

Lupin

On a path to higher profitability

Lupin's 2Q results were operationally in line as good traction in revenues (+9% QoQ), savings in staff cost led to EBITDA margin improvement of ~300bps QoQ to 16.8% (adjusting for forex loss and one off costs). Management commented on continued focus on cost control and operating leverage benefits to kick in from Q4 onwards. US generics business is expected to see increased momentum in 2H with higher contribution of gAlbuterol, gGlumetza (re-launched) and flu drugs. We remain positive on Lupin's ability to execute in the US (market share gains in key launches) which will be key to drive margin expansion of ~450bps over FY21-23e. We trim our estimates for FY21/22/23 by 6%/6%/5% to factor slightly higher other expenses and lower other income. Revised TP Rs1120/sh.

- Operationally in-line**—Revenues grew to Rs38.4bn (+3% YoY, +9% QoQ) as healthy growth in US (+15% QoQ) and EMEA (+2% YoY, 30% QoQ) offset muted growth in India (down 1% YoY, acute portfolio underperformed). EBITDA margins improved to 16.8% (+350bps YoY, +300bps QoQ) as lower staff cost (-240bps YoY, -460bps QoQ) offset higher other expenditure (+50bps YoY, +220bps QoQ). Reported PAT came lower at Rs2.1bn impacted by forex loss of Rs540mn and lower other income.
- Market share gains in key products will drive near term growth:** Ramp up in Albuterol (by Q4), Levothyroxine (current market share is 12-13%), gGlumetza (re launched at end of Q2) and flu products (2H is seasonally strong) will drive growth in the near term. Lupin has also made good progress in inhalation products, complex injectables, peptides and depot products which will drive growth over medium to longer term. We expect US to grow at 12% CAGR over FY20-23e.
- Key call takeaways:** a) Guidance – India growth – 6-8% in 2H, EBITDA margin - 18.5% by Q4 and 20-22% over next few quarters, ETR – mid-30s for FY21; b) **Key products** –gFostair (EU) – expect approval in Q4, **bEnbrel** – launched in Germany, Finland, Croatia and to be launched in France and Belgium, **Peg-filgrastim** – on track to file in the US by end of FY21, **gSpiriva** - launch post June 2022; c) Somerset inspection is ongoing; d) US pricing erosion – stabilized to mid single digit; e) Albuterol pricing has held up well.
- Maintain BUY, risks:** We revise our TP to Rs1,120 (from Rs1,185 earlier) based on 23x Sept'22e EPS. Key risks: delay in approvals, delay in resolution of key plants, drug price-fixing lawsuit in the US.

Financial Summary

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	37,818	36,761	2.9	34,686	9.0	1,52,307	1,57,060	1,83,309	2,05,139
EBITDA*	5,812	4,965	17.1	4,881	19.1	22,107	26,363	35,770	43,667
APAT*	2,110	3,612	-41.6	1,087	94.1	3,526	12,333	19,128	25,210
Adj. EPS (Rs)	4.7	8.0	-41.6	2.4	94.1	7.8	27.0	42.2	55.6
P/E (x)						120.1	34.6	22.1	16.8
RoE (%)						2.8	9.1	12.6	14.5

Source: Company, HSIE Research

BUY

CMP(as on 05 Nov 2020)	Rs 934
Target Price	Rs 1,120
NIFTY	12,120

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,185	Rs 1,120
EPS %	FY21E	FY22E
	-6%	-6%

KEY STOCK DATA

Bloomberg code	LPC IN
No. of Shares (mn)	453
MCap (Rs bn) / (\$ mn)	424/5,726
6m avg traded value (Rs mn)	3,678
52 Week high / low	Rs 1,122/505

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.9	13.2	24.0
Relative (%)	(8.9)	(18.2)	21.3

SHAREHOLDING PATTERN (%)

	Sep-20	Jun-20
Promoters	46.91	46.92
FIs & Local MFs	19.86	18.57
FPIs	20.35	21.31
Public & Others	12.88	13.20
Pledged Shares	0.00	0.00

Source : BSE

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