

Lupin

Performance Highlights

Y/E March (` cr)	3QFY2019	2QFY2019	% chg qoq	3QFY2018	% chg yoy
Net sales	4,168	3,891	7.1	3,900	6.9
Other income	380	291	30.6	104	264.8
Operating profit	416	490	(15.1)	613	(32.2)
Interest	80	74	8.1	54	47.7
Net profit/(loss)	(153)	266		222	

Source: Company, Angel Research

For 3QFY2019, sales came in at `4,168cr v/s. `3,900cr in 3QFY2018, a yoy growth of 6.9%. On operating front, the EBITDA margins came in at 8.6% v/s. 15.7% in 3QFY2018, mainly on the back of lower than expected sales during the quarter & dip in the gross margins. Thus, the Adj. PAT came in at `188cr v/s. `222cr in 3QFY2018, a yoy de-growth of 15.2%. During the quarter, the company booked NCE income of `210.3cr, which posted other income; while it also posted extraordinary expenses of `342.2cr which lead company to report losses. **We are Neutral on the stock.**

Numbers marred with extra-ordinaries: For 3QFY2019, sales came in at `4,168cr v/s. `3,900cr in 3QFY2018, a yoy growth of 6.9%. Formulation sales (`3,805cr), which grew by 4.8% yoy, aided by a 1.0% dip in the USA (`1,4174cr). Lupin's India formulation sales grew by 11.4% yoy to end the period at `1,190cr. On operating front, the EBITDA margins came in at 8.6% v/s. 15.7% in 3QFY2018, mainly on the back of lower than expected sales during the quarter & dip in the gross margins. On operating front, the EBITDA margins came in at 8.6% v/s. 15.7% in 3QFY2018. Thus, the Adj. PAT came in at `188cr v/s. `222cr in 3QFY2018, a yoy de-growth of 15.2%.

Outlook and valuation: We expect Lupin to post net sales CAGR of 14.4% to `23,292cr over FY2018–21E. The earnings would come under pressure, on back of pressure on the OPM. The stock trades at 25.7x its FY2020E earnings respectively. **We recommend a neutral rating on the stock.**

Key financials (Consolidated)

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
Net sales	15,560	15,985	19,325	23,292
% chg	(9.1)	2.7	20.9	20.5
Adj. Net profit	1,189	1,019	1,479	1,962
% chg	(53.5)	(14.3)	45.2	32.7
EPS (`)	26.3	19.9	32.7	43.4
EBITDA margin (%)	9.2	14.3	17.0	17.4
P/E (x)	32.0	42.3	25.7	19.4
RoE (%)	8.8	7.3	9.9	11.9
RoCE (%)	1.6	4.3	8.7	11.6
P/BV (x)	2.8	2.7	2.4	2.2
EV/sales (x)	2.9	2.5	2.1	1.7
EV/EBITDA (x)	30.9	17.7	12.1	9.5

Source: Company, Angel Research; Note: CMP as of February 6, 2019

NEUTRAL

CMP `842

Target Price -

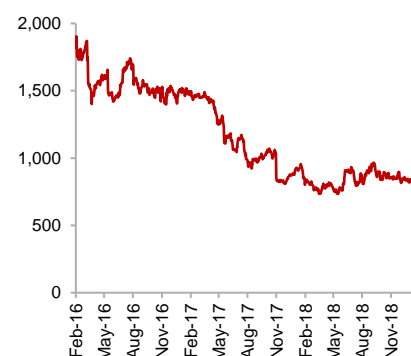
Investment Period 12 months

Sector	Pharmaceutical
Market Cap (` cr)	38,094
Net debt (` cr)	3,265
Beta	0.9
52 Week High / Low	986/724
Avg. Daily Volume	44,931
Face Value (`)	2
BSE Sensex	36,975
Nifty	11,062
Reuters Code	LUPN.BO
Bloomberg Code	LUPN@IN

Shareholding Pattern (%)	
Promoters	47.0
MF / Banks / Indian FIs	18.4
FII / NRIs / OCBs	28.0
Indian Public / Others	12.5

Abs. (%)	3m	1yr	3yr
Sensex	5.7	8.1	52.2
Lupin	(1.0)	5.0	(53.7)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2019 – Consolidated performance

Y/E March (` cr)	3QFY2019	2QFY2019	% chg (qoq)	3QFY2018	% chg (yoy)	9MFY2019	9MFY2018	% chg (yoy)
Net sales	4,168	3,891	7.1	3,900	6.9	12,043	11,581	4.0
Other income	380	291	30.6	104	264.8	594	311	91.1
Total income	4,548	4,182	8.8	4,005	13.6	12,638	11,892	6.3
Gross profit	2,567	2,498	2.8	2,508	2.4	7,605	7,670	(0.8)
Gross margin	61.6	64.2		64.3		63.2	66.2	
Operating profit	415.5	489.5	(15.1)	613.1	(32.2)	1,472	2,136	(31.1)
OPM (%)	10.0	12.6		15.7		12.2	18.4	
Interest	80	74	8.1	54	47.7	222	146	52.5
Dep. & amortization	280	265	5.4	280	(0.2)	804	813	(1.1)
PBT	436	441	(1.1)	383	13.9	1,040	1,488	(30.1)
Provision for taxation	248	173	43.4	161	54.2	602	452	33.3
Reported net profit	188	268		222	(15.2)	438	1,036	(57.8)
Less : exceptional items	342	-		-		(119)	-	
MI & share in associates	(1)	2		1		2	1	
PAT after exceptional items	(153)	266		222		317	1,035	(69.4)
EPS (`)		5.9		4.9		7.0	22.9	(69.4)

Source: Company, Angel Research

Indian sales drives growth

Revenue grows mere 6.9% yoy: For 3QFY2019, sales came in at `4,168cr v/s. `3,900cr in 3QFY2018, a yoy growth of 6.9%. Formulation sales (`3,805cr), which grew by 4.8% yoy, aided by a 1.0% dip in the USA (`1,4174cr). Lupin's India formulation sales grew by 11.4% yoy to end the period at `1,190cr.

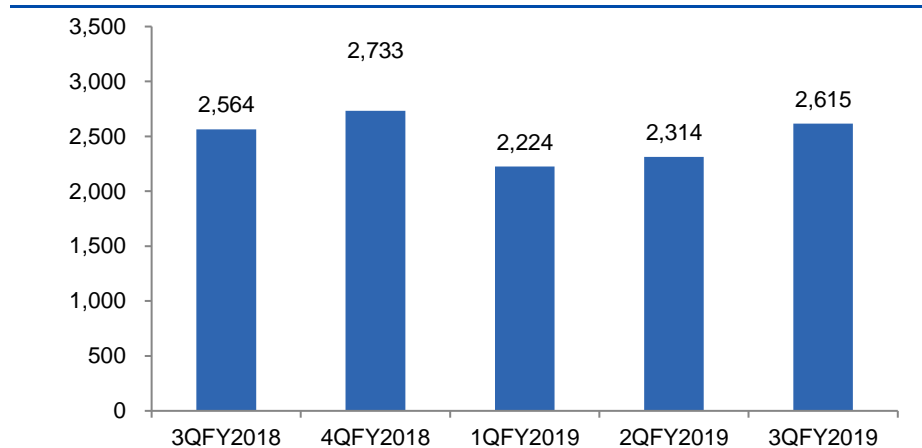
Lupin's USA sales de-grew by 1.0% to `1,417cr during 3QFY2019, contributing 32% to Lupin's global sales. The Company launched 6 products in the US market during the quarter, and now has 168 products in the US generics market. Lupin is now the leader in 68 products marketed in the US generics market and amongst the top 3 in 120 of its marketed products (market share by prescriptions, IQVIA December 2018).

Lupin filed 8 ANDA and received 11 approvals from the US FDA during the quarter. Cumulative ANDA filings with the US FDA stood at 412 as of December 31st, 2018, with the company having received 258 approvals to date. The Company now has 41 First-to-Files (FTF) filings including 15 exclusive FTF opportunities. Cumulative DMF filings stands at 194 as of December 31st, 2018.

Lupin's India formulation sales for 3QFY2019 decreased by 1.1% to `1190.2cr as compared to `1203.2cr in 2QFY2019 and increased by 11.4% yoy as compared to `1068.8cr in 3QFY2018. Lupin's APAC sales for 3QFY2019 increased by 11.9% to `693.6cr compared to sales of `619.9cr in 2QFY2019 and increased by 2.9% as compared to `674.2cr in 3QFY2018. Lupin's LATAM sales increased by 6.7% to `155.7cr during 3QFY2019 compared to `145.9cr in 2QFY2019 and by 5.2% from `148.1cr in 3QFY2018.

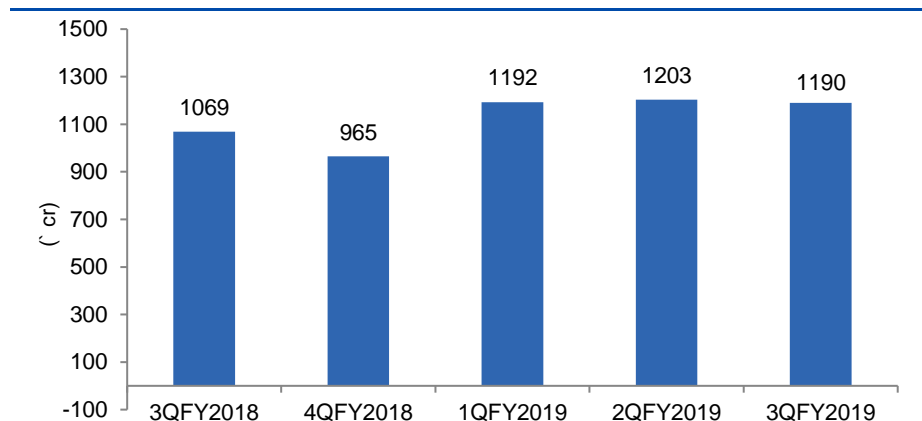
Global API sales were `362.4cr during 3QFY2019 as compared to `334.7cr during 2QFY2019 and `268.0cr during 3QFY2018; accounting for 8% of Lupin's global sales.

Exhibit 2: Advanced markets – Sales trend



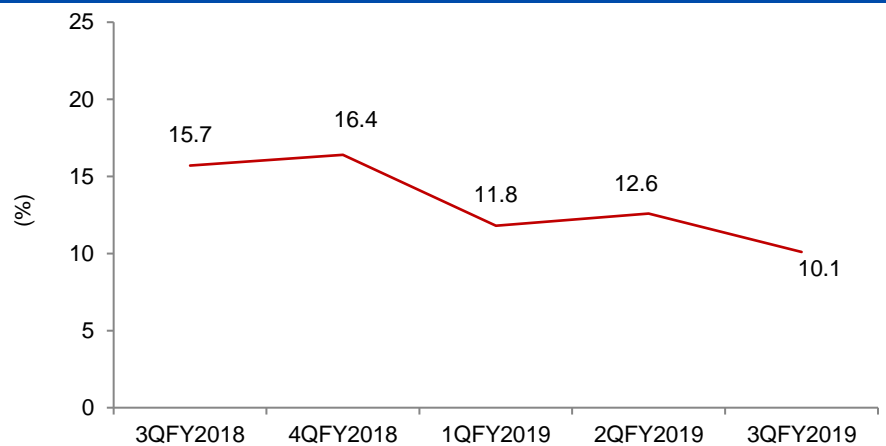
Source: Company, Angel Research

Exhibit 3: Domestic Formulation Market



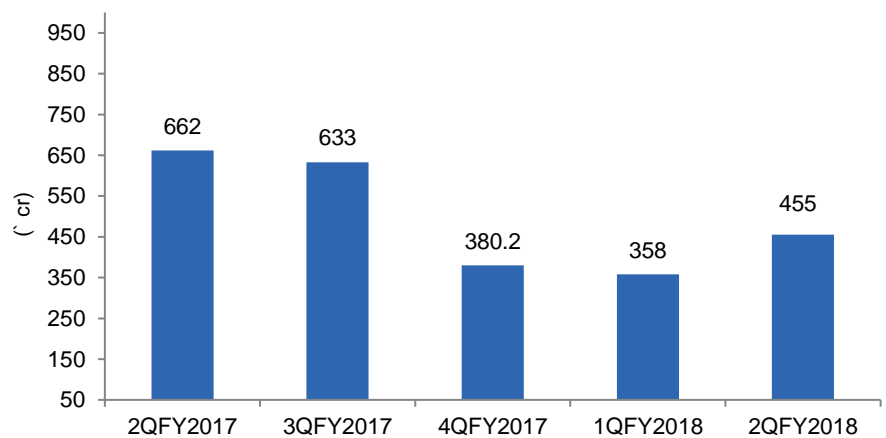
Source: Company

OPM at 10%, lower on back of low gross margins: On the OPM front, the EBDITA margins came in at 10.0% v/s. 15.7% in 3QFY2018, while the gross margins came in at 61.6% v/s. 64.3% in 3QFY2018. R&D expenses were 9.7% of sales in 3QFY2019 V/s. 9.7% of sales in 3QFY2018. The staff cost during the quarter posted a growth of 16.6%.

Exhibit 4: OPM trend


Source: Company, Angel Research

Net profit marred with extra-ordinaries: Thus, the Adj. PAT came in at `188cr v/s. `222cr in 3QFY2018, a yoy de-growth of 15.2%. During the quarter, the company booked NCE income of `210.3cr, which posted other income; while it also posted extra-ordinary expenses of `342.2cr which lead company to report losses.

Exhibit 5: Net profit trends


Source: Company, Angel Research

Conference call takeaways

- Company expects USFDA resolution of warning letter at its Pithampur/Goa facility in 1HFY2020.
- On Mandideep facility 483s, company has responded to certain observations, and by March 2019, most of the observations will be addressed.
- Company guided for capex of `600-700cr for FY2020.
- Domestic field force strength was about 6900 at the end of 3QFY2019.
- Capital Expenditure for the quarter was `143.3cr

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 68 products marketed in the US generics market and is amongst the top 3 by market share in 120 products. Currently, the company's cumulative filings stand at 412, of which 258 have been approved, with 15 exclusive FTFs. While the company has received warning letter its existing business will not be impacted. We expect the region to post a dip of 19.1% over FY2018-20E, 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 5, 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. Lupin has a strong field force of ~6,900MRs (as of 3QFY2019). We expect the domestic formulation market to grow at a CAGR of 12.5% over FY2018-21E.

Valuation

We expect Lupin to post a net sales CAGR of 14.4% to `23,292cr and earnings growth of 18.2% to `43.4/share over FY2018–21E. Currently, the stock is trading at 25.7x its FY2020E earnings. The stock has corrected a lot in last three years, in absolute terms. However in spite of the same the fundamentals of the company have not improved much. The company's US business is stabilized a bit and should see some recovery in FY2020–21E, However inspite of the same we are cautious on the operating performance and hence at such valuation's would adopt a cautious stance and unless the performance shows signs of significant improvement. **We recommend a Neutral rating on the stock.**

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 broadened its pipeline in dermatology, controlled substance products and other high-value and niche generics.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Gross sales	13,797	17,224	15,653	16,799	18,704	23,432
Less: Excise duty	96	104	94	101	112	140
Net sales	13,702	17,120	15,560	15,985	19,325	23,292
Other operating income	507	375	244	244	244	244
Total operating income	14,208	17,494	15,804	16,229	19,570	23,536
% chg	11.3	23.1	-9.7	2.7	20.6	20.3
Total expenditure	10,455	13,001	14,121	13,701	16,043	19,237
Net raw materials	4,309	5,001	5,274	6,026	6,803	8,129
Other mfg costs	68.5%	70.8%	66.1%	62.3%	64.8%	65.1%
Personnel	1,047	1,308	1,189	1,221	1,477	1,780
Other	2,937	3,842	3,863	3,021	3,653	4,402
EBITDA	3,247	4,119	1,439	2,284	3,282	4,056
% chg	(5.9)	26.9	-65.1	58.7	43.7	23.6
(% of Net Sales)	23.7	24.1	9.2	14.3	17.0	17.4
Dep. & Amortization	464	912	1,086	1,400	1,501	1,620
EBIT	2,783	3,206	353	884	1,781	2,436
% chg	(7.7)	15.2	-89.0	150.6	101.4	36.7
(% of Net Sales)	20.3	18.7	2.3	5.5	9.2	10.5
Interest & other charges	45	153	204	112	94	77
Other Income	188	107	154	350	120	120
(% of PBT)	5	3	28	26	6	4
Share in profit of asso.	-	-	-	-	-	-
Recurring PBT	3,433	3,535	547	1,367	2,052	2,724
% chg	0.5	3.0	(84.5)	150.0	50.1	32.7
Extraordinary exp./(Inc.)	-	-	(929.4)	118.6	-	-
PBT (reported)	3,433	3,535	547	1,248	2,052	2,724
Tax	1,154	979	288	350	575	763
(% of PBT)	33.6	27.7	52.8	28.0	28.0	28.0
PAT (reported)	2,279	2,556	258	899	1,478	1,961
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	9	(1)	(1)	(1)	(1)	(1)
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	2,271	2,557	259	900	1,479	1,962
ADJ. PAT	2,271	2,557	1,189	1,019	1,479	1,962
% chg	(5.5)	12.6	(53.5)	(14.3)	45.2	32.7
(% of Net Sales)	16.6	14.9	1.7	5.6	7.7	8.4
Basic EPS (₹)	50.5	56.9	26.3	19.9	32.7	43.4
Fully Diluted EPS (₹)	50.5	56.9	26.3	19.9	32.7	43.4
% chg	(5.5)	12.6	(53.8)	(24.3)	64.3	32.7

Balance Sheet (Consolidated)

Y/E March	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
SOURCES OF FUNDS						
Equity share capital	90	90	90	90	90	90
Reserves & surplus	11,073	13,407	13,487	14,218	15,529	17,323
Shareholders funds	11,163	13,497	13,577	14,309	15,619	17,413
Minority interest	32	35	40	39	38	37
Total loans	7,178	7,952	7,143	6,000	5,000	4,000
Other Long-Term Liabilities	478	76	526	-	-	-
Long-Term Provisions	190	836	357	357	357	357
Deferred tax liability	(9)	(113)	(431)	(431)	(431)	(431)
Total liabilities	19,031	22,283	21,212	20,274	20,583	21,375
APPLICATION OF FUNDS						
Gross block	14,100	10,085	11,411	12,111	13,111	14,111
Less: Acc. Depreciation	2,827	3,739	4,825	6,224	7,725	9,345
Net block	6,451	8,723	7,914	5,887	5,386	4,767
Capital work-in-progress	2,702	2,133	2,598	2,598	2,598	2,598
Goodwill	2,265	2,310	2,448	2,448	2,448	2,448
Investments	16	2,136	262	2,250	1,728	1,212
Long-Term Loans and Adv.	968	957	392	1,129	1,365	1,645
Current assets	9,885	9,840	11,975	10,224	12,210	14,916
Cash	822	699	1,408	1,689	1,892	2,480
Loans & advances	737	912	103	851	1,029	1,240
Other	8,326	8,229	10,464	7,683	9,289	11,196
Current liabilities	3,258	3,816	4,377	4,263	5,154	6,212
Net current assets	6,628	6,024	7,597	5,961	7,057	8,705
Mis. Exp. not written off	-	-	-	-	-	-
Total assets	19,031	22,283	21,212	20,274	20,583	21,375

Cash Flow Statement (Consolidated)

Y/E March (` cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Profit before tax	3,433	3,535	547	1,248	2,052	2,724
Depreciation	464	912	1,086	1,400	1,501	1,620
(Inc)/Dec in working capital	(4,989)	492	(300)	1,181	(1,129)	(1,340)
Direct taxes paid	(1,154)	(979)	(288)	(350)	(575)	(763)
Cash Flow from Operations	(2,246)	3,961	1,044	3,479	1,850	2,240
(Inc.)/Dec.in Fixed Assets	(11,201)	4,585	(1,791)	(700)	(1,000)	(1,000)
(Inc.)/Dec. in Investments	-	-	-	-	-	-
Cash Flow from Investing	(11,201)	4,585	(1,791)	(700)	(1,000)	(1,000)
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	6,707	775	(809)	(1,143)	-	1
Dividend Paid (Incl. Tax)	(168)	(168)	(168)	(168)	(168)	(168)
Others	6,425	(9,274)	2,433	(1,187)	(478)	(486)
Cash Flow from Financing	12,963	(8,668)	1,455	(2,498)	(646)	(653)
Inc./(Dec.) in Cash	(484)	(122)	708	281	203	587
Opening Cash balances	1,306	822	699	1,408	1,689	1,892
Closing Cash balances	822	699	1,408	1,689	1,892	2,480

Key Ratios

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Valuation Ratio (x)						
P/E (on FDEPS)	16.7	14.8	32.0	42.3	25.7	19.4
P/CEPS	13.8	10.9	28.3	16.6	12.8	10.6
P/BV	3.4	2.8	2.8	2.7	2.4	2.2
Dividend yield (%)	0.9	0.9	0.6	0.6	0.6	0.6
EV/Sales	3.3	2.6	2.9	2.5	2.1	1.7
EV/EBITDA	13.8	10.7	30.9	17.7	12.1	9.5
EV / Total Assets	2.4	2.0	2.1	2.0	1.9	1.8
Per Share Data (₹)						
EPS (Basic)	50.5	56.9	26.3	19.9	32.7	43.4
EPS (fully diluted)	50.5	56.9	26.3	19.9	32.7	43.4
Cash EPS	60.8	77.2	29.8	50.9	65.9	79.2
DPS	7.5	7.5	5.0	5.0	5.0	5.0
Book Value	248.3	300.3	300.3	316.5	345.5	385.2
Dupont Analysis						
EBIT margin	20.3	18.7	2.3	5.5	9.2	10.5
Tax retention ratio	66.4	72.3	47.2	72.0	72.0	72.0
Asset turnover (x)	1.1	0.9	0.8	0.8	1.0	1.3
ROIC (Post-tax)	14.4	11.9	0.8	3.4	7.0	9.4
Cost of Debt (Post Tax)	0.8	1.5	1.3	1.2	1.2	1.2
Leverage (x)	0.0	0.4	0.3	0.1	0.1	0.3
Operating ROE	14.4	16.3	0.7	3.7	7.3	12.1
Returns (%)						
ROCE (Pre-tax)	19.4	15.5	1.6	4.3	8.7	11.6
Angel ROIC (Pre-tax)	28.8	21.1	2.2	6.3	13.1	17.7
ROE	22.7	20.7	8.8	7.3	9.9	11.9
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.5	1.4	1.5	1.4	1.6	1.7
Inventory / Sales (days)	74	74	91	90	75	76
Receivables (days)	79	79	96	96	80	81
Payables (days)	81	70	74	81	75	76
WC cycle (ex-cash) (days)	94	116	133	118	88	88
Solvency ratios (x)						
Net debt to equity	0.6	0.5	0.4	0.3	0.2	0.1
Net debt to EBITDA	2.0	1.8	4.0	1.9	0.9	0.4
Interest Coverage	62.4	21.0	1.7	7.9	19.1	31.8

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

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)*