

Estimate change



TP change



Rating change



Bloomberg	LPC IN
Equity Shares (m)	453
M.Cap.(INRb)/(USDb)	341.2 / 4.2
52-Week Range (INR)	789 / 583
1, 6, 12 Rel. Per (%)	9/3/-8
12M Avg Val (INR M)	857

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	166.4	187.9	209.7
EBITDA	17.6	27.4	32.5
Adj. PAT	3.9	10.4	14.0
EBIT Margin (%)	5.3	9.6	10.8
Cons. Adj. EPS (INR)	8.6	22.8	30.8
EPS Gr. (%)	-55.0	165.2	34.8
BV/Sh. (INR)	273.9	294.1	322.0

Ratios

Net D:E	0.3	0.3	0.2
RoE (%)	3.2	8.0	10.0
RoCE (%)	3.5	7.5	9.0
Payout (%)	24.7	12.8	9.5

Valuations

P/E (x)	87.0	32.8	24.4
EV/EBITDA (x)	21.2	13.6	11.4
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	-0.4	1.0	3.0
EV/Sales (x)	2.2	2.0	1.8

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	47.1	47.1	46.8
DII	29.2	29.4	27.2
FII	13.3	14.0	14.7
Others	10.4	9.5	11.4

FII Includes depository receipts

CMP: INR750
TP: INR640 (-15%)
SELL

Work-in-progress for g-Spiriva approval

Gradual recovery underway; valuation adequately captures earnings upside

- LPC delivered a better-than-expected 4QFY23 performance, led by healthy sales growth across segments and some benefits from the PLI scheme. The potential approval for g-Spiriva is further delayed by a few months due to certain information requests from the USFDA.
- We raise our earnings estimates for FY24/FY25 by 4%/2%, factoring in 1) a better outlook in API/Europe segments, 2) improving operating leverage, and 3) an adverse impact of competition in the diabetes portfolio in the domestic formulation (DF) segment. We value LPC at 22x 12M forward earnings to arrive at a TP of INR640.
- Profitability has been improving for the past three quarters. However, even after factoring in potential business prospects from a niche launch like g-Spiriva, the return ratio would be just 10%. Moreover, the current valuation more than adequately prices in the upside in earnings over FY23-25. We maintain Sell on the stock.

Operating leverage drives profitability in 4Q

- 4QFY23 revenue grew 14% YoY to INR44.3b. (est. INR40.4b). API sales jumped 46% YoY to INR3.2b (7% of sales). Sales in Growth Markets increased 15% YoY to INR4.4b (10% of sales). EMEA sales grew 11% YoY to INR4.5b (10% of sales). US sales rose 9.5% YoY to INR15.5b (down 3% YoY in CC to USD175m; 36% of sales). DF sales grew 9.4% YoY to INR14.8b (34% of sales).
- Gross margin expanded 250bp YoY to 60.5%, due to a better product mix.
- EBITDA margin expanded 640bp YoY to 13.6% (est. 12.1%), largely due to strong operating leverage (other expense down 120bpYoY as a % of sales) and lower R&D spending (-200bp YoY as % of sales).
- As a result, EBITDA surged 114% YoY to INR6b (est. INR4.9b).
- Adjusted for a forex loss of INR263m, PAT came in at INR2.6b, almost up 4x YoY, due to higher other income and a lower tax rate.
- In FY23, revenue grew 4% YoY to INR166b, while EBITDA/PAT declined 12%/55% YoY to INR17.6b/INR3.9b.

Highlights from the management commentary

- LPC has guided for double-digit YoY growth in revenue in FY24. It has guided for 15% EBITDA margin in FY24.
- Considering the g-Spiriva launch, there is scope for EBITDA margin to hit an exit rate of 18% in FY24.
- The target action date (TAD) has been postponed from Apr-Jul'23 to Jul-Aug'23 due to certain queries from the USFDA.
- The ETR is expected to be 30% for FY24.
- The g-Prolenza approval would be subject to USFDA compliance at Pithampur Unit 2.

Quarterly Performance (Consolidated)

(INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23E	% Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Net Sales	38,968	40,913	41,609	38,830	37,438	41,455	43,222	44,301	1,60,321	1,66,417	40,380	9.7
YoY Change (%)	10.5	6.7	5.4	2.6	-3.9	1.3	3.9	14.1	6.2	3.8	4.0	
Total Expenditure	33,426	34,950	35,970	36,007	35,799	37,114	37,662	38,260	1,40,353	1,48,835	35,509	
EBITDA	5,542	5,963	5,640	2,823	1,639	4,342	5,560	6,041	19,968	17,582	4,871	24.0
YoY Change (%)	9.0	2.6	-23.2	-60.1	-70.4	-27.2	-1.4	114.0	-21.1	-11.9	72.5	
Margins (%)	14.2	14.6	13.6	7.3	4.4	10.5	12.9	13.6	12.5	10.6	12.1	
Depreciation	2,088	2,116	2,034	1,982	1,928	2,035	2,204	2,640	8,220	8,807	2,007	
EBIT	3,454	3,847	3,606	842	-289	2,307	3,356	3,401	11,748	8,775	2,864	18.7
YoY Change (%)	17.7	4.4	-26.5	-82.9	-108.4	-40.0	-6.9	304.1	-28.6	-25.3	240.3	
Margins (%)	8.9	9.4	8.7	2.2	-0.8	5.6	7.8	7.7	7.3	5.3	7.1	
Interest	335	344	334	415	428	549	841	926	1,428	2,743	839	
Other Income	278	728	341	157	56	149	180	373	1,504	757	165	
EO Exp/(Inc)	-4,106	26,279	1,942	1,435	-684	-188	234	263	-25,550	-375	0	
PBT	7,503	-22,048	1,671	-852	23	2,096	2,461	2,585	37,374	7,165	2,190	18.0
Tax	2,023	-1,099	-3,820	4,267	891	751	885	161	1,372	2,688	539	
Rate (%)	27.0	5.0	-228.7	-501.1	3,907.5	35.8	36.0	6.2	3.7	37.5	24.6	
Minority Interest	-55	-32	-14	-61	-23	-47	-42	-64	-183	-176	20	
Reported PAT	5,425	-20,980	5,477	-5,179	-891	1,297	1,535	2,360	-15,280	4,301	1,672	41.2
Adj PAT	2,426	3,057	2,695	521	-1,552	1,177	1,684	2,606	8,699	3,915	1,672	55.9
YoY Change (%)	111.0	44.9	-32.8	-88.5	-164.0	-61.5	-37.5	399.9	-26.2	-55.0	220.6	
Margins (%)	6.2	7.5	6.5	1.3	-4.1	2.8	3.9	5.9	5.4	2.4	4.1	

E: MOFSL estimates

Key performance Indicators (Consolidated)

(INR m)

Y/E March	FY22E				FY23				FY22	FY23	
INRm	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Domestic formulations	16,362	15,435	14,733	13,511	14,920	15,841	15,213	14,785	60,042	60,759	14,068
YoY Change (%)	27.3	15.9	7.8	5.0	(8.8)	2.6	3.3	9.4	13.9	1.2	4.1
US formulations	13,330	14,291	15,775	14,162	10,104	13,295	15,271	15,503	57,556	54,173	14,065
YoY Change (%)	9.6	2.2	9.4	(5.3)	(24.2)	(7.0)	(3.2)	9.5	3.7	(5.9)	(0.7)
Europe	1,241	1,705	1,862	1,970	1,936	2,159	2,119	2,575	7,237	9,023	2,309
YoY Change (%)	(16.2)	(7.1)	8.8	31.2	56.0	26.7	13.8	30.7	0.3	24.7	17.3
ROW	5,248	5,925	5,941	6,799	6,529	7,118	7,028	7,213	23,596	27,653	7,203
YoY Change (%)	28.0	20.0	0.2	18.9	24.4	20.1	18.3	6.1	0.0	0.0	5.9
API	2,459	2,678	2,564	2,203	2,551	2,499	2,815	3,226	9,904	11,092	2,953
YoY Change (%)	(39.9)	(28.4)	(25.4)	(13.8)	3.7	(6.7)	9.8	46.4	(28.4)	12.0	34.0
Cost Break-up											
RM Cost (% of Sales)	39.2	39.8	40.7	42.0	43.0	41.3	39.5	39.5	41.0	41.7	39.2
Staff Cost (% of Sales)	20.1	18.5	17.9	18.1	20.8	18.6	17.7	17.4	18.9	19.0	19.6
R&D Expenses(% of Sales)	9.6	8.1	8.5	8.9	9.3	8.1	6.7	6.9	8.9	7.9	7.2
Other Cost (% of Sales)	16.9	19.1	19.3	23.7	22.5	21.5	23.3	22.5	20.0	23.0	21.9
Gross Margins(%)	60.8	60.2	59.3	58.0	57.0	58.7	60.5	60.5	59.0	58.3	60.8
EBITDA Margins(%)	14.2	14.6	13.6	7.3	4.4	10.5	12.9	13.6	12.5	10.6	12.1
EBIT Margins(%)	8.9	9.4	8.7	2.2	-0.8	5.6	7.8	7.7	7.3	5.3	7.1

E: MOFSL Estimates

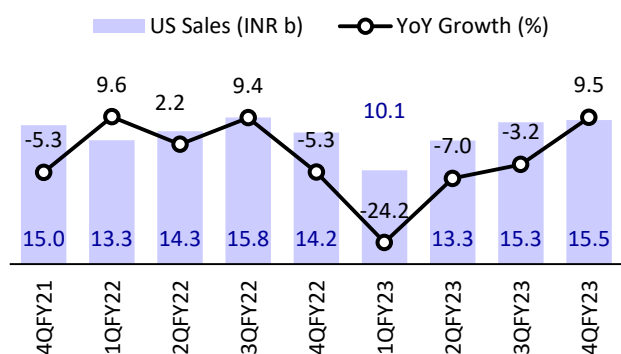


Highlights from the management commentary

- LPC is close to completing remediation measures at Tarapur/Mandideep sites.
- Products like g-Spriva, g-Darunavir, g-Cyanocobalamin, g-Diltiazem would drive US sales growth in FY24.
- Increased competition in the diabetes portfolio in the DF segment would continue to hurt growth prospects in FY24 as well as FY25.
- API sales were boosted by active ingredients for products like Cefaclor and 7-ACCA.
- 4Q is traditionally a strong quarter in the Philippines for LPC.
- Other operating income also included benefits from the PLI scheme.
- While LPC saved about INR3b from cost-saving initiatives, it was offset by marketing and promotional activities in the branded generics market.
- LPC has guided for R&D spend of INR13b-14b in FY24.
- LPC expects weak seasonality to affect the US sales run rate in 1QFY24.
- It spent INR16b in FY24, including INR10b for M&A and INR6b over capital expenditure.

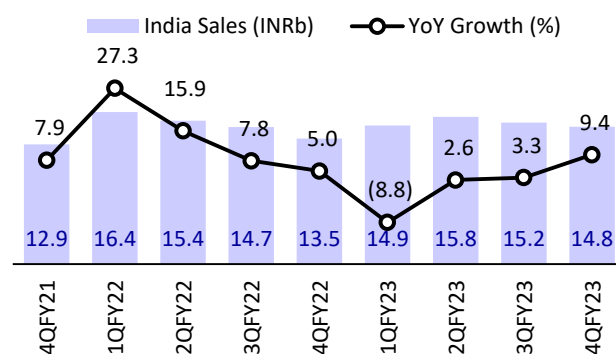
Key exhibits

Exhibit 1: US sales revive QoQ



Source: MOFSL, Company

Exhibit 2: DF sales increase 9.4% YoY in 4QFY23



Source: MOFSL, Company

Strong earnings growth hinges on niche launches

US: Niche approvals key to offset price erosion and deliver growth

- In FY23, US sales declined 6% YoY to INR54b (USD632m; down 14% in CC terms) due to intensified price erosion in the base portfolio and a lack of potential launches.
- LPC is implementing efforts to revive growth on the back of high-value complex injectables/inhalers.
- Having said this, the shift in market share from Spiriva to Respimat and a delay in USFDA approval for g-Spiriva could reduce business prospects for LPC to some extent.
- In FY23, LPC filed 29 ANDAs and received 17 ANDA approvals. Moreover, LPC launched 9 products to target niche therapeutic areas.
- Accordingly, we expect a 25% CAGR in US sales to USD986m over FY23-25.

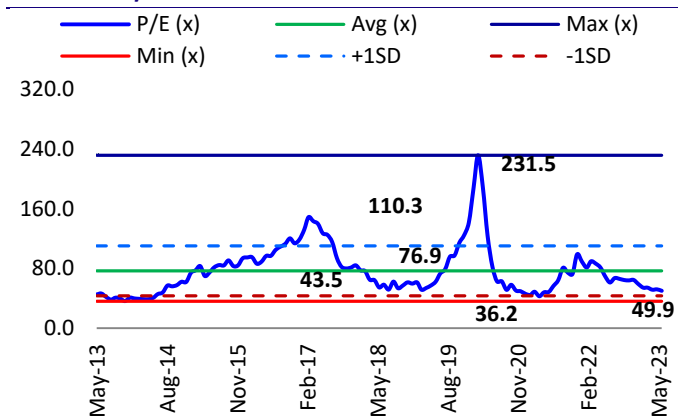
DF – Increased focused on ex-diabetic portfolio/addition of MR to drive growth

- In FY23, DF sales were flat YoY at INR60.8b, due to the underperformance of acute therapies (Anti-Infectives) as compared to the IPM. Additionally, the performance of diabetes therapy (23% of DF sales) was affected by increased competition.
- However, Cardiac/Respiratory/Gastro Intestinal/Gynae outperformed IPM by 60bp/160bp/880bp/2060bp, offsetting the decline in Anti-infective and diabetics.
- LPC has increased the number of MRs (by about 1,000), bringing the total to 7000.
- Accordingly, we expect a 10% CAGR in DF sales to INR73b over FY23-25 on the back of the addition of MRs and increased focus on the ex-diabetic portfolio.

Maintain Sell

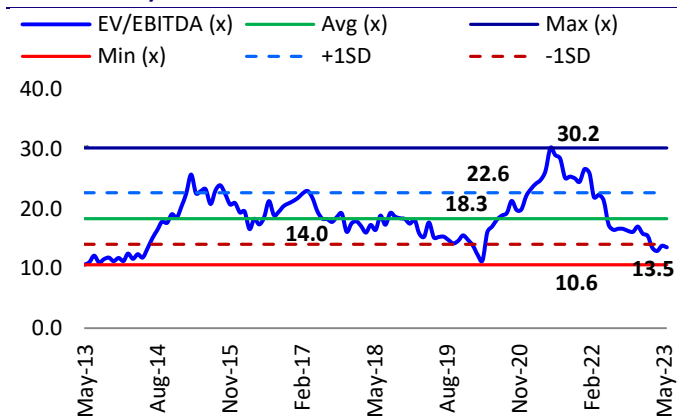
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- Profitability has been improving for the past three quarters. However, even after factoring in potential business prospects from a niche launch like g-Spiriva, the return ratio would be just 10%. Moreover, the current valuation more than adequately prices in the upside in earnings over FY23-25. We maintain Sell on the stock.

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 5: Revenue mix in 4QFY23

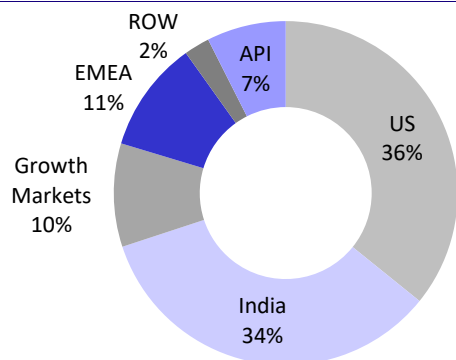


Exhibit 6: Expect 12% sales CAGR from FY23-25

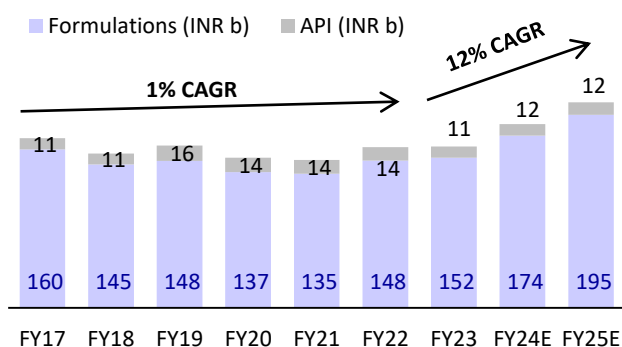


Exhibit 7: R&D spend as a percentage of sales to moderate

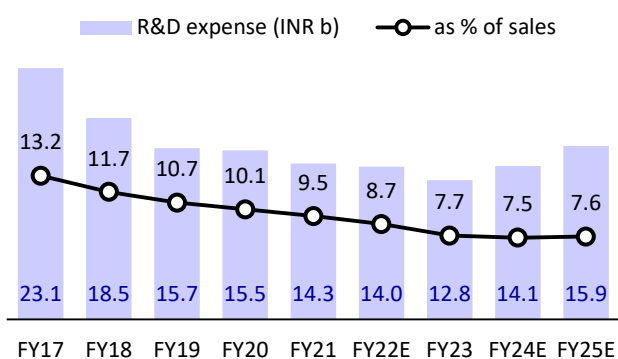


Exhibit 8: EBITDA margin to expand 490bp from FY23-25

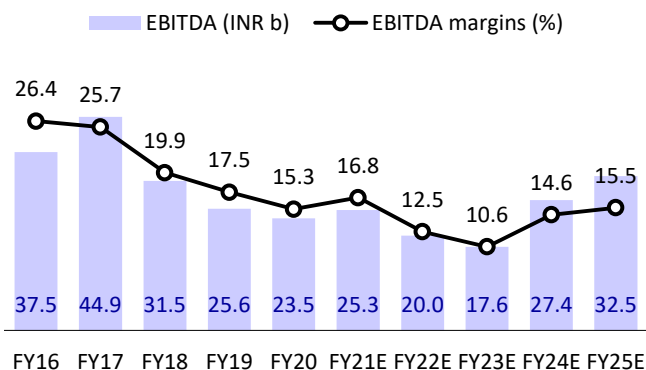


Exhibit 9: Expect EPS to be ~3.6x over FY23-25

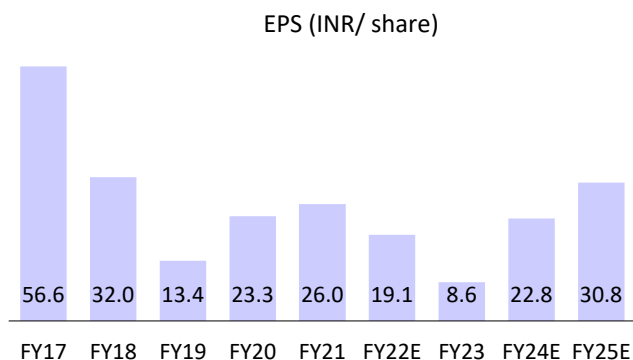
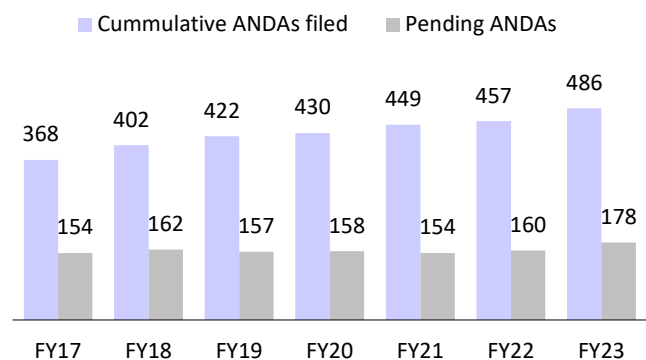


Exhibit 10: Rich ANDA pipeline



Source: MOFSL, Company,

Financials and valuations

Income Statement										(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	1,42,085	1,74,943	1,58,041	1,46,646	1,53,748	1,50,930	1,60,321	1,66,417	1,87,899	2,09,674
Change (%)	11.3	23.1	-9.7	-7.2	4.8	-1.8	6.2	3.8	12.9	11.6
EBITDA	37,534	44,931	31,475	25,607	23,548	25,316	19,968	17,582	27,431	32,497
Margin (%)	26.4	25.7	19.9	17.5	15.3	16.8	12.5	10.6	14.6	15.5
Depreciation	4,635	9,122	10,859	8,461	9,702	8,874	8,220	8,807	9,470	9,874
EBIT	32,899	35,809	20,616	17,147	13,846	16,442	11,748	8,775	17,961	22,623
Int. and Finance Charges	446	1,525	2,044	3,025	3,630	1,406	1,428	2,743	3,807	3,497
Other Income - Rec.	1,877	1,065	1,504	3,330	3,578	1,479	1,504	757	800	840
PBT before EO item	34,330	35,349	20,076	17,452	13,794	16,515	11,824	6,790	14,955	19,966
EO Expense/(Income)	0	0	14,644	3,400	6,261	-236	25,550	-375	0	0
PBT after EO item	34,330	35,349	5,433	14,052	7,533	16,751	-13,726	7,165	14,955	19,966
Tax	11,536	9,785	2,885	8,879	11,571	4,485	1,372	2,688	4,487	5,891
Tax Rate (%)	33.6	27.7	53.1	63.2	153.6	26.8	-10.0	37.5	30.0	29.5
Less: Minority Interest	88	-11	36	52	-43	-101	-183	-176	-96	-97
Reported PAT	22,707	25,574	2,512	5,121	-3,995	12,165	-15,280	4,301	10,372	13,978
PAT Adj for EO items	22,707	25,574	14,455	6,066	10,572	11,790	8,699	3,915	10,372	13,978
Change (%)	-5.5	12.6	-43.5	-58.0	74.3	11.5	-26.2	-55.0	164.9	34.8
Margin (%)	16.0	14.6	9.1	4.1	6.9	7.8	5.4	2.4	5.5	6.7
Adj Net Profit	22,707	25,574	14,455	6,066	10,572	11,790	8,699	3,915	10,372	13,978

Consolidated Balance Sheet										(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	901	903	904	905	906	907	909	910	909	909
Total Reserves	1,08,943	1,34,072	1,34,866	1,36,517	1,24,461	1,37,124	1,20,624	1,23,695	1,32,779	1,45,431
Net Worth	1,09,844	1,34,975	1,35,771	1,37,422	1,25,367	1,38,031	1,21,533	1,24,605	1,33,688	1,46,340
Minority Interest	321	345	401	469	445	550	687	783	879	976
Deferred liabilities	1,239	-1,128	-4,310	-4,457	252	496	711	738	738	738
Secured Loan	53,739	61,243	67,722	70,546	25,180	6,133	6,147	4,153	2,152	152
Unsecured Loan	17,454	23,183	4,518	15,802	24,928	30,494	37,023	42,165	42,165	42,165
Total Loans	71,193	84,426	72,240	86,347	50,108	36,627	43,170	46,318	44,317	42,317
Capital Employed	1,82,596	2,18,619	2,04,101	2,19,781	1,76,172	1,75,704	1,66,101	1,72,444	1,79,622	1,90,371
Gross Block	55,887	55,265	63,687	72,189	76,431	85,479	95,368	1,05,127	1,13,101	1,20,113
Less: Accum. Deprn.	23,262	8,902	14,613	23,073	32,776	41,650	49,870	58,677	68,146	78,020
Net Fixed Assets	32,625	46,363	49,074	49,115	43,656	43,829	45,498	46,450	44,954	42,093
Capital WIP	9,812	7,150	9,563	10,186	7,582	8,515	8,475	8,948	7,824	7,262
Investments	75	21,361	14,208	22,954	23,743	24,549	9,000	5,169	5,169	5,169
Goodwill & Intangibles	73,586	78,147	70,965	67,963	37,540	37,126	31,306	40,534	40,534	40,534
Curr. Assets	1,07,473	1,07,975	1,12,078	1,21,935	1,35,575	1,20,283	1,22,236	1,26,861	1,41,345	1,62,143
Inventory	31,787	36,423	36,625	38,368	34,569	40,920	46,307	44,918	53,095	60,076
Account Receivables	45,498	43,073	51,922	51,498	54,459	44,743	42,619	44,807	54,821	65,368
Cash and Bank Balance	8,379	6,853	2,488	9,872	24,543	17,425	10,981	12,931	9,181	12,399
Others	21,808	21,626	21,043	22,197	22,004	17,195	22,328	24,205	24,248	24,300
Curr. Liability & Prov.	40,975	42,378	51,788	52,372	71,924	58,598	50,414	55,519	60,203	66,828
Account Payables	32,318	34,576	43,568	41,390	59,884	47,460	42,254	46,937	51,622	58,247
Provisions	8,658	7,801	8,220	10,982	12,040	11,139	8,160	8,581	8,581	8,581
Net Current Assets	66,498	65,598	60,290	69,563	63,651	61,685	71,822	71,342	81,142	95,314
Appl. of Funds	1,82,596	2,18,619	2,04,100	2,19,781	1,76,172	1,75,704	1,66,101	1,72,444	1,79,622	1,90,371

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS (Fully Diluted)	50.4	56.6	32.0	13.4	23.3	26.0	19.1	8.6	22.8	30.8
Cash EPS (Fully Diluted)	60.7	76.8	56.0	32.1	44.8	45.5	37.2	28.0	43.7	52.5
BV/Share	243.8	298.9	300.3	303.7	276.7	304.2	267.4	273.9	294.1	322.0
DPS	7.5	7.5	5.0	5.0	9.0	7.0	9.0	2.0	2.5	2.5
Payout (%)	17.9	15.9	108.5	53.3	-119.0	30.4	-31.3	24.7	12.8	9.5
Valuation (x)										
P/E (Fully Diluted)	14.9	13.2	23.4	55.9	32.1	28.8	39.1	87.0	32.8	24.4
Cash P/E (Fully Diluted)	12.3	9.7	13.4	23.3	16.7	16.4	20.1	26.8	17.2	14.3
P/BV	3.1	2.5	2.5	2.5	2.7	2.5	2.8	2.7	2.5	2.3
EV/Sales	2.8	2.4	2.6	2.8	2.4	2.4	2.3	2.2	2.0	1.8
EV/EBITDA	10.7	9.3	13.0	16.2	15.5	14.1	18.6	21.2	13.6	11.4
Return Ratios (%)										
RoE	22.9	20.9	10.7	4.4	8.0	9.0	6.7	3.2	8.0	10.0
RoCE	16.8	13.3	4.9	3.5	4.8	7.5	8.6	3.5	7.5	9.0
RoIC	18.8	14.9	5.4	3.6	5.1	9.8	9.8	3.9	8.3	9.9
Working Capital Ratios										
Asset Turnover (x)	0.8	0.8	0.8	0.7	0.9	0.9	1.0	1.0	1.0	1.1
Fixed Asset Turnover (x)	4.8	4.4	3.3	3.0	3.3	3.5	3.6	3.6	4.1	4.8
Debtor (Days)	117	90	120	128	129	108	97	98	106	114
Creditor (Days)	186	189	178	184	162	137	129	136	135	139
Inventory (Days)	82	76	85	95	82	99	105	99	103	105
Leverage Ratio										
Current Ratio	2.6	2.5	2.2	2.3	1.9	2.1	2.4	2.3	2.3	2.4
Interest Cover Ratio	73.7	23.5	10.1	5.7	3.8	11.7	8.2	3.2	4.7	6.5
Debt/Equity (x)	0.6	0.6	0.5	0.6	0.2	0.1	0.3	0.3	0.3	0.2

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EBITDA	37,534	44,931	31,475	25,607	23,548	25,316	19,968	17,582	27,431	32,497
Interest/Dividends Recd.	1,877	1,065	1,504	3,330	3,578	1,479	1,504	757	800	840
Direct Taxes Paid	-11,479	-12,152	-6,067	-9,026	-6,862	-4,242	-1,156	-2,661	-4,487	-5,891
(Inc)/Dec in WC	-34,084	-626	942	-1,888	20,583	-5,152	-16,581	2,430	-13,550	-10,955
CF from Operations	-6,152	33,219	27,853	18,023	40,847	17,401	3,735	18,108	10,194	16,491
Others	2,328	7,916	4,302	2,036	-19,897	581	25,488	9,143	0	0
EO expense	0	0	14,644	3,400	6,261	-236	25,550	-375	0	0
CF from Op. incl EO Exp.	-3,824	41,135	17,512	16,660	14,688	18,218	3,673	27,627	10,195	16,493
(inc)/dec in FA	-71,217	-24,759	-8,801	-6,123	28,785	-9,567	-4,029	-19,460	-6,850	-6,450
Free Cash Flow	-77,369	8,460	19,053	11,900	69,631	7,834	-294	-1,352	3,344	10,041
(Pur)/Sale of Investments	16,509	-21,286	7,153	-8,746	-788	-806	15,549	3,831	0	0
Others	-14,909	20,771	6,346	-17,956	-16,926	-4,166	1,402	-9,228	0	0
CF from Investments	-69,617	-25,274	4,699	-32,825	11,070	-14,539	12,922	-24,857	-6,850	-6,450
Change in Net Worth	2,459	3,669	1,028	-724	-3,286	4,403	3,888	-69	0	0
Inc/(Dec) in Debt	66,483	13,233	-12,187	14,108	-36,240	-13,480	6,543	3,148	-2,001	-2,000
Interest Paid	-446	-1,525	-2,044	-3,025	-3,630	-1,406	-1,428	-2,743	-3,807	-3,497
Dividend Paid	-4,071	-4,076	-2,725	-2,728	-4,755	-3,788	-4,786	-1,064	-1,329	-1,329
CF from Fin. Activity	58,364	4,332	-14,921	7,441	-8,906	-18,852	-15,723	-819	-7,097	-6,826
Inc/Dec of Cash	-15,077	20,193	7,290	-8,724	16,853	-15,173	872	1,951	-3,751	3,218
Add: Beginning Balance	21,084	7,802	27,995	14,164	5,441	22,293	7,119	7,991	9,942	6,190
Cash/Cash Eq. at end of the year	7,802	27,995	14,164	5,441	22,293	7,119	7,991	9,942	6,190	9,408
Forex/Bank	577	-21,142	-11,677	4,431	2,250	10,305	2,990	2,990	2,990	2,990
Closing Balance	8,379	6,853	2,488	9,872	24,543	17,425	10,981	12,931	9,181	12,398

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NOTES

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UNDER REVIEW	Rating may undergo a change
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