

Rating  
**Hold**Asia  
IndiaHealth Care  
Pharmaceuticals /  
BiotechnologyCompany  
**Lupin**Reuters  
LUPN.NSBloomberg  
LPC INExchange  
NSITicker  
LUPNDate  
3 August 2017

## Forecast Change

Price at 2 Aug 2017 (INR)	1,034.95
Price target - 12mth (INR)	945.00
52-week range (INR)	1,693.30 - 1,017.90
Bombay Stock Exchange (BSE 30)	32,477

## Valuation &amp; Risks

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## Key changes

Price target	1,268.00 to 945.00	↓	-25.5%
Sales (FYE)	170,461 to 158,233	↓	-7.2%
Op prof margin (FYE)	16.6 to 13.6	↓	-18.0%
Net profit (FYE)	25,380.6 to 18,174.4	↓	-28.4%

Source: Deutsche Bank

## Price/price relative



Performance (%)	1m	3m	12m
Absolute	-2.3	-20.6	-39.2
Bombay Stock Exchange (BSE 30)	5.0	8.5	16.1

Source: Deutsche Bank

## Key indicators (FY1)

ROE (%)	12.7
Net debt/equity (%)	31.0
Book value/share (INR)	333.54
Price/book (x)	3.1
Net interest cover (x)	14.5
Operating profit margin (%)	13.6

Source: Deutsche Bank

## Pinning hopes on US recovery

## Disappointing 1Q, EBITDA margin guidance lowered despite lower R&amp;D

Lupin's 1Q sales declined by 12% YoY, primarily led by a muted performance in the US (down 14% QoQ) and India (down 2% YoY). Gross margins declined to 67.6% (down 309bps YoY, down 390bps QoQ) on account of higher price erosion in gGlumetza, INR appreciation and weak growth in India (GST-led). The contribution from key products - gGlumetza and gMinastrin (exclusivity ends in Q2FY18) continues to decline. We expect the US business to remain under pressure, as new launches will be inadequate to match the fall in gGlumetza and gMinastrin contribution. The company has lowered its EBITDA margin guidance to 21-23% from 26-28% in FY18, despite guiding for a reduction in R&D by 10% on YoY (c.1.3% of sales). Consequently, we lower our sales and EPS estimates by 7%/9% and 28%/26% for FY18/19, to factor in muted sales growth in the US and subdued profitability. We lower our target price to INR 945 (from INR 1,268); maintaining Hold.

## Q1 Snapshot

Revenues were INR 38bn (down 12.3% YoY, down 8.5% QoQ) led by weak growth in India (GST impact of INR 1.5bn) and US markets' offset. Lower gross margin, at 67.6% (down 309bps YoY, down 390bps QoQ), coupled with higher staff cost (+250bps YoY, 185bps QoQ), led to lower EBITDA margin (18.5%, down 887bps YoY, +196bps QoQ). R&D expenditure came in lower at 13.1% of sales vs. 16.1% in Q4FY17 and 13.5% in FY17.

## Key call highlights

a) pending ANDAs: 151, FTF: 44, Q1 Filing: 1; expects to file 35-40 ANDAs in FY18; b) base business grew by 11% QoQ (excluding gGlumetza and gFortamet), expects single-digit price erosion in the base business; c) US launches - gTamiflu, Levothyroxine, gFosrenol - FY18, gRanexa, gMoxeza, Minocycline (FTFs) in FY19; gLialda, gRenvela - launch in FY19; and d) awaiting EIR for Goa and Pithampur Unit 2 - have not seen any approvals from these facilities.

## Maintaining Hold, risks

We lower our target price to INR 945 based on a target PER of 21x on FY19E recurring EPS. Key downside risks: a delay in resolving Goa and Pithampur unit 2 483s, lower-than-expected sales growth in the Indian market, increased pricing pressure in US generics and delays in approvals in the US. Key upside risks: higher approvals in US and higher-than-expected market growth in the India market.

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#### Forecasts and ratios

Year End Mar 31	2016A	2017A	2018E	2019E	2020E
Sales (INRm)	136,816.0	171,198.0	158,232.6	165,617.3	176,674.1
EBITDA (INRm)	32,807.0	41,186.1	31,366.1	34,152.1	38,354.4
Reported NPAT (INRm)	22,706.1	25,574.6	18,174.4	20,324.2	23,355.7
Reported EPS FD(INR)	50.27	56.62	40.23	44.99	51.70
DB EPS FD(INR)	51.02	56.62	40.23	44.99	51.70
OLD DB EPS FD(INR)	51.02	56.62	56.19	60.40	-
% Change	0.0%	0.0%	-28.4%	-25.5%	-
DB EPS growth (%)	-8.9	11.0	-28.9	11.8	14.9
PER (x)	35.4	26.8	25.7	23.0	20.0
EV/EBITDA (x)	26.8	17.9	15.7	14.1	12.2
DPS (net) (INR)	7.48	7.48	5.50	6.00	7.00
Yield (net) (%)	0.4	0.5	0.5	0.6	0.7

Source: Deutsche Bank estimates, company data



### 1QFY18 results review

- Revenues were INR 38bn (down 12.3% YoY, down 8.5% QoQ), led by weak growth in India (GST impact of INR 1.5bn) and US markets (down 27% YoY, down 16% QoQ)
- Gross margin came in at 67.6% (down 289bps YoY, down 390bps QoQ) led by pricing pressure in gGlumetza, INR appreciation (INR 620mn impact)
- Staff cost increased to 18.9% (+250 bps YoY, 185bps QoQ)
- R&D expenditure was 13.1% of sales vs. 16.1% in Q4FY17 and 13.5% in FY17
- EBITDA margin came at 18.5% (down 887bps YoY, +196bps QoQ), led by lower gross margin, higher staff cost offset by lower R&D
- The tax rate was in line at 27.9% (27.2% in FY17)

Figure 1: Q1FY18 P&L - weak US led to overall miss

(INR mn)	Jun-17	Jun-16	% Chg	Mar-17	% Chg
<b>Net Sales</b>	<b>38,068</b>	<b>43,418</b>	<b>(12.3)</b>	<b>41,619</b>	<b>(8.5)</b>
EBITDA	7,056	11,849	(40.5)	6,900	2.3
Other income	947	2,085	(54.6)	1,368	(30.7)
<b>PBIDT</b>	<b>8,003</b>	<b>13,934</b>	<b>(42.6)</b>	<b>8,267</b>	<b>(3.2)</b>
Depreciation	2,605	2,027	28.5	2,674	(2.6)
Interest	439	347	26.5	406	8.1
<b>PBT</b>	<b>4,959</b>	<b>11,560</b>	<b>(57.1)</b>	<b>5,187</b>	<b>(4.4)</b>
Tax	1,368	2,734	(50.0)	1,367	0.1
Minority	11	6	71.0	18	(40.4)
<b>Adjusted PAT</b>	<b>3,581</b>	<b>8,820</b>	<b>(59.4)</b>	<b>3,802</b>	<b>(5.8)</b>
EBITDA margins (%)	18.5	27.3	-876bps	16.6	196bps

Source: Deutsche Bank, company data, \*Q4FY17 includes INR 1,555.8m of one-off expense above EBITDA

### Region-wise performance for the quarter

- India reported a decline of c2% in Q1 led by GST-led channel de-stocking. Expects some recovery led by channel re-stocking in Q2. Guides for 15% growth in FY18.
- US: Revenues of USD 236m vs. USD 276m in Q4FY17 were largely impacted by higher price erosion in gGlumetza. Base business grew by 11% QoQ (excluding gGlumetza and gFortamet)
- Japan: Revenues grew by 8% YoY in yen terms. However, ex Shionogi, revenues declined YoY on account of change in co pay policy in Japan.
- South Africa: Sales grew 2% YoY in constant currency terms. Lupin is the fourth-largest generic company in South Africa
- LatAm: Sales grew 16% YoY. Mexico and Brazil grew 1% and 3%, respectively, in local currency terms.

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Figure 2: Revenue mix for Q1FY18

INR mn	Jun-17	Jun-16	% Chg	Mar-17	% Chg
India	9,324	9,499	(1.8)	8,788	6.1
US	16,018	21,886	(26.8)	19,007	(15.7)
APAC	5,989	5,416	10.6	6,118	(2.1)
EMEA	2,259	2,194	3.0	3,012	(25.0)
LatAm	1,269	1,089	16.5	1,269	0.0
ROW	416	368	13.1	610	(31.8)
<b>Formulations</b>	<b>35,275</b>	<b>40,452</b>	<b>(12.8)</b>	<b>38,804</b>	<b>(9.1)</b>
<b>API</b>	<b>2,793</b>	<b>2,966</b>	<b>(5.8)</b>	<b>2,815</b>	<b>(0.8)</b>
<b>Total</b>	<b>38,068</b>	<b>43,418</b>	<b>(12.3)</b>	<b>41,619</b>	<b>(8.5)</b>

Source: Deutsche Bank, company data

### Earnings cut

We cut sales and earnings by 7%/9% and 28%/26% for FY18/19 to factor in muted sales growth in the US, led by higher price erosion (increased competition and channel consolidation) and lower EBITDA margin assumptions. The company has reduced its EBITDA margin guidance from c26-28% to c21-23% for FY18. Consequently, we lower our target price to INR 945 (from INR 1,268) based on target PER of 21x on FY19E recurring EPS. Maintaining Hold.

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*The author of this report wishes to acknowledge the contribution made by Bansi Vora, CFA an employee of CRISIL Global Research & Analytics, a division of CRISIL Limited, a third-party provider of offshore research support services to Deutsche Bank*



# Appendix 1

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Company	Ticker	Recent price*	Disclosure
Lupin	LUPN.NS	1033.05 (INR) 2 Aug 2017	14

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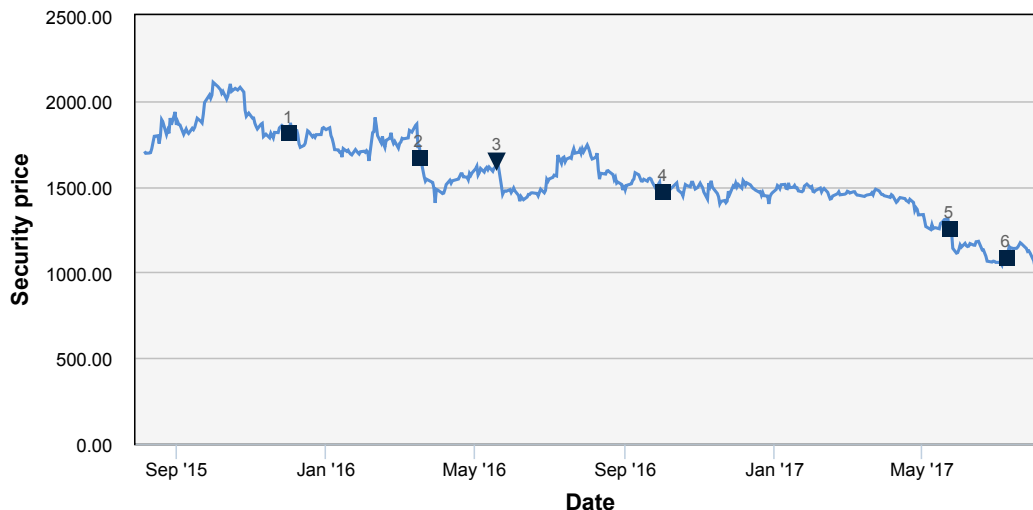
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**Historical recommendations and target price. Lupin (LUPN.NS)**

(as of 08/02/2017)



**Current Recommendations**

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

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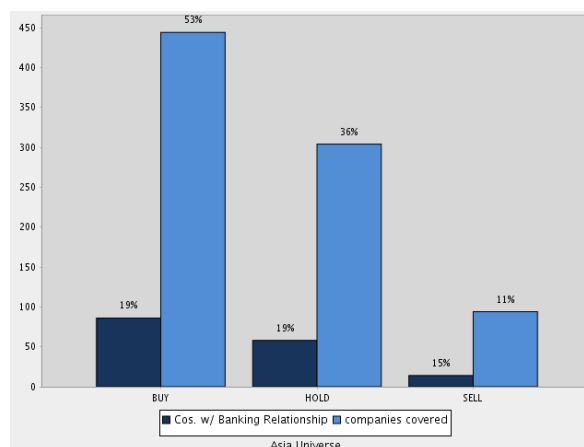
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