

Lupin

Performance Highlights

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg qoq	4QFY2015	% chg yoy
Net sales	4,091	3,358	21.8	3,054	34.0
Other income	115	263	(56.3)	41	178.9
Operating profit	1,277	679	88.1	766	66.9
Interest	23	9	149.2	3	815.2
Net profit	807	530	52.3	547	47.5

Source: Company, Angel Research

For 4QFY2016, Lupin posted results above our expectations. Sales came in at ₹4,091cr (V/s ₹3,665cr expected), up 34.0% yoy. Sales growth was driven by Formulations (₹3,807.5cr) which rose by 38.6% yoy, while API (₹283.8cr) witnessed a dip of 7.7% yoy. On the operating front, the EBDITA margin came in at 31.2% V/s 25.1% in 4QFY2015 and V/s our expectation of 29.5%. The expansion in the OPM was on the back of a firmer GPM which came in at 73.8% V/s 67.9% in 4QFY2015 and V/s 72.7% expected. This along with high other income at ₹115cr (V/s ₹41cr in 4QFY2015) led the net profit to come in at ₹807cr V/s ₹547cr in 4QFY2015 and V/s ₹829cr expected. **We recommend a Buy on the stock with a price target of ₹1,809.**

Numbers outperform our expectations: Sales for the quarter came in at ₹4,091cr (V/s ₹3,665cr expected), up 34.0% yoy. Sales growth was driven by Formulations (₹3,807.5cr) which rose by 38.6% yoy, while API (₹283.8cr) witnessed a dip of 7.7% yoy. Formulation sales were driven by USA (₹2,187.1cr, +58.7% yoy), Europe (₹125.4cr, +40.7% yoy), India (₹761.5cr, +14.7% yoy, Japan (₹344.2cr, +17.0% yoy) and ROW (₹275.8cr, +38.3% yoy). On the operating front, the EBDITA margin came in at 31.2% V/s 25.1% in 4QFY2015 and V/s our expectation of 29.5%. This along with high other income at ₹115cr (V/s ₹41cr in 4QFY2015) led the net profit to come in at ₹807cr V/s ₹547cr in 4QFY2015 and V/s ₹829cr expected.

Outlook and valuation: We expect Lupin to post a net sales CAGR of 16.7% to ₹18,644cr and earnings CAGR of 17.2% to ₹69.3/share over FY2016–18E. Currently, the stock is trading at 25.9x and 21.7x its FY2017E and FY2018E earnings, respectively. **We recommend a Buy on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	12,600	13,702	15,912	18,644
% chg	13.6	8.7	16.1	17.2
Net profit	2,403	2,271	2,611	3,117
% chg	30.9	(5.5)	15.0	19.4
EPS (₹)	53.7	50.6	58.1	69.3
EBITDA margin (%)	27.4	23.7	26.4	26.7
P/E (x)	28.2	29.8	25.9	21.7
RoE (%)	30.4	22.9	21.4	20.9
RoCE (%)	34.3	19.6	19.3	24.4
P/BV (x)	7.6	6.2	5.0	4.1
EV/sales (x)	5.3	5.4	4.3	3.5
EV/EBITDA (x)	19.4	22.6	16.1	13.1

Source: Company, Angel Research; Note: CMP as of May 20, 2016

BUY

CMP	₹1,505
Target Price	₹1,809

Investment Period	12 months
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	67,837
Net Debt (₹ cr)	6,737
Beta	0.7
52 Week High / Low	2,127 / 1,294
Avg. Daily Volume	157,745
Face Value (₹)	2
BSE Sensex	23,382
Nifty	7,108
Reuters Code	LUPN.BO
Bloomberg Code	LPC@IN

Shareholding Pattern (%)	
Promoters	46.5
MF / Banks / Indian Fls	8.3
FII / NRIs / OCBs	35.8
Indian Public / Others	9.4

Abs. (%)	3m	1yr	3yr
Sensex	6.7	(8.5)	25.1
Lupin	(15.6)	(12.8)	96.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 – Consolidated performance

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg (qoq)	4QFY2015	% chg (yoy)	FY2016	FY2015	% chg (yoy)
Net sales	4,091	3,358	21.8	3,054	34.0	13,701	12,600	8.7
Other income	115	263	(56.3)	41	178.9	695	409	69.8
Total income	4,206	3,621	16.2	3,096	35.9	14,396	13,009	10.7
Gross profit	3,018	2,235	35.0	2,074		9,392	8,443	11.2
Gross margin	73.8	66.6		67.9		68.5	67.0	
Operating profit	1,277.5	679.1	88.1	766	66.9	3,246	3,450.0	(5.9)
OPM (%)	31.2	20.2		25.1		23.7	27.4	
Interest	23	9	149.2	3	815.2	45	10	346.2
Dep. & amortization	145	114	26.9	107	35.0	464	435	6.6
PBT	1,225	819	49.5	697	75.7	3,433	3,414	0.6
Provision for taxation	413	290	42.4	136	203.1	1,154	970	18.9
Reported net profit	812	529	53.4	561	44.8	2,279	2,444	(6.7)
Less : exceptional items	-	-		-		-	-	
MI & share in associates	5	1	310.4	14	(62.6)	9	41	(78.6)
PAT after exceptional items	807	530	52.3	547	47.5	2,271	2,403	(5.5)
EPS (₹)	18.0	11.8		12.2		50.6	53.7	

Source: Company, Angel Research

Exhibit 2: 4QFY2016 – Actual Vs Angel estimates

₹ cr	Actual	Estimates	Variation
Net Sales	4,091	3,665	11.6
Other Income	115	41	178.9
Operating Profit	1,277	1,080	18.3
Depreciation	145	113	28.0
Tax	413	207	99.1
Net Profit	807	829	(2.6)

Source: Company, Angel Research

Revenue grows 34.0% yoy: The company's sales for the quarter came in at ₹4,091cr (V/s ₹3,665cr expected), up 34.0% yoy. Sales growth was driven by Formulations (₹3,807.5cr) which rose by 38.6% yoy, while API (₹283.8cr) witnessed a dip of 7.7% yoy. Formulation sales were driven by USA (₹2,312.5cr) and Europe (₹125.4cr), up a 57.6% yoy and 40.7% yoy respectively.

The growth in the US business (US\$325mn) was led by strong sales of generic Glumetza (in 180 days exclusivity) and by price hikes undertaken in generic Fortamet in the previous quarters. The company completed the acquisition of Gavis in March 2016, which resulted in the inclusion of Gavis sales (~US\$10-12mn) for 20 days in 4QFY2016.

India (₹761.5cr) posted a 14.7% yoy growth, while Japan (₹344.2cr) posted a 17.0% yoy growth. ROW (₹275.8cr) posted a 38.3% yoy growth.

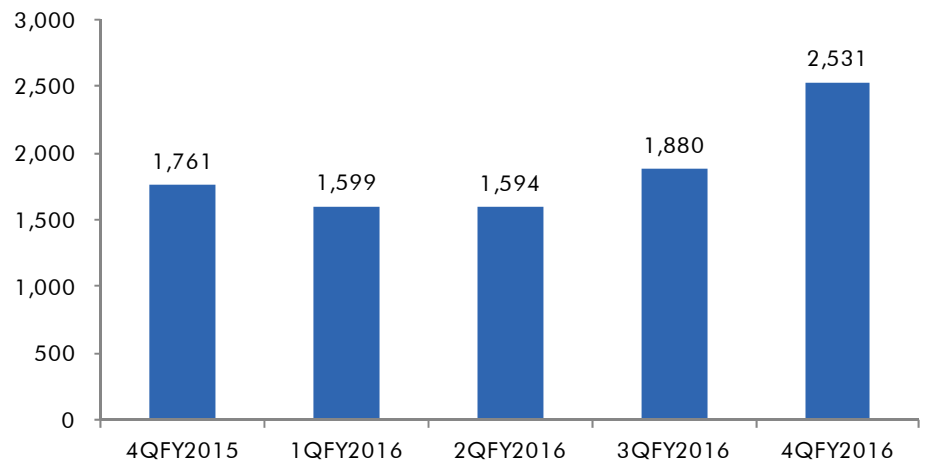
The company launched 9 products in the US during the period, taking the total launches in FY2016 to 21. It has 79 products in the market. Lupin is the market leader in 44 products marketed in the US generics market. The company is amongst the top 3 by market share in 79 products.

Another export destination – Japan, posted a yoy growth of 17.0% to ₹344.2cr, mainly on back of the currency impact. Sales in JPY terms grew 4.8% yoy to

JPY5,918mn during the quarter. Lupin's sales in Europe (₹125.4cr) and India (₹761.5cr) posted a yoy growth of 40.7% and 14.7% yoy, respectively. ROW (₹275.8cr) posted a strong growth of 38.3% yoy in 4QFY2016.

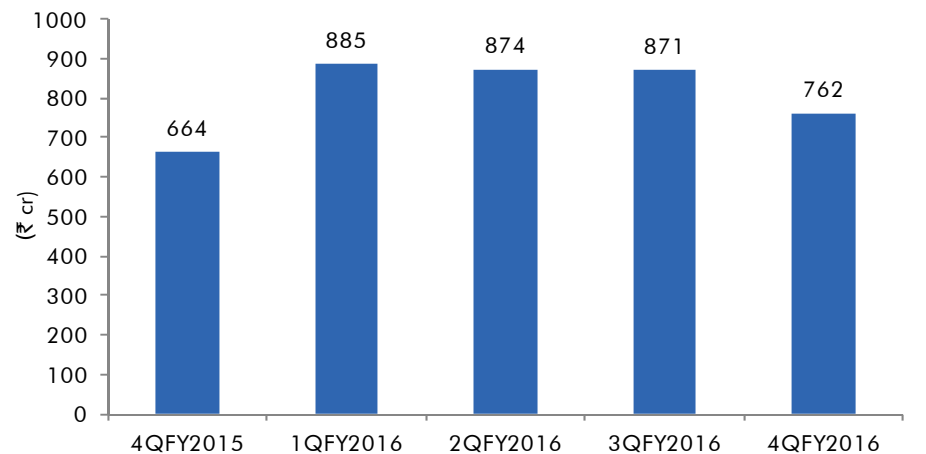
Pharma Dynamics clocked revenues of ₹113.5cr during 4QFY2016, a growth of 8.3% yoy, while it grew 13.2% in ZAR terms to ZAR228mn. The company remains the fourth largest generic company in the South African market. On the regulatory front, Lupin received 6 approvals from the USFDA during the quarter. Cumulative ANDA filings with the USFDA as of March 31, 2016 stood at 343 (35 FTFs) with the company having received 180 approvals to date.

Exhibit 3: Advanced markets – Sales trend



Source: Company, Angel Research

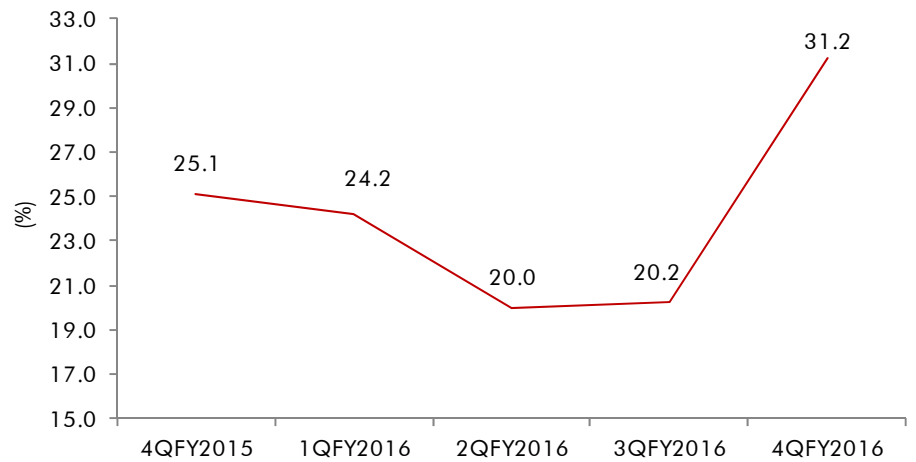
Exhibit 4: Domestic Formulation Market



Source: Company

OPM at 31.2%: On the operating front, the EBDITA margin came in at 31.2% V/s 25.1% in 4QFY2015 and V/s 29.5% expected. The expansion in the OPM was on back of the GPM expansion which came in at 73.8% V/s 68.7% in 4QFY2015 and V/s 72.7% expected. The R&D expenditure during the quarter was 16.7% of sales V/s 10.1% of sales during 4QFY2015.

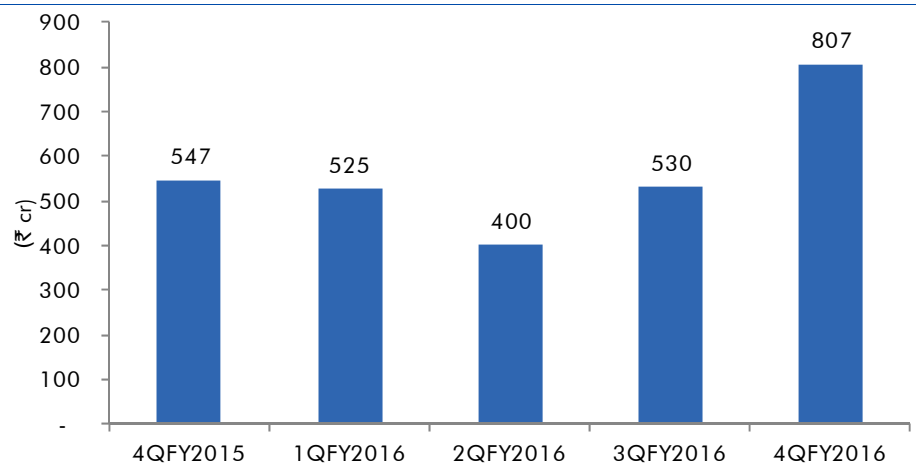
Exhibit 5: OPM trend



Source: Company, Angel Research

Net profit growth lower than our estimate: Thus, the net profit came in at ₹807cr V/s ₹829cr expected and V/s ₹547cr in 4QFY2015, a yoy growth of 47.5%.

Exhibit 6: Net profit trends



Source: Company, Angel Research

Conference call takeaways

- FY2018 revenue aspiration has been brought down to US\$3.5bn (US\$2.1bn in FY2016) from US\$5bn. Net profit margin for FY2018 to be 20%.
- Fortamet and Glumetza should continue to drive growth in FY2017 as the company does not expect more than 1-2 new players over the next one year.
- **ANDA approval guidance:** 25-30 launches are expected in FY2017 out of which 15 would be from Gavis and 15 would be from Lupin. Lupin expects 2 FTFs in FY2017.
- R&D as % of sales to be 12-15% in FY2017. Biosimilars expense would be ~12-14% of total R&D cost. Around 1/6th of the expense would be towards the NCE portfolio.

- Currently, 24% of the portfolio is under NLEM (price control) and the company has taken a price decline of ~2.7% on this portfolio (in line with WPI deflation).
- Tax rate guided to be between 28-30% of PBT.

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 turf, 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 44 products marketed in the US generics market and is amongst the top 3 by market share in 79 products. Currently, the company's cumulative filings stand at 343, of which 180 have been approved, with 35 FTFs valued at more than US\$13bn. Lupin plans to launch 25-30 products in the US in FY2017. We expect the region to post a CAGR of 22.9% during FY2016-18E, on back of new product launches.
- **Domestic formulations on a strong footing:** Lupin continues to make strides in the Indian market. Currently, Lupin ranks No 3, and is the fastest growing company among the top five companies in the domestic formulation space, registering a strong CAGR of 20.0% 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 15.0% over FY2016-18E.
- **First-mover advantage in Japan:** Lupin figures among the few Indian companies with a formidable presence in Japan, the world's second largest pharma market (ranked as the 8th largest as per IMS MAT March 2014). The Management believes 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 market to post a CAGR of 10.0% over FY2016-18E.

Valuation

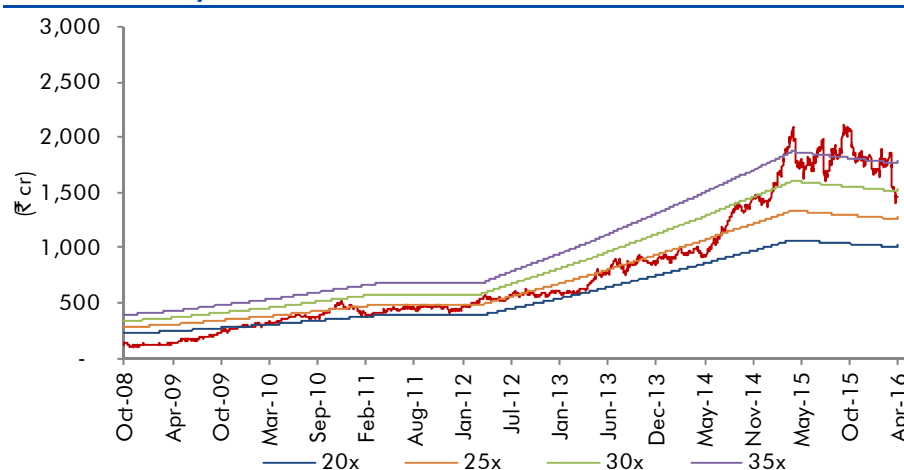
We expect Lupin to post a net sales CAGR of 16.7% to ₹18,644cr and earnings CAGR of 17.2% to ₹69.3/share over FY2016–18E. Currently, the stock is trading at 25.9x and 21.7x its FY2017E and FY2018E earnings, respectively. **We recommend a Buy on the stock.**

Exhibit 7: Key Assumptions

	FY2017E	FY2018E
Sales growth (%)	16.1	17.2
Domestic growth (%)	14.0	16.0
Exports growth (%)	17.8	17.5
Operating margins (%)	26.4	26.7
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			FY2017E	FY15-17E	FY2017E	
		(₹)	(₹)	(%)	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	564	-	-	19.7	2.7	13.9	11.4	23.5	21.3
Aurobindo Pharma	Accumulate	770	856	11.1	18.0	2.9	12.6	15.6	23.5	30.2
Cadila Healthcare	Buy	321	400	24.6	18.8	2.9	13.0	22.9	24.2	28.8
Cipla	Buy	507	605	19.3	18.4	2.4	12.9	18.3	16.7	16.1
Dr Reddy's	Buy	3,035	3,476	14.5	19.9	2.9	11.8	6.8	19.2	18.7
Dishman Pharma	Neutral	157	-	-	15.7	1.7	7.8	15.9	9.4	11.0
GSK Pharma*	Neutral	3,382	-	-	49.5	8.7	39.2	6.6	33.7	34.3
Indoco Remedies	Neutral	258	-	-	19.0	2.1	11.4	23.0	19.7	19.7
Ipca labs	Buy	450	750	66.7	16.1	1.7	9.1	17.9	11.8	14.9
Lupin	Buy	1,505	1,809	20.2	25.9	4.3	16.3	4.2	19.3	21.4
Sanofi India	Accumulate	4,292	4,738	12.4	27.5	3.8	21.8	34.2	21.0	25.6
Sun Pharma	Buy	792	950	19.9	29.4	5.2	16.8	8.4	15.8	16.6

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 enhance Lupin's scale in the US generic market and also broadens its pipeline in dermatology, controlled substance products and other high-value and niche generics.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Gross sales	9,524	11,167	12,684	13,797	16,008	18,757
Less: Excise duty	62	80	84	96	96	113
Net sales	9,462	11,087	12,600	13,702	15,912	18,644
Other operating income	180	200	170	507	200	200
Total operating income	9,641	11,287	12,770	14,208	16,112	18,844
% chg	36.1	17.1	13.1	11.3	13.4	17.0
Total expenditure	7,371	8,284	9,150	10,455	11,718	13,667
Net raw materials	3,548	3,817	4,157	4,309	5,092	5,864
Other mfg costs	757	847	963	1,047	1,216	1,425
Personnel	1,249	1,465	1,747	2,108	2,069	2,868
Other	1,818	2,155	2,283	2,580	3,342	3,511
EBITDA	2,090	2,803	3,449	3,247	4,194	4,977
% chg	58.2	34.1	23.1	(5.9)	29.2	18.7
(% of Net Sales)	22.1	25.3	27.4	23.7	26.4	26.7
Depreciation & Amortization	332	261	435	464	933	1,013
EBIT	1,758	2,542	3,015	2,783	3,261	3,964
% chg	60.7	44.6	18.6	(7.7)	17.2	21.5
(% of Net Sales)	18.6	22.9	23.9	20.3	20.5	21.3
Interest & other charges	41	27	10	45	10	10
Other Income	28	116	240	188	188	188
(% of PBT)	1	4	7	5	5	4
Share in profit of associates	-	-	-	-	-	-
Recurring PBT	1,925	2,832	3,415	3,433	3,639	4,342
% chg	60.9	47.1	20.6	0.5	6.0	19.3
Extraordinary expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	1,925	2,832	3,415	3,433	3,639	4,342
Tax	584	962	970	1,154	1,019	1,216
(% of PBT)	30.4	34.0	28.4	33.6	28.0	28.0
PAT (reported)	1,340	1,870	2,444	2,279	2,620	3,126
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	26	33	41	9	9	9
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	1,314	1,836	2,403	2,271	2,611	3,117
ADJ. PAT	1,314	1,836	2,403	2,271	2,611	3,117
% chg	51.5	39.7	30.9	(5.5)	15.0	19.4
(% of Net Sales)	13.9	16.6	19.1	16.6	16.4	16.7
Basic EPS (₹)	29.4	41.0	53.5	50.5	58.1	69.3
Fully Diluted EPS (₹)	29.4	41.0	53.5	50.5	58.1	69.3
% chg	51.0	39.5	30.5	(5.5)	15.0	19.4

Balance Sheet (Consolidated)

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity share capital	90	90	90	90	90	90
Reserves & surplus	5,115	6,842	8,784	10,894	13,337	16,286
Shareholders funds	5,204	6,932	8,874	10,984	13,427	16,376
Minority interest	59	67	24	32	41	50
Total loans	1,164	553	471	7,119	1,000	500
Other Long-Term Liabilities	50	46	74	75	76	77
Long-Term Provisions	112	132	132	380	380	380
Deferred tax liability	163	178	118	124	124	124
Total liabilities	6,754	7,908	9,693	18,715	15,049	17,507
APPLICATION OF FUNDS						
Gross block	4,114	4,564	5,355	11,160	12,160	13,160
Less: Acc. depreciation	1,684	1,928	2,363	2,827	3,759	4,772
Net block	2,430	2,635	2,992	8,334	8,401	8,388
Capital work-in-progress	311	304	304	304	304	304
Goodwill	570	720	1,648	2,964	2,964	2,964
Investments	2	178	1,658	8	8	8
Long-Term Loans and Adv.	387	373	275	970	1,126	1,320
Current assets	5,143	5,924	6,176	9,777	6,489	9,495
Cash	435	798	1,306	838	338	2,288
Loans & advances	340	302	671	737	847	993
Other	3,154	4,825	4,199	8,202	5,303	6,214
Current liabilities	2,089	2,227	3,360	3,642	4,243	4,972
Net current assets	3,054	3,697	2,816	6,135	2,245	4,523
Mis. Exp. not written off	-	-	-	-	-	-
Total assets	6,754	7,908	9,693	18,715	15,049	17,507

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	1,925	2,832	3,415	3,433	3,639	4,342
Depreciation	332	261	435	464	933	1,013
(Inc.)/Dec in working capital	620	(1,481)	1,487	(4,482)	3,233	(521)
Direct taxes paid	(584)	(962)	(970)	(1,154)	(1,019)	(1,216)
Cash Flow from Operations	2,293	649	4,367	(1,739)	6,786	3,618
(Inc.)/Dec.in Fixed Assets	(353)	(443)	(791)	(5,805)	(1,000)	(1,000)
(Inc.)/Dec. in Investments	-	-	-	-	-	-
Cash Flow from Investing	(353)	(443)	(791)	(5,805)	(1,000)	(1,000)
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(476)	(611)	(82)	6,648	(6,119)	(500)
Dividend Paid (Incl. Tax)	(209)	(157)	(168)	(168)	(168)	(168)
Others	499	(795)	(2,816)	597	1	-
Cash Flow from Financing	(186)	(1,564)	(3,067)	7,077	(6,287)	(668)
Inc./(Dec.) in Cash	1,753	(1,358)	509	(468)	(500)	1,950
Opening Cash balances	402	435	798	1,306	838	338
Closing Cash balances	435	798	1,306	838	338	2,288

Key Ratios

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	51.3	36.8	28.2	29.8	25.9	21.7
P/CEPS	40.9	32.2	23.8	24.7	19.1	16.4
P/BV	12.9	9.7	7.6	6.2	5.0	4.1
Dividend yield (%)	0.3	0.4	0.5	0.5	0.5	0.5
EV/Sales	7.2	6.0	5.3	5.4	4.3	3.5
EV/EBITDA	32.5	23.9	19.4	22.6	16.1	13.1
EV / Total Assets	10.0	8.5	6.9	3.9	4.5	3.7
Per Share Data (₹)						
EPS (Basic)	29.4	41.0	53.5	50.5	58.1	69.3
EPS (fully diluted)	29.4	41.0	53.5	50.5	58.1	69.3
Cash EPS	36.8	46.8	63.1	60.8	78.8	91.9
DPS	4.0	6.0	8.0	8.0	8.0	8.0
Book Value	116.3	154.6	197.4	244.4	298.7	364.3
Dupont Analysis						
EBIT margin	18.6	22.9	23.9	20.3	20.5	21.3
Tax retention ratio	69.6	66.0	71.6	66.4	72.0	72.0
Asset turnover (x)	1.6	1.7	1.6	1.1	1.0	1.3
ROIC (Post-tax)	20.9	25.4	28.2	14.6	14.6	19.3
Cost of Debt (Post Tax)	2.0	2.0	1.4	0.8	0.2	1.0
Leverage (x)	0.0	0.0	0.0	0.0	0.2	0.0
Operating ROE	20.9	25.4	28.2	14.6	17.2	19.6
Returns (%)						
ROCE (Pre-tax)	27.5	34.7	34.3	19.6	19.3	24.4
Angel ROIC (Pre-tax)	35.0	44.1	48.2	26.4	25.0	33.9
ROE	28.5	30.3	30.4	22.9	21.4	20.9
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.5	2.6	2.6	1.7	1.4	1.5
Inventory / Sales (days)	70	66	62	74	66	56
Receivables (days)	75	75	66	78	71	59
Payables (days)	72	84	78	86	86	86
WC cycle (ex-cash) (days)	88	89	63	87	82	40
Solvency ratios (x)						
Net debt to equity	0.1	(0.0)	(0.1)	0.6	0.0	(0.1)
Net debt to EBITDA	0.3	(0.1)	(0.2)	1.9	0.2	(0.4)
Interest Coverage	42.9	95.4	307.3	62.4	326.1	396.4

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Disclosure of Interest Statement

	Lupin
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)