

LUPIN LTD

HOLD
6th April 2016

Company Update

CMP	1559
Target Price	1800
Previous Target Price	
Upside	
Change from Previous	

Market Data

BSE Code	500257
NSE Symbol	LUPIN
52wk Range H/L	2129/1556
Mkt Capital (Rs Cr)	37116
Av. Volume(,000)	7863
Nifty	7604

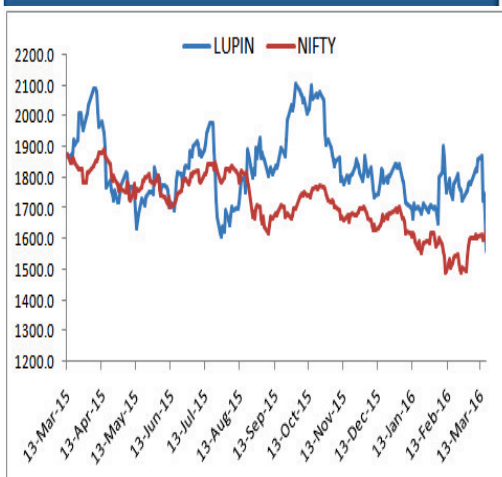
Stock Performance

	1M	3M	12M
Absolute	-13%	-13%	-17%
Rel.to Nifty	-18%	-11%	-4%

Share Holding Pattern-%

	2QFY16	1QFY16	4QFY15
Promoters	46.56	46.6	46.6
FII	36.89	36.8	34.7
DII	6.56	6.8	8.7
Others	9.99	9.8	10.0

Company Vs NIFTY



Form 483 to Mandideep plant, but ANDA approval follows

Key Points

Events

→USFDA inspection reports 483 observations at Mandideep plant (both API and formulation units)

→The facility, based in Madhya Pradesh, got inspected by US FDA from February 2 to 19, 2016.

→Both Formulations and API facility, located in same site, have received separate Form 483 with two observations each of which one has been repeated on both forms.

→One observation is related to use of non-confirming intermediate for making API prior to 2015.

→Except this, most of the other observations are routine in nature.

→15-20% of US revenue (~USD150-200m) is dependent on these two (API

Impact-Low Risk of negative outcome

→The Company maintains that these observations are minor in nature. Lupin don't expect any disruption to product supply from our Mandideep location

→Lupin believes that the outcome will be Voluntary Action Indicated (which typically does not get converted into a warning letter/ import alert) and there will be no remediation required.

Focus on Goa plant outcome

→The US FDA conducted an inspection of Lupin's Goa facility and raised 9 observation .Earlier inspection was used to conduct once in a year but in case of Lupin, it happened twice.First was in July 2015 and now in 16th March 2016

→Goa is Lupin's largest plant for US and manufacturing several key products such as Fortamet ER, Lisinopril, Glumetza, etc. At its 4QCY15 results, Valeant reported Glumetza revenues of US\$86 mn, reflecting annualized revenues of US\$340 mn, meaningfully lower than consensus expectations of US\$400-600mn

	Rs,Cr				
Financials	2012	2013	2014	2015	2016E
Sales	7097	9669	11403	13010	14384
EBITDA	1445	2270	3003	3620	3376
Net Profit	888	1340	1870	2444	2217
EPS	19	29	41	53	49
P/E	27.0	21.0	23.0	38.0	41.0

(Source: Company/Eastwind)

US performance to drive growth

Most of the generic players are facing pricing pressure in the US market due to channel consolidation and stiffer competition. Besides, a delay in obtaining product approvals from the US Food and Drug Administration is also affecting the growth of the generic players in the USA. Lupin however has received 22 approvals in nine months in the USA and has launched 12 new products during nine months of FY2016. It has now 87 products in the US market. The company has recently successfully launched Glumetza in US market in Q4FY2016 and in H1FY2017. Also, Fortamet price hike (three times for 500mg and 1,000mg variants) will help to improve the base business growth and margins, as there are just two generic players in the market, with would be boosted by new drug approvals which are likely to pick up in Q4FY2016 and FY2017. This also implies that FY2017 and FY2018 would see a large chunk of its products getting approved. Therefore, the US business is likely to post healthy double-digit growth over the next two years.

Japan's Performance

Lupin reported a 9.2% growth in the revenues from the Japanese market to Rs374 crore in Q3FY2016. Kyowa sales increased by 10% to Rs294 crore. The revenues from the South African markets witnessed a 16.5% growth (in South African Rand terms) to Rs105 crore.

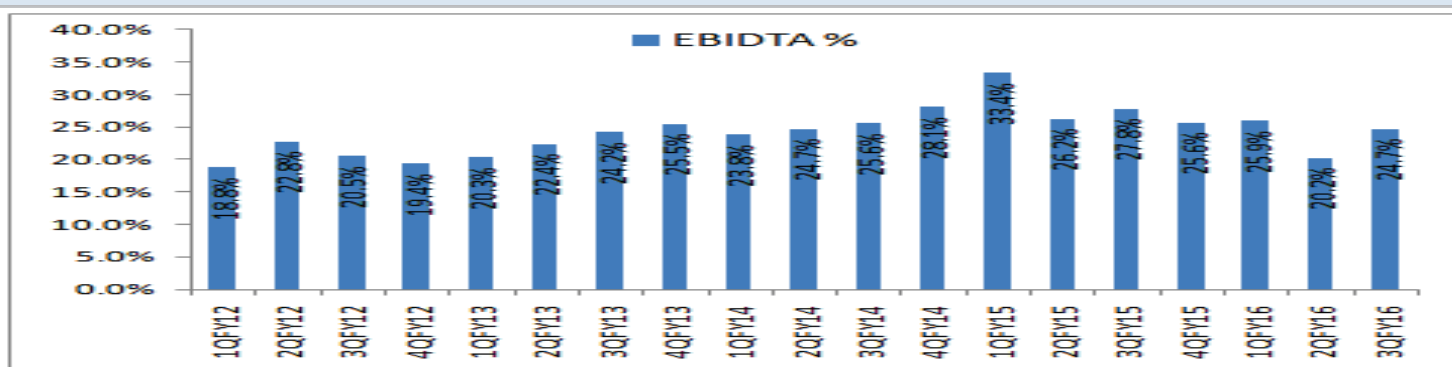
India, Europe and Rest of World market growth

The company reported a healthy 17.1% growth in the Indian formulation business to Rs871 crore during the quarter on account of 12 new product launches including line extensions. The Europe market reported a growth of 25.4% to Rs101 crore. The Rest of World markets' sales grew by 18% to Rs226 crore during Q3FY2016.

Segmental revenue break-up

Revenue Break-up (Geography wise)	Q3FY16	Q2FY16	Q3FY15	YoY %	QoQ %
Gross US Sales (US\$ mn)	208	174	222	-6.3%	19.5%
Gross US Sales (Rs Cr)	1405	1155	1404	0.0%	21.6%
Europe	101	116	81	25.5%	-12.8%
Japan	374	323	342	9.3%	15.6%
South Africa	105	100	107	-2.1%	5.0%
ROW	226	289	191	18.1%	-21.7%
India	871	874	744	17.1%	-0.3%
Gross Formulations	3082	2856	2869	7.4%	7.9%
APIs	276	322	276	0.1%	-14.3%
Gross Revenue	3358	318	314	967.7%	956.4%

Trend in EBITDA margin (%)



Financials Snap Shot
INCOME STATEMENT

	FY13	FY14	FY15	FY16E
Revenue	9641	11287	12770	14101
Other Income	28	116	240	282
Total Revenue	9669	11403	13010	14384
COGS	3549	3817	4157	4535
GPM	37%	34%	33%	32%
Other Expenses	2556	3002	3246	4058
EBITDA	2270	3003	3620	3376
EBITDA Margin (%)	24%	27%	28%	24%
Depreciation	332	261	435	430
EBIT	1938	2742	3185	2946
Interest	41	27	10	31
PBT	1925	2832	3415	3197
Tax	584	962	970	978
Tax Rate (%)	30%	34%	28%	31%
Reported PAT	1314	1836	2403	2217
Dividend Paid	169	323	355	368
No. of Shares	45	45	45	45

Source: Eastwind/Company

RATIOS

	FY13	FY14	FY15	FY16E
EPS	29	41	53	49
Book Value	118	156	198	239
DPS	3.8	7.2	7.9	8.2
Payout (incl. Div. Tax.)	0.13	0.18	0.15	0.17
Valuation(x)				
P/E	21	23	38	41
Price / Book Value	5.4	6.0	10.2	8.4
Dividend Yield (%)	0.6%	0.8%	0.4%	0.4%
Profitability Ratios				
RoE	25%	26%	27%	21%
RoCE	36%	39%	35%	27%
Turnover Ratios				
Asset Turnover (x)	1.1	1.1	1.0	0.8
Debtors (No. of Days)	83	80	76	76
Inventory (No. of Days)	74	69	72	72
Creditors (No. of Days)	58	52	56	56
Net Debt/Equity (x)	0.05	0.02	0.01	0.01

Source: Eastwind/Company

BALANCE SHEET

	FY13	FY14	FY15	FY16E
Share Capital	89.51	89.68	89.9	89.967
Reserves and surplus	5174	6909	8808	10657
Shareholders' funds	5264	6999	8898	10747
Long term Debt	247	151	102	81
Total Borrowings	974	553	471	1874
Non Current liabilities	396	427	409	443
Long term provisions	112	132	162	196
Short term Provisions	356	345	574	603
Current liabilities	2280	2227	3360	3679
Total liabilities	8914	10206	13138	16742
Net Fixed Assets	2804	3002	3296	3274
Non Current Investments	2	2	3	3
Other non Current assets	965	1102	2007	2007
Current assets	5143	6100	7832	11459
Total Assets	8914	10206	13138	16742

Source: Eastwind/Company

CASH FLOW STATEMENT

	FY13	FY14	FY15	FY16E
OP/(Loss) before Tax	1925	2832	3415	3197
Depreciation	332	261	435	430
Direct Taxes Paid	-544	-772	-944	-978
Operating profit before v	2344	3242	3772	3658
CF from Op. Activity	1251	2004	2733	2350
Capital expenditure on fi	-551	-529	-871	-408
Consideration for acquisi	-10	-89	-629	0
CF from Inv. Activity	-522	-859	-1055	-656
Repayment of Long Term	-147	-198	-69	-20
Interest Paid	-42	-28	-11	-31
Divd Paid (incl Tax)	-169	-323	-157	-368
CF from Fin. Activity	-663	-857	-197	1004
Inc/(Dec) in Cash	66	288	1482	2697
Add: Opening Balance	245	318	627	481
Closing Balance	311	607	2108	3178

Source: Eastwind/Company