

ADD

TP: Rs 850 | ▲ 9%

LUPIN

Pharmaceuticals

16 May 2019

Q4 in line; Tax guidance disappoints

Core EBITDA was a marginal 4% beat adjusted for low R&D spends for the quarter. LPC gave no guidance on sales growth or margins but expects further cost optimisation in FY20 (staff & R&D). Solosec ramp-up, Levothyroxine, 20 ANDA launches (incl. gProAir, 1 depo injectable in H2) along with India business will drive momentum. Tax rate guidance at 40% was a key negative, driving a 15% cut in FY20 EPS. Hereon, FDA inspection outcome for Goa is critical to stock performance. We cut our Mar'20 TP to Rs 850 (vs. Rs 930).

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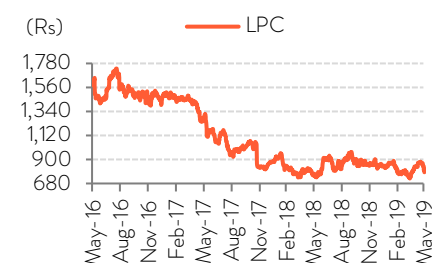
Q4 results: Revenue was in line at Rs 44bn (+9% YoY, -2.2% QoQ), led by two months of Ranexa exclusivity sales (US\$ 40mn sales with 70-80% gross margin, we believe). PAT came in at only Rs 2.9bn due to high tax. Lower R&D cost drove a major part of the EBITDA beat (9% vs. 9.5% in FY19). LPC has guided for flattish to mid-single digit growth in R&D in FY20. US base business stabilised further in Q4 and reported sales of US\$ 247mn (+25.5% QoQ).

Ticker/Price	LPC IN/Rs 782
Market cap	US\$ 5.0bn
Shares o/s	453mn
3M ADV	US\$ 22.2mn
52wk high/low	Rs 986/Rs 720
Promoter/FPI/DII	47%/25%/12%

Source: NSE

Earnings call takeaways: (1) Management expects peak market share of 15-20% in Solosec with breakeven at 10k weekly prescriptions (1.9k in Mar'19) and net price of <US\$ 170. (2) Launch timeline of H2FY20 retained for gEnbrel in the EU and Pro-Air. (3) Industry growth outlook for Japan weak at 1.3% CAGR and ROW at 3-6% over 2020-23. (4) gBrovana COPD drug - US\$ 250mn in branded sales was filed in FY19; patent expires in 2022. (5) >30 complex injectable products filed including 10 in depo form. (6) gSpiriva at best a FY23 US launch - FTF status confirmed.

STOCK PERFORMANCE



Source: NSE

Maintain ADD: While we believe the series of weak earnings has bottomed, Goa plant resolution will be the next key event for the stock. We expect 22% EPS growth over FY19-FY21. A deepening US product pipeline and high share of branded generics are other key long-term positives. Retain ADD.

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	29,296	17,137	9,597	10,465	14,372
Adj. EPS (Rs)	64.7	37.9	21.2	23.1	31.8
Adj. EPS growth (%)	34.9	(41.5)	(44.0)	9.1	37.3
Adj. ROAE (%)	23.7	12.6	7.0	7.5	10.0
Adj. P/E (x)	12.1	20.7	36.9	33.8	24.6
EV/EBITDA (x)	8.6	12.9	15.0	13.6	12.0

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Q4FY19E	Var (%)
Net Sales	44,063	40,337	9.2	45,048	(2.2)	44,932	(1.9)
EBITDA	8,724	7,087	23.1	7,528	15.9	7,887	10.6
Depreciation	2,808	2,728	-	2,797	-	2,797	-
EBIT	5,916	4,359	35.7	4,731	25.0	5,090	-
Interest	855	585	-	797	-	500	-
Other Income	865	1,449	-	434	-	434	-
PBT	5,926	5,223	13.5	4,368	35.7	5,024	-
Less: Taxation	2,998	(1,631)	-	2,478	-	1,331	-
Less: Minority Interest	56	46	-	(6)	-	0	-
Recurring PAT	2,872	6,808	(57.8)	1,896	51.5	3,693	(22.2)
Exceptional items	22	(14,643)	-	(3,422)	-	0	-
Reported PAT	2,894	(7,835)	-	(1,526)	-	3,693	(21.6)
Key Ratios (%)							
Gross Margin	68.1	66.2	-	64.5	-	66.5	-
EBITDA Margin	19.8	17.6	-	16.7	-	17.6	-
Tax / PBT	50.6	(31.2)	-	56.7	-	26.5	-
NPM	6.5	16.9	-	4.2	-	8.2	-
EPS (Rs)	6.4	15.1	-	4.2	-	8.2	-

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Q4FY19E	Var (%)
Formulations	40,347	36,977	9.1	38,052	6.0	40,308	0.1
US	17,406	14,990	16.1	14,174	22.8	17,542	(0.8)
India	10,525	9,647	9.1	11,902	(11.6)	10,627	(1.0)
APAC	6,901	6,637	4.0	6,936	(0.5)	6,800	1.5
EMEA	3,397	3,513	(3.3)	2,800	21.3	3,220	5.5
LATAM	1,385	1,645	(15.8)	1,557	(11.0)	1,619	(14.5)
RoW	733	545	34.5	683	7.3	500	46.6
APIs	2,912	2,808	3.7	3,624	(19.6)	3,624	(19.6)
Other Operating income	804	553	45.4	3,372	(76.2)	1,000	(19.6)
Net Sales	44,063	40,338	9.2	45,048	(2.2)	44,932	(1.9)

Source: Company, BOBCAPS Research

Valuation methodology

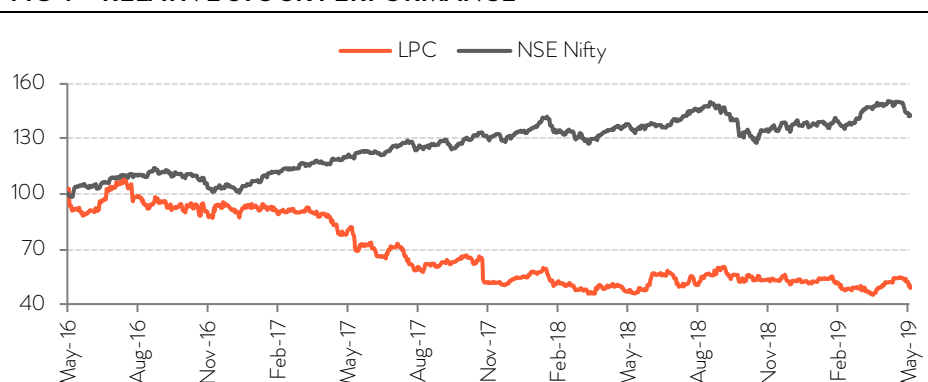
We cut our FY20/FY21 EPS forecast by 15%/3% due to higher tax guidance of 40% (vs. 27% earlier) for FY20, while our revised EBITDA estimates factor in moderate positives from cost optimisation. Higher tax in FY20 is due to new investments in US – the benefit of which shall accrue in coming years. We also lower our target EV/EBITDA multiple from 14x to 13x FY21E (implied P/E of 27x) as we align our multiple for India business to sector peers at 16x (Sun Pharma, Dr Reddy's, Cipla). We retain our ADD rating on LPC with a revised Mar'20 target price of Rs 850 (earlier Rs 930), derived using the average of the EV/EBITDA (SOTP-based) and P/BV valuations.

FIG 3 – REVISED ESTIMATES

(Rs bn)	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Sales	167.1	178.3	193.7	165.2	178.7	194.9	1.2	(0.2)	(0.6)
EBITDA	27.1	30.0	34.4	25.5	29.2	33.7	6.2	2.7	2.2
EBITDA margin (%)	16.2	16.9	17.8	15.5	16.4	17.3	76bps	48bps	48bps
EPS (Rs)	21	23	32	22	27	33	(3.3)	(14.6)	(2.6)

Source: Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Upside risks

- ProAir launch in late FY20
- Earlier-than-expected resolution of warning letters at Goa and Indore Unit II – together both events have the potential to increase FY21E EBITDA by 10%

Downside risks

- Higher-than-expected price erosion in the US

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Total revenue	174,972	158,021	167,168	178,376	193,793
EBITDA	48,652	31,453	27,144	30,079	34,444
EBIT	39,530	20,596	16,294	18,352	21,610
Net interest income/(expenses)	(1,525)	(2,043)	(3,077)	(2,964)	(2,874)
Other income/(expenses)	1,065	1,504	5,447	2,170	1,925
Exceptional items	0	0	0	0	0
EBT	39,070	20,057	18,664	17,558	20,661
Income taxes	9,785	2,885	9,016	7,023	6,198
Extraordinary items	(3,690)	(14,643)	(3,422)	0	0
Min. int./Inc. from associates	(11)	36	52	70	91
Reported net profit	25,606	2,494	6,175	10,465	14,372
Adjustments	3,690	14,643	3,422	0	0
Adjusted net profit	29,296	17,137	9,597	10,465	14,372

Balance Sheet

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Accounts payables	25,889	24,754	23,935	26,952	28,857
Other current liabilities	11,506	18,886	19,288	19,288	19,288
Provisions	8,724	8,085	11,807	9,597	11,816
Debt funds	79,520	68,762	86,347	83,187	80,658
Other liabilities	0	0	0	0	0
Equity capital	903	904	905	905	905
Reserves & surplus	134,449	135,667	136,948	138,663	146,703
Shareholders' fund	135,352	136,571	137,853	139,568	147,608
Total liabilities and equities	260,991	257,058	279,230	278,591	288,227
Cash and cash eq.	6,994	14,080	9,872	3,743	4,485
Accounts receivables	43,073	51,922	51,498	55,177	59,946
Inventories	36,422	36,624	38,368	40,010	43,468
Other current assets	21,484	22,484	29,534	30,534	31,534
Investments	21,361	2,348	22,703	21,099	21,099
Net fixed assets	87,228	79,136	87,056	87,330	86,496
CWIP	21,329	25,981	16,396	16,896	17,396
Intangible assets	23,100	24,484	23,803	23,803	23,803
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	260,991	257,059	279,229	278,591	288,227

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Net income + Depreciation	34,279	23,847	5,255	22,192	27,205
Interest expenses	1,525	2,043	3,077	2,964	2,874
Non-cash adjustments	(1,097)	(2,465)	0	0	0
Changes in working capital	3,670	(3,352)	(5,092)	(5,514)	(5,103)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	38,376	20,073	3,240	19,642	24,976
Capital expenditures	(26,140)	(19,298)	3,266	(12,500)	(12,500)
Change in investments	(21,198)	19,013	(20,355)	1,604	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(47,338)	(285)	(17,089)	(10,896)	(12,500)
Equities issued/Others	2	1	1	0	0
Debt raised/repaid	8,327	(10,758)	17,585	(3,160)	(2,528)
Interest expenses	(1,525)	(2,043)	(3,077)	(2,964)	(2,874)
Dividends paid	(4,713)	(4,651)	(7,274)	(4,610)	(6,331)
Other financing cash flows	5,647	4,748	2,407	(4,140)	0
Cash flow from financing	7,738	(12,703)	9,642	(14,875)	(11,734)
Changes in cash and cash eq.	(1,223)	7,085	(4,207)	(6,129)	742
Closing cash and cash eq.	6,994	14,079	9,872	3,743	4,485

Per Share

Y/E 31 Mar (Rs)	FY17A	FY18A	FY19E	FY20E	FY21E
Reported EPS	56.6	5.5	13.6	23.1	31.8
Adjusted EPS	64.7	37.9	21.2	23.1	31.8
Dividend per share	9.0	9.0	6.0	10.2	14.0
Book value per share	298.4	300.9	303.6	307.4	325.2

Valuations Ratios

Y/E 31 Mar (x)	FY17A	FY18A	FY19E	FY20E	FY21E
EV/Sales	2.4	2.6	2.4	2.3	2.1
EV/EBITDA	8.6	12.9	15.0	13.6	12.0
Adjusted P/E	12.1	20.7	36.9	33.8	24.6
P/BV	2.6	2.6	2.6	2.5	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY17A	FY18A	FY19E	FY20E	FY21E
Tax burden (Net profit/PBT)	75.0	85.4	51.4	59.6	69.6
Interest burden (PBT/EBIT)	98.8	97.4	114.5	95.7	95.6
EBIT margin (EBIT/Revenue)	22.6	13.0	9.7	10.3	11.2
Asset turnover (Revenue/Avg TA)	18.1	15.3	15.6	16.0	17.1
Leverage (Avg TA/Avg Equity)	2.0	1.9	2.0	2.0	2.0
Adjusted ROAE	23.7	12.6	7.0	7.5	10.0

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

Ratio Analysis

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
YoY growth (%)					
Revenue	22.8	(9.7)	5.8	6.7	8.6
EBITDA	32.4	(35.4)	(13.7)	10.8	14.5
Adjusted EPS	34.9	(41.5)	(44.0)	9.1	37.3
Profitability & Return ratios (%)					
EBITDA margin	27.8	19.9	16.2	16.9	17.8
EBIT margin	22.6	13.0	9.7	10.3	11.2
Adjusted profit margin	16.7	10.8	5.7	5.9	7.4
Adjusted ROAE	23.7	12.6	7.0	7.5	10.0
ROCE	14.7	8.3	4.9	5.3	7.0
Working capital days (days)					
Receivables	92	110	113	113	113
Inventory	72	84	82	82	82
Payables	167	175	152	160	160
Ratios (x)					
Gross asset turnover	1.7	1.4	1.4	1.3	1.3
Current ratio	2.3	2.4	2.3	2.3	2.3
Net interest coverage ratio	25.9	10.1	5.3	6.2	7.5
Adjusted debt/equity	0.4	0.4	0.4	0.4	0.4

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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