

September 30, 2020

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	1,085		1,085	
Sales (Rs. m)	1,87,498	2,12,601	1,87,498	2,12,601
% Chng.	-	-	-	-
EBITDA (Rs. m)	39,093	43,264	39,093	43,264
% Chng.	-	-	-	-
EPS (Rs.)	45.2	50.5	45.2	50.5
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,51,428	1,64,573	1,87,498	2,12,601
EBITDA (Rs. m)	21,229	31,104	39,093	43,264
Margin (%)	14.0	18.9	20.9	20.4
PAT (Rs. m)	3,518	14,212	20,453	22,859
EPS (Rs.)	7.8	31.4	45.2	50.5
Gr. (%)	(62.7)	304.0	43.9	11.8
DPS (Rs.)	5.0	6.0	6.0	6.0
Yield (%)	0.5	0.6	0.6	0.6
RoE (%)	2.7	10.8	13.9	13.8
RoCE (%)	5.9	11.7	15.2	16.4
EV/Sales (x)	3.0	2.8	2.4	2.0
EV/EBITDA (x)	21.3	14.6	11.3	10.0
PE (x)	129.7	32.1	22.3	20.0
P/BV (x)	3.6	3.3	2.9	2.6

Key Data

LUPN.BO | LPC IN

52-W High / Low	Rs.1,122 / Rs.505
Sensex / Nifty	38,068 / 11,248
Market Cap	Rs.457bn/ \$ 6,188m
Shares Outstanding	453m
3M Avg. Daily Value	Rs.8095.44m

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	8.6	70.8	40.8
Relative	10.2	32.3	43.0

Surajit Pal

surajitpal@plindia.com | 91-22-66322259

Tausif Shaikh

tausifshaikh@plindia.com | 91-22-66322246

Tykerb : First generic launch

Quick Pointers:

- LPC to remain the only generic player for Tykerb in near-term and may capture 60% market share with peak sales of US\$20-25m.
- LPC/NATCO collaborated for Tykerb in CY-11 with profit share for 60:40

LPC launched gTykerb after its core patent expiry on 29th Sept CY20. LPC would be the only generic player over the next 18 months as there are no pending ANDA's for Tykerb. LPC is a marketing partner to distribute the generics in the US while NATCO would supply formulations (with captive API) with a fixed mark-up on the cost of production. LPC will however bear the lion's share of the adverse outcome if the innovator fights for its last patent which expires in CY-29. We estimate peak sales of US\$20-25mn in FY22E with a 60% market share and 30% price erosion. We believe LPC would have an advantage with the first gTykerb launch which could lead them to sustain 60% market share. With 60/40 profit share for gTykerb, we expect an EPS contribution of Rs0.40 and Rs1.10 for FY21E and FY22E. We remain upbeat of LPC on regulatory revival theme and new launches in the US market. We have a BUY rating and our TP is Rs1,085 based on 24x (PE) on FY22E.

Genesis of P-IV challenge on Tykerb (Lapatinib Ditosylate): LPC collaborated with Natco in CY-11 and filed ANDA on Lapatinib Ditosylate under P-IV certification. LPC/NATCO are the first generic and only filer for Lapatinib Ditosylate which will allow them to build market share at a price lower than the branded product but higher than that would be possible if it was up against competing generics.

GlaxoSmithKline (GSK) is the innovator for Tykerb and received USFDA approval in CY-07 but Tykerb's went to Novartis as part of Glaxo's oncology portfolio sale in a US\$16bn deal in CY-15. It is used in combination with other medicine capecitabine for treatment of patients with advanced or metastatic breast cancer that is HER2 positive, and who have already undergone chemotherapy and use Trastuzumab. The last patent on the drug expires in CY-29 (Sept) but its key patents expired in CY-20 (Sept). Tykerb market size in US is only US\$61mn as HER2 treatment improved significantly over years with new first medicine as Herceptin, Perjeta, Kadcyla and new targeted Immunotherapy

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,51,428	1,64,573	1,87,498	2,12,601
YoY gr. (%)	(7.5)	8.7	13.9	13.4
Cost of Goods Sold	54,306	55,296	59,812	68,883
Gross Profit	97,122	1,09,276	1,27,686	1,43,718
Margin (%)	64.1	66.4	68.1	67.6
Employee Cost	29,868	31,269	36,562	41,457
Other Expenses	15,538	16,457	18,750	21,260
EBITDA	21,229	31,104	39,093	43,264
YoY gr. (%)	(16.2)	46.5	25.7	10.7
Margin (%)	14.0	18.9	20.9	20.4
Depreciation and Amortization	9,702	10,730	11,390	12,091
EBIT	11,526	20,374	27,704	31,174
Margin (%)	7.6	12.4	14.8	14.7
Net Interest	3,630	3,254	1,929	1,271
Other Income	7,157	4,294	3,435	2,748
Profit Before Tax	15,054	21,415	29,210	32,651
Margin (%)	9.9	13.0	15.6	15.4
Total Tax	11,571	7,238	8,792	9,828
Effective tax rate (%)	76.9	33.8	30.1	30.1
Profit after tax	3,483	14,177	20,418	22,823
Minority interest	(36)	(36)	(36)	(36)
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,518	14,212	20,453	22,859
YoY gr. (%)	(62.7)	304.0	43.9	11.8
Margin (%)	2.3	8.6	10.9	10.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,518	14,212	20,453	22,859
YoY gr. (%)	(62.7)	304.0	43.9	11.8
Margin (%)	2.3	8.6	10.9	10.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,518	14,212	20,453	22,859
Equity Shares O/s (m)	453	453	453	453
EPS (Rs)	7.8	31.4	45.2	50.5

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	2,713	3,256
Current Assets				
Investments	23,383	19,875	19,876	19,877
Inventories	34,569	37,423	42,637	48,345
Trade receivables	54,459	58,615	67,294	76,886
Cash & Bank Balance	24,543	23,768	23,601	23,828
Other Current Assets	12,913	6,457	3,228	1,614
Total Assets	2,49,839	2,66,421	2,74,282	2,86,356
Equity				
Equity Share Capital	906	906	906	906
Other Equity	1,24,461	1,37,789	1,54,854	1,74,325
Total Networkth	1,25,367	1,38,695	1,55,760	1,75,231
Non-Current Liabilities				
Long Term borrowings	17,933	15,243	11,432	8,574
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	10,679
Trade payables	24,123	27,053	30,822	34,948
Other current liabilities	43,202	49,704	50,142	50,108
Total Equity & Liabilities	2,49,839	2,66,421	2,74,282	2,86,356

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	15,054	21,415	29,210	32,651
Add. Depreciation	9,702	10,730	11,390	12,091
Add. Interest	3,630	3,254	1,929	1,271
Less Financial Other Income	7,157	4,294	3,435	2,748
Add. Other	(15,991)	7,695	(4,836)	(5,247)
Op. profit before WC changes	12,395	43,094	37,693	40,765
Net Changes-WC	26,118	10,029	(5,113)	(8,932)
Direct tax	(11,571)	(7,238)	(8,792)	(9,828)
Net cash from Op. activities	26,943	45,884	23,787	22,005
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)	(11,439)	(9,977)
Dividend paid	-	-	-	-
Interest paid	(3,630)	(3,254)	(1,929)	(1,271)
Others	-	-	-	-
Net cash from Fin. activities	(42,988)	(5,445)	(13,368)	(11,248)
Net change in cash	(20,779)	34,364	624	780
Free Cash Flow	22,944	36,294	13,985	12,023

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

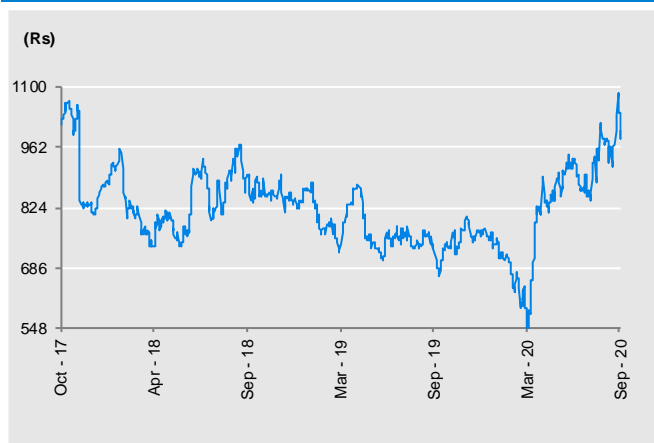
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.8	31.4	45.2	50.5
CEPS	29.2	55.1	70.3	77.2
BVPS	276.7	306.2	343.8	386.8
FCF	50.6	80.1	30.9	26.5
DPS	5.0	6.0	6.0	6.0
Return Ratio(%)				
RoCE	5.9	11.7	15.2	16.4
ROIC	1.8	10.4	14.0	14.9
RoE	2.7	10.8	13.9	13.8
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.1)
Net Working Capital (Days)	156	153	154	155
Valuation(x)				
PER	129.7	32.1	22.3	20.0
P/B	3.6	3.3	2.9	2.6
P/CEPS	34.5	18.3	14.3	13.1
EV/EBITDA	21.3	14.6	11.3	10.0
EV/Sales	3.0	2.8	2.4	2.0
Dividend Yield (%)	0.5	0.6	0.6	0.6

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	77,849	91,263	1,05,590
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	25-Aug-20	BUY	1,085	972
2	07-Aug-20	BUY	1,001	880
3	08-Jul-20	BUY	1,001	865
4	30-May-20	BUY	1,001	870
5	11-May-20	BUY	978	835
6	18-Apr-20	Reduce	685	822
7	14-Apr-20	Reduce	654	790
8	07-Feb-20	Reduce	654	722
9	03-Jan-20	Hold	760	777
10	19-Dec-19	Hold	760	773

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	838	881
2	Cadila Healthcare	Sell	329	396
3	Cipla	Reduce	657	729
4	Dr. Lal PathLabs	Sell	1,006	1,892
5	Dr. Reddy's Laboratories	Accumulate	5,648	5,108
6	Eris Lifesciences	BUY	576	511
7	Glenmark Pharmaceuticals	Sell	365	481
8	Indoco Remedies	Hold	243	262
9	Ipca Laboratories	Hold	1,962	2,013
10	Jubilant Life Sciences	Sell	446	830
11	Lupin	BUY	1,085	972
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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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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