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Stock Update

Lupin Ltd.

07-Jun-2021

RETAIL RESEARCH

Lupin Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 1231.5	Buy at LTP and add more on dips to Rs 1090	Rs 1352	Rs 1435	2 quarters

HDFC Scrip Code	LUPLTDEQNR
BSE Code	500257
NSE Code	LUPIN
Bloomberg	LPC IN
CMP Jun 04, 2021	1231.5
Equity Capital (Rs cr)	90.7
Face Value (Rs)	2
Equity Share O/S (cr)	45.4
Market Cap (Rs cr)	55875
Book Value (Rs)	304
Avg. 52 Wk Volumes	2038913
52 Week High	1267.5
52 Week Low	829

Share holding Pattern % (Mar, 2021)	
Promoters	46.9
Institutions	40.2
Non Institutions	12.9
Total	100.0

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Our Take:

Lupin has very strong India business (~35% of revenues), however, with 37% revenue from US, a lot hinges on pipeline execution, outlook for which is contingent on: a) execution of three key assets – Levothyroxine (market share ramp up), Solosec (branded product for women's health) and gProAir; b) resolution of compliance issues of its facilities by US FDA. Revenue growth is likely to gain momentum in FY22, as growth in India business should come back, while the US business is expected to gain from Albuterol inhaler market share ramp up, Levothyroxine ramp up and new inhalation launches like gBrovana, gFoster Inhaler and gPerforomist. Potential resolution of Spiriva litigation or a tentative approval by the US FDA would be the key catalysts going forward.

Company spends 9-10% of its revenues in R&D which is likely to continue over the next 2 years. Lupin has spent ~Rs 8700cr in R&D over FY17-21 or 10-11% of revenues. It has made significant investments to build a complex generics portfolio over the past 4-5 years, largely towards inhalation products, injectables and biosimilars. The commercial benefit of the same should accrue over the next 2-3 years, starting from H2FY22 onwards. Steady market share ramp-up post launch of no.1 inhalation product - gProAir (Albuterol sulfate) and progress in other respiratory assets and biosimilars (Pegfigrastim, Lucentis and Eylea) provide strong visibility on its medium term growth outlook. On a longer term point of view, investments in complex injectables and women's healthcare are likely to contribute in profitability from FY24E and FY26E onwards respectively.

The company has a strong presence in the chronic segment which contributes 65% of its revenues. The company is ranked 6th in the IPM with ~7700 domestic sales force strength. Its key therapeutic areas in the domestic market are Anti-diabetic, Cardiac, Respiratory, Anti-Infectives, Gastro Intestinal and CNS. Given the company's leadership position in chronic segment and expected pick up in the acute therapy coupled with higher field force productivity, the domestic business is likely to witness robust growth in the next 2-3 years. Company looks to strengthen itself in under-represented therapeutic areas like Dermatology, Urology and Women's healthcare. The company has also recently forayed in digital healthcare space in India whereby its aims in providing digital therapeutics platform for doctors and patients. Lupin has incorporated a new entity "Lupin Digital Health Ltd." which will be a wholly owned subsidiary of the company.

On Aug 31, 2020, we had initiated coverage on Lupin with base case target of Rs 1067 and bull case target of Rs 1155 (https://www.hdfcsec.com/hsl.research.pdf/Initiating%20Coverage%20-%20Lupin%20-%2031%20Aug%202020.pdf). Since then, the stock has seen steady rise as pharmaceutical sector witnessed strong traction in the last 12 months and the company has demonstrated strong performance in FY21. The bull case target was reached on May 05 2021. Post FY21 and the intervening developments, we revise the earnings and targets on the stock.

Valuation & Recommendation:

We estimate 11% revenue, 25% EBITDA and 37% PAT CAGR over FY21-23E led by strong growth momentum in domestic business and healthy growth in the US business. We expect ~12% CAGR in domestic formulation business and ~14% CAGR in US revenue over FY21-23E. Improving quality of pipeline in the US would help drive higher profitability. Other expenditure i.e. travelling, marketing & promotional expenses would increase from Q2FY22 and should gradually ramp up. We are positive given its strong domestic business, robust balance sheet and earnings growth expected over FY21-23E. Company has reduced gross debt significantly from around Rs 8000cr in FY19 to ~Rs 4000cr as on Mar-2021. It was led by divestment of Japan business, lower capex and better working capital management. Better margin and strong profitability would lead to strong free cash flow generation and improvement in return ratios. We expect the company to be net debt free by FY23E.

We believe that in the next 2-3 years there will be strong growth trajectory for the company driven by i) healthy growth outlook in the domestic market ii) regulatory resolutions (Goa and Indore facility clearances likely in H2FY22), iii) moderating price erosion and iv) key product launches across generic and specialty categories. Currently, Lupin trades at ~23x FY23E earnings. We recommend investors' to buy the stock at LTP of Rs 1231.5 and add more on declines to Rs 1090 for base case fair value of Rs 1352 (25.5x FY23E EPS) and bull case fair value of Rs 1435 (27x FY23E EPS) over the next two quarters.

Financial Summary

Particulars (Rs cr)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY19	FY20	FY21P	FY22E	FY23E
Total Revenue	3783	3846	-1.6	3947	-4.2	14,454	15,231	15,093	16,769	18,730
EBITDA	708	525.3	34.7	737	-3.9	2350	2211	2589	3243	4074
Depreciation	216	214.3	0.7	244	-11.7	846	970	887	898	908
Other Income	58	208.6	-72.1	21	174.5	543	628	136	189	255

Interest Cost	32	107.4	-70.4	31	2.6	303	363	141	117	105
Tax	54	105	-48.6	83.5	-35.3	888	1157	449	653	895
RPAT	460	390	18.2	438	5.0	612	-274	1157	1764	2421
EPS (Rs)						18.8	7.8	28.5	38.7	53.1
RoE (%)						6.2	2.8	9.4	11.5	14.0
P/E (x)						65.4	157.7	43.2	31.8	23.2
EV/EBITDA (x)						26.5	26.6	22.2	17.4	13.5

(Source: Company, HDFC sec)

Q4 FY21 result update

Lupin reported better than expected operational numbers for Q4FY21. Revenue for the quarter declined 1.6% YoY at Rs 3783cr. EBITDA margin expanded 500bps YoY at 18.7%. Lower employee expenses and other expenses led to a jump in margin. Employee expenses were down 16% YoY at Rs 640cr. Other Income declined 72% YoY at Rs 58cr. Company registered 18.2% YoY growth in net profit at Rs 460.4cr on better margin and lower tax expenses. Tax expenses were down by 49% YoY at Rs 54cr. Improvement in profitability of loss making subsidiaries and higher provisioning in the previous quarter led to lower tax rate.

North America business registered 5% YoY decline at Rs 1495cr. Domestic formulations revenue grew 8% YoY at Rs 1287cr. Growth markets which included LatAm and Asia region recorded 8.3% growth at Rs 303cr. Europe, Middle East and Africa (EMEA) revenue grew ~3% at Rs 375cr. API revenue declined 22% YoY at Rs 256cr.
Lupin continues to be the 3rd largest pharmaceutical player in both US generic market and US total market by prescriptions (IQVIA MAT March 2021). Company is the market leader in 53 products in the US generics market and amongst the Top-3 in 122 of its marketed products (market share by prescriptions, IQVIA March 2021).

Capital expenditure for the quarter stood at Rs 139.6cr, and for the full year it was at Rs 628cr. Net Debt stood at Rs 663cr as on Mar-2021. Board has recommended dividend of Rs 6.5 per share for FY21. R&D expenses for the quarter stood at Rs 343cr or 9.1% of sales. R&D expenditure stood at Rs 1432cr or 9.6% of sales for FY21.

Lupin received approval for 6 ANDAs from the US FDA during the quarter. Cumulative ANDA filings with the US FDA stood at 437 as of March, 2021 and the company has approvals for 288 products.

Conference call Highlights

- Management guides for double-digit growth in US sales and also indicated that domestic formulations sales will be back to double-digit YoY growth in FY22.
- Management guided for EBITDA margin around 19-20%/21-22% in FY22/FY23, led by niche launches and robust traction in the base business.
- Management is also looking at opportunistic inorganic expansion to increase its presence in other key therapeutic areas in the domestic market.
- Company has guided for a capex of ~Rs 1000cr for FY22.
- Ramp up in Albuterol was offset partially by lower Flu product sales in the US. Lupin has around 8% share in Albuterol. It has not witnessed a meaningful impact of the Ventolin AG shift to Sandoz; Pricing has been stable.
- Company has a priority review on gSpiriva from the US FDA. It also expects the litigation-related process to pick-up pace from Sep-21.
- Company awaits feedback from the US FDA for re-inspection of the Goa/Pithampur Unit II and Tarapur.
- Employee cost was lower due to rollback of sales incentive in Q4FY21. Management guided at employee cost to be 18% of sales in FY22.
- Lupin launched biosimilar Etanercept in Germany and is yet to launch in France. It is seeing a sequential ramp up in sales. Management expects a further ramp up with traction in the Europe and Australia market.
- Company filed 15 ANDAs and received 19 approvals in FY21. Company launched 15 products, taking the cumulative launches to 168 products as of Mar'21. Over the past two years, management has rationalized its portfolio, resulting in discontinuation of about 15 products in the US.

Expect progress on multiple fronts in the next 2 years

Lupin has no. 3 Rx pharma ranking in US. Among the key existing products, Albuterol (Respiratory) ramp-up (8%+ Gx share) has been slower than expectation; however, Lupin continues to aim for 20% market share over the next few quarters. Levothyroxine has seen improvement in market share (~19% vs. 12% in FY20). We believe in the next two years, there will be launches of complex generics. Apart from gProair, we expect progress on multiple products including approval of Fostair (EU) by Q1FY22, potential approval of gDulera in the US in H1FY22 and litigation/approval progress on gSpiriva among respiratory assets. Lupin has also made advancement on the biosimilars front with partner Viatris launching biosimilar Enbrel in multiple EU countries. Progress on complex injectables remain at a nascent stage

with meaningful contribution likely beyond FY24E. With FDA restarting inspection of overseas facilities, resolution of Goa/Indore units in H2FY22 are additional triggers for US business. It has overall 149 ANDAs pending for approval and cumulative DMF (Drug Master File) filings stood at 201 as on Mar-2021.

On May 10, 2021, Lupin announced that it has signed a royalty-free, limited, non-exclusive voluntary licensing agreement with Eli Lilly and Company (Lilly) for manufacturing and selling of Lilly's drug Baricitinib in India. Lilly has received permission from Central Drugs Standard Control Organization (CDSCO), Ministry of Health, for restricted emergency use of Baricitinib in combination with Remdesivir for the treatment of suspect or laboratory-confirmed COVID-19 in hospitalized adults requiring supplemental oxygen, invasive mechanical ventilation, or extracorporeal membrane oxygenation.

Enbrel biosimilar and gFoster Inhaler approval in Europe to be gradual drivers

Lupin has launched Enbrel biosimilar in Germany in Q2FY21 and has also launched in Austria, Finland, Croatia and Eastern Europe. Contribution from the opportunity will take longer to reflect in earnings. The company is further targeting launches in France and Belgium. Currently, Enbrel sales in Europe stand at about US$ 1.2bn. Lupin expects generic Foster inhaler to be approved in UK in the next few months.

US FDA accepted application for Pegfilgrastim Biosimilar

Recently, the company announced that US FDA has accepted the Biologics License Application (BLA) for its proposed biosimilar to Neulasta (pegfilgrastim) through a filing using the 351(k) pathway. Pegfilgrastim has estimated annual sales of US$ 3.66bn in the US (IQVIA MAT December 2020). This BLA would expand its oncology portfolio, an area of increasing focus for Lupin. The pegfilgrastim filing is first biosimilar filing in the US and is a milestone of research and innovation journey of the company.

Announced achievement of key milestones for clinical stage MEK Inhibitor

Lupin announced the achievement of key milestones for MEK inhibitor compound (LNP 3794) that is planned for development by Boehringer Ingelheim in combination as potential targeted therapy for patients with difficult-to-treat cancers. As part of the agreement, Lupin has received payment of US$ 50mn from Boehringer Ingelheim for achievement of key milestones.

upin and Boehringer Ingelheim inked a licensing, development and commercialization agreement in 2019 for Lupin's novel oncology compound to treat KRAS-driven cancers. Lupin's MEK inhibitor developed as part of its oncology pipeline had previously shown pre-clinical activity as a single agent as well as in combination.

Launched authorized generic version of Brovana in the US

Lupin announced the launch of the authorized generic version of Brovana (arformoterol tartrate) Inhalation Solution 15 mcg/2 mL, unit-dose vials, of Sunovion Pharmaceuticals Inc. It is indicated for the long-term, twice daily (morning and evening) maintenance treatment of bronchoconstriction in patients with chronic obstructive pulmonary disease (COPD), including chronic bronchitis and emphysema. It is for use by nebulization only. Brovana has estimated annual sales of around US$ 200mn in the US (IQVIA MAT - December 2020).

Key Risks / Concerns

- Goa and Indore remain under warning letter since Nov 2017. Worsening facility issues remains a key risk for the company.
- Execution and commercialization capabilities for new as well as existing products are some of the key concerns. Delay in key products approval poses a risk. Higher price erosion in the US could lead to lower growth.
- The risk of additional drugs coming under price control would remain a risk to the India business of Lupin.
- Lupin's attempt to diversify into higher-value segments through investments in respiratory generics, biosimilars, specialty and complex injectables, monetization has got mixed results so far.
- Company may have an adverse/favorable impact on earnings on currency fluctuations as it derives significant part of revenues from exports.
- A material delay or disappointment with the company's inhalation programs remains a risk.
- A high-risk or earnings-dilutive acquisition could impact earnings and return ratios.

Peer Comparison

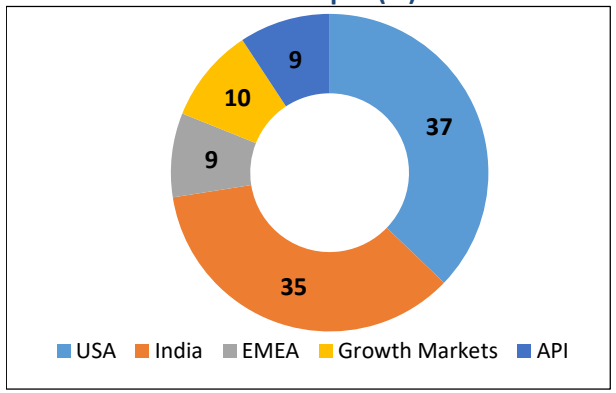
Company	Mcap (Rs cr)	Revenue				EBITDA Margin				PAT				RoE			
		FY20	FY21P	FY22E	FY23E	FY20	FY21P	FY22E	FY23E	FY20	FY21P	FY22E	FY23E	FY20	FY21P	FY22E	FY23E
Cipla	76,340	17132	19160	20979	22934	18.7	22.2	21.5	23.3	1499	2405	2631	3235	9.7	14.5	14.0	15.3
Lupin	55,875	15231	15093	16769	18730	14.5	17.2	19.3	21.8	353	1292	1754	2411	2.8	9.4	11.5	14.0
Sun Pharma	1,61,760	32838	33498	37319	41051	21.2	25.3	25.1	25.7	4010	6777	6475	7401	9.2	10.3	11.3	12.5

Lupin Ltd.

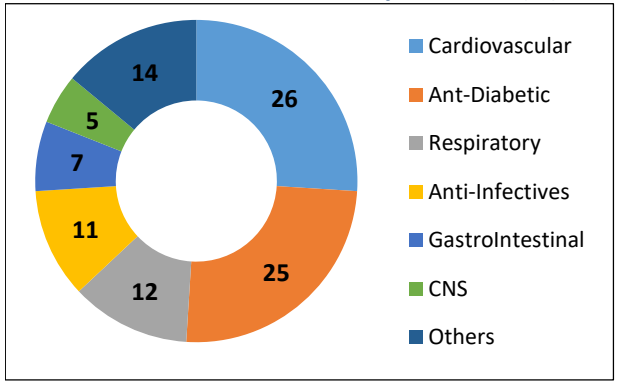
Company	EV/EBITDA				P/E			
	FY20	FY21P	FY22E	FY23E	FY20	FY21P	FY22E	FY23E
Cipla	21.2	15.0	13.5	11.5	50.9	31.7	29.0	23.6
Lupin	26.6	22.2	17.4	13.5	157.7	43.2	31.8	23.2
Sun Pharma	24.4	19.0	17.2	14.5	40.3	23.9	25.0	21.9

Source: Company, HDFC sec Research

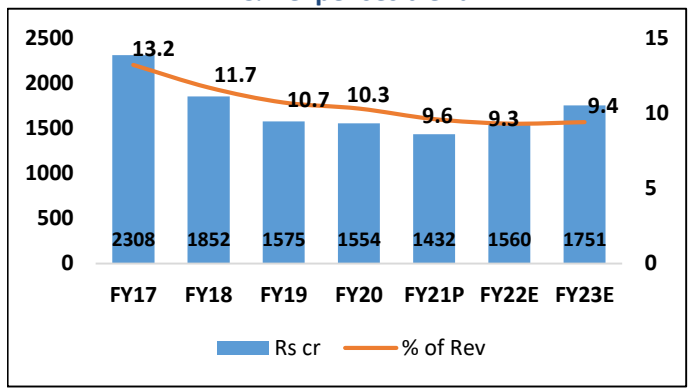
Revenue Split (%)



Domestic business - therapeutic Mix (%)

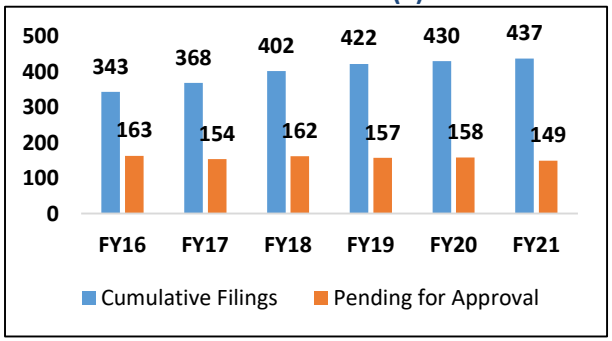


R&D expenses trend



Source: Company, HDFC sec Research

US ANDA Status (#)



RETAIL RESEARCH

Lupin Ltd.

Financials (Consolidated)

Income Statement

(Rs Cr)	FY19	FY20	FY21P	FY22E	FY23E
Total Income	**14454**	**15231**	**15093**	**16769**	**18730**
Growth (%)	-8.5	5.4	-0.9	11.1	11.7
Operating Expenses	12104	13020	12504	13526	14656
EBITDA	**2350**	**2211**	**2589**	**3243**	**4074**
Growth (%)	-25.3	-5.9	17.1	25.3	25.6
EBITDA Margin (%)	**16.3**	**14.5**	**17.2**	**19.3**	**21.8**
Depreciation	846	970	887	898	908
EBIT	1504	1241	1702	2345	3166
Other Income	543	628	136	189	255
Exceptional Items	-246	-622	-92	0	0
Interest expenses	303	363	141	117	105
PBT	1500	883	1606	2417	3316
Tax	888	1157	449	653	895
RPAT	**612**	**-274**	**1157**	**1764**	**2421**
Growth (%)	140	-144.8	-522.3	52.5	37.2
APAT	**852**	**353**	**1292**	**1754**	**2411**
EPS	18.8	7.8	28.5	38.7	53.1

Balance Sheet

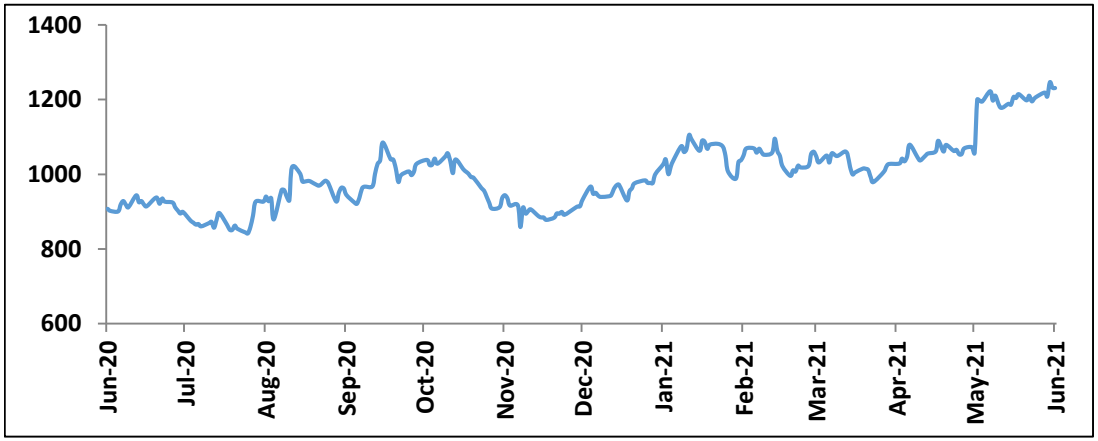
Year to March	FY19	FY20	FY21P	FY22E	FY23E
Share Capital	90.5	90.6	90.7	90.7	90.7
Reserves & Surplus	13652	12446	13712	15172	17100
Shareholders' Equity	**13742**	**12537**	**13803**	**15262**	**17191**
Long Term Loans	446	176	176	176	176
Short Term Loans	8050	6227	4128	3828	3528
Other Long Term Liabilities	730	888	741	741	741
Total Loans	8496	6403	4304	4004	3704
Deferred tax liabilities (net)	288	200	230	230	230
Minority Interest	47	45	55	65	75
Total Equity & Liabilities	**23303**	**20071**	**19132**	**20302**	**21940**
Application of Funds					
Net Block	8706	6087	5918	6030	5732
CWIP	1640	940	1066	1066	1066
Deferred tax assets	734	174	180	180	180
Goodwill	2380	1852	1962	1962	1962
Current Investments	2110	2338	2377	2377	2377
Inventories	3837	3457	4092	3865	4319
Debtors	5150	5446	4473	5228	5844
Cash & Bank Balance	987	2454	1743	2678	3898
Loans & Advances	1494	1726	1276	1362	1456
Other Current Assets	726	474	444	444	444
Current Assets	14304	15895	14405	15954	18338
Current Liabilities	3357	3460	3227	3724	4139
Provisions	1290	1452	1251	1244	1277
Net Current Assets	9657	10983	9927	10985	12922
Total Assets	**23303**	**20071**	**19132**	**20302**	**21940**

Lupin Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21P	FY22E	FY23E
PBT	1517	877	1677	2417	3316
Depreciation and Amortisation	1085	1160	887	898	908
Interest and Finance Charges	308	363	141	117	105
Change in W/C	-513	-959	-136	-122	-717
Operating Cash Flows	**1411**	**363**	**1788**	**2657**	**2717**
Change in Fixed Assets	-960	-671	-671	-1010	-610
Change in Investments	-2427	56	-608	0	0
Investing Cash Flows	**-3283**	**1107**	**-1240**	**-1010**	**-610**
Proceed/repayment of borrowings	1292	-150	-1368	-300	-300
Issuance of equity shares	0	0	0	0	0
Interest paid	-280	-356	-132	-117	-105
Dividend Paid	-271	-273	-272	-295	-482
Financing Cash Flows	**744**	**-891**	**-1885**	**-712**	**-887**
Change in Cash	**-1127**	**579**	**-1337**	**935**	**1220**

Stock Price Chart



Key Ratios

	FY19	FY20	FY21P	FY22E	FY23E
Profitability					
Gross Margin	58.1	56.1	56.5	57.3	58.5
EBITDA Margin	16.3	14.5	17.2	19.3	21.8
EBIT Margin	10.4	8.1	11.3	14	16.9
APAT Margin	6	2.4	8.7	10.6	13
RoE	6.2	2.8	9.4	11.5	14
RoCE	3	4	7.2	9.7	12.7
Solvency Ratio					
Net Debt/EBITDA (x)	3.2	1.8	1	0.4	0
Interest Coverage	5	3.4	12	20.1	30.3
Net D/E	0.5	0.3	0.2	0.1	0
PER SHARE DATA					
EPS	18.8	7.8	28.5	38.7	53.1
CEPS	31.1	8	39.4	58.5	59.8
BV	303	277	304	336	379
Dividend	5	5	6	6.5	10.6
Turnover Ratios (days)					
Debtor days	133	125	125	115	115
Inventory days	99	79	79	85	85
Creditors days	65	56	56	55	55
VALUATION					
P/E	65.4	157.7	43.2	31.8	23.2
P/BV	4.1	4.4	4	3.7	3.2
EV/EBITDA	26.5	26.6	22.2	17.4	13.5
EV / Revenues	4.3	3.9	3.8	3.4	3.1

Source: Company, HDFC sec Research

Disclosure:

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