

Lupin

India Research

RESULT REVIEW

 Bloomberg: LPC IN
 Reuters: LPC.BO

SELL

US, GST and co-pay in Japan impact margins

Lupin's revenues decreased by 13% YoY to Rs 38.7bn in Q1FY18 lower than our estimates of Rs 42bn on the back of dismal performance in US and India. Operating margins decreased to 19.9% for Q1FY18, as compared to our estimates of 20%. Net Profit de-grew by 59% YoY to Rs 3581 mn lower than our estimates of Rs 4075mn due to muted performance.

Revenue Details: US business declined by 27% on account of price erosion in base business and increasing competitive intensity impacting Glumetza Japanese business posted growth of 25% YoY to JPY 8585mn in Q1FY18 which includes Shinogi business. Domestic formulation business de-grew by 2% YoY to Rs 9324mn (above our estimate of Rs 8773mn). APAC and EMEA showed tepid growth on account of de-growth in Phillipines and marginal growth in Germany.

Margin lower than expectation: Operating margins declined from 29.3% to 19.9 % for Q1FY18. The key reason has been lower gross margins and higher R & D expenses. R & D costs were to the tune of 13.1% of revenue. Other income decreased by 61.3% to Rs 320 mn for Q1FY18. Profits declined by 59 % to Rs 3581mn for Q1 FY 18 due to higher tax rate of 28% as against 24 % in Q1 FY 17.

Outlook & Valuation: We downgrade our revenues for FY18E/FY19E by 15.8%/10.8% on account of downgrade in US, India, Europe and South Africa business. We downgrade our EBITDA margin by 190bps /90 bps to 22.8%/23.7% for FY18E/FY19E on account of lower gross margins. We downgrade our EPS by 31.6%/20% to Rs 42.9/Rs 57.4 for FY18E/FY19E respectively. We downgrade our rating from HOLD to SELL with a price target of Rs 976 based on 17x FY 2019E.

Risk: Clearance of Goa facility and faster approvals would trigger upgrade in earnings.

Key Financials

Y/E Mar (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E
Net sales	127,700	142,085	174,943	180,512	213,687
EBITDA	36,196	37,535	44,931	41,147	50,581
Net Profit	22,384	19,743	23,265	19,360	25,918
EPS(Rs)	49.8	43.8	51.5	42.9	57.4
EPS growth (%)	26.1	-12.0	17.6	-16.8	33.9
EBITDA margin(%)	28.3	26.4	25.7	22.8	23.7
PER(x)	19.9	22.7	19.3	23.2	17.3
EV/EBITDA (x)	12.4	13.6	11.6	12.4	9.8
P/S (x)	3.5	3.3	2.6	2.5	2.1
RoCE(%)	40.7	25.9	19.1	15.1	17.8
RoE(%)	28.5	22.2	20.4	15.5	17.6

Source: Company, Karvy Stock Broking..... Consolidated

Recommendation

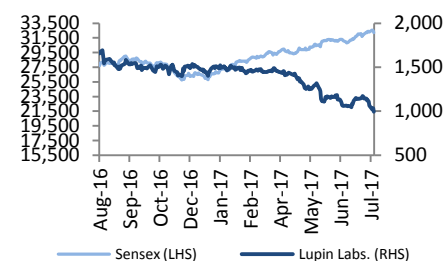
CMP:	Rs993
Target Price:	Rs976
Previous Target Price:	Rs1,251
Downside (%)	2%

Stock Information

Market Cap. (Rsbn / US\$ mn)	449/7047
52-week High/Low (Rs)	1,734/985
3m ADV (Rsmn /US\$ mn)	2,361/37
Beta	0.6
Sensex/ Nifty	32,238/10,014
Share outstanding (mn)	452

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(5.8)	(21.5)	(40.9)	(33.2)
Rel. to Sensex	(8.8)	(27.2)	(49.2)	(44.8)

Performance


Source: Bloomberg

Earnings Revision

(%)	FY18E	FY19E
Revenue	↓ 15.8	↓ 10.8
EBITDA	↓ 22.3	↓ 13.9
EPS	↓ 31.6	↓ 20.0

Source: Karvy Stock Broking

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Key highlights:

US

Glumetza price erosion was very intense post the AG launch and this has impacted the US business. Pricing pressure continues with further consolidation in trade.

Methergine and base business in Gavis is doing well. The company had done USD 110 mn in Gavis last year and should do USD 200 mn in current year. This is much lower than USD 270 mn which was planned earlier.

Tamiflu should be launched in current year. Next year could see FTF launches of Renexa, Minocycline and Moxeza. Lupin expected to file for 35-40 ANDAs for FY18.

India

Management is bullish for India market and expecting to outperform the market by 20%. The Q1FY18 was affected due to GST transition and inventory de-stocking.

Japan

Margins have been impacted in Japan on account of price cuts every year of 6 % instead of once in two years. The system also has a 20 % Co-pay.

Philippines

The decline has been on account of large amount of tender business which did not come through.

R & D:

The company is expected to de-risk its R & D. On Biologics and Risky projects company will find a partner. Company is cutting back its investments in Drug Discovery while allocation for Generics business is flat.

Other Takeaways:

Company has given a guidance of flat to negative growth in FY 18 and EBDITA margins of 21-23 % and R&D of Rs 2 bn for FY 2018E.

Pitampur Plant Unit II and Unit III inspection has been completed. Pithampur plant had 2 observations and is expected to get clarity in 2 months. The Goa plant had 3 observations and will also get clarity in a month's time. The management was of the opinion that Pithampur and Goa plant had routine observations and should be resolved.

Exhibit 1: Quarterly performance

Y/E Mar (Rs mn)	Q1FY18	Q4FY17	Q1FY17	QoQ %	YoY %
Net Revenues	38,696	42,533	44,677	(9.0)	(13.4)
Cost	31,012	34,719	31,569	(10.7)	(1.8)
EBITDA	7,684	7,814	13,108	(1.7)	(41.4)
EBITDA Margin (%)	19.9	18.4	29.3		
Other Income	320	453	826	(29.5)	(61.3)
Interest	439	406	347	8.1	26.4
Depreciation	2,605	2,674	2,027	(2.6)	28.5
Profit before Tax	4,959	5,187	11,560	(4.4)	(57.1)
Tax	1,368	1,367	2,734	0.1	(50.0)
Tax rate (%)	27.6	26.4	23.7		
Profit After Tax	3,591	3,820	8,826	(6.0)	(59.3)
Minority Interest + Shr of asso.	(12)	34	6	(135.4)	(295.2)
Share of associates	(23)	(16)	0	46.3	
Net Profit	3,581	3,802	8,820	(5.8)	(59.4)

Source: Company, Karvy Stock Broking

Exhibit 2: Actual vs Estimates

Y/E Mar (Rs. mn)	Q1Y18E (Karvy)	Q1Y18	Deviation %
Total Revenues	42404	38696	-8.7%
EBITDA	8494	7684	-9.5%
EBITDA Margin (%)	20.0%	19.9%	(17) bps
Profit before Tax	5846	4959	-15.2%
Reported Net Profit	4075	3591	-11.9%

Source: Company, Karvy Stock Broking

Exhibit 3: Change in Estimates

Y/E Mar (Rs. Mn)	FY18E			FY19E			Comments
	New	Old	% change	New	Old	% change	
India Formulations	41,973	42,736	(1.8)	47,009	47,864	(1.8)	Lowered growth for FY 18E to 8 %
US	81,677	111,897	(27.0)	98,454	119,813	(17.8)	Lowered base business and recalibrated US business
Japan	18,634	18,634	-	25,765	25,765	-	
EU	1,890	2,100	(10.0)	2,160	2,520	(14.3)	Lowered EU business in lieu of Q1
South Africa	5,603	5,851	(4.2)	6,332	6,905	(8.3)	Lowered South Africa business in lieu of Q1
RoW	8,842	8,842	-	10,610	10,610	-	
API	11,383	11,383	-	11,383	11,383	-	
Revenues	180,512	214,431	(15.8)	213,687	239,438	(10.8)	
Raw material costs	57,421	65,995	(13.0)	66,867	73,992	(9.6)	Lowered base gross margins
Staff Cost	32,775	32,775	-	36,718	36,718	-	
Other expense	49,169	62,690	(21.6)	59,520	70,008	(15.0)	Lowered R & D cost to Rs 2 bn for FY 18E and to Rs 2.5 bn for FY19E
EBITDA	41,147	52,970	(22.3)	50,581	58,720	(13.9)	
EBITDA margin (in %)	22.8	24.7	-	23.7	24.5	-	
Other Income	1,925	1,729	11.3	2,587	1,887	37.1	Higher excess cash
Depreciation	10,307	9,649	6.8	10,934	10,138	7.9	In lieu of Q1
Interest	1,848	1,350	36.9	1,949	913	113.5	Higher interest factored
PBT	30,917	43,700	(29.3)	40,285	49,556	(18.7)	
Tax	9,275	13,110	(29.3)	12,085	14,867	(18.7)	
Tax rate	30.0	30.0	-	30.0	30.0	-	
Amortisation	2,310	2,310	-	2,310	2,310	-	
Net Profit	19,360	28,308	(31.6)	25,918	32,407	(20.0)	
EPS (Rs.)	42.9	62.7	(31.6)	57.4	71.8	(20.0)	

Source: Company, Karvy Stock Broking

Financials

Exhibit 4: Profit & Loss

Y/E mar (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E
Domestic	29,679	33,916	38,157	41,973	47,009
Exports	96,318	103,100	133,041	134,924	162,345
Other Income	1,703	5,069	3,745	3,615	4,332
Net Revenues	127,700	142,085	174,943	180,512	213,687
Raw Material	41,570	43,094	50,014	57,421	66,867
Staff	17,473	21,077	28,495	32,775	36,718
Other Exps	32,460	40,379	51,502	49,169	59,520
Total Expenditure	91,504	104,550	130,012	139,365	163,106
EBITDA	36,196	37,535	44,931	41,147	50,581
EBITDA margin (%)	28.3	26.4	25.7	22.8	23.7
Other income	2,398	1,877	1,065	1,925	2,587
Interest	98	446	1,525	1,848	1,949
Depreciation	4,347	4,635	9,122	10,307	10,934
Profit Before Tax	34,148	34,331	35,349	30,917	40,285
Tax	9,705	11,538	9,785	9,275	12,085
Minority Interest	412	88	72	72	72
Net Profit	24,032	22,707	25,575	21,670	28,228
less Amortisation	1,648	2,964	2,310	2,310	2,310
PAT After Amortisation	22,384	19,743	23,265	19,360	25,918
Extraordinaries	-	-	-	-	-
Reported Net Profit	22,384	19,743	23,265	19,360	25,918

Source: Company, Karvy Stock Broking

Exhibit 5: Balance Sheet

Y/E Mar (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E
Equity	899	901	903	903	903
Reserves	83,383	101,520	124,339	138,709	159,094
Net worth	84,282	102,421	125,242	139,612	159,997
Deferred Tax Liabilities	2,024	2,045	3,949	3,949	3,949
Short-term Loans	3,692	17,454	23,043	23,881	28,263
Long-term Loans	1,680	54,270	56,478	56,478	56,478
Total Loans	5,371	71,724	79,521	80,359	84,741
Minority Interest	241	321	345	345	345
Total Liabilities	91,918	176,510	209,057	224,264	249,031
Gross Block	51,093	87,094	100,853	108,493	115,097
Depreciation	23,329	27,715	13,624	23,931	34,865
Net Block	27,764	59,379	87,229	84,563	80,232
Capital work-in-progress	5,197	9,812	7,150	6,510	6,906
Goodwill on Consolidation	16,481	29,644	23,100	23,100	23,100
Less: Amortisation	4,459	7,423	9,733	12,043	14,353
Goodwill	12,022	22,221	13,367	11,057	8,747
Long-term Investments	16,584	75	21,361	21,361	21,361
Deferred Tax assets	842	806	5,076	5,076	5,076
Inventories	25,036	31,787	36,423	44,743	50,622
Debtors	26,566	45,498	43,073	44,507	52,674
Cash	4,814	8,379	6,994	17,802	38,090
Other Current assets	8,095	21,808	21,485	23,368	26,430
Total Current assets	64,510	107,473	107,975	130,420	167,816
Creditors	19,561	21,919	25,948	27,815	32,553
Other current liabilities	15,440	18,526	21,334	21,089	22,735
Total current liabilities	35,001	40,445	47,282	48,903	55,288
Net current assets	29,509	67,029	60,693	81,517	112,528
Total Assets	91,918	176,510	209,057	224,264	249,031

Source: Company, Karvy Stock Broking

Exhibit 6: Cash Flow Statement

Y/E Mar (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E
EBIT	30,201	29,936	33,499	28,530	37,337
Change in working capital	7,248	(33,954)	4,951	(10,017)	(10,723)
Cash flow from operations	37,449	(4,018)	38,450	18,513	26,614
Other income	2,398	1,877	1,065	1,925	2,587
Depreciation and Amortisation	5,995	7,599	11,432	12,617	13,244
Interest paid (-)	(98)	(446)	(1,525)	(1,848)	(1,949)
Dividends paid(-)	(4,058)	(4,067)	(4,077)	(4,890)	(5,434)
Tax paid (-)	(9,705)	(11,538)	(9,785)	(9,275)	(12,085)
Minority interest	(412)	(88)	(72)	(72)	(72)
Goodwill on Consolidation	(9,902)	(13,163)	6,544	-	-
Deferred tax liabilities	(463)	21	1,904	-	-
Deferred tax asset	(134)	36	(4,270)	-	-
Net cash from operations	21,071	(23,787)	39,666	16,970	22,906
Capital Expenditure	(7,289)	(58,054)	(31,303)	(7,000)	(7,000)
Free Cash Flow	13,782	(81,841)	8,363	9,970	15,906
Change in short-term borrowing	(332)	13,763	5,589	838	4,382
Change in long-term borrowing	(834)	52,590	2,208	-	-
Change in borrowings	(1,166)	66,353	7,797	838	4,382
Change in Investments	(14,799)	16,509	(21,286)	-	-
Equity issue/buyback	(318)	1,838	745	(0)	-
Cash from Financial Activities	(16,283)	84,700	(12,744)	837	4,382
Others	(660)	707	2,996	-	-
Opening cash	7,975	4,814	8,379	6,994	17,802
Closing cash	4,814	8,379	6,994	17,802	38,090
Change in Cash	(3,162)	3,566	(1,385)	10,807	20,288

Source: Company, Karvy Stock Broking

Exhibit 7: Key Ratios

YE Mar	FY15	FY16	FY17	FY18E	FY19E
EV/EBDITA(x)	12.4	13.6	11.6	12.4	9.8
ROE (%)	28.5	22.2	20.4	15.5	17.6
ROCE(%)	40.7	25.9	19.1	15.1	17.8
PE(x)	19.9	22.7	19.3	23.2	17.3
P/S(x)	3.5	3.3	2.6	2.5	2.1
P/BV(x)	5.3	4.4	3.6	3.2	2.8

Source: Company, Karvy Stock Broking

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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