



Rating
Hold

Asia
India

Health Care
Pharmaceuticals /
Biotechnology

Company
Lupin

Reuters
LUPN.NS

Bloomberg
LPC IN

Exchange
NSI

Ticker
LUPN

Date
30 October 2017

Forecast Change

Price at 27 Oct 2017 (INR)	1,001.10
Price target - 12mth (INR)	945.00
52-week range (INR)	1,535.85 - 923.40
Bombay Stock Exchange (BSE 30)	33,157

Valuation & Risks

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Key changes

Sales (FYE)	-	↑	0.0%
Op prof margin (FYE)	13.6 to 13.2	↓	-2.9%
Net profit (FYE)	18,174.4 to 18,174.9	↑	0.0%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.1	-9.8	-32.4
Bombay Stock Exchange (BSE 30)	6.4	2.4	18.8

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	12.7
Net debt/equity (%)	30.4
Book value/share (INR)	333.54
Price/book (x)	3.0
Net interest cover (x)	14.0
Operating profit margin (%)	13.2

Source: Deutsche Bank

Potential recovery in US business priced in

US sales disappoint, EBITDA margin in line, aided by lower other expenses

Lupin's 2Q US sales declined by USD 88mn on a YoY basis (c.30% fall on an annualized basis), primarily led by increased competition in key products and price erosion. However, overall sales were partially offset by strong growth in the India business, led by inventory restocking post GST. EBITDA margin was aided by cost initiative measures and rationalization of R&D expense. While the company affirms the US business has bottomed in Q2, we believe key launches in FY18 and pricing pressure, led by the further impact of channel consolidation, will continue to weigh on near-term earnings. Maintaining Hold, with a target price of INR 945.

Q2 snapshot

Lupin's 2Q sales declined by 8% YoY, primarily led by a sharp decline in US revenues (USD 204mn, down 32% YoY, down 15% QoQ) led by higher pricing pressure (consolidation-led), and additional competition in gGlumetza, and Minastrin. EBITDA margin was in line at 20% (down 252bps YoY, +148bps QoQ) aided by lower other expenses. India sales grew 16% YoY, partially aided by inventory re-stocking. Lower gross margin (66.8%, down 83bps QoQ), offset by lower staff costs and other expenses, led to sequential improvement in EBITDA margin (+148bps QoQ). R&D expenditure came in lower at 12.2% of sales vs. 13.1% in Q1FY18 and 13.5% in FY17.

Key call highlights

a) pending ANDAs: 147, expects to file 30 ANDAs and 30 launches in FY18; b) base business - expects single-digit price erosion for FY18; c) key US launches - Levothyroxine (Q4FY18 launch), gRanexa (FY19), gCoreg CR, gLialda, gPrevacid ODT (late FY19); d) awaiting EIR for Goa and Pithampur in a couple of months; e) inhalers - gSpiriva trial will be completed by FY18; gAdvair - repeating PK studies; and f) Etanercept - filing in Japan by the end of CY17 and Europe filing before FY18-end.

Maintaining Hold, risks

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

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Forecasts and ratios

Year End Mar 31	2016A	2017A	2018E	2019E	2020E
Sales (INRm)	136,816.0	171,198.0	158,233.1	165,624.9	176,791.6
EBITDA (INRm)	32,807.0	41,186.1	31,743.3	34,591.5	38,384.7
Reported NPAT (INRm)	22,706.1	25,574.6	18,174.9	20,324.6	22,977.5
Reported EPS FD(INR)	50.27	56.62	40.24	44.99	50.87
DB EPS FD(INR)	51.02	56.62	40.24	44.99	50.87
OLD DB EPS FD(INR)	51.02	56.62	40.23	44.99	51.70
% Change	0.0%	0.0%	0.0%	0.0%	-1.6%
DB EPS growth (%)	-8.9	11.0	-28.9	11.8	13.1
PER (x)	35.4	26.8	24.9	22.2	19.7
EV/EBITDA (x)	26.8	17.9	15.0	13.4	11.7
DPS (net) (INR)	7.48	7.48	5.50	6.00	7.00
Yield (net) (%)	0.4	0.5	0.5	0.6	0.7

Source: Deutsche Bank estimates, company data



2QFY18 results review

- Revenues were INR 38bn (down 8% YoY, +2% QoQ), led by weak growth in US markets (down 32% YoY, down 15% QoQ) and API business (down 10% YoY).
- Gross margin was lower at 66.8% (down 148bps YoY, down 83bps QoQ), led by pricing pressure in gGlumetza, INR appreciation.
- Staff costs increased to 18.7% (+180 bps YoY, down 15bps QoQ).
- R&D expenditure was 12.2% of sales vs. 13.1% in Q1FY18.
- EBITDA margin came in at 20.0% (down 252bps YoY, +148bps QoQ). On a QoQ basis, EBITDA margin improved, as lower gross margin was offset by lower other expenses and lower R&D cost.
- The tax rate was in line at 25.4% (27.2% in FY17). Guided for 25-28% in FY18.

Figure 1: Q2FY18 P&L - weak US led to overall miss

(INR mn)	Sep-17	Sep-16	% Chg	Jun-17	% Chg
Net Sales	38,742	42,112	(8.0)	38,068	1.8
EBITDA	7,753	9,488	(18.3)	7,056	9.9
Other income	1,518	1,064	42.7	947	60.3
PBIDT	9,271	10,552	(12.1)	8,003	15.8
Depreciation	2,722	2,112	28.9	2,605	4.5
Interest	479	263	82.2	439	9.2
PBT	6,070	8,177	(25.8)	4,959	22.4
Tax	1,541	1,589	(3.1)	1,368	12.6
Minority	-21	-34	(39.0)	11	(298.1)
Adjusted PAT	4,551	6,622	(31.3)	3,581	27.1
EBITDA margins (%)	20.0	22.5	-252bps	18.5	148bps

Source: Deutsche Bank, company data

Regions' performance for the quarter

- India: Revenues grew by c16% in Q2, partially aided by the benefit of inventory restocking. Expects 15% growth in 2HFY18.
- US: Revenues of USD 204m vs. USD 236m in Q1FY18 were largely impacted by higher price erosion and competition in key products.
- Japan: Revenues grew by 30% YoY in yen terms.
- South Africa: Sales grew 7% YoY in constant currency terms. Lupin is the fourth-largest generic company in South Africa.
- LatAm: Sales grew 42% YoY. Mexico and Brazil grew 66% and 30% respectively, in local currency terms.

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Figure 2: Revenue mix for Q2FY18

INR mn	Sep-17	Sep-16	% Chg	Jun-17	% Chg
India	11,593	9,958	16.4	9,324	24.3
US	13,611	19,978	(31.9)	16,018	(15.0)
APAC	6,357	5,520	15.2	5,989	6.1
EMEA	2,758	2,355	17.1	2,259	22.1
LatAm	1,395	986	41.5	1,269	9.9
ROW	378	396	(4.5)	416	(9.2)
Formulations	36,092	39,193	(7.9)	35,275	2.3
API	2,650	2,919	(9.2)	2,793	(5.1)
Total	38,742	42,112	(8.0)	38,068	1.8

Source: Deutsche Bank, company data

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Appendix 1

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Lupin	LUPN.NS	1001.50 (INR) 27 Oct 2017	14

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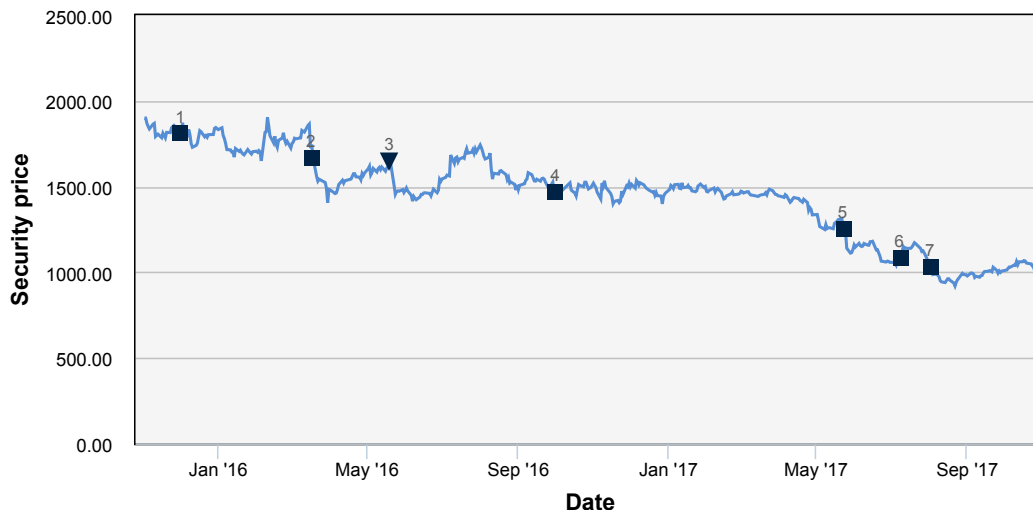
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Historical recommendations and target price. Lupin (LUPN.NS)

(as of 10/27/2017)



Current Recommendations

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

** Analyst is no longer at Deutsche Bank

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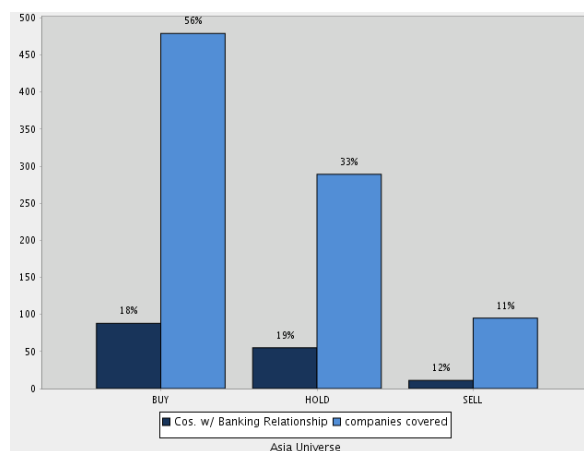
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