

August 8, 2020

Q1FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	1,001		1,001	
Sales (Rs. m)	1,84,139	2,09,419	1,84,139	2,09,419
% Chng.	-	-	-	-
EBITDA (Rs. m)	36,920	41,989	36,920	41,989
% Chng.	-	-	-	-
EPS (Rs.)	41.6	48.1	41.6	48.1
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,51,428	1,62,300	1,84,139	2,09,419
EBITDA (Rs. m)	21,229	29,620	36,920	41,989
Margin (%)	14.0	18.3	20.1	20.1
PAT (Rs. m)	3,518	13,229	18,864	21,772
EPS (Rs.)	7.8	29.2	41.6	48.1
Gr. (%)	(62.7)	276.0	42.6	15.4
DPS (Rs.)	5.0	6.0	6.0	6.0
Yield (%)	0.6	0.7	0.7	0.7
RoE (%)	2.7	10.1	13.0	13.4
RoCE (%)	5.9	10.9	14.1	15.8
EV/Sales (x)	2.6	2.4	2.1	1.8
EV/EBITDA (x)	18.5	13.4	10.4	8.8
PE (x)	113.3	30.1	21.1	18.3
P/BV (x)	3.2	2.9	2.6	2.3

Key Data

LUPN.BO | LPC IN

52-W High / Low	Rs.956 / Rs.505
Sensex / Nifty	38,041 / 11,214
Market Cap	Rs.399bn / \$ 5,321m
Shares Outstanding	453m
3M Avg. Daily Value	Rs.5250.67m

Shareholding Pattern (%)

Promoter's	46.92
Foreign	21.31
Domestic Institution	18.86
Public & Others	12.91
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.1	24.3	12.5
Relative	(2.6)	34.5	8.5

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Near term multiple triggers in US, EU, specialty

Quick Pointers:

- Metformin re-launch and Albuterol launch guided in next few weeks
- 1QFY21 impacted due to COVID led issues

1QFY21 revenue and PAT was impacted due to decline of US biz (26% QoQ CC), India formulations (2% YoY) and higher effective tax rate of 60% v/s 25% QoQ. Sequential decline in US (Gx) was led by Metformin (extended release) recall, seasonality effect and normalization of sales as 4QFY20 had stocking benefits. While India formulations were impacted due to lockdown, we continue to remain positive on LPC and believe 1QFY21 was one-off performance due to COVID. We maintain BUY rating and TP of Rs1,001 based on 24x PE of FY22E and believe that LPC 1) would receive resolution on manufacturing issues (USFDA) beginning with Somerset followed by Goa and Pithampur (Unit-2) in FY21E, 2) India formulations may return to normalized growth level of 10-12% 3) Albuterol to be approved soon 4) ramp up of Levothyroxyn and 5) launch of Etanercept in EU.

US(Gx) leads revenue decline while PAT impacted due to higher ETR: Consolidated revenue declined by 9% YoY and QoQ to Rs34.6bn (PLe: Rs39.5bn) led by US and India formulations decline while EBITDA declined by 37% YoY and 9% QoQ to Rs4.2bn (PLe: Rs6.1bn) led by increase in R&D spend and employee cost by 4% QoQ. Employee expense in 1Q21FY includes one-time restructuring cost related to US specialty division, guided for less than Rs7.6bn/quarter going ahead. EBITDA Margin was 12.4% (PLe: 15.5%) v/s 18% YoY and 12.4% QoQ. PBT declined 43% YoY and 34% QoQ to Rs Rs2.7bn (PLe Rs5.4bn). PAT declined 59% YoY and 65% QoQ to Rs1bn (PLe: 3.7bn) due to higher effective tax rate at 60% v/s 25% QOQ.

Conference call and other key highlights:

North America: Sales declined 26% QoQ to US\$157m (including US\$2.5m branded) with US\$25m loss of revenue was due to seasonality effect of Tamiflu and Azithromycin. Another US\$25m was impacted due to Metformin recall (including failure to supply penalty) and lower demand of other products as 4QFY20 had stocking benefits. Solosec ramp up was slower due to COVID led lockdown. Levothyroxyn share for LPC is 12% from 5% in 3QFY20. Currently, capacity utilization for Levothyroxyn is between 25% and expects increase in Rx share to 20% in FY21E.

Launch of Albuterol: LPC guided to launch Albuterol in Sep-CY20 and expects FDA approval anytime as it has responded to all the queries of FDA and received positive feedback. LPC has also started building its inventory for the US market. In spite of five generics (including 2 AGs) in generic Albuterol segment, Lupin may gain sizeable Rx share with its reach in US generics in FY21E and FY22E.

US pipeline: It has 8-10 complex injections in pipeline, which are expected to be filed in FY22E. LPC has filed for Spiriva (Tiotropium bromide) and LPC has First-to-File status for the same. The product can be launched only after 2HFY22E due to litigation issues. It would be filing its first biosimilar Pegfilgrastim (Neulasta) in Q4FY22E while Ranibizumab (Lucentis) clinical trial is at an initial stage.

Regulatory status update: Goa, Pithampur (Indore) Unit-2, Mandideep-Unit I-API, Tarapur-API and Somerset-Formulation continues to be under OAI/WL status. LPC highlighted is has completed CAPA (Corrective and Preventive Actions) for Somerset and Goa, while for Pithampur (Indore) Unit-2 they are regularly sending requirements to the FDA. LPC expects Somerset resolution initially followed by Goa and Pithampur (Indore) Unit-2. We believe resolution of regulatory issue would be a key earnings trigger, as it would increase the flow of approvals. In last few months, LPC has witnessed significant relief on regulatory front as its 6 plants have received EIR from USFDA and UK MHRA has successfully closed out Pithampur (Unit I, II and III) inspection.

India formulations: Declined 2% YoY during the quarter amid lockdown led restriction. We believe domestic formulation growth to get back on track and return to normalcy level of 10-12% in FY22E while LPC guided for 8% in FY21E. It has employees of 7,000 beside headcount of 5,500 MRs. It plans to add 300-400 workforce each year for the Indian market.

Growth Markets (LATAM and APAC): Sales declined 5% QoQ to Rs3,082m as Mexico/Philippines was down 28%/47% QoQ to MXN123m and PHP278m while Brazil grew 48%QoQ to BRL55m.

EMEA: Sales declined 32% QoQ to Rs2,500m as Africa and Germany declined 36%/18% QoQ to ZAR237m and EUR7.6m. Plans to launch Enbrel in selected countries of EU in 2QFY21E.

Japan: After divestment of Kyowa in Japan, LPC will continue its business in Japan by supplying formulations to the acquirer for three years and Enbrel biosimilar to its partner YL Biologics.

Exhibit 1: Q1FY20 Result Overview (Rs m)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	34,686	38,155	(9.1)	37,910	1,62,300	1,51,428	7.2
Raw Material	12,880	13,224	(2.6)	14,050	55,588	54,306	2.4
<i>% of Net Sales</i>	<i>37.1</i>	<i>34.7</i>		<i>37.1</i>	<i>34.3</i>	<i>35.9</i>	
Personnel Cost	7,936	7,224	9.9	7,636	30,837	29,868	3.2
<i>% of Net Sales</i>	<i>22.9</i>	<i>18.9</i>		<i>20.1</i>	<i>19.0</i>	<i>19.7</i>	
Others	9,582	10,860	(11.8)	11,519	46,256	46,025	0.5
<i>% of Net Sales</i>	<i>27.6</i>	<i>28.5</i>		<i>30.4</i>	<i>28.5</i>	<i>30.4</i>	
Total Expenditure	30,398	31,308	(2.9)	33,204	1,32,680	1,30,200	1.9
EBITDA	4,289	6,847	(37.4)	4,706	29,620	21,228	39.5
<i>Margin (%)</i>	<i>12.4</i>	<i>17.9</i>		<i>12.4</i>	<i>18.3</i>	<i>14.0</i>	
Depreciation	2,146	2,501	(14.2)	2,143	10,730	9,702	10.6
EBIT	2,142	4,346	(50.7)	2,563	18,890	11,526	63.9
Other Income	1,025	1,288	(20.4)	2,633	4,294	7,157	(40.0)
Interest	443	844	(47.6)	1,074	3,254	3,630	(10.4)
PBT	2,725	4,790	(43.1)	4,123	19,930	15,054	32.4
Total Taxes	1,643	2,154	(23.7)	1,051	6,736	11,571	(41.8)
<i>ETR (%)</i>	<i>60.3</i>	<i>45.0</i>		<i>25.5</i>	<i>33.8</i>	<i>76.9</i>	
PAT before exceptional	1,081	2,635	(59.0)	3,072	13,194	3,482	278.9
Exceptional Item	-	386		831	-	(7,520.1)	
Minority	6	(6)		10	(35.5)	(35.5)	
Reported PAT	1,087	3,027	(64.1)	3,913	13,229	(4,002)	(430.6)

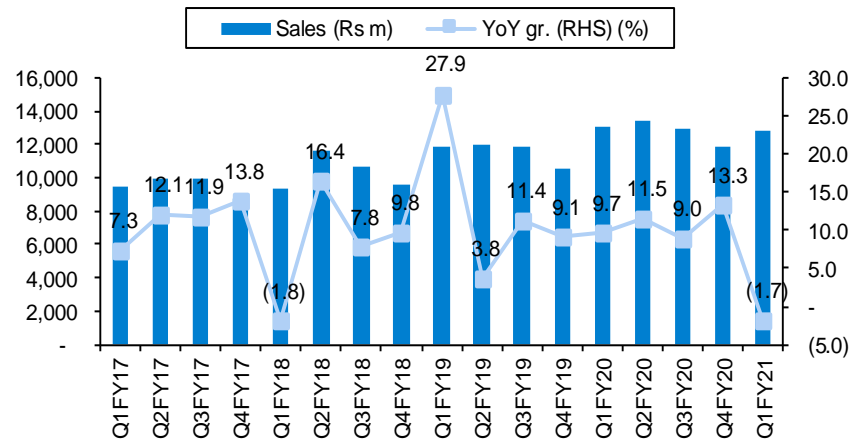
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major Sources of Revenues	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Domestic market	12,854	13,077	(1.7)	11,920	56,121	51,385	9.2
<i>% of Sales</i>	<i>37.1</i>	<i>34.3</i>		<i>31.4</i>	<i>34.6</i>	<i>33.9</i>	
International market (Exports)	21,832	25,078	(12.9)	25,990	1,06,179	1,00,043	6.1
<i>% of Sales</i>	<i>62.9</i>	<i>65.7</i>		<i>68.6</i>	<i>65.4</i>	<i>66.1</i>	
Total	34,686	38,155	(9.1)	37,910	1,62,300	1,51,428	7.2
Formulations	30,596	34,666	(11.7)	34,624	1,49,442	1,38,429	8.0
<i>% of Sales</i>	<i>88.2</i>	<i>90.9</i>		<i>91.3</i>	<i>92.1</i>	<i>91.4</i>	
India	12,854	13,077	(1.7)	11,920	56,121	51,385	9.2
<i>% of Sales</i>	<i>37.1</i>	<i>34.3</i>		<i>31.4</i>	<i>34.6</i>	<i>33.9</i>	
International market (Exports)	17,742	21,589	(17.8)	22,704	93,321	87,044	7.2
<i>% of Sales</i>	<i>51.2</i>	<i>56.6</i>		<i>59.9</i>	<i>57.5</i>	<i>57.5</i>	
North America	12,160	15,412	(21.1)	15,791	62,500	58,212	7.4
<i>% of Sales</i>	<i>35.1</i>	<i>40.4</i>		<i>41.7</i>	<i>38.5</i>	<i>38.4</i>	
Europe, Middle East, Africa (EMEA)	2,500	2,604	(4.0)	3,650	13,077	12,364	8.2
<i>% of Sales</i>	<i>7.2</i>	<i>6.8</i>		<i>9.6</i>	<i>8.1</i>	<i>8.2</i>	
Emerging Markets (ROW) & LATAM	3,082	3,573	(13.7)	3,263	17,744	16,468	7.8
<i>% of Sales</i>	<i>8.9</i>	<i>9.4</i>		<i>8.6</i>	<i>10.9</i>	<i>10.9</i>	
APIs	4,090	3,489	17.2	3,286	12,858	12,999	(1.1)
<i>% of Sales</i>	<i>11.8</i>	<i>9.1</i>		<i>8.7</i>	<i>7.9</i>	<i>8.6</i>	
Grand Total	34,686	38,155	(9.1)	37,910	1,62,300	1,51,428	7.2

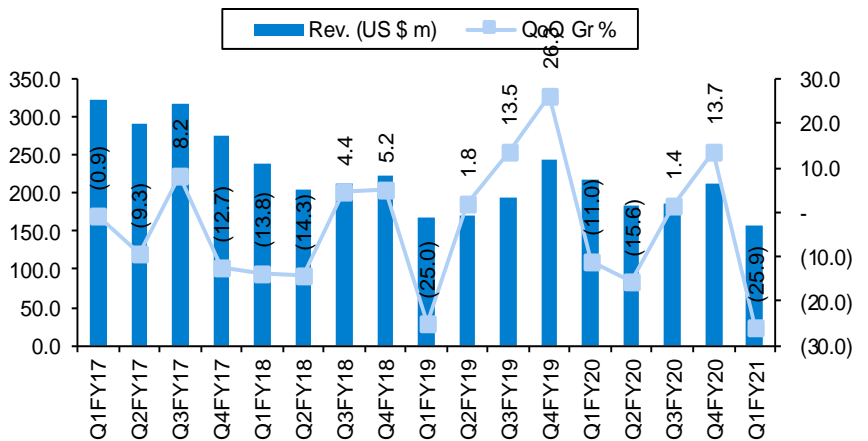
Source: Company, PL

Exhibit 3: Domestic Formulation (Rs mn) & YoY Gr (%)



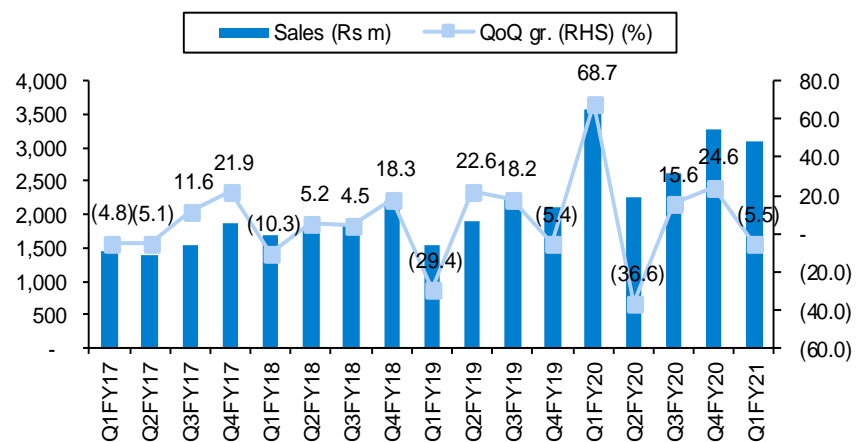
Source: Company, PL

Exhibit 4: US Generic (US\$ mn) & QoQ Growth (%)



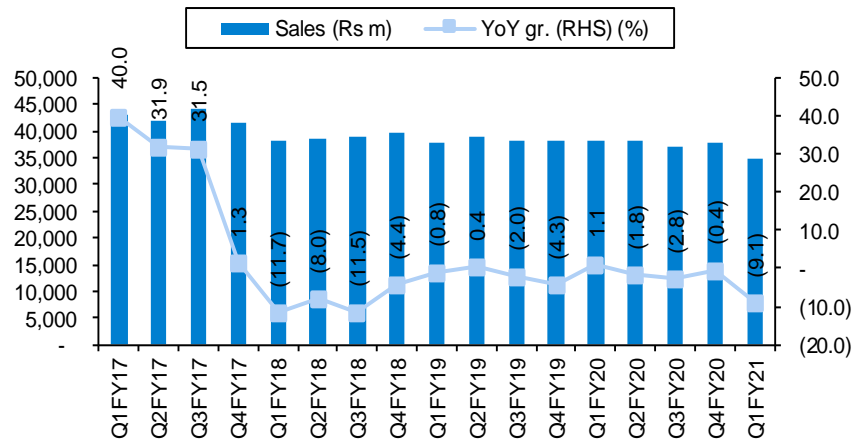
Source: Company, PL

Exhibit 5: Emerging Markets (Rs mn) & QoQ Growth (%)



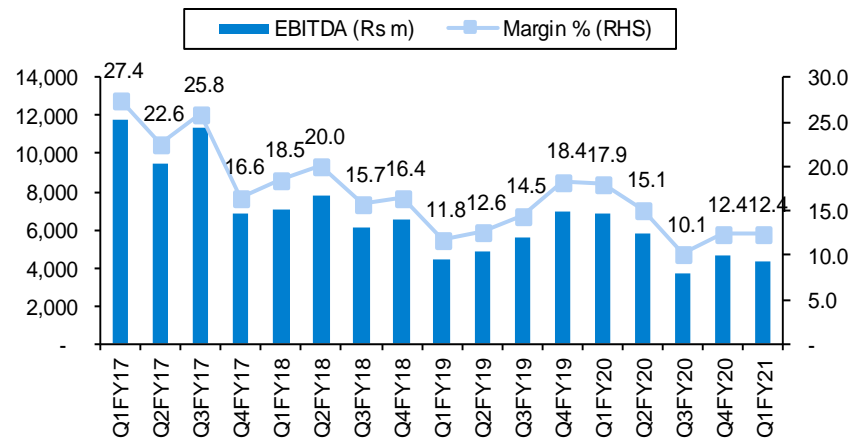
Source: Company, PL

Exhibit 6: Total Revenue (Rs mn) & YoY Growth (%)



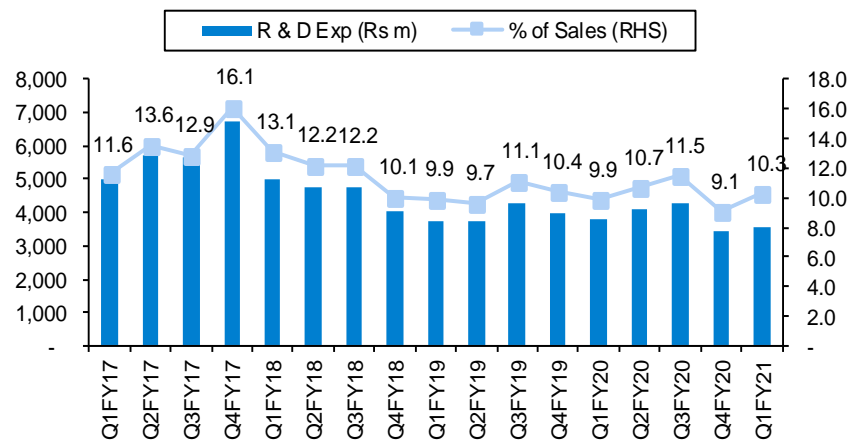
Source: Company, PL

Exhibit 7: EBITDA (Rs mn) & EBITDA Margin (%)



Source: Company, PL

Exhibit 8: R&D Exp (Rs mn) % of Sales



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,51,428	1,62,300	1,84,139	2,09,419
YoY gr. (%)	(7.5)	7.2	13.5	13.7
Cost of Goods Sold	54,306	55,588	60,213	68,480
Gross Profit	97,122	1,06,712	1,23,925	1,40,939
Margin (%)	64.1	65.8	67.3	67.3
Employee Cost	29,868	30,837	35,907	40,837
Other Expenses	15,538	16,230	18,414	20,942
EBITDA	21,229	29,620	36,920	41,989
YoY gr. (%)	(16.2)	39.5	24.6	13.7
Margin (%)	14.0	18.3	20.1	20.1
Depreciation and Amortization	9,702	10,730	11,390	12,091
EBIT	11,526	18,890	25,530	29,898
Margin (%)	7.6	11.6	13.9	14.3
Net Interest	3,630	3,254	2,030	1,549
Other Income	7,157	4,294	3,435	2,748
Profit Before Tax	15,054	19,930	26,936	31,097
Margin (%)	9.9	12.3	14.6	14.8
Total Tax	11,571	6,736	8,108	9,360
Effective tax rate (%)	76.9	33.8	30.1	30.1
Profit after tax	3,483	13,194	18,828	21,737
Minority interest	(36)	(36)	(36)	(36)
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,518	13,229	18,864	21,772
YoY gr. (%)	(62.7)	276.0	42.6	15.4
Margin (%)	2.3	8.2	10.2	10.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,518	13,229	18,864	21,772
YoY gr. (%)	(62.7)	276.0	42.6	15.4
Margin (%)	2.3	8.2	10.2	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,518	13,229	18,864	21,772
Equity Shares O/s (m)	453	453	453	453
EPS (Rs)	7.8	29.2	41.6	48.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	1,43,893	1,54,893	1,65,893	1,76,893
Tangibles	77,110	84,110	91,110	98,110
Intangibles	66,783	70,783	74,783	78,783
Acc: Dep / Amortization	55,817	66,547	77,937	90,027
Tangibles	26,739	32,885	39,461	46,497
Intangibles	29,079	33,663	38,476	43,530
Net fixed assets	60,866	88,345	87,956	86,865
Tangibles	23,162	51,225	51,649	51,613
Intangibles	37,704	37,120	36,306	35,252
Capital Work In Progress	9,396	7,987	6,789	5,770
Goodwill	18,515	15,738	16,524	17,351
Non-Current Investments	1,542	1,263	1,038	855
Net Deferred tax assets	(252)	23	136	167
Other Non-Current Assets	3,644	2,614	1,884	1,363
Current Assets				
Investments	23,383	19,875	19,876	19,877
Inventories	34,569	36,907	41,873	47,621
Trade receivables	54,459	57,806	65,584	74,588
Cash & Bank Balance	24,543	23,738	25,305	32,640
Other Current Assets	12,913	6,457	3,228	1,614
Total Assets	2,49,839	2,65,064	2,72,682	2,90,253
Equity				
Equity Share Capital	906	906	906	906
Other Equity	1,24,461	1,36,806	1,52,282	1,70,666
Total Networkth	1,25,367	1,37,712	1,53,188	1,71,572
Non-Current Liabilities				
Long Term borrowings	17,933	15,243	12,956	11,013
Provisions	2,963	2,518	2,141	1,820
Other non current liabilities	1,637	269	269	269
Current Liabilities				
ST Debt / Current of LT Debt	24,928	25,426	17,798	12,459
Trade payables	24,123	26,679	30,269	34,425
Other current liabilities	43,202	49,704	50,142	53,968
Total Equity & Liabilities	2,49,839	2,65,064	2,72,682	2,90,253

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	15,054	19,930	26,936	31,097
Add. Depreciation	9,702	10,730	11,390	12,091
Add. Interest	3,630	3,254	2,030	1,549
Less Financial Other Income	7,157	4,294	3,435	2,748
Add. Other	(15,991)	7,695	(4,006)	(4,184)
Op. profit before WC changes	12,395	41,609	36,349	40,553
Net Changes-WC	26,118	10,981	(4,144)	(4,496)
Direct tax	(11,571)	(6,736)	(8,108)	(9,360)
Net cash from Op. activities	26,943	45,854	24,097	26,697
Capital expenditures	(3,999)	(9,591)	(9,802)	(9,982)
Interest / Dividend Income	-	-	-	-
Others	(735)	3,516	6	5
Net Cash from Inv. activities	(4,734)	(6,075)	(9,796)	(9,977)
Issue of share cap. / premium	1	-	-	-
Debt changes	(39,359)	(2,191)	(9,914)	(7,283)
Dividend paid	-	-	-	-
Interest paid	(3,630)	(3,254)	(2,030)	(1,549)
Others	-	-	-	-
Net cash from Fin. activities	(42,988)	(5,445)	(11,944)	(8,832)
Net change in cash	(20,779)	34,334	2,357	7,888
Free Cash Flow	22,944	36,264	14,295	16,715

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	38,202	37,161	37,910	34,686
YoY gr. (%)	(1.8)	(2.8)	(0.4)	(9.1)
Raw Material Expenses	13,439	13,593	14,050	12,880
Gross Profit	24,763	23,568	23,860	21,807
Margin (%)	64.8	63.4	62.9	62.9
EBITDA	5,786	3,759	4,706	4,289
YoY gr. (%)	18.2	(32.3)	(32.7)	(37.4)
Margin (%)	15.1	10.1	12.4	12.4
Depreciation / Depletion	2,526	2,532	2,143	2,146
EBIT	3,260	1,227	2,563	2,142
Margin (%)	8.5	3.3	6.8	6.2
Net Interest	826	886	1,074	443
Other Income	1,900	1,468	2,633	1,025
Profit before Tax	4,334	1,809	4,123	2,725
Margin (%)	11.3	4.9	10.9	7.9
Total Tax	695	7,670	1,051	1,643
Effective tax rate (%)	16.0	424.1	25.5	60.3
Profit after Tax	3,639	(5,862)	3,072	1,081
Minority interest	556	398	10	6
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,083	(6,260)	3,062	1,076
YoY gr. (%)	15.9	(473.7)	22.7	(59.3)
Margin (%)	8.1	(16.8)	8.1	3.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,083	(6,260)	3,062	1,076
YoY gr. (%)	15.9	(473.7)	22.7	(59.3)
Margin (%)	8.1	(16.8)	8.1	3.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,083	(6,260)	3,062	1,076
Avg. Shares O/s (m)	452	452	452	452
EPS (Rs)	6.8	(13.8)	6.8	2.4

Source: Company Data, PL Research

Key Financial Metrics

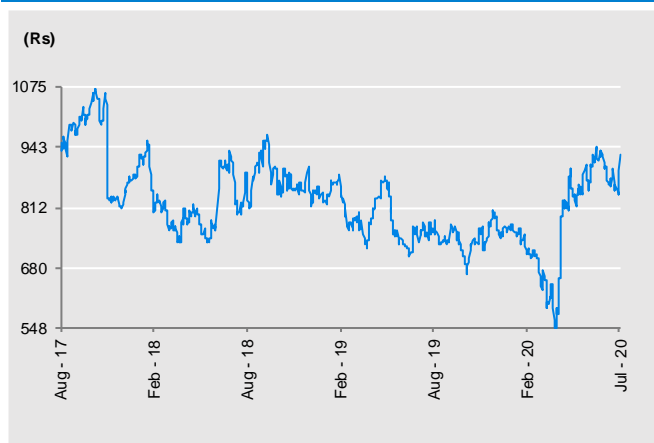
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.8	29.2	41.6	48.1
CEPS	29.2	52.9	66.8	74.8
BVPS	276.7	304.0	338.2	378.7
FCF	50.6	80.1	31.6	36.9
DPS	5.0	6.0	6.0	6.0
Return Ratio(%)				
RoCE	5.9	10.9	14.1	15.8
ROIC	1.8	9.6	13.1	15.3
RoE	2.7	10.1	13.0	13.4
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.2)
Net Working Capital (Days)	156	153	153	153
Valuation(x)				
PER	113.3	30.1	21.1	18.3
P/B	3.2	2.9	2.6	2.3
P/CEPS	30.1	16.6	13.2	11.8
EV/EBITDA	18.5	13.4	10.4	8.8
EV/Sales	2.6	2.4	2.1	1.8
Dividend Yield (%)	0.6	0.7	0.7	0.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
India Formulations	50,788	56,121	62,126	68,773
North America	66,853	75,577	87,904	1,02,408
APAC	5,904	-	-	-
ROW Formulations & LATAM	15,486	17,744	21,018	24,896
APIs	12,707	12,858	13,090	13,342

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	BUY	1,001	865
2	30-May-20	BUY	1,001	870
3	11-May-20	BUY	978	835
4	18-Apr-20	Reduce	685	822
5	14-Apr-20	Reduce	654	790
6	07-Feb-20	Reduce	654	722
7	03-Jan-20	Hold	760	777
8	19-Dec-19	Hold	760	773
9	13-Nov-19	Hold	760	736
10	06-Nov-19	Reduce	730	771

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	838	802
2	Cadila Healthcare	Sell	329	396
3	Cipla	Reduce	542	634
4	Dr. Lal PathLabs	Sell	1,006	1,892
5	Dr. Reddy's Laboratories	Hold	4,326	4,306
6	Eris Lifesciences	BUY	576	511
7	Glenmark Pharmaceuticals	Sell	365	419
8	Indoco Remedies	Hold	219	208
9	Ipca Laboratories	BUY	1,839	1,636
10	Jubilant Life Sciences	Sell	414	703
11	Lupin	BUY	1,001	865
12	Sun Pharmaceutical Industries	Reduce	479	532
13	Thyrocare Technologies	Sell	307	677

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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