




February 8, 2018 01:55 AM GMT

Lupin Ltd.

Margin Compression Drives F3Q18 Miss; Staying EW

 Stock Rating
 Equal-weight

 Industry View
 In-Line

 Price Target
 Rs850.00

Lupin is facing two key challenges – earnings erosion and Warning Letters at two major facilities. Meanwhile, the near-term US pipeline is modest and there could be incremental risk to its Metformin/Methergine franchise in the US.

WHAT'S CHANGED?	Lupin Ltd. (LUPN.NS)	From:	To:
	Price Target	Rs847.00	Rs850.00
	F18e, F19e, F20e EPS		-25%, -13%, and -9%

Staying EW until the company gets closer to resolving FDA issues and its US pipeline gets more mature:

Lupin reported F3Q18 results, with adjusted net profits of ~Rs3.2 bln, below our Rs4.4 bln estimate (details inside). Our estimate cuts largely reflect F9M18 results and lower margin assumptions. We have rolled our valuation forward six months to March 2020 while maintaining our 18x target multiple.

Business outlook – management mentioned that F19 could also be challenging:

US commentary: It believes that pricing pressure is bottoming out in the US and base business erosion should now be in single digits (which was seen before customer consolidation). It continues to bolster its US pipeline with roughly 15-20 oral solid products, 8-10 injectables, and one biosimilar per year. Its product selection is more towards complex generics (and less where it expects more than 5-6 competitors). Lupin has responded to FDA queries for levothyroxine, and approval is possible by mid-2018.

FDA issues: Lupin expects to complete the remediation work at the two sites by mid-2018 and the issues to be resolved by end of F19.

Other conference call highlights: Specialty business – the company aims to launch its key specialty product, Solosec, by mid-2018 (it will increase medical reps from 70 to 220). One competitor has filed an ANDA for Methergine, which may imply a generic launch sometime in F19. Metformin – market share has stabilized for this franchise, but there could be additional competition in due course for gFortamet (Nostrum) and gGlumetza (Sun). Inhalation portfolio – gAlbuterol, filed in January 2017, may get approved and launched by 2019. gPulmicort has been filed with the FDA. gTiotropium Phase 3 studies are nearing completion and filing is likely in ensuing quarters. gAdvair is in the development process (PK studies). Complex injectable (from the Nanomi portfolio) will get filed from F20.

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Lupin Ltd. (LUPN.NS, LPC IN)

India Healthcare / India

Stock Rating	Equal-weight
Industry View	In-Line
Price target	Rs850.00
Up/downside to price target (%)	5
Shr price, close (Feb 7, 2018)	Rs806.05
52-Week Range	Rs1,520.00-781.80
Sh out, dil, curr (mn)	452
Mkt cap, curr (mn)	Rs364,012
EV, curr (mn)	Rs442,873
Avg daily trading value (mn)	Rs2,163

Fiscal Year Ending	03/17	03/18e	03/19e	03/20e
ModelWare EPS (Rs)	55.64	30.05	36.80	47.25
Prior ModelWare EPS (Rs)	-	40.25	42.13	51.98
Consensus EPS (Rs)§	62.94	39.01	46.61	53.37
Revenue, net (Rs mn)	174,94	158,91	171,89	196,61
	3	0	4	2
EBITDA (Rs mn)	44,932	30,383	33,951	42,408
ModelWare net inc (Rs mn)	25,100	13,570	16,617	21,336
P/E	25.9	26.8	21.9	17.1
P/BV	4.8	2.5	2.3	2.0
RNOA (%)	13.1	6.0	9.3	12.6
ROE (%)	22.5	10.1	11.4	13.4
EV/EBITDA	16.2	12.4	10.6	8.1
Div yld (%)	0.4	0.7	0.7	0.7
FCF yld ratio (%)	(1.5)	18.8	5.1	4.8
Leverage (EOP) (%)	58.2	8.2	(3.1)	(11.9)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Thomson Reuters Estimates

e = Morgan Stanley Research estimates

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Financial Summary

Exhibit 1: Financial Summary

Income Stat. (Rs mn) YE Mar 31	2017E	2018E	2019E	2020E
Net sales	171,198	156,510	169,494	194,212
Other Operating Income	3,745	2,400	2,400	2,400
Total revenues	174,943	158,910	171,894	196,612
Cost of Goods Sold	60,511	61,343	65,260	72,596
Gross Profit	114,432	97,567	106,633	124,015
R&D Expenses	23,101	20,023	20,627	23,593
Personnel Costs	29,495	29,065	31,100	32,996
SG&A	17,304	18,096	20,955	25,049
Operating Profit	44,932	30,383	33,951	42,408
Non-Operating Income	1,065	1,200	1,400	1,400
EBITDA	45,997	31,583	35,351	43,808
Interest Expenses	1,325	1,945	1,422	1,203
Depreciation & Amortization	9,122	10,936	11,797	12,967
Pretax Profit	35,349	18,702	22,142	29,618
Income Tax	9,785	5,143	5,535	8,293
Minority Interest	(11)	(11)	(11)	(11)
Net Profit	25,575	13,570	16,617	21,336
Effective Tax Rate	28%	28%	25%	28%
EPS	56.6	30.0	36.8	47.2
DPS	5.5	5.5	5.5	5.5

Balance Sheet	2017E	2018E	2019E	2020E
Balance Sheet (Rs mn)				
Equity Capital	903	903	903	903
Reserves & Surplus	134,073	144,737	159,448	176,878
Networth	134,976	145,640	159,351	177,781
Debt	79,521	72,653	65,653	58,653
Total	218,389	222,175	228,875	240,295
Net Block	87,229	85,504	83,717	77,730
Capital WIP	21,331	15,000	10,000	10,000
Net Fixed Assets	108,560	100,504	93,717	87,730
Goodwill on consolidation	23,100	23,100	23,100	23,100
Investments	220	20	20	20
Cash & Cash Equivalents	6,818	65,732	76,642	85,770
Investment	36,423	32,653	35,321	40,440
Receivables	43,073	34,830	37,675	43,093
Loans & Advances	41,445	12,713	13,751	15,729
Current Assets	120,941	80,195	86,747	99,222
Less: Current Liabilities & Provisions	41,250	49,377	51,351	55,547
Total	218,389	222,175	228,875	240,295

Cash Flow	2017	2018E	2019E	2020E
Profit after tax	25,575	13,570	16,617	21,336
Add : Depreciation	9,122	10,936	11,787	12,987
Extraordinary Items	-	-	-	-
Net change in Wk capital	(14,800)	47,873	(3,578)	(8,278)
Net cash from operations	19,462	72,368	24,816	26,034
Capital Expenditure/Acq	(26,589)	(2,881)	(5,000)	(7,000)
Disc/(Inc) in Investments	(77)	230	-	-
Net cash from Investing	(26,665)	(2,681)	(5,000)	(7,000)
Issue of equity shares	1,510	(0)	(0)	(0)
Dividends paid including dividend tax	-2,906	-2,906	-2,906	-2,906
Net cash from financing	-1,396	-2,906	-2,906	-2,906
Net Inc/(Dec) in Net Debt	8,600	(66,781)	(16,910)	(16,128)
Opening Net Debt	63,267	72,703	5,922	(10,988)
Closing Net Debt	72,703	5,922	(10,988)	(27,117)

Ratios	2017	2018E	2019E	2020E
Profitability Ratios				
Gross Margin	65.4%	61.4%	62.0%	63.1%
Operating Margin	25.7%	19.1%	19.8%	21.6%
Valuation Ratios				
P/EV	3.4	3.2	2.9	2.6
EV/EBITDA	7.5	8.8	7.4	5.6
Leverage Ratios				
Net Debt/Equity	0.54	0.04	(0.07)	(0.15)
Total Debt/Equity	0.59	0.50	0.41	0.33
Turnover Ratios				
Inventory (days of net sales)	60	60	60	60
Receivables (days of net sales)	41	41	41	41
Cash cycle (days of net sales)	101	101	101	101
Net working capital (x net sales)	151	128	71	73

Source: Company data, Morgan Stanley Research (E) estimates

Risk-Reward: Lupin Ltd. (LUPN.NS, EW, PT Rs850.00)

FDA resolution plus pipeline execution are the key valuation drivers



Source: Thomson Reuters, Morgan Stanley Research estimates

Price Target Rs850

Base case, P/E

Bull Rs1,068

Sum-of-the parts

Stronger base business, driven by better-than-expected performance in the US, India (Rs128/share), NDDS/biologicals portfolio (Rs36/share), and one-off large opportunity (Rs54/share).

Base Rs850

18x F20e EPS

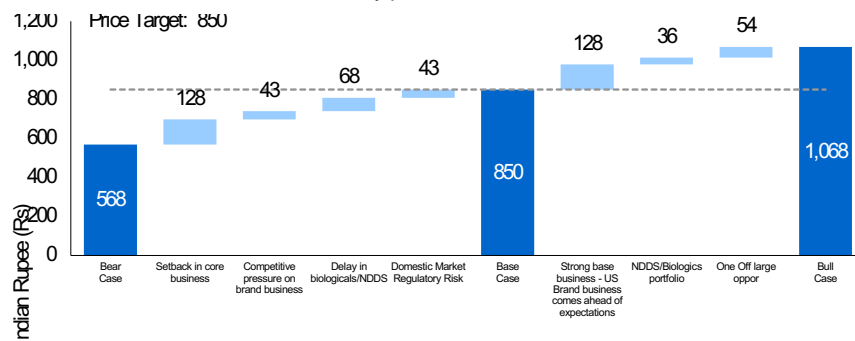
11.2% sales growth for the base business and 25% EPS growth over the next two years (F2018-20e). We apply a P/E multiple of 18x to our F20 EPS estimate of Rs 51.9.

Bear Rs568

Sum-of-the- parts

Setback in core business (Rs128/share), competitive pressure in branded business (Rs43/share), IPR risk (Rs68/ share) and domestic market regulatory risk (Rs43/share).

Exhibit 2: Bear to Bull: Stock looks fully priced



Source: Morgan Stanley Research estimates

Why Equal-weight

- Slowdown in earnings in F2018-20e, largely due to delay in key approvals in US market (warning letter at Goa and Indore site), ongoing price erosion in gGlumetza, gFortamet and base business erosion, remediation costs, etc., vs. steady growth in India, EM, EU and Japanese markets.
- Based on our new estimates, P/E valuation at 21.9x F2019e EPS looks fully priced, especially considering the slowdown in near-/medium-term growth owing to Warning Letters at the Goa and Indore sites.

Key Value Drivers

- Regulated geographies: Market share gains for existing portfolio, new launches, and EU scale-up.
- Execution on niche therapies, ophthalmics, derma, respiratory, biosimilars, NDDS.
- Domestic market: Entry into newer/more lucrative therapy areas, including critical care, women’s health, and oncology.

Potential Catalysts

- Resolution of Warning Letters at Goa and Indore sites.
- Faster GAVIS ramp up (e.g., Methergine)
- Development progress of 505(b)(2) candidates/inhaler pipeline in US and Enbrel biosimilar in the EU/Japan.
- Key pending US approvals/launches – Levothyroxine, Solosec, Ranexa, Eterncept
- Sales ramp-up in EU, Australia/New Zealand, Japan.

Risks to Achieving Price Target

- FDA actions (such as Import Alerts, Warnings Letters in other sites) or adverse regulatory action in EMs (price controls).
- Delay in approvals, value-dilutive M&A, setback in NCE/NDDS research, FX volatility.
- Intense competition in key products, especially gFortamet, and gGlumetza.

Model Changes

We cut our net profit estimates 25.3% for F18, 12.7% for F19, and 9.1% for F20: This is largely to reflect F9M18 results and lower margin assumption. It also reflects lower US sales owing to the issuance of Warning Letterd for Goa and Indore, and thus delays in some of the key opportunities in the US market such as gWelchol, propofol, ophthalmics, and OCs. Over 50 pending ANDAs (25-30 could be near- to medium-term opportunities) are from these two sites, and management expects site transfers for 12 material products. The changes in our model also reflect incrementally higher remediation costs and possible temporary supply-chain disruption

Medium- to longer-term growth story should be intact: We expect Lupin to resolve the issues in the Warning Letters by F2019, after which it should resume launches from these two key sites. Plus, its approval cycle for complex generics – specifically inhalers (like gProair in 2019) and complex injectables (like gRisperdal Consta in 2020) – should commence in F2020.

Exhibit 3: What's Changed ?

Rs bln	FY18E			FY19E			FY20E		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Net Revenues	158.9	158.9	0.0%	171.9	171.9	0.0%	196.6	196.6	0.0%
Operating profits	30.4	35.3	-13.9%	34.0	36.2	-6.1%	42.4	44.3	-4.2%
Margins	19.1%	22.2%	-3.1%	19.8%	21.0%	-1.3%	21.6%	22.5%	-0.9%
Net profits	13.6	18.2	-25.3%	16.6	19.0	-12.7%	21.3	23.5	-9.1%
Margins	8.5%	11.4%	-2.9%	9.7%	11.1%	-1.4%	10.9%	11.9%	-1.1%

Source: Morgan Stanley Research (E) estimates

Warning Letter background: The US FDA inspected Lupin's Goa and Indore sites in April and May 2017, and issued three and six observations on the locations, respectively. In response to these comments, the company suggested certain CAPA (corrective and preventive action) measures as remediation. However, per the company, the FDA was not fully satisfied with these measures and thus issued Warning Letters. The company said the FDA expects it now to address the Out of Specification (OOS) investigation and the hold-time study of the entire batch on a retrospective basis. Typically, it takes 12-18 months to resolve a Warning Letter. Lupin is working on remediation of these issues and expects them to be resolved by year-end.

Valuation and PT discussion: Based on our revised estimates, P/E is 21.9x for F19 and 17.1x for F20. Our new price target is Rs850 (up slightly from Rs847). We value the stock at 18x (unchanged) our EPS estimate for F20. The increase in price target is driven by rolling our valuation forward six months from September 2019.

We remain EW on Lupin: We expect a slowdown in US sales in F2019 (before a gradual pickup in F2020) in view of a delay in key US launches dependent on Goa and Pithampur unit 2 sites and, potentially, higher cost. We expect earnings growth of 25.4% p.a. over F2018-20.

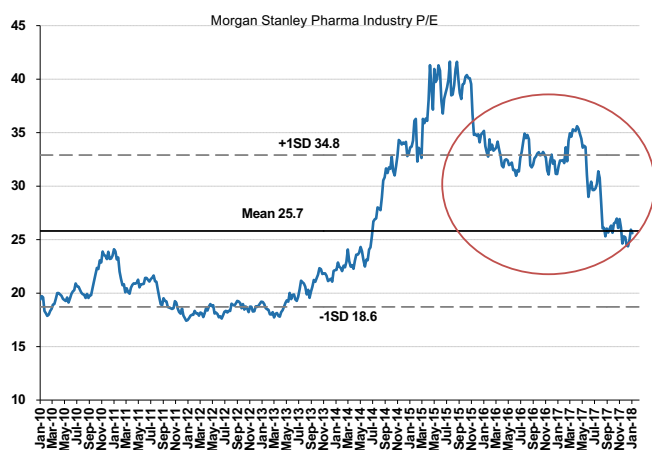
Our target multiple of 18x is a 10% discount to the current industry multiple (derated in the last two years). We believe this is an appropriate multiple in view of:

- Worsening of business fundamentals owing to issuance of Warning Letters at its two critical sites, Goa and Indore (unit 2).
- Continuing pricing pressure from ongoing channel consolidation in the US generic market.
- FX/regulatory risk in EMs, especially India (drug price control, GST impact, etc.).
- Some profit concentration in gGlumetza and gFortamet.

Versus:

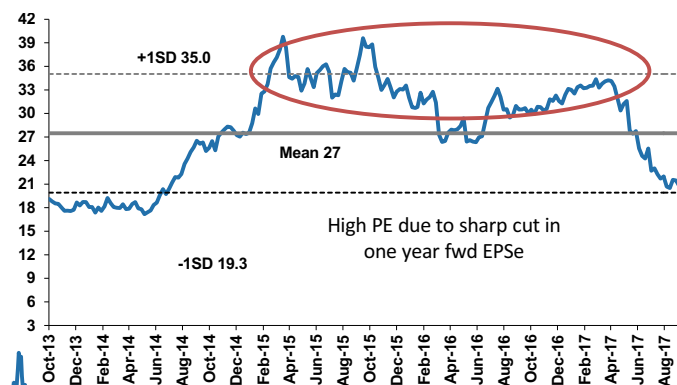
- Strong fundamentals with globally diversified fully integrated business model, plus diversification into niche therapies, including ophthalmologics, dermatology and respiratory care;
- Investment in complex R&D projects including injectables, inhalation/respiratory and biosimilars;
- The outlook for a sharp earnings ramp-up from F2020 onward, led by the US business, where the branded business is steadily scaling up and the product pipeline is deepening;
- Improving earnings quality, led by declining profit concentration from gGlumetza/Fortamet.
- Good visibility for niche generic launches for the next few years from F2H19 onward.

Exhibit 4: One-year Forward P/E Chart for the Indian Pharma Industry



Source: Thomson Reuters, Morgan Stanley Research estimates

Exhibit 5: Lupin – One-year Forward Prospective P/E



Source: Thomson Reuters, Morgan Stanley Research estimates

Bull case value of Rs1,068 (up from Rs1,065): This stems mainly from lower growth expectations for the base business, especially in the US market (Rs128/share, down from Rs127), NDDS/biologicals portfolio (Rs36/share, unchanged), and one-off large opportunity (Rs54/share, unchanged).

Bear case value of Rs568 (unchanged): Setback in core business (Rs128/share) owing to higher risks in US, Japanese, and Indian business), competitive pressure in branded business (Rs43/share), IPR risk (Rs68/share, flat) and domestic market regulatory risk (Rs43/share).

F3Q18 Update

Branded business grew 25%, driven by Methergine and contributions from new products such as Hydro APAP, Bupropion, and Doxy Hyclate. This helped offset some of the price erosion in its base generic business. Gross margin should remain at the current level of 65% in the near term. Indian business showed sequential growth of 11% (comparable). Somerset grew qoq 31%. Gross margin fell sequentially owing to forex impact of Rs100mn, business mix (higher contribution from India), loss of exclusivity on Mibelas, and decline in Glumetza.

Exhibit 6: Lupin: F3Q18 Consolidated Results

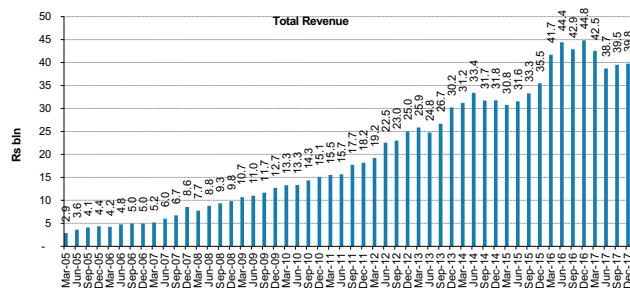
(Rs mn) (period ending)	F3Q18 Dec-17	F3Q17 Dec-16	%chg YoY	F2Q18 Sep-17	%chg QoQ
Sales (Net)	39,004	44,049	-11.5%	38,742	0.7%
Other Operating Income	753	779	-3.4%	778	-3.2%
Total Revenues	39,757	44,829	-11.3%	39,520	0.6%
Material Cost	13,926	13,016	7.0%	12,865	8.3%
Staff Costs	6,931	7,312	-5.2%	7,250	-4.4%
R&D Expenditure	4,757	5,682	-16.3%	4,739	0.4%
Other Expenditure	12,015	12,343	-2.7%	10,874	10.5%
Total Expenditure	32,872	32,670	0.6%	30,988	6.1%
Operating profit	6,885	12,158	-43.4%	8,531	-19.3%
Other Income	284	1,036	-72.6%	740	-61.6%
EBITDA	7,169	13,194	-45.7%	9,272	-22.7%
Interest (Net)	540	459	17.6%	479	12.7%
Depreciation	2,804	2,309	21.4%	2,722	3.0%
PBT and Extra-ordinaries	3,825	10,426	-63.3%	6,071	-37.0%
Tax	1,608	4,095	-60.7%	1,541	4.4%
Core PAT	2,217	6,331	-65.0%	4,530	-51.1%
Minority interest and share of lc	(1)	(0)	NM	(20)	NM
Reported PAT	2,218	6,331	-65.0%	4,551	-51.3%
GPM	65.0%	71.0%	-6.0%	67.4%	-2.5%
OPM	17.3%	27.1%	-9.8%	21.6%	-4.3%
NPM	5.6%	14.1%	-8.5%	11.5%	-5.9%
Effective tax rate	42.0%	39.3%	2.8%	25.4%	16.7%

Lupin – Sales Breakdown

(Rs mn)	F3Q18	F3Q17	%chg YoY	F2Q18	%chg QoQ
Formulations	36,324	41,365	-12.2%	36,092	0.6%
US (including IP)	14,321	21,755	-34.2%	13,611	5.2%
EMEA (inc EU, South Africa)	2,721	2,555	6.5%	2,758	-1.3%
India	10,688	9,912	7.8%	11,593	-7.8%
APAC (Japan)	6,742	5,601	20.4%	6,357	6.1%
LATAM	1,481	1,175	26.0%	1,395	6.2%
Rest of world	371	367	1.1%	378	-1.9%
API	2,680	2,684	-0.1%	2,650	1.1%
Total net sales	39,004	44,049	-11.5%	38,742	0.7%

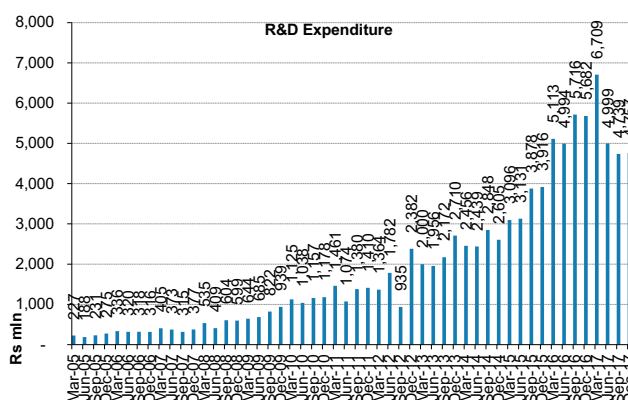
Source: Company data, Morgan Stanley Research

Exhibit 7: Lupin – Total revenues



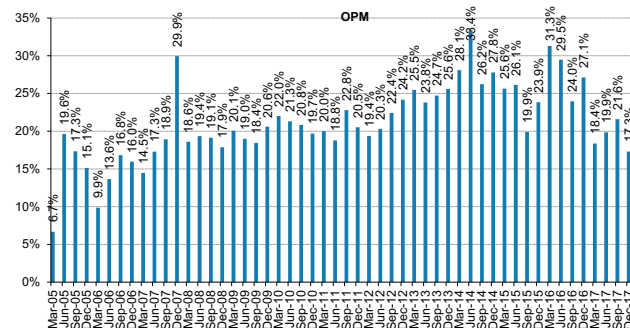
Source: Company data, Morgan Stanley Research

Exhibit 8: Lupin – R&D Expenditure



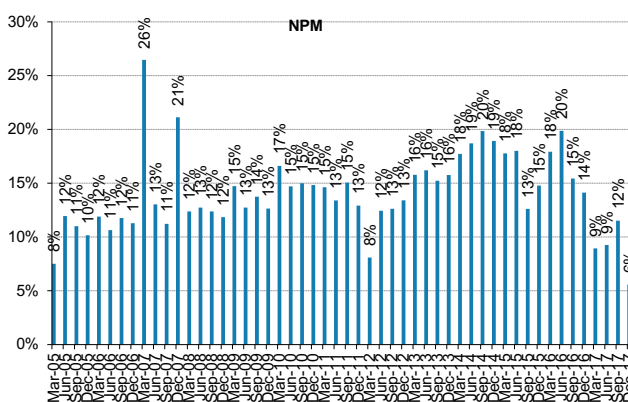
Source: Company data, Morgan Stanley Research

Exhibit 9: Lupin – OPM trend



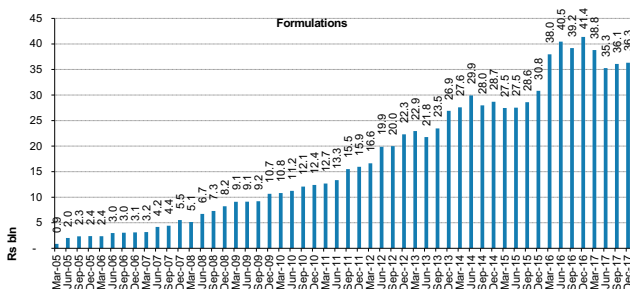
Source: Company data, Morgan Stanley Research

Exhibit 10: Lupin – NPM trend



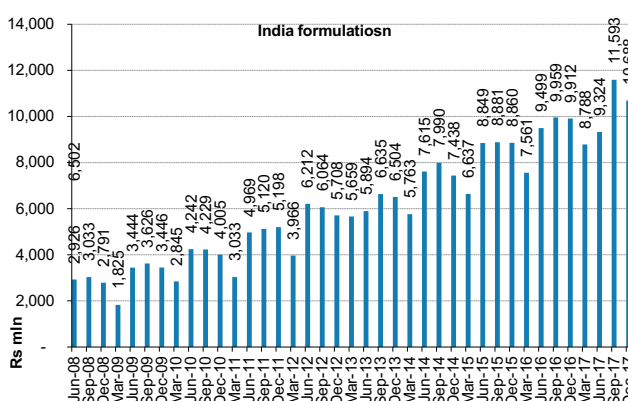
Source: Company data, Morgan Stanley Research

Exhibit 11: Lupin – Total Formulations



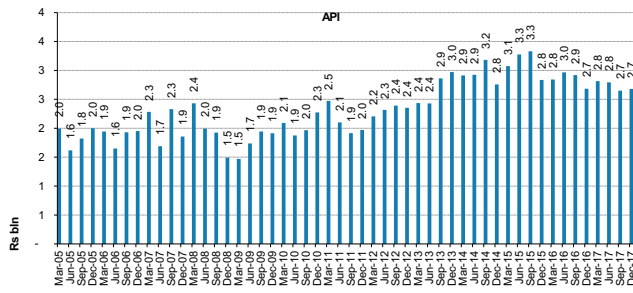
Source: Company data, Morgan Stanley Research

Exhibit 12: Lupin – India Formulations



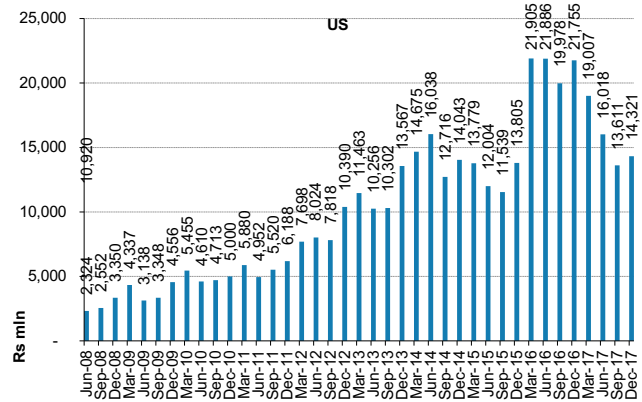
Source: Company data, Morgan Stanley Research

Exhibit 13: Lupin – API trend



Source: Company data, Morgan Stanley Research

Exhibit 14: Lupin – US revenue trend



Source: Company data, Morgan Stanley Research

Industry Valuation Table

Exhibit 15: Industry Valuation Table

Company	Price (Rs)	Market		EPS				2-yr EPS	PE				F2017 P/E
	07-Feb-18	Cap (US\$)	F2017E	F2018E	F2019E	F2020E	CAGR (18-20)	F2017E	F2018E	F2019E	F2020E	to growth	
ISSI Senses	34,196	615,112	1,410	1,662	2,063	2,054	11.2%	24.3	20.6	16.7	16.6	2.2	
Large Cap													
Cipla	364	6,970	12.5	21.8	24.8	30.7	18.5%	45.1	25.9	22.7	18.4	2.4	
Cadila Healthcare	405	6,332	14.5	19.9	24.6	28.0	18.6%	27.8	23.3	16.4	14.5	1.5	
Div's Laboratories*	1,003	4,050	40.0	34.1	43.3	48.3	20.3%	25.1	29.4	23.2	20.3	1.2	
Dr Reddy's Labs	2,096	5,476	73.0	70.0	140.0	173.0	57.2%	28.7	29.9	15.0	12.1	0.5	
Glenmark	371	2,410	42.3	40.1	41.5	46.5	10.2%	13.5	14.2	13.8	11.7	1.3	
Lupin Ltd	801	5,525	56.7	30.1	36.8	47.3	25.4%	14.1	26.7	21.8	17.0	0.6	
Sun Pharmaceuticals	552	20,459	29.0	14.1	20.0	24.8	32.6%	19.0	38.1	27.6	22.3	0.6	
Mid cap													
Aurobindo Pharma*	597	5,381	39.3	44.5	49.0	53.0	9.1%	15.2	13.4	12.2	11.3	1.7	
Biocon	365	5,400	10.2	5.2	11.3	19.6	94.1%	57.3	112.5	51.8	29.8	0.6	
Daiwani*	301	375	9.0	12.7	17.4	20.5	27.3%	33.4	23.8	17.3	14.7	1.2	
IPCA	355	1,092	14.7	20.8	30.0	42.2	42.4%	37.8	26.7	18.5	13.2	0.9	
Jubilant Lifesciences*	924	2,259	36.9	45.1	59.4	72.7	27.1%	25.0	20.5	15.6	12.7	0.9	
Piramal Enterprises*	2,554	8,212	72.7	106.4	129.8	146.8	17.6%	35.1	24.2	21.1	17.5	2.0	
Shree Ancoaba*	671	957	89.6	31.8	53.7	69.7	48.0%	7.5	21.1	12.5	9.6	0.2	
Torrent Pharma*	1,334	3,488	55.2	51.0	58.4	71.2	16.1%	24.2	26.1	22.8	18.7	1.3	
Nator*	901	2,093	27.8	36.4	50.0	44.1	10.1%	32.5	24.8	18.0	20.4	3.2	
MNCs													
Aventis Pharma*	4,777	1,692	141.5	164.1	169.4	-		33.7	29.1	28.2			
GlaxoSmithKline Pharma	2,465	3,212	39.8	54.5	64.1	76.8	18.7%	61.9	45.2	38.4	32.1	3.3	
Indian Companies - Large cap		56,961					1.6%	24.0	30.3	23.3	20.7	15.2	
Indian Companies - mid cap		29,214					13.3%	24.5	24.1	19.2	16.3	1.9	
MNCs		3,299					18.6%	48.1	38.0	34.2	26.6	2.6	
ALL		91,385					4.7%	24.9	28.8	22.5		5.3	

E = Morgan Stanley Research estimates, except for not covered (*) companies, which are Thomson Reuters consensus estimates Source: Thomson Reuters, Morgan Stanley Research

Exhibit 16: Industry Valuation Table

Company Name	P/Book value			P/Sales				P/E				
	F2017	F2018E	F2019E	F2017	F2018E	F2019E	F2020E	F2017E	F2018E	F2019E	F2020E	
Indian companies												
Large Cap												
Cipla	3.5	3.3	2.8	3.1	2.7	2.4	2.1	11.7%	8.0%	12.8%	12.7%	13.5%
Cadila Healthcare	6.0	4.9	4.0	4.5	3.5	3.0	2.6	28.4%	21.4%	24.0%	24.4%	23.0%
Div's Laboratories*	5.0	5.2	4.1	6.5	7.0	6.0	5.4	25.9%	19.8%	17.7%	17.6%	0.9%
Dr Reddy's Labs	2.9	2.7	2.3	2.5	2.6	2.3	2.0	15.8%	9.7%	8.9%	15.2%	16.2%
Glenmark	3.6	2.6	2.3	1.7	1.6	1.5	1.3	16.4%	28.7%	16.6%	16.4%	16.4%
Lupin Ltd	2.7	2.5	2.3	2.1	2.3	2.1	1.8	20.3%	18.9%	12.5%	11.9%	13.2%
Sun Pharmaceuticals	3.6	3.5	3.3	4.2	4.7	4.1	3.6	13.3%	19.0%	8.9%	11.8%	13.4%
Mid cap												
Aurobindo Pharma*	3.7	3.1	2.5	3.4	2.1	1.9	1.8	27.2%	24.6%	22.7%	20.5%	18.0%
Biocon	7.3	7.5	7.3	9.0	8.3	7.0	5.5	10.8%	12.7%	7.7%	14.1%	21.9%
Daiwani*	0.5	0.7	0.7	1.5	1.4	1.2	1.1	11.8%	3.0%	6.2%	8.2%	20.7%
Jubilant Lifesciences*	4.3	3.9	3.2	2.5	2.0	1.7	1.5	14.0%	10.8%	13.3%	20.0%	19.8%
Piramal Enterprises*	3.0	12.8	127.7	5.2	4.1	3.1	2.5	7.0%	8.9%	46.0%	661.7%	0.0%
Shree Ancoaba*	1.5	1.3	1.1	1.1	1.1	0.9	0.8	8.6%	16.5%	9.3%	14.1%	15.2%
Torrent Pharma*	5.2	4.1	3.7	3.9	3.7	2.9	2.6	33.3%	21.5%	15.8%	16.1%	17.2%
Nator*	8.2	6.2	4.6	6.6	5.7	4.5	4.4	12.0%	30.1%	30.3%	30.1%	21.5%
MNCs												
Aventis Pharma*	5.8	5.2	5.1	4.4	3.9	3.7		15.8%	17.0%	17.7%	NA	NA
GlaxoSmithKline Pharma	10.4	11.1	11.8	7.0	6.0	5.3		17.2%	16.8%	24.6%	30.6%	NA
Indian Companies - Large cap	3.8	3.7	3.3	3.2	3.7	3.3	2.9	16.7%	16.8%	12.4%	15.1%	15.9%
Indian Companies - mid cap	4.5	5.9	5.7	4.2	4.0	3.3	3.1	11.7%	13.0%	14.7%	22.8%	18.8%
MNCs	8.6	8.5	8.6	6.1	5.4	4.9	4.9	12.1%	10.7%	19.2%	29.8%	0.9%
ALL	4.0	4.4	4.0	3.4	3.7	3.2	3.0	15.2%	15.6%	13.2%	17.1%	15.8%

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(as of January 31, 2018)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1173	37%	318	41%	27%	571	39%
Equal-weight/Hold	1390	44%	359	47%	26%	653	45%
Not-Rated/Hold	53	2%	5	1%	9%	8	1%
Underweight/Sell	564	18%	90	12%	16%	219	15%
TOTAL	3,180		772			1451	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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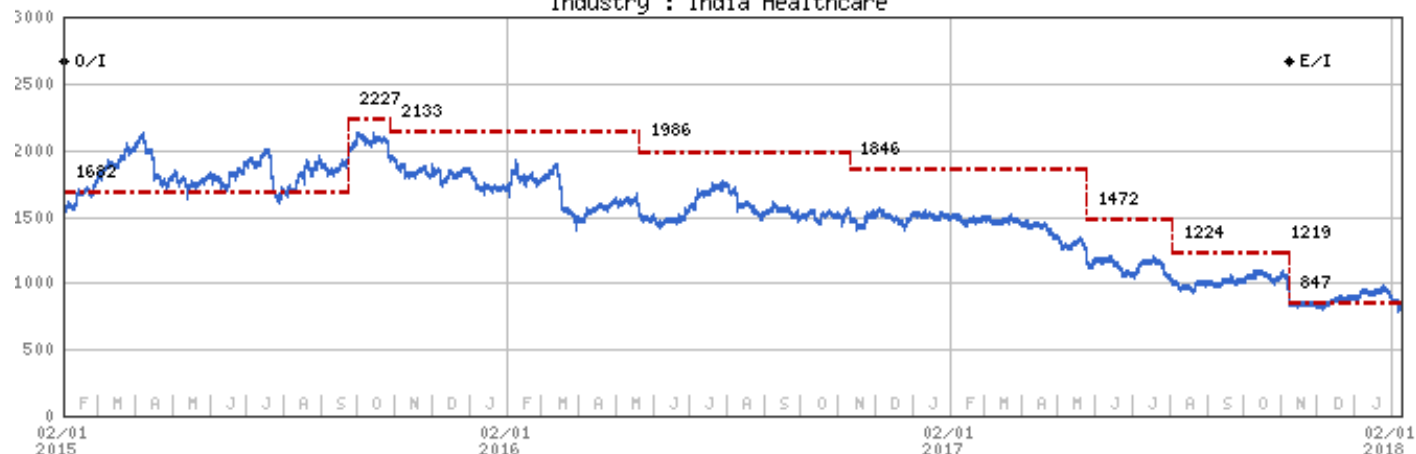
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Stock Price, Price Target and Rating History (See Rating Definitions)

Lupin Ltd. (LUPN.NS) - As of 2/7/18 in INR
Industry : India Healthcare

Stock Rating History: 2/1/15 : 0/I; 11/8/17 : E/I

Price Target History: 12/11/14 : 1682; 9/24/15 : 2227; 10/28/15 : 2133; 5/20/16 : 1986; 11/10/16 : 1846;
5/25/17 : 1472; 8/4/17 : 1224; 10/31/17 : 1219; 11/8/17 : 847

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View
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INDUSTRY COVERAGE: India Healthcare

COMPANY (TICKER)	RATING (AS OF)	PRICE* (02/07/2018)
Sameer Baisiwala, CFA		
Apollo Hospitals Enterprise Ltd. (APLH.NS)	O (04/27/2017)	Rs1,132.70
Biocon Ltd (BION.NS)	O (04/05/2016)	Rs590.60
Cadila Healthcare Ltd. (CADI.NS)	O (01/29/2016)	Rs396.35
Cipla Ltd. (CIPL.NS)	U (08/13/2013)	Rs569.25
Dr. Lal PathLabs Ltd (DLPAN.S)	U (04/19/2017)	Rs873.40
Dr. Reddy's Lab (REDY.NS)	O (09/21/2017)	Rs2,111.40
GlaxoSmithKline Pharma (GLAX.NS)	U (02/28/2013)	Rs2,440.00
Glenmark Pharmaceuticals (GLEN.NS)	E (05/24/2017)	Rs569.10
IPCA Laboratories (IPCANS)	E (07/25/2014)	Rs573.10
Lupin Ltd. (LUPN.NS)	E (11/08/2017)	Rs806.05
Narayana Hrudayalaya Ltd (NARY.NS)	E (04/27/2017)	Rs302.05
Sun Pharmaceutical Industries (SUN.NS)	U (05/29/2017)	Rs549.50

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* Historical prices are not split adjusted.