

SELL

TP: Rs 600 | ▼ 6%

LUPIN

| Pharmaceuticals

| 22 May 2022

Operationally poor quarter; further weighed down by one-offs

- **LPC booked a loss of Rs. 5.2 bn in Q4 with weak operating performance and contraction in margins, EBITDA was ~50% below consensus**
- **Resumption of USFDA inspection significant as ~50 products are awaiting regulatory clearance, 1HFY23 to remain sluggish as well**
- **We reduce our FY23-24 EBITDA by 4-10% and reduce FY24 EV/EBITDA multiple to 10x (earlier 11x) to yield TP of Rs 600. Downgrade to SELL.**

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Muted sales and one-off lead to loss in the quarter: LPC reported Rs. 38.8bn in revenue in Q4FY22, a modest 3% YoY growth (5% below consensus) while it booked a loss of Rs. 5.2bn with gross and EBITDA margin contracting 720/1200bps to 58%/7% on account of negative operating leverage, price erosion and inflationary RM environment. Company also booked an impairment on account of Gavis at Rs. 1.3bn and incurred litigation expenses related to Solosec during the quarter.

Modest growth in India and sharp decline in US revenues: US revenue declined 11% QoQ to USD 188mn due to continued double digit price erosion in the US, recall of Losartan (USD 11mn impact) and low volume of Albuterol. India sales though up 5% YoY, declined 8% QoQ to Rs 13.5bn. India prescription business grew in double digit but lumpiness in trade generics business weighed down on the overall growth. During the quarter, company completed the acquisition of Anglo-French and set up new divisions for diabetics, CNS and Anti Infective. Anglo-French has started contributing from April 1, 2022.

Strong traction in Growth markets while API Sale continues to decline: Growth markets reported a strong uptick of 26%/12% YoY/QoQ to Rs. 3.8bn (10% contribution) during 4QFY22 while EMEA recorded a growth of 9%/19% YoY/QoQ.

Expect slower 1HFY23: Management has highlighted 1HFY23 to also remain weak despite 10-12% growth expectation in domestic market. Resumption of USFDA inspection is crucial for the company as most of its products (~50) are awaiting regulatory clearance. Management is also contemplating a rationalization of its US portfolio in the face of current pricing environment.

Valuation: We cut our FY23-FY24 EBITDA estimates by 4-10% each with tepid 4Q and soft near-term outlook. We have a new TP of Rs 600 (vs. Rs 800) based on a lower EV/EBITDA multiple of 10x (implied P/E of 19x) from 11x earlier. Our target multiple factors in near-term operational and industry challenges and is at a 35% discount to the aggregate of frontline players such as SUNP, DRRD and CIPLA; downgrade from HOLD to SELL.

Key changes

Target	Rating
▼	▼

Ticker/Price	LPC IN/Rs 638
Market cap	US\$ 3.7bn
Free float	53%
3M ADV	US\$ 12.6mn
52wk high/low	Rs 1,268/Rs 620
Promoter/FPI/DII	47%/16%/24%

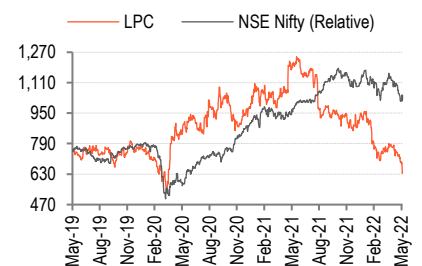
Source: NSE | Price as of 20 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	1,64,055	1,70,106	1,81,518
EBITDA (Rs mn)	21,656	24,601	29,682
Adj. net profit (Rs mn)	10,580	10,892	14,308
Adj. EPS (Rs)	23.4	24.1	31.6
Consensus EPS (Rs)	23.4	26.5	37.7
Adj. ROAE (%)	8.2	8.9	10.9
Adj. P/E (x)	27.3	26.5	20.2
EV/EBITDA (x)	13.0	12.1	10.6
Adj. EPS growth (%)	(13.0)	3.0	31.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly Performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Sales	38,830	37,831	2.6	41,609	(6.7)	1,64,055	1,51,633	8.2
EBITDA	2,678	7,076	(62.1)	3,698	(27.6)	21,535	25,556	(15.7)
Depreciation	3,272	2,157	51.7	2,034	60.8	9,510	8,874	
EBIT	(594)	4,918	(112.1)	1,664	(135.7)	12,025	16,682	(27.9)
Interest	415	318	30.2	334	-	1,428	1,406	-
Other Income	157	582	(73.1)	341	-	1,875	1,477	-
PBT	(852)	5,182	(116.4)	1,671	(151.0)	12,473	16,752	(25.5)
Less: Taxation	4,267	540	-	(3,820)	-	1,371	4,485	-
Less: Minority Interest	61	38	-	35	-	183	107	-
Recurring PAT	(5,180)	4,604	(212.5)	5,455	(195.0)	10,918	12,160	(10.2)
Exceptional items	0	0	-	0	-	(26,198)	0	-
Reported PAT	(5,180)	4,604	(212.5)	5,455	(195.0)	(15,280)	12,160	(225.7)
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	58.0	65.2	(721)	59.3	(131)	60.5	64.6	-
EBITDA Margin	6.9	18.7	(1181)	8.9	(199)	13.1	16.9	-
Tax / PBT	(501.1)	10.4	-	(228.7)	-	11.0	26.8	-
NPM	(13.3)	12.2	-	13.1	-	6.7	8.0	-
EPS	(11.4)	10.1	-	12.0	-	24.0	26.8	-

Source: Company, BOBCAPS Research

Fig 2 – Segmental Mix

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Formulations	36,442	35,037	4.0	38,311	(4.9)	1,48,290	1,35,447	9.5
US	14,162	14,952	(5.3)	15,775	(10.2)	57,558	55,520	3.7
India	13,511	12,866	5.0	14,733	(8.3)	60,041	52,712	13.9
APAC	2,278	1,715	32.9	2,020	12.8	8,666	6,631	30.7
EMEA	4,072	3,749	8.6	3,422	19.0	13,591	12,780	6.3
LATAM	1,532	1,318	16.2	1,370	11.8	5,352	5,333	0.4
RoW	887	437	103.0	991	(10.5)	3,082	2,471	24.7
APIs	2,203	2,556	(13.8)	2,564	(14.1)	9,904	13,823	(28.4)
Licensing Income	-	-	-	0	-	3,734	-	-
Other Operating income	185	238	(22.2)	735	(74.8)	2,127	2,363	(10.0)
Net Sales	38,830	37,831	2.6	41,610	(6.7)	1,64,055	1,51,633	8.2
INR/US\$	75	73	3.2	75	0.4	75	74	0.4
US in \$ terms	188	205	(8.2)	210	(11)	773	748	3.3

Source: Company, BOBCAPS Research

Earnings Call Takeaways:

- **India:** Prescription business grew ~13% YoY while lumpiness in trade generics business brought down India growth to 5% (-8% QoQ) in Q4. For full, year India business recorded a growth of 14%. Company is looking at organic as well as inorganic opportunities in the domestic market. Expects to grow India business at 10-12% in the long run.
- **US:** US revenues were impacted due to price erosion in Brovana and Levothyroxine. Losartan recall impact was USD 10-11mn in Q4. Company received approvals for Sildenafil, Vigabatrin and Arforterol during the quarter. Company expects to launch Suprep in Q2 or Q3 of FY23 while Pegfilgrastim & Spiriva is slated to be launched in later part of the year. Market size of Suprep is ~USD 200mn. Lupins Albuterol market share now is close to 23%.
- **Regulatory & Pipeline:** Somerset facility has 10 products pending for approval. Company expects to Launch seven products from Goa in FY2023 and expects resolution of Tarapur facility soon. Cumulative ANDA filings with the USFDA stand at 457 as of March 31, 2022, with the company having received 297 approvals to date. The Company now has 53 First-to-File (FTF) filings including 21 exclusive FTF opportunities. Cumulative U.S. DMF filings stand at 196 as of March 31, 2022.
- About USD 110mn of Gavis assets remain on the Balance sheet.
- **Acquisitions:** Lupin completed acquisition of Anglo-French during the quarter, which has started contributing from April. Company also did a bolt-on acquisition in Australia.
- **R&D:** Investment in R&D was Rs. 14.0bn (8.7% of sales) for FY2022 and Rs. 3.4bn (8.9% of sales) in Q4 FY2022.

Valuation methodology

We cut our FY23-FY24 EBITDA estimates by 4-10% each with tepid 4Q and soft near-term outlook. We have a new TP of Rs 600 (vs. Rs 800) based on a lower EV/EBITDA multiple of 10x (implied P/E of 19x) from 11x earlier. Our target multiple factors in near-term operational and industry challenges and is at a 35% discount to the aggregate of frontline players such as SUNP, DRRD and CIPLA; downgrade from HOLD to SELL.

Fig 3 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	170.1	181.5	168.4	181.0	1.0	0.3
EBITDA	24.6	29.7	27.6	30.8	(10.8)	(3.8)
EBITDA Margin (%)	14.5	16.4	16.4	17.0	(190bps)	(69bps)
EPS (Rs)	24.1	31.6	30.1	34.9	(19.9)	(9.3)

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY22A	FY23E	FY24E
India	60.0	66.4	73.6
US	57.6	59.6	60.7
EMEA	13.6	14.3	14.9
ROW	3.1	3.8	4.8
APAC	4.3	5.2	5.4
LATAM	6.3	6.7	7.4
Other EM	3.5	2.0	2.2
API	9.9	9.9	10.2
Licensing Income	3.7	0.0	0.0

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EBITDA CAGR FY21-24E (%)	EV/EBITDA (Rs)		ROE (%)		Target EV/EBITDA (x)
					FY23E	FY24E	FY23E	FY24E	
Lupin	LPC IN	SELL	600	5.0	12.9	10.7	8.9	11.0	10.0
Cipla	CIPLA IN	BUY	1,100	8.8	14.9	13.2	12.9	13.6	16.0
Dr. Reddy's	DRRD IN	HOLD	4,450	9.0	12.2	11.0	16.5	16.3	12.5
Sun Pharma	SUNP IN	BUY	1,100	16.9	15.8	14.2	16.9	16.8	18.5

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- Earlier than expected clearance of pending facilities and products catering to the US market
- Better execution in cost control to improve margins
- Market share gain in key drugs with global generic players exiting the market
- Optimization of US portfolio

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	1.9	1,735	2,050	BUY
Alembic Pharma	ALPM IN	1.9	754	770	HOLD
Alkem Labs	ALKEM IN	4.6	3,003	3,400	BUY
Aurobindo Pharma	ARBP IN	4.2	558	850	BUY
Cipla	CIPLA IN	10.2	978	1,100	BUY
Divi's Labs	DIVI IN	14.7	4,305	5,250	BUY
Dr Reddy's Labs	DRRD IN	9.1	4,249	4,450	HOLD
Eris Lifesciences	ERIS IN	1.3	716	970	BUY
Laurus Labs	LAURUS IN	4.0	575	645	HOLD
Lupin	LPC IN	3.7	638	600	SELL
Sun Pharma	SUNP IN	28.3	916	1,100	BUY

Source: BOBCAPS Research, NSE | Price as of 20 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	1,53,746	1,51,629	1,64,055	1,70,106	1,81,518
EBITDA	23,547	25,668	21,656	24,601	29,682
Depreciation	9,702	8,874	9,510	8,246	8,666
EBIT	13,845	16,794	12,146	16,355	21,016
Net interest inc./(exp.)	(3,630)	(1,406)	(1,428)	(1,749)	(1,726)
Other inc./(exp.)	4,838	1,363	1,417	1,271	1,530
Exceptional items	0	0	0	0	0
EBT	15,053	16,751	12,135	15,876	20,820
Income taxes	11,466	4,485	1,372	4,763	6,246
Extraordinary items	(6,325)	0	(25,861)	0	0
Min. int./Inc. from assoc.	(43)	101	183	221	265
Reported net profit	(2,694)	12,165	(15,281)	10,892	14,308
Adjustments	6,325	0	25,861	0	0
Adjusted net profit	3,631	12,165	10,580	10,892	14,308

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	24,123	20,144	22,829	22,106	23,108
Other current liabilities	45,004	35,585	20,811	20,811	20,811
Provisions	12,040	11,139	8,160	7,722	9,362
Debt funds	42,860	30,656	38,442	38,158	37,931
Other liabilities	0	0	0	0	0
Equity capital	906	907	909	909	909
Reserves & surplus	1,24,906	1,37,673	1,18,673	1,25,506	1,34,482
Shareholders' fund	1,25,812	1,38,580	1,19,582	1,26,415	1,35,391
Total liab. and equities	2,49,839	2,36,104	2,09,824	2,15,213	2,26,603
Cash and cash eq.	24,543	17,425	1,266	7,753	12,869
Accounts receivables	54,459	44,743	42,619	46,604	49,731
Inventories	34,569	40,920	46,307	41,944	44,758
Other current assets	23,746	18,998	21,263	22,263	23,263
Investments	23,743	24,549	9,000	8,527	8,527
Net fixed assets	60,866	59,183	59,652	57,906	56,739
CWIP	9,396	10,663	8,475	8,975	9,475
Intangible assets	18,515	19,624	21,241	21,241	21,241
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,49,838	2,36,104	2,09,824	2,15,213	2,26,603

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	50,854	9,988	(25,290)	19,106	20,402
Capital expenditures	22,714	(3,497)	(9,408)	(7,000)	(8,000)
Change in investments	(1,041)	(806)	15,549	473	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	21,673	(4,302)	6,141	(6,527)	(8,000)
Equities issued/Others	1	1	2	0	0
Debt raised/repaid	(39,359)	(12,205)	7,786	(284)	(227)
Interest expenses	(3,630)	(1,406)	(1,428)	(1,749)	(1,726)
Dividends paid	(9,077)	(7,844)	(4,830)	(4,060)	(5,333)
Other financing cash flows	(5,790)	8,648	1,462	0	0
Cash flow from financing	(57,854)	(12,806)	2,991	(6,093)	(7,286)
Chg in cash & cash eq.	14,673	(7,120)	(16,158)	6,486	5,116
Closing cash & cash eq.	24,544	17,424	1,266	7,753	12,869

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	(6.0)	26.9	(33.6)	24.0	31.5
Adjusted EPS	8.0	26.9	23.4	24.1	31.6
Dividend per share	6.0	12.1	8.9	9.0	11.8
Book value per share	277.1	305.0	262.8	277.9	297.7

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	2.2	2.1	1.7	1.8	1.7
EV/EBITDA	14.5	12.2	13.0	12.1	10.6
Adjusted P/E	79.6	23.7	27.3	26.5	20.2
P/BV	2.3	2.1	2.4	2.3	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	24.1	72.6	87.2	68.6	68.7
Interest burden (PBT/EBIT)	108.7	99.7	99.9	97.1	99.1
EBIT margin (EBIT/Revenue)	9.0	11.1	7.4	9.6	11.6
Asset turnover (Rev./Avg TA)	14.5	15.6	18.4	20.0	20.5
Leverage (Avg TA/Avg Equity)	2.0	1.8	1.7	1.7	1.7
Adjusted ROAE	2.8	9.2	8.2	8.9	10.9

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	4.8	(1.4)	8.2	3.7	6.7
EBITDA	(8.0)	9.0	(15.6)	13.6	20.7
Adjusted EPS	(56.7)	235.1	(13.0)	3.0	31.4
Profitability & Return ratios (%)					
EBITDA margin	15.3	16.9	13.2	14.5	16.4
EBIT margin	9.0	11.1	7.4	9.6	11.6
Adjusted profit margin	2.4	8.0	6.4	6.4	7.9
Adjusted ROAE	2.8	9.2	8.2	8.9	10.9
ROCE	1.2	7.6	7.2	7.2	8.9
Working capital days (days)					
Receivables	126	119	97	100	100
Inventory	87	91	97	90	90
Payables	162	151	121	121	121
Ratios (x)					
Gross asset turnover	1.2	1.2	1.2	1.2	1.2
Current ratio	1.7	1.8	2.2	2.3	2.5
Net interest coverage ratio	3.8	11.9	8.5	9.3	12.2
Adjusted debt/equity	0.0	(0.1)	0.2	0.2	0.1

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

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

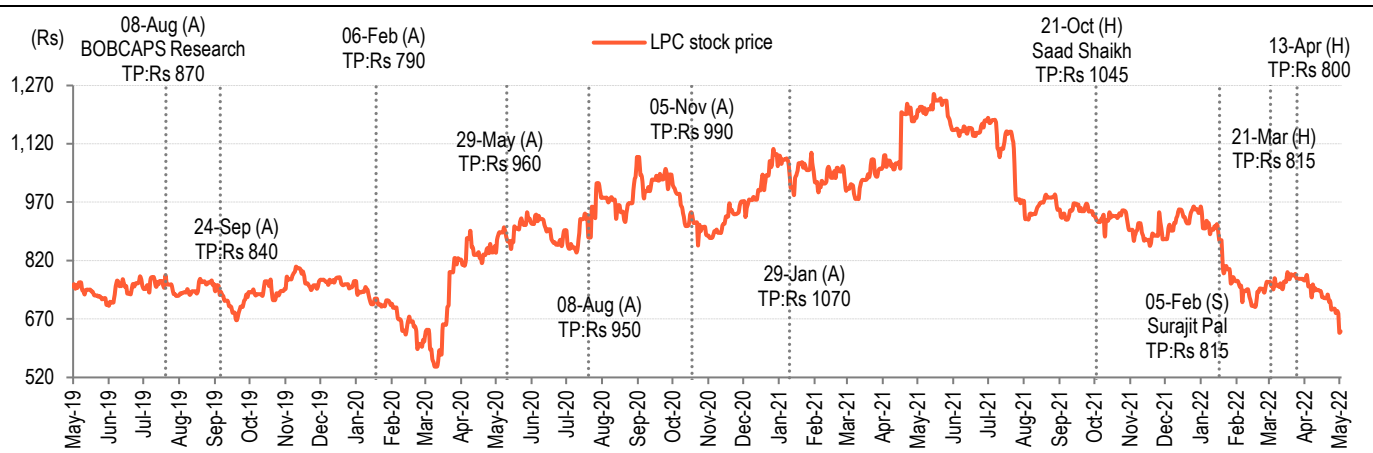
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): LUPIN (LPC IN)



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