

HOLD

TP: Rs 1,600 | ▼ 1%

LUPIN

| Pharmaceuticals

| 08 May 2024

Stable margins; higher tax weighs on PAT

- **LPC delivered a healthy operational performance in Q4 with largely in-line revenue/PAT; higher tax impacted net profit**
- **Company has been maintaining healthy margins throughout FY24 due to limited competition launches; guided for further improvement**
- **We largely retain our FY25/FY26 estimates and raise our TP to Rs 1,600 (from Rs 1,560). Maintain HOLD given LPC’s rich valuation**

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Strong US growth and stable India business: LPC delivered a largely in-line performance in Q4 with +73%/+52% YoY growth in EBITDA/PAT to Rs 10.0bn/3.6bn on the low base last year (due to depressed margins), while revenue grew 12% YoY to Rs 49.6bn. Growth in revenue was spearheaded by North America (+23% YoY) and India (+8% YoY). This was followed by healthy growth of 17%/16% in EMEA and growth markets. ROW business grew 8%, while API fell 20% YoY.

Recent launches in US continue to drive growth; India remains healthy: North America sales of US\$ 209mn was supported by single digit price erosion which remained flat QoQ. Management highlighted the benign price erosion scenario would persist in the coming quarters. Management has guided for US sales run-rate of +US\$ 200mn over the coming quarters as well. LPC aims to achieve US\$ 1bn in US sales by FY26 on the back of a slew of new launches over coming years. Lupin’s India growth of 8% was healthy given the industrywide slowdown. The company performed well and outperformed the Indian Pharmaceuticals Market (IPM) in Cardiology, Respiratory and Oncology. India Prescription business grew 9%.

Margins to sustain; aim to reach 23% in two years: Gross/EBITDA margin were stable sequentially with 150bps/40bps improvement QoQ. Due to the depressed margins of last year, gross/EBITDA margin expansion YoY was +780bps/+700bps, supported by limited competition products including gSpiriva. Higher tax rate at 26% (vs 15.9% in Q3FY24 and 6.2% in Q4FY23) resulted in PAT miss of 31% compared to Bloomberg consensus. Management expects to reach 23% EBITDA margin in 2Y.

Maintain HOLD; TP raised to Rs 1,600: With growth coming back with limited competition products, a slew of new launches, tailwinds emerging from shortages and reduced price erosion bode well for Lupin. The company reported healthy growth in the domestic market despite industrywide challenges. We remain optimistic about revenue growth, sustainability of margins and strategic product launches across markets. We largely retain our estimates and maintain our FY26E EV/EBITDA of 15x and slightly revise our TP to Rs 1,600 (Rs 1,560). Maintain HOLD given limited upside with rich valuations.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LPC IN/Rs 1,611
Market cap	US\$ 8.9bn
Free float	53%
3M ADV	US\$ 24.5mn
52wk high/low	Rs 1,704/Rs 704
Promoter/FPI/DII	46%/14%/29%

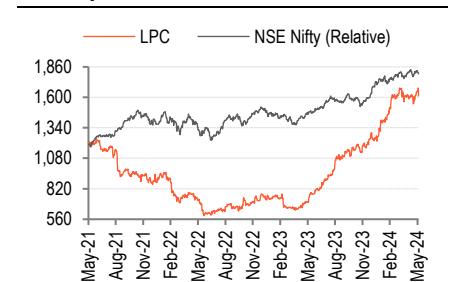
Source: NSE | Price as of 7 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	200,106	219,253	241,440
EBITDA (Rs mn)	38,105	45,734	51,758
Adj. net profit (Rs mn)	19,145	24,608	29,374
Adj. EPS (Rs)	42.3	54.4	64.9
Consensus EPS (Rs)	42.3	52.3	63.7
Adj. ROAE (%)	14.2	16.2	17.4
Adj. P/E (x)	38.1	29.6	24.8
EV/EBITDA (x)	19.8	16.3	14.1
Adj. EPS growth (%)	345.1	28.5	19.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly Performance

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Net Sales	49,608	44,301	12.0	51,974	(4.6)	200,108	166,417	20.2
EBITDA	9,968	5,778	72.5	10,220	(2.5)	37,928	16,919	124.2
Depreciation	4,571	2,640	73.2	2,572	77.7	11,968	8,807	-
EBIT	5,397	3,138	72.0	7,648	(29.4)	25,960	8,112	220.0
Interest	713	926	(23.0)	740	(3.7)	3,116	2,743	-
Other Income	293	373	(21.3)	454	(35.3)	1,379	1,796	-
PBT	4,977	2,585	92.5	7,361	(32.4)	24,223	7,165	238.1
Less: Taxation	1,295	161	-	1,174	-	4,867	2,688	-
Less: Minority Interest	88	64	-	56	-	211	176	-
Recurring PAT	3,594	2,360	52.3	6,131	(41.4)	19,145	4,301	345.1
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	3,594	2,360	52.3	6,131	(41.4)	19,145	4,301	345.1
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	68.3	60.5	778	66.8	148	66.8	59.3	34
EBITDA Margin	20.1	13.0	705	19.7	43	19.0	10.2	81
Tax / PBT	26.0	6.2	-	15.9	-	20.1	37.5	-
NPM	7.2	5.3	-	11.8	-	9.6	2.6	-
EPS (Rs)	7.9	5.2	-	13.5	-	42.1	9.5	-

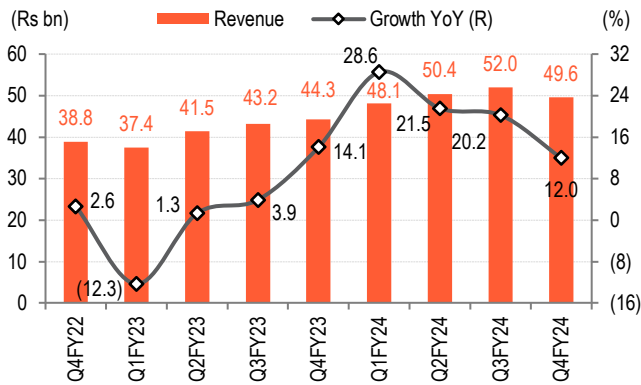
Source: Company, BOBCAPS Research

Fig 2 – Revenue Mix

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Formulations	46,370	40,077	15.7	48,020	(3.4)	183,095	151,610	20.8
North America	19,006	15,503	22.6	18,885	0.6	72,462	54,173	33.8
India	16,015	14,786	8.3	17,251	(7.2)	66,565	60,760	9.6
Growth Markets	5,093	4,385	16.1	4,729	7.7	18,266	17,258	5.8
EMEA	5,318	4,535	17.3	5,170	2.9	19,234	15,514	24.0
RoW	938	868	8.1	1,985	(52.7)	6,568	3,905	68.2
APIs	2,581	3,226	(20.0)	2,779	(7.1)	11,415	11,091	2.9
Licensing Income	-	-	-	0	-	2,053	-	-
Other Operating income	657	998	(34.2)	1,175	(44.1)	3,545	3,716	(4.6)
Revenue	49,608	44,301	12.0	51,974	(4.6)	200,108	166,417	20.2
INR/US\$	90.9	88.6	2.6	89.1	2.1	89	85	4.1
US in \$ terms	209	175	19.4	212	(1.4)	815	635	28.5

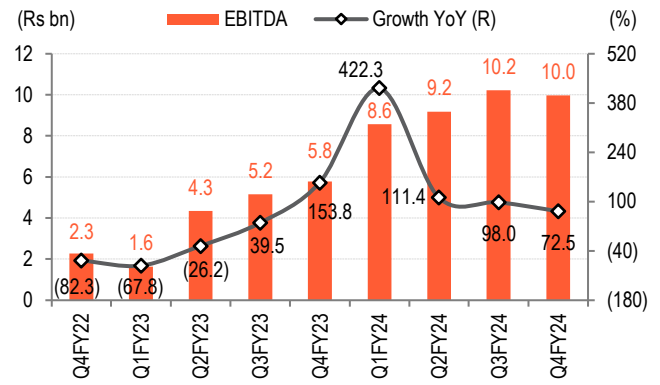
Source: Company, BOBCAPS Research

Fig 3 – Revenue



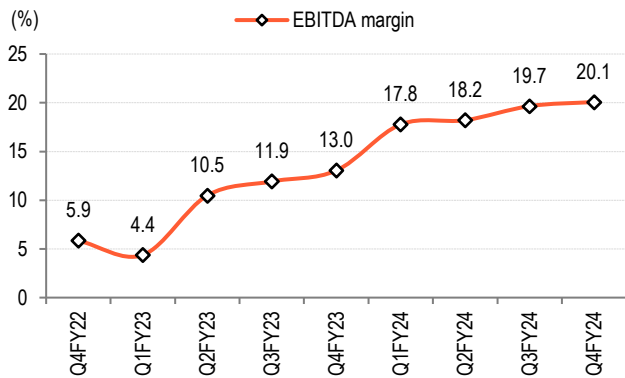
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



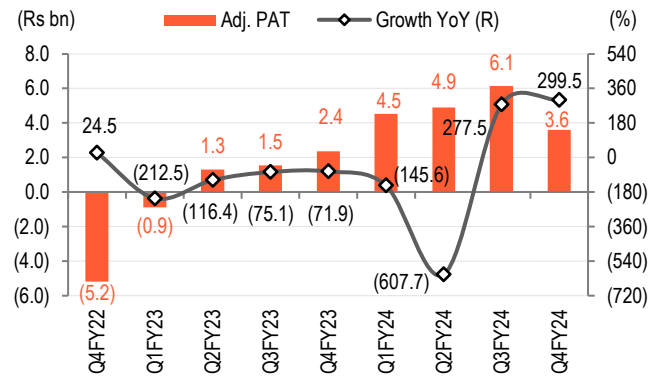
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – PAT



Source: Company, BOBCAPS Research

Earnings call highlights

- Improved gross margins due to a good product mix in the US and lower share of in-licensed products.
- EBITDA growth despite increased R&D expenses.
- Marginal increase in employee expenses.
- R&D expenses at 8.7% of sales in Q4FY24.
- Chronic segment contributed ~62% of total sales.
- **India**
 - Prescription business grew at 8.7% YoY.
 - Cardio and respiratory segments outperformed the IPM.
 - Diagnostic business grew 160% YoY, with plans for further growth.
 - Trade generics spun off into a separate entity.

- Key segments (Cardiology, Respiratory, Oncology) growing faster than the market.
- **US**
 - Pricing remained stagnant; Darunavir's performance impacted by competition.
 - Non-oral solid products constituted 80% of the US portfolio.
 - gSpiriva expected to drive growth (30% market share in FY25).
 - Relaunch of gMyrbetriq planned.
 - Minimal price erosion expected due to drug shortages.
 - Liraglutide launch anticipated based on patent timelines.
 - Lupin ranks #3 in US generic market and total market by prescriptions.
 - Strong pipeline in inhalation and injectables.
 - gSpiriva expected to maintain steady sales.
 - Pegfilgrastim and other products in the pipeline.
- **Growth markets**
 - Robust growth in Australia, the Philippines, and South Africa.
 - Mexico presents a growth opportunity in LATAM.
 - Fostair inhaler launched in 13 countries.
- **Guidance**
 - US business to sustain ~US\$ 200mn quarterly.
 - India business to grow 200-300bps above IPM.
 - Gross margin to sustain ~68%.
 - Nagpur plant to make 5-6 launches annually.
 - R&D spends on biosimilars < 10% of total R&D expenditure.

Valuation methodology

With growth coming back with limited competition products, a slew of new launches, tailwinds emerging from shortages and reduced price erosion bode well for Lupin. The company reported healthy growth in the domestic market despite industrywide challenges. We remain optimistic about revenue growth, sustainability of margins and strategic product launches across markets. We largely retain our estimates and maintain our FY26E EV/EBITDA of 15x and slightly revise our TP to Rs 1,600 (Rs 1,560). Maintain HOLD given the limited upside with rich valuations.

Fig 7 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	219.3	241.4	218.8	240.4	0.2	0.4
EBITDA	45.7	51.8	44.5	51.6	2.7	0.4
EBITDA margin (%)	20.9	21.4	20.4	21.4	49bps	(1bps)
EPS (Rs)	54.4	64.9	54.7	66.7	(0.6)	(2.7)

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY24	FY25E	FY26E
India	66.6	72.6	79.0
North America	72.5	80.0	85.3
Growth Markets	18.3	19.6	21.0
EMEA	19.2	24.6	32.7
ROW	6.6	6.8	7.0
API	11.4	12.0	12.6
Licensing income	2.1	0.0	0.0
Other operating income	3.5	3.7	3.9

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- 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.

Key downside risks to our estimates are:

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	3.7	2,398	2,585	BUY
Alembic Pharma	ALPM IN	2.4	1,021	970	HOLD
Alkem Labs	ALKEM IN	7.4	5,118	4,800	SELL
Aurobindo Pharma	ARBP IN	8.0	1,124	1,100	HOLD
Cipla	CIPLA IN	13.6	1,387	1,576	BUY
Divi's Labs	DIVI IN	12.6	3,911	3,000	SELL
Dr Reddy's Labs	DRRD IN	12.7	6,258	5,900	HOLD
Eris Lifesciences	ERIS IN	1.4	869	955	BUY
Glenmark Life Sciences	GLS IN	1.2	830	790	HOLD
Laurus Labs	LAURUS IN	2.8	429	305	SELL
Lupin	LPC IN	8.9	1,611	1,600	HOLD
Sun Pharma	SUNP IN	44.2	1,515	1,550	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	164,163	166,417	200,106	219,253	241,440
EBITDA	20,788	17,982	38,105	45,734	51,758
Depreciation	16,587	8,807	11,968	12,690	13,332
EBIT	4,201	9,175	26,137	33,044	38,426
Net interest inc./(exp.)	(1,428)	(2,743)	(3,116)	(1,922)	(1,730)
Other inc./(exp.)	1,417	734	1,202	1,165	1,847
Exceptional items	0	0	0	0	0
EBT	4,190	7,165	24,223	32,287	38,543
Income taxes	1,372	2,688	4,867	7,426	8,865
Extraordinary items	(25,861)	0	0	0	0
Min. int./Inc. from assoc.	183	176	211	253	304
Reported net profit	(23,225)	4,301	19,145	24,608	29,374
Adjustments	25,861	0	0	0	0
Adjusted net profit	2,635	4,301	19,145	24,608	29,374

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	22,829	25,315	29,581	29,894	32,919
Other current liabilities	26,562	27,794	30,954	30,954	30,954
Provisions	8,160	8,581	9,003	13,301	15,490
Debt funds	38,442	42,441	26,699	24,029	21,626
Other liabilities	0	0	0	0	0
Equity capital	909	910	911	911	911
Reserves & surplus	116,328	124,518	142,823	158,260	176,686
Shareholders' fund	117,237	125,428	143,734	159,171	177,598
Total liab. and equities	213,229	229,559	239,972	257,348	278,586
Cash and cash eq.	11,748	12,931	12,025	29,060	43,808
Accounts receivables	42,619	44,807	46,921	50,252	55,337
Inventories	46,307	44,918	49,539	51,747	56,984
Other current assets	21,263	36,830	39,734	40,734	41,734
Investments	9,000	5,169	10,746	8,738	8,738
Net fixed assets	52,575	53,768	51,800	47,110	41,778
CWIP	8,475	8,948	5,957	6,457	6,957
Intangible assets	21,241	22,188	23,250	23,250	23,250
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	213,229	229,559	239,972	257,348	278,586

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	(20,407)	3,964	30,802	37,290	38,329
Capital expenditures	(9,408)	(11,420)	(8,072)	(8,500)	(8,500)
Change in investments	15,549	3,831	(5,577)	2,008	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	6,141	(7,589)	(13,649)	(6,492)	(8,500)
Equities issued/Others	2	1	1	0	0
Debt raised/repaid	7,786	3,999	(15,741)	(2,670)	(2,403)
Interest expenses	(1,428)	(2,743)	(3,116)	(1,922)	(1,730)
Dividends paid	(4,830)	(5,151)	(5,249)	(9,171)	(10,948)
Other financing cash flows	7,061	8,702	6,045	0	0
Cash flow from financing	8,590	4,808	(18,060)	(13,764)	(15,081)
Chg in cash & cash eq.	(5,676)	1,183	(906)	17,035	14,748
Closing cash & cash eq.	11,748	12,931	12,025	29,060	43,808

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	(51.1)	9.5	42.0	54.0	64.5
Adjusted EPS	5.8	9.5	42.3	54.4	64.9
Dividend per share	2.3	3.5	15.8	20.3	24.2
Book value per share	257.6	275.5	315.8	349.9	390.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	4.4	4.4	3.8	3.4	3.0
EV/EBITDA	34.8	40.9	19.8	16.3	14.1
Adjusted P/E	276.5	169.4	38.1	29.6	24.8
P/BV	6.3	5.8	5.1	4.6	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	62.9	60.0	79.0	76.2	76.2
Interest burden (PBT/EBIT)	99.7	78.1	92.7	97.7	100.3
EBIT margin (EBIT/Revenue)	2.6	5.5	13.1	15.1	15.9
Asset turnover (Rev./Avg TA)	18.3	18.8	21.3	22.0	22.5
Leverage (Avg TA/Avg Equity)	1.8	1.8	1.7	1.6	1.6
Adjusted ROAE	2.1	3.5	14.2	16.2	17.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	8.3	1.4	20.2	9.6	10.1
EBITDA	(19.0)	(13.5)	111.9	20.0	13.2
Adjusted EPS	(78.3)	63.2	345.1	28.5	19.4
Profitability & Return ratios (%)					
EBITDA margin	12.7	10.8	19.0	20.9	21.4
EBIT margin	2.6	5.5	13.1	15.1	15.9
Adjusted profit margin	1.6	2.6	9.6	11.2	12.2
Adjusted ROAE	2.1	3.5	14.2	16.2	17.4
ROCE	2.5	3.6	12.4	14.2	15.5
Working capital days (days)					
Receivables	97	96	84	84	84
Inventory	97	100	86	86	86
Payables	121	130	151	151	151
Ratios (x)					
Gross asset turnover	1.2	1.2	1.3	1.4	1.4
Current ratio	2.1	2.3	2.1	2.3	2.5
Net interest coverage ratio	2.9	3.3	8.4	17.2	22.2
Adjusted debt/equity	0.2	0.2	0.0	(0.1)	(0.2)

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

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BUY – Expected return >+15%

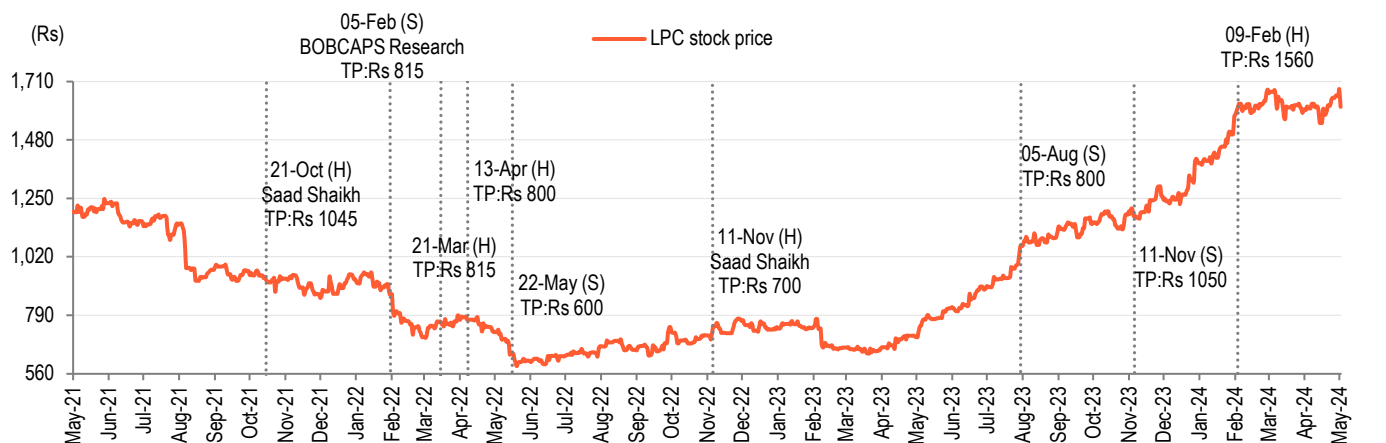
HOLD – Expected return from -6% to +15%

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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