IDFC SECURITIES

RESULT NOTE

Lupin

Weak quarter; lower GMs disappoint

UNDERPERFORMER

6 February 2018

BSE Sensex: 34196

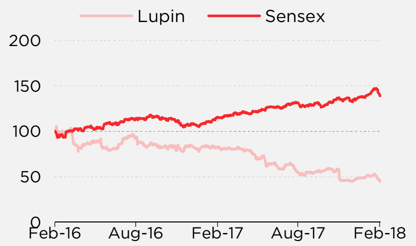
Sector: Pharmaceuticals

Stock data

CMP (Rs)	802
Mkt Cap (Rs bn/USD m)	362.4 /5,645
Target Price (Rs)	836
Change in TP (%)	(9.8)
Potential from CMP (%)	4.3
Earnings change (%)	
FY18E	(20.3)
FY19E	(24.4)

Bloomberg code	LPC IN
1-yr high/low (Rs)	1,574/789
6-mth avg. daily volumes (m)	2.2
6-mth avg. daily traded value	
(Rsm/USDm)	1,997.7/31.1
Shares outstanding (m)	452.1
Free float (%)	53.2
Promoter holding (%)	46.8

Price performance – relative & absolute



(%)	3-mth	6-mth	1-yr
LPC IN	(22.5)	(19.3)	(46.4)
BSE Sensex	1.4	5.8	20.2

Q3FY18 result highlights

- Lupin's revenues were down 8% yoy to Rs39.5bn in line with estimates. US sales came in-line at $213mn (Q2 - $204m). India grew ~11% on a like to like basis, below estimates. Other geographies were in line.
- EBITDA was down 43% yoy to Rs6.9bn (est Rs8.4bn) with margins at 17.3% (est 21.4%). GMs came lower at 63.7% (-640bps/270bps yoy/qoq) impacted by adverse product mix and price erosion in key drugs. Gross profits came at Rs24.4bn vs Rs30.6bn in Q2FY17.
- SGA costs came higher at Rs12bn vs est Rs11bn. Mgt cited the SGA costs were impacted by forex losses. R&D cost came at Rs4.7bn (-16% yoy / flat qoq) in line with guidance to rationalize this cost head.
- Tax rate stood higher at 42% vs est of 30% led by one time impact of Rs361mn. Reported PAT stood lower at Rs2.2bn vs our est of Rs3.8b.

Key positives: Marginal qoq growth in US revenues

Key negatives: Lower GMs, higher SG&A cost and tax rate, forex losses

Impact on financials: We have reduced our FY18/FY19 estimates by 20% / 24% and introduced FY20 estimates

Valuations & view

Sharp drop in 9m US sales (-30% yoy) with the 450bps yoy drop in gross margins underline Lupin's near term growth concerns. Warning letter for two of its critical units which can delay new product approvals have increased pressure on the US business. Limited visibility on meaningful new launches (barring gLevothyroxine and gRanexa) in the US over the next few quarters, despite significant R&D spends undertaken over the years, add to Lupin's challenges. Given its reasonably rich valuations (19.6x FY19E EPS) and near-term earnings uncertainty, we maintain Underperformer. Visibility on recovery in the US generic / specialty business will be trigger for upgrade.

Key financials (quarterly)

(Rs m)	Q3FY17	Q2FY17	Q3FY18	% ch qoq	% ch yoy	% var from est
Net sales	44,829	39,520	39,756	0.6	(11.3)	1.8
EBITDA	12,158	8,530	6,883	(19.3)	(43.4)	(17.6)
OPM (%)	27.1	21.6	17.3	(4.3)	(9.8)	(4.1)
Other inc.	1,036	740	284	(61.6)	(72.6)	(59.4)
Interest	459	479	540	12.7	17.6	17.4
Dep. & Amort.	2,309	2,722	2,804	3.0	21.4	3.8
PBT	10,426	6,070	3,824	(37.0)	(63.3)	(30.4)
PAT	6,331	4,550	2,218	(51.2)	(65.0)	(42.3)
Reported PAT	6,331	4,550	2,218	(51.2)	(65.0)	(42.3)
EPS (Rs)	14.2	10.2	5.0	(51.2)	(65.0)	(41.6)

Source: Company, IDFC Securities Research

Nitin Agarwal
nitin.agarwal@idfc.com
91-22-662 22568

Sumit Singhania
sumit.singhania@idfc.com
91-22-662 22628

Exhibit 1: Quarterly Result

(Rs m)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	FY17	FY18E	Comments
Net Sales	**44,829**	**42,533**	**38,696**	**39,520**	**39,756**	**1,74,943**	**1,58,134**	marginally ahead of estimates
Expenses								
Cost of sales	13,016	11,851	12,326	12,865	13,927	67,498	69,431	lower GMs on a qoq basis; 63.7% vs est 67%; Q2 was 66.4%
SG&A expenses	13,973	16,160	13,687	13,385	14,189	39,414	38,173	higher than est
R&D expenses	5,682	6,709	4,999	4,739	4,757	23,100	20,097	Rs4.7bn vs Rs5.6bn in Q3FY17, flat qoq
Total Expenses	32,670	34,719	31,012	30,989	32,873	1,30,012	1,27,701	
EBITDA	**12,158**	**7,814**	**7,684**	**8,530**	**6,883**	**44,931**	**30,433**	lower than est led by lower GMs and forex loss
OPM (%)	27.1	18.4	19.9	21.6	17.3	25.7	19.2	lower than est of 21.4
Other Income	1,036	453	320	740	284	1,065	1,650	inline with est
Interest	459	406	439	479	540	1,525	2,000	higher than est
Depreciation	2,309	2,674	2,605	2,722	2,804	9,122	11,030	higher than est
PBT	**10,426**	**5,187**	**4,959**	**6,070**	**3,824**	**35,349**	**19,053**	
Current Tax	4,095	1,367	1,368	1,541	1,608	10,882	5,740	
Deferred tax						(1,097)	-	
Tax Rate (%)	39.3	26.4	27.6	25.4	42.0	27.7	30.1	came in higher vs est of 30%
Minority interest	(0)	18	11	(21)	(2)	(11)	-	
PAT	**6,331**	**3,802**	**3,581**	**4,550**	**2,218**	**25,575**	**13,314**	lower than est
Extraordinary expenses	-	-	-	-	-	-	-	
Extraordinary Income								
Reported PAT	**6,331**	**3,802**	**3,581**	**4,550**	**2,218**	**25,575**	**13,314**	
% chg yoy								
Sales	26.1	2.0	(12.8)	(7.9)	(11.3)	22.7	(9.6)	
EBITDA	38.6	(40.1)	(41.3)	(17.0)	(43.4)	21.9	(32.3)	
Other Income	58.6	30.0	(61.3)	173.2	(72.6)	(42.5)	54.9	
Interest	400.3	90.9	37.3	82.2	17.6	156.5	31.1	
Depreciation	107.3	79.8	28.5	28.9	21.4	87.3	20.9	
PBT	26.8	(55.7)	(57.1)	(25.8)	(63.3)	6.3	(46.1)	
PAT	19.5	(49.2)	(59.4)	(31.3)	(65.0)	13.1	(47.9)	
Reported PAT	19.5	(49.2)	(59.4)	(31.3)	(65.0)	13.1	(47.9)	
EPS								
Equity	446.2	446.2	446.2	446.2	446.2	451.6	451.6	
EPS	14.2	8.5	8.0	10.2	5.0	56.6	29.5	

Source: Company, IDFC Securities Research

Other key highlights

- Lupin reported revenues of Rs39.8b (-11% yoy) marginally ahead of our est of Rs39bn

❑ US business

- Lupin's US formulations (including IP income) business reported 33% yoy de-growth in revenues to Rs14.3bn while it grew sequentially by 5.2%.
- In constant currency US revenues stood at US$213m inline with our est of US$210m. We estimate that Lupin booked higher IP income of Rs536m during the quarter vs Rs494mn in Q2FY18.
- The management highlighted that the base US business now seems to be bottoming out. Mgt cited increasing instances of larger generic players like Teva and Sandoz opting to withdraw from un-remunerative drugs. During the quarter, the US base business witnessed price erosion in single digits in line with the historical trends
- Growth in the branded business (+25% yoy growth in current quarter – driven by Methergene and Suprax) has aided in offsetting the price erosion in the generics business. Q2FY18 Revs were $24m vs $23m in Q1FY18 and $19m in Q4FY17

Exhibit 1: US revenues

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	yoy (%)	qoq (%)
US (Rs m)	12,004	11,550	14,049	21,871	21,886	19,978	21,755	19,542	16,018	13,611	14,321	(32.8)	5.2
US (USD m)	180	174	208	325	322	292	316	276	238	204	211	(33.2)	3.4

Source: Company, IDFC Securities Research

- For Q4FY18 the management indicated that it is looking 10+ US product launches (highest in recent past) with some good products like Tamiflu (witnessing good flu season) and Axiron. It believes that these launches should offset the impact of price erosion in the existing portfolio.
- **gGlumetza / gFortamet**
  - Sales were broadly steady in both the drugs with no material market share / volume growth changes
  - Outlook on these drugs will be a function of launch by Nostrun and Sun in gFortamet / gGlumetza respectively. Notably, both these players haven't launched their generics yet despite securing approvals for the same
- **gLevothyroxine**
  - Company has received have some minor queries and remains positive on securing an approval and launching the drug by mid-CY18 / FY19. It doesn't foresee any problem due to the issuance of the warning letter to the Indore facility
  - There are 4 RLDs with Abbott's Synthroid being the largest with ~$800m annual sales. Currently, Lupin is aiming to secure approval for generic version of Synthroid first followed by filing / approval of the other three RLDs. Mgt believes that the requirement for 3 biostudies, large scale high potency capacities and need for manufacturing efficiencies given the very high volume requirements make it a drug with fairly high entry barriers. This product is filed from a different plant (other than the one which received the warning letter), therefore does not carries the approval risk
  - gRanexa – Lupin is the FTF and a settlement to launch in Feb19. Along with gLevothyroxine, likely to be Lupin's biggest launch for FY19. Lupin also has the final approval, however the approval is from the plant which has recently received the warning letter. Mgt is in dialogue with FDA and remains positive on securing the timely approval to launch despite the ongoing regulatory issues.
- **Inhalation portfolio**
  - Albuterol MDI filing: It has already filed for Albuterol MDI (gProAir) in the US in the Q3FY17 which could be a 3-4 player market. Management highlighted that the review is on track and expects approval by CY18 end / early FY19 and post which it is expected to launch the product in CY19. The target action date for the drug is in the middle of FY19. Mgt remains positive on securing an approval. It continues to work on filing multiple other inhalation drugs (MDIs as well as DPIs). In terms of other inhalation products it has also filed Pulmicort.

- gSpiriva – Completed PK and have initiated the PD studies. If the study is successful, aiming to file by end FY18. Potential to the FTF, if all goes well.
- gAdvair: There has been some delays as there are some additional studies going on. The progress continues with the company continuing to take exhibit batches for the PK trials. The company has utilized the inputs from the CRLs issued to Hikma / Mylan and modified its PK trial strategy to incorporate FDA's feedback. The clinical trials are expected to start in next few months with a potential filing by FY19. The challenges persist on this filing for the company as it continues to work on this product.

- **Biosimilars – Another focus area**
  - Etanercept is the lead clinical candidate. Global clinical trials are expected to be completed soon. Post which it is expected to file in Japan by Q4 end and Europe in FY19. US filing requires additional studies and may take some more time.
  - Going forward, Lupin is looking at developing several more biosimilar products from the second wave of biosimilars products going off patent (potential launch in CY23-25)
  - We understand that the company is working on partnership structures to reduce its own financial commitment in the biosimilar programmes.
- **Speciality – key focus going forward**
  - Going forward, Solosec will be the centre piece of the speciality strategy for Lupin. The company is aiming for a mid-CY18 launch. The product is expected to be promoted by a team of 125 field reps. Notably, Lupin currently has a 70 member women's healthcare specialty team promoting Methergene. The focus of this team is expected to shift entirely / largely to promoting Solosec going forward. The success of Solosec will be critical to Lupin's speciality ambitions.
  - Mgt guided to the possibility of potential generic competition in Methergene over the next few quarters which will further accentuate the focus on Solosec. We understand that Granules has filed an ANDA for Methergene and is expecting an approval sometime soon, if the application is in order. Launch of generic Methergene will be a key monitorable going forward.
  - Notably, over the last few quarters, Methergene has been a primary driver for the GAVIS business. Methergene Oral tablet is the only drug available for postpartum hemorrhage (PPH). Mgt had earlier cited excellent response from the prescribing doctors to generics to Rx shift. Notably, as per mgt estimates, successful conversion of all the current prescriptions can generate revenues of ~$70m or so. They are currently generating $5-6m/ per month (vs $4.5-5m/ per month earlier) with Methergene witnessing peak monthly revenues in Dec 2017.
  - Overall, Speciality remains is a key focus area for the company going forward. The company as highlighted in Q1FY18 is working on multiple opportunities including Line extensions for Methergine, 2 ADHD film products along with Monosol Rx, an interesting orphan drug opportunity in EU among others. Going forward, it is looking to acquire multiple assets in Phase II onwards to build this pipeline. This will obviously require sharp enhancement in R&D spends and the company will have to perform a tight balancing act given its guidance for flat R&D spends over next two years.
- **Regulatory status of key Pithampur and Goa facilities**
  - In Nov'17, Lupin announced that USFDA has issued a joint warning letter for its Goa and Indore (Pithampur – Unit II) formulation manufacturing facilities. This was a surprising development as Lupin management had indicated that it has been expecting receipt of Establishment Inspection Report (EIR) for both the facilities.
  - The Goa formulations facility had received Form 483 with three observations (inspection undertaken in April 2017), while Indore (Pithampur – Unit II) had received Form 483 with six observations (inspection undertaken in May 2017).

- These two are amongst Lupin's most critical facilities with a significant proportion of its pending big-ticket ANDAs being filed from their sites. Until this warning letter is resolved, Lupin will not be able to secure approval for any new ANDAs from these two facilities. Given that Lupin's US-based business is under significant stress, new ANDA launches are critical for earnings growth and therefore this warning letter will adversely impact Lupin's ability to witness earnings growth at least over the near term.
- While the company will continue to supply the existing approved products, there could be potential disruption in supplies, apart from the delay in new product approvals. The management indicated that a handful of products are impacted on the warning letter. While working on the remediation measures, the company continues to work on selective site switches for some of the critical products.
- The management indicated that it primary focus is now the resolution and getting both the facilities US FDA complaint. It further highlighted that significant progress has happened on resolution of the issues raised in the warning letter and it is looking to complete the remediation by April/May 2018 and then go back to the USFDA.
- It is already in communication with the USFDA on a monthly basis and has already responded twice till now post the initial communication at the time of issuance of the warning letter.

Exhibit 2: USFDA inspection status

Location	Type of Facility	Inspection	Outcome	Remarks
Mandideep	API and Formulations	Feb-16	Received EIR in May 16	Inspection carried out on from 8-19 Feb, 2016. There were 3 Form 483 observations
Dabhasa	API	Jul-16	Form 483 with 2 observations with Voluntary Action Indicated	Inspection carried out on June 29 to July 6, 2016. As per the company both the observations are minor in nature and corrective and preventive actions were shown to the inspectors during the inspection.
Goa	Formulations	Nov-17	Warning Letter	July (17-21) 2017 – PAI (Prior Approval Inspection) - no observation April 2017 – Form 483 with 3 observations - company had responded to the US FDA **Earlier inspections** For March 16 inspection (Form 483 - 9 observations) - received the EIR in Nov 16. For July 2015 inspection (Form 483 - 9 observations) - received EIR in July 16.
Aurangabad	Formulations	Apr-17	Form 483 with 8 observations	For the April 2017 inspection received the EIR in Aug 17 July 2017 – PAI (Prior Approval Inspection for Tamiflu) - Form 483 with 1 observation The management highlighted that observation was procedural in nature and corrected during the inspection itself **Earlier inspections** Inspection carried out on from 11-15 Jan, 2016 – received EIR in May 16
Indore	Formulations	Apr-17	Form 483 with 6 observations	For the April 2017 inspection – Received EIR
Pithampur Unit I	Formulations	July-17	No observation	GMP and PAI (Prior Approval Inspection)
Pithampur Unit II	Formulations	Nov-17	Warning Letter	May 17 - GMP inspection - Form 483 with 6 observations
Pithampur Unit III	Formulations	Jun-17	Form 483 with 4 observations	PAI (Prior Approval Inspection)

Source: Company, IDFC Securities Research

- **US growth outlook**
  - Based on the recent trends and outlook for future launches, we now estimate US sales at $876m / $994m / $1146m

❑ Japan

- Japan reported a 34% constant currency growth for the quarter aided by the Shionogi acquisition.
- The management further highlighted in Q1FY18 that instead of a 2 year price revision policy, the revision will now take place annually having a 6.5% impact annually. However, the govt is looking to trigger consolidation in the highly fragmented space which may be beneficial for players like Lupin.
- Positive on the Shionogi brand acquisitions; believe it's a fairly strategic transaction as it help to cross sell the generic products as also create foundation for building a specialty business

Exhibit 1: Japan revenues

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	yoy (%)	qoq (%)
Japan (Rs m)	3,231	3,234	3,739	3,442	4,258	4,154	4,491	4,925	5,323	5,385	6,021	34.1	11.8
Japan (JPY m)	6,178	6,077	6,890	5,918	6,868	6,700	7,244	7,944	8,585	8,685	9,711	34.1	11.8

Source: Company, IDFC Securities Research

❑ India

- India business growth which had rebounded sharply in Q2 posted revenues of Rs10.7bn (+7.8% yoy) vs below our est of 9%yoy growth.
- The management further highlighted that on a like to like basis the yoy growth in Q2FY18 was 11% (vs 20% in Q2) due to the change in the accounting norms post GST
- Management had earlier guided for growth of 12-15% for FY18

Exhibit 2: India revenues

(Rs m)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	yoy (%)	qoq (%)
India	8,849	8,738	8,860	7,615	9,313	9,958	9,912	8,788	9,324	11,593	10,688	7.8	(7.8)

Source: Company, IDFC Securities Research

Exhibit 3: Geography wise revenue

Rsm	FY16	FY17	Yoy (%)
Formulations	**1,25,110**	**1,59,815**	**27.7**
US	59,249	82,627	39.5
India	34,486	38,157	10.6
APAC ex Japan	4,059	4,826	18.9
Japan	13,646	17,829	30.7
South Africa	3,998	4,847	21.2
EMEA ex-SA	4,678	5,268	12.6
LatAm	3,507	4,519	28.9
ROW	1,487	1,742	17.1
API	**12,469**	**11,383**	**(8.7)**
Total	**1,37,579**	**1,71,198**	**24.4**

Source: Company, IDFC Securities Research

Exhibit 4: Quarterly Segmental

Rsm	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	yoy (%)	qoq (%)
Formulations	**40,452**	**38,750**	**40,908**	**38,804**	**35,275**	**36,092**	**36,324**	**(11.2)**	**0.6**
US	21,886	19,535	21,298	19,007	16,018	13,611	14,321	(32.8)	5.2
India	9,499	9,958	9,912	8,788	9,324	11,593	10,688	7.8	(7.8)
APAC	5,416	5,520	5,601	6,118	5,989	6,357	6,742	20.4	6.1
EMEA	2,194	2,355	2,555	3,012	2,259	2,758	2,721	6.5	(1.3)
LatAm	1,089	986	1,175	1,269	1,269	1,395	1,481	26.0	6.2
ROW	368	396	367	610	416	378	371	1.1	(1.9)
API	2,966	2,919	2,684	2,815	2,793	2,650	2,680	(0.1)	1.1
Total	**43,418**	**41,669**	**43,592**	**41,619**	**38,068**	**38,742**	**39,004**	**(10.5)**	**0.7**

Source: IDFC Securities Research, Company

Exhibit 5: Other markets (cc growth)

(mn)	Market	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	yoy (%)	qoq (%)
Philippines (PHP)	APAC	508	448	399	615	350	504	456	14.3	(9.5)
South Africa (ZAR)	EMEA	205	252	230	325	209	270	257	11.7	(4.8)
Germany (ZAR)	EMEA	6.4	6.4	7.2	6.5	6.7	7.6	8.7	20.8	14.5
Brazil (BRL)	LatAm	17.1	31	29	35	36	40	37	27.6	(7.5)
Mexico (MXN)	LatAm	132	93	157	148	149	154	173	10.2	12.3

Source: Company, IDFC Securities Research

❑ Key financial metrics

Exhibit 6: Key Financial highlights

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	yoy (%)	qoq (%)
GPs (Rsm)	20,468	20,214	21,984	29,717	30,073	29,240	30,577	29,233	25,075	25,383	24,412	(20.2)	(3.8)
GMs (%)	67.5%	64.2%	66.2%	73.0%	70.3%	70.2%	70.1%	71.2%	67.0%	66.4%	63.7%	(640 bps)	(270 bps)
Empl	4,973	5,242	5,284	5,779	7,059	7,124	7,312	7,078	7,180	7,250	6,931	(5.2)	(4.4)
SG&A	8,505	9,956	10,273	11,868	11,535	13,072	12,343	15,791	11,506	10,874	12,015	(2.7)	10.5
R&D exp	3,131	3,870	3,916	5,113	4,994	5,716	5,682	6,709	4,999	4,739	4,757	(16.3)	0.4
% of rev	10.3%	12.3%	11.8%	12.6%	11.7%	13.7%	13.0%	16.3%	13.4%	12.4%	12.4%		

Source: Company, IDFC Securities Research

- Gross margins for the quarter were down by 640bps/270bps yoy/qoq at ~63.7% (vs est of 67%) on account of the adverse product mix led by higher share of India business and lower US.
- Notably, GMs have come off sharply from the ~70% that the company used to clock till few quarters back. The management highlighted that the current quarters run rate will likely be the new base going forward.
- Further, the gross profits for the quarter were Rs24.5bn vs ~Rs30bn / quarter generated during FY17. This squeeze in gross profits is putting pressure on Lupin's profitability.
- Gross profit miss along with sharply higher SGA spends led to consolidated OPM coming lower at 17.3% vs our est of 21.4%.
- SGA costs stood higher at Rs12bn (+10% qoq). The management indicated that this quarter was impacted by the forex loss of Rs821m vs a gain of Rs570m in Q2FY18; the same would be spread across different cost heads however the bulk of it is in SG&A cost. It suggests that the adjusted SGA costs are ~Rs11.5bn as per the run-rate over last couple of quarters.
- Going forward, SGA costs will be inflated by expenses related to Solosec launch. While this quarter had some contribution, forthcoming quarters will see higher expense on this account.
- R&D costs were steady sequentially at Rs4.8bn (12.4% of revs; -16% yoy) in line with the earlier guidance of lower R&D spends

- The management had earlier highlighted that it expects the quarterly run rate of Rs5b to continue for the remaining quarters of FY18 implying a lower R&D outlay of Rs20b for FY18 vs Rs23b for FY17. It is expected to continue the same rate as well in FY19 as it is looking for product pipeline optimisation due to the structural change in the US operating environment. For the US markets it is selectively looking at products for development
- The management had also indicated that the lower R&D spends does not implies any change in the current ongoing R&D activities. This lower spends is primarily led by the company getting finance partners on board for the biologics spends as well lower discovery R&D spends along with the optimisation of the current ongoing R&D portfolio.
- The management further indicated in the current quarter that on an annual basis it is looking to work on 15-20 oral products, 8-10 injectable products, couple of inhalation products and one biosilimar product.

Exhibit 7: US FDA filing, approvals and launches

(nos)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY17 Total	Q1FY18	Q2FY18	Q3FY18
Filings	2	4	6	25	37	1	10	5
Approvals	7	9	11	7	34	3	9	6
Launches	3	2	4	9	18	4	5	3

Source: Company, IDFC Securities Research

Exhibit 8: QoQ Cumulative filing movement

US market	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Cumulative Filings	336	338	344	368	368	377	382
Cumulative approvals	187	196	207	214	217	225	231
Awaiting approvals	149	142	137	154	151	152	151
FTF	45	45	44	45	45	49	33
Products in the US market	123	124	128	139	142	147	190
							382
Cumulative DMF filings	**172**	**172**	**173**	**187**	**187**	**188**	**231**

Source: Company, IDFC Securities Research

- Tax rate for the current quarter stood significantly higher at 42% (25.4% in Q2FY18) vs our estimate of 30%. Tax rate for the current quarter stood higher due to deferred tax impact (Rs361mn) on the unrealized profits on the inventory supplied from India for the US markets due to the change in the US tax laws. The management highlighted that the impact will be there in Q4 as well and the change in tax laws will be beneficial in the longer run.
- Accordingly going forward for FY18 the management expects the tax rate to increase to 30% from the earlier guidance of 25%-28%
- Led by weak operating performance the reported PAT of Rs2.2bn was below our est at Rs3.8bn.
- The NWC has increased in the current quarter on account of the higher receivables and inventory levels. However going forward the management expects to lower the NWC
- The current quarter witnessed a higher capex spends of Rs2.5bn vs Rs2.08bn in Q2FY18. Capex for FY17 stood at Rs16.6b. Capex guidance of Rs8-10bn for FY18.Management ascribed it to a phase of fairly limited capex spends over FY15-16 and a major ramp-up in capacity addition projects across India and Japan in FY17 and therefore expects moderation of capex spends in coming years.

Exhibit 9: Other financial parameters

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Operating Wcap (Rs m)	48,857	48,166	49,691	48,960	54,068	57,139	57,610
Wcap days	102	103	105	105	119	128	134
Capital Exp (Rs m)	5,663	3,057	2,095	5,819	2,832	2,077	2,540
Net Debt / Equity (x)	0.43	0.41	0.41	0.38	0.37	0.40	0.40

Source: IDFC Securities Research, Company

Income statement

Year to 31 Mar (Rs m)	FY16	FY17	FY18E	FY19E	FY20E
Net sales	142,555	174,943	158,134	176,248	198,099
% growth	8.9	22.7	(9.6)	11.5	12.4
Operating expenses	105,702	130,012	127,701	139,168	153,936
EBITDA	36,853	44,931	30,433	37,079	44,162
% change	(6.6)	21.9	(32.3)	21.8	19.1
Other income	1,852	1,065	1,650	1,500	1,500
Net interest cost	595	1,525	2,000	1,900	1,800
Depreciation	4,871	9,122	11,030	11,582	12,161
Pre-tax profit	33,239	35,349	19,053	25,098	31,702
Deferred tax	(840)	(1,097)	0	0	0
Current tax	11,434	10,882	5,740	6,613	8,097
Profit after tax	22,646	25,564	13,314	18,484	23,604
Preference dividend	0	0	0	0	0
Minorities	(39)	11	0	0	0
Adjusted net profit	22,607	25,575	13,314	18,484	23,604
Non-recurring items	0	0	0	0	0
Reported net profit	22,607	25,575	13,314	18,484	23,604
% change	(17.2)	13.1	(47.9)	38.8	27.7

Balance sheet

As on 31 Mar (Rs m)	FY16	FY17	FY18E	FY19E	FY20E
Paid-up capital	901	903	903	903	903
Preference capital	0	0	0	0	0
Reserves & surplus	110,735	134,075	144,747	160,061	179,967
Shareholders' equity	111,957	135,323	145,995	161,309	181,214
Total current liabilities	32,030	34,716	30,752	32,022	33,797
Total debt	74,749	84,286	79,286	69,286	54,286
Deferred tax liabilities	(92)	(1,128)	(1,128)	(1,128)	(1,128)
Other non-current liabilities	4,246	7,799	7,799	7,799	7,799
Total liabilities	110,934	125,674	116,709	107,979	94,754
Total equity & liabilities	222,890	260,996	262,704	269,288	275,968
Net fixed assets	91,539	108,560	112,530	115,948	115,788
Investments	164	21,361	21,361	21,361	21,361
Cash	8,218	6,994	12,486	10,345	10,020
Other current assets	100,316	100,981	93,227	98,533	105,699
Deferred tax assets	0	0	0	0	0
Other non-current assets	22,654	23,100	23,100	23,100	23,100
Net working capital	76,503	73,259	74,960	76,856	81,922
Total assets	222,890	260,996	262,704	269,288	275,968

Cash flow

Year to 31 Mar (Rs m)	FY16	FY17	FY18E	FY19E	FY20E
Pre-tax profit	33,239	35,349	19,053	25,098	31,702
Depreciation	4,871	9,122	11,030	11,582	12,161
Chg in Working capital	(36,288)	2,021	3,790	(4,036)	(5,391)
Total tax paid	(11,434)	(10,882)	(5,740)	(6,613)	(8,097)
Net Interest	595	1,525	2,000	1,900	1,800
Others	0	0	0	0	0
Operating cash flow	(12,131)	40,688	30,134	27,930	32,174
Capital expenditure	(69,623)	(26,589)	(15,000)	(15,000)	(12,000)
Free cash flow (a+b)	(81,160)	15,625	17,134	14,830	21,974
Chg in investments	16,421	(21,198)	0	0	0
Debt raised/(repaid)	69,439	9,537	(5,000)	(10,000)	(15,000)
Net interest	(595)	(1,525)	(2,000)	(1,900)	(1,800)
Capital raised/(repaid)	2	2	0	0	0
Dividend (incl. tax)	(4,067)	(3,963)	(2,642)	(3,170)	(3,699)
Other items	3,917	1,789	1	0	0
Net chg in cash	3,404	(1,223)	5,492	(2,140)	(325)

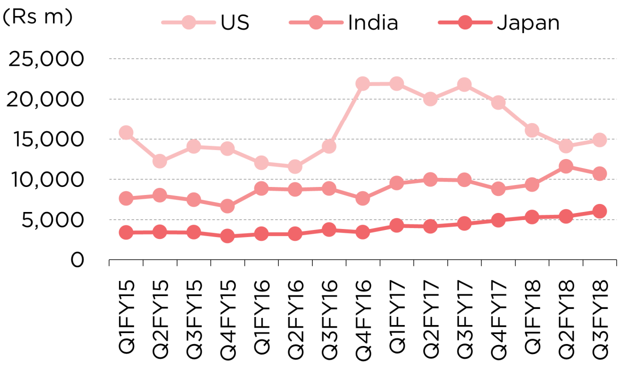
Key ratios

Year to 31 Mar	FY16	FY17	FY18E	FY19E	FY20E
EBITDA margin (%)	25.9	25.7	19.2	21.0	22.3
EBIT margin (%)	22.4	20.5	12.3	14.5	16.2
PAT margin (%)	15.9	14.6	8.4	10.5	11.9
RoE (%)	22.5	20.7	9.5	12.0	13.8
RoCE (%)	21.8	17.2	8.5	10.9	13.3
Gearing (x)	0.6	0.6	0.5	0.4	0.2
Net debt/ EBITDA (x)	1.8	1.7	2.2	1.6	1.0
FCF yield (%)	(22.7)	3.9	4.2	3.6	5.6
Dividend yield (%)	1.1	1.1	0.7	0.9	1.0

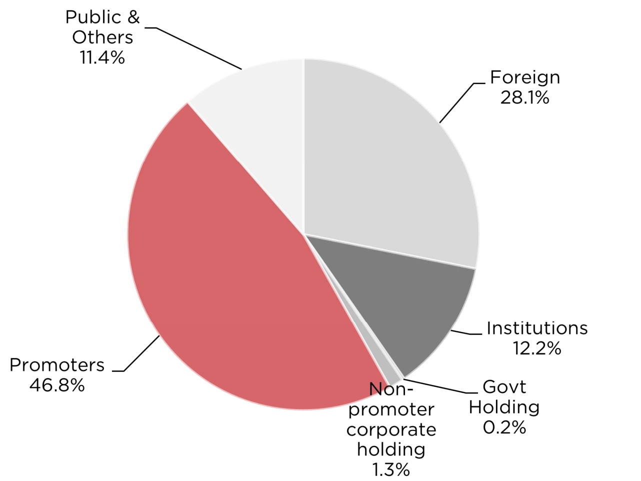
Valuations

Year to 31 Mar	FY16	FY17	FY18E	FY19E	FY20E
Reported EPS (Rs)	50.2	56.6	29.5	40.9	52.3
Adj. EPS (Rs)	50.2	56.6	29.5	40.9	52.3
PE (x)	16.0	14.1	27.2	19.6	15.3
Price/ Book (x)	3.2	2.7	2.5	2.2	2.0
EV/ Net sales (x)	3.0	2.5	2.7	2.4	2.1
EV/ EBITDA (x)	11.6	9.8	14.1	11.4	9.2
EV/ CE (x)	2.2	1.9	1.8	1.8	1.7

Segmental break-up



Shareholding pattern



As of Sep 17

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Anish Damania	**CEO, Strategy**	**anish.damania@idfc.com**	**91-22-4202 2522**
Research Analyst	Sector/Industry/Coverage	E-mail	Tel.+91-22-4202 2600
Shirish Rane	HoR; Construction, Power, Infrastructure Developers	shirish.rane@idfc.com	91-22-4202 2575
Nitin Agarwal	Pharmaceuticals, Real Estate, Agri-inputs, Midcaps	nitin.agarwal@idfc.com	91-22-4202 2568
Mahrukh Adajania	Financials	mahrukh.adajania@idfc.com	91-22-4202 2574
Bhoomika Nair	Engineering, Cement, Power Equipment, Logistics	bhoomika.nair@idfc.com	91-22-4202 2561
Ashish Shah	Construction, Infrastructure Developers, Power, Airlines	ashish.shah@idfc.com	91-22-4202 2560
Deepak Jain	Automobiles, Auto ancillaries	deepak.jain1@idfc.com	91-22-4202 2562
Rohit Dokania	Media & Entertainment, Midcaps	rohit.dokania@idfc.com	91-22-4202 2567
Mohit Kumar, CFA	Construction, Power	mohit.kumar@idfc.com	91-22-4202 2573
Ashish Kejriwal	Metals, Mining	ashish.kejriwal@idfc.com	91-22-4202 2594
Probal Sen	Oil & Gas	probal.sen@idfc.com	91-22-4202 2569
Harit Kapoor	FMCG, Retail, Alcoholic Beverages	harit.kapoor@idfc.com	91-22-4202 2649
Rumit Dugar	IT services, Telecom	rumit.dugar@idfc.com	91-22-4202 2552
Jignesh Praful Shial	Financials	jignesh.shial@idfc.com	91-22-4202 5838
Jiten Rushi	Construction, Infrastructure Developers, Airlines	jiten.rushi@idfc.com	91-22-4202 2615
Mehul Desai	FMCG, Retail, Alcoholic Beverages	mehul.desai@idfc.com	91-22-4202 2640
Ankit Shah, CFA	Engineering, Cement, Power Equipment, Logistics	ankit.shah@idfc.com	91-22-4202 2655
Sumit Singhania	Pharmaceuticals, Real Estate	sumit.singhania@idfc.com	91-22-4202 2628
Miloni Bagadia	Agri-inputs, Midcaps	miloni.bagadia@idfc.com	91-22-4202 2663
Aditya Vora	Automobiles, Auto ancillaries	aditya.vora@idfc.com	91-22-4202 2564
Sanket Chheda	Financials	sanket.chheda@idfc.com	91-22-4202 2565
Aasim Bharde, CFA	Media & Entertainment, Midcaps	aasim.bharde@idfc.com	91-22-4202 2576
Aniket Pande	IT services, Telecom	aniket.pande@idfc.com	91-22-4202 2631
Bhawana Chhabra	Strategy	bhawana.chhabra@idfc.com	91-22-4202 2629
Neeraj Agarwal	Alternative Research	neeraj.agarwal@idfc.com	91-22-4202 2625
Dharmendra Sahu	Database Analyst	dharmendra.sahu@idfc.com	91-22-4202 2580
Equity Sales	Designation	E-mail	Tel.+91-22-4202 2500
Rajesh Makharia	Director, Sales	rajesh.makharia@idfc.com	91-22-4202 2528
Nilisha Barbora	Director, Head Asia Sales	nilisha.barbora@idfc.com	91-22-4202 2595
Hemal Ghia	Director, Sales	hemal.ghia@idfc.com	91-22-4202 2533
Vijayaraghavan G	SVP, Sales	vijayaraghavan.g@idfc.com	91-22-4202 2690
Pranav Verma	SVP, Sales	pranav.verma@idfc.com	91-22-4202 2597
Abhinav Rathee	SVP, Sales	abhinav.rathee@idfc.com	91-22-4202 2586
Saira Ansari	VP, Sales	saira.ansari@idfc.com	91-22-4202 2696
Chandan Asrani	AVP, Sales	chandan.asrani@idfc.com	91-22-4202 2540
Sneha Baxi	AVP, Sales	sneha.baxi@idfc.com	91-22-4202 2537
Yohann Carvalho	AVP, Sales	yohann.carvalho@idfc.com	91-22-4202 2513
Equity Sales Dealing	Designation	E-mail	Tel.+91-22-4202 2500
Suryakant Bhatt	Director & Head - Sales trading	suryakant.bhatt@idfc.com	91-22-4202 2693
Mukesh Chaturvedi	Director, Sales trading	mukesh.chaturvedi@idfc.com	91-22-4202 2512
Viren Sompura	SVP, Sales trading	viren.sompura@idfc.com	91-22-4202 2527
Rajashekhar Hiremath	SVP, Sales trading	rajashekhar.hiremath@idfc.com	91-22-4202 2516
Suketu Parekh	VP, Sales trading	suketu.parekh@idfc.com	91-22-4202 2674
Sailesh Jain	SVP, Head derivatives	sailesh.jain@idfc.com	91-22-4202 2653

IDFC Securities
6th Floor, One Indiabulls Centre, Tower 1C,
841 Jupiter Mills Compound, Senapati Bapat Marg,
Elphinstone, Mumbai 400 013.
INDIA

Board: +91 22 4202 2500
Fax: +91 22 4202 2504

IDFC Capital (USA) Inc,
Regus Business Centre
600 Third Avenue,
2nd Floor,
New York, 10016

Tel: +1 646 571 2303
Fax: +1 646 571 2301

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