

BSE SENSEX

38,844

S&P CNX

11,472

CMP: INR972
TP: INR1,130(+16%)
Buy


Stock Info

Bloomberg	LPC IN
Equity Shares (m)	453
M.Cap.(INRb)/(USDb)	440.4 / 5.9
52-Week Range (INR)	1035 / 505
1, 6, 12 Rel. Per (%)	12/49/26
12M Avg Val (INR M)	2145
Free float (%)	53.1

Financials Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	153.7	159.4	183.5
EBITDA	23.5	26.9	34.3
Adj. PAT	9.0	12.0	17.8
EBIT Margin (%)	9.0	11.3	13.7
Cons. Adj. EPS (INR)	19.8	26.6	39.4
EPS Gr. (%)	47.7	33.9	48.2
BV/Sh. (INR)	276.7	295.8	324.9

Ratios

Net D:E	0.0	0.1	0.0
RoE (%)	6.8	9.3	12.7
RoCE (%)	4.8	7.7	10.9
Payout (%)	-119.0	31.0	26.7

Valuations

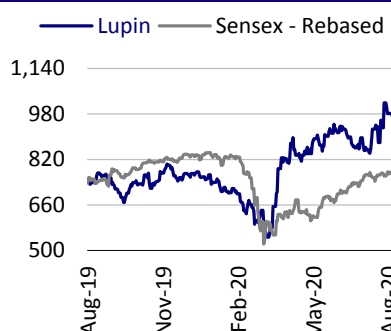
P/E (x)	49.2	36.6	24.7
EV/EBITDA (x)	18.8	16.8	12.9
Div. Yield (%)	0.9	0.7	0.9
FCF Yield (%)	15.8	-1.1	3.7
EV/Sales (x)	2.9	2.8	2.4

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	46.9	46.9	47.0
DII	18.9	16.6	13.4
FII	21.3	22.7	25.2
Others	12.9	13.9	14.4

FII Includes depository receipts

Stock Performance (1-year)



g-Proair approval – milestone in Complex Generics segment

LPC could garner USD80–90m annual sales from this opportunity

- Albuterol Sulfate MDI (g-Proair) is Lupin (LPC)'s first device-based inhalation product to be approved by the USFDA.
- Based on the competitive scenario, we believe g-Proair could add USD80–90m to LPC's revenues on an annualized basis.
- We raise our earnings estimate marginally by 2%/5% to factor the uptick on account of niche launches in the coming quarters. We further revise our PE multiple value to 25x (35% discount to three-year average) 12M forward earnings to arrive at target price of INR1,130.
- We remain positive on LPC as it is at an inflection point for growth in the developed markets, led by niche launches. It remains on track to: a) outperform in the Domestic Formulations (DF) market and b) complete remediation measures at sites under regulatory issues. Reiterate Buy.

g-Proair marks LPC's entry into device-based inhalers in US

Albuterol Sulfate sales for two innovators (GSK/Teva) for their brands Ventolin/Proair stood at USD600m/USD275m for 12M-ended Jun'20. A third brand 'Proventil' saw sales of USD153m for 12M-ended Feb'20, as per IMS. The combined market size of the three brands is ~USD1b. There are three authorized generics and two generics (Perrigo/Cipla) other than innovators. Considering 15% market share / 30% price erosion for LPC, we believe Albuterol Sulfate could add up to USD80–90m to LPC's annualized revenues.

Growth prospects to improve for US business

US revenues are expected to be driven in the near term by the launch of g-Proair, ramp-up in Levothyroxine sales, better traction in g-Apriso, relaunch of g-Glumetza, and new launches from 158 ANDAs pending approval. Additionally, LPC would file three more inhalers in FY21. Compared with 5% compounded decline over FY18–20, we expect a 7% sales CAGR in the US over FY20–22.

Biosimilar launch in EU to further improve earnings momentum

LPC would also launch Biosimilar-Enbrel in the EU market in 2HFY21. The initial launch would be in Germany, followed by France, Sweden, and other EU countries. This opportunity is expected to build up materially over next two to three years. LPC is expected to file Pegfilgrastim in the coming quarters.

Valuation and view: We expect a 38% earnings CAGR over FY20–22E, led by: (a) niche launches (g-Albuterol – to be launched in Sep'20; Biosimilar-Enbrel/g-Fostair in the EU), (b) improving market share for Levothyroxine, (c) better-than-industry growth in DF, and (d) partly the low base of FY20 (21% compounded decline in earnings over FY18–20). We expect RoE to improve to 12.7% by FY22E from 7% in FY20. We value LPC at 25x 12M forward earnings to arrive at target price of INR1,130. Maintain Buy.

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Story in charts

Exhibit 1: Revenue mix in 1QFY21

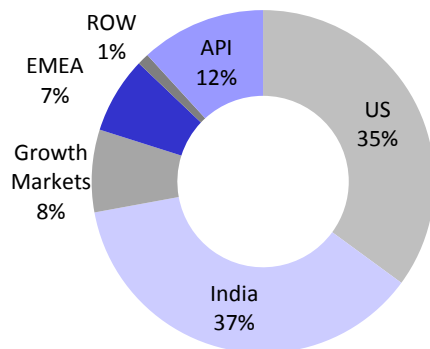


Exhibit 2: Growth to pick up in niche launches

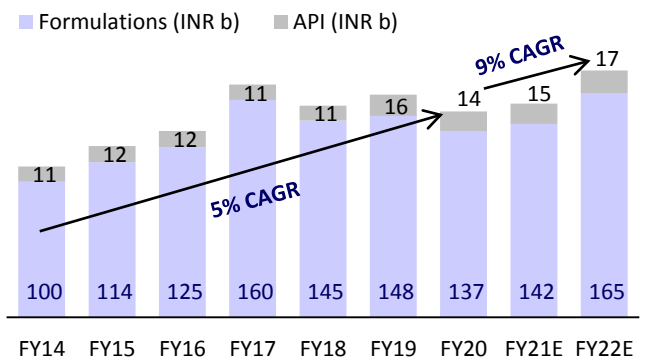


Exhibit 3: R&D spend as % of sales to remain stable

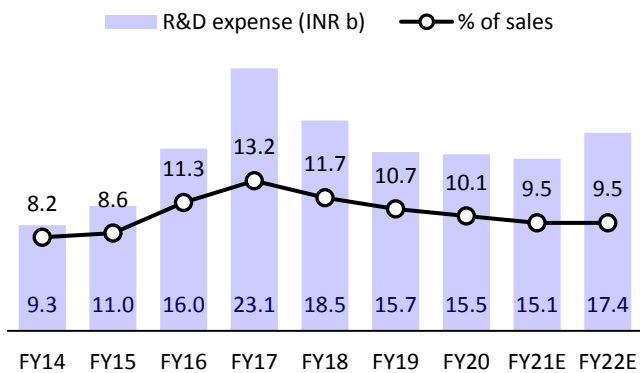


Exhibit 4: Margins to gradually pick up

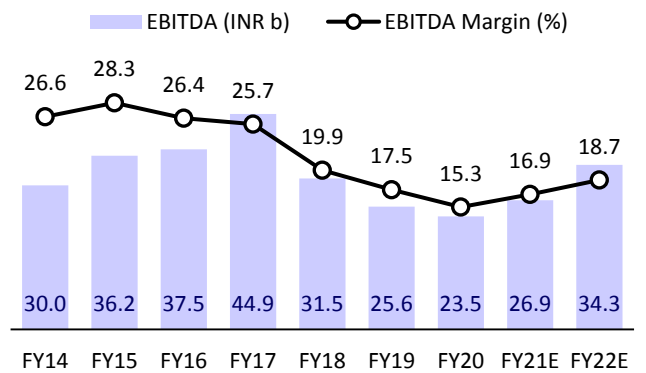


Exhibit 5: Expect EPS CAGR of ~41% over FY20–22E

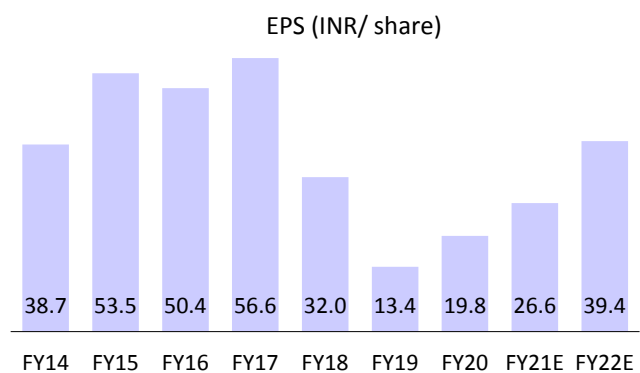
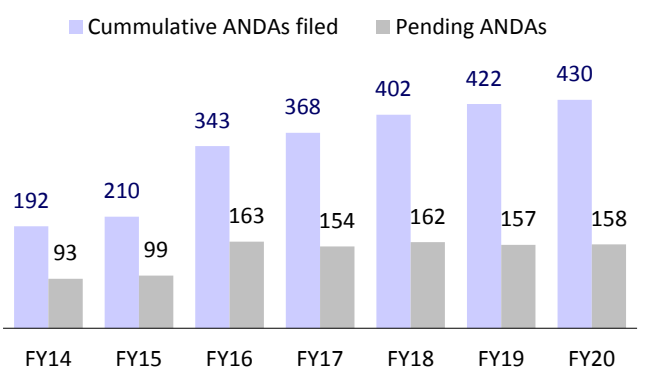


Exhibit 6: Rich ANDA pipeline



Source: MOFSL, Company, Bloomberg

Financials and valuations

Income Statement									(INR m)
Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	112,866	127,700	142,085	174,943	158,041	146,646	153,748	159,434	183,457
Change (%)	17.1	13.1	11.3	23.1	-9.7	-7.2	4.8	3.7	15.1
EBITDA	30,028	36,196	37,534	44,931	31,475	25,607	23,548	26,944	34,307
Margin (%)	26.6	28.3	26.4	25.7	19.9	17.5	15.3	16.9	18.7
Depreciation	2,610	4,347	4,635	9,122	10,859	8,461	9,702	8,916	9,137
EBIT	27,418	31,849	32,899	35,809	20,616	17,147	13,846	18,029	25,169
Int. and Finance Charges	267	98	446	1,525	2,044	3,025	3,630	1,904	1,765
Other Income - Rec.	165	2,398	1,877	1,065	1,504	3,330	3,578	1,950	2,200
PBT before EO item	27,317	34,148	34,330	35,349	20,076	17,452	13,794	18,075	25,605
EO Expense/(Income)	-1,000	0	0	0	14,644	3,400	6,261	204	0
PBT after EO item	28,317	34,148	34,330	35,349	5,433	14,052	7,533	17,871	25,605
Tax	9,622	9,704	11,536	9,785	2,885	8,879	11,571	5,897	7,681
Tax Rate (%)	34.0	28.4	33.6	27.7	53.1	63.2	153.6	33.0	30.0
Less: Minority Interest	331	412	88	-11	36	52	-43	-46	124
Reported PAT	18,364	24,032	22,707	25,574	2,512	5,121	-3,995	11,928	17,799
PAT Adj for EO items	17,364	24,032	22,707	25,574	14,455	6,066	8,966	12,009	17,799
Change (%)	32.1	38.4	-5.5	12.6	-43.5	-58.0	47.8	33.9	48.2
Margin (%)	15.4	18.8	16.0	14.6	9.1	4.1	5.8	7.5	9.7

Consolidated Balance Sheet									(INR m)
Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Equity Share Capital	897	899	901	903	904	905	906	903	903
Other Reserves	68,419	87,842	108,943	134,072	134,866	136,517	124,461	132,690	145,813
Total Reserves	68,419	87,842	108,943	134,072	134,866	136,517	124,461	132,690	145,813
Net Worth	69,316	88,741	109,844	134,975	135,771	137,422	125,367	133,593	146,716
Minority Interest	669	241	321	345	401	469	445	530	615
Deferred liabilities	1,779	1,182	1,239	-1,128	-4,310	-4,457	252	252	252
Secured Loan	1,968	1,018	53,739	61,243	67,722	70,546	25,180	15,179	5,179
Unsecured Loan	4,024	3,692	17,454	23,183	4,518	15,802	24,928	24,928	24,928
Total Loans	5,992	4,710	71,193	84,426	72,240	86,347	50,108	40,107	30,107
Capital Employed	77,756	94,874	182,596	218,619	204,101	219,781	176,172	174,482	177,690
Gross Block	45,638	45,445	55,887	55,265	63,687	72,189	76,431	83,722	90,292
Less: Accum. Deprn.	19,283	19,174	23,262	8,902	14,613	23,073	32,776	41,691	50,828
Net Fixed Assets	26,355	26,271	32,625	46,363	49,074	49,115	43,656	42,031	39,464
Capital WIP	3,041	5,760	9,812	7,150	9,563	10,186	7,582	7,141	6,920
Investments	1,785	16,584	75	220	267	1,856	361	361	361
Goodwill & Intangibles	7,202	17,411	73,586	78,147	70,965	67,963	37,540	37,540	37,540
Curr. Assets	62,970	64,510	107,473	129,117	126,019	143,033	158,957	147,873	158,705
Inventory	21,295	25,036	31,787	36,423	36,625	38,368	34,569	42,296	46,669
Account Receivables	24,641	26,566	45,498	43,073	51,922	51,498	54,459	56,082	62,698
Cash and Bank Balance	7,975	4,814	8,379	27,994	16,429	30,971	47,926	27,423	27,192
Curr. Liability & Prov.	23,597	35,662	40,975	42,378	51,788	52,372	71,924	60,462	65,299
Account Payables	18,818	28,299	32,318	34,576	43,568	41,390	59,884	48,422	53,259
Provisions	4,779	7,363	8,658	7,801	8,220	10,982	12,040	12,040	12,040
Net Current Assets	39,374	28,848	66,498	86,739	74,231	90,661	87,034	87,411	93,406
Appl. of Funds	77,756	94,874	182,596	218,619	204,100	219,782	176,172	174,482	177,690

Financials and valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
EPS (Fully Diluted)	38.7	53.5	50.4	56.6	32.0	13.4	19.8	26.6	39.4
Cash EPS (Fully Diluted)	44.5	63.1	60.7	76.8	56.0	32.1	41.2	46.3	59.6
BV/Share	154.6	197.4	243.8	298.9	300.3	303.7	276.7	295.8	324.9
DPS	6.0	7.5	7.5	7.5	5.0	5.0	9.0	7.0	9.0
Payout (%)	16.0	16.9	17.9	15.9	108.5	53.3	-119.0	31.0	26.7
Valuation (x)									
P/E (Fully Diluted)	25.2	18.2	19.3	17.2	30.5	72.7	49.2	36.6	24.7
EV/Sales	3.9	3.5	3.5	2.8	3.1	3.4	2.9	2.8	2.4
EV/EBITDA	14.6	12.2	13.4	11.1	15.8	19.4	18.8	16.8	12.9
Return Ratios (%)									
RoE	28.6	30.4	22.9	20.9	10.7	4.4	6.8	9.3	12.7
RoCE	26.5	29.1	16.8	13.3	4.9	3.5	4.8	7.7	10.9
RoIC	29.7	34.4	18.8	14.9	5.4	3.6	5.1	9.3	12.5
Working Capital Ratios									
Asset Turnover (x)	1.5	1.3	0.8	0.8	0.8	0.7	0.9	0.9	1.0
Fixed Asset Turnover (x)	4.5	4.9	4.8	4.4	3.3	3.0	3.3	3.7	4.5
Debtor (Days)	80	76	117	90	120	128	129	128	125
Creditor (Days)	152	172	186	189	178	184	162	183	183
Inventory (Days)	69	72	82	76	85	95	82	97	93
Leverage Ratio									
Current Ratio	2.7	1.8	2.6	3.0	2.4	2.7	2.2	2.4	2.4
Interest Cover Ratio	102.9	324.7	73.7	23.5	10.1	5.7	3.8	9.5	14.3
Debt/Equity (x)	0.0	0.0	0.6	0.4	0.4	0.4	0.0	0.1	0.0

Cash Flow Statement

Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
EBITDA	30,028	36,196	37,534	44,931	31,475	25,607	23,548	26,944	34,307
Interest/Dividends Recd.	165	2,398	1,877	1,065	1,504	3,330	3,578	1,950	2,200
Direct Taxes Paid	-9,475	-10,300	-11,479	-12,152	-6,067	-9,026	-6,862	-5,897	-7,681
(Inc)/Dec in WC	-4,368	7,364	-34,084	-626	942	-1,888	20,583	-20,880	-6,226
CF from Operations	16,349	35,657	-6,152	33,219	27,853	18,023	40,847	2,117	22,599
EO expense	-1,000	0	0	0	14,644	3,400	6,261	204	0
CF from Op. incl EO Exp.	17,349	35,657	-6,152	33,219	13,210	14,623	34,586	1,913	22,599
(inc)/dec in FA	-6,098	-17,191	-71,217	-24,759	-8,801	-6,123	28,785	-6,850	-6,350
Free Cash Flow	10,251	18,466	-77,369	8,460	19,053	11,900	69,631	-4,733	16,249
(Pur)/Sale of Investments	-1,764	-14,799	16,509	-145	-47	-1,589	1,496	0	0
CF from Investments	-7,862	-31,991	-54,708	-24,904	-8,848	-7,712	30,280	-6,850	-6,350
Change in Net Worth	1,593	-1,389	2,459	3,669	1,028	-724	-3,286	128	39
Inc/(Dec) in Debt	-4,248	-1,282	66,483	13,233	-12,187	14,108	-36,240	-10,001	-10,000
Interest Paid	-267	-98	-446	-1,525	-2,044	-3,025	-3,630	-1,904	-1,765
Dividend Paid	-2,939	-4,058	-4,071	-4,076	-2,725	-2,728	-4,755	-3,788	-4,755
CF from Fin. Activity	-5,861	-6,828	64,425	11,300	-15,927	7,631	-47,911	-15,566	-16,480
Inc/Dec of Cash	3,626	-3,161	3,565	19,615	-11,565	14,542	16,955	-20,502	-232
Add: Beginning Balance	4,349	7,975	4,814	8,379	27,994	16,429	30,971	47,926	27,423
Closing Balance	7,975	4,814	8,379	27,994	16,429	30,971	47,927	27,423	27,192

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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