

Lupin

Performance Highlights

Y/E March (₹ cr)	2QFY2018	1QFY2018	% chg qoq	2QFY2017	% chg yoy
Net sales	3,874	3,806	1.8	4,212	(8.0)
Other income	152	95	60.3	106	42.7
Operating profit	775	705	10.0	949	(18.3)
Interest	48	44	9.1	26	82.1
Net profit	455	358	27.1	662	(31.3)

Source: Company, Angel Research

For 2QFY2018, sales came in at ₹3,874cr (₹4,000cr expected) v/s. ₹4,212cr in 2QFY2017, a yoy de-growth of 8.0%. On operating front, the EBITDA margins came in at 20.0% (19.6% expected) v/s. 22.5% in 2QFY2017, mainly on the back of lower than expected sales during the quarter & dip in the gross margins. Thus, the PAT came in at ₹455cr (₹421cr expected) v/s. ₹662cr in 2QFY2017, a yoy de-growth of 31.3%. Tax rate during the quarter was 25.4% of PBT in 2QFY2017 V/s 19.2% of PBT in 2QFY2017. **We maintain our Buy rating on the stock.**

Numbers lower than expectations: Sales came in at ₹3,874cr (₹4,000cr expected) v/s. ₹4,212cr in 2QFY2017, a yoy de-growth of 8.0%. The de-growth was mainly on the back of formulation sales (₹3,609cr), which dipped by 7.9% yoy, aided by a 31.9% dip in the USA (₹1,361cr). Lupin's India formulation sales grew by 16.4% yoy to end the period at ₹1,159cr. On operating front, the EBITDA margins came in at 20.0% (19.6% expected) v/s. 22.5% in 2QFY2017, mainly on the back of lower than expected sales during the quarter and dip in the gross margins. Thus, the PAT came in at ₹455cr (₹421cr expected) v/s. ₹662cr in 2QFY2017, a yoy de-growth of 31.3%.

Outlook and valuation: We expect Lupin to post a net sales CAGR of 4.1% to ₹18,562cr over FY2017–19E. The earnings would come under pressure, on back of pressure on the OPM. The stock trades at 16.8x its FY2019E earnings respectively.

We recommend a Buy rating on the stock.

Key financials (Consolidated)

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
Net sales	13,702	17,120	18,657	21,289
% chg	8.7	24.9	9.0	14.1
Net profit	2,271	2,557	2,373	2,997
% chg	(5.5)	12.6	(7.2)	26.3
EPS (₹)	50.5	56.9	52.8	66.7
EBITDA margin (%)	23.7	24.1	21.3	23.3
P/E (x)	19.7	17.5	18.8	14.9
RoE (%)	22.7	20.7	16.3	17.5
RoCE (%)	19.4	15.5	14.7	20.5
P/BV (x)	4.0	3.3	2.8	2.4
EV/sales (x)	3.7	3.0	2.4	2.0
EV/EBITDA (x)	15.6	12.6	11.5	8.7

Source: Company, Angel Research; Note: CMP as of November 17, 2017

BUY

CMP	₹829
Target Price	₹1,091
Investment Period	12 months

Stock Info

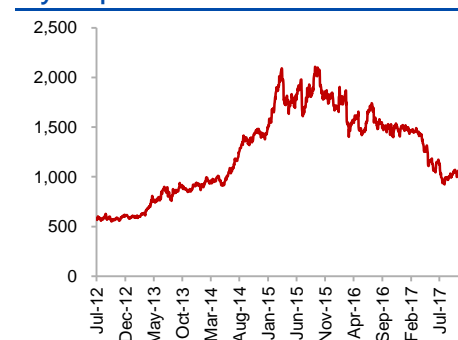
Sector	Pharmaceutical
Market Cap (₹ cr)	44,944
Net Debt (₹ cr)	8,165
Beta	0.7
52 Week High / Low	1,734 / 986
Avg. Daily Volume	1,15,245
Face Value (₹)	2
BSE Sensex	32,238
Nifty	10,014
Reuters Code	LUPN.BO
Bloomberg Code	LPC@IN

Shareholding Pattern (%)

Promoters	46.7
MF / Banks / Indian FIs	10.9
FII / NRIs / OCBs	31.5
Indian Public / Others	10.9

Abs. (%)	3m	1yr	3yr
Sensex	7.8	16.4	25.3
Lupin	(30.6)	(40.8)	(15.6)

3-year price chart



Source: Company, Angel Research

Sarabjit Kour Nangra

+91 22 3935 7600 Ext: 6806

sarabjit@angelbroking.com

Exhibit 1: 2QFY2018 – Consolidated performance

Y/E March (` cr)	2QFY2018	1QFY2018	% chg (qoq)	2QFY2017	% chg (yoy)	1HFY2018	1HFY2017	% chg (yoy)
Net sales	3,874	3,806	1.8	4,212	(8.0)	7,680	8,553	(10.2)
Other income	152	95	60.3	106	42.7	247	258	(4.4)
Total income	4,026	3,901	3.2	4,318	(6.8)	7,927	8,811	(10.0)
Gross profit	2,810	2,573	9.2	2,969		5,383	6,038	(10.8)
Gross margin	66.8	67.6		70.5		70.1	70.6	
Operating profit	775.3	704.6	10.0	949.4	(18.3)	1,480	2,188	(32.4)
OPM (%)	20.0	18.5		22.5		19.3	25.6	
Interest	48	44	9.1	26	82.1	92	58	58.3
Dep. & amortization	272	261	4.5	203	34.2	533	414	28.7
PBT	607	495	22.6	827	(26.6)	1,102	1,974	(44.2)
Provision for taxation	154	137	12.6	159	(3.0)	291	432	(32.6)
Reported net profit	457	358	27.6	663	(31.1)	814	1,546	(47.4)
Less : exceptional items	-	-		-		-	-	
MI & share in associates	2	(1)	(253.7)	1	141.6	1	1	
PAT after exceptional items	455	358	27.1	662	(31.3)	813	1,544	(47.3)
EPS (`)	10.1	7.9		14.7		18.0	34.3	

Source: Company, Angel Research

Exhibit 2: 2QFY2018 – Actual v/s. Angel estimates

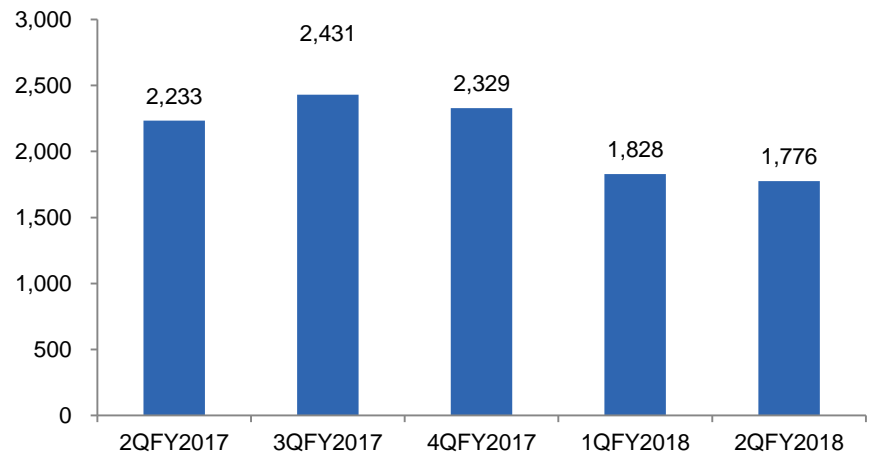
` cr	Actual	Estimates	Variation
Net Sales	3,874	4,000	(3.1)
Other Income	152	100	51.8
Operating Profit	775	785	(1.2)
Deprecation	272	261	4.5
Tax	154	161	(4.2)
Net Profit	455	421	8.1

Source: Company, Angel Research

Revenue de-grows 8.0% yoy: Sales came in at `3,874cr (`4,000cr expected) v/s. `4,212cr in 2QFY2017, a yoy de-growth of 8.0%. The dip was mainly on the back of formulation sales (`3,609cr), which declined by 7.9%, following a 31.9% dip in the USA (`1,361cr; accounting for 35% of global sales). Lupin's India formulation sales grew by 16.4% to `1,159cr as compared to 2QFY2017 and 24.3% compared to 1QFY2018, accounting for 30% of Lupin's global sales. APAC sales were at `636cr during 2QFY2018 growth of 15.2% yoy, accounting for 16.4% of Lupin's global sales. API sales (`265cr) posted a dip of 9.2% yoy.

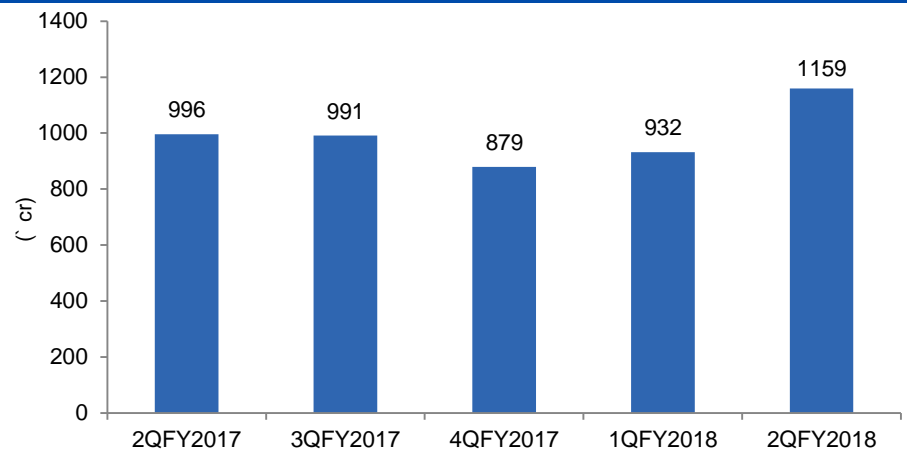
Lupin's USA sales de-grew by 31.3% to `1,361cr during 2QFY2018, contributing 35% to Lupin's global sales. The Company launched 5 products in the US market during the quarter, and now has 147 products in the US generics market. Lupin is now the leader in 43 products marketed in the US generics market and amongst the top 3 in 91 of its marketed products (market share by prescriptions, IMS Health, June 2017).

Exhibit 3: Advanced markets – Sales trend



Source: Company, Angel Research

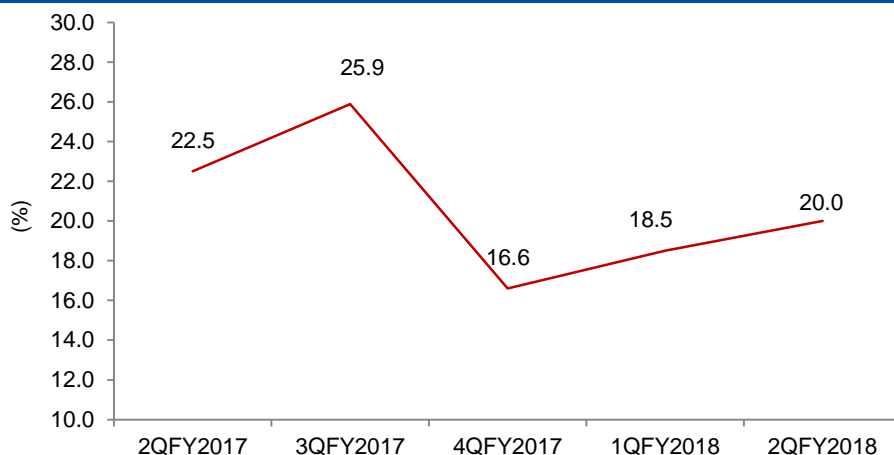
Exhibit 4: Domestic Formulation Market



Source: Company

OPM at 20.0%, higher than expected: On the OPM front, the EBDITA margins came in at 20.0% (v/s. 19.6% expected) v/s. 22.5% in 2QFY2017, while the Gross margins came in at 66.8% v/s. 70.5% in 2QFY2017. R&D expenses were 12.2% of sales in 2QFY2018 V/s. 11.9% of sales in 2QFY2017. The staff cost and R&D cost during the quarter posted a growth of 1.8% and dip of 5.4% respectively.

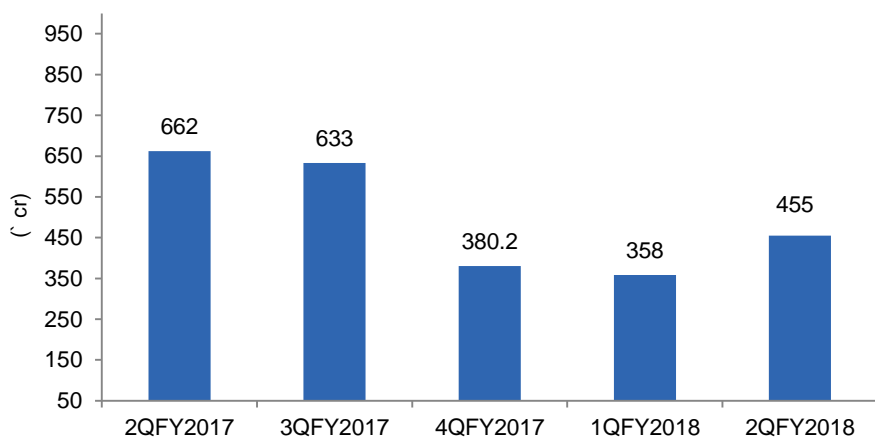
Exhibit 5: OPM trend



Source: Company, Angel Research

Net profit growth higher than estimate: The PAT came in at `455cr (`421cr expected) v/s. `662cr in 2QFY2017, a yoy de-growth of 31.3%. Tax rate during the quarter was 25.4% of PBT compared to 19.2% of PBT in 2QFY2017.

Exhibit 6: Net profit trends



Source: Company, Angel Research

Conference call takeaways

- Branded sales contributed to 20% of total US sales during the quarter.
- Post results, Lupin announced that Goa and Pithampur (Unit-2) based formulations plant received import alert.
- Management mentioned that no data integrity issue was highlighted by US FDA in the Warning Letter. The company believes that retrospective studies will have to be done from Jan'2014. However, Lupin will get more clarity regarding this in its meeting with USFDA.
- Lupin believes that the company will be ready for re-inspection in 6 months.

- Out of 158 pending ANDAs, ~40-50 are pending from these two facilities. Out of these ~20-25 approvals were expected in next 12- 18 months. Lupin is planning to initiate site transfer for its 12 key ANDAs.
- Lupin does not expect any supply disruption due to issuance of Warning Letters.

Recommendation rationale

- **US market – the key driver:** The high-margin branded generic business has been the key differentiator for Lupin in the Indian pharmaceuticals space. On the generic front, Lupin is currently the fifth largest generic player in the US, with 5.3% market share in prescription. Lupin is now the market leader in 43 products marketed in the US generics market and is amongst the top 3 by market share in 91 products. Currently, the company's cumulative filings stand at 377, of which 225 have been approved, with 25 exclusive FTFs. While the company has received warning letter its existing business won't be impacted. We expect the region to post a dip of 5.3% over FY2017-19E, on back of lack of visibility on new product launches.
- **Domestic formulations on a strong footing:** Lupin continues to make strides in the Indian market. Currently ranked No 3, it is the fastest growing company among the top five companies in the domestic formulation space, registering a strong CAGR of 20% over the last few years. Six of Lupin's products are among the top 300 brands in the country. Lupin has a strong field force of ~6,000MRs (as of FY2016). We expect the domestic formulation market to grow at a CAGR of 14.0% over FY2017-19E.
- **First-mover advantage in Japan:** Lupin figures among the few Indian companies with a formidable presence in Japan, the world's second largest pharmaceuticals market (Lupin was ranked as the 8th largest as per IMS MAT March 2014). The Management believes that there will be patent expiries (US\$14-16bn) in the next two years in the Japanese market, which along with increased generic penetration would drive growth in the market. The Management expects improvement in growth in the next 3-4 years. On a conservative basis, we expect the Japan market to post a CAGR of 20% over FY2017-19E.

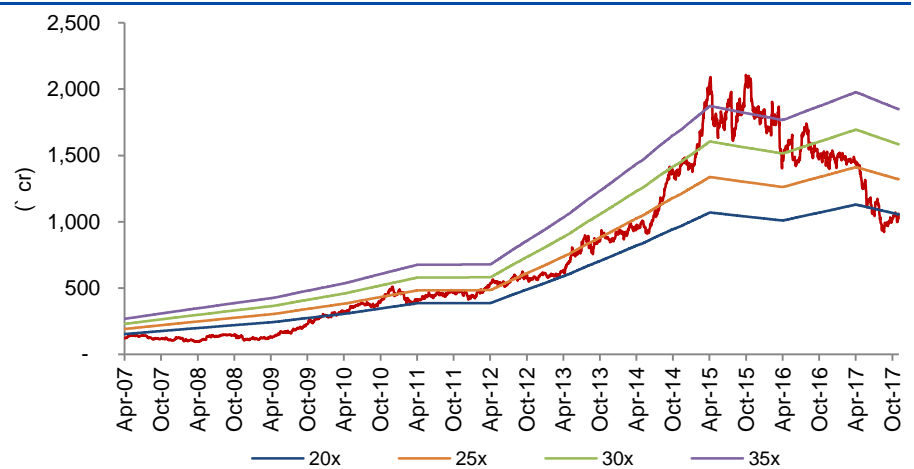
Valuation

We expect Lupin to post a net sales CAGR of 4.1% to `18,562r and earnings dip of 6.6% to `49.6/share over FY2017-19E. Currently, the stock is trading at 16.7x its FY2019E earnings. **We recommend a Buy rating on the stock.**

Exhibit 7: Key Assumptions

	FY2018E	FY2019E
Sales growth (%)	(5.1)	14.3
Domestic growth (%)	12.0	16.0
Exports growth (%)	(9.3)	13.7
Operating margins (%)	21.3	21.7
R&D Exp (% of sales)	12.0	12.0
Capex (` cr)	1000	1000

Source: Company, Angel Research

Exhibit 8: One-year forward PE


Source: Company, Angel Research

Exhibit 9: Recommendation summary

Company	Reco	CMP (`)	Tgt. price (`)	Upside (%)	PE (x)	FY2019E		FY17-19E	FY2019E	
						EV/Sale (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Buy	514	600	16.8	21.5	2.5	12.9	5.7	20.6	18.4
Aurobindo Pharma	Buy	708	823	16.3	13.8	2.1	9.6	14.2	25.3	22.7
Cadila Healthcare	Reduce	446	411	(7.9)	21.7	3.5	17.3	18.9	16.5	22.2
Cipla	Sell	609	426	(24.1)	25.0	2.7	16.0	39.3	10.9	13.1
Dr Reddy's	Reduce	2,325	2,040	(12.3)	22.8	2.8	13.7	18.5	10.8	12.4
Dishman Pharma	Under Review	301	-	-	19.3	2.7	11.5	23.3	4.5	4.4
GSK Pharma	Sell	2,511	2000	(20.4)	51.4	6.4	37.7	19.3	25.8	23.5
Indoco Remedies	Sell	267	153	(42.8)	16.7	2.1	14.9	16.2	10.1	14.5
Ipca labs	Neutral	529	-	-	22.1	1.7	11.2	24.7	12.4	11.0
Lupin	Buy	829	1,091	31.6	16.7	2.1	9.7	(6.6)	13.7	13.7
Sanofi India*	Neutral	4,485	-	-	27.4	3.2	17.1	12.8	25.8	27.5
Sun Pharma	Accumulate	517	558	7.9	20.9	3.5	15.4	(12.9)	12.3	15.2

Source: Company, Angel Research; Note: * December year ending

Company Background

Lupin, established in 1968, is primarily engaged in the manufacture and global distribution of active pharmaceutical ingredients (APIs) and finished dosages. Over the years, the company forayed into the US markets through a differentiated export strategy of tapping branded generics and consequently gaining a large share of the US prescription market. Further, to expand its footprint in the global markets, Lupin has prudently adopted the inorganic growth route. In-line with this, over the last two years, the company made small acquisitions across geographies, prominent among these being the acquisition of Kyowa in the growing Japanese market. In the US, the company has acquired privately held Gavis Pharmaceuticals LLC and Novel Laboratories Inc. The acquisitions have enhanced Lupin's scale in the US generic market and have also broadened its pipeline in dermatology, controlled substance products and other high-value and niche generics.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Gross sales	11,167	12,684	13,797	17,224	16,338	18,674
Less: Excise duty	80	84	96	104	98	112
Net sales	11,087	12,600	13,702	17,120	16,240	18,562
Other operating income	200	170	507	375	375	375
Total operating income	11,287	12,770	14,208	17,494	16,614	18,937
% chg	17.1	13.1	11.3	23.1	-5.0	14.0
Total expenditure	8,284	9,150	10,455	13,001	12,785	14,532
Net raw materials	3,817	4,157	4,309	5,001	5,197	5,569
Other mfg costs	847	963	1,047	1,308	1,241	1,418
Personnel	1,465	1,747	2,108	2,850	2,703	3,090
Other	2,155	2,283	2,580	3,842	3,645	4,455
EBITDA	2,803	3,449	3,247	4,119	3,454	4,031
% chg	34.1	23.1	-5.9	26.9	-16.1	16.7
(% of Net Sales)	25.3	27.4	23.7	24.1	21.3	21.7
Dep. & Amortization	261	435	464	912	1,086	1,216
EBIT	2,542	3,015	2,783	3,206	2,369	2,815
% chg	44.6	18.6	-7.7	15.2	-26.1	18.8
(% of Net Sales)	22.9	23.9	20.3	18.7	14.6	15.2
Interest & other charges	27	10	45	153	200	200
Other Income	116	240	188	107	107	107
(% of PBT)	4	7	5	3	4	3
Share in profit of asso.						
Recurring PBT	2,832	3,415	3,433	3,535	2,650	3,096
% chg	47.1	20.6	0.5	3.0	-25.0	16.8
Extraordinary exp./ (Inc.)	-	-	-	-	-	-
PBT (reported)	2,832	3,415	3,433	3,535	2,650	3,096
Tax	962	970	1,154	979	742	867
(% of PBT)	34.0	28.4	33.6	27.7	28.0	28.0
PAT (reported)	1,870	2,444	2,279	2,556	1,908	2,229
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	33	41	9	(1)	(1)	(1)
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	1,836	2,403	2,271	2,557	1,909	2,230
ADJ. PAT	1,836	2,403	2,271	2,557	1,909	2,230
% chg	39.7	30.9	-5.5	12.6	-25.4	16.8
(% of Net Sales)	16.6	19.1	16.6	14.9	11.8	12.0
Basic EPS (₹)	41.0	53.5	50.5	56.9	42.5	49.6
Fully Diluted EPS (₹)	41.0	53.5	50.5	56.9	42.5	49.6
% chg	39.5	30.5	(5.5)	12.6	(7.2)	26.3

Balance Sheet (Consolidated)

Y/E March	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
SOURCES OF FUNDS						
Equity share capital	90	90	90	90	90	90
Reserves & surplus	6,842	8,784	11,073	13,407	15,148	17,210
Shareholders funds	6,932	8,874	11,163	13,497	15,238	17,299
Minority interest	67	24	32	35	33	32
Total loans	553	471	7,119	7,952	4,000	3,000
Other Long-Term Liabilities	46	74	75	76	77	-
Long-Term Provisions	132	132	592	836	836	836
Deferred tax liability	178	118	(9)	(113)	(113)	(113)
Total liabilities	7,908	9,693	18,973	22,283	20,071	21,055
APPLICATION OF FUNDS						
Gross block	4,564	5,355	6,853	7,853	8,853	9,853
Less: Acc. Depreciation	1,928	2,363	2,827	3,739	4,825	6,040
Net block	2,635	2,992	4,026	5,047	4,028	3,812
Capital work-in-progress	304	304	304	304	304	304
Goodwill	720	1,648	7,089	7,815	7,815	7,815
Investments	178	1,658	16	2,136	2,136	2,136
Long-Term Loans and Adv.	373	275	968	957	1,147	1,311
Current assets	5,924	6,176	9,885	9,840	8,972	10,627
Cash	798	1,306	822	699	301	716
Loans & advances	302	671	737	912	865	989
Other	4,825	4,199	8,326	8,229	7,806	8,922
Current liabilities	2,227	3,360	3,316	3,816	4,331	4,950
Net current assets	3,697	2,816	6,570	6,024	4,641	5,677
Mis. Exp. not written off	-	-	-	-	-	-
Total assets	7,908	9,693	18,973	22,283	20,071	21,055

Cash Flow Statement (Consolidated)

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	2,832	3,415	3,433	3,535	2,650	3,096
Depreciation	261	435	464	912	1,086	1,216
(Inc)/Dec in working capital	(87)	1,487	(4,931)	434	795	(785)
Direct taxes paid	(962)	(970)	(1,154)	(979)	(742)	(867)
Cash Flow from Operations	2,044	4,367	(2,188)	3,903	3,788	2,660
(Inc.)/Dec.in Fixed Assets	(443)	(791)	(1,498)	(1,000)	(1,000)	(1,000)
(Inc.)/Dec. in Investments	-	-	-	-	-	-
Cash Flow from Investing	(443)	(791)	(1,498)	(1,000)	(1,000)	(1,000)
Issue of equity	-	-	-	-	-	-
Inc./Dec.) in loans	(611)	(82)	6,648	833	(3,952)	(1,000)
Dividend Paid (Incl. Tax)	(157)	(168)	(168)	(168)	(168)	(168)
Others	(469)	(2,816)	(3,278)	(3,689)	934	(77)
Cash Flow from Financing	(1,238)	(3,067)	3,202	(3,024)	(3,186)	(1,245)
Inc./Dec.) in Cash	363	509	(484)	(122)	(398)	415
Opening Cash balances	435	798	1,306	822	699	301
Closing Cash balances	798	1,306	822	699	301	716

Key Ratios

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)						
P/E (on FDEPS)	20.2	15.5	16.4	14.6	19.5	16.7
P/CEPS	17.7	13.1	13.6	10.7	12.4	10.8
P/BV	5.4	4.2	3.3	2.8	2.4	2.2
Dividend yield (%)	0.7	1.0	1.0	1.0	1.0	1.0
EV/Sales	3.3	2.9	3.2	2.6	2.5	2.1
EV/EBITDA	13.1	10.5	13.3	10.8	11.8	9.7
EV / Total Assets	4.6	3.8	2.3	2.0	2.0	1.9
Per Share Data (₹)						
EPS (Basic)	41.0	53.5	50.5	56.9	42.5	49.6
EPS (fully diluted)	41.0	53.5	50.5	56.9	42.5	49.6
Cash EPS	46.8	63.1	60.8	77.2	66.6	76.7
DPS	6.0	8.0	8.0	8.0	8.0	8.0
Book Value	154.6	197.4	248.3	300.3	339.0	384.9
Dupont Analysis						
EBIT margin	22.9	23.9	20.3	18.7	14.6	15.2
Tax retention ratio	66.0	71.6	66.4	72.3	72.0	72.0
Asset turnover (x)	1.7	1.6	1.1	0.9	0.8	0.9
ROIC (Post-tax)	25.4	28.2	14.4	11.9	8.4	10.3
Cost of Debt (Post Tax)	2.0	1.4	0.8	1.5	2.4	4.1
Leverage (x)	0.0	0.0	0.0	0.4	0.2	0.0
Operating ROE	25.4	28.2	14.4	16.4	9.6	10.6
Returns (%)						
ROCE (Pre-tax)	34.7	34.3	19.4	15.5	11.2	13.7
Angel ROIC (Pre-tax)	44.1	48.2	32.4	26.5	18.9	23.6
ROE	30.3	30.4	22.7	20.7	13.3	13.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.6	2.6	2.3	2.4	2.0	2.0
Inventory / Sales (days)	66	62	74	74	74	68
Receivables (days)	75	66	79	79	79	72
Payables (days)	84	78	82	70	82	82
WC cycle (ex-cash) (days)	89	63	93	116	106	90
Solvency ratios (x)						
Net debt to equity	(0.0)	(0.1)	0.6	0.5	0.2	0.1
Net debt to EBITDA	(0.1)	(0.2)	1.9	1.8	1.1	0.6
Interest Coverage	95.4	307.3	62.4	21.0	19.4	25.1

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.