

Stock Update

Disappointing performance and weak guidance; Downgrade to Reduce with downward revised TP of Rs.950

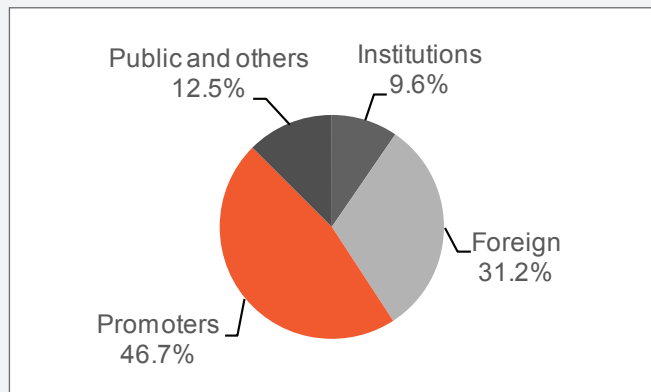
Lupin

Reco: Reduce | CMP: Rs995

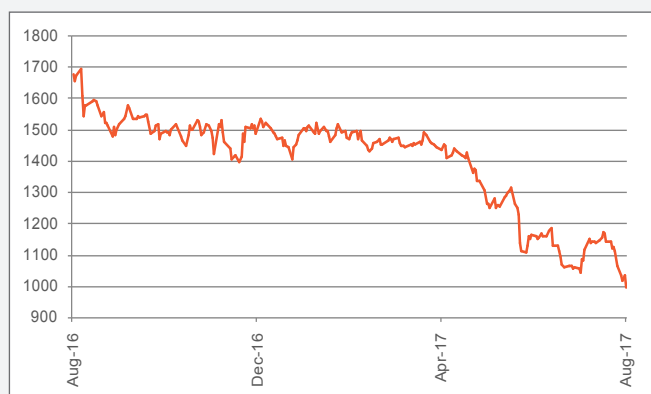
Company details

Price target:	Rs950
Market cap:	Rs44,924 cr
52-week high/low:	Rs1734/986
NSE volume: (No of shares)	14.8 lakh
BSE code:	500257
NSE code:	LUPIN
Sharekhan code:	LUPIN
Free float: (No of shares)	24.06 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.7	-20.1	-29.7	-38.8
Relative to Sensex	-6.7	-26.9	-39.5	-48.0

Key points

- Disappointing performance:** During Q1FY2018, Lupin's total sales (including operating income) declined by 12.8% to Rs.3,869.6 crore. Operating profit declined by 41.3% to Rs.768.4 crore and adjusted profit declined by 59.3% to Rs.359.1 crore. Disappointing performance for the quarter was mainly on account of a 26.8% decline in US revenue due to increased competition in gGlumetza and gFortamet and GST transition impact on the Indian business (declined by 2%).
- Weak guidance:** Management has indicated that the next 12-15 months will be difficult as US, Japan and India businesses are undergoing structural changes. Increasing 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 on US business. Further, transition to GST in India is likely to weigh down on the domestic business. gRenvela opportunity for the US market is also lost due to entry of another generic player, with many other players in fray. Therefore, we feel Lupin will continue to witness pressure on its business and margins for FY2018 and FY2019. Moreover, management has further reduced its already-weak operating margin guidance of 24-26% to 21-23% for FY2018.
- Downgrade to Reduce with downward revised TP of Rs.950:** Considering the weak outlook and guidance, rupee appreciation and the change in regulatory environment across key markets such as US, India and Japan, we have revised downward our sales estimates by 10% each for FY2018 and FY2019, while earnings estimates are revised downward by 30% and 22% for FY2018 and FY2019, respectively. Consequently, we downgrade our rating to Reduce and revise downward our target price (TP) to Rs.950 (valuing the stock at 16x FY2019 earnings estimates).

Results					Rs cr
Particulars	Q1 FY18	Q1 FY17	YoY (%)	Q4 FY17	QoQ (%)
Total sales	3869.6	4439.4	-12.8	4253.3	-9.0
Expenditure	3101.2	3131.4	-1.0	3148.0	-1.5
Operating profit	768.4	1308.0	-41.3	1105.3	-30.5
Other income	32.0	82.6	-61.3	45.3	-29.5
EBIDTA	800.3	1390.7	-42.4	1150.6	-30.4
Interest	43.9	32.0	37.3	40.6	8.1
Depreciation	260.5	202.7	28.5	267.4	-2.6
PBT	495.9	1156.0	-57.1	842.6	-41.1
Tax	136.8	273.4	-50.0	136.7	0.1
Adjusted PAT	359.1	882.6	-59.3	705.9	-49.1
OCI	-1.1	-0.6	65.6	-1.8	-39.8
Net profit (Reported)	358.1	881.9	-59.4	704.1	-49.1
Adj. EPS	8.0	19.6		15.7	
Reported EPS (Rs)	8.0	19.6	-59.4	15.6	-49.1
OPM (%)	19.9	29.5	-961	26.0	-613
EBIDTA margin (%)	20.7	31.3	-1064	27.1	-637
Net profit margin (%)	9.3	19.9	-1061	16.6	-730
Effective tax rate (%)	27.6	23.7	393	16.2	1136

Key concall highlights

- US base business (excluding gFortamet and gGlumetza) continues to witness high single-digit pricing pressure. gFortamet and gGlumetza are also losing market share due to new competition that entered during the quarter. During the quarter, Lupin launched four new products in the US. Further, channel consolidation and appreciating rupee will add to woes over the next few quarters.
- The Indian market is also witnessing structural changes, as the government takes new initiatives to reduce generic prices by starting jan-aushadhi stores and curtailing brand prescription. NLEM list continues to widen, thereby adding to pressure.
- Japanese government has recently proposed to take price cut for generic products every two years, adding to the existing problems in other geographies. The company had recently acquired 21 generic brands from Shionogi (~\$90 million sales), covering therapeutic areas such as central nervous system (CNS), oncology, cardiovascular and anti-infectives, which helped maintain growth in Japan.
- R&D spends for Q1FY2018 were Rs.500 crore, 13.1% of sales, and will continue to be in the same range for the next two years.

- Lupin filed one ANDA and received three approvals from the USFDA during the quarter. Cumulative ANDA filings with the USFDA were 368 as of 30th June 2017, with the company having received 217 approvals to date. The company now has 45 First-to-Files (FTF) filings, including 23 exclusive FTF opportunities.
- Operating working capital increased to Rs.5,407 crore in Q1FY2018 compared to Rs.4,896 crore in Q4FY2017. The working capital number of days stood at 119 days at the end of Q1FY2018 (up from 105 days in Q4FY2017).
- Capex for the quarter was Rs.283 crore. Net Debt-Equity ratio for the company stands at 0.37:1.

Geography wise Sales

Geography wise Sales					Rs cr
Particulars	Q1 FY18	Q1 FY17	YoY (%)	Q4 FY17	QoQ (%)
Formulations	3527.5	4045.2	-12.8	3880.4	-9.1
North America	1601.8	2188.6	-26.8	1900.7	-15.7
India	932.4	949.9	-1.8	878.8	6.1
APAC	598.9	541.6	10.6	611.8	-2.1
EMEA	225.9	219.4	3.0	301.2	-25.0
LATAM	126.9	108.9	16.5	126.9	0.0
ROW	41.6	36.8	13.0	61.0	-31.8
API	279.3	296.6	-5.8	281.5	-0.8
Other operating income	62.8	125.9	-50.1	91.4	-31.4
Total	3869.6	4467.7	-13.4	4253.3	-9.0

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Valuation

Valuation					Rs cr
Particulars	FY16	FY17	FY18E	FY19E	
Net sales	14,255.6	17,494.3	17,586.3	20,330.1	
Adjusted net profit	2,260.8	2,713.4	2,062.6	2,698.6	
Shares in issue (cr)	45.1	45.2	45.2	45.2	
Adj. EPS (Rs)	50.2	60.1	45.7	59.8	
PER (x)	19.8	16.5	21.7	16.6	
EV/Ebidta (x)	13.8	11.2	12.2	9.5	
Book value (Rs/ share)	247.7	298.9	355.9	415.7	
P/BV (x)	4.0	3.3	2.8	2.4	
Mcap/sales	3.3	2.6	2.5	2.2	
RoCE (%)	17.0	16.8	12.2	14.8	
RoNW (%)	20.3	20.1	12.8	14.4	

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