

Lupin Limited

In-line quarter

In-line quarter, one-time costs offset by a lower tax rate

Lupin Q1FY17 PAT at Rs 8.8bn delivered beat on both UBS-e and consensus numbers though led by higher other income and a lower tax rate excluding which numbers are in-line. US sales at Rs21.9bn were in-line with UBS-e of Rs22bn and were flat QoQ. Street was disappointed on this front as consensus expected the US revenues to be higher QoQ. The management highlighted some pressure on US revenues from price decline as well as supply chain adjustment in gGlumetza. Gross margin declined by 324bps QoQ due to consolidation of Gavis inventory at fair value (rather than book value) and price correction in gGlumetza. India revenues were impacted by NLEM. The company also added 1,000 sales reps to increase the count to 5,500 and guided for double digit growth in India business. Tax expense for Q1 was lower at 23.7% due to change in accounting standard (guided FY17 tax rate at 27%).

A number of limited-competition launches ahead

We expect 1-2 exclusive launches each year (like Prezista, Ranexa, Minastrin 24 Fe, Suprep) along with a couple of other limited competition launches. We continue to see benefit of Glumetza and Fortamet in FY17 as competition is likely to be limited to few players. Lupin is also likely to see traction in branded business with scale up in Methergine. Further, the management is quite confident of strong growth in Gavis though we remain substantially below (\$220m in FY18) management guidance of tripling revenues (to \$300m) in three years following the acquisition.

Expect strong returns from ongoing investments

Management maintains guidance for increased R&D spend (12-15% of sales in FY17) led by clinical trials for the inhalational product filings. We expect R&D spend as a percentage of sales to flatten out or marginally decline from FY18/19, although it should continue to grow in absolute terms. The company expects to file three MDIs and two DPIs and expects to launch inhalational products beginning in FY18, starting with two nasal sprays.

Valuation: Remains our top India pharma pick

We reduce our PT to Rs2,325 as we roll forward to June-17 and reduce our one-year forward PE to 24x (from 26x earlier) in-line with large cap pharma average multiple.

Equities

India
Pharmaceuticals

12-month rating **Buy**

12m price target **Rs2,325.00**
Prior: Rs2,510.00

Price **Rs1,607.60**

RIC: LUPN.BO **BBG:** LPC IB

Trading data and key metrics

52-wk range	Rs2,107.05-1,401.45
Market cap.	Rs716bn/US\$10.7bn
Shares o/s	446m (ORD)
Free float	52%
Avg. daily volume ('000)	1,439
Avg. daily value (m)	Rs2,240.7
Common s/h equity (03/17E)	Rs134bn
P/BV (03/17E)	5.4x
Net debt / EBITDA (03/17E)	0.6x

EPS (UBS, diluted) (Rs)

	UBS	Cons.
03/17E	72.12	65.42
03/18E	90.35	77.46
03/19E	110.50	89.31

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Highlights (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Revenues	110,866	125,997	137,016	174,614	208,683	239,610	277,480	300,902
EBIT (UBS)	27,529	32,674	33,667	45,235	56,653	68,526	83,926	92,795
Net earnings (UBS)	18,364	24,032	22,707	32,497	40,712	49,791	61,608	68,948
EPS (UBS, diluted) (Rs)	40.99	53.60	50.52	72.12	90.35	110.50	136.73	153.02
DPS (Rs)	6.00	7.50	7.50	11.00	13.00	15.00	15.00	15.00
Net (debt) / cash	1,438	(558)	(63,396)	(34,322)	(9,856)	22,143	62,518	114,683
Profitability/valuation	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
EBIT margin %	24.8	25.9	24.6	25.9	27.1	28.6	30.2	30.8
ROIC (EBIT) %	44.8	47.9	27.7	26.6	32.8	37.7	43.5	45.7
EV/EBITDA (core) x	12.8	15.4	21.9	13.9	11.3	9.1	7.6	6.9
P/E (UBS, diluted) x	20.6	24.5	35.8	22.3	17.8	14.5	11.8	10.5
Equity FCF (UBS) yield %	3.5	3.2	(9.9)	4.4	3.9	5.1	6.3	8.0
Net dividend yield %	0.7	0.6	0.4	0.7	0.8	0.9	0.9	0.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rs1,607.60 on 09 Aug 2016 21:59 HKT

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities India Private Ltd. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 14.** UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Can Lupin sustain revenue growth in light of reduced value of pharmaceutical product patent expiration over the coming five years?**

We see 36% CAGR in Lupin's US business over FY16-18E led by a slew of new launches, addition of Gavis and a low base. We estimate US business contribution would rise from 43% of total revenues in FY16 to 52% by FY18E. Further, Lupin has potential to brand more products in the Gavis portfolio thereby enhancing durability of the portfolio.

["See earnings doubling in three years" 10/7/2015 →](#)

Q: Will the market share gain from increasing influence of PBMs offset pricing pressure on generics specifically Lupin?

In our view, Lupin should be a net beneficiary of strengthening influence of PBMs as the latter would enable a greater switch to generics from innovator products. Recently, Express Scripts, the largest PBM in the US, discontinued reimbursing the Glumetza brand in favour of Lupin's generic.

["PBMs to facilitate higher generic penetration" 2/2/2016 →](#)

Q: Can Lupin maintain its returns from the US business despite rising US FDA scrutiny?

Yes. Lupin has been able to consistently keep up with compliance standards. We do expect the company to raise compliance standards further though do not see material impact on financials of the firm. Further, we estimate its margins to rise over the coming years translating to higher RoEs.

["Are the US FDA issues structural?" 12/9/2015 →](#)

UBS VIEW

Buy. On the back of a strong product launch calendar, we forecast a 30% organic CAGR in Lupin's US business over FY16-18E; rising to a 36% CAGR due to the addition of Gavis. Furthermore, low exposure to price control segments in India and EM currencies helps Lupin. Overall, we expect gross margins to rise over the coming years with an increasing proportion of limited competition products in the US. Risk to the stock could emanate from escalation of regulatory issues at the Goa facility.

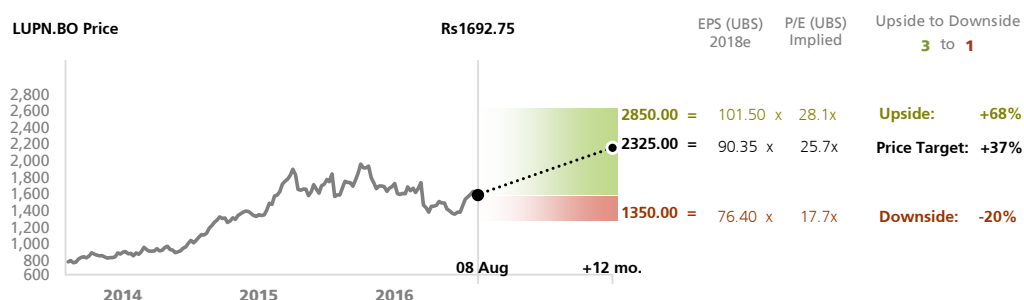
EVIDENCE

With 149 ANDAs pending approval, Lupin has one of the strongest US pipelines among India pharma companies. We see a couple of limited competition launches in H2FY17.

WHAT'S PRICED IN?

Stock is pricing in modest growth expectations over the long term and muted expectations in the near term. Lupin's relative safety within large caps has led to a rerating in PE over last two years. However, we believe Street underappreciates recent product launches in the US and the resultant margin uplift.

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UPSIDE / DOWNSIDE SPECTRUM**Value drivers**

	US business growth (FY16-18E CAGR)	EM growth (FY16-18E CAGR)	Operating margin (FY18E)
Rs2,850 upside	40.8%	26.6%	30.6%
Rs2,325 base	35.9%	21.9%	27.3%
Rs1,350 downside	27.1%	16.8%	23.8%

Source: UBS

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COMPANY DESCRIPTION

Lupin is an India-based pharmaceutical company focused on the manufacture and global marketing of finished dosages and active pharmaceutical ingredients (APIs). Lupin is one of the...

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COMMENTARY

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Figure 1: Consolidated financials

(Rs m)	Q1FY16	Q4FY16	Q1FY17	YoY	QoQ
Net sales	30,809	40,823	43,136	40%	6%
Raw material	9,835	11,010	12,719	29%	16%
Gross profit	20,974	29,813	30,417	45%	2%
Gross margin (%)	66.6%	73.8%	70.5%	396 bps	-324 bps
Personnel cost	4,973	5,779	7,059	42%	22%
R&D	3,131	5,113	4,994	60%	-2%
Other expenses	5,374	6,755	6,541	22%	-3%
Total Expenditure	23,313	28,657	31,313	34%	9%
EBITDA	7,496	12,166	11,823	58%	-3%
EBITDA margin (%)	24.3%	29.8%	27.4%	308 bps	-239 bps
Other income	1,509	1,233	2,085	38%	69%
Interest expense	70	213	320	358%	50%
Depreciation	1,014	1,487	2,026	100%	36%
PBT	7,921	11,699	11,560	46%	-1%
Tax	2,258	4,188	2,734	21%	-35%
Tax Rate (%)	28.5%	35.8%	23.7%	-486 bps	-1215 bps
PAT	5,663	7,511	8,826	56%	18%
Share of profit from JV	20	19	0	-100%	-100%
Minority Interest(MI)	-3	51	6	-300%	-88%
Net profit post JV + MI	5,686	7,479	8,820	55%	18%

Source: Company filings

Sales in-line with our estimate

Gross margins impacted by one-time inventory adjustment at Gavis

We expect R&D to rise over coming quarters

Other income boosted by export incentives

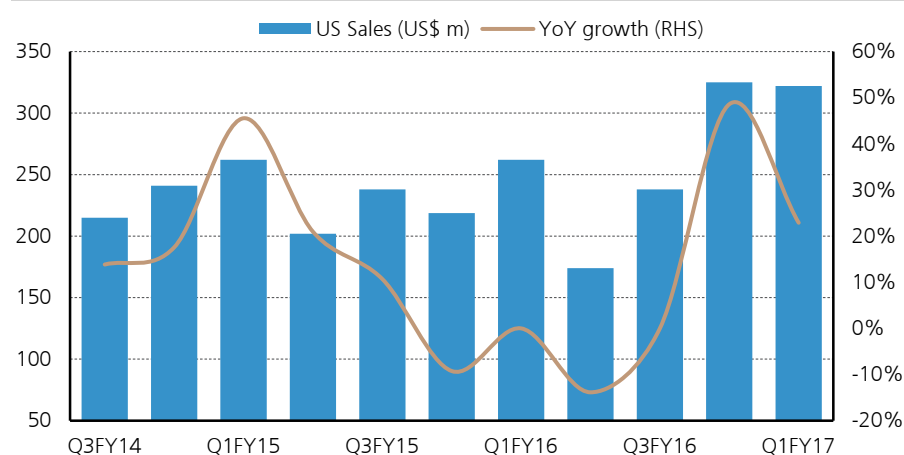
Tax rate to remain lower as per new accounting standards. Guidance of 27% tax rate for FY17

Figure 2: Revenue break-up

(Rs m)	Q1FY16	Q4FY16	Q1FY17	YoY	QoQ
Finished dosages	27,534	37,979	40,267	46%	6%
North America	12,004	21,905	21,886	82%	0%
India	8,849	7,561	9,313	5%	23%
APAC	4,076	4,532	5,416	33%	20%
EMEA	1,819	2,452	2,194	21%	-11%
LATAM	616	924	1,089	77%	18%
RoW	170	605	369	117%	-39%
API	3,275	2,884	2,869	-12%	-1%
Total sales	30,809	40,863	43,136	40%	6%

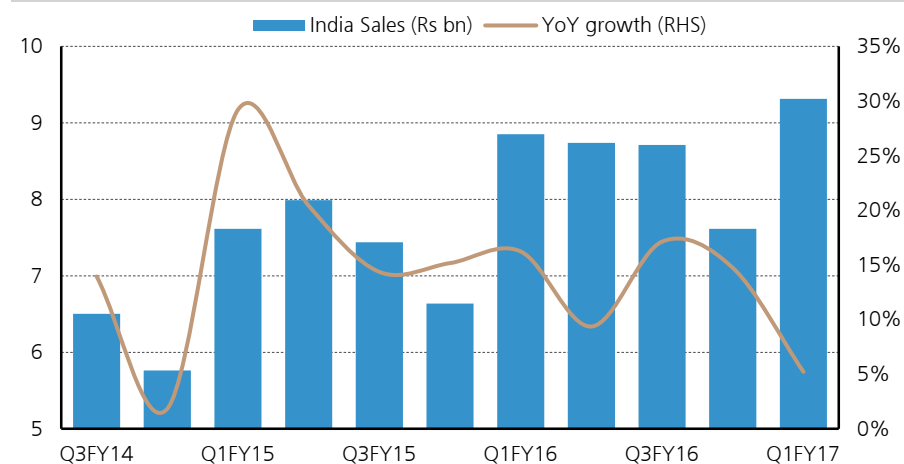
Source: Company filings

Figure 3: US business revenue trend



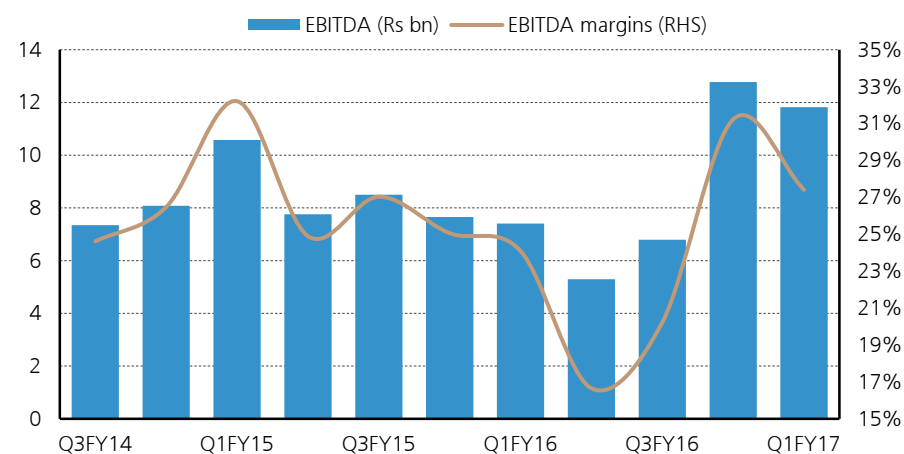
Source: Company filings

Figure 4: India business revenue trend



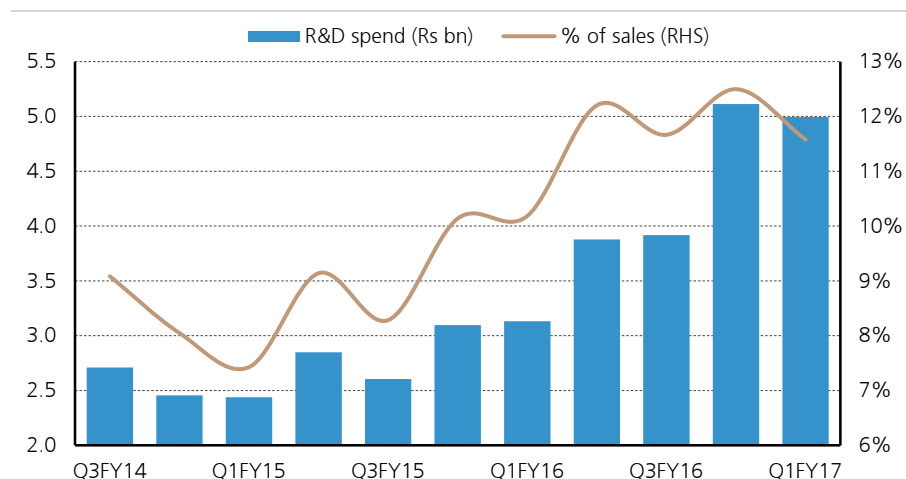
Source: Company filings

Figure 5: EBITDA margins



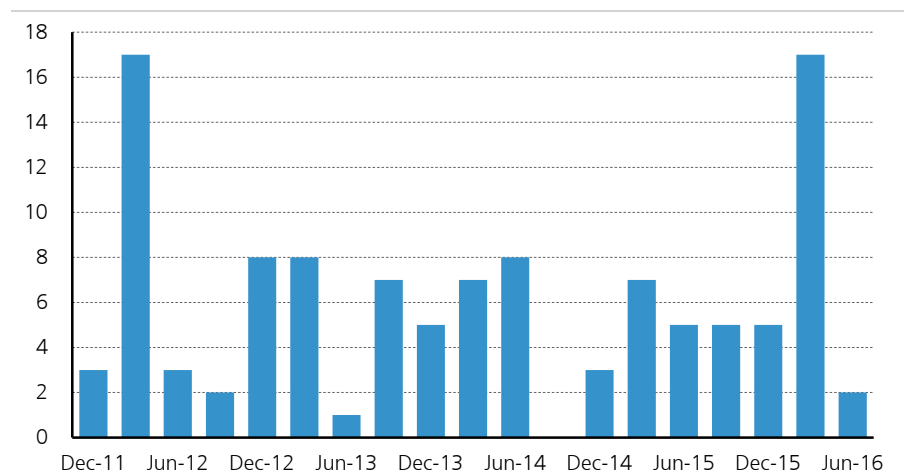
Source: Company filings

Figure 6: R&D spend



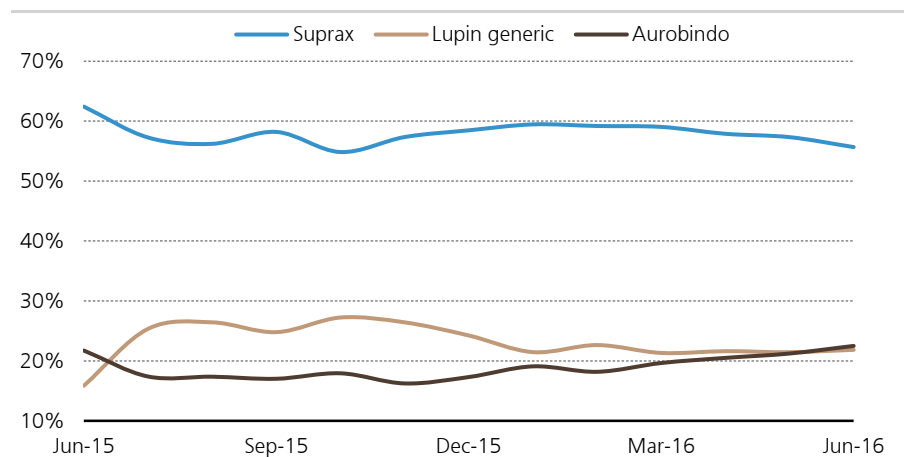
Note: *Q1FY17 numbers are as per Indian Accounting Standards (Ind AS) and previous quarter numbers have not been restated. Source: Company filings

Figure 7: ANDA filings



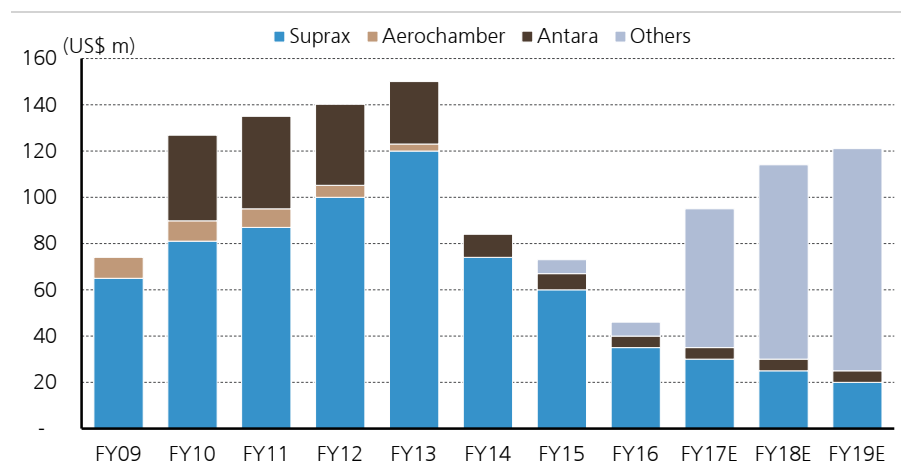
Source: Company filings

Figure 8: Suprax market share (in suspension formulation)



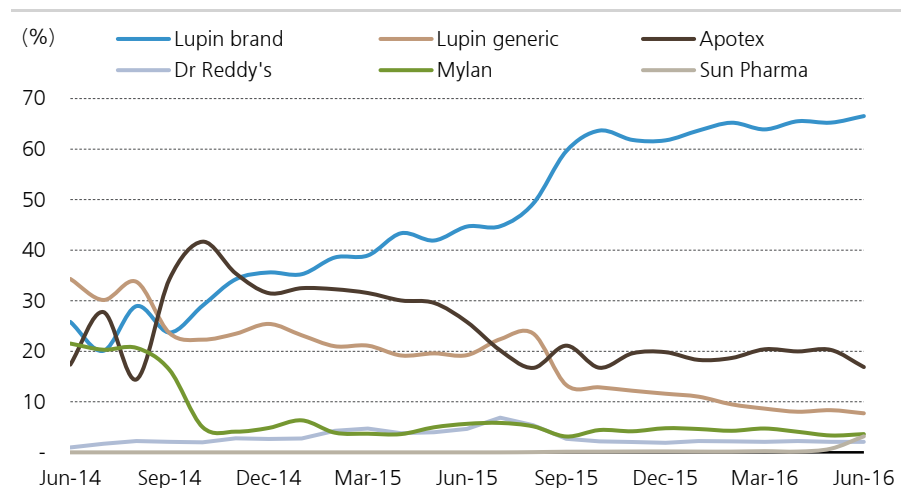
Source: IMS Health

Figure 9: Branded business sales trend



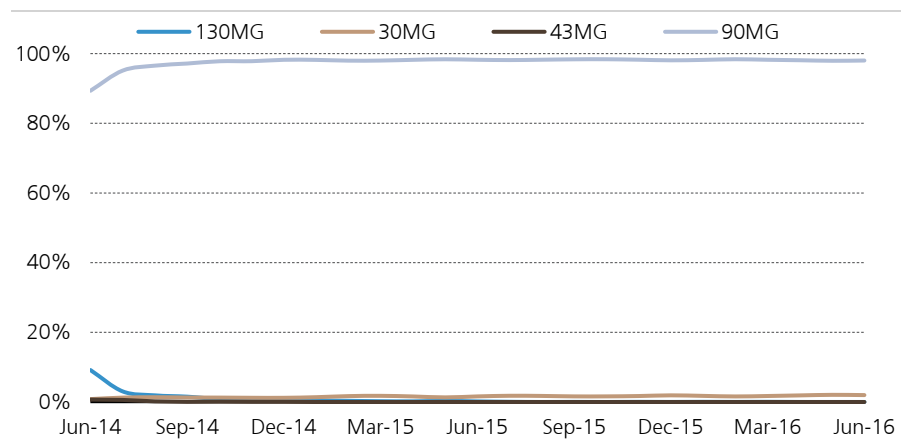
Source: Company data, UBS estimates

Figure 10: Antara – market shares



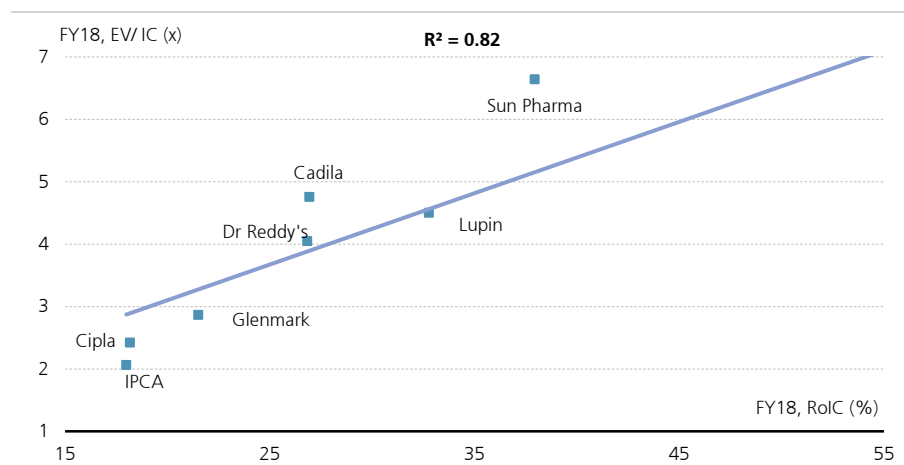
Source: IMS Health

Figure 11: 90mg strength contributes the most in Antara revenues



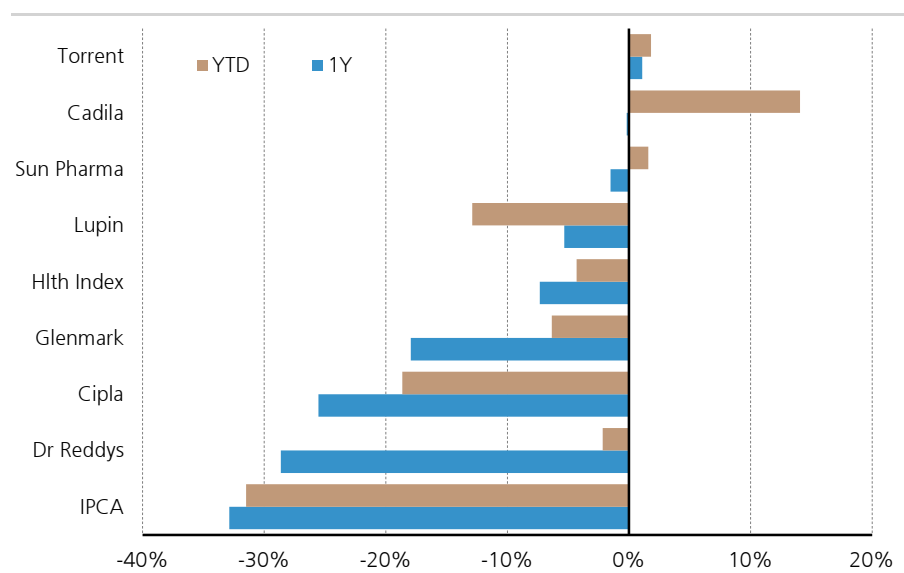
Source: IMS Health

Figure 12: EV/ IC scatter plot



Source: Reuters, UBS estimates

Figure 13: Price performance



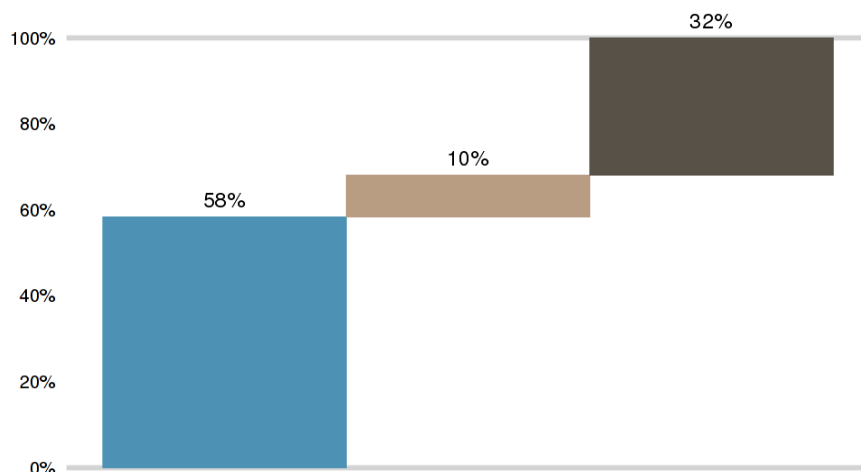
Source: Reuters

WHAT'S PRICED IN?

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Stock price = Capitalised Current Earnings + Capitalised Short-term Growth + Implied Long-term Growth

Lupin Limited stock price INR 1657.5
as of August 09, 2016

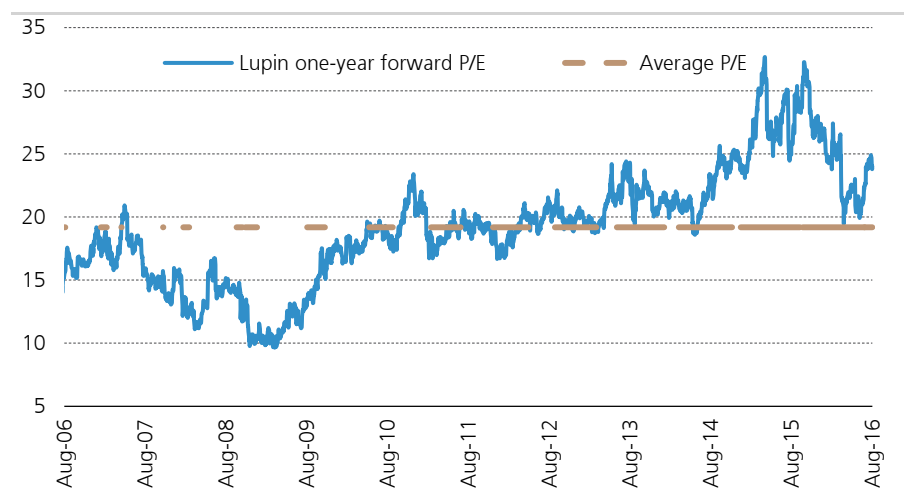


Stock pricing in modest growth expectations over the long term and muted expectations in the near term.

Source: UBS

The stock is pricing in modest growth expectations over the long term and muted expectations in the near term. Lupin's relative safety within large caps has led to a rerating in PE over the last two years. However, we believe consensus estimates underappreciate recent product launches in the US and the resultant EBITDA margin uplift. We continue to see Lupin retaining PE premium on back of strong earnings trajectory.

Figure 14: One-year forward P/E chart



Source: Datastream

UPSIDE / DOWNSIDE SPECTRUM

[return](#) ↑

**Lupin is trading
at Rs1,692.75
(as of 08 August).**

Value drivers	US business growth (FY16-18E CAGR)	EM growth (FY16-18E CAGR)	Operating margin (FY18E)
Rs2,850 upside	40.8%	26.6%	30.6%
Rs2,325 base	35.9%	21.9%	27.3%
Rs1,350 downside	27.1%	16.8%	23.8%

Source: UBS

Risk to the current share price is heavily skewed (3:1) to the upside

Lupin is trading at **Rs1,692.75** (as of 08 August).

Upside (Rs2,850): Our upside scenario assumes faster approvals in the US and no erosion in Lupin's branded business, resulting in a 40.8% revenue CAGR for the US business in FY16-18E, compared with our base case of 35.9%. This suggests EPS of Rs101.5 for FY18E. We believe the stock could trade at 28x one-year forward PE, implying upside fair value of Rs2,850.

Base (Rs2,325): We expect the Fortamet price hike to sustain through FY17 and contribution from recent Gavis acquisition resulting in 35.9% revenue CAGR over FY16-18E. This suggests EPS of 90.35 for FY18E. We assign 24x one-year forward PE, implying fair value of Rs2,325.

Downside (Rs1,350): Our downside scenario assumes the observation letter at the Goa facility is escalated to a warning letter and slower approvals in the US, resulting in a 27.1% revenue CAGR for the US business over FY16-18E, compared with our base case of 35.9%. This suggests EPS of Rs76.40 for FY18E. We believe the stock could trade at 18x one-year forward PE, implying downside fair value of Rs1,350.

COMPANY DESCRIPTION

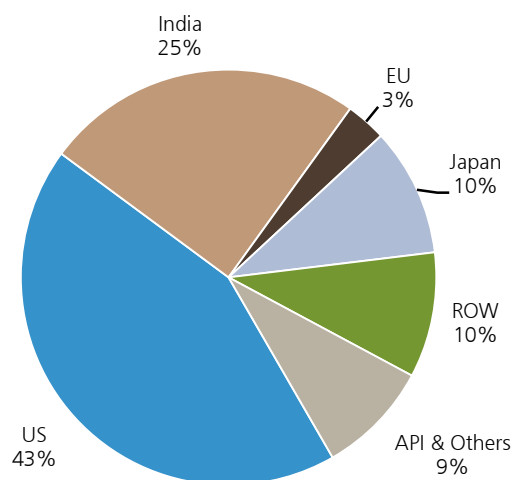
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Market Cap	Rs746bn/US\$11.2bn
Shares Outstanding	446m (ORD)
Industry	Pharmaceuticals
Region	India
Website	www.lupin.com

Lupin is an India-based pharmaceutical company focused on the manufacture and global marketing of finished dosages and active pharmaceutical ingredients (APIs). Lupin is one of the largest pharmaceutical companies in the domestic market as well as the US. The company is also increasing its presence in Japan and Europe. Recently, Lupin established two dedicated centres of excellence for research in inhalation and complex injectables.

Industry outlook

We are broadly positive on Indian pharma companies, based on strong growth in the US generic market. We expect market share gains in the US, as Indian firms launch more new products and technological capabilities improve with higher investment in R&D. We expect a 12% CAGR in sales in the Indian pharma market over the next five years. We also expect Indian companies to increase their presence in emerging markets through a combination of organic and inorganic growth.

Revenues by region – FY16

Source: Company data,

EBIT by product segment

The company does not disclose segmental margins.

Lupin Limited (LUPN.BO)

	03/14	03/15	03/16	03/17E	% ch	03/18E	% ch	03/19E	03/20E	03/21E
Income statement (Rsm)										
Revenues	110,866	125,997	137,016	174,614	27.4	208,683	19.5	239,610	277,480	300,902
Gross profit	72,693	84,427	93,922	124,501	32.6	151,960	22.1	176,403	204,838	225,117
EBITDA (UBS)	30,138	37,021	38,302	53,956	40.9	66,027	22.4	78,107	94,057	103,476
Depreciation & amortisation	(2,610)	(4,347)	(4,635)	(8,721)	88.2	(9,374)	7.5	(9,581)	(10,131)	(10,681)
EBIT (UBS)	27,529	32,674	33,667	45,235	34.4	56,653	25.2	68,526	83,926	92,795
Associates & investment income	1,054	1,572	1,109	251	-77.3	268	6.4	402	1,062	2,273
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(266)	(98)	(446)	(1,438)	-222.2	(997)	30.6	(547)	(397)	(397)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	28,317	34,148	34,330	44,048	28.3	55,923	27.0	68,380	84,590	94,670
Tax	(9,621)	(9,704)	(11,536)	(11,453)	0.7	(15,099)	-31.8	(18,463)	(22,839)	(25,561)
Profit after tax	18,695	24,444	22,795	32,596	43.0	40,824	25.2	49,918	61,751	69,109
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(331)	(412)	(88)	(99)	-13.0	(112)	-13.0	(126)	(143)	(161)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	18,364	24,032	22,707	32,497	43.1	40,712	25.3	49,791	61,608	68,948
Net earnings (UBS)	18,364	24,032	22,707	32,497	43.1	40,712	25.3	49,791	61,608	68,948
Tax rate (%)	34.0	28.4	33.6	26.0	-22.6	27.0	3.8	27.0	27.0	27.0
Per share (Rs)										
EPS (UBS, diluted)	40.99	53.60	50.52	72.12	42.8	90.35	25.3	110.50	136.73	153.02
EPS (local GAAP, diluted)	40.99	53.60	50.52	72.12	42.8	90.35	25.3	110.50	136.73	153.02
EPS (UBS, basic)	40.99	53.60	50.52	72.12	42.8	90.35	25.3	110.50	136.73	153.02
Net DPS (Rs)	6.00	7.50	7.50	11.00	46.7	13.00	18.2	15.00	15.00	15.00
Cash EPS (UBS, diluted)*	46.82	63.29	60.83	91.48	50.4	111.16	21.5	131.77	159.21	176.72
Book value per share	151.40	195.81	241.86	297.00	22.8	370.56	24.8	461.74	579.02	712.45
Average shares (diluted)	447.98	448.38	449.49	450.58	0.2	450.58	0.0	450.58	450.58	450.58
Balance sheet (Rsm)										
Cash and equivalents	7,975	4,814	8,379	8,919	6.4	13,385	50.1	35,383	75,759	127,924
Other current assets	52,682	57,764	94,360	94,950	0.6	112,500	18.5	129,223	149,423	164,201
Total current assets	60,657	62,577	102,739	103,869	1.1	125,885	21.2	164,606	225,182	292,124
Net tangible fixed assets	29,820	32,398	69,191	73,970	6.9	73,596	-0.5	74,016	73,885	73,204
Net intangible fixed assets	6,777	17,044	46,832	43,554	-7.0	40,275	-7.5	36,997	33,719	30,441
Investments / other assets	1,785	16,584	75	75	0.0	75	0.0	75	75	75
Total assets	99,039	128,603	218,838	221,468	1.2	239,832	8.3	275,695	332,861	395,844
Trade payables & other ST liabilities	22,593	34,560	37,736	42,744	13.3	47,854	12.0	52,505	56,685	59,387
Short term debt	0	0	0	0	-	0	-	0	0	0
Total current liabilities	22,593	34,560	37,736	42,744	13.3	47,854	12.0	52,505	56,685	59,387
Long term debt	6,537	5,371	71,775	43,241	-39.8	23,241	-46.3	13,241	13,241	13,241
Other long term liabilities	1,779	1,182	1,239	1,239	0.0	1,239	0.0	1,239	1,239	1,239
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	30,909	41,113	110,750	87,223	-21.2	72,333	-17.1	66,985	71,165	73,866
Common s/h equity	67,461	87,249	107,767	133,825	24.2	166,967	24.8	208,052	260,895	321,016
Minority interests	669	241	321	420	30.9	532	26.6	658	801	962
Total liabilities & equity	99,039	128,603	218,838	221,468	1.2	239,832	8.3	275,695	332,861	395,844
Cash flow (Rsm)										
Net income (before pref divs)	18,364	24,032	22,707	32,497	43.1	40,712	25.3	49,791	61,608	68,948
Depreciation & amortisation	2,610	4,347	4,635	8,721	88.2	9,374	7.5	9,581	10,131	10,681
Net change in working capital	(3,466)	7,269	(36,224)	3,944	-	(12,961)	-	(12,644)	(16,650)	(12,769)
Other operating	417	412	88	99	13.0	112	13.0	126	143	161
Operating cash flow	17,924	36,061	(8,795)	45,261	-	37,237	-17.7	46,854	55,231	67,021
Tangible capital expenditure	(4,837)	(17,191)	(71,216)	(13,500)	81.0	(9,000)	33.3	(10,000)	(10,000)	(10,000)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	0	(14,802)	16,512	0	-	0	-	0	0	0
Investing cash flow	(4,837)	(31,994)	(54,705)	(13,500)	75.3	(9,000)	33.3	(10,000)	(10,000)	(10,000)
Equity dividends paid	(2,938)	(4,057)	(4,067)	(5,965)	-46.7	(7,050)	-18.2	(8,134)	(8,134)	(8,134)
Share issues / (buybacks)	386	413	642	0	-	0	-	0	0	0
Other financing	0	0	0	0	-	0	-	0	0	0
Change in debt & pref shares	(5,107)	(1,166)	66,404	(28,534)	-	(20,000)	29.91	(10,000)	0	0
Financing cash flow	(7,659)	(4,811)	62,979	(34,499)	-	(27,050)	21.6	(18,134)	(8,134)	(8,134)
Cash flow inc/(dec) in cash	5,428	(744)	(520)	(2,738)	NM	1,187	-	18,720	37,097	48,887
FX / non cash items	(1,802)	(2,417)	4,086	3,278	-19.8	3,278	0.0	3,278	3,278	3,278
Balance sheet inc/(dec) in cash	3,626	(3,161)	3,566	540	-84.8	4,466	NM	21,998	40,375	52,165

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.*Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Lupin Limited (LUPN.BO)

Valuation (x)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
P/E (local GAAP, diluted)	20.6	24.5	35.8	22.3	17.8	14.5	11.8	10.5
P/E (UBS, diluted)	20.6	24.5	35.8	22.3	17.8	14.5	11.8	10.5
P/CEPS	18.1	20.8	29.7	17.6	14.5	12.2	10.1	9.1
Equity FCF (UBS) yield %	3.5	3.2	(9.9)	4.4	3.9	5.1	6.3	8.0
Net dividend yield (%)	0.7	0.6	0.4	0.7	0.8	0.9	0.9	0.9
P/BV x	5.6	6.7	7.5	5.4	4.3	3.5	2.8	2.3
EV/revenues (core)	3.5	4.5	6.1	4.3	3.6	3.0	2.6	2.4
EV/EBITDA (core)	12.8	15.4	21.9	13.9	11.3	9.1	7.6	6.9
EV/EBIT (core)	14.0	17.4	24.9	16.5	13.2	10.4	8.5	7.7
EV/OpFCF (core)	15.7	19.2	27.3	17.7	14.0	10.8	8.8	7.9
EV/op. invested capital	6.3	8.4	6.9	4.4	4.3	3.9	3.7	3.5
Enterprise value (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Market cap.	376,983	586,126	806,105	716,298	716,298	716,298	716,298	716,298
Net debt (cash)	9,836	(440)	31,977	31,977	31,977	(6,143)	(6,143)	(6,143)
Buy out of minorities	632	455	281	370	476	658	801	962
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	387,450	586,142	838,363	748,646	748,751	710,813	710,956	711,117
Non core assets	(1,785)	(16,584)	(75)	(75)	(75)	(75)	(75)	(75)
Core enterprise value	385,666	569,558	838,288	748,570	748,676	710,738	710,880	711,042
Growth (%)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Revenue	18.3	13.6	8.7	27.4	19.5	14.8	15.8	8.4
EBITDA (UBS)	32.6	22.8	3.5	40.9	22.4	18.3	20.4	10.0
EBIT (UBS)	41.9	18.7	3.0	34.4	25.2	21.0	22.5	10.6
EPS (UBS, diluted)	39.5	30.8	-5.7	42.8	25.3	22.3	23.7	11.9
Net DPS	50.0	24.9	0.0	46.7	18.2	15.4	0.0	0.0
Margins & Profitability (%)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Gross profit margin	65.6	67.0	68.5	71.3	72.8	73.6	73.8	74.8
EBITDA margin	27.2	29.4	28.0	30.9	31.6	32.6	33.9	34.4
EBIT margin	24.8	25.9	24.6	25.9	27.1	28.6	30.2	30.8
Net earnings (UBS) margin	16.6	19.1	16.6	18.6	19.5	20.8	22.2	22.9
ROIC (EBIT)	44.8	47.9	27.7	26.6	32.8	37.7	43.5	45.7
ROIC post tax	29.6	34.3	18.4	19.7	23.9	27.5	31.8	33.3
ROE (UBS)	31.2	31.1	23.3	26.9	27.1	26.6	26.3	23.7
Capital structure & Coverage (x)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Net debt / EBITDA	(.0)	0.0	1.7	0.6	0.1	(0.3)	(0.7)	(1.1)
Net debt / total equity %	(2.1)	0.6	58.7	25.6	5.9	(10.6)	(23.9)	(35.6)
Net debt / (net debt + total equity) %	(2.2)	0.6	37.0	20.4	5.6	(11.9)	(31.4)	(55.3)
Net debt/EV %	(0.4)	0.1	7.6	4.6	1.3	(3.1)	(8.8)	(16.1)
Capex / depreciation %	185.4	NM	NM	154.8	96.0	104.4	98.7	93.6
Capex / revenue %	4.4	13.6	NM	7.7	4.3	4.2	3.6	3.3
EBIT / net interest	NM	NM	NM	31.5	56.8	NM	NM	NM
Dividend cover (UBS)	6.8	7.1	6.7	6.6	7.0	7.4	9.1	10.2
Div. payout ratio (UBS) %	14.6	14.0	14.8	15.3	14.4	13.6	11.0	9.8
Revenues by division (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Others	110,866	125,997	137,016	174,614	208,683	239,610	277,480	300,902
Total	110,866	125,997	137,016	174,614	208,683	239,610	277,480	300,902
EBIT (UBS) by division (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Others	27,529	32,674	33,667	45,235	56,653	68,526	83,926	92,795
Total	27,529	32,674	33,667	45,235	56,653	68,526	83,926	92,795

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+44.6%
Forecast dividend yield	0.7%
Forecast stock return	+45.3%
Market return assumption	12.4%
Forecast excess return	+32.9%

Valuation Method and Risk Statement

We value Lupin using a one-year forward PE multiple.

We believe risks include regulatory risks, FDA approval, timing of approvals, litigation (including the appeal process), accounting/disclosure, and product pricing risk from generics competition. Pricing pressure in the US market because of increased competition could continue. Margin pressure on account of rupee appreciation could also negatively impact earnings. The key risk for the US specialty business is erosion of the business due to generic substitution.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	25%
Sell	FSR is > 6% below the MRA.	15%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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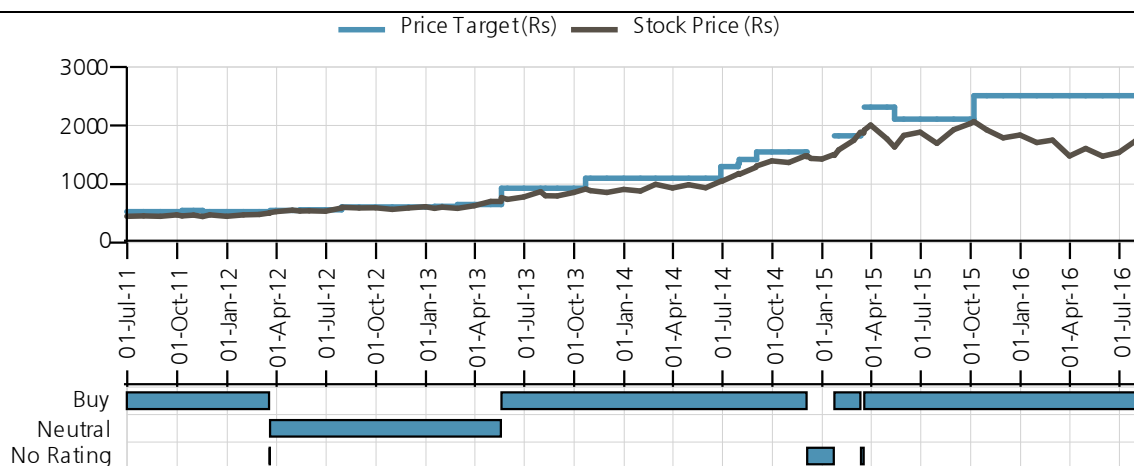
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Lupin Limited	LUPN.BO	Buy	N/A	Rs1,607.60	09 Aug 2016

Source: UBS. All prices as of local market close.

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Lupin Limited (Rs)



Source: UBS; as of 08 Aug 2016

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