

ADD

TP: Rs 960 | ▲ 10%

LUPIN

Pharmaceuticals

29 May 2020

In-line quarter; broader FY21 outlook intact

Lupin's (LPC) EBITDA was in line at Rs 5.3bn (+22% QoQ) despite a slight miss on sales. Ex-Kyowa, EBITDA is down 33% YoY due to Ranexa FTF in the base. QoQ, gross margin was subdued while EBITDA margin was a beat. LPC expects a soft Q1 and 18-20% margins in FY21. Multiple catalysts in FY21 (Levo ramp-up, Albuterol launch and facility clearance for Gavis/Goa) should support earnings and stock momentum in the midterm. We adjust FY21/FY22 EPS by -7%/+3% and revise our TP to Rs 960 (vs. Rs 790) based on 13x FY22E EBITDA (11.5x earlier).

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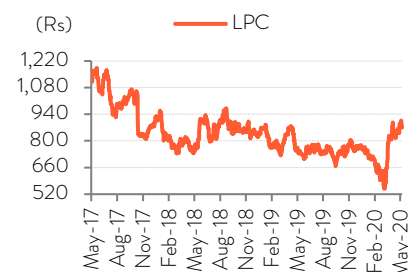
Subdued gross margin QoQ, EBITDA margin improves: Sequentially, EBITDA margins expanded 230bps to 13.7% aided by better cost control, though gross margins dipped 40bps QoQ to 63.5%. R&D spend was lower at 9% of sales (10% in 9M) and SG&A spend was flat QoQ. India (+13.3% YoY) and US sales at US\$ 219mn (+13% QoQ) were in line while APAC (-16%) and LATAM (-25%) underperformed on adverse currency movement.

Ticker/Price	LPC IN/Rs 870
Market cap	US\$ 5.2bn
Shares o/s	453mn
3M ADV	US\$ 41.3mn
52wk high/low	Rs 919/Rs 505
Promoter/FPI/DII	47%/25%/12%

Source: NSE

Outlook intact but expect soft Q1: Though Q1 could be soft due to Covid-19, LPC expects healthy operating leverage in coming quarters led by a stabilising US base business. Levo has clocked 13% market share in Q4 (vs. 5% in Q3), with adequate capacity to reach 20% in FY21. LPC has retained its H1FY20 launch timeline for Albuterol based on FDA interactions (Albuterol has >50% share of prescribed generics incl. AG). Depo-injectable filing should start from CY21. LPC expects a tax rate of 35% for FY21 which should progressively come down.

STOCK PERFORMANCE



Earnings call takeaways: (1) Facility clearance order guided as follows: Gavis unit, Goa, and Pithampur II – LPC expects reinspection in nearterm. (2) Covid impact on Solosec prescriptions has begun to stabilise from April; cost optimisation measures in specialty business should reduce cost by >50%. (3) Approval for gFostair/gEnbrel in EU expected in H2FY21. (4) Capex at >Rs 5bn for FY21.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	158,021	167,010	152,062	170,057	186,113
EBITDA (Rs mn)	31,453	27,020	23,578	28,123	33,501
Adj. net profit (Rs mn)	17,137	9,464	3,518	11,830	15,141
Adj. EPS (Rs)	37.9	20.9	7.8	26.1	33.5
Adj. EPS growth (%)	(41.5)	(44.8)	(62.8)	236.3	28.0
Adj. ROAE (%)	12.6	6.9	2.6	8.7	10.6
Adj. P/E (x)	23.0	41.6	111.9	33.3	26.0
EV/EBITDA (x)	14.3	16.5	18.9	14.8	11.5

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Q4FY20E	Var. (%)	FY20P	FY19	YoY (%)
Net Sales	38,457	44,063	(12.7)	37,692	2.0	39,314	(2.2)	152,062	167,180	(9.0)
EBITDA	5,254	8,724	(39.8)	4,291	22.4	5,279	(0.5)	23,578	27,019	(12.7)
Depreciation	2,142	2,808	-	2,532	-	2,532	-	9,702	10,850	-
EBIT	3,112	5,916	(47.4)	1,759	76.9	2,747	-	13,876	16,169	(14.2)
Interest	1,074	855	-	886	-	855	-	3,690	3,077	-
Other Income	2,086	865	-	936	-	600	-	4,859	5,447	-
PBT	4,124	5,926	(30.4)	1,809	128.0	2,492	-	15,045	18,539	(18.8)
Less: Taxation	1,051	2,998	-	675	-	872	-	11,570	9,016	-
Less: Minority Interest	17	56	-	(54)	-	0	-	(4)	23	-
Recurring PAT	3,056	2,872	6.4	1,188	157.4	1,620	88.7	3,479	9,500	(63.4)
Exceptional items	841	22	-	(9,872)	-	0	-	(6,219)	(3,400)	-
Reported PAT	3,897	2,894	34.7	(8,684)	(144.9)	1,620	140.6	(2,740)	6,100	(144.9)
Key Ratios (%)										
Gross Margin	63.5	68.1	-	63.9	-	65.0	-	64.3	65.0	-
EBITDA Margin	13.7	19.8	-	11.4	-	13.4	-	15.5	16.2	-
Tax / PBT	25.5	50.6	-	37.3	-	35.0	-	76.9	48.6	-
NPM	7.9	6.5	-	3.2	-	4.1	-	2.3	5.7	-
EPS (Rs)	6.8	6.3	-	2.6	-	3.6	-	7.7	21.0	-

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Q4FY20E	Var. (%)	FY20P	FY19	YoY (%)
Formulations	34,625	40,347	(14.2)	33,988	1.9	35,410	(2.2)	136,766	148,126	(7.7)
US	15,791	17,406	(9.3)	13,766	14.7	15,696	0.6	57,401	55,925	2.6
India	11,921	10,525	13.3	12,969	(8.1)	11,790	1.1	51,469	46,383	11.0
APAC	1,447	6,901	(79.0)	1,722	(16.0)	2,000	(27.7)	6,112	26,113	(76.6)
EMEA	3,650	3,397	7.4	2,913	25.3	3,567	2.3	13,097	11,906	10.0
LATAM	1,353	1,385	(2.3)	1,796	(24.7)	1,551	(12.8)	6,223	5,657	10.0
RoW	463	733	(36.8)	822	(43.7)	806	(42.6)	2,463	2,142	15.0
APIs	3,286	2,912	12.8	3,173	3.6	3,203	2.6	12,791	13,464	(5.0)
Other Operating income	547	804	(32.0)	532	2.9	700	(21.9)	2,506	5,591	(55.2)
Net Sales	38,458	44,063	(12.7)	37,693	2.0	39,314	(2.2)	152,062	167,181	(9.0)
US sales in \$ terms	219	247	(11.2)	193	13.4	218	-	811	801	1.3

Source: Company, BOBCAPS Research

Valuation methodology

LPC is trading at 26x FY22E EPS which is reasonable and largely prices in the earnings pickup expected over the next two years. We forecast +18% EBITDA growth over FY20-FY22. Key catalysts ahead are approval for gProair in the US (expected in H1FY21) 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).

We revisit FY21 earnings estimates with a 7% cut to account for below-expected annualised revenue in the APAC region (ex-Kyowa) and a higher tax rate. Our EPS for FY22 stands revised upward by 3% as we build in higher market share of 20% vs. 15% earlier for Levo.

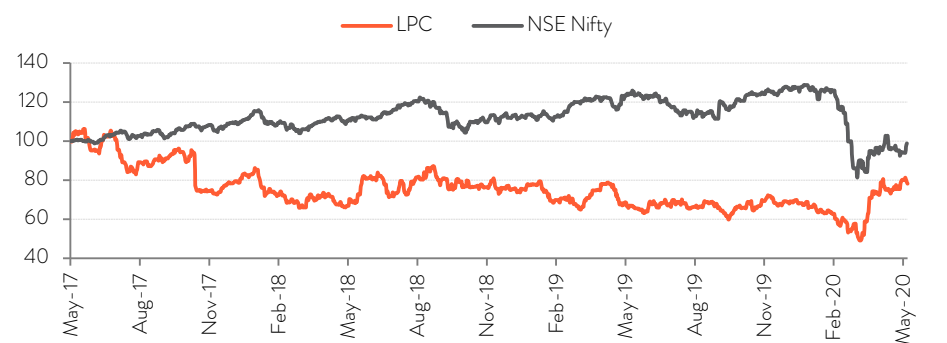
We retain ADD with a revised Mar'21 target price of Rs 960 (earlier Rs 790), based on a higher EV/EBITDA multiple of 13x FY22E (implied P/E of 28x) vs. 11.5x earlier. Our target multiple is in line with the earlier discount of 10% accorded to LPC vis-à-vis other frontline stocks (Cipla, Dr Reddy's), but 10% higher than Sun Pharma. 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 – REVISED ESTIMATES

(Rs bn)	New			Old			Change (%)		
	FY20P	FY21E	FY22E	FY20E	FY21E	FY22E	FY20P	FY21E	FY22E
Sales	152	170	186	163	173	186	(6.7)	(1.7)	0.2
EBITDA	24	28	34	25	30	34	(5.8)	(6.9)	(1.1)
EBITDA margin (%)	15.5	16.5	18.0	15.4	17.5	18.2	15bps	(92bps)	(24bps)
EPS (Rs)	8	26	33	18	28	32	(57.9)	(6.7)	3.1

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)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	158,021	167,010	152,062	170,057	186,113
EBITDA	31,453	27,020	23,578	28,123	33,501
Depreciation	10,857	10,850	9,702	10,846	11,746
EBIT	20,596	16,170	13,876	17,277	21,755
Net interest income/(expenses)	(2,043)	(3,078)	(3,690)	(2,743)	(1,646)
Other income/(expenses)	1,504	5,441	4,859	4,476	4,238
Exceptional items	0	0	0	0	0
EBT	20,057	18,533	15,045	19,010	24,348
Income taxes	2,885	9,017	11,570	7,224	9,252
Extraordinary items	(14,643)	(3,399)	(6,219)	0	0
Min. int./Inc. from associates	36	52	(43)	(44)	(45)
Reported net profit	2,494	6,065	(2,701)	11,830	15,141
Adjustments	14,643	3,399	6,219	0	0
Adjusted net profit	17,137	9,464	3,518	11,830	15,141

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	24,754	23,935	23,134	26,319	27,756
Other current liabilities	18,886	23,386	38,643	38,643	38,643
Provisions	8,085	11,807	12,040	8,574	10,388
Debt funds	68,762	82,219	42,860	34,288	27,431
Other liabilities	0	0	0	0	0
Equity capital	904	905	905	905	905
Reserves & surplus	135,667	136,985	131,206	137,721	146,060
Shareholders' fund	136,571	137,890	132,111	138,626	146,965
Total liabilities and equities	257,058	279,237	248,788	246,451	251,181
Cash and cash eq.	14,080	9,872	25,303	19,362	22,042
Accounts receivables	51,922	51,498	54,459	51,250	56,089
Inventories	36,624	38,368	34,569	40,784	38,242
Other current assets	22,484	29,534	23,746	24,746	25,746
Investments	2,348	22,703	23,438	23,382	23,382
Net fixed assets	79,136	87,064	59,362	58,515	56,769
CWIP	25,981	16,396	9,396	9,896	10,396
Intangible assets	24,484	23,803	18,515	18,515	18,515
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	257,059	279,237	248,788	246,451	251,181

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	23,847	17,539	7,001	22,677	26,887
Interest expenses	2,043	3,078	3,690	2,743	1,646
Non-cash adjustments	(2,465)	290	4,701	0	0
Changes in working capital	(3,352)	(994)	21,314	(4,286)	(47)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	20,073	19,914	36,706	21,134	28,485
Capital expenditures	(19,298)	(9,136)	30,288	(10,500)	(10,500)
Change in investments	19,013	(20,355)	(736)	56	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(285)	(29,491)	29,552	(10,444)	(10,500)
Equities issued/Others	1	1	0	0	0
Debt raised/repaid	(10,758)	13,457	(39,359)	(8,572)	(6,858)
Interest expenses	(2,043)	(3,078)	(3,690)	(2,743)	(1,646)
Dividends paid	(4,651)	(7,274)	(9,077)	(5,315)	(6,802)
Other financing cash flows	4,748	2,264	1,298	0	0
Cash flow from financing	(12,703)	5,369	(50,828)	(16,630)	(15,306)
Changes in cash and cash eq.	7,085	(4,208)	15,431	(5,941)	2,679
Closing cash and cash eq.	14,079	9,872	25,303	19,362	22,042

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	5.5	13.4	(6.0)	26.1	33.5
Adjusted EPS	37.9	20.9	7.8	26.1	33.5
Dividend per share	9.0	6.0	(2.7)	11.7	15.0
Book value per share	300.9	303.7	290.9	305.3	323.7

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	2.9	2.7	2.9	2.4	2.1
EV/EBITDA	14.3	16.5	18.9	14.8	11.5
Adjusted P/E	23.0	41.6	111.9	33.3	26.0
P/BV	2.9	2.9	3.0	2.8	2.7

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	85.4	51.1	23.4	62.2	62.2
Interest burden (PBT/EBIT)	97.4	114.6	108.4	110.0	111.9
EBIT margin (EBIT/Revenue)	13.0	9.7	9.1	10.2	11.7
Asset turnover (Revenue/Avg TA)	15.3	15.6	14.4	17.2	18.7
Leverage (Avg TA/Avg Equity)	1.9	2.0	2.0	1.8	1.7
Adjusted ROAE	12.6	6.9	2.6	8.7	10.6

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	(9.7)	5.7	(9.0)	11.8	9.4
EBITDA	(35.4)	(14.1)	(12.7)	19.3	19.1
Adjusted EPS	(41.5)	(44.8)	(62.8)	236.3	28.0
Profitability & Return ratios (%)					
EBITDA margin	19.9	16.2	15.5	16.5	18.0
EBIT margin	13.0	9.7	9.1	10.2	11.7
Adjusted profit margin	10.8	5.7	2.3	7.0	8.1
Adjusted ROAE	12.6	6.9	2.6	8.7	10.6
ROCE	8.3	4.9	1.2	7.5	9.0
Working capital days (days)					
Receivables	110	113	127	110	110
Inventory	84	82	88	88	75
Payables	175	152	158	158	158
Ratios (x)					
Gross asset turnover	1.4	1.3	1.3	1.4	1.4
Current ratio	2.4	2.2	1.9	1.9	1.9
Net interest coverage ratio	10.1	5.3	3.8	6.3	13.2
Adjusted debt/equity	0.4	0.4	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

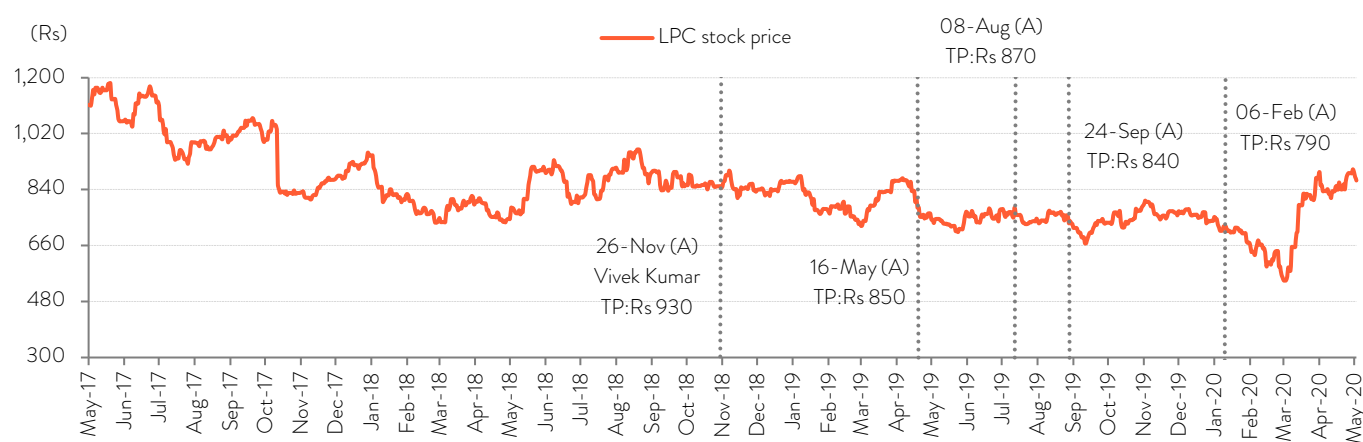
ADD – Expected return from >+5% to +15%

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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