

Ex-milestone income, disappointing Q1, US to kick from FY23/24E

Lupin reported poor 1Q adjusted for the one-time milestone income of US\$50mn from BI for a cancer drug. Adjusted sales grew 11% YoY aided by domestic formulations, adjusted EBITDA margin at 14% vs our expectation of 19% margins for base business. Factors such as pricing pressure in base portfolio including Famotidine, phasing out of Albuterol from spot buys to long term contracts and supply chain issues impacted US sales at US\$172mn. Bucking the trend of past 6 quarters of margin improvement, Q1 saw a sharp dip due to subdued US. Management lowered EBITDA margin guidance from 18-20% to 16-17% for FY22E with recovery expected from 3Q.

Key triggers: (1) Sevelamer launch in FY22E (2) Complex injectables (liposomal-Doxorubicin, Depot-Risperidone) though at a nascent stage with meaningful contribution beyond FY24E, (3) margin improvement to be driven by recent monetization of gBrovana (2HFY22), gDulera (FY23E), gSpiriva launch (FY24E), and an injectable portfolio, along with operating leverage to aid margin expansion.

Key risks: (1) Slowdown in Albuterol ramp (long term contracts are higher in volume, low on pricing) (2) Adverse regulatory outcome (5 facilities under WL) (3) Executional challenges in complex products

Outlook and valuation: Lupin has invested ~Rs90bn in R&D since FY16-20 in complex generic portfolio (inhalers, injectables and biosimilars) with growth largely to be back-ended in nature. **Specialty pipeline investments are impacting the EBITDA by US\$65mn p.a. In-order to mitigate cash burn in its specialty business, company plans to spin off its segments such as Lupin Oncology, biosimilars via external fund raising.** We cut our FY22/23 estimates by 20%/10% respectively factoring in the muted US and lower EBITDA margin guidance. We build in 23% earnings CAGR for FY21-23E with large part of growth coming in FY23E. Our SOTP values the company at Rs1,161. From a low base, Lupin's core RoCE should likely improve to 22% by FY23E from 15% in FY21.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	42,702	35,279	21.0	37,831	12.9
Total Expense	33,426	30,398	10.0	30,756	8.7
EBITDA	9,276	4,881	90.0	7,076	31.1
Depreciation	2,088	2,146	(2.7)	2,157	(3.2)
EBIT	7,188	2,734	162.9	4,918	46.2
Other Income	278	433	(35.7)	582	(52.2)
Interest	335	443	(24.4)	318	5.1
EBT	7,133	2,730	161.3	5,184	37.6
Tax	2,023	1,643	23.1	540	274.6
RPAT	5,053	1,069	372.7	4,604	9.8
APAT	5,053	1,069	372.7	4,604	9.8
			(bps)		(bps)
Gross Margin (%)	64.2	63.5	73	65.2	(95)
EBITDA Margin (%)	21.7	13.8	789	18.7	302
NPM (%)	11.8	3.0	880	12.2	(34)
Tax Rate (%)	28.4	60.2	(3182)	10.4	1795
EBIT Margin (%)	16.8	7.8	908	13.0	383

CMP	Rs 1,051
Target / Upside	Rs 1,161 / 10%
NIFTY	16,282

Scrip Details

Equity / FV	Rs 907mn / Rs 2
Market Cap	Rs 477bn
	USD 6.4bn
52-week High/Low	Rs 1,268/ 855
Avg. Volume (no)	1,573,650
Bloom Code	LPC IN

Price Performance	1M	3M	12M
Absolute (%)	(9)	(13)	12
Rel to NIFTY (%)	(13)	(25)	(30)

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	46.9	46.9	46.8
MF/Banks/FIs	31.5	32.6	32.0
FIIIs	19.0	17.9	18.6
Public / Others	2.7	2.7	2.6

Valuation (x)

	FY21E	FY22E	FY23E
P/E	39.2	36.8	26.0
EV/EBITDA	18.2	16.3	12.5
ROE (%)	9.2	11.5	11.6
RoACE (%)	7.2	7.3	9.7

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	151,630	166,066	180,885
EBITDA	25,669	27,411	34,873
PAT	12,165	12,944	18,356
EPS (Rs.)	26.8	28.5	40.5

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Exhibit 1: Revenue mix

Particulars (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY22E	FY21	YoY (%)
India Formulations	16,362	12,854	27.3	12,866	27.2	61,673	52,712	17.0
International Formulations	23,553	17,742	32.8	22,171	6.2	87,253	82,735	5.5
USA	13,330	12,160	9.6	14,952	(10.8)	56,995	55,520	2.7
Growth markets	3,328	2,699	23.3	3,033	9.7	9,283	8,346	11.2
EMEA	2,613	2,500	4.5	3,749	(30.3)	14,269	12,781	11.6
ROW	548	383	43.1	437	25.4	6,706	6,088	10.2
NCE Lisencing	3,734	0	-	0	-	0	0	#DIV/0!
APIs	2,459	4,090	(39.9)	2,556	(3.8)	14,929	13,823	8.0
Revenues	42,374	34,686	22.2	37,593	12.7	163,855	149,270	9.8

Source: DART, Company

Concall takeaways

1) Guidance:

- gAlbuterol has ~13% Rx MS, expected to grab 20% MS as supplies ramp up.
- ~17% YoY growth in India.
- gFostair (first EU inhaler) launch in FY22E in the UK.
- R&D guided at 9% for FY22/23E.
- Targeting EBITDA margin of 17-18% in 2HFY22 implying 16-17% for FY22E.
- US to recover to US\$200mn quarterly run-rate from Q3 onwards, implying FY22 revenue at US\$750-780mn.

2) Potential spin-off to mitigate cash burn:

Lupin plans to spin-off its specialty NCE business, primarily Lupin Oncology and Biosimilars so as to improve its profitability. Company is mulling ways to raise funds via external investors to mitigate ~US\$65mn impact on the EBITDA.

3) US:

US reported sales of US\$172mn (vs US\$195mn QoQ and our estimates of US\$205mn). The base business was impacted by pricing pressure, market share loss in Famotidine, transitioning of Albuterol contracts to long term vs spot buys. Lupin expects Q2 to remain subdued as well. Quarterly run-rate of US\$200mn+ is expected from 3Q onwards. This implies US to report annual revenue of US\$750-780mn.

- Albuterol:** Lupin faced supply disruptions which led to loss in market share in 4QFY21. Lupin has a ~13% generic market share in the albuterol market and is targeting 20% MS. **Company has also adopted a different strategy to increase its market share via long term contracts instead of spot buys. These long term contracts will be high in volume but lower in pricing. Per the management, they still remain highly profitable.**
- Spiriva:** Though the court process is running slow, management remains confident of picking pace in September and will get visibility on timeline of the litigation. While the initial launch date is June'22 with no visible filer, there could be some delay due to COVID. Company remains confident of its filing.
- Dulera:** Lupin has a CRL pending in this product. It expects to respond to the FDA by end of FY22E. There is no patent on this product implying no IP hurdle.

- d. **Complex injectables/Depot:** started working on clinical trials and expect filings for depot injectables from FY22E onwards. Recent partnership agreement with ForDoz is for 2 molecules in injectable portfolio. Impact likely to be seen beyond FY23E. Doxil to be filed by end of FY23E via partner.
 - e. **Pegfilgrastim:** Lupin will be the 3rd/4th player in the market but maintains that it is still an attractive opportunity. Launch guided in FY23E. Lupin will invest in small commercial team to promote this product.
 - f. **Fostair:** A \$600mn market, Lupin claims to have 1st mover advantage upon launch though there are 2-3 competitors expected. Lupin is gearing up for launch with first launch in the UK in FY22E. Other EU geographies (Italy, Spain, Germany) will see launch via partners in FY23E.
- 4) **India:** Sales grew 27% YoY, in Q1FY22 at Rs16bn. Products such as Budesonide, Dexamethasone, vitamins did well in Q1. Lupin derives 65% of revenue from chronic therapies, yet their India margins are lower vs peers. We believe this is because they derive 20-25% of sales from in-licensed products. Management guided for ~17% growth in FY22E company now plans to focus on own filings and launches. From the India stable, company plans 4 filings in injectables in FY23E.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	153,748	151,630	166,066	180,885
Total Expense	130,200	125,961	138,655	146,011
COGS	54,306	53,622	60,839	62,657
Employees Cost	29,868	28,259	29,494	32,149
Other expenses	46,025	44,079	48,322	51,205
EBIDTA	23,548	25,669	27,411	34,873
Depreciation	9,702	8,874	9,706	10,150
EBIT	13,846	16,795	17,705	24,723
Interest	3,630	1,406	1,033	533
Other Income	4,838	1,363	1,362	1,360
Exc. / E.O. items	(7,521)	0	3,670	0
EBT	7,533	16,751	21,703	25,551
Tax	11,571	4,485	5,049	7,154
RPAT	(3,995)	12,165	16,614	18,356
Minority Interest	(43)	101	40	40
Profit/Loss share of associates	0	0	0	0
APAT	3,526	12,165	12,944	18,356

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	906	907	907	907
Minority Interest	445	550	550	550
Reserves & Surplus	124,461	137,124	149,910	164,440
Net Worth	125,367	138,031	150,818	165,347
Total Debt	42,860	30,656	20,656	10,656
Net Deferred Tax Liability	22,919	20,845	20,934	21,032
Total Capital Employed	191,591	190,081	192,957	197,585

Applications of Funds

Net Block	60,866	59,183	56,211	53,213
CWIP	27,911	30,287	30,287	31,287
Investments	6,453	6,102	6,141	6,182
Current Assets, Loans & Advances	154,608	140,532	151,579	153,569
Inventories	34,569	40,920	39,152	36,146
Receivables	54,459	44,743	47,136	50,401
Cash and Bank Balances	24,543	17,425	27,152	27,582
Loans and Advances	846	822	903	992
Other Current Assets	16,809	12,855	13,468	14,680
Less: Current Liabilities & Provisions	58,247	46,023	51,260	46,666
Payables	24,123	20,144	23,386	17,916
Other Current Liabilities	34,124	25,878	27,874	28,750
<i>sub total</i>				
Net Current Assets	96,361	94,510	100,319	106,903
Total Assets	191,591	190,081	192,957	197,585

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	64.7	64.6	63.4	65.4
EBIDTA Margin	15.3	16.9	16.5	19.3
EBIT Margin	9.0	11.1	10.7	13.7
Tax rate	153.6	26.8	23.3	28.0
Net Profit Margin	(2.6)	8.0	10.0	10.1
(B) As Percentage of Net Sales (%)				
COGS	35.3	35.4	36.6	34.6
Employee	19.4	18.6	17.8	17.8
Other	29.9	29.1	29.1	28.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.2	0.1	0.1
Interest Coverage	3.8	11.9	17.1	46.4
Inventory days	82	99	86	73
Debtors days	129	108	104	102
Average Cost of Debt	5.8	3.8	4.0	3.4
Payable days	57	48	51	36
Working Capital days	229	228	220	216
FA T/O	2.5	2.6	3.0	3.4
(D) Measures of Investment				
AEPS (Rs)	7.8	26.8	28.5	40.5
CEPS (Rs)	29.2	46.4	49.9	62.8
DPS (Rs)	6.0	6.5	8.4	8.4
Dividend Payout (%)	77.4	24.2	29.6	20.8
BVPS (Rs)	276.3	304.2	332.4	364.4
RoANW (%)	(3.0)	9.2	11.5	11.6
RoACE (%)	3.3	7.2	7.3	9.7
RoAIC (%)	6.9	9.9	10.5	14.7
(E) Valuation Ratios				
CMP (Rs)	1051	1051	1051	1051
P/E	135.2	39.2	36.8	26.0
Mcap (Rs Mn)	476,725	476,725	476,725	476,725
MCap/ Sales	3.1	3.1	2.9	2.6
EV	471,660	466,188	446,461	436,031
EV/Sales	3.1	3.1	2.7	2.4
EV/EBITDA	20.0	18.2	16.3	12.5
P/BV	3.8	3.5	3.2	2.9
Dividend Yield (%)	0.6	0.6	0.8	0.8
(F) Growth Rate (%)				
Revenue	4.8	(1.4)	9.5	8.9
EBITDA	(8.0)	9.0	6.8	27.2
EBIT	(19.3)	21.3	5.4	39.6
PBT	(46.4)	122.4	29.6	17.7
APAT	(59.0)	245.0	6.4	41.8
EPS	(59.0)	245.0	6.4	41.8

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	7,926	18,820	48,087	21,663
CFI	32,476	(7,129)	(5,412)	(6,833)
CFF	(25,731)	(18,809)	(32,948)	(14,400)
FCFF	40,402	11,691	42,676	14,830
Opening Cash	9,872	24,543	17,425	27,152
Closing Cash	24,543	17,424	27,152	27,582

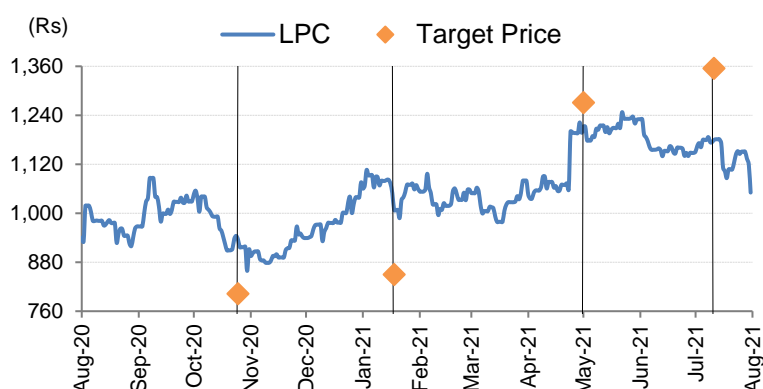
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-20	Sell	803	936
Jan-21	Sell	850	1,008
May-21	Accumulate	1,271	1,212
Jul-21	Buy	1,355	1,179

*Price as on recommendation date

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