

LUPIN

Tough times ahead

India Equity Research | Pharmaceuticals

Lupin (LPC) reported weak Q1FY18 numbers with revenue, EBITDA and PAT declining 13%, 41% and 59% YoY, respectively. Weak performance was due to: 1) Increased competition in Glumetza; 2) Pricing pressure in base business due to customer consolidation (Mckesson and Walmart alliance); and (3) GST related inventory de-stocking in India. Further, LPC has pruned its EBITDA margin guidance to 21-23% (versus 26-28% earlier). Accordingly, we cut our FY18/19E EPS by 17%/14%. We see further risks to our estimates as Metformin and base business could see higher competition. While INR/USD appreciation impact was not fully visible in Q1FY18 as average realisation was at INR67, sustainability of margins even at current levels of 20% seems tough. Maintain 'HOLD' with a revised target price of INR1,010 (20x FY19E EPS; INR1,170 earlier).

Further earnings risks ahead

LPC has started witnessing impact of new competition in Glumetza (AG launched in Feb'17, Teva in May'17), which could worsen with full impact of Teva's launch visible in Q2FY18 and 1 new player expected during the year. US (42% of total) is expected to post double digit drop in FY18 due to lack of significant launches that would help offset the pricing pressure in Metformin franchise. EBITDA margin will also remain under pressure. We believe that even LPC's revised EBITDA margin guidance of 21-23% looks difficult (19.8% in Q1FY18) to achieve given the decline in its lucrative US products and current pricing environment there.

Slowing pace in R&D amid adversities

LPC has lowered its R&D guidance to ~INR20bn (INR23bn in FY17), 12% of revenue (versus 13.5% earlier). It is now looking to reduce spend on New Chemical Entity (NCE) and Biosimilars (19% of overall spend) where it has invested a large portion of its incremental R&D in past 2 years (refer [note](#)). For Biosimilars, it is scouting for financing partners for risky products (first agreement entered into for Etanercept). While it aims to reduce spend on NCEs, generic R&D spend is expected to be flat. We believe that R&D expense could increase post FY18 as few assets will move to clinic stage.

Outlook and valuations: Demanding valuations; maintain 'HOLD'

Outlook remains weak for FY18/19. We have cut FY18/19E EPS 17%/14% to reflect weaker-than-expected US business and lower EBITDA margin. We see further downside risks in case of more competition in Metformin and base business. At CMP, the stock trades at 19.5x FY19E EPS. Maintain 'HOLD/SP' with revised TP of INR1,010.

Financials (Consolidated)

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenue	38,696	44,677	(13.4)	42,533	(9.0)	171,198	164,105	185,381
EBITDA	7,684	13,080	(41.3)	7,814	(1.7)	44,931	36,041	42,369
Adj. dil EPS (INR)	7.9	19.6	(59.4)	8.4	(5.8)	56.6	40.1	50.7
P/E (x)						17.4	24.6	19.5
ROAE(%)						20.7	12.7	14.4

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: LUPN.BO, B: LPC IN)

CMP	: INR 993
Target Price	: INR 1,010
52-week range (INR)	: 1,734 / 985
Share in issue (mn)	: 451.7
M cap (INR bn/USD mn)	: 449 / 7,044
Avg. Daily Vol.BSE/NSE('000)	: 1,330.8

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	46.7	46.7	46.7
MF's, FI's & BK's	9.4	9.4	8.2
FII's	31.9	31.9	33.3
Others	12.1	12.1	11.8
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	(5.8)	4.1	(1.5)
3 months	(21.5)	7.5	(5.1)
12 months	(40.9)	17.2	(13.1)

Deepak Malik

+91 22 6620 3147
 deepak.malik@edelweissfin.com

Archana Menon

+91 22 6620 3020
 archana.menon@edelweissfin.com

August 3, 2017

Conference call: Key highlights

Guidance

- Revenue – In FY18, overall low single digit decline, with double digit dip in US
- Gross margins- ~67.6% (current levels) for FY18, if exchange rate remains at this level
- EBITDA margin – 21-23% for FY18
- R&D – expected to be ~INR5bn per quarter (INR20bn for FY18 versus INR23bn in FY17). Opted to have a financing partner for risky products including biologics (Etanercept- has a financial partner). Drug discovery will see some decline, while spend on generics will be flat.

US

Q1FY18

- QoQ decline mainly due to major drop in Glumetza (mainly due to competition from AG. Teva launched in May)
- Price erosion in Fortamet - marginal
- Ex Metformin franchise, business grew 11%. Ex Glumetza, grew 9%
- Base business price erosion in single digit
- Brands revenue - USD23mn (USD19mn in Q4FY17)
- New products contributed very little. Low contribution by Bupropion XL during quarter, but will contribute during the year
- Minastrin exclusivity will end in Sept. Five months sales already booked in Q4FY17 and Q1FY19(higher revenue in Q4FY18)

Going forward

- Company expects double digit decline (assuming current competitive environment remains the same for Fortamet)
- Expects single digit price erosion going forward.
- Expects to file 35-40 ANDAs this year.
- Q2FY18 likely to be lower due to higher pricing pressure in Glumetza, Q3 and Q4 expected to be better
- FTF launches in FY19 - Ranexa, Minocycline, Moxeza
- Key products in near term:
 - Levothyroxine (Indore) – in FDA list for faster approval. Company had a PAI, it will be good if received this fiscal
 - Tamiflu – expects approval soon
 - Lanthanum Carbonate (partnered with Natco) should come to the market soon
 - Gavis - some controlled substances. Potassium Chloride expected to be launched in Q2FY18.
 - Toprol XL and some derma products expected in 12-18 months
- Respiratory pipeline to start contributing in FY20
 - ProAir - filed in Jan'17.
 - Spiriva is making good progress. PK study completed, while PD study has commenced. Looking to file by end FY18.

- Advair- Some developmental delays. Delayed by a couple of months.
- Complex injectables – expects first product in FY19, revenue contribution from FY21
- Biologics will file next year, though it will be subject to patent litigation
- Apriso, Lialda – expects to launch next year, but currently has a query on both these products.
- Other mesalamine products – not filed as yet.
 - Gavis: USD117mn in FY17, expects it to go to USD200mn by FY18 by building market share, brand business and new launches
 - Methergine grew 48% QoQ
 - Generic business grew 23%
- Hydrocodone - 20% market share
- Etanercept- expects to file in FY19
- Sevelamer - opportunity for next year and there will be 2-3 other players
- M&A: focussed on specialty and brands

India

- Normalised for GST, sales should be higher by INR1.5bn
- Seeing more optimistic numbers since July
- Expects market to grow at 8% and Lupin to grow 20-30% higher
- Balance 3 quarters to grow at 15%

Japan

- Change in co-pay policy impacted the quarter
- YoY growth due to integration of Shionogi products
- 6% annual price cut going forward

Other markets

- Philippines - decline in tender business
- RoW - Lower due to tender business
- South Africa - Impacted by seasonality

USFDA inspection status

- Unit 2 (Indore) – Had a GMP inspection after which it received some observations. Lupin has replied to the observations. Expects clarity in 2 months
- Unit 3- PAI
- Goa - 3 observations and the company has responded to them. Expects clarity in 1 month

Financials

- Adjusted for INR appreciation, gross profit would have been higher by INR620mn (2-2.5% higher)
- Normalised for GST, EBITDA margin at 23%
- Policy of 18 months currency hedge
- Working capital increase mainly due to higher inventory (GST disruption) and receivables (API business is government related)

Table 1: Actual versus estimates

(INR mn)

	Q1FY18	YoY (%)	Edel		Deviation from
			Estimate	YoY (%)	Actual (%)
Net revenue	38,696	(13.4)	41,939	(6.1)	(7.7)
COGS	12,326	(3.1)	11,743	(7.7)	5.0
Gross profit	26,370	(17.5)	30,196	(5.5)	(12.7)
Gross margins (%)	68		72		
Employee expenses	7,180	1.7	7,765	10.0	(7.5)
R&D expenses	4,999	0.1	5,941	19.0	(15.9)
S,G&A	6,507	(4.6)	9,082	33.1	(28.3)
EBITDA	7,684	(41.3)	7,408	(43.4)	3.7
EBITDA margin (%)	20		18		12.4
Depreciation	2,605	28.5	2,500	23.3	4.2
Interest expense	439	(54.1)	400	25.1	9.7
Non-Operating Income	320	(61.3)	500	(39.5)	(36.1)
PBT	4,959	(57.1)	5,008	(56.7)	(1.0)
Income tax expense	1,368	(50.0)	1,352	(50.5)	1.2
Tax rate (%)	28		27		2.2
Reported Net profit	3,581	(59.4)	3,636	(58.8)	(1.5)
Adjusted PAT	3,581	(59.4)	3,636	(58.8)	(1.5)
Adj. Diluted EPS	8	(59.4)	8	(58.8)	(1.5)

Source: Company, Edelweiss research

Table 2: Revenue mix by segment (consolidated)

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change
Formulations	35,275	40,453	(12.8)	38,804	(9.1)
North America	16,018	21,886	(26.8)	19,007	(15.7)
India	9,324	9,499	(1.8)	8,788	6.1
APAC	5,989	5,416	10.6	6,118	(2.1)
Of which Japan (JPY)	8,585	6,868	25.0	7,944	8.1
Of which Phillipenes (PHP)	350	508	(31.1)	615	(43.1)
EMEA	2,259	2,194	3.0	3,012	(25.0)
Of which South Africa (ZAR)	209	205	2.0	325	(35.7)
Of which Germany (EUR)	7	6	4.7	7	3.1
LatAm	1,269	1,089	16.5	1,269	0.0
Of which Brazil (BRL)	36	31	16.1	35	2.9
Of which Mexico (MXN)	149	132	12.9	148	0.7
RoW	416	369	12.7	610	(31.8)
API	2,793	2,966	(5.8)	2,815	(0.8)
Total	38,068	43,419	(12.3)	41,619	(8.5)

Source: Company, Edelweiss research

Table 3: Therapy-wise breakup

	Contribution (%)	MAT June'17	MAT June'16	Growth YoY (%)
Cardiac	22.4	8,733	8,025	8.8
Anti Diabetic	13.1	5,104	3,739	36.5
Anti-infectives	12.9	5,010	4,669	7.3
Respiratory	12.6	4,921	4,045	21.7
Gastro Intestinal	8.1	3,156	2,626	20.2
Anti-TB	5.7	2,204	2,244	(1.8)
Pain / Analgesics	5.5	2,125	1,908	11.4
Gynaec.	4.8	1,862	1,379	35.0
Neuro / CNS	4.6	1,787	1,576	13.4
Vitamins / Minerals / Nutrients	4.5	1,753	1,707	2.7
Total Sales	100.0	38,963	33,805	15.3

Source: IMS, Edelweiss research

Table 4: Top-10 brands

	MAT June'17	MAT June'16	Growth YoY (%)
GLUCONORM-G	1,857	1,461	27.1
BUDAMATE	967	837	15.5
TONACT	953	981	(2.8)
RABLET-D	685	580	18.1
TAZAR	588	499	17.9
RABLET	552	494	11.8
IVABRAD	494	390	26.7
MEROTROL	494	438	12.8
TELEKAST-L	494	423	16.8
CETIL	491	441	11.4
Total	7,574	6,542	15.8

Source: IMS, Edelweiss research

Chart 1: Increased competition in Glumetza and GST take a toll on earnings

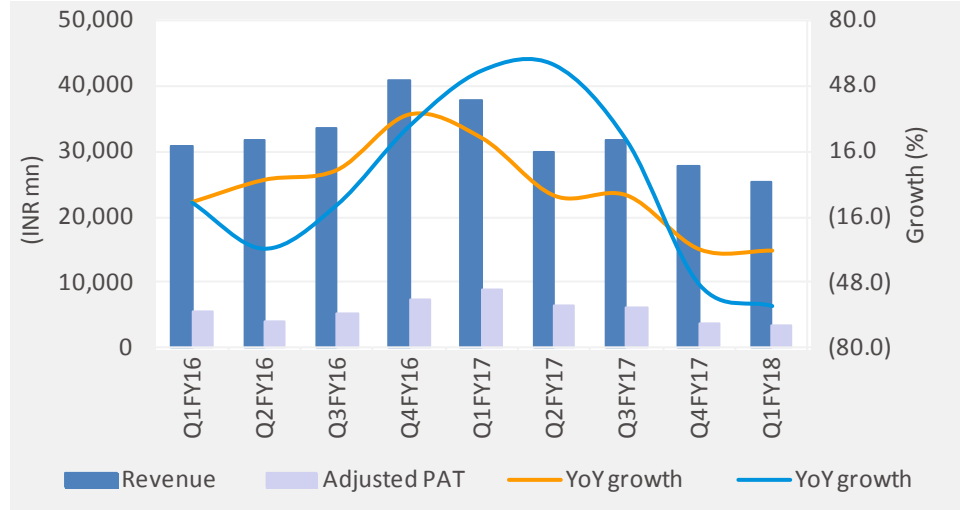


Chart 2: Margins declined

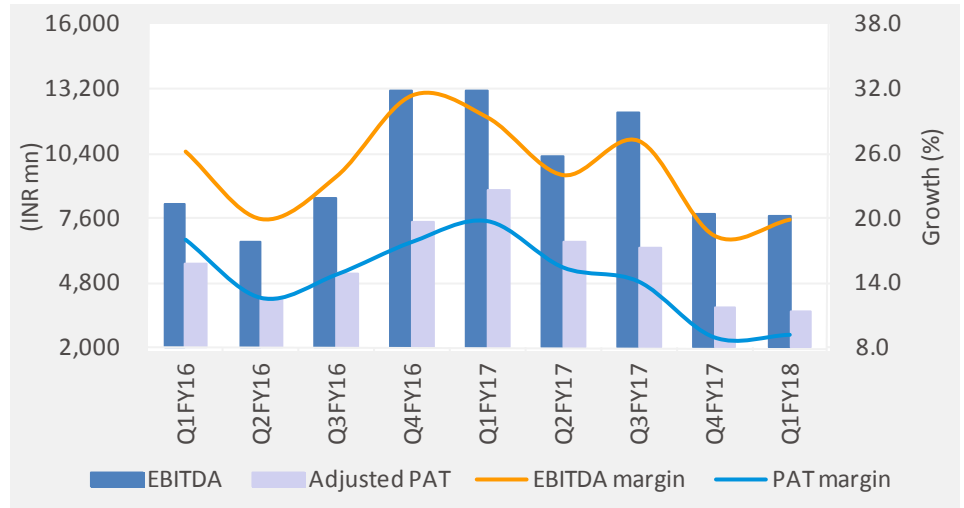
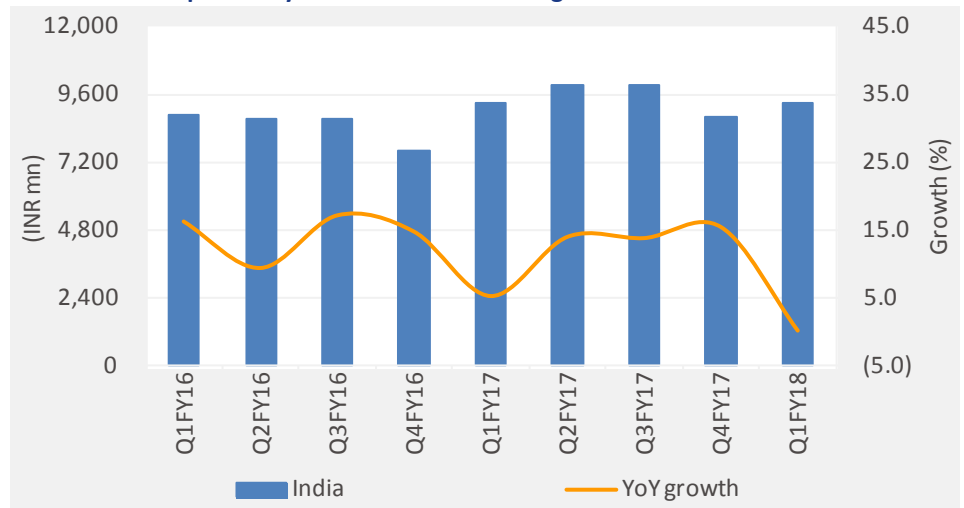
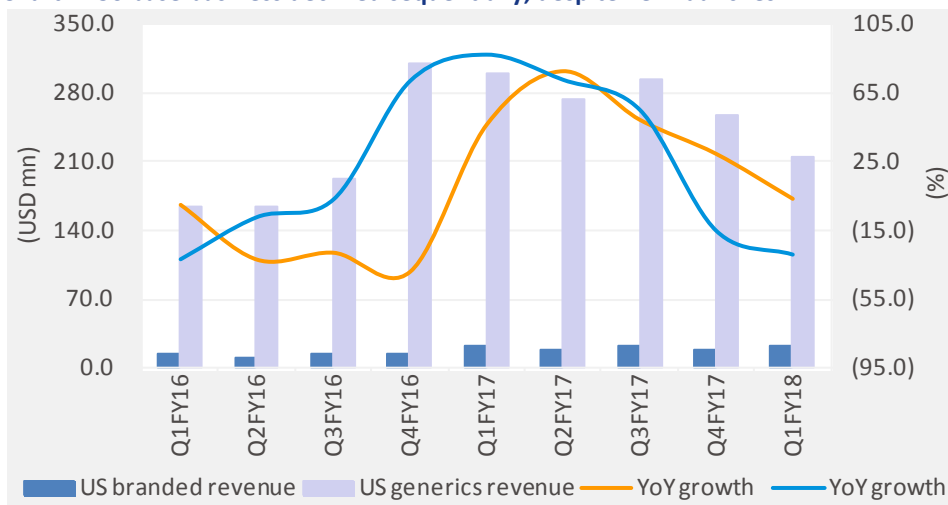


Chart 3: India impacted by GST related de-stocking



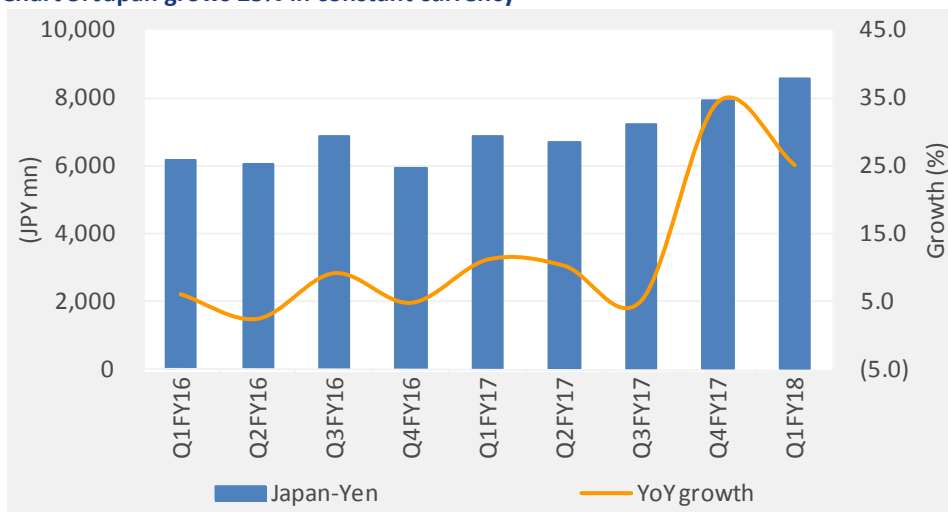
Source: Company, Edelweiss research

Chart 4: US base business declined sequentially, despite new launches



Source: Company, Edelweiss research

Chart 5: Japan grows 25% in constant currency



Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	38,696	44,677	(13.4)	42,533	(9.0)	174,943	168,108	190,272
Cost of revenue	12,326	12,719	(3.1)	11,851	4.0	50,014	53,794	59,936
Gross profit	26,370	31,957	(17.5)	30,682	(14.1)	124,929	114,313	130,336
R&D	4,999	4,994	0.1	6,709	(25.5)	23,101	20,000	25,496
EBITDA	7,684	13,080	(41.3)	7,814	(1.7)	44,931	36,041	42,369
EBITDA margin	19.9	29.3		18.4		25.7	21.4	22.3
Depreciation	2,605	2,027	28.5	2,674	(2.6)	9,122	10,418	10,834
EBIT	5,079	11,053	(54.1)	5,140	(1.2)	35,809	25,624	31,534
Other income	320	826	(61.3)	453	(29.5)	1,065	1,218	1,609
Interest	439	320	37.3	406	8.1	1,525	1,710	1,789
Add: Exceptional items								
Profit before tax	4,959	11,560	(57.1)	5,187	(4.4)	35,349	25,132	31,354
Provision for taxes	1,368	2,734	(50.0)	1,367	0.1	9,785	7,037	8,466
Minority interest	11	6	76.7	18	(40.4)	72	70	89
Associate profit share	-	-		-		83	80	80
Reported net profit	3,581	8,820	(59.4)	3,802	(5.8)	25,575	18,105	22,879
Adjusted Profit	3,581	8,820	(59.4)	3,802	(5.8)	25,575	18,105	22,879
Diluted shares (mn)	451	451		451		452	452	452
Adjusted Diluted EPS	7.9	19.6	(59.4)	8.4	(5.8)	56.6	40.1	50.7
Diluted P/E (x)	-	-		-		17.4	24.6	19.5
EV/EBITDA (x)	-	-		-		11.1	13.4	11.2
ROAE (%)	-	-		-		20.7	12.7	14.4
Cost of revenue	31.9	28.5		27.9		28.6	32.0	31.5
Gross profit	68.1	71.5		72.1		71.4	68.0	68.5
R&D	12.9	11.2		15.8		13.2	11.9	13.4
Total expenses	80.1	70.7		81.6		74.3	78.6	77.7
Operating profit	13.1	24.7		12.1		20.5	15.2	16.6
Reported net profit	9.3	19.7		8.9		14.6	10.8	12.0
Tax rate	27.6	23.7		26.4		27.7	28.0	27.0

Change in Estimates

	FY18E			FY19E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	168,108	176,264	(4.6)	190,272	197,976	(3.9)	
EBITDA	36,041	40,380	(10.7)	42,369	47,785	(11.3)	
EBITDA Margin	21.4	22.9		22.3	24.1		
Adjusted Profit After Tax	18,105	21,808	(17.0)	22,879	26,461	(13.5)	
Net Profit Margin	10.8	12.4		12.1	13.4		
Capex	13,500	13,500	0.0	13,500	13,500	0.0	

Company Description

Lupin over the last decade has established itself as a leading generic player from India. US and India are its largest markets and contribute almost 60% of its revenues and boasts of significant presence in Japan (unlike most other generic players). While in India it is among the top-10 companies and among the fastest growing, it is among top-5 companies in terms of prescriptions in the US. To top that, it entered the Japan market well before other generic players and is now among the top-10 generic companies in Japan.

Investment Theme

We believe, despite potential good number of launches in the medium term, it will be challenging to offset the growing erosion in gFortamet and gGlumetza. Moreover, pricing pressure and concentration risk in the US portfolio will render growth challenging in FY18/19. Not only will growth dip, margin trajectory too will be difficult to maintain due to fall in these lucrative US products and R&D expenses inching up.

Key Risks

- Inability to scale up Branded business
- Slowdown in ANDA approvals and USFDA related regulatory risks are part of the generics business.
- Concentration risk in US portfolio
- Currency risk.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
Sector				
IPM growth (Y-o-Y) %	12.0	12.0	12.0	12.0
Company				
India sales (INR mn)	34,486	38,157	43,824	50,332
% change	16.2	10.6	14.9	14.9
US (USD mn)	887	1,224	1,020	1,165
% change	(0.6)	38.0	(16.7)	14.2
US generics (USD mn)	841	-	900	1,033
Growth (YoY)%	2.8	(100.0)	-	14.8
US-Branded	46	-	120	132
Growth (YoY) %	(37.8)	(100.0)	-	10.0
Japan growth (YoY) %	3.1	(100.0)	-	-
ROW growth (YoY) %	11.5	(100.0)	-	-
API growth (YoY) %	4.4	(8.7)	10.0	10.0
R&D (% of sales)	11.3	13.2	11.9	13.4
USD/INR (Avg)	65.0	67.5	66.0	66.0

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	137,579	171,198	164,105	185,381
Other Operating Income	4,977	3,745	4,002	4,890
Income from operations	142,555	174,943	168,108	190,272
Materials costs	43,326	50,014	53,794	59,936
Employee costs	21,416	28,495	29,777	31,266
R&D Cost	16,038	23,101	20,000	25,496
Total SG&A expenses	24,922	28,401	28,494	31,205
EBITDA	36,854	44,931	36,041	42,369
Operating profit	36,854	44,931	36,041	42,369
EBIT	31,982	35,809	25,624	31,534
Add: Other income	1,851.9	1,065.09	1,218.02	1,608.58
Less: Interest Expense	595	1,525	1,710	1,789
Profit Before Tax	33,239	35,349	25,132	31,354
Less: Provision for Tax	10,593	9,785	7,037	8,466
Less: Minority Interest	88	72	70	89
Associate profit share	49	83	80	80
Reported Profit	22,607	25,575	18,105	22,879
Exceptional Items	-	-	-	-
Adjusted Profit	22,607	25,575	18,105	22,879
Shares o /s (mn)	451	452	452	452
Adjusted Basic EPS	50.2	56.6	40.1	50.7
Diluted shares o/s (mn)	451	452	452	452
Adjusted Diluted EPS	50.2	56.6	40.1	50.7
Adjusted Cash EPS	61.0	76.8	63.2	74.7
Dividend per share (DPS)	7.5	7.5	6.0	7.6
Dividend Payout Ratio(%)	14.9	13.2	14.9	14.9

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	74.1	74.3	78.6	77.7
Materials costs	30.4	28.6	32.0	31.5
Staff costs	15.0	16.3	17.7	16.4
S G & A expenses	17.5	16.2	16.9	16.4
R & D cost	11.3	13.2	11.9	13.4
Depreciation	3.4	5.2	6.2	5.7
Interest Expense	0.4	0.9	1.0	0.9
EBITDA margins	25.9	25.7	21.4	22.3
Net Profit margins	15.9	14.7	10.8	12.1

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	9.2	24.4	(4.1)	13.0
EBITDA	1.8	21.9	(19.8)	17.6
PBT	(2.7)	6.3	(28.9)	24.8
Adjusted Profit	3.9	13.1	(29.2)	26.4
EPS	3.6	12.9	(29.2)	26.4

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	901	903	903	903	
Reserves & Surplus	110,733	134,073	149,033	167,938	
Shareholders' funds	111,634	134,976	149,936	168,841	
Minority Interest	321	345	345	345	
Short term borrowings	17,454	23,043	23,043	23,043	
Long term borrowings	53,739	56,478	56,478	56,478	
Total Borrowings	71,193	79,521	79,521	79,521	
Long Term Liabilities	6,677	9,120	9,120	9,120	
Def. Tax Liability (net)	(92)	(1,128)	(1,128)	(1,128)	
Sources of funds	189,733	222,834	237,794	256,699	
Gross Block	69,466	100,853	114,353	127,853	
Depreciation	4,871	9,122	10,418	10,834	
Net Block	64,515	87,229	90,312	92,977	
Capital work in progress	27,024	21,331	21,331	21,331	
Intangible Assets	22,654	23,100	23,100	23,100	
Total Fixed Assets	114,194	131,660	134,742	137,408	
Non current investments	143	220	220	220	
Cash and Equivalents	8,238	28,135	40,900	50,389	
Inventories	32,737	36,423	39,176	43,648	
Sundry Debtors	45,488	43,073	41,390	46,847	
Loans & Advances	12,412	11,910	11,910	11,910	
Current Assets (ex cash)	90,636	91,406	92,476	102,405	
Trade payable	19,888	25,889	27,846	31,025	
Other Current Liab	13,269	12,274	12,274	12,274	
Total Current Liab	33,158	38,163	40,119	43,298	
Net Curr Assets-ex cash	57,479	53,244	52,357	59,107	
Uses of funds	189,733	222,834	237,794	256,699	
BVPS (INR)	247.7	298.9	332.0	373.9	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	22,607	25,575	18,105	22,879	
Add: Depreciation	4,871	9,122	10,418	10,834	
Interest (Net of Tax)	405	1,103	1,231	1,306	
Others	(58,003)	10,076	543	(14,807)	
Less: Changes in WC	(26,295)	4,729	887	(6,750)	
Operating cash flow	(3,824)	41,148	29,409	26,963	
Less: Capex	70,097	26,007	13,500	13,500	
Free Cash Flow	(73,921)	15,141	15,909	13,463	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Lupin	7,044	24.6	19.5	13.5	11.3	12.7	14.4
Cadila Healthcare	8,778	23.9	18.2	17.6	13.5	29.0	30.1
Cipla	7,037	25.1	22.2	15.1	12.5	13.2	13.3
Dr.Reddys Laboratories	6,047	30.5	16.6	16.2	10.5	9.8	16.5
Sun Pharmaceuticals Industries	19,427	21.2	16.6	12.9	9.8	14.8	16.2
Median	-	24.8	18.2	15.1	11.3	13.2	16.2
AVERAGE	-	25.1	18.6	15.1	11.5	15.9	18.1

Source: Edelweiss research

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow	(3,824)	41,148	29,409	26,963	
Investing cash flow	(69,617)	(25,287)	(13,500)	(13,500)	
Financing cash flow	58,364	4,332	(3,145)	(3,974)	
Net cash Flow	(15,077)	20,193	12,765	9,489	
Capex	(70,097)	(26,007)	(13,500)	(13,500)	
Dividend paid	(4,201)	(5,084)	(3,145)	(3,974)	

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	22.6	20.7	12.7	14.4
ROACE (%)	24.0	18.2	11.9	13.6
Inventory Days	243	252	256	252
Debtors Days	92	92	92	85
Payable Days	166	167	182	179
Cash Conversion Cycle	169	178	166	158
Current Ratio	3.0	3.1	3.3	3.5
Gross Debt/EBITDA	1.9	1.8	2.2	1.9
Gross Debt/Equity	0.6	0.6	0.5	0.5
Adjusted Debt/Equity	0.6	0.6	0.5	0.5
Net Debt/Equity	0.6	0.4	0.3	0.2
Interest Coverage Ratio	53.8	23.5	15.0	17.6

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	1.0	0.8	0.7	0.8
Fixed Asset Turnover	2.2	1.8	1.5	1.7
Equity Turnover	1.4	1.4	1.2	1.2

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	50.2	56.6	40.1	50.7
Y-o-Y growth (%)	3.6	12.9	(29.2)	26.4
Adjusted Cash EPS (INR)	61.0	76.8	63.2	74.7
Diluted P/E (x)	19.8	17.5	24.6	19.5
P/B (x)	4.0	3.3	3.0	2.7
EV / Sales (x)	3.6	2.8	2.9	2.5
EV / EBITDA (x)	13.9	11.1	13.5	11.3
Dividend Yield (%)	0.8	0.8	0.6	0.8

Additional Data

Directors Data

Dr Desh Bandhu Gupta	Chairman	Dr Kamal K Sharma	Vice Chairman
Mrs. M. D. Gupta	Executive Director	Mr Nilesh Gupta	Managing Director
Mr Vijay Kelkar	Independent Director	Mr R.A. Shah	Independent Director
Mr K. U. Mada	Independent Director	Mr Dileep C. Choksi	Independent Director
Jean-Luc Belingard	Director	Ramesh Swaminathan	Director

Auditors - M/s. Deloitte Haskins & Sells, Chartered Accountants

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Commonwealth Bank of Australia	5.3	GIC Private Ltd	1.42
Blackrock	1.82	ICICI Prudential Life Insurance	1.4
JP Morgan Chase	1.67	FMR LLC	1.17
Vanguard group	1.66	Capital Group	1.05
ICICI Prudential Asset Management	1.61	Abu Dhabi Investment Authority	1.05

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aurobindo Pharma	HOLD	SP	H	Cadila Healthcare	BUY	SO	M
Cipla	HOLD	SP	L	Divi's Laboratories	REDUCE	SU	H
Dr.Reddys Laboratories	HOLD	SP	M	Glenmark Pharmaceuticals	HOLD	SP	M
Ipca Laboratories	REDUCE	SU	M	Lupin	HOLD	SP	M
Natco Pharma	BUY	SO	M	Sun Pharmaceuticals Industries	BUY	SO	M
Torrent Pharmaceuticals	BUY	SO	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Pharmaceuticals

Aurobindo Pharma, Cadila Healthcare, Cipla, Divi's Laboratories, Dr.Reddys Laboratories, Glenmark Pharmaceuticals, Ipca Laboratories, Lupin, Natco Pharma, Sun Pharmaceuticals Industries, Torrent Pharmaceuticals

Recent Research

Date	Company	Title	Price (INR)	Recos
31-Jul-17	Torrent Pharma	Resilient quarter; <i>Result Update</i>	1,318	Buy
28-Jul-17	Glenmark Pharma	Zetia boosts earnings; outlook gloomy; <i>Result Update</i>	717	Hold
27-Jul-17	Dr Reddy's Laboratories	Overall weak performance; <i>Result Update</i>	2,620	Hold

Distribution of Ratings / Market Cap

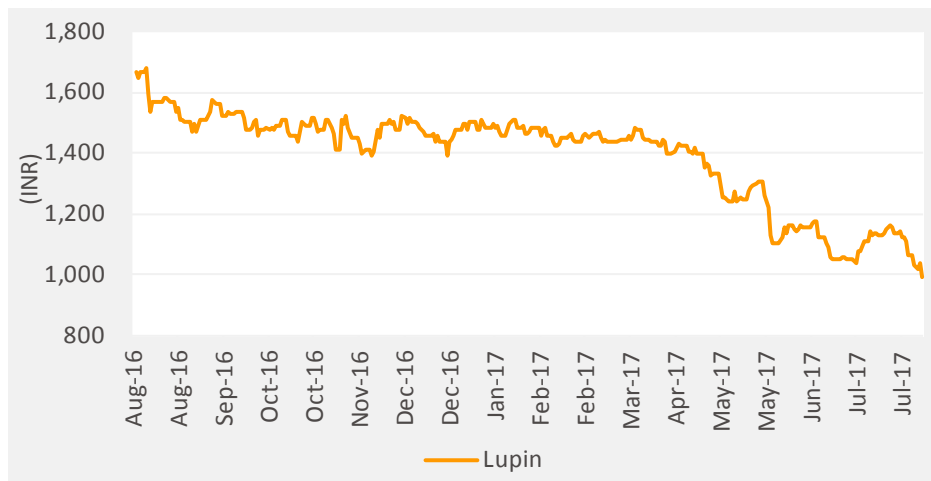
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



DISCLAIMER

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form 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 ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (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 subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved