

BSE SENSEX	S&P CNX
33,266	10,364
Bloomberg	LPC IN
Equity Shares (m)	452
M.Cap.(INRb)/(USD\$b)	554.5 / 8.6
52-Week Range (INR)	1572 / 920
1, 6, 12 Rel. Per (%)	-5/-32/-51
Avg Val, INRm	1765
Free float (%)	53.2

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	174.9	160.4	186.4
EBITDA	44.9	34.3	43.8
PAT	25.6	16.9	23.4
EPS (INR)	56.6	37.3	51.7
Gr. (%)	12.4	-34.1	38.6
BV/Sh (INR)	298.9	325.7	366.9
RoE (%)	20.9	12.0	14.9
RoCE (%)	13.3	8.2	10.4
P/E (x)	18.2	27.5	19.9
P/BV (x)	3.4	3.2	2.8

Estimate change

TP change

Rating change

CMP: INR1,028 TP: INR1,215(+18%)
Buy
US biz bottomed in 2Q; 2H to be better than 1H

- Lupin's (LPC) 2QFY18 revenue declined ~8% YoY to INR39.5b (~4% miss).** Although US formulations revenue declined 32% YoY, non-US formulations revenue grew 17% YoY. EBITDA declined 17% YoY and +11% QoQ to INR8.5b (3% miss), while margin came in at ~21.6% (-240bp YoY/+170bp QoQ). Reported PAT declined 32% YoY to INR4.55b (In-line with estimate).
- US business – recovery expected from 2HFY18:** US business sales came in at USD204m v/s USD238m in 1QFY18 and USD292m in 2QFY17. Significant sequential decline is attributed to new competition in Glumetza, loss of Minastrin exclusivity, and renegotiation of prices under the Claris 1 (Walmart-Mckesson collaboration) program. LPC expects US sales to bottom in current quarter, as the base business price erosion is likely to be in high-single-digit v/s double-digit since the last 12-18 months. A few key launches likely in 2HFY18 are Synthroid (4QFY18E end/1QFY19E beginning), Axiron (next two months), Tamiflu (4QFY18 launch), Hydrocodone APAP (2Q) and Oxycodone APAP. Solosec, Renexa, Coreg CR and Prevacid ODT launches are expected in FY19.
- Domestic business – strong growth to continue:** India business sales grew 16% YoY (+24% QoQ). On a like-to-like basis, sales grew 20% YoY (adjusted for excise duty impact). LPC expects the domestic business to grow at 15% YoY in 2HFY18.
- Key earnings call takeaways:** 1) EBITDA margin (incl. other income) to be ~21-23% in FY18E. 2) Expect final resolution of Goa and Pithampur plants in next two months. 3) Tax rate guidance of 25-28% for FY18. 4) No forex expense in other expense. 5) Inhaler portfolio update: Spiriva phase-3 will be completed in FY18. Filing will happen in FY19E. Advair – repeating the PK studies; will start phase-3 studies by FY18-end.
- Worst is behind; maintain Buy:** We expect recovery in US sales by 4QFY18 on the back of key launches and lower price erosion in the base business. We maintain Buy with a TP of INR1,215@ 21x 1HFY20E PER (v/s INR1,215 @21x FY19E PER). We cut FY18/FY19E EPS by 10%/11% as we build in the impact of a weak performance in 2Q and a slower recovery in margins.

Quarterly Performance (Consolidated)

Y/E March	FY17				FY18E				FY17	FY18E	% Var	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	2QE			
Net Sales	44,677	42,905	44,828	42,533	38,696	39,520	40,027	42,200	174,943	160,442	41,041	-3.7
YoY Change (%)	41.6	28.9	26.1	2.0	-13.4	-7.9	-10.7	-0.8	23.1	-8.3	-4.3	
Total Expenditure	31,596	32,624	32,670	31,481	31,012	30,989	31,221	32,885	130,012	126,108	32,218	
EBITDA	13,080	10,281	12,158	11,052	7,684	8,531	8,806	9,314	44,931	34,335	8,824	-3.3
Margins (%)	29.3	24.0	27.1	26.0	19.9	21.6	22.0	22.1	25.7	21.4	21.5	
Depreciation	2,027	2,112	2,309	2,674	2,605	2,722	2,725	2,726	9,122	10,778	2,610	
Interest	320	263	459	406	439	479	600	592	1,525	2,111	410	
Other Income	826	271	1,036	453	320	740	350	190	1,065	1,600	400	
PBT	11,560	8,177	10,426	8,425	4,959	6,070	5,831	6,186	35,349	23,046	6,204	-2.2
Tax	2,734	1,589	4,095	1,367	1,368	1,541	1,545	1,653	9,785	6,107	1,644	
Rate (%)	23.7	19.4	39.3	16.2	27.6	25.4	26.5	26.7	27.7	26.5	26.5	
Minority Interest	6	8	24	-16	-12	19	20	59	72	85	20	
Recurring PAT	8,820	6,622	6,331	6,069	3,581	4,550	4,266	4,474	25,492	16,854	4,540	0.2
YoY Change (%)	55.1	58.0	19.5	-18.9	-59.4	-30.8	-32.6	-26.3	12.3	-33.9	-31.0	
Margins (%)	19.7	15.4	14.1	14.3	9.3	11.5	10.7	10.6	14.6	10.5	11.1	

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

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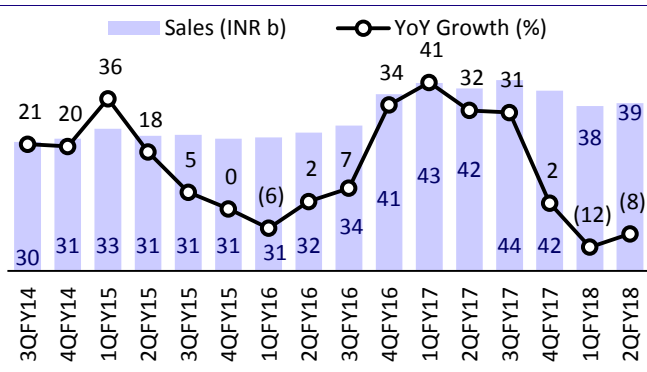
 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

New competition and channel consolidation impact US business

Lupin's 2QFY18 net revenues declined ~8% YoY to INR39.5b (~3.7% below estimate). US business continued to decline significantly by ~32% YoY to INR13.6b, while India business increased 16.4% YoY to INR11.6b (+24% QoQ). Apart from US and India, LPC's other geographies saw robust growth, with Europe revenue up 34.7%, RoW up 32%, Japan business up 9.4%, while South Africa posted flattish growth of 1.3%.

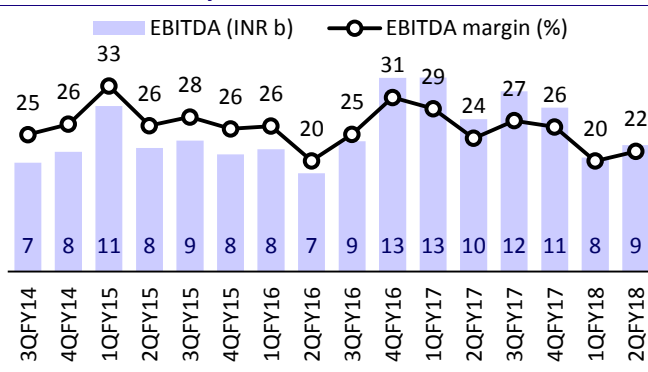
US sales stood at USD204m (v/s USD238m in 4Q). Decline in US sales was driven by new competition in Glumetza, and loss of Minastrin exclusivity renegotiation of prices under the Claris 1 (Walmart- Mckesson collaboration) program. Although the company expects pricing pressure to be in high-single-digits, it believes US has bottomed out.

Exhibit 1: Revenues declined 8% YoY



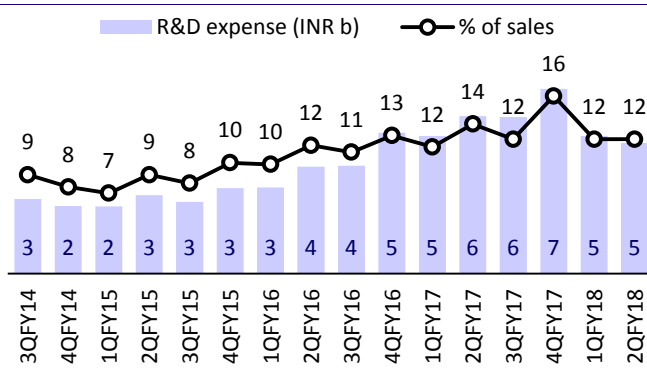
Source: Company, MOSL

Exhibit 2: Quarterly EBITDA trend



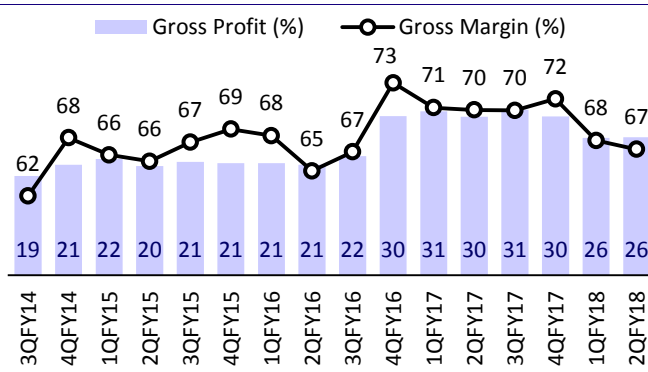
Source: Company, MOSL

Exhibit 3: R&D expense decreased ~130bps 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 - (35% of sales)

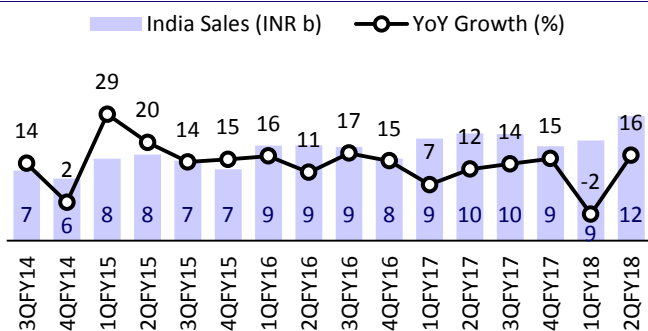
- US business declined 32% YoY to INR13.6b, mainly due to new competition in Glumetza, and loss of Minastrin exclusivity renegotiation of prices under the Claris 1 (Walmart- Mckesson collaboration) program. The company does not expect new competition in Fortamet for the next two quarters.
- Generic business from Somerset posted double-digit growth, while Methergen's monthly revenue run-rate is at USD5-6m.
- We expect US business sales to decline 28% YoY to ~USD900m in FY18. We expect US business to remain under pressure in the near term due to new competition in the metformin portfolio, deferral of key launches, and pricing pressure in the base business due to further channel consolidation.

- The company launched five products in the US in 2QFY18. Cumulatively, LPC is marketing 147 products in the US market as of end 2QFY18. LPC is the market leader in 43 products and among the top 3 in 91 of its marketed products. Company has received 225 approvals till date and has 49 FTF filings, including 25 exclusive FTF. LPC expects to launch 20-30 generic products in FY18E.

India business – (~30% of sales)

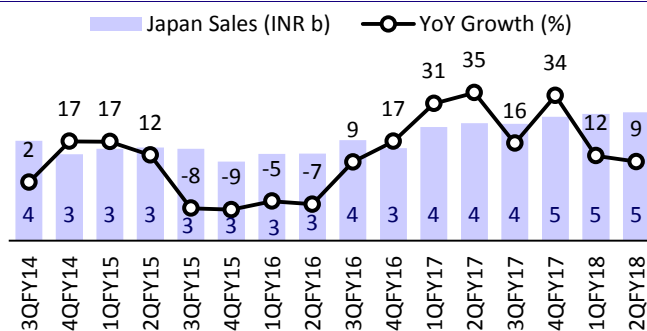
- In 2Q, domestic business posted robust growth of 16.4% YoY, and adjusting for GST, growth was ~20%.
- Company expects domestic business to grow 12-15% in 2HFY18.

Exhibit 5: Domestic business saw robust growth post GST



Source: Company, MOSL

Exhibit 6: Japan sales grew ~9% YoY



Source: Company, MOSL

Highlights from Con call

- US business was impacted primarily by new competition in Glumetza, loss of Minastrin exclusivity and channel consolidation.
- With bottoming out of the US business and a few launches expected in the coming months, the company expects 2HFY18 to be better than 1HFY18.
- LPC expects Solosec launch to happen before earlier guidance of mid-2018.
- Company expects Levothyroxine (Synthroid- USD 800m market) launch by 4Q FY18-end/ 1QFY19 beginning.
- LPC expects Etanercept filing for Japan by end-CY17 and in Europe by end-FY18.
- Company has guided for 30 ANDA filings in FY18 (including 4-5 derma and 4-5 injectable filings) and 20-30 launches in FY18. With a high number of approvals and launches going forward, the US business is expected to post strong growth FY19 onward.
- Expect final resolution of Goa and Pithampur plants in the next two months.
- Branded sales attributed to 20% of total US sales.

Valuation and view

We expect US business to decline ~28% YoY in FY18 due to new competition in metformin portfolio, and pricing pressure in the 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.

We expect a recovery in US sales by 4QFY18E on the back of key launches and lower price erosion in the base business. We maintain **Buy** with a TP of INR1,215@ 21x 1HFY20E PER (v/s INR1,215 @21x FY19E PER). We have cut our FY18/FY19E EPS by 10%/11% as we build in the impact of a weak performance in 2Q and a slower recovery in margins.

Operating metrics

Exhibit 7: Key operating metrics

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Revenue Mix (%)														
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	35.1
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	29.9
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	12.3
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	3.9
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	11.9
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	6.8
Revenue Growth (%)	35.7	18.4	5.4	0.1	(6.4)	2.4	6.8	34.0	41.2	31.9	30.5	1.2	(12.8)	(8.5)
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)	(31.9)
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)	16.4
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	9.4
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	34.7
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	22.1
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)	(9.2)
Expense as % of sales	67.8	75.1	73.0	74.9	75.7	83.5	79.8	70.2	72.8	77.5	74.2	75.6	75.2	80.0
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	33.2
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	18.7
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	12.2
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	15.8
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	26.5
Margins (%)														
Gross Margins	66.3	65.7	67.5	68.7	68.1	64.8	66.6	73.0	70.7	70.5	70.5	71.5	71.1	66.8
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	21.6
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	16.9
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	11.7

Source: Company; MOSL

Story in charts

Exhibit 8: Revenue mix in 2QFY18

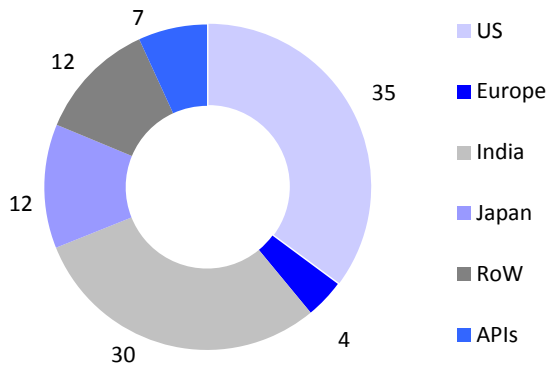


Exhibit 9: Growth to slow down due to regulatory issues

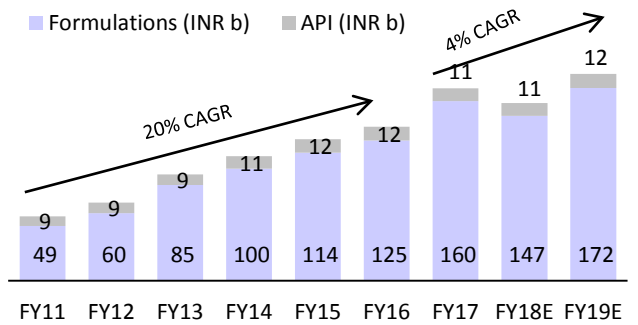


Exhibit 10: R&D expense to be in the range of 12-13%

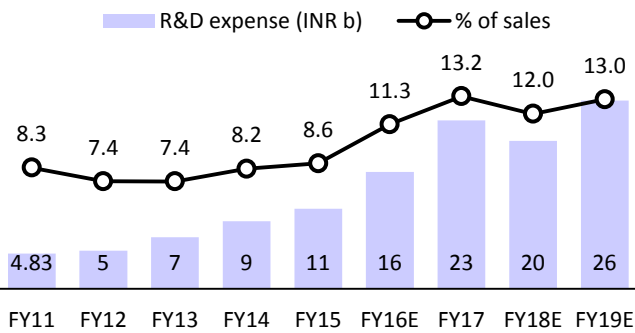


Exhibit 11: Margins to remain under pressure due to pricing pressure

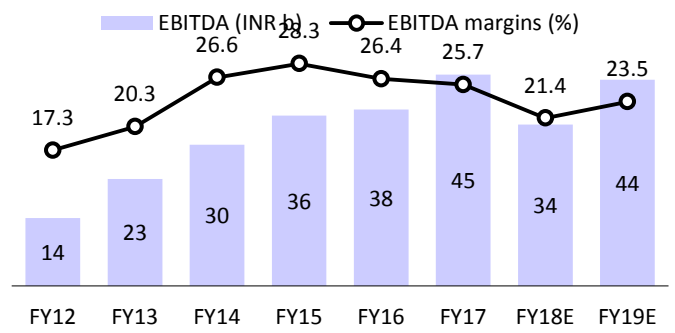


Exhibit 12: EPS to remain muted till FY19

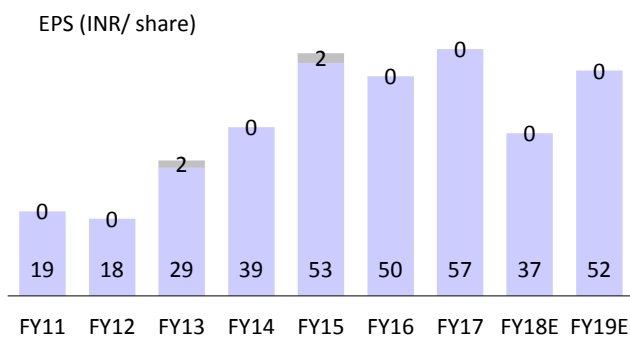
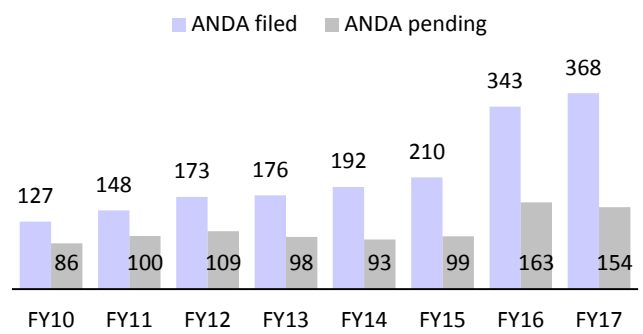


Exhibit 13: Rich ANDA pipeline



Financials and Valuations

Income Statement					(INR Million)	
Y/E March	2014	2015	2016	2017	2018E	2019E
Net Sales	112,866	127,700	142,085	174,943	160,442	186,405
Change (%)	17.1	13.1	11.3	23.1	-8.3	16.2
EBITDA	30,028	36,196	37,534	44,931	34,335	43,805
Margin (%)	26.6	28.3	26.4	25.7	21.4	23.5
Depreciation	2,610	4,347	4,635	9,122	10,778	11,380
EBIT	27,418	31,849	32,899	35,809	23,557	32,425
Int. and Finance Charges	267	98	446	1,525	2,111	2,026
Other Income - Rec.	165	2,398	1,877	1,065	1,600	1,500
PBT before EO item	27,317	34,148	34,330	35,349	23,046	31,899
EO Expense/(Income)	-1,000	0	0	0	0	0
PBT after EO item	28,317	34,148	34,330	35,349	23,046	31,899
Tax	9,622	9,704	11,536	9,785	6,107	8,453
Tax Rate (%)	34.0	28.4	33.6	27.7	26.5	26.5
Less: Minority Interest	331	412	88	-11	85	85
Reported PAT	18,364	24,032	22,707	25,574	16,854	23,361
PAT Adj for EO items	17,364	24,032	22,707	25,574	16,854	23,361
Change (%)	32.1	38.4	-5.5	12.6	-34.1	38.6
Margin (%)	15.4	18.8	16.0	14.6	10.5	12.5

Consolidated Balance Sheet					(INR Million)	
Y/E March	2014	2015	2016	2017	2018E	2019E
Equity Share Capital	897	899	901	903	903	903
Total Reserves	68,419	87,842	108,943	134,072	146,171	164,777
Net Worth	69,316	88,741	109,844	134,975	147,074	165,680
Minority Interest	669	241	321	345	430	515
Deferred liabilities	1,779	1,182	1,239	-1,128	-1,128	-1,128
Secured Loan	1,968	1,018	53,739	61,243	61,243	61,243
Unsecured Loan	4,024	3,692	17,454	23,183	23,183	23,183
Total Loans	5,992	4,710	71,193	84,426	84,426	84,426
Capital Employed	77,756	94,874	182,596	218,619	230,803	249,493
Gross Block	45,638	45,445	55,887	55,265	68,285	81,192
Less: Accum. Deprn.	19,283	19,174	23,262	8,902	24,402	35,781
Net Fixed Assets	26,355	26,271	32,625	46,363	43,883	45,411
Capital WIP	3,041	5,760	9,812	7,150	6,925	6,812
Investments	1,785	16,584	75	220	220	220
Goodwill & Intangibles	7,202	17,411	73,586	78,147	82,869	82,869
Curr. Assets	62,970	64,510	107,473	129,117	138,937	160,547
Inventory	21,295	25,036	31,787	36,423	30,316	34,677
Account Receivables	24,641	26,566	45,498	43,073	41,997	48,793
Cash and Bank Balance	7,975	4,814	8,379	27,994	44,883	55,210
Others	9,060	8,095	21,808	21,626	21,741	21,867
Curr. Liability & Prov.	23,597	35,662	40,975	42,378	42,031	46,365
Account Payables	18,818	28,299	32,318	34,576	29,770	33,870
Provisions	4,779	7,363	8,658	7,801	12,261	12,495
Net Current Assets	39,374	28,848	66,498	86,739	96,906	114,181
Appl. of Funds	77,756	94,874	182,596	218,619	230,803	249,494

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2014	2015	2016	2017	2018E	2019E
EPS (Fully Diluted)	38.7	53.5	50.4	56.6	37.3	51.7
Cash EPS (Fully Diluted)	44.5	63.1	60.7	76.8	61.2	76.9
BV/Share	154.6	197.4	243.8	298.9	325.7	366.9
DPS	6.0	7.5	7.5	9.0	9.0	9.0
Payout (%)	16.0	16.9	17.9	18.6	28.2	20.4
Valuation (x)						
P/E (Fully Diluted)	26.5	19.2	20.4	18.2	27.5	19.9
Cash P/E (Fully Diluted)	23.1	16.3	16.9	13.4	16.8	13.4
P/BV	6.6	5.2	4.2	3.4	3.2	2.8
EV/Sales	4.1	3.6	3.7	3.0	3.1	2.6
EV/EBITDA	15.3	12.7	13.9	11.5	14.6	11.2
Return Ratios (%)						
RoE	28.6	30.4	22.9	20.9	12.0	14.9
RoCE	26.5	29.1	16.8	13.3	8.2	10.4
RoIC	29.7	34.4	18.8	14.9	9.6	13.0
Leverage Ratio						
Current Ratio	2.7	1.8	2.6	3.0	3.3	3.5
Interest Cover Ratio	102.9	324.7	73.7	23.5	11.2	16.0
Debt/Equity (x)	0.1	0.1	0.7	0.6	0.6	0.5

Cash Flow Statement

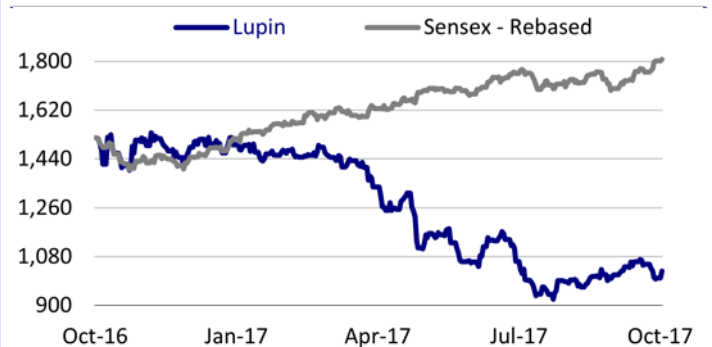
Y/E March	2014	2015	2016	2017	2018E	2019E
Oper. Profit before Tax	30,028	36,196	37,534	44,931	34,335	43,805
Interest/Dividends Recd.	165	2,398	1,877	1,065	1,600	1,500
Direct Taxes Paid	-9,475	-10,300	-11,479	-12,152	-6,107	-8,453
(Inc)/Dec in WC	-4,368	7,364	-34,084	-626	6,721	-6,948
CF from Op. incl EO Exp.	17,349	35,657	-6,152	33,219	36,549	29,903
(inc)/dec in FA	-6,098	-17,191	-71,217	-24,759	-12,795	-12,795
Free Cash Flow	10,251	18,466	-77,369	8,460	23,754	17,108
(Pur)/Sale of Investments	-1,764	-14,799	16,509	-145	0	0
CF from Investments	-7,862	-31,991	-54,708	-24,904	-12,795	-12,795
Change in Net Worth	1,593	-1,389	2,459	4,348	0	0
Inc/(Dec) in Debt	-4,248	-1,282	66,483	13,233	0	0
Interest Paid	-267	-98	-446	-1,525	-2,111	-2,026
Dividend Paid	-2,939	-4,058	-4,071	-4,755	-4,755	-4,755
CF from Fin. Activity	-5,861	-6,828	64,425	11,300	-6,866	-6,781
Inc/Dec of Cash	3,626	-3,161	3,565	19,615	16,888	10,327
Add: Beginning Balance	4,349	7,975	4,814	8,379	27,994	44,883
Closing Balance	7,975	4,814	8,379	27,994	44,882	55,210

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 (%)

	Sep-17	Jun-17	Sep-16
Promoter	46.8	46.7	46.7
DII	12.4	9.8	7.2
FII	27.7	30.9	34.7
Others	13.1	12.6	11.4

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
First State Investments ICVC	2.4
ICICI Prudential Mutual Funds	2.3
LIFE INSURANCE CORPORATION OF INDIA	2.2
Rakesh Jhunjunwala	1.9
ICICI PRUDENTIAL LIFE INSURANCE CO.	1.5

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 (%)
FY17	56.6	56.7	-0.2
FY18	37.3	43.3	-13.8
FY19	51.7	55.7	-7.2

Source: Bloomberg

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