

BSE SENSEX 32,238  
S&P CNX 10,014

**CMP: INR995 TP: INR1,125(+13%)**

**Buy**

Motilal Oswal values your support in the Asiamoney Brokers Poll 2017 for India Research, Sales and Trading team. We request your ballot.



|                       |             |
|-----------------------|-------------|
| Bloomberg             | LPC IN      |
| Equity Shares (m)     | 452         |
| M.Cap.(INRb)/(USD b)  | 554.5 / 8.6 |
| 52-Week Range (INR)   | 1734 / 986  |
| 1, 6, 12 Rel. Per (%) | -9/-47/-57  |
| Avg Val, INRm         | 1749        |
| Free float (%)        | 53.3        |

#### Financials & Valuations (INR b)

| Y/E Mar     | 2017  | 2018E | 2019E |
|-------------|-------|-------|-------|
| Net Sales   | 174.9 | 169.1 | 198.6 |
| EBITDA      | 44.9  | 36.2  | 46.5  |
| PAT         | 25.2  | 18.7  | 25.4  |
| EPS (INR)   | 55.8  | 41.4  | 56.3  |
| Gr. (%)     | 10.8  | -25.8 | 36.0  |
| BV/Sh (INR) | 298.9 | 329.8 | 375.5 |
| RoE (%)     | 20.6  | 13.2  | 16.0  |
| RoCE (%)    | 13.3  | 8.8   | 10.8  |
| P/E (x)     | 17.8  | 24.0  | 17.7  |
| P/BV (x)    | 3.3   | 3.0   | 2.6   |

Estimate change 

TP change 

Rating change 

#### Recovery expected only from 2H; stock already factors in most concerns

- Lupin's (LPC) 1QFY18 revenue declined ~13% YoY to INR38.7b (1.4% miss), primarily due to weak US business (-27% YoY to USD238m) on the back of lower Glumetza sales. EBITDA declined 41% YoY to INR7.7b, with margins coming in lowest in 16 quarters at 20%.
- **Guidance lowered for FY18:** LPC guided for revenue decline of low-single-digit in FY18 v/s earlier guidance of 7-8% growth. EBITDA margin guidance was lowered from 25-26% to 21-23% due to INR appreciation, competition in the Metformin portfolio and high-single-digit price erosion in the US.
- **US business – bottom is still a quarter away:** Large part of the decline in US sales (USD238m from USD276m in 4Q) was because of lower Glumetza sales. US business grew 9% QoQ without Glumetza, and 11% QoQ without Fortamet and Glumetza. The company expects US business to bottom in 2Q (as Glumetza sales are expected to come down further). Few key approvals expected in FY18 are Tamiflu, Lanthanum, Levothyroxine, Hydrocodone APAP (2Q), Potassium Chloride (2Q) and Oxycodone APAP. Bigger approvals like Toprol EL, Renexa and Renvela are expected in FY19.
- **Domestic business – expect recovery in coming quarters:** India business (down ~2% YoY to INR9.3b) performed relatively better than peers. Without GST impact, EBITDA margin would have improved by ~200bp. LPC expects industry to grow at ~8% YoY. The company is expected to outperform industry growth by 20-30%.
- **Recovery expected only from 2H; stock already factors in most concerns:** Although pricing pressure in base business and new competition in Metformin portfolio will keep exerting pressure on the US business, we believe that sales will bottom by 2QFY18. Recent fall in the stock price already factors in these concerns. Resolution of Goa and Indore plant inspection in the next two months, coupled with key upcoming launches, will help drive growth from 2H. We maintain **Buy** with TP of INR1,125 @ 20x FY19E PER (v/s INR1,450 @ 20x FY19E PER). We cut FY18E/19E EPS by 29%/22% as we build in the impact of competition in key products in the US.

#### Quarterly Performance (Consolidated)

| Y/E March         | FY17   |        |        |        | FY18E  |        |        |        | FY17    | FY18E   | % Var  |       |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|--------|-------|
|                   | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2QE    | 3QE    | 4QE    | 1QE     |         |        |       |
| Net Sales         | 44,677 | 42,905 | 44,828 | 42,533 | 38,696 | 41,366 | 43,212 | 45,835 | 174,943 | 169,110 | 44,036 | -12.1 |
| YoY Change (%)    | 41.6   | 28.9   | 26.1   | 2.0    | -13.4  | -3.6   | -3.6   | 7.8    | 23.1    | -3.3    | -1.4   |       |
| Total Expenditure | 31,596 | 32,624 | 32,670 | 31,481 | 31,012 | 32,473 | 33,706 | 35,730 | 130,012 | 132,920 | 33,335 |       |
| EBITDA            | 13,080 | 10,281 | 12,158 | 11,052 | 7,684  | 8,894  | 9,507  | 10,105 | 44,931  | 36,190  | 10,701 | -28.2 |
| Margins (%)       | 29.3   | 24.0   | 27.1   | 26.0   | 19.9   | 21.5   | 22.0   | 22.0   | 25.7    | 21.4    | 24.3   |       |
| Depreciation      | 2,027  | 2,112  | 2,309  | 2,674  | 2,605  | 2,610  | 2,610  | 2,626  | 9,122   | 10,451  | 2,600  |       |
| Interest          | 320    | 263    | 459    | 406    | 439    | 410    | 425    | 415    | 1,525   | 1,689   | 350    |       |
| Other Income      | 826    | 271    | 1,036  | 453    | 320    | 400    | 350    | 430    | 1,065   | 1,500   | 400    |       |
| PBT               | 11,560 | 8,177  | 10,426 | 8,425  | 4,959  | 6,274  | 6,822  | 7,495  | 35,349  | 25,550  | 8,151  | -39.2 |
| Tax               | 2,734  | 1,589  | 4,095  | 1,367  | 1,368  | 1,663  | 1,808  | 1,932  | 9,785   | 6,771   | 2,160  |       |
| Rate (%)          | 23.7   | 19.4   | 39.3   | 16.2   | 27.6   | 26.5   | 26.5   | 25.8   | 27.7    | 26.5    | 26.5   |       |
| Minority Interest | 6      | 8      | 24     | -16    | -12    | 20     | 20     | 57     | 72      | 85      | 20     |       |
| Recurring PAT     | 8,820  | 6,622  | 6,331  | 6,069  | 3,581  | 4,591  | 4,994  | 5,505  | 25,492  | 18,694  | 5,971  | -40.0 |
| YoY Change (%)    | 55.1   | 58.0   | 19.5   | -18.9  | -59.4  | -30.2  | -21.1  | -9.3   | 12.3    | -26.7   | -32.3  |       |
| Margins (%)       | 19.7   | 15.4   | 14.1   | 14.3   | 9.3    | 11.1   | 11.6   | 12.0   | 14.6    | 11.1    | 13.6   |       |

E: MOSL estimates; Quarterly nos will not add up to full year nos due to restatement of past quarters

Kumar Saurabh-Research analyst (Kumar.Saurabh@MotilalOswal.com); +91 22 6129 1519

Ankeet Pandya-Research analyst (Ankeet.Pandya@MotilalOswal.com)

**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

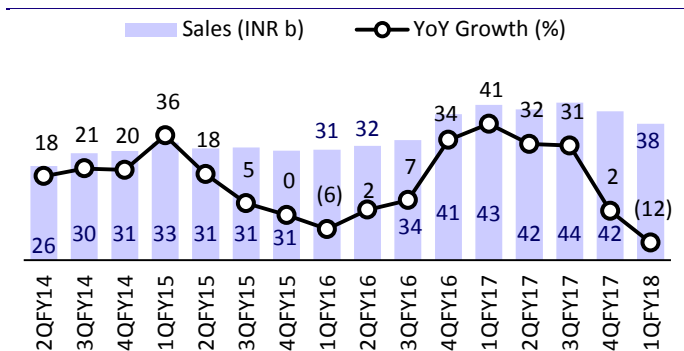
Motilal Oswal research is available on [www.motilalosal.com/Institutional-Equities](http://www.motilalosal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Pressure on key products and GST implementation impacted revenues**

Lupin's 1QFY18 net revenues declined 13.4% YoY to INR48.7b (~12% below estimate). Company's US business saw massive decline in revenues of ~27% YoY to INR16b, but its India business (although down ~2% YoY to INR9.3b) performed better than peers. Apart from US and India, LPC's other geographies saw modest growth, with Japan revenues increasing 11.6%, South Africa up by 11.7%, Europe business posting flattish growth of 0.6% and RoW market increasing 11.7%.

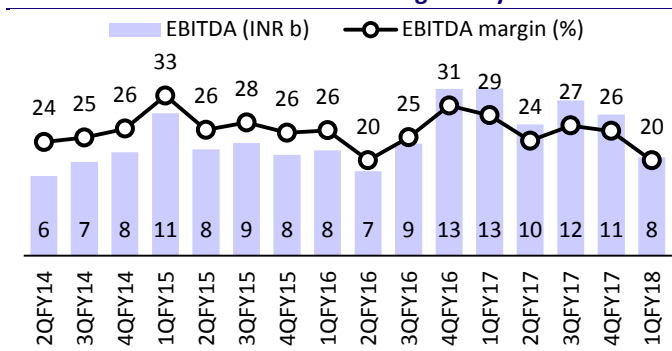
US sales stood at USD238m (v/s USD276m in 4Q). Decline in US sales was driven by pricing pressure in Glumetza. Adjusting for Glumetza, US business grew 9% QoQ, and adjusted for Glumetza and Fortamet, it grew 11% QoQ. In India business, sales were impacted by INR1.5b due to implementation of GST, which management expects to improve 2Q onward.

**Exhibit 1: Revenues declined 2% YoY**



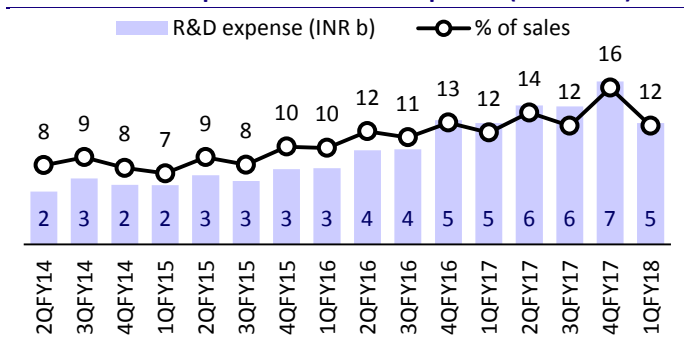
Source: Company, MOSL

**Exhibit 2: EBITDA declined due to regulatory issues**



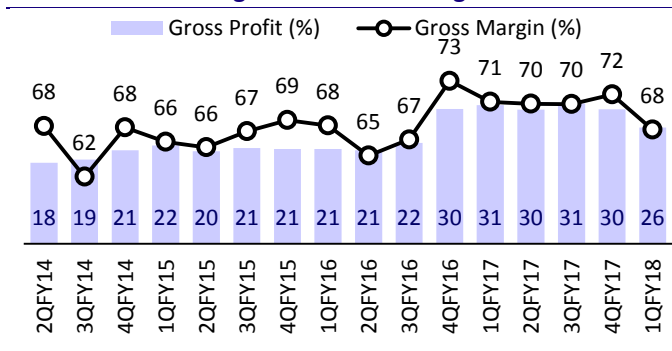
Source: Company, MOSL

**Exhibit 3: R&D expense increased 70bps YoY (% of sales)**



Source: Company, MOSL

**Exhibit 4: Gross margins to be in the range of 68-70% in FY18**



Source: Company, MOSL

**US Generic business - (42% of sales)**

- US business declined 27%YoY to INR16b, mainly due to pricing pressure in Glumetza.
- Generic business from Somerset grew 23% QoQ and Methergen business grew 48% QoQ.
- We expect business sales to decline 15% YoY to USD1b in FY18E. We expect US business to remain under pressure in near term due to new competition in metformin portfolio, deferral of key launches, pricing pressure in base business due to further channel consolidation.
- The Company launched 4 products in the US in 1QFY18. Cumulatively LPC is marketing 142 products in US market, as of end 1QFY18. LPC is the market leader in 43 products and amongst top 3 in 91 of its marketed products. Copany

has received 217 approvals till date and has 45 FTF filings including 23 exclusive FTF. Going forward, LPC expects to launch 30 generic products in FY18E.

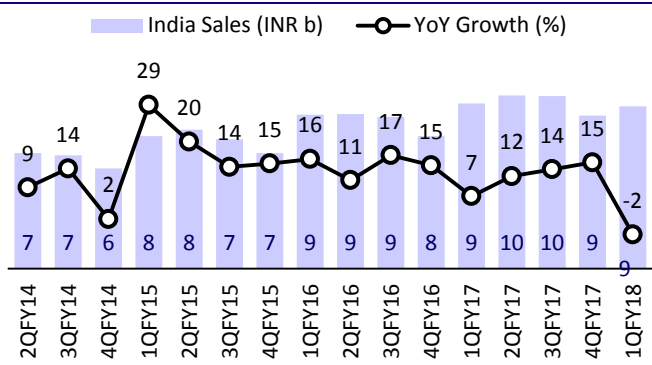
**India business – (~25% of sales)**

- In 1Q, domestic business exhibited a muted performance declining ~2% YoY to INR9.3b.
- Adjusting for GST impact, EBITDA would have come in higher by ~200bps.
- Company expects industry to grow at ~8% YoY. Lupin is expected to outperform industry growth by 20-30%.

**Japan (~13% of sales)**

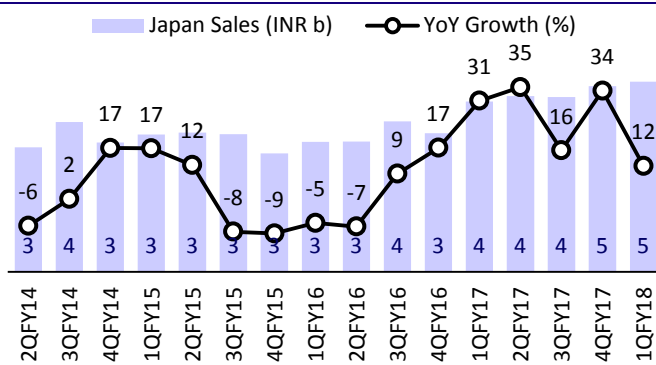
- Japanese business increased 25% YoY to JPY6.9b in constant currency. On back of growth in products acquired from Shionogi in 3Q FY17 and In-licensing agreement to market Quetiapine Fumarate ER tablets.

**Exhibit 5: Domestic biz declined due to GST implementation**



Source: Company, MOSL

**Exhibit 6: Japan sales grew ~12% YoY**



Source: Company, MOSL

**Highlights from concall**

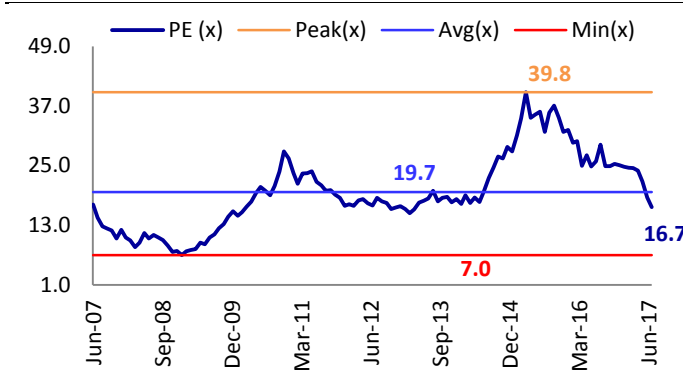
- Company saw single-digit price erosion in its US business. It expect US business to bottom in 2QFY18, although single-digit price erosion will be seen in Glumetza and Fortamet.
- Key approvals expected in Tamiflu, Lanthanum, Levothyroxine, Hydrocodone APAP (2Q), Potassium Chloride (2Q) and Oxycodone APAP. Bigger approvals like Toprol EL, Renexa, Renvela are expected in FY19.
- LPC expects Etanercept filing by FY18-end for Europe and Japan, and in FY19 for the US.
- Company has guided for 35-40 ANDA filings in FY18. With high number of approvals and launches going forward, US business is expected to post strong growth FY19 onward.
- With GST impact and US price erosion with channel consolidation, EBITDA margin is expected to be 21-23% in FY18.
- Company expects to launch soon, post successful Aurangabad inspection.
- Lupin’s R&D spend will be contained at ~INR5b/ quarter; annual guidance of INR20b v/s INR23b in FY17.
- 75% of APIs are consumed internally. Company is foraying into Oncology API segment.
- Company expects 14 FTFs in next five years.

**Valuation and view**

We expect US business to decline ~15% YoY in FY18 due to new competition in metformin portfolio, deferral of key launches, pricing pressure in base business due to further channel consolidation. EBITDA margin is expected to shrink to 21-23% in FY18 as it will be difficult to compensate for the loss of the high-margin US business.

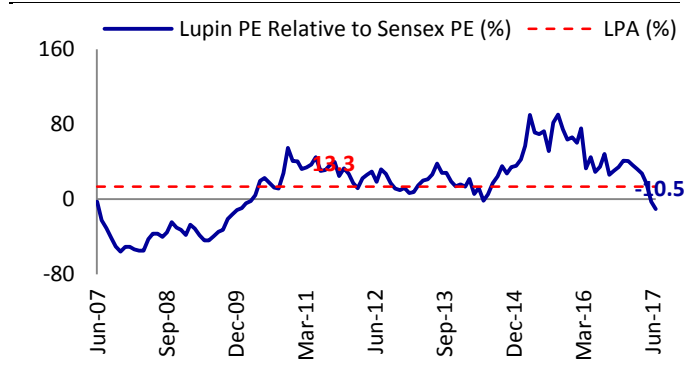
**Recovery expected only from 2H; stock already factors in most concerns:** Although pricing pressure in base business and new competition in Metformin portfolio will keep exerting pressure on the US business, we believe that sales will bottom by 2QFY18. Recent fall in the stock price already factors in these concerns. Resolution of Goa and Indore plant inspection in the next two months, coupled with key upcoming launches, will help drive growth from 2H. We maintain Buy with TP of INR1,125 @ 20x FY19E PER (v/s INR1,450 @ 20x FY19E PER). We cut FY18E/19E EPS by 29%/22% as we build in the impact of competition in key products in the US.

**Exhibit 7: P/E valuation band (10 years)**



Source: Company, MOSL

**Exhibit 8: Higher premium relative to Sensex**



Source: Company, MOSL

## Operating metrics

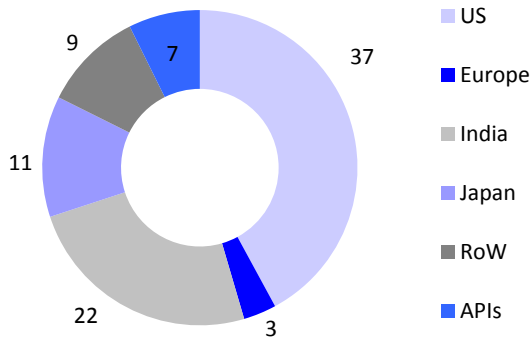
### Exhibit 9: Key operating metrics

|                           | 1QFY15      | 2QFY15      | 3QFY15      | 4QFY15      | 1QFY16       | 2QFY16      | 3QFY16      | 4QFY16      | 1QFY17      | 2QFY17      | 3QFY17      | 4QFY17      | 1QFY18        |
|---------------------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
| <b>Revenue Mix (%)</b>    |             |             |             |             |              |             |             |             |             |             |             |             |               |
| US                        | 48.9        | 40.8        | 44.7        | 45.1        | 38.7         | 36.1        | 41.8        | 53.5        | 50.4        | 47.4        | 49.4        | 45.7        | 42.1          |
| India                     | 23.2        | 25.6        | 23.7        | 21.7        | 28.8         | 27.8        | 25.9        | 18.6        | 21.9        | 23.6        | 22.5        | 21.1        | 24.5          |
| Japan                     | 10.4        | 11.1        | 10.9        | 9.6         | 10.5         | 10.1        | 11.1        | 8.4         | 9.7         | 10.4        | 9.9         | 11.1        | 12.4          |
| Europe                    | 2.1         | 2.8         | 2.6         | 2.9         | 2.8          | 3.8         | 3.0         | 3.1         | 2.9         | 2.6         | 3.2         | 3.8         | 3.4           |
| ROW                       | 6.5         | 9.4         | 9.5         | 10.5        | 8.6          | 11.7        | 9.8         | 9.5         | 8.2         | 9.0         | 9.0         | 11.6        | 10.3          |
| APIs                      | 8.9         | 10.2        | 8.8         | 10.1        | 10.6         | 10.4        | 8.2         | 6.9         | 6.8         | 6.9         | 6.1         | 6.8         | 7.3           |
| <b>Revenue Growth (%)</b> | <b>35.7</b> | <b>18.4</b> | <b>5.4</b>  | <b>0.1</b>  | <b>(6.4)</b> | <b>2.4</b>  | <b>6.8</b>  | <b>34.0</b> | <b>41.2</b> | <b>31.9</b> | <b>30.5</b> | <b>1.2</b>  | <b>(12.8)</b> |
| US                        | 60.3        | 22.9        | 3.5         | (6.3)       | (25.8)       | (9.3)       | 0.0         | 58.7        | 83.8        | 73.1        | 54.9        | (13.1)      | (26.8)        |
| India                     | 29.2        | 20.4        | 14.4        | 15.2        | 16.2         | 11.2        | 17.1        | 14.7        | 7.3         | 12.1        | 13.8        | 15.4        | (1.8)         |
| Japan                     | 16.8        | 11.8        | (8.0)       | (8.5)       | (5.4)        | (6.5)       | 9.3         | 17.0        | 31.0        | 35.1        | 16.2        | 34.0        | 11.6          |
| Europe                    | (29.3)      | 18.2        | 21.8        | 12.1        | 24.1         | 39.3        | 25.5        | 40.7        | 49.5        | (8.6)       | 39.3        | 26.1        | 0.6           |
| ROW                       | 8.8         | 11.7        | 24.0        | 2.8         | 23.5         | 26.4        | 10.9        | 21.1        | 34.6        | 1.4         | 19.3        | 23.7        | 10.3          |
| APIs                      | 20.4        | 11.2        | (7.2)       | 5.5         | 11.4         | 4.6         | 0.1         | (7.7)       | (8.9)       | (12.3)      | (2.8)       | (0.8)       | (5.8)         |
| <b>As % of sales</b>      | <b>67.8</b> | <b>75.1</b> | <b>73.0</b> | <b>74.9</b> | <b>75.7</b>  | <b>83.5</b> | <b>79.8</b> | <b>70.2</b> | <b>72.8</b> | <b>77.5</b> | <b>74.2</b> | <b>75.6</b> | <b>75.2</b>   |
| Raw material              | 33.7        | 34.3        | 32.5        | 31.3        | 31.9         | 35.2        | 33.4        | 27.0        | 29.3        | 29.5        | 29.5        | 28.5        | 28.9          |
| Staff cost                | 12.5        | 14.1        | 13.2        | 15.8        | 16.1         | 16.7        | 15.7        | 14.2        | 16.3        | 16.9        | 16.6        | 17.0        | 16.5          |
| R&D cost                  | 7.4         | 9.1         | 8.3         | 10.1        | 10.2         | 12.1        | 11.7        | 12.5        | 11.5        | 13.6        | 12.9        | 16.1        | 13.4          |
| Other expenses            | 14.1        | 17.6        | 18.9        | 17.7        | 17.4         | 19.5        | 18.9        | 16.5        | 15.7        | 17.5        | 15.1        | 14.0        | 16.4          |
| Tax Rate                  | 39.0        | 23.1        | 28.0        | 19.5        | 28.5         | 27.4        | 35.4        | 35.8        | 23.7        | 19.4        | 39.3        | 26.4        | 27.7          |
| <b>Margins (%)</b>        |             |             |             |             |              |             |             |             |             |             |             |             |               |
| <b>Gross Margins</b>      | <b>66.3</b> | <b>65.7</b> | <b>67.5</b> | <b>68.7</b> | <b>68.1</b>  | <b>64.8</b> | <b>66.6</b> | <b>73.0</b> | <b>70.7</b> | <b>70.5</b> | <b>70.5</b> | <b>71.5</b> | <b>71.1</b>   |
| EBITDA Margins            | 33.4        | 26.2        | 27.8        | 25.6        | 26.1         | 19.9        | 24.7        | 31.3        | 29.3        | 24.0        | 27.1        | 26.0        | 25.7          |
| EBIT Margins              | 31.5        | 24.0        | 27.2        | 22.9        | 25.9         | 18.9        | 24.8        | 29.2        | 27.4        | 20.0        | 24.7        | 21.2        | 21.3          |
| PAT margins               | 19.0        | 20.2        | 19.1        | 17.9        | 18.5         | 13.1        | 15.8        | 18.3        | 20.3        | 15.7        | 14.4        | 9.1         | 14.8          |

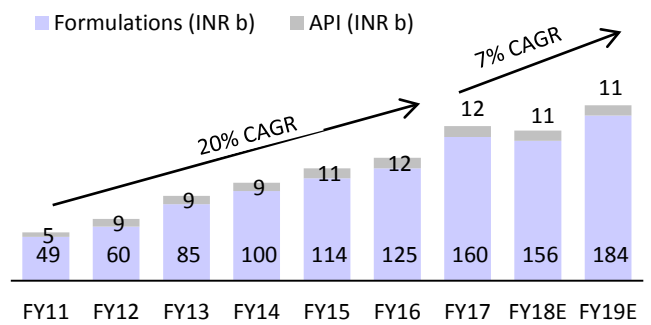
Source: Company; MOSL

## Story in charts

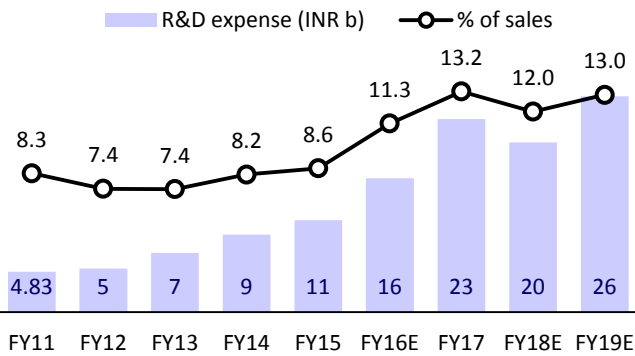
**Exhibit 10: Revenue mix in 1QFY18**



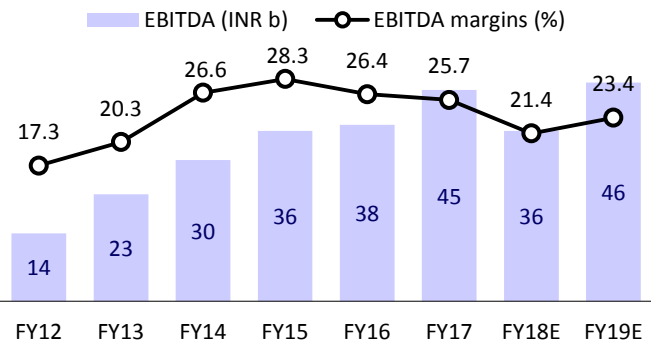
**Exhibit 11: Growth to slow down due to regulatory issues**



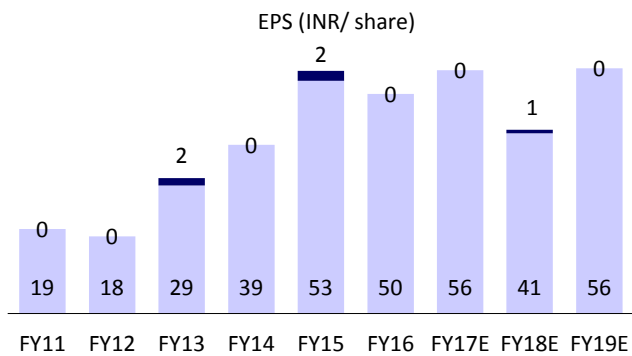
**Exhibit 12: R&D expense to be in the range of 12-13%**



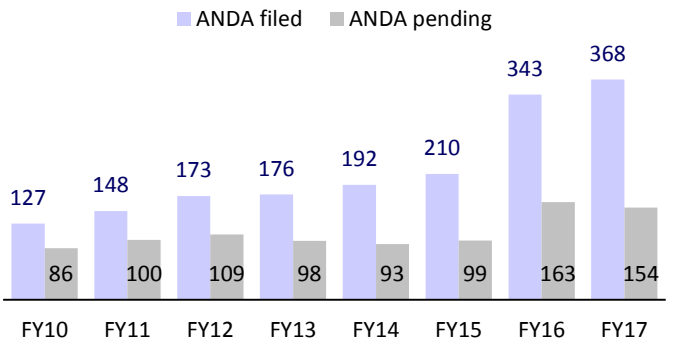
**Exhibit 13: Margins to remain under pressure due to pricing pressure**



**Exhibit 14: EPS to remain muted till FY19**



**Exhibit 15: Rich ANDA pipeline**



## Financials and Valuations

| Income Statement            |               |               |                |                |                |                | (INR Million)  |                |
|-----------------------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Y/E March                   | 2012          | 2013          | 2014           | 2015           | 2016           | 2017           | 2018E          | 2019E          |
| <b>Net Sales</b>            | <b>70,829</b> | <b>96,413</b> | <b>112,866</b> | <b>127,700</b> | <b>142,085</b> | <b>174,943</b> | <b>169,110</b> | <b>198,564</b> |
| Change (%)                  | 21.7          | 36.1          | 17.1           | 13.1           | 11.3           | 23.1           | -3.3           | 17.4           |
| <b>EBITDA</b>               | <b>14,446</b> | <b>22,700</b> | <b>30,028</b>  | <b>36,196</b>  | <b>37,534</b>  | <b>44,931</b>  | <b>36,190</b>  | <b>46,464</b>  |
| Margin (%)                  | 20.4          | 23.5          | 26.6           | 28.3           | 26.4           | 25.7           | 21.4           | 23.4           |
| Depreciation                | 2,275         | 3,322         | 2,610          | 4,347          | 4,635          | 9,122          | 10,451         | 11,749         |
| <b>EBIT</b>                 | <b>12,171</b> | <b>19,378</b> | <b>27,418</b>  | <b>31,849</b>  | <b>32,899</b>  | <b>35,809</b>  | <b>25,738</b>  | <b>34,715</b>  |
| Int. and Finance Charges    | 355           | 410           | 267            | 98             | 446            | 1,525          | 1,689          | 1,266          |
| Other Income - Rec.         | 143           | 279           | 165            | 2,398          | 1,877          | 1,065          | 1,500          | 1,500          |
| <b>PBT before EO item</b>   | <b>11,960</b> | <b>19,246</b> | <b>27,317</b>  | <b>34,148</b>  | <b>34,330</b>  | <b>35,349</b>  | <b>25,550</b>  | <b>34,948</b>  |
| EO Expense/(Income)         | 0             | 0             | -1,000         | 0              | 0              | 0              | 0              | 0              |
| <b>PBT after EO item</b>    | <b>11,960</b> | <b>19,246</b> | <b>28,317</b>  | <b>34,148</b>  | <b>34,330</b>  | <b>35,349</b>  | <b>25,550</b>  | <b>34,948</b>  |
| Tax                         | 3,086         | 5,842         | 9,622          | 9,704          | 11,536         | 9,785          | 6,771          | 9,436          |
| Tax Rate (%)                | 25.8          | 30.4          | 34.0           | 28.4           | 33.6           | 27.7           | 26.5           | 27.0           |
| Less: Minority Interest     | 196           | 263           | 331            | 412            | 88             | -11            | 85             | 85             |
| <b>PAT Adj for EO items</b> | <b>7,917</b>  | <b>13,142</b> | <b>17,364</b>  | <b>24,032</b>  | <b>22,707</b>  | <b>25,209</b>  | <b>18,694</b>  | <b>25,427</b>  |
| Change (%)                  | -8.4          | 66.0          | 32.1           | 38.4           | -5.5           | 11.0           | -25.8          | 36.0           |
| Margin (%)                  | 11.2          | 13.6          | 15.4           | 18.8           | 16.0           | 14.4           | 11.1           | 12.8           |

| Consolidated Balance Sheet         |               |               |               |               |                |                | (INR Million)  |                |
|------------------------------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| Y/E March                          | 2012          | 2013          | 2014          | 2015          | 2016           | 2017           | 2018E          | 2019E          |
| Equity Share Capital               | 893           | 895           | 897           | 899           | 901            | 903            | 903            | 903            |
| Total Reserves                     | 39,236        | 51,147        | 68,419        | 87,842        | 108,943        | 134,072        | 148,011        | 168,683        |
| <b>Net Worth</b>                   | <b>40,129</b> | <b>52,042</b> | <b>69,316</b> | <b>88,741</b> | <b>109,844</b> | <b>134,975</b> | <b>148,914</b> | <b>169,586</b> |
| Minority Interest                  | 723           | 595           | 669           | 241           | 321            | 345            | 430            | 515            |
| Deferred liabilities               | 1,442         | 1,632         | 1,779         | 1,182         | 1,239          | -1,128         | -1,128         | -1,128         |
| Secured Loan                       | 5,087         | 2,972         | 1,968         | 1,018         | 53,739         | 61,243         | 61,243         | 61,243         |
| Unsecured Loan                     | 10,470        | 7,268         | 4,024         | 3,692         | 17,454         | 23,183         | 23,183         | 23,183         |
| Total Loans                        | 15,557        | 10,240        | 5,992         | 4,710         | 71,193         | 84,426         | 84,426         | 84,426         |
| <b>Capital Employed</b>            | <b>57,852</b> | <b>64,509</b> | <b>77,756</b> | <b>94,874</b> | <b>182,596</b> | <b>218,619</b> | <b>232,643</b> | <b>253,400</b> |
| Gross Block                        | 36,274        | 41,138        | 45,638        | 45,445        | 55,887         | 55,265         | 68,285         | 81,192         |
| Less: Accum. Deprn.                | 14,422        | 16,840        | 19,283        | 19,174        | 23,262         | 8,902          | 24,075         | 35,824         |
| <b>Net Fixed Assets</b>            | <b>21,852</b> | <b>24,298</b> | <b>26,355</b> | <b>26,271</b> | <b>32,625</b>  | <b>46,363</b>  | <b>44,210</b>  | <b>45,368</b>  |
| Capital WIP                        | 4,437         | 3,107         | 3,041         | 5,760         | 9,812          | 7,150          | 6,925          | 6,812          |
| Investments                        | 28            | 21            | 1,785         | 16,584        | 75             | 220            | 220            | 220            |
| Goodwill & Intangibles             | 5,644         | 5,704         | 7,202         | 17,411        | 73,586         | 78,147         | 82,869         | 82,869         |
| <b>Curr. Assets</b>                | <b>47,393</b> | <b>55,305</b> | <b>62,970</b> | <b>64,510</b> | <b>107,473</b> | <b>129,117</b> | <b>142,056</b> | <b>166,721</b> |
| Inventory                          | 17,327        | 19,489        | 21,295        | 25,036        | 31,787         | 36,423         | 31,954         | 36,939         |
| Account Receivables                | 17,800        | 21,870        | 24,641        | 26,566        | 45,498         | 43,073         | 44,266         | 51,976         |
| Cash and Bank Balance              | 4,025         | 4,349         | 7,975         | 4,814         | 8,379          | 27,994         | 44,096         | 55,939         |
| Others                             | 8,241         | 9,597         | 9,060         | 8,095         | 21,808         | 21,626         | 21,741         | 21,867         |
| <b>Curr. Liability &amp; Prov.</b> | <b>21,503</b> | <b>23,926</b> | <b>23,597</b> | <b>35,662</b> | <b>40,975</b>  | <b>42,378</b>  | <b>43,637</b>  | <b>48,590</b>  |
| Account Payables                   | 17,565        | 19,241        | 18,818        | 28,299        | 32,318         | 34,576         | 31,310         | 35,996         |
| Provisions                         | 3,939         | 4,684         | 4,779         | 7,363         | 8,658          | 7,801          | 12,327         | 12,594         |
| <b>Net Current Assets</b>          | <b>25,889</b> | <b>31,379</b> | <b>39,374</b> | <b>28,848</b> | <b>66,498</b>  | <b>86,739</b>  | <b>98,419</b>  | <b>118,131</b> |
| <b>Appl. of Funds</b>              | <b>57,851</b> | <b>64,509</b> | <b>77,756</b> | <b>94,874</b> | <b>182,596</b> | <b>218,619</b> | <b>232,643</b> | <b>253,400</b> |

## Financials and Valuations

### Ratios

| Y/E March                  | 2012        | 2013        | 2014        | 2015        | 2016        | 2017        | 2018E       | 2019E       |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>EPS (Fully Diluted)</b> | <b>17.7</b> | <b>29.4</b> | <b>38.7</b> | <b>53.5</b> | <b>50.4</b> | <b>55.8</b> | <b>41.4</b> | <b>56.3</b> |
| Cash EPS (Fully Diluted)   | 22.8        | 36.8        | 44.5        | 63.1        | 60.7        | 76.0        | 64.5        | 82.3        |
| BV/Share                   | 89.9        | 116.3       | 154.6       | 197.4       | 243.8       | 298.9       | 329.8       | 375.5       |
| DPS                        | 3.4         | 4.0         | 6.0         | 7.5         | 7.5         | 9.0         | 9.0         | 9.0         |
| Payout (%)                 | 20.5        | 15.9        | 16.0        | 16.9        | 17.9        | 18.6        | 25.4        | 18.7        |
| <b>Valuation (x)</b>       |             |             |             |             |             |             |             |             |
| P/E (Fully Diluted)        |             | 33.9        | 25.7        | 18.6        | 19.7        | 17.8        | 24.0        | 17.7        |
| Cash P/E (Fully Diluted)   |             | 27.0        | 22.3        | 15.8        | 16.4        | 13.1        | 15.4        | 12.1        |
| P/BV                       |             | 8.6         | 6.4         | 5.0         | 4.1         | 3.3         | 3.0         | 2.6         |
| EV/Sales                   |             | 4.7         | 3.9         | 3.5         | 3.6         | 2.9         | 2.9         | 2.4         |
| EV/EBITDA                  |             | 19.9        | 14.8        | 12.3        | 13.5        | 11.2        | 13.4        | 10.2        |
| <b>Return Ratios (%)</b>   |             |             |             |             |             |             |             |             |
| RoE                        | 21.7        | 28.5        | 28.6        | 30.4        | 22.9        | 20.6        | 13.2        | 16.0        |
| RoCE                       | 18.3        | 23.2        | 26.5        | 29.1        | 16.8        | 13.3        | 8.8         | 10.8        |
| RoIC                       | 20.9        | 25.4        | 29.7        | 34.4        | 18.8        | 14.9        | 10.4        | 13.6        |
| <b>Leverage Ratio</b>      |             |             |             |             |             |             |             |             |
| Current Ratio              | 2.2         | 2.3         | 2.7         | 1.8         | 2.6         | 3.0         | 3.3         | 3.4         |
| Interest Cover Ratio       | 34.3        | 47.2        | 102.9       | 324.7       | 73.7        | 23.5        | 15.2        | 27.4        |
| Debt/Equity (x)            | 0.4         | 0.2         | 0.1         | 0.1         | 0.7         | 0.6         | 0.6         | 0.5         |

### Cash Flow Statement

| Y/E March                       | 2012          | 2013          | 2014          | 2015           | 2016           | 2017           | 2018E          | 2019E          |
|---------------------------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| Oper. Profit before Tax         | 14,446        | 22,700        | 30,028        | 36,196         | 37,534         | 44,931         | 36,190         | 46,464         |
| Interest/Dividends Recd.        | 143           | 279           | 165           | 2,398          | 1,877          | 1,065          | 1,500          | 1,500          |
| Direct Taxes Paid               | -3,055        | -5,652        | -9,475        | -10,300        | -11,479        | -12,152        | -6,771         | -9,436         |
| (Inc)/Dec in WC                 | -5,370        | -5,166        | -4,368        | 7,364          | -34,084        | -626           | 4,421          | -7,868         |
| <b>CF from Op. incl EO Exp.</b> | <b>6,164</b>  | <b>12,160</b> | <b>17,349</b> | <b>35,657</b>  | <b>-6,152</b>  | <b>33,219</b>  | <b>35,340</b>  | <b>30,660</b>  |
| (inc)/dec in FA                 | -8,736        | -4,497        | -6,098        | -17,191        | -71,217        | -24,759        | -12,795        | -12,795        |
| <b>Free Cash Flow</b>           | <b>-2,572</b> | <b>7,663</b>  | <b>10,251</b> | <b>18,466</b>  | <b>-77,369</b> | <b>8,460</b>   | <b>22,545</b>  | <b>17,865</b>  |
| (Pur)/Sale of Investments       | 4             | 7             | -1,764        | -14,799        | 16,509         | -145           | 0              | 0              |
| <b>CF from Investments</b>      | <b>-8,733</b> | <b>-4,490</b> | <b>-7,862</b> | <b>-31,991</b> | <b>-54,708</b> | <b>-24,904</b> | <b>-12,795</b> | <b>-12,795</b> |
| Change in Net Worth             | 430           | 475           | 1,593         | -1,389         | 2,459          | 4,348          | 0              | 0              |
| Inc/(Dec) in Debt               | 4,094         | -5,317        | -4,248        | -1,282         | 66,483         | 13,233         | 0              | 0              |
| Interest Paid                   | -355          | -410          | -267          | -98            | -446           | -1,525         | -1,689         | -1,266         |
| Dividend Paid                   | -1,777        | -2,095        | -2,939        | -4,058         | -4,071         | -4,755         | -4,755         | -4,755         |
| <b>CF from Fin. Activity</b>    | <b>2,392</b>  | <b>-7,348</b> | <b>-5,861</b> | <b>-6,828</b>  | <b>64,425</b>  | <b>11,300</b>  | <b>-6,444</b>  | <b>-6,021</b>  |
| <b>Inc/Dec of Cash</b>          | <b>-177</b>   | <b>323</b>    | <b>3,626</b>  | <b>-3,161</b>  | <b>3,565</b>   | <b>19,615</b>  | <b>16,101</b>  | <b>11,844</b>  |
| Add: Beginning Balance          | 4,202         | 4,025         | 4,349         | 7,975          | 4,814          | 8,379          | 27,994         | 44,096         |
| <b>Closing Balance</b>          | <b>4,025</b>  | <b>4,348</b>  | <b>7,975</b>  | <b>4,814</b>   | <b>8,379</b>   | <b>27,994</b>  | <b>44,095</b>  | <b>55,939</b>  |

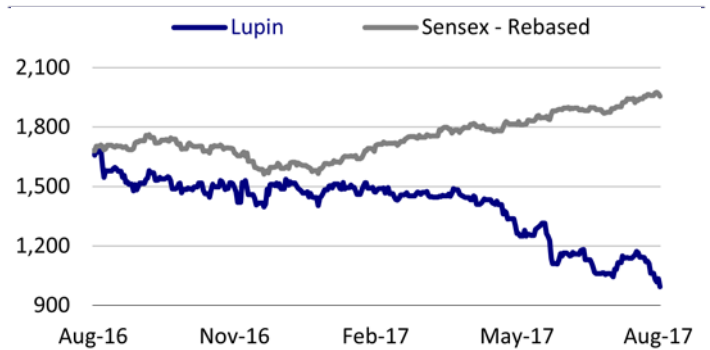


## Corporate profile

### Company description

Lupin is amongst the larger pharma companies that is actively targeting the regulated generics markets. Historically very strong in the anti-TB segment, it has over the years built up expertise in fermentation-based products and segments like cephalosporins, prils and statins. Lupin is now a fully integrated company, with manufacturing capabilities in APIs and formulations and a direct marketing presence in the target markets.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

|          | Jun-17 | Mar-17 | Jun-16 |
|----------|--------|--------|--------|
| Promoter | 46.7   | 46.7   | 46.8   |
| DII      | 9.8    | 9.4    | 7.5    |
| FII      | 30.9   | 31.9   | 34.9   |
| Others   | 12.6   | 12.1   | 10.8   |

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

| Holder Name                    | % Holding |
|--------------------------------|-----------|
| First State Investments ICVC   | 2.4       |
| Rakesh Jhunjunwala             | 1.7       |
| Government of Singapore        | 1.7       |
| ICICI Prudential               | 1.1       |
| Abu Dhabi Investment Authority | 1.1       |

Source: Capitaline

Exhibit 4: Top management

| Name               | Designation        |
|--------------------|--------------------|
| D B Gupta          | Chairman           |
| Kamal K Sharma     | Vice Chairman      |
| Nilesh Gupta       | Managing Director  |
| Ramesh Swaminathan | Director & CFO     |
| M D Gupta          | Executive Director |
| R V Satam          | Company Secretary  |
| Vinita Gupta       | CEO & Director     |

Source: Capitaline

Exhibit 5: Directors

| Name            | Name               |
|-----------------|--------------------|
| Dileep C Choksi | Jean-Luc Belingard |
| K U Mada        | R A Shah           |
| Richard Zahn    | Vijay Kelkar       |

\*Independent

Exhibit 6: Auditors

| Name                         | Type              |
|------------------------------|-------------------|
| Deloitte Haskins & Sells LLP | Statutory         |
| Ernst & Young LLP            | Internal          |
| Neena Bhatia                 | Secretarial Audit |
| S D Shenoy                   | Cost Auditor      |

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

| EPS (INR) | MOSL forecast | Consensus forecast | Variation (%) |
|-----------|---------------|--------------------|---------------|
| FY18      | 41.4          | 57.9               | -28.5         |
| FY19      | 56.3          | 72.0               | -21.8         |

Source: Bloomberg

## Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Securities Ltd. (MOSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOSL is a subsidiary company of Motilal Oswal Financial Service Ltd. (MOFSL). MOFSL is a listed public company, the details in respect of which are available on [www.motilaloswal.com](http://www.motilaloswal.com). MOSL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Metropolitan Stock Exchange Of India Ltd. (MSE) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) & National Securities Depository Limited (NSDL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. Details of associate entities of Motilal Oswal Securities Limited are available on the website at <http://online-reports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf>

### Pending Regulatory Enquiries against Motilal Oswal Securities Limited by SEBI:

SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL requested SEBI to provide all documents, records, investigation report relied upon by SEBI which were referred in Show Cause Notice and also sought personal hearing. The matter is currently pending.

MOSL, its associates, Research Analyst or their relative may have any financial interest in the subject company. MOSL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. MOSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. MOSL and/or its associates may have received any compensation from the subject company in the past 12 months.

In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, MOSL or any of its associates may have:

- managed or co-managed public offering of securities from subject company of this research report,
- received compensation for investment banking or merchant banking or brokerage services from subject company of this research report,
- received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
- Subject Company may have been a client of MOSL or its associates during twelve months preceding the date of distribution of the research report.

MOSL and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. To enhance transparency, MOSL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report. MOSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

### Terms & Conditions:

This report has been prepared by MOSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOSL will not treat recipients as customers by virtue of their receiving this report.

### Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

### Disclosure of Interest Statement

- Analyst ownership of the stock

Lupin

No

A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com), [www.bseindia.com](http://www.bseindia.com). Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOSL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

### Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL & its group companies to registration or licensing requirements within such jurisdictions.

### For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

### For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act and the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

### For Singapore

Motilal Oswal Capital Markets Singapore Pte Limited is acting as an exempt financial advisor under section 23(1)(f) of the Financial Advisers Act (FAA) read with regulation 17(1)(d) of the Financial Advisers Regulations and is a subsidiary of Motilal Oswal Securities Limited in India. This research is distributed in Singapore by Motilal Oswal Capital Markets Singapore Pte Limited and it is only directed in Singapore to accredited investors, as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time. In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

### Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions - including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980 4263; [www.motilaloswal.com](http://www.motilaloswal.com). Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 3080 1000. Compliance Officer: Neeraj Agarwal, Email Id: [na@motilaloswal.com](mailto:na@motilaloswal.com), Contact No.:022-30801085.

Registration details of group entities.: MOSL: NSE (Cash): INB231041238; NSE (F&O): INF231041238; NSE (CD): INE231041238; BSE (Cash): INB011041257; BSE(F&O): INF011041257; BSE(CD); MSE(Cash): INB261041231; MSE(F&O): INF261041231; MSE(CD): INE261041231; CDSL: IN-DP-16-2015; NSDL: IN-DP-NSDL-152-2000; Research Analyst: INH000000412. AMFI: ARN 17397. Investment Adviser: INA000007100. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670) offers PMS and Mutual Funds products. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) offers wealth management solutions. \*Motilal Oswal Securities Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance and IPO products. \* Motilal Oswal Commodities Broker Pvt. Ltd. offers Commodities Products. \* Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. offers Real Estate products. \* Motilal Oswal Private Equity Investment Advisors Pvt. Ltd. offers Private Equity products