Lupin reported a 10% Ebitda beat due to increase in gGlumetza market share, new launches, and seasonality in cephalosporins, all in the US. However, management stated that it expects increasing competition in gGlumetza and gFortamet from here on. Although the company has several meaningful launches lined up in FY18, erosion on gGlumetza and gFortamet is likely to have a meaningful impact on the US business starting 4QFY17. We have cut our FY18/FY19ii EPS estimates by 3% each. However, higher-than-expected erosion in the two key products could put FY18 estimates at risk. We maintain our ADD rating on the stock.

**Fortamet and Glumetza erosion from 4QFY17, however, quantum of erosion remains uncertain:** Management stated that Mylan has made commitments in the market with its version of gFortamet. Hence, Lupin's market share may see a decline from here on. Similarly, with the launch of authorised generic version of gGlumetza, we would expect market share decline for this product too. Further, competition from Sun and Teva in gGlumetza and from another filer (Nostrum) in gFortamet will continue to increase competitive intensity for Lupin through FY18.

**FY18 pipeline has quite a few launches:** According to management, the key launches that will aid FY18 growth include Minastrin, Epzicom, Potassium Chloride, Bupropion extended, Vigamox, Hydrocodone, Welchol, Renagel, and Renvela. Lupin has a healthy pipeline, which will continue to deliver significant launches during FY18.

**However, there is increasing uncertainty around earnings:** We estimate that gGlumetza and gFortamet will bring in ~45% of Lupin's FY17 Ebitda. However, with both these products facing competitive pressures from here on, Lupin will find it challenging to bridge the Ebitda gap in FY18. Although the pipeline looks quite attractive compared with its peers, the key question would be how quickly gGlumetza and gFortamet erode during FY18. Regulatory uncertainties remain for some products such as Welchol, Renagel, and Renvela, as stated by management. Lupin will also be initiating clinical trials for gAdvair, resulting in additional R&D spend. Higher-than-expected erosion in the two key products will put our estimates at risk.

## Result update

CMP	Rs1491
12-mth TP (Rs)	1500 (1%)
Market cap (US\$m)	10,054
Enterprise value(US\$m)	10,976
Bloomberg	LPC IN
Sector	Pharma

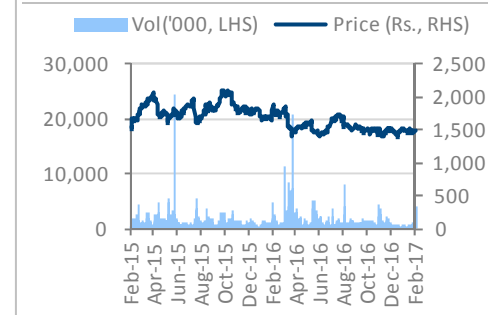
### Shareholding pattern (%)

Promoter	46.7
FII	33.3
DII	8.0
Others	12.0
52Wk High/Low (Rs)	1912/1280
Shares o/s (m)	451
Daily volume (US\$ m)	20.7
Dividend yield FY17ii (%)	0.5
Free float (%)	53.3

### Price performance (%)

	1M	3M	1Y
Absolute (Rs)	0.1	(2.5)	(21.7)
Absolute (US\$)	2.0	(3.3)	(20.3)
Rel. to Sensex	(5.9)	(6.5)	(39.7)
Cagr (%)	3 yrs	5 yrs	
EPS	19.9	21.2	

### Stock performance



### Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Revenues (Rs m)	127,700	142,085	176,122	191,989	207,889
Ebitda margins (%)	29.2	26.4	26.6	25.5	25.5
Pre-exceptional PAT (Rs m)	24,032	22,707	27,834	29,128	31,551
Reported PAT (Rs m)	24,032	22,707	27,834	29,128	31,551
Pre-exceptional EPS (Rs)	53.2	50.1	61.1	63.8	69.0
Growth (%)	31.2	(5.7)	21.8	4.4	8.1
IIFL vs consensus (%)			(3.8)	(13.6)	(18.5)
PER (x)	28.0	29.7	24.4	23.4	21.6
ROE (%)	30.2	22.8	22.8	19.9	18.3
Net debt/equity (x)	(0.2)	0.6	0.5	0.4	0.2
EV/Ebitda (x)	17.5	19.6	15.9	15.0	13.6
Price/book (x)	7.5	6.1	5.0	4.2	3.6

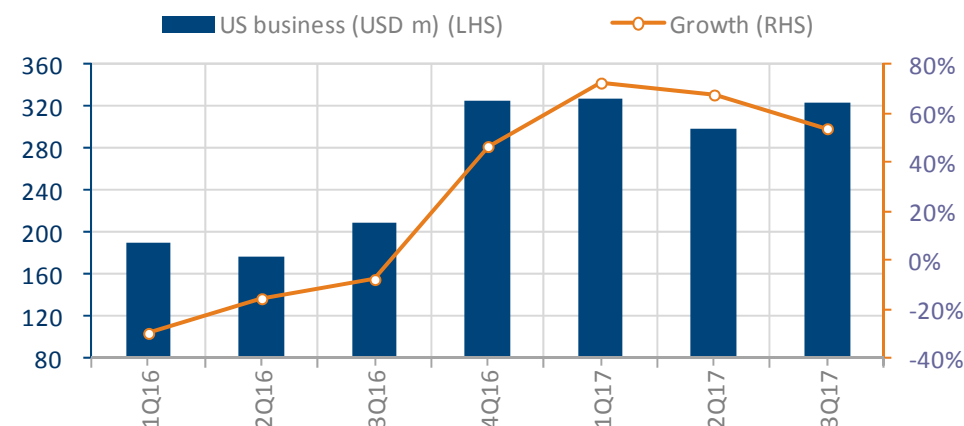
Source: Company, IIFL Research. Priced as on 09 February 2017

**Figure 1: Lupin 3QFY17 result – 10% beat on Ebitda vs. our estimates**

Rs mn except EPS (based on Ind-AS)	3QFY16	2QFY17	3QFY17	QoQ	YoY
<b>Sales break-up</b>					
US	13,805	19,978	21,755	9%	58%
India	8,860	9,958	9,912	0%	12%
Japan	3,739	4,368	4,492	3%	20%
South Africa	1,048	1,196	1,110	-7%	6%
RoW	3,216	3,693	4,096	11%	27%
API business	2,835	2,919	2,684	-8%	-5%
<b>Net Sales</b>	<b>33,503</b>	<b>42,112</b>	<b>44,049</b>	<b>5%</b>	<b>31%</b>
Other operating income	1,973	793	779	-2%	-61%
<b>Total Revenue</b>	<b>35,477</b>	<b>42,905</b>	<b>44,829</b>	<b>4%</b>	<b>26%</b>
Raw material costs	(11,232)	(12,429)	(13,016)	5%	16%
Employee costs	(5,434)	(7,124)	(7,312)	3%	35%
R&D expenses	(3,916)	(5,716)	(5,682)	-1%	45%
Manufacturing & other expenses	(6,433)	(6,906)	(6,662)	-4%	4%
<b>Ebitda</b>	<b>8,461</b>	<b>10,731</b>	<b>12,158</b>	<b>13%</b>	<b>44%</b>
<b>Ebitda margins</b>	<b>23.8%</b>	<b>25.0%</b>	<b>27.1%</b>	<b>211 bps</b>	<b>327 bps</b>
Depreciation & Amortisation	(1,216)	(2,112)	(2,309)	9%	90%
Interest & Finance charges	(99)	(263)	(459)	75%	364%
Other income	664	(179)	1,036	-679%	56%
PBT	7,811	8,177	10,426	28%	33%
Taxes	(2,557)	(1,589)	(4,095)	158%	60%
Tax rate	32.7%	19.4%	39.3%	1984 bps	654 bps
Minority Interest/JV profit share	(8)	34	0	-99%	-103%
<b>PAT</b>	<b>5,246</b>	<b>6,622</b>	<b>6,331</b>	<b>-4%</b>	<b>21%</b>
Diluted shares outstanding	452.7	452.8	455.6	1%	1%
Diluted EPS	11.6	14.6	13.9	-5%	20%

Source: Company, IIFL Research

**Figure 2: The US business grew 8% cc QoQ due to increase in gGlumetza market share, new launches, and seasonality in cephalosporins**



Source: Company, IIFL Research

**Figure 3: We have cut our FY18/19ii EPS estimates by 3% each**

Estimates Revision	FY17ii	FY18ii	FY19ii
Total Revenue - old	173,953	194,598	210,754
Total Revenue - new	176,122	191,989	207,889
<b>% Change in Revenue</b>	<b>1%</b>	<b>-1%</b>	<b>-1%</b>
Ebitda - old	44,541	49,609	53,643
Ebitda - new	46,896	49,045	52,957
<b>% Change in Ebitda</b>	<b>5%</b>	<b>-1%</b>	<b>-1%</b>
Diluted EPS - old	60.0	65.8	71.0
Diluted EPS - new	61.1	63.8	69.0
<b>% Change in EPS</b>	<b>2%</b>	<b>-3%</b>	<b>-3%</b>

Source: Company, IIFL Research

**Background:** Lupin, the second largest Indian pharma company in terms of market capitalisation, actively targets the generics opportunity in regulated markets. Currently, the chronic-therapy business contributes 66% of total revenue in the domestic market, which makes Lupin a strong player in the specialties segment. Lupin has emerged as a fully-integrated company, with manufacturing capabilities in APIs and formulations and a direct marketing presence in its target markets, including the US, Europe and Japan. In the US market, apart from being one of the fastest-growing companies in the generic space, Lupin is also one of the few Indian companies to have a strong presence in the branded generics segment as well.

## Management

Name	Designation
Dr. Kamal K Sharma	Vice Chairman
Vinita Gupta	CEO
Nilesh Gupta	MD

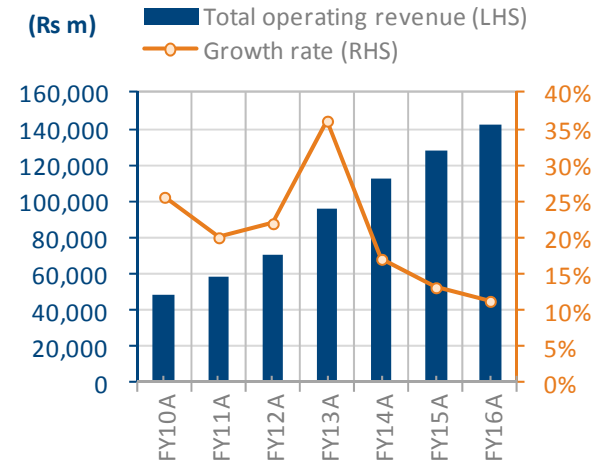
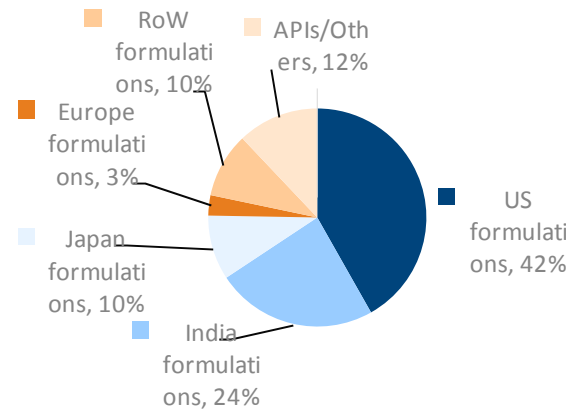
Sun Pharma, Dr. Reddy's, Cipla, Cadila, Glenmark:

## Assumptions

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
US business growth (%)	15.8	5.0	42.3	2.0	4.6
Japanese business growth (%)	2.2	3.1	34.3	31.1	10.0
Domestic growth (%)	19.7	14.3	11.6	14.0	14.0
API business growth (%)	7.2	1.1	(5.0)	5.0	5.0
EBITDA margin (%)	29.2	26.4	26.6	25.5	25.5
Tax rate (%)	28.4	33.6	28.0	25.0	25.0

Source: Company data, IIFL Research

## Revenue break-up - FY16



## PE chart



## EV/Ebitda



## Financial summary

### Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
<b>Revenues</b>	<b>127,700</b>	<b>142,085</b>	<b>176,122</b>	<b>191,989</b>	<b>207,889</b>
Ebitda	37,342	37,535	46,896	49,045	52,957
Depreciation and amortisation	(4,347)	(4,635)	(8,787)	(9,493)	(10,154)
Ebit	32,995	32,900	38,109	39,552	42,803
Non-operating income	1,252	1,877	1,932	680	354
Financial expense	(98)	(446)	(1,437)	(1,446)	(1,144)
PBT	34,148	34,330	38,604	38,786	42,012
Exceptionals	0	0	0	0	0
Reported PBT	34,148	34,330	38,604	38,786	42,012
Tax expense	(9,704)	(11,536)	(10,807)	(9,696)	(10,503)
PAT	24,444	22,795	27,797	29,089	31,509
Minorities, Associates etc.	(412)	(88)	37	39	42
<b>Attributable PAT</b>	<b>24,032</b>	<b>22,707</b>	<b>27,834</b>	<b>29,128</b>	<b>31,551</b>

### Ratio analysis

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
<b>Per share data (Rs)</b>					
Pre-exceptional EPS	53.2	50.1	61.1	63.8	69.0
DPS	7.5	7.5	7.5	7.5	7.5
BVPS	198.0	244.8	296.8	351.5	411.3
<b>Growth ratios (%)</b>					
Revenues	13.1	11.3	24.0	9.0	8.3
Ebitda	24.4	0.5	24.9	4.6	8.0
EPS	31.2	(5.7)	21.8	4.4	8.1
<b>Profitability ratios (%)</b>					
Ebitda margin	29.2	26.4	26.6	25.5	25.5
Ebit margin	25.8	23.2	21.6	20.6	20.6
Tax rate	28.4	33.6	28.0	25.0	25.0
Net profit margin	19.1	16.0	15.8	15.2	15.2
<b>Return ratios (%)</b>					
ROE	30.2	22.8	22.8	19.9	18.3
ROCE	38.2	24.2	19.6	17.9	18.4
<b>Solvency ratios (x)</b>					
Net debt-equity	(0.2)	0.6	0.5	0.4	0.2
Net debt to Ebitda	(0.4)	1.7	1.6	1.2	0.8
Interest coverage	NM	NM	26.5	27.4	37.4

Source: Company data, IIFL Research

### Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Cash & cash equivalents	21,372	8,399	7,154	3,724	2,513
Inventories	25,036	31,787	40,508	44,158	47,814
Receivables	26,566	45,498	56,359	61,437	66,524
Other current assets	5,350	12,106	16,991	19,371	21,756
Creditors	27,166	29,006	37,403	41,656	45,372
Other current liabilities	5,743	6,758	8,629	9,315	9,914
<b>Net current assets</b>	<b>45,415</b>	<b>62,027</b>	<b>74,980</b>	<b>77,719</b>	<b>83,322</b>
Fixed assets	32,031	59,625	78,888	84,396	89,242
Intangibles	17,411	56,398	56,398	56,398	56,398
Investments	25	55	55	55	55
Other long-term assets	3,587	10,509	10,509	10,509	10,509
<b>Total net assets</b>	<b>98,469</b>	<b>188,614</b>	<b>220,831</b>	<b>229,077</b>	<b>239,526</b>
Borrowings	5,402	71,848	80,336	63,564	46,585
Other long-term liabilities	4,085	6,602	6,602	6,602	6,602
<b>Shareholders' equity</b>	<b>88,982</b>	<b>110,165</b>	<b>133,893</b>	<b>158,911</b>	<b>186,339</b>
<b>Total liabilities</b>	<b>98,469</b>	<b>188,614</b>	<b>220,831</b>	<b>229,077</b>	<b>239,526</b>

### Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Ebit	32,995	32,900	38,109	39,552	42,803
Tax paid	(9,436)	(11,662)	(10,807)	(9,696)	(10,503)
Depreciation and amortization	4,347	4,635	8,787	9,493	10,154
Net working capital change	(949)	(31,537)	(14,199)	(6,169)	(6,814)
Other operating items	374	1,974	0	0	0
Operating cash flow before interest	27,331	(3,690)	21,890	33,180	35,640
Financial expense	(109)	(436)	(1,437)	(1,446)	(1,144)
Non-operating income	1,242	2,559	1,932	680	354
<b>Operating cash flow after interest</b>	<b>28,463</b>	<b>(1,567)</b>	<b>22,384</b>	<b>32,414</b>	<b>34,849</b>
<b>Capital expenditure</b>	<b>(8,676)</b>	<b>(57,746)</b>	<b>(18,000)</b>	<b>(15,000)</b>	<b>(15,000)</b>
Long-term investments	(6,294)	(12,223)	(10,050)	0	0
Others	0	0	0	0	0
<b>Free cash flow</b>	<b>13,493</b>	<b>(71,535)</b>	<b>(5,666)</b>	<b>17,414</b>	<b>19,849</b>
Equity raising	413	536	0	0	0
Borrowings	(700)	62,081	8,488	(16,772)	(16,980)
Dividend	(1,573)	(4,055)	(4,068)	(4,072)	(4,081)
Net chg in cash and equivalents	11,633	(12,973)	(1,245)	(3,430)	(1,211)

Source: Company data, IIFL Research

**Disclosure : Published in 2017, © India Infoline Ltd 2017**

India Infoline Group (hereinafter referred as IIFL) is engaged in diversified financial services business including equity broking, DP services, merchant banking, portfolio management services, distribution of Mutual Fund, insurance products and other investment products and also loans and finance business. India Infoline Ltd (“hereinafter referred as IIL”) is a part of the IIFL and is a member of the National Stock Exchange of India Limited (“NSE”) and the BSE Limited (“BSE”). IIL is also a Depository Participant registered with NSDL & CDSL, a SEBI registered merchant banker and a SEBI registered portfolio manager. IIL is a large broking house catering to retail, HNI and institutional clients. It operates through its branches and authorised persons and sub-brokers spread across the country and the clients are provided online trading through internet and offline trading through branches and Customer Care.

- a) This research report (“Report”) is for the personal information of the authorized recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without IIL’s prior permission. The information provided in the Report is from publicly available data, which we believe, are reliable. While reasonable endeavors have been made to present reliable data in the Report so far as it relates to current and historical information, but IIL does not guarantee the accuracy or completeness of the data in the Report. Accordingly, IIL or any of its connected persons including its directors or subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this publication.
  - b) Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by IIFL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.
  - c) The Report also includes analysis and views of our research team. The Report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed in the Report are our current opinions as of the date of the Report and may be subject to change from time to time without notice. IIL or any persons connected with it do not accept any liability arising from the use of this document.
  - d) Investors should not solely rely on the information contained in this Report and must make investment decisions based on their own investment objectives, judgment, risk profile and financial position. The recipients of this Report may take professional advice before acting on this information.
  - e) IIL has other business segments / divisions with independent research teams separated by ‘Chinese walls’ catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc and therefore, may at times have, different and contrary views on stocks, sectors and markets.
  - f) This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject IIL and its affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this Report may come are required to inform themselves of and to observe such restrictions.
  - g) As IIL along with its associates, are engaged in various financial services business and so might have financial, business or other interests in other entities including the subject company(ies) mentioned in this Report. However, IIL encourages independence in preparation of research report and strives to minimize conflict in preparation of research report. IIL and its associates did not receive any compensation or other benefits from the subject company(ies) mentioned in the Report or from a third party in connection with preparation of the Report. Accordingly, IIL and its associates do not have any material conflict of interest at the time of publication of this Report.
  - h) As IIL and its associates are engaged in various financial services business, it might have:-
    - (a) received any compensation (except in connection with the preparation of this Report) from the subject company in the past twelve months; (b) managed or co-managed public offering of securities for the subject company in the past twelve months; (c) received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) engaged in market making activity for the subject company.
  - i) IIL and its associates collectively do not own (in their proprietary position) 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report.
  - j) The Research Analyst engaged in preparation of this Report or his/her relative:-
    - (a) does not have any financial interests in the subject company (ies) mentioned in this report; (b) does not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) does not have any other material conflict of interest at the time of publication of the research report.
  - k) The Research Analyst engaged in preparation of this Report:-
    - (a) has not received any compensation from the subject company in the past twelve months; (b) has not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) has not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) has not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the research report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.
  - L) IIFLCAP accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of IIFLCAP and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.
- We submit that no material disciplinary action has been taken on IIL by any regulatory authority impacting Equity Research Analysis.

A graph of daily closing prices of securities is available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp>, [www.bseindia.com](http://www.bseindia.com) and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the “three years” period in the price chart).

**Name, Qualification and Certification of Research Analyst:** Dr Abhishek Sharma(PGDM), Rahul Jeewani(PGDM)

**India Infoline Limited (Formerly “India Infoline Distribution Company Limited”), CIN No.: U99999MH1996PLC132983**, Corporate Office – IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai – 400013 Tel: (91-22) 4249 9000 .Fax: (91-22) 40609049, Regd. Office – IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane – 400604 Tel: (91-22) 25806650. Fax: (91-22) 25806654 E-mail: mail@indiainfoline.com Website: www.indiainfoline.com, Refer www.indiainfoline.com for detail of Associates.

**National Stock Exchange of India Ltd. SEBI Regn. No. :** INB231097537/ INF231097537/ INE231097537, Bombay Stock Exchange Ltd. SEBI Regn. No.:INB011097533/ INF011097533/ BSE-Currency, MCX Stock Exchange Ltd. SEBI Regn. No.: INB261097530/ INF261097530/ INE261097537, United Stock Exchange Ltd. SEBI Regn. No.: INE271097532, PMS SEBI Regn. No. INP000002213, IA SEBI Regn. No. INA000000623, SEBI RA Regn.: - INH000000248

**Key to our recommendation structure**

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

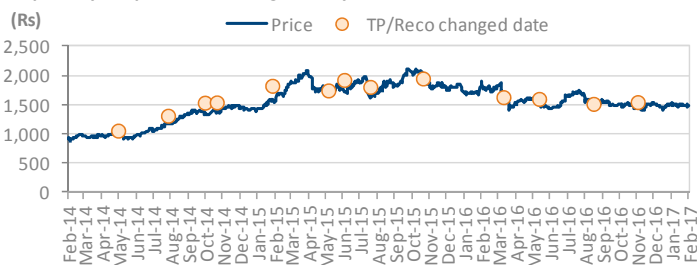
**Add** - Stock expected to give a return of 0-10% over the hurdle rate, i.e. a positive return of 10%+.

**Reduce** - Stock expected to return less than the hurdle rate, i.e. return of less than 10%.

**Distribution of Ratings:** Out of 202 stocks rated in the IIFL coverage universe, 114 have BUY ratings, 9 have SELL ratings, 53 have ADD ratings and 26 have REDUCE ratings

**Price Target:** Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst’s views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company’s products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.

**Lupin: 3 year price and rating history**



Date	Close price (Rs)	Target price (Rs)	Rating	Date	Close price (Rs)	Target price (Rs)	Rating
04 Feb 2014	922	989	ADD	24 Aug 2016	1556	1515	ADD
08 May 2014	990	1056	ADD	10 Nov 2016	1530	1545	ADD
04 Aug 2014	1165	1312	ADD				
08 Oct 2014	1368	1535	BUY				
29 Oct 2014	1358	1540	BUY				
04 Feb 2015	1546	1825	BUY				
14 May 2015	1690	1745	BUY				
11 Jun 2015	1795	1925	BUY				
27 Jul 2015	1672	1805	BUY				
28 Oct 2015	1946	1950	BUY				
18 Mar 2016	1674	1630	ADD				
20 May 2016	1655	1600	ADD				