

BUY

TP: Rs 2,438 | ▲ 16%

LUPIN

| Pharmaceuticals

| 09 November 2024

In-line quarter; EBITDAM guidance increased to 25%

- **LPC’s earnings were in line with our estimates but beat street’s estimates. EBITDA margin was 23% in Q2FY25**
- **US sales were lower at US\$ 220mn, hit by higher competition in Suprep and Doxil. LPC expects US sales to rise to ~US\$ 250mn from FY26**
- **Upgrade to BUY due to complex product pipeline. Ascribe P/E of 29x to LPC and roll forward to Sep’26, with new TP of Rs 2,438 (from Rs 1,600)**

Foram Parekh

research@bobcaps.in

Strong India business and stable US growth: LPC delivered an in-line performance in Q2 with +12%/+42% YoY growth in Sales/EBITDA to Rs 56.7bn/Rs 13bn (-1.6%/-3.4% below our estimates), while PAT grew 74% YoY to Rs 8.5bn. Growth in revenue was spearheaded by strong execution across regions where India (19% YoY) and EMEA (20% YoY) growth was offset by North America (5.6% YoY) followed by raw material cost rationalisation resulting in EBITDA margin increasing 485bps YoY to 23.1%.

Highest-ever growth rate in India segment: LPC’s India business grew by 19% YoY driven by the India formulations business and global tender wins. India formulations sales grew by 10.9% vs IPM’s 8%, driven by (1) the Chronic portfolio’s (62% of domestic sales) outperformance vs IPM, (2) deeper medical representatives reach (7,700 MRs) and (3) strong basket of innovative and in-licence products.

Constant currency US sales run rate expected to inch up to US\$ 1bn: LPC’s US sales in Q2 grew by 6% YoY to Rs 19.7bn. In CC terms, it grew 3% YoY but fell 3% sequentially to US\$ 220mn. The drop was due to competition in key products like Suprep and Doxycycline and phasing the inventory load in Mirabegron offset and Pred Forte exclusivity. Going forward, we expect complex generic (expected to reach 50% of US sales from current 40%) launches like Tolvaptan and 40 injectable products to raise the US\$ run rate to US\$ 250mn vs the current US\$ 220mn.

EBITDA margin to inch up to 25%: LPC’s 23.1% EBITDA margin was driven by healthy product mixes in India and the US region and followed by raw material cost rationalisation. We believe new launches in the complex generics portfolio, which includes 40 injectables and a healthy Respiratory pipeline, and a healthy domestic formulations business, will drive EBITDA margin to 25.5% by FY27.

Upgrade to BUY with higher TP of Rs 2,438: We increase our EPS estimates by 17% for FY25 and 19% for FY26 on a healthy product pipeline of complex products in the US. Hence, we ascribe a higher P/E of 29x (five-year average of 24x), and roll forward our valuations to Sep’26, with a new TP of Rs 2,438 (from Rs 1,600).

Key changes

	Target	Rating
	▲	▲

Ticker/Price	LPC IN/Rs 2,105
Market cap	US\$ 11.3bn
Free float	53%
3M ADV	US\$ 31.2mn
52wk high/low	Rs 2,312/Rs 1,154
Promoter/FPI/DII	46%/14%/29%

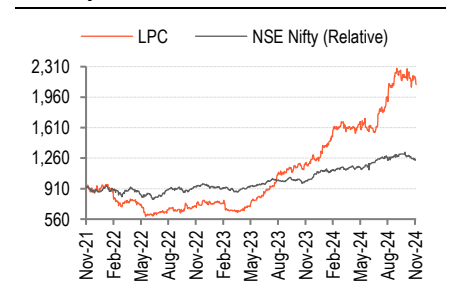
Source: NSE | Price as of 8 Nov 2024

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)	49.7	33.0	27.1
EV/EBITDA (x)	25.7	19.0	16.1
Adj. EPS growth (%)	345.1	50.6	21.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

India region

- The Prescription business grew at 10.9% YoY vs IPM growth of 8%.
- The Diabetes segment grew ~19% vs IPM's growth of ~9%.
- Share of in-licence products reduced to 12% from 15% earlier.
- LPC's adjacencies (Diagnostic business) and domestic part of the Global Institutional business performed well with revenues of Rs 2bn vs Rs 0.6bn in Q2 last year. Global tender business sales was Rs 1.5bn.

US region

- The US business performance was strong led by volume growth across products and the strong respiratory portfolio offset competition in key products like gSuprep and Doxycycline.
- gAlbuterol's market share was 21.6% and Arfomoterol's 27.4%.
- Currently 40% of the US business is made up of complex generics and the company expects this to reach 50%.
- US margins are now higher than company-level margins.
- gSpiriva's market share was stable at 30% as on H1FY25.
- Tolvaptan, 40 injectable products and 20 inhalation to drive growth in FY26.

R&D spend

- R&D spend increased to 8.2% of sales.
- Completed Phase 3 of the Ranibizumab biosimilar this quarter, paving the way for LPC to file the product in the US and EU this year.
- Two-thirds of the R&D spend has been on complex generics.

Guidance

- The US business is expected to retain a double-digit growth rate and increase to US\$ 1bn in size in FY26.
- R&D spend expected to sustain at Rs 1.8bn in FY25.
- GLP products to be launched in India, South Africa, Latin America, The Philippines and some parts of Eastern Europe in FY26.
- Gross margin to sustain at current levels and management expects EBITDA margin to increase to 23-25% from 21-23% previously.

Fig 1 – Quarterly financial highlights

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Net Sales	56,727	50,386	12.6	56,003	1.3
Total Expenses	43,645	41,208	5.9	43,140	1.2
(%) of net sales	76.9	81.8		77.0	
Raw material consumed	16,899	17,028	(0.8)	17,446	(3.1)
(%) of net sales	29.8	33.8		31.2	
Staff cost	10,075	8,607	17.1	9,710	3.8
(%) of net sales	17.8	17.1		17.3	
R&D cost	4,481	3,764	19.0	3,500	28.0
(%) of net sales	7.9	7.5		6.2	
SG&A	12,189	11,809	3.2	12,484	(2.4)
(%) of net sales	21.5	23.4		22.3	
EBITDA	13,083	9,178	42.6	12,864	1.7
Depreciation	2,569	2,479	3.7	2,477	3.7
EBIT	10,514	6,699	56.9	10,387	1.2
Interest	709	806	(12.1)	680	4.2
Other Income	744	404	84.1	224	232.2
PBT	10,549	6,297	67.5	9,930	6.2
Less: Taxation	1,954	1,344		1,875	
Less: Minority Interest	69	57		42	
Recurring PAT	8,526	4,897	74.1	8,013	6.4
Exceptional items	0	0		0	
Reported PAT	8,526	4,897	74.1	8,013	6.4
Key Ratios (%)			(bps)		(bps)
Gross Margin	70.2	66.2	400	68.8	136
EBITDA Margin	23.1	18.2	485	23.0	9
Tax / PBT	18.5	21.3		18.9	
NPM	15.0	9.7		14.3	
EPS (Rs)	18.7	10.8		17.6	

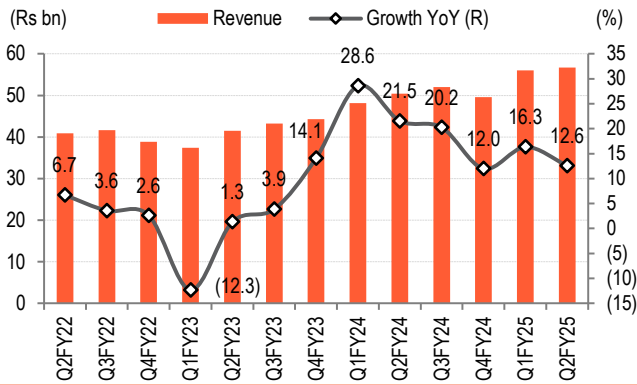
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Formulations	52,025	46,708	11.4	51,521	1.0
North America	19,711	18,666	5.6	20,408	(3.4)
India	20,096	16,915	18.8	19,259	4.3
Growth Markets	4,896	4,378	11.8	5,151	(5.0)
EMEA	5,693	4,759	19.6	5,031	13.2
RoW	1,629	1,990	(18.1)	1,672	(2.6)
APIs	2,944	2,684	9.7	3,622	(18.7)
Licensing Income	-	-		0	
Other Operating income	1,757	994	76.9	860	104.3
Net Sales	56,726	50,386	12.6	56,003	1.3

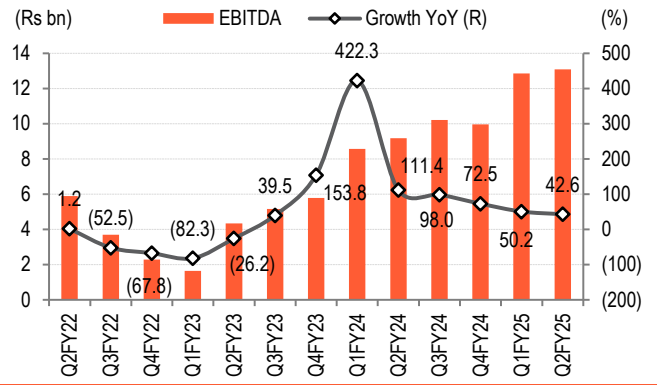
Source: Company, BOBCAPS Research

Fig 3 – Sales growth driven by higher domestic sales



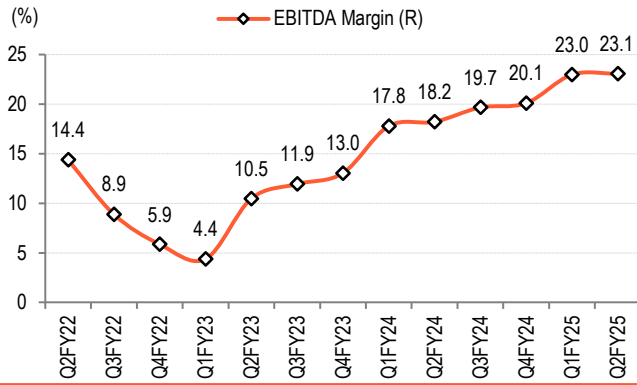
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth driven by healthy product mix



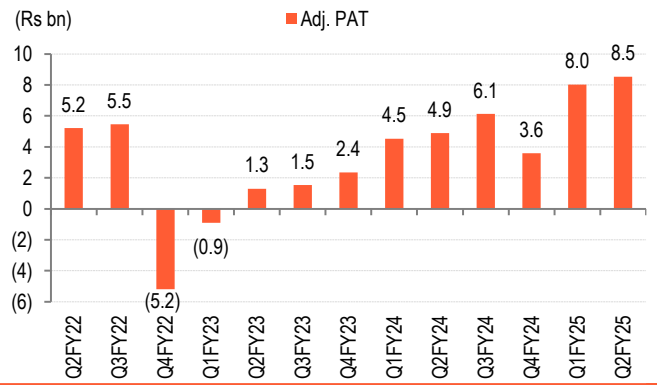
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin driven by healthy US complex product launches



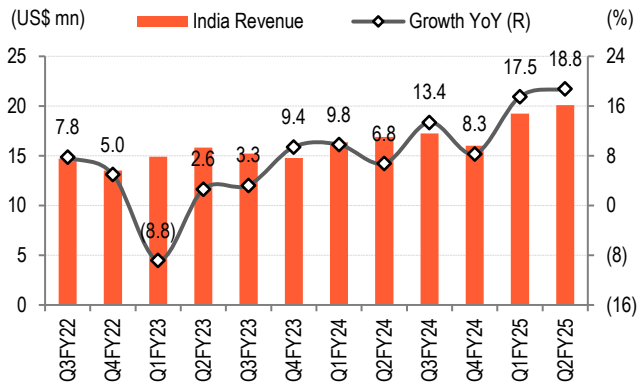
Source: Company, BOBCAPS Research

Fig 6 – PAT growth driven by healthy operations



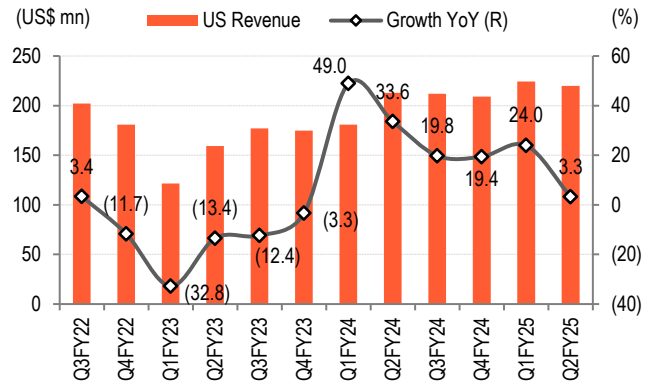
Source: Company, BOBCAPS Research

Fig 7 – Domestic sales growth driven by healthy formulations growth



Source: Company, BOBCAPS Research

Fig 8 – US sales growth driven by healthy complex new product launches



Source: Company, BOBCAPS Research

Valuation methodology

LPC's earnings were in line with our estimates despite weaker US sales at CC US\$ 220mn affected by competition in Suprep and Doxycycline. However, EBITDA margin was sustained at 23% as ~40% of US sales is driven by complex products. LPC's India business maintained double-digit growth where the Formulations business outperformed IPM growth and the Diagnostics business and global tenders also improved. Hence, we expect LPC's sales to grow at a CAGR of 9% and earnings at 19% for FY25-27E.

Management believes LPC's product pipeline for the US in FY26 will increase US sales to US\$ 1bn in CC terms. LPC has also increased its R&D spend, 66% of which is focused on complex generics. The company is expected to be in the 1st wave of the launch of GLP products across regions. Due to its healthy product pipeline, we upgrade our EPS estimates for FY25 by 17% and FY26 by 19% and introduce FY27 estimates. Hence, we upgrade our stock to BUY from HOLD. We ascribe a higher P/E of 29x (five-year average is 24x), and roll forward our valuations to Sep'26, with a new TP of Rs 2,438 (from Rs 1,600).

Fig 9 – Revised estimates

(Rs mn)	New			Old		Change (%)	
	FY24	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	200,106	219,253	242,151	219,253	242,151	0.0	0.0
EBITDA	38,105	51,215	59,158	45,734	51,894	12.0	14.0
EBITDA margin (%)	19.0	23.4	24.4	21	21	250bps	300bps
EPS (Rs)	42.3	63.7	77.6	54	65	17.2	19.2

Source: Company, BOBCAPS Research

Fig 10 – 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	5.8	4.9	4.4	3.9	3.6
EV/EBITDA	53.4	25.7	19.0	16.1	14.0
Adjusted P/E	221.4	49.7	33.0	27.1	23.3
P/BV	7.6	6.7	5.9	5.2	4.6

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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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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BUY – Expected return >+15%

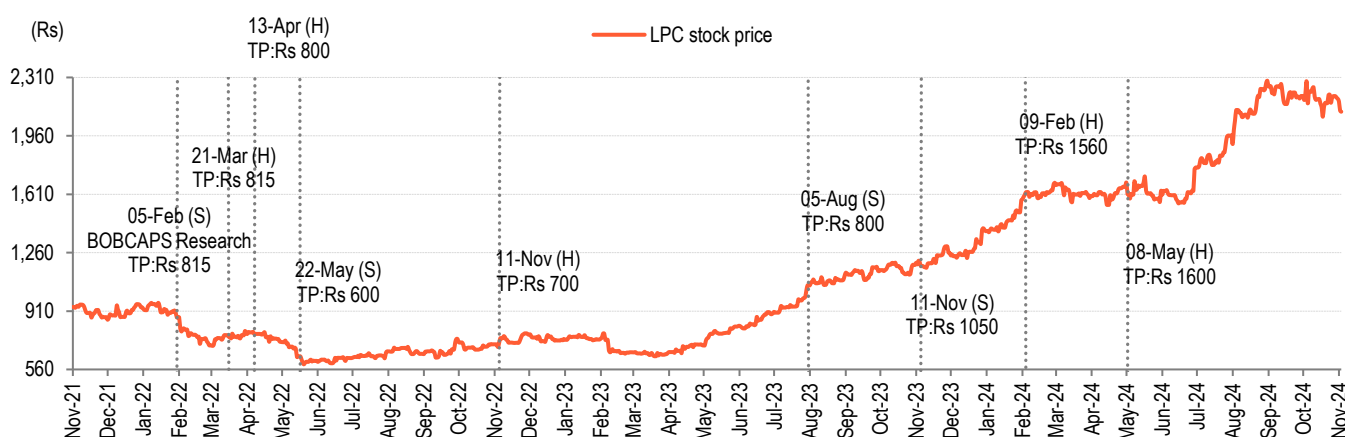
HOLD – Expected return from -6% to +15%

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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