

ADD

TP: Rs 1,070 | ▲ 2%

LUPIN

Pharmaceuticals

29 January 2021

In-line Q3; several near-term catalysts

Lupin's (LPC) EBITDA was boosted by one-time licensing income (Rs 700mn est.). Adj. EBITDA was in line at Rs 7.1bn on controlled cost. The miss on US sales (weak flu season) was offset by an EM beat. LPC retains guidance of 20-22% margins in the mid-term, baking in full benefits of gProAir, Glumetza and stable India profits. Near-term growth catalysts (gProAir, Fortamet launch, Fostair/Spiriva approval, cost levers) and a strong FY22 US filing pipeline will enhance stock upsides. On rollover, we have a new Mar'22 TP of Rs 1,070 (vs. Rs 990).

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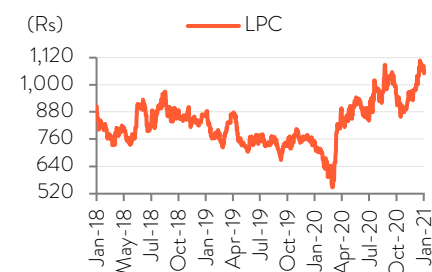
US miss offset by APAC/ROW/API sales beat: US sales were a tad short of estimates at US\$ 196mn (+3% QoQ) due to a weak flu season, but the business saw good contribution from gProAir (4% market share), the Lapatinib launch (US\$ 5mn), Apriso AG and Myfortic DR. Upsides from gGlumetza, Divalproex S and Fosaprepitant should reflect from Q4. Levo market share gains were gradual (~14%). India sales rebounded by 5% YoY (flattish in Q2) and APAC+ROW was a beat (+27% QoQ). EMEA momentum sustained led by NaMuscla ramp-up and the gEnbrel launch in new markets (France). LPC expects 35 US filings and 25 approvals in FY22 (incl. 6+ filings in complex injectables & 4 in inhalers).

Ticker/Price	LPC IN/Rs 1,049
Market cap	US\$ 6.5bn
Shares o/s	453mn
3M ADV	US\$ 47.2mn
52wk high/low	Rs 1,122/Rs 505
Promoter/FPI/DII	47%/25%/12%

Source: NSE

Adj. margins steady; 20-22% guidance retained: EBITDA margins improved QoQ to 19.4% (18% ex-one-off vs. 16.8% estimated), aided by cost calibration – R&D spends dropped to 8.7% of sales (LPC targets 9% for FY21 vs. 9.6% in 9M) and staff cost+SGA declined 3% YoY. Management expects 20-22% margins in the mid-term led by operating leverage and sustained cost control.

STOCK PERFORMANCE



Source: NSE

Earnings call takeaways: (1) gProAir ramping up supply. (2) Spiriva remains FY23 US launch opportunity – LPC expects district court decision in a year. (3) FDA inspection to start from H2FY22. (4) Q3 low tax rate on better subsidiary results; ETR expected in mid-30s for FY21. (5) Generic pricing stable for FY22.

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)	50.2	134.1	54.2	37.4	30.4
EV/EBITDA (x)	19.5	22.5	20.0	15.6	13.2

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Q3FY21E	Var. (%)	9MFY21	9MFY20	YoY (%)
Net Sales	40,174	37,692	6.6	38,350	4.8	40,032	0.4	113,803	125,471	(9.3)
EBITDA	7,787	4,291	81.5	5,812	34.0	6,742	15.5	18,481	20,207	(8.5)
Depreciation	2,443	2,532	-	2,127	-	2,191	-	6,716	8,917	-
EBIT	5,344	1,759	203.8	3,685	45.0	4,552	-	11,765	11,290	4.2
Interest	309	886	-	336	-	336	-	1,087	2,606	-
Other Income	212	936	-	250	-	250	-	895	3,090	-
PBT	5,247	1,809	190.0	3,599	45.8	4,466	-	11,573	11,774	(1.7)
Less: Taxation	835	675	-	1,467	-	1,697	-	2,275	3,298	-
Less: Minority Interest	31	(54)	-	25	-	0	-	74	34	-
Recurring PAT	4,381	1,188	268.9	2,107	107.9	2,769	58.2	9,224	8,442	9.3
Exceptional items	2	(9,872)	-	4	-	0	-	11	(15,336)	-
Reported PAT	4,383	(8,684)	(150.5)	2,111	107.6	2,769	58.3	9,235	(6,894)	(233.9)
Key Ratios (%)			bps		bps					
Gross Margin	65.8	63.9	184	64.0	180	65.5	-	64.5	64.6	-
EBITDA Margin	19.4	11.4	800	15.2	423	16.8	-	16.2	16.1	-
Tax / PBT	15.9	37.3	-	40.8	-	38.0	-	19.7	28.0	-
NPM	10.9	3.2	-	5.5	-	6.9	-	8.1	6.7	-
EPS (Rs)	9.7	2.6	-	4.7	-	6.1	-	20.4	18.7	-

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Q3FY21E	Var. (%)	9MFY21	9MFY20	YoY (%)
Formulations	35,735	33,988	5.1	34,079	4.9	36,168	(1.2)	100,410	78,545	27.8
US	14,424	13,766	4.8	13,984	3.1	15,288	(5.7)	40,568	28,656	41.6
India	13,669	12,969	5.4	13,323	2.6	13,595	0.5	39,846	26,496	50.4
APAC	1,770	1,722	2.8	1,624	9.0	1,624	9.0	4,917	13,069	(62.4)
EMEA	3,272	2,913	12.3	3,259	0.4	3,204	2.1	9,031	5,800	55.7
LATAM	1,544	1,796	(14.0)	1,294	19.4	1,553	(0.5)	4,014	2,995	34.0
RoW	1,056	822	28.5	595	77.5	904	16.8	2,034	1,529	33.0
APIs	3,438	3,173	8.4	3,739	(8.1)	3,332	3.2	11,267	6,541	72.3
Other Operating income	1,001	532	88.2	532	88.1	532	88.1	2,126	2,694	(21.1)
Net Sales	40,174	37,693	6.6	38,350	4.8	40,032	0.4	113,803	87,780	29.6
INR/US\$	74	71	3	74	0.0	74	-	74	70	5
US sales in \$ terms	196	193	2	190	3.1	208	-	548	407	35

Source: Company, BOBCAPS Research

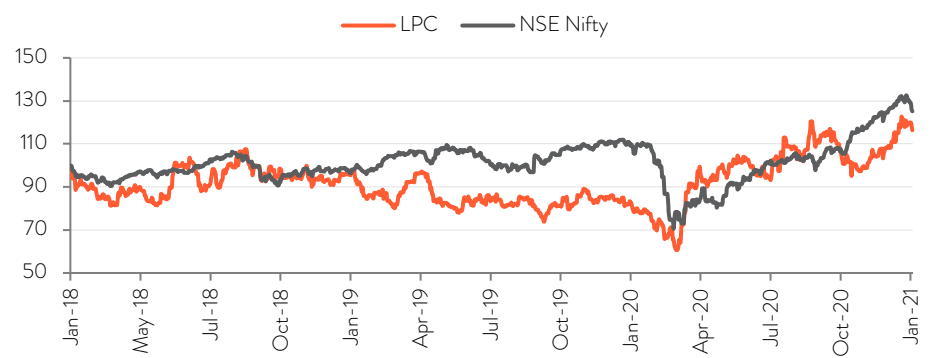
Valuation methodology

LPC is trading at 29x FY23E 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 market share gains in gProAir in the US, gEnbrel sales in Europe and gFostair EU approval (expected in Q4FY21).

We retain ADD and roll over to a revised Mar'22 target price of Rs 1,070 (earlier Rs 990), based on an unchanged EV/EBITDA multiple of 14x on Mar'23E EPS (implied P/E of 31x). 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 10% higher than that for Sun Pharma.

We have not penciled in upsides from distant opportunity gSpiriva (FY23 US launch); hence, this remains an upside risk to our estimates. A deepening US product pipeline, drug shortage opportunity in the US and a high share of branded generics are added long-term positives.

FIG 3 – 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
Total revenue	167,010	153,528	159,884	180,636	196,620
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)
Reported net profit	6,065	(2,678)	8,761	12,691	15,599
Adjustments	3,399	6,219	0	0	0
Adjusted net profit	9,464	3,541	8,761	12,691	15,599

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
Total liabilities and equities	279,237	255,602	242,529	242,935	246,646
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
Total assets	279,237	255,602	242,529	242,935	246,646

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
Cash flow from operations	19,914	24,715	23,732	24,518	24,864
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
Cash flow from investing	(29,491)	21,978	(9,444)	(9,500)	(12,500)
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
Cash flow from financing	5,369	(32,022)	(23,457)	(18,211)	(17,016)
Changes in cash and cash eq.	(4,208)	14,671	(9,169)	(3,193)	(4,652)
Closing cash and cash eq.	9,872	24,543	15,374	12,180	7,528

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	3.2	3.4	3.2	2.7	2.5
EV/EBITDA	19.5	22.5	20.0	15.6	13.2
Adjusted P/E	50.2	134.1	54.2	37.4	30.4
P/BV	3.5	3.6	3.6	3.4	3.2

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
YoY growth (%)					
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
Profitability & Return ratios (%)					
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
Working capital days (days)					
Receivables	113	126	110	110	110
Inventory	82	87	87	75	75
Payables	152	158	165	160	160
Ratios (x)					
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

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

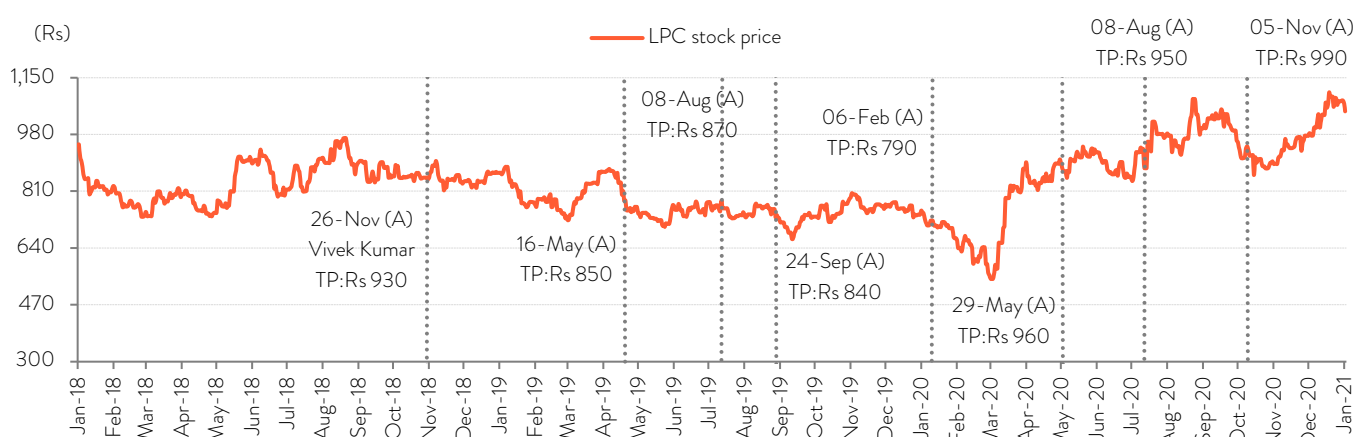
ADD – Expected return from >+5% to +15%

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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