

Lupin - SELL

Some respite but...

India rebounds, US stays weak

Lupin reported a mixed quarter with revenue miss offset by slight margin beat. US revenues disappointed at -15% qoq vs. estimated +2% qoq as we figure erosion in Metformin franchise is higher than expected along with the persistent pricing pressure. India rebound is stronger as inventory restocking occurs in the trade channel after GST-led unwinding in Q1. Other geographies reported a strong performance led by Japan (after temporary disruption in Q1) and South Africa (recovery on back of Q1 decline as guided). Adjusted for R&D, margin stood at 21% vs. reported 21.6% and just ahead of our 20.4% estimate; notably gross margin declined 70bps on weaker US business and despite the strong India show. PAT beat aided by higher other income.

Q2 call: 'Hopeful of US business bottoming out'

Key highlights of Q2 call 1) good part of US decline due to lower Glumetza volume and loss of Minastrin exclusivity 2) Levothyroxine: on FDA priority list and no idea how many competitors are working it; to be a late Q4 or early Q1 FY19 launch 3) Everyone is struggling with US price erosion and hoping we are at a point where manufacturers can't take anymore 4) Amazon coming as an additional channel is a positive 5) Key F19 launches: Axeron, Renexa plus Levothyroxin and Hydrocodone APAP 6) 15% yoy India growth in H2 FY18

Uphill task to replicate F17 US performance; SELL stays

Lupin is facing an uphill task in overcoming the Glumetza/Fortamet base in FY18; indeed Q2 sales of US\$200mn including Somerset is barely ahead of ex-Somerset US\$190mn quarterly run rate in FY16 despite high value/volume launches in between, an indication of the severe price erosion. We keep estimates largely unchanged and retain SELL based on 18x F19E EPS.

Analyst: Bhavesh Gandhi



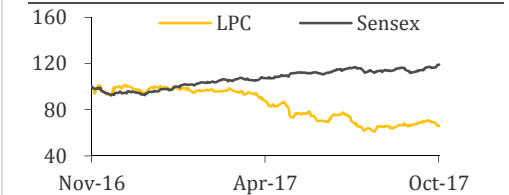
CMP (Rs) 1,028 **12-mts Target (Rs) 830** **Downside 19.2%**

Stock data (As on October 30, 2017)

Sector: Pharmaceuticals

Sensex:	33,266
52 Week h/l (Rs):	1,572/920
Market cap (Rs mn) :	464,245
Enterprise value (Rs mn):	487,744
6m Avg t/o (Rs mn):	2,550
FV (Rs):	2
Div yield (%):	0.8
Bloomberg code:	LPC IN
BSE code:	500257
NSE code:	LUPIN

Stock performance



Shareholding pattern (%)

Promoter	46.8
FII+DII	39.9
Others	13.3

Figure 1: Result table

(Rs mn)	Q2 FY18	Q1 FY18	% qoq	Q2 FY17	% yoy
Net sales	39,520	38,696	2.1	42,905	(7.9)
RM	(7,513)	(8,087)	(7.1)	(6,821)	10.1
Purchase of stock	(5,353)	(4,240)	26.3	(5,608)	(4.5)
Staff expense	(7,250)	(7,180)	1.0	(7,100)	2.1
Other expenses	(10,874)	(11,506)	(5.5)	(13,072)	(16.8)
OPM (%)	21.6	19.9	173 bps	24.0	(243) bps
Depreciation	(2,722)	(2,605)	4.5	(2,112)	28.9
Interest	(479)	(439)	9.2	(287)	66.7
Other income	740	320	131.6	271	173.1
Tax	(1,541)	(1,368)	12.6	(1,589)	(3.1)
Effective tax rate (%)	25.4	27.6	(221) bps	19.4	594 bps
Minority Interest	21	(11)	-	34	(39.5)
PAT	4,550	3,581	27.1	6,622	(31.3)

Source: Company, IIFL Research

Figure 2: Revenue mix

Rs mn	Q2 FY18	Q1 FY18	% qoq	Q2 FY17	% yoy
Formulations	36,092	35,275	2.3	39,193	(7.9)
North America	13,611	16,018	(15.0)	19,978	(31.9)
India	11,593	9,324	24.3	9,958	16.4
APAC	6,357	5,989	6.1	5,520	15.2
EMEA	2,758	2,259	22.1	2,355	17.1
LATAM	1,395	1,269	9.9	986	41.5
ROW	378	416	(9.1)	396	(4.5)
API	2,650	2,793	(5.1)	2,919	(9.2)
Total	38,742	38,068	1.8	42,112	(8.0)

Source: Company, IIFL Research

Figure 3: Financial summary

Y/e 31 Mar (Rs m)	FY15	FY16	FY17	FY18E	FY19E
Revenues	127,700	142,556	174,943	175,858	195,913
yoy growth (%)	13.1	11.6	22.7	0.5	11.4
Operating profit	36,196	36,854	44,931	36,930	45,060
OPM (%)	28.3	25.9	25.7	21.0	23.0
Reported PAT	24,032	22,608	25,575	17,630	21,482
yoy growth (%)	30.9	(5.9)	13.1	(31.1)	21.8
EPS (Rs)	53.5	50.2	56.6	39.0	47.6
P/E (x)	19.2	20.5	18.2	26.3	21.6
P/BV (x)	5.2	4.1	3.4	3.1	2.8
EV/EBITDA (x)	12.8	14.0	11.2	13.4	10.6
Debt/Equity (x)	0.1	0.5	0.5	0.4	0.4
ROE (%)	30.9	22.6	20.7	12.4	13.6
ROCE (%)	36.5	19.7	18.4	12.0	13.4

Source: Company, IIFL Research

IIFL Wealth Research bags 2 Best Analyst Awards

IIFL Wealth Research has bagged two prestigious awards at the *Zee Business Market Excellence Awards 2016*.

Prayesh Jain was conferred the Best Analyst Award for Auto sector and **Bhavesh Gandhi** bagged the Best Analyst Award for Pharma sector.

Besides the twin awards, IIFL Wealth Research was also nominated in the categories of Oil/Gas, Banking and Industrials.

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In the past, the research team has won Zee Biz Awards under different categories; Bloomberg has rated our research as the most accurate, while we have twice been winners of Business Standard Smart Portfolios, having received awards at the hands of luminaries including President Pranab Mukherjee, Prime Minister Narendra Modi and Minister of State Piyush Goyal.

Recommendation parameters for fundamental reports:

Buy = >15%+

Accumulate = 5% to 15%

Reduce = -10% to 5%

Sell = >-10%

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