

EARNINGS REVIEW

Lupin (LUPN.BO)

Neutral

Equity Research

Below expectations: Pain to persist in FY18; remain Neutral

What surprised us

LUPN reported 1QFY18 Sales of Rs38.7bn, missing GSe/Bloomberg consensus 14%/11% while EBITDA missed by 25%/20%. **Key highlights:** (1) **Price erosion:** LUPN said that on the base business they still are witnessing high single digit erosion but still managed to grow sales 11% yoy (excl. Glumetza/Fortamet). (2) **FY18 outlook:** LUPN guided to single digit decline in sales for FY18 and double digit decline in US sales and signaled a softer 2Q. We now forecast sales to decline 8% in FY18 driven by continued normalisation of the Metformin franchise. (3) **Japan:** Higher copay structure impacted volume development with core sales growth (excl. Shionogi) declining double digits yoy. (4) **Gavis:** LUPN expects a steep ramp in launches in 2H – oxycodone APAP, hydrocodone APAP, potassium chloride and derm to help reach their US\$200mn franchise sales target in FY18. (5) **Margins:** LUPN lowered EBITDA margin guidance 500bp to 21%-23% on account of pricing pressure as well as an appreciating rupee. (6) **Regulatory:** LUPN expects approvals to start coming from Goa/Indore in the next 2 months. (7) **Respiratory:** gSpiriva PD study is ongoing, facing some delays in gAdvair and guided to R&D costs to stay at Rs5bn run rate.

What to do with the stock

We cut our 2018E-20E EBITDA by 10-20% on the weak revenue and margin outlook. Accordingly, our 12m TP falls to Rs1,120 (from Rs1,225), derived by discounting FY20E EBITDA/share back 2 years at 11% WACC. Despite the stock's continuing underperformance, we remain Neutral as we see a balanced risk-reward in valuation. **Key risks:** Upside: Product launch rate, complex generic approvals. Downside: Price erosion, Gavis execution.

Lupin 1Q18 results summary

Rs. Mn	1Q18	Gse	vs Gse	YoY (%)	QoQ (%)
Sales	38,696	45,248	-14%	-13%	-9%
EBITDA	7,684	10,209	-25%	-41%	-2%
EBITDA margins	19.9%	22.6%	-270bps	-961bps	149bps
Net income	3,581	5,802	-38%	-59%	-6%

Source: Company data, Goldman Sachs Global Investment Research

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Neutral

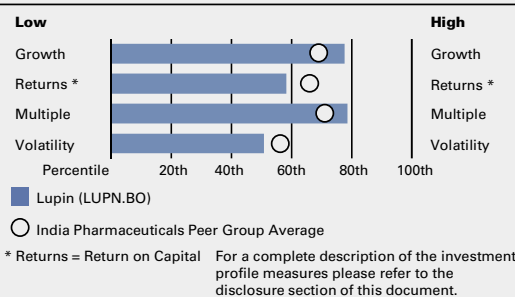
Coverage View: Neutral

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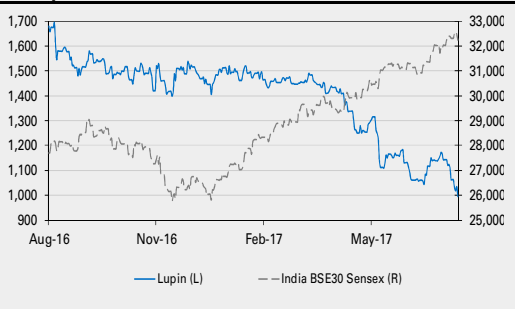
Investment Profile



Key data	Current
Price (Rs)	994.90
12 month price target (Rs)	1,120.00
Market cap (Rs mn / US\$ mn)	449,396.3 / 7,063.3
Foreign ownership (%)	--

	3/17	3/18E	3/19E	3/20E
EPS (Rs) New	56.40	36.75	48.24	58.03
EPS revision (%)	0.0	(29.6)	(23.5)	(17.1)
EPS growth (%)	12.9	(34.8)	31.3	20.3
EPS (dil) (Rs) New	56.40	36.75	48.24	58.03
P/E (X)	26.9	27.1	20.6	17.1
P/B (X)	5.1	3.0	2.7	2.4
EV/EBITDA (X)	16.9	14.9	12.1	10.2
Dividend yield (%)	0.5	0.7	0.9	1.0
ROE (%)	20.9	11.8	13.9	14.8
CROCI (%)	17.4	12.2	13.4	13.9

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(21.3)	(33.3)	(40.8)
Rel. to India BSE30 Sensex	(27.0)	(41.5)	(49.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 8/03/2017 close.

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Lupin: Summary Financials

Profit model (Rs mn)	3/17	3/18E	3/19E	3/20E	Balance sheet (Rs mn)	3/17	3/18E	3/19E	3/20E
Total revenue	174,660.9	161,181.9	184,183.4	204,567.6	Cash & equivalents	28,135.4	32,701.6	33,691.9	37,344.2
Cost of goods sold	(50,014.3)	(51,642.5)	(57,096.9)	(61,370.3)	Accounts receivable	43,073.4	39,749.3	45,421.8	50,448.7
SG&A	(29,640.3)	(26,717.4)	(29,788.4)	(33,085.3)	Inventory	36,422.8	37,608.6	41,580.7	44,692.8
R&D	(23,101.0)	(20,100.7)	(23,943.8)	(26,593.8)	Other current assets	17,751.7	17,751.7	17,751.7	17,751.7
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	125,383.3	127,811.2	138,446.0	150,237.4
EBITDA	43,333.1	33,292.0	41,010.1	48,013.9	Net PP&E	53,512.7	62,701.0	73,360.7	86,104.7
Depreciation & amortization	(9,122.3)	(10,811.7)	(12,340.3)	(13,706.0)	Net intangibles	78,147.2	78,147.2	78,147.2	78,147.2
EBIT	34,210.8	22,480.3	28,669.8	34,307.9	Total investments	9,029.6	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	(1,448.1)	(1,798.5)	(1,545.0)	(1,420.7)	Total assets	266,072.8	277,689.0	298,983.6	323,518.9
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	25,948.0	23,945.5	27,362.7	30,391.0
Others	2,668.5	2,134.3	2,762.8	3,068.5	Short-term debt	23,043.3	23,043.3	23,043.3	23,043.3
Pretax profits	35,431.2	22,816.1	29,887.5	35,955.7	Other current liabilities	16,273.1	16,273.1	16,273.1	16,273.1
Income tax	(9,785.1)	(6,195.6)	(8,069.6)	(9,708.0)	Total current liabilities	65,264.4	63,261.9	66,679.1	69,707.4
Minorities	(71.7)	56.4	74.0	89.0	Long-term debt	56,477.8	56,477.8	56,477.8	56,477.8
Net income pre-preferred dividends	25,574.4	16,676.9	21,891.9	26,336.7	Other long-term liabilities	9,009.7	9,009.7	9,009.7	9,009.7
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	65,487.5	65,487.5	65,487.5	65,487.5
Net income (pre-exceptionals)	25,574.4	16,676.9	21,891.9	26,336.7	Total liabilities	130,751.9	128,749.4	132,166.6	135,194.9
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	25,574.4	16,676.9	21,891.9	26,336.7	Total common equity	134,975.7	148,650.8	166,602.1	188,198.2
EPS (basic, pre-exception) (Rs)	56.90	36.92	48.47	58.31	Minority interest	345.2	288.8	214.9	125.9
EPS (basic, post-exception) (Rs)	56.90	36.92	48.47	58.31	Total liabilities & equity	266,072.8	277,689.0	298,983.6	323,518.9
EPS (diluted, post-exception) (Rs)	56.40	36.75	48.24	58.03	BVPS (Rs)	297.66	327.56	367.11	414.70
DPS (Rs)	7.45	6.61	8.68	10.45	Ratios	3/17	3/18E	3/19E	3/20E
Dividend payout ratio (%)	13.1	17.9	17.9	17.9	CROCI (%)	17.4	12.2	13.4	13.9
Free cash flow yield (%)	2.2	2.1	1.4	2.2	ROE (%)	20.9	11.8	13.9	14.8
Growth & margins (%)	3/17	3/18E	3/19E	3/20E	ROA (%)	10.4	6.1	7.6	8.5
Sales growth	23.0	(7.7)	14.3	11.1	ROACE (%)	14.8	9.4	11.2	12.3
EBITDA growth	17.0	(23.2)	23.2	17.1	Inventory days	248.9	261.6	253.1	256.6
EBIT growth	6.0	(34.3)	27.5	19.7	Receivables days	92.5	93.8	84.4	85.5
Net income growth	12.9	(34.8)	31.3	20.3	Payable days	174.7	176.3	164.0	171.7
EPS growth	13.2	(35.1)	31.3	20.3	Net debt/equity (%)	38.0	31.4	27.5	22.4
Gross margin	71.4	68.0	69.0	70.0	Interest cover - EBIT (X)	23.6	12.5	18.6	24.1
EBITDA margin	24.8	20.7	22.3	23.5	Valuation	3/17	3/18E	3/19E	3/20E
EBIT margin	19.6	13.9	15.6	16.8	P/E (analyst) (X)	26.9	27.1	20.6	17.1
Cash flow statement (Rs mn)	3/17	3/18E	3/19E	3/20E	P/B (X)	5.1	3.0	2.7	2.4
Net income pre-preferred dividends	25,574.4	16,676.9	21,891.9	26,336.7	EV/EBITDA (X)	16.9	14.9	12.1	10.2
D&A add-back	9,122.3	10,811.7	12,340.3	13,706.0	EV/GCI (X)	3.1	1.9	1.7	1.5
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	0.5	0.7	0.9	1.0
Net (inc)/dec working capital	3,357.5	135.8	(6,227.4)	(5,110.8)					
Other operating cash flow	(6,763.6)	(4,397.1)	(6,524.6)	(8,287.3)					
Cash flow from operations	41,147.4	29,366.6	29,475.9	36,263.6					
Capital expenditures	(26,367.9)	(20,000.0)	(23,000.0)	(26,450.0)					
Acquisitions	(3,426.6)	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	4,507.7	0.0	0.0	0.0					
Cash flow from investments	(25,286.8)	(20,000.0)	(23,000.0)	(26,450.0)					
Dividends paid (common & pref)	(3,377.6)	(3,001.8)	(3,940.5)	(4,740.6)					
Inc/(dec) in debt	9,478.9	0.0	0.0	0.0					
Common stock issuance (repurchase)	2.0	0.0	0.0	0.0					
Other financing cash flows	(1,771.5)	(1,798.5)	(1,545.0)	(1,420.7)					
Cash flow from financing	4,331.8	(4,800.3)	(5,485.6)	(6,161.3)					
Total cash flow	20,192.4	4,566.2	990.3	3,652.3					

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

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Exhibit 1: Lupin's Q1 results missed expectations driven by weakness in their US business

Rs mn unless stated	1Q17	4Q17	1Q18	1Q18E	vs Gse	yoy gr	qoq gr
Sales (incl. other operating income)	44,394	42,533	38,696	45,248	-14%	-13%	-9%
YoY (%)	40.9%	1.7%	-12.8%	1.9%			
Cost of goods sold	(12,719)	(11,851)	(12,326)	(13,670)	-10%	-3%	4%
CoGS as a % of sales	28.7%	27.9%	31.9%	30.2%			
Gross Margin	71.3%	72.1%	68.1%	69.8%	-164bps	-320 bps	-399 bps
R&D expenses	(4,994)	(6,709)	(4,999)	(5,803)	-14%	0%	-25%
R&D exp. as a % of sales	11.0%	13.3%	12.7%	12.7%			
EBITDA	13,080	7,814	7,684	10,209	-25%	-41%	-2%
EBITDA margin	29.5%	18.4%	19.9%	22.6%	-270bps	-961 bps	149 bps
EBITDA yoy growth	60.2%	-42.9%	-41.3%	-22.0%			
EBITDA margin as stated by company	32.2%	19.9%	21.0%	24.5%	-353bps	-1128 bps	106 bps
Sales base for EBITDA	43,136	41,619	38,068	44,448			
EBITDA as stated by company	13,907	8,283	7,981	10,887	-27%	-43%	-4%
Net Income	8,819	3,802	3,581	5,802	-38%	-59%	-6%
Net Margin	19.9%	8.9%	9.3%	12.8%	-357bps	-1061 bps	31 bps
NI yoy growth	68.0%	-52.9%	-59.4%	-34.2%			
Split by segment / geography							
Formulations Sales	40,453	38,804	35,275	41,452	-15%	-13%	-9%
North America (incl Gavis)	21,886	19,007	16,018	18,309	-13%	-27%	-16%
EMEA	2,194	3,012	2,259	2,413	-6%	3%	-25%
India	9,499	8,788	9,324	9,784	-5%	-2%	6%
APAC	5,416	6,118	5,989	7,149	-16%	11%	-2%
LATAM + ROW	1,458	1,879	1,685	1,531	10%	16%	-10%
API	2,966	2,815	2,793	2,996	-7%	-6%	-1%

Source: Company data, Goldman Sachs Global Investment Research.

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Reg AC

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