

**ADD**

TP: Rs 950 | ▲ 8%

**LUPIN**

Pharmaceuticals

08 August 2020

## Weak quarter; multiple near-term catalysts

Lupin's (LPC) Q1 revenue/EBITDA were 12%/14% below estimates. The sales miss was broad-based while the US miss was pronounced on seasonal/Glumetza recall impact. EBITDA margin was a tad short of estimates despite lower SGA. Net debt fell by Rs 12bn QoQ. LPC has cut its FY21 EBITDA margin guidance to 17% and expects US sales to stabilise to US\$ 190mn from Q3. Multiple FY21 catalysts (Levo ramp-up, gProAir launch, Gavis/Goa unit clearance) should support stock upsides. We cut FY21/FY22 EPS by 16-25% and roll to a Sep'21 TP of Rs 950.

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**US sales plunge by US\$ 55mn QoQ:** The sharp QoQ decline in US sales came as a negative surprise. Sequentially, Q1 should have benefitted by US\$ 8mn from Levo market share gains (+2ppt), stable Losartan/HCTZ pricing, >50% volume gains in Famotidine suspension, and new launches (Apriso AG, Myfortic). Factoring in headwinds from Covid, seasonality (\$8mn+), Glumetza recall (\$20mn+), and relaunch by Q3 (\$15mn), the net QoQ decline should have been US\$ 35mn, in our view. Q3 onwards, management expects US sales to return to US\$ 190mn levels. gProventil & Brovana launches in Q3 will be critical to FY21. India (-2% YoY), EMEA (-4%) and LATAM (-24%) underperformed.

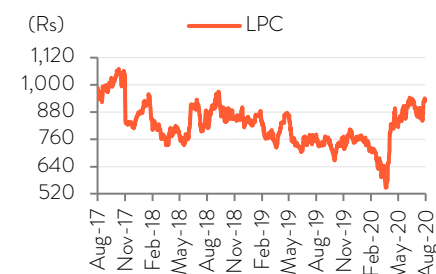
**Margins flat; FY21 guidance cut:** EBITDA margin was flat QoQ at 13.8% (14.2% est.), led by lower promotional spends (SGA fell 26% QoQ). While SGA will increase from Q2 with a pickup in ground activity, it should be offset by staff cost rationalisation at Q4FY20 levels. LPC has lowered FY21 EBITDA margin guidance to 17% (from 18-20%), excluding other income and forex.

**Earnings call takeaways:** (1) FY21: Expect 5-8% growth for India business; ETR 35-40% (35% earlier). (2) gProAir approval any time now but launch in Sep'20. (3) Large part of Glumetza recall impact built into Q1. (4) Gavis/Goa unit reinspection a near-term event. (5) Solosec weekly Rx ramp-up very slow.

Ticker/Price	LPC IN/Rs 880
Market cap	US\$ 5.3bn
Shares o/s	453mn
3M ADV	US\$ 36.4mn
52wk high/low	Rs 956/Rs 505
Promoter/FPI/DII	47%/25%/12%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	167,010	153,528	159,884	180,636	196,620
EBITDA (Rs mn)	27,020	23,330	25,408	31,309	36,586
Adj. net profit (Rs mn)	9,464	3,541	8,761	12,691	15,599
Adj. EPS (Rs)	20.9	7.8	19.4	28.0	34.5
Adj. EPS growth (%)	(44.8)	(62.6)	147.4	44.9	22.9
Adj. ROAE (%)	6.9	2.6	6.6	9.3	10.8
Adj. P/E (x)	42.1	112.4	45.4	31.4	25.5
EV/EBITDA (x)	16.6	19.3	16.9	13.1	11.1

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Q1FY21E	Var. (%)	FY20P	FY19	YoY (%)
<b>Net Sales</b>	<b>35,279</b>	<b>44,183</b>	<b>(20.2)</b>	<b>38,457</b>	<b>(8.3)</b>	<b>39,878</b>	<b>(11.5)</b>	<b>153,528</b>	<b>167,180</b>	<b>(8.2)</b>
<b>EBITDA</b>	<b>4,882</b>	<b>8,603</b>	<b>(43.3)</b>	<b>5,254</b>	<b>(7.1)</b>	<b>5,675</b>	<b>(14.0)</b>	<b>23,330</b>	<b>27,019</b>	<b>(13.7)</b>
Depreciation	2,146	3,171	-	2,142	-	2,300	-	9,702	10,850	-
<b>EBIT</b>	<b>2,736</b>	<b>5,432</b>	<b>(49.6)</b>	<b>3,112</b>	<b>(12.1)</b>	<b>3,375</b>	<b>-</b>	<b>13,628</b>	<b>16,169</b>	<b>(15.7)</b>
Interest	442	856	-	1,074	-	700	-	3,630	3,077	-
Other Income	433	822	-	2,086	-	1,300	-	5,070	5,447	-
<b>PBT</b>	<b>2,727</b>	<b>5,398</b>	<b>(49.5)</b>	<b>4,124</b>	<b>(33.9)</b>	<b>3,975</b>	<b>-</b>	<b>15,067</b>	<b>18,539</b>	<b>(18.7)</b>
Less: Taxation	1,643	2,280	-	1,051	-	1,510	-	11,570	9,016	-
Less: Minority Interest	18	88	-	17	-	0	-	(4)	23	-
<b>Recurring PAT</b>	<b>1,066</b>	<b>3,030</b>	<b>(64.8)</b>	<b>3,056</b>	<b>(65.1)</b>	<b>2,464</b>	<b>(56.7)</b>	<b>3,501</b>	<b>9,500</b>	<b>(63.1)</b>
Exceptional items	5	0	-	841	-	0	-	(6,219)	(3,400)	-
<b>Reported PAT</b>	<b>1,071</b>	<b>3,030</b>	<b>(64.7)</b>	<b>3,897</b>	<b>(72.5)</b>	<b>2,464</b>	<b>(56.5)</b>	<b>(2,718)</b>	<b>6,100</b>	<b>(144.6)</b>
<b>Key Ratios (%)</b>										
Gross Margin	63.5	64.9	-	63.5	-	64.0	-	64.6	65.0	-
EBITDA Margin	13.8	19.5	-	13.7	-	14.2	-	15.2	16.2	-
Tax / PBT	60.2	42.2	-	25.5	-	38.0	-	76.8	48.6	-
NPM	3.0	6.9	-	7.9	-	6.2	-	2.3	5.7	-
<b>EPS (Rs)</b>	<b>2.4</b>	<b>6.7</b>	<b>-</b>	<b>6.7</b>	<b>-</b>	<b>5.4</b>	<b>-</b>	<b>7.7</b>	<b>21.0</b>	<b>-</b>

Source: Company, BOBCAPS Research

**FIG 2 – REVENUE MIX**

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Q1FY21E	Var. (%)	FY20P	FY19	YoY (%)
<b>Formulations</b>	<b>30,596</b>	<b>40,069</b>	<b>(23.6)</b>	<b>34,625</b>	<b>(11.6)</b>	<b>35,415</b>	<b>(13.6)</b>	<b>137,001</b>	<b>148,126</b>	<b>(7.5)</b>
US	12,160	15,412	(21.1)	15,791	(23.0)	15,762	(22.9)	58,224	55,925	4.1
India	12,854	13,077	(1.7)	11,921	7.8	13,339	(3.6)	51,386	46,383	10.8
APAC	1,523	6,717	(77.3)	1,447	5.3	1,500	1.5	6,069	26,113	(76.8)
EMEA	2,500	2,604	(4.0)	3,650	(31.5)	2,734	(8.6)	12,364	11,906	3.8
LATAM	1,176	1,550	(24.1)	1,353	(13.1)	1,300	(9.5)	6,143	5,657	8.6
RoW	383	709	(46.0)	463	(17.3)	780	(50.9)	2,815	2,142	31.4
APIs	4,090	3,489	17.2	3,286	24.5	3,663	11.6	13,000	13,464	(3.4)
Other Operating income	593	625	(5.1)	547	8.4	800	(25.9)	3,527	5,591	(36.9)
<b>Net Sales</b>	<b>35,279</b>	<b>44,183</b>	<b>(20.2)</b>	<b>38,458</b>	<b>(8.3)</b>	<b>39,878</b>	<b>(11.5)</b>	<b>153,528</b>	<b>167,181</b>	<b>(8.2)</b>
US sales in \$ terms	164	220	(25)	219	(25.1)	213	-	822	801	3

Source: Company, BOBCAPS Research

## Valuation methodology

LPC is trading at 31x FY22E EPS which is reasonable and largely prices in the earnings pickup expected over the next two years. We forecast >16% EBITDA growth over FY20-FY22. Key catalysts ahead are approvals for gProAir in the US (expected in Q2FY21) and gEnbrel/gFostair in the EU (expected in H2FY21). These together carry sales potential of US\$ 90mn-100mn. We have not penciled in upsides from distant opportunity gSpiriva (FY23 US launch).

Following the Q1FY21 results, we cut FY21/FY22 EPS estimates by 16-25% to factor in the US sales miss, slower India business growth and a higher tax rate. Retain ADD as we roll over to a revised Sep'21 target price of Rs 950 (earlier Rs 960), based on an unchanged EV/EBITDA multiple of 13x on Sep'22E (implied P/E of 30x).

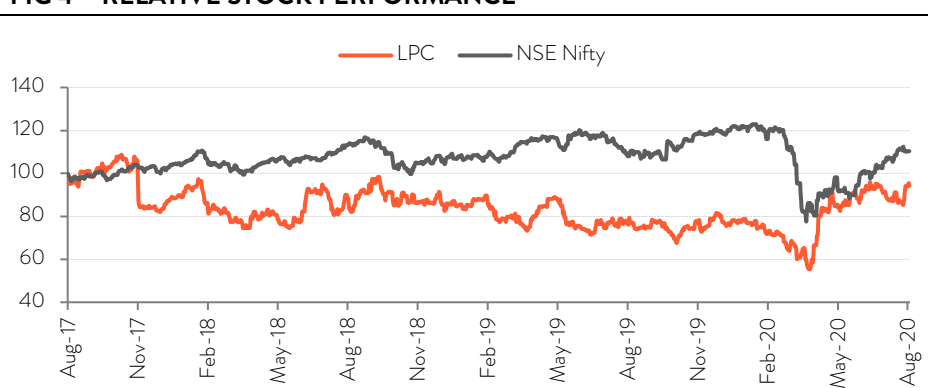
Our target multiple is in line with the earlier discount of 10% accorded to LPC vis-à-vis other frontline stocks (Cipla, Dr Reddy's), but is at a 10% premium to Sun Pharma. A deepening US product pipeline, the drug shortage opportunity in the US and a high share of branded generics are added long-term positives.

**FIG 3 – REVISED ESTIMATES**

(Rs bn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Sales	159.9	180.6	170.1	186.1	(6.0)	(2.9)
EBITDA	25.4	31.3	28.1	33.5	(9.7)	(6.5)
EBITDA margin (%)	15.9	17.3	16.5	18.0	(65bps)	(67bps)
EPS (Rs)	19	28	26	33	(25.9)	(16.2)

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 5%
- gSpiriva (FY23 US launch)

### Downside risks

- Higher-than-expected price erosion in the US

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>167,010</b>	<b>153,528</b>	<b>159,884</b>	<b>180,636</b>	<b>196,620</b>
EBITDA	27,020	23,330	25,408	31,309	36,586
Depreciation	10,850	9,702	11,483	12,293	13,238
EBIT	16,170	13,628	13,925	19,016	23,348
Net interest income/(expenses)	(3,078)	(3,630)	(4,035)	(2,421)	(1,937)
Other income/(expenses)	5,441	5,070	4,170	3,803	3,675
Exceptional items	0	0	0	0	0
EBT	18,533	15,067	14,060	20,397	25,086
Income taxes	9,017	11,570	5,343	7,751	9,533
Extraordinary items	(3,399)	(6,219)	0	0	0
Min. int./Inc. from associates	52	(43)	(44)	(45)	(46)
<b>Reported net profit</b>	<b>6,065</b>	<b>(2,678)</b>	<b>8,761</b>	<b>12,691</b>	<b>15,599</b>
Adjustments	3,399	6,219	0	0	0
<b>Adjusted net profit</b>	<b>9,464</b>	<b>3,541</b>	<b>8,761</b>	<b>12,691</b>	<b>15,599</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	23,935	23,134	25,565	26,979	28,504
Other current liabilities	23,386	25,802	25,802	25,802	25,802
Provisions	11,807	12,040	7,195	9,287	10,952
Debt funds	82,219	63,050	50,440	40,352	32,282
Other liabilities	0	0	0	0	0
Equity capital	905	906	906	906	906
Reserves & surplus	136,985	130,670	132,620	139,609	148,200
Shareholders' fund	137,890	131,576	133,526	140,515	149,106
<b>Total liabilities and equities</b>	<b>279,237</b>	<b>255,602</b>	<b>242,529</b>	<b>242,935</b>	<b>246,646</b>
Cash and cash eq.	9,872	24,543	15,374	12,180	7,528
Accounts receivables	51,498	54,459	48,184	54,438	59,255
Inventories	38,368	34,569	37,978	37,117	40,401
Other current assets	29,534	23,746	24,746	25,746	26,746
Investments	22,703	23,438	23,383	23,383	23,383
Net fixed assets	87,064	66,936	64,453	61,160	59,922
CWIP	16,396	9,396	9,896	10,396	10,896
Intangible assets	23,803	18,515	18,515	18,515	18,515
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>279,237</b>	<b>255,602</b>	<b>242,529</b>	<b>242,935</b>	<b>246,646</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	17,539	7,024	20,244	24,984	28,838
Interest expenses	3,078	3,630	4,035	2,421	1,937
Non-cash adjustments	290	4,701	0	0	0
Changes in working capital	(994)	9,360	(547)	(2,888)	(5,911)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>19,914</b>	<b>24,715</b>	<b>23,732</b>	<b>24,518</b>	<b>24,864</b>
Capital expenditures	(9,136)	22,714	(9,500)	(9,500)	(12,500)
Change in investments	(20,355)	(736)	56	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(29,491)</b>	<b>21,978</b>	<b>(9,444)</b>	<b>(9,500)</b>	<b>(12,500)</b>
Equities issued/Others	1	1	0	0	0
Debt raised/repaid	13,457	(19,169)	(12,610)	(10,088)	(8,070)
Interest expenses	(3,078)	(3,630)	(4,035)	(2,421)	(1,937)
Dividends paid	(7,274)	(9,077)	(3,936)	(5,702)	(7,009)
Other financing cash flows	2,264	(147)	(2,875)	0	0
<b>Cash flow from financing</b>	<b>5,369</b>	<b>(32,022)</b>	<b>(23,457)</b>	<b>(18,211)</b>	<b>(17,016)</b>
<b>Changes in cash and cash eq.</b>	<b>(4,208)</b>	<b>14,671</b>	<b>(9,169)</b>	<b>(3,193)</b>	<b>(4,652)</b>
<b>Closing cash and cash eq.</b>	<b>9,872</b>	<b>24,543</b>	<b>15,374</b>	<b>12,180</b>	<b>7,528</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	13.4	(5.9)	19.4	28.0	34.5
Adjusted EPS	20.9	7.8	19.4	28.0	34.5
Dividend per share	6.0	6.0	8.7	12.6	15.5
Book value per share	303.7	289.8	294.1	309.5	328.5

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.7	2.9	2.7	2.3	2.1
EV/EBITDA	16.6	19.3	16.9	13.1	11.1
Adjusted P/E	42.1	112.4	45.4	31.4	25.5
P/BV	2.9	3.0	3.0	2.8	2.7

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	51.1	23.5	62.3	62.2	62.2
Interest burden (PBT/EBIT)	114.6	110.6	101.0	107.3	107.4
EBIT margin (EBIT/Revenue)	9.7	8.9	8.7	10.5	11.9
Asset turnover (Revenue/Avg TA)	15.6	14.4	16.0	18.6	20.1
Leverage (Avg TA/Avg Equity)	2.0	2.0	1.9	1.8	1.7
Adjusted ROAE	6.9	2.6	6.6	9.3	10.8

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	5.7	(8.1)	4.1	13.0	8.8
EBITDA	(14.1)	(13.7)	8.9	23.2	16.9
Adjusted EPS	(44.8)	(62.6)	147.4	44.9	22.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.2	15.2	15.9	17.3	18.6
EBIT margin	9.7	8.9	8.7	10.5	11.9
Adjusted profit margin	5.7	2.3	5.5	7.0	7.9
Adjusted ROAE	6.9	2.6	6.6	9.3	10.8
ROCE	4.9	1.1	5.8	7.6	9.0
<b>Working capital days (days)</b>					
Receivables	113	126	110	110	110
Inventory	82	87	87	75	75
Payables	152	158	165	160	160
<b>Ratios (x)</b>					
Gross asset turnover	1.3	1.2	1.2	1.3	1.3
Current ratio	2.2	2.3	2.2	2.1	2.1
Net interest coverage ratio	5.3	3.8	3.5	7.9	12.1
Adjusted debt/equity	0.4	0.1	0.1	0.0	0.0

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

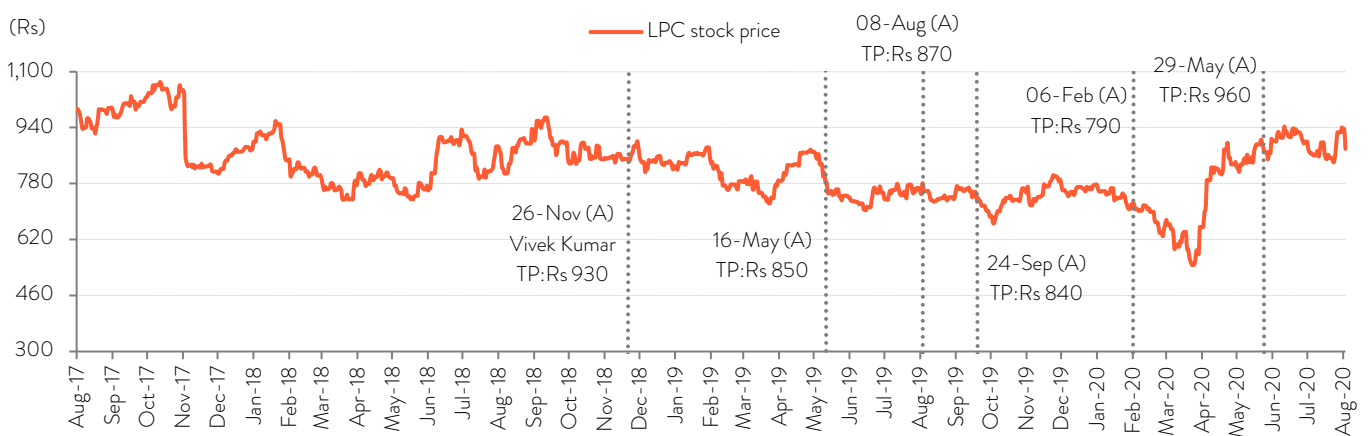
**ADD** – Expected return from >+5% to +15%

**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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