

**EARNINGS REVIEW** Impact of Covid to reflect in April-June numbers

# Better Compliance in US, Improving Finances Augur Well for Lupin Stock

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**ET Intelligence Group:** Lupin's fourth quarter results proved to be a mixed bag, with strong performance in the domestic market compensating for the under-performance in the US business. Sales were flat in Q4 over the year-ago level and the proceeds from the sale of its Japanese business boosted net profit. However, higher raw material cost, employee and finance costs took a toll on the Mumbai-based company's profitability for the quarter. At 19.4%, the Ebitda margins nosedived 300 basis points over the Q4 in FY19. Going ahead, the Ebitda margin is likely to be 19-20%, without accounting for the Covid or forex impact.

The US business, while performing strongly on a sequential basis, witnessed a year on year drop of 9% in revenue,

### Lupin Q4: Global Scorecard

Regions	Q4 FY20 (₹ in cr)	QoQ % chg	YoY % chg
North America	1,579	14.7	-9.3
India	1,192	-8.1	13.3
Europe, Middle East & Africa	365	25.3	7.4
Latin America	135	-24.7	-2.3
Asia Pacific	145	-16.0	-15.5
Rest of the World	46	-43.7	-36.8
Global API	329	3.6	12.8
<b>Consolidated Sales</b>	<b>3,791</b>	<b>2.0</b>	<b>-0.4</b>

Source: Company



essentially due to exclusivity sales from a drug launched during the Q4 of the previous year. India business grew 13% year-on-year. Though Covid-19 triggered stockpiling in the US as well as the local

market, there has been an adverse impact on acute drugs and sales to hospitals in the domestic market.

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## Improving Finances Bode Well for Lupin

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However, the real impact of Covid on operations could reflect in the current quarter's performance.

Divestment of its Japanese business and undertaking of a second impairment of Gavis – its ambitious American acquisition made in 2015 – has strengthened the balance sheet. The debt-equity ratio at the end of FY20 stands at 0.12. The company has significantly improved its manufacturing compliance record with the USFDA, securing a clearance of all the five factories that were inspected by the drug regulator in this calendar year. It is readying its key facilities at Somerset (US), Goa and Indore for the FDA's re-inspection this year. The company has invested in foreign talent to head its key business functions, along with bringing its former CFO back in charge. Cost control, improving operational efficiencies, and reducing working capital level and overall debt are the key focus on the finance side.

Even as the Lupin stock closed nearly 2% low following its Q4 results, investors may well become hopeful of a recovery in its fortunes from here on. Kamal Sharma, the company's vice chairman, said in the earnings call, "FY20 has been a year of settling a lot of overhang, which had been in the system, and we are in a much stronger position to take the company ahead now."