

### gGlumetza fall impacts Q1FY18

## Quick Note

**Fig. 1: Quarterly results highlights**

Above or below	Numbers were below our estimates at the revenue growth, EBITDA and PAT levels by 6%/18%/26%, respectively.
What to make of it	Erosion in gGlumetza q-q was sharper than our expectation. US revenues declined by USD38mn q-q. Lower contribution from this high margin product led to a miss at the EBITDA level. Q1 was also impacted by GST-related discounts and channel disruptions.
Key numbers	US sales USD238mn, India growth at -1.5%; EBITDA margin at 19.9%.
What next	Earning trajectory will be determined by new product approvals in the US. Although LPC continues to gain approvals, its lack of high value launches is likely to adversely impact near-term earnings. We look forward to management's commentary on product specific opportunities and progress on inhalers and complex injectable development.

Source: Nomura Research

### Key Highlights

- US revenues at USD238mn declined USD38mn q-q, sharper than our expectations. Between Q3FY17 (when contribution from gFortamet and gGlumetza peaked) and Q1FY18, quarterly revenues are down USD78mn. This decline is despite a material contribution from gMinastrin 24Fe, where Lupin currently enjoys exclusivity.
- India revenues fell 1.8% y-y on channel de-stocking ahead of the implementation of GST. Revenue growth was better than our forecast (-7%).
- In the ROW market, there was slowdown in the Philippines on account of lower tender business. Growth in South Africa was also muted in constant currency terms at 2% y-y. Constant currency growth in Brazil and Mexico were at 16% and 1%, respectively.
- In Japan, constant currency growth of 25% was driven by the acquisition of the Shionogi portfolio.
- Gross margin at 67.6% or 90bps decline q-q. The impact is due to GST-related discounting which was at INR700-800mn for Q1.
- R&D spend was at the same level as in Q1FY17 at INR5bn. The company filed one ANDA during the Q1.
- EBITA margin declined 940bps y-y to 19.9%. The discounts offered and trade disruptions would have impacted margins by ~150bps.
- Operating working capital surprisingly increased by INR5bn q-q to INR54bn despite INR3.6bn decline in revenues q-q.

### Global Markets Research

3 August 2017

**Rating**  
Remains **Buy**

**Target Price**  
Remains **INR 1491**

**Closing price**  
2 August 2017 **INR 1035**

### Research analysts

#### India Pharmaceuticals

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Fig. 2: Revenue split and P&amp;L

Revenue split (INR m)	1QFY17	4QFY17	1QFY18	%Chg (Y-Y)	%Chg (Q-Q)	1QFY18 Nom ests	vs Nom ests (%)
<b>Formulations</b>	<b>40,452</b>	<b>38,804</b>	<b>35,275</b>	<b>-12.8%</b>	<b>-9.1%</b>	<b>37,517</b>	<b>-6.0%</b>
US	21,886	19,007	16,018	-26.8%	-15.7%	18,298	-12.5%
India	9,499	8,788	9,324	-1.8%	6.1%	8,834	5.5%
Japan	4,258	4,680	4,981	17.0%	6.4%	4,329	15.1%
RoW	4,809	6,329	4,952	3.0%	-21.8%	6,056	-18.2%
<b>API</b>	<b>2,966</b>	<b>2,815</b>	<b>2,793</b>	<b>-5.8%</b>	<b>-0.8%</b>	<b>2,800</b>	<b>-0.2%</b>
<b>Total Sales</b>	<b>43,418</b>	<b>41,619</b>	<b>38,068</b>	<b>-12.3%</b>	<b>-8.5%</b>	<b>40,317</b>	<b>-5.6%</b>

P&L (INR m)	1QFY17	4QFY17	1QFY18	%Chg (Y-Y)	%Chg (Q-Q)	1QFY18 Nom ests	vs Nom ests (%)
Net Sales	43,418	41,619	38,068	-12.3%	-8.5%	40,317	-5.6%
Other Operating Income	1,259	914	628	-50.1%	-31.4%	900	-30.3%
<b>Total Revenue</b>	<b>44,677</b>	<b>42,533</b>	<b>38,696</b>	<b>-13.4%</b>	<b>-9.0%</b>	<b>41,217</b>	<b>-6.1%</b>
Material Cost	12,719	11,851	12,326	-3.1%	4.0%	11,692	5.4%
Staff Cost	7,059	7,078	7,180	1.7%	1.4%	7,412	-3.1%
Other Expense	11,818	15,791	11,506	-2.6%	-27.1%	12,763	-9.8%
<b>EBITDA</b>	<b>13,080</b>	<b>7,814</b>	<b>7,684</b>	<b>-41.3%</b>	<b>-1.7%</b>	<b>9,350</b>	<b>-17.8%</b>
Other Income	826	453	320	-61.3%	-29.5%	300	6.6%
Interest Expense	320	406	439	37.3%	8.1%	450	-2.4%
Depreciation	2,027	2,674	2,605	28.5%	-2.6%	2,700	-3.5%
<b>PBT</b>	<b>11,560</b>	<b>5,187</b>	<b>4,959</b>	<b>-57.1%</b>	<b>-4.4%</b>	<b>6,500</b>	<b>-23.7%</b>
Tax	2,734	1,367	1,368	-50.0%	0.1%	1,625	-15.8%
<b>Net Profit</b>	<b>8,826</b>	<b>3,820</b>	<b>3,591</b>	<b>-59.3%</b>	<b>-6.0%</b>	<b>4,875</b>	<b>-26.3%</b>
Minority interest	6	34	(12)			10.00	
Share of Profit from JVs	0	16	(23)			20.00	
<b>Net profit after MI</b>	<b>8,820</b>	<b>3,802</b>	<b>3,581</b>	<b>-59.4%</b>	<b>-5.8%</b>	<b>4,885</b>	<b>-26.7%</b>
				<b>bps Chg (Y-Y)</b>	<b>bps Chg (Q-Q)</b>		<b>vs Nom ests</b>
Gross margin (%)	70.7%	71.5%	67.6%	(308)	(390)	71.0%	(338)
EBITDA margin (%)	29.3%	18.4%	19.9%	(942)	149	22.7%	(283)
Tax rate (%)	23.7%	26.4%	27.6%	393	123	25.0%	259

Source: Company, Nomura Research

We attribute 19x March 2019F EPS to arrive at our target price of INR1,491.

# Appendix A-1

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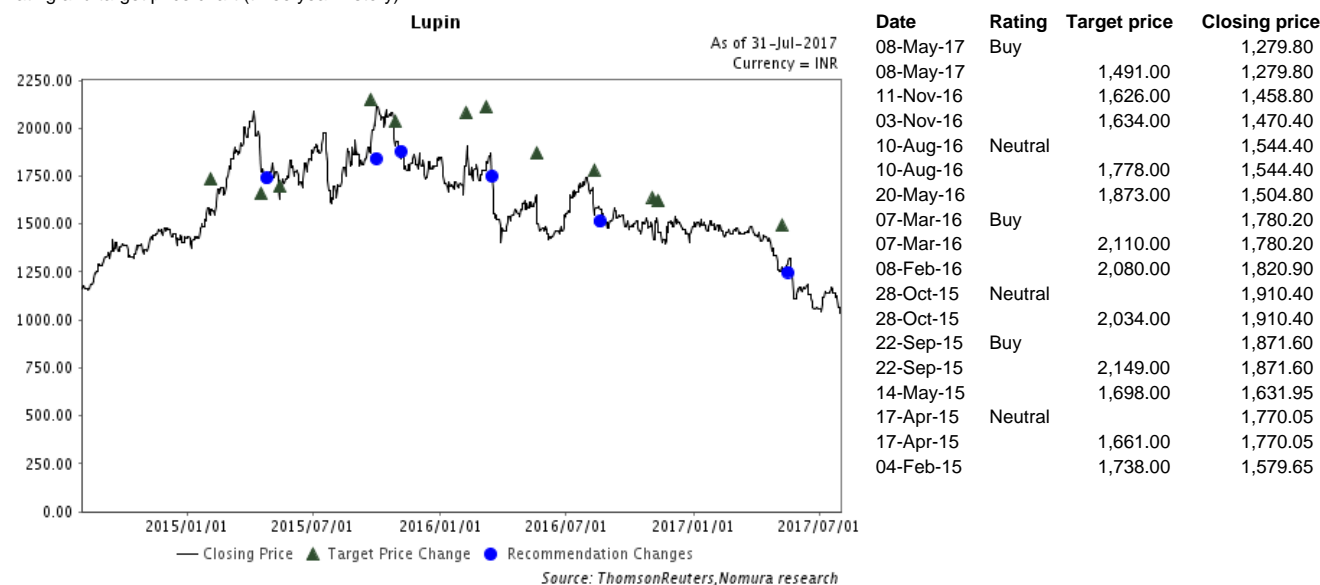
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Lupin	LPC IN	INR 1035	02-Aug-2017	Buy	N/A	

### Lupin (LPC IN)

INR 1035 (02-Aug-2017) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We attribute 19x March 2019F EPS to arrive at our target price of INR1,491. The benchmark index for this stock is MSCI India.

**Risks that may impede the achievement of the target price** Key risks: 1) delay in approval of key products; 2) adverse currency movement; and 3) adverse regulatory developments.

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