

ADD

TP: Rs 870 | ▲ 11%

LUPIN

Pharmaceuticals

08 August 2019

Adj. EBITDA in line; US base trend to improve

Q1 core EBITDA was in line at Rs 6bn, normalised for a temporary drop in SG&A spends and Ranexa FTF. As per LPC, US base revenue has stabilised at ~US\$ 180mn for the last 3-4 quarters, with a likely uptick ahead from scale-up in Levo and 15 launches (incl. gProAir in Q4, a depo injectable in H2). India growth should continue at the Q1 rate of 10%; price disruption from Jan Aushadhi/ E-pharmacy should be limited at least for next 2 years. Goa/Indore remediation should take six months. Retain ADD with a revised TP of Rs 870 (vs. Rs 850).

Vivek Kumar

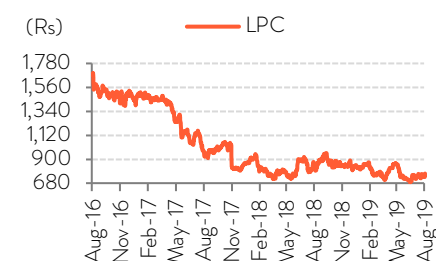
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Adj. EBITDA in line; launches to uplift US base trend: Revenue was a 3% beat, led by one month of Ranexa exclusivity sales (US\$ 30mn sales). PAT was below estimates at Rs 3bn due to high tax. Postponement of SG&A spends drove a headline EBITDA beat of 16%. Adj. EBITDA, normalising for lower SG&A cost (Rs 700mn) and Ranexa, was in line at Rs 6bn. The US base business run-rate of US\$ 180mn in Q1 should improve in the remaining 9M with additional capacity planned in Levo (expect 20% market share by Mar'20 from <5%), plus launch of the injectable portfolio from Sep'19 (incl. Fosaprepitant) and ProAir.

Ticker/Price	LPC IN/Rs 782
Market cap	US\$ 5.0bn
Shares o/s	453mn
3M ADV	US\$ 17.8mn
52wk high/low	Rs 986/Rs 697
Promoter/FPI/DII	47%/25%/12%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Earnings call takeaways: (1) Lupin has a direct-to-patient promotion strategy for Solosec to create awareness and hopes to break even in the next two years; it believes 15% market share is doable. (2) Launch timelines are delayed for gEnbrel in the EU to Q1FY21 (due to the need for additional PK studies) and ProAir to Q4FY20. (3) Additional work on OS investigation is in progress for the Goa/Indore units – reinspection after Dec'19. (4) gSpiriva TAD is in Nov'20; at best an FY23 US launch, (5) US branded sales were US\$ 5mn, up 40% QoQ.

Maintain ADD: We tweak estimates post Q1 and lower our target EV/EBITDA from 13x to 12x Sep'21E (implied P/E of 25x), as we align our multiple for India business to sector peers. We expect 25% EPS growth over FY19-FY21. ADD.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	17,137	9,464	10,319	14,809	17,125
Adj. EPS (Rs)	37.9	20.9	22.8	32.7	37.8
Adj. EPS growth (%)	(41.5)	(44.8)	9.0	43.5	15.6
Adj. ROAE (%)	12.6	6.9	7.4	10.3	11.3
Adj. P/E (x)	20.6	37.4	34.3	23.9	20.7
EV/EBITDA (x)	12.9	15.0	13.4	11.6	10.2

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Q1FY20E	Var (%)
Net Sales	44,183	38,559	14.6	44,063	0.3	43,032	2.7
EBITDA	8,603	5,271	63.2	8,724	(1.4)	7,415	16.0
Depreciation	3,171	2,590	-	2,808	-	2,901	-
EBIT	5,432	2,681	102.6	5,916	(8.2)	4,515	-
Interest	856	687	-	855	-	687	-
Other Income	822	1,842	-	865	-	600	-
PBT	5,398	3,836	40.7	5,926	(8.9)	4,428	-
Less: Taxation	2,280	1,811	-	2,998	-	1,195	-
Less: Minority Interest	88	(3)	-	56	-	0	-
Recurring PAT	3,030	2,028	49.4	2,872	5.5	3,232	(6.3)
Exceptional items	0	0	-	22	-	0	-
Reported PAT	3,030	2,028	49.4	2,894	4.7	3,232	(6.3)
Key Ratios (%)							
Gross Margin	64.9	62.5	-	68.1	-	64.1	-
EBITDA Margin	19.5	13.7	-	19.8	-	17.2	-
Tax / PBT	42.2	47.2	-	50.6	-	27.0	-
NPM	6.9	5.3	-	6.5	-	7.5	-
EPS (Rs)	6.7	4.5	-	6.4	-	7.1	-

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Q1FY20E	Var (%)
Formulations	40,069	34,165	17.3	40,347	(0.7)	38,393	4.4
US	15,412	11,858	30.0	17,406	(11.5)	14,000	10.1
India	13,077	11,924	9.7	10,525	24.2	13,156	(0.6)
APAC	6,717	6,077	10.5	6,901	(2.7)	6,199	8.4
EMEA	2,604	2,760	(5.7)	3,397	(23.3)	3,312	(21.4)
LATAM	1,550	1,256	23.4	1,385	11.9	1,407	10.2
RoW	709	290	144.5	733	(3.3)	319	122.3
APIs	3,489	3,581	(2.6)	2,912	19.8	3,939	(11.4)
Other Operating income	625	814	(23.2)	804	(22.3)	700	(10.7)
Net Sales	44,183	38,560	14.6	44,063	0.3	43,032	2.7

Source: Company, BOBCAPS Research

Valuation methodology

We move the gProAir opportunity to FY21 from Q4FY20 and now build in gBrovana in FY21. This has led to a change in our FY20/FY21 EPS forecast by -1.4%/+3%. We have not penciled in upsides from distant opportunity gSpiriva (FY23 US launch) and gEnbrel (FY22 EU opportunity, in our view).

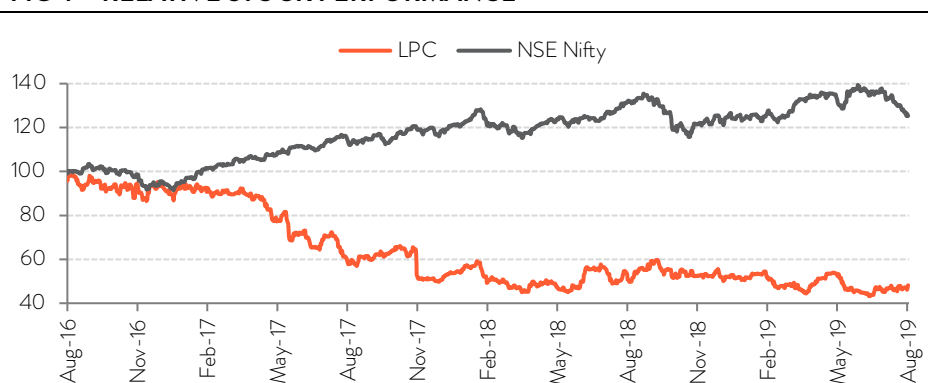
We also lower our target EV/EBITDA multiple from 13x to 12x Sep'21E (implied P/E of 25x), as we align our multiple for India business to sector peers at 15x (Sun Pharma, Dr Reddy's, Cipla). We retain our ADD rating on LPC with a revised Sep'20 target price of Rs 870 (Rs 850 earlier), derived using an average of the EV/EBITDA (SOTP-based) and P/BV valuations. A deepening US product pipeline and high share of branded generics are key long-term positives.

FIG 3 – REVISED ESTIMATES

(Rs bn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Sales	177	196	178	194	(0.5)	1.2
EBITDA	30	35	30	34	0.2	2.5
EBITDA margin (%)	17.0	18.0	16.9	17.8	12bps	22bps
EPS (Rs)	23	33	23	32	(1.4)	3.0

Source: Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Upside risks

- Earlier-than-expected resolution of warning letters at Goa and Indore Unit II – together both events have the potential to increase FY21E EBITDA by 10%.
- gSpiriva (FY23 US launch) and gEnbrel (FY22 EU launch)

Downside risks

- Higher-than-expected price erosion in the US

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	158,021	167,010	177,435	196,191	210,728
EBITDA	31,453	27,020	30,142	35,304	39,624
EBIT	20,596	16,170	17,916	22,026	25,295
Net interest income/(expenses)	(2,043)	(3,078)	(2,960)	(2,865)	(2,789)
Other income/(expenses)	1,504	5,441	2,359	2,124	2,125
Exceptional items	0	0	0	0	0
EBT	20,057	18,533	17,315	21,286	24,631
Income taxes	2,885	9,017	6,926	6,386	7,389
Extraordinary items	(14,643)	(3,399)	0	0	0
Min. int./Inc. from associates	36	52	70	91	117
Reported net profit	2,494	6,065	10,319	14,809	17,125
Adjustments	14,643	3,399	0	0	0
Adjusted net profit	17,137	9,464	10,319	14,809	17,125

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	24,754	23,935	26,602	28,726	30,393
Other current liabilities	18,886	23,386	23,386	23,386	23,386
Provisions	8,085	11,807	9,623	12,138	13,727
Debt funds	68,762	82,219	79,059	76,530	74,508
Other liabilities	0	0	0	0	0
Equity capital	904	905	905	905	905
Reserves & surplus	135,667	136,985	138,377	146,532	155,963
Shareholders' fund	136,571	137,890	139,282	147,437	156,868
Total liabilities and equities	257,058	279,237	277,951	288,218	298,882
Cash and cash eq.	14,080	9,872	4,008	4,034	7,762
Accounts receivables	51,922	51,498	54,938	60,745	65,246
Inventories	36,624	38,368	39,836	44,047	47,311
Other current assets	22,484	29,534	30,534	31,534	32,534
Investments	2,348	22,703	21,099	21,099	21,099
Net fixed assets	79,136	87,064	86,838	85,561	83,232
CWIP	25,981	16,396	16,896	17,396	17,896
Intangible assets	24,484	23,803	23,803	23,803	23,803
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	257,059	279,237	277,951	288,218	298,882

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	23,847	17,539	22,545	28,086	31,454
Interest expenses	2,043	3,078	2,960	2,865	2,789
Non-cash adjustments	(2,465)	290	0	0	0
Changes in working capital	(3,352)	(994)	(5,425)	(6,379)	(5,509)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	20,073	19,913	20,079	24,573	28,734
Capital expenditures	(19,298)	(9,136)	(12,500)	(12,500)	(12,500)
Change in investments	19,013	(20,355)	1,604	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(285)	(29,490)	(10,896)	(12,500)	(12,500)
Equities issued/Others	1	1	0	0	0
Debt raised/repaid	(10,758)	13,457	(3,160)	(2,528)	(2,023)
Interest expenses	(2,043)	(3,078)	(2,960)	(2,865)	(2,789)
Dividends paid	(4,651)	(7,274)	(4,636)	(6,653)	(7,694)
Other financing cash flows	4,748	2,264	(4,291)	0	0
Cash flow from financing	(12,703)	5,369	(15,048)	(12,047)	(12,506)
Changes in cash and cash eq.	7,085	(4,208)	(5,864)	26	3,728
Closing cash and cash eq.	14,079	9,872	4,008	4,034	7,762

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	5.5	13.4	22.8	32.7	37.8
Adjusted EPS	37.9	20.9	22.8	32.7	37.8
Dividend per share	9.0	6.0	10.2	14.7	17.0
Book value per share	300.9	303.7	306.8	324.8	345.6

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.6	2.4	2.3	2.1	1.9
EV/EBITDA	12.9	15.0	13.4	11.6	10.2
Adjusted P/E	20.6	37.4	34.3	23.9	20.7
P/BV	2.6	2.6	2.5	2.4	2.3

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	85.4	51.1	59.6	69.6	69.5
Interest burden (PBT/EBIT)	97.4	114.6	96.6	96.6	97.4
EBIT margin (EBIT/Revenue)	13.0	9.7	10.1	11.2	12.0
Asset turnover (Revenue/Avg TA)	15.3	15.6	15.9	17.3	17.9
Leverage (Avg TA/Avg Equity)	1.9	2.0	2.0	2.0	1.9
Adjusted ROAE	12.6	6.9	7.4	10.3	11.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	(9.7)	5.7	6.2	10.6	7.4
EBITDA	(35.4)	(14.1)	11.6	17.1	12.2
Adjusted EPS	(41.5)	(44.8)	9.0	43.5	15.6
Profitability & Return ratios (%)					
EBITDA margin	19.9	16.2	17.0	18.0	18.8
EBIT margin	13.0	9.7	10.1	11.2	12.0
Adjusted profit margin	10.8	5.7	5.8	7.5	8.1
Adjusted ROAE	12.6	6.9	7.4	10.3	11.3
ROCE	8.3	4.9	5.3	7.3	8.1
Working capital days (days)					
Receivables	110	113	113	113	113
Inventory	84	82	82	82	82
Payables	175	152	160	160	160
Ratios (x)					
Gross asset turnover	1.4	1.3	1.2	1.2	1.2
Current ratio	2.4	2.2	2.2	2.2	2.3
Net interest coverage ratio	10.1	5.3	6.1	7.7	9.1
Adjusted debt/equity	0.4	0.4	0.4	0.3	0.3

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: LUPIN (LPC IN)



B – Buy, A – Add, R – Reduce, S – Sell

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