

## LUPIN LTD

Buy

10th August 2016

### Company Update

CMP	1610.5
Target Price	1800
Previous Target Price	2250
Upside	12%
Change from Previous	-20%

### Market Data

BSE Code	500257
NSE Symbol	LUPIN
52wk Range H/L	2129/1280
Mkt Capital (Rs Cr)	72667
Av. Volume(,000)	73.63
Nifty	8711.4

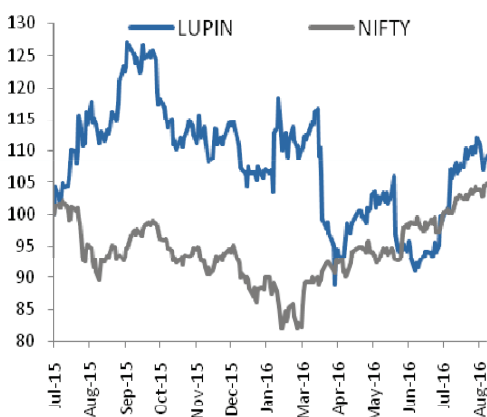
### Stock Performance

	1M	3M	12M
Absolute	1.2	0.8	4.1
Rel.to Nifty	-1.0	-0.9	0.6

### Share Holding Pattern-%

	1QFY17	4QFY17	3QFY16
Promoters	46.76	46.76	46.76
Public	53.34	53.34	53.34
Others			
Total	100	100.0	100.0

### Company Vs NIFTY



Lupin has come up with Gavis Integration to market multiple products in the market. The Company expects to launch 25-30 products in FY17 out of which 15 would be from Gavis and 15 from Lupin. Lupin is diversifying its product portfolio by adding two branded products Methergine (Gynecology) and Ethylphenidate injectable (Pediatric ADHD) in Lupin's US branded portfolio. The company expects double digit growth in the revenue from its Indian Business. It has launched 3 products in the US market during this quarter (1QFY17). Presently it has 123 products in the US generics market. On the other hand, the company is optimistic of getting new product approvals despite challenges in Goa. Due to Strong pipeline of products in US, consistent product launches, increasing penetration in Japan we recommend 'BUY' for this stock with a target price of Rs.1800

### Results Highlights

- Net Sales for the quarter grew by 40.0% to Rs. 43,13.6 Cr., as compared to Rs. 30,80.9 Cr. in Q1FY2016. Net Sales in Q1 FY2017 grew by 5.7% sequentially as compared to Rs. 40,82.3 Cr. in Q4 FY2016
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for the quarter was 32.2% of net sales and grew by 54.4% to Rs. 13,907 m. as compared to Rs. 9,00.5 Cr. in Q1 FY2016 . EBITDA in Q1 FY2017 grew by 3.8% sequentially as compared to Rs. 13,39 Cr in Q4 FY2016
- Net profits for the quarter grew by 55.1% to Rs. 8,82 Cr. as compared to Rs. 5,68 Cr in Q1 FY2016 .Net profits in Q1 FY2017 grew by 17.9% sequentially as compared to Rs. 7,479 m. in Q4 FY2016
- Investment in Research for the quarter was Rs. 4,99.4 Cr., 11.6% of net sales
- US formulation sales increased by 78.9% to USD 322 m. in Q1 FY2017, as compared to Q1 FY2016
- Japan sales increased by 30.9% to Rs. 4,23 Cr. in Q1 FY2017, as compared to Q1 FY2016
- Capital Expenditure for the quarter was Rs. 5,63 Cr

	Rs,Cr				
Financials	2012	2013	2014	2015	2016
Sales	7097	9669	11403	13010	14396
EBITDA	1445	2270	3003	3620	3753
Net Profit	888	1340	1870	2444	2271
EPS	19	29	41	53	51
P/E	27.3	21.4	22.8	37.6	39.8

(Source: Company/Eastwind)

## Company Revenue driver

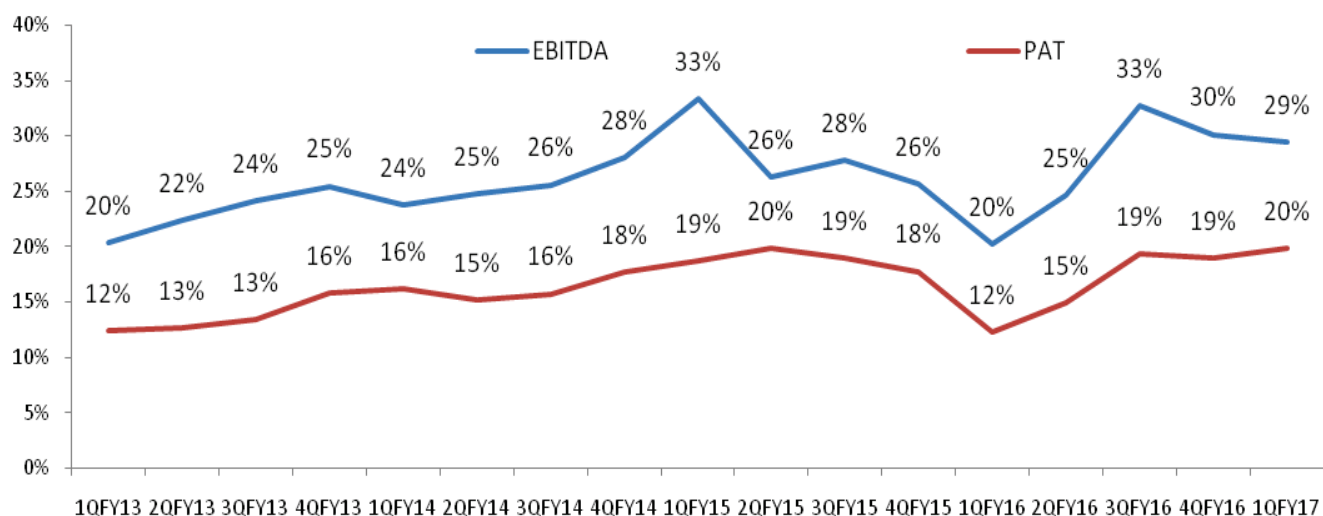
	1QFY16	4QFY16	1QFY17	QoQ Growth	YoY Growth
Formulations					
North America	1,200	2,191	2,189	-0.1%	82%
India	885	756	931	23%	5%
APAC	408	453	542	20%	33%
EMEA	182	245	219	-11%	21%
LATAM	62	92	109	18%	77%
ROW	17	61	37	-39%	117%
API	328	284	287	1%	-12%
<b>Net Sales</b>	<b>3,081</b>	<b>4,082</b>	<b>4,314</b>	<b>6%</b>	<b>40%</b>

→The Company launched 3 products in the US market during the quarter. The Company now has 123 products in the US generics market  
 →Lupin is now the market leader in 46 products marketed in the US generics market and amongst the Top 3 in 80 of its marketed products (market share by prescriptions, IMS Health, June 2016)

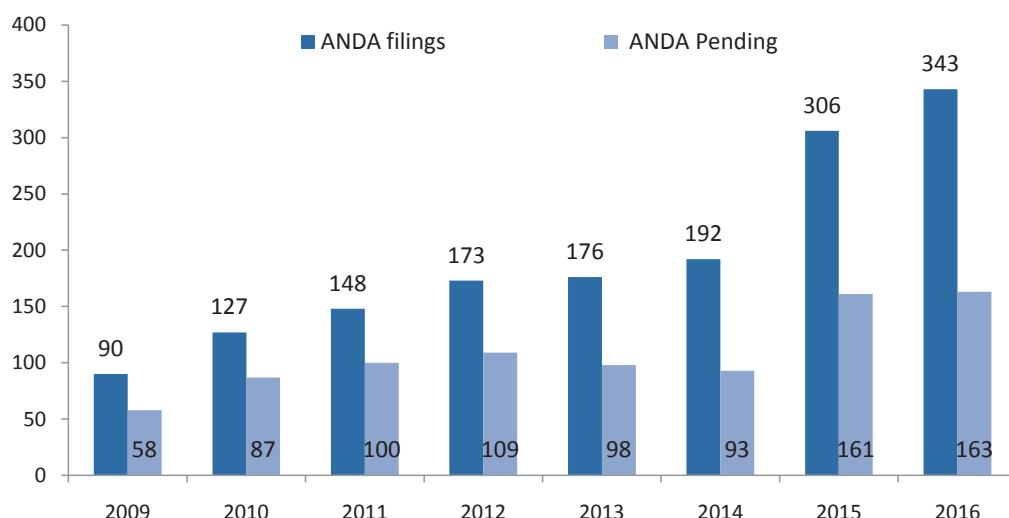
## Recent Management Speak

- Current business conditions only permit revenue visibility of USD 3.5 billion, although their aspiration is to hit USD 5 billion
- Double digit growth rate is expected from India Business in FY17
- Clarity for the Goa facility will be given by the management in next few months
- Site transfer from Goa facility for critical and near term products will be done in the month of september
- Management continue to looking forward in Inorganic growth opportunity
- Company expects 25-30 launches in FY2017 out of which 15 would be from Gavis and 15 from Lupin
- Acquisition of Gavis has added two branded products Methergine (Gynecology) and Methylphenidate injectable (Pediatric)
- Tax guidance for FY17 is 27-28%
- Capex guidance for FY17 is Rs. 1800-2000 Cr and Rs. 1500 Cr for FY18
- Management is optimistic to lowering Debt-Equity Ratio

## Quarterly Performance



## Going Further



Lupin has 343 including 163 pending approvals. The company has 45 FTF products, which includes 17 exclusive opportunities. In FY16, it filed 36 ANDAs and received 39 approvals from the USFDA..

## Recent News and Events

- Lupin Limited has forayed into Japanese branded pharmaceutical market by acquiring 21 branded products from Japan's Shionogi & Co Ltd, through its subsidiary Kyowa Pharmaceutical Industry Co Ltd.
- Lupin has launched its Norgestimate and Ethinyl Estradiol Tablets
- Lupin Pharmaceuticals Inc. has received tentative approval from the United States Food and Drug Administration (FDA) to market a generic equivalent of Viiv Healthcare's (Viiv) Lexiva® Tablets, 700 mg

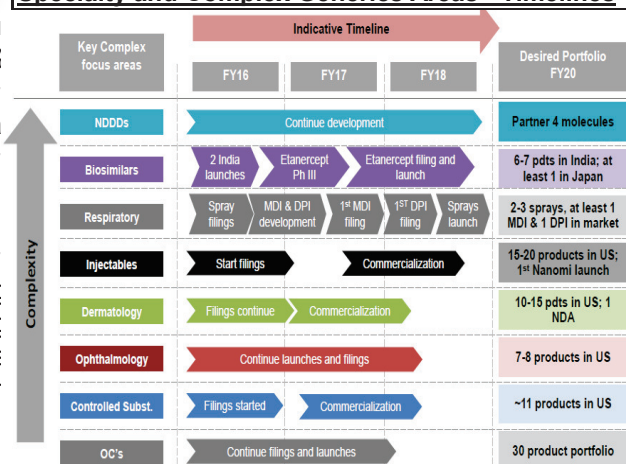
## Key Risks

- Regulatory delays affecting key US launches.
- Slower than expected turnaround of Gavis Integration.

## About the Company

Lupin over the last decade has established itself as a leading generic player from India. US and India are its largest markets and contribute almost 60% of its revenues and boasts of significant presence in Japan (unlike most other generic players).Lupin is bearing the fruits of geographical diversification for broad based growth. It has established a significant presence in the US by 1) focusing on limited competition/FTF opportunities 2) concentration on niche therapies such as oral contraceptives dermatology, ophthalmology, respiratory, etc, and 3) acquiring small but profitable brands at the right price. In domestic formulations, it is improving its presence in lucrative chronic therapies. It is slowly but surely establishing itself in other geographies such as Japan and Australia. Higher growth on a fairly consistent basis, a strong balance sheet with debt-free status and high return ratios are some of the differentiators for Lupin.

## Specialty and Complex Generics Areas - Timelines



**Financials Snap Shot**

INCOME STATEMENT				
	FY13	FY14	FY15	FY16
Revenue	9641	11287	12770	35950
Other Income	27.85	116.48	239.75	409.55
Total Revenue	9669	11403	13010	36360
COGS	3548.5	3817.38	4157.04	10818.2
GPM	37%	34%	33%	30%
Other Expenses	2556.29	3001.75	3246.04	10228.1
EBITDA	2270	3003	3620	9889
EBITDA Margin (%)	24%	27%	28%	28%
Depreciation	332	261	435	464
EBIT	1937.7	2741.82	3184.89	9425.58
Interest	41	27	10	37
PBT	1924.6	2831.65	3414.83	9798.32
Tax	584	962	970	1154
Tax Rate (%)	30%	34%	28%	12%
Reported PAT	1314	1836	2403	2271
Dividend Paid	168.92	323.41	354.968	394.713
No. of Shares	45	45	45	45

Souce: Eastwind/Company

RATIOS				
	FY13	FY14	FY15	FY16
EPS	29	41	53	50
Book Value	118	156	198	245
DPS	3.8	7.2	7.9	8.8
Payout (incl. Div. Tax.)	0.13	0.18	0.15	0.17
Valuation(x)				
P/E	21	23	38	40
Price / Book Value	5	6	10	8
Dividend Yield (%)	0.6%	0.8%	0.4%	0.4%
Profitability Ratios				
RoE	25%	26%	27%	21%
RoCE	36%	39%	35%	20%
Turnover Ratios				
Asset Turnover (x)	1.1	1.1	1.0	0.6
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	0.49

Souce: Eastwind/Company

BALANCE SHEET				
	FY13	FY14	FY15	FY16
Share Capital	90	90	90	90
Reserves and surplus	5174	6909	8808	10926
Shareholders' funds	5264	6999	8898	11016
Long term Debt	247	151	102	5374
Total Borrowings	974	553	471	7,119
Non Current liabilities	396	427	409	660
Long term provisions	112	132	162	190
Short term Provisions	356	345	574	676
Current liabilities	2280	2227	3360	3642
Total liabilities	8914	10206	13138	22438
Net Fixed Assets	2804	3002	3296	6514
Non Current Investments	2.06	2.06	2.51	2.51
Other non Current assets	965	1102	2007	2507
Current assets	5,143	6,100	7,832	9,779
Total Assets	8914	10206	13138	22438

Souce: Eastwind/Company

CASH FLOW STATEMENT				
	FY13	FY14	FY15	FY16
OP/(Loss) before Tax	1,925	2,832	3,415	3,433
Depreciation	332	261	435	464
Direct Taxes Paid	(544)	(772)	(944)	(1,166)
Operating profit before v	2,344	3,242	3,772	3,951
CF from Op. Activity	1,251	2,004	2,733	(369)
Capital expenditure on fi:	(551)	(529)	(871)	(5,816)
Consideration for acquisi	(10)	(89)	(629)	(1,228)
CF from Inv. Activity	(522)	(859)	(1,055)	(6,943)
Repayment of Long Term	(147)	(198)	(69)	5,293
Interest Paid	(42)	(28)	(11)	(44)
Divd Paid (incl Tax)	(169)	(323)	(157)	(406)
CF from Fin. Activity	(663)	(857)	(197)	5,813
Inc/(Dec) in Cash	66	288	1,482	(1,500)
Add: Opening Balance	245	318	627	2,301
Closing Balance	311	607	2,108	802

Souce: Eastwind/Company