

BUY
 TP: Rs 2,438 | ▲ 18%

LUPIN

| Pharmaceuticals

| 16 December 2024

Reduction in in-licence portfolio to increase margins

- **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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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%

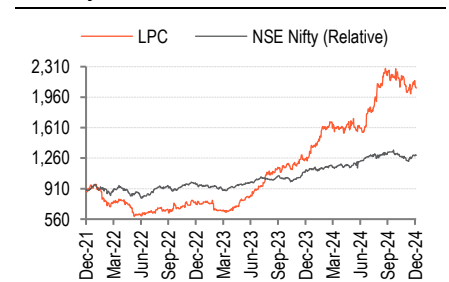
Source: NSE | Price as of 16 Dec 2024

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



US sales to rise to US\$ 250mn on quarterly basis from FY26

Currently LPC's US\$ quarterly sales run rate is US\$ 230mn and LPC expects this to increase to US\$ 250mn in FY26 with the launch of Tolvaptan.

Fig 1 – Tolvaptan sales to inch up in terms of US\$ CC sales

(US\$ mn)	FY26E	FY27E	FY28E
Market size	287	287	287
P/E (%)	50	\$0	70
Market share (%)	30	35	40
Sales	43	40	34
Quarterly sales	11	10	9
Total US\$ sales ex of Tolvaptan	240	250	260
Including Tolvaptan	251	260	269

Source: BOBCAPS Research

Key takeaways from the Pharma Day conference

US region

The higher quarterly guidance factors in increasing competition in Suprep and Albuterol.

LPC expects the Tolvaptan launch to enjoy six months of exclusivity and the product has a market size of US\$ 1.2bn-1.3bn.

Management expects the share of complex generic products to grow to 50% of US sales from 30% currently.

Profitability improved in the US due to a better product mix. LPC's EBITDA margin in the US is now higher than its corporate EBITDA margin.

LPC has 20 respiratory assets and 40 injectables under development. These should help drive a 50%+ complex mix in the coming years.

India

More than 90% of LPC's domestic business comprises formulations.

The share of in-licence products was 12% of sales in Q2FY25 vs 15% of sales in 2QFY24. LPC expects the reduction of in-licence products to increase margins.

Currently, LPC has 7,700 medical representatives (MRs). It will look to add ~100 MRs each year. It expects productivity to increase from Rs 750k in 2QFY25.

Adjacencies (including diagnostics, digital and certain OTCs) are still loss-making and resulted in a hit of 80bps on 2QFY25 EBITDA margin.

Biosimilars

Ranibizumab: LPC completed Phase-III clinical trials for Ranibizumab in 3QFY25. While LPC will not be part of the first wave of launches, the product would still contribute decently to LPC's US sales, given the company's relationships with ophthalmologists. It plans to file in the US and EU in FY25.

Pegfilgrastim: LPC expects to launch Pegfilgrastim in the next 12 months, subject to approvals and clearances for the Pune facility.

GLP products

LPC will manufacture Semaglutide in-house, given its oral and injectable capabilities. The company will consider out-licence manufacturing to a CMO (contract manufacturing organisation), depending on the product. LPC has enough capacity for in-house manufacturing.

The product launches will be a combination of internal development and in-licensing. According to the company, the market is worth over US\$ 1bn in the US.

Valuation methodology

LPC's India business margins are expected to improve with the in-licence sales proportion reducing to 12% in Q2FY25, from 15% in Q2FY24, and further to ~10% by FY26 with the acquisition of three brands in the Diabetes segment. Its US region constant currency (CC) quarterly sales are expected to report sales of above US\$ 250mn from FY26. Management believes LPC's product pipeline for the US in FY26 will increase US sales to US\$ 1bn in CC terms. Hence, we expect LPC's sales to grow at a CAGR of 9% and earnings at 19% for FY25-27E.

LPC increased its R&D spend to 7.9% of sales in Q2FY25 vs 6.2% in Q1FY25, 66% of which is focused on complex generics. The company is expected to be in the first wave of the launch of GLP products across regions. Due to its healthy product pipeline, we maintain BUY on the stock. We ascribe a P/E of 30x on Dec'24 roll forward to maintain our TP of Rs 2,438.

Fig 2 – Key assumptions

(Rs mn)	FY24	FY25E	FY26E	FY27E
Domestic sales	66,563	72,619	79,670	87,326
US sales	72,462	79,993	85,326	85,326
Sales	200,106	219,253	242,151	260,625
EBITDA	38,105	51,215	59,158	66,539
PAT	19,145	28,829	35,133	40,947
EPS (Rs)	42.3	63.7	77.6	90.5
EBITDA margin (%)	19.0	23.4	24.4	25.5
PAT margin (%)	9.6	13.1	14.5	15.7

Source: Company, BOBCAPS Research

Key risks

Key downside risks are:

- delays in launches of key products, and,
- regulatory events on key facilities.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	166,417	200,106	219,253	242,151	260,625
EBITDA	17,982	38,105	51,215	59,158	66,539
Depreciation	8,807	11,968	12,690	13,332	13,974
EBIT	9,175	26,137	38,525	45,826	52,565
Net interest inc./(exp.)	(2,743)	(3,116)	(1,922)	(1,730)	(1,557)
Other inc./(exp.)	734	1,202	1,165	1,925	2,644
Exceptional items	0	0	0	0	0
EBT	7,165	24,223	37,768	46,021	53,652
Income taxes	2,688	4,867	8,687	10,585	12,340
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	176	211	253	304	364
Reported net profit	4,301	19,145	28,829	35,133	40,947
Adjustments	0	0	0	0	0
Adjusted net profit	4,301	19,145	28,829	35,133	40,947

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	25,315	29,581	27,629	30,014	31,227
Other current liabilities	27,794	30,954	30,954	30,954	30,954
Provisions	8,581	9,003	14,874	17,636	20,258
Debt funds	42,441	26,699	24,029	21,626	19,464
Other liabilities	0	0	0	0	0
Equity capital	910	911	911	911	911
Reserves & surplus	124,518	142,823	160,907	182,946	208,633
Shareholders' fund	125,428	143,734	161,819	183,857	209,544
Total liab. and equities	229,559	239,972	259,304	284,088	311,446
Cash and cash eq.	12,931	12,025	31,016	48,979	72,216
Accounts receivables	44,807	46,921	50,252	55,500	59,735
Inventories	44,918	49,539	51,747	57,152	61,512
Other current assets	36,830	39,734	40,734	41,734	42,734
Investments	5,169	10,746	8,738	8,738	8,738
Net fixed assets	53,768	51,800	47,110	41,778	35,805
CWIP	8,948	5,957	6,457	6,957	7,457
Intangible assets	22,188	23,250	23,250	23,250	23,250
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	229,559	239,972	259,304	284,088	311,446

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	3,964	30,802	40,819	43,690	(7,667)
Capital expenditures	(11,420)	(8,072)	(8,500)	(8,500)	200,397
Change in investments	3,831	(5,577)	2,008	0	8,738
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(7,589)	(13,649)	(6,492)	(8,500)	209,136
Equities issued/Others	1	1	0	0	(911)
Debt raised/repaid	3,999	(15,741)	(2,670)	(2,403)	(21,626)
Interest expenses	(2,743)	(3,116)	(1,922)	(1,730)	(1,557)
Dividends paid	(5,151)	(5,249)	(10,744)	(13,094)	0
Other financing cash flows	8,702	6,045	0	0	(226,352)
Cash flow from financing	4,808	(18,060)	(15,337)	(17,227)	(250,447)
Chg in cash & cash eq.	1,183	(906)	18,991	17,963	(48,979)
Closing cash & cash eq.	12,931	12,025	31,016	48,979	0

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	9.5	42.0	63.3	77.1	89.9
Adjusted EPS	9.5	42.3	63.7	77.6	90.5
Dividend per share	3.5	15.8	23.7	28.9	33.7
Book value per share	275.5	315.8	355.8	404.5	461.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.7	4.8	4.3	3.9	3.5
EV/EBITDA	52.4	25.2	18.6	15.8	13.7
Adjusted P/E	217.1	48.8	32.4	26.6	22.8
P/BV	7.5	6.5	5.8	5.1	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	60.0	79.0	76.3	76.3	76.3
Interest burden (PBT/EBIT)	78.1	92.7	98.0	100.4	102.1
EBIT margin (EBIT/Revenue)	5.5	13.1	17.6	18.9	20.2
Asset turnover (Rev./Avg TA)	18.8	21.3	22.0	22.3	21.9
Leverage (Avg TA/Avg Equity)	1.8	1.7	1.6	1.6	1.5
Adjusted ROAE	3.5	14.2	18.9	20.3	20.8

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	1.4	20.2	9.6	10.4	7.6
EBITDA	(13.5)	111.9	34.4	15.5	12.5
Adjusted EPS	63.2	345.1	50.6	21.9	16.6
Profitability & Return ratios (%)					
EBITDA margin	10.8	19.0	23.4	24.4	25.5
EBIT margin	5.5	13.1	17.6	18.9	20.2
Adjusted profit margin	2.6	9.6	13.1	14.5	15.7
Adjusted ROAE	3.5	14.2	18.9	20.3	20.8
ROCE	3.6	12.4	16.4	18.0	18.8
Working capital days (days)					
Receivables	96	84	84	84	84
Inventory	100	86	86	86	86
Payables	130	151	151	151	151
Ratios (x)					
Gross asset turnover	1.2	1.3	1.4	1.4	1.5
Current ratio	2.3	2.1	2.4	2.6	2.9
Net interest coverage ratio	3.3	8.4	20.0	26.5	33.8
Adjusted debt/equity	0.2	0.0	(0.1)	(0.2)	(0.3)

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

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BUY – Expected return >+15%

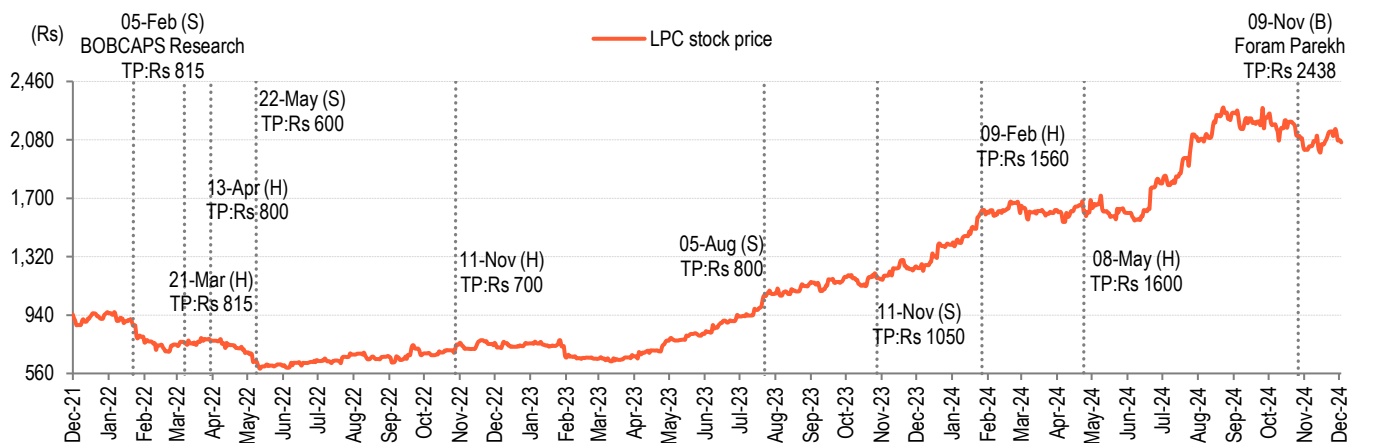
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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