

May 25, 2017

Goldman
SachsEARNINGS REVIEW
Lupin (LUPN.BO)

Neutral

Equity Research

Below expectations: Lowering estimates on challenging FY18**What surprised us**

LUPN reported 4QFY17 sales of Rs42.5bn, missing GSe/Bloomberg cons. by 5%/3%. EBITDA missed GSe/consensus by 29%/31%, impacted by Rs1.56bn one-off provision for litigation compensation and Rs1.7bn net FX loss.

Key highlights: (1) Price erosion: LUPN indicated that on the base business they are still witnessing high single digit erosion but were wary of the recent Econdisk-WBAD agreement which might unsettle things further. **(2) FY18 outlook:** While LUPN expects to launch 30 new products in the US, they guided to muted growth in FY18 due to 1) high base in FY17, 2) Glumetza and Fortamet seeing competition intensify, and 3) delays in approvals for high value opportunities gWelchol, gRenvela, gRenagel. **(3) Japan:** LUPN noted that the while the government is pro generic, it is also talking about annual price cuts vs biennial earlier. **(4) Gavis:** LUPN now expects revenues of c. US\$200mn in FY18 (US\$250mn earlier) given the slower rampup. The focus remains on controlled substance launches but these take time to gain market share. **(5) Margins:** We forecast LUPN's margins to be at the lower end of the 26-28% guidance due to weaker growth on account of pricing pressure and headwinds from high R&D spends on respiratory and biosimilar pipelines. **(6) Indore:** LUPN clarified that the six 483 observations were largely procedural in nature and not related to data integrity.

What to do with the stock

We cut our 2017E-19E EBITDA by 9% on slower topline trends and weaker margin outlook. Accordingly, our 12m TP falls to Rs1,360 (from Rs1,490), derived by discounting our FY20E EBITDA/share forecast back 2 years at 11% WACC. Despite the stock correction, we remain Neutral as we see balanced risk-reward. **Key risks:** Upside: Product launch rate, complex generic approvals. Downside: Price erosion, Gavis execution.

Lupin 4Q17 Results Summary

Rs. Mn	4Q17	Gse	vs Gse	YoY (%)	QoQ (%)
Sales	42,533	44,736	-5%	2%	-5%
EBITDA	7,814	10,933	-29%	-43%	-36%
EBITDA margins	18.4%	24.4%	-607bps	-1433bps	-875bps
Net income	3,802	6,168	-38%	-53%	-40%

Source: Company data, Goldman Sachs Global Investment Research.

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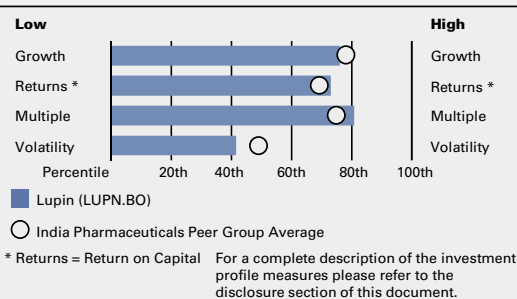
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Coverage View: Neutral

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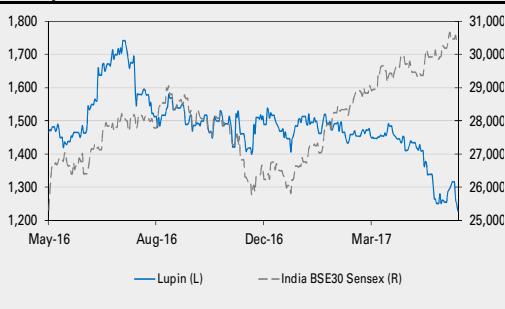
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Investment Profile

Key data	Current
Price (Rs)	1,227.65
12 month price target (Rs)	1,360.00
Market cap (Rs mn / US\$ mn)	554,323.3 / 8,551.5
Foreign ownership (%)	--

	3/16	3/17	3/18E	3/19E
EPS (Rs) New	49.96	56.40	59.19	70.55
EPS revision (%)	(0.4)	(8.6)	(15.3)	(11.0)
EPS growth (%)	(6.1)	12.9	4.9	19.2
EPS (dil) (Rs) New	49.96	56.40	59.19	70.55
P/E (X)	36.2	26.9	20.7	17.4
P/B (X)	7.5	5.1	3.5	3.0
EV/EBITDA (X)	23.7	17.0	13.0	11.0
Dividend yield (%)	0.4	0.5	0.9	1.0
ROE (%)	22.8	20.9	18.4	18.8
CROCI (%)	12.5	15.1	16.0	16.4

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	(15.5)	(15.9)	(16.2)
Rel. to India BSE30 Sensex	(19.5)	(28.3)	(30.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5/24/2017 close.

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Lupin: Summary Financials

Profit model (Rs mn)	3/16	3/17	3/18E	3/19E	Balance sheet (Rs mn)	3/16	3/17	3/18E	3/19E
Total revenue	142,003.1	174,660.9	187,618.6	209,651.1	Cash & equivalents	8,399.3	28,135.4	36,472.0	46,205.2
Cost of goods sold	(43,096.2)	(50,014.3)	(55,532.9)	(61,048.6)	Accounts receivable	45,498.1	43,073.4	46,268.9	51,702.4
SG&A	(24,618.7)	(29,640.3)	(32,141.0)	(35,954.0)	Inventory	31,787.4	36,422.8	40,441.7	44,458.5
R&D	(16,038.3)	(23,101.0)	(23,806.3)	(25,568.9)	Other current assets	12,105.5	17,751.7	17,751.7	17,751.7
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	97,790.3	125,383.3	140,934.4	160,117.8
EBITDA	37,022.8	43,333.1	46,021.8	53,323.6	Net PP&E	42,437.1	53,512.7	62,137.1	72,749.5
Depreciation & amortization	(4,736.8)	(9,122.3)	(10,504.7)	(11,386.0)	Net intangibles	73,586.0	78,147.2	78,147.2	78,147.2
EBIT	32,286.0	34,210.8	35,517.1	41,937.5	Total investments	10,564.1	9,029.6	9,029.6	9,029.6
Interest income	--	--	--	--	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(453.3)	(1,448.1)	(1,233.3)	(861.0)	Total assets	224,377.5	266,072.8	290,248.2	320,044.1
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	21,918.5	25,948.0	27,873.0	31,146.2
Others	2,093.6	2,668.5	2,814.3	3,144.8	Short-term debt	17,454.1	23,043.3	23,043.3	23,043.3
Pretax profits	33,926.3	35,431.2	37,098.1	44,221.3	Other current liabilities	14,499.8	16,273.1	16,273.1	16,273.1
Income tax	(11,183.7)	(9,785.1)	(10,016.5)	(11,939.8)	Total current liabilities	53,872.4	65,264.4	67,189.4	70,462.6
Minorities	(87.6)	(71.7)	(241.4)	(287.8)	Long-term debt	53,739.0	56,477.8	56,477.8	56,477.8
Net income pre-preferred dividends	22,655.0	25,574.4	26,840.2	31,993.8	Other long-term liabilities	6,601.6	9,009.7	9,009.7	9,009.7
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	60,340.6	65,487.5	65,487.5	65,487.5
Net income (pre-exceptionals)	22,655.0	25,574.4	26,840.2	31,993.8	Total liabilities	114,213.0	130,751.9	132,676.9	135,950.1
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	22,655.0	25,574.4	26,840.2	31,993.8	Total common equity	109,843.7	134,975.7	156,984.6	183,219.5
EPS (basic, pre-exception) (Rs)	50.25	56.64	59.44	70.86	Minority interest	320.8	345.2	586.6	874.4
EPS (basic, post-exception) (Rs)	50.25	56.64	59.44	70.86	Total liabilities & equity	224,377.5	266,072.8	290,248.2	320,044.1
EPS (diluted, post-exception) (Rs)	49.96	56.40	59.19	70.55	BVPS (Rs)	242.23	297.66	346.19	404.05
DPS (Rs)	7.43	7.43	10.65	12.70	Ratios	3/16	3/17	3/18E	3/19E
Dividend payout ratio (%)	14.8	13.1	17.9	17.9	CROCI (%)	12.5	15.1	16.0	16.4
Free cash flow yield (%)	(7.6)	2.6	2.6	2.9	ROE (%)	22.8	20.9	18.4	18.8
Growth & margins (%)	3/16	3/17	3/18E	3/19E	ROA (%)	12.7	10.4	9.6	10.5
Sales growth	11.2	23.0	7.4	11.7	ROACE (%)	18.8	14.8	14.4	15.7
EBITDA growth	2.3	17.0	6.2	15.9	Inventory days	240.6	248.9	252.6	253.8
EBIT growth	1.4	6.0	3.8	18.1	Receivables days	92.6	92.5	86.9	85.3
Net income growth	(5.7)	12.9	4.9	19.2	Payable days	175.7	174.7	176.9	176.4
EPS growth	(6.1)	12.7	4.9	19.2	Net debt/equity (%)	57.0	38.0	27.3	18.1
Gross margin	69.7	71.4	70.4	70.9	Interest cover - EBIT (X)	71.2	23.6	28.8	48.7
EBITDA margin	26.1	24.8	24.5	25.4	Valuation	3/16	3/17	3/18E	3/19E
EBIT margin	22.7	19.6	18.9	20.0	P/E (analyst) (X)	36.2	26.9	20.7	17.4
Cash flow statement (Rs mn)	3/16	3/17	3/18E	3/19E	P/B (X)	7.5	5.1	3.5	3.0
Net income pre-preferred dividends	22,655.0	25,574.4	26,840.2	31,993.8	EV/EBITDA (X)	23.7	17.0	13.0	11.0
D&A add-back	4,635.0	9,122.3	10,504.7	11,386.0	EV/GCI (X)	4.2	3.1	2.3	2.0
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	0.4	0.5	0.9	1.0
Net (inc)/dec working capital	(22,946.2)	1,818.8	(5,289.4)	(6,177.1)					
Other operating cash flow	(19,708.8)	(12,209.9)	(8,783.2)	(11,078.8)					
Cash flow from operations	(4,093.7)	34,162.4	33,530.2	38,351.5					
Capital expenditures	(58,157.2)	(16,634.0)	(19,129.1)	(21,998.5)					
Acquisitions	(12,282.0)	(3,500.0)	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	1,004.9	16,156.0	0.0	0.0					
Cash flow from investments	(69,434.3)	(10,528.0)	(19,129.1)	(21,998.5)					
Dividends paid (common & pref)	(3,368.3)	(3,368.3)	(4,831.2)	(5,758.9)					
Inc/(dec) in debt	62,080.9	3,500.0	0.0	0.0					
Common stock issuance (repurchase)	2.2	0.0	0.0	0.0					
Other financing cash flows	1,840.1	(10,580.0)	(1,233.3)	(861.0)					
Cash flow from financing	60,554.9	(3,898.3)	(6,064.5)	(6,619.9)					
Total cash flow	(12,973.1)	19,736.1	8,336.6	9,733.2					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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Exhibit 1: Lupin 4QFY17 variance table

in Rs mn, except per share data

Lupin Q4	4Q16	3Q17	4Q17	4Q17E	vs Gse	yoy gr	qoq gr
Sales (incl. other operating income)	41,812	44,829	42,533	44,736	-5%	2%	-5%
YoY (%)	35.8%	26.4%	1.7%	7.0%			
Cost of goods sold	(10,737)	(13,016)	(11,851)	(12,964)	-9%	10%	-9%
CoGS as a % of sales	25.7%	29.0%	27.9%	29.0%			
Gross Margin	74.3%	71.0%	72.1%	71.0%	112bps	-218 bps	117 bps
R&D expenses	(5,113)	(5,682)	(6,709)	(5,788)	2%	31%	18%
R&D exp. as a % of sales	11.0%	13.3%	12.7%	12.9%			
Employee expenses	(5,691)	(7,312)	(7,078)	(7,711)	-8%	24%	-3%
Emp exp as a % of sales	13.6%	16.3%	16.6%	17.2%		303 bps	33 bps
SG&A (ex Wages, incl. R&D)	(11,710)	(12,343)	(15,791)	(13,128)	20%	35%	28%
SG&A as a % of sales	28.0%	27.5%	37.1%	29.3%		912 bps	959 bps
EBITDA	13,674	12,158	7,814	10,933	-29%	-43%	-36%
EBITDA margin	32.7%	27.1%	18.4%	24.4%	-607bps	-1433 bps	-875 bps
EBITDA yoy growth	73.2%	43.7%	-42.9%	-20.0%			
EBITDA margin as stated by company	34.6%	30.0%	19.9%	26.0%	-612bps	-1472 bps	-1010 bps
Sales base for EBITDA	40,230	44,049	41,619	43,736			
EBITDA as stated by company	13,928	13,218	8,283	11,381	-27%	-41%	-37%
Net Income	8,071	6,331	3,802	6,168	-38%	-53%	-40%
Net Margin	19.3%	14.1%	8.9%	13.8%	-485bps	-1036 bps	-518 bps
NI yoy growth	47.5%	20.7%	-52.9%	-23.6%			
EPS - Diluted	17.87	14.02	8.42	13.62	-38%	-53%	-40%
Split by segment / geography							
Formulations Sales	37,979	41,365	38,804	40,892	-5%	2%	-6%
North America	21,905	21,755	19,007	21,148	-10%	-13%	-13%
EMEA	2,452	2,555	3,012	2,683	12%	23%	18%
India	7,561	9,912	8,788	8,544	3%	16%	-11%
APAC	4,532	5,601	6,118	7,052	-13%	35%	9%
LATAM + ROW	1,529	1,542	1,879	1,465	28%	23%	22%
API	43	41	43	2,844	-98%	1%	5%

Source: Company data, Goldman Sachs Global Investment Research

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Reg AC

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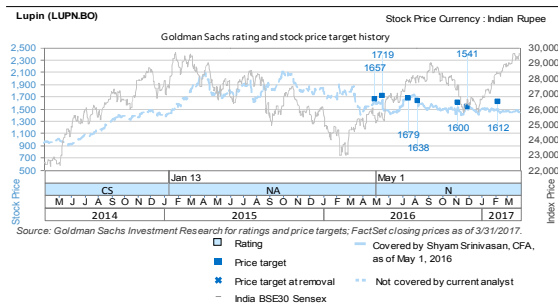
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