

BSE SENSEX 48,174
S&P CNX 14,146



LUPIN
PHARMACEUTICALS, INC.

Bloomberg LPC IN
Equity Shares (m) 453
M.Cap.(INRb)/(USDb) 453.8 / 6.5
52-Week Range (INR) 1122 / 505
1, 6, 12 Rel. Per (%) 0/-18/13
12M Avg Val (INR M) 3164

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	153.7	158.3	179.0
EBITDA	23.5	26.0	33.5
Adj. PAT	10.6	10.5	16.6
EBIT Margin (%)	9.0	10.8	13.6
Cons. Adj. EPS (INR)	23.3	23.3	36.8
EPS Gr. (%)	74.1	0.0	58.0
BV/Sh. (INR)	276.7	292.6	318.9

Ratios

Net D:E	0.0	0.1	0.0
RoE (%)	8.0	8.2	12.1
RoCE (%)	4.8	6.6	10.1
Payout (%)	-119.0	35.4	28.6

Valuations

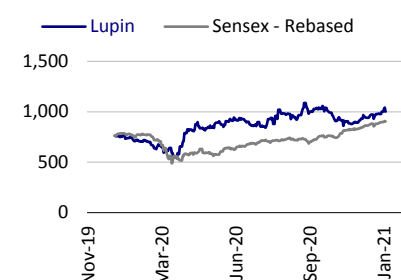
P/E (x)	42.8	42.9	27.1
EV/EBITDA (x)	19.3	18.0	13.6
Div. Yield (%)	0.9	0.7	0.9
FCF Yield (%)	15.4	-1.4	3.5
EV/Sales (x)	3.0	2.9	2.6

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	46.9	46.9	47.0
DII	20.1	18.9	13.3
FII	20.4	21.3	25.7
Others	12.6	12.9	14.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1000 **TP: INR1,130 (+13%)** **Buy**

Observations out for Somerset facility; enhanced efforts needed to resolve regulatory issues

- The 13 observations in Form 483 issued by the USFDA post the inspection over Sep–Nov 2020 largely pertain to cleanliness and equipment maintenance, out-of-specification (OOS) samples, the stability program, and the lack of training given to employees.
- The Somerset facility currently contributes <5% to Lupin's revenues globally. Ongoing sales from Somerset (currently under OAI) are not impacted, but future approvals are likely to get delayed.
- We remain positive on LPC owing to (a) a ramp-up in recent niche launches and (b) its outperformance in Domestic Formulations (DF). We value LPC at 25x 12M forward earnings to arrive at Target Price of INR1,130. Reiterate Buy.

Highlights from observations cited in Form 483

- The 13 observations issued by the USFDA pertain to a) the lack of cleanliness and equipment maintenance, particularly for non-dedicated equipment, b) inadequate root cause analysis of OOS samples (repeat observation), c) standard operating procedure not being followed for the stability program, d) accuracy and sensitivity related to test methods, e) the responsibility of the Quality unit to approve/reject procedures/specifications on the identity/strength/quality and purity of drug products, f) maintenance of the buildings, g) the lack of isolated areas to prevent contamination, and h) controls on computer systems. Based on the nature of observations, we expect enhanced efforts by LPC to resolve the regulatory concerns at this site.

Recap of regulatory statuses at other sites

- Currently, four of Lupin's facilities at Pithampur Unit-2, Goa, Somerset, and Tarapur have the Official Action Indicated (OAI) status, and the Mandideep plant has a Warning Letter. With the USFDA unable to conduct overseas inspections, we expect the resolution of regulatory sanctions to be delayed.

Valuation and view

- We expect a 24% earnings CAGR over FY20–23E, led by differentiated launches in the US/EU – particularly the recently launched g-Albuterol Sulfate and pipeline product g-Spiriva – and better-than-industry growth in DF. Accordingly, we expect RoE to improve to 13.3% by FY23E from 8% in FY20.
- We value LPC at 25x 12M forward earnings to arrive at Target Price of INR1,130. Maintain Buy.

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Financials and valuations

Income Statement

	(INR m)									
Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	112,866	127,700	142,085	174,943	158,041	146,646	153,748	158,287	179,025	193,979
Change (%)	17.1	13.1	11.3	23.1	-9.7	-7.2	4.8	3.0	13.1	8.4
EBITDA	30,028	36,196	37,534	44,931	31,475	25,607	23,548	25,959	33,478	37,437
Margin (%)	26.6	28.3	26.4	25.7	19.9	17.5	15.3	16.4	18.7	19.3
Depreciation	2,610	4,347	4,635	9,122	10,859	8,461	9,702	8,916	9,137	8,994
EBIT	27,418	31,849	32,899	35,809	20,616	17,147	13,846	17,044	24,341	28,443
Int. and Finance Charges	267	98	446	1,525	2,044	3,025	3,630	1,562	1,595	1,535
Other Income - Rec.	165	2,398	1,877	1,065	1,504	3,330	3,578	1,450	1,850	1,950
PBT before EO item	27,317	34,148	34,330	35,349	20,076	17,452	13,794	16,931	24,596	28,858
EO Expense/(Income)	-1,000	0	0	0	14,644	3,400	6,261	204	0	0
PBT after EO item	28,317	34,148	34,330	35,349	5,433	14,052	7,533	16,727	24,596	28,858
Tax	9,622	9,704	11,536	9,785	2,885	8,879	11,571	6,189	7,871	8,658
Tax Rate (%)	34.0	28.4	33.6	27.7	53.1	63.2	153.6	37.0	32.0	30.0
Less: Minority Interest	331	412	88	-11	36	52	-43	-85	85	85
Reported PAT	18,364	24,032	22,707	25,574	2,512	5,121	-3,995	10,453	16,640	20,115
PAT Adj for EO items	17,364	24,032	22,707	25,574	14,455	6,066	10,572	10,534	16,640	20,115
Change (%)	32.1	38.4	-5.5	12.6	-43.5	-58.0	74.3	-0.4	58.0	20.9
Margin (%)	15.4	18.8	16.0	14.6	9.1	4.1	6.9	6.7	9.3	10.4

Consolidated Balance Sheet

	(INR m)									
Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Equity Share Capital	897	899	901	903	904	905	906	903	903	903
Other Reserves	68,419	87,842	108,943	134,072	134,866	136,517	124,461	131,216	143,101	157,934
Total Reserves	68,419	87,842	108,943	134,072	134,866	136,517	124,461	131,216	143,101	157,934
Net Worth	69,316	88,741	109,844	134,975	135,771	137,422	125,367	132,119	144,004	158,837
Minority Interest	669	241	321	345	401	469	445	530	615	700
Deferred liabilities	1,779	1,182	1,239	-1,128	-4,310	-4,457	252	252	252	252
Secured Loan	1,968	1,018	53,739	61,243	67,722	70,546	25,180	18,179	9,179	7,179
Unsecured Loan	4,024	3,692	17,454	23,183	4,518	15,802	24,928	24,928	24,928	24,928
Total Loans	5,992	4,710	71,193	84,426	72,240	86,347	50,108	43,107	34,107	32,107
Capital Employed	77,756	94,874	182,596	218,619	204,101	219,781	176,172	176,008	178,977	191,895
Gross Block	45,638	45,445	55,887	55,265	63,687	72,189	76,431	83,722	90,292	96,252
Less: Accum. Deprn.	19,283	19,174	23,262	8,902	14,613	23,073	32,776	41,691	50,828	59,822
Net Fixed Assets	26,355	26,271	32,625	46,363	49,074	49,115	43,656	42,031	39,464	36,430
Capital WIP	3,041	5,760	9,812	7,150	9,563	10,186	7,582	7,141	6,920	6,810
Investments	1,785	16,584	75	220	267	1,856	361	361	361	361
Goodwill & Intangibles	7,202	17,411	73,586	78,147	70,965	67,963	37,540	37,540	37,540	37,540
Curr. Assets	62,970	64,510	107,473	129,117	126,019	143,033	158,957	148,426	158,745	178,780
Inventory	21,295	25,036	31,787	36,423	36,625	38,368	34,569	41,416	45,541	48,829
Account Receivables	24,641	26,566	45,498	43,073	51,922	51,498	54,459	55,679	61,183	64,354
Cash and Bank Balance	7,975	4,814	8,379	27,994	16,429	30,971	47,926	29,259	29,875	43,369
Curr. Liability & Prov.	23,597	35,662	40,975	42,378	51,788	52,372	71,924	59,489	64,052	68,025
Account Payables	18,818	28,299	32,318	34,576	43,568	41,390	59,884	47,449	52,012	55,985
Provisions	4,779	7,363	8,658	7,801	8,220	10,982	12,040	12,040	12,040	12,040
Net Current Assets	39,374	28,848	66,498	86,739	74,231	90,661	87,034	88,937	94,693	110,755
Appl. of Funds	77,756	94,874	182,596	218,619	204,100	219,782	176,172	176,007	178,977	191,895

Financials and valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
EPS (Fully Diluted)	38.7	53.5	50.4	56.6	32.0	13.4	23.3	23.3	36.8	44.5
Cash EPS (Fully Diluted)	44.5	63.1	60.7	76.8	56.0	32.1	44.8	43.1	57.1	64.5
BV/Share	154.6	197.4	243.8	298.9	300.3	303.7	276.7	292.6	318.9	351.7
DPS	6.0	7.5	7.5	7.5	5.0	5.0	9.0	7.0	9.0	10.0
Payout (%)	16.0	16.9	17.9	15.9	108.5	53.3	-119.0	35.4	28.6	26.3
Valuation (x)										
P/E (Fully Diluted)	25.8	18.7	19.8	17.7	31.3	74.6	42.8	42.9	27.1	22.4
EV/Sales	4.0	3.5	3.6	2.9	3.2	3.5	3.0	2.9	2.6	2.3
EV/EBITDA	15.0	12.5	13.7	11.3	16.1	19.8	19.3	18.0	13.6	11.8
Return Ratios (%)										
RoE	28.6	30.4	22.9	20.9	10.7	4.4	8.0	8.2	12.1	13.3
RoCE	26.5	29.1	16.8	13.3	4.9	3.5	4.8	6.6	10.1	11.5
RoIC	29.7	34.4	18.8	14.9	5.4	3.6	5.1	8.3	11.8	14.1
Working Capital Ratios										
Asset Turnover (x)	1.5	1.3	0.8	0.8	0.8	0.7	0.9	0.9	1.0	1.0
Fixed Asset Turnover (x)	4.5	4.9	4.8	4.4	3.3	3.0	3.3	3.7	4.4	5.1
Debtor (Days)	80	76	117	90	120	128	129	128	125	121
Creditor (Days)	152	172	186	189	178	184	162	183	183	172
Inventory (Days)	69	72	82	76	85	95	82	96	93	92
Leverage Ratio										
Current Ratio	2.7	1.8	2.6	3.0	2.4	2.7	2.2	2.5	2.5	2.6
Interest Cover Ratio	102.9	324.7	73.7	23.5	10.1	5.7	3.8	10.9	15.3	18.5
Debt/Equity (x)	0.0	0.0	0.6	0.4	0.4	0.4	0.0	0.1	0.0	-0.1

Cash Flow Statement

Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
EBITDA	30,028	36,196	37,534	44,931	31,475	25,607	23,548	25,959	33,478	37,437
Interest/Dividends Recd.	165	2,398	1,877	1,065	1,504	3,330	3,578	1,450	1,850	1,950
Direct Taxes Paid	-9,475	-10,300	-11,479	-12,152	-6,067	-9,026	-6,862	-6,189	-7,871	-8,658
(Inc)/Dec in WC	-4,368	7,364	-34,084	-626	942	-1,888	20,583	-20,570	-5,141	-2,568
CF from Operations	16,349	35,657	-6,152	33,219	27,853	18,023	40,847	650	22,316	28,161
Others	2,690	-8,327	2,328	7,916	4,302	2,036	-19,897	0	0	0
EO expense	-1,000	0	0	0	14,644	3,400	6,261	204	0	0
CF from Op. incl EO Exp.	20,039	27,331	-3,824	41,135	17,512	16,660	14,688	446	22,316	28,161
(inc)/dec in FA	-6,098	-17,191	-71,217	-24,759	-8,801	-6,123	28,785	-6,850	-6,350	-5,850
Free Cash Flow	10,251	18,466	-77,369	8,460	19,053	11,900	69,631	-6,200	15,966	22,311
(Pur)/Sale of Investments	-1,764	-14,799	16,509	-145	-47	-1,589	1,496	0	0	0
Others	-723	21,446	-14,909	-371	13,546	-25,113	-19,210	0	0	0
CF from Investments	-8,585	-10,545	-69,617	-25,274	4,699	-32,825	11,070	-6,850	-6,350	-5,850
Change in Net Worth	1,593	-1,389	2,459	3,669	1,028	-724	-3,286	167	0	1
Inc/(Dec) in Debt	-4,248	-1,282	66,483	13,233	-12,187	14,108	-36,240	-7,001	-9,000	-2,000
Interest Paid	-267	-98	-446	-1,525	-2,044	-3,025	-3,630	-1,562	-1,595	-1,535
Dividend Paid	-2,939	-4,058	-4,071	-4,076	-2,725	-2,728	-4,755	-3,788	-4,755	-5,283
Others	-2,710	4,859	-6,061	-6,969	1,006	-189	39,005	-79	0	0
CF from Fin. Activity	-8,571	-1,969	58,364	4,332	-14,921	7,441	-8,906	-12,263	-15,350	-8,817
Inc/Dec of Cash	2,883	14,817	-15,077	20,193	7,290	-8,724	16,853	-18,667	616	13,494
Add: Beginning Balance	3,109	6,066	21,084	7,802	27,995	14,164	5,441	22,293	3,626	4,242
Cash and Eq. on acquisition	74	202	1,795	0	-21,120	0	0	0	0	0
Cash and Cash Equivalents at end of the year	6,066	21,084	7,802	27,995	14,164	5,441	22,293	3,626	4,242	17,736
Forex/Bank	1,909	-16,271	577	0	2,265	25,530	25,632	25,632	25,632	25,632
Closing Balance	7,975	4,814	8,379	27,994	16,429	30,971	47,926	29,258	29,874	43,368

NOTES

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