

May 30, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	1,001		978	
Sales (Rs. m)	1,62,300	1,84,139	1,62,300	1,84,139
% Chng.	-	-	-	-
EBITDA (Rs. m)	31,243	36,920	31,243	36,920
% Chng.	-	-	-	-
EPS (Rs.)	32.5	41.7	30.8	40.8
% Chng.	5.5	2.2	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	1,63,694	1,51,428	1,62,300	1,84,139
EBITDA (Rs. m)	25,334	21,229	31,243	36,920
Margin (%)	15.5	14.0	19.3	20.1
PAT (Rs. m)	9,428	3,518	14,726	18,875
EPS (Rs.)	20.8	7.8	32.5	41.7
Gr. (%)	(45.0)	(62.7)	318.6	28.2
DPS (Rs.)	5.0	5.0	6.0	6.0
Yield (%)	0.6	0.6	0.7	0.7
RoE (%)	6.9	2.7	11.1	12.8
RoCE (%)	6.8	5.9	12.1	14.5
EV/Sales (x)	2.7	2.6	2.4	2.0
EV/EBITDA (x)	17.6	18.3	12.4	10.2
PE (x)	41.7	112.0	26.8	20.9
P/BV (x)	2.9	3.1	2.8	2.5

Key Data

LUPN.BO | LPC IN

52-W High / Low	Rs.919 / Rs.505
Sensex / Nifty	32,424 / 9,580
Market Cap	Rs.394bn/ \$ 5,211m
Shares Outstanding	453m
3M Avg. Daily Value	Rs.6122.5m

Shareholding Pattern (%)

Promoter's	46.92
Foreign	22.68
Domestic Institution	16.27
Public & Others	14.13
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.8	8.6	18.7
Relative	2.7	36.7	44.7

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Tale of two growths—India's steady growth, US's reviving growth

Quick Pointers:

- Resolution expected for Somerset, Goa and Pithampur in 2-3 months.
- Guided: Albuterol launch in 2HFY21E, and gSpiriva in FY22E.
- Metformin recall to be limited in few batches only

We expect US business to get back on track and lead the growth for LPC over FY20-22E due to 1) resolution of Somerset, Goa and Pithampur (Unit-2) in FY21E 2) early launch of Albuterol 3) ramp up of Levothyroxyn 4) launch of complex injectables, Biosimilar and Spiriva in FY22E. LPC guided for EBITDA margin of 18-20% for FY21-22E, which we believe is achievable as LPC has lowered its R&D guidance to 9% of sales (earlier 11-12%), completed remediation work for plants under WL and divested lower margin business (Kyowa). With 14% QoQ growth in Q4FY20 for US, we expect this momentum to continue and US revenues to grow at 10% in FY21E and 15% in FY22E. We have increased our TP to Rs1001 (earlier Rs978) due to marginal change in tax rate assumption, as guided by LPC. We assign 24x PE on FY22E and maintain our BUY rating.

Metformin recall initially for few batches: LPC clearly mentioned that impurity issue in metformin is a company specific issue and would not lead to any adverse decision by FDA to completely pull out metformin from the market as ranitidine (Zantac). LPC also stated only one of its batch would only be recalled from the market.

Gradual improvement in earnings sequentially: LPC's Q4FY20 earnings improved QoQ which were higher than our estimate due to higher US sales and lower R&D expense (9.1% of sales). Revenue/EBITDA grew 2%/25% QoQ to Rs37.9bn (PLe Rs37.3bn) and Rs4.70bn (PLe Rs3.98bn) while EBITDA margin also expanded to 12.4%(PLe 10.7%) v/s 10.1%in Q3FY20.

Conference call and key other key highlights:

North America: Sales were US\$212mn compared to US\$186mn QoQ while branded business contributed only US\$4mn. Solosec ramp up was slower due to COVID led lockdown. US growth during the quarter was led by increase in Rx share of Levothyroxyn to 13% from 5% QoQ. Currently, capacity utilization for Levothyroxyn is between 25% and expects to increase Rx share to 20% in FY21E.

Launch of Albuterol: LPC guided Albuterol launch by 2HFY21E to address drug shortage issues in US. It has responded to queries raised by FDA for Albuterol. Despite 6 approved players for Albuterol, we expect revenue of US\$15mn in FY21E and US\$50mn in FY22E for LPC as all the products are interchangeable and generic Albuterol has more than 50% Rx share in US.

US pipeline: It has 8-10 complex injections in pipeline which are expected to be filed in FY22E. LPC has filed for Spiriva (Tiotropium bromide) and LPC has First-to-File status for the same. The product can be launched only after 2HFY22E due to litigation issues. It would be filing its first biosimilar Pegfilgrastim (Neulasta) in Q4FY22E while Ranibizumab (Lucentis) clinical trial is at an initial stage.

Regulatory status update: Goa, Pithampur (Indore) Unit-2, Mandideep-Unit I-API, Tarapur-API and Somerset-Formulation continues to be under OAI/WL status. LPC highlighted is has completed CAPA (Corrective and Preventive Actions) for Somerset and Goa, while for Pithampur (Indore) Unit-2 they are regularly sending requirements to the FDA. LPC expects Somerset resolution initially followed by Goa and Pithampur (Indore) Unit-2. We believe resolution of regulatory issue would be a key earnings trigger, as it would increase the flow of approvals. In last few months, LPC has witnessed significant relief on regulatory front as its 6 plants has received EIR from USFDA and UK MHRA has successfully closed out Pithampur (Unit I, II and III) inspection.

India: Grew 13% YoY in Q4FY20 while LPC had stated Q1FY21E could be muted due to lockdown. LPC has a total sale force of 7,000 employees with 5,500 MR. It plans to add 300-400 workforce each year for the Indian market.

Europe, Middle-East and Africa (EMEA): Total EMEA sales were Rs3,650m, compared to Rs2,913mn Q3FY20. South Africa sales were ZAR 374m v/s ZAR289m Q3 FY20. Germany sales were EUR9.3m v/s EUR9.5m Q3FY20. Guided for launch of Fostair (MDI) in Europe in Q3FY21E, market size around US\$500m.

LATAM: Total LATAM sales were Rs1,353m compared to sales of Rs1,796m Q3FY20. Brazil sales were BRL 37m v/s BRL48m Q3FY20. Mexico sales were MXN 171 m v/s MXN185m Q3FY20.

APAC: Total APAC sales were INR 1,447m, compared to sales of INR1,722m during Q3 FY20. Philippines sales were PHP522m v/s PHP580m Q3FY20. Australia sales were AUD13m v/s AUD11.6m Q3FY20.

Japan: After divestment of Kyowa in Japan, LPC will continue its business in Japan by supplying formulations to the acquirer for three years and Enbrel biosimilar to its partner YL Biologics.

Exhibit 1: Q4FY20 Result Overview (Rs m)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	37,910	38,070	(0.4)	37,161	1,51,428	1,43,181	5.8
Raw Material	14,050	11,824	18.8	13,593	54,306	49,461	9.8
<i>% of Net Sales</i>	<i>37.1</i>	<i>31.1</i>		<i>36.6</i>	<i>35.9</i>	<i>34.5</i>	
Personnel Cost	7,636	7,082	7.8	7,407	29,868	27,702	7.8
<i>% of Net Sales</i>	<i>20.1</i>	<i>18.6</i>		<i>19.9</i>	<i>19.7</i>	<i>19.3</i>	
Others	11,519	12,168	(5.3)	12,402	46,025	43,876	4.9
<i>% of Net Sales</i>	<i>30.4</i>	<i>32.0</i>		<i>33.4</i>	<i>30.4</i>	<i>30.6</i>	
Total Expenditure	33,204	31,074	6.9	33,402	1,30,200	1,21,038	7.6
EBITDA	4,706	6,996	(32.7)	3,759	21,228	22,142	(4.1)
<i>Margin (%)</i>	<i>12.4</i>	<i>18.4</i>		<i>10.1</i>	<i>14.0</i>	<i>15.5</i>	
Depreciation	2,143	2,191	(2.2)	2,532	9,702	8,461	14.7
EBIT	2,563	4,806	(46.7)	1,227	11,526	13,682	(15.8)
Other Income	2,633	1,529	72.2	1,468	7,157	6,795	5.3
Interest	1,074	843	27.4	886	3,630	3,025	20.0
PBT	4,123	5,492	(24.9)	1,809	15,054	17,452	(13.7)
Minority Interest & Share from JV	838	76		(2,488)	(7,556)	(3,527)	
Total Taxes	1,051	2,943	(64.3)	7,670	11,571	8,879	30.3
<i>ETR (%)</i>	<i>25.5</i>	<i>53.6</i>		<i>424.1</i>	<i>76.9</i>	<i>50.9</i>	
Reported PAT	3,910	2,625	49.0	(8,350)	(4,073)	5,046	(180.7)

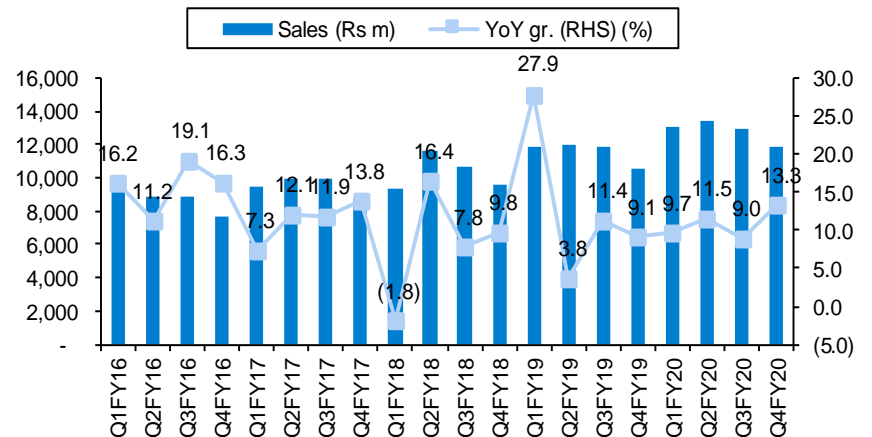
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major Sources of Revenues	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Domestic market	11,920	10,525	13.3	12,969	51,385	46,382	10.8
<i>% of Sales</i>	<i>31.4</i>	<i>27.6</i>		<i>34.9</i>	<i>34.3</i>	<i>32.9</i>	
International market (Exports)	25,990	27,555	(5.7)	24,192	98,602	94,696	4.1
<i>% of Sales</i>	<i>68.6</i>	<i>72.4</i>		<i>65.1</i>	<i>65.7</i>	<i>67.1</i>	
Total	37,910	38,080	(0.4)	37,161	1,49,987	1,41,078	6.3
Formulations	34,624	35,168	(1.5)	33,988	1,36,988	1,27,613	7.3
<i>% of Sales</i>	<i>91.3</i>	<i>92.4</i>		<i>91.5</i>	<i>91.3</i>	<i>90.5</i>	
India	11,920	10,525	13.3	12,969	51,385	46,382	10.8
<i>% of Sales</i>	<i>31.4</i>	<i>27.6</i>		<i>34.9</i>	<i>34.3</i>	<i>32.9</i>	
International market (Exports)	22,704	24,643	(7.9)	21,019	85,603	81,231	5.4
<i>% of Sales</i>	<i>59.9</i>	<i>64.7</i>		<i>56.6</i>	<i>57.1</i>	<i>57.6</i>	
North America	15,791	17,406	(9.3)	13,766	58,212	55,924	4.1
<i>% of Sales</i>	<i>41.7</i>	<i>45.7</i>		<i>37.0</i>	<i>38.8</i>	<i>39.6</i>	
Europe, Middle East, Africa (EMEA)	3,650	3,397	7.4	2,913	12,364	11,906	
<i>% of Sales</i>	<i>9.6</i>	<i>8.9</i>		<i>7.8</i>	<i>8.2</i>	<i>8.4</i>	
Emerging Markets (ROW) & LATAM	1,816	2,118	(14.3)	2,618	8,958	7,801	14.8
<i>% of Sales</i>	<i>4.8</i>	<i>5.6</i>		<i>7.0</i>	<i>6.0</i>	<i>5.5</i>	
APAC	1,447	1,722	(16.0)	1,722	6,069	5,600	8.4
<i>% of Sales</i>	<i>3.8</i>	<i>4.5</i>		<i>4.6</i>	<i>4.0</i>	<i>4.0</i>	
Non-Japan	1,447	1,722		1,722	6,069	5,600	8.4
Japan	-	-	-	-	-	-	-
<i>% of Sales</i>	<i>-</i>	<i>-</i>		<i>-</i>	<i>-</i>	<i>-</i>	
APIs	3,286	2,912	12.8	3,173	12,999	13,465	(3.5)
<i>% of Sales</i>	<i>8.7</i>	<i>7.6</i>		<i>8.5</i>	<i>8.7</i>	<i>9.5</i>	
Grand Total	37,910	38,080	(0.4)	37,161	1,49,987	1,41,078	6.3

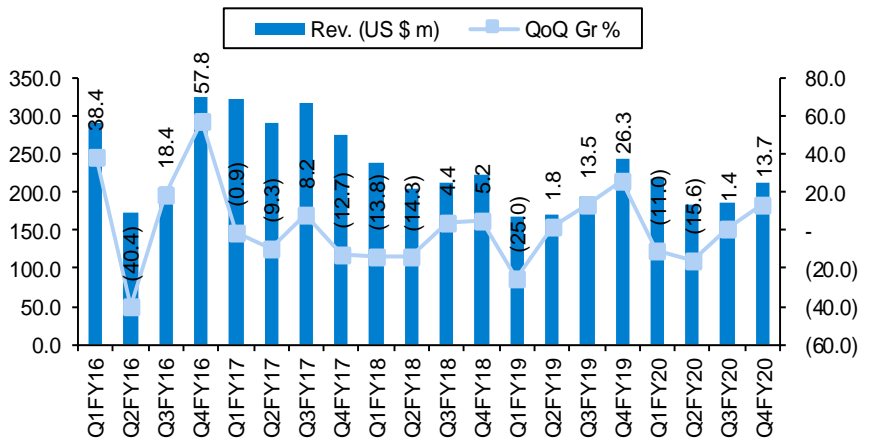
Source: Company, PL

Exhibit 3: Domestic Formulation (Rs mn) & YoY Gr (%)



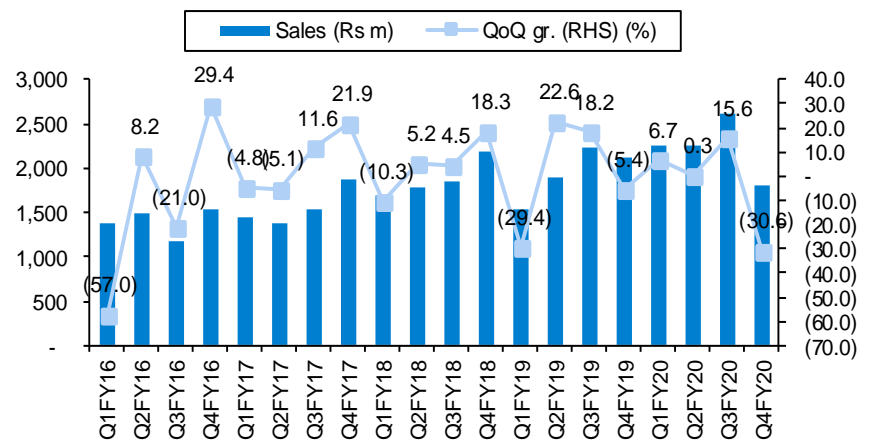
Source: Company, PL

Exhibit 4: US Generic (US\$ mn) & QoQ Growth (%)



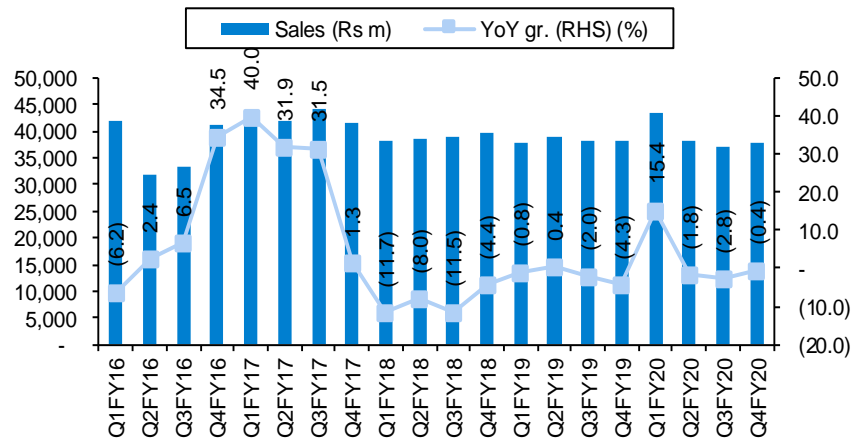
Source: Company, PL

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



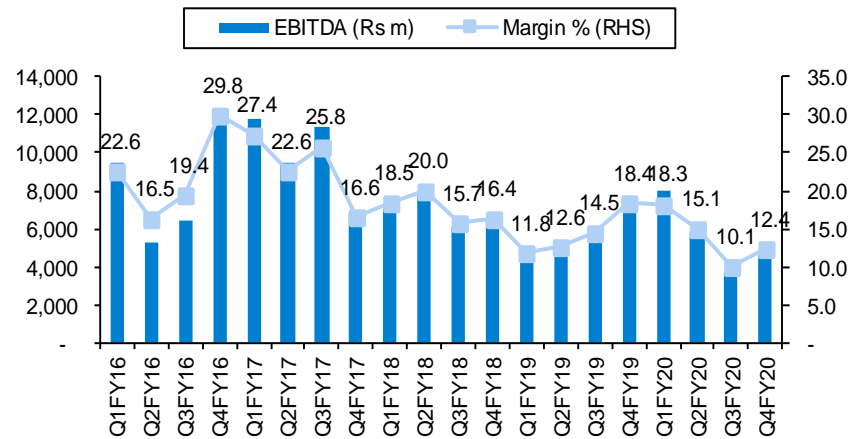
Source: Company, PL

Exhibit 6: Total Revenue (Rs mn) & YoY Growth (%)



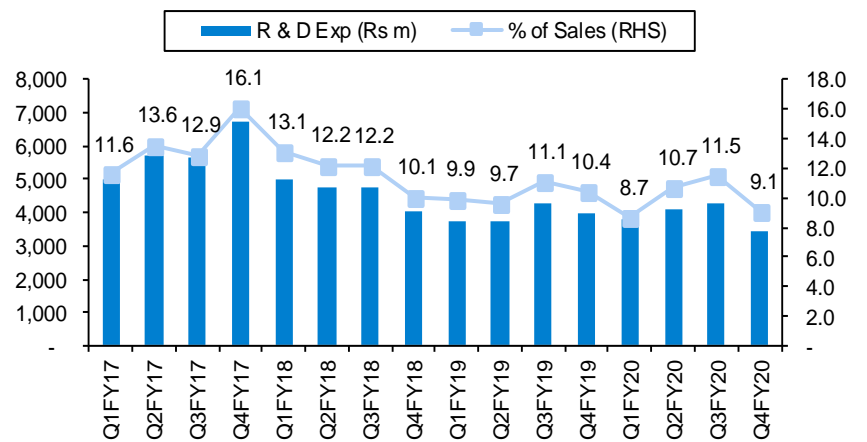
Source: Company, PL

Exhibit 7: EBITDA (Rs mn) & EBITDA Margin (%)



Source: Company, PL

Exhibit 8: R&D Exp (Rs mn) % of Sales



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	1,63,694	1,51,428	1,62,300	1,84,139
YoY gr. (%)	5.2	(7.5)	7.2	13.5
Cost of Goods Sold	58,458	54,306	54,776	60,213
Gross Profit	1,05,236	97,122	1,07,524	1,23,925
Margin (%)	64.3	64.1	66.3	67.3
Employee Cost	31,513	29,868	30,837	35,907
Other Expenses	15,731	15,538	16,230	18,414
EBITDA	25,334	21,229	31,243	36,920
YoY gr. (%)	(12.7)	(16.2)	47.2	18.2
Margin (%)	15.5	14.0	19.3	20.1
Depreciation and Amortization	10,850	9,702	10,730	11,390
EBIT	14,484	11,526	20,513	25,530
Margin (%)	8.8	7.6	12.6	13.9
Net Interest	3,078	3,630	2,615	2,014
Other Income	7,128	7,157	4,294	3,435
Profit Before Tax	18,534	15,054	22,192	26,952
Margin (%)	11.3	9.9	13.7	14.6
Total Tax	9,017	11,571	7,501	8,113
Effective tax rate (%)	48.7	76.9	33.8	30.1
Profit after tax	9,517	3,483	14,691	18,839
Minority interest	89	(36)	(36)	(36)
Share Profit from Associate	-	-	-	-
Adjusted PAT	9,428	3,518	14,726	18,875
YoY gr. (%)	(44.9)	(62.7)	318.6	28.2
Margin (%)	5.8	2.3	9.1	10.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	9,428	3,518	14,726	18,875
YoY gr. (%)	(44.9)	(62.7)	318.6	28.2
Margin (%)	5.8	2.3	9.1	10.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	9,428	3,518	14,726	18,875
Equity Shares O/s (m)	453	453	453	453
EPS (Rs)	20.8	7.8	32.5	41.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	1,32,893	1,43,893	1,54,893	1,65,893
Tangibles	70,110	77,110	84,110	91,110
Intangibles	62,783	66,783	70,783	74,783
Acc: Dep / Amortization	45,829	55,817	66,547	77,937
Tangibles	20,995	26,739	32,885	39,461
Intangibles	24,834	29,079	33,663	38,476
Net fixed assets	87,064	60,866	88,345	87,956
Tangibles	49,115	23,162	51,225	51,649
Intangibles	37,949	37,704	37,120	36,306
Capital Work In Progress	16,397	9,396	7,987	6,789
Goodwill	23,803	18,515	15,738	16,524
Non-Current Investments	3,104	1,542	1,263	1,038
Net Deferred tax assets	4,457	(252)	23	136
Other Non-Current Assets	3,249	3,644	2,614	1,884
Current Assets				
Investments	21,099	23,383	19,875	20,869
Inventories	38,368	34,569	35,573	41,368
Trade receivables	51,498	54,459	48,023	55,494
Cash & Bank Balance	9,872	24,543	19,195	22,241
Other Current Assets	11,058	12,913	6,457	3,228
Total Assets	2,79,494	2,49,839	2,49,405	2,60,016
Equity				
Equity Share Capital	905	906	906	906
Other Equity	1,36,517	1,24,461	1,38,303	1,53,790
Total Networkth	1,37,422	1,25,367	1,39,209	1,54,696
Non-Current Liabilities				
Long Term borrowings	66,417	17,933	15,243	12,956
Provisions	3,708	2,963	2,518	2,141
Other non current liabilities	3,145	1,637	269	269
Current Liabilities				
ST Debt / Current of LT Debt	15,802	24,928	17,449	12,214
Trade payables	24,982	24,123	26,235	30,269
Other current liabilities	20,515	43,202	43,952	45,253
Total Equity & Liabilities	2,79,494	2,49,839	2,52,388	2,63,717

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	18,534	15,054	22,192	26,952
Add. Depreciation	10,850	9,702	10,730	11,390
Add. Interest	3,078	3,630	2,615	2,014
Less Financial Other Income	7,128	7,157	4,294	3,435
Add. Other	(7,438)	(15,991)	4,712	(4,724)
Op. profit before WC changes	25,024	12,395	40,249	35,631
Net Changes-WC	(3,193)	26,118	15,901	(3,359)
Direct tax	(9,017)	(11,571)	(7,501)	(8,113)
Net cash from Op. activities	12,815	26,943	48,650	24,160
Capital expenditures	(9,194)	(3,999)	(9,591)	(9,802)
Interest / Dividend Income	-	-	-	-
Others	(20,299)	(735)	3,516	(987)
Net Cash from Inv. activities	(29,493)	(4,734)	(6,075)	(10,789)
Issue of share cap. / premium	1	1	-	-
Debt changes	10,791	(39,359)	(10,168)	(7,521)
Dividend paid	-	-	-	-
Interest paid	(3,078)	(3,630)	(2,615)	(2,014)
Others	-	-	-	-
Net cash from Fin. activities	7,714	(42,988)	(12,784)	(9,535)
Net change in cash	(8,964)	(20,779)	29,792	3,836
Free Cash Flow	3,621	22,944	39,059	14,358

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	43,558	38,202	37,161	37,910
YoY gr. (%)	15.4	(1.8)	(2.8)	(0.4)
Raw Material Expenses	15,500	13,439	13,593	14,050
Gross Profit	28,058	24,763	23,568	23,860
Margin (%)	64.4	64.8	63.4	62.9
EBITDA	7,977	5,786	3,759	4,706
YoY gr. (%)	79.0	18.2	(32.3)	(32.7)
Margin (%)	18.3	15.1	10.1	12.4
Depreciation / Depletion	3,171	2,526	2,532	2,143
EBIT	4,806	3,260	1,227	2,563
Margin (%)	11.0	8.5	3.3	6.8
Net Interest	856	826	886	1,074
Other Income	1,348	1,900	1,468	2,633
Profit before Tax	5,297	4,334	1,809	4,123
Margin (%)	12.2	11.3	4.9	10.9
Total Tax	2,280	695	7,670	1,051
Effective tax rate (%)	43.0	16.0	424.1	25.5
Profit after Tax	3,017	3,639	(5,862)	3,072
Minority interest	(13)	556	398	7
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,031	3,083	(6,260)	3,065
YoY gr. (%)	49.5	15.9	(473.7)	22.8
Margin (%)	7.0	8.1	(16.8)	8.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,031	3,083	(6,260)	3,065
YoY gr. (%)	49.5	15.9	(473.7)	22.8
Margin (%)	7.0	8.1	(16.8)	8.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,031	3,083	(6,260)	3,065
Avg. Shares O/s (m)	452	452	452	452
EPS (Rs)	6.7	6.8	(13.8)	6.8

Source: Company Data, PL Research

Key Financial Metrics

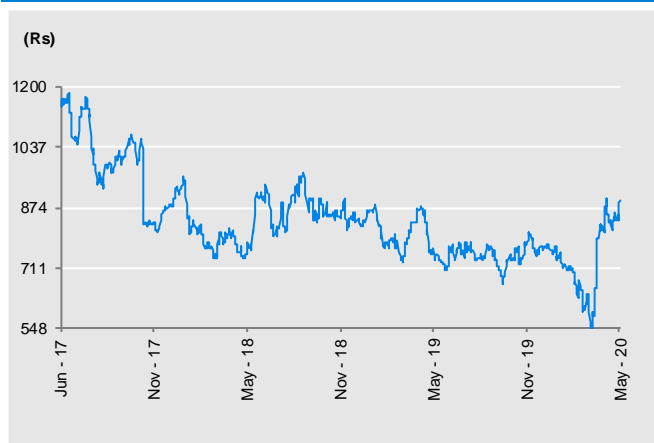
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	20.8	7.8	32.5	41.7
CEPS	44.8	29.2	56.2	66.8
BVPS	303.7	276.7	307.3	341.5
FCF	8.0	50.6	86.2	31.7
DPS	5.0	5.0	6.0	6.0
Return Ratio(%)				
RoCE	6.8	5.9	12.1	14.5
ROIC	4.1	1.8	10.4	13.4
RoE	6.9	2.7	11.1	12.8
Balance Sheet				
Net Debt : Equity (x)	0.4	0.0	0.0	(0.1)
Net Working Capital (Days)	145	156	129	132
Valuation(x)				
PER	41.7	112.0	26.8	20.9
P/B	2.9	3.1	2.8	2.5
P/CEPS	19.4	29.8	15.5	13.0
EV/EBITDA	17.6	18.3	12.4	10.2
EV/Sales	2.7	2.6	2.4	2.0
Dividend Yield (%)	0.6	0.6	0.7	0.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
India Formulations	46,382	50,788	56,121	62,126
North America	67,830	66,853	75,577	87,904
APAC	26,114	5,904	-	-
ROW Formulations & LATAM	7,801	15,486	17,744	21,018
APIs	13,464	12,707	12,858	13,090

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-May-20	BUY	978	835
2	18-Apr-20	Reduce	685	822
3	14-Apr-20	Reduce	654	790
4	07-Feb-20	Reduce	654	722
5	03-Jan-20	Hold	760	777
6	19-Dec-19	Hold	760	773
7	13-Nov-19	Hold	760	736
8	06-Nov-19	Reduce	730	771
9	03-Oct-19	Reduce	730	701
10	03-Oct-19	Reduce	730	701

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	702	644
2	Cadila Healthcare	Sell	263	324
3	Cipla	Reduce	542	570
4	Dr. Lal PathLabs	Sell	895	1,583
5	Dr. Reddy's Laboratories	Accumulate	4,326	3,915
6	Eris Lifesciences	BUY	547	486
7	Glenmark Pharmaceuticals	Sell	257	314
8	Indoco Remedies	Hold	259	236
9	Ipca Laboratories	Accumulate	1,728	1,619
10	Jubilant Life Sciences	Hold	363	345
11	Lupin	BUY	978	835
12	Sun Pharmaceutical Industries	Hold	467	450
13	Thyrocare Technologies	Sell	307	503

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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