Lupin

Reduce

Pharmaceuticals | Q1FY24 Result Update

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Result Update

Upside limited

- **Lupin's Q1FY24 earnings were above our estimates on higher than expected growth across geographies, NCE income and better operating performance.**
- **Sales stood at Rs48bn grew 28.6%/8.7% YoY/QoQ. Excluding milestone income of US$25mn from Abbvie, sales were Rs46.1bn (abv est). Ex. forex and milestone income, EBITDA stood at Rs6.5bn (abv est), increased by 297%/7.8% YoY/QoQ. EBITDA margins at 14.1% was in-line with our estimate.**
- **We upgrade our EPS estimates by 40%/30.4% in FY24E/FY25E assuming higher US sales & EBITDA margin and lower tax rate. On limited upside, maintain reduce with revised TP of Rs1,050.**

Launch momentum to drive US growth

Lupin's US revenue grew 49.6%/3.4% YoY/QoQ in Q1FY24 to US$181mn led by gSuprep, Albuterol and launch of Darunavir (exclusivity on 800mg). Price erosion has eased down to low single digit. With the clearance of Pithampur plant, the company expects product approval rate to pick up. We believe material launches like gSpiriva, Diazepam gel, Prolensa and few opthalmics will be critical for US growth and improving margin. We expect US sales CAGR of 14% over FY23-25E.

India business growth back on track

Lupin's India business grew by 9.8% YoY in Q1FY24 growing ahead of the market. Excluding Cidmus and the NLEM impact sales grew 13.6% YoY. The company launched 4 brands across therapies during the quarter. We believe double digit growth to be back from Q2FY24 onwards with cardiac, respiratory and gynecology back on growth trajectory coupled with productivity from newly added field force. We expect India revenue CAGR of 12% over FY23-25E.

Valuation

We believe timely product launches are critical in the US and hence execution will remain the key for US scale up and operating leverage. At this juncture, Lupin lags behind peers on margin and return ratios, hence the above is critical to bridge the gap. Given that the stock has already rallied, we believe there is limited upside on stock from current levels, therefore maintain our Reduce rating with a revised target price of Rs1,050at 21x FY25E P/E.

Q1FY24 Result (Rs Mn)

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	48,141	37,438	28.6	44,301	8.7
Total Expense	39,576	35,799	10.6	38,260	3.4
EBITDA	8,565	1,639	422.4	6,041	41.8
Depreciation	2,347	1,928	21.7	2,640	(11.1)
EBIT	6,218	(289)	NA	3,401	82.9
Other Income	228	56	310.6	373	(38.7)
Interest	857	428	100.3	926	(7.4)
EBT	5,588	23	24516.3	2,585	116.2
Tax	1,055	891	18.4	161	554.6
RPAT	4,523	(891)	NA	2,360	91.7
APAT	4,523	(891)	NA	2,360	91.7
			(bps)		(bps)
Gross Margin (%)	65.9	57.0	892	60.5	542
EBITDA Margin (%)	17.8	4.4	1341	13.6	416
NPM (%)	9.4	(2.4)	NA	5.3	407
Tax Rate (%)	18.9	3924.7	NA	6.2	1264
EBIT Margin (%)	12.9	(0.8)	NA	7.7	524

CMP	Rs 1,064
Target / Downside	Rs 1,050 / 1%
NIFTY	19,517

Scrip Details

Equity / FV	Rs 910mn / Rs 2
Market Cap	Rs 484bn
	USD 5.9bn
52-week High/Low	Rs 1,078/ 623
Avg. Volume (no)	12,44,790
Bloom Code	LPC IN

Price Performance	1M	3M	12M
Absolute (%)	19	50	61
Rel to NIFTY (%)	18	42	47

Shareholding Pattern

	Dec'22	Mar'23	Jun'23
Promoters	47.1	47.1	47.1
MF/Banks/FIs	29.4	29.2	29.4
FIIs	14.0	13.3	13.9
Public / Others	9.5	10.4	9.6

Valuation (x)

	FY23A	FY24E	FY25E
P/E	112.4	30.1	21.5
EV/EBITDA	29.6	15.8	12.1
ROE (%)	3.5	12.3	15.3
RoACE (%)	3.6	10.1	12.4

Estimates (Rs bn)

	FY23A	FY24E	FY25E
Revenue	166.4	193.8	211.6
EBITDA	17.2	32.2	40.6
PAT	4.3	16.1	22.5
EPS (Rs.)	9.5	35.4	49.5

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Exhibit 1: Quarterly revenue mix

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY22	FY23	YoY (%)
India	16,384	14,920	9.8	14,786	10.8	60,042	60,759	1.2
US	15,905	10,104	57.4	15,503	2.6	57,556	54,173	(5.9)
Growth market	4,066	4,237	(4.0)	4,385	(7.3)	14,019	17,258	23.1
EMEA	3,987	3,335	19.6	4,535	(12.1)	13,592	15,514	14.1
ROW	1,655	893	85.3	868	90.7	3,081	3,904	26.7
NCE Income	2,053	0	N.A	0	N.A	3,734	0	N.A
API	3,371	2,551	32.1	3,226	4.5	9,904	11,092	12.0
Total	**47,421**	**36,040**	**31.6**	**43,303**	**9.5**	**1,61,928**	**1,62,700**	**0.5**

Source: Company, DART

Exhibit 2: Actual vs DART estimates

Particulars (Rs mn)	Q1FY24	Q1FY24E	Variance (%)	Comments
Revenue	48,141	43,438	10.8	Due to higher growth across geographies and higher NCE income
EBITDA	8,565	6,081	40.8	Due to higher NCE income
EBITDA margin (%)	17.8	14.0	379bps	
PAT	4,523	2,063	119.2	Due to higher operating performance and lower tax rate
EPS (Rs)	9.9	4.5	119.2	

Source: Company, DART

Exhibit 3: Change in estimates

Particulars (Rs mn)	FY24E			FY25E		
	Old	New	Chg (%)	Old	New	Chg (%)
Revenue	1,80,537	1,93,776	7.3	2,02,677	2,11,623	4.4
EBITDA	27,803	32,167	15.7	36,482	40,632	11.4
EBITDA Margin (%)	15.4	16.6	120bps	18.0	19.2	120bps
PAT	11,481	16,073	40.0	17,242	22,476	30.4
EPS (Rs)	25.2	35.3	40.0	37.9	49.4	30.4

Source: Company, DART

We upgrade our EPS estimates by 40%/30.4% in FY24E/FY25E assuming higher US sales & EBITDA margin and lower tax rate (guidance lowered to 21% from 30% earlier).

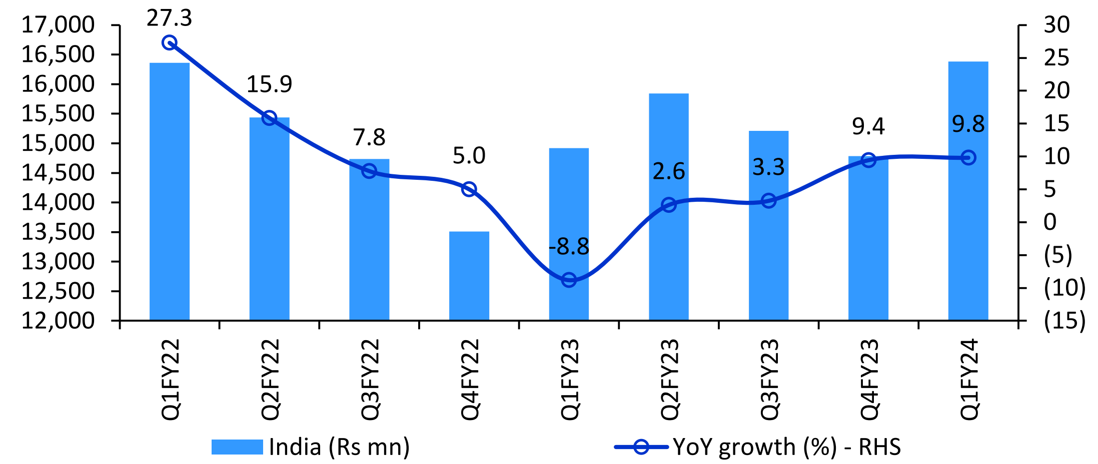
Exhibit 4: Annual revenue assumption

Particulars (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
India	52,712	60,042	60,759	68,050	76,216
% of sales	35.3	37.1	37.3	36.2	36.7
% YoY	2.6	13.9	1.2	12.0	12.0
US	55,520	57,556	54,173	65,819	70,213
% of sales	37.2	35.5	33.3	35.0	33.8
% YoY	(4.6)	3.7	(5.9)	21.5	6.7
Growth markets	11,964	14,019	17,258	20,537	24,439
% of sales	8.0	8.7	10.6	10.9	11.8
% YoY	(2.0)	17.2	23.1	19.0	19.0
EMEA	12,781	13,592	15,514	17,376	19,461
% of sales	8.6	8.4	9.5	9.2	9.4
% YoY	3.4	6.3	14.1	12.0	12.0
ROW	2,470	3,081	3,904	4,763	5,811
% of sales	1.7	1.9	2.4	2.5	2.8
% YoY	(12.2)	24.7	26.7	22.0	22.0
API	13,823	9,904	11,092	11,314	11,540
% of sales	9.3	6.1	6.8	6.0	5.6
% YoY	6.3	(28.4)	12.0	2.0	2.0
NCE Licensing income	0	3,734	0	0	0
% of sales	0.0	2.3	0.0	0.0	0.0
% YoY	0.0	0.0	0.0	0.0	0.0
Total	1,49,270	1,61,928	1,62,700	1,87,858	2,07,680

Source: Company, DART

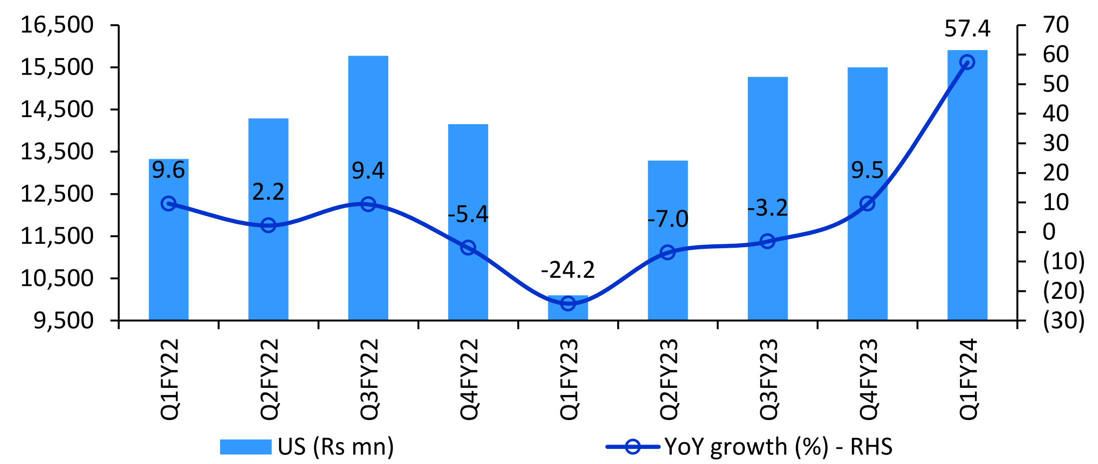
Story in Charts

Exhibit 5: Recovery seen in domestic portfolio growth



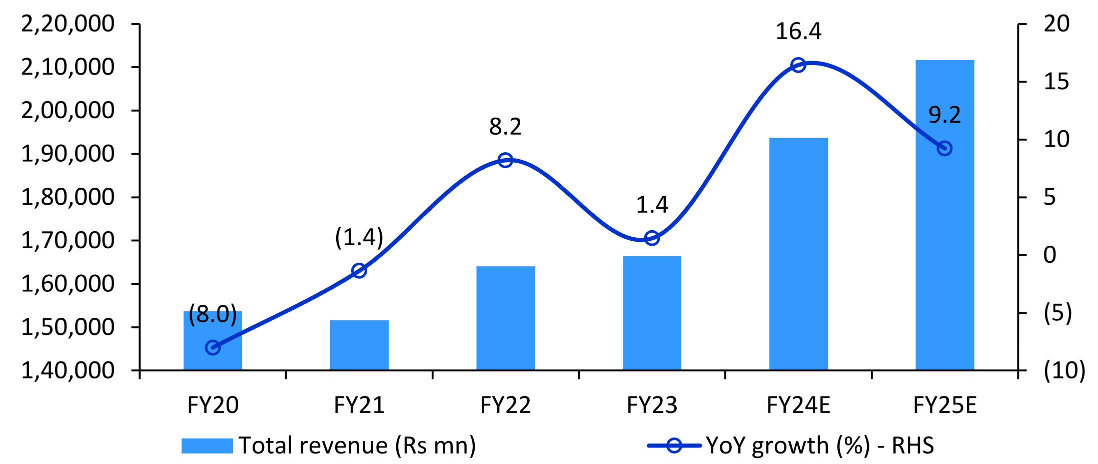
Source: Company, DART

Exhibit 6: Growth in US led by Suprep and Darunavir launch



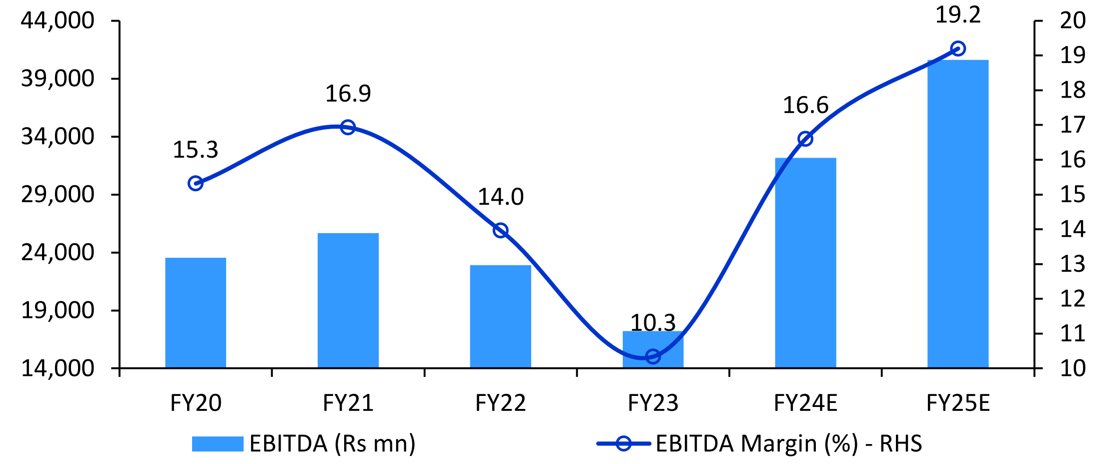
Source: Company, DART

Exhibit 7: Expect revenue CAGR of 13% over FY23-25E



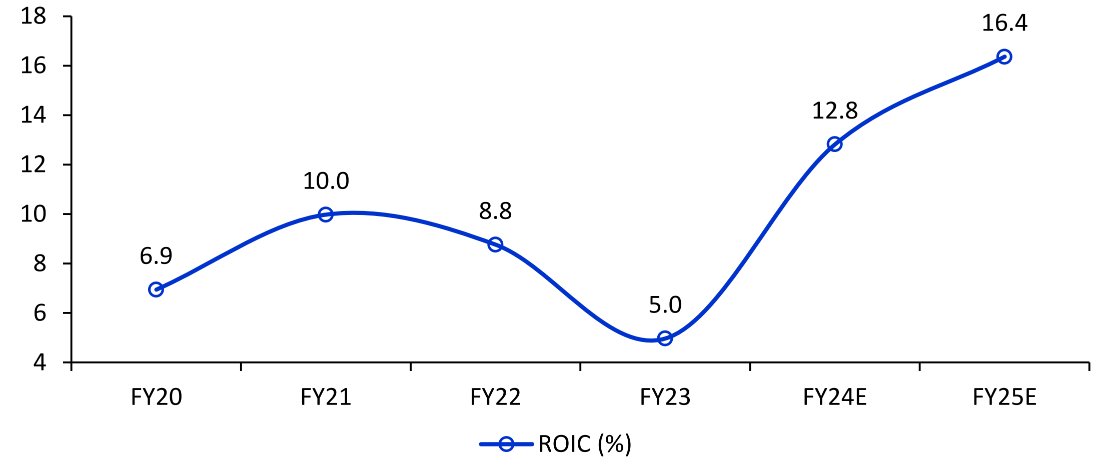
Source: Company, DART

Exhibit 8: EBITDA margin to improve with complex launches & cost optimisation



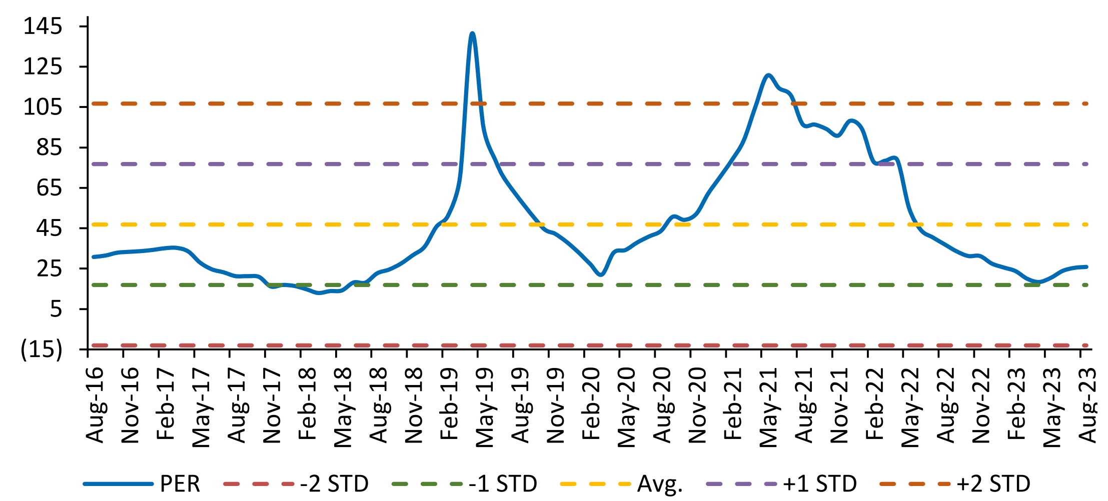
Source: Company, DART

Exhibit 9: ROIC to improve over FY23-25E



Source: Company, DART

Exhibit 10: One year forward P/E band



Source: Company, DART

Earnings call KTAs

Guidance

- Management guided for EBITDA margin exit run rate of 18%+ in Q4FY24.
- R&D cost is expected to be in the range of Rs13bn-14bn in FY24.
- India business is expected to maintain double digit growth in FY24.
- The company reduced their ETR guidance to 21%-22% range from earlier guidance of 28-30% for FY24.

North America

- The company is actively working on gSpiriva launch and expects to launch by the end of Q2FY24. Lupin seems to be the only generic in this product currently and not hearing for AG launch. Market size for the product is US$1bn.Expects gSpiriva substitution of 40% by mid FY25.
- US margin continues to expand since past four quarters on account of stable base business, continued performance of key inline products like Albuterol, Lisinopril & Suprep and launch of Darunavir, where Lupin has the exclusivity on the 800 mg strength.
- With the approvals of products like Tiotropium (gSpiriva), cyanocobalamin, diazepam gel, and other approvals now likely due to Pithampur Unit-2 warning letter clearance, the company has a rich pipeline of products to drive revenue for the rest of FY24 and beyond.
- The company has five to six products filed from Pithampur plant. Out of which Prolensa is the first product to be launched in FY24. Other products like Brimonidine, Prednisone & other too are meaningful and see good opportunities on the back of shortages in the market on the ophthalmic front. Management expects three to four ophthalmic products to be launched in FY25.
- Pegfilgrastim- management responded to USFDA queries post the Pune site inspection and awaiting approval.
- Ranibizumab – incremental spend on clinical trial of the product and company plans to continue with the product for the US and through partnerships in other markets.
- Management expects injectable business to be multi-million dollar business, currently the pipeline products about to be launched could generate US$100mn.
- Respideral consta clinical trials have been successfully completed during the quarter and expects to file it in Q2FY24. Launch of the product is expected beyond FY25.
- Ellipta is being developed in Coral Springs. The company has made progress already on the dual formulation, the two-drug combination, and are working on the three-drug combination right now.
- With the Nagpur pant USFDA inspection and approval, the management expects to receive multiple product approvals out of the site for the US by the end of FY24, management expects to get products like Glucagon into the market.
- Lupin is also actively trying for entry in green propellant in the US and Europe with both of the current product of 505J to the current as well as the novel propellant versions of the MDIs that can enable the company to potentially have some differentiation and exclusivity in the market place.
- Medbetrick – Innovator is filing litigation for all generic filers, but the company is confident about the outcome. Market size of the product is US$2bn+ with limited competition since day one.
- The US pricing pressure has come down to low single digit for company's inline product o base portfolio and expects to stabilize going forward.

India

- Sales force were added during the quarter and expect to see productivity yielding from Q2FY24. The company expects more addition of sales force going forward.
- Cardiology and respiratory out-performed pharma market and diabetes showed good progress due to loss of exclusivity of key in-licensed brand recovery.
- India business grew by 13.6% in Q1FY24, excluding Cidmus and NLEM impact.
- Partnered product, Thiamin was launched in Q4FY23, is with partnership - Caplin Point.
- On NCE front, the company has almost shut the program earlier, but now pursuing the three pipeline programs to check for efficacy. If the company is successful it will out-license or will finance it through external funding. It has no intention to commercialize these NCEs.
- Ondero is going off-patent by Aug'23 and another product will go off patent in 2025. The quarters in which products go off-patent will always be lumpy.

Pipeline Products

- Pipeline of Lupin is now positioned well to evolve the business into complex generics with inhalation MDI and DPI, injectables from Nagpur and partnered products, as well as complex ophthalmic products from Pithampur Unit 2.
- The company has commercialized Biosimilar Etanercept and currently working on the launch in new markets in partnership with Viatris and Biocon.
- The company is actively adding injectable to their pipeline with both 505J as well as 505-(b)2 opportunities.
- Nine products have been added to the injectable pipeline.

Other highlights

- Institutional tuberculosis business and API business performed extremely well during the quarter.
- R&D spent has increased QoQ due to patent litigation expenditure on key products, ranibizumab clinical trial, and long-acting Risperidone completion.
- On the NCE front, Lupin has received the milestone from Abbvie for a program advancing into the clinic.
- Out of the five sites that were under warning letter, three sites have now received EIR and the company continue to make progress on remediation efforts in Tarapur and Mandideep.
- Fostair performed well in UK and was launched in Germany in Jul'23 and FY25 could be a peak year for sales that would contribute meaningfully to European revenues.
- API business sales grew by 4.5% on QoQ as core cephalosporin API sales recovered handsomely in Q1FY24. Similarly, on YoY basis, sales growth was 32.1% led by higher sales due to good demand pickup in cephalosporin's API gross margins.
- Excluding one-time NCE income, forex and other income, EBITDA margin comes to 14.4%, reflecting an improvement of 50bps QoQ.
- The lower ETR is primarily an account of US subsidiary, offsetting the net operating losses of prior years, and on account of Sikkim plant tax benefits.
- Net debt as of 30th Jun'23 was at Rs13.1bn.
- Out of R&D guidance of Rs14bn in FY24, 50% would be dedicated towards the complex products, 20% inhalation, 20% injectable and 10% towards biosimilars.
- In Emerging market, South Africa had a robust sales in Q4 in anticipation of a price hike and similar performance in Philippines were seen. Mexico had a plant issue which is expected to be sorted soon.

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
Revenue	**1,64,055**	**1,66,417**	**1,93,776**	**2,11,623**
Total Expense	**1,41,151**	**1,49,211**	**1,61,610**	**1,70,991**
COGS	64,812	67,798	72,666	77,877
Employees Cost	29,893	30,871	35,655	38,092
Other expenses	46,445	50,542	53,289	55,022
EBIDTA	**22,904**	**17,206**	**32,167**	**40,632**
Depreciation	8,185	8,807	9,331	9,842
EBIT	**14,719**	**8,399**	**22,836**	**30,790**
Interest	1,428	2,743	3,101	3,022
Other Income	1,417	734	844	928
Exc. / E.O. items	(28,434)	776	0	0
EBT	**(13,726)**	**7,165**	**20,579**	**28,696**
Tax	1,372	2,688	4,322	6,026
RPAT	(15,280)	4,301	16,073	22,476
Minority Interest	183	176	185	194
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**4,623**	**4,301**	**16,073**	**22,476**

Balance Sheet

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
Sources of Funds				
Equity Capital	909	910	910	910
Minority Interest	687	783	968	1,162
Reserves & Surplus	1,20,624	1,23,735	1,36,623	1,55,914
Net Worth	**1,21,533**	**1,24,645**	**1,37,533**	**1,56,824**
Total Debt	38,442	42,441	41,340	40,291
Net Deferred Tax Liability	16,640	16,353	17,555	18,867
Total Capital Employed	**1,77,301**	**1,84,222**	**1,97,397**	**2,17,144**
Applications of Funds				
Net Block	**52,575**	**61,365**	**59,034**	**56,192**
CWIP	32,704	34,568	34,636	34,706
Investments	7,537	8,086	8,167	8,249
Current Assets, Loans & Advances	**1,25,397**	**1,25,541**	**1,42,580**	**1,67,830**
Inventories	46,307	44,918	52,302	57,119
Receivables	42,619	44,807	52,174	56,979
Cash and Bank Balances	10,981	12,931	12,425	25,827
Loans and Advances	1,228	1,416	1,527	1,629
Other Current Assets	16,037	17,071	19,711	21,790
Less: Current Liabilities & Provisions	**40,911**	**45,337**	**47,021**	**49,834**
Payables	22,829	25,315	29,477	32,192
Other Current Liabilities	18,082	20,022	17,544	17,642
sub total				
Net Current Assets	84,485	80,203	95,559	1,17,996
Total Assets	**1,77,301**	**1,84,222**	**1,97,397**	**2,17,144**

E – Estimates

Important Ratios

Particulars	FY22A	FY23A	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	60.5	59.3	62.5	63.2
EBIDTA Margin	14.0	10.3	16.6	19.2
EBIT Margin	9.0	5.0	11.8	14.5
Tax rate	(10.0)	37.5	21.0	21.0
Net Profit Margin	(9.3)	2.6	8.3	10.6
(B) As Percentage of Net Sales (%)				
COGS	39.5	40.7	37.5	36.8
Employee	18.2	18.6	18.4	18.0
Other	28.3	30.4	27.5	26.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.3	0.3	0.3
Interest Coverage	10.3	3.1	7.4	10.2
Inventory days	103	99	99	99
Debtors days	95	98	98	98
Average Cost of Debt	4.1	6.8	7.4	7.4
Payable days	51	56	56	56
Working Capital days	188	176	180	204
FA T/O	3.1	2.7	3.3	3.8
(D) Measures of Investment				
AEPS (Rs)	10.2	9.5	35.4	49.5
CEPS (Rs)	28.2	28.8	55.9	71.1
DPS (Rs)	6.5	4.0	7.0	7.0
Dividend Payout (%)	63.8	42.3	19.8	14.2
BVPS (Rs)	267.4	274.2	302.6	345.0
RoANW (%)	(11.8)	3.5	12.3	15.3
RoACE (%)	8.1	3.6	10.1	12.4
RoAIC (%)	8.8	5.0	12.8	16.4
(E) Valuation Ratios				
CMP (Rs)	1064	1064	1064	1064
P/E	104.6	112.4	30.1	21.5
Mcap (Rs Mn)	4,83,588	4,83,588	4,83,588	4,83,588
MCap/ Sales	2.9	2.9	2.5	2.3
EV	5,02,824	5,08,700	5,08,062	4,93,565
EV/Sales	3.1	3.1	2.6	2.3
EV/EBITDA	22.0	29.6	15.8	12.1
P/BV	4.0	3.9	3.5	3.1
Dividend Yield (%)	0.6	0.4	0.7	0.7
(F) Growth Rate (%)				
Revenue	8.2	1.4	16.4	9.2
EBITDA	(10.8)	(24.9)	87.0	26.3
EBIT	(12.4)	(42.9)	171.9	34.8
PBT	(181.9)	(152.2)	187.2	39.4
APAT	(62.0)	(7.0)	273.7	39.8
EPS	(62.0)	(7.0)	273.7	39.8

E – Estimates

Cash Flow

Particulars	**FY22A**	**FY23A**	**FY24E**	**FY25E**
Profit before tax	**(15,143)**	**6,431**	**19,736**	**27,768**
Depreciation & w.o.	8,185	8,807	9,331	9,842
Net Interest Exp	1,428	2,743	3,101	3,022
Direct taxes paid	(1,261)	(2,802)	(4,322)	(6,026)
Change in Working Capital	2,267	2,827	(15,164)	(8,280)
Non Cash	0	0	0	0
(A) CF from Operating Activities	**(4,524)**	**18,006**	**12,681**	**26,325**
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(2,377)	(18,513)	(7,069)	(7,070)
Free Cash Flow	**(6,901)**	**(507)**	**5,612**	**19,255**
(Inc)./ Dec. in Investments	15,549	3,831	(52)	(52)
Other	(57)	179	770	854
(B) CF from Investing Activities	**13,115**	**(14,504)**	**(6,350)**	**(6,268)**
Issue of Equity/ Preference	735	456	0	0
Inc./(Dec.) in Debt	(9,388)	3,999	(1,100)	(1,050)
Interest exp net	(1,428)	(2,743)	(3,101)	(3,022)
Dividend Paid (Incl. Tax)	(2,951)	(1,819)	(3,185)	(3,185)
Other	(2,002)	(1,447)	548	603
(C) CF from Financing	**(15,034)**	**(1,553)**	**(6,838)**	**(6,654)**
Net Change in Cash	(6,443)	1,950	(507)	13,403
Opening Cash balances	**17,425**	**10,981**	**12,931**	**12,425**
Closing Cash balances	**10,981**	**12,931**	**12,425**	**25,827**

E – Estimates

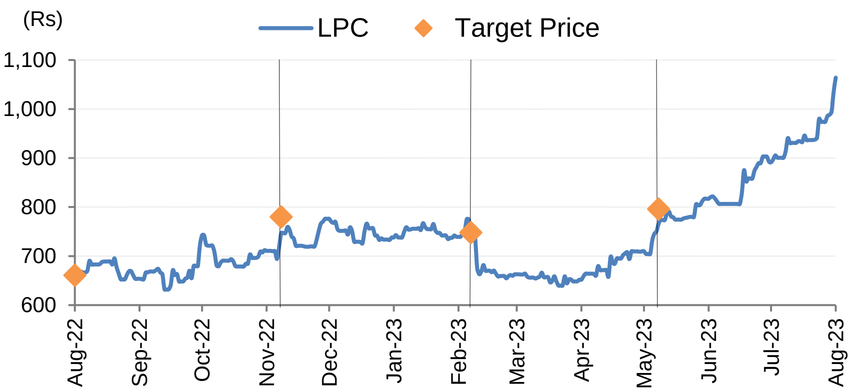
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-22	Reduce	661	660
Nov-22	Reduce	780	747
Feb-23	Reduce	748	737
May-23	Reduce	796	765

*Price as on recommendation date

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I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

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