

SELL

TP: Rs 800 | ▼ 25%

LUPIN

| Pharmaceuticals

| 05 August 2023

Improvements visible; runup behind downgrade

- Q1 a beat with revenue/EBITDA running 8%/25% ahead of consensus; gross margin improves to 65.9% (64.4 ex-licensing income)
- gSpiriva launch in Q2, turnaround in US subsidiary and higher margin guidance point to an improving performance
- On rollover, we have a new TP of Rs 800 (vs. Rs 700), but positives appear priced in post rally – cut from HOLD to SELL

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Strong quarter: LPC delivered a strong April-June quarter with revenue growth of 9% QoQ to Rs 48bn and EBITDA/PAT surging 48%/92% sequentially to Rs 8.6bn/ Rs 4.5bn. Revenue beat consensus by 8% primarily due to strong growth in RoW and API (active pharmaceutical ingredient) business, healthy sales in North America (+3.4% QoQ to US\$ 181mn) and India, as well as licensing income of Rs 2bn for the quarter. API business growth came from higher demand for cephalosporins and anti-TB drugs.

Healthy domestic performance: India business reported healthy 11% QoQ growth despite the NLEM (National List of Essential Medicines) price cap impact in Q1, on the back of double-digit growth in anti-infective, respiratory and gynaecology therapies along with four launches. The company expects to introduce over 20 products in FY24 which along with a addition of 500 marketing representatives will lay the foundation for further growth in India business.

EBITDA margin to exceed earlier guidance: Gross margin expanded 540bps QoQ to 65.9%, which along with operating leverage helped offset the rise in operating expense. EBITDA margin at 17.8% (14% ex-licensing income) was up 475bps QoQ. Given the upcoming launch of gSpiriva in Q2FY24 and a stabilising US generics market, management expects to clock an ~18% EBITDA margin in Q4FY24 and believes its full-year margin will exceed earlier guidance of ~15%. The US subsidiary has turned around in Q1 and hence management expects a lower tax rate of 21-22% in FY24, which will aid earnings.

TP revised to 800; cut to SELL given runup: Baking in the strong launch lineup (gSpiriva, gDulera, gMybetrique) and improved margin and tax guidance, we model for a 98% earnings CAGR over FY23-FY25. We expect EBITDA margin of 16.4% each for FY24/FY25 and ROE improvement to 12%/13%. Upon rollover of valuations to FY25E, we have a new TP of Rs 800 (vs. Rs 700), set at an unchanged 11x EV/EBITDA multiple – a 40% discount to frontline stock SUNP and 35% below the stock's 5Y average. Positives appear priced in following the ~50% stock rally in the last three months, leading us to move from HOLD to SELL.

Key changes

Target	Rating
▲	▼

Ticker/Price	LPC IN/Rs 1,064
Market cap	US\$ 5.9bn
Free float	53%
3M ADV	US\$ 12.8mn
52wk high/low	Rs 1,078/Rs 623
Promoter/FPI/DII	46%/14%/29%

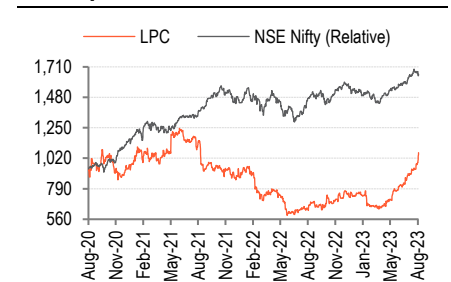
Source: NSE | Price as of 4 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,66,417	1,91,362	2,09,196
EBITDA (Rs mn)	17,982	31,410	34,385
Adj. net profit (Rs mn)	4,301	14,946	16,852
Adj. EPS (Rs)	9.5	33.0	37.2
Consensus EPS (Rs)	9.5	27.3	38.4
Adj. ROAE (%)	3.6	12.0	12.5
Adj. P/E (x)	111.9	32.2	28.6
EV/EBITDA (x)	27.1	15.9	14.5
Adj. EPS growth (%)	63.2	247.5	12.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Net Sales	48,141	37,438	28.6	44,301	8.7	1,66,417	1,64,055	1.4
EBITDA	8,563	1,639	422.3	5,778	48.2	16,919	21,133	(19.9)
Depreciation	2,347	1,928	21.7	2,640	(11.1)	8,807	9,510	-
EBIT	6,216	(289)	(2251.7)	3,138	98.1	8,112	11,623	(30.2)
Interest	857	428	100	926	(7)	2,743	1,428	-
Other Income	228	739	(69.1)	373	(39)	1,796	2,277	-
PBT	5,588	23	2,4516	2,585	116.2	7,165	12,473	(42.6)
Less: Taxation	1,055	891	-	161	-	2,688	1,371	-
Less: Minority Interest	11	23	-	64	-	176	183	-
Recurring PAT	4,523	(891)	(607.7)	2,360	91.7	4,301	10,918	(60.6)
Exceptional items	0	0	-	0	-	0	(26,198)	-
Reported PAT	4,523	(891)	(607.7)	2,360	91.7	4,301	(15,280)	(128.1)
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	65.9	57.0	892	60.5	542	59.3	60.5	41
EBITDA Margin	17.8	4.4	1341	13.0	475	10.2	12.9	91
Tax / PBT	18.9	3,924.7	-	6.2	-	37.5	11.0	-
NPM	9.4	(2.4)	-	5.3	-	2.6	6.7	-
EPS	9.9	(2.0)	-	5.2	-	9.5	24.0	-

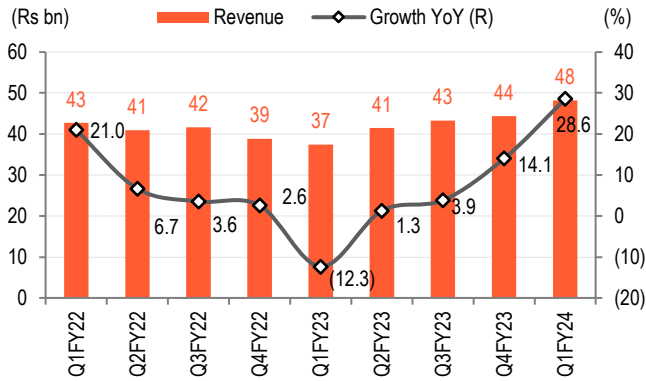
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Formulations	41,997	33,489	25.4	40,077	4.8	1,51,610	1,48,290	2.2
North America	15,905	10,104	57.4	15,503	2.6	54,173	57,558	(5.9)
India	16,384	14,920	9.8	14,786	10.8	60,760	60,041	1.2
Growth Markets	4,066	4,237	(4.0)	4,385	(7.3)	17,258	14,018	23.1
EMEA	3,987	3,335	19.6	4,535	(12.1)	15,514	13,591	14.1
RoW	1,655	893	85.3	868	90.7	3,905	3,082	26.7
APIs	3,371	2,551	32.1	3,226	4.5	11,091	9,904	12.0
Licensing Income	2,053	-	NA	0	NA	-	3,734	NA
Other Operating income	720	1,398	(48.5)	998	(27.9)	3,716	2,127	74.7
Net Sales	48,141	37,438	28.6	44,301	8.7	1,66,417	1,64,055	1.4
USDINR	87.9	83.2	5.6	88.6	(0.8)	85	77	11.0
US revenue (US\$ mn)	181	121	49.0	175	3.4	635	748	(15.2)

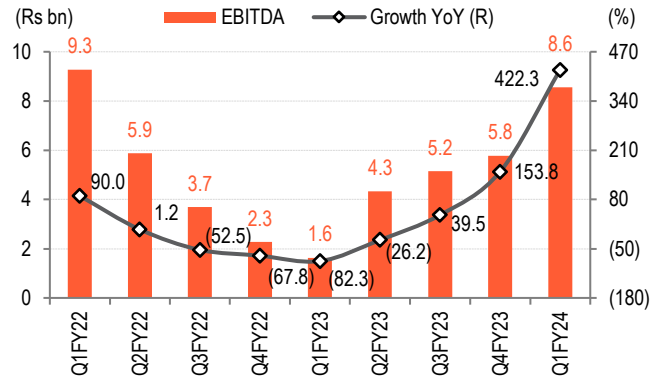
Source: Company, BOBCAPS Research

Fig 3 – Revenue



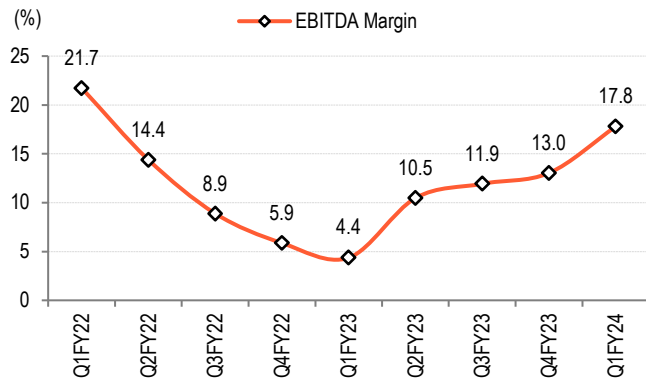
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



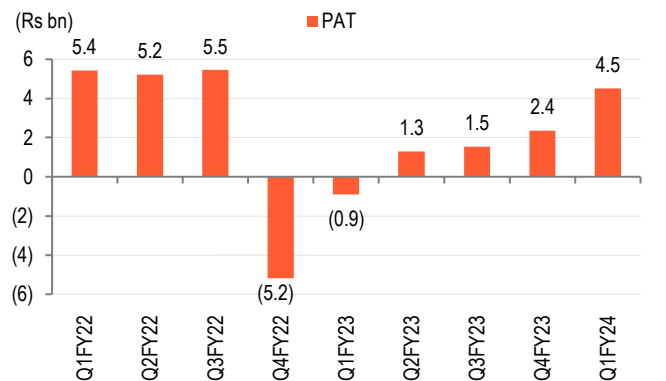
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – Adj. PAT



Source: Company, BOBCAPS Research

Valuation methodology

Baking in the strong launch lineup (gSpiriva, gDulera, gMybetriq) and improved margin and tax guidance, we model for a 98% EPS CAGR over FY23-FY25. We expect EBITDA margin of 16.4% each for FY24/FY25 and ROE improvement to 12%/13%.

Upon rollover of valuations to FY25E, we have a new TP of Rs 800 (vs. Rs 700), set at an unchanged 11x EV/EBITDA multiple – a 40% discount to frontline stock SUNP and 35% below the stock's five-year average. Positives appear priced in following the ~50% stock rally in the last three months, leading us to move from HOLD to SELL.

Fig 7 – Revised estimates

(Rs bn)	Actuals	New		Old		Change (%)	
	FY23A	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	166.4	191.4	209.2	185.6	-	3.1	-
EBITDA	18.0	31.4	34.4	30.5	-	2.8	-
EBITDA margin (%)	10.8	16.4	16.4	16.5	-	-	-
EPS (Rs)	9.5	33.0	37.2	32.1	-	3.0	-

Source: Company, BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY23A	FY24E	FY25E
India	60.8	70.3	78.0
North America	54.2	63.9	72.0
Growth Markets	17.3	18.5	19.9
EMEA	15.5	16.2	16.9
ROW	3.9	4.9	6.1
API	11.1	11.6	12.2
Licensing Income	0.0	2.1	0.0
Other Operating Income	3.7	3.9	4.1

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- earlier than expected launch of key drugs
- better-than-anticipated execution of cost control measures to improve margins,
- market share gains in key drugs with global generic players exiting the market, and
- launch of biosimilars

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.7	1,747	1,860	BUY
Alembic Pharma	ALPM IN	1.9	780	615	HOLD
Alkem Labs	ALKEM IN	6.0	4,099	3,000	SELL
Cipla	CIPLA IN	11.9	1,210	1,250	BUY
Divi's Labs	DIVI IN	12.1	3,745	3,200	HOLD
Dr Reddy's Labs	DRRD IN	11.5	5,650	4,900	HOLD
Glenmark Life Sciences	GLS IN	0.9	635	620	HOLD
Laurus Labs	LAURUS IN	2.6	392	340	HOLD
Lupin	LPC IN	5.9	1,064	800	SELL
Sun Pharma	SUNP IN	33.3	1,139	1,160	HOLD

Source: BOBCAPS Research, NSE | Price as of 4 Aug 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	1,51,629	1,64,163	1,66,417	1,91,362	2,09,196
EBITDA	25,669	20,788	17,982	31,410	34,385
Depreciation	8,874	16,587	8,807	9,255	9,736
EBIT	16,794	4,201	9,175	22,154	24,649
Net interest inc./(exp.)	(1,406)	(1,428)	(2,743)	(2,955)	(2,955)
Other inc./(exp.)	1,363	1,417	734	1,010	1,115
Exceptional items	0	0	0	0	0
EBT	16,751	4,190	7,165	20,209	22,808
Income taxes	4,485	1,372	2,688	5,052	5,702
Extraordinary items	0	(25,861)	0	0	0
Min. int./Inc. from assoc.	101	183	176	211	254
Reported net profit	12,165	(23,225)	4,301	14,946	16,852
Adjustments	0	25,861	0	0	0
Adjusted net profit	12,165	2,635	4,301	14,946	16,852

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	20,144	22,829	22,476	24,107	26,354
Other current liabilities	35,585	26,562	26,448	26,448	26,448
Provisions	11,139	8,160	5,266	9,599	10,713
Debt funds	30,656	38,442	42,441	42,441	42,441
Other liabilities	0	0	0	0	0
Equity capital	907	909	909	909	909
Reserves & surplus	1,37,673	1,16,328	1,19,026	1,28,401	1,38,973
Shareholders' fund	1,38,580	1,17,237	1,19,935	1,29,310	1,39,882
Total liab. and equities	2,36,104	2,13,229	2,16,565	2,31,905	2,45,837
Cash and cash eq.	17,425	11,748	18,663	21,274	26,658
Accounts receivables	44,743	42,619	45,594	52,428	57,314
Inventories	40,920	46,307	41,034	47,185	51,582
Other current assets	18,998	21,263	22,263	23,263	24,263
Investments	24,549	9,000	8,527	8,527	8,527
Net fixed assets	59,183	52,575	50,268	48,513	46,277
CWIP	10,663	8,475	8,975	9,475	9,975
Intangible assets	19,624	21,241	21,241	21,241	21,241
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,36,104	2,13,229	2,16,565	2,31,905	2,45,837

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	9,988	(20,407)	14,127	19,136	22,620
Capital expenditures	(3,497)	(9,408)	(7,000)	(8,000)	(8,000)
Change in investments	(806)	15,549	473	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(4,302)	6,141	(6,527)	(8,000)	(8,000)
Equities issued/Others	1	2	0	0	0
Debt raised/repaid	(12,205)	7,786	3,999	0	0
Interest expenses	(1,406)	(1,428)	(2,743)	(2,955)	(2,955)
Dividends paid	(7,844)	(4,830)	(1,603)	(5,570)	(6,281)
Other financing cash flows	8,648	7,061	(338)	0	0
Cash flow from financing	(12,806)	8,590	(685)	(8,525)	(9,236)
Chg in cash & cash eq.	(7,120)	(5,676)	6,915	2,610	5,384
Closing cash & cash eq.	17,424	11,748	18,663	21,274	26,658

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	26.9	(51.1)	9.5	32.9	37.1
Adjusted EPS	26.9	5.8	9.5	33.0	37.2
Dividend per share	12.1	2.3	3.5	12.3	13.9
Book value per share	305.0	257.6	263.5	284.3	307.6

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	3.3	2.9	2.9	2.6	2.4
EV/EBITDA	19.7	22.9	27.1	15.9	14.5
Adjusted P/E	39.6	182.7	111.9	32.2	28.6
P/BV	3.5	4.1	4.0	3.7	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	72.6	62.9	60.0	74.0	73.9
Interest burden (PBT/EBIT)	99.7	99.7	78.1	91.2	92.5
EBIT margin (EBIT/Revenue)	11.1	2.6	5.5	11.6	11.8
Asset turnover (Rev./Avg TA)	15.6	18.3	19.4	21.3	21.9
Leverage (Avg TA/Avg Equity)	1.8	1.8	1.8	1.8	1.8
Adjusted ROAE	9.2	2.1	3.6	12.0	12.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(1.4)	8.3	1.4	15.0	9.3
EBITDA	9.0	(19.0)	(13.5)	74.7	9.5
Adjusted EPS	235.1	(78.3)	63.2	247.5	12.8
Profitability & Return ratios (%)					
EBITDA margin	16.9	12.7	10.8	16.4	16.4
EBIT margin	11.1	2.6	5.5	11.6	11.8
Adjusted profit margin	8.0	1.6	2.6	7.8	8.1
Adjusted ROAE	9.2	2.1	3.6	12.0	12.5
ROCE	7.6	2.5	3.6	9.9	10.4
Working capital days (days)					
Receivables	119	97	100	100	100
Inventory	91	97	90	90	90
Payables	151	121	121	121	121
Ratios (x)					
Gross asset turnover	1.2	1.2	1.2	1.3	1.3
Current ratio	1.8	2.1	2.4	2.4	2.5
Net interest coverage ratio	11.9	2.9	3.3	7.5	8.3
Adjusted debt/equity	(0.1)	0.2	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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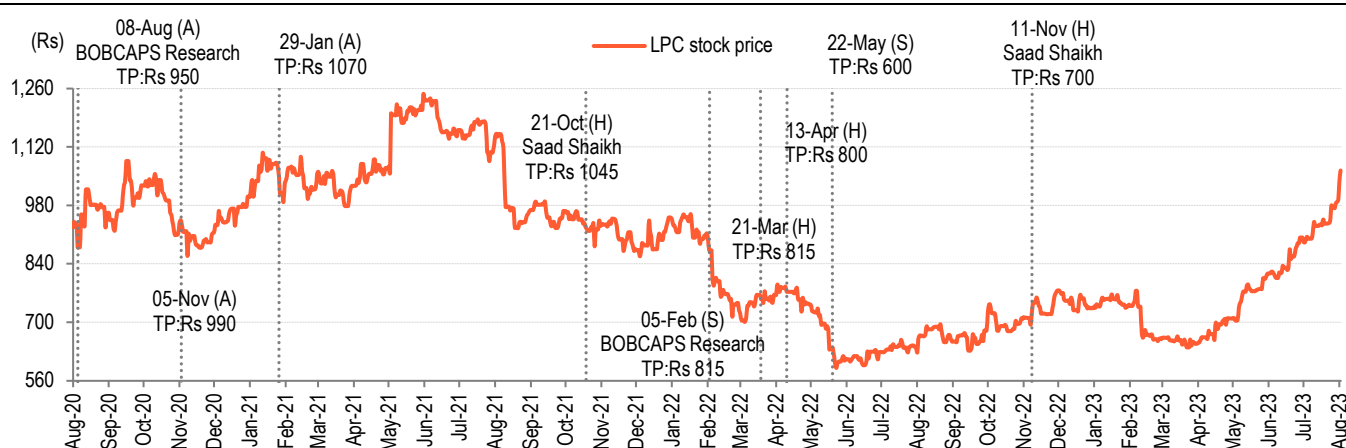
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): LUPIN (LPC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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