

Lupin Ltd.



Lupin Ltd.

Seasonality led de-growth in the US, muted domestic performance due to COVID

CMP INR 958	Target INR 979	Potential Upside 2.2%	Market Cap (INR Mn) INR 434,047	Recommendation Hold	Sector Pharmaceuticals
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Result Highlights of 1QFY21

- Lupin reported Revenue decline of 9.0% YoY (down 8.3% QoQ) to INR 35,279 mn.
- EBITDA margin contracted by 542 bps YoY to 13.8% in 1QFY21 (from 19.3% last year). On a sequential basis EBITDA margin improved nominally by 18 bps QoQ.
- Company's Net Profit declined 64.7% YoY (down 72.6% QoQ) to INR 1,069 mn for the quarter compared to Net Profit of INR 3,031 mn in 1QFY20. Net Profit margin came in at 3.0% (-479bps/-710bps YoY/QoQ) vs 7.8% in 1QFY20.

MARKET DATA

Shares outs (Mn)	453
Equity Cap (INR Mn)	125,812
Mkt Cap (INR Mn)	434,047
52 Wk H/L (INR)	999/505
Volume Avg (3m K)	3,304
Face Value (INR)	2
Bloomberg Code	LPC IN

KEY FINANCIALS

INR Millions	FY18	FY19	FY20	FY21E	FY22E
Revenue	1,58,041	1,46,646	1,53,748	1,62,533	1,82,789
EBITDA	31,475	25,608	23,548	27,793	34,547
Adj. PAT	13,934	9,466	4,827	12,272	18,489
Adj EPS (INR)	30.8	20.9	10.7	27.1	40.8
EBITDA Margin	19.9%	17.5%	15.3%	17.1%	18.9%
Adj. NPM	8.8%	6.5%	3.1%	7.6%	10.1%

Source: Company, KRChoksey Research

Lower US sales due to seasonality & metformin recall; India affected due to lockdown:

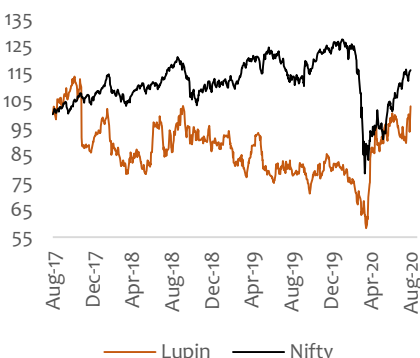
Lupin's India sales declined 1.7% YoY (up 7.8% QoQ, 37% of revenue) due to lockdown which primarily affected its acute therapies. North America declined 21.1% YoY (down 23.0% QoQ, 35% of revenue) due to lower sales of seasonal products like oseltamivir, recall of Metformin & lower sales of Azithromycin, apart from COVID impact. EMEA de-grew 4.0% YoY (down 31.5% QoQ, 7% of revenue) while Growth Markets declined 5.8% YoY (down 3.6% QoQ, 8% of revenue). ROW declined 46.0% YoY (down 17.3% QoQ, 1% of revenue). API revenue, however, rose 17.2% YoY (up 24.5% QoQ, 12% of revenue).

Lower US sales & higher employee cost weighs down EBITDA margin: Lupin reported gross profit margin (GPM) of 63.5% for 1QFY21 which was lower by 240 bps YoY (vs 65.9% in 1QFY20). Lower GPM along with higher employee cost at 22.5% of revenue in 1QFY21 (vs 18.6% in 1QFY20) led to 542bps decline in EBITDA margin YoY (+18bps QoQ). With lower EBITDA margin, lower other income at INR 433 mn (vs 666 mn in 1QFY20, -35% YoY) & higher effective tax rate ~60% for the quarter (~45% in 1QFY20), Lupin reported a decline of 64.7% YoY (-72.6% QoQ) in Net Profit.

ProAir to be launched in Sep-20, approval expected in August: Part of its Inhalation portfolio, Lupin is expected to get approval of gProAir (albuterol sulfate : to treat bronchospasm) in the month of August & management hopes to launch it in Sep-20. With the onset of COVID-19, demand for inhalation products has surged & with adequate capacities in place, company is eyeing 20%+market share. The entire albuterol sulfate HFA Inhalation Aerosol market had US sales of ~USD 2.8 bn for the 12-month period ending February 2020 (IQVIA MAT).

Pipeline & R&D Investments: Company invested INR 3,575 mn (10.3% of Sales) in 1QFY21 compared to INR 3,442 mn for 4QFY20 (9.1% of Sales). Lupin received 4 ANDA approval from the USFDA during the quarter. Cumulative ANDA filings with the USFDA stands at 434 as of June 30, 2020, with the Company having received 276 approvals to date. The Company now has 47 First-to-Files (FTF) filings including 16 exclusive FTF opportunities. Cumulative DMF filings stand at 197 as of June 30, 2020.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	38,182
NIFTY	11,270

SHARE HOLDING PATTERN (%)

Particulars	Jun-20	Mar-20	Dec-19 (%)
Promoters	46.9%	46.9%	46.9%
FIIIs	21.3%	22.7%	24.7%
DIIIs	18.9%	16.5%	14.6%
Others	12.9%	13.9%	13.8%
Total	100%	100%	100%

9.0%

Revenue CAGR between FY20 and FY22E

21.1%

EBITDA CAGR between FY20 and FY22E

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Key Concall Highlights: (i) Metformin sales to be back in 2QFY21 () The US sales declined by 26% sequentially (in dollar terms) to USD 157 mn (-28% YoY) because of demand contraction by 12% QoQ (-6% YoY) in 1QFY21 (ii) Company has informed the USFDA that it's ready for Somerset facility to be inspected (iii) Tax rate guidance for FY21 in the range of 35-40% which will decline further in FY22 (iv) EBITDA margin guidance for FY21 is at 17% (v) Company expects to receive approval for inhalation products in the pipeline (Brovana and Performist) in FY22 (vi) Management expects the momentum in API to sustain & considering 6-7 API for PLI scheme.

Valuation and view:

Lupin's 1QFY21 was marred by lower sales in the US at USD 157 mn (-26%/-28% QoQ/YoY) due to seasonality in Oseltamivir, Azithromycin, Cephalosporin & recall of Metformin. Management expects that US sales will pickup from 2HFY21 with resumption in Metformin sales, launch of Albuterol Sulfate, ramp-up in Levothyroxine & is optimistic of USD 180 mn+ run rate. India sales saw a decline due to impact of COVID-19 which will normalize with easing of lockdown in various parts of the country. **Since our last update, the stock has rallied 10.6% and is now trading at a PE of 35.4x/23.5x its FY21E/FY22E earnings. In the wake of expected launch of Albuterol Sulfate in Sep-20, ramp-up in Levothyroxine & Metformin sales coming back, we are raising our earlier P/E multiple of 22.0x to 24.0x on FY22E EPS of INR 40.8/share and arrive at a revised target price of INR 979/share (earlier INR 893/share); indicating an upside of 2.2%. Accordingly, we reiterate our rating at "HOLD" on the shares of Lupin.**

Segments Result (INR Mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Revenue from Operations	38,155	38,202	37,161	37,910	34,686
Total Sales	38,155	36,761	37,161	37,910	34,686
Formulations	34,666	33,709	33,988	34,624	30,596
North America	15,412	13,244	13,766	15,791	12,160
India	13,077	13,419	12,969	11,921	12,854
Growth Markets	2,864	3,030	3,518	2,800	2,699
EMEA	2,604	3,196	2,913	3,649	2,500
ROW	709	820	822	463	383
API	3,489	3,052	3,173	3,286	4,090
Licensing	0	1,441	0	0	0

Segments Result (% YoY)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Revenue from Operations	1.1%	-1.8%	-2.8%	-12.4%	-9.1%
Total Sales	1.1%	-5.5%	2.9%	-12.4%	-9.1%
Formulations	1.5%	-5.2%	4.6%	-14.2%	-11.7%
North America	30.0%	6.1%	-2.9%	-9.3%	-21.1%
India	9.7%	11.5%	9.0%	13.3%	-1.7%
Growth Markets	-60.9%	-60.4%	20.2%	-66.2%	-5.8%
EMEA	-5.7%	8.4%	4.0%	7.4%	-4.0%
ROW	144.5%	88.1%	20.4%	-36.8%	-46.0%
API	-2.6%	-8.8%	-12.4%	12.8%	17.2%
Licensing	-	-	-	-	-

Revenue Mix (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Revenue from Operations	100%	100%	100%	100%	100%
Total Sales	100.0%	96.2%	100.0%	100.0%	100.0%
Formulations	90.9%	88.2%	91.5%	91.3%	88.2%
North America	40.4%	34.7%	37.0%	41.7%	35.1%
India	34.3%	35.1%	34.9%	31.4%	37.1%
Growth Markets	7.5%	7.9%	9.5%	7.4%	7.8%
EMEA	6.8%	8.4%	7.8%	9.6%	7.2%
ROW	1.9%	2.1%	2.2%	1.2%	1.1%
API	9.1%	8.0%	8.5%	8.7%	11.8%
Licensing	0.0%	3.8%	0.0%	0.0%	0.0%

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 17	FY 18	FY 19	FY 20	FY 21E	FY 22E
Revenues	1,74,943	1,58,041	1,46,646	1,53,748	1,62,533	1,82,789
COGS	50,014	52,744	49,461	54,306	57,374	60,503
Gross profit	1,24,929	1,05,297	97,185	99,442	1,05,159	1,22,286
Employee cost	28,495	28,647	27,702	29,868	31,856	34,730
Other expenses	51,502	45,175	43,876	46,025	45,509	53,009
EBITDA	44,931	31,475	25,608	23,548	27,793	34,547
EBITDA Margin	25.68%	19.92%	17.46%	15.32%	17.10%	18.90%
Depreciation & amortization	9,122	10,859	8,461	9,702	9,589	10,053
EBIT	35,809	20,616	17,147	13,846	18,204	24,494
Interest expense	1,525	2,044	3,025	3,630	1,829	1,389
Other income	1,065	1,504	3,330	4,838	2,438	4,021
PBT before excep. items	35,349	20,076	17,452	15,054	18,813	27,126
Exceptional Items	0	14,644	3,400	7,521	0	0
PBT	35,349	5,433	14,053	7,533	18,813	27,126
Tax	9,785	2,885	8,879	11,571	6,585	8,680
Share of Profit/(Loss) of Associates/Minority	11	-36	-52	43	43	43
PAT (Discontinuing Operations)	0	0	945	1,301	0	0
PAT	25,575	2,512	6,066	-2,694	12,272	18,489
Adj. PAT	25,575	13,934	9,466	4,827	12,272	18,489
EPS (INR)	56.46	5.54	13.36	-5.95	27.08	40.81
Adj. EPS	56.6	30.8	20.9	10.7	27.1	40.8

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY 18	FY 19	FY 20	FY 21E	FY 22E
Net Cash Generated From Operations	17,512	16,660	14,688	29,794	22,824
Net Cash Flow from/(used in) Investing Activities	4,699	-32,825	11,070	-6,756	-8,172
Net Cash Flow from Financing Activities	-14,921	7,441	-8,906	-25,801	-12,876
Net Inc/Dec in cash equivalents	7,290	-8,724	16,852	-2,764	1,776
Opening Balance	6,875	14,164	5,441	22,293	19,529
Closing Balance Cash and Cash Equivalents	13,941	5,722	22,148	19,385	21,161

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY 18	FY 19	FY 20	FY 21E	FY 22E
EBITDA Margin (%)	19.9%	17.5%	15.3%	17.1%	18.9%
Tax rate (%)	53.1%	63.2%	153.6%	35.0%	32.0%
Net Profit Margin (%)	1.6%	4.1%	-1.8%	7.6%	10.1%
RoE (%)	10.2%	6.9%	3.8%	9.2%	12.6%
RoCE (%)	10.1%	7.8%	8.2%	11.6%	14.9%
Current Ratio (x)	2.40	2.26	1.67	1.85	2.00
Adj. EPS (INR)	30.8	20.9	10.7	27.1	40.8

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY17	FY18	FY19	FY20	FY21E	FY22E
Non-current assets						
Property, plant and equipment	46,363	49,074	49,115	43,656	44,631	47,373
Capital work-in-progress	7,150	9,563	10,186	7,582	7,582	7,582
Goodwill (Net)	23,100	24,485	23,803	18,515	18,515	18,515
Other intangible assets	40,866	30,061	37,949	17,211	13,147	7,664
Intangible assets under development	14,181	16,419	6,211	1,815	1,815	1,815
Investments accounted for using equity	164	211	252	305	322	363
Financial assets						
Investments	56	56	1,605	56	59	66
Loans	765	829	815	476	504	566
Other financial assets	12	42	434	705	644	724
Deferred tax assets (Net)	5,076	7,166	7,340	1,743	1,843	2,072
Tax assets (Net)	1,048	1,464	1,424	1,186	1,253	1,410
Other non-current assets	7,761	1,588	1,825	2,458	2,599	2,923
Total non-current assets	1,46,544	1,40,958	1,40,958	95,706	92,913	91,071
Current assets						
Inventories	36,423	36,625	38,368	34,569	36,522	38,514
Financial assets						
Investments	21,141	2,349	21,099	23,383	23,383	23,383
Trade receivables	43,073	51,922	51,498	54,459	48,983	55,087
Cash and cash equivalents	6,818	13,941	5,722	22,149	19,385	21,161
Bank balances other than above	163	139	4,150	2,395	2,395	2,395
Loans	159	199	248	370	370	370
Other financial assets	3,765	4,365	6,393	3,896	4,489	5,048
Other current assets + Current Tax Assets	7,986	12,470	11,058	12,913	12,824	14,422
Assets classified as held for sale	0	86	0	0	0	0
Total current assets	1,19,529	1,22,095	1,38,536	1,54,132	1,48,349	1,60,379
TOTAL ASSETS	2,66,073	2,63,054	2,79,494	2,49,839	2,41,262	2,51,450
EQUITY AND LIABILITIES						
Equity						
Equity share capital	903	904	905	906	906	906
Other equity	1,34,073	1,34,866	1,36,517	1,24,461	1,32,757	1,45,255
Equity attributable to the equity shareholders	1,34,976	1,35,771	1,37,422	1,25,367	1,33,663	1,46,161
Non-controlling interests	345	401	469	445	444	444
Total equity	1,35,321	1,36,171	1,37,891	1,25,812	1,34,107	1,46,605
Liabilities						
Non-current liabilities						
Financial liabilities						
Borrowings	56,478	64,245	66,417	17,933	12,933	10,933
Other financial liabilities	4,765	3,477	4,129	7,247	7,247	7,247
Provisions	3,087	3,569	3,708	2,963	2,963	2,963
Deferred tax liabilities (Net)	3,949	2,855	2,883	1,995	1,995	1,995
Other non-current liabilities + Trade payables	1,268	1,781	3,168	1,637	1,637	1,637
Total non-current liabilities	69,546	75,927	80,304	31,775	26,775	24,775
Current liabilities						
Financial liabilities						
Borrowings	23,043	4,518	15,802	24,928	9,928	6,428
Trade payables	25,889	25,754	24,982	24,123	25,486	26,876
Other financial liabilities	5,664	12,827	10,885	28,760	30,385	32,042
Other current liabilities	916	2,344	1,913	2,483	2,623	2,766
Provisions	4,714	4,652	7,275	9,077	9,077	9,077
Current tax liabilities (Net)	980	861	442	2,882	2,882	2,882
Total current liabilities	61,206	50,956	61,299	92,252	80,380	80,070
Total liabilities	1,30,752	1,26,882	1,41,603	1,24,027	1,07,155	1,04,845
TOTAL EQUITY AND LIABILITIES	2,66,073	2,63,054	2,79,494	2,49,839	2,41,262	2,51,450

Source: Company, KRChoksey Research

Lupin Ltd.

Lupin Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
10-Aug-20	958	979	HOLD	Buy	More than 15%
30-May-20	866	893	HOLD		
22-Apr-20	813	757	REDUCE	Accumulate	5% – 15%
10-Feb-20	708	693	REDUCE	Hold	0 – 5%
08-Nov-19	719	742	HOLD		
16-Aug-19	734	840	ACCUMULATE	Reduce	-5% – 0
17-May-19	781	861	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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