

Industry Pharmaceuticals
Bloomberg LPC IN
BSE CODE 500257

Overall performance weak, One-off income led to revenue growth.

RATING	NEUTRAL
CMP	771
Price Target	807
Potential Upside	5%
Rating Change	↔
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	906/646
Mkt Capital (Rs Cr)	34965
Free float (%)	53%
Avg. Vol 1M (,000)	1608
No. of Shares (Crs)	45
Promoters Pledged %	0%

2QFY20 Result Update

- The overall revenue grew by 10% YoY to Rs. 4297 crs (vs our estimate of Rs. 4248 crs). Adjusted for the NCE licensing income of Rs.144 crs, the revenue has grown by 7% YoY.
- The US business has sequentially declined by 16% to US\$ 184 mn on account of end of 180 days exclusivity for gRanexa. Branded sales for the quarter remained flat at US\$ 5 mn with major contribution from Solosec.
- The India sales grew by 12% YoY to Rs. 1342 crs, APAC sales grew by 3% YoY to Rs.635 crs, EMEA grew by 8.3% YoY to Rs.320 crs and LATAM remained flat at 146 crs.
- The gross margin and EBITDA margin adjusting for NCE licensing income is at 63% and 17% respectively. The PAT adjusted for exceptional item stands at Rs.419 crs.
- Exceptional items:
 - In reference to the State of Texas lawsuit in the USA, the Company has agreed to pay US\$ 63.5 mn, and has accordingly made a provision of US\$ 53.5 mn (372 crs) (net off earlier provision of US\$10 mn).
 - During the quarter, the divestment of Kyowa CritiCare Co Ltd (KCC) was completed. The resultant loss on divestment was Rs. 167 crs.

View and Valuation

The overall revenue grew by 10% YoY to Rs. 4297 crs (vs our estimate of Rs. 4248 crs) majorly due to NCE licensing income received this quarter along with the strong Domestic sales. The one-off income this quarter led to expansion in the EBITDA margin by 300 bps YoY at 16.8%. We expect FY20 will continue to be challenging with the ramp up of Levothyroxine being the only growth driver for US business. Going forward, with the expected launch of products like Pro-air (Respiratory) along with the ramp of levothyroxine (since the company has approval for all the 3 RLDs) in FY21 and Spiriva (FTF opportunity) expected launch in FY22, we are positive in respect to US sales growth. Apart from the growth in the US business, the divestment of Japanese arm Kyowa is a positive move considering the uncertain growth prospects in Japan. Though we haven't accounted for the Kyowa divestment, we remain positive on the stock going ahead. However, the regulatory issues will continue to be an overhang in the near term with 3 OAI and 1 warning letter. Therefore, we maintain our NEUTRAL stance with a target price of Rs. 807 (25x FY21E EPS)

Key Risks to our rating and target

- USFDA OAI status in Somerset, Pithampur and Goa facilities
- Warning letter in Mandideep facility

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	17494	15804	16718	17143	19492
EBITDA	4493	3148	2882	3084	3781
EBIT	3581	2062	1797	1827	2469
PAT	2557	258	607	578	1460
EPS (Rs)	57	6	13	13	32
EPS growth (%)	13%	-90%	135%	-5%	152%
ROE (%)	19%	2%	4%	4%	10%
ROCE (%)	19%	10%	9%	9%	12%
BV	299	300	304	308	331
P/B (X)	4.8	2.5	2.4	2.5	2.3
P/E (x)	25.5	128.8	55.1	60.2	23.9

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1QFY20 Results

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	3,951	4,505	4,406	4,418	4,360	10.3%	-1.3%	15,804	16,718	5.8%
Other Income	231	43	87	72	133	-42.2%	84.6%	150	364	142.1%
COGS	1,393	1,601	1,408	1,550	1,527	9.7%	-1.5%	5,274	5,846	10.8%
Gross Margin	65%	64%	68%	65%	65%	0.2%	0.0%	67%	65%	-1.6%
Employee Cost	794	806	800	807	850	7.1%	5.3%	2,865	3,151	10.0%
Other Expen.	1,215	1,343	1,327	1,201	1,251	3.0%	4.2%	4,518	4,839	7.1%
EBITDA	550	756	872	860	731	33.0%	-15.0%	3,148	2,882	-8.4%
EBITDA Mar.	14%	17%	20%	19%	17%	2.9%	-2.7%	20%	17%	-2.7%
Depreciation	265	280	281	317	321	21.1%	1.4%	2,062	1,797	-12.8%
EBIT	441	439	592	530	456	3%	-13.8%	204	308	50.6%
Interest	74	80	86	86	86	17%	1.0%	204	308	50.6%
PBT	441	439	592	530	456	3.5%	-13.8%	2,008	1,853	-8%
Exceptional Item	-	342	(2)	-	546					
Tax	173	248	300	228	34	-80.2%	-85.0%	288	902	213%
PAT	266	(152)	290	303	(127)	NA	NA	258	607	135%
PAT Margin	7%	-3%	7%	7%	-3%	-9.6%	-10%	2%	4%	2%

Kyowa divestment to improve Balance sheet and boost inorganic prospects

Lupin has announced the divestment of its entire stake in Japanese Subsidiary Kyowa to Japan based Unison's Entity Plutus Ltd for US\$ 520 mn. The company has been present in Japan since the last 12 years. Over the last couple of years, the Japan market has gone through a lot of changes on account of govt's push on generalization which lead to tremendous pricing pressure. Considering the uncertain growth prospects in Japan, the company decided to divest the business. The contribution of Kyowa in PBT was significantly lower as Japan had a significant amount of Depreciation and Amortization. Annual PAT was at around US\$10 mn. The deal is likely to generate cash proceeds of US\$ 300 mn which will improve net debt position of company. Going ahead, the company will focus on the growth of US and the India business though will be present in the Japan market through the partners and will keep focusing on Biosimilars, Complex generics and Specialty products.

Concall Highlights

- On the US branded side, Solosec has crossed 2000 scrips and its scrips saw a growth of 10% on a QoQ basis.
- The Company launched 3 products in the US market during the quarter. The Company now has 171 products in the US generics market. Lupin received approvals for 4 ANDA from the USFDA during the quarter.
- As per the management, the Price erosion in the US business is in the low single digit levels. For the full year, the management expects the ramp up in Levothyroxine to be major growth driver for US business
- The company received NCE licensing income of US\$ 20 mn on account of partnership with Boehringer Ingelheim to develop Lupin's lead MEK inhibitor compound.
- On the Biosimilar front, the Company expects to get approval of Enbrel in Europe in Q4FY20 and launch in Q1FY21.
- On the US launch front, the expected launch of Pro-air in the first half of FY21 and Levothyroxine ramp up with capacity expansion to be key growth driver going forward. Spiriva (FTF opportunity) will be a FY22 opportunity.
- On the regulatory front, the management expects to put 2 sites up for re-inspection (one being Somerset facility) in Q4FY20.
- ETR for the full year is expected to be 45%.
- Capital Expenditure for the quarter was Rs. 126 crs.
- Net Debt-Equity ratio for the company stands at 0.32:1 as on September 30, 2019
- R&D for the quarter was 436 crs (10% of sales) compared to 379 crs (8.7% of sales) in Q2FY19. The management has guided for R&D to be in the range of 10% of sales for the full year.

Exhibit: Sales and Sales Growth

Adjusted for the NCE licensing income of Rs.144 crs, the revenue has grown by 7% YoY.

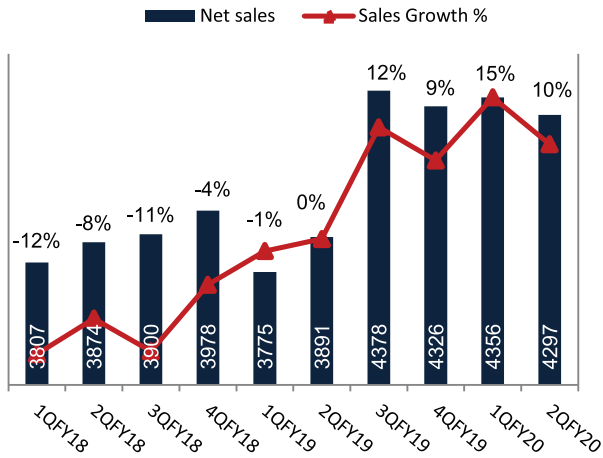


Exhibit: EBITDA and EBITDA margin

The gross margin and EBITDA margin adjusting for NCE licensing income is at 63% and 17% respectively.

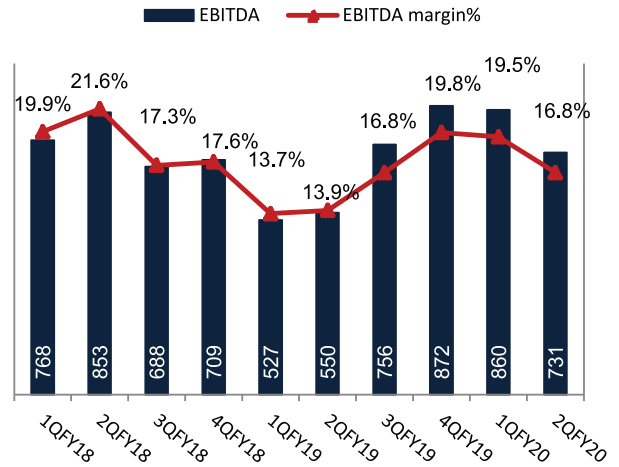


Exhibit: PAT and PAT margin

The PAT adjusted for exceptional item stands at Rs.419 crs.

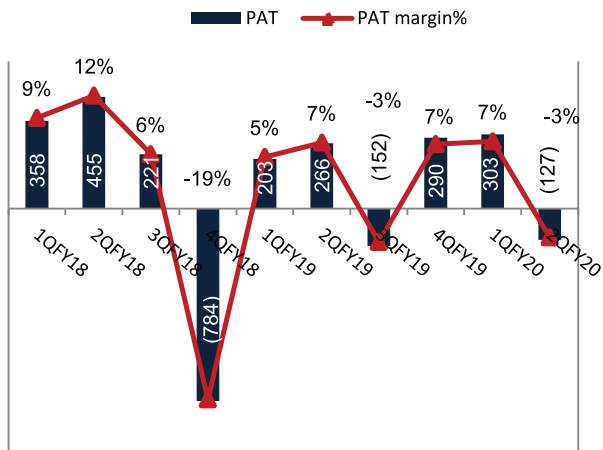


Exhibit: R&D cost and R&D as a % of sales

R&D for the quarter was 436 crs (10% of sales) compared to 379 crs (8.7% of sales) in Q2FY19.

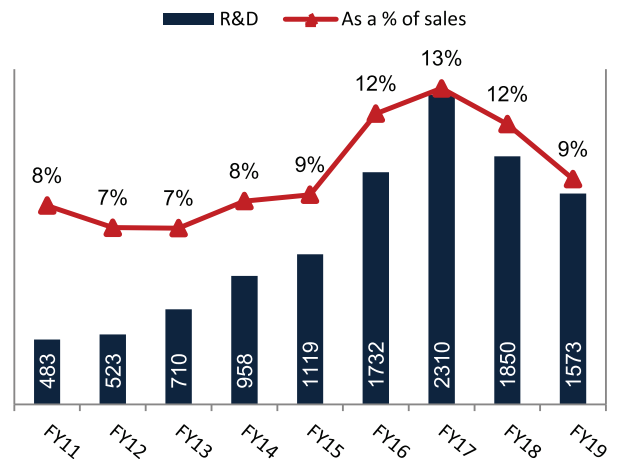


Exhibit: Domestic sales and YoY growth

The India sales grew by 12% to Rs. 1342 crs.

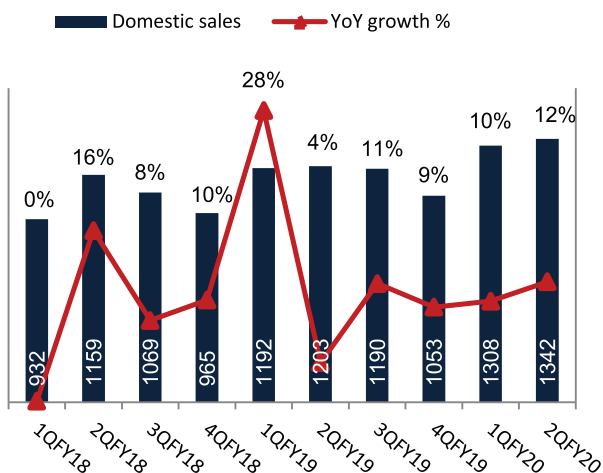
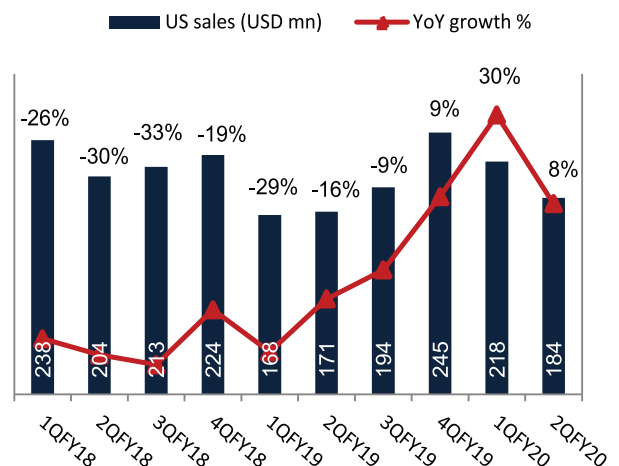


Exhibit: US sales and YoY growth

The US business declined by 16% QoQ to US\$ 184 mn on account of end of 180 days exclusivity for gRanexa.



Operational Details

Fig in Rs Cr

GEOGRAPHY	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
US	1361	1432	1499	1186	1249	1417	1741	1541	1324
India	1159	1069	965	1192	1203	1190	1053	1308	1342
APAC	636	674	664	608	620	694	690	671	635
EMEA	276	272	351	276	295	280	340	260	320
LATAM	140	148	165	126	146	156	139	155	145
ROW	38	37	55	29	44	68	73	71	82
API	265	268	281	358	335	362	291	349	305

REVENUE GR. %	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
US	-32%	-34%	-21%	-26%	-8%	-1%	16%	30%	6%
India	16%	8%	10%	28%	4%	11%	9%	10%	12%
APAC	15%	20%	8%	1%	-2%	3%	4%	10%	2%
EMEA	17%	6%	17%	22%	7%	3%	-3%	-6%	8%
LATAM	41%	26%	30%	-1%	5%	5%	-16%	23%	-1%
ROW	-5%	1%	-11%	-30%	15%	84%	34%	144%	88%
API	-9%	0%	0%	28%	26%	35%	4%	-3%	-9%

REVENUE MIX%	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
US	35%	37%	38%	31%	32%	34%	40%	35%	32%
India	30%	27%	24%	32%	31%	29%	24%	30%	32%
APAC	16%	17%	17%	16%	16%	17%	16%	15%	15%
EMEA	7%	7%	9%	7%	8%	7%	8%	6%	8%
LATAM	4%	4%	4%	3%	4%	4%	3%	4%	3%
ROW	1%	1%	1%	1%	1%	2%	2%	2%	2%
API	7%	7%	7%	9%	9%	9%	7%	8%	7%

ANDA PIPELINE	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
ANDA filings	377	382	398	402	405	412	422	422	427
ANDA approvals	225	231	235	240	247	258	265	270	274
ANDA pending	152	151	163	162	158	154	157	152	153

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	13,824	14,876
Networth	6,932	8,874	11,163	13,498	13,577	13,742	13,914	14,967
Debt	553	471	7,119	7,952	6,876	8,222	8,222	6,390
Other Non Current Liab	427	439	994	1,307	1,168	1,389	1,332	1,452
Total Capital Employed	7,485	9,345	18,283	21,450	20,453	21,964	22,136	21,357
Net Fixed Assets (incl CWIP)	3,660	4,944	11,419	13,166	12,960	12,726	12,670	12,524
Non Current Investments	2	3	14	22	27	160	59	59
Other Non Current Assets	444	359	1,304	1,465	1,109	1,184	1,147	1,184
Non Current Assets	4,106	5,305	12,737	14,653	14,096	14,096	13,876	13,767
Inventory	2,129	2,504	3,274	3,642	3,662	3,837	3,992	4,486
Debtors	2,464	2,657	4,549	4,307	5,192	5,150	4,932	5,447
Cash & Bank	798	481	793	682	1,394	572	1,565	1,026
Other Current Assets	709	2,191	1,272	3,323	1,952	4,295	3,814	3,559
Current Assets	6,100	7,832	9,887	11,954	12,201	13,854	14,303	14,517
Creditors	1,594	1,926	1,989	2,589	2,575	2,498	2,562	3,044
Provisions	345	574	235	471	465	727	746	848
Other Current Liabilities	288	830	1,092	756	1,603	1,324	1,357	1,536
Curr Liabilities	2,227	3,330	3,316	3,816	4,644	4,550	4,664	5,428
Net Current Assets	3,873	4,503	6,572	8,138	7,557	9,304	9,639	9,089
Total Assets	10,206	13,138	22,625	26,607	26,305	27,949	28,179	28,284

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	17,143	19,492
Change (%)	17%	13%	12%	23%	-10%	6%	3%	14%
EBITDA	3003	3620	3685	4493	3148	2882	3084	3781
Change (%)	32%	21%	2%	22%	-30%	-8%	7%	23%
Margin (%)	26.6%	28.3%	25.9%	25.7%	19.9%	17.2%	18.0%	19.4%
Depr & Amor.	261	435	487	912	1086	1085	1257	1313
EBIT	2742	3185	3198	3581	2062	1797	1827	2469
Int. & other fin. Cost	27	10	59	153	204	308	301	301
Other Income	116	240	185	107	150	364	352	266
EBT	2,832	3,415	3,324	3,535	2,008	1,853	1,877	2,434
Exp Item	-	-	-	-	1,464	340	546	-
Tax	962	970	1,059	979	288	902	751	974
Minority Int & P/L share of Ass.	33	41	14	15	4	13	6	-
Reported PAT	1,870	2,444	2,265	2,556	255	612	580	1,460
Adjusted PAT	1,836	2,403	2,261	2,557	258	607	578	1,460
Change (%)	40%	31%	-6%	13%	-90%	135%	-5%	152%
Margin(%)	16.3%	18.8%	15.9%	14.6%	1.6%	3.6%	3.4%	7.5%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	26.5%	27.1%	20.3%	18.9%	1.9%	4.4%	4.2%	9.8%
ROCE	38.7%	35.5%	19.3%	18.7%	10.3%	8.8%	8.9%	11.6%
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	105	102
Inv Days	69	72	84	76	85	84	85	84
Payable Days	52	55	51	54	59	55	55	57
Int Coverage	103	325	54	23	10	6	6	8
P/E	22.8	37.6	29.5	25.5	128.8	55.1	60.2	23.9
Price / Book Value	6.0	10.2	6.0	4.8	2.5	2.4	2.5	2.3
EV/EBITDA	14	25	19	16	12	14	13	11
FCF per Share	33	41	(138)	33	4	15	20	33
Div Yield	0.3%	0.4%	0.5%	0.5%	1.0%	0.7%	1.0%	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	1,331	2,434
(inc)/Dec in Working Capital	(466)	(95)	(3,126)	506	(1,019)	(500)	113	(406)
Non Cash Op Exp	261	435	487	912	1,086	1,085	1,257	1,313
Int Paid (+)	27	10	59	153	204	308	301	301
Tax Paid	(772)	(944)	(1,170)	(1,149)	(558)	(939)	(751)	(974)
others	123	(88)	39	150	1,492	134	-	-
CF from Op. Activities	2,004	2,733	(382)	4,115	1,751	1,666	2,251	2,668
(inc)/Dec in FA & CWIP	(529)	(871)	(5,822)	(2,637)	(1,553)	(985)	(1,342)	(1,166)
Free Cashflow	1,475	1,862	(6,204)	1,478	198	681	909	1,502
(Pur)/Sale of Inv	1	(0)	1	0	38	(2,025)	237	500
others	(330)	(183)	(1,141)	107	108	(273)	-	-
CF from Inv. Activities	(859)	(1,055)	(6,962)	(2,529)	(1,407)	(3,282)	(964)	(666)
inc/(dec) in NW								
inc/(dec) in Debt	(530)	(70)	6,208	948	(895)	1,292	-	(1,832)
Int. Paid	(28)	(11)	(58)	(151)	(204)	(280)	(301)	(301)
Div Paid (inc tax)	(323)	(157)	(405)	(407)	(407)	(271)	(408)	(408)
others	24	41	92	43	15	4	-	-
CF from Fin. Activities	(857)	(197)	5,836	433	(1,492)	744	(709)	(2,541)
Inc(Dec) in Cash	288	1,482	(1,508)	2,019	(1,148)	(872)	578	(539)
Add: Opening Balance	318	627	2,288	780	2,799	1,416	987	1,565
Closing Balance	607	2,108	780	2,799	1,651	544	1,565	1,026

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Analyst's ownership of the stocks mentioned in the Report	NIL
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