

Execution remains crucial

We maintain a **BUY** on LPC following in line operational performance in 4QFY19. Our TP is revised at Rs 930/sh (22x FY21E EPS) following a 10% cut in our FY21E EPS to account for higher tax and slower ramp up in Solosec.

HIGHLIGHTS OF THE QUARTER

- The improved 4QFY19 performance was supported by gRanexa launch in the US and lower R&D (9% of sales).
- At US\$ 245mn, US grew 26% QoQ, with a seasonally strong quarter and gRanexa launch under FTF exclusivity. Launched 8 products in 4QFY19.
- The domestic biz at Rs 10.5bn grew 9% YoY (down 12% QoQ). This is a seasonally weak quarter for acute therapies, which reflects in the QoQ decline. For the full year, LPC reported 12% YoY growth in India, which we believe is higher than most of the peers. We expect LPC to maintain 12%+ CAGR in India business over FY19-21E on the back of chronic portfolio.
- In other segments, APAC, RoW and API revenues grew 4/35/4% YoY respectively, while EMEA and LATAM were down 3% and 16% YoY. Expect EMEA and APAC to post better in FY20E on the back of biosimilar launches.

Financial Summary (Consolidated)

(Rs bn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19P	FY20E	FY21E
Net Sales	44.1	40.3	9.2	42.9	2.6	158.04	167.18	181.01	209.38
EBITDA	8.7	7.1	23.1	5.4	60.9	31.48	28.82	31.86	40.20
APAT	2.9	6.8	(57.8)	(0.2)	(1,548.9)	17.26	7.43	12.33	19.04
Diluted EPS (Rs)	6.4	15.1	(57.8)	(0.4)	(1,548.9)	38.2	16.4	27.3	42.1
P/E (x)						20.5	47.6	28.7	18.6
RoE (%)						12.8	5.4	8.7	12.3

Source: Company, HDFC sec Inst Research

- Gross margin at 68.1% (+535bps QoQ) improved due to gRanexa. EBITDA margin at 19.8% was up 720bps QoQ led by gRanexa and lower R&D. As a result, EBITDA came in at Rs 8.7bn (+61% QoQ). With higher taxes (~50% of PBT), APAT came in at Rs 2.9bn (-58% YoY).

- Near-term outlook:** Goa clearance remains key trigger.

STANCE

Following a weak 1HFY19, LPC reported a recovery in 2HFY19, ending the year with a ~6% revenue growth, which is likely to accelerate in FY20-21E. The recent launches of gSynthroid/gAndrogel, monetization of the complex generics pipeline (gProair and bEnbrel), supported by ~20 yearly ANDA approvals will drive ~12% revenue CAGR over FY19-21E. Boosted by high margin products, US base business recovery and easing of raw material prices in India, we expect EBITDA margin to expand 100bps annually. With US\$ 60mn Solosec revenue expectation, the specialty spend to the tune of US\$ 50mn will also be fully absorbed (~2% of sales) in FY21E.

Despite being marred by repeated US FDA issues, LPC's visible levers for both revenue and profitability help maintain our positive stance. India franchise, valued at ~Rs 650/sh, continues to protect the downside risk.

INDUSTRY	PHARMA
CMP (as on 15 May 2019)	Rs 782
Target Price	Rs 930
Nifty	11,157
Sensex	37,115

KEY STOCK DATA

Bloomberg	LPC IN
No. of Shares (mn)	453
MCap (Rs bn) / (\$ mn)	354/5,031
6m avg traded value (Rs mn)	1,629

STOCK PERFORMANCE (%)

52 Week high / low	Rs 986/720		
	3M	6M	12M
Absolute (%)	1.0	(8.4)	4.2
Relative (%)	(2.7)	(13.6)	(0.2)

SHAREHOLDING PATTERN (%)

	Dec-18	Mar-19
Promoters	46.98	46.97
FIs & Local MFs	11.47	12.20
FPIs	27.37	25.87
Public & Others	14.18	14.96
Pledged Shares	-	-

Source : BSE

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Quarterly Financials Snapshot (Consolidated)

Particulars (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Net Sales	44,063	40,338	9.2	42,946	2.6
Material Expenses	14,078	13,626	3.3	16,010	(12.1)
Employee Expenses	7,996	7,286	9.7	8,085	(1.1)
R&D Expenses	3,963	4,015	(1.3)	4,257	(6.9)
Other Expenses	9,303	8,323	11.8	9,172	1.4
EBITDA	8,723	7,088	23.1	5,422	60.9
Depreciation	2,808	2,728		2,798	
EBIT	5,915	4,360	35.7	2,625	125.4
Other Income	865	1,449		434	
Interest Cost	855	585		798	
EO Items	22	(14,644)		(1,319)	
PBT	5,947	(9,420)	(163.1)	942	531.3
Tax	2,998	(1,632)		2,478	
Minority Interest	68	59		(6)	
Share of profit of associates	15	13		12	
RPAT	2,896	(7,834)	(137.0)	(1,517)	(290.8)
EO Items (Adj For Tax)	22	(14,644)		(1,319)	
APAT	2,873	6,810	(57.8)	(198)	(1,548.9)

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)
Material Expenses % Net Sales	32.0	33.8	(183)	37.3	(533)
Employee Expenses % Net Sales	18.1	18.1	8	18.8	(68)
R&D Expenses % Net Sales	9.0	10.0	(96)	9.9	(92)
Other Expenses % Net Sales	21.1	20.6	48	21.4	(24)
EBITDA Margin (%)	19.8	17.6	222	12.6	717
Tax Rate (%)	50.4	17.3	3,309	263.0	(21,261)
APAT Margin (%)	6.5	16.9	(1,036)	(0.5)	698

Source: Company, HDFC sec Inst Research

Healthy revenue growth was driven by the launch of gRanexa under exclusivity

Gross margin expanded on the back of gRanexa launch in the US

Tax rate was abnormally high for the quarter owing to certain investments and losses. Mgmt expects a return to ~30% over the next 1-2 years

Net debt stood at Rs 51.2bn, down ~11% since Sep-18 (flat YoY)

The exceptional item in 3QFY19 pertains to provision made for the Perindopril litigation. 4QFY18 has an exceptional item relating to impairment of intangible assets

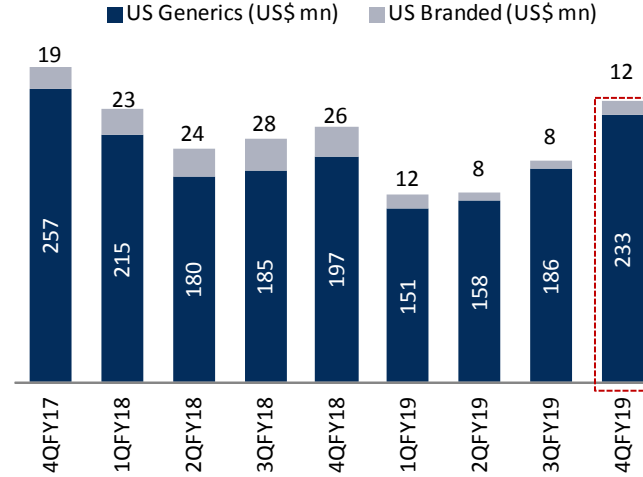
US branded sales reached US\$ 40mn in FY19. Solosec ramp up has been slower than expected due to pricing challenges

The domestic business grew ~14% YoY in FY19, driven by chronic therapies including anti-diabetes, chronic, and respi. Co expects double-digit growth to continue in FY20 driven by chronic. Current MR strength is ~7,000 MRs

EBITDA margin improved on the back of better product mix, oplev, and lower R&D spend

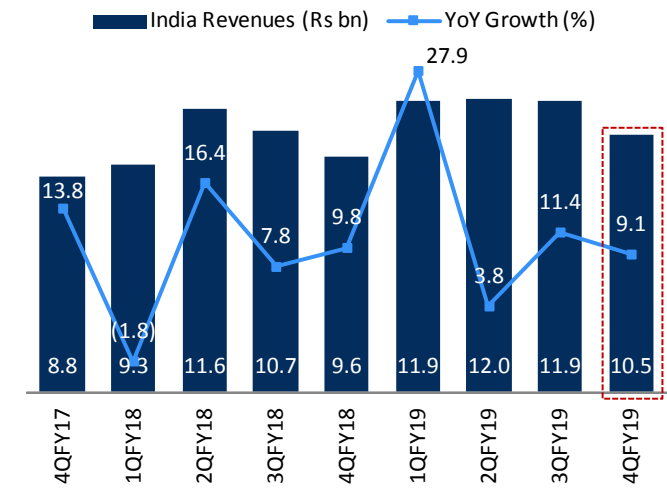
The co has optimized R&D spend and expects to maintain it at ~10% of revenue in FY20E. It filed 12 products in the US during the quarter

US Generics: gRanexa Drives Strong QoQ Growth



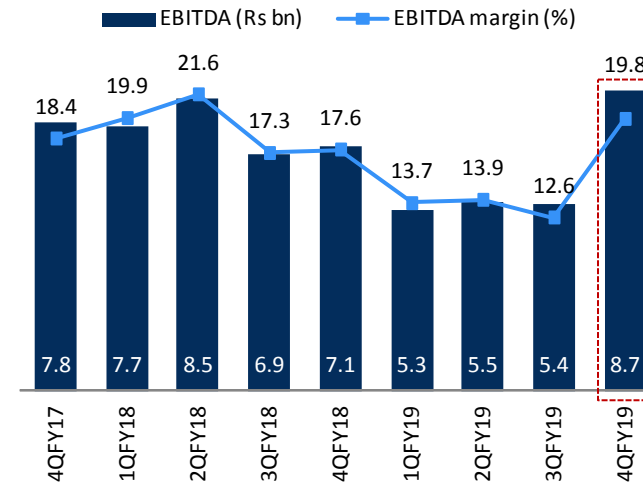
Source: Company, HDFC sec Inst Research

Domestic Biz: Healthy Growth Driven By Chronic



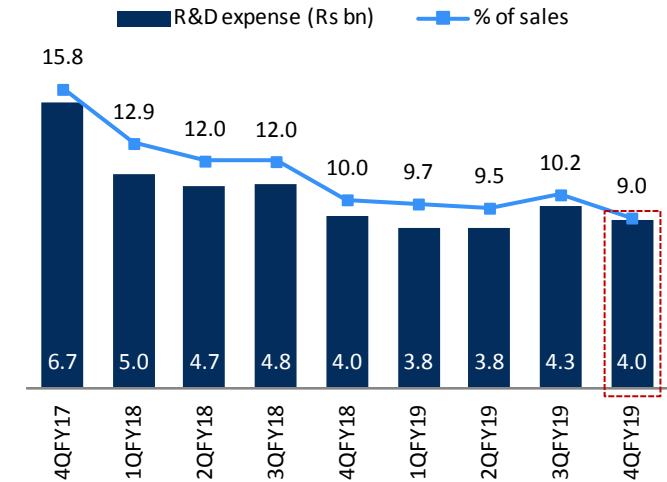
Source: Company, HDFC sec Inst Research

EBITDA Margin: Significant Margin Expansion



Source: Company, HDFC sec Inst Research

R&D Expense: Optimized R&D spend



Source: Company, HDFC sec Inst Research

Lupin has planned 20+ launches in the US in FY20E, which would increase further as plants under warning letter get cleared over the year

The co expects the following key launches in FY20E: (1) Albuterol in the US, (2) Etanercept in EU and Japan, (3) newer geographies for NaMuscla in EU. Expect depo-injectables and peptides filings to start in FY21E. bPegfilgrastim will also be filed in FY21E in the US. Spiriva's earliest launch is 2022

The Japan business is ~13% of sales, and is facing issues due to pricing pressures and overall slowdown in the market. Lupin is improving its profitability here by manufacturing products in India and culling overheads. Focus will remain on complex generics and specialty

Segmental Quarterly Performance

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
India	10,525	9,647	9.1	11,902	(11.6)
US	17,406	14,990	16.1	14,174	22.8
APAC	6,901	6,637	4.0	6,936	(0.5)
EMEA	3,397	3,513	(3.3)	2,800	21.3
Latam	1,385	1,645	(15.8)	1,557	(11.0)
RoW	733	545	34.5	683	7.3
API & others	2,912	2,808	3.7	3,624	(19.6)
Licensing Income	-	-	-	2,103	-
Total	43,259	39,785	8.7	43,779	(1.2)

Source: HDFC sec Inst Research

Assumptions

Key segments (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
India	38,157	41,253	46,382	52,412	59,225
Growth (%)	10.6	8.1	12.4	13.0	13.0
US	82,627	58,939	55,924	58,450	73,080
Growth (%)	39.5	(28.7)	(5.1)	4.5	25.0
APAC	22,655	25,725	26,114	28,024	29,817
Growth (%)	28.0	13.6	1.5	7.3	6.4
Europe	10,116	11,252	11,906	15,970	18,398
Growth (%)	16.6	11.2	5.8	34.1	15.2
RoW	6,260	7,498	7,801	8,368	9,425
Growth (%)	25.4	19.8	4.0	7.3	12.6
API & Others	11,383	10,931	13,464	14,789	16,429
Growth (%)	(8.7)	(4.0)	23.2	9.8	11.1
NCE Licensing Income	-	-	2,103	-	-
Growth (%)	-	-	-	-	-
Total	171,198	155,598	163,694	178,013	206,374
Growth (%)	24.4	(9.1)	5.2	8.7	15.9

Source: HDFC sec Inst Research

Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP/FV	Adj EPS (Rs/sh)				P/E (x)				RoE (%)			
					FY18	FY19P	FY20E	FY21E	FY18	FY19P	FY20E	FY21E	FY18	FY19P	FY20E	FY21E
Sun Pharma	983	410	BUY	640	13.0	15.3	20.7	27.2	31.6	26.8	19.8	15.0	8.3	9.3	11.7	13.7
Dr Reddy's Labs	467	2,814	BUY	3,400	59.2	109.7	124.4	151.3	47.5	25.6	22.6	18.6	7.8	13.6	13.6	14.3
Cipla	447	556	BUY	630	18.6	16.8	21.1	28.6	29.9	33.1	26.3	19.5	11.2	9.1	10.6	12.9
Divi's Labs	427	1,609	SELL	1,445	32.4	52.4	56.8	65.7	49.7	30.7	28.3	24.5	15.2	21.6	20.2	20.4
Aurobindo Pharma	416	710	NEU	800	41.4	42.2	54.1	53.2	17.2	16.8	13.1	13.3	23.0	19.2	20.4	16.8
Lupin	354	782	BUY	930	38.2	16.4	27.3	42.1	20.5	47.6	28.7	18.6	12.8	5.4	8.7	12.3
Torrent Pharma	276	1,632	BUY	2,000	40.1	45.8	61.8	83.5	40.7	35.6	26.4	19.5	15.1	15.8	18.6	21.5
Cadila Healthcare	267	260	NEU	315	13.0	11.0	13.2	17.7	20.0	23.7	19.7	14.7	17.0	11.9	12.6	14.9
Alkem Laboratories	205	1,713	BUY	2,240	57.6	63.4	80.9	101.9	29.8	27.0	21.2	16.8	14.8	14.7	16.6	18.3
Glenmark	166	588	BUY	835	17.5	27.0	33.9	43.7	33.7	21.8	17.3	13.5	9.4	12.7	14.0	15.7
Alembic Pharma	99	525	NEU	570	21.9	25.8	25.1	31.6	24.0	20.3	20.9	16.6	20.0	19.7	16.4	18.1
Jubilant Life Sciences	97	608	BUY	1,005	45.5	58.8	68.6	83.7	13.3	10.3	8.9	7.3	19.3	20.8	20.2	20.5
Laurus Labs	39	370	BUY	535	15.8	10.7	17.0	29.4	23.4	34.6	21.7	12.6	11.9	6.2	10.8	16.7
Strides Pharma	38	419	BUY	570	13.2	6.9	29.3	35.7	31.8	61.0	14.3	11.7	2.9	2.3	9.5	10.7
Dishman Carbogen Amcis	35	220	BUY	400	13.2	15.7	20.9	26.7	16.6	14.0	10.5	8.2	14.6	15.0	16.7	18.1
Suven Life Sciences	32	253	NR	465	9.7	5.6	9.8	11.3	26.0	45.3	25.8	22.5	17.2	8.9	14.2	14.5
Granules India	28	110	BUY	170	5.2	9.3	11.4	13.9	21.2	11.9	9.7	7.9	12.0	16.7	17.5	18.5
J B Chemicals & Pharmaceuticals	26	330	NR	470	16.6	23.8	28.4	33.6	19.9	13.9	11.6	9.8	9.9	13.2	14.8	15.4
Neuland Labs	9	707	BUY	930	10.8	10.8	37.5	66.5	65.4	65.3	18.9	10.6	2.2	2.2	6.7	11.0

Source: HDFC sec Inst Research

The cut in our FY21E estimates is to account for higher taxes and slower ramp up in Solosec

Change In Estimates (Consolidated)

Rs mn	Previous			New			% Chg		
	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E
Revenue	165,776	182,396	206,987	167,182	181,013	209,375	0.8	(0.8)	1.2
EBITDA	28,299	32,649	42,639	28,822	31,858	40,200	1.8	(2.4)	(5.7)
APAT	8,432	14,676	21,931	7,432	12,332	19,044	(11.9)	(16.0)	(13.2)

Source: HDFC sec Inst Research

Income Statement (Consolidated)

Year Ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Net Revenues	174,943	158,042	167,182	181,013	209,375
Growth (%)	22.7	(9.7)	5.8	8.3	15.7
Material Expenses	50,014	52,744	58,458	64,260	73,281
Employee Expenses	28,495	28,647	31,513	34,031	37,687
SG&A Expenses	11,371	10,589	11,870	12,852	14,866
Other Operating Expenses	40,131	34,587	36,519	38,013	43,341
EBITDA	44,931	31,475	28,822	31,858	40,200
EBITDA Margin (%)	25.7	19.9	17.2	17.6	19.2
EBITDA Growth (%)	21.9	(29.9)	(8.4)	10.5	26.2
Depreciation	9,122	25,502	10,850	11,216	11,440
EBIT	35,809	5,973	17,972	20,643	28,760
Other Income (Including EO Items)	1,065	1,504	240	2,250	2,750
Interest	1,525	2,044	3,078	2,339	2,212
PBT	35,349	5,433	15,134	20,554	29,298
Tax (Incl Deferred)	9,785	2,885	9,017	8,221	10,254
Minority Interest	(72)	(71)	(89)	(90)	(90)
Share in profit/(loss) of associates	(83)	(35)	(38)	120	121
RPAT	25,575	2,513	6,065	12,362	19,075
EO (Loss) / Profit (Net Of Tax)	10,482	(14,644)	(1,240)	-	-
APAT	15,247	17,262	7,432	12,332	19,044
APAT Growth (%)	(33.0)	13.2	(56.9)	65.9	54.4
Adjusted EPS (Rs)	33.7	38.2	16.4	27.3	42.1

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year Ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	903	904	905	905	905
Reserves	134,073	134,866	136,517	145,583	161,360
Total Shareholders Funds	134,976	135,771	137,422	146,488	162,265
Minority Interest	345	401	469	469	529
Long Term Debt	56,478	64,245	66,417	56,417	46,417
Short Term Debt	23,043	4,518	15,802	17,302	18,802
Total Debt	79,521	68,763	82,219	73,719	65,219
Net Deferred Taxes	(1,128)	(4,310)	(4,457)	(4,457)	(4,457)
Other Non-current Liabilities & Provns	9,120	8,849	11,004	11,270	11,800
TOTAL SOURCES OF FUNDS	222,834	209,472	226,657	227,489	235,356
APPLICATION OF FUNDS					
Net Block	87,229	95,574	93,275	92,059	92,619
CWIP	24,639	11,563	12,186	14,500	14,501
Goodwill	23,100	24,485	23,803	23,100	23,101
Investments	220	270	1,856	1,856	1,856
Other Non-current Assets	6,266	1,924	2,497	3,250	3,251
Total Non-current Assets	141,455	133,816	133,618	134,766	135,328
Cash & Equivalents	28,135	16,429	30,971	31,476	34,162
Inventories	36,423	36,625	38,368	41,373	44,169
Debtors	43,073	51,922	51,498	53,414	58,914
Other Current Assets	11,910	17,119	17,700	14,013	15,043
Total Current Assets	91,406	105,666	107,565	108,800	118,127
Creditors	25,889	25,754	24,982	28,917	32,977
Other Current Liabilities & Provns	12,274	20,684	20,515	18,636	19,285
Total Current Liabilities	38,163	46,438	45,497	47,553	52,262
Net Current Assets	53,244	59,228	62,068	61,246	65,866
TOTAL APPLICATION OF FUNDS	222,834	209,472	226,657	227,488	235,356

Source: Company, HDFC sec Inst Research

Cash Flow

Year Ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	35,431	5,468	18,534	20,554	29,298
Non-operating & EO items	1,500	14,920	(3,641)	(2,251)	(2,752)
Interest expenses	1,525	2,044	3,078	2,339	2,212
Depreciation	9,122	10,859	10,850	11,216	11,440
Working Capital Change	5,046	(10,194)	(931)	1,111	(4,320)
Tax Paid	(11,490)	(5,584)	(8,870)	(8,221)	(10,254)
OPERATING CASH FLOW (a)	41,135	17,512	19,021	24,747	25,624
Capex	(26,007)	(14,898)	(8,311)	(12,314)	(12,001)
<i>Free cash flow (FCF)</i>	<i>15,129</i>	<i>2,614</i>	<i>10,710</i>	<i>12,433</i>	<i>13,623</i>
Non-operating Income	733	825	3,679	2,251	2,752
INVESTING CASH FLOW (b)	(25,274)	(14,073)	(11,070)	(10,063)	(9,249)
Debt Issuance/(Repaid)	9,479	(8,953)	13,457	(8,500)	(8,500)
Interest Expenses	(1,507)	(2,040)	(3,078)	(2,339)	(2,212)
<i>FCFE</i>	<i>23,100</i>	<i>(8,379)</i>	<i>21,088</i>	<i>1,594</i>	<i>2,911</i>
Share Capital Issuance	2	1	1	(0)	(0)
Dividend	(4,066)	(4,073)	(2,647)	(3,177)	(3,177)
Others	115	143	(2,590)	(163)	199
FINANCING CASH FLOW (c)	4,022	(14,922)	5,142	(14,179)	(13,689)
NET CASH FLOW (a+b+c)	19,883	(11,483)	13,093	506	2,685
EO Items, Others	35	(223)	(3,400)	-	-
Closing Cash & Equivalents	28,135	16,429	26,122	26,628	29,313

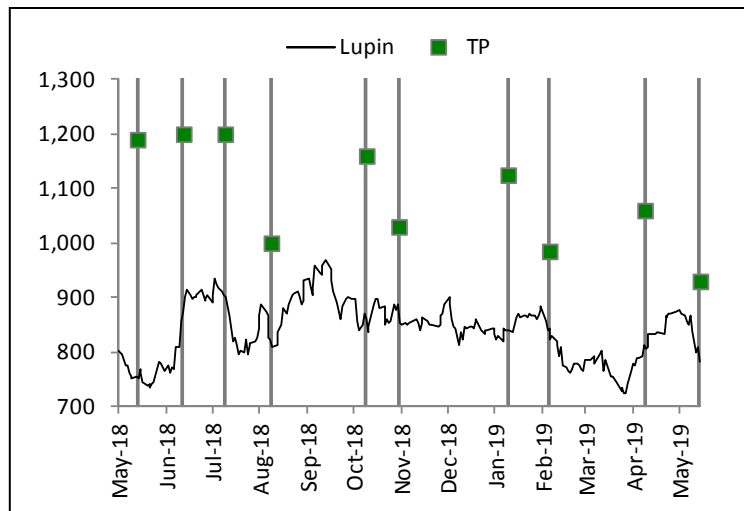
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
GPM	71.4	66.6	65.0	64.5	65.0
EBITDA Margin	25.7	19.9	17.2	17.6	19.2
APAT Margin	8.7	10.9	4.4	6.8	9.1
RoE	12.4	12.8	5.4	8.7	12.3
RoIC (or Core RoCE)	14.2	1.5	3.8	10.8	14.9
RoCE	7.9	8.4	4.0	6.0	8.9
EFFICIENCY					
Tax Rate (%)	27.7	53.1	59.6	40.0	35.0
Fixed Asset Turnover (x)	3.2	2.3	2.2	2.3	2.4
<i>Inventory (days)</i>	<i>76.0</i>	<i>84.6</i>	<i>83.8</i>	<i>83.4</i>	<i>77.0</i>
<i>Debtors (days)</i>	<i>89.9</i>	<i>119.9</i>	<i>112.4</i>	<i>107.7</i>	<i>102.7</i>
<i>Other Current Assets (days)</i>	<i>24.8</i>	<i>39.5</i>	<i>38.6</i>	<i>28.3</i>	<i>26.2</i>
<i>Payables (days)</i>	<i>54.0</i>	<i>59.5</i>	<i>54.5</i>	<i>58.3</i>	<i>57.5</i>
<i>Other Current Liab & Provns (days)</i>	<i>25.6</i>	<i>47.8</i>	<i>44.8</i>	<i>37.6</i>	<i>33.6</i>
<i>Cash Conversion Cycle (days)</i>	<i>111.1</i>	<i>136.8</i>	<i>135.5</i>	<i>123.5</i>	<i>114.8</i>
Debt/EBITDA (x)	1.8	2.2	2.9	2.3	1.6
Net D/E (x)	0.4	0.4	0.4	0.3	0.2
Interest Coverage (x)	23.5	2.9	5.8	8.8	13.0
PER SHARE DATA (Rs)					
EPS	33.7	38.2	16.4	27.3	42.1
Dividend	7.5	5.0	5.0	6.0	6.0
Book Value	299.0	300.2	303.9	323.9	358.8
VALUATION					
P/E (x)	23.2	20.5	47.6	28.7	18.6
P/BV (x)	2.6	2.6	2.6	2.4	2.2
EV/EBITDA (x)	9.0	12.9	14.0	12.4	9.6
EV/Revenues (x)	2.3	2.6	2.4	2.2	1.8
OCF/EV (%)	10.2	4.3	4.7	6.3	6.7
FCF/EV (%)	3.7	0.6	2.6	3.1	3.5
FCFE/Mkt Cap (%)	6.5	(2.4)	6.0	0.5	0.8
Dividend Yield (%)	1.0	0.6	0.6	0.8	0.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
16-May-18	750	BUY	1,190
13-Jun-18	855	BUY	1,200
10-Jul-18	912	BUY	1,200
9-Aug-18	821	BUY	1,000
10-Oct-18	850	BUY	1,160
1-Nov-18	889	BUY	1,030
10-Jan-19	838	BUY	1,125
7-Feb-19	842	BUY	985
9-Apr-19	811	BUY	1,060
16-May-19	782	BUY	930

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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