

Lupin----- Maintain UNDERPERFORM
Weak FY18 ahead; no one-offs in weak US sales in 4Q17

EPS: ▼ TP: ▼

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- 4Q17 was very weak with sharp decline in US sales. The stock reaction was muted to weak results as EBITDA appears solid adjusted for one-offs (provision for Australia liability, FX loss and higher R&D). However, EBITDA adjusted for these one-offs becomes higher than 3Q17 despite US sales being lower by \$40 mn QoQ and also India lower by 11%. Therefore, 4Q17 results are weak.
- US sales declined \$40 mn QoQ: (1) Glumetza (high price erosion with AG launch and likely 3Q17 also had higher inventory) and (2) Fortamet (mkt share loss to Mylan & overall market vols declining) (3) base price erosion was in single digits. These had more than offset Minastrin exclusivity (sales booked for 2-3 months in 4Q17).
- In the analyst meet, Lupin guided for (1) delay in Renvela and Welchol launch to late FY19, (2) delay in Tamiflu launch in FY18, (3) delay in Advair clinical trials to late FY18, (4) delay in reaching sales of \$3.5 bn to FY20. This drives cuts to FY18/19 EPS by 9/8%.
- Lupin maintained 26-28% margin guidance but we are lower at 25%. Lupin received six observations at Indore facility where two are similar to Goa 483 in April-2017. We cut our TP to Rs1,100.

US: sharp decline in sales driven by Glumetza & Fortamet; base price erosion in single digits

The key number in the quarter was the sequential decline in US sale of \$40 mn. Management mentioned in the analyst meet that the bulk of the decline was driven by (1) Glumetza (mkt share loss to AG + higher-than-expected price erosion and in our view, 3Q17 also had higher inventory of Glumetza given launch of AG in Feb-17) and (2) Fortamet (mkt share loss to Mylan and overall market volumes declining). The base price erosion was in single digits. Minastrin revenues were booked for 2-3 months in 4Q17.

Good performance in India and EMs

While US and Japan sales were lower than expected, Lupin did well in India with sales growth of 13.8% vs. peers reporting single-digit growth so far in India. Constant currency growth in South Africa was strong at 26% YoY and growth in Brazil and Mexico was strong at 30% and 27%, respectively, and Philippines grew at 39% YoY.

Analyst meet takeaways

- EBITDA margin guidance of 26-28% maintained for FY18. R&D is expected to remain flat at 13.5% of revenues.
- Lupin has guided for 30+ launches in US in FY18. Gavis revenues for FY18 are expected to be \$200-225 mn.
- Renvela/Renagel launch has been delayed to late FY19 as Lupin has received a CRL and reply will take a year's time.
- Tamiflu for Lupin has been delayed due to issues with Semler CRO. Lupin will file the product in six months' time.
- Lupin received six observations at the Indore facility where two are similar to Goa 483 in April-2017.
- ANDA filings in FY17 were 37 with Lupin filing 25 ANDAs in 4Q17. Lupin received 34 approvals in FY17 and therefore pending ANDAs stand at 154.

Bbg/RIC	LPC IN / LUPN.BO	Price (24 May 17, Rs)	1,227.65		
Rating (prev. rating)	U (U)	TP (prev. TP Rs)	1,100 (1,200)		
Shares outstanding (mn)	451.67	Est. pot. % chg. to TP	(10)		
Daily trad vol - 6m avg (mn)	1.05	52-wk range (Rs)	1740.8 - 1227.7		
Daily trad val - 6m avg (US\$ mn)	21.8	Mkt cap (Rs/US\$ bn)	554.5/ 8.6		
Free float (%)	47.0	Performance	1M 3M 12M		
Major shareholders	Promoter 53%	Absolute (%)	(9.9) (15.5) (16.2)		
		Relative (%)	(12.1) (20.4) (36.0)		
Year	03/15A	03/16A	03/17E	03/18E	03/19E
Revenue (Rs mn)	127,700	142,085	174,661	187,464	212,350
EBITDA (Rs mn)	36,196	37,535	45,072	43,567	50,320
Net profit (Rs mn)	24,032	22,118	27,601	24,801	29,301
EPS (CS adj. Rs)	53.5	49.1	61.2	55.0	65.0
- Change from prev. EPS (%)	n.a.	n.a.	(3.8)	(9.3)	(7.8)
- Consensus EPS (Rs)	n.a.	n.a.	62.9	71.0	82.2
EPS growth (%)	30.5	(8.2)	24.7	(10.1)	18.1
P/E (x)	23.0	25.0	20.1	22.3	18.9
Dividend yield (%)	0.6	0.6	0.7	0.7	0.8
EV/EBITDA (x)	14.9	16.5	13.4	13.7	11.6
P/B (x)	6.2	5.0	4.1	3.5	3.1
ROE (%)	30.4	22.3	22.5	17.0	17.4
Net debt(cash)/equity (%)	(18.0)	57.5	38.0	27.3	15.2

Note 1: Lupin Limited is an India-based pharmaceutical company. The company develops and markets a range of generic formulations and Active Pharmaceutical Ingredients (APIs) in markets around the world. It focuses on chronic therapies and the lifestyle segment.

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EBITDA adjusted for one-offs not as high as perceived

There were three one-offs in the quarter: (1) Rs1.6 bn included in other expenses towards Lupin's Australian subsidiary for compensation for patent litigation towards Isabelle generic launch, (2) higher R&D at 15.8% of sales vs. 12-13% in the previous quarters, (3) forex loss of Rs1,680 mn. If we adjust for all the three then, 4Q17 EBITDA becomes Rs12 bn which is higher than 3Q17 EBITDA despite US sales being lower by \$40 mn sequentially and also India sales lower by 11%. In the US, hit was mainly to Glumetza and Fortamet – both are higher margin products – and therefore EBITDA should decline sequentially.

Figure 1: EBITDA miss of 16% due to higher R&D and weak US sales

Rs mn	4Q17A	4Q17E	Diff (%)	4Q16A	YOY %	3Q17A	QOQ %
Net sales	42,533	44,095	-3.5%	41,707	2%	44,829	-5%
Gross Margin	72.1%	71.0%	1.1%	73.6%	-1.5%	71.0%	1.2%
R&D	15.8%	13.3%	2.4%	12.0%	3.8%	12.7%	3.1%
Personnel cost	16.6%	16.8%	-0.1%	13.9%	2.8%	16.3%	0.3%
SG&A	17.7%	15.7%	2.0%	16.5%	1.2%	15.5%	2.2%
EBITDA	9,373	11,123	-16%	13,050	-28%	11,888	-21%
EBITDA Margin	22.0%	25.2%	-3.2%	31.3%	-9.3%	26.5%	-4.5%
Net Income	3,820	6,458	-41%	7,479	-49%	6,331	-40%

Note: Not adjusted for the forex loss of Rs1.68 bn. Source: Company data, CS est.

Figure 2: 4Q17 sales; US and Japan weak; India and EMs strong

Rs mn	4Q17A	4Q17E	Diff (%)	4Q16A	YOY %	3Q17A	QOQ %
Sales	42,533	44,095	-3.5%	41,707	2.0%	44,873	-5.2%
Formulations	38,289	39,884	-4.0%	38,117	0.5%	40,955	-6.5%
US	18,492	20,397	-9.3%	21,807	-15.2%	21,315	-13.2%
Japan	4,682	5,194	-9.9%	3,442	36.0%	4,492	4.2%
India	8,788	8,682	1.2%	7,722	13.8%	9,912	-11.3%
South Africa	1,647	1,438	14.5%	1,135	45.1%	1,113	48.0%
Rest of EMs	4,680	4,173	12.1%	4,012	16.7%	4,123	13.5%
API	2,815	2,980	-5.5%	2,953	-4.7%	2,684	4.9%
Other op income	1,429	1,231	16.1%	994	43.7%	1,234	15.8%

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 24-May-2017)

Lupin Ltd (LUPN.BO, Rs1227.65, UNDERPERFORM, TP Rs1100.0)

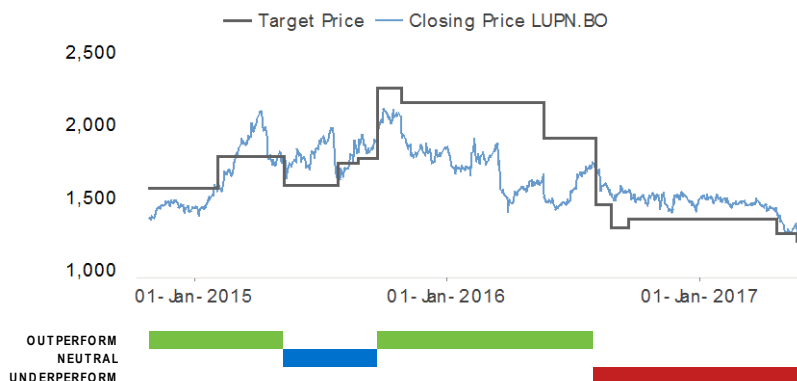
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LUPN.BO Date	Closing Price (Rs)	Target Price (Rs)	Rating
28-Oct-14	1357.65	1560.00	O
03-Feb-15	1545.30	1780.00	
11-May-15	1770.15	1585.00	N
27-Jul-15	1617.50	1735.00	
26-Aug-15	1811.80	1770.00	
23-Sep-15	1921.30	2250.00	O
27-Oct-15	1945.65	2150.00	
20-May-16	1505.15	1905.00	
03-Aug-16	1679.75	1450.00	U
26-Aug-16	1512.25	1290.00	
19-Sep-16	1542.80	1350.00	
21-Apr-17	1409.10	1250.00	
21-May-17	1314.90	1200.00	



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Valuation Methodology and Risks: (12 months) for Lupin Ltd (LUPN.BO)

Method: Our Rs1,100 target price for Lupin is arrived at by applying 17x price-to-earnings multiple to its profits for the past twelve months ending FY19. The price-to-earnings multiple used for Lupin is based on CS framework, where we give a lower multiple to US profits (due to expectation of higher price erosion) and higher multiple to high-ROCE/high growth Indian business. Our UNDERPERFORM rating is based on its high profit concentration, and expensive valuation.

Risk: Upside risks to our Rs1,100 target price and UNDERPERFORM rating for Lupin include: (1) delayed competition in Minastrin; (2) faster-than-expected new product approvals in the United States; and (3) a better-than-expected ramp-up in its Gavis portfolio.

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