



Rating
Hold

Asia
India

Health Care
Pharmaceuticals /
Biotechnology

Company
Lupin

Reuters
LUPN.NS

Bloomberg
LPC IN

Exchange
NSI

Ticker
LUPN

Date
6 February 2018

Forecast Change

Price at 5 Feb 2018 (INR)	849.10
Price target - 12mth (INR)	782.00
52-week range (INR)	1,496.15 - 808.95
Bombay Stock Exchange (BSE 30)	34,757

US business outlook remains subdued, maintaining Hold

Warning letter and potential competition in key products remain key headwinds

Lupin's near-to-medium-term outlook is driven by pricing pressure in the US business (remains at a high single digit), and additional competition in its key products (gFortamet, Methergine), which will be partially mitigated by new launches like Solosec, Levothyroxine, gRanexa in FY19. We believe the resolution of the warning letter at two of its US FDA plants over the next 2-3 quarters will be key to improving its US business outlook. Lupin's long-term R&D investments in complex assets in the US remain steady and the upside is dependant on timely approval and potential competition. Lupin's Q3 sales were in line with expectations. However, gross margin, at 64.3% (down 250bps QoQ, business mix), were lower than expectation. Adj. PAT came in at INR25bn, below our expectation. We cut our EPS estimates for FY18/FY19 by c.13%/14%, as we lower our gross and EBIDTA margin assumptions. We revise our target price down to INR782 (from INR910). Maintaining Hold.

Q3 snapshot - Sales in line, margins disappoint

Lupin's 3Q sales came in at INR39bn (down 12% YoY, +1% QoQ) in line with expectation. India grew by 8% YoY (11% ex impact of excise duty). US revenues were in line at USD213mn (+4% QoQ) as higher sales in Methergine, cephalosporin products offset price erosion in the base business. EBITDA margin came in at 15.7% (down 1011bps YoY, down 429bps QoQ). Adjusting for forex loss of INR821m, margin came in at 17.8%.

Key call highlights

a) pending ANDAs: 151, 33 FTFs (16 exclusive), plans to launch 10 products in 4Q; b) price erosion - single-digit price erosion; c) key US launches - Levothyroxine (mid CY18 launch), gRanexa (FTF, FY19); c) warning letter at Goa and Pithampur - on track to complete remediation measures by April-May 2018; d) Etanercept - to file in Europe in next quarter and in US in FY19; e) Methergine brand - potential competition can enter.

Maintaining Hold, risks

We lower our target price to INR782 (from INR910) based on a target PER of 21x on FY19E recurring EPS. Downside risks: a delay in resolving Goa and Pithampur (unit II) 483s, lower-than-expected sales growth in the Indian market, increased pricing pressure in US generics and delay in US approvals. Upside risks: higher approvals in the US and higher-than-expected market growth in the Indian market.

Valuation & Risks

Kartik Mehta

Research Analyst

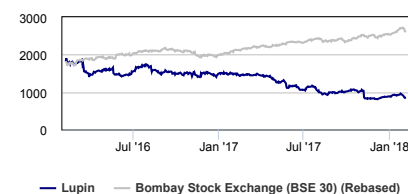
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Key changes

TP	910.00 to 782.00	↓	-14.1%
Sales (FYE)	155,012 to 154,603	↓	-0.3%
Op prof margin (FYE)	12.9 to 11.2	↓	-13.3%
Net profit (FYE)	17,458.4 to 15,054.9	↓	-13.8%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-5.7	-19.0	-43.1
Bombay Stock Exchange (BSE 30)	1.8	3.2	23.1

Source: Deutsche Bank

Figure 1: DB vs. Bloomberg consensus

	FY18E	FY19E
Sales	-3.8%	-10.0%
EPS	-14.1%	-18.2%

Source: Deutsche Bank estimates, Bloomberg Finance LP

6 February 2018
 Pharmaceuticals / Biotechnology
 Lupin



Forecasts and ratios

Year End Mar 31	2016A	2017A	2018E	2019E	2020E
Sales (INRm)	136,816.0	171,198.0	154,603.0	160,525.4	172,225.8
EBITDA (INRm)	32,807.0	41,186.1	28,116.2	30,198.2	35,040.6
Reported NPAT (INRm)	22,706.1	25,574.6	15,054.9	16,815.8	19,998.0
Reported EPS FD(INR)	50.27	56.62	33.33	37.23	44.27
DB EPS FD(INR)	51.02	56.62	33.33	37.23	44.27
OLD DB EPS FD(INR)	51.02	56.62	38.65	43.35	51.93
% Change	0.0%	0.0%	-13.8%	-14.1%	-14.7%
DB EPS growth (%)	-8.9	11.0	-41.1	11.7	18.9
PER (x)	35.4	26.8	25.5	22.8	19.2
EV/EBITDA (x)	26.8	17.9	14.6	13.3	11.1
DPS (net) (INR)	7.48	7.48	5.00	5.50	6.50
Yield (net) (%)	0.4	0.5	0.6	0.6	0.8

Source: Deutsche Bank estimates, company data



3QFY18 results review

- Revenues were INR39bn (down 12% YoY, +1% QoQ) in line with expectation.
- Gross margin was lower at 64.3% (down 616ps YoY, down 250bps QoQ), led by adverse business mix and forex loss.
- Staff costs increased to 17.8% (+120 bps YoY, down 90bps QoQ).
- R&D expenditure was 12.2% of sales (down 70bps YoY, flat QoQ).
- Forex loss came in at INR821mn vs. a gain of INR276m in Q3FY17.
- EBITDA margin came in at 15.7% (down 1011bps YoY, down 429bps QoQ).
- Tax expense included one-off item pertaining to deferred tax assets amounting to INR361m.

Figure 2: Q3FY18 P&L - weak US led to overall miss

(INR mn)	Dec-17	Dec-16	% Chg	Sep-17	% Chg
Net Sales	39,004	44,049	(11.5)	38,742	0.7
EBITDA	6,131	11,379	(46.1)	7,753	(20.9)
Other income	1,037	1,815	(42.9)	1,518	(31.7)
PBIDT	7,168	13,194	(45.7)	9,271	(22.7)
Depreciation	2,804	2,309	21.4	2,722	3.0
Interest	540	459	17.6	479	12.7
PBT	3,825	10,426	(63.3)	6,070	(37.0)
Tax	1,247	4,095	(69.6)	1,541	(19.1)
Minority	-11	-0	5,350.0	-21	(48.1)
Adjusted PAT	2,589	6,331	(59.1)	4,551	(43.1)
EBITDA margins (%)	15.7	25.8	-1011bps	20.0	-429bps

Source: Deutsche Bank, company data

Regions' performance for the quarter

- India: Revenues grew by c8% in Q3. Adjusting for excise impact, growth was 11%.
- US: Revenues of USD213m vs. USD204m in Q2FY18. Price decline has stabilised at single-digit erosion.
- Japan: Revenues grew by 34% YoY in yen terms.
- South Africa: Sales grew 12% YoY in constant currency terms. Lupin is the fourth-largest generic company in South Africa.
- LatAm: Sales grew 6% YoY. Mexico and Brazil grew 10% and 28% respectively, in local currency terms.

6 February 2018
 Pharmaceuticals / Biotechnology
 Lupin



Figure 3: Revenue mix for Q3FY18

INR mn	Dec-17	Dec-16	% Chg	Sep-17	% Chg
India	10,688	9,912	7.8	11,593	(7.8)
US	14,321	21,755	(34.2)	13,611	5.2
APAC	6,742	5,601	20.4	6,357	6.1
EMEA	2,721	2,555	6.5	2,758	(1.3)
LatAm	1,481	1,175	26.0	1,395	6.2
ROW	371	367	1.1	378	(1.9)
Formulations	36,324	41,365	(12.2)	36,092	0.6
API	2,680	2,684	(0.1)	2,650	1.1
Total	39,004	44,049	(11.5)	38,742	0.7

Source: Deutsche Bank, company data

Earnings changes

We cut our estimated sales for FY19 by c.2% and EPS for FY18/FY19 by c.13%/14%, as we lower our gross and EBIDTA margin assumptions. We revise our target price down to INR782 (from INR910). Maintaining Hold.

6 February 2018
Pharmaceuticals / Biotechnology
Lupin



The author of this report wishes to acknowledge the contribution made by Bansi Vora, CFA, an employee of CRISIL Global Research & Analytics, a division of CRISIL Limited, a third-party provider of offshore research support services to Deutsche Bank



Appendix 1

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Company	Ticker	Recent price*	Disclosure
Lupin	LUPN.NS	851.00 (INR) 5 Feb 2018	14

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

(as of 02/05/2018)



Current Recommendations

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

** Analyst is no longer at Deutsche Bank

1.	03/18/2016	Buy, Target Price Change INR 1850,00 Kartik Mehta	5.	07/09/2017	Hold, Target Price Change INR 1268,00 Kartik Mehta
2.	05/20/2016	Downgraded to Hold, Target Price Change INR 1666,00 Kartik Mehta	6.	08/03/2017	Hold, Target Price Change INR 945,00 Kartik Mehta
3.	10/02/2016	Hold, Target Price Change INR 1513,00 Kartik Mehta	7.	11/07/2017	Hold, Target Price Change INR 910,00 Kartik Mehta
4.	05/24/2017	Hold, Target Price Change INR 1329,00 Kartik Mehta			

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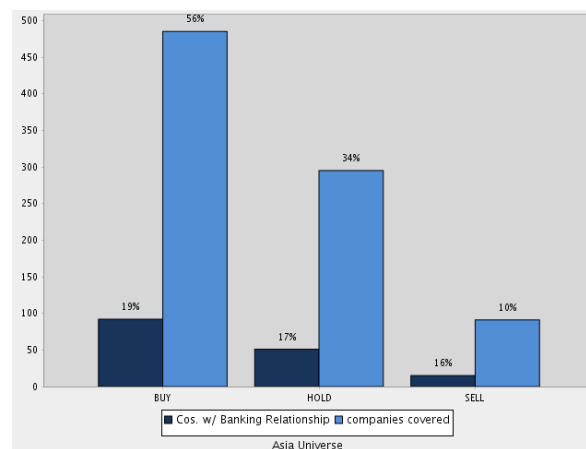
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6 February 2018
Pharmaceuticals / Biotechnology
Lupin



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6 February 2018
Pharmaceuticals / Biotechnology
Lupin



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6 February 2018
Pharmaceuticals / Biotechnology
Lupin



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