

## One-offs, decline in US drag Q4 performance...

Q4FY20 revenues declined 12.7% YoY to ₹ 3845.7 crore (I-direct estimate: ₹ 3715 crore) mainly due to Kyowa divestment and due to 9.3% YoY decline in US revenues to ₹ 1579.1 crore (I-direct estimate: ₹ 1483 crore). Domestic formulations grew 13.3% YoY to ₹ 1192.1 crore (I-direct estimate: ₹ 1137 crore). EBITDA margins contracted 614 bps YoY to 13.7% (I-direct estimate: 13.2%) due to lower gross margins and higher employee cost. EBITDA de-grew 39.8% YoY to ₹ 526.3 crore (I-direct estimate: ₹ 489 crore). Exceptional items include profit on Kyowa Pharma divestment of ₹ 121 crore, loss on Kyowa Criticare divestment of ₹ 28.4 crore and intangible impairment of ₹ 9.6 crore. Adjusted net profit was at ₹ 335.6 crore, up 16.4% YoY vs. ₹ 288.4 crore in Q4FY19.

## cGMP issues, pricing headwinds in US to the fore

Lupin's US business (~36% of revenues) has been one of the largest ANDA pipelines comprising 430 filed ANDAs and 158 pending approvals including 43 FTFs. However, this segment is facing headwinds due to persisting pricing pressure and recent warning letters (Goa, Indore) and OAI at Gavis plant. The company is looking for branded products and complex generics (biosimilars, injectables) to overcome this issue. We expect sales from the US to grow ~11% to ₹ 7148 crore in FY20-22E due to incremental market share in Levothyroxine (thyroid) and ProAir (respiratory) launch in H2FY21.

## Indian formulations growth steady

Lupin ranks sixth in domestic formulations with a market share of 3.8%. The acute: chronic/ sub chronic ratio for the company is at 27:73. In terms of MR productivity, at ~₹ 88 lakh per MR, it has one of the best MR productivity among large cap peers. Also, tie-ups with Eli Lilly, Boehringer for anti-diabetics and with MSD for pneumonia vaccines are some steps to bolster the domestic franchise. We expect India sales to grow at a CAGR of ~11.0% in FY20-22E to ₹ 6354 crore.

## Valuation & Outlook

A key positive in FY20 is the substantial improvement of b/s post Kyowa divestment. On the P&L front, Q4 was impacted by Kyowa divestment and gRanexa decline in US. Margins were also disappointing mainly due to a change in product mix and higher employee cost. As per the management, FY21 US sales would be largely driven by gLevothyroxine, gProAir and 15+ new launches. Domestic branded formulations are expected to remain stable. However, the resolution of warning letter and clearance of official action indicated (OAIs) status on plants could be a near term overhang along with progress on the margins front. Like other pharma majors, Lupin has also chalked out product and cost rationalisation drive. The result of this drive could be visible two to three years down the line. We arrive at our target price of ₹ 930 based on 24x FY22E EPS of ₹ 38.7.

### Key Financial Summary

(₹Crore)	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Revenues	16718.2	16393.1	16603.0	18655.7	6
EBITDA	2704.2	2549.7	2479.8	3359.6	14
EBITDA margins(%)	16.2	15.6	14.9	18.0	
Net Profit	748.0	-575.0	1157.6	1752.2	N
EPS (₹)	16.5	-12.7	25.6	38.7	
PE (x)	64.4	-131.1	34.0	22.5	
Target PE (x)	51.4	-67.0	33.3	22.0	
EV to EBITDA (x)	16.5	15.3	15.1	10.7	
Price to book (x)	2.9	3.1	2.9	2.6	
RoNW (%)	5.4	-4.6	8.5	11.6	
RoCE (%)	9.4	10.6	10.4	14.6	
Debt / Equity	0.6	0.4	0.3	0.2	

### Particulars

Particular	Amount
Market Capitalisation	₹39407 crore
Debt (FY 20)	₹4560 crore
Cash (FY 20)	₹2454 crore
EV	₹41513 crore
52 week H/L (₹)	919/505
Equity capital	₹90.6 crore
Face value (₹)	₹2

### Key Highlights

- Key positive during FY20 is the substantial improvement of balance sheet post divestment of Kyowa
- Ramp-up in gLevothyroxine (thyroid) and ProAir (respiratory) launch to drive US sales.
- Resolution of warning letters and OAIs could be the near term overhang along with progress on the margins front.
- Maintain HOLD

### Research Analyst

Siddhant Khandekar  
siddhant.khandekar@icicisecurities.com

Mitesh Shah, CFA  
mitesh.shah@icicisecurities.com

Sudarshan Agarwal  
sudarshan.agarwal@icicisecurities.com

**Exhibit 1: Variance Analysis**

(₹ crore)	Q4FY20	Q4FY20E	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	Comments
Revenue	3,845.7	3,714.8	4,406.3	3,769.3	-12.7	2.0	YoY decline mainly due to divestment of Japanese business. Excluding Japan, YoY growth was mere 2%. Strong growth in domestic branded formulations largely offset by high base of gRanexa exclusivity in the US
Raw Material Expenses	1,405.0	1,263.0	1,407.8	1,359.3	-0.2	3.4	458 bps YoY decline in gross margins mainly due to change in product mix
Employee Expenses	763.6	743.0	799.6	740.7	-4.5	3.1	
Other Expenditure	1,150.9	1,220.2	1,325.1	1,239.2	-13.1	-7.1	
EBITDA	526.3	488.6	873.8	430.1	-39.8	22.4	Beat vis-à-vis I-direct estimates mainly due to lower-than-expected other expenditure
EBITDA (%)	13.7	13.2	19.8	11.4	-614 bps	227 bps	YoY decline mainly due to lower gross margins
Interest	107.4	88.6	85.5	88.6	25.6	21.2	
Depreciation	214.3	253.2	280.8	253.2	-23.7	-15.4	YoY decline mainly due to divestment of Japanese business
Other Income	208.6	92.2	86.5	93.6	141.2	122.9	
Less: Exceptional Items	-83.1	0.0	-2.2	288.7	NA	NA	Includes 1) profit on divestment of Kyowa Pharmaceutical: ₹ 121 crore 2) loss on divestment of Kyowa Criticare: ₹ 28.4 crore 3) impairment of intangible assets: ₹ 9.6 crore
PBT	496.4	239.0	596.2	-106.8	-16.7	-564.8	
Tax	105.1	83.7	299.8	767.0	-65.0	-86.3	Includes 1) divestiture of Japan operations: tax reversal of ₹ 6.5 crore and 2) impairment of Gavis assets triggering a reversal of the deferred tax assets: tax reversal of ₹ 4.3 crore
PAT before MI	391.3	155.4	296.4	-873.8	32.0	-144.8	
Minority Interest	1.7	0.0	6.8	-7.5	-75.6	-122.0	
Net Profit	389.6	155.4	289.6	-866.3	34.6	-145.0	
Adjusted PAT	324.1	155.4	288.4	1,495.9	12.4	-78.3	Delta vis-à-vis EBITDA and beat I-direct estimates mainly due to higher other income
<b>Key Metrics</b>							
India	1,192.1	1,136.7	1,052.5	1,296.9	13.3	-8.1	Beat vis-à-vis I-direct estimates mainly due to lower-than-expected Covid-19 impact
US	1,579.1	1,483.0	1,740.6	1,376.6	-9.3	14.7	YoY decline mainly due to high base of gRanexa exclusivity. However, sharp sequential improvement and beat vis-à-vis I-direct estimates mainly due to higher-than-expected market share gain in Azithromycin and Levothyroxine
EMEA (Ex South Africa)	187.7	143.4	168.7	143.8	11.3	30.6	
South Africa	177.3	170.2	171.0	147.5	3.7	20.1	
ROW markets	326.2	423.3	352.8	434.0	-7.5	-24.8	Decline and miss vis-à-vis I-direct estimates mainly due to sharp currency decline in Brazil
API	328.6	305.8	291.2	317.3	12.8	3.6	

Source: ICICI Direct Research

**Exhibit 2: Change in Estimates**

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	16,472.1	16,603.0	0.8	18,208.9	18,655.7	2.5	
EBITDA	2,273.1	2,479.8	9.1	3,186.6	3,359.6	5.4	Changed mainly due to change in product mix
EBITDA Margin (%)	13.8	14.9	114 bps	17.5	18.0	51 bps	
PAT	814.5	1,157.6	42.1	1,387.9	1,752.2	26.2	Changed mainly in sync with operational performance and lower tax guidance
EPS (₹)	18.0	25.6	41.8	30.7	38.7	26.0	

Source: ICICI Direct Research

**Exhibit 3: Change in Estimates**

(₹ crore)	Current				Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
India	4,638.3	5,138.6	5,636.9	6,354.5	5,740.3	6,429.2	
Japan	2,126.3	1,068.5	0.0	0.0	0.0	0.0	
US	5,592.5	5,821.3	6,332.0	7,148.4	5,812.4	6,335.8	Changed mainly due to better-than-expected ramp up in levothyroxine and better-than-expected Albuterol traction post Covid-19
EMEA (Ex South Africa)	602.4	644.1	708.5	779.3	669.0	735.9	Better-than-expected growth in Q4
South Africa	588.2	592.2	651.9	717.1	629.2	692.1	
ROW markets	1,264.9	1,451.0	1,676.2	1,961.5	1,957.2	2,250.8	Lower-than-expected growth in Q4 mainly due to currency volatility
API	1,346.4	1,300.0	1,361.2	1,429.3	1,341.0	1,408.1	

Source: ICICI Direct Research

## Conference Call Highlights

- US – YoY decline was due to Renexa, some impact in March, softness in April sales, thus Q1FY21 likely to be impacted
  - Q4 revenues were better-than-expected due to stable base business, market share gain in Levothyroxine in Q4 to 13% from 5% in Q3, new launches, 40% market share in Azithromycin
  - Levothyroxine – The company aims to corner ~20% market share in FY21
  - gPro-Air approval expected in H1FY21. Total ~60% of the market is interchangeable due to generic prescription (six players); expects to get a double-digit market share
  - During Q4FY20, the company launched six products in the US and received one ANDA approval. The company also has 43 pending FTF products including 14 exclusive FTFs
  - Eight ANDAs filed in Q4FY20. Cumulative ANDAs were at 430 (272 approved), cumulative DMF at 197. Total products in the generics market were 174
  - For Q4FY20. US generics sales were ~US\$208 million and branded sales were US\$4 million
  - SoloSec sales are down to 55% QoQ. However, the realisation has improved due to change in co-pay arrangement from 25% to 75%
  - Pegfilgrastim – will be filed by end FY21
  - Pipeline – gSpiriva approval in FY21, injectables, inhalation, anti-infectives, etc
  - Metformin recall is unlikely to be across the board recall; the company may have to recall one batch
  - Remediation measures at Somerset and Goa are almost done (CAPAs done). Likely USFDA re-inspection will happen within a couple of months. Pithampur shortly after that
- India – Q4 is generally weaker
  - No material MR addition for FY21
- EMEA – South Africa showed strong growth
- US currency benefit was offset by South Africa and Brazil forex loss
- Repaid debt US\$267 million; D/E at 0.12x
- Working capital up in Q4FY20
- FY21 ETR to be ~35%; R&D to be ₹ 1500 crore; capex to be ~₹ 500 crore or more (similar to ₹ 571 crore FY20)
- Q1FY21: Raw material and other expenses to be higher, aspires to reach ~20% EBITDA margin level
- Depreciation to be along similar lines as Q4FY20 in quarters ahead
- R&D for Q4FY20 was at ₹ 344.2 crore. For FY20: ₹ 1586 crore
- The management expects gPro-Air launch, ramp-up in Solosec and Levothyroxine in addition to developing the specialty pipeline and cost rationalisation efforts to drive growth. The biosimilar pipeline

consisting of Pegfilgrastim among others is expected to contribute from FY22 onwards

**Exhibit 4: Trends in quarterly financials**

(₹ crore)	14FY17	11FY18	12FY18	13FY18	14FY18	11FY19	12FY19	13FY19	14FY19	11FY20	12FY20	13FY20	14FY20	YoY (%)	QoQ (%)
US	1900.7	1601.8	1361.1	1432.1	1499	1185.8	1248.7	1417.4	1740.6	1541.2	1324.4	1376.6	1579.1	-9.3	14.7
EMEA (Ex South Africa)	135.5	123.8	144.0	151.3	184.5	137.7	153.7	142.3	168.7	140.4	172.2	143.8	187.7	11.3	30.6
Japan	468.7	498.4	503.0	553.5	504.4	495.9	512.6	568.8	549.1	558.1	510.5	0.0	0.0	-100.0	NA
India	878.8	932.4	1159.3	1068.8	964.7	1192.4	1203.2	1190.2	1052.5	1307.7	1341.9	1296.9	1192.1	13.3	-8.1
South Africa	165.8	102.1	131.8	120.8	166.8	138.3	141.2	137.7	171.0	120.0	147.4	147.5	177.3	3.7	20.1
RoW	331.0	269.0	310.0	305.9	378.3	266.4	296.8	348.8	352.8	339.5	351.2	434.0	326.2	-7.5	-24.8
API	281.5	279.3	265.0	268.0	280.8	358.1	334.7	362.4	291.2	348.9	305.2	317.3	328.6	12.8	3.6
Net Sales	4161.9	3806.8	3874.2	3900.4	3978.5	3774.6	3890.9	4377.9	4325.9	4355.8	4296.9	3716.1	3791.0	-12.4	2.0
OOI	91.4	62.8	77.8	75.3	55.3	81.4	60.1	126.9	80.4	62.6	62.8	53.2	54.7	-31.9	2.9
Revenues	4253.3	3869.6	3952.0	3975.7	4033.8	3855.9	3951.1	4504.9	4406.3	4418.4	4359.7	3769.3	3845.7	-12.7	2.0
RM Cost	1185.1	1232.6	1286.5	1392.7	1362.6	1444.2	1392.8	1601.0	1407.8	1550.0	1527.3	1359.3	1405.0	-0.2	3.4
% of Revenue	27.9	31.9	32.6	35.0	33.8	37.5	35.3	35.5	32.0	35.1	35.0	36.1	36.5		
Gross Profit	3068.2	2637.0	2665.5	2583.0	2671.3	2411.8	2558.2	2903.9	2998.5	2868.4	2832.4	2410.0	2440.8	-18.6	1.3
GPM (%)	72.1	68.1	67.4	65.0	66.2	62.5	64.7	64.5	68.0	64.9	65.0	63.9	63.5	-458	-47
Employee Cost	707.8	718.0	725.0	693.1	728.7	749.4	793.8	808.5	799.6	807.2	850.3	740.7	763.6	-4.5	3.1
% of Revenue	16.6	18.6	18.3	17.4	18.1	19.4	20.1	17.9	18.1	18.3	19.5	19.7	19.9	170.8	20.3
Other expenditure	1579.1	1150.6	1087.4	1201.5	1232.5	1135.4	1214.8	1341.6	1325.1	1199.9	1250.1	1239.2	1150.9	-13.1	-7.1
% of Revenue	37.1	29.7	27.5	30.2	30.6	29.4	30.7	29.8	30.1	27.2	28.7	32.9	29.9		
Total Expenditure	3471.9	3101.2	3098.9	3287.3	3323.8	3329.0	3401.4	3751.1	3532.6	3557.2	3627.7	3339.2	3319.4	-6.0	-0.6
% of Revenue	81.6	80.1	78.4	82.7	82.4	86.3	86.1	83.3	80.2	80.5	83.2	88.6	86.3	614.4	-227.4
EBITDA	781.4	768.4	853.1	688.4	710.0	527.0	549.6	753.8	873.8	861.2	732.0	430.1	526.3	-39.8	22.4
EBITDA Margin (%)	18.4	19.9	21.6	17.3	17.6	13.7	13.9	16.7	19.8	19.5	16.8	11.4	13.7	-614.4	227.4
Other income	45.3	32.0	74.0	28.4	144.9	184.2	230.7	43.4	86.5	72.2	133.3	93.6	208.6	141.2	122.9
Interest	40.6	43.9	47.9	54.0	58.5	68.7	73.8	79.8	85.5	85.6	86.5	88.6	107.4	25.6	21.2
Depreciation	267.4	260.5	272.2	280.4	272.8	259.0	265.5	279.8	280.8	317.1	321.5	253.2	214.3	-23.7	-15.4
PBT	518.7	495.9	607.0	382.5	-618.5	383.5	441.0	95.4	596.2	530.7	-89.1	-106.8	496.4	-16.7	-564.8
Tax	136.7	136.8	154.1	160.8	159.1	181.1	172.9	247.8	299.8	228.0	34.3	767.0	105.1	-65.0	-86.3
Tax rate (%)	26.4	27.6	25.4	42.0	-25.7	47.2	39.2	259.6	50.3	43.0	-38.5	-718.3	21.2		
PAT	382.0	359.1	453.0	221.7	-777.6	202.3	268.1	-152.4	296.4	302.7	-123.4	-873.8	391.3	32.0	-144.8
PAT Margin (%)	9.0	9.3	11.5	5.6	-19.3	5.2	6.8	-3.4	6.7	6.9	-2.8	-23.2	10.2		
Minority Interest	1.8	-1.2	1.9	0.5	5.9	0.3	2.5	-4.2	6.8	-0.3	3.6	-7.5	1.7	-75.6	-122.0
PAT After MI	380.2	360.3	451.1	221.2	-783.5	202.1	265.6	-148.1	289.6	303.1	-127.1	-866.3	389.6	34.6	-145.0
EPS (₹)	8.5	8.0	10.1	4.9	-17.5	4.5	5.9	-3.3	6.4	6.7	-2.8	-19.3	8.6		

Source: ICICI Direct Research

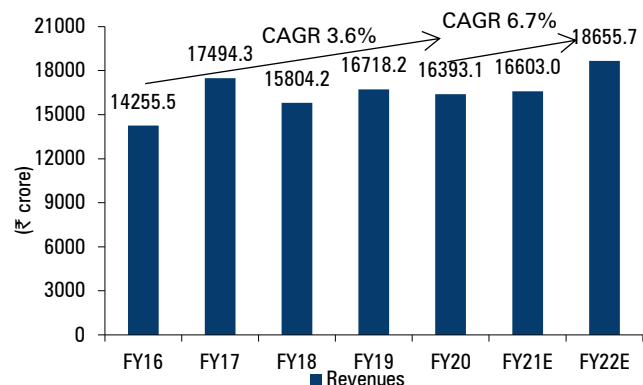
## Company Background

From a global leader in anti-tuberculosis (TB) and other infectious diseases to one of the fastest growing prescription companies in the US, Lupin has come a long way to emerge as a leading Indian generic exporter. Established in 1968, the company adapted well as per the changed industry dynamics like other peers such as Sun, Dr Reddy's, Ranbaxy and Cipla. During this journey, it changed focus on therapies - from acute to chronic and also geographies, from domestic driven to export oriented. It received USFDA approvals for two facilities- Ankaleshwar and Mandideep way back in 1989. Besides this, the company has been fairly active on the global M&A front. It has acquired companies in Japan (significant acquisitions), Australia, Philippines and South Africa. Similarly, the company also acquired small ticket but lucrative brands in the US (Suprax, Antara, Locoid lotion, Inspira Chamber and Alinia). Its latest acquisition, however, has been a complex injectable technology based company (Nanomi) in the Netherlands. Infrastructure - 11 manufacturing facilities including two in Japan – seven formulations (three USFDA approved) and four APIs (two USFDA approved).

Lupin's US subsidiary expanded into women's health segment by acquiring Symbiomix Therapeutics. USFDA approved Symbiomix' lead candidate, Solosec oral granules to treat gynaecological infection. The management expects the drug to be commercially available by H2CY18. The drug has been designated as qualified infectious disease product (QIDP) and is eligible for at least 10 years of exclusivity in the US. The deal was made for a cash consideration of US\$150 million, including US\$50 million of upfront payment by Lupin and rest time-bound payments. The management believes the payback would be less than five to six years for the product. US has 6 million prescription base for this disease.

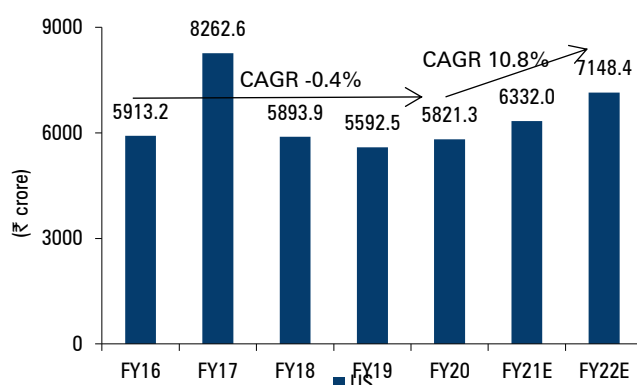
The current financial health of the company is the culmination of prudent business decisions in the past. Due to the Kyowa divestment, FY20 results are not strictly comparable to previous years. However, as of FY19, revenues, EBITDA and PAT have grown at a CAGR of 15%, 12% and 1%, respectively, in FY10-19. In FY15-19, revenue, EBITDA and PAT have grown at a CAGR of 7%, -7% and -25% to ₹ 16718 crore, ₹ 2704 crore and ₹ 748 crore, respectively.

**Exhibit 5: Revenues to grow at CAGR of 7% over FY20-22E**



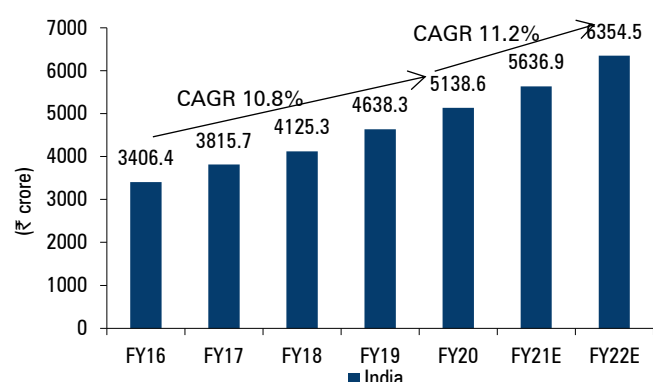
Source: ICICI Direct Research, Company

**Exhibit 6: US to grow at CAGR of 11% over FY20-22E**



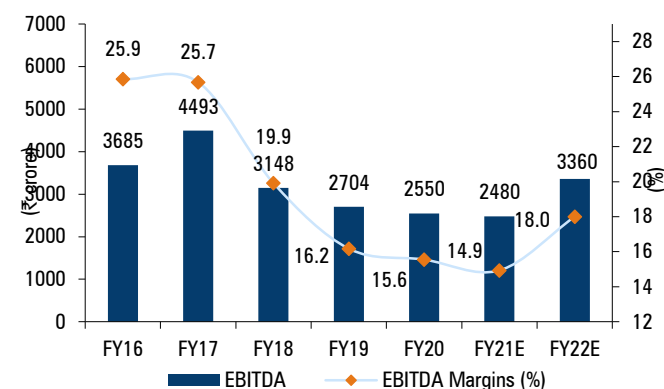
Source: ICICI Direct Research, Company

**Exhibit 7: India to grow at CAGR of 11% over FY20-22E**



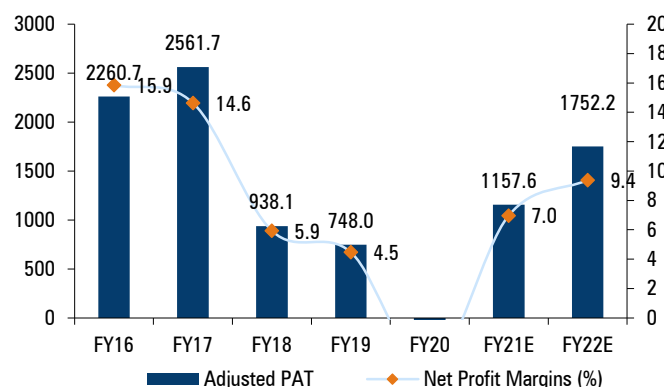
Source: ICICI Direct Research, Company

**Exhibit 8: EBITDA & margins trend**



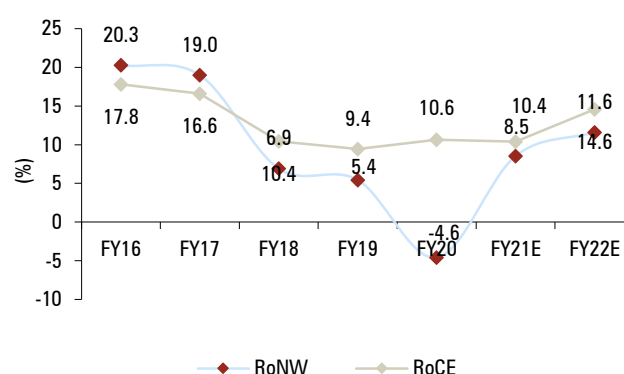
Source: ICICI Direct Research, Company

**Exhibit 9: PAT & margins trend**



Source: ICICI Direct Research, Company

**Exhibit 10: RoE & RoCE trend**



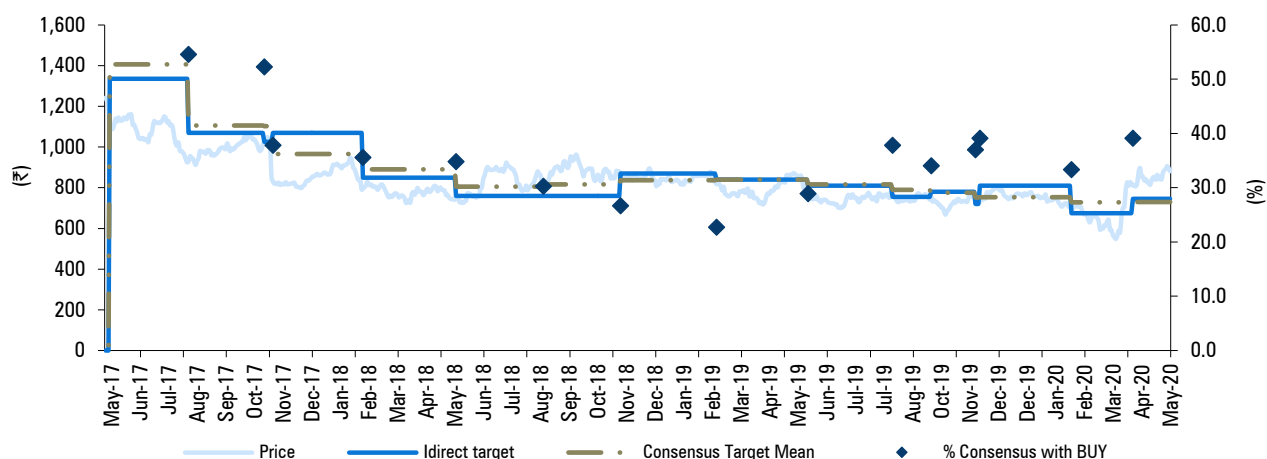
Source: ICICI Direct Research, Company

**Exhibit 11: Valuation**

	Revenues	Growth	EPS	Growth	P/E	EV/EBITDA	RoNW	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(X)	(%)	(%)
FY 19	16718	5.8	16.5	-20.3	64.4	16.5	5.4	9.4
FY 20	16393	-1.9	-12.7	-176.9	-131.1	15.3	-4.6	10.6
FY 21E	16603	1.3	25.6	-301.3	34.0	15.1	8.5	10.4
FY 22E	18656	12.4	38.7	51.4	22.5	10.7	11.6	14.6

Source: ICICI Direct Research

**Exhibit 12: Recommendation history vs. Consensus**



Source: ICICI Direct Research; Bloomberg

**Exhibit 13: Top 10 Shareholders**

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change
1	Lupin Investments Pvt Ltd	31-Dec-19	45.4	205.61m	0.0m
2	HDFC Asset Management Co Ltd	30-Apr-20	2.6	11.57m	(0.1)m
3	Life Insurance Corp Of India	31-Dec-19	2.4	10.95m	0.0m
4	Government Pension Fund - Global	31-Dec-19	1.9	8.41m	1.5m
5	Norges Bank	31-Dec-19	1.9	8.39m	0.0m
6	Franklin Resources Inc	15-May-20	1.7	7.51m	(1.5)m
7	Comgest SA	31-Jan-20	1.6	7.08m	0.0m
8	Blackrock Inc	15-May-20	1.6	7.08m	0.8m
9	Jhunjhunwala Rakesh	31-Dec-19	1.5	6.94m	(0.8)m
10	Vanguard Group Inc	30-Apr-20	1.3	6.05m	0.0m

Source: ICICI Direct Research, Bloomberg

**Exhibit 14: Shareholding pattern**

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	47.0	47.0	47.0	46.9	46.9
Others	53.0	53.0	53.0	53.1	53.1

Source: ICICI Direct Research, Company



## Financial Summary

**Exhibit 15: Profit & Loss (₹ crore)**

(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total Operating Income</b>	<b>16,718.2</b>	<b>16,393.1</b>	<b>16,603.0</b>	<b>18,655.7</b>
Growth (%)	5.8	-1.9	1.3	12.4
Raw Material Expenses	5,845.8	5,841.6	5,977.1	6,529.5
Employee Expenses	3,151.3	3,161.8	3,154.6	3,358.0
Other expenditure	5,017.0	4,840.1	4,991.6	5,408.6
Total Operating Expenditure	14,014.0	13,843.4	14,123.2	15,296.2
<b>EBITDA</b>	<b>2,704.2</b>	<b>2,549.7</b>	<b>2,479.8</b>	<b>3,359.6</b>
Growth (%)	-14.1	-5.7	-2.7	35.5
Depreciation	1,085.0	1,106.1	883.8	929.3
Interest	307.8	368.1	142.4	102.4
Other Income	544.8	507.7	327.3	367.8
PBT	1,856.2	1,583.2	1,780.9	2,695.7
EO	340.0	752.1	0.0	0.0
Total Tax	901.7	1,134.4	623.3	943.5
PAT before MI	614.5	-303.2	1,157.6	1,752.2
Minority Interest	5.3	-2.6	0.0	0.0
<b>Adjusted PAT</b>	<b>748.0</b>	<b>-575.0</b>	<b>1,157.6</b>	<b>1,752.2</b>
Growth (%)	-20.3	-176.9	-301.3	51.4
<b>EPS (Adjusted)</b>	<b>16.5</b>	<b>-12.7</b>	<b>25.6</b>	<b>38.7</b>

Source: ICICI Direct Research; Company

**Exhibit 16: Cash Flow Statement (₹ crore)**

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	577.8	365.6	1157.6	1752.2
Depreciation	1085.0	1159.6	883.8	929.3
Other operating Activities	307.8	363.0	142.4	102.4
(inc)/dec in Current Assets	-430.1	-1597.5	-270.3	-1301.9
Inc/ (dec) in Current Liabilities	-70.1	1126.5	490.1	753.9
<b>CF from Operating Activities</b>	<b>1666.0</b>	<b>1468.8</b>	<b>2403.5</b>	<b>2235.9</b>
Purchase of Fixed Assets	-959.9	907.0	-650.0	-450.0
(Inc)/Dec in Investments	-2024.5	-119.2	0.0	0.0
Other Investing Activities	80.5	101.0	77.2	84.9
<b>CF from Investing Activities</b>	<b>-2903.9</b>	<b>888.9</b>	<b>-572.8</b>	<b>-365.1</b>
Inc / (Dec) in Loan Funds	1292.2	-267.4	-1000.0	-1000.0
Inc / (Dec) in Equity Capital	0.1	0.1	0.0	0.0
Dividend and dividend tax	-225	-273	-136	-197
Other Financing Activities	-323.3	-350.3	-142.4	-102.4
<b>CF from Financing Activities</b>	<b>744.1</b>	<b>-890.6</b>	<b>-1278.3</b>	<b>-1299.2</b>
Net Cash Flow	-494	1,467	552	572
Opening Cash	1,481	987	2,454	3,007
<b>Closing Cash</b>	<b>987.2</b>	<b>2,454.3</b>	<b>3,006.7</b>	<b>3,578.3</b>
<b>Free Cash flow</b>	<b>706.1</b>	<b>2,375.8</b>	<b>1,753.5</b>	<b>1,785.9</b>

Source: ICICI Direct Research; Company

**Exhibit 17: Balance Sheet (₹ crore)**

(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	90.5	90.6	90.6	90.6
Reserve and Surplus	13,651.7	12,446.1	13,467.8	15,023.2
Total Shareholders funds	13,742.2	12,536.7	13,558.4	15,113.8
Total Debt	8,496.2	4,560.3	3,560.3	2,560.3
Deferred Tax Liability	288.3	199.5	219.5	241.4
Minority Interest	46.9	44.5	48.9	53.8
Other NCL & LT Provisions	1,100.4	1,184.7	1,303.1	1,433.5
<b>Total Liabilities</b>	<b>23,673.9</b>	<b>18,525.6</b>	<b>18,690.2</b>	<b>19,402.7</b>
Gross Block - Fixed Asset	13,289.3	11,775.6	12,625.6	13,275.6
Accumulated Depreciation	4,582.9	5,688.9	6,572.7	7,502.0
Net Block	8,706.4	6,086.6	6,052.8	5,773.6
Capital WIP	1,639.7	939.6	739.6	539.6
Total Fixed Assets	10,346.1	7,026.3	6,792.5	6,313.2
Investments	2,295.5	2,374.3	2,374.3	2,374.3
Goodwill on Consolidation	2,380.3	1,851.5	1,851.5	1,851.5
Inventory	3,836.8	3,456.9	3,852.4	4,328.7
Debtors	5,149.8	5,445.9	5,148.9	5,785.5
Loans and Advances	24.8	37.0	40.7	44.8
Other Current Assets	1,745.1	1,680.9	1,848.9	2,033.8
Cash	987.2	2,454.3	3,006.7	3,578.3
Total Current Assets	11,743.7	13,075.0	13,897.7	15,771.1
Creditors	2,498.2	2,412.3	2,497.8	2,806.6
Provisions & Other CL	1,777.3	4,045.9	4,450.5	4,895.6
Total Current Liabilities	4,275.4	6,458.2	6,948.3	7,702.2
Net Current Assets	7,468.3	6,616.7	6,949.4	8,069.0
Deferred Tax Assets	734.0	174.3	191.7	210.9
Long term Loans and advances	81.5	47.6	52.4	57.6
Other Non current assets	368.3	434.9	478.4	526.2
<b>Application of Funds</b>	<b>23,673.9</b>	<b>18,525.6</b>	<b>18,690.2</b>	<b>19,402.7</b>

Source: ICICI Direct Research; Company

**Exhibit 18: Key Ratios (₹ crore)**

(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per Share data (₹)</b>				
Reported EPS	13.5	-6.6	25.6	38.7
BV per share	304.0	276.7	299.3	333.6
Dividend per share	2.3	3.0	4.3	6.6
Cash per Share	21.8	54.2	66.4	79.0
<b>Operating Ratios (%)</b>				
Gross Margin	65.0	64.4	64.0	65.0
EBITDA margin	16.2	15.6	14.9	18.0
PAT Margin	4.5	-3.5	7.0	9.4
Inventory Days	83.8	77.0	84.7	84.7
Debtor Days	112.4	121.3	113.2	113.2
Creditor Days	54.5	53.7	54.9	54.9
Asset Turnover	1.3	1.4	1.3	1.4
EBITDA conversion Rate	61.6	57.6	96.9	66.6
<b>Return Ratio (%)</b>				
RoE	5.4	-4.6	8.5	11.6
RoCE	9.4	10.6	10.4	14.6
RoIC	8.9	11.4	12.9	19.1
<b>Valuation Ratios (x)</b>				
P/E	64.4	-131.1	34.0	22.5
EV / EBITDA	16.5	15.3	15.1	10.7
EV / Net Sales	2.7	2.4	2.3	1.9
Market Cap / Sales	2.4	2.4	2.4	2.1
Price to Book Value	2.9	3.1	2.9	2.6
<b>Solvency Ratios</b>				
Debt / EBITDA	3.1	1.8	1.4	0.8
Debt / Equity	0.6	0.4	0.3	0.2
<b>Current Ratio</b>	<b>2.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>

Source: ICICI Direct Research; Company



**Exhibit 19: ICICI Direct Coverage Universe (Healthcare)**

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY 19	Y 20E	Y 21E	Y 22E	FY 19	Y 20E	Y 21E	Y 22E	FY 19	Y 20E	Y 21E	Y 22E	FY 19	Y 20E	Y 21E	Y 22E
Ajanta Pharma	AJAPHA	1524	1,730	Buy	13298	43.5	53.4	56.0	72.0	35.0	28.5	27.2	21.2	21.8	24.7	22.3	24.2	17.1	18.1	16.7	18.5
Alembic Pharma	ALEMPHA	871	875	Buy	16423	31.4	46.3	41.4	39.8	27.7	18.8	21.1	21.9	19.6	20.6	17.7	16.0	21.8	26.3	19.5	16.2
Apollo Hospital	APOHOS	1357	1,490	Buy	18879	17.0	21.5	35.2	65.7	80.0	63.0	38.5	20.6	8.8	10.4	12.6	16.8	7.1	8.1	11.2	17.9
Aurobindo Pharma	AURPHA	746	770	Buy	43691	42.1	49.2	54.8	59.4	17.7	15.1	13.6	12.6	15.9	17.8	18.1	17.8	17.7	17.4	16.4	15.3
Biocon	BIOCON	355	390	Buy	42564	6.2	5.8	9.8	18.2	57.1	61.0	36.0	19.5	10.9	10.9	15.1	22.1	12.2	10.4	15.2	22.4
Cadila Healthcare	CADHEA	345	375	Hold	35278	18.1	14.3	17.5	20.9	19.1	24.1	19.7	16.5	13.0	10.6	12.1	13.4	17.8	12.9	14.1	14.9
Cipla	CIPLA	648	670	Buy	52256	18.6	19.2	23.0	30.2	34.9	33.7	28.1	21.4	10.9	12.0	13.0	15.4	10.0	9.8	10.8	12.6
Divi's Lab	DIVLAB	2390	2,130	Hold	63450	51.0	49.9	58.4	71.0	46.9	47.9	40.9	33.6	25.5	21.7	21.8	22.8	19.4	16.6	16.9	17.5
Dr Reddy's Lab	DRREDD	4071	4,615	Buy	67649	114.7	121.9	163.8	209.7	35.5	33.4	24.9	19.4	11.1	10.0	18.0	20.8	13.6	13.0	15.2	16.6
Glenmark Pharma	GLEPHA	355	340	Hold	10018	26.9	26.8	34.6	43.2	13.2	13.2	10.3	8.2	15.3	12.8	14.5	16.1	13.5	12.0	13.5	14.5
Hikal	HIKCHE	117	160	Buy	1436	8.4	9.6	11.1	13.3	13.9	12.1	10.5	8.7	14.3	13.3	13.6	14.5	13.6	14.1	14.2	14.9
Ipca Laboratories	IPCLAB	1494	1,900	Buy	18881	35.1	55.7	65.6	79.3	42.6	26.8	22.8	18.9	15.0	20.5	21.0	21.6	14.2	19.1	18.9	19.2
Lupin	LUPIN	870	930	Hold	39407	16.5	-12.7	25.6	38.7	52.6	-68.5	34.0	22.5	9.4	10.6	10.4	14.6	5.4	-4.6	8.5	11.6
Narayana Hrudayam	NARHRU	273	330	Buy	5579	2.9	6.2	8.2	11.4	94.0	43.7	33.4	23.9	7.7	11.6	12.7	15.3	5.5	10.8	12.5	15.1
Natco Pharma	NATPHA	580	650	Hold	10555	34.9	26.9	24.6	23.4	16.6	21.6	23.6	24.7	21.3	14.6	12.7	11.3	18.5	12.6	10.4	9.1
Sun Pharma	SUNPHA	474	540	Buy	113786	15.9	16.8	18.4	24.5	29.9	28.3	25.8	19.3	10.3	10.0	10.3	12.4	9.2	8.9	8.9	10.8
Syngene Int.	SYNINT	359	390	Buy	14352	8.3	10.3	8.6	12.2	43.4	34.8	38.6	27.3	14.8	15.0	12.9	16.4	16.8	15.7	13.7	16.3
Torrent Pharmaceuticals	TORPHA	2365	2,475	Hold	40018	48.9	60.6	67.0	88.3	48.3	39.0	35.3	26.8	14.2	15.7	17.7	21.2	17.5	21.2	20.0	22.0

Source: ICICI Direct Research, Bloomberg

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

## ANALYST CERTIFICATION

We /I, Siddhant Khandekar, Inter CA, Mitesh Shah, CFA, Sudarshan Agarwal, PGDM(Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com)

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.