

November 6, 2020

Q2FY21 Result Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	1,212		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	1,62,391	1,87,498	2,12,601
EBITDA (Rs. m)	21,229	25,562	39,093	43,264
Margin (%)	14.0	15.7	20.9	20.4
PAT (Rs. m)	3,518	10,482	20,454	22,858
EPS (Rs.)	7.8	23.1	45.2	50.5
Gr. (%)	(62.7)	198.0	95.1	11.8
DPS (Rs.)	5.0	6.0	6.0	6.0
Yield (%)	0.5	0.6	0.6	0.6
RoE (%)	2.7	8.3	15.0	14.8
RoCE (%)	5.9	9.2	16.1	17.4
EV/Sales (x)	2.8	2.4	2.0	1.7
EV/EBITDA (x)	19.7	15.4	9.6	8.4
PE (x)	120.5	40.4	20.7	18.5
P/BV (x)	3.4	3.3	2.9	2.6

Key Data

LUPN.BO | LPC IN

52-W High / Low	Rs.1,122 / Rs.505
Sensex / Nifty	41,340 / 12,120
Market Cap	Rs.424bn/ \$ 5,703m
Shares Outstanding	453m
3M Avg. Daily Value	Rs.9161.38m

Shareholding Pattern (%)

Promoter's	46.91
Foreign	20.35
Domestic Institution	20.14
Public & Others	12.60
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(9.8)	13.2	24.0
Relative	(15.0)	(13.9)	20.7

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Albuterol, Glumetza to be catalyst in 2H

Quick Pointers:

- US grew 14% QoQ on back of metformin relaunch, Levothyroxyn ramp up and Albuterol launch.
- India formulation remained muted with 1% YoY decline.

We reduce our earnings estimate by 7% as we revise our EBITDAM lower to 16% (earlier 19%) for FY21E on the back of increased operating expense. 2QFY21 earnings were below our estimate even with most of the regions except India witnessed good growth. The disappointment was primarily at EBITDA level due to increase in operating expense of 34% QoQ, which led EBITDAM of 14% v/s our estimate of 20%. LPC guided for 18.5% EBITDAM for 4QFY21 and 20-22% going ahead on the back of key launches in US. We believe US to be the key growth driver for LPC with resolution of Somerset, Goa and Pithampur (Unit-2) and also Perrigo's decision to voluntary recall Albuterol will benefit LPC. On the other hand, domestic formulation will also reach pre-COVID levels of 10-12% in FY22E. We roll over our valuation to FY23E (earlier FY22E) and derive a TP of Rs1,212 (earlier Rs1,085) based on 24x PE of FY23E EPS of Rs50.5. We maintain BUY (Unchanged).

Earnings disappointment due to increase in operating expense: Revenue grew 9% QoQ, while YoY declined 2% to Rs37.8bn (PL: Rs40bn). Domestic formulation declined 1% YoY while US grew 14% QoQ (US\$180m). Growth Markets/EMEA/ROW grew 8%/30%/55% QoQ. EBITDA grew 23% QoQ while YoY declined 32% to Rs5.2bn (PL: Rs8bn). EBITDA Margin was 14% (PL: 20%) v/s 20% YoY and 12.4% QoQ led by increase in SG&A expense of 34% QoQ and 10% YoY. PBT grew 32% QoQ while YoY declined 41% to Rs3.5bn (PL: Rs5.5bn). PAT grew 97% QoQ while YoY declined 53% to Rs2.1bn (PL: 3.9bn).

Conference call and other key highlights:

North America: Revenue grew 14% QoQ to US\$180m (including branded) led by relaunch of metformin in end of 2QFY21, ramp up of Levothyroxyn and launch of Albuterol while demand for Solosec remains muted. LPC share in Levothyroxyn increased to 16% v/s 12% in previous quarter while it aims for 20% Rx share in FY21E.

Albuterol: LPC launched Albuterol in Sep-CY20 and expects to gain Rx share from Perrigo recall. LPC guided 4QFY21 would have better part of sales from Albuterol as its ramping up capacity. Currently, there are two generic players for Proair.

US pipeline: It has 8-10 complex injections in pipeline, which are expected to be filed in FY22E. LPC filed ANDA on Spiriva (Tiotropium bromide) and LPC has First-to-File status for the same expected to launch in June-CY22 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, and Somerset plants continues to be under OAI/WL status. Currently, Somerset is undergoing FDA inspection while Goa and Pithampur (Indore) Unit-2 inspection is awaited. We believe resolution of these plants would be a key earnings trigger, as it would increase the flow of approvals. In last few months, LPC 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 1% YoY during the quarter amid lockdown led restriction and lower demand of acute products. LPC guided growth in 2HFY21 to be 6-8% and reach normalcy level of 10-12% in FY22E. 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 grew 14% QoQ to Rs3,513m with Brazil/Mexico/Philippines/Australia growing at 7%/26%/22%/13% QoQ in constant currency terms.

EMEA: Sales grew 30% QoQ to Rs3,259m with Africa and Germany reporting growth of 29% and 7% QoQ in constant currency terms. In Q2, LPC launched Enbrel in Germany, Finland and Croatia while it would also be launched in France and Belgium in CY21.

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: Q2FY20 Result Overview (Rs m) : Earnings continues to be lower due to high operating expense.

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	37,818	38,202	(1.0)	34,686	72,504	76,357	(5.0)
Raw Material	13,817	13,439	2.8	12,880	26,697	26,663	0.1
<i>% of Net Sales</i>	<i>36.5</i>	<i>35.2</i>		<i>37.1</i>	<i>36.8</i>	<i>34.9</i>	
Personnel Cost	6,853	7,602	(9.9)	7,936	14,789	14,826	(0.2)
<i>% of Net Sales</i>	<i>18.1</i>	<i>19.9</i>		<i>22.9</i>	<i>20.4</i>	<i>19.4</i>	
Others	11,868	11,375	4.3	9,582	21,450	22,235	(3.5)
<i>% of Net Sales</i>	<i>31.4</i>	<i>29.8</i>		<i>27.6</i>	<i>29.6</i>	<i>29.1</i>	
Total Expenditure	32,538	32,416	0.4	30,398	62,936	63,724	(1.2)
EBITDA	5,280	5,786	(8.7)	4,289	9,568	12,633	(24.3)
<i>Margin (%)</i>	<i>14.0</i>	<i>15.1</i>		<i>12.4</i>	<i>13.2</i>	<i>16.5</i>	
Depreciation	2,127	2,526	(15.8)	2,146	4,274	5,027	(15.0)
EBIT	3,152	3,260	(3.3)	2,142	5,294	7,606	(30.4)
Other Income	782	1,900	(58.9)	1,025	1,807	3,187	(43.3)
Interest	336	826	(59.3)	443	779	1,670	(53.4)
PBT	3,598	4,334	(17.0)	2,725	6,322	9,123	(30.7)
Total Taxes	1,467	695	111.0	1,643	3,110	2,850	9.1
<i>ETR (%)</i>	<i>40.8</i>	<i>16.0</i>		<i>60.3</i>	<i>49.2</i>	<i>31.2</i>	
PAT before exceptional	2,131	3,639	(41.4)	1,081	3,212	6,274	(48.8)
Exceptional Item	-	(5,465)		-	-	(5,079)	
Minority	2,131	(1,826)	(216.7)	1,081	3,212	1,195	168.8
Reported PAT	37,818	38,202	(1.0)	34,686	72,504	76,357	(5.0)

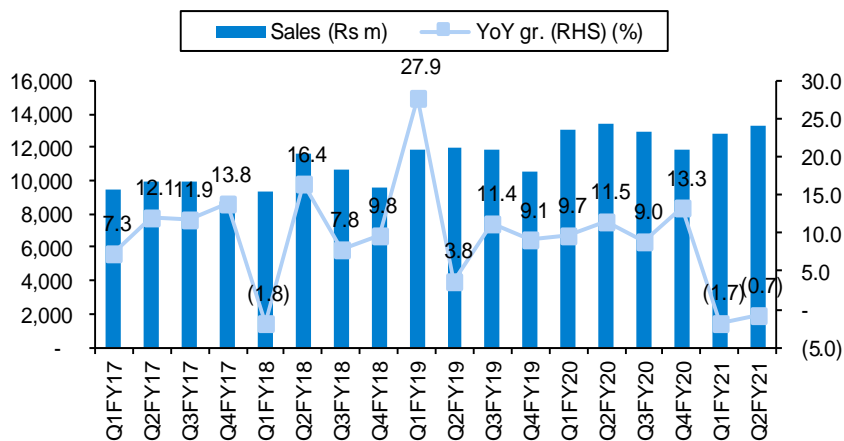
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major Sources of Revenues	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Domestic market	13,323	13,419	(0.7)	12,854	12,752	26,496	(51.9)
% of Sales	35.2	36.5		37.1	49.6	35.4	
International market (Exports)	24,495	23,342	4.9	21,832	12,976	48,420	(73.2)
% of Sales	64.8	63.5		62.9	50.4	64.6	
Total	37,818	36,761	2.9	34,686	25,728	74,916	(65.7)
Formulations	34,079	32,124	6.1	30,596	25,728	66,790	(61.5)
% of Sales	90.1	91.3		88.2	100.0	100.0	
India	13,323	13,419	(0.7)	12,854	12,752	26,496	(51.9)
% of Sales	35.2	38.1		37.1	49.6	39.7	
International market (Exports)	20,756	18,705	11.0	17,742	12,976	40,294	(67.8)
% of Sales	54.9	53.2		51.2	50.4	60.3	
North America	13,984	13,244	5.6	12,160	12,975	28,656	(54.7)
% of Sales	37.0	37.7		35.1	50.4	42.9	
Europe, Middle East, Africa (EMEA)	3,259	3,196	2.0	2,500	0	5,800	(100.0)
% of Sales	8.6	9.1		7.2	0.0	8.7	
Emerging Markets (ROW) & LATAM	3,513	2,265	55.1	3,082	1	5,838	(100.0)
% of Sales	9.3	6.4		8.9	0.0	8.7	
APIs	3,739	3,052	22.5	4,090	0	0	5.3
% of Sales	9.9	8.7		11.8	0.0	0.0	

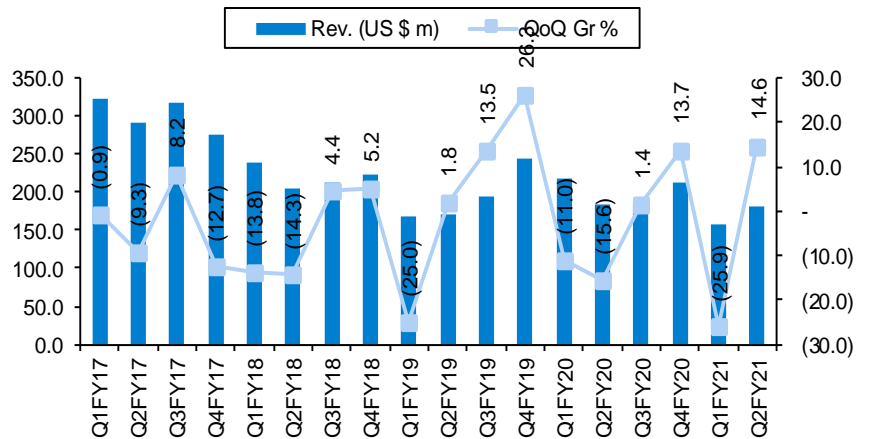
Source: Company, PL

Exhibit 3: Domestic Formulation :Growth muted due to lockdown



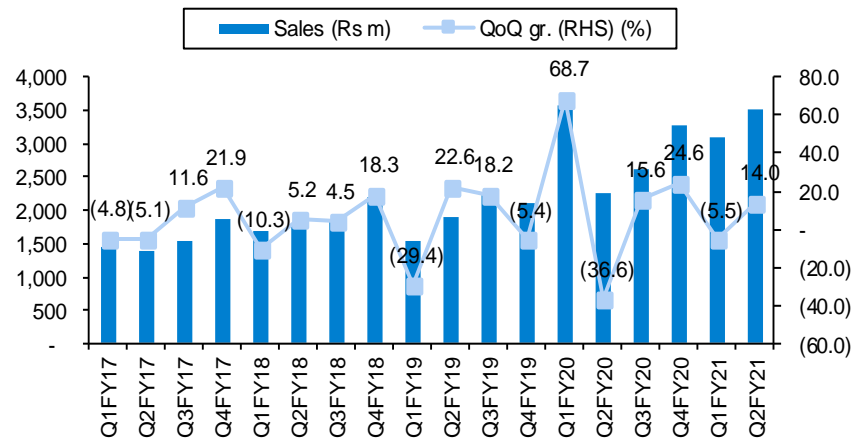
Source: Company, PL

Exhibit 4: US Generic : Growth led by Albuterol



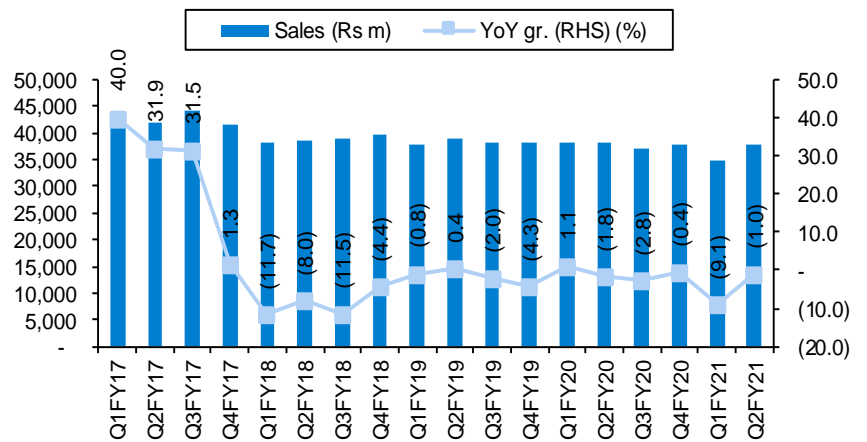
Source: Company, PL

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



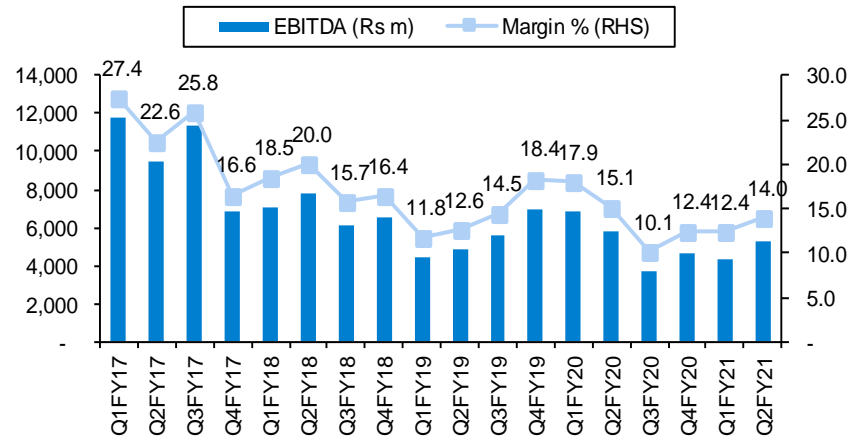
Source: Company, PL

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



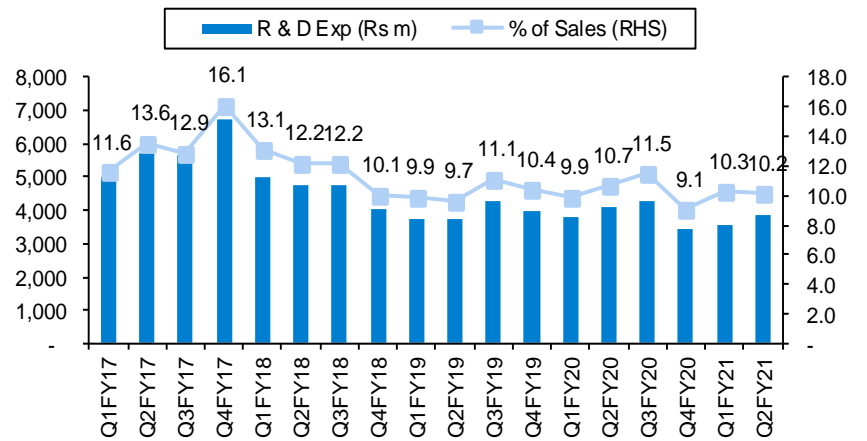
Source: Company, PL

Exhibit 7: EBITDA & EBITDAM: Operating expense keeps EBITDAM lower



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	1,62,391	1,87,498	2,12,601
YoY gr. (%)	(7.5)	7.2	15.5	13.4
Cost of Goods Sold	54,306	56,237	59,812	68,883
Gross Profit	97,122	1,06,154	1,27,686	1,43,718
Margin (%)	64.1	65.4	68.1	67.6
Employee Cost	29,868	30,854	36,562	41,457
Other Expenses	15,538	16,380	18,750	21,260
EBITDA	21,229	25,562	39,093	43,264
YoY gr. (%)	(16.2)	20.4	52.9	10.7
Margin (%)	14.0	15.7	20.9	20.4
Depreciation and Amortization	9,702	10,062	11,390	12,091
EBIT	11,526	15,500	27,704	31,173
Margin (%)	7.6	9.5	14.8	14.7
Net Interest	3,630	2,711	1,927	1,271
Other Income	7,157	3,874	3,435	2,748
Profit Before Tax	15,054	16,663	29,211	32,651
Margin (%)	9.9	10.3	15.6	15.4
Total Tax	11,571	6,203	8,793	9,828
Effective tax rate (%)	76.9	37.2	30.1	30.1
Profit after tax	3,483	10,461	20,419	22,823
Minority interest	(36)	(22)	(36)	(36)
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,518	10,482	20,454	22,858
YoY gr. (%)	(62.7)	198.0	95.1	11.8
Margin (%)	2.3	6.5	10.9	10.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,518	10,482	20,454	22,858
YoY gr. (%)	(62.7)	198.0	95.1	11.8
Margin (%)	2.3	6.5	10.9	10.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,518	10,482	20,454	22,858
Equity Shares O/s (m)	453	453	453	453
EPS (Rs)	7.8	23.1	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	1,26,796	1,34,090	1,45,090	1,56,090
Tangibles	70,465	73,759	80,759	87,759
Intangibles	56,331	60,331	64,331	68,331
Acc: Dep / Amortization	63,232	82,316	1,03,528	1,15,619
Tangibles	24,112	28,868	35,036	41,636
Intangibles	39,120	53,448	68,492	73,984
Net fixed assets	60,867	51,774	41,562	40,471
Tangibles	43,656	44,891	45,723	46,124
Intangibles	17,211	6,883	(4,161)	(5,653)
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	36,927	42,637	48,345
Trade receivables	54,459	57,838	67,294	76,886
Cash & Bank Balance	24,543	50,652	59,394	59,620
Other Current Assets	12,913	6,457	3,228	1,614
Total Assets	2,49,839	2,55,460	2,63,681	2,75,754
Equity				
Equity Share Capital	906	906	906	906
Other Equity	1,24,461	1,27,187	1,44,253	1,63,723
Total Networkth	1,25,367	1,28,093	1,45,159	1,64,629
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	26,694	30,822	34,948
Other current liabilities	43,202	49,704	50,142	50,108
Total Equity & Liabilities	2,49,839	2,55,460	2,63,681	2,75,754

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	15,054	16,663	29,211	32,651
Add. Depreciation	9,702	10,062	11,390	12,091
Add. Interest	3,630	2,711	1,927	1,271
Less Financial Other Income	7,157	3,874	3,435	2,748
Add. Other	(15,991)	17,246	4,986	(5,247)
Op. profit before WC changes	12,395	46,683	47,514	40,765
Net Changes-WC	26,118	10,943	(6,028)	(8,932)
Direct tax	(11,571)	(6,203)	(8,793)	(9,828)
Net cash from Op. activities	26,943	51,424	32,694	22,004
Capital expenditures	13,724	(5,885)	(9,802)	(9,982)
Interest / Dividend Income	-	-	-	-
Others	(735)	3,516	6	5
Net Cash from Inv. activities	12,988	(2,369)	(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)	(2,711)	(1,927)	(1,271)
Others	-	-	-	-
Net cash from Fin. activities	(42,988)	(4,903)	(13,366)	(11,248)
Net change in cash	(3,057)	44,152	9,532	780
Free Cash Flow	40,666	45,539	22,892	12,023

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	37,161	37,910	34,686	37,818
YoY gr. (%)	(2.8)	(0.4)	(9.1)	(1.0)
Raw Material Expenses	13,593	14,050	12,880	13,817
Gross Profit	23,568	23,860	21,807	24,001
Margin (%)	63.4	62.9	62.9	63.5
EBITDA	3,759	4,706	4,289	5,280
YoY gr. (%)	(32.3)	(32.7)	(37.4)	(8.7)
Margin (%)	10.1	12.4	12.4	14.0
Depreciation / Depletion	2,532	2,143	2,146	2,127
EBIT	1,227	2,563	2,142	3,152
Margin (%)	3.3	6.8	6.2	8.3
Net Interest	886	1,074	443	336
Other Income	1,468	2,633	1,025	782
Profit before Tax	1,809	4,123	2,725	3,598
Margin (%)	4.9	10.9	7.9	9.5
Total Tax	7,670	1,051	1,643	1,467
Effective tax rate (%)	424.1	25.5	60.3	40.8
Profit after Tax	(5,862)	3,072	1,081	2,131
Minority interest	398	10	(12)	21
Share Profit from Associates	-	-	-	-
Adjusted PAT	(6,260)	3,062	1,094	2,110
YoY gr. (%)	(473.7)	22.7	(58.6)	(31.6)
Margin (%)	(16.8)	8.1	3.2	5.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(6,260)	3,062	1,094	2,110
YoY gr. (%)	(473.7)	22.7	(58.6)	(31.6)
Margin (%)	(16.8)	8.1	3.2	5.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(6,260)	3,062	1,094	2,110
Avg. Shares O/s (m)	452	452	452	452
EPS (Rs)	(13.8)	6.8	2.4	4.7

Source: Company Data, PL Research

Key Financial Metrics

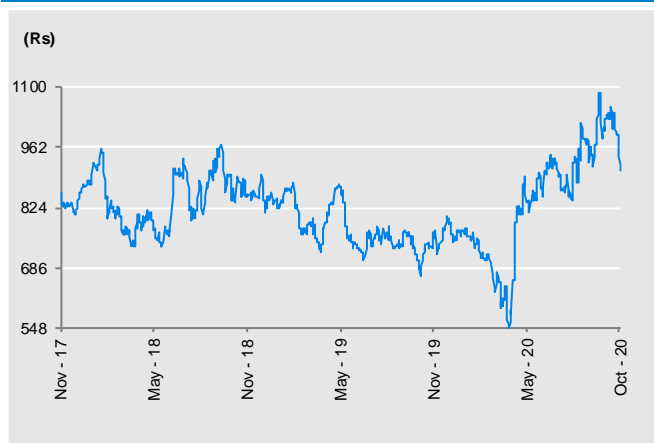
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.8	23.1	45.2	50.5
CEPS	29.2	45.4	70.3	77.2
BVPS	276.7	282.8	320.4	363.4
FCF	89.8	100.5	50.5	26.5
DPS	5.0	6.0	6.0	6.0
Return Ratio(%)				
RoCE	5.9	9.2	16.1	17.4
ROIC	1.8	9.9	21.0	21.9
RoE	2.7	8.3	15.0	14.8
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.2)	(0.3)	(0.4)
Net Working Capital (Days)	156	153	154	155
Valuation(x)				
PER	120.5	40.4	20.7	18.5
P/B	3.4	3.3	2.9	2.6
P/CEPS	32.1	20.6	13.3	12.1
EV/EBITDA	19.7	15.4	9.6	8.4
EV/Sales	2.8	2.4	2.0	1.7
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	13-Oct-20	BUY	1,085	1,047
2	30-Sep-20	BUY	1,085	1,007
3	25-Aug-20	BUY	1,085	972
4	07-Aug-20	BUY	1,001	880
5	08-Jul-20	BUY	1,001	865
6	30-May-20	BUY	1,001	870
7	11-May-20	BUY	978	835
8	18-Apr-20	Reduce	685	822
9	14-Apr-20	Reduce	654	790
10	07-Feb-20	Reduce	654	722

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	808	834
2	Cadila Healthcare	Sell	357	411
3	Cipla	Reduce	657	814
4	Cipla	Reduce	657	787
5	Dr. Lal PathLabs	UR	-	2,179
6	Dr. Reddy's Laboratories	BUY	5,964	4,951
7	Eris Lifesciences	BUY	671	518
8	Glenmark Pharmaceuticals	Sell	349	496
9	Indoco Remedies	Hold	239	252
10	Ipca Laboratories	Hold	1,886	2,113
11	Jubilant Life Sciences	Sell	455	708
12	Lupin	BUY	1,085	1,047
13	Sun Pharmaceutical Industries	BUY	597	486
14	Thyrocare Technologies	UR	-	1,138

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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