

Industry	Pharmaceuticals
Bloomberg	LPC IN
BSE CODE	500257

Revenue growth led by launch of Ranolazine with 3 months exclusivity in US

RATING	NEUTRAL
CMP	783
Price Target	820
Potential Upside	5%

Rating Change	↔
Estimate Change	↑
Target Change	↔

Stock Info

52wk Range H/L	986/720
Mkt Capital (Rs Cr)	36471
Free float (%)	53%
Avg. Vol 1M (,000)	1828
No. of Shares (Crs)	45
Promoters Pledged %	0%

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4QFY19 Result update

- Overall revenue for the quarter grew by 9% YoY to Rs.4326 crs (vs. our estimate Rs 4236 cr) majorly driven by the US business which grew by 9% YoY to US\$ 245 million.
- Gross margin improved by 183 bps YoY to 68% on the back of growth across geographies especially US on account of Ranolazine launch with 3 months exclusivity.
- EBITDA margin for the quarter improved by 223 bps YoY to 19.8% as the staff cost and other expenses as a percentage of sales was stable on a YoY basis.
- PAT in Q4FY19 was Rs.290 crs in comparison to loss of Rs.784 crs last year. PAT for this quarter was impacted due to the higher tax rate.

View and Valuation

The net sales for the quarter grew by 9% YoY to Rs.4326 crs. Sales for the quarter was mainly driven by the US sales, US sales in Q4FY19 improved by 9% YoY and 26% sequentially to US\$245 million on account of Ranolazine launch with 3 months of exclusivity and Tamiflu also contributed significantly due to late season. On the specialty side in US, the ramp up of Solosec is slow than expected. India sales have grown by 9% YoY to Rs.1053 crs on account of growth in key therapeutic areas like Cardiac, Anti-diabetics and Respiratory. In Japan, the pricing pressures persists due to the annual price cuts. We believe Etanercept, which is expected to be launched in H2FY19, will drive growth in Japan in the near term. Going forward, we expect US growth will be driven by only 2-3 limited competition products. Ranolazine and Levothyroxine ramp up and the launch of Pro-air in H2FY20 are expected to drive the US sales in FY20. We expect India business to deliver double digit growth and Japan will continue to see pricing pressure.

On the flip side, we see the company grappling with US FDA regulatory hurdles at 4 manufacturing sites leading to delay in product approvals and the lawsuit filed against the company for inflating prices of generic medicines makes us cautious. Therefore, we maintain our target price at Rs.820 and our NEUTRAL stance.

Key Risks to our rating and target

- OAI status in Pithampur, Mandideep and Somerset facility.
- 3 483 in Aurangabad manufacturing plant.
- ANDA approvals and Filings.
- Lawsuit filed for generics price rigging

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	14256	17494	15804	16718	18959
EBITDA	3685	4493	3148	2882	3891
EBIT	3198	3581	2062	1797	2730
PAT	2261	2557	258	607	1570
EPS (Rs)	50	57	6	13	35
EPS growth (%)	-6%	13%	-90%	135%	159%
ROE (%)	20%	19%	2%	4%	11%
ROCE (%)	19%	19%	10%	9%	13%
BV	247	299	300	304	329
P/B (X)	6.0	4.8	2.5	2.6	2.4
P/E (x)	29.5	25.5	128.8	58.4	22.6

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4QFY19 Results

Sales above estimates

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	4,034	3,856	3,951	4,505	4,406	9.2%	-2.2%	15,804	16,718	5.8%
Other Income	145	184	231	43	87	-40.3%	99.2%	150	364	142.1%
COGS	1,363	1,444	1,393	1,601	1,408	3.3%	-12.1%	5,274	5,846	10.8%
Gross Margin	66%	63%	65%	64%	68%	1.8%	3.6%	67%	65%	-1.6%
Employee Cost	729	749	794	806	800	9.7%	-0.7%	2,865	3,151	10.0%
Other Expen.	1,234	1,135	1,215	1,343	1,327	7.5%	-1.2%	4,518	4,839	7.1%
EBITDA	709	527	550	756	872	23.1%	15.5%	3,148	2,882	-8.4%
EBITDA Mar.	18%	14%	14%	17%	20%	2.2%	3.0%	20%	17%	-2.7%
Depreciation	273	259	265	280	281	2.9%	0.4%	2,062	1,797	-12.8%
EBIT	522	383	441	439	592	13%	34.8%	204	308	50.6%
Interest	59	69	74	80	86	46%	7.2%	204	308	50.6%
PBT	522	383	441	439	592	13.4%	34.8%	2,008	1,853	-8%
Exceptional	(1,464)	-	-	(342)	2	-	-	(1,464)	(340)	-
Tax	(163)	181	173	248	300	-283.7%	21.0%	288	902	213%
PAT	(784)	203	266	(152)	290	-137.0%	-290%	258	607	135%
PAT Margin	-19%	5%	7%	-3%	7%	26.0%	10%	2%	4%	2%

Growth was driven by US and India sales partly offset by ROW sales

Overall revenue for the quarter grew by 9% YoY to Rs.4326 crs. The US business reported a strong sequential growth of 26% to US\$ 245 million on account of Ranolazine launch with 3 months of exclusivity and this year due late season, tamiflu contribution was significant. In the specialty product, Solosec have ramped up nicely. India sales grew by 9% YoY on the back of growth in the chronic segment like Cardiac, Anti-diabetics and Respiratory. APAC is almost flat QoQ to Rs. 690 crs due to pricing pressure on account of annual price cuts. LATAM sales de-grew by 11% QoQ to Rs. 139 crs due to currency fluctuations and political instability. However, other markets like Europe, South Africa and Australia have done well this quarter. Going forward, we believe US and India will be growth drivers for Lupin. We expect to see strong growth in US with Ranolazine and Levothyroxine ramp up in Q1FY20.

Strong Gross margin and EBITDA margin this quarter

Gross margin for the quarter improved by 183 bps YoY to 68% on account of growth across geographies especially US on account of Ranolazine launch with 3 months exclusivity and Tamiflu ramp up due to late season this year

EBITDA margin also grew strongly by 223 bps to 19.8% in Q4FY19 due to rationalization of R&D expenditure. R&D for the full year was Rs.1573 crs vs Rs. 1851 crs in FY18.

Concall Highlights

- According to the management price erosion has stabilized in the US market in comparison to double digit erosion in the past few quarters.
- There is lot of opportunities in terms of products going off patent, in the next 5 year, US\$90+ billion products will go off patent.
- In the US, in the Complex generics, the company's focus is on inhalation, biosimilars and complex injectables. Women health in US is another focus area, as the women health in US is US\$10+ billion market and there is lack of material competition.
- In the next 3-5 years, the Indian Pharmaceutical market is expected to grow at 10%.
- The management expects to launch 20 products in US in FY20. In the inhalation front, the company has filed its first DPI Albuterol last year and expects to launch it in the second half of FY20.
- For India business, the chronic segment majorly respiratory, cardiology and diabetology contributes 55% of the domestic sales. The management expects the India business to grow in double digits going forward.
- In Japan, the pricing pressures persists due to the annual price cuts. The management expects Etanercept to drive growth in Japan in the near term as the company expects to launch it in the second half of FY20.
- On the regulatory front, the status for Pithampur, Mandideep and Somerset facility remains OAI. The company has responded for Pithampur and Somerset facility.
- USFDA has issued 3 observations for Aurangabad manufacturing plant; the inspection for the same was carried out from 6 May to 15 May 2019.

Exhibit: Sales and Sales Growth

Sales for the quarter grew by 9% YoY to Rs.4326 crs (vs estimate of Rs.4236 crs).

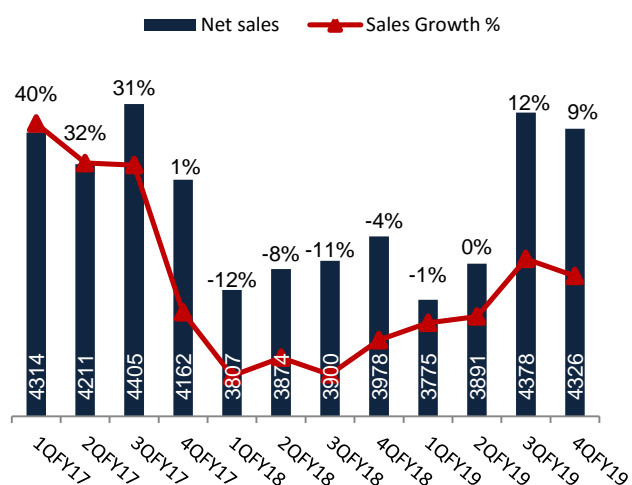


Exhibit: Cumulative ANDA filings and approvals

For the year, the company has filed 27 ANDAs and received approvals of 30 ANDAs.

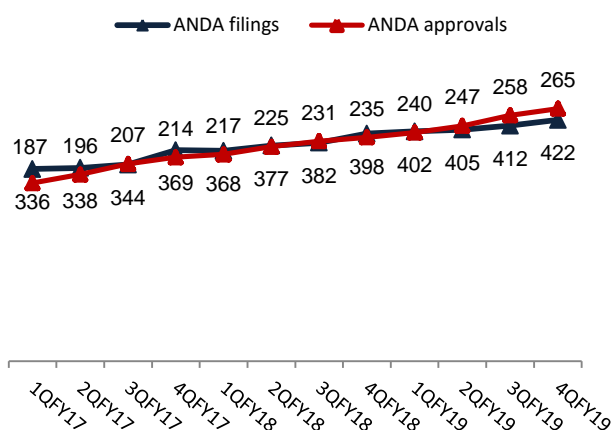


Exhibit: Domestic sales and YoY growth

Domestic sales grew by 9% YoY to Rs.1053 crs in this quarter.

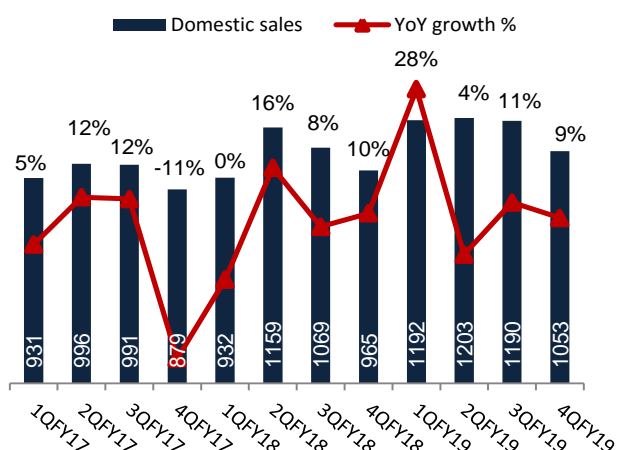


Exhibit: Gross and EBITDA margin

Gross margin and EBITDA margin improved by 183 bps and 223 bps to 68% and 19.8% respectively.

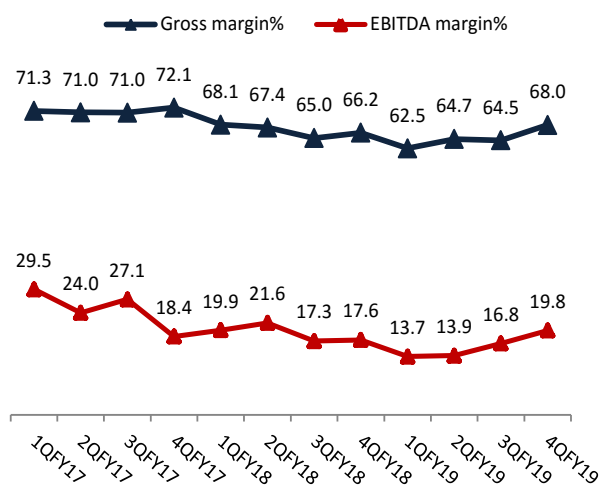


Exhibit: R&D cost and R&D as a % of sales

R&D expenditure this quarter was 426 crores, 9.1% of sales.

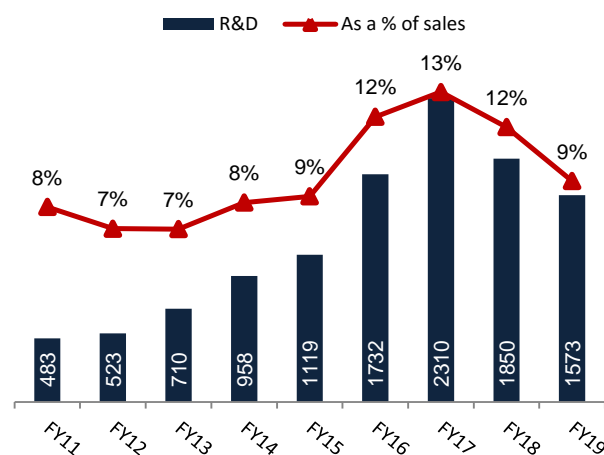
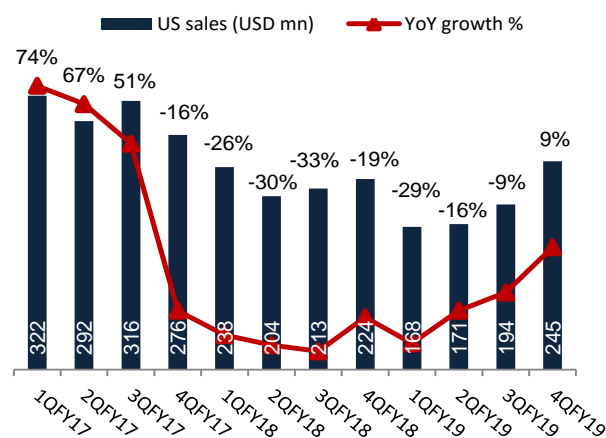


Exhibit: US sales and YoY growth

US sales grew by 9% to US\$245 crs in 4QFY19 on account of Ranolazine launch.



Operational Details

Geography	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
<i>US</i>	1901	1602	1361	1432	1499	1186	1249	1417	1741
<i>India</i>	879	932	1159	1069	965	1192	1203	1190	1053
<i>APAC</i>	612	599	636	674	664	608	620	694	690
<i>EMEA</i>	301	226	276	272	351	276	295	280	340
<i>LATAM</i>	127	127	140	148	165	126	146	156	139
<i>ROW</i>	61	42	38	37	55	29	44	68	73
<i>API</i>	282	279	265	268	281	358	335	362	291

Revenue gr. %	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
<i>US</i>	-13%	-27%	-32%	-34%	-21%	-26%	-8%	-1%	16%
<i>India</i>	-11%	0%	16%	8%	10%	28%	4%	11%	9%
<i>APAC</i>	9%	11%	15%	20%	8%	1%	-2%	3%	4%
<i>EMEA</i>	18%	3%	17%	6%	17%	22%	7%	3%	-3%
<i>LATAM</i>	8%	17%	41%	26%	30%	-1%	5%	5%	-16%
<i>ROW</i>	66%	13%	-5%	1%	-11%	-30%	15%	84%	34%
<i>API</i>	5%	-3%	-9%	0%	0%	28%	26%	35%	4%

Revenue mix%	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
<i>US</i>	46%	42%	35%	37%	38%	31%	32%	36%	45%
<i>India</i>	21%	24%	30%	27%	24%	32%	31%	31%	27%
<i>APAC</i>	15%	16%	16%	17%	17%	16%	16%	18%	18%
<i>EMEA</i>	7%	6%	7%	7%	9%	7%	8%	7%	9%
<i>LATAM</i>	3%	3%	4%	4%	4%	3%	4%	4%	4%
<i>ROW</i>	1%	1%	1%	1%	1%	1%	1%	2%	2%
<i>API</i>	7%	7%	7%	7%	7%	9%	9%	9%	7%

ANDA pipeline	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
ANDA filings	369	368	377	382	398	402	405	412	422
ANDA approvals	214	217	225	231	235	240	247	258	265
ANDA pending	155	151	152	151	163	162	158	154	157

Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	90	90	90	90	90	90	91	91
Reserves	5,115	6,842	8,784	11,073	13,407	13,487	13,652	14,814
Networth	5,204	6,932	8,874	11,163	13,498	13,577	13,742	14,905
Debt	974	553	471	7,119	7,952	6,876	8,222	8,222
Other Non Current Liab	396	427	439	994	1,307	1,168	1,389	1,515
Total Capital Employed	6,178	7,485	9,345	18,283	21,450	20,453	21,964	23,127
Net Fixed Assets (incl CWIP)	3,311	3,660	4,944	11,419	13,166	12,960	12,726	12,662
Non Current Investments	2	2	3	14	22	27	160	160
Other Non Current Assets	458	444	359	1,304	1,465	1,109	1,184	1,176
Non Current Assets	3,771	4,106	5,305	12,737	14,653	14,096	14,096	13,998
Inventory	1,949	2,129	2,504	3,274	3,642	3,662	3,837	4,363
Debtors	2,187	2,464	2,657	4,549	4,307	5,192	5,150	5,818
Cash & Bank	435	798	481	793	682	1,394	572	1,069
Other Current Assets	572	709	2,191	1,272	3,323	1,952	4,295	4,525
Current Assets	5,143	6,100	7,832	9,887	11,954	12,201	13,854	15,774
Creditors	1,543	1,594	1,926	1,989	2,589	2,575	2,498	2,857
Provisions	356	345	574	235	471	465	727	732
Other Current Liabilities	381	288	830	1,092	756	1,603	1,324	1,496
Curr Liabilities	2,280	2,227	3,330	3,316	3,816	4,644	4,550	5,084
Net Current Assets	2,863	3,873	4,503	6,572	8,138	7,557	9,304	10,690
Total Assets	8,914	10,206	13,138	22,625	26,607	26,305	27,949	29,773

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	9,641	11,287	12,770	14,256	17,494	15,804	16,718	18,959
Change (%)	36%	17%	13%	12%	23%	-10%	6%	13%
EBITDA	2,270	3,003	3,620	3,685	4,493	3,148	2,882	3,891
Change (%)	57%	32%	21%	2%	22%	-30%	-8%	35%
Margin (%)	23.5%	26.6%	28.3%	25.9%	25.7%	19.9%	17.2%	20.5%
Depr & Amor.	332	261	435	487	912	1086	1085	1161
EBIT	1938	2742	3185	3198	3581	2062	1797	2730
Int. & other fin. Cost	41	27	10	59	153	204	308	354
Other Income	28	116	240	185	107	150	364	241
EBT	1,925	2,832	3,415	3,324	3,535	2,008	1,853	2,617
Exp Item	-	-	-	-	-	1,464	340	-
Tax	584	962	970	1,059	979	288	902	1,047
Minority Int & P/L share of Ass.	26	33	41	14	15	4	13	-
Reported PAT	1,340	1,870	2,444	2,265	2,556	255	612	1,570
Adjusted PAT	1,314	1,836	2,403	2,261	2,557	258	607	1,570
Change (%)	51%	40%	31%	-6%	13%	-90%	135%	159%
Margin(%)	13.6%	16.3%	18.8%	15.9%	14.6%	1.6%	3.6%	8.3%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	25%	26%	27%	20%	19%	2%	4%	11%
ROCE	36%	39%	35%	19%	19%	10%	9%	13%
Asset Turnover	1.1	1.1	1.0	0.6	0.7	0.6	0.6	0.6
Debtor Days	83	80	76	116	90	120	112	112
Inv Days	74	69	72	84	76	85	84	84
Payable Days	58	52	55	51	54	59	55	55
Int Coverage	47	103	325	54	23	10	6	8
P/E	21.4	22.8	37.6	29.5	25.5	128.8	58.4	22.6
Price / Book Value	5.4	6.0	10.2	6.0	4.8	2.5	2.6	2.4
EV/EBITDA	12	14	25	19	16	12	14	11
FCF per Share	16	33	41	(137)	33	4	20	27
Div Yield	1%	1%	0%	1%	1%	1%	1%	1%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	1,925	2,832	3,415	3,329	3,543	547	1,853	2,617
(inc)/Dec in Working Capital	(549)	(466)	(95)	(3,126)	506	(1,019)	(171)	(780)
Non Cash Op Exp	332	261	435	487	912	1,086	1,085	1,161
Int Paid (+)	41	27	10	59	153	204	308	354
Tax Paid	(544)	(772)	(944)	(1,170)	(1,149)	(558)	(902)	(1,047)
others	46	123	(88)	39	150	1,492	(331)	-
CF from Op. Activities	1,251	2,004	2,733	(382)	4,115	1,751	1,835	2,330
(inc)/Dec in FA & CWIP	(551)	(529)	(871)	(5,822)	(2,637)	(1,553)	(851)	(1,096)
Free Cashflow	700	1,475	1,862	(6,204)	1,478	198	983	1,233
(Pur)/Sale of Inv	0	1	(0)	1	0	38	(2,034)	25
others	29	(330)	(183)	(1,141)	107	108	-	-
CF from Inv. Activities	(522)	(859)	(1,055)	(6,962)	(2,529)	(1,407)	(2,885)	(1,071)
inc/(dec) in NW								
inc/(dec) in Debt	(465)	(530)	(70)	6,208	948	(895)	1,346	0
Int. Paid	(42)	(28)	(11)	(58)	(151)	(204)	(308)	(354)
Div Paid (inc tax)	(169)	(323)	(157)	(405)	(407)	(407)	(408)	(408)
others	13	24	41	92	43	15	-	-
CF from Fin. Activities	(663)	(857)	(197)	5,836	433	(1,492)	630	(762)
Inc(Dec) in Cash	66	288	1,482	(1,508)	2,019	(1,148)	(421)	496
Add: Opening Balance	245	318	627	2,288	780	2,799	1,408	987
Closing Balance	311	607	2,108	780	2,799	1,651	987	1,484

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