

November 11, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	650		600	
Sales (Rs. m)	1,82,901	1,99,998	1,83,698	2,00,295
% Chng.	(0.4)	(0.1)		
EBITDA (Rs. m)	26,899	32,096	27,327	32,108
% Chng.	(1.6)	-		
EPS (Rs.)	28.1	36.9	29.7	37.1
% Chng.	(5.4)	(0.5)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	1,64,055	1,65,294	1,82,901	1,99,998
EBITDA (Rs. m)	22,904	17,303	26,899	32,096
Margin (%)	14.0	10.5	14.7	16.0
PAT (Rs. m)	12,513	5,224	12,787	16,757
EPS (Rs.)	27.5	11.5	28.1	36.9
Gr. (%)	2.7	(58.3)	144.8	31.0
DPS (Rs.)	4.7	7.0	9.4	9.4
Yield (%)	0.7	1.0	1.3	1.3
RoE (%)	9.6	4.3	10.0	12.1
RoCE (%)	8.2	5.5	11.0	13.1
EV/Sales (x)	2.2	2.2	1.9	1.7
EV/EBITDA (x)	15.5	20.7	13.1	10.7
PE (x)	26.1	62.6	25.6	19.5
P/BV (x)	2.7	2.6	2.5	2.3

Key Data

LUPN.BO | LPC IN

52-W High / Low	Rs.973 / Rs.583
Sensex / Nifty	60,614 / 18,028
Market Cap	Rs.327bn/ \$ 3,998m
Shares Outstanding	455m
3M Avg. Daily Value	Rs.867.66m

Shareholding Pattern (%)

Promoter's	47.11
Foreign	13.81
Domestic Institution	27.40
Public & Others	11.68
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.7	0.7	(23.6)
Relative	(2.7)	(9.7)	(24.0)

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Gradual recovery ahead

Quick Pointers:

- Recovery in US business aided by gSuprep and gAlbuterol.
- Guided for 16% EBITDA margin from Q4FY23.

We cut our FY24/FY25 EPS estimates by 5%/1%. Even though margins improved QoQ, however road to recovery was not that meaningful. FY22/H1FY23 profitability impacted from 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 Q4FY23 with likely savings and niche launches, which may see delay. We maintain our 'Hold' rating with revised TP of Rs650/share, 20x Sept 2024E EPS as we roll forward.

- In line revenues; US sales improve QoQ:** LPC's Q2FY23 sales grew by 1% YoY (up 11% QoQ) to Rs41.5bn, largely in line with our estimate. Domestic formulation sales grew by 3% YoY. US sales came in at USD 159mn vs USD 121mn in Q1FY23 aided by new launches and ramp up in gAlbuterol. EMEA grew by 10% YoY to Rs3.8bn. API saw decline of 7% YoY to Rs2.5bn. Growth markets increased with 39% YoY growth.
- EBITDA beat aided by higher GMs:** Company reported EBIDTA of Rs4.3bn, up 165% QoQ vs our estimate of Rs3.6bn. OPM came in at 10.5% expanded by 610bp QoQ led by better GMs and higher revenues. GM increased by 310bp QoQ to 57.5%, mainly due to increased revenue and improved product mix. Other expenses were up by 3% QoQ. R&D expenses came in at 3.4bn, 8% of sales; up 2% YoY. There was forex gain of Rs 188mn. Tax came in higher at 36%. Reported PAT came in at Rs1.3bn; largely in-line with our estimate.
- Key concall takeaways: (1) US market:** The QoQ improvement in US sales was aided by new launches like gSuprep and ramp up in gAlbuterol. Given launch of gSuprep towards end of quarter; the sales will be more visible from Q3. gSpiriva – Responded to all FDA queries and remains hopeful of Q4FY23 launch. Company launched 3 new products in the US market in Q2FY23 and filed 4 ANDAs. **(2)** Company expects strong flu season which will aid US sales in coming quarters **(3)** Company expects margins to improve on sequential basis and guided for 16-18% operating margin from Q4FY23E **(4)** Tarapur plant got warning letter however mgmt. clarified with USFDA that only certain products were discontinued and company continues to follow norms/processes related to nitrosamine and cross-contamination **(5)** Clearance of Goa and Somerset facility likely to increase flow of approvals and new launches **(6)** India's growth was muted in H1, impacted due to softness in cardiovascular and genericization in the gliptins. In India, LPC planning to add 850 new reps by end of FY23 **(7)** EU and Other EM business continued to show strong double digit growth with healthy margins driven by products like Fostair **(8)** Net debt at end of H1FY23 stood at Rs29bn vs Rs19bn as of FY22 end. Capex for Q2 was at Rs1.54bn.

Exhibit 1: Q2FY23 Result Overview (Rs m) : EBITDA beat; in line PAT.

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Net Sales	41,455	40,913	1.3	37,438	10.7	78,894	83,615	(5.6)
Raw Material	17,128	16,265	5.3	16,098	6.4	33,226	31,545	5.3
<i>% of Net Sales</i>	<i>41.3</i>	<i>39.8</i>		<i>43.0</i>		<i>42.1</i>	<i>37.7</i>	
Personnel Cost	7,716	7,586	1.7	7,785	(0.9)	15,502	15,423	0.5
<i>% of Net Sales</i>	<i>18.6</i>	<i>18.5</i>		<i>20.8</i>		<i>19.6</i>	<i>18.4</i>	
Others	12,269	11,099	10.5	11,916	3.0	24,185	21,408	13.0
<i>% of Net Sales</i>	<i>29.6</i>	<i>27.1</i>		<i>31.8</i>		<i>30.7</i>	<i>25.6</i>	
Total Expenditure	37,114	34,950	6.2	35,799	3.7	72,913	68,376	6.6
EBITDA	4,342	5,963	(27.2)	1,639	164.8	5,981	15,239	(60.8)
<i>Margin (%)</i>	<i>10.5</i>	<i>14.6</i>		<i>4.4</i>		<i>7.6</i>	<i>18.2</i>	
Depreciation	2,035	2,116	(3.9)	1,928	5.5	3,963	4,204	(5.7)
EBIT	2,307	3,847	(40.0)	(289)	(898.5)	2,018	11,035	(81.7)
Other Income	338	648	(47.9)	739	(54.3)	1,077	1,298	(17.0)
Interest	549	344	59.4	428	28.3	977	679	43.8
PBT	2,096	4,151	(49.5)	23	9,132.6	2,119	11,654	(81.8)
Total Taxes	751	(1,099)	(168.3)	891	(15.7)	1,642	924	77.7
<i>ETR (%)</i>	<i>35.8</i>	<i>(26.5)</i>		<i>3,924.7</i>		<i>77.5</i>	<i>7.9</i>	
PAT before exceptional	1,345	5,250	(74.4)	(868)	(254.9)	477	10,730	(95.6)
Minority Interest	(47)	(32)		(23)		(70)	(87)	
Exceptional Item	-	26,198		-		-	26,198	
Reported PAT	1,297	(20,980)	(106.2)	(891)	(245.6)	407	(15,556)	(102.6)

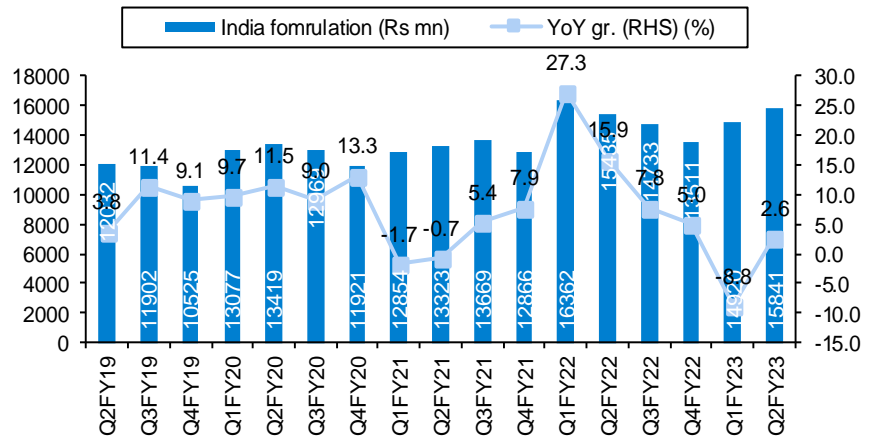
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major Sources of Revenues	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Domestic market	15,841	15,435	2.6	14,920	6.2	30,761	31,797	(3.3)
<i>% of Sales</i>	<i>38.7</i>	<i>38.7</i>		<i>41.4</i>		<i>40.0</i>	<i>38.9</i>	
International market (Exports)	25,071	24,437	2.6	21,120	18.7	46,191	50,040	(7.7)
<i>% of Sales</i>	<i>61.3</i>	<i>61.3</i>		<i>58.6</i>		<i>60.0</i>	<i>61.1</i>	
Total	40,912	39,872	2.6	36,040	13.5	76,952	81,837	(6.0)
Formulations	38,413	37,194	3.3	33,489	14.7	71,902	72,966	(1.5)
<i>% of Sales</i>	<i>93.9</i>	<i>93.3</i>		<i>92.9</i>		<i>93.4</i>	<i>89.2</i>	
India	15,841	15,435	2.6	14,920	6.2	30,761	31,797	(3.3)
<i>% of Sales</i>	<i>38.7</i>	<i>38.7</i>		<i>41.4</i>		<i>40.0</i>	<i>38.9</i>	
International market (Exports)	22,572	21,759	3.7	18,569	21.6	41,141	41,169	(0.1)
<i>% of Sales</i>	<i>55.2</i>	<i>54.6</i>		<i>51.5</i>		<i>53.5</i>	<i>50.3</i>	
North America	13,295	14,291	(7.0)	10,104	31.6	23,399	27,621	(15.3)
<i>% of Sales</i>	<i>32.5</i>	<i>35.8</i>		<i>28.0</i>		<i>30.4</i>	<i>33.8</i>	
Europe, Middle East, Africa (EMEA)	3,842	3,484	10.3	3,335	15.2	7,177	6,097	17.7
<i>% of Sales</i>	<i>9.4</i>	<i>8.7</i>		<i>9.3</i>		<i>9.3</i>	<i>7.5</i>	
Emerging Markets (ROW) & LATAM	5,435	3,984	36.4	5,130	5.9	10,565	7,451	41.8
<i>% of Sales</i>	<i>13.3</i>	<i>10.0</i>		<i>14.2</i>		<i>13.7</i>	<i>9.1</i>	
APIs	2,499	2,678	(6.7)	2,551	(2.0)	5,050	5,137	(1.7)
<i>% of Sales</i>	<i>6.1</i>	<i>6.7</i>		<i>7.1</i>		<i>6.6</i>	<i>6.3</i>	
NCEs							3,734	-
Grand Total	40,912	39,872	2.6	36,040	13.5	76,952	82,246	(6.4)

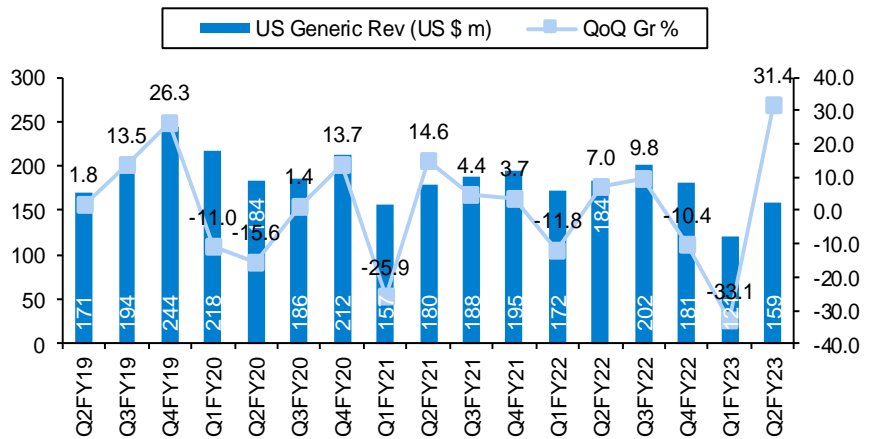
Source: Company, PL

Exhibit 3: Domestic Formulation: Growth remain muted



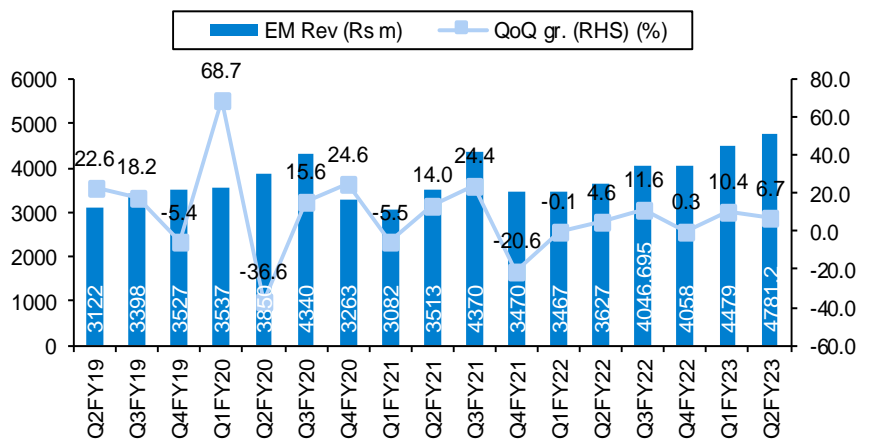
Source: Company, PL

Exhibit 4: US Generic : Recovered by new products and respiratory portfolio



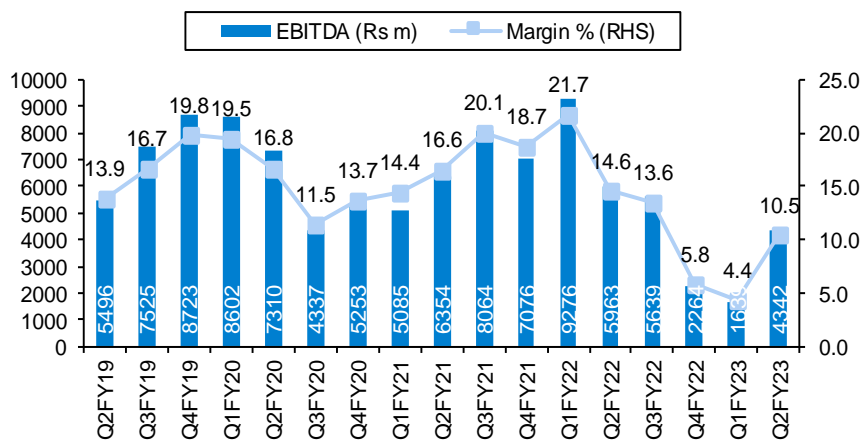
Source: Company, PL

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



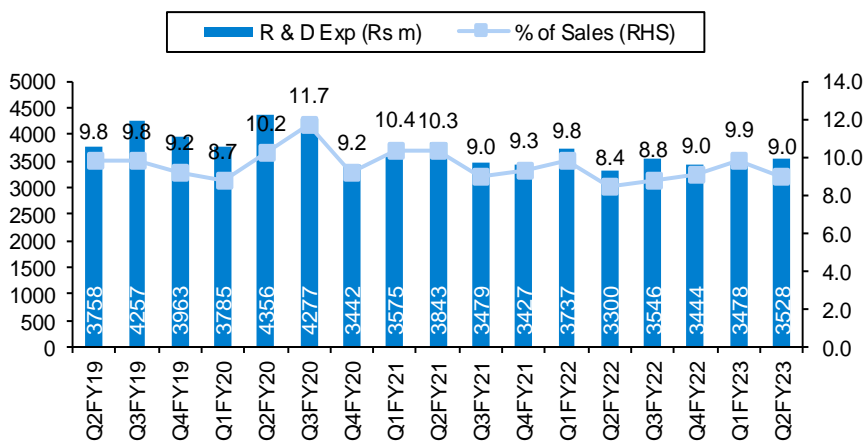
Source: Company, PL

Exhibit 6: EBITDAM: margin improved on increased revenue and better product mix



Source: Company, PL

Exhibit 7: R&D Exp (Rs mn) % of Sales: To be remained at current level



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	1,64,055	1,65,294	1,82,901	1,99,998
YoY gr. (%)	8.2	0.8	10.7	9.3
Cost of Goods Sold	64,812	67,853	72,363	78,597
Gross Profit	99,243	97,441	1,10,538	1,21,402
Margin (%)	60.5	59.0	60.4	60.7
Employee Cost	29,893	31,388	32,957	35,594
Other Expenses	46,446	48,750	50,682	53,712
EBITDA	22,904	17,303	26,899	32,096
YoY gr. (%)	(14.2)	(24.5)	55.5	19.3
Margin (%)	14.0	10.5	14.7	16.0
Depreciation and Amortization	9,510	8,393	8,645	8,904
EBIT	13,394	8,910	18,254	23,192
Margin (%)	8.2	5.4	10.0	11.6
Net Interest	1,428	2,000	1,600	1,300
Other Income	2,101	1,572	1,000	1,200
Profit Before Tax	14,067	8,482	17,654	23,092
Margin (%)	8.6	5.1	9.7	11.5
Total Tax	1,371	3,138	4,767	6,235
Effective tax rate (%)	9.7	37.0	27.0	27.0
Profit after tax	12,696	5,344	12,887	16,857
Minority interest	183	120	100	100
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,513	5,224	12,787	16,757
YoY gr. (%)	2.9	(58.3)	144.8	31.0
Margin (%)	7.6	3.2	7.0	8.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,513	5,224	12,787	16,757
YoY gr. (%)	2.9	(58.3)	144.8	31.0
Margin (%)	7.6	3.2	7.0	8.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,513	5,224	12,787	16,757
Equity Shares O/s (m)	455	455	455	455
EPS (Rs)	27.5	11.5	28.1	36.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	1,32,454	1,45,454	1,54,454	1,63,454
Tangibles	77,498	81,048	86,063	91,078
Intangibles	54,955	64,405	68,391	72,376
Acc: Dep / Amortization	76,890	85,283	93,928	1,02,833
Tangibles	32,000	35,493	39,091	42,797
Intangibles	44,890	49,790	54,837	60,036
Net fixed assets	55,563	60,170	60,525	60,621
Tangibles	45,498	45,555	46,972	48,281
Intangibles	10,065	14,615	13,553	12,340
Capital Work In Progress	8,475	8,475	8,475	8,475
Goodwill	21,241	21,241	21,241	21,241
Non-Current Investments	9,000	9,000	9,000	9,000
Net Deferred tax assets	(711)	(711)	(711)	(711)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	46,307	46,635	50,405	55,192
Trade receivables	42,619	46,635	49,416	54,110
Cash & Bank Balance	10,981	6,990	14,005	22,402
Other Current Assets	-	-	-	-
Total Assets	2,16,515	2,21,474	2,35,395	2,53,369
Equity				
Equity Share Capital	909	909	909	909
Other Equity	1,20,624	1,22,657	1,31,190	1,43,693
Total Networkth	1,21,533	1,23,566	1,32,099	1,44,602
Non-Current Liabilities				
Long Term borrowings	1,419	1,419	1,419	1,419
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	37,023	37,023	37,023	37,023
Trade payables	22,829	24,428	27,179	29,760
Other current liabilities	32,313	33,521	36,057	38,847
Total Equity & Liabilities	2,16,515	2,21,475	2,35,395	2,53,369

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	3,502	1,508	11,651	16,689
Add. Depreciation	9,510	8,393	8,645	8,904
Add. Interest	1,428	2,000	1,600	1,300
Less Financial Other Income	2,101	1,572	1,000	1,200
Add. Other	(11,086)	-	-	-
Op. profit before WC changes	3,354	11,901	21,896	26,893
Net Changes-WC	(150)	(1,537)	(1,263)	(4,110)
Direct tax	469	(3,138)	(4,767)	(6,235)
Net cash from Op. activities	3,673	7,225	15,866	16,549
Capital expenditures	(7,583)	(13,000)	(9,000)	(9,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(7,583)	(13,000)	(9,000)	(9,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(10,787)	-	-	-
Dividend paid	(2,951)	(3,191)	(4,254)	(4,254)
Interest paid	(1,428)	(2,000)	(1,600)	(1,300)
Others	12,632	6,975	6,003	6,403
Net cash from Fin. activities	(2,533)	1,784	148	848
Net change in cash	(6,444)	(3,991)	7,015	8,397
Free Cash Flow	(5,378)	(1,775)	6,866	7,549

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	41,609	38,830	37,438	41,455
YoY gr. (%)	3.6	2.6	(12.3)	1.3
Raw Material Expenses	16,946	16,322	16,098	17,128
Gross Profit	24,663	22,508	21,340	24,328
Margin (%)	59.3	58.0	57.0	58.7
EBITDA	5,639	2,264	1,639	4,342
YoY gr. (%)	(30.1)	(68.0)	(82.3)	(27.2)
Margin (%)	13.6	5.8	4.4	10.5
Depreciation / Depletion	2,034	3,272	1,928	2,035
EBIT	3,605	(1,008)	(289)	2,307
Margin (%)	8.7	(2.6)	(0.8)	5.6
Net Interest	334	415	428	549
Other Income	332	559	739	338
Profit before Tax	3,603	(864)	23	2,096
Margin (%)	8.7	(2.2)	0.1	5.1
Total Tax	(3,820)	4,267	891	751
Effective tax rate (%)	(106.0)	(493.9)	3,924.7	35.8
Profit after Tax	7,423	(5,131)	(868)	1,345
Minority interest	36	61	23	47
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,455	(5,180)	(891)	1,297
YoY gr. (%)	24.5	(212.5)	(116.4)	(106.2)
Margin (%)	13.1	(13.3)	(2.4)	3.1
Extra Ord. Income / (Exp)	1,932	(12)	-	-
Reported PAT	7,387	(5,192)	(891)	1,297
YoY gr. (%)	68.6	(212.8)	(116.4)	(75.1)
Margin (%)	17.8	(13.4)	(2.4)	3.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,387	(5,192)	(891)	1,297
Avg. Shares O/s (m)	452	452	452	452
EPS (Rs)	16.4	(11.5)	(2.0)	2.9

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	27.5	11.5	28.1	36.9
CEPS	48.5	30.0	47.2	56.5
BVPS	267.4	271.9	290.6	318.2
FCF	(11.8)	(3.9)	15.1	16.6
DPS	4.7	7.0	9.4	9.4
Return Ratio(%)				
RoCE	8.2	5.5	11.0	13.1
ROIC	6.5	4.2	8.2	10.0
RoE	9.6	4.3	10.0	12.1
Balance Sheet				
Net Debt : Equity (x)	0.2	0.3	0.2	0.1
Net Working Capital (Days)	147	152	145	145
Valuation(x)				
PER	26.1	62.6	25.6	19.5
P/B	2.7	2.6	2.5	2.3
P/CEPS	14.8	24.0	15.3	12.7
EV/EBITDA	15.5	20.7	13.1	10.7
EV/Sales	2.2	2.2	1.9	1.7
Dividend Yield (%)	0.7	1.0	1.3	1.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
India Formulations	60,042	61,642	68,423	75,950
US formulations	54,953	52,351	59,517	64,335
EU	3,888	4,588	4,933	5,426
ROW	21,420	24,422	26,848	29,519
API	9,904	10,696	11,552	12,476
Other	8,464	5,403	5,003	5,203

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	Hold	600	721
2	05-Aug-22	Hold	600	660
3	07-Jul-22	Hold	600	630
4	20-May-22	Hold	600	635
5	08-Apr-22	Accumulate	950	785
6	07-Feb-22	Accumulate	950	872
7	07-Jan-22	Accumulate	1,004	916

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	4,391
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,300	1,146
5	Divi's Laboratories	Hold	3,300	3,415
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	330	266
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	358	291
11	Indoco Remedies	BUY	430	336
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,467
15	Lupin	Hold	600	721
16	Max Healthcare Institute	BUY	500	465
17	Narayana Hrudayalaya	BUY	810	715
18	Sun Pharmaceutical Industries	BUY	1,175	1,037
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	BUY	425	409

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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