

Stock Update

Mixed bag; Upgrade to Hold

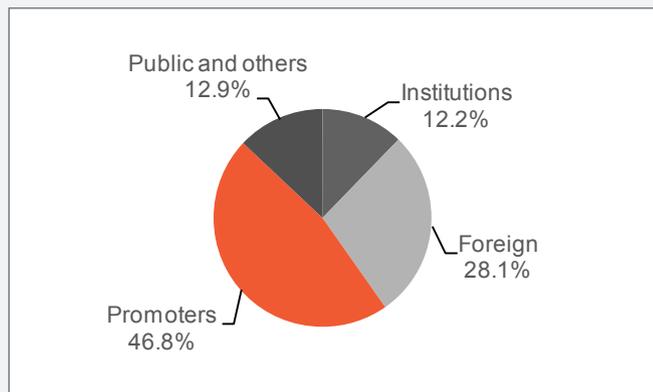
Lupin

Reco: Hold | CMP: Rs1,028

Company details

Price target:	Rs1,050
Market cap:	Rs46,450 cr
52-week high/low:	Rs1,573/920
NSE volume: (No of shares)	17.6 lakh
BSE code:	500257
NSE code:	LUPIN
Sharekhan code:	LUPIN
Free float: (No of shares)	24.04 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.3	-11.6	-27.1	-33.7
Relative to Sensex	-5.9	-13.8	-34.3	-45.0

Key points

- Mixed bag performance:** Lupin Limited (Lupin) reported a 7.9% decline in its total sales (including operating income) to Rs.3, 952 crore (lower than our expectation of Rs.4, 167 crore) for 2QFY2018. Operating profit declined by 17% to Rs.853.1 crore (marginally lower than our expectation of Rs.865 crore) and adjusted profit declined by 31.2% to Rs.455.1 crore (above our expectation of Rs.425 crore). Performance for the quarter was mainly impacted by the 31.9% decline in U.S. revenue due to increased competition in gGlumetza and gFortamet and increasing pricing pressure due to consolidation of players in the U.S.
- Margin guidance maintained; no new negatives:** Management has indicated that the next 6-9 months will be difficult as U.S. business continues to witness pricing pressure due to channel consolidation. Increased competition in gFortamet and gGlumetza, delay in key product approvals, slow ramp up of Gavis portfolio and appreciating rupee will add to the pressure in U.S. business. Therefore, we feel Lupin will continue to witness pressure on its business and margins for FY2018 and FY2019. Management maintains its operating margin guidance of 21-23% for FY2018 and highlights no new negatives.
- Upgrade to Hold with a revised TP of Rs.1, 050:** Taking cue from management's commentary, we have revised downwards our sales estimates by 4%/8% for FY2018/FY2019, while earnings estimates are revised downwards by 4.5%/14.5% for FY2018/FY2019. We have also introduced FY2020E estimates. Although pricing pressure in the base business and new competition in existing portfolio will keep exerting pressure on the U.S. business, we feel correction in the stock price already factors in these concerns. Nevertheless, potential resolution of Goa and Indore plant inspection in the near term along with key upcoming launches could help drive growth from FY2019/FY2020E. Further, price correction of over 25% in the past six months mostly factors the weak FY2018 and other near-term negatives. Hence, given the reasonable valuation of 15.8x FY2020E earnings, we do not expect material downside from current levels. Hence, we upgrade our rating to Hold and revise our target price (TP) to Rs.1, 050 (valuing the stock at 16x FY2020E earnings).

Results					Rs cr	
Particulars	Q2FY18	Q2FY17	YoY %	Q1FY18	QoQ %	
Total sales	3952.0	4290.5	-7.9%	3869.6	2.1%	
Expenditure	3098.9	3262.4	-5.0%	3101.2	-0.1%	
Operating profit	853.1	1028.1	-17.0%	768.4	11.0%	
Other income	74.0	27.1	173.1%	32.0	131.6%	
EBIDTA	927.1	1055.2	-12.1%	800.3	15.8%	
Interest	47.9	26.3	82.2%	43.9	9.2%	
Depreciation	272.2	211.2	28.9%	260.5	4.5%	
PBT	607.0	817.7	-25.8%	495.9	22.4%	
Tax	154.1	158.9	-3.1%	136.8	12.6%	
Adjusted PAT	453.0	658.8	-31.2%	359.1	26.1%	
OCI	2.1	3.4	-39.5%	-1.1	-296.2%	
Net profit (reported)	455.1	662.2	-31.3%	358.1	27.1%	
Adj. EPS	10.1	14.6		8.0		
Reported EPS (Rs)	10.1	14.7	-31.3%	8.0	27.1%	
			BPS		BPS	
OPM (%)	21.6	24.0	-238	19.9	173	
EBIDTA margin (%)	23.5	24.6	-113	20.7	278	
Net profit margin (%)	11.5	15.4	-392	9.3	226	
Effective tax rate (%)	25.4	19.4	594	27.6	-221	

Key Concall Highlights

- U.S. base business (excluding gFortamet and gGlumetza) continues to witness high single-digit pricing pressure. During the quarter, the company launched five new products in the U.S. Channel consolidation and appreciating rupee will continue to add to woes over the next few quarters.
- India business reported strong growth of 16.4% to Rs.1, 159.3 crore, accounting for 30% of total sales.
- R&D spends for Q2FY2018 stood at Rs.474 crore, 12.2% of sales, and will continue to be in the range of 12-13% for the next two years.
- Lupin filed 10 ANDAs and received nine approvals from the USFDA during the quarter. Cumulative ANDA filings with the USFDA were 377 as of September 30, 2017, with the company having received 225 approvals to date. The company now has 49 First-to-Files (FTF) filings, including 25 exclusive FTF opportunities.
- Operating working capital increased to Rs.5, 714 crore in Q2FY2018 compared to Rs.5, 409 crore in Q1FY2018. Working capital number of days stands at 128 days at the end of quarter (up from 119 days in the consequent quarter).
- Capex for the quarter was Rs.208 crore. Net Debt-Equity ratio for the company stands at 0.4:1.
- Tax rate will be 25-28% over the next two-three years.

Geography-wise sales					Rs cr	
Particulars	Q2 FY18	Q2 FY17	YoY %	Q1 FY18	QoQ %	
Formulations	3609.2	3919.3	-7.9	3527.5	2.3	
North America	1361.1	1997.8	-31.9	1601.8	-15.0	
India	1159.3	995.8	16.4	932.4	24.3	
APAC	635.7	552.0	15.2	598.9	6.1	
EMEA	275.8	235.5	17.1	225.9	22.1	
LATAM	139.5	98.6	41.5	126.9	9.9	
ROW	37.8	39.6	-4.5	41.6	-9.1	
API	265.0	291.9	-9.2	279.3	-5.1	
Other operating income	77.8	79.3	-1.9	62.8	24.0	
Total	3952.0	4290.5	-7.9	3869.6	2.1	

Upgrade to Hold with a revised TP of Rs.1, 050:

Taking cue from management's commentary, we have revised downwards our sales estimates by 4%/8% for FY2018/FY2019, while earnings estimates are revised downwards by 4.5%/14.5% for FY2018/FY2019. We have also introduced FY2020E estimates. Although pricing pressure in the base business and new competition in existing portfolio will keep exerting pressure on the U.S. business, we feel correction in the stock price already factors in these concerns. Nevertheless, potential resolution of Goa and Indore plant inspection in the near term along with key upcoming launches could help drive growth from FY2019/FY2020E. Further, price correction of over 25% in the past six months mostly factors the weak FY2018 and other near-term negatives. Hence, given the reasonable valuation of 15.8x FY2020E earnings, we do not expect material downside from current levels. Hence, we upgrade our rating to Hold and have revised our TP to Rs.1,050 (valuing the stock at 16x FY2020E earnings).

Valuation					Rs cr
Particulars	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Net sales	14,255.6	17,494.3	16,887.1	18,681.1	21,465.3
Adjusted net profit	2,260.8	2,713.4	1,970.2	2,308.9	2,931.6
Shares in issue (cr)	45.1	45.2	45.2	45.2	45.2
Adj. EPS (Rs)	50.2	60.1	43.6	51.1	64.9
PER (x)	20.5	17.1	23.6	20.1	15.8
EV/Ebidta (x)	14.3	11.5	13.2	11.3	9.1
Book value (Rs/share)	247.7	298.9	353.9	405.0	469.9
P/BV (x)	4.1	3.4	2.9	2.5	2.2
Mcap/sales	3.4	2.7	2.8	2.5	2.2
RoCE (%)	17.0	16.8	11.6	12.5	14.3
RoNW (%)	20.3	20.1	12.3	12.6	13.8

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