

**SELL**

TP: Rs 1,050 | ▼ 11%

**LUPIN**

| Pharmaceuticals

| 11 November 2023

## Positive surprise from gSpiriva; valuations rich

- Q2 EBITDA/PAT overtook consensus by 16%/25% backed by strong US business from gSpiriva launch and robust margins
- India sales grew modestly, in line with industry; international businesses (ex-growth markets) grew handsomely
- TP revised to Rs 1,050 (vs. Rs 800) as we raise FY24/FY25 EBITDA 6-15% and reset to 12.5x (vs. 11x) FY25E EV/EBITDA; retain SELL

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**Strong Q2; India business remains muted:** LPC's Q2FY24 revenue/EBITDA/PAT beat consensus by 5%/16%/25%. The revenue beat stemmed from strong growth of 40% YoY (+17% QoQ) in North America business, which supported topline growth of 22% YoY (+5% QoQ) to Rs 50.4bn. India revenue grew at a modest 7% YoY (9% ex-essential medicines under price control), though management highlighted that the company fared better than the market in respiratory, cardiology, gastrointestinal and gynaecology therapies. LPC believes improving field force productivity will lead to a better H2 and expects growth to outpace the Indian market in the medium-to-long run.

**Above-expected market share in gSpiriva propels US business:** The US launch of gSpiriva (Tiotropium DPI) was the highlight of the quarter, making inhalation a substantial portion of sales to this market. gSpiriva helped LPC post US sales of US\$ 213mn, an increase of 18% QoQ and 34% YoY. Price erosion also remained moderate in Q2. LPC expects stable pricing for gSpiriva and doesn't foresee any immediate threat from competition. The company has also built capacity to launch gSpiriva in other markets, such as Australia and Canada. Management guides for a US sales run-rate of US\$ 200mn per quarter, to be led by gSpiriva and other complex launches.

**Margin headwinds subsiding:** Gross margin expanded 750bps YoY and 30bps QoQ to 66.2% on the back of a better product mix (gSpiriva), lower commodity inflation, reduced contribution from in-licensed products and softer freight costs. EBITDA margin also improved to 18.2% aided by operating leverage with the recovery in revenue.

**Maintain SELL:** Baking in the improved margin following the introduction of gSpiriva and lower tax guidance of ~22%, we raise our FY24/FY25 EBITDA estimates by 6%/15% now model for expansion in ROE to 13%/15%, with a 120% EPS CAGR over FY23-FY25. We also raise our target FY25E EV/EBITDA multiple to 12.5x (vs. 11x) – 1SD below the 5Y average – and arrive at a new TP of Rs 1,050 (vs. Rs 800). Valuations, however, appear full at 16.7x/14.0x FY24E/FY25E EV/EBITDA and hence we maintain SELL.

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LPC IN/Rs 1,180
Market cap	US\$ 6.5bn
Free float	53%
3M ADV	US\$ 15.4mn
52wk high/low	Rs 1,238/Rs 628
Promoter/FPI/DII	46%/14%/29%

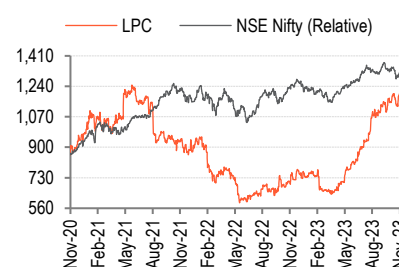
Source: NSE | Price as of 10 Nov 2023

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	166,417	195,359	213,778
EBITDA (Rs mn)	17,982	33,177	39,374
Adj. net profit (Rs mn)	4,301	16,495	21,011
Adj. EPS (Rs)	9.5	36.5	46.4
Consensus EPS (Rs)	9.5	34.8	44.4
Adj. ROAE (%)	3.6	13.2	15.4
Adj. P/E (x)	124.2	32.4	25.4
EV/EBITDA (x)	30.0	16.7	14.0
Adj. EPS growth (%)	63.2	283.5	27.4

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

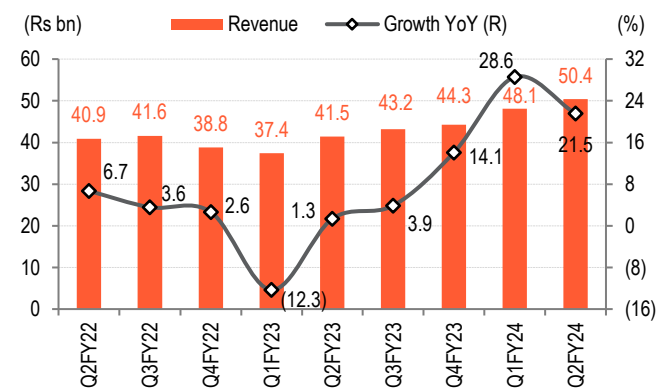
(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
<b>Net Sales</b>	<b>50,386</b>	<b>41,455</b>	<b>21.5</b>	<b>48,141</b>	<b>4.7</b>	<b>98,526</b>	<b>78,894</b>	<b>24.9</b>
<b>EBITDA</b>	<b>9,178</b>	<b>4,342</b>	<b>111.4</b>	<b>8,563</b>	<b>7.2</b>	<b>17,741</b>	<b>5,981</b>	<b>196.6</b>
Depreciation	2,479	2,035	21.8	2,347	5.6	4,825	3,963	-
EBIT	6,699	2,307	190.4	6,216	7.8	12,915	2,018	540.0
Interest	806	549	47	857	(6)	1,663	977	-
Other Income	404	338	19.7	228	77	632	1,077	-
PBT	6,297	2,096	200	5,588	12.7	11,885	2,119	461.0
Less: Taxation	1,344	751	-	1,055	-	2,398	1,642	-
Less: Minority Interest	57	47	-	11	-	67	70	-
Recurring PAT	4,897	1,297	277.5	4,523	8.3	9,419	407	2217.2
Exceptional items	0	0	-	0	-	0	0	-
<b>Reported PAT</b>	<b>4,897</b>	<b>1,297</b>	<b>277.5</b>	<b>4,523</b>	<b>8.3</b>	<b>9,419</b>	<b>407</b>	<b>2217.2</b>
<b>Key Ratios (%)</b>	<b>(bps)</b>			<b>(bps)</b>		<b>(bps)</b>		
Gross Margin	66.2	58.7	752	65.9	29	66.1	57.9	818
EBITDA Margin	18.2	10.5	774	17.8	43	18.0	7.6	1042
Tax / PBT	21.3	35.8	-	18.9	-	20.2	77.5	-
NPM	9.7	3.1	-	9.4	-	9.6	0.5	-
EPS (Rs)	10.8	2.9	-	9.9	-	20.7	0.9	-

Source: Company, BOBCAPS Research

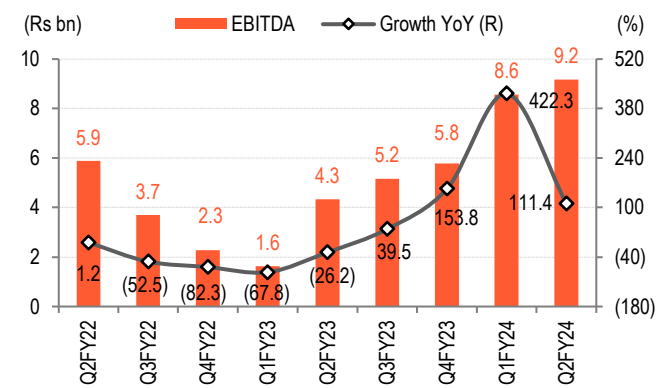
**Fig 2 – Revenue mix**

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
<b>Formulations</b>	<b>46,708</b>	<b>38,413</b>	<b>21.6</b>	<b>41,997</b>	<b>11.2</b>	<b>88,705</b>	<b>71,902</b>	<b>23.4</b>
North America	18,666	13,295	40.4	15,905	17.4	34,571	23,399	47.7
India	16,915	15,841	6.8	16,384	3.2	33,299	30,761	8.3
Growth Markets	4,378	4,449	(1.6)	4,066	7.7	8,444	8,686	-
EMEA	4,759	3,842	23.9	3,987	19.4	8,746	7,177	21.9
RoW	1,990	986	101.8	1,655	20.2	3,645	1,879	94.0
<b>APIs</b>	<b>2,684</b>	<b>2,499</b>	<b>7.4</b>	<b>3,371</b>	<b>(20.4)</b>	<b>6,055</b>	<b>5,050</b>	<b>19.9</b>
Licensing Income	-	-	-	2,053	-	2,053	-	-
Other Operating income	994	543	82.9	720	38.1	1,713	1,942	(11.8)
<b>Net Sales</b>	<b>50,386</b>	<b>41,455</b>	<b>21.5</b>	<b>48,141</b>	<b>4.7</b>	<b>98,526</b>	<b>78,894</b>	<b>24.9</b>
USDINR	87.6	83.4	5.1	87.9	(0.3)	87.8	83.3	5.3
US revenue (US\$ mn)	213	159	33.6	181	17.7	394	281	40.2

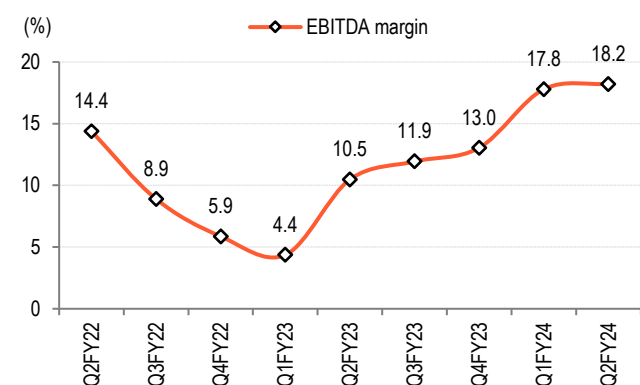
Source: Company, BOBCAPS Research

**Fig 3 – Revenue**

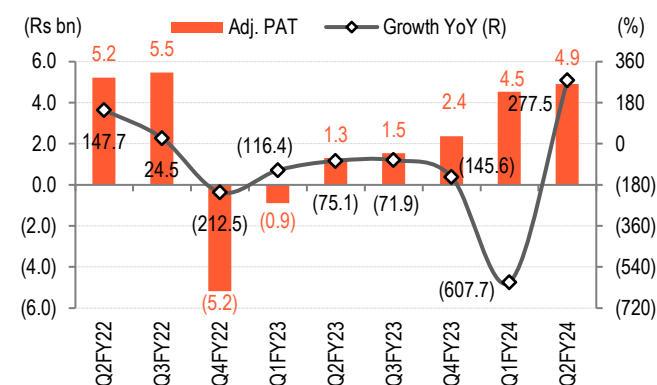
Source: Company, BOBCAPS Research

**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 improved margin following the introduction of gSpiriva and lower tax guidance of ~22%, we raise our FY24/FY25 EBITDA estimates for LPC by 6%/15% and now model for expansion in ROE to 13%/15%, with a 120% EPS CAGR over FY23-FY25. We introduce FY26 estimates for the company as well.

Apart from revising our estimates, we raise our target FY25E EV/EBITDA multiple to 12.5x (vs. 11x) – one standard deviation below the five-year average – and arrive at a new TP of Rs 1,050 (vs. Rs 800). Valuations, however, appear full at 16.7x/14x FY24E/FY25E EV/EBITDA and hence we maintain our SELL rating.

**Fig 7 – Revised estimates**

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	195.4	213.8	233.2	191.4	209.2	-	2.1	2.2	NA
EBITDA	33.2	39.4	43.2	31.4	34.4	-	5.6	14.5	NA
EBITDA margin (%)	17.0	18.4	18.5	16.4	16.4	-	57bps	198bps	NA
EPS (Rs)	36.5	46.4	52.8	32.9	37.1	-	10.9	25.2	NA

Source: BOBCAPS Research

**Fig 8 – Key assumptions**

Revenue (Rs bn)	FY23A	FY24E	FY25E	FY26E
India	60.8	67.9	75.2	83.4
Noeth America	54.2	69.3	72.0	72.0
Growth Markets	17.3	18.5	19.9	21.4
EMEA	15.5	18.9	23.8	31.1
ROW	3.9	4.9	6.3	7.9
API	11.1	11.9	12.5	13.1
Licensing income	0.0	0.0	0.0	0.0
Other operating income	3.7	3.9	4.1	4.3

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.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.9	1,888	2,070	BUY
Alembic Pharma	ALPM IN	1.7	727	700	HOLD
Alkem Labs	ALKEM IN	6.3	4,306	3,850	HOLD
Aurobindo Pharma	ARBP IN	7.0	980	880	HOLD
Cipla	CIPLA IN	12.2	1,240	1,360	BUY
Divi's Labs	DIVI IN	11.3	3,493	2,800	SELL
Dr Reddy's Labs	DRRD IN	11.0	5,425	5,500	HOLD
Eris Lifesciences	ERIS IN	1.5	909	955	BUY
Glenmark Life Sciences	GLS IN	0.9	630	620	HOLD
Laurus Labs	LAURUS IN	2.4	369	340	HOLD
Lupin	LPC IN	6.5	1,180	1,050	SELL
Sun Pharma	SUNP IN	34.4	1,179	1,200	HOLD

Source: BOBCAPS Research, NSE | Price as of 10 Nov 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>164,163</b>	<b>166,417</b>	<b>195,359</b>	<b>213,778</b>	<b>233,230</b>
EBITDA	20,788	17,982	33,177	39,374	43,197
Depreciation	16,587	8,807	9,255	9,736	10,217
EBIT	4,201	9,175	23,921	29,638	32,980
Net interest inc./(exp.)	(1,428)	(2,743)	(3,235)	(2,914)	(2,625)
Other inc./(exp.)	1,417	734	1,010	893	1,086
Exceptional items	0	0	0	0	0
EBT	4,190	7,165	21,697	27,617	31,441
Income taxes	1,372	2,688	4,990	6,352	7,231
Extraordinary items	(25,861)	0	0	0	0
Min. int./Inc. from assoc.	183	176	211	254	304
<b>Reported net profit</b>	<b>(23,225)</b>	<b>4,301</b>	<b>16,495</b>	<b>21,011</b>	<b>23,905</b>
Adjustments	25,861	0	0	0	0
<b>Adjusted net profit</b>	<b>2,635</b>	<b>4,301</b>	<b>16,495</b>	<b>21,011</b>	<b>23,905</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	22,829	22,476	23,316	25,514	27,836
Other current liabilities	26,562	26,448	26,448	26,448	26,448
Provisions	8,160	5,266	10,177	12,263	13,785
Debt funds	38,442	42,441	38,224	34,429	31,014
Other liabilities	0	0	0	0	0
Equity capital	909	909	909	909	909
Reserves & surplus	116,328	119,026	129,373	142,554	157,550
Shareholders' fund	117,237	119,935	130,282	143,463	158,459
<b>Total liab. and equities</b>	<b>213,229</b>	<b>216,565</b>	<b>228,447</b>	<b>242,117</b>	<b>257,541</b>
Cash and cash eq.	11,748	18,663	15,734	20,552	27,067
Accounts receivables	42,619	45,594	53,523	58,569	63,899
Inventories	46,307	41,034	48,171	52,712	57,509
Other current assets	21,263	22,263	23,263	24,263	25,263
Investments	9,000	8,527	8,527	8,527	8,527
Net fixed assets	52,575	50,268	48,513	46,277	43,560
CWIP	8,475	8,975	9,475	9,975	10,475
Intangible assets	21,241	21,241	21,241	21,241	21,241
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>213,229</b>	<b>216,565</b>	<b>228,447</b>	<b>242,117</b>	<b>257,541</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>(20,407)</b>	<b>14,127</b>	<b>18,670</b>	<b>27,358</b>	<b>29,464</b>
Capital expenditures	(9,408)	(7,000)	(8,000)	(8,000)	(8,000)
Change in investments	15,549	473	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>6,141</b>	<b>(6,527)</b>	<b>(8,000)</b>	<b>(8,000)</b>	<b>(8,000)</b>
Equities issued/Others	2	0	0	0	0
Debt raised/repaid	7,786	3,999	(4,217)	(3,795)	(3,415)
Interest expenses	(1,428)	(2,743)	(3,235)	(2,914)	(2,625)
Dividends paid	(4,830)	(1,603)	(6,148)	(7,831)	(8,909)
Other financing cash flows	7,061	(338)	0	0	0
<b>Cash flow from financing</b>	<b>8,590</b>	<b>(685)</b>	<b>(13,599)</b>	<b>(14,540)</b>	<b>(14,950)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(5,676)</b>	<b>6,915</b>	<b>(2,929)</b>	<b>4,818</b>	<b>6,515</b>
<b>Closing cash &amp; cash eq.</b>	<b>11,748</b>	<b>18,663</b>	<b>15,734</b>	<b>20,552</b>	<b>27,067</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	(51.1)	9.5	36.3	46.2	52.6
Adjusted EPS	5.8	9.5	36.5	46.4	52.8
Dividend per share	2.3	3.5	13.6	17.3	19.7
Book value per share	257.6	263.5	286.4	315.5	348.7

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.2	3.2	2.8	2.6	2.3
EV/EBITDA	25.4	30.0	16.7	14.0	12.6
Adjusted P/E	202.6	124.2	32.4	25.4	22.3
P/BV	4.6	4.5	4.1	3.7	3.4

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	62.9	60.0	76.0	76.1	76.0
Interest burden (PBT/EBIT)	99.7	78.1	90.7	93.2	95.3
EBIT margin (EBIT/Revenue)	2.6	5.5	12.2	13.9	14.1
Asset turnover (Rev./Avg TA)	18.3	19.4	21.9	22.7	23.3
Leverage (Avg TA/Avg Equity)	1.8	1.8	1.8	1.7	1.7
<b>Adjusted ROAE</b>	<b>2.1</b>	<b>3.6</b>	<b>13.2</b>	<b>15.4</b>	<b>15.8</b>

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	8.3	1.4	17.4	9.4	9.1
EBITDA	(19.0)	(13.5)	84.5	18.7	9.7
Adjusted EPS	(78.3)	63.2	283.5	27.4	13.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.7	10.8	17.0	18.4	18.5
EBIT margin	2.6	5.5	12.2	13.9	14.1
Adjusted profit margin	1.6	2.6	8.4	9.8	10.2
Adjusted ROAE	2.1	3.6	13.2	15.4	15.8
ROCE	2.5	3.6	11.1	12.9	13.6
<b>Working capital days (days)</b>					
Receivables	97	100	100	100	100
Inventory	97	90	90	90	90
Payables	121	121	121	121	121
<b>Ratios (x)</b>					
Gross asset turnover	1.2	1.2	1.3	1.4	1.4
Current ratio	2.1	2.4	2.3	2.4	2.6
Net interest coverage ratio	2.9	3.3	7.4	10.2	12.6
<b>Adjusted debt/equity</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>

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

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**BUY** – Expected return >+15%

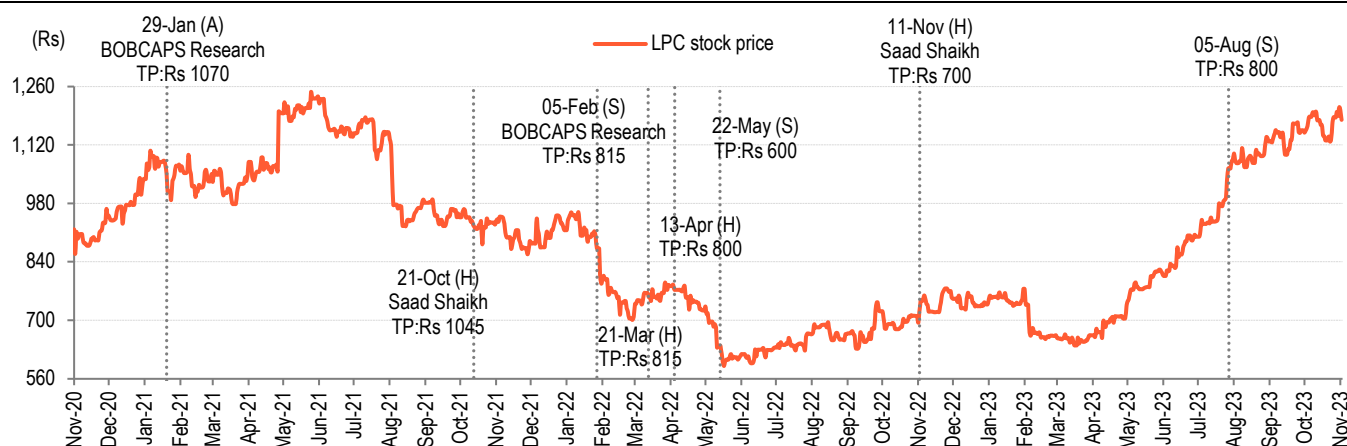
**HOLD** – Expected return from -6% to +15%

**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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