

Lupin (LPC IN)

Limited upside from Japanese brand acquisition

INDIA | PHARMACEUTICALS | Company Update

2 August 2016

Lupin's Japanese subsidiary Kyowa Pharma to acquire 21 branded generic products with sales base of US\$ 90mn from Shionogi & Co (Shionogi) for ~US\$ 150mn. The deal seems fairly valued at 1.7x sales considering compulsory annual price cut in Japan. As per the agreement, Lupin will have the marketing rights only for the said drugs effective 1st Dec 2016 and the manufacturing rights will be transferred in FY19. We estimate the acquired portfolio to add incremental earnings of US\$ 6mn only (implying just 1%) in FY18.

Factoring the acquisition of Japanese brands and lower than expected finance cost on raised debt (i.e. raised >US\$825mn at an interest cost of 1.08%p.a., as per Annual Report FY16) for Gavis integration, we have fine-tuned our FY17/18 estimates and raise earnings by 3% to Rs 64/Rs 78, respectively. As per earning upgrade, we value Lupin at Rs 1710 i.e 22x FY18, implying no more upside. Additionally, the visible competitive pricing pressure in US generic business and the ambitious R&D spend guidance of 12-15% could surprise the earnings negatively in the near-term. We maintain our rating at NEUTRAL with revised TP of Rs 1710 vs. Rs 1670 earlier.

Acquires 21 generic brands in Japan...

Lupin's Japanese subsidiary Kyowa Pharma has entered into an agreement with Shionogi for the transfer of marketing and manufacturing rights of 21 long-listed drugs (off-patented branded drugs) for US\$ 150mn. The products cover therapy areas such as areas such as Central Nervous System, Oncology, Cardiovascular and Anti-infective. ([See product details on Page 2](#)).

The acquisition will mark LPC's foray into the Japanese branded market and it is in-line with its strategy to strengthen LPC's specialty business in developed markets like Japan. It except acquired products will add depth as well as reach to its current CNS portfolio and other therapy areas.

...limited earning impact due to no manufacturing rights till FY19

The branded market size of the acquired drugs is ~US\$ 90mn collectively on National Health Insurance (NHI) price basis. As per the agreement, Lupin will have only the marketing rights of the said drugs effective 1st December 2016 and the manufacturing rights will be transferred from Shionogi to Kyowa in a sequential order in FY19. We estimate the acquired portfolio to add incremental earnings of US\$ 6mn only (implying just 1%) upon a sales of US\$ 90mn in FY18 LPC will only have marketing margin business.

gGlumetza to see generic competition: It's not a surprise

LPC launch gGlumetza in February 2016 under 180 days exclusivity as per settlement with innovator and with Sun Pharma's final approval for gGlumetza will result in generic competition in US market. Sun Pharma had settled with Innovator to launch generic version post exclusivity of LPC i.e. in August 2016.

Moreover, LPC could see more generic competition subsequently with potential generic competition from Allergan Inc as it has a similar settlement. However, we do not see any impact on our estimated earnings for FY17 as we have already been building increased competition in gGlumetza in our FY17 estimates as per normal genericisation practice.

NEUTRAL (Maintain)

CMP RS 1704

TARGET RS 1710 (0%)

COMPANY DATA

O/S SHARES (MN) :	451
MARKET CAP (RSBN) :	777
MARKET CAP (USDBN) :	11.6
52 - WK HI/LO (RS) :	2127 / 1294
LIQUIDITY 3M (USD MN) :	31.4
PAR VALUE (RS) :	2

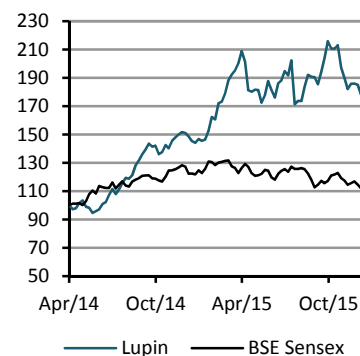
SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
PROMOTERS :	46.8	46.5	46.5
FII / NRI :	35.0	35.3	37.0
FI / MF :	7.4	7.0	6.5
NON PRO :	3.8	4.1	4.7
PUBLIC & OTHERS :	7.1	7.1	5.3

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	11.3	7.2	1.6
REL TO BSE	8.1	-2.2	2.0

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY16	FY17E	FY18E
Net Sales	137,016	174,262	199,502
EBIDTA	37,877	47,796	56,267
Net Profit	22,128	28,951	35,105
EPS, Rs	49.1	64.3	77.9
PER, x	34.7	26.5	21.9
EV/EBIDTA, x	21.9	16.7	13.8
P/BV, x	7.0	5.7	4.6
ROE, %	20.7	21.5	21.1
Debt/Equity (%)	65.4	52.1	37.4

Source: PhillipCapital India Research Est.

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List of products for the marketing rights transfer

Indication	Drug Name
Sleep-inducing drug	Rhythmy Tablets
Sleep-inducing drug, Anticonvulsant	Benzalin Tablets/Fine Granule
Antidepressant	Surmontil Tablets/Powder
Psychoneurotic agent	Wintermin Powder
Anxiolytic drug	Resmit Tablets
Psychoneurotic agent	Hirnamin IM/Tablets/Powder/fine granules
Migraine-abortive agent, Tension headache agent	Migristene Tablets
Psychoneurotic agent	Novamin IM/Tablets
Parasympathetic stimulant	Vagostigmin Injection/Powder
Cephem antibiotic	Kefral Powder/OS/Capsule
Cephem antibiotic	L-Kefral Granule
Cephem antibiotic	L-Kefral Granule for Syrup, Capsules
Cephem antibiotic	L-Kefral Granule/for chilfren
Gastritis and gastric ulcer treatment	Ulgut capsule
Digestive enzyme	Berzym Combination granules
Gastritis and gastric ulcer treatment	Kolantyl Combination granules
Acute circulatory failure improving agent	Dobutrex Injection/Infusion kit
Angiotensin-converting enzyme inhibitor	Longes Tablets
Oral hypoglycemic agent	Dimelin Tablets
Recombintant interleukin	Imunace Injection
Recombintant interferon	Imunomax Injection

Revision of estimates

Fig. Rs mn	Old Est.		Revised Est.		% Revision	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	175.9	200.3	180.4	206.5	2.5	3.1
EBITDA	47.5	55.7	47.8	56.3	0.6	1.1
EBITDA Margin%	27	27.8	26.5	27.25		
Core PAT	28.1	34.2	29.0	35.1	3.0	2.6
EPS	62.4	76.0	64.3	77.9	3.0	2.6

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
Net sales	125,997	137,016	174,262	199,502
Growth, %	14	9	27	14
Other income	1,703	5,069	6,099	6,983
Total income	127,700	142,085	180,361	206,485
Raw material expenses	-41,570	-43,094	-56,814	-64,114
Employee expenses	-17,473	-21,077	-24,349	-26,843
Other Operating expenses	-31,223	-40,037	-51,403	-59,261
EBITDA (Core)	37,433	37,877	47,796	56,267
Growth, %	24.7	1.2	26.2	17.7
Margin, %	29.7	27.6	27.4	28.2
Depreciation	-4,347	-4,635	-7,063	-7,827
EBIT	33,086	33,242	40,732	48,440
Growth, %	20.7	0.5	22.5	18.9
Margin, %	26.3	24.3	23.4	24.3
Interest paid	-98	-446	-1,055	-932
Other Non-Operating Income	956	956	1,263	1,445
Pre-tax profit	34,148	34,330	40,940	48,953
Tax provided	-9,704	-11,536	-11,873	-13,707
Profit after tax	24,444	22,794	29,067	35,246
Others (Minorities, Associates)	-412	-88	-116	-141
Net Profit	24,032	22,707	28,951	35,105
Growth, %	29.8	(7.1)	30.8	21.3
Net Profit (adjusted)	23,828	22,128	28,951	35,105
Unadj. shares (m)	450	451	451	451
Wtd avg shares (m)	450	451	451	451

Balance Sheet

Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
Cash & bank	4,814	8,379	40,715	53,295
Debtors	26,566	45,498	37,273	42,671
Inventory	25,036	31,787	36,305	41,563
Loans & advances	6,166	17,075	15,684	17,955
Other current assets	1,929	4,734	5,228	5,985
Total current assets	64,510	107,473	135,204	161,470
Investments	16,584	75	75	75
Gross fixed assets	67,009	133,925	150,705	161,937
Less: Depreciation	-22,764	-27,715	-34,778	-42,605
Add: Capital WIP	5,197	9,812	3,500	3,000
Net fixed assets	49,442	116,023	119,427	122,332
Total assets	131,377	224,378	255,512	284,683
Current liabilities	27,634	31,722	38,725	44,334
Provisions	7,363	8,658	9,263	9,863
Total current liabilities	34,997	40,379	47,988	54,197
Non-current liabilities	7,399	73,834	72,363	64,173
Total liabilities	42,396	114,213	120,351	118,370
Paid-up capital	899	901	901	901
Reserves & surplus	87,842	108,943	133,940	165,091
Shareholders' equity	88,982	110,165	135,162	166,313
Total equity & liabilities	131,377	224,378	255,512	284,683

Cash Flow

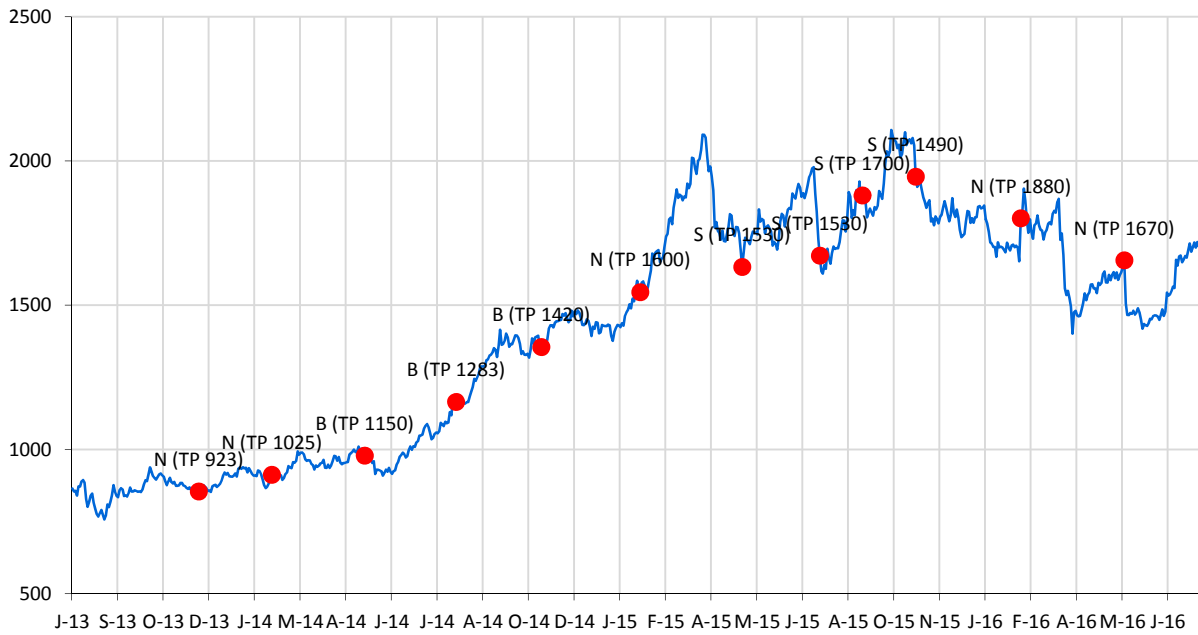
Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
Pre-tax profit	34,148	34,330	40,940	48,953
Depreciation	4,347	4,635	7,063	7,827
Chg in working capital	7,244	-34,015	12,214	-7,476
Total tax paid	-10,300	-11,479	-11,873	-13,707
Cash flow from operating activities	35,439	-6,529	48,344	35,597
Capital expenditure	-17,191	-71,217	-10,467	-10,732
Chg in investments	-14,799	16,509	0	0
Cash flow from investing activities	-31,991	-54,708	-10,467	-10,732
Free cash flow	51,949	64,859	58,696	46,189
Equity raised/(repaid)	413	2,424	0	0
Debt raised/(repaid)	-1,162	66,414	-1,471	-8,190
Dividend (incl. tax)	-4,058	-4,068	-3,954	-3,954
Cash flow from financing activities	-5,647	64,762	-5,541	-12,285
Net chg in cash	-2,199	3,525	32,336	12,580

Valuation Ratios

	FY15	FY16e	FY17e	FY18e
Per Share data				
EPS (INR)	53.0	49.1	64.3	77.9
Growth, %	29.4	(7.4)	30.8	21.3
Book NAV/share (INR)	197.4	243.8	299.2	368.4
FDEPS (INR)	53.0	49.1	64.3	77.9
CEPS (INR)	62.7	59.4	79.9	95.3
CFPS (INR)	76.7	(16.6)	104.5	75.8
DPS (INR)	7.5	7.5	7.5	7.5
Return ratios				
Return on assets (%)	21.0	13.0	12.4	13.3
Return on equity (%)	27.1	20.7	21.5	21.1
Return on capital employed (%)	35.3	18.6	20.2	21.6
Turnover ratios				
Asset turnover (x)	1.6	1.0	1.0	1.1
Sales/Total assets (x)	1.1	0.8	0.7	0.7
Sales/Net FA (x)	2.9	1.7	1.5	1.7
Working capital/Sales (x)	0.3	0.5	0.3	0.3
Receivable days	77.0	121.2	78.1	78.1
Inventory days	72.5	84.7	76.0	76.0
Working capital days	92.9	179.5	116.8	116.8
Liquidity ratios				
Current ratio (x)	2.3	3.4	3.5	3.6
Quick ratio (x)	1.4	2.4	2.6	2.7
Interest cover (x)	337.3	74.5	38.6	52.0
Dividend cover (x)	7.1	6.5	8.6	10.4
Total debt/Equity (%)	6.1	65.4	52.1	37.4
Net debt/Equity (%)	0.6	57.7	22.0	5.3
Valuation				
PER (x)	32.1	34.7	26.5	21.9
PEG (x) - y-o-y growth	1.1	(4.7)	0.9	1.0
Price/Book (x)	8.6	7.0	5.7	4.6
Yield (%)	0.4	0.4	0.4	0.4
EV/Net sales (x)	6.1	6.1	4.6	3.9
EV/EBITDA (x)	20.5	21.9	16.7	13.8
EV/EBIT (x)	23.2	25.0	19.6	16.0

Source: Company, PhillipCapital India Research Estimates

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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