

RETAIL EQUITY RESEARCH

Lupin Ltd.

Pharmaceuticals

BSE CODE: 500257

NSE CODE: LUPIN

Bloomberg CODE: LPC:IN

SENSEX: 34,377

08th October, 2018**HOLD**

Rating as per Large cap

12months investment period

CMP Rs839 TARGET Rs849 RETURN 1% **Weak quarter; Pain continues in the US**

Lupin develops and delivers a wide range of branded & generic formulations, biotechnology products and APIs globally. US and India are key markets for the company as it contributes ~60% to the total revenues.

- Revenue growth remained flat in Q1FY19 as robust India business performance was offset by weak US and Japan businesses.
- EBITDA margin contracted by ~797bps YoY to 11.9% in Q1FY18 impacted by pricing pressure in the US market coupled with rising input costs.
- We lower our EBITDA margin estimates to 17.5% in FY19E due to continuing pain in US business, however, we expect it to improve to 22% in FY20E owing to increased pace of new product launches along with growth in domestic formulation business.
- We lower our revenue/adj.PAT estimates for FY19E by 14%/46% to factor in sustained pricing pressure in key products in the US, delay in meaningful product launches, intense competition in generics, weak growth in Japan and higher input costs.
- We maintain our 'HOLD' rating on the stock with a revised rolled over target price (TP) of Rs. 849 based on 18.5x FY20E EPS (18x FY19E earlier).

US pain continues; Expects recovery in FY20E

Lupin's revenue growth remained flat YoY in Q1FY19 as strong 28% YoY growth in domestic formulation sales (~32% of sales) was offset by weak 26% YoY decline in US sales (31% of sales). The subdued performance in the US was due to pricing pressure in key products (gGlumetza/gFortament), rising generic competition in Methergine and seasonality effect, which led to lower gTamiflu sales. The company launched 3 products in the US market in Q1FY19 taking the total to 160 products in the US generics market. Lupin filed 4 ANDA and received 5 approvals from the US FDA in Q1FY19. Cumulative ANDA filings with the US FDA stood at 402 as of June 30th, 2018, with the company having received 240 approvals to date. Importantly, Lupin has strong pipeline in the US with 162 ANDAs pending approval with USFDA including 38 FTF (First to File) products, of which 16 are exclusive. The management is still hopeful of maintaining US sales of USD 800-850mn in FY19 driven by new product launches including gRanexa and gLevothyroxine coupled with ramp up in Solosec and Tamiflu on expectation of favorable flu season. However, we expect lower US sales in FY19 and model in 10% YoY decline, however, it is expected to recover in FY20E with 18% YoY growth on the back of meaningful launches like Proair, gRanexa.

India business shines while APAC/ROW/LATAM disappoints

India formulation business surged 28% YoY in Q1FY19 supported by low base last year due to GST and strengthening of partnerships including Boehringer for anti-diabetics drugs. The company generates around 20% of its India business from diabetes therapy. During the quarter, Lupin expanded its partnership with Boehringer Ingelheim to market two oral anti-diabetic drugs Gibtulio Met and Ajaduo. The management has guided India formulation business to grow at 14-15% in FY19E. Among other global markets, Japan registered 5% decline in revenue in Q1FY19 as growth in volumes was offset by biennial pricing cuts. Consequently, Asia Pacific business sales witnessed a muted growth of around 1.5% YoY. Further, EMEA markets (7% of revenue) reported a robust performance (up 22% YoY) led by stellar South Africa sales (up by 25% YoY) while LATAM sales (3% of revenue) fell by 1% YoY mainly due to 31% YoY decline in Brazil sales due to weak offtake. RoW business witnessed 30% YoY decline in sales while API business (accounting for 9% of revenues) surged 28% YoY.

Sharp contraction in EBITDA margin; expects recovery in FY20E

EBITDA declined by 40% YoY in Q1FY19 with EBITDA margin contracting by ~797bps to 11.9% in Q1FY19 primarily impacted by weak US sales, 17% YoY rise in raw material costs (partly due to supply constraints from China) and marketing expenses related to the Solosec launch. The management has lowered EBITDA margin guidance for FY19 to 18%-20%. We lower our EBITDA margin estimates to 17.7% in FY19E due to continuing pain in US business, however, we expect it to improve to 22% in FY20E owing to increased pace of new product launches along with growth in domestic formulation business. Led by weak operating performance, adj. PAT plunged 43% YoY. Further, higher interest charges (up by 57% YoY) and spurt in tax rate from 21% in Q1FY18 to 47% in Q1FY19 also hit earnings, which offset 47% YoY surge in other income.

Outlook & Valuation.

We significantly lower our revenue/adj.PAT estimates for FY19E by 14%/46% to factor in sustained pricing pressure in key products in the US, delay in meaningful product launches, intense generics competition, weak Japan's growth and higher input costs. We expect Lupin's revenue/adj.PAT to grow at a modest CAGR of 10% each over FY18-20E on the back of new product launches, strong ANDAs pipeline and growth in domestic formulation business. Expected USFDA clearance of Lupin's Goa and Indore plants remains key event to watch out for and it expects it to be resolved by FY19. Hence, we maintain 'HOLD' rating on the stock with a revised rolled over target price (TP) of Rs. 849 based on 18.5x FY20E EPS (18x FY19E earlier).

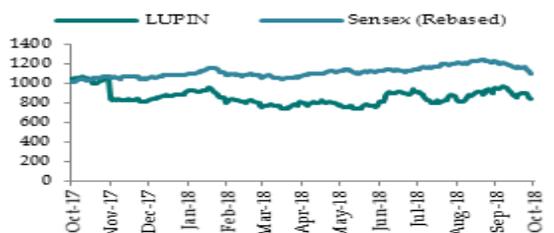
Company Data

Market Cap (cr)	Rs37,931
Enterprise Value (cr)	Rs43,445
Outstanding Shares (cr)	45.2
Free Float	53%
Dividend Yield	0.6%
52 week high	Rs1,090
52 week low	Rs723
6m average volume (cr)	0.3
Beta	0.9
Face value	Rs2

Shareholding %	Q3FY18	Q4FY18	Q1FY19
Promoters	47.0	47.0	47.0
FII's	25.5	25.4	25.8
MFs/Insti	12.1	12.2	12.1
Public	12.4	12.5	12.2
Others	3.0	2.9	2.9
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	(9%)	7%	(18%)
Absolute Sensex	(3%)	2%	9%
Relative Return*	(6%)	5%	(27%)

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY18	FY19E	FY20E
Sales	15,804	16,507	19,015
Growth (%)	-9.7%	4.4%	15.2%
EBITDA	3,148	2,917	4,192
Margin (%)	19.9	17.7	22.0
PAT Adj	251	1,290	2,074
Growth (%)	-90.2%	413.6%	60.7%
Adj.EPS	37.9	28.5	45.9
Growth (%)	-33.0%	-24.8%	60.7%
P/E	22.1	29.4	18.3
P/B	2.8	2.6	2.3
EV/EBITDA	13.7	14.6	9.9
RoE (%)	12.6	9.2	13.5
D/E	0.5	0.4	0.3

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Revenue	3,856	3,870	-0.4	4,034	-4.4
EBITDA	527	768	-31.4	709	-25.6
EBITDA Margin (%)	13.7%	19.9%	-6.2	17.6%	-22.2
Depreciation	259	261	-0.6	273	-5.1
EBIT	268	508	-47.2	436	-38.5
Interest	69	44	56.5	59	17.4
Other Income	184	32.0	476.2	144.9	27.1
Exceptional Items	0.0	(2,270)	-100.0	1.3	-100.0
PBT	383	494	-22.3	524	-26.8
Tax	181	137	32.4	(163)	-211.0
PAT	202	357	-43.3	687	-70.5
Minority Interest/P&L of associates	-0.43	1.06	-140.6	4.68	-109.2
Reported PAT	203	356	-43.0	682	-70.3
Adjustment	0.0	-2.27	-100.0	1.3	-100.0
Adj PAT	203	358	-43.4	680.8	-70.2
No. of shares (cr)	45.2	45.2	0.1	45.2	0.0
EPS (Rs)	4.5	7.9	-43.4	15.1	-70.2

Segment Revenue

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
India	1192	932	27.9	965	23.6
US	1186	1,602	(26.0)	1,499	(20.9)
APAC	608	599	1.5	664	(8.4)
EMEA	276	226	22.2	351	(21.4)
LATAM	126	127	(1.0)	165	(23.6)
ROW	29	42	(30.3)	55	(46.8)
APIs	358	279	28.2	281	27.5
Total	3,775	3,807	(0.8)	3,979	(5.1)

Source: Company, Geojit Research

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %
	FY19E		FY19E	FY20E	
Revenue	19,290		16,507	19,015	(14.4)
EBITDA	4,426		2,917	4,192	(34.1)
Margins (%)	22.9		17.7	22.0	(520bps)
PAT	2,380		1,290	2,074	(45.8)
EPS	52.7		28.5	45.9	(45.8)

Source: Company, Geojit Research

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Sales	14,256	17,494	15,804	16,507	19,015
% change	11.6%	22.7%	-9.7%	4.4%	15.2%
EBITDA	3,685	4,493	3,148	2,917	4,192
% change	1.7%	21.9%	-29.9%	-7.3%	43.7%
Depreciation	487	912	1,086	1,100	1,190
EBIT	3,198	3,581	2,062	1,816	3,001
Interest	59	153	204	219	176
Other Income	185	107	150	251	142
PBT	3,324	3,535	2,008	1,849	2,968
% change	1.6%	6.3%	-43.2%	-7.9%	60.5%
Tax	1,059	979	288	555	890
Tax Rate (%)	31.9%	27.7%	14.4%	30.0%	30.0%
Reported PAT	2,261	2,557	251	1,290	2,074
Adj*	-	-	1,464	-	-
Adj PAT	2,261	2,557	251	1,290	2,074
% change	-5.9%	13.1%	-90.2%	413.6%	60.7%
No. of shares (mn)	45.1	45.2	45.2	45.2	45.2
Adj EPS (Rs)	50.2	56.6	37.9	28.5	45.9
% change	-0.2%	12.9%	-33.0%	-24.8%	60.7%
DPS (Rs)	7.5	7.5	5.0	7.5	7.5

Balance Sheet

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Cash	822	698	1,408	1,137	997
Accounts Receivable	4,549	4,307	5,192	5,422	6,253
Inventories	3,274	3,642	3,662	4,088	4,173
Other Cur. Assets	1,241	1,191	1,712	1,791	2,001
Investments	16	2,136	262	262	262
Gross Fixed Assets	6,947	10,085	11,411	12,510	13,510
Net Fixed Assets	6,452	8,723	7,914	7,911	7,721
CWIP	2,702	2,133	2,598	2,500	2,500
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	9	113	431	431	431
Other Assets	3,233	3,269	2,841	2,841	2,841
Total Assets	22,298	26,212	26,020	26,383	27,178
Current Liabilities	3,316	3,816	4,648	4,920	5,241
Provisions	-	-	-	-	-
Debt Funds	7,119	7,952	6,876	6,076	4,876
Other Liabilities	668	912	879	879	879
Equity Capital	90	90	90	90	90
Reserves and Surplus	11,073	13,407	13,487	14,370	16,037
Shareholder's Fund	11,163	13,498	13,577	14,461	16,128
Minority Interest	32	35	40	47	54
Total Liabilities	22,298	26,212	26,020	26,383	27,178
BVPS (Rs)	248.5	299.6	301.2	320.9	357.9

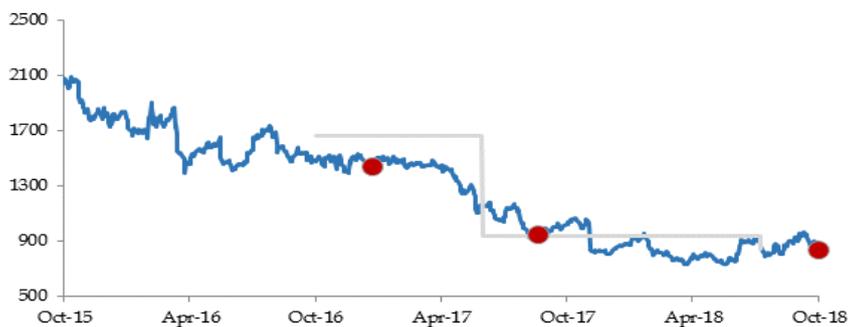
Cash flow

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Pre-tax profit	3,329	3,543	547	1,849	2,968
Depreciation	487	912	1,086	1,100	1,190
Changes in W.C	(3,126)	506	(1,019)	(462)	(804)
Others	98	303	1,696	(33)	34
Tax paid	(1,170)	(1,149)	(558)	(555)	(890)
C.F.O	(382)	4,115	1,751	1,900	2,497
Capital exp.	(5,822)	(2,637)	(1,553)	(1,000)	(1,000)
Change in inv.	1	1	38	-	-
Other invest.CF	(1,141)	107	108	251	142
C.F - investing	(6,962)	(2,529)	(1,407)	(749)	(858)
Issue of equity	54	43	15	-	-
Issue/repay debt	6,208	948	(895)	(800)	(1,200)
Dividends paid	(405)	(407)	(407)	(407)	(407)
Other finance.CF	22	(151)	(204)	(219)	(176)
C.F - Financing	5,878	433	(1,492)	(1,426)	(1,782)
Chg. in cash	(1,466)	2,019	(1,148)	(275)	(143)
Closing cash	822	698	1,408	1,137	997

Ratios

Y.E March	FY16	FY17	FY18	FY19E	FY20E
Profitab. & Return					
EBITDA margin (%)	25.9	25.7	19.9	17.7	22.0
EBIT margin (%)	23.7	21.1	14.0	12.5	16.5
Net profit mgn.(%)	15.9	14.6	10.9	7.8	10.9
ROE (%)	22.5	20.7	12.6	9.2	13.5
ROCE (%)	24.4	18.5	10.5	10.1	15.1
W.C & Liquidity					
Receivables (days)	120.7	91.8	121.8	121.8	121.8
Inventory (days)	275.8	265.8	253.5	253.7	254.0
Payables (days)	68.7	72.7	74.3	74.1	73.5
Current ratio (x)	3.0	3.1	2.6	2.6	2.6
Quick ratio (x)	2.0	2.2	1.8	1.7	1.8
Turnover & Levg.					
Gross asset T.O (x)	2.3	2.0	1.4	1.4	1.4
Total asset T.O (x)	0.8	0.7	0.6	0.6	0.7
Adj. debt/equity (x)	0.6	0.6	0.5	0.4	0.3
Valuation ratios					
EV/Sales (x)	3.2	2.5	2.8	2.6	2.2
EV/EBITDA (x)	12.0	9.6	13.7	14.6	9.9
P/E (x)	16.7	14.8	22.1	29.4	18.3
P/BV (x)	3.4	2.8	2.8	2.6	2.3

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
27-Dec-16	BUY	1,667
23-Aug-17	HOLD	945
08-Oct-18	HOLD	849

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral - The analyst has no investment opinion on the stock under review.

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