

Industry Pharmaceuticals
Bloomberg LPC IN
BSE CODE 500257

Exceptional items impacted PAT this quarter.

RATING	NEUTRAL
CMP	707
Price Target	690
Potential Upside	-2%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	882/646
Mkt Capital (Rs Cr)	31771
Free float (%)	53%
Avg. Vol 1M (,000)	1512
No. of Shares (Crs)	45
Promoters Pledged %	0%

3QFY20 Result Update

- The North America sales de-grew by 5% YoY and sequentially remained flat at US\$ 184 mn. US generics and US branded sales de-grew by 4% and 3% YoY at US\$ 182 mn and US\$ 4.5 mn respectively.
- India grew 9% YOY to Rs. 1297 crs, EMEA and LATAM business grew by 4% and 15% YoY respectively while APAC business de-grew by 75% on account of Kyowa Divestment and the global API business declined by 12% YoY.
- Gross margin de-grew by 190 bps YoY to 63.9% led by change in the product mix.. EBITDA margin contracted by 480 bps YoY to 12.4% on account of higher employee cost and other expenses.
- Exceptional items (Rs. 288 crs) for the quarter pertains to impairment of Rs 1578 crs related to certain acquired IPs (Gavis) and profit of Rs 1291 crs on divestment of the Company's entire stake in Kyowa Pharmaceutical Industry Co., Limited-Japan.

View and Valuation

LUPIN 3QFY20 de-grew by 15% YoY and 14% sequentially to Rs. 3716 crs. The revenue was impacted on account of divestment of the Kyowa business in Japan, adjusted for this the revenue was in-line with the expectations. PAT was impacted due to impairment taken for Gavis partially offset by Kyowa divestment gain.

Going ahead, the incremental business in the US is expected from the ramp up of solosec & Levothyroxine and g-Proair approval. Along with this the launch of gEnbrel in Q1FY21 in Europe and strong growth in the Indian business will contribute towards revenue growth. However, the regulatory issues will continue to be an overhang in the near term with 3 OAI and 1 warning letter. Post the results, we revised our estimates considering the updated 3QFY20 numbers ex-Kyowa. Based on the revised estimates, we value the stock at 25x FY21E EPS and arrive at a target price of Rs690 (Rs. 808 earlier). Maintain NEUTRAL.

Key Risks to our rating and target

- USFDA OAI status in Somerset, Pithampur and Goa facilities
- Warning letter in Mandideep facility
- Delay in the approval of g-Proair

RESEARCH ANALYST

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	17494	15804	16718	16335	17165
EBITDA	4493	3148	2882	2532	3147
EBIT	3581	2062	1797	1381	2087
PAT	2557	258	607	-567	1249
Adjusted EPS (Rs)	57	38	21	15	28
EPS growth (%)	13%	-33%	-45%	-29%	85%
Adjusted ROE (%)	19%	13%	7%	5%	9%
ROCE (%)	19%	10%	9%	7%	10%
BV	299	300	304	282	301
P/B (X)	4.8	2.5	2.4	2.5	2.4
Adjusted P/E (x)	25.5	19.3	35.3	47.3	25.6

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3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	4,505	4,406	4,418	4,360	3,769	-16.3%	-13.5%	15,804	16,718	5.8%
Other Income	43	87	72	133	94	115.6%	-29.8%	150	364	142.1%
COGS	1,601	1,408	1,550	1,527	1,359	-15.1%	-11.0%	5,274	5,846	10.8%
Gross Margin	64%	68%	65%	65%	64%	-0.5%	-1.0%	67%	65%	-1.6%
Employee Cost	806	800	807	850	741	-8.0%	-12.9%	2,865	3,151	10.0%
Other Expen.	1,343	1,327	1,201	1,251	1,240	-7.7%	-0.9%	4,518	4,839	7.1%
EBITDA	756	872	860	731	429	-43.2%	-41.3%	3,148	2,882	-8.4%
EBITDA Mar.	17%	20%	19%	17%	11%	-5.4%	-5.4%	20%	17%	-2.7%
Depreciation	280	281	317	321	253	-9.5%	-21.2%	2,062	1,797	-12.8%
EBIT	439	592	530	456	181	-59%	-60.3%	204	308	50.6%
Interest	80	86	86	86	89	11%	2.5%	204	308	50.6%
PBT	439	592	530	456	181	-58.8%	-60.3%	2,008	1,853	-8%
Exceptional Item	342	(2)	-	546	289			1,464	340	
Tax	248	300	228	34	767	209.5%	2136%	288	902	213%
PAT	(152)	290	303	(127)	(868)	NA	NA	258	607	135%
PAT Margin	-3%	7%	7%	-3%	-23%	-19.7%	-20.1%	2%	4%	2%

Concall Highlights

- The North America sales de-grew by 5% YoY to US\$ 184 mn, sequentially remained flat. India grew 9% YOY to Rs. 1297 crs.
- EMEA and LATAM business grew by 4% and 15% YoY respectively while APAC business de-grew by 75% on account of Kyowa Divestment and the global API business declined by 12% YoY.
- US generics and US branded sales de-grew by 4% and 3% YoY at US\$ 182 mn and US\$ 4.5 mn respectively.
- The Company filed 7 ANDA, received 4 ANDA approvals from the US FDA and launched 4 products this quarter. The company expects to launch 15+ products in US in FY21.
- Other expenses this quarter was in an elevated level on account of increased promotional expenses, R&D cost and the remediation cost.
- The company expects that 4QFY20 will report better EBITDA margin and therefore, has guided to achieve lower range of the 18-20% margin guidance given earlier.
- R&D cost for the quarter was Rs. 428 crs (11.5% of sales), the company expects to maintain the R&D cost at 10% of sales.
- Exceptional items (Rs. 288 crs) for the quarter pertains to impairment of Rs 1578 crs related to certain acquired IPs (Gavis) and profit of Rs 1291 crs on divestment of the Company's entire stake in Kyowa Pharmaceutical Industry Co., Limited- Japan.
- The Gavis impairment includes largest part of Methergine and couple of other products which are no more viable. US\$ 200 mn of Gavis in the books now.
- Tax includes the impact of Rs. 700 crs pertaining to the Exceptional items:
- Divestiture of Japan Operations: INR 2,941 mn
- Impairment of Gavis Assets triggering a reversal of the Deferred Tax Assets: INR 4,054 mn
- The company expects that the Gavis impairment and Kyowa divestment will lower amortization expense of Rs 170 crs in the consolidated financials on an annualized basis and lead to ROCE improvement of 220 bps on the revised asset base.
- Enbrel in Europe is still on track for the end of the quarter and expects to receive approval soon.
- US products: for Levothyroxine, reasonable market share has been gained. Solosec revenues have improved by 48% QoQ and the scrips have grown by 4% QoQ.
- US pipeline: Albuterol expected launch in H1FY21 and Spiriva opportunity expected in FY22. Levothyroxine is expected to ramp up strongly from the next quarter.
- Of the 150+ pending ANDAs- largest number is from Nagpur plant followed by Indore (unit 2) plant and Goa & Somerset facility.
- On the regulatory front: For Goa and Somerset facility- the company expects to complete the remediation activities in the next 3 months and then put the plants for re-inspection.
- The major growth driver from Gavis and Somerset going ahead would be the ramp up of base business especially in GI, and building on the controlled substances product.
- The company for the US business sees Inhalation, Injectables and Biosimilars as the major growth driver going ahead.

Exhibit: Sales and Sales Growth

LUPIN 3QFY20 de-grew by 15% YoY and 14% sequentially to Rs. 3716 crs.

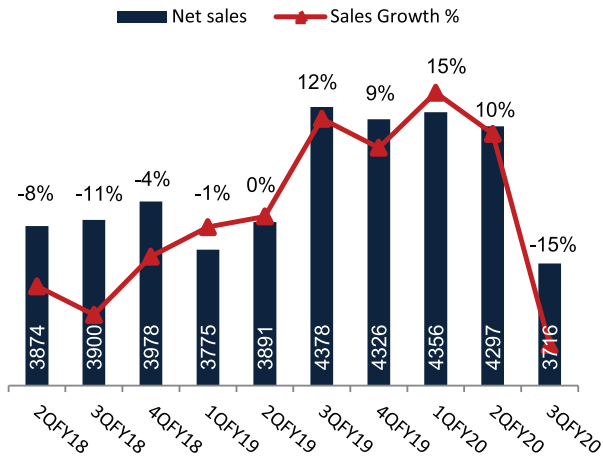


Exhibit: EBITDA and EBITDA margin

Gross margin de-grew by 190 bps YoY to 63.9% while EBITDA margin contracted by 480 bps YoY to 12.4%.

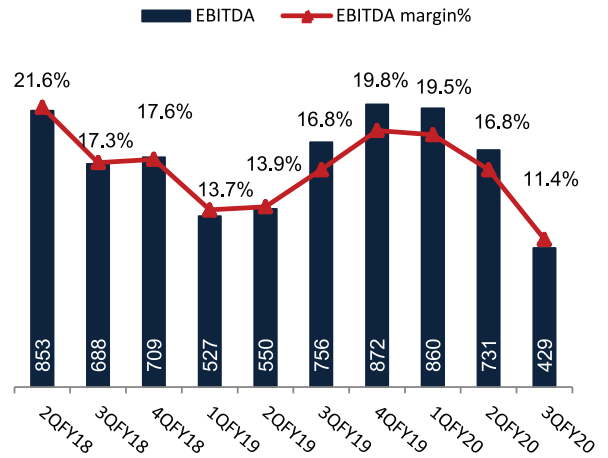


Exhibit: PAT and PAT margin

Lupin posted a loss of Rs. 868 crs due to impairment taken for Gavis partially offset by Kyowa divestment gain.

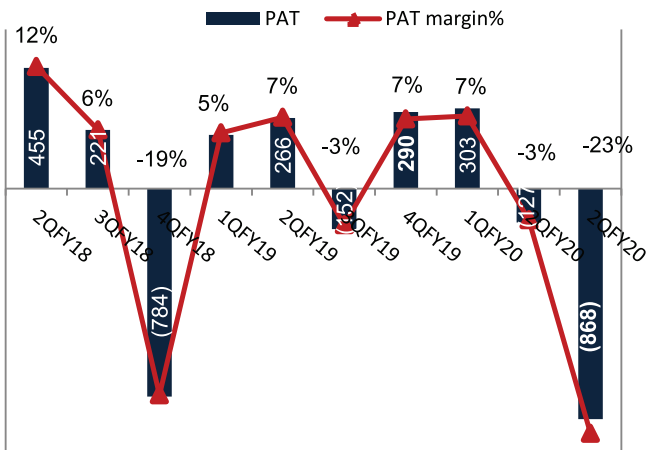


Exhibit: R&D cost and R&D as a % of sales

R&D for the quarter was 427 crs (11.5% of sales) as a result of divestment of Japan operations.

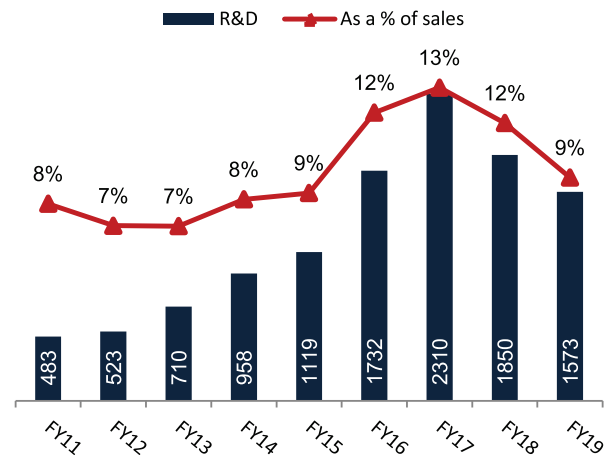


Exhibit: Domestic sales and YoY growth

India sales grew 9% YOY to Rs. 1297 crs in this quarter.

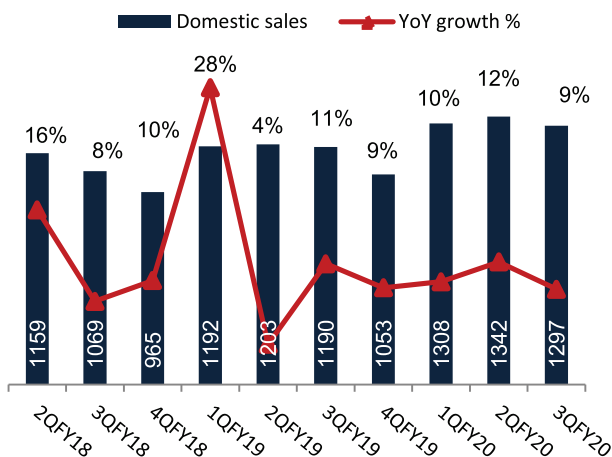
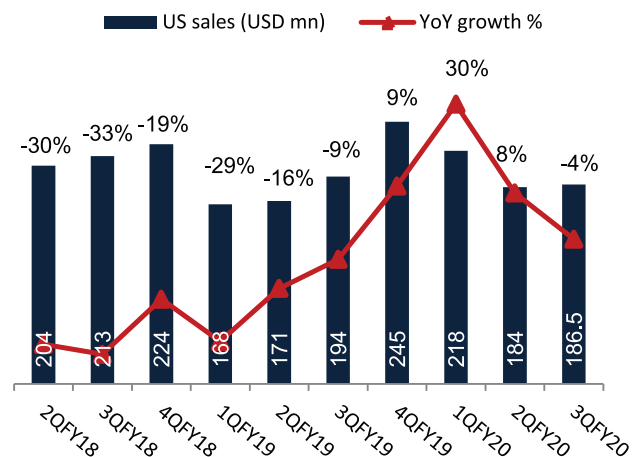


Exhibit: US sales and YoY growth

The North America sales de-grew by 5% YoY and sequentially remained flat at US\$ 184 mn.



Operational Details

Fig in Rs Cr

GEOGRAPHY	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
US	1432	1499	1186	1249	1417	1741	1541	1324	1377
India	1069	965	1192	1203	1190	1053	1308	1342	1297
APAC	674	664	608	620	694	690	671	635	172
EMEA	272	351	276	295	280	340	260	320	291
LATAM	148	165	126	146	156	139	155	145	180
ROW	37	55	29	44	68	73	71	82	82
API	268	281	358	335	362	291	349	305	317

REVENUE GR. %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
US	-34%	-21%	-26%	-8%	-1%	16%	30%	6%	-3%
India	8%	10%	28%	4%	11%	9%	10%	12%	9%
APAC	20%	8%	1%	-2%	3%	4%	10%	2%	-75%
EMEA	6%	17%	22%	7%	3%	-3%	-6%	8%	4%
LATAM	26%	30%	-1%	5%	5%	-16%	23%	-1%	15%
ROW	1%	-11%	-30%	15%	84%	34%	144%	88%	20%
API	0%	0%	28%	26%	35%	4%	-3%	-9%	-12%

REVENUE MIX%	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
US	37%	38%	31%	32%	34%	40%	35%	32%	37%
India	27%	24%	32%	31%	29%	24%	30%	32%	35%
APAC	17%	17%	16%	16%	17%	16%	15%	15%	5%
EMEA	7%	9%	7%	8%	7%	8%	6%	8%	8%
LATAM	4%	4%	3%	4%	4%	3%	4%	3%	5%
ROW	1%	1%	1%	1%	2%	2%	2%	2%	2%
API	7%	7%	9%	9%	9%	7%	8%	7%	9%

ANDA PIPELINE	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
ANDA filings	382	398	402	405	412	422	422	427	424
ANDA approvals	231	235	240	247	258	265	270	274	272
ANDA pending	151	163	162	158	154	157	152	153	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	12,674	13,515
Networth	6,932	8,874	11,163	13,498	13,577	13,742	12,765	13,606
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	1,288	1,323
Total Capital Employed	7,485	9,345	18,283	21,450	20,453	21,964	20,987	19,996
Net Fixed Assets (incl CWIP)	3,660	4,944	11,419	13,166	12,960	12,726	12,776	12,826
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	1,134	1,147
Non Current Assets	4,106	5,305	12,737	14,653	14,096	14,096	13,969	14,032
Inventory	2,129	2,504	3,274	3,642	3,662	3,837	3,804	3,950
Debtors	2,464	2,657	4,549	4,307	5,192	5,150	4,699	4,797
Cash & Bank	798	481	793	682	1,394	572	565	555
Other Current Assets	709	2,191	1,272	3,323	1,952	4,295	3,730	2,816
Current Assets	6,100	7,832	9,887	11,954	12,201	13,854	12,798	12,119
Creditors	1,594	1,926	1,989	2,589	2,575	2,498	2,441	2,681
Provisions	345	574	235	471	465	727	711	747
Other Current Liabilities	288	830	1,092	756	1,603	1,324	1,295	1,358
Curr Liabilities	2,227	3,330	3,316	3,816	4,644	4,550	4,446	4,786
Net Current Assets	3,873	4,503	6,572	8,138	7,557	9,304	8,352	7,333
Total Assets	10,206	13,138	22,625	26,607	26,305	27,949	26,768	26,151

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	16,335	17,165
Change (%)	17%	13%	12%	23%	-10%	6%	-2%	5%
EBITDA	3003	3620	3685	4493	3148	2882	2532	3147
Change (%)	32%	21%	2%	22%	-30%	-8%	-12%	24%
Margin (%)	26.6%	28.3%	25.9%	25.7%	19.9%	17.2%	15.5%	18.3%
Depr & Amor.	261	435	487	912	1086	1085	1151	1060
EBIT	2742	3185	3198	3581	2062	1797	1381	2087
Int. & other fin. Cost	27	10	59	153	204	308	350	280
Other Income	116	240	185	107	150	364	391	274
EBT	2,832	3,415	3,324	3,535	2,008	1,853	1422	2082
Exp Item	-	-	-	-	1,464	340	835	-
Tax	962	970	1,059	979	288	902	1,157	833
Minority Int & P/L share of Ass.	33	41	14	15	4	13	(0)	-
Reported PAT	1,870	2,444	2,265	2,556	255	612	(570)	1,249
Adjusted PAT	1,836	2,403	2,261	2,557	258	607	676	1,249
Change (%)	40%	31%	-6%	13%	-90%	135%	-193%	-320%
Margin(%)	16.3%	18.8%	15.9%	14.6%	1.6%	3.6%	-3.5%	7.3%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Adjusted ROE	26.5%	27.1%	20.3%	18.9%	12.7%	6.9%	5.3%	9.2%
ROCE	38.7%	35.5%	19.3%	18.7%	10.3%	8.8%	7.1%	10.4%
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	4	7
Adjusted P/E	22.8	37.6	29.5	25.5	19.3	35.3	47.3	25.6
Price / Book Value	6.0	10.2	6.0	4.8	2.5	2.4	2.5	2.4
EV/EBITDA	14	25	19	16	12	14	15	12
FCF per Share	33	41	(138)	33	4	15	(1)	33
Div Yield	0.3%	0.4%	0.5%	0.5%	1.0%	0.7%	1.1%	1.1%

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	587	2,082
(inc)/Dec in Working Capital	(466)	(95)	(3,126)	506	(1,019)	(500)	369	31
Non Cash Op Exp	261	435	487	912	1,086	1,085	1,151	1,060
Int Paid (+)	27	10	59	153	204	308	350	280
Tax Paid	(772)	(944)	(1,170)	(1,149)	(558)	(939)	(1,157)	(833)
others	123	(88)	39	150	1,492	134	-	-
CF from Op. Activities	2,004	2,733	(382)	4,115	1,751	1,666	1,299	2,619
(inc)/Dec in FA & CWIP	(529)	(871)	(5,822)	(2,637)	(1,553)	(985)	(1,342)	(1,109)
Free Cashflow	1,475	1,862	(6,204)	1,478	198	681	(43)	1,510
(Pur)/Sale of Inv	1	(0)	1	0	38	(2,025)	237	1,000
others	(330)	(183)	(1,141)	107	108	(273)	-	-
CF from Inv. Activities	(859)	(1,055)	(6,962)	(2,529)	(1,407)	(3,282)	(964)	(109)
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)	(350)	(280)
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	(757)	(2,519)
Inc(Dec) in Cash	288	1,482	(1,508)	2,019	(1,148)	(872)	(422)	(9)
Add: Opening Balance	318	627	2,288	780	2,799	1,416	987	565
Closing Balance	607	2,108	780	2,799	1,651	544	565	555

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DBO46/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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