IDFC SECURITIES

Lupin

Below estimates; Muted FY18 outlook

OUTPERFORMER

RESULT NOTE

3 August 2017

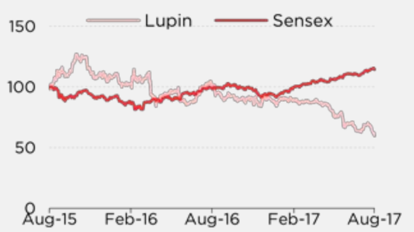
BSE Sensex: 32238

Sector: Pharmaceuticals

Stock data

CMP (Rs)	993
Mkt Cap (Rs bn/USD m)	448.8 /7,045
Target Price (Rs)	1,083
Change in TP (%)	-20.0
Potential from CMP (%)	9.0
Earnings change (%)	
FY18E	-30.5
FY19E	-19.9
Bloomberg code	LPC IN
1-yr high/low (Rs)	1,734/985
6-mth avg. daily volumes (m)	1.6
6-mth avg. daily traded value (Rsm/USDm)	1,972.2/31
Shares outstanding (m)	451.7
Free float (%)	53.3
Promoter holding (%)	46.7

Price performance – relative & absolute



(%)	3-mth	6-mth	1-yr
LPC IN	(21.5)	(33.4)	(40.9)
BSE Sensex	7.8	14.2	16.4

Q1FY18 result highlights

- Lupin's revenues were down 13% yoy to Rs38.7bn, vs est of Rs39.7bn due to lower US sales of $238m ($276m in Q4) vs est of $275m. Mgt attributed decline largely to increased price erosion in gGlumetza as the base business was reasonably stable. India sales declined 2% yoy.
- EBITDA was down 41% yoy to Rs7.7bn (est Rs9.3bn) with lower margins at 19.9% (est 23.4%). EBITDA miss driven by erosion in gross profits – Rs25bn vs Rs29bn in Q4 (est Rs27.5bn) due to US price erosion and some impact of GST led disruption in domestic market. GMs came lower at 67% vs 71% in Q4 and will stay subdued for now.
- Lowering in R&D costs at Rs5bn (Rs6.7bn in Q4) aided profitability. Mgt guided to ~Rs20bn FY18 R&D spends vs ~Rs23bn in FY17 as they are cutting NCE research and getting investors for biologics R&D.
- Tax rate came lower at 27.6% (est 30%). Consequently PAT was down 59% yoy to Rs3.6bn (est Rs4.7b).

Key positives: Lower tax rate; lower R&D spend

Key negatives: Lower US sales, lower GMs and gross profits, lower guidance for FY18

Impact on financials: Reduced our FY18/FY19 earnings est by 31%/20%

Valuations & view

Sharp miss in Q4FY17 / Q1FY18 US sales triggered by gFortamet / gGlumetza price erosion combined with the muted FY18 growth outlook underline Lupin's near term growth challenges. However, we remain positive on the medium term growth potential and expect strong recovery in US from FY19 onwards with the commercialization of some big ticket launches including 3-4 potential FTFs in FY19. With 45 FTF products including 23 exclusive FTF opportunities Lupin has one of the strongest ANDA pipelines among peers. Further, Lupin's strong R&D and regulatory capabilities and competent management team continue to provide confidence on its ability to successfully manage its transition to a complex generics-focused player and eventually a global specialty major. Maintain Outperformer and recommend buying into the weakness with a medium term view. Severe than expected price erosion and delay in niche launches are key risks to our call.

Key financials (quarterly)

(Rs m)	Q1FY17	Q4FY17	Q1FY18	% ch qoq	% ch yoy	% var from est
Net sales	44,395	42,533	38,696	(9.0)	(12.8)	(2.5)
EBITDA	13,082	7,814	7,684	(1.7)	(41.3)	(17.3)
OPM (%)	29.5	18.4	19.9	1.5	(9.6)	(3.6)
Other inc.	826	453	320	(29.5)	(61.3)	(68.0)
Interest	320	406	439	8.1	37.3	9.7
Dep. & Amort.	2,027	2,674	2,605	(2.6)	28.5	4.2
PBT	11,561	5,187	4,959	(4.4)	(57.1)	(25.9)
PAT	8,821	3,802	3,581	(5.8)	(59.4)	(23.5)
Reported PAT	8,821	3,802	3,581	(5.8)	(59.4)	(23.5)
EPS (Rs)	19.8	8.5	8.0	(5.8)	(59.4)	(23.5)

Source: Company, IDFC Securities Research

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Exhibit 1: Quarterly Result

(Rs m)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	FY17	FY18E	Comments
Net Sales	**44,395**	**42,905**	**44,829**	**42,533**	**38,696**	**1,74,943**	**1,61,310**	below est led by US
Expenses								
Cost of sales	12,719	12,429	13,016	11,851	12,326	67,498	67,477	GMs were down 330bps/410 bps yoy/qoq
SG&A expenses	13,600	14,480	13,973	16,160	13,687	39,414	39,290	down 15% qoq as Q4FY17 had Rs1.55bn one-litigation charge related to patent litigation in Australia
R&D expenses	4,994	5,716	5,682	6,709	4,999	23,100	20,790	R&D stood lower (down 25.5% qoq)
Total Expenses	**31,313**	**32,624**	**32,670**	**34,719**	**31,012**	**1,30,012**	**1,27,557**	
EBITDA	**13,082**	**10,281**	**12,158**	**7,814**	**7,684**	**44,931**	**33,754**	Lower est led by lower revenues and lower GMs
OPM (%)	29.5	24.0	27.1	18.4	19.9	25.7	20.9	below est
Other Income	826	271	1,036	453	320	1,065	1,500	lower than est
Interest	320	263	459	406	439	1,525	1,756	higher than est
Depreciation	2,027	2,111	2,309	2,674	2,605	9,122	10,491	higher than est
PBT	**11,561**	**8,177**	**10,426**	**5,187**	**4,959**	**35,349**	**23,007**	
Current Tax	2,734	1,589	4,095	1,367	1,368	10,882	6,300	
Deferred tax						(1,097)	-	
Tax Rate (%)	*23.6*	*19.4*	*39.3*	*26.4*	*27.6*	*27.7*	*27.4*	came in lower vs est of 30%
Minority interest	6	(34)	(0)	18	11	(11)	-	
PAT	**8,821**	**6,622**	**6,331**	**3,802**	**3,581**	**25,575**	**16,707**	lower than est led by lower revenues and lower GMs
Extraordinary expenses	-	-	-	-	-	-	-	
Extraordinary Income								
Reported PAT	**8,821**	**6,622**	**6,331**	**3,802**	**3,581**	**25,575**	**16,707**	
% chg yoy								
Sales	**40.7**	**29.2**	**26.1**	**2.0**	**(12.8)**	**22.7**	**(7.8)**	
EBITDA	**58.6**	**53.0**	**38.6**	**(40.1)**	**(41.3)**	**21.9**	**(24.9)**	
Other Income	9.2	(34.7)	58.6	30.0	(61.3)	(42.5)	40.8	
Interest	355.6	159.1	400.3	90.9	37.3	156.5	15.1	
Depreciation	100.0	97.6	107.3	79.8	28.5	87.3	15.0	
PBT	**45.9**	**37.1**	**26.8**	**(55.7)**	**(57.1)**	**6.3**	**(34.9)**	
PAT	55.1	62.0	19.5	(49.2)	(59.4)	13.1	(34.7)	
Reported PAT	**55.1**	**62.0**	**19.5**	**(49.2)**	**(59.4)**	**13.1**	**(34.7)**	
EPS								
Equity	446.2	446.2	446.2	446.2	446.2	451.6	451.6	
EPS	19.8	14.8	14.2	8.5	8.0	56.6	37.0	

Source: Company, IDFC Securities Research

Other key highlights

- Lupin reported a decline in the revenues by 13%/9% yoy/qoq at Rs38.7b vs our est of Rs39.9bn led by the following reasons
  - Lower US sales impacted by much higher than anticipated erosion in the key product gGlumetza while, surprisingly, the base business was reasonably stable.
  - Bulk of the decline in US from Q4 on account of gGlumetza; Given that base business has been steady implies Glumetza had been contributing much more to revenues in FY17 than was envisaged earlier
  - Lower domestic revenues to the tune of Rs1.5b impacted by the channel de-stocking on account of the GST implementation
  - Impact on Japanese business due to implementation of co-pay policy
  - South African revenue were impacted due to channel filling in Q4

Muted guidance for FY18

- Double digit decline in US sales; Had guided to flat revenues in US post Q4 call; Consolidated revenues to decline yoy
- Q2 US revs to be marginally lower than Q1 due to some more erosion in gGlumetza sales
- EBITDA margins guidance lowered to 21-23% from 24-26% earlier
- R&D to be capped at ~Rs5bn / qtr; FY18 spends to be lower vs FY17 (Rs23bn)
- While H2FY18 be better than H1, FY18 overall will stay soft and recovery will come from FY19 onwards
- Guided to sharp bounce in US revenues from FY19 onwards driven by visibility on its ANDA approvals / launches. Remain optimistic on the outlook for FY20 and beyond as the recent investments in R&D begin to pay off.

US business

- Lupin's US formulations (including IP income) business reported 26.8% yoy / 15.7% qoq de-growth in revenues to Rs16bn. In constant currency US revenues were down 26.1% yoy at US$238m vs $276m in Q4FY17 well below our estimate of $275m. We estimate that Lupin booked Rs667m of IP income during the quarter vs Rs535mn in Q4FY17.
- For FY17 US revenues stood at US$1207m vs US$887m in FY16. The branded business for FY17 posted a 90% growth to $78m led by growth in Methergine (now clocking $4.5-5m / month)

Exhibit 1: US revenues

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	yoy (%)	qoq (%)
US (Rs m)	12,004	11,550	14,049	21,871	21,886	19,978	21,755	19,542	16,018	(26.8)	(15.7)
US (USD m)	180	174	208	325	322	292	316	276	238	(26.1)	(13.8)

Source: Company, IDFC Securities Research

- Mgt highlighted that the sharp $38m qoq reduction was primarily triggered by higher than anticipated price erosion in gGlumetza. Base business (ex-gGlumetza / gFortamet) was broadly stable with 9% qoq growth. Base business growth was largely driven by existing drugs with limited contribution from new launches during the quarter. gMinastrin revenues came in marginally lower qoq and didn't contribute much.
- The management continues with earlier guidance that going forward also the company expects high single digit pricing erosion on the base business to continue. However, they are apprehensive about the potential impact of the recently announced sourcing tie-up (last week) between Econdisc and Walgreens Boots Alliance (WBAD). The latter tie-up marks a further level of consolidation in the US generics distribution landscape which had seemingly begun to stabilise after the last round of consolidations. With the new sourcing alliance now accounting for ~40% of US market share, company expects another round of sharp price erosion in the generic drug pricing during the year beyond the single digit erosion anticipated earlier. This remains a source of potential negative surprise

- The brand business has been doing well; Q1FY18 Revs were $23m compared to $19m in Q4FY17
- **gGlumetza**
  - Sales for the gGlumetza were sharply lower qoq due to much higher than anticipated price erosion led by the AG which entered last quarter and recent Teva launch.
  - The management further highlighted that while bulk of the sales erosion impact was done, they do expect some more sales erosion in Q2FY18 on account of the recent Teva launch.
  - Currently there is no visibility on launch by Sun, the other approved generic
  - We now estimate gGlumetza revenues to decline sharply from ~$200m in FY17 to $40-50m in FY18/19.

- **gFortamet**
  - Currently, it's a 3 player market with Lupin, Mylan and AG. Mylan had got the approval in Sept'16 and is steadily increasing its market share. The material impact of Mylan's entry in form of lower market share at a reduced price was visible in Q4 and didn't any much incremental impact in the current quarter.
  - Currently, there is no visibility on the approval timelines for another P-IV filer Nostrum Labs. Aurobindo is another recent P-IV filer but it has been sued by the innovator. This may potentially block Aurobindo's entry till H2FY19 unless they settle with the innovator for an early launch.
  - As on Q4FY17 in terms of follow-on competition, the innovator has sued Aurobindo which recently filed a P-IV challenge. This will effectively block Aurobindo's entry for 30m. Innovator's decision to litigate against Aurobindo indicates its intent to keep fighting against incremental generic competition as it continues to enjoy significant share of the market through the AG
  - Management has assumed no further generic competition during the year but it remains a risk.
  - We have assumed gFortamet sales of $80m / $60m in FY18/FY19 from ~$170m in FY17.

- **US business weak outlook for FY18, sharp recovery expected in FY19**
  - Given the sharp erosion in the US business in Q1FY18 led by the higher than anticipated erosion in Glumetza, with some more to come in 2QFY18 and expected base business erosion, the management has now guided for a double digit decline in US sales for FY18
  - However, the company guided to a sharp pickup in sales from FY19 onwards on the back of 3-4 FTF launches (gRanexa, gMoviprep, gMoxeza and gMinocycline ER), scale-up in GAVIS portfolio especially controlled substance portfolio as also potential launch of glevothyroxine, gRenvela / gWelchol and few other meaningful drugs
  - We have now built in -13% de-growth in FY18 and +18% growth in US sales for FY19
  - The company had earlier guided for 30+ launches in FY18 with no potential big ticket launches in the immediate quarters.

- **Some other takeaways regards US business**
  - GAVIS – Company is running about a year behind schedule in terms of meeting targets. Notably company had guided to $300m revenues in FY18 when they acquired the business. The same had been cut to $250m earlier which we believe was stretched guidance.
  - However in the current quarter the management has guided a much lower number of $200mn of sales for FY18 vs the earlier guidance of $250mn again falling back on its guidance. We still continue to believe that it's a stretch guidance to achieve as Gavis did $110m in revenues for FY17.
  - Apart from growth outlook for the controlled substance portfolio, mgt remains very positive on the growth outlook for Methergene as the primary driver for GAVIS sales. Methergene Oral tablet is the only drug available for postpartum hemorrhage (PPH). Mgt had earlier cited excellent response from the prescribing doctors to generics to Rx shift. Notably, as per mgt estimates, successful conversion of all the current prescriptions can generate revenues of ~$70m or so. They are currently generating $4.5-5m/ per month. The company continues to develop this product as a brand and does not witness any risk from generic competition as there are certain complexities and barriers involved in the manufacturing of the API.

- Methergene posted a sequential growth of 48% in the current quarter.
- gSpiriva – Completed PK and have initiated the PD studies. If the study is successful, aiming to file by end FY18
- gAdvair: There has been some delays and progress continues with the company continuing to take exhibit batches for the PK trials. The company has utilized the inputs from the CRLs issued to Hikma / Mylan and modified its PK trial strategy to incorporate FDA's feedback. The clinical trials are expected to start in next few months with a potential filing by FY19.
- Albuterol MDI filing: It has filed for Albuterol MDI (gProAir) in the US in the Q3FY17 which could be a 3-4 player market. The launch is anticipated in FY20. The target action date for the drug is Sept'17. It continues to work on filing multiple other inhalation drugs (MDIs as well as DPIs)
- Mesalamine franchise – Mgt also talked about a potential FY19 launch for gLialda (currently working on a query) which seems ambitious given the status of the ongoing litigation. They are also working on securing an approval for gApriso.
- gLevothyroxine – This drug is currently under shortage and FDA has assigned it a priority review. Lupin has had a Pre-approval inspection for the drug in its Indore facility which shows that its file is progressing well with the FDA. Company remains hopeful of late FY18 approval and launch. Currently, the drug has sales >$300m with Mylan, Lannett and Sandoz being the active generics with Mylan having ~50% market share.
- Renvela / Welchol – Delays continue: Based on the additional work required post the recent CRL, it expects the product approval by late FY19 as against the earlier approval guidance of late FY18. Despite, the recent approval received by Aurobindo the management still believes that it could be a good opportunity.
- Speciality is a key focus area for the company going forward. The company is currently working on multiple opportunities including Line extensions for Methergine, 2 ADHD film products along with Monosol Rx, an interesting orphan drug opportunity in EU among others. Going forward, it is looking to acquire multiple assets in Phase II onwards to build this pipeline. This will obviously require sharp enhancement in R&D spends and the company will have to perform a tight balancing act given its guidance for flat R&D spends over next two years.

- **US FDA inspection Status**
  - Company has had a host of inspections across its various facilities over the last few months
  - The company had received 483s in the last two inspections in its key facilities of Goa and Pithampur. The company has responded to the same and remains hopeful of closing out the inspections.
  - Notably, the company hasn't received any new ANDA approvals from these facilities since the inspections. It expects a flurry of approvals going forward, once the FDA begins to approve ANDAs from these facilities.

US FDA inspection Status

Exhibit 2: USFDA inspection status

Location	Type of Facility	Inspection	Outcome	Remarks
Mandideep	API and Formulations	Feb-16	Received EIR in May 16	Inspection carried out on from 8-19 Feb, 2016. There were 3 Form 483 observations
Dabhasa	API	Jul-16	Form 483 with 2 observations with Voluntary Action Indicated	Inspection carried out on June 29 to July 6, 2016. As per the company both the observations are minor in nature and corrective and preventive actions were shown to the inspectors during the inspection.
Goa	Formulations	Apr-17	Form 483 with 3 observations	July (17-21) 2017 – PAI (Prior Approval Inspection) - no observation For the April 2017 – 3 observations the company has responded to the US FDA Earlier inspections For March 16 inspection (Form 483 - 9 observations) - received the EIR in Nov 16. For July 2015 inspection (Form 483 - 9 observations) - received EIR in July 16.
Aurangabad	Formulations	Apr-17	Form 483 with 8 observations	July 2017 – PAI (Prior Approval Inspection for Tamiflu) - Form 483 with 1 observation The management highlighted that observation was procedural in nature and corrected during the inspection itself Earlier inspections Inspection carried out on from 11-15 Jan, 2016 – received EIR in May 16
Indore	Formulations	Apr-17	Form 483 with 6 observations	For the April 2017 inspection - The management highlighted that the observations are minor and procedural in nature and it remains confident of resolving the observations.
Pithampur Unit I	Formulations	July-17	No observation	GMP and PAI (Prior Approval Inspection)
Pithampur Unit II	Formulations	May-17	Form 483 with 6 observations	GMP inspection
Pithampur Unit III	Formulations	Jun-17	Form 483 with 4 observations	PAI (Prior Approval Inspection)

Source: Company, IDFC Securities Research

- The company currently has 12 manufacturing plants with 12 plants in India, 3 in Japan and one each in US, Mexico and Brazil.

Japan

- Japan reported a 25% constant currency growth for the quarter aided by the Shionogi acquisition.
- Growth in the current quarter was impacted by the change in the co-pay policy.
- The management further highlighted that instead of a 2 year price revision policy, the revision will now take place annually having a 6.5% impact annually. However, the govt is looking to trigger consolidation in the highly fragmented space which may be beneficial for larger players like Lupin.

Exhibit 1: Japan revenues

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	yoy (%)	qoq (%)
Japan (Rs m)	3,231	3,234	3,739	3,442	4,258	4,154	4,491	4,925	5,3,23	25.0	8.1
Japan (JPY m)	6,178	6,077	6,890	5,918	6,868	6,700	7,244	7,944	8,585	25.0	8.1

Source: Company, IDFC Securities Research

- Positive on the Shionogi brand acquisitions; believe it's a fairly strategic transaction as it help to cross sell the generic products as also create foundation for building a specialty business.

India

- India business de-grew 2% yoy to Rs9.3bn vs est of Rs9.1bn (-4% yoy) led by the ~Rs1.5bn de-stocking impact on account of the GST implementation.
- The domestic performance of the company is in line with the peers impacted due to the GST implementation
- Mgt remains positive on sustaining 15% growth in the market over the medium term.
- For FY17 the company had launched 62 SKUs in the domestic market
- As at 4QFY the Lupin had 6,650+ field force and the broad based split for the domestic market stood as Chronic – 55.4%, sub-chronic at 27.5% and the balance was acute at 17%.

Exhibit 2: India revenues

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	yoy (%)	qoq (%)
India (Rs m)	8,849	8,738	8,860	7,615	9,313	9,958	9,912	8,788	9,324	(1.8)	6.1

Source: Company, IDFC Securities Research

Exhibit 3: Geography wise revenue

Rsm	FY16	FY17	Yoy (%)
Formulations	**1,25,110**	**1,59,815**	**27.7**
US	59,249	82,627	39.5
India	34,486	38,157	10.6
APAC ex Japan	4,059	4,826	18.9
Japan	13,646	17,829	30.7
South Africa	3,998	4,847	21.2
EMEA ex-SA	4,678	5,268	12.6
LatAm	3,507	4,519	28.9
ROW	1,487	1,742	17.1
API	**12,469**	**11,383**	**(8.7)**
Total	**1,37,579**	**1,71,198**	**24.4**

Source: Company, IDFC Securities Research

Exhibit 4: Quarterly Segmental

Rsm	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	yoy (%)	qoq (%)
Formulations	**40,452**	**38,750**	**40,908**	**38,804**	**35,275**	**(12.8)**	**(9.1)**
US	21,886	19,535	21,298	19,007	16,018	(26.8)	(15.7)
India	9,499	9,958	9,912	8,788	9,324	(1.8)	6.1
APAC	5,416	5,520	5,601	6,118	5,989	10.6	(2.1)
EMEA	2,194	2,355	2,555	3,012	2,259	3.0	(25.0)
LatAm	1,089	986	1,175	1,269	1,269	16.5	-
ROW	368	396	367	610	416	13.0	(31.8)
API	**2,966**	**2,919**	**2,684**	**2,815**	**2,793**	**(5.8)**	**(0.8)**
Total	**43,418**	**41,669**	**43,592**	**41,619**	**38,068**	**(12.3)**	**(8.5)**

Source: IDFC Securities Research, Company

Exhibit 5: Other markets (cc growth)

(mn)	Market	Q1FY17	Q4FY17	Q1FY18	yoy (%)	qoq (%)	Other Highlights
Philippines (PHP)	APAC	508	615	350	(31.1)	(43.1)	For FY17 Philippines posted a 32.3% growth as compared to market growth rate of 6.7%. It was ranked 4th in the branded generic market.
South Africa (ZAR)	EMEA	205	325	209	2.0	(35.7)	Seasonality impact with sequentially drop in revenue as Q4FY17 had the benefit of 7.5% price hike. Lupin continues to remain the fourth largest player.
Germany (ZAR)	EMEA	6.4	6.5	6.7	4.7	3.1	
Brazil (BRL)	LatAm	17.1	35	36	110.5	2.9	For FY17 the company posted a growth rate of 29% vs the market growth rate of 14%. The management highlighted in Q4FY17 that it expects to become profitable in the next two years.
Mexico (MXN)	LatAm	132	148	149	12.9	0.7	

Source: Company, IDFC Securities Research

❑ Key financial metrics

Exhibit 6: Key Financial highlights

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	yoy (%)	qoq (%)
GPs (Rsm)	20,468	20,214	21,984	29,717	30,073	29,240	30,577	29,233	25,075	(16.6)	(14.2)
GMs (%)	67.5%	64.2%	66.2%	73.0%	70.3%	70.2%	70.1%	71.2%	67.0%	(330 bps)	(410 bps)
Empl	4,973	5,242	5,284	5,779	7,059	7,124	7,312	7,078	7,180	1.7	1.4
SG&A	8,505	9,956	10,273	11,868	11,535	13,072	12,343	15,791	11,506	(0.2)	(27.1)
R&D exp	3,131	3,870	3,916	5,113	4,994	5,716	5,682	6,709	4,999	0.1	(25.5)
% of rev	10.3%	12.3%	11.8%	12.6%	11.7%	13.7%	13.0%	16.3%	13.4%		

Source: Company, IDFC Securities Research

- Gross margins for the quarter were down by 330bps/410bps yoy/qoq at ~67.0% (vs est of 70%) primarily led by price erosion in the high margin gGlumetza, GST impact and adverse forex impact of Rs0.62bn for the quarter.
- SGA costs stood lower at Rs11.5bn (flat yoy / 27% qoq) on account of the following
  - 4QFY17 included one time litigation charge related to patent litigation in Australia – Rs1.55b
  - lower R&D costs
  - cost control measures
- R&D costs decreased to 13.4% of sales to Rs5bn (flat yoy and -25.5% qoq)
  - The management expects the current quarter run rate of Rs5b to continue for the remaining quarters of FY18 implying a lower R&D outlay of Rs20b for FY18 vs Rs23b for FY17.
  - The management further indicated that the lower R&D spends does not implies any change in the current ongoing R&D activities. This lower spends is primarily led by the company getting finance partners on board for the biologics spends as well lower discovery R&D spends.

Exhibit 7: US FDA filing, approvals and launches

(nos)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY17 Total	Q1FY18
Filings	2	4	6	25	37	1
Approvals	7	9	11	7	34	3
Launches	3	2	4	9	18	4

Source: Company, IDFC Securities Research

Exhibit 8: QoQ Cumulative filing movement

US market	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Cumulative Filings	336	338	344	368	368
Cumulative approvals	187	196	207	214	217
Awaiting approvals	149	142	137	154	151
FTF	45	45	44	45	45
Products in the US market	123	124	128	139	142
Cumulative DMF filings	172	172	173	187	187

Source: Company, IDFC Securities Research

- The consolidated OPM including OOI came at 19.9% vs our est of 23.4%. OPM was lower led by lower revenues and sharp decline in Gross profits
- Gross profit decline was partially mitigated by lower R&D costs reflected in sharply lower SGA spends.
- Tax rate stood at 27.6% (26.4% in Q4FY17) vs our estimate of 30%. Resultant, PAT at Rs3.6bn was below our est at Rs4.7bn.
- Capex for FY17 stood at Rs16.6b. Earlier the company had given guidance of that capex will temper down to Rs13-15bn in subsequent years. Management ascribed it to a phase of fairly limited capex spends over FY15-16 and a major ramp-up in capacity addition projects across India and Japan in FY17 and therefore expects moderation of capex spends in coming years.

Exhibit 9: Other financial parameters

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Operating Wcap (Rs m)	48,857	48,166	49,691	48,960	54,068
Wcap days	102	103	105	105	119
Capital Exp (Rs m)	5,663	3,057	2,095	5,819	2,832
Net Debt / Equity (x)	0.43	0.41	0.41	0.38	0.37

Source: IDFC Securities Research, Company

Income statement

Year to 31 Mar (Rs m)	FY15	FY16	FY17	FY18E	FY19E
Net sales	1,30,964	1,42,555	1,74,943	1,61,310	1,84,345
% growth	16.0	8.9	22.7	(7.8)	14.3
Operating expenses	91,504	1,05,702	1,30,012	1,27,557	1,40,320
EBITDA	39,460	36,853	44,931	33,754	44,025
% change	31.4	(6.6)	21.9	(24.9)	30.4
Other income	2,397	1,852	1,065	1,500	1,500
Net interest cost	98	595	1,525	1,756	1,580
Depreciation	4,347	4,871	9,122	10,491	11,015
Pre-tax profit	37,412	33,239	35,349	23,007	32,930
Deferred tax	0	(840)	(1,097)	0	0
Current tax	9,704	11,434	10,882	6,300	8,479
Profit after tax	27,708	22,646	25,564	16,707	24,451
Preference dividend	0	0	0	0	0
Minorities	(412)	(39)	11	0	0
Adjusted net profit	27,296	22,607	25,575	16,707	24,451
Non-recurring items	0	0	0	0	0
Reported net profit	27,296	22,607	25,575	16,707	24,451
% change	48.6	(17.2)	13.1	(34.7)	46.4

Balance sheet

As on 31 Mar (Rs m)	FY15	FY16	FY17	FY18E	FY19E
Paid-up capital	899	901	903	903	903
Preference capital	0	0	0	0	0
Reserves & surplus	87,844	1,10,735	1,34,075	1,47,612	1,72,063
Shareholders' equity	88,984	1,11,957	1,35,323	1,48,859	1,73,311
Total current liabilities	27,699	32,030	34,716	33,395	35,740
Total debt	5,310	74,749	84,286	66,286	41,286
Deferred tax liabilities	1,182	(92)	(1,128)	(1,128)	(1,128)
Other non-current liabilities	7,361	4,246	7,799	7,799	7,799
Total liabilities	41,552	1,10,934	1,25,674	1,06,352	83,697
Total equity & liabilities	1,30,535	2,22,890	2,60,996	2,55,212	2,57,007
Net fixed assets	32,961	91,539	1,08,560	1,13,069	1,17,054
Investments	16,584	164	21,361	21,361	21,361
Cash	4,814	8,218	6,994	6,831	(2,529)
Other current assets	59,696	1,00,316	1,00,981	90,850	98,021
Deferred tax assets	0	0	0	0	0
Other non-current assets	16,481	22,654	23,100	23,100	23,100
Net working capital	36,811	76,503	73,259	64,286	59,752
Total assets	1,30,535	2,22,890	2,60,996	2,55,211	2,57,007

Cash flow

Year to 31 Mar (Rs m)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	37,412	33,239	35,349	23,007	32,930
Depreciation	4,347	4,871	9,122	10,491	11,015
Chg in Working capital	5,552	(36,288)	2,021	8,810	(4,826)
Total tax paid	(9,704)	(11,434)	(10,882)	(6,300)	(8,479)
Net Interest	98	595	1,525	1,756	1,580
Others	0	0	0	0	0
Operating cash flow	40,288	(12,131)	40,688	37,763	32,220
Capital expenditure	(17,191)	(69,623)	(26,589)	(15,000)	(15,000)
Free cash flow (a+b)	23,195	(81,160)	15,625	24,519	18,801
Chg in investments	(14,799)	16,421	(21,198)	0	0
Debt raised/(repaid)	(2,053)	69,439	9,537	(18,000)	(25,000)
Net interest	(98)	(595)	(1,525)	(1,756)	(1,580)
Capital raised/(repaid)	2	2	2	0	0
Dividend (incl. tax)	(3,944)	(4,067)	(3,963)	(3,170)	0
Other items	(4,525)	3,917	1,789	1	0
Net chg in cash	(3,162)	3,404	(1,223)	(163)	(9,360)

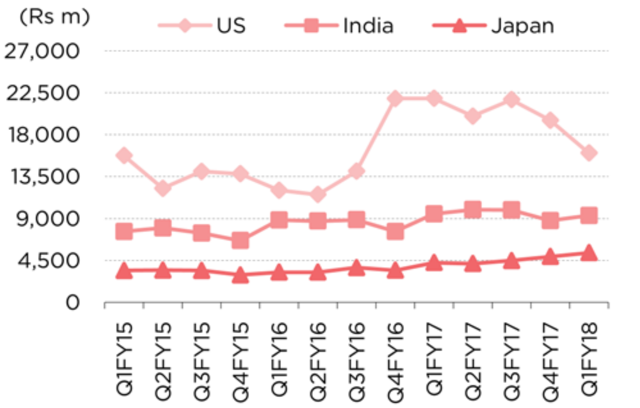
Key ratios

Year to 31 Mar	FY15	FY16	FY17	FY18E	FY19E
EBITDA margin (%)	30.1	25.9	25.7	20.9	23.9
EBIT margin (%)	26.8	22.4	20.5	14.4	17.9
PAT margin (%)	20.8	15.9	14.6	10.4	13.3
RoE (%)	34.3	22.5	20.7	11.8	15.2
RoCE (%)	37.6	21.8	17.2	10.4	14.9
Gearing (x)	0.0	0.6	0.6	0.4	0.3
Net debt/ EBITDA (x)	0.0	1.8	1.7	1.8	1.0
FCF yield (%)	5.2	(18.3)	3.1	5.1	3.8
Dividend yield (%)	0.9	0.9	0.9	0.7	0.0

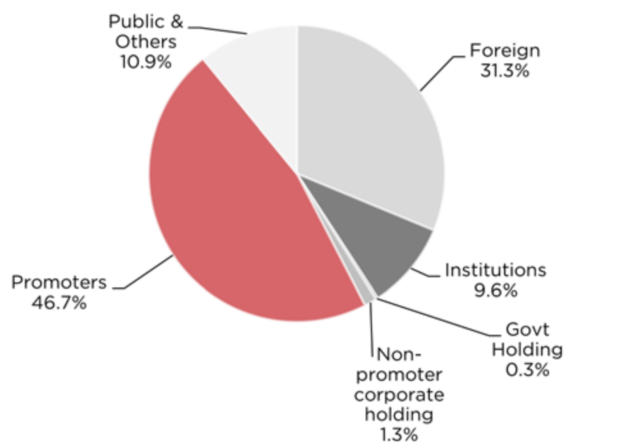
Valuations

Year to 31 Mar	FY15	FY16	FY17	FY18E	FY19E
Reported EPS (Rs)	60.7	50.2	56.6	37.0	54.1
Adj. EPS (Rs)	60.7	50.2	56.6	37.0	54.1
PE (x)	16.4	19.8	17.5	26.8	18.3
Price/ Book (x)	5.0	4.0	3.3	3.0	2.6
EV/ Net sales (x)	3.4	3.6	3.0	3.2	2.7
EV/ EBITDA (x)	11.3	14.0	11.7	15.1	11.2
EV/ CE (x)	4.3	2.7	2.3	2.3	2.2

Segmental break-up



Shareholding pattern



As of Jun 17

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