

Lupin

Performance Highlights

Y/E March (₹ cr)	3QFY2017	2QFY2017	% chg qoq	3QFY2016	% chg yoy
Net sales	4,410	4,212	4.7	3,358	31.3
Other income	182	106	70.6	263	(31.0)
Operating profit	1,143	949	20.4	679	68.2
Interest	46	26	74.6	9	400.3
Net profit	633	662	(4.4)	530	19.5

Source: Company, Angel Research

For 3QFY2017 Lupin posted results much better than expected on sales and OPM fronts. In sales, the company posted sales of ₹4,110cr v/s ₹4,000cr expected yoy growth of 31.3%. The strong sales growth was aided by the USA (contributed around 49.0%), which registered a yoy growth of 57.6%. On EBITDA front, the company posted EBITDA of 25.9% (v/s 22.4% expected) v/s 20.2% in 3QFY2016. Consequently, PAT came in at ₹633.1cr (v/s ₹637.2cr expected) v/s ₹529.6cr in 3QFY2016, growth of 19.5% yoy. **We maintain our buy rating on the stock.**

Numbers better than expectations: In sales, the company posted sales of ₹4,110cr v/s ₹4,000cr expected, a yoy growth of 31.5%. The strong sales growth was aided by the USA (contributed around 49%), which registered a yoy growth of 57.6%. India at ₹991.2cr posted yoy growth of 11.9%, APAC at ₹560.1cr posted a yoy growth of 20.9%, EMEA at ₹255.5cr posted a yoy growth of 16.8%, LATAM at ₹117.5cr posted a yoy growth of 32.8% and ROW at ₹36.7cr posted a yoy growth of 23.2%. On EBITDA front, the company posted EBITDA of 25.9% (v/s 22.4% expected) v/s 20.2% in 3QFY2016. Consequently, PAT came in at ₹633.1cr (v/s ₹637.2cr expected), v/s ₹529.6cr in 3QFY2016, growth of 19.5% yoy.

Outlook and valuation: We expect Lupin to post a net sales CAGR of 21.7% to ₹20,304cr and earnings CAGR of 23.0% to ₹76.4/share over FY2016–18E. Currently, the stock is trading at 19.2x its FY2018E earnings, respectively. **We recommend a Buy rating on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	12,600	13,702	17,296	20,304
% chg	13.6	8.7	26.2	17.4
Net profit	2,403	2,271	2,874	3,436
% chg	30.9	(5.5)	26.6	19.6
EPS (₹)	53.5	50.5	63.9	76.4
EBITDA margin (%)	27.4	23.7	26.4	26.7
P/E (x)	27.4	29.0	22.9	19.2
RoE (%)	30.4	22.9	23.3	22.4
RoCE (%)	34.3	19.6	21.3	26.4
P/BV (x)	7.4	6.0	4.8	3.9
EV/sales (x)	5.2	5.2	3.8	3.1
EV/EBITDA (x)	18.8	22.1	14.4	11.6

Source: Company, Angel Research; Note: CMP as of February 13, 2017

BUY

CMP	₹1,448
Target Price	₹1,809

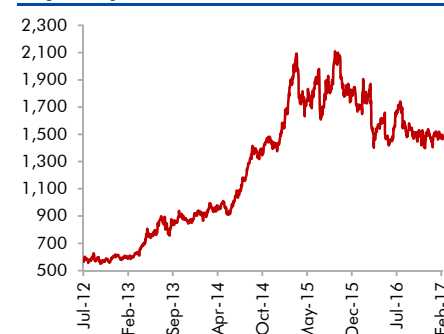
Investment Period	12 months
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	65,354
Net Debt (₹ cr)	6,737
Beta	0.8
52 Week High / Low	1,874 / 1,294
Avg. Daily Volume	1,61,980
Face Value (₹)	2
BSE Sensex	28,352
Nifty	8,805
Reuters Code	LUPN.BO
Bloomberg Code	LPC@IN

Shareholding Pattern (%)	
Promoters	46.7
MF / Banks / Indian Fls	9.3
FII / NRIs / OCBs	34.0
Indian Public / Others	10.0

Abs. (%)	3m	1yr	3yr
Sensex	5.7	23.3	40.4
Lupin	(0.9)	(17.3)	61.8

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2017 – Consolidated performance

Y/E March (₹ cr)	3QFY2017	2QFY2017	% chg (qoq)	3QFY2016	% chg (yoy)	9MFY2017	9MFY2016	% chg (yoy)
Net sales	4,410	4,212	4.7	3,358	31.3	12,958	9,610	34.8
Other income	182	106	70.6	263	(31.0)	436	579	(24.8)
Total income	4,591	4,318	6.3	3,621	26.8	13,394	10,189	31.5
Gross profit	3,108	2,969	4.7	2,235		9,142	6,375	43.4
Gross margin	70.5	70.5		66.6		70.5	66.3	
Operating profit	1,142.7	949.4	20.4	679.3	68.2	3,330	1,969	69.1
OPM (%)	25.9	22.5		20.2		25.7	20.5	
Interest	46	26	74.6	9	400.3	104	22	373.7
Dep. & amortization	231	203	13.9	111	107.3	645	319	102.1
PBT	1,047	827	26.7	822	27.5	3,016	2,207	36.7
Provision for taxation	409	159	157.6	291	40.8	842	740	13.8
Reported net profit	638	668	(4.5)	531	20.2	2,174	1,467	48.2
Less : exceptional items	-	-		-		-	-	
MI & share in associates	5	5	(4.8)	1	279.2	(3)	4	(171.5)
PAT after exceptional items	633	662	(4.4)	530	19.5	2,177	1,464	48.7
EPS (₹)	14.1	14.8		0.0		48.6	32.7	

Source: Company, Angel Research

Exhibit 2: 3QFY2017 – Actual Vs Angel estimates

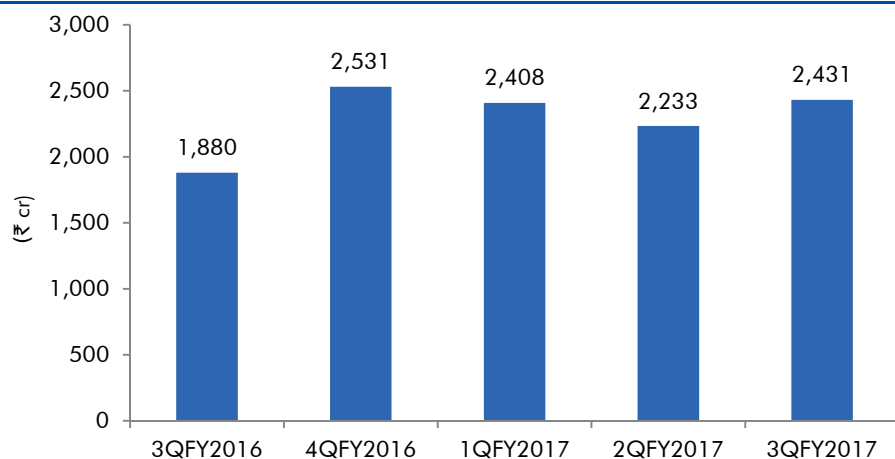
₹ cr	Actual	Estimates	Variation
Net Sales	4,410	4,000	10.2
Other Income	182	106	70.6
Operating Profit	1,143	895	27.7
Depreciation	231	202	14.3
Tax	409	153	168.3
Net Profit	633	637	(0.6)

Source: Company, Angel Research

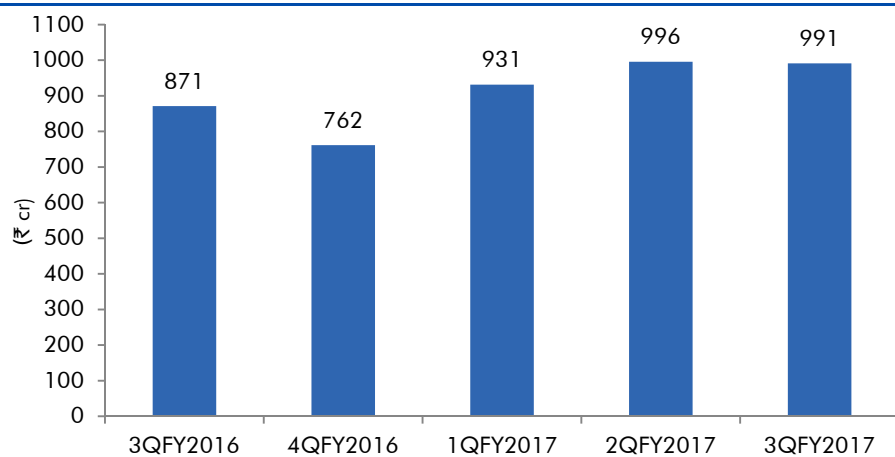
Revenue grows 31.3% yoy: Lupin posted results much better than expected on sales and OPM front. In sales, the company posted sales of ₹4,110cr v/s ₹4,000cr expected, yoy growth of 31.5%. The strong sales growth was aided by the USA (contributed around 49%), which registered a yoy growth of 57.6%. India at ₹991.2cr posted yoy growth of 11.9%, APAC at ₹560.1cr posted a yoy growth of 20.9%, EMEA at ₹255.5cr posted a yoy growth of 16.8%, LATAM at ₹117.5cr posted a yoy growth of 32.8% and ROW at ₹36.7cr posted a yoy growth of 23.2%.

Lupin's USA sales grew by 57.6% to ₹2175.5cr during 3QFY2017, contributing 49% of Lupin's global sales. The Company launched 4 products in the US market during the quarter. The Company now has 128 products in the US generics market. Lupin is now the leader in 45 products marketed in the US generics market and amongst the top 3 in 78 of its marketed products (market share by prescriptions, IMS Health, December 2016).

Lupin's India formulation sales grew by 11.9% to ₹991.2cr during 3QFY2017 as compared to ₹8,86.0cr during 3QFY2016, contributing 22% of Lupin's global sales. API sales (₹268.4cr) posted a dip of 5.3% yoy.

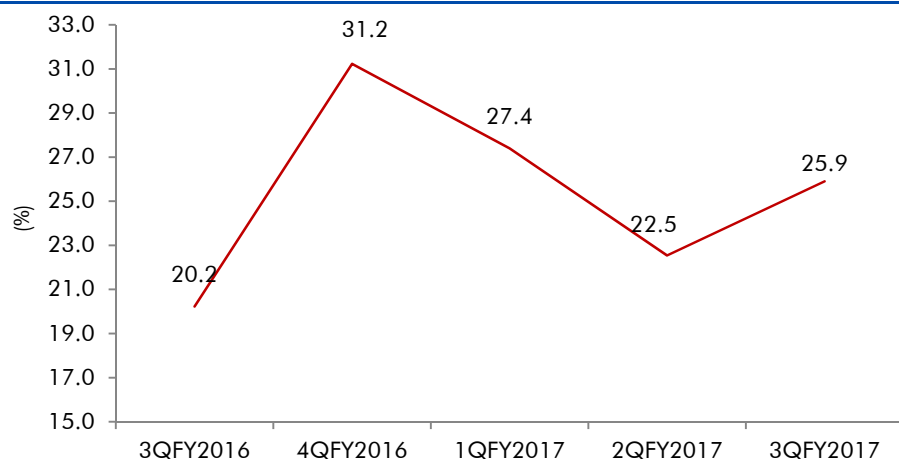
Exhibit 3: Advanced markets – Sales trend


Source: Company, Angel Research

Exhibit 4: Domestic Formulation Market


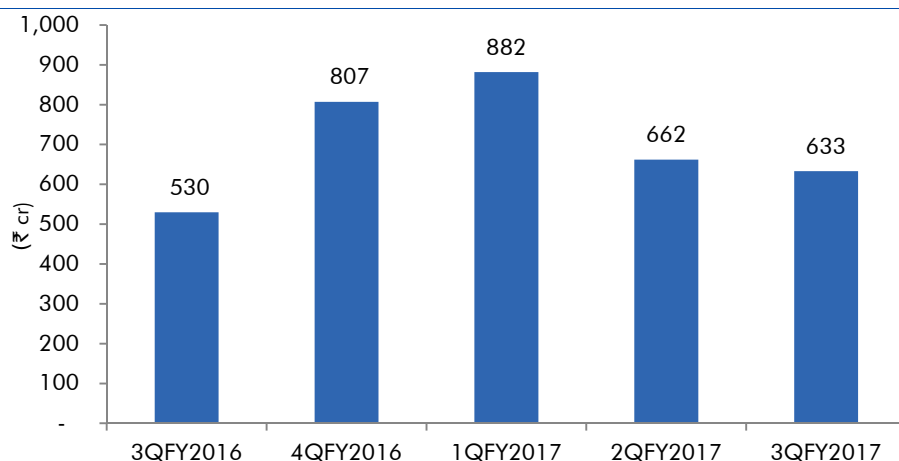
Source: Company

OPM at 25.9%, higher than expected: On EBITDA front, the company posted EBITDA of 25.9% (v/s 22.4% expected) v/s 20.2% in 3QFY2016. The gross margin expansion, which came in at 70.5% v/s. 66.6% in 3QFY2016, was the main driver for the OPM expansion. The R&D expenses came in at 12.9% of sales v/s. 8.1% of sales in 3QFY2016.

Exhibit 5: OPM trend


Source: Company, Angel Research

Net profit growth just in-line with our estimate: Expansion in OPM along with higher taxation aided the Adj. net profit to grow by 19.5% yoy to ₹633cr (v/s. ₹637cr expected).

Exhibit 6: Net profit trends


Source: Company, Angel Research

Conference call takeaways

- Management has guided for 25+ ANDA launches in FY2018.
- Plans to file 30 ANDA's in US.
- R&D as % of sales to be at 12-15% in FY2017.
- Currently ~23% of the company's domestic portfolio is under NLEM.
- Tax rate guided to be between 28-30% of PBT.
- Higher tax rate in 3QFY2017 was attributed to unwinding of deferred tax and subsidiary losses.
- Capex guidance, ₹1,500cr in FY2018.

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 42 products marketed in the US generics market and is amongst the top 3 by market share in 78 products. Currently, the company's cumulative filings stand at 344, of which 207 have been approved, with 45 FTFs valued at more than US\$13bn. Lupin plans to launch 25-30 products in the US in FY2018. We expect the region to post a CAGR of 33.9% over FY2016-18E on the 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% 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 (Lupin 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% over FY2016-18E.

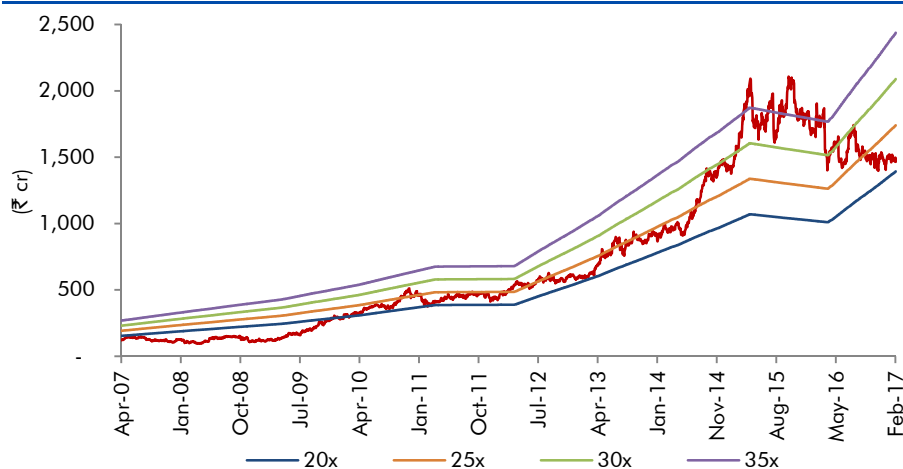
Valuation

We expect Lupin to post a net sales CAGR of 21.7% to ₹20,304cr and earnings CAGR of 23.0% to ₹76.4/share over FY2016–18E. Currently, the stock is trading at 19.2x its FY2018E earnings, respectively. **We recommend a Buy rating on the stock.**

Exhibit 7: Key Assumptions

	FY2017E	FY2018E
Sales growth (%)	26.2	17.4
Domestic growth (%)	14.0	16.0
Exports growth (%)	27.0	17.4
Operating margins (%)	26.4	26.7
R&D Exp (% of sales)	12.0	12.0
Capex (₹ cr)	1,000	1,000

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)	FY2018E		FY16-18E		FY2018E	
						EV/Sale (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)	
Alembic Pharma	Neutral	556	-	-	18.3	2.4	11.4	(10.8)	27.5	25.3	
Aurobindo Pharma	Buy	664	877	32.1	14.0	2.3	9.8	18.1	22.5	26.1	
Cadila Healthcare	Accum.	372	400	7.5	19.4	3.0	13.6	13.4	22.7	25.7	
Cipla	Sell	581	465	(20.0)	23.8	2.7	16.3	14.2	12.2	13.9	
Dr Reddy's	Neutral	2,965	-	-	20.8	2.7	11.9	1.7	16.2	15.9	
Dishman Pharma	Neutral	225	-	-	19.9	2.2	9.8	13.3	10.3	10.9	
GSK Pharma*	Neutral	2,700	-	-	44.4	6.7	32.6	17.3	35.3	32.1	
Indoco Remedies	Reduce	270	240	(11.1)	16.9	2.0	10.8	33.2	19.1	20.1	
Ipca labs	Buy	522	613	17.5	26.5	1.8	12.0	36.5	8.8	9.4	
Lupin	Buy	1,448	1,809	25.0	20.9	3.4	12.9	17.2	24.4	20.9	
Sanofi India	Neutral	4,172	-	-	19.4	3.0	13.6	22.2	25.6	28.8	
Sun Pharma	Buy	655	847	29.3	18.6	3.9	11.8	26.5	18.9	20.1	

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)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Gross sales	9,524	11,167	12,684	13,797	17,400	20,427
Less: Excise duty	62	80	84	96	104	123
Net sales	9,462	11,087	12,600	13,702	17,296	20,304
Other operating income	180	200	170	507	200	200
Total operating income	9,641	11,287	12,770	14,208	17,496	20,504
% chg	36.1	17.1	13.1	11.3	23.1	17.2
Total expenditure	7,371	8,284	9,150	10,455	12,737	14,885
Net raw materials	3,548	3,817	4,157	4,309	5,535	6,386
Other mfg costs	757	847	963	1,047	1,322	1,552
Personnel	1,249	1,465	1,747	2,108	2,248	3,123
Other	1,818	2,155	2,283	2,580	3,632	3,823
EBITDA	2,090	2,803	3,449	3,247	4,559	5,420
% chg	58.2	34.1	23.1	-5.9	40.4	18.9
(% of Net Sales)	22.1	25.3	27.4	23.7	26.4	26.7
Dep. & Amortization	332	261	435	464	933	1,013
EBIT	1,758	2,542	3,015	2,783	3,626	4,407
% chg	60.7	44.6	18.6	(7.7)	30.3	21.5
(% of Net Sales)	18.6	22.9	23.9	20.3	21.0	21.7
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 asso.	-	-	-	-	-	-
Recurring PBT	1,925	2,832	3,415	3,433	4,004	4,785
% chg	60.9	47.1	20.6	0.5	16.6	19.5
Extraordinary exp./(Inc.)	-	-	-	-	-	-
PBT (reported)	1,925	2,832	3,415	3,433	4,004	4,785
Tax	584	962	970	1,154	1,121	1,340
(% of PBT)	30.4	34.0	28.4	33.6	28.0	28.0
PAT (reported)	1,340	1,870	2,444	2,279	2,883	3,445
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	2,874	3,436
ADJ. PAT	1,314	1,836	2,403	2,271	2,874	3,436
% chg	51.5	39.7	30.9	(5.5)	26.6	19.6
(% of Net Sales)	13.9	16.6	19.1	16.6	16.6	16.9
Basic EPS (₹)	29.4	41.0	53.5	50.5	63.9	76.4
Fully Diluted EPS (₹)	29.4	41.0	53.5	50.5	63.9	76.4
% chg	51.0	39.5	30.5	(5.5)	26.6	19.6

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	13,600	16,868
Shareholders funds	5,204	6,932	8,874	10,984	13,690	16,958
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	15,311	18,089
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	1,224	1,437
Current assets	5,143	5,924	6,176	9,777	7,022	10,402
Cash	435	798	1,306	838	336	2,553
Loans & advances	340	302	671	737	921	1,081
Other	3,154	4,825	4,199	8,202	5,765	6,767
Current liabilities	2,089	2,227	3,360	3,642	4,612	5,415
Net current assets	3,054	3,697	2,816	6,135	2,409	4,987
Mis. Exp. not written off	-	-	-	-	-	-
Total assets	6,754	7,908	9,693	18,715	15,311	18,089

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	4,004	4,785
Depreciation	332	261	435	464	933	1,013
(Inc)/Dec in working capital	620	(1,481)	1,487	(4,482)	2,970	(574)
Direct taxes paid	(584)	(962)	(970)	(1,154)	(1,121)	(1,340)
Cash Flow from Operations	2,293	649	4,367	(1,739)	6,785	3,884
(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	1
Cash Flow from Financing	(186)	(1,564)	(3,067)	7,077	(6,287)	(667)
Inc./(Dec.) in Cash	1,753	(1,358)	509	(468)	(502)	2,217
Opening Cash balances	402	435	798	1,306	838	336
Closing Cash balances	435	798	1,306	838	336	2,553

Key Ratios

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	49.9	35.8	27.4	29.0	22.9	19.2
P/CEPS	39.8	31.3	23.2	24.1	17.3	14.8
P/BV	12.6	9.5	7.4	6.0	4.8	3.9
Dividend yield (%)	0.3	0.4	0.5	0.5	0.5	0.5
EV/Sales	7.0	5.9	5.2	5.2	3.8	3.1
EV/EBITDA	31.6	23.3	18.8	22.1	14.4	11.6
EV / Total Assets	9.8	8.2	6.7	3.8	4.3	3.5
Per Share Data (₹)						
EPS (Basic)	29.4	41.0	53.5	50.5	63.9	76.4
EPS (fully diluted)	29.4	41.0	53.5	50.5	63.9	76.4
Cash EPS	36.8	46.8	63.1	60.8	84.7	99.0
DPS	4.0	6.0	8.0	8.0	8.0	8.0
Book Value	116.3	154.6	197.4	244.4	304.6	377.3
Dupont Analysis						
EBIT margin	18.6	22.9	23.9	20.3	21.0	21.7
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	1.1	1.3
ROIC (Post-tax)	20.9	25.4	28.2	14.6	16.1	21.0
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	18.9	21.2
Returns (%)						
ROCE (Pre-tax)	27.5	34.7	34.3	19.6	21.3	26.4
Angel ROIC (Pre-tax)	35.0	44.1	48.2	26.4	27.6	36.8
ROE	28.5	30.3	30.4	22.9	23.3	22.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.5	2.6	2.6	1.7	1.5	1.6
Inventory / Sales (days)	70	66	62	74	63	56
Receivables (days)	75	75	66	78	67	59
Payables (days)	72	84	78	86	83	86
WC cycle (ex-cash) (days)	88	89	63	87	77	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	0.1	(0.4)
Interest Coverage	42.9	95.4	307.3	62.4	362.6	440.7

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1. Financial interest of research analyst or Angel or his Associate or his relative
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives
3. Served as an officer, director or employee of the company covered under Research
4. Broking relationship with company covered under Research

No
No
No
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)