

Industry	Pharmaceuticals
Bloomberg	LPC IN
BSE CODE	500257

## USFDA pending issues to impact the pace of approvals going ahead.

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>759</b>
<b>Price Target</b>	<b>784</b>
<b>Potential Upside</b>	<b>3%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	986/697
Mkt Capital (Rs Cr)	34314
Free float (%)	53%
Avg. Vol 1M (,000)	1377
No. of Shares (Crs)	45
Promoters Pledged %	0%

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### 1QFY20 Result update

- ❑ Q1FY20 US sales grew by 30% to US\$ 218 mn on account of continued benefit from gRanexa exclusivity and base business stabilization.
- ❑ India sales grew by 10% YoY to Rs. 1308 crs, the Indian branded formulations grew by 12.3% YoY. The volume growth for the company was 4.7% as against industry volume growth of 1.7%.
- ❑ Japan sales grew by 9% in the local currency driven by traction in the volumes, Bipresso sales grew by 311% YoY for the quarter.
- ❑ The gross margin expanded by 237 bps to 64.9% on account of exclusivity benefit in the US. EBITDA margin grew by 480 bps on the back of cost control initiatives.
- ❑ R&D spend during Q1FY20 amounted to Rs. 379 crs (8.7% of sales) as against Rs. 396 crs(9.2% of sales) during Q4FY19. For the full year, the management expects the R&D spend to be below 10%.

### View and Valuation

The overall revenue for the quarter grew by 15% YoY to Rs. 4355 crs mainly driven by US and domestic sales. US revenues grew by 30% YoY US\$ 218 mn on account of exclusivity benefit of gRanexa and new launches. Domestic sales grew by 10% to Rs. 1308 crs driven by the volume traction. The branded formulations portfolio grew by 12.3% YoY. APAC and LATAM grew by 10% and 23% respectively.

Going forward, we don't see a huge jump in the revenues on account of slower ramp up Solosec and Levothyroxine. Currently, the company has OAI status for 4 facilities namely Mandideep unit, Goa facility, Somerset facility and Pithampur unit II. The OAI status makes us cautious of the pace of approvals going ahead. We believe the higher remediation cost and promotional & marketing expenses to impact the margins as well. Therefore, we value the stock at 23x FY21e EPS to arrive at a target price of Rs.784 and recommend NEUTRAL.

### Key Risks to our rating and target

- ❑ OAI status in Mandideep unit, Goa facility, Somerset facility and Pithampur unit II.
- ❑ ANDA approvals and Filings.
- ❑ R&D Expenditure

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	17494	15804	16718	18032	19597
EBITDA	4493	3148	2882	3640	3860
EBIT	3581	2062	1797	2465	2676
PAT	2557	258	607	1356	1543
EPS (Rs)	57	6	13	30	34
EPS growth (%)	13%	-90%	135%	124%	14%
ROE (%)	19%	2%	4%	9%	10%
ROCE (%)	19%	10%	9%	12%	12%
BV	299	300	304	325	350
P/B (X)	4.8	2.5	2.4	2.3	2.2
P/E (x)	25.5	128.8	55.1	25.3	22.3

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## 1QFY20 Results

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	Fig in Rs Cr		
								FY18	FY19	YoY %
Net Sales	3,856	3,951	4,505	4,406	4,418	14.6%	0.3%	15,804	16,718	5.8%
Other Income	184	231	43	87	72	-60.8%	-16.5%	150	364	142.1%
COGS	1,444	1,393	1,601	1,408	1,550	7.3%	10.1%	5,274	5,846	10.8%
Gross Margin	63%	65%	64%	68%	65%	2.4%	-3.1%	67%	65%	-1.6%
Employee Cost	749	794	806	800	807	7.7%	1.0%	2,865	3,151	10.0%
Other Expen.	1,135	1,215	1,343	1,327	1,201	5.8%	-9.5%	4,518	4,839	7.1%
EBITDA	527	550	756	872	860	63.2%	-1.4%	3,148	2,882	-8.4%
EBITDA Mar.	14%	14%	17%	20%	19%	5.8%	-0.3%	20%	17%	-2.7%
Depreciation	259	265	280	281	317	22.4%	12.9%	2,062	1,797	-12.8%
EBIT	383	441	439	592	530	38%	-10.6%	204	308	50.6%
Interest	69	74	80	86	86	25%	0.1%	204	308	50.6%
PBT	383	441	439	592	530	38.1%	-10.6%	2,008	1,853	-8%
Exceptional	-	-	342	(2)	-			(1,464)	(340)	-
Tax	181	173	248	300	228	25.9%	-24.0%	288	902	213%
PAT	203	266	(152)	290	303	49.5%	5%	258	607	135%
PAT Margin	5%	7%	-3%	7%	7%	1.6%	0%	2%	4%	2%

**Growth across geography partly offset by weak API and EMEA sales.**

US sales grew by 30% YoY US\$ 218 mn on account of exclusivity benefit of gRanexa, new launches and volume growth from the existing products. Domestic sales grew by 10% to Rs. 1308 crs driven by the volume traction. The company's volumes grew by 4.7% as against industry volume growth of 1.7%. The branded formulations portfolio grew by 12.3% YoY. Japan sales grew by 9% in the local currency driven by traction in the volumes, Bipresso sales grew by 311% YoY for the quarter.

Going forward, the US sales will not see a great traction in sales on account of slower ramp up of Levothyroxine and Solosec. Japan will continue to see pricing pressures on account of annual price cuts, though the launch of Etanercept is expected to drive sales growth in the second half of the quarter.

**Margins expansion on account of better product mix and exclusivity benefit**

The gross margin expanded by 237 bps to 64.9% on account of sales growth across geographies, majorly driven by the exclusivity benefit in the US and volume growth expansion in the other geographies.

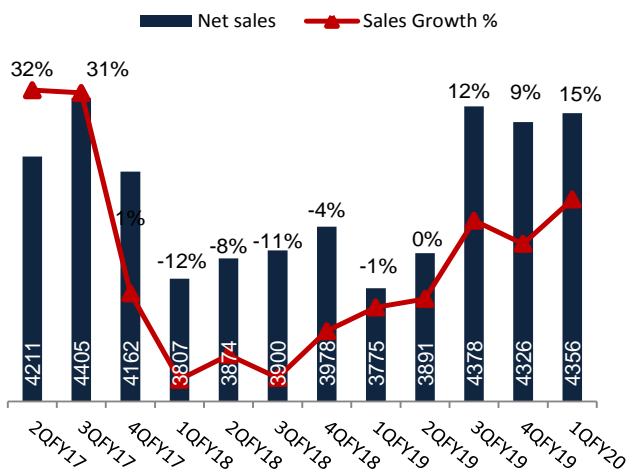
The EBITDA margin on the other hand grew by 580 bps to 19.5% led by growth in the gross margin and other cost control measures.

**Concall Highlights**

- Branded sales in US this quarter is at US\$ 5 mn. The company will continue to focus on Solosec to drive prescriptions and maximize its potential, and remains optimistic about the product.
- The Company launched 5 products in the US market during the quarter.
- Japan - Bipresso Q1FY20 sales are up by 311% YoY; the Company has entered into co-promotion agreement for Bipresso with Yoshitomi.
- IND AS 116 impact on EBITDA and depreciation is about 0.9% this quarter.
- The management maintains its guidance for US at US\$ 850 mn based on Levothyroxine ramp up, 20+ launches in FY20, base business stabilization and injectable portfolio launch in September.
- Pro-air – The Company is waiting for feedback from the USFDA in the next couple of weeks and expects it be a Q4FY20 launch.
- Advanced inhalation pipeline: gFostair filed in EU
- Etanercept – EMA have some queries, inspection is scheduled by the end of the fiscal year and approval is expected either in Q4FY20 or Q1FY21.
- Capex for FY20 is expected to be around Rs. 600-700 crs based on the Inhalation plant coming up and expansion of Biosimilars.
- R&D spend during Q1FY20 amounted to Rs. 379 crs (8.7% of sales) as against Rs. 396 crs (9.2% of sales) during Q4FY19. For the full year, the management expects the R&D spend to be below 10%.
- The company is on track to launch Etanercept in H2FY20 in Japan.

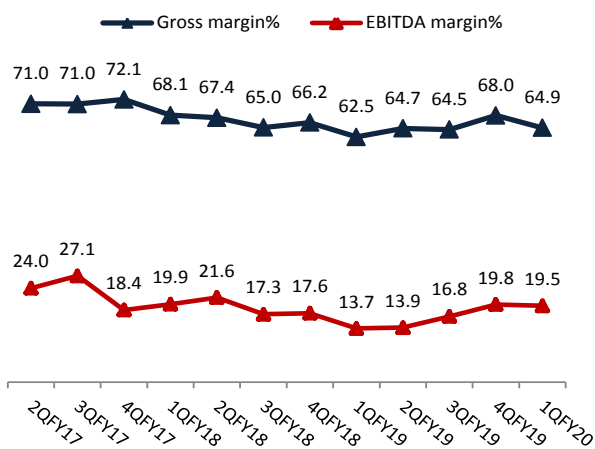
## Exhibit: Sales and Sales Growth

Sales for the quarter grew by 15% YoY to Rs.4356 crs (vs estimate of Rs.4461 crs).



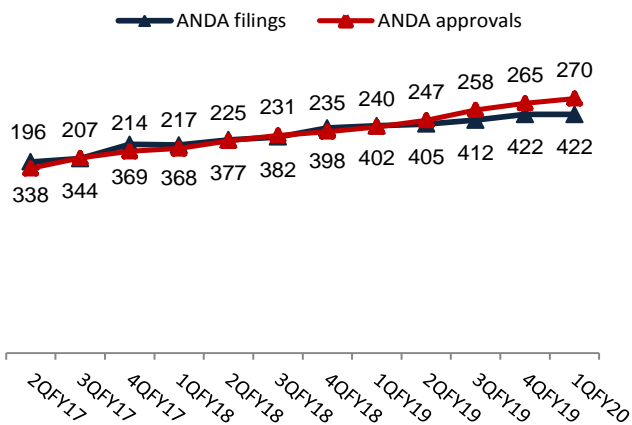
## Exhibit: Gross and EBITDA margin

The gross margin expanded by 237 bps to 64.9% on account of exclusivity benefit in the US.



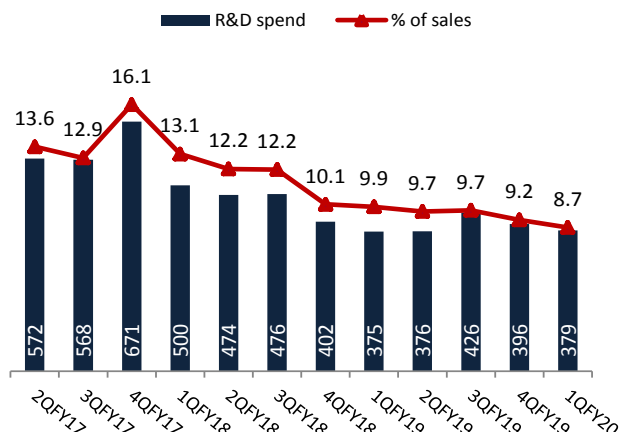
## Exhibit: Cumulative ANDA filings and approvals

For the quarter, the company has received approvals of 5 ANDAs.



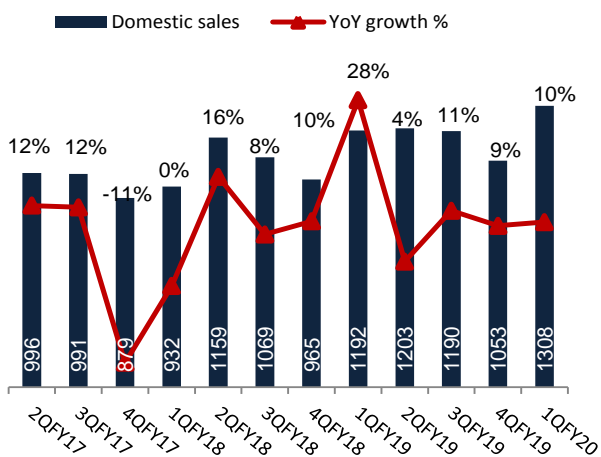
## Exhibit: R&D cost and R&D as a % of sales

R&D expenditure this quarter was 379 crores, 8.7% of sales.



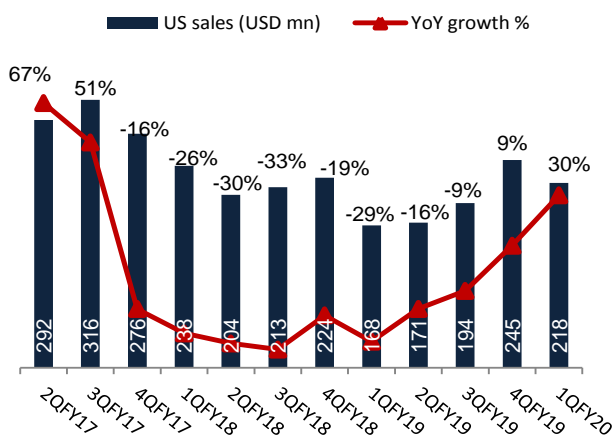
## Exhibit: Domestic sales and YoY growth

India sales grew by 10% YoY to Rs. 1308 crs, the Indian branded formulations grew by 12.3% YoY.



## Exhibit: US sales and YoY growth

Q1FY20 US sales grew by 30% to US\$ 218 mn on account of continued benefit from gRanexa exclusivity.



## Operational Details

Fig in Rs Cr

<b>Geography</b>	<b>1QFY18</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
US	1602	1361	1432	1499	1186	1249	1417	1741	1541
India	932	1159	1069	965	1192	1203	1190	1053	1308
APAC	599	636	674	664	608	620	694	690	671
EMEA	226	276	272	351	276	295	280	340	260
LATAM	127	140	148	165	126	146	156	139	155
ROW	42	38	37	55	29	44	68	73	71
API	279	265	268	281	358	335	362	291	349

<b>Revenue gr. %</b>	<b>1QFY18</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
US	-27%	-32%	-34%	-21%	-26%	-8%	-1%	16%	30%
India	0%	16%	8%	10%	28%	4%	11%	9%	10%
APAC	11%	15%	20%	8%	1%	-2%	3%	4%	10%
EMEA	3%	17%	6%	17%	22%	7%	3%	-3%	-6%
LATAM	17%	41%	26%	30%	-1%	5%	5%	-16%	23%
ROW	13%	-5%	1%	-11%	-30%	15%	84%	34%	144%
API	-3%	-9%	0%	0%	28%	26%	35%	4%	-3%

<b>Revenue mix%</b>	<b>1QFY18</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
US	42%	35%	37%	38%	31%	32%	34%	40%	35%
India	24%	30%	27%	24%	32%	31%	29%	24%	30%
APAC	16%	16%	17%	17%	16%	16%	17%	16%	15%
EMEA	6%	7%	7%	9%	7%	8%	7%	8%	6%
LATAM	3%	4%	4%	4%	3%	4%	4%	3%	4%
ROW	1%	1%	1%	1%	1%	1%	2%	2%	2%
API	7%	7%	7%	7%	9%	9%	9%	7%	8%

<b>ANDA pipeline</b>	<b>1QFY18</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>
ANDA filings	368	377	382	398	402	405	412	422	422
ANDA approvals	217	225	231	235	240	247	258	265	270
ANDA pending	151	152	151	163	162	158	154	157	152

## Financial Details

## Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	90	90	90	90	90	91	91	91
Reserves	6,842	8,784	11,073	13,407	13,487	13,652	14,600	15,735
<b>Networth</b>	<b>6,932</b>	<b>8,874</b>	<b>11,163</b>	<b>13,498</b>	<b>13,577</b>	<b>13,742</b>	<b>14,690</b>	<b>15,825</b>
Debt	553	471	7,119	7,952	6,876	8,222	8,222	7,142
Other Non Current Liab	427	439	994	1,307	1,168	1,389	1,366	1,453
<b>Total Capital Employed</b>	<b>7,485</b>	<b>9,345</b>	<b>18,283</b>	<b>21,450</b>	<b>20,453</b>	<b>21,964</b>	<b>22,912</b>	<b>22,967</b>
Net Fixed Assets (incl CWIP)	3,660	4,944	11,419	13,166	12,960	12,726	12,812	12,856
Non Current Investments	2	3	14	22	27	160	160	160
Other Non Current Assets	444	359	1,304	1,465	1,109	1,184	1,161	1,186
<b>Non Current Assets</b>	<b>4,106</b>	<b>5,305</b>	<b>12,737</b>	<b>14,653</b>	<b>14,096</b>	<b>14,096</b>	<b>14,134</b>	<b>14,203</b>
Inventory	2,129	2,504	3,274	3,642	3,662	3,837	4,199	4,564
Debtors	2,464	2,657	4,549	4,307	5,192	5,150	5,681	6,174
Cash & Bank	798	481	793	682	1,394	572	783	257
Other Current Assets	709	2,191	1,272	3,323	1,952	4,295	4,432	4,594
<b>Current Assets</b>	<b>6,100</b>	<b>7,832</b>	<b>9,887</b>	<b>11,954</b>	<b>12,201</b>	<b>13,854</b>	<b>15,095</b>	<b>15,590</b>
Creditors	1,594	1,926	1,989	2,589	2,575	2,498	2,695	2,928
Provisions	345	574	235	471	465	727	785	853
Other Current Liabilities	288	830	1,092	756	1,603	1,324	1,425	1,544
<b>Curr Liabilities</b>	<b>2,227</b>	<b>3,330</b>	<b>3,316</b>	<b>3,816</b>	<b>4,644</b>	<b>4,550</b>	<b>4,904</b>	<b>5,325</b>
<b>Net Current Assets</b>	<b>3,873</b>	<b>4,503</b>	<b>6,572</b>	<b>8,138</b>	<b>7,557</b>	<b>9,304</b>	<b>10,192</b>	<b>10,264</b>
<b>Total Assets</b>	<b>10,206</b>	<b>13,138</b>	<b>22,625</b>	<b>26,607</b>	<b>26,305</b>	<b>27,949</b>	<b>29,229</b>	<b>29,792</b>

## Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	11,287	12,770	14,256	17,494	15,804	16,718	18,032	19,597
Change (%)	17%	13%	12%	23%	-10%	6%	8%	9%
<b>EBITDA</b>	<b>3003</b>	<b>3620</b>	<b>3685</b>	<b>4493</b>	<b>3148</b>	<b>2882</b>	<b>3640</b>	<b>3860</b>
Change (%)	32%	21%	2%	22%	-30%	-8%	26%	6%
Margin (%)	26.6%	28.3%	25.9%	25.7%	19.9%	17.2%	20.2%	19.7%
Depr & Amor.	261	435	487	912	1086	1085	1175	1185
<b>EBIT</b>	<b>2742</b>	<b>3185</b>	<b>3198</b>	<b>3581</b>	<b>2062</b>	<b>1797</b>	<b>2465</b>	<b>2676</b>
Int. & other fin. Cost	27	10	59	153	204	308	354	308
Other Income	116	240	185	107	150	364	237	203
<b>EBT</b>	<b>2,832</b>	<b>3,415</b>	<b>3,324</b>	<b>3,535</b>	<b>2,008</b>	<b>1,853</b>	<b>2,347</b>	<b>2,571</b>
Exp Item	-	-	-	-	1,464	340	-	-
Tax	962	970	1,059	979	288	902	991	1,028
Minority Int & P/L share of Ass.	33	41	14	15	4	13	-	-
Reported PAT	1,870	2,444	2,265	2,556	255	612	1,356	1,543
<b>Adjusted PAT</b>	<b>1,836</b>	<b>2,403</b>	<b>2,261</b>	<b>2,557</b>	<b>258</b>	<b>607</b>	<b>1,356</b>	<b>1,543</b>
Change (%)	40%	31%	-6%	13%	-90%	135%	124%	14%
Margin(%)	16.3%	18.8%	15.9%	14.6%	1.6%	3.6%	7.5%	7.9%

## Financial Details

## Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	26%	27%	20%	19%	2%	4%	9%	10%
ROCE	39%	35%	19%	19%	10%	9%	12%	12%
Asset Turnover	1.1	1.0	0.6	0.7	0.6	0.6	0.6	0.7
Debtor Days	80	76	116	90	120	112	115	115
Inv Days	69	72	84	76	85	84	85	85
Payable Days	52	55	51	54	59	55	55	55
Int Coverage	103	325	54	23	10	6	7	9
P/E	22.8	37.6	29.5	25.5	128.8	55.1	25.3	22.3
Price / Book Value	6.0	10.2	6.0	4.8	2.5	2.4	2.3	2.2
EV/EBITDA	14	25	19	16	12	14	11	11
FCF per Share	33	41	(138)	33	4	15	21	28
Div Yield	1%	0%	1%	1%	1%	1%	1%	0%

## Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	2,832	3,415	3,329	3,543	547	1,517	2,347	2,571
(inc)/Dec in Working Capital	(466)	(95)	(3,126)	506	(1,019)	(500)	(676)	(537)
Non Cash Op Exp	261	435	487	912	1,086	1,085	1,175	1,185
Int Paid (+)	27	10	59	153	204	308	354	308
Tax Paid	(772)	(944)	(1,170)	(1,149)	(558)	(939)	(991)	(1,028)
others	123	(88)	39	150	1,492	134	-	-
<b>CF from Op. Activities</b>	<b>2,004</b>	<b>2,733</b>	<b>(382)</b>	<b>4,115</b>	<b>1,751</b>	<b>1,666</b>	<b>2,209</b>	<b>2,498</b>
(inc)/Dec in FA & CWIP	(529)	(871)	(5,822)	(2,637)	(1,553)	(985)	(1,261)	(1,229)
Free Cashflow	1,475	1,862	(6,204)	1,478	198	681	948	1,269
(Pur)/Sale of Inv	1	(0)	1	0	38	(2,025)	25	-
others	(330)	(183)	(1,141)	107	108	(273)	-	-
<b>CF from Inv. Activities</b>	<b>(859)</b>	<b>(1,055)</b>	<b>(6,962)</b>	<b>(2,529)</b>	<b>(1,407)</b>	<b>(3,282)</b>	<b>(1,235)</b>	<b>(1,229)</b>
inc/(dec) in NW								
inc/(dec) in Debt	(530)	(70)	6,208	948	(895)	1,292	0	(1,080)
Int. Paid	(28)	(11)	(58)	(151)	(204)	(280)	(354)	(308)
Div Paid (inc tax)	(323)	(157)	(405)	(407)	(407)	(271)	(408)	(408)
others	24	41	92	43	15	4	-	-
<b>CF from Fin. Activities</b>	<b>(857)</b>	<b>(197)</b>	<b>5,836</b>	<b>433</b>	<b>(1,492)</b>	<b>744</b>	<b>(762)</b>	<b>(1,796)</b>
Inc(Dec) in Cash	288	1,482	(1,508)	2,019	(1,148)	(872)	211	(526)
<b>Add: Opening Balance</b>	<b>318</b>	<b>627</b>	<b>2,288</b>	<b>780</b>	<b>2,799</b>	<b>1,416</b>	<b>987</b>	<b>1,198</b>
Closing Balance	607	2,108	780	2,799	1,651	544	1,198	672

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