

RESEARCH**BOB ECONOMICS RESEARCH | WPI**

WPI inflation cools down

LUPIN | TARGET: Rs 2,438 | +18% | BUY

Reduction in in-licence portfolio to increase margins

SUMMARY**INDIA ECONOMICS: WPI**

WPI inflation eased to 1.9% in Nov'24 from 2.4% in Oct'24. This was due to significant moderation in food inflation. Core and manufactured product inflation on the other hand inched up. Food inflation slowed to 8.9%, on account of notable softening in vegetable and fruit prices. Within this, basic items like onions and tomatoes registered easing. Apart from this, food grain inflation also cooled down, helped by pulse inflation. In contrast, cereal inflation remains sticky, due to higher wheat inflation. Separately, slower pace of decline in international oil prices have had an impact on domestic fuel inflation.

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LUPIN

- LPC's domestic region in-licence portfolio fell from 15% in Q2FY24 to 12% in Q2FY25 and is expected to reduce further to ~10% by FY26
- The company maintained EBITDA margin of 23% amid higher R&D spend. We expect EBITDA margin of above 25% by FY27
- We ascribe a P/E of 30x to LPC on Dec'24, which is cheaper than SUNP (Dec'24 P/E of ~40x), to arrive at a TP of Rs 2,438. Maintain BUY

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WPI

16 December 2024

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Within this, basic items like onions and tomatoes registered easing. Apart from this, food grain inflation also cooled down, helped by pulse inflation. In contrast, cereal inflation remains sticky, due to higher wheat inflation. Separately, slower pace of decline in international oil prices have had an impact on domestic fuel inflation.

Sonal Badhan
Economist

Mineral oil inflation index fell at a slower pace, leading to build up in price pressure for ATF, Kerosene, and furnace oil. Manufactured goods inflation was higher primarily due to jump seen in basic metals (mainly aluminium and Zinc). Domestically, revival in government investment activity seems to be pushing commodity prices higher. Globally, prices remain weak, owing to continued signs of strains in China's demand and prospects of higher inflation denting demand, if US imposes tariffs. Going forward, price trajectory will depend upon foreign trade policy of incoming President-elect Trump and stimulus measures announced by China to boost growth. These pose upside risks to inflation.

Food inflation eased sharply: Headline WPI inflation softened to 1.9% in Nov'24 from 2.4% in Oct'24, in line with our estimates. This was primarily due to moderation in food inflation which eased to 8.9% in Nov'24 from 11.6% in Oct'24. Vegetable inflation mellowed down the most (28.6% in Nov'24 versus 63% in Oct'24), followed by fruits (8.4% versus 13.5%) and food grains (7.4% versus 8.3%). Amongst vegetables, significant moderation was noted in case of onion and tomato, followed by radish, cucumber, and beans. Within food grains, while cereal inflation was broadly sticky (7.8% versus 7.9%), that of pulses eased (6% versus 9.7%). Wheat inflation accelerated for 3rd consecutive month in Nov'24 (8.4% versus 8%), while paddy inflation was stable (7.6% versus 7.5%). This is in contrast to global price scenario. On a global level, World Bank's pink sheet data reveals that wheat prices decelerated at a faster pace (-8% versus -5.3%). Paddy prices have also dropped (-15.9% versus -12.6%).

Fuel and power inflation: Fuel and power inflation decelerated at an unchanged pace of (-) 5.8% in Nov'24 (-5.8% in Oct'24). Amongst the sub-heads, while pace of deceleration remained unchanged for coal index (-0.9% in Nov'24), it slowed in case of mineral oils (-5.2% versus -7.7%), and fasted in case of electricity index (-10.4% versus -3.6%). Within mineral oils, barring LPG, Lube oils, and petroleum coke, price index for all other sub-head increased.



BUY
 TP: Rs 2,438 | ▲ 18%

LUPIN

Pharmaceuticals

16 December 2024

Reduction in in-licence portfolio to increase margins

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- **The company maintained EBITDA margin of 23% amid higher R&D spend. We expect EBITDA margin of above 25% by FY27**
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Foram Parekh

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LPC acquires three trademarks to strengthen diabetes portfolio: LPC announced the acquisition of anti-diabetes trademarks GIBTULIO (Empagliflozin), GIBTULIO MET (Empagliflozin + Metformin) and AJADUO (Empagliflozin + Linagliptin) from Boehringer Ingelheim International to strengthen its diabetes portfolio in the country. These drugs improve glycemic control in adults with type 2 diabetes mellitus as an adjunct to diet and exercise.

Empagliflozin to go off patent soon: The patent protection for Empagliflozin will expire on 10 March 2025, and LPC, CIPLA and Torrent Pharmaceuticals (Not Rated; Ticker: TRP) are licence holders for the drug in India.

Post patent expiry, Empagliflozin sales to be profitable for LPC: LPC has been selling the drug through an in-licensing deal. Post acquisition and the drug going off patent, LPC will manufacture these drugs and, hence, we expect sales of Empagliflozin to be profitable for the company and result in a reduced in-licence contribution (~12% of the domestic sales in Q2FY25 vs 15% in Q2FY24).

India and US region margins above company-level margins: LPC’s India business margins have been above company levels historically and now the US business margin has increased above company level. As the in-licensing contribution falls, we believe its margins and profitability will increase for the India region.

EBITDA margin to inch up to 25%: LPC’s EBITDA margin in FY24 was 19% and 23% in 2QFY25, driven by launches like Mirabegron. LPC reported an all-time low margin of 4.4% in Q1FY23, which has since climbed to 23%. We believe LPC’s EBITDA margin of 25.5% by FY27 will be driven by complex product launches in the US region and reduced in-licensing deals in the India region.

Valuation outlook: We ascribe a P/E of 30x to LPC on Dec’24 roll over of EPS due to (1) reducing losses in adjacencies in the India region, and (2) the increasing complexity of the product pipeline in the US region to arrive at a TP of Rs 2,438.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	LPC IN/Rs 2,063
Market cap	US\$ 11.1bn
Free float	53%
3M ADV	US\$ 24.4mn
52wk high/low	Rs 2,312/Rs 1,200
Promoter/FPI/DII	46%/14%/29%

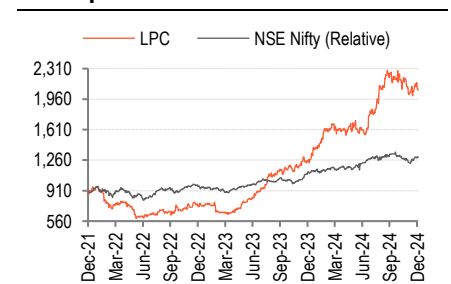
Source: NSE | Price as of 16 Dec 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	200,106	219,253	242,151
EBITDA (Rs mn)	38,105	51,215	59,158
Adj. net profit (Rs mn)	19,145	28,829	35,133
Adj. EPS (Rs)	42.3	63.7	77.6
Consensus EPS (Rs)	42.3	52.3	63.7
Adj. ROAE (%)	14.2	18.9	20.3
Adj. P/E (x)	48.8	32.4	26.6
EV/EBITDA (x)	25.2	18.6	15.8
Adj. EPS growth (%)	345.1	50.6	21.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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BUY – Expected return >+15%

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

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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