

Estimate change	↓
TP change	↓
Rating change	↔

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	LPC IN
Equity Shares (m)	453
M.Cap.(INRb)/(USDb)	476.7 / 6.4
52-Week Range (INR)	1268 / 856
1, 6, 12 Rel. Per (%)	-13/-7/-32
12M Avg Val (INR M)	3392

Financials & Valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	150.9	163.1	186.8
EBITDA	25.3	27.6	35.9
Adj. PAT	11.8	13.9	18.7
EBIT Margin (%)	10.9	11.6	13.9
Cons. Adj. EPS (INR)	26.0	30.6	41.2
EPS Gr. (%)	11.5	17.6	34.7
BV/Sh. (INR)	304.2	330.9	360.4
Ratios			
Net D:E	0.1	0.1	0.1
RoE (%)	9.0	9.6	11.9
RoCE (%)	7.5	8.4	10.7
Payout (%)	30.4	28.3	28.4
Valuations			
P/E (x)	40.4	34.4	25.5
EV/EBITDA (x)	19.5	17.9	13.5
Div. Yield (%)	0.7	0.9	1.0
FCF Yield (%)	1.6	0.6	3.1
EV/Sales (x)	3.3	3.0	2.6

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	46.8	46.9	46.9
DII	22.1	22.6	18.9
FII	18.6	17.9	21.3
Others	12.5	12.7	12.9

FII Includes depository receipts

CMP: INR1,051
TP: INR1,040 (-1%)
Neutral
FY22 begins on weak note, led by competitive pressures in US
Ramp-up in niche products – the key to improving profitability

- Lupin (LPC) delivered a significant miss on 1QFY22 core earnings, weighed by lower margins in the US segment. This was offset, to some extent, by a milestone payment of USD50m on the clinical progress of the MEK inhibitor from Boehringer Ingelheim. LPC continues to build a complex product pipeline in the Inhalers/Injectables space and is also exploring a potential spin-off of the NCE business.
- We cut our FY22E/FY23E EPS by 22%/14%, factoring in a) increased competition in g-Famotidine, b) the failure to supply products due to supply disruption on account of COVID, c) the deferral of sales of certain products, and d) reduced operating leverage. We value LPC at 24x 12M forward earnings to arrive at TP of INR1,040. We maintain Neutral as current valuations adequately factor in potential niche launches over the next 12–15M.

DF segment supported by lower opex/tax doubling earnings YoY

- LPC reported revenue of INR42.3b in 1QFY22. Adjusted for a milestone payment of USD50m (INR3.7b) received from Boehringer Ingelheim, LPC's 1QFY22 revenues grew 11% YoY to INR39b (v/s our estimate of INR39.4b).
- Domestic Formulation (DF) sales were up 27.3% YoY to INR16.4b (42% of sales). US sales were up 10% YoY in CC terms to USD172m (35% of sales), but down 12% QoQ. Sales in Growth Markets grew 23.3% YoY to INR3.3b (9% of sales). EMEA (Europe, the Middle East, and Africa) sales were up 4.5% YoY to INR2.6b (7% of sales).
- API sales declined 40% YoY to INR2.5b (6% of sales).
- The gross margin (GM) for the company contracted 190bp YoY to 60.8%. This was largely due to the addition of low-margin authorized generic sales for g-Brovana and higher raw material costs.
- The EBITDA margin contracted at a lower rate of 20bp YoY to 14.2% owing to lower staff/R&D expenses (-240/-50bp YoY as a percentage of sales), partially offset by higher other expenses (+120bp as a percentage of sales).
- EBITDA was up ~9% YoY to INR5.5b (v/s our estimate of INR7.6b).
- Adj. PAT more than doubled YoY to INR2.4b (our estimate: INR3.9b), led by lower interest and tax rate for the quarter.

Highlights from management commentary

- LPC received a milestone payment of USD50m (INR3.7b) from Boehringer Ingelheim related to the MEK inhibitor compound (LNP3794) in 1QFY22.
- LPC is exploring a potential spin-off of the NCE business.
- It expects overall double-digit revenue growth in FY22, driven by a ramp-up in Albuterol, growth momentum in India, and a healthy performance in Growth Markets.
- LPC lowered its EBITDA margin guidance from 19–20% to 16–17% for FY22.

- The US gross margin was impacted by increased competition in Famotidine, temporary lower sales in Albuterol, the reclassification of royalties-related expense in material costs, and the failure to supply charges.

Valuation and view

- We lower our earnings estimate by 22%/14% for FY22E/FY23E, factoring in a) increased competition in g-Famotidine and pricing pressure in the base business, b) the failure to supply products due to supply disruption on account of COVID, c) the deferral of sales of certain products, and d) reduced operating leverage.
- We expect a 26% earnings CAGR over FY21–23E, led by (a) a ramp-up in market share for g-Proair, (b) new planned launches in the US in FY23, and c) an improving sales outlook in DF, especially in Chronic therapies.
- We value LPC at 24x 12M forward earnings to arrive at TP of INR1,040. Maintain Neutral on a limited upside from current levels.

Quarterly Performance (Consolidated) (INR m)

Y/E March	FY21				FY22E				FY21	FY22E	FY22E	% Var	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE					
Net Sales	35,276	38,350	39,474	37,831	38,968	39,694	41,640	42,750	150,930	163,052	39,443		-1.2
YoY Change (%)	-9.0	-1.2	4.7	-1.6	10.5	3.5	5.5	13.0	-1.8	8.0	11.8		
Total Expenditure	30,194	32,538	32,126	30,756	33,426	33,343	34,275	34,452	125,614	135,496	31,831		
EBITDA	5,082	5,812	7,347	7,076	5,542	6,351	7,365	8,298	25,316	27,556	7,613		-27.2
YoY Change (%)	-32.0	-9.3	56.6	34.7	9.0	9.3	0.2	17.3	7.5	8.8	49.8		
Margins (%)	14.4	15.2	18.6	18.7	14.2	16.0	17.7	19.4	16.8	16.9	19.3		
Depreciation	2,146	2,127	2,443	2,157	2,088	2,150	2,250	2,112	8,874	8,600	2,200		
EBIT	2,935	3,684	4,904	4,918	3,454	4,201	5,115	6,186	16,442	18,956	5,413		
YoY Change (%)	-40.9	-5.0	127.2	58.1	17.7	14.0	4.3	25.8	18.8	15.3	84.4		
Interest	443	336	309	318	335	300	290	233	1,406	1,157	310		
Other Income	436	250	212	486	278	330	340	352	1,383	1,300	350		
EO Exp/(Inc)	204	0	-440	-96	-4,106	0	0	0	-332	-4,106	0		
PBT	2,725	3,598	5,247	5,182	7,503	4,231	5,165	6,306	16,751	23,205	5,453		37.6
Tax	1,643	1,467	835	540	2,023	1,155	1,436	1,651	4,485	6,265	1,499		
Rate (%)	60.3	40.8	15.9	10.4	27.0	27.3	27.8	26.2	26.8	27.0	27.5		
Minority Interest	-12	-21	-29	-38	-55	-11	-16	10	-101	-72	-9		
Reported PAT	1,069	2,110	4,383	4,604	5,425	3,065	3,713	4,665	12,165	16,868	3,944		37.5
Adj PAT	1,150	2,110	4,013	4,518	2,426	3,065	3,713	4,665	11,790	13,869	3,944		-38.5
YoY Change (%)	-59.0	-37.4	118.8	76.6	111.0	45.3	-7.5	3.2	11.5	17.6	243.0		

Key performance Indicators (Consolidated)

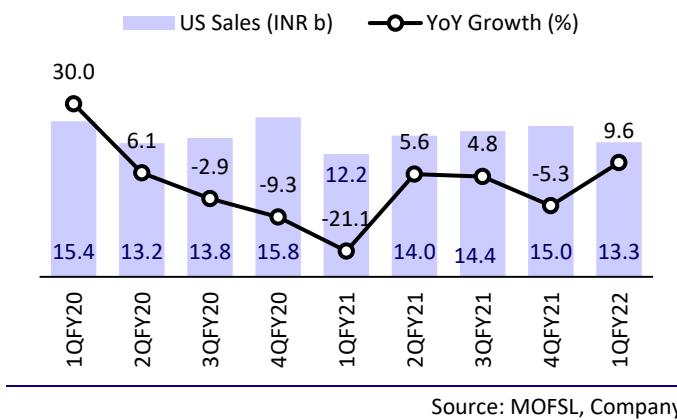
Y/E March INR m	FY21				FY22E				FY21	FY22E	FY22E 1QE
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
Domestic formulations	12,854	13,323	13,669	12,866	16,362	15,055	15,583	14,673	52,712	61,673	14,525
YoY Change (%)	(1.7)	(0.7)	5.4	7.9	27.3	13.0	14.0	14.0	2.6	17.0	13.0
US formulations	12,160	13,984	14,424	14,952	13,330	13,875	14,625	16,418	55,520	58,248	15,000
YoY Change (%)	(21.1)	5.6	4.8	(5.3)	9.6	(0.8)	1.4	9.8	(4.6)	4.9	23.4
Europe	1,481	1,836	1,711	1,501	1,241	1,928	1,968	2,082	7,219	7,219	1,777
YoY Change (%)	5.5	6.6	12.1	(19.1)	(16.2)	5.0	15.0	38.7	13.0	0.0	20.0
ROW and SA	4,101	4,936	5,932	5,718	5,248	5,154	5,439	5,155	19,996	20,996	4,653
YoY Change (%)	(14.1)	(7.3)	3.6	13.0	28.0	4.4	(8.3)	(9.8)	(4.8)	5.0	13.5
API	4,090	3,739	3,438	2,556	2,459	2,991	3,335	3,731	13,823	12,516	2,863
YoY Change (%)	17.2	22.5	8.4	(22.2)	(39.9)	(20.0)	(3.0)	46.0	6.3	(9.5)	(30.0)
Cost Break-up											
RM Cost (% of Sales)	37.3	36.0	34.8	36.7	39.2	38.5	38.0	36.4	35.9	38.6	34.6
Staff Cost (% of Sales)	22.5	17.9	17.9	16.9	20.1	19.0	18.5	18.5	18.9	19.3	17.5
R&D Expenses(% of Sales)	10.1	10.0	8.8	9.1	9.6	9.5	8.8	8.6	9.6	9.2	8.8
Other Cost (% of Sales)	15.7	20.9	19.8	18.6	16.9	17.0	17.0	17.1	19.7	17.3	19.8
Gross Margins(%)	62.7	64.0	65.2	63.3	60.8	61.5	62.0	63.6	64.1	61.4	65.4
EBITDA Margins(%)	14.4	15.2	18.6	18.7	14.2	16.0	17.7	19.4	16.8	16.9	19.3
EBIT Margins(%)	8.3	9.6	12.4	13.0	8.9	10.6	12.3	14.5	10.9	11.6	13.7

**Management call highlights**

- LPC has guided for growth in the high teens in the domestic business in FY22. It is making significant investments in the Respiratory and Anti-Diabetic segments.
- LPC plans to launch g-Sevelamer in the US. g-Suprep and g-Revlimid are other important products for FY23.
- It is also gearing up to launch g-Fostair in the UK. France, Spain, Italy, and Germany would be other focus markets for this product FY23 onwards.
- The cumulative expense for marketing efforts towards Solosec and R&D spend towards Biosimilar/NCE is USD60–65m annually.
- LPC is on track to gain 18–20% market share in g-Albuterol. This would be partly driven by the shift from one-time purchases to longer term contracts.
- LPC has two onco assets in the Investigational New Drug Application (IND) filing stage. Furthermore, around five programs are being developed in Oncology.
- Overall, it plans to file four complex injectables in addition to four general injectables in FY22.
- b-Enbrel has mid-single-digit market share in Europe.
- LPC targets a quarterly sales-run-rate of USD200m in the US Generics market 3QFY22 onwards, led by a ramp-up in g-Albuterol/g-Brovana sales and market share gains in existing products.

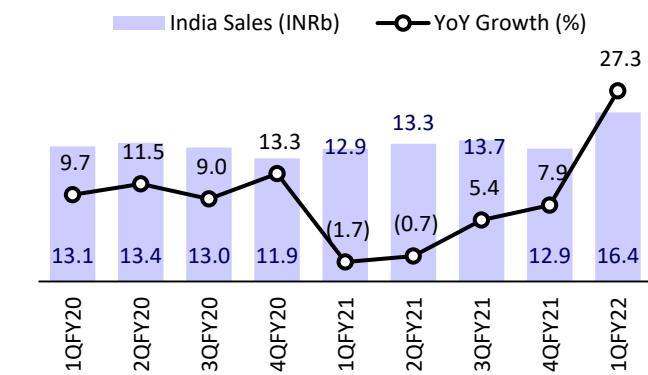
Key exhibits

Exhibit 1: US sales up 9.6% YoY in 1QFY22



Source: MOFSL, Company

Exhibit 2: DF sales up 27% YoY in 1QFY22



Source: MOFSL, Company

Slow start to FY22; all eyes on FY23 launches in US

US Generics – limited near-term catalysts

- LPC's US sales grew 10% YoY to USD172m in 1QFY22. However, sales declined 12% QoQ. The decline was largely due to high price erosion in key products such as g-Famotidine and g-Levothyroxine. The base business was also impacted by price erosion due to higher competition, especially from new entrants. This was partially offset by a ramp-up in g-Albuterol sales.
- LPC expects a faster ramp-up in g-Albuterol from 3QFY22, with new long-term contracts. Key product launches for FY23 include g-Sevelamer, g-Suprep, and g-Revlimid. It is in the process of responding to the Complete Response Letter from the USFDA on g-Spiriva and hopes to receive priority review for the filing. Proceedings on the lawsuit with the innovator are also expected to begin in Sep'21. g-Spiriva is one of the critical launches for FY23.
- In Complex Injectables, LPC is developing depot injections, liposomal products in-licensed from ForDoz Pharma, iron colloids, and peptide products. It intends to file one product each, being developed in partnership with ForDoz Pharma, in FY22 and FY23. The first depot injection has entered clinical trials, and the filing is expected in FY23/FY24, with the second product to follow.
- While we remain positive on the pipeline – there are still uncertainties in the launch timeline – as well as the competitive scenario when these products are launched. Additionally, we expect the benefit of these complex products to be realized beyond FY23. As a result, we expect a 12% US sales CAGR to USD930m over FY21–23E

DF – Chronic strength, in-licensing remain key drivers

- LPC's DF sales grew 27% YoY to INR16.4b in 1QFY22. Ex-COVID, LPC grew 22.6% YoY v/s industry growth of 19.4% in Chronic therapies. Similarly, LPC grew 45% YoY v/s industry growth of 41.5% YoY in Acute therapies.
- LPC is investing in increasing its offerings in DF and would focus on its strengths in Cardiac, Anti-Diabetic, and Respiratory therapies. The newly introduced OTC products are also showing good traction. The management is also looking at

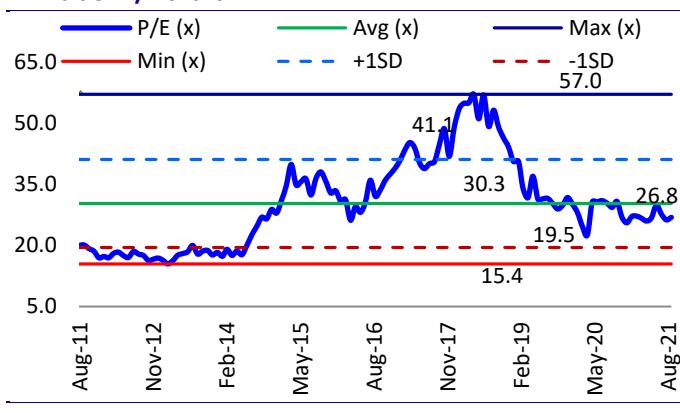
opportunistic inorganic expansion to increase its presence in other key therapies.

- We expect LPC to post a 15% DF sales CAGR to INR69b over FY21–23E

Near-term headwinds in US and lack of catalysts keep us on the sidelines

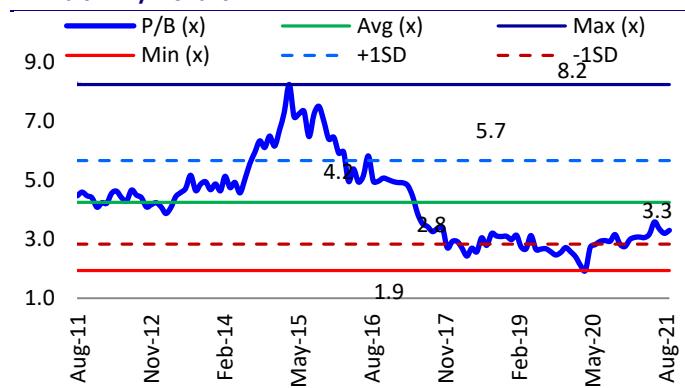
- We lower our earnings estimate by 22%/14% for FY22E/FY23E, factoring in a) increased competition in g-Famotidine and pricing pressure in the base business, b) the failure to supply products due to supply disruption on account of COVID, c) the deferral of sales of certain products, and d) reduced operating leverage.
- We expect a 26% earnings CAGR over FY21–23E, led by (a) a ramp-up in market share for g-Proair, (b) new planned launches in the US in FY23, and c) an improving sales outlook in DF, especially in Chronic therapies.
- We value LPC at 24x 12M forward earnings to arrive at TP of INR1,040. We maintain Neutral as current valuations adequately factor in potential niche launches over the next 12–15M.

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 4: P/B chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 5: Revenue mix in 1QFY22

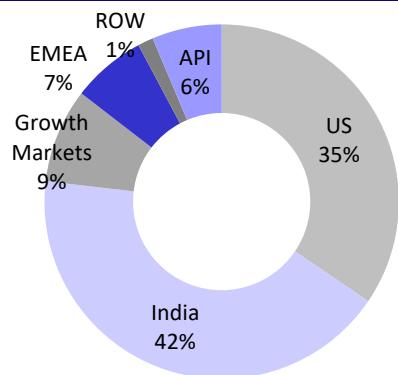


Exhibit 6: Growth to pick up with niche launches

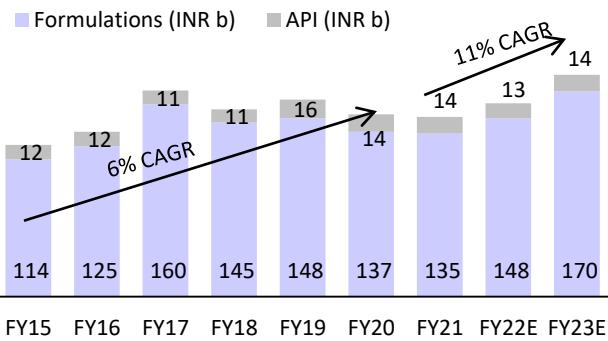


Exhibit 7: R&D spend to be steady on absolute basis

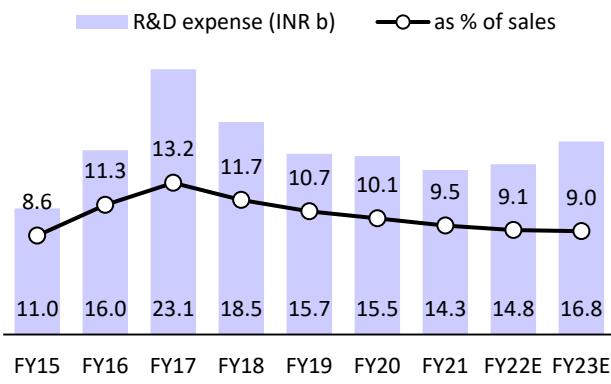


Exhibit 8: EBITDA margins to gradually pick up

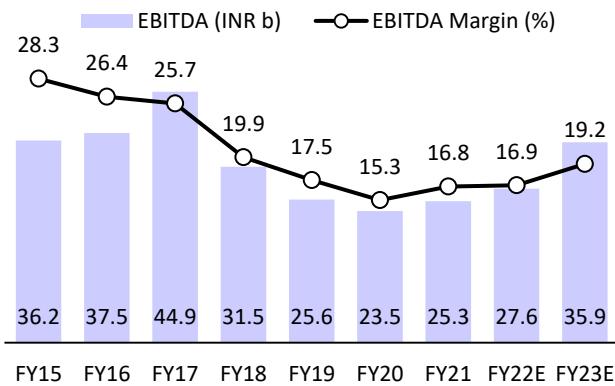


Exhibit 9: Expect EPS CAGR of ~26% over FY21–23E

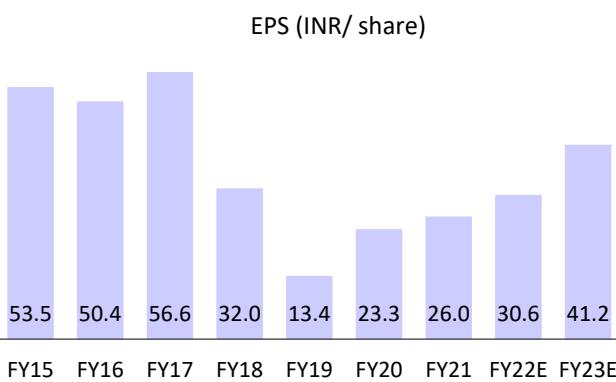
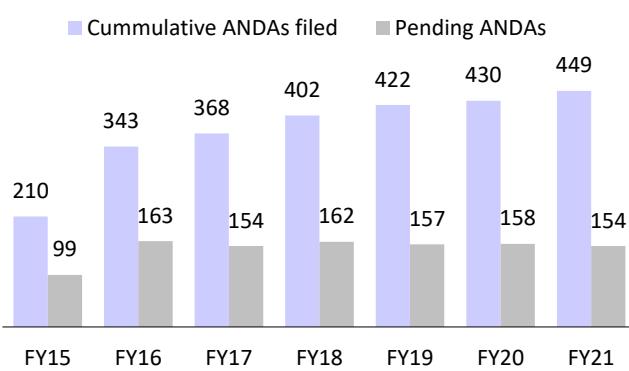


Exhibit 10: Rich ANDA pipeline



Source: MOFSL, Company, Bloomberg

Financials and valuations

Income Statement							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	174,943	158,041	146,646	153,748	150,930	163,052	186,839
Total Expenditure	130,012	126,566	121,038	130,200	125,614	135,496	150,967
EBITDA	44,931	31,475	25,607	23,548	25,316	27,556	35,872
Margin (%)	25.7	19.9	17.5	15.3	16.8	16.9	19.2
Depreciation	9,122	10,859	8,461	9,702	8,874	8,600	9,856
EBIT	35,809	20,616	17,147	13,846	16,442	18,956	26,016
Int. and Finance Charges	1,525	2,044	3,025	3,630	1,406	1,157	1,243
Other Income - Rec.	1,065	1,504	3,330	3,578	1,479	1,300	1,150
PBT before EO item	35,349	20,076	17,452	13,794	16,515	19,099	25,923
EO Expense/(Income)	0	14,644	3,400	6,261	-236	-4,106	0
PBT after EO item	35,349	5,433	14,052	7,533	16,751	23,205	25,923
Tax	9,785	2,885	8,879	11,571	4,485	6,265	7,155
Tax Rate (%)	27.7	53.1	63.2	153.6	26.8	27.0	27.6
Less: Minority Interest	-11	36	52	-43	-101	-72	-82
Reported PAT	25,574	2,512	5,121	-3,995	12,165	16,868	18,686
PAT Adj for EO items	25,574	14,455	6,066	10,572	11,790	13,869	18,686
Change (%)	12.6	-43.5	-58.0	74.3	11.5	17.6	34.7
Margin (%)	14.6	9.1	4.1	6.9	7.8	8.5	10.0

Consolidated Balance Sheet							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	903	904	905	906	907	907	907
Total Reserves	134,072	134,866	136,517	124,461	137,124	149,214	162,593
Net Worth	134,975	135,771	137,422	125,367	138,031	150,122	163,501
Minority Interest	345	401	469	445	550	550	645
Deferred Liabilities	-1,128	-4,310	-4,457	252	496	496	496
Secured Loan	61,243	67,722	70,546	25,180	6,133	-2,868	-4,868
Unsecured Loan	23,183	4,518	15,802	24,928	30,494	30,494	30,494
Total Loans	84,426	72,240	86,347	50,108	36,627	27,626	25,626
Capital Employed	218,619	204,101	219,781	176,172	175,704	178,793	190,267
Gross Block	55,265	63,687	72,189	76,431	85,479	92,236	99,040
Less: Accum. Deprn.	8,902	14,613	23,073	32,776	41,650	50,249	60,105
Net Fixed Assets	46,363	49,074	49,115	43,656	43,829	41,987	38,935
Capital WIP	7,150	9,563	10,186	7,582	8,515	7,608	7,154
Investments	21,361	14,208	22,954	23,743	24,549	24,549	24,549
Goodwill & Intangibles	78,147	70,965	67,963	37,540	37,126	37,126	37,126
Curr. Assets	107,975	112,078	121,935	135,575	120,283	122,479	142,406
Inventory	36,423	36,625	38,368	34,569	40,920	46,892	49,468
Account Receivables	43,073	51,922	51,498	54,459	44,743	49,202	60,117
Cash and Bank Balance	6,853	2,488	9,872	24,543	17,425	9,168	15,582
Others	21,626	21,043	22,197	22,004	17,195	17,216	17,239
Curr. Liability & Prov.	42,378	51,788	52,372	71,924	58,598	54,954	59,901
Account Payables	34,576	43,568	41,390	59,884	47,460	43,815	48,763
Provisions	7,801	8,220	10,982	12,040	11,139	11,139	11,139
Net Current Assets	65,598	60,290	69,563	63,651	61,685	67,525	82,505
Appl. of Funds	218,619	204,100	219,781	176,172	175,704	178,793	190,267

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
EPS (Fully Diluted)	56.6	32.0	13.4	23.3	26.0	30.6	41.2
Cash EPS (Fully Diluted)	76.8	56.0	32.1	44.8	45.5	49.5	62.9
BV/Share	298.9	300.3	303.7	276.7	304.2	330.9	360.4
DPS	7.5	5.0	5.0	9.0	7.0	9.0	10.0
Payout (%)	15.9	108.5	53.3	-119.0	30.4	28.3	28.4
Valuation (x)							
P/E (Fully Diluted)	18.6	32.9	78.4	45.1	40.4	34.4	25.5
Cash P/E (Fully Diluted)	13.7	18.8	32.7	23.5	23.1	21.2	16.7
P/BV	3.5	3.5	3.5	3.8	3.5	3.2	2.9
EV/Sales	3.2	3.5	3.8	3.3	3.3	3.0	2.6
EV/EBITDA	12.3	17.3	21.6	21.3	19.5	17.9	13.5
Return Ratios (%)							
RoE	20.9	10.7	4.4	8.0	9.0	9.6	11.9
RoCE	13.3	4.9	3.5	4.8	7.5	8.4	10.7
RoIC	14.9	5.4	3.6	5.1	9.8	10.5	13.4
Working Capital Ratios							
Asset Turnover (x)	0.8	0.8	0.7	0.9	0.9	0.9	1.0
Fixed Asset Turnover (x)	4.4	3.3	3.0	3.3	3.5	3.8	4.6
Debtor (Days)	90	120	128	129	108	110	117
Creditor (Days)	189	178	184	162	137	139	142
Inventory (Days)	76	85	95	82	99	105	97
Leverage Ratio							
Current Ratio	2.5	2.2	2.3	1.9	2.1	2.2	2.4
Interest Cover Ratio	23.5	10.1	5.7	3.8	11.7	16.4	20.9
Debt/Equity (x)	0.6	0.5	0.6	0.2	0.1	0.1	0.1

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
EBITDA	44,931	31,475	25,607	23,548	25,316	27,556	35,872
Interest/Dividends Recd.	1,065	1,504	3,330	3,578	1,479	1,300	1,150
Direct Taxes Paid	-12,152	-6,067	-9,026	-6,862	-4,242	-6,265	-7,155
(Inc)/Dec in WC	-626	942	-1,888	20,583	-5,152	-14,096	-8,566
CF from Operations	33,219	27,853	18,023	40,847	17,401	8,494	21,301
EO expense	0	14,644	3,400	6,261	-236	-4,106	0
CF from Op. incl EO Exp.	41,135	17,512	16,660	14,688	18,218	12,600	21,301
(inc)/dec in FA	-24,759	-8,801	-6,123	28,785	-9,567	-5,850	-6,350
Free Cash Flow	8,460	19,053	11,900	69,631	7,834	2,644	14,951
(Pur)/Sale of Investments	-21,286	7,153	-8,746	-788	-806	0	0
Others	20,771	6,346	-17,956	-16,926	-4,166	0	0
CF from Investments	-25,274	4,699	-32,825	11,070	-14,539	-5,850	-6,350
Change in Net Worth	3,669	1,028	-724	-3,286	4,403	0	0
Inc/(Dec) in Debt	13,233	-12,187	14,108	-36,240	-13,480	-9,001	-2,000
Interest Paid	-1,525	-2,044	-3,025	-3,630	-1,406	-1,157	-1,243
Dividend Paid	-4,076	-2,725	-2,728	-4,755	-3,788	-4,777	-5,308
CF from Fin. Activity	4,332	-14,921	7,441	-8,906	-18,852	-15,008	-8,537
Inc/Dec of Cash	20,193	7,290	-8,724	16,853	-15,173	-8,258	6,414
Add: Beginning Balance	7,802	27,995	14,164	5,441	22,293	7,119	-1,138
Cash/Cash Eq. at end of the year	27,995	14,164	5,441	22,293	7,119	-1,138	5,276
Forex/Bank	-21,142	-11,677	4,431	2,250	10,305	10,305	10,305
Closing Balance	6,853	2,488	9,872	24,543	17,425	9,168	15,582

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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