



24 May 2017 17:12:07 ET | 9 pages

 Pharmaceuticals
 Asia | India

Lupin (LUPN.BO)

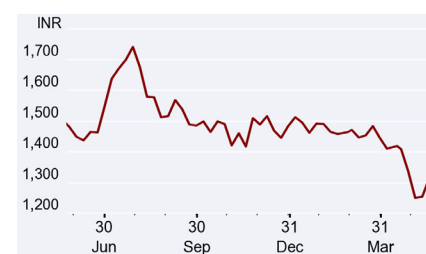
Inline Q, Cautious Commentary

- Citi's Take** — 4Q results were broadly in line with our expectations adjusted for one-time costs (forex impact, litigation loss provision), despite higher R&D spend. Management commentary was however cautious on US pricing (channel consolidation driven), some product approval timelines and gGlumetza, gFortamet erosion - and particularly on outlook for FY18, given the high base of FY17. On the other hand, EBITDA margin guidance (26-28% range) was reassuring and a tad higher than our current forecast.
- Key To Note** — a) R&D spend was at 15.8% of revenues in Q4 and 13.2% for FY17, likely to remain at similar level in absolute terms over FY18-19; b) Price erosion: has settled in single digits in base portfolio but higher in gGlumetza / gFortamet as they come off exclusivity, c) Launch timeline for Welchol, Renvela & Renagel appears to have shifted out again due to FDA queries, now in "late FY19" vs. FY19 earlier; d) Good progress on respiratory plans: TAD for ProAir in Sept'17, Advair filing possible in FY19; e) Biosimilars: Etanercept filing in EU/US expected in FY18/19; f) Specialty focus: Women health, pediatric and CNR are key areas, looking for inorganic options - commercialized as well as late stage development assets; g) Key US product opportunities over FY18-19 include Fosrenol, Ranexa, Moviprep etc.
- Implications** — Despite an inline quarter, we cut FY18E/19E EPS by 6.7%/9.3% to build in slightly faster pace of erosion in gGlumetza and gFortamet and the likely delay in certain key FY19 launches. We also lower target PE to 25x FY18E vs. 27x FY18E earlier to factor in higher uncertainty on the pricing environment in the US. We maintain Buy as we remain positive on Lupin's pipeline and well diversified geographic presence. However, we are conscious of the high product concentration in its US business and potentially sluggish earnings phase over the next few quarters - that could limit meaningful upside in the near term unless there is more certainty on some of the key product launch timelines.

- Estimate Change
- Target Price Change

Buy	1
Price (24 May 17 15:30)	Rs1,227.65
Target price	Rs1,630.00
	from Rs1,890.00
Expected share price return	32.8%
Expected dividend yield	0.6%
Expected total return	33.4%
Market Cap	Rs554,494M
	US\$8,544M

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



Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2016A	22,955	50.78	-4.5	24.2	5.0	23.1	0.6
2017A	26,702	59.07	16.3	20.8	4.1	21.8	0.6
2018E	29,355	64.93	9.9	18.9	3.4	19.9	0.6
2019E	36,414	80.55	24.0	15.2	2.9	20.6	0.6
2020E	43,619	96.49	19.8	12.7	2.4	20.5	0.6

Source: Powered by dataCentral

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LUPN.BO: Fiscal year end 31-Mar						Price: Rs1,227.65; TP: Rs1,630.00; Market Cap: Rs554,494m; Recomm: Buy					
Profit & Loss (Rsm)	2016	2017	2018E	2019E	2020E	Valuation ratios	2016	2017	2018E	2019E	2020E
Sales revenue	142,106	174,943	186,102	213,400	242,563	PE (x)	24.2	20.8	18.9	15.2	12.7
Cost of sales	-55,747	-67,048	-70,322	-80,485	-91,041	PB (x)	5.0	4.1	3.4	2.9	2.4
Gross profit	86,359	107,896	115,780	132,915	151,522	EV/EBITDA (x)	15.6	13.4	12.6	10.1	8.3
Gross Margin (%)	60.8	61.7	62.2	62.3	62.5	FCF yield (%)	-11.1	2.0	5.2	5.6	6.6
EBITDA (Adj)	37,555	46,490	48,396	57,660	66,949	Dividend yield (%)	0.6	0.6	0.6	0.6	0.6
EBITDA Margin (Adj) (%)	26.4	26.6	26.0	27.0	27.6	Payout ratio (%)	15	13	12	9	8
Depreciation	-4,635	-9,122	-9,609	-10,291	-11,124	ROE (%)	22.9	20.9	19.9	20.6	20.5
Amortisation	0	0	0	0	0	Cashflow (Rsm)	2016	2017	2018E	2019E	2020E
EBIT (Adj)	32,920	37,368	38,788	47,369	55,825	EBITDA	37,555	46,490	48,396	57,660	66,949
EBIT Margin (Adj) (%)	23.2	21.4	20.8	22.2	23.0	Working capital	-31,537	-455	-680	-6,891	-7,172
Net interest	-447	-1,525	-1,767	-1,422	-1,077	Other	-9,688	-10,279	-7,677	-9,544	-11,141
Associates	0	0	0	0	0	Operating cashflow	-3,669	35,756	40,040	41,224	48,636
Non-op/Except	1,877	-494	2,105	2,590	3,395	Capex	-57,746	-24,759	-11,107	-10,100	-12,100
Pre-tax profit	34,350	35,349	39,125	48,536	58,143	Net acq/disposals	0	0	0	0	0
Tax	-11,535	-9,785	-9,781	-12,134	-14,536	Other	0	0	0	0	0
Extraord./Min.Int./Pref.div.	-88	11	11	12	13	Investing cashflow	-57,746	-24,759	-11,107	-10,100	-12,100
Reported net profit	22,727	25,575	29,355	36,414	43,619	Dividends paid	-4,055	-4,057	-4,057	-4,057	-4,057
Net Margin (%)	16.0	14.6	15.8	17.1	18.0	Financing cashflow	58,126	6,123	-20,825	-20,480	-20,135
Core NPAT	22,955	26,702	29,355	36,414	43,619	Net change in cash	-3,289	17,120	8,108	10,644	16,401
Per share data	2016	2017	2018E	2019E	2020E	Free cashflow to s/holders	-61,415	10,997	28,933	31,124	36,536
Reported EPS (Rs)	50.27	56.57	64.93	80.55	96.49	Segment Revenue Break Up	2016	2017	2018E	2019E	2020E
Core EPS (Rs)	50.78	59.07	64.93	80.55	96.49	Formulations (Rs m)	2016	2017	2018E	2019E	2020E
DPS (Rs)	7.50	7.50	7.50	7.50	7.50	India Branded Formulations	33,916	38,157	43,881	50,463	58,032
CFPS (Rs)	-8.12	79.09	88.57	91.19	107.58	US Generics	56,415	79,553	74,810	89,059	103,209
FCFPS (Rs)	-135.85	24.33	64.00	68.85	80.82	US Branded	3,013	3,074	2,982	2,982	2,982
BVPS (Rs)	244.38	300.29	356.57	428.56	516.58	Japan	13,646	15,528	21,154	22,762	24,530
Wtd avg ord shares (m)	452	452	452	452	452	Europe	4,278	4,706	5,176	5,694	6,263
Wtd avg diluted shares (m)	452	452	452	452	452	South Africa	3,998	4,998	5,747	6,609	7,601
Growth rates	2016	2017	2018E	2019E	2020E	Other Emerging Markets	9,697	13,799	15,179	18,215	21,858
Sales revenue (%)	11.3	23.1	6.4	14.7	13.7	API (Rs m)	12,074	11,383	11,383	11,383	11,383
EBIT (Adj) (%)	3.4	13.5	3.8	22.1	17.9						
Core NPAT (%)	-4.5	16.3	9.9	24.0	19.8						
Core EPS (%)	-4.5	16.3	9.9	24.0	19.8						
Balance Sheet (Rsm)	2016	2017	2018E	2019E	2020E						
Cash & cash equiv.	8,399	28,135	36,243	46,887	63,288						
Accounts receivables	45,498	51,883	54,258	61,027	68,259						
Inventory	31,787	36,423	39,521	45,407	51,695						
Net fixed & other tangibles	86,379	108,560	110,058	109,867	110,843						
Goodwill & intangibles	29,644	23,100	23,100	23,100	23,100						
Financial & other assets	21,864	12,895	12,911	12,929	12,948						
Total assets	223,572	260,996	276,092	299,217	330,134						
Accounts payable	29,079	32,867	35,037	40,176	45,845						
Short-term debt	68,534	76,097	61,097	46,097	31,097						
Long-term debt	3,241	8,830	8,830	8,830	8,830						
Provisions & other liab	12,553	7,882	10,521	11,163	11,860						
Total liabilities	113,407	125,676	115,485	106,265	97,632						
Shareholders' equity	109,844	134,975	160,273	192,630	232,192						
Minority interests	321	345	334	322	309						
Total equity	110,165	135,321	160,607	192,952	232,501						
Net debt (Adj)	63,376	56,792	33,684	8,040	-23,361						
Net debt to equity (Adj) (%)	57.5	42.0	21.0	4.2	-10.0						

For definitions of the items in this table, please click [here](#).

Lupin

Company description

Lupin produces a wide range of generic & branded formulations and APIs for the developed and developing markets. Its products reach over 70 countries in the world. The company has emerged as one of the leading Indian participants in the US (ranked fifth by prescriptions) and Japan (ranked sixth) and is among the fastest-growing companies in India.

Investment strategy

We rate Lupin shares as Buy with a target price of Rs1,630. It stands out among its peers, given a healthy geographic mix (80%+ sales from India, the US and Japan), differentiated products and robust financial metrics. It has made good progress in its efforts to move up the value chain in terms of product (from APIs to formulations) and markets (from less regulated to regulated markets), and we believe it is now entering a high-growth phase, with multiple drivers: 1) Big product rollout in the US, including niche/PIV opportunities; 2) Growth in emerging markets (including India and Japan); and 3) margin improvement by back-ending sourcing to India from Japan, and rising US sales. Robust growth and healthy capital efficiency support our positive view.

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 lower our target PE to 25x FY18E vs. 27x FY18E earlier to factor in higher uncertainty on the pricing environment in the US. We maintain Buy as we remain positive on Lupin's pipeline and well diversified geographic presence. At 25x Mar'18E recurring FDEPS, we arrive at a new target price of Rs1,630.

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

Analyst Certification

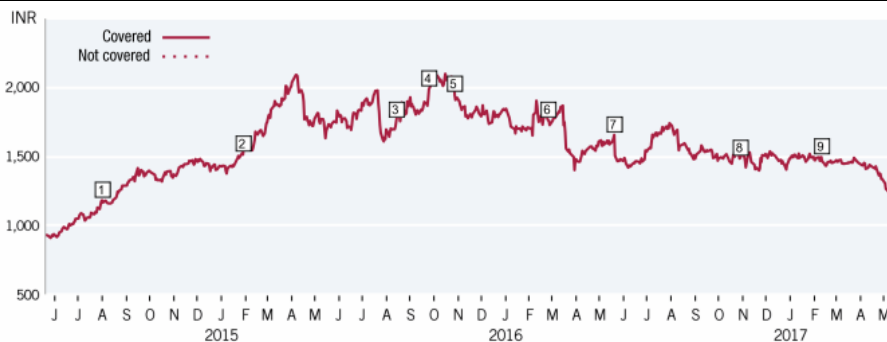
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Lupin (LUPN.BO)

Ratings and Target Price History Fundamental Research

Analyst: Prashant Nair, CFA



	Date	Rating	Target Price	Closing Price
1	31-Jul-14 22:22:04	1	*1,650.00	1,182.05
2	28-Jan-15 07:04:49	1	*2,020.00	1,513.35
3	13-Aug-15 19:53:45	1	*2,270.00	1,757.00

	Date	Rating	Target Price	Closing Price
4	24-Sep-15 18:24:09	1	*2,550.00	1,989.45
5	27-Oct-15 17:42:15	1	*2,360.00	1,945.65
6	24-Feb-16 04:33:01	1	*2,130.00	1,762.15

	Date	Rating	Target Price	Closing Price
7	19-May-16 21:28:11	1	*1,930.00	1,655.80
8	27-Oct-16 07:43:51	1	*1,970.00	1,485.00
9	09-Feb-17 12:58:13	1	*1,890.00	1,495.35

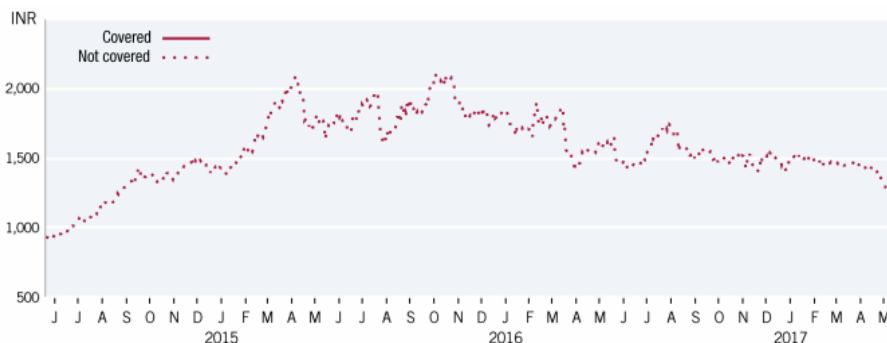
*Indicates Change

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



*Indicates Change

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