May 13, 2021

RESULT REPORT Q4 FY21 | Sector: Pharmaceuticals

Lupin

SELL	CMP Rs1,212	Target Rs1,000	Downside 16%

Result Highlights

- ✓ Revenue declined by 1.6% YoY vs. our estimate of +4% YoY. US sales at US$195mn disappointed due to lower anti-infective sales and lack of flu-led revenues; Domestic business up 8% yoy while ROW markets (-5.6% YoY) and API (-22.2% YoY) saw a decline offset by EMEA (+2.7% YoY) and growth markets (+8% YoY).
- ✓ Gross margins expanded by 171 bps YoY to 65.2%, which was further aided by the decline in staff and other expenses (aided by lower R&D – Rs3.4bn vs Rs3.5bn in Q3 FY21), which led to EBITDA expansion of 504bps YoY to 18.7%
- ✓ PAT for the quarter stands at Rs4.6bn (+18.2% YoY vs. our estimate of de-growth of 21% YoY), primarily led by lower ETR and higher other income QoQ

Our view: Lupin guided to double digit growth in US on the low base of FY21 as anti-biotic and anti-infective sales were affected along with hardly any flu-related sales. On the other hand, reckon Albuterol sales have been disappointing with guidance of a gradual ramp up in market share likely to keep expectation muted for Q1 FY22. Given the slow ramp up and disappointment in Q4, we factor in 15% growth in FY22 US revenues (on a reduced base) driven by Albuterol ramp up and revival of flu products in H2 FY22. Spiriva would be a key driver of growth next fiscal but we note that it is a top 3 product for innovator; albeit, it can be a FY23 launch but given the experience with Albuterol (and inhalers in general), we expect a gradual ramp up. Domestic sales to rebound on weak base of FY21 and we expect lower R&D to assist margin; factor in improved margin by ~200bps in FY23 – in line with the guidance of 21-22%. We have raised our EPS estimated for FY22/23 by 10%/18%, large part of which is due to lower ETR of 28% in each year; ex-the lowered tax rate assumption, EPS rises by 6% for FY23. Reckon complex injectables can be a more sustained driver beyond FY23, than inhaler portfolio in the next 12 months; accordingly, we still value stock at 20x on FY23 EPS and arrive at TP of Rs1,000. Near term muted expectation for H1 FY22 may result in a better entry point in the stock, in our view. SELL stays

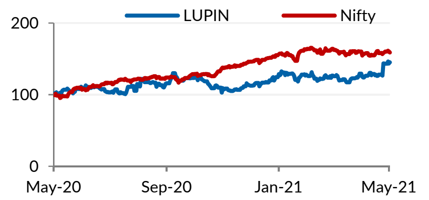
Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Revenues	37,831	40,174	(5.8)	38,457	(1.6)
RM + inventory changes	(7,202)	(7,726)	(6.8)	(8,318)	(13.4)
Purchase of goods	(5,974)	(6,024)	(0.8)	(5,732)	4.2
Staff	(6,402)	(7,068)	(9.4)	(7,636)	(16.2)
Other expenses	(11,178)	(11,569)	(3.4)	(11,519)	(3.0)
OPM (%)	18.7	19.4	-68 bps	13.7	504 bps
Depreciation	(2,157)	(2,443)	(11.7)	(2,143)	0.7
Interest	(318)	(309)	3.0	(1,074)	(70.3)
Other income	582	212	175.0	2,086	(72.1)
Tax	(540)	(835)	(35.3)	(1,051)	(48.6)
Effective tax rate (%)	10.5	16.0	-550 bps	25.5	-1503 bps
Exceptional	-	-		831	
PAT	4,604	4,382	5.0	3,896	18.2

Stock data (as on May 13, 2021)

Nifty:	14,697
52 Week h/l (Rs)	1247 /828
Market cap (Rs/USD mn)	550032/7491
Outstanding Shares	454
6m Avg t/o (Rs mn):	3,202
Div yield (%):	0.5
Bloomberg code:	LPC IN
NSE code:	LUPIN

Stock performance



	1M	3M	1Y
Absolute return	16.0%	15.1%	43.2%

Shareholding pattern (As of Mar'21 end)

Promoter	46.9%
FII+DII	40.0%
Others	13.1%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	1,000	850

Δ in earnings estimates

	FY22E	FY23E
EPS (New)	39.2	51.0
EPS (Old)	35.7	43.1
% change	10%	18%

Financial Summary

	FY21	FY22E	FY23E
Net Revenue	151,630	169,723	189,324
YoY Growth	(1.4)	11.9	11.5
EBIDTA	25,669	32,811	40,872
YoY Growth	9.0	27.8	24.6
PAT	12,165	17,775	23,119
YoY Growth	-	46.1	30.1
ROE	9.3	12.2	14.3
EPS	26.8	39.2	51.0
P/E	45.1	30.9	23.7
BV	304.2	335.7	379.0
P/BV	4.0	3.6	3.2

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CON-CALL HIGHLIGHTS

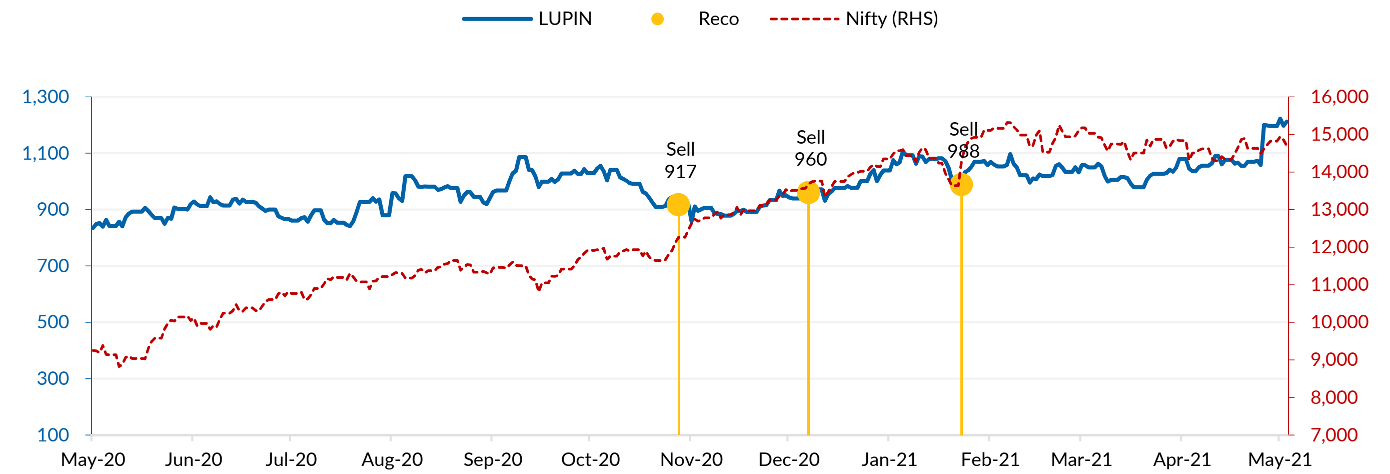
- ✓ Sales for the quarter was down due to weak flu season in US and on domestic side it is a soft quarter for the company (also was affected due to second covid wave)
- ✓ Albuterol – Just over 8% market share; supplies are ramping up. Not seen any material change since shift to Sandoz. Pricing has been stable. Committed to 20% market share gradually over a period of time.
- ✓ Goal of US$1bn sales in US in next 2 years; expect double digit growth in US in FY22
- ✓ Target of 19% + margin in FY22 and 21-22% in FY23
- ✓ Inhalers – Forstair – made significant progress with MHRA – expect approval soon and launch in next few months. gBrovana should be FY22 launch.
- ✓ Spiriva – good communication with FDA. In process of responding by next quarter. Should get approval by middle of next year even assuming an additional round of queries. Litigation timetable has been slow but still expect to launch in FY23
- ✓ Revlimid – Would look to launch sooner rather than later
- ✓ Levothyroxine- the company has grown market share and currently around ~19% (which was previously 12% at the start of the year).
- ✓ Injectables portfolio to start contributing in the next 2-3 years.
- ✓ API – input cost increases faced from China.
- ✓ API segment saw decline due to lower sales in anti- biotic due to weak flu season across different geographies. the company is seeing signs of the segment recovering
- ✓ Tax rate to remain at the current level (27-28%) for FY22E.
- ✓ Capex will be around Rs10 bn in FY22E.

FINANCIALS

Exhibit 2: Financial summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenues	146,646	153,748	151,630	169,723	189,324
yoy growth (%)	(7.2)	4.8	(1.4)	11.9	11.5
OPM (%)	17.5	15.3	16.9	19.3	21.6
yoy growth (%)	103.8	(152.6)	(551.6)	46.1	30.1
EPS (Rs)	11.3	-6.0	26.8	39.2	51.0
P/E (x)	106.9	-203.2	45.1	30.9	23.7
P/BV (x)	4.0	4.4	4.0	3.6	3.2
EV/EBITDA (x)	23.2	22.5	20.2	16.6	12.9
Debt/Equity (x)	0.6	0.2	0.1	0.1	0.1
ROE (%)	6.3	2.7	9.3	12.2	14.3
ROCE (%)	9.5	12.0	12.2	15.4	17.8

Recommendation Tracker



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