

Estimate change



TP change



Rating change



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Bloomberg	LPC INR
Equity Shares (m)	453
M.Cap.(INRb)/(USD\$b)	300.2 / 3.8
52-Week Range (INR)	1160 / 583
1, 6, 12 Rel. Per (%)	-5/-24/-50
12M Avg Val (INR m)	1277

Financials & Valuations (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	160.3	165.7	180.4
EBITDA	20.0	17.2	24.7
Adj. PAT	8.7	5.5	10.5
EBIT Margin (%)	7.3	5.6	9.1
Cons. Adj. EPS (INR)	19.1	12.0	23.1
EPS Gr. (%)	-26.3	-37.3	92.1
BV/Sh. (INR)	267.4	278.6	298.8

Ratios

Net D:E	0.3	0.3	0.2
RoE (%)	6.7	4.4	8.0
RoCE (%)	8.6	4.2	6.7
Payout (%)	-31.3	17.2	12.7

Valuations

P/E (x)	34.5	55.0	28.6
EV/EBITDA (x)	16.6	19.2	13.3
Div. Yield (%)	1.4	0.3	0.4
FCF Yield (%)	-0.1	0.4	1.8
EV/Sales (x)	2.1	2.0	1.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	47.1	46.8	46.8
DII	27.2	27.2	22.1
FII	14.3	14.7	18.6
Others	11.5	11.4	12.5

FII Includes depository receipts

CMP: INR660

TP: INR610 (-8%)

Neutral

Outlook hinges on niche approvals/cost minimization

The US portfolio rationalization drags profitability for the quarter

- Lupin (LPC) delivered lower-than-expected 1QFY23 performance, led by a decline in the US sales and reduced operating leverage. EBITDA margin was below its previous lows and stood at 4.4%.
- We cut our EPS by 35%/3% for FY23E/FY24E factoring in: a) inventory write-down and shelf stock adjustment in the US generics, b) ongoing price erosion in the US base business and c) gradual reduction in operational cost. We value LPC at 22x 12M forward earnings to arrive at our TP of INR610. We are yet to see signs of revival in the business in its key markets and hence **maintain our Neutral rating on the stock**.

Inferior product mix and higher opex hurt margins on a YoY basis

- LPC's 1QFY23 revenue declined 3.9% YoY to INR37b (our est. INR39.9b).
- The US sales decreased 24.2% YoY/33% QoQ to INR10b (down 30% in CC to USD121m; 28% of sales). This was largely due to inventory write-down and shelf stock adjustments in addition to price erosion in the base business.
- Domestic formulation (DF) sales declined 9% YoY to INR14.9b (41% of sales). API sales grew 4% YoY to INR2.6b (7% of sales); Growth market sales rose 27.3% YoY to INR4.2b (12% of sales) and EMEA sales increased 27.6% YoY to INR3.3b (9% of sales).
- Gross Margin (GM) contracted 380bp YoY to 57% on change in product mix.
- Adjusting for forex gain, EBITDA margin contracted at a higher rate of 980bp YoY to 4.4% (our est. at 8%), largely due to reduced operating leverage (other expenses climbed 570bp YoY as a % of sales).
- As a result, EBITDA declined 70.4% YoY to INR1.6b (our est. INR3.2b).
- Adjusted for forex gain of INR684m, LPC incurred a loss of INR1.6b due to higher tax outgo.

Highlights from the management commentary

- LPC had an adverse impact of USD50m on the US sales in 1QFY23 due to exits in about 15 products that have become economically unviable along with shelf stock adjustments for certain other products. LPC expects recovery of the US quarterly sales run-rate to USD150-160m in the coming quarters.
- Upside from launches such as g-Suprep, g-Spiriva, etc. would also drive the US sales.
- LPC launched one ANDA in the US generics segment. It has a target to launch 10 products in FY23E.
- While the quarterly performance was weak, management guided for 18% EBITDA margin from 4QFY23 onwards fueled by new launches in the US and better-than-industry growth in the DF/EMEA markets.
- The company responded to all the queries related to g-Spiriva and is confident to launch it in 4QFY23E post successful approval. The target action date remains 17th Aug'22.

Quarterly Performance (Consolidated)

(INR m)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E	% Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	38,968	40,913	41,609	38,830	37,438	39,547	42,419	46,316	1,60,321	1,65,721	39,943	-6.3
YoY Change (%)	10.5	6.7	5.4	2.6	-3.9	-3.3	1.9	19.3	6.2	3.4	2.5	
Total Expenditure	33,426	34,950	35,970	36,007	35,799	36,700	36,989	38,998	1,40,353	1,48,486	36,747	
EBITDA	5,542	5,963	5,640	2,823	1,639	2,847	5,430	7,319	19,968	17,235	3,195	-48.7
YoY Change (%)	9.0	2.6	-23.2	-60.1	-70.4	-52.2	-3.7	159.2	-21.1	-13.7	-42.3	
Margins (%)	14.2	14.6	13.6	7.3	4.4	7.2	12.8	15.8	12.5	10.4	8.0	
Depreciation	2,088	2,116	2,034	1,982	1,928	1,950	2,000	2,032	8,220	7,910	1,995	
EBIT	3,454	3,847	3,606	842	-289	897	3,430	5,287	11,748	9,325	1,200	
YoY Change (%)	17.7	4.4	-26.5	-82.9	NA	-76.7	-4.9	528.1	-28.6	-20.6	-65.2	
Margins (%)	8.9	9.4	8.7	2.2	NA	2.3	8.1	11.4	7.3	5.6	3.0	
Interest	335	344	334	415	428	400	380	395	1,428	1,602	420	
Other Income	278	728	341	157	56	95	150	174	1,504	475	190	
EO Exp/(Inc)	-4,106	26,279	1,942	1,435	-684	0	0	0	-25,550	-684	0	
PBT	7,503	-22,048	1,671	-852	23	592	3,200	5,066	37,374	8,881	970	-97.7
Tax	2,023	-1,099	-3,820	4,267	891	113	618	1,002	1,372	2,623	272	
Rate (%)	27.0	NA	NA	NA	NA	19.0	19.3	19.8	3.7	29.5	28.0	
Minority Interest	-55	-32	-14	-61	-23	-15	-24	-30	-183	-91	-12	
Reported PAT	5,425	-20,980	5,477	-5,179	-891	465	2,558	4,034	-15,280	6,166	687	NA
Adj PAT	2,426	3,057	2,695	521	-1,552	417	2,558	4,034	8,699	5,458	687	NA
YoY Change (%)	111.0	44.9	-32.8	-88.5	NA	-86.3	-5.1	673.8	-26.2	-37.3	-71.7	
Margins (%)	6.2	7.5	6.5	1.3	NA	1.1	6.0	8.7	5.4	3.3	1.7	

Key performance Indicators (Consolidated)

(INR m)

Y/E March	FY22E				FY23E				FY22E	FY22E	FY22E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
INRm											
Domestic formulations	16,362	15,435	14,733	13,511	14,920	16,207	16,796	18,124	60,042	66,046	15,544
YoY Change (%)	27.3	15.9	7.8	5.0	(8.8)	5.0	14.0	34.1	13.9	10.0	(5.0)
US formulations	13,330	14,291	15,775	14,162	10,104	11,250	12,900	15,753	57,556	50,007	13,650
YoY Change (%)	9.6	2.2	9.4	(5.3)	(24.2)	(21.3)	(18.2)	11.2	3.7	(13.1)	2.4
Europe	1,241	1,705	1,862	1,970	1,936	2,131	2,234	2,523	7,474	8,824	1,924
YoY Change (%)	(16.2)	(7.1)	8.8	31.2	56.0	25.0	20.0	28.1	3.5	18.1	55.0
ROW	5,248	5,925	5,941	6,799	6,529	6,778	6,817	6,993	22,717	27,117	5,939
YoY Change (%)	28.0	20.0	0.2	18.9	24.4	14.4	14.7	2.9	0.0	0.0	13.2
API	2,459	2,678	2,564	2,203	2,551	2,732	2,872	3,072	9,904	11,227	2,336
YoY Change (%)	(39.9)	(28.4)	(25.4)	(13.8)	3.7	2.0	12.0	39.5	(28.4)	13.4	(5.0)
Cost Break-up											
RM Cost (% of Sales)	39.2	39.8	40.7	42.0	43.0	43.1	41.0	40.8	40.4	42.5	42.4
Staff Cost (% of Sales)	20.1	18.5	17.9	18.1	20.8	19.4	18.2	16.9	18.6	19.0	17.8
R&D Expenses(% of Sales)	9.6	8.1	8.5	8.9	9.3	8.8	8.2	7.9	8.7	8.6	8.6
Other Cost (% of Sales)	16.9	19.1	19.3	23.7	22.5	21.5	19.8	18.6	19.7	20.8	23.2
Gross Margin (%)	60.8	60.2	59.3	58.0	57.0	56.9	59.0	59.2	59.6	57.5	57.6
EBITDA Margin (%)	14.2	14.6	13.6	7.3	4.4	7.2	12.8	15.8	12.5	10.4	8.0
EBIT Margin (%)	8.9	9.4	8.7	2.2	-0.8	2.3	8.1	11.4	7.3	5.6	3.0

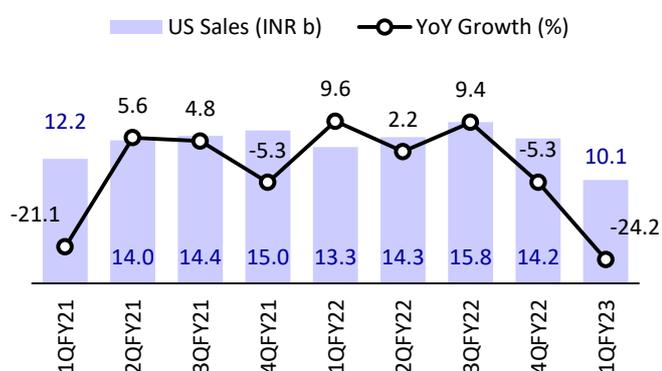


Highlights from the management commentary

- Adjusting for high base of 1QFY22, DF business grew 5.6% YoY for 1QFY23. LPC indicated double digit YoY growth in coming quarters.
- LPC's working capital days has increased upto 147 days from 140 days in FY22 due to higher inventories while there is reduction in receivable front.
- Rationalization of employees would reduce the employee cost by INR200m per quarter going forward.
- LPC's market share in Albuterol is about 23.2% in 1QFY23.
- LPC has about 34% of supplies by air and remaining by sea. LPC indicated to reduce the share of air freight to 22-25% of its supplies over medium term to reduce logistics cost to some extent.
- Partnered products forms about 15-16% of sales in 1QFY23 for LPC

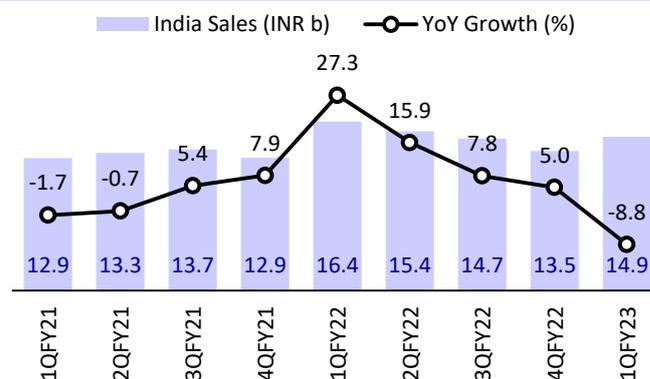
Key exhibits

Exhibit 1: US sales on declining trend



Source: MOFSL, Company

Exhibit 2: DF sales declined 9% YoY in 1QFY23



Source: MOFSL, Company

Earnings growth contingent on niche launches/cost optimization

US Generics – Portfolio rejigged; new approvals to aid growth

- While the US generics sales declined ~30%/24% in USD/INR terms as LPC undertook several strategic decisions to have course correction in its US business. The business is expected to revive on the basis of 10 launches planned for FY23 including high value complex launches such as gSuprep, gSpiriva, gNascobal and gDulera.
- LPC has started targeting respiratory inhalation filings with two products gAlbuterol and gBrovana already launched. The company is also targeting the oncology injectables. The US business going forward is expected to be margin accretive with product rationalization and limited competition product launches.
- However, considering high base, we expect US sales to moderate to USD675m in FY24 from USD738 in FY22.

DF – Chronic therapies to drive growth

- DF sales declined by ~9% YoY to INR14.9b in 1QFY23 largely due to the acute therapies underperforming the IPM. Especially, Anti-Infectives declined 21% as per AIOCD AWACs data for the quarter ending June'22.
- The revenues grew 10% sequentially driven by the 6 brands launched in 1QFY23. The GI, Pain & Gynae registered a double-digit growth in 1QFY23.
- As COVID pandemic subsides we expect chronic therapy growth to excel driven by strong launch momentum. Based on this, we expect 11% CAGR in DF sales to INR74b over FY22-24.

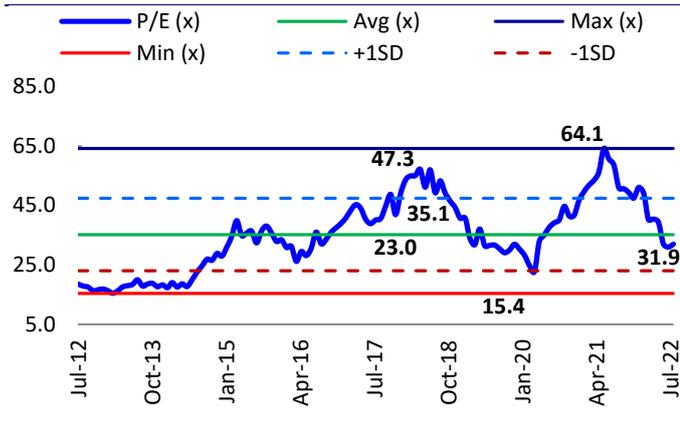
Growth momentum picks-up in EMEA segment

- Post exhibiting 9% YoY growth in FY22, LPC's EMEA segment has delivered strong YoY growth of 27.6% for the quarter.
- LPC's Europe business reported EUR9.2m in 1QFY23 registering a growth of 24% YoY. Namuscla, Tempil and various sexual health portfolio products contributed to strong YoY growth in revenues in 1QFY23.
- LPC's South Africa business reported 3% YoY growth in ZAR terms.
- Driven by the new launches and market share gains in the EMEA market we expect the sales to exhibit 11% CAGR over FY22-24.

Valuation adequately factors earnings upside; maintain our Neutral rating

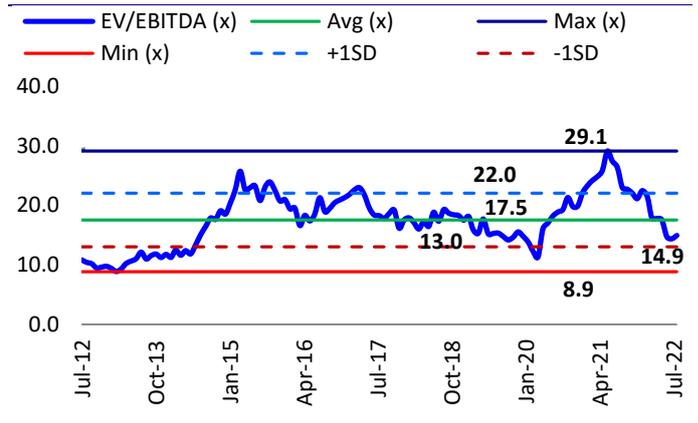
- We cut our EPS by 35%/3% for FY23E/FY24E factoring in: a) inventory write-down and shelf stock adjustment in the US generics, b) ongoing price erosion in the US base business and c) gradual reduction in operational cost.
- We expect 10% earnings CAGR over FY22-24, led by 11% sales CAGR in DF and 120bp margin expansion on account of cost rationalization measures.
- We value LPC at 22x 12M forward earnings to arrive at our TP of INR610. We are yet to see signs of revival in the business in its key markets and hence **maintain our Neutral rating on the stock.**

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 5: Revenue mix in 1QFY23

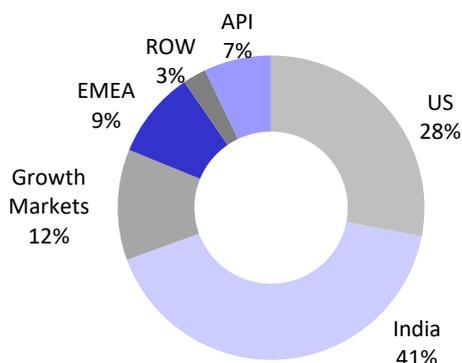


Exhibit 6: Growth to pick up by FY24

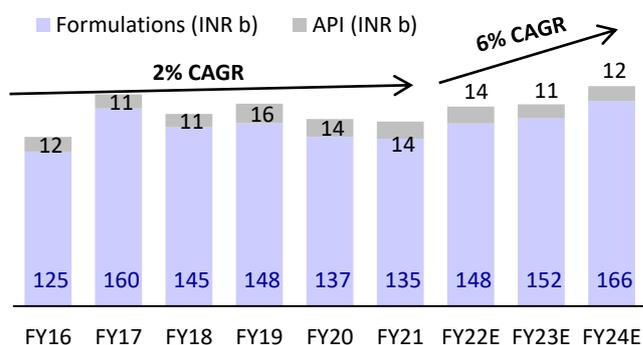


Exhibit 7: R&D spend as a percentage of sales to moderate

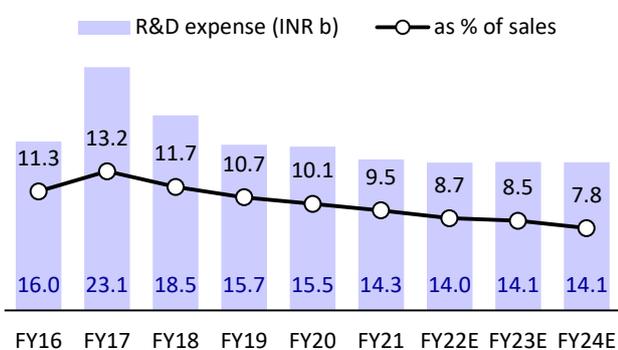


Exhibit 8: Expect EBITDA margin to inch up in FY24

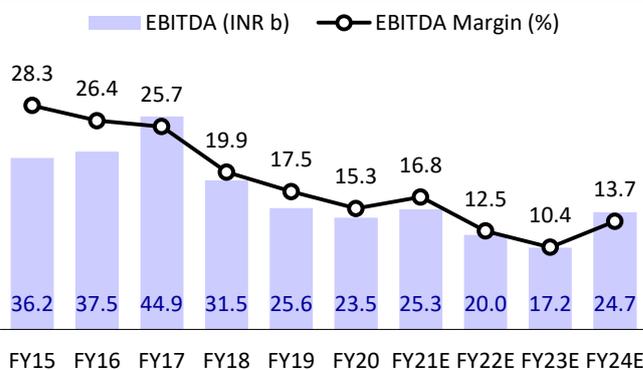


Exhibit 9: Expect EPS CAGR of ~10% over FY22-24

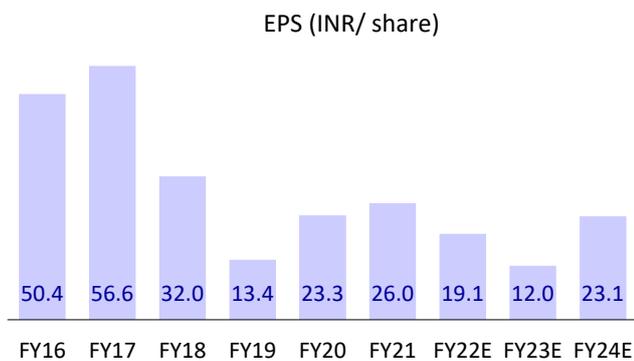
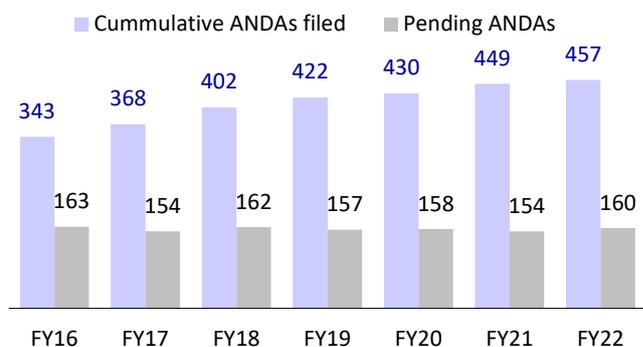


Exhibit 10: Rich ANDA pipeline



Source: MOFSL, Company,

Financials and valuations

Income Statement									(INR M)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	1,42,085	1,74,943	1,58,041	1,46,646	1,53,748	1,50,930	1,60,321	1,65,721	1,80,421
Total Expenditure	1,04,550	1,30,012	1,26,566	1,21,038	1,30,200	1,25,614	1,40,353	1,48,487	1,55,705
EBITDA	37,534	44,931	31,475	25,607	23,548	25,316	19,968	17,234	24,716
Margin (%)	26.4	25.7	19.9	17.5	15.3	16.8	12.5	10.4	13.7
Depreciation	4,635	9,122	10,859	8,461	9,702	8,874	8,220	7,910	8,259
EBIT	32,899	35,809	20,616	17,147	13,846	16,442	11,748	9,324	16,457
Int. and Finance Charges	446	1,525	2,044	3,025	3,630	1,406	1,428	1,602	1,406
Other Income - Rec.	1,877	1,065	1,504	3,330	3,578	1,479	1,504	475	500
PBT before EO item	34,330	35,349	20,076	17,452	13,794	16,515	11,824	8,196	15,551
EO Expense/(Income)	0	0	14,644	3,400	6,261	-236	25,550	-684	0
PBT after EO item	34,330	35,349	5,433	14,052	7,533	16,751	-13,726	8,880	15,551
Tax	11,536	9,785	2,885	8,879	11,571	4,485	1,372	2,623	4,977
Tax Rate (%)	33.6	27.7	53.1	63.2	153.6	26.8	-10.0	29.5	32.0
Less: Minority Interest	88	-11	36	52	-43	-101	-183	-91	-92
Reported PAT	22,707	25,574	2,512	5,121	-3,995	12,165	-15,280	6,166	10,481
PAT Adj for EO items	22,707	25,574	14,455	6,066	10,572	11,790	8,154	5,458	10,481
Change (%)	-5.5	12.6	-43.5	-58.0	74.3	11.5	-30.8	-37.3	92.1
Margin (%)	16.0	14.6	9.1	4.1	6.9	7.8	5.1	3.3	5.8
Adj Net Profit	22,707	25,574	14,455	6,066	10,572	11,790	8,154	5,458	10,481

Consolidated Balance Sheet									(INR M)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	901	903	904	905	906	907	909	909	909
Total Reserves	1,08,943	1,34,072	1,34,866	1,36,517	1,24,461	1,37,124	1,20,624	1,25,727	1,34,881
Net Worth	1,09,844	1,34,975	1,35,771	1,37,422	1,25,367	1,38,031	1,21,533	1,26,636	1,35,790
Minority Interest	321	345	401	469	445	550	687	782	878
Deferred liabilities	1,239	-1,128	-4,310	-4,457	252	496	711	711	711
Secured Loan	53,739	61,243	67,722	70,546	25,180	6,133	6,147	4,147	2,146
Unsecured Loan	17,454	23,183	4,518	15,802	24,928	30,494	37,023	37,023	37,023
Total Loans	71,193	84,426	72,240	86,347	50,108	36,627	43,170	41,170	39,169
Capital Employed	1,82,596	2,18,619	2,04,101	2,19,781	1,76,172	1,75,704	1,66,101	1,69,299	1,76,548
Gross Block	55,887	55,265	63,687	72,189	76,431	85,479	95,368	1,02,605	1,09,399
Less: Accum. Deprn.	23,262	8,902	14,613	23,073	32,776	41,650	49,870	57,780	66,039
Net Fixed Assets	32,625	46,363	49,074	49,115	43,656	43,829	45,498	44,825	43,360
Capital WIP	9,812	7,150	9,563	10,186	7,582	8,515	8,475	7,587	7,144
Investments	75	21,361	14,208	22,954	23,743	24,549	9,000	9,000	9,000
Goodwill & Intangibles	73,586	78,147	70,965	67,963	37,540	37,126	31,306	31,306	31,306
Curr. Assets	1,07,473	1,07,975	1,12,078	1,21,935	1,35,575	1,20,283	1,22,236	1,34,270	1,47,698
Inventory	31,787	36,423	36,625	38,368	34,569	40,920	46,307	50,368	54,796
Account Receivables	45,498	43,073	51,922	51,498	54,459	44,743	42,619	53,322	61,661
Cash and Bank Balance	8,379	6,853	2,488	9,872	24,543	17,425	10,981	8,211	8,823
Others	21,808	21,626	21,043	22,197	22,004	17,195	22,328	22,369	22,419
Curr. Liability & Prov.	40,975	42,378	51,788	52,372	71,924	58,598	50,414	57,689	61,958
Account Payables	32,318	34,576	43,568	41,390	59,884	47,460	42,254	49,529	53,798
Provisions	8,658	7,801	8,220	10,982	12,040	11,139	8,160	8,160	8,160
Net Current Assets	66,498	65,598	60,290	69,563	63,651	61,685	71,822	76,581	85,740
Appl. of Funds	1,82,596	2,18,619	2,04,100	2,19,781	1,76,172	1,75,704	1,66,101	1,69,299	1,76,548

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS (Fully Diluted)	50.4	56.6	32.0	13.4	23.3	26.0	19.1	12.0	23.1
Cash EPS (Fully Diluted)	60.7	76.8	56.0	32.1	44.8	45.5	37.2	29.4	41.2
BV/Share	243.8	298.9	300.3	303.7	276.7	304.2	267.4	278.6	298.8
DPS	7.5	7.5	5.0	5.0	9.0	7.0	9.0	2.0	2.5
Payout (%)	17.9	15.9	108.5	53.3	-119.0	30.4	-31.3	17.2	12.7
Valuation (x)									
P/E (Fully Diluted)	13.1	11.7	20.6	49.2	28.3	25.4	34.5	55.0	28.6
Cash P/E (Fully Diluted)	10.9	8.6	11.8	20.6	14.7	14.5	17.7	22.4	16.0
P/BV	2.7	2.2	2.2	2.2	2.4	2.2	2.5	2.4	2.2
EV/Sales	2.5	2.2	2.3	2.6	2.1	2.1	2.1	2.0	1.8
EV/EBITDA	9.6	8.4	11.7	14.6	13.8	12.6	16.6	19.2	13.3
Return Ratios (%)									
RoE	22.9	20.9	10.7	4.4	8.0	9.0	6.7	4.4	8.0
RoCE	16.8	13.3	4.9	3.5	4.8	7.5	8.6	4.2	6.7
RoIC	18.8	14.9	5.4	3.6	5.1	9.8	9.8	4.7	7.6
Working Capital Ratios									
Asset Turnover (x)	0.8	0.8	0.8	0.7	0.9	0.9	1.0	1.0	1.0
Fixed Asset Turnover (x)	4.8	4.4	3.3	3.0	3.3	3.5	3.6	3.7	4.1
Debtor (Days)	117	90	120	128	129	108	97	117	125
Creditor (Days)	186	189	178	184	162	137	129	142	146
Inventory (Days)	82	76	85	95	82	99	105	111	111
Leverage Ratio									
Current Ratio	2.6	2.5	2.2	2.3	1.9	2.1	2.4	2.3	2.4
Interest Cover Ratio	73.7	23.5	10.1	5.7	3.8	11.7	8.2	5.8	11.7
Debt/Equity (x)	0.6	0.6	0.5	0.6	0.2	0.1	0.3	0.3	0.2

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA	37,534	44,931	31,475	25,607	23,548	25,316	19,968	17,234	24,716
Interest/Dividends Recd.	1,877	1,065	1,504	3,330	3,578	1,479	1,504	475	500
Direct Taxes Paid	-11,479	-12,152	-6,067	-9,026	-6,862	-4,242	-1,156	-2,623	-4,977
(Inc)/Dec in WC	-34,084	-626	942	-1,888	20,583	-5,152	-16,581	-7,529	-8,547
CF from Operations	-6,152	33,219	27,853	18,023	40,847	17,401	3,735	7,557	11,691
EO expense	0	0	14,644	3,400	6,261	-236	25,550	-684	0
CF from Op. incl EO Exp.	-3,824	41,135	17,512	16,660	14,688	18,218	3,673	8,241	11,692
(inc)/dec in FA	-71,217	-24,759	-8,801	-6,123	28,785	-9,567	-4,029	-6,350	-6,350
Free Cash Flow	-77,369	8,460	19,053	11,900	69,631	7,834	-294	1,207	5,341
(Pur)/Sale of Investments	16,509	-21,286	7,153	-8,746	-788	-806	15,549	0	0
Others	-14,909	20,771	6,346	-17,956	-16,926	-4,166	1,402	0	0
CF from Investments	-69,617	-25,274	4,699	-32,825	11,070	-14,539	12,922	-6,350	-6,350
Change in Net Worth	2,459	3,669	1,028	-724	-3,286	4,403	3,888	96	98
Inc/(Dec) in Debt	66,483	13,233	-12,187	14,108	-36,240	-13,480	6,543	-2,000	-2,001
Interest Paid	-446	-1,525	-2,044	-3,025	-3,630	-1,406	-1,428	-1,602	-1,406
Dividend Paid	-4,071	-4,076	-2,725	-2,728	-4,755	-3,788	-4,786	-1,064	-1,329
CF from Fin. Activity	58,364	4,332	-14,921	7,441	-8,906	-18,852	-15,723	-4,661	-4,731
Inc/Dec of Cash	-15,077	20,193	7,290	-8,724	16,853	-15,173	872	-2,770	612
Add: Beginning Balance	21,084	7,802	27,995	14,164	5,441	22,293	7,119	7,991	5,221
Cash/Cash Eq. at end of the year	7,802	27,995	14,164	5,441	22,293	7,119	7,991	5,221	5,833
Forex/Bank	577	-21,142	-11,677	4,431	2,250	10,305	2,990	2,990	2,990
Closing Balance	8,379	6,853	2,488	9,872	24,543	17,425	10,981	8,211	8,823

NOTES

Explanation of Investment Rating	
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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