

August 5, 2022

Q1FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		HOLD	
Target Price	600		600	
Sales (Rs. m)	1,66,454	1,83,698	1,75,865	1,91,431
% Chng.	(5.4)	(4.0)		
EBITDA (Rs. m)	18,468	27,327	20,642	26,781
% Chng.	(10.5)	2.0		
EPS (Rs.)	14.5	29.7	19.6	29.8
% Chng.	(26.2)	(0.3)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	1,51,630	1,64,055	1,66,454	1,83,698
EBITDA (Rs. m)	26,692	22,904	18,468	27,327
Margin (%)	17.6	14.0	11.1	14.9
PAT (Rs. m)	12,165	12,513	6,574	13,512
EPS (Rs.)	26.8	27.5	14.5	29.7
Gr. (%)	244.4	2.7	(47.5)	105.5
DPS (Rs.)	15.2	4.7	7.0	9.4
Yield (%)	2.3	0.7	1.1	1.4
RoE (%)	9.2	9.6	5.3	10.4
RoCE (%)	10.0	8.2	6.1	10.9
EV/Sales (x)	2.1	2.0	2.0	1.8
EV/EBITDA (x)	11.7	14.3	17.9	11.8
PE (x)	24.6	24.0	45.6	22.2
P/BV (x)	2.2	2.5	2.4	2.2

Key Data

LUPN.BO | LPC IN

52-W High / Low	Rs.1,160 / Rs.583
Sensex / Nifty	58,299 / 17,382
Market Cap	Rs.300bn/ \$ 3,775m
Shares Outstanding	455m
3M Avg. Daily Value	Rs.757.82m

Shareholding Pattern (%)

Promoter's	47.10
Foreign	14.27
Domestic Institution	26.68
Public & Others	11.95
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.0	(24.3)	(42.7)
Relative	(4.1)	(23.9)	(46.6)

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Margin disappointment continues

Quick Pointers:

- Margins under pressure - Price erosion, shelf stock adjustments and inventory pare down in US biz impacted margins.
- Profitability to pick up from Q2 with recovery in US and India biz.

We cut our FY23E EPS est. by 26% however our FY24E EPS broadly remains unchanged. Margins in base business continues to disappoint and recovery remains elusive. Lupin's (LPC) FY22/Q1FY23 profitability has been impacted, on account of low GMs and high overheads along with subdued US sales. We believe LPC's recovery in US sales will be gradual and may hinge on timely niche launches. Further margins will improve only from HFY23 with likely savings and niche launches, which may see delay. At CMP, stock is trading at 22x FY24E P/E and 11.8x EV/EBIDTA on FY24E. See limited upside from current levels. We maintained our 'Hold' rating with TP of Rs600/share.

- **Weak US & India sales:** LPC's Q1FY23 sales decreased 12% YoY (down 4% QoQ) to Rs37bn vs our estimate of Rs42bn. Domestic formulation sales declined by 9% YoY (we est growth of 3%); lagged its peers. US sales came in at USD 121mn vs USD 180mn in Q4FY22. QoQ decline was account of shelf stock adjustments, price erosion and inventory rationalization. EMEA and markets grew healthy by 27% YoY. API saw growth of 4% YoY.
- **Another quarter of margin disappointment:** LPC reported EBIDTA of Rs1.6bn (down 28% QoQ) vs our estimate of Rs3.5bn. Miss was largely on account of lower US sales. GM declined by 280bp QoQ to 54.4%, mainly due to lower US sales. Other expenses were down by 10% QoQ. R&D expenses came in at 3.4bn, 10% of sales; down 7% YoY. Other operating income came in higher at Rs1.4bn. OPM came in at 4.4%; down 140 bps QoQ. There was forex gain of Rs 684mn. Reported loss came in at Rs891mn.
- **Key concall takeaways: (1) US market:** The QoQ decline in US sales was mainly due to double digit price erosion, trade inventory normalization and shelf stock adjustments. Company launched 1 new product in the US market in Q1FY23 and filed 4 ANDAs. **(2)** Guided \$150-155mn US sales base biz and should see pick up with niche launches like gSuprep and gSpiriva **(3)** On gSpiriva guided for Q4FY23 launch and as of now no any change in TAD (Aug 17, 2022) **(4)** Market share for gAlbuterol and gBrovana continues to remain healthy, however due to increased competition there is price erosion across both products **(5)** Company guided for 17-18% operating margin for Q4FY23E and +20% for FY24E, along with Rs5-10bn savings aided by multiple cost optimization strategies **(6)** India's growth was soft in Q1, which mgt expects to recover and grow double digit from Q2 onwards. Adjusted for COVID, domestic formulation growth was 6% YoY in Q1FY23 **(7)** Net debt increased by Rs6b to Rs25bn led by increased working capital. Guided 35% tax rate in FY23 **(8)** Guided 18-18.5% of sales as employee expenses, going forward. **(9)** Recent clearance of Somerset facility will aid new launches like gDiazepam and gNascobal

Exhibit 1: Q1FY23 Result Overview (Rs m) : Missed on operating margins

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Net Sales	37,438	42,702	(12.3)	38,830	(3.6)
Raw Material	16,098	15,280	5.4	16,322	(1.4)
<i>% of Net Sales</i>	<i>43.0</i>	<i>35.8</i>		<i>42.0</i>	
Personnel Cost	7,785	7,837	(0.7)	7,032	10.7
<i>% of Net Sales</i>	<i>20.8</i>	<i>18.4</i>		<i>18.1</i>	
Others	11,916	10,309	15.6	13,212	(9.8)
<i>% of Net Sales</i>	<i>31.8</i>	<i>24.1</i>		<i>34.0</i>	
Total Expenditure	35,799	33,426	7.1	36,566	(2.1)
EBITDA	1,639	9,276	(82.3)	2,264	(27.6)
<i>Margin (%)</i>	<i>4.4</i>	<i>21.7</i>		<i>5.8</i>	
Depreciation	1,928	2,088	(7.6)	3,272	(41.1)
EBIT	(289)	7,188	(104.0)	(1,008)	(71.3)
Other Income	739	650	13.8	559	32.3
Interest	428	335	27.8	415	3.1
PBT	23	7,503	(99.7)	(864)	(102.6)
Total Taxes	891	2,023	(56.0)	4,267	(79.1)
<i>ETR (%)</i>	<i>3,924.7</i>	<i>27.0</i>		<i>(493.9)</i>	
PAT before exceptional	(868)	5,480	(115.8)	(5,131)	(83.1)
Minority Interest	(23)	(55)		(61)	
Exceptional Item	-	-		-	
Reported PAT	(891)	5,425	(116.4)	(5,192)	(82.8)

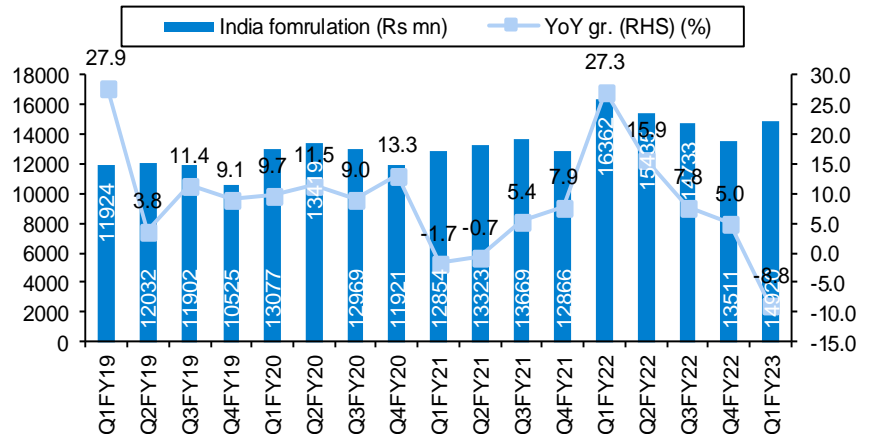
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major Sources of Revenues	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Domestic market	14,920	16,362	(8.8)	13,511	10.4
<i>% of Sales</i>	<i>43.3</i>	<i>39.8</i>		<i>36.3</i>	
International market (Exports)	19,517	24,721	(21.1)	23,695	(17.6)
<i>% of Sales</i>	<i>56.7</i>	<i>60.2</i>		<i>63.7</i>	
Total	34,437	41,083	(16.2)	37,206	(7.4)
Formulations	31,886	34,890	(8.6)	35,003	(8.9)
<i>% of Sales</i>	<i>92.6</i>	<i>84.9</i>		<i>94.1</i>	
India	14,920	16,362	(8.8)	13,511	10.4
<i>% of Sales</i>	<i>43.3</i>	<i>39.8</i>		<i>36.3</i>	
International market (Exports)	16,966	18,528	(8.4)	21,492	(21.1)
<i>% of Sales</i>	<i>49.3</i>	<i>45.1</i>		<i>57.8</i>	
North America	10,104	13,330	(24.2)	14,162	(28.7)
<i>% of Sales</i>	<i>29.3</i>	<i>32.4</i>		<i>38.1</i>	
Europe, Middle East, Africa (EMEA)	3,335	2,613	27.6	4,072	(18.1)
<i>% of Sales</i>	<i>9.7</i>	<i>6.4</i>		<i>10.9</i>	
Emerging Markets (ROW) & LATAM	3,527	2,585	36.4	3,258	8.3
<i>% of Sales</i>	<i>10.2</i>	<i>6.3</i>		<i>8.8</i>	
APIs	2,551	2,459	3.7	2,203	15.8
<i>% of Sales</i>	<i>7.4</i>	<i>6.0</i>		<i>5.9</i>	
NCEs	-	3,734		-	

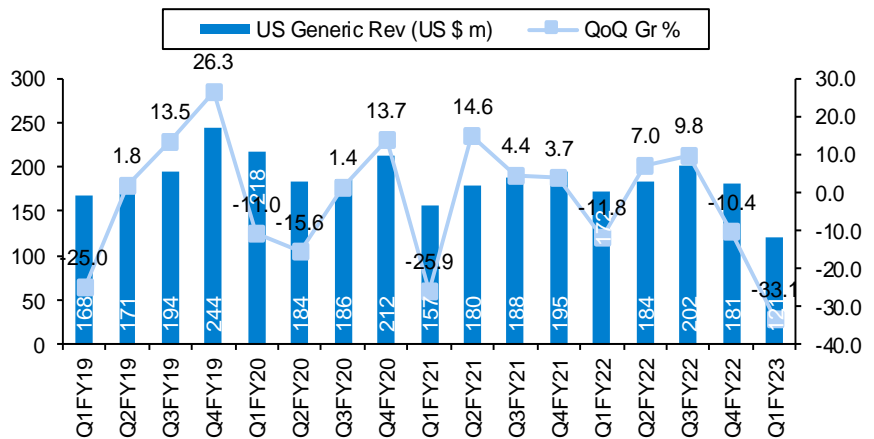
Source: Company, PL

Exhibit 3: Domestic Formulation: Adj for COVID growth was 6% YoY



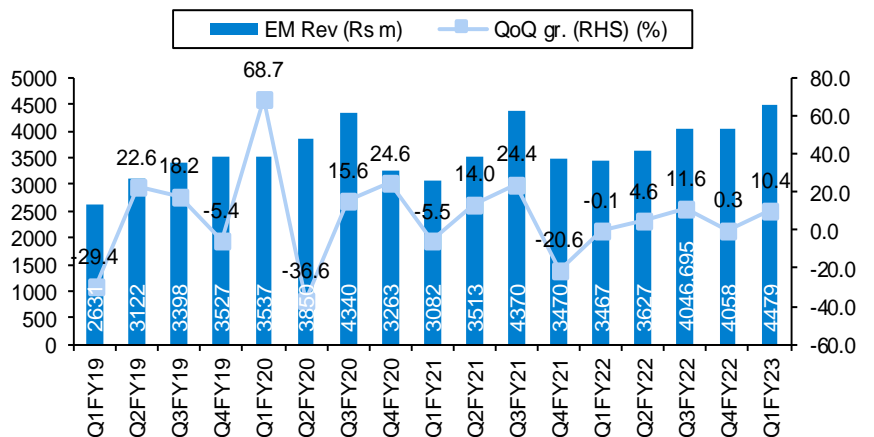
Source: Company, PL

Exhibit 4: US Generic : Price erosion and shelf stock adjustments impacted sales



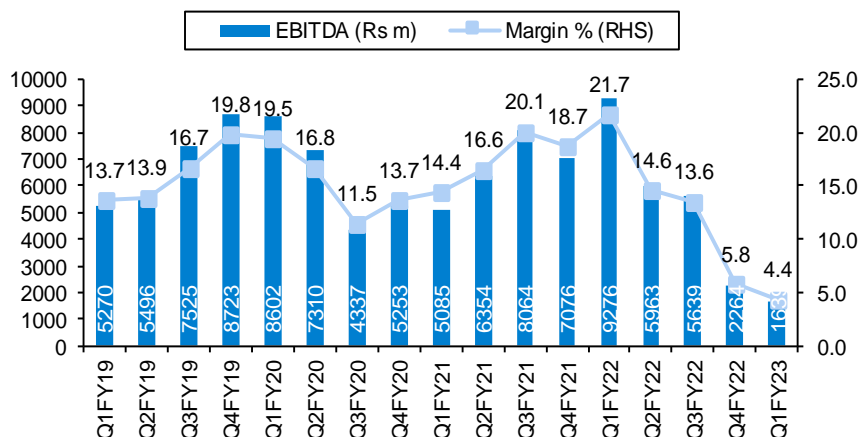
Source: Company, PL

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



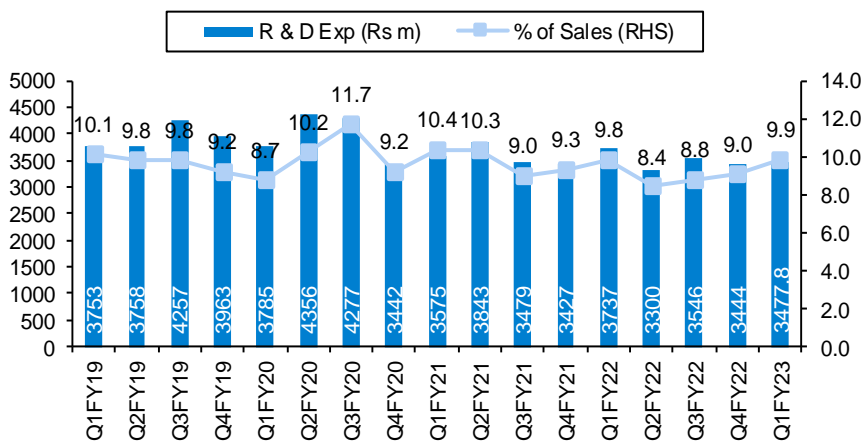
Source: Company, PL

Exhibit 6: EBITDAM: margin impacted by lower US sales



Source: Company, PL

Exhibit 7: R&D Exp (Rs mn) % of Sales



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	1,51,630	1,64,055	1,66,454	1,83,698
YoY gr. (%)	(1.4)	8.2	1.5	10.4
Cost of Goods Sold	53,622	64,812	67,848	72,198
Gross Profit	98,007	99,243	98,606	1,11,500
Margin (%)	64.6	60.5	59.2	60.7
Employee Cost	28,259	29,893	31,388	32,957
Other Expenses	43,056	46,446	48,750	51,216
EBITDA	26,692	22,904	18,468	27,327
YoY gr. (%)	13.3	(14.2)	(19.4)	48.0
Margin (%)	17.6	14.0	11.1	14.9
Depreciation and Amortization	8,874	9,510	8,684	9,031
EBIT	17,818	13,394	9,784	18,296
Margin (%)	11.8	8.2	5.9	10.0
Net Interest	1,406	1,428	1,500	1,350
Other Income	340	2,101	1,984	1,700
Profit Before Tax	16,751	14,067	10,268	18,646
Margin (%)	11.0	8.6	6.2	10.2
Total Tax	4,485	1,371	3,594	5,034
Effective tax rate (%)	26.8	9.7	35.0	27.0
Profit after tax	12,266	12,696	6,674	13,612
Minority interest	101	183	100	100
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,165	12,513	6,574	13,512
YoY gr. (%)	245.0	2.9	(47.5)	105.5
Margin (%)	8.0	7.6	3.9	7.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,165	12,513	6,574	13,512
YoY gr. (%)	245.0	2.9	(47.5)	105.5
Margin (%)	8.0	7.6	3.9	7.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,165	12,513	6,574	13,512
Equity Shares O/s (m)	454	455	455	455
EPS (Rs)	26.8	27.5	14.5	29.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	1,29,791	1,32,454	1,45,454	1,54,454
Tangibles	72,321	77,498	81,048	86,063
Intangibles	57,470	54,955	64,405	68,391
Acc: Dep / Amortization	68,460	76,890	85,574	94,606
Tangibles	28,492	32,000	35,614	39,373
Intangibles	39,968	44,890	49,960	55,233
Net fixed assets	61,331	55,563	59,879	59,848
Tangibles	43,829	45,498	45,434	46,690
Intangibles	17,502	10,065	14,445	13,158
Capital Work In Progress	8,515	8,475	8,475	8,475
Goodwill	19,624	21,241	21,241	21,241
Non-Current Investments	24,549	9,000	9,000	9,000
Net Deferred tax assets	(496)	(711)	(711)	(711)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	40,920	46,307	47,090	50,630
Trade receivables	44,743	42,619	47,090	49,638
Cash & Bank Balance	17,425	10,981	7,940	16,411
Other Current Assets	-	-	-	-
Total Assets	2,34,302	2,16,515	2,23,043	2,37,571
Equity				
Equity Share Capital	907	909	909	909
Other Equity	1,37,124	1,20,624	1,24,007	1,33,265
Total Networkth	1,38,031	1,21,533	1,24,916	1,34,174
Non-Current Liabilities				
Long Term borrowings	161	1,419	1,419	1,419
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	30,494	37,023	37,023	37,023
Trade payables	20,144	22,829	24,666	27,301
Other current liabilities	44,426	32,313	33,521	36,057
Total Equity & Liabilities	2,34,302	2,16,515	2,23,043	2,37,571

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	11,925	3,502	3,282	11,943
Add. Depreciation	8,874	9,510	8,684	9,031
Add. Interest	1,406	1,428	1,500	1,350
Less Financial Other Income	340	2,101	1,984	1,700
Add. Other	(1,140)	(11,086)	-	-
Op. profit before WC changes	21,065	3,354	13,466	22,325
Net Changes-WC	(1,925)	(150)	(2,208)	(918)
Direct tax	(7,155)	469	(3,594)	(5,034)
Net cash from Op. activities	11,985	3,673	7,663	16,373
Capital expenditures	(6,776)	(7,583)	(13,000)	(9,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invst. activities	(6,776)	(7,583)	(13,000)	(9,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(13,677)	(10,787)	-	-
Dividend paid	(2,723)	(2,951)	(3,191)	(4,254)
Interest paid	(1,406)	(1,428)	(1,500)	(1,350)
Others	5,480	12,632	6,987	6,703
Net cash from Fin. activities	(12,327)	(2,533)	2,296	1,098
Net change in cash	(7,119)	(6,444)	(3,041)	8,471
Free Cash Flow	5,208	(5,378)	(1,337)	7,373

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	40,913	41,609	38,830	37,438
YoY gr. (%)	6.7	3.6	2.6	(12.3)
Raw Material Expenses	16,265	16,946	16,322	16,098
Gross Profit	24,649	24,663	22,508	21,340
Margin (%)	60.2	59.3	58.0	57.0
EBITDA	5,963	5,639	2,264	1,639
YoY gr. (%)	(6.1)	(30.1)	(68.0)	(82.3)
Margin (%)	14.6	13.6	5.8	4.4
Depreciation / Depletion	2,116	2,034	3,272	1,928
EBIT	3,847	3,605	(1,008)	(289)
Margin (%)	9.4	8.7	(2.6)	(0.8)
Net Interest	344	334	415	428
Other Income	648	332	559	739
Profit before Tax	4,151	3,603	(864)	23
Margin (%)	10.1	8.7	(2.2)	0.1
Total Tax	(1,099)	(3,820)	4,267	891
Effective tax rate (%)	(26.5)	(106.0)	(493.9)	3,924.7
Profit after Tax	5,250	7,423	(5,131)	(868)
Minority interest	32	36	61	23
Share Profit from Associates	-	-	-	-
Adjusted PAT	(20,980)	5,455	(5,180)	(891)
YoY gr. (%)	(1,094.2)	24.5	(212.5)	(116.4)
Margin (%)	(51.3)	13.1	(13.3)	(2.4)
Extra Ord. Income / (Exp)	26,198	1,932	(12)	-
Reported PAT	5,218	7,387	(5,192)	(891)
YoY gr. (%)	147.3	68.6	(212.8)	(116.4)
Margin (%)	12.8	17.8	(13.4)	(2.4)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,218	7,387	(5,192)	(891)
Avg. Shares O/s (m)	452	452	452	452
EPS (Rs)	11.6	16.4	(11.5)	(2.0)

Source: Company Data, PL Research

Key Financial Metrics

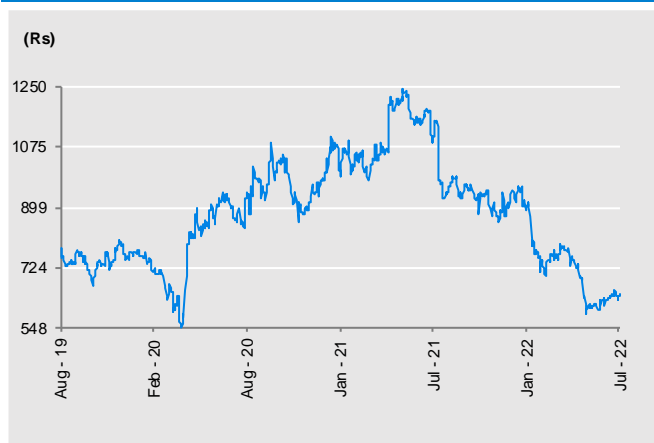
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	26.8	27.5	14.5	29.7
CEPS	46.4	48.5	33.6	49.6
BVPS	304.2	267.4	274.8	295.2
FCF	11.5	(11.8)	(2.9)	16.2
DPS	15.2	4.7	7.0	9.4
Return Ratio(%)				
RoCE	10.0	8.2	6.1	10.9
ROIC	8.2	6.5	4.5	8.3
RoE	9.2	9.6	5.3	10.4
Balance Sheet				
Net Debt : Equity (x)	0.1	0.2	0.2	0.2
Net Working Capital (Days)	158	147	152	145
Valuation(x)				
PER	24.6	24.0	45.6	22.2
P/B	2.2	2.5	2.4	2.2
P/CEPS	14.2	13.6	19.7	13.3
EV/EBITDA	11.7	14.3	17.9	11.8
EV/Sales	2.1	2.0	2.0	1.8
Dividend Yield (%)	2.3	0.7	1.1	1.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
India Formulations	52,712	60,042	63,444	70,422
US formulations	53,466	54,953	53,100	59,434
EU	4,082	3,888	4,438	4,743
ROW	18,521	21,420	23,580	25,918
API	13,823	9,904	10,696	11,552
Other	4,487	8,464	5,003	5,003

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	Hold	600	630
2	20-May-22	Hold	600	635
3	08-Apr-22	Accumulate	950	785
4	07-Feb-22	Accumulate	950	872
5	07-Jan-22	Accumulate	1,004	916
6	29-Oct-21	Accumulate	1,004	882

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	850	643
8	Fortis Healthcare	BUY	330	238
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	347	274
11	Indoco Remedies	BUY	430	377
12	Ipca Laboratories	BUY	1,085	946
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,600	1,220
15	Lupin	Hold	600	630
16	Max Healthcare Institute	BUY	427	370
17	Narayana Hrudayalaya	BUY	773	639
18	Sun Pharmaceutical Industries	BUY	1,070	943
19	Torrent Pharmaceuticals	BUY	1,750	1,529
20	Zydus Lifesciences	BUY	450	366

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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