

ADD

TP: Rs 990 | ▲ 6%

LUPIN

Pharmaceuticals

05 November 2020

Muted Q2; multiple near-term catalysts

Lupin's (LPC) Q2 EBITDA was 5% below estimates. Sales were broadly in line as the miss in India was offset by a US beat (led by gProAir stocking and Glumetza gains). EBITDA margin fell short of estimates at 15.2%. Net debt increased by Rs 13bn QoQ. LPC is guiding for 18.5% EBITDA margin and full-scale gProAir benefits by Q4, with India sales growth of 6-8% in H2. We see several H2 catalysts (gProAir ramp-up, Fostair approval, Somerset/Goa unit clearance), aiding stock upsides. Retain ADD with a new Sep'21 TP of Rs 990 (vs. Rs 950).

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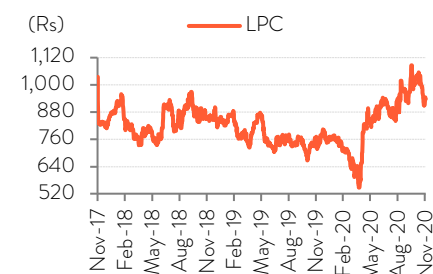
India miss offset by US/EMEA sales beat: US sales rebounded to US\$ 190mn (+17% QoQ), mainly due to gProAir stocking (US\$ 7mn-10mn in our view) and higher contribution from Apriso AG and Myfortic DR. LPC has started gaining share after the Glumetza relaunch amidst supply disruption. Levo market share gains are gradual (~13%). Full benefits from several high-value launches, including gProAir (pricing stable), Divalproex S and Fosaprepitant inj., plus flu seasonality (with some delay) should be visible in H2. EMEA sales momentum (+30% QoQ) can sustain with NaMuscla ramp-up and gEnbrel launch in new markets (France, Belgium). India (flat YoY) is expected to recover to 6-8% in H2, per LPC.

Ticker/Price	LPC IN/Rs 936
Market cap	US\$ 5.7bn
Shares o/s	453mn
3M ADV	US\$ 61.7mn
52wk high/low	Rs 1,122/Rs 505
Promoter/FPI/DII	47%/25%/12%

Source: NSE

Margins a tad below estimates; 20-22% guided in medium term: EBITDA margin improved QoQ to 15.2% (15.7% est.), led by exceptional staff cost reduction (-14%) but this was more than negated by SGA spend (+34%). Management expects costs to sustain at current levels and targets margins of 18.5% by Q4 and 20-22% in the medium term, led by operating leverage.

STOCK PERFORMANCE



Earnings call takeaways: (1) H2 sales guided to grow 10% YoY. (2) gProAir: ramping up supply, Covid second wave can potentially boost demand. (3) Spiviva US remains FY23 launch opportunity. (4) Fostair approval in Q4. (5) Somerset site FDA inspection still ongoing. (6) Solosec QoQ scripts/sales flat.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	167,010	153,528	159,884	180,636	196,620
EBITDA (Rs mn)	27,020	23,330	25,408	31,309	36,586
Adj. net profit (Rs mn)	9,464	3,541	8,761	12,691	15,599
Adj. EPS (Rs)	20.9	7.8	19.4	28.0	34.5
Adj. EPS growth (%)	(44.8)	(62.6)	147.4	44.9	22.9
Adj. ROAE (%)	6.9	2.6	6.6	9.3	10.8
Adj. P/E (x)	44.8	119.6	48.3	33.4	27.2
EV/EBITDA (x)	17.6	20.3	17.9	14.0	11.8

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Q2FY21E	Var. (%)	H1FY21	H1FY20	YoY (%)
Net Sales	38,350	43,596	(12.0)	35,279	8.7	38,773	(1.1)	73,629	87,779	(16.1)
EBITDA	5,812	7,313	(20.5)	4,882	19.0	6,078	(4.4)	10,694	15,916	(32.8)
Depreciation	2,127	3,214	-	2,146	-	2,210	-	4,273	6,385	-
EBIT	3,685	4,099	(10.1)	2,736	34.7	3,868	-	6,421	9,531	(32.6)
Interest	336	864	-	442	-	442	-	778	1,720	-
Other Income	250	1,332	-	433	-	433	-	683	2,154	-
PBT	3,599	4,567	(21.2)	2,727	32.0	3,859	-	6,326	9,965	(36.5)
Less: Taxation	1,467	343	-	1,643	-	1,466	-	3,110	2,623	-
Less: Minority Interest	25	0	-	18	-	0	-	43	88	-
Recurring PAT	2,107	4,224	(50.1)	1,066	97.7	2,392	(11.9)	3,173	7,254	(56.3)
Exceptional items	4	(5,464)	-	5	-	0	-	9	(5,464)	-
Reported PAT	2,111	(1,240)	(270.3)	1,071	97.1	2,392	(11.7)	3,182	1,790	77.8
Key Ratios (%)										
Gross Margin	64.0	65.0	-	63.5	-	64.0	-	63.7	64.9	-
EBITDA Margin	15.2	16.8	-	13.8	-	15.7	-	14.5	18.1	-
Tax / PBT	40.8	7.5	-	60.2	-	38.0	-	49.2	26.3	-
NPM	5.5	9.7	-	3.0	-	6.2	-	4.3	8.3	-
EPS (Rs)	4.7	9.3	-	2.4	-	5.3	-	7.0	16.0	-

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Q2FY21E	Var. (%)	H1FY21	H1FY20	YoY (%)
Formulations	34,079	38,476	(11.4)	30,596	11.4	34,463	(1.1)	64,675	78,545	(17.7)
US	13,984	13,244	5.6	12,160	15.0	13,451	4.0	26,144	28,656	(8.8)
India	13,323	13,419	(0.7)	12,854	3.6	13,754	(3.1)	26,177	26,496	(1.2)
APAC	1,624	6,352	(74.4)	1,523	6.6	1,600	1.5	3,147	13,069	(75.9)
EMEA	3,259	3,196	2.0	2,500	30.4	3,196	2.0	5,759	5,800	(0.7)
LATAM	1,294	1,445	(10.4)	1,176	10.0	1,561	(17.1)	2,470	2,995	(17.5)
RoW	595	820	(27.4)	383	55.4	902	(34.0)	978	1,529	(36.0)
APIs	3,739	3,052	22.5	4,090	(8.6)	3,510	6.5	7,829	6,541	19.7
Other Operating income	532	2,069	(74.3)	593	(10.3)	800	(33.5)	1,125	2,694	(58.2)
Net Sales	38,350	43,597	(12.0)	35,279	8.7	38,773	(1.1)	73,629	87,780	(16.1)
INR/US\$	74	70	5.0	75	(2.0)	74	-	70	70	0.0
US sales in \$ terms	190	189	0.6	162	17.3	183	-	373	409	(8.8)

Source: Company, BOBCAPS Research

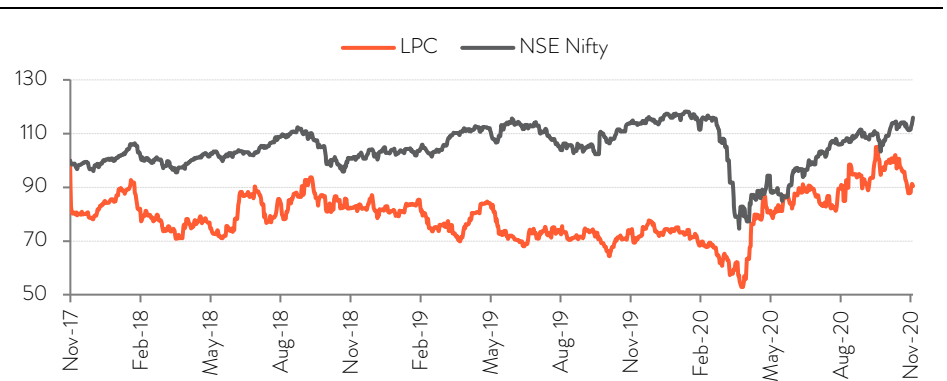
Valuation methodology

LPC is trading at 27x FY23E EPS which is reasonable and largely prices in the earnings pickup expected over the next two years. We forecast +16% EBITDA growth over FY20-FY22. Key catalysts ahead are market share gains in gProAir in the US, gEnbrel in Europe and gFostair EU approval (expected in Q4FY21).

We retain ADD with a revised Sep'21 target price of Rs 990 (earlier Rs 950), based on a slight increase in EV/EBITDA multiple to 14x (from 13x) on Sep'22E (implied P/E of 31x). Our target multiple is in line with the earlier discount of 10% accorded to LPC vis-à-vis other frontline stocks (Cipla, Dr Reddy's), but is 10% higher than Sun Pharma.

We have not penciled in upsides from distant opportunity gSpiriva (FY23 US launch); hence, this remain an upside risk to our estimates. A deepening US product pipeline, drug shortage opportunity in the US and a high share of branded generics are added long-term positives.

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Upside risks

- Earlier-than-expected resolution of warning letters at Goa and Indore Unit II – together both events have the potential to increase FY21E EBITDA by 5%
- gSpiriva (FY23 US launch)

Downside risks

- Higher-than-expected price erosion in the US

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	167,010	153,528	159,884	180,636	196,620
EBITDA	27,020	23,330	25,408	31,309	36,586
Depreciation	10,850	9,702	11,483	12,293	13,238
EBIT	16,170	13,628	13,925	19,016	23,348
Net interest income/(expenses)	(3,078)	(3,630)	(4,035)	(2,421)	(1,937)
Other income/(expenses)	5,441	5,070	4,170	3,803	3,675
Exceptional items	0	0	0	0	0
EBT	18,533	15,067	14,060	20,397	25,086
Income taxes	9,017	11,570	5,343	7,751	9,533
Extraordinary items	(3,399)	(6,219)	0	0	0
Min. int./Inc. from associates	52	(43)	(44)	(45)	(46)
Reported net profit	6,065	(2,678)	8,761	12,691	15,599
Adjustments	3,399	6,219	0	0	0
Adjusted net profit	9,464	3,541	8,761	12,691	15,599

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	23,935	23,134	25,565	26,979	28,504
Other current liabilities	23,386	25,802	25,802	25,802	25,802
Provisions	11,807	12,040	7,195	9,287	10,952
Debt funds	82,219	63,050	50,440	40,352	32,282
Other liabilities	0	0	0	0	0
Equity capital	905	906	906	906	906
Reserves & surplus	136,985	130,670	132,620	139,609	148,200
Shareholders' fund	137,890	131,576	133,526	140,515	149,106
Total liabilities and equities	279,237	255,602	242,529	242,935	246,646
Cash and cash eq.	9,872	24,543	15,374	12,180	7,528
Accounts receivables	51,498	54,459	48,184	54,438	59,255
Inventories	38,368	34,569	37,978	37,117	40,401
Other current assets	29,534	23,746	24,746	25,746	26,746
Investments	22,703	23,438	23,383	23,383	23,383
Net fixed assets	87,064	66,936	64,453	61,160	59,922
CWIP	16,396	9,396	9,896	10,396	10,896
Intangible assets	23,803	18,515	18,515	18,515	18,515
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	279,237	255,602	242,529	242,935	246,646

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	17,539	7,024	20,244	24,984	28,838
Interest expenses	3,078	3,630	4,035	2,421	1,937
Non-cash adjustments	290	4,701	0	0	0
Changes in working capital	(994)	9,360	(547)	(2,888)	(5,911)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	19,914	24,715	23,732	24,518	24,864
Capital expenditures	(9,136)	22,714	(9,500)	(9,500)	(12,500)
Change in investments	(20,355)	(736)	56	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(29,491)	21,978	(9,444)	(9,500)	(12,500)
Equities issued/Others	1	1	0	0	0
Debt raised/repaid	13,457	(19,169)	(12,610)	(10,088)	(8,070)
Interest expenses	(3,078)	(3,630)	(4,035)	(2,421)	(1,937)
Dividends paid	(7,274)	(9,077)	(3,936)	(5,702)	(7,009)
Other financing cash flows	2,264	(147)	(2,875)	0	0
Cash flow from financing	5,369	(32,022)	(23,457)	(18,211)	(17,016)
Changes in cash and cash eq.	(4,208)	14,671	(9,169)	(3,193)	(4,652)
Closing cash and cash eq.	9,872	24,543	15,374	12,180	7,528

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	13.4	(5.9)	19.4	28.0	34.5
Adjusted EPS	20.9	7.8	19.4	28.0	34.5
Dividend per share	6.0	6.0	8.7	12.6	15.5
Book value per share	303.7	289.8	294.1	309.5	328.5

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.8	3.1	2.9	2.4	2.2
EV/EBITDA	17.6	20.3	17.9	14.0	11.8
Adjusted P/E	44.8	119.6	48.3	33.4	27.2
P/BV	3.1	3.2	3.2	3.0	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	51.1	23.5	62.3	62.2	62.2
Interest burden (PBT/EBIT)	114.6	110.6	101.0	107.3	107.4
EBIT margin (EBIT/Revenue)	9.7	8.9	8.7	10.5	11.9
Asset turnover (Revenue/Avg TA)	15.6	14.4	16.0	18.6	20.1
Leverage (Avg TA/Avg Equity)	2.0	2.0	1.9	1.8	1.7
Adjusted ROAE	6.9	2.6	6.6	9.3	10.8

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	5.7	(8.1)	4.1	13.0	8.8
EBITDA	(14.1)	(13.7)	8.9	23.2	16.9
Adjusted EPS	(44.8)	(62.6)	147.4	44.9	22.9
Profitability & Return ratios (%)					
EBITDA margin	16.2	15.2	15.9	17.3	18.6
EBIT margin	9.7	8.9	8.7	10.5	11.9
Adjusted profit margin	5.7	2.3	5.5	7.0	7.9
Adjusted ROAE	6.9	2.6	6.6	9.3	10.8
ROCE	4.9	1.1	5.8	7.6	9.0
Working capital days (days)					
Receivables	113	126	110	110	110
Inventory	82	87	87	75	75
Payables	152	158	165	160	160
Ratios (x)					
Gross asset turnover	1.3	1.2	1.2	1.3	1.3
Current ratio	2.2	2.3	2.2	2.1	2.1
Net interest coverage ratio	5.3	3.8	3.5	7.9	12.1
Adjusted debt/equity	0.4	0.1	0.1	0.0	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

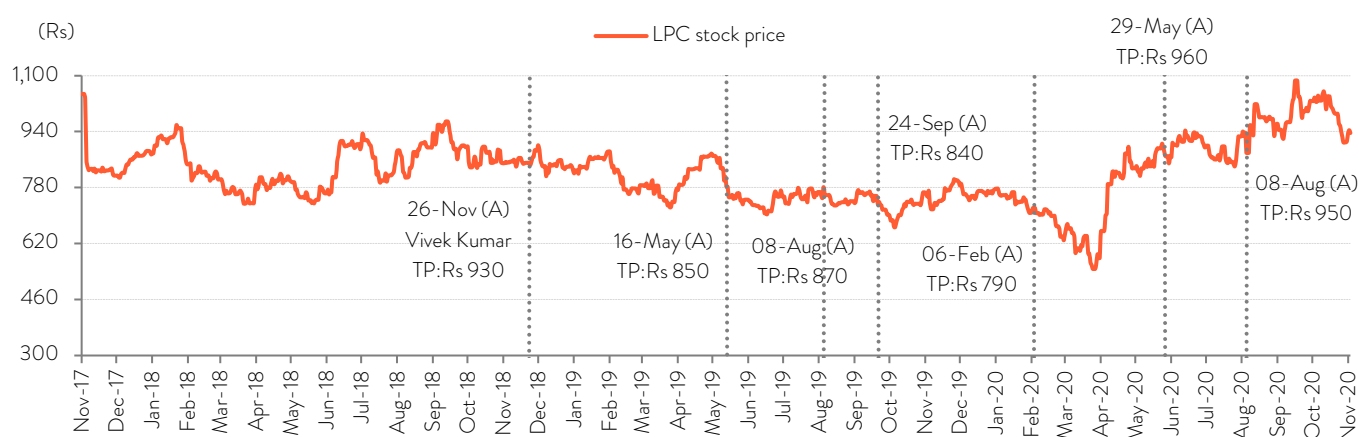
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: LUPIN (LPC IN)



B – Buy, A – Add, R – Reduce, S – Sell

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