

# Lupin Limited

Industry	Pharmaceuticals
Bloomberg	LPC IN
BSE CODE	500257

## Launch of Ranolazine in Q4FY19 with 3 months exclusivity though India sales will see contraction.

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>842</b>
<b>Price Target</b>	<b>838</b>
<b>Potential Upside</b>	<b>0%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↓
<b>Target Change</b>	↔

### Stock Info

52wk Range H/L	986/724
Mkt Capital (Rs Cr)	37553
Free float (%)	53%
Avg. Vol 1M (,000)	1285
No. of Shares (Cr)	45
Promoters Pledged %	47%

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### 3QFY19 Result update

- ❑ Overall revenue grew by 12% to Rs. 4378 crores. The net sales for the quarter include NCE Licensing Income of Rs.210 crores on license of MALT1 inhibitors to AbbVie Inc.
- ❑ Gross margin has reduced by 50 bps YoY to 64.5% majorly due to the forex loss of 157 crores and business mix this quarter..
- ❑ EBITDA margin has declined by 50 bps YoY to 16.8% due to the higher material cost and other expenses. Other expenses have increased by 12% YoY as it includes the promotional expenses of the branded product "Solosec".
- ❑ R&D expenditure for this quarter was at Rs.426 crores, 9.1% of sales. Management has guided to maintain it at same level going forward.
- ❑ Lupin reported a net loss of 152 crores majorly due to the exceptional item this quarter which includes provision of Rs.342 crores for fine related to Perindopril Litigation.

### View and Valuation

The net sales for the quarter grew by 12% YoY to Rs.4378 crores. Sales for the quarter excluding the NCE Licensing income of Rs.210 crores grew by 7% on a YoY basis. The US generics sales have declined by 1% YoY but sequentially have improved by 14% to USD 186 million largely due to growth in the base products. The branded sale in US has declined by 71% YoY majorly due to price erosion in Methergine and on QoQ basis has remained flat at USD 8 million as Solosec only contributed around USD 3 million. India sales have grown by 11% YoY to Rs.1190 crores on account of growth in key therapeutic areas like Cardiac, Anti-diabetics and Respiratory. Japan growth has been driven on account of strong volume uptick in base products, offsetting the impact of biennial price cut. Going forward, we expect traction from all the major market especially US. Q4FY19 will prove to be a strong quarter for the US business with the launch of Ranolazine with 3 months of exclusivity, though India sales will see contraction due to the weak quarter. We assume US to deliver strong performance in FY20 as well with the launch of Levothyroxine and Pro-air still we remain a little cautious due to the warning letter in the Pithampur and Mandideep facility. We maintain our target price at Rs.838 and our NEUTRAL stance.

### Key Risks to our rating and target

- ❑ USFDA form 483 on Pithampur and Mandideep facility.
- ❑ R&D expenditure.
- ❑ ANDA approvals and Filings.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	14256	17494	15804	16625	19033
EBITDA	3685	4493	3148	2452	3538
EBIT	3198	3581	2062	1392	2364
PAT	2261	2557	258	622	1456
EPS (Rs)	50	57	6	14	32
EPS growth (%)	-6%	13%	-90%	141%	134%
ROE (%)	20%	19%	2%	5%	10%
ROCE (%)	19%	19%	10%	7%	11%
BV	247	299	300	305	328
P/B (X)	6.0	4.8	2.5	2.8	2.6
P/E (x)	29.5	25.5	128.8	61.2	26.1

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## 3QFY19 Results

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	3,976	4,034	3,856	3,951	4,505	13.3%	14.0%	17,494	15,804	-9.7%
Other Income	28	145	184	231	43	52.8%	-81.2%	107	150	41.2%
COGS	1,393	1,363	1,444	1,393	1,601	15.0%	14.9%	5,001	5,274	5.5%
Gross Margin	65%	66%	63%	65%	64%	-0.8%	-0.4%	71%	67%	-6.7%
Employee Cost	693	729	749	794	806	16.2%	1.5%	2,850	2,865	0.5%
Other Expen.	1,202	1,234	1,135	1,215	1,343	11.8%	10.5%	5,150	4,518	-12.3%
EBITDA	688	709	527	550	756	9.8%	37.5%	4,493	3,148	-29.9%
EBITDA Mar.	17%	18%	14%	14%	17%	-3.1%	20.6%	26%	20%	-22.5%
Depreciation	280	273	259	265	280	-0.2%	5.4%	3,581	2,062	-42.4%
EBIT	382	522	383	441	439	15%	-0.4%	153	204	34.0%
Interest	54	59	69	74	80	48%	8.1%	153	204	34.0%
PBT	382	522	383	441	439	14.9%	-0.4%	3,535	2,008	-43%
Exceptional	-	1,464	-	-	342					
Tax	161	(163)	181	173	248	54.1%	43.3%	979	288	-71%
PAT	221	(784)	203	266	(152)			2,557	258	-90%
PAT Margin	6%	-19%	5%	7%	-3%			15%	2%	-89%

### Growth across geographies

Overall revenue excluding the NCE Licensing income of Rs.210 crores grew by 7% YoY to Rs. 4168 crores. The US generics sales have grown by 14% to USD 186 million on a sequential basis majorly due to the growth in the base products. gGlumetza and gFortamet has stabilized in terms of market share. India sales grew by 11% YoY to Rs.1190 crores on account of growth in the chronic segment by 17% contributed by key therapeutic areas like Cardiac, Anti-diabetics and Respiratory. Going forward, US and India will be growth drivers for Lupin. We expect to see traction in the US business in Q4FY19 on back of Ranolazine launch with 3 months exclusivity. And also with strong flu quarter, we expect Tamiflu to be a good contributor.

### PAT de-grew due to one-time charge this quarter

PAT for the quarter de-grew by 169% YoY to Rs -152 crores on account of exceptional item. The exceptional item includes provision of Rs.342 crores made including interest of Rs. 22 crores for fine upheld by the General Court of the European Union in the company's appeal against the European Commission's 2014 decision in the Perindopril litigation.

### Concall Highlights

- The company has filed 8 ANDA and received 11 approvals from the US FDA during the quarter.
- The Company launched 6 products in the US market during the quarter. The Company now has 168 products in the US generics market.
- The feedback for the branded product "Solosec" is really strong. In December week, the prescription for solosec was 1500 scrips per week. The product is very promotion sensitive.
- The US growth in Q4FY19 would be driven by Ranexa with 3 months of exclusivity and little bit from Levothyroxine as the product is expected to be launched by the end of March. Going forward, Levothyroxine and Pro-air would be important products in FY20 as per the management.
- US generics - gGlumetza and gFortamet has stabilized in terms of market share.
- Other operating income was higher for the quarter due to export benefits.
- The Management has guided to resolve the pending warning letters in Indore and Goa facility most probably by Q2FY20.
- The management has guided to launch around 20 products in the US market in the next year.
- The management has guided for the effective tax rate of 35-40%.
- Net Debt-Equity ratio for the company stands at 0.42:1.

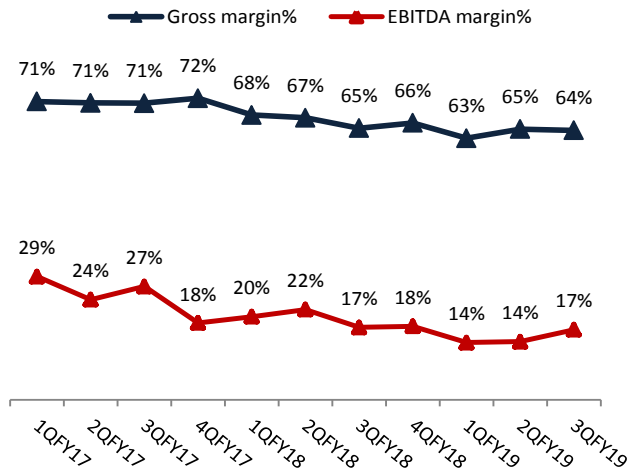
**Exhibit: Sales and Sales Growth**

Sales for the quarter grew by 7% YoY to Rs.4168 crores excluding the impact of NCE licensing income.



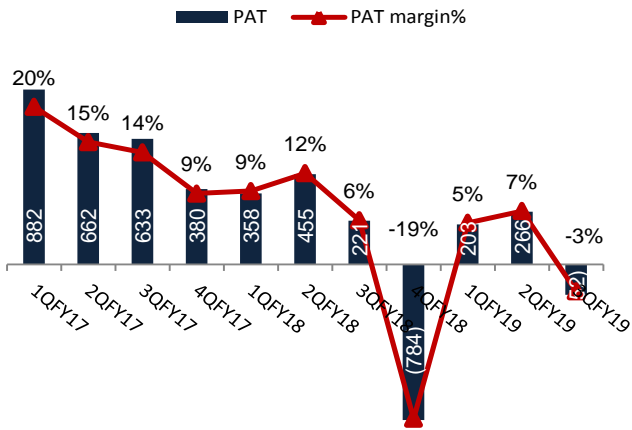
**Exhibit: Gross and EBITDA margin**

Gross margin contracted by 50 bps YoY to 64.5% on account of forex loss of 157 crore.



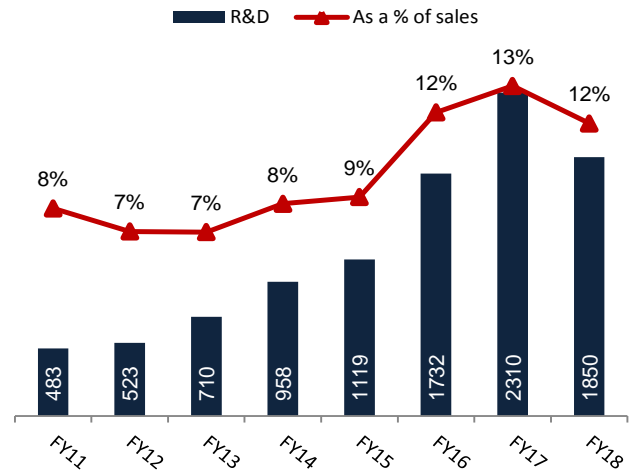
**Exhibit: PAT and PAT margin**

There was net loss of 152 crs this quarter majorly due to the exceptional item for fine related to Perindopril Litigation.



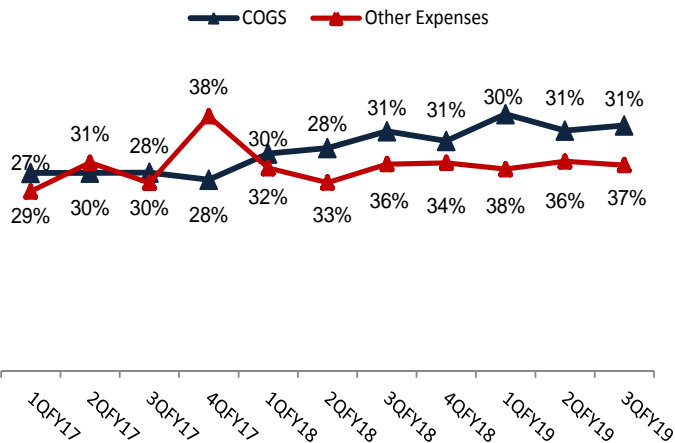
**Exhibit: R&D cost and R&D as a % of sales**

R&D expenditure this quarter was 426 crores, 9.1% of sales.



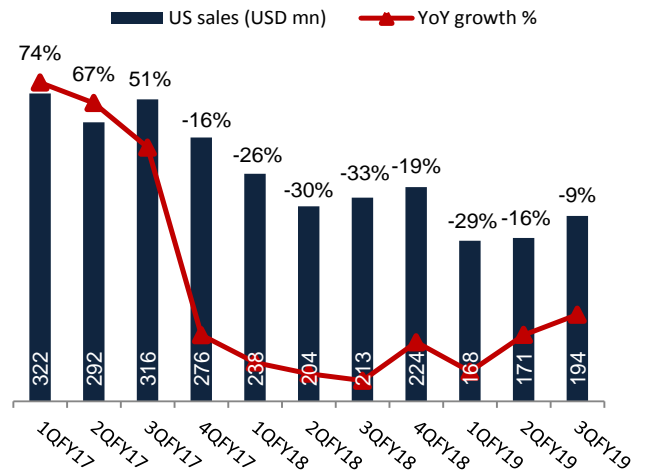
**Exhibit: COGS and Other expenses**

Other expenses increased by 12% YoY to Rs.1343 crores on account of Solosec promotion.



**Exhibit: US sales and YoY growth**

US sales contracted on a YoY basis but sequentially has increased by 13% to USD 194 million.



## Operational Details

<b>Geography</b>	<b>3QFY17</b>	<b>4QFY17</b>	<b>1QFY18</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>
US	2176	1901	1602	1361	1432	1499	1186	1249	1417
India	991	879	932	1159	1069	965	1192	1203	1190
APAC	560	612	599	636	674	664	608	620	694
EMEA	256	301	226	276	272	351	276	295	280
LATAM	118	127	127	140	148	165	126	146	156
ROW	37	61	42	38	37	55	29	44	68
API	268	282	279	265	268	281	358	335	362

<b>Revenue gr. %</b>	<b>3QFY17</b>	<b>4QFY17</b>	<b>1QFY18</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>
US	58%	-13%	-27%	-32%	-34%	-21%	-26%	-8%	-1%
India	12%	-11%	0%	16%	8%	10%	28%	4%	11%
APAC	21%	9%	11%	15%	20%	8%	1%	-2%	3%
EMEA	17%	18%	3%	17%	6%	17%	22%	7%	3%
LATAM	33%	8%	17%	41%	26%	30%	-1%	5%	5%
ROW	24%	66%	13%	-5%	1%	-11%	-30%	15%	84%
API	-5%	5%	-3%	-9%	0%	0%	28%	26%	35%

<b>Revenue mix%</b>	<b>3QFY17</b>	<b>4QFY17</b>	<b>1QFY18</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>
US	49%	46%	42%	35%	37%	38%	31%	32%	36%
India	23%	21%	24%	30%	27%	24%	32%	31%	31%
APAC	13%	15%	16%	16%	17%	17%	16%	16%	18%
EMEA	6%	7%	6%	7%	7%	9%	7%	8%	7%
LATAM	3%	3%	3%	4%	4%	4%	3%	4%	4%
ROW	1%	1%	1%	1%	1%	1%	1%	1%	2%
API	6%	7%	7%	7%	7%	7%	9%	9%	9%

<b>ANDA pipeline</b>	<b>3QFY17</b>	<b>4QFY17</b>	<b>1QFY18</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>
ANDA filings	344	369	368	377	382	398	402	405	412
ANDA approvals	207	214	217	225	231	235	240	247	258
ANDA pending	137	155	151	152	151	163	162	158	154

## Financial Details

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	90	90	90	90	90	90	90	90
Reserves	5,115	6,842	8,784	11,073	13,407	13,487	13,701	14,749
<b>Networth</b>	<b>5,204</b>	<b>6,932</b>	<b>8,874</b>	<b>11,163</b>	<b>13,498</b>	<b>13,577</b>	<b>13,791</b>	<b>14,839</b>
Debt	974	553	471	7,119	7,952	6,876	8,505	8,505
Other Non Current Liab	396	427	439	994	1,307	1,168	1,222	1,327
<b>Total Capital Employed</b>	<b>6,178</b>	<b>7,485</b>	<b>9,345</b>	<b>18,283</b>	<b>21,450</b>	<b>20,453</b>	<b>22,296</b>	<b>23,344</b>
Net Fixed Assets (incl CWIP)	3,311	3,660	4,944	11,419	13,166	12,960	13,489	15,335
Non Current Investments	2	2	3	14	22	27	6	6
Other Non Current Assets	458	444	359	1,304	1,465	1,109	1,117	1,154
<b>Non Current Assets</b>	<b>3,771</b>	<b>4,106</b>	<b>5,305</b>	<b>12,737</b>	<b>14,653</b>	<b>14,096</b>	<b>14,612</b>	<b>16,495</b>
Inventory	1,949	2,129	2,504	3,274	3,642	3,662	4,049	4,636
Debtors	2,187	2,464	2,657	4,549	4,307	5,192	5,471	6,263
Cash & Bank	435	798	481	793	682	1,394	2,048	257
Other Current Assets	572	709	2,191	1,272	3,323	1,952	2,041	2,297
<b>Current Assets</b>	<b>5,143</b>	<b>6,100</b>	<b>7,832</b>	<b>9,887</b>	<b>11,954</b>	<b>12,201</b>	<b>13,608</b>	<b>13,453</b>
Creditors	1,543	1,594	1,926	1,989	2,589	2,575	2,876	3,293
Provisions	356	345	574	235	471	465	475	482
Other Current Liabilities	381	288	830	1,092	756	1,603	1,311	1,462
<b>Curr Liabilities</b>	<b>2,280</b>	<b>2,227</b>	<b>3,330</b>	<b>3,316</b>	<b>3,816</b>	<b>4,644</b>	<b>4,662</b>	<b>5,237</b>
<b>Net Current Assets</b>	<b>2,863</b>	<b>3,873</b>	<b>4,503</b>	<b>6,572</b>	<b>8,138</b>	<b>7,557</b>	<b>8,946</b>	<b>8,215</b>
<b>Total Assets</b>	<b>8,914</b>	<b>10,206</b>	<b>13,138</b>	<b>22,625</b>	<b>26,607</b>	<b>26,305</b>	<b>28,220</b>	<b>29,948</b>

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	9,641	11,287	12,770	14,256	17,494	15,804	16,625	19,033
Change (%)	36%	17%	13%	12%	23%	-10%	5%	14%
<b>EBITDA</b>	<b>2,270</b>	<b>3,003</b>	<b>3,620</b>	<b>3,685</b>	<b>4,493</b>	<b>3,148</b>	<b>2,452</b>	<b>3,538</b>
Change (%)	57%	32%	21%	2%	22%	-30%	-22%	44%
Margin (%)	23.5%	26.6%	28.3%	25.9%	25.7%	19.9%	14.7%	18.6%
Depr & Amor.	332	261	435	487	912	1086	1060	1174
<b>EBIT</b>	<b>1,938</b>	<b>2,742</b>	<b>3,185</b>	<b>3,198</b>	<b>3,581</b>	<b>2,062</b>	<b>1,392</b>	<b>2,364</b>
Int. & other fin. Cost	41	27	10	59	153	204	298	298
Other Income	28	116	240	185	107	150	512	173
<b>EBT</b>	<b>1,925</b>	<b>2,832</b>	<b>3,415</b>	<b>3,324</b>	<b>3,535</b>	<b>2,008</b>	<b>1,607</b>	<b>2,240</b>
Exp Item	-	-	-	-	-	1,464	342	-
Tax	584	962	970	1,059	979	288	643	784
Minority Int & P/L share of Ass.	26	33	41	14	15	4	-	-
Reported PAT	1,340	1,870	2,444	2,265	2,556	255	622	1,456
<b>Adjusted PAT</b>	<b>1,314</b>	<b>1,836</b>	<b>2,403</b>	<b>2,261</b>	<b>2,557</b>	<b>258</b>	<b>622</b>	<b>1,456</b>
Change (%)	51%	40%	31%	-6%	13%	-90%	141%	134%
Margin(%)	13.6%	16.3%	18.8%	15.9%	14.6%	1.6%	3.7%	7.6%

## Financial Details

## Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	25%	26%	27%	20%	19%	2%	7%	10%
ROCE	36%	39%	35%	19%	19%	10%	7%	11%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	83	80	76	116	90	120	120	120
Inv Days	74	69	72	84	76	85	89	89
Payable Days	58	52	55	51	54	59	63	63
Int Coverage	47	103	325	54	23	10	5	8
P/E	21	23	38	30	26	129	39	26
Price / Book Value	5	6	10	6	5	2	3	3
EV/EBITDA	12	14	25	19	16	12	17	13
FCF per Share	16	33	41	(137)	33	4	2	(25)
Div Yield	1%	1%	0%	1%	1%	1%	1%	1%

## Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	1,925	2,832	3,415	3,329	3,543	547	1,607	2,240
(inc)/Dec in Working Capital	(549)	(466)	(95)	(3,126)	506	(1,019)	(690)	(992)
Non Cash Op Exp	332	261	435	487	912	1,086	1,060	1,174
Int Paid (+)	41	27	10	59	153	204	298	298
Tax Paid	(544)	(772)	(944)	(1,170)	(1,149)	(558)	(643)	(784)
others	46	123	(88)	39	150	1,492	(334)	-
<b>CF from Op. Activities</b>	<b>1,251</b>	<b>2,004</b>	<b>2,733</b>	<b>(382)</b>	<b>4,115</b>	<b>1,751</b>	<b>1,299</b>	<b>1,935</b>
(inc)/Dec in FA & CWIP	(551)	(529)	(871)	(5,822)	(2,637)	(1,553)	(1,589)	(3,021)
Free Cashflow	700	1,475	1,862	(6,204)	1,478	198	(290)	(1,086)
(Pur)/Sale of Inv	0	1	(0)	1	0	38	21	-
others	29	(330)	(183)	(1,141)	107	108	-	-
<b>CF from Inv. Activities</b>	<b>(522)</b>	<b>(859)</b>	<b>(1,055)</b>	<b>(6,962)</b>	<b>(2,529)</b>	<b>(1,407)</b>	<b>(1,568)</b>	<b>(3,021)</b>
inc/(dec) in NW								
inc/(dec) in Debt	(465)	(530)	(70)	6,208	948	(895)	1,628	-
Int. Paid	(42)	(28)	(11)	(58)	(151)	(204)	(298)	(298)
Div Paid (inc tax)	(169)	(323)	(157)	(405)	(407)	(407)	(408)	(408)
others	13	24	41	92	43	15	-	-
<b>CF from Fin. Activities</b>	<b>(663)</b>	<b>(857)</b>	<b>(197)</b>	<b>5,836</b>	<b>433</b>	<b>(1,492)</b>	<b>923</b>	<b>(705)</b>
Inc(Dec) in Cash	66	288	1,482	(1,508)	2,019	(1,148)	654	(1,791)
<b>Add: Opening Balance</b>	<b>245</b>	<b>318</b>	<b>627</b>	<b>2,288</b>	<b>780</b>	<b>2,799</b>	<b>1,394</b>	<b>2,048</b>
Closing Balance	311	607	2,108	780	2,799	1,651	2,048	257

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