



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

Lupin

06 August 2023

RESULT UPDATE

Sector: Pharmaceuticals Rating: HOLD

CMP: Rs 1,036 Target Price: Rs 899

Stock Info

Sensex/Nifty	65,721 / 19,517
Bloomberg	LPC IN
Equity shares	451mn
52-wk High/Low	Rs 1078/603
Face value	Rs 2
M-Cap	Rs 484bn/ USD 5.8bn

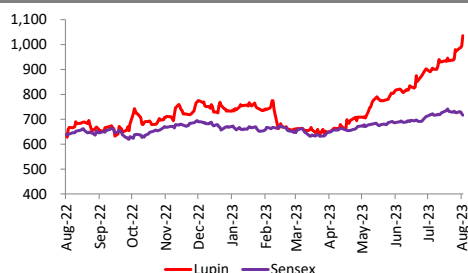
Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
Sales	1,66,418	1,86,672	2,03,197
Gross profit	98,620	1,18,584	1,29,509
Gross Margin %	59.3%	63.5%	63.7%
EBITDA	17,959	32,207	38,117
Margin %	10.8%	17.3%	18.8%
PAT	4,302	14,750	18,534
EPS	9.5	32.2	40.9
DPS(Rs)	2.4	6.5	8.2
ROE(%)	3.5	10.8	12.3
P/E(x)	109	31.9	25.4
EV/EBITDA (x)	27.6	15.6	13.2

Shareholding pattern (%)

	Dec-22	Mar-23	June-23
Promoter	47.10	47.08	47.07
-Pledged	-	-	-
FII	13.98	13.32	13.93
DII	29.38	29.20	29.37
Others	9.53	10.40	9.63

Stock Performance (1-year)



Extraordinary license income drives earnings performance

Lupin 1QFY24 earnings performance exceeded expectations led by extraordinary gains from milestone income (Rs. 2050mn) on one of its out licensed NCE molecule. India business also returned to double digit growth during the quarter and was above expectations. The strong growth trend was led by recent sales force expansion and its diabetes portfolio returning to growth as the impact of therapeutic substitution and price correction has played out. The US business also turned around and became profitable during the quarter translating into a lower effective tax rate. The US business growth momentum should get strong led by multiple launches – gSpiriva (end of 2QFY24), gNascobal and gDiazepam. In addition, some more limited competition approvals are also expected which should help growth in FY25, of which gGlucagon and gProlensa are notable. We have tweaked our forecasts on Lupin to include these launches in our estimates. Based on our revised forecasts we assign a 22x multiple on FY25E EPS to arrive at price target of Rs. 899 and recommend a Hold rating at CMP.

1QFY24 earnings highlights

LPC reported revenue of Rs 48,141mn, up 28.6% YoY and 8.7% QoQ. EBITDA at Rs 8,565mn, was up 268.7% YoY and 48.2% QoQ. EBITDA margin at 17.8%, was up 1159 bps YoY and 475 bps QoQ. LPC's reported profit after tax of Rs 4,524mn, with PAT margin at 9.4%. The company incurred a capex of Rs 1,171mn in 1QFY24. R&D spends of Rs 3,679mn were 7.8% of sales. At the end of 1QFY24, LPC's net debt/equity stood at 0.10.

North America business reported sales at Rs 15,905mn, was up 57.4% YoY and 2.6% QoQ. LPC has seen a strong growth in products like Suprep and Darunavir in 1QFY24. Due to drug shortages in the US, price erosion has come down to lower single digit and for LPCs inline products they expect a low to mid-single digit erosion in near future. The company is expecting to launch Spiriva later this quarter.

India business revenue at Rs 16,384mn was up 9.8% YoY and 10.8% QoQ. The company launched four brands across therapies in the domestic market in this quarter. They are back on track in their Diabetes segment.

Growth Markets revenue at Rs 4,066mn was down 4% YoY and 7.3% QoQ. Australia and Brazil sales were almost flat but sales in Philippines & Mexico slumped QoQ. Mexico sales were down due to issues in their Mexico plant.

EMEA revenue at Rs 3,987mn rose by 19.6% YoY but down 12.1% QoQ.

RoW revenue at Rs 1,655mn was up 85.3% YoY and 90.7% QoQ.

API revenue at Rs 3,371 mn, was up 32.1% YoY and 4.5% QoQ.

NCE income: extraordinary gains of Rs 2053mn from out licensing its NCE molecule.

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Investors are advised to refer disclosures made at the end of the research report.

1QFY24 earnings call highlights

- **US:** LPC expects Spiriva launch to happen later this quarter and would look to substitute respimat to handihaler. The company is targeting a 40% share in Spiriva and not expecting an authorized generic launch.
- **India business** has started growing led by sales force expansion and the diabetes portfolio is returning to growth this quarter.
- **API** sales have rebased and should sustain at these levels.
- **Guidance:** The company has maintained the guidance of an exit run rate of high teens EBITDA margin and should be around 15% for the full year. Company expects **Gross margins** to sustain at current levels.
- **R&D expenses:** LPC's R&D spend is shifting towards more complex products like inhalation and injectables. R&D spend should be sustained at the current levels in absolute terms and the spending should come down in percentage terms.
- There was an increase in **Other Expenses** owing to higher expenditure on consultancy (nitrosamine quality assurance), R&D, litigation related remediation, and higher sales force investments.
- **Pipeline:**
 - ✓ The company have successfully completed trials for Risperdal Consta and will be filing with the USFDA next quarter and the review might take about two years of review.
 - ✓ Also, they are awaiting USFDA action on its facility that is supposed to manufacture biosimilar pegfilgrastim.
 - ✓ On the Injectable front, with Nagpur facility approved, multiple approvals are expected. Glucagon is expected in Q4FY24.
- **Other launch opportunities** include mirabegron and gProlensa where the company has FTF exclusivity and is expected around the end of the year. Also, with Indore facility getting cleared, there are about 5 ophthalmic opportunities (Brimonidine, predinsolene, gProlensa to name some) that can add good value due to shortages in ophthalmic products.
- ETR has reduced owing to profits in North America
- Expect gFoster to reach peak sales in FY25 and would be a meaningful contributor to Europe Sales.
- Key Complex Assets that the company is working on – Ellipta platform, MDI assets, implants (Nexplanon, Mirena), and Nasal Spray.

Exhibit 1: Quarterly performance

Particulars (Rs mn)	1QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)	FY22	FY23	YoY (%)
Revenue	36,040	43,303	47,421	31.6	9.5	161,928	162,700	0.5
Other Operating Income	1,399	998	719	(48.6)	(27.9)	2,127	3,717	74.8
Total Revenue	37,438	44,301	48,141	28.6	8.7	164,055	166,417	1.4
Cost of Revenues	16,098	17,500	16,408	1.9	(6.2)	64,812	67,798	4.6
% of revenue	44.7	40.4	34.6	(1007) bps	(581) bps	40.0	41.7	164 bps
Staff Costs	7,785	7,730	8,444	8.5	9.2	29,893	30,872	3.3
% of revenue	21.6	17.9	17.8	(380) bps	(4) bps	18.5	19.0	51 bps
R&D Costs	3,478	3,050	3,679	5.8	20.6	14,025	12,800	(8.7)
% of revenue	9.3	6.9	7.6	(165) bps	76 bps	8.5	7.7	(86) bps
Other Expenses	11,232	13,293	14,724	31.1	10.8	48,152	49,790	3.4
% of revenue	31.2	30.7	31.0	(12) bps	35 bps	29.7	30.6	87 bps
EBITDA	2,323	5,778	8,565	268.7	48.2	21,198	17,958	(15.3)
EBITDA Margin	6.2	13.0	17.8	1159 bps	475 bps	12.9	10.8	(213) bps
Other Income	56	373	228	310.6	(38.7)	1,875	757	(59.6)
Interest	428	926	857	100.3	(7.4)	1,428	2,743	92.1
Depreciation	1,928	2,640	2,347	21.7	(11.1)	16,587	8,807	(46.9)
Profit before Tax (before exceptional items)	23	2,585	5,590	24,524.2	116.2	5,058	7,165	41.7
Exceptional Item	0	0	0	0.0	0.0	(18,784)	0	-
Share of Profit in JV	0	0	0	-	-	4	0	-
Tax	891	161	1,055	18.4	554.6	1,372	2,688	96.0
Tax Rate (%)	3,924.7	6.2	18.9	(390580) bps	1263 bps	27.1	37.5	1040 bps
Minority Interest	23	64	11	(52.7)	(83.4)	187	176	(5.7)
Reported PAT post MI	(891)	2,360	4,524	(607.9)	91.7	(15,280)	4,301	(128.1)
PAT Margin	(2.4)	5.3	9.4	1178 bps	407 bps	(9.3)	2.6	1190 bps

Source: Company, Systematix Institutional Research

Exhibit 2: Revenue break up

Particulars (Rs mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
North America	13,330	14,291	15,775	14,162	10,104	13,295	15,271	15,503	15,905	57.4	2.6
India	16,362	15,435	14,733	13,511	14,920	15,841	15,213	14,786	16,384	9.8	10.8
Growth Markets	3,328	3,490	3,390	3,810	4,237	4,449	4,187	4,385	4,066	(4.0)	(7.3)
EMEA	2,613	3,484	3,422	4,072	3,335	3,842	3,802	4,535	3,987	19.6	(12.1)
RoW	548	656	991	887	893	986	1,158	868	1,655	85.3	90.7
Total Formulations	36,181	37,356	38,311	36,442	33,489	38,413	39,631	40,077	41,997	25.4	4.8
API	2,459	2,678	2,564	2,203	2,551	2,499	2,815	3,226	3,371	32.1	4.5
NCE Licensing Income	3,734	0	0	0	0	0	0	0	2,053	-	-
Total Revenue	42,374	40,034	40,875	38,645	36,040	40,912	42,446	43,303	47,421	31.6	9.5

Source: Company, Systematix Institutional Research

Exhibit 3: Revenue mix (%)

Particulars (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
North America	31.5	35.7	38.6	36.6	28.0	32.5	36.0	35.8	33.5
India	38.6	38.6	36.0	35.0	41.4	38.7	35.8	34.1	34.6
Growth Markets	7.9	8.7	8.3	9.9	11.8	10.9	9.9	10.1	8.6
EMEA	6.2	8.7	8.4	10.5	9.3	9.4	9.0	10.5	8.4
RoW	1.3	1.6	2.4	2.3	2.5	2.4	2.7	2.0	3.5
Total Formulations	85.4	93.3	93.7	94.3	92.9	93.9	93.4	92.6	88.6
API	5.8	6.7	6.3	5.7	7.1	6.1	6.6	7.4	7.1
NCE Licensing Income	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.3

Source: Company, Systematix Institutional Research

Exhibit 4: QoQ growth (%)

Particulars (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
North America	-10.8	7.2	10.4	-10.2	-28.7	31.6	14.9	1.5	2.6
India	27.2	-5.7	-4.5	-8.3	10.4	6.2	-4.0	-2.8	10.8
Growth Markets	9.7	4.9	-2.9	12.4	11.2	5.0	-5.9	4.7	-7.3
EMEA	-30.3	33.3	-1.8	19.0	-18.1	15.2	-1.0	19.3	-12.1
RoW	25.4	19.7	51.1	-10.5	0.7	10.4	17.4	-25.0	90.7
Total Formulations	3.3	3.2	2.6	-4.9	-8.1	14.7	3.2	1.1	4.8
API	-3.8	8.9	-4.3	-14.1	15.8	-2.0	12.6	14.6	4.5
Total Revenue	12.7	-5.5	2.1	-5.5	-6.7	13.5	3.7	2.0	9.5

Source: Company, Systematix Institutional Research

Exhibit 5: YoY growth (%)

Particulars (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
North America	9.6	2.2	9.4	-5.3	-24.2	-7.0	-3.2	9.5	57.4
India	27.3	15.9	7.8	5.0	-8.8	2.6	3.3	9.4	9.8
Growth Markets	23.3	19.6	2.3	25.6	27.3	27.5	23.5	15.1	-4.0
EMEA	4.5	6.9	4.6	8.6	27.6	10.3	11.1	11.4	19.6
RoW	43.1	10.3	-6.2	103.0	63.0	50.3	16.9	-2.1	85.3
Total Formulations	18.3	9.6	7.2	4.0	-7.4	2.8	3.4	10.0	25.4
API	-39.9	-28.4	-25.4	-13.8	3.7	-6.7	9.8	46.4	32.1
Total Revenue	22.2	5.9	4.3	2.8	-14.9	2.2	3.8	12.1	31.6

Source: Company, Systematix Institutional Research

Exhibit 6: Margin summary

Particulars (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Gross Margin	64.2	60.2	59.3	58.0	57.0	58.7	60.5	60.5	65.9
EBITDA Margin	21.7	13.6	8.9	6.9	6.2	10.9	12.3	13.0	17.8
EBIT Margin	16.8	(8.9)	4.0	(1.6)	1.1	6.0	7.2	7.1	12.9
PAT Margin	12.7	(51.3)	13.1	(13.3)	(2.4)	3.1	3.6	5.3	9.4

Source: Company, Systematix Institutional Research

Exhibit 7: Change in estimates

Particulars (Rs mn)	New estimates		Old estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net sales	186,672	203,197	1,85,423	1,99,868	0.7	1.7
EBITDA	32,207	38,117	31,147	35,265	3.4	8.1
Margin (%)	17.3	18.8	16.8	17.6	46 bps	111 bps
PAT	14,750	18,534	14,012	16,450	5.3	12.7
Margin (%)	7.9	9.1	7.6	8.2	34 bps	89 bps

Source: Systematix Institutional Research

Exhibit 8: Actual vs Estimates

Particulars (Rs mn)	Actuals	Systematix	Var(%)	Consensus	Var(%)
Net sales	48,141	44,957	7.1	44,347	8.6
EBITDA	8,565	5,498	55.8	6,452	32.7
Margin (%)	17.8	12.2	556 bps	14.5	324 bps
PAT	4,524	1,550	191.9	2,410	87.7
Margin (%)	9.4	3.4	595 bps	5.4	396 bps

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	1,51,630	1,64,055	1,66,418	1,86,672	2,03,197
YoY gr. (%)	-8%	8%	1%	12%	9%
Cost of Goods Sold	53,622	64,812	67,798	68,088	73,688
Gross Profit	98,007	99,242	98,620	1,18,584	1,29,509
Margin (%)	65%	60.5%	59.3%	63.5%	63.7%
Employee Cost	28,259	29,893	30,872	33,341	36,009
Other Expenses	44,079	47,693	49,790	53,036	55,383
EBITDA	25,669	21,656	17,959	32,207	38,117
YoY gr. (%)	1%	-16%	-17%	79%	18%
Margin (%)	17%	13.2%	10.8%	17.3%	18.8%
Depreciation & Amortization	8,874	16,587	8,807	10,366	11,475
EBIT	16,795	5,069	9,152	21,841	26,642
Margin (%)	11%	3%	5%	12%	13%
Net Interest	1,406	1,428	2,743	1,818	1,972
Other Income	1,363	1,417	757	1,300	960
Exceptional Items	-	-18,784	-	-	-
Profit Before Tax	16,751	-13,726	7,166	21,323	25,631
Margin (%)	11%	-8%	4%	11%	13%
Total Tax	4,485	1,372	2,688	6,397	6,920
Effective tax rate (%)	27%	-10%	38%	30%	27%
Minority Interest & Share of					
Loss from Associates	101	183	176	176	176
Profit after tax	12,165	-15,280	4,302	14,750	18,534
EPS	26.8	-33.7	9.5	32.5	40.9
YoY gr. (%)	-501%	NA	NA	243%	26%

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	16,765	-13,722	7,166	21,323	25,631
Depreciation	8,874	16,587	8,807	10,366	11,475
Interest	1,406	1,428	2,743	1,818	1,972
Others	253	-938	-871	-1,300	-960
Working capital	-1,925	-150	2,934	-8,606	-7,884
Direct tax	-7,155	469	-2,688	-6,397	-6,920
Net cash from Op. activities	18,218	3,673	18,090	17,204	23,313
Net Capital expenditures	-6,776	-9,051	-19,460	-21,100	-19,460
Others	-5,620	21,973	3,826	1,300	960
Net Cash from Inv. activities	-12,396	12,922	-15,634	-19,801	-18,500
Issue of share cap. / premium	2	2	1	-	-
Debt changes	-13,677	-10,787	3,999	3,012	3,843
Dividend paid	-2,723	-2,951	-1,076	-2,950	-3,707
Others	-2,454	-1,987	-3,431	-1,994	-2,148
Net cash from Fin. activities	-18,853	-15,723	-506	-1,932	-2,012
Net change in cash	-13,031	872	1,950	-4,529	2,801

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	907	909	910	910	910
Reserves & Surplus (Ex OCI)	1,37,124	1,20,624	1,23,735	1,35,535	1,50,362
Net Worth	1,38,031	1,21,533	1,24,645	1,36,445	1,51,272
Short term debt	30,494	37,023	42,165	45,399	49,285
Long term debt	161	1,419	275	53	10
Trade payables	20,144	22,829	25,315	25,424	27,515
Other Provisions	7,844	4,830	5,151	5,151	5,151
Other liabilities	39,429	30,579	32,007	32,007	32,007
Total Liabilities	2,36,104	2,18,212	2,29,559	2,44,479	2,65,241
Net block	78,808	73,816	83,552	94,287	1,02,272
CWIP	10,663	11,463	12,380	12,380	12,380
Other Non-current asset	6,451	8,053	8,813	8,813	8,813
Investments	319	303	301	301	301
Cash and Cash Equivalents	17,425	10,981	12,931	8,403	11,204
Debtors	44,743	42,619	44,807	51,496	56,054
Inventories	40,920	46,307	44,918	45,110	48,820
Other current asset	36,776	24,669	21,857	23,690	25,396
Total Assets	2,36,104	2,18,212	2,29,559	2,44,479	2,65,241

Source: Company, Systematix Institutional Research

Key Financial Metrics

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Per Share(Rs)					
EPS	26.8	-33.7	9.5	32.5	40.9
CEPS	46.4	2.9	28.9	55.4	66.1
BVPS	304.2	267.9	274.7	300.7	333.4
DPS	6.0	6.5	2.4	6.5	8.2
Return Ratio(%)					
RoCE	10.0	3.2	5.5	12.0	13.3
RoE	8.8	-12.6	3.5	10.8	12.3
Balance Sheet					
Net Debt : Equity (x)	-0.1	0.2	0.2	0.2	0.2
Net Working Capital (Days)	225.7	221.8	211.8	199.5	198.1
Valuation(x)					
PER	38.6	-30.8	109.3	31.9	25.4
EV/EBITDA	17.9	22.6	27.6	15.6	13.2
EV/Sales	3.0	3.0	3.0	2.7	2.5

Source: Company, Systematix Institutional Research

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