

HOLD

TP: Rs 1,560 | ▼ 3%

LUPIN

| Pharmaceuticals

| 09 February 2024

All-round beat; margins sustain – raise to HOLD

- **Strong Q3 with EBITDA/PAT of Rs 10.2bn/Rs 6.1bn, beating consensus by 17%/42%**
- **EBITDA margin has held above 17% for last three quarters backed by sales of gSpiriva; guided to remain steady**
- **TP raised to Rs 1,560 (vs. Rs 1,050) as we hike FY24-FY26 EBITDA by 13-19% and apply a higher 14x multiple; upgrade to HOLD**

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Broad-based growth led by US sales.... LPC reported 20% YoY revenue growth to Rs 52bn in Q3FY24, 7% ahead of Bloomberg consensus due to faster ramp-up of gSpiriva in the US market. The strong performance was supported by double-digit growth across businesses, barring API which was largely flat. US business grew 24% YoY but was flat QoQ as the previous quarter also had gSpiriva sales. gSpiriva market share has reached ~30% and LPC is aiming for 40%+. US base business also saw volume growth and was further supported by lower price erosion. Recent launches, including gNascobal and gProlensa, aided US growth as well.

...and India business: India business outpaced the domestic market and grew 13% YoY led by strong performances in the key therapies of respiratory, gastrointestinal and gynaecology – all of which grew ahead of the market. LPC has added seven new divisions over the last 12 months and is seeking to add a couple more in the coming months. Other geographies also fared well during the quarter, with revenue from ROW/EMEA/growth markets rising 71%/36%/13% YoY, while API business dipped 1%.

Margins sustainable: LPC's EBITDA margin has held at over 17% for the last three quarters, backed by limited-competition drug gSpiriva, new launches and cost-control measures. Management expects margins to remain at this level in FY24 and improve gradually over the next few years. Gross/EBITDA margins were at 66.8%/ 19.7% for Q3.

Earnings call takeaways: (1) LPC doesn't expect competition in gSpiriva, but authorised generics do pose a threat. (2) The company expects 180-day exclusivity for gMyrbetriq. (3) LPC's inhalation portfolio contributed ~40% of its total US sales in Q3. (4) Remediation is complete for Tarapur and Mandideep Unit 1.

Upgrade to HOLD: We raise FY24/FY25/FY26 EBITDA estimates by 14%/13%/19% and increase our target EV/EBITDA multiple to 14x (vs. 12.5x) following the strong Q3 beat. On rollover to FY26E valuations, our TP rises to Rs 1,560 (vs. Rs 1,050). However, despite these revisions, stock price upsides appear capped due to the 30% rally over the past three months. We thus move our rating up only a notch from SELL to HOLD. Our target multiple is at 30% discount to frontline stock SUNP.

Key changes

Target	Rating
▲	▲

Ticker/Price	LPC IN/Rs 1,606
Market cap	US\$ 8.9bn
Free float	53%
3M ADV	US\$ 22.7mn
52wk high/low	Rs 1,700/Rs 628
Promoter/FPI/DII	46%/14%/29%

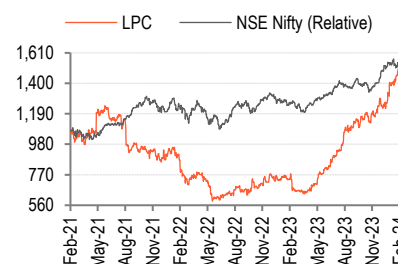
Source: NSE | Price as of 8 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	166,417	201,643	218,761
EBITDA (Rs mn)	17,982	37,706	44,549
Adj. net profit (Rs mn)	4,301	19,855	24,858
Adj. EPS (Rs)	9.5	43.9	54.9
Consensus EPS (Rs)	9.5	37.4	45.9
Adj. ROAE (%)	3.6	15.7	17.7
Adj. P/E (x)	169.0	36.6	29.2
EV/EBITDA (x)	40.8	19.8	16.7
Adj. EPS growth (%)	63.2	361.6	25.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

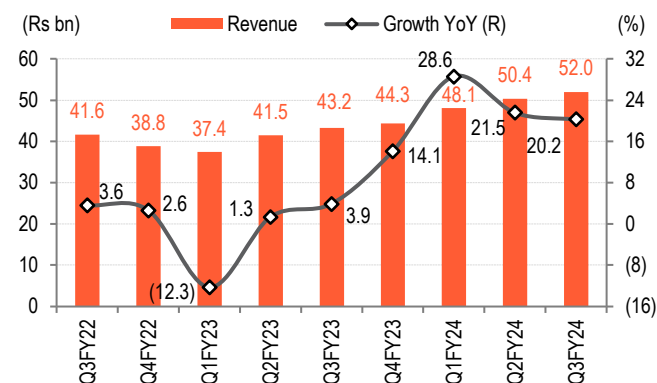
(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Net Sales	51,974	43,222	20.2	50,386	3.2	150,500	122,116	23.2
EBITDA	10,220	5,160	98.0	9,178	11.4	27,960	11,142	151.0
Depreciation	2,572	2,204	16.7	2,479	3.8	7,397	6,167	-
EBIT	7,648	2,956	158.7	6,699	14.2	20,563	4,975	313.4
Interest	740	841		806		2,403	1,818	-
Other Income	454	346	31.1	404	12.3	1,086	1,423	-
PBT	7,361	2,461	199.1	6,297	16.9	19,246	4,580	320.2
Less: Taxation	1,174	885	-	1,344	-	3,572	2,527	-
Less: Minority Interest	56	42	-	57	-	123	112	-
Recurring PAT	6,131	1,535	299.5	4,897	25.2	15,551	1,941	701.1
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	6,131	1,535	299.5	4,897	25.2	15,551	1,941	701.1
Key Ratios (%)								
Gross Margin	66.8	60.5	629bps	66.2	58bps	66.3	58.8	750bps
EBITDA Margin	19.7	11.9	772bps	18.2	145bps	18.6	9.1	945bps
Tax / PBT	15.9	36.0	-	21.3	-	18.6	55.2	-
NPM	11.8	3.6	-	9.7	-	10.3	1.6	-
EPS (Rs)	13.5	3.4	-	10.8	-	34.4	4.3	-

Source: Company, BOBCAPS Research

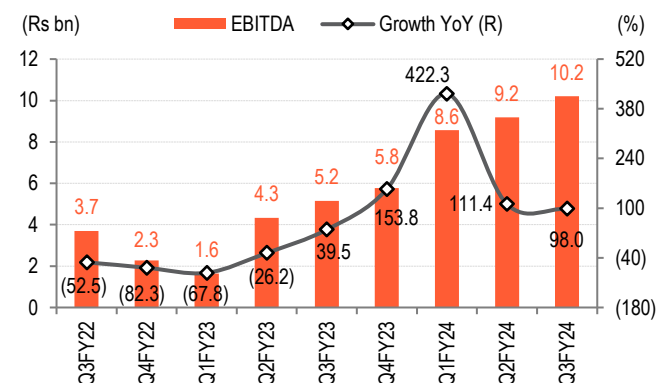
Fig 2 – Revenue mix

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Formulations	48,020	39,631	21.2	46,708	2.8	136,725	111,533	22.6
North America	18,885	15,271	23.7	18,666	1.2	53,456	38,670	38.2
India	17,251	15,213	13.4	16,915	2.0	50,550	45,974	10.0
Growth Markets	4,729	4,187	12.9	4,378	8.0	13,173	12,873	-
EMEA	5,170	3,802	36.0	4,759	8.6	13,916	10,979	26.8
RoW	1,985	1,158	71.4	1,990	(0.3)	5,630	3,037	85.4
APIs	2,779	2,815	(1.3)	2,684	3.5	8,834	7,865	12.3
Licensing Income	-	-	-	0	-	2,053	-	-
Other Operating income	1,175	776	51.4	994	18.3	2,888	2,718	6.3
Net Sales	51,974	43,222	20.2	50,386	3.2	150,500	122,116	23.2
USDINR	89.1	86.3	3.2	87.6	1.7	81	83	(3.3)
US revenue (US\$ mn)	212	177	19.8	213	(0.5)	664	464	43.0

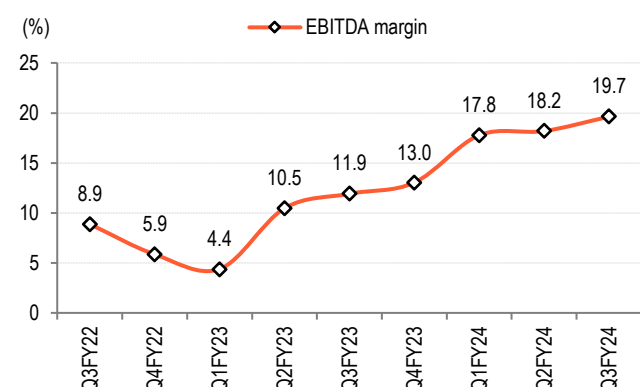
Source: Company, BOBCAPS Research

Fig 3 – Revenue

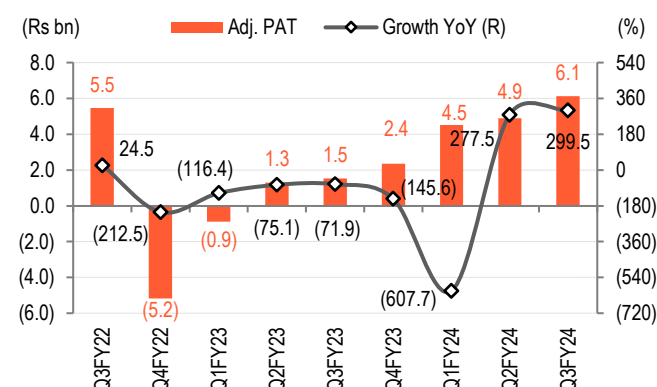
Source: Company, BOBCAPS Research

Fig 4 – EBITDA

Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin

Source: Company, BOBCAPS Research

Fig 6 – PAT

Source: Company, BOBCAPS Research

Valuation methodology

Baking in the 9MFY24 print, marked by an improved operating margin (18.5% in 9M) following the introduction of gSpiriva and healthy growth across the portfolio, we raise our FY24/FY25/FY26 EBITDA estimates for LPC by 14%/13%/19% and now model for expansion in ROE to more than 18% by FY26, with a 92% EPS CAGR over FY23-FY26.

We also increase our target EV/EBITDA multiple to 14x (vs. 12.5x) and roll over to FY26E valuations, leading to a higher TP of Rs 1,560 (vs. Rs 1,050). However, stock price upsides appear capped due to the 30% rally over the past three months. We thus move our rating up only a notch from SELL to HOLD. Our target multiple is at a 30% discount to frontline stock SUNP.

Fig 7 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	201.6	218.8	240.4	195.4	213.8	233.2	3.2	2.3	3.1
EBITDA	37.7	44.5	51.6	33.2	39.4	43.2	13.7	13.1	19.4
EBITDA margin (%)	18.7	20.4	21.4	17.0	18.4	18.5	172bps	195bps	293bps
EPS (Rs)	43.9	54.9	67.0	36.5	46.4	52.8	20.2	18.4	26.8

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY23	FY24E	FY25E	FY26E
India	60.8	67.6	74.1	80.8
North America	54.2	71.7	77.1	82.3
Growth Markets	17.3	18.5	19.9	21.4
EMEA	15.5	18.9	23.8	31.1
ROW	3.9	7.0	7.2	7.5
API	11.1	11.9	12.5	13.1
Licensing Income	0.0	2.1	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.

Key downside risks to our estimates are:

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	164,163	166,417	201,643	218,761	240,418
EBITDA	20,788	17,982	37,706	44,549	51,563
Depreciation	16,587	8,807	9,822	10,332	10,842
EBIT	4,201	9,175	27,885	34,217	40,721
Net interest inc./(exp.)	(1,428)	(2,743)	(3,235)	(2,914)	(2,625)
Other inc./(exp.)	1,417	734	1,410	1,309	1,647
Exceptional items	0	0	0	0	0
EBT	4,190	7,165	26,060	32,612	39,744
Income taxes	1,372	2,688	5,994	7,501	9,141
Extraordinary items	(25,861)	0	0	0	0
Min. int./Inc. from assoc.	183	176	211	254	304
Reported net profit	(23,225)	4,301	19,855	24,858	30,298
Adjustments	25,861	0	0	0	0
Adjusted net profit	2,635	4,301	19,855	24,858	30,298

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	22,829	22,476	23,063	25,021	27,099
Other current liabilities	26,562	26,448	26,448	26,448	26,448
Provisions	8,160	5,266	11,429	13,697	16,167
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	131,481	147,074	166,080
Shareholders' fund	117,237	119,935	132,390	147,983	166,989
Total liab. and equities	213,229	216,565	231,553	247,577	267,718
Cash and cash eq.	11,748	18,663	16,136	24,581	35,290
Accounts receivables	42,619	45,594	55,245	59,935	65,868
Inventories	46,307	41,034	49,720	53,941	59,281
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	47,946	45,114	41,772
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
Total assets	213,229	216,565	231,553	247,577	267,718

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	(20,407)	14,127	20,324	32,419	36,041
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
Cash flow from investing	6,141	(6,527)	(8,000)	(8,000)	(8,000)
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)	(7,400)	(9,264)	(11,292)
Other financing cash flows	7,061	(338)	0	0	0
Cash flow from financing	8,590	(685)	(14,851)	(15,973)	(17,332)
Chg in cash & cash eq.	(5,676)	6,915	(2,527)	8,445	10,709
Closing cash & cash eq.	11,748	18,663	16,136	24,581	35,290

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	(51.1)	9.5	43.7	54.7	66.7
Adjusted EPS	5.8	9.5	43.9	54.9	67.0
Dividend per share	2.3	3.5	16.4	20.5	25.0
Book value per share	257.6	263.5	291.1	325.5	367.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	4.4	4.4	3.7	3.4	3.1
EV/EBITDA	34.7	40.8	19.8	16.7	14.3
Adjusted P/E	275.8	169.0	36.6	29.2	24.0
P/BV	6.2	6.1	5.5	4.9	4.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	62.9	60.0	76.2	76.2	76.2
Interest burden (PBT/EBIT)	99.7	78.1	93.5	95.3	97.6
EBIT margin (EBIT/Revenue)	2.6	5.5	13.8	15.6	16.9
Asset turnover (Rev./Avg TA)	18.3	19.4	22.5	22.8	23.3
Leverage (Avg TA/Avg Equity)	1.8	1.8	1.8	1.7	1.6
Adjusted ROAE	2.1	3.6	15.7	17.7	19.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	8.3	1.4	21.2	8.5	9.9
EBITDA	(19.0)	(13.5)	109.7	18.1	15.7
Adjusted EPS	(78.3)	63.2	361.6	25.2	21.9
Profitability & Return ratios (%)					
EBITDA margin	12.7	10.8	18.7	20.4	21.4
EBIT margin	2.6	5.5	13.8	15.6	16.9
Adjusted profit margin	1.6	2.6	9.8	11.4	12.6
Adjusted ROAE	2.1	3.6	15.7	17.7	19.2
ROCE	2.5	3.6	12.9	14.8	16.4
Working capital days (days)					
Receivables	97	100	100	100	100
Inventory	97	90	90	90	90
Payables	121	121	121	121	121
Ratios (x)					
Gross asset turnover	1.2	1.2	1.4	1.4	1.5
Current ratio	2.1	2.4	2.4	2.5	2.7
Net interest coverage ratio	2.9	3.3	8.6	11.7	15.5
Adjusted debt/equity	0.2	0.1	0.1	0.0	(0.1)

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

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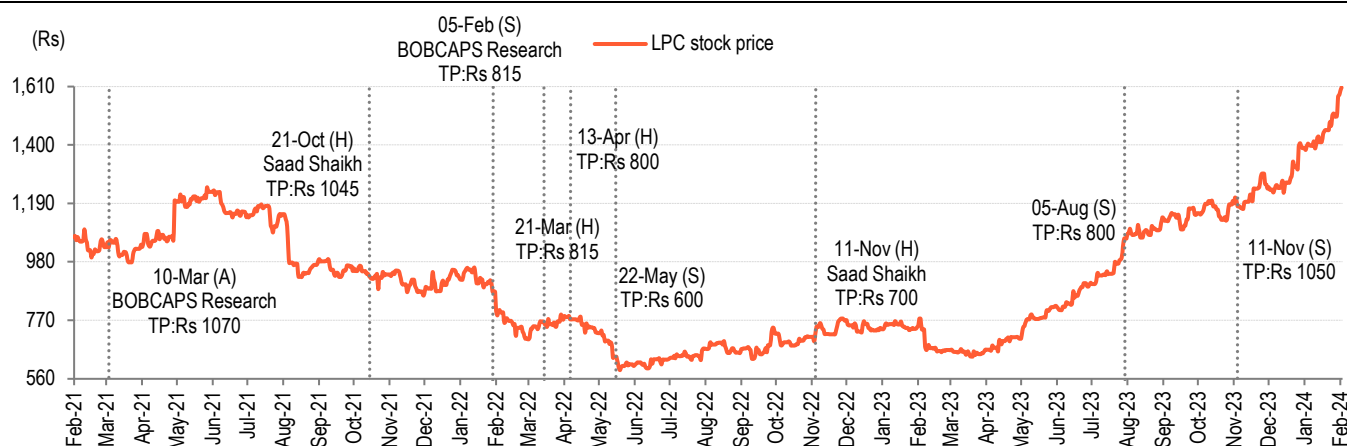
HOLD – Expected return from -6% to +15%

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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