

Estimate change



TP change



Rating change


CMP: INR1,205
TP: INR990 (-18%)
SELL

Gradual improvement in progress

Niche launches bolster profitability further

- Lupin (LPC) delivered a better-than-expected financial performance in 2QFY24. Increased US sales and higher productivity led to a healthy improvement in profitability for 2QFY24.
- We raise our earnings estimates by 20%/10% for FY24/FY25, factoring in: 1) better traction in limited competition opportunities, b) increased operating leverage, and c) lower effective tax rate. We value LPC at 23x 12M forward earnings to arrive at our TP of INR990.
- In addition to building a niche pipeline in injectable/nasal sprays/respiratory products, there has been a gradual improvement in core performance as well. Having said this, the valuation more than adequately factors in the earnings upside over the next 2-3 years. Hence, we retain our SELL rating.

Increased opex offsets product mix benefit to some extent

- Lupin's (LPC) 2QFY24 revenue grew 21.5% YoY to INR50.4b (our est. INR48.3b). The US sales jumped 40.4% YoY to INR18.7b (up 34% YoY in CC to USD213m; 38% of sales). On QoQ basis, the US sales grew 17.4%. Domestic formulation (DF) sales grew 6.8% YoY to INR16.9b (34% of sales). API sales grew 7.4% YoY to INR2.7b (5% of sales). The ROW sales doubled YoY to INR2b (4% of sales). The EMEA sales jumped 24% YoY to INR4.8b (10% of sales). Growth Market sales declined 1.6% YoY to INR4.4b (9% of sales).
- Gross margin (GM) expanded 750bp YoY to 66.2% due to better product mix.
- EBITDA margin expanded 790bp YoY to 18.3%, largely due to better GM. A decrease in employee costs (-150bp YoY as a % of sales), and lower R&D expenses (-70bp YoY as a % of sales) were partly offset by an increase in other expenses (+190bp as a % of sales) during the quarter.
- As a result, EBITDA almost doubled YoY to INR9.2b (our est. INR7.6b).
- Adjusting for the forex loss of INR54m, Adj. PAT surged almost 4x to INR4.9b (our est: INR3.3b).
- During 1HFY24, LPC's revenue grew 22% YoY to INR96.4b, while its EBITDA almost doubled YoY to INR15.7b. LPC registered a profit of INR7.8b during 1HFY24 vs. loss of INR375m during 1HFY23.

Highlights from the management commentary

- LPC guided that the quarterly US sales run-rate to be USD200m+ going forward.
- The 3QFY24 sales of g-Spiriva could be lower due to channel filing done during its launch.
- LPC guided for an 18% EBITDA margin during 2HFY24.
- The substitution rate of Spiriva in terms of generic prescriptions is 25% now.
- LPC is on track to file Risperidone consta in Nov'23, and expects to launch the same in FY26, subject to timely approval.

Bloomberg	LPC IN
Equity Shares (m)	453
M.Cap.(INRb)/(USD b)	548.4 / 6.6
52-Week Range (INR)	1238 / 628
1, 6, 12 Rel. Per (%)	5/55/67
12M Avg Val (INR M)	1006

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	166.4	193.6	211.8
EBITDA	17.6	32.3	36.2
Adj. PAT	3.9	15.8	17.7
EBIT Margin (%)	5.3	11.6	12.5
Cons. Adj. EPS (INR)	8.6	34.7	39.0
EPS Gr. (%)	-55.0	302.8	12.3
BV/Sh. (INR)	273.9	309.6	345.6

Ratios

Net D:E	0.3	0.2	0.1
RoE (%)	3.2	11.9	11.9
RoCE (%)	3.5	10.4	10.6
Payout (%)	24.7	7.6	7.5

Valuations

P/E (x)	140.8	34.9	31.1
EV/EBITDA (x)	31.5	17.0	14.9
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	-0.3	1.3	2.8
EV/Sales (x)	3.3	2.8	2.5

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	47.1	47.1	47.1
DII	29.4	29.4	27.6
FII	15.0	13.9	13.8
Others	8.5	9.6	11.5

FII Includes depository receipts

Quarterly Performance (Consolidated)

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	% Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Net Sales	37,438	41,455	43,222	44,301	46,087	50,385	49,471	47,681	1,66,417	1,93,624	48,287	4.3
YoY Change (%)	-3.9	1.3	3.9	14.1	23.1	21.5	14.5	7.6	3.8	16.3	16.5	
Total Expenditure	35,799	37,114	37,662	38,260	39,574	41,153	40,814	39,748	1,48,835	1,61,289	40,657	
EBITDA	1,639	4,342	5,560	6,041	6,513	9,232	8,657	7,933	17,582	32,335	7,629	21.0
YoY Change (%)	-70.4	-27.2	-1.4	114.0	297.3	112.6	55.7	31.3	-11.9	83.9	75.7	
Margins (%)	4.4	10.5	12.9	13.6	14.1	18.3	17.5	16.6	10.6	16.7	15.8	
Depreciation	1,928	2,035	2,204	2,640	2,347	2,479	2,550	2,421	8,807	9,796	2,450	
EBIT	-289	2,307	3,356	3,401	4,166	6,754	6,107	5,512	8,775	22,539	5,179	30.4
YoY Change (%)	-108.4	-40.0	-6.9	304.1	LP	192.7	82.0	62.1	-25.3	156.8	124.5	
Margins (%)	-0.8	5.6	7.8	7.7	9.0	13.4	12.3	11.6	5.3	11.6	10.7	
Interest	428	549	841	926	856	806	810	791	2,743	3,263	950	
Other Income	56	149	180	373	228	404	350	268	757	1,250	230	
EO Exp/(Inc)	-684	-188	234	263	-2,053	54	0	0	-375	-1,999	0	
PBT	23	2,096	2,461	2,585	5,591	6,298	5,647	4,989	7,165	22,525	4,459	41.2
Tax	891	751	885	161	1,055	1,344	1,299	1,332	2,688	5,029	1,115	
Rate (%)	3,907.5	35.8	36.0	6.2	18.9	21.3	23.0	26.7	37.5	22.3	25.0	
Minority Interest	-23	-47	-42	-64	-11	-57	-21	-8	-176	-96	-20	
Reported PAT	-891	1,297	1,535	2,360	4,525	4,898	4,328	3,650	4,301	17,400	3,324	47.3
Adj PAT	-1,552	1,177	1,684	2,606	2,855	4,940	4,328	3,650	3,915	15,772	3,324	48.6
YoY Change (%)	-164.0	-61.5	-37.5	399.9	LP	319.9	157.0	40.1	-55.0	302.8	182.6	
Margins (%)	-4.1	2.8	3.9	5.9	6.2	9.8	8.7	7.7	2.4	8.1	6.9	

E: MOFSL estimates

Key performance Indicators (Consolidated)

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	
INRm	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Domestic formulations	14,920	15,841	15,213	14,785	16,384	16,915	16,582	16,042	60,759	65,924	17,187
YoY Change (%)	(8.8)	2.6	3.3	9.4	9.8	6.8	9.0	8.5	1.2	8.5	8.5
US formulations	10,104	13,295	15,271	15,503	15,905	18,666	18,360	17,145	54,173	70,076	17,220
YoY Change (%)	(24.2)	(7.0)	(3.2)	9.5	57.4	40.4	20.2	10.6	(5.9)	29.4	29.5
Europe	1,936	2,159	2,119	2,575	2,601	3,156	2,904	3,068	9,023	11,729	2,548
YoY Change (%)	56.0	26.7	13.8	30.7	34.3	46.2	37.0	19.1	24.7	30.0	18.0
ROW	6,529	7,118	7,028	7,213	7,108	7,971	7,987	8,496	27,653	31,561	7,837
YoY Change (%)	24.4	20.1	18.3	6.1	8.9	12.0	13.6	17.8	0.0	0.0	10.1
API	2,551	2,499	2,815	3,226	3,371	2,684	2,759	3,021	11,092	11,834	2,874
YoY Change (%)	3.7	(6.7)	9.8	46.4	32.1	7.4	(2.0)	(6.4)	12.0	6.7	15.0
Cost Break-up											
RM Cost (% of Sales)	43.0	41.3	39.5	39.5	35.6	33.8	34.0	33.5	41.7	34.8	35.0
Staff Cost (% of Sales)	20.8	18.6	17.7	17.4	18.3	17.1	17.3	17.8	19.0	17.9	17.9
R&D Expenses(% of Sales)	9.3	8.1	6.7	6.9	8.0	7.5	7.7	7.7	7.9	7.8	7.7
Other Cost (% of Sales)	22.5	21.5	23.3	22.5	24.0	23.3	23.5	24.5	23.0	24.2	23.6
Gross Margins (%)	57.0	58.7	60.5	60.5	64.4	66.2	66.0	66.5	58.3	65.2	65.0
EBITDA Margins (%)	4.4	10.5	12.9	13.6	14.1	18.3	17.5	16.6	10.6	16.7	15.8
EBIT Margins (%)	-0.8	5.6	7.8	7.7	9.0	13.4	12.3	11.6	5.3	11.6	10.7

E: MOFSL Estimates

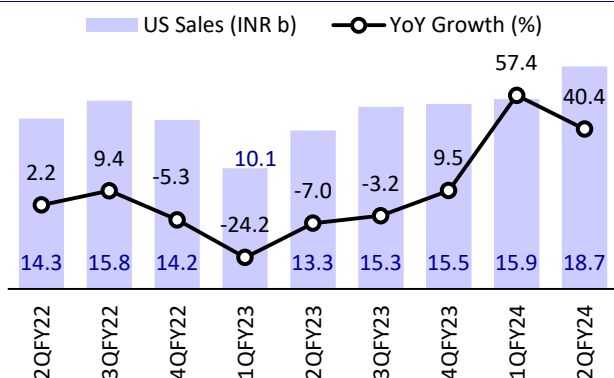


Highlights from the management commentary

- The in-licensed portfolio formed 13% of domestic formulation (DF) sales in 2QFY24 vs 15.5% in FY23.
- Non in-licensed portfolio in DF grew 9.2% YoY vs. industry growth of 7% YoY.
- The price erosion in the US generics market is about mid-single digit for the quarter.
- R&D spending is expected to be INR15b-INR16b for FY24.
- LPC is expected to send an update on measures with respect to its Pune facility by Mar'23, and then follow up for the approval of Pegfilgrastim.
- LPC would be launching g-Revlimid in FY26E.

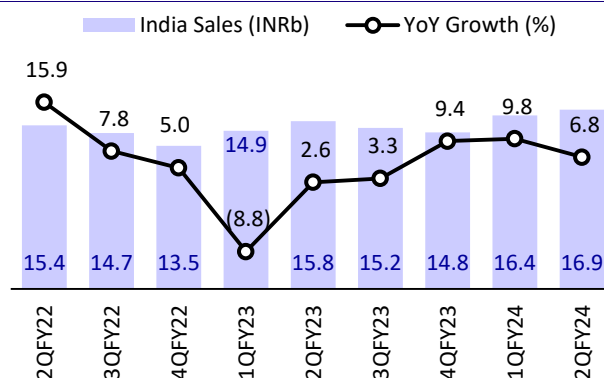
Key exhibits

Exhibit 1: The US sales increased 40% YoY in 2QFY24



Source: MOFSL, Company

Exhibit 2: DF sales up 7% YoY in 2QFY24



Source: MOFSL, Company

Focus on complex formulation to drive medium-term growth

Niche launches/investments in complex drugs to improve the US business gradually

- In 1HFY24, US sales grew 48% YoY to INR16b (USD394m; up 41% in CC terms) due to a niche launch like gSpiriva, improved traction in legacy products. This was partly offset by one-off adjustments related to the discontinuation of 15 products, and shelf-stock adjustments.
- In 1HFY24, LPC received 15 ANDA approvals. It launched four products in 1HFY24.
- LPC is implementing efforts in upscaling the portfolio in complex formulation, inhalation, injectable, and biosimilar. Currently, LPC has a pipeline of 40+ injectable and 20+ inhalation products under development.
- Accordingly, we expect a 27% CAGR in the US sales over FY23-25 to USD1b.

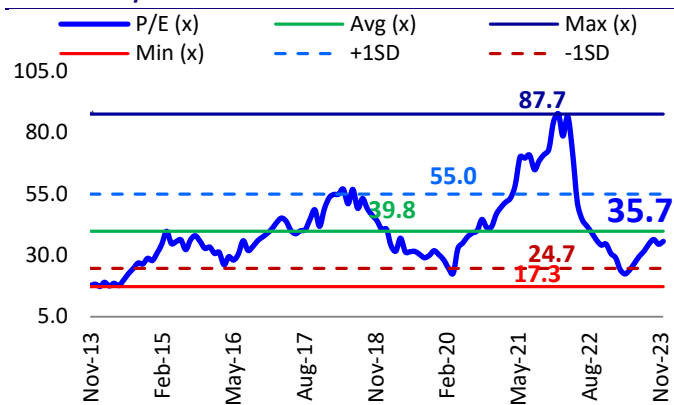
DF – Continued traction in key therapies/improving MR productivity to drive growth

- In 1HFY24, DF sales grew at 8% YoY to INR33b, due to the revival of growth in key therapies such as cardiac/respiratory and strong outperformance in Gynecology therapy as per IMS.
- In 2QFY24, Cardiac/ Gynaecology outperformed IPM by 310bp/610bp, offsetting the decline in diabetics.
- LPC is witnessing a recovery in Anti-diabetes portfolio (non in-licensing) registering 10% growth YoY vs IPM growth of 4.9% YoY due to a reduction in competition in Cidmus and addition of new diabetic division.
- However, recovery in Anti-diabetic portfolio would be gradual due to increased competition in Ondero product. The Ondero brand registered a decline of 23% YoY in 2QFY24 and 41% YoY decline in Sep'23 as per IMS.
- With addition of new diabetic division, the total sales force of LPC stands at ~9,440. LPC is focusing on improving MR productivity, which would drive growth over the medium term.
- Accordingly, we expect a 9% CAGR in DF sales to INR72.5b over FY23-25.

Reiterate Sell

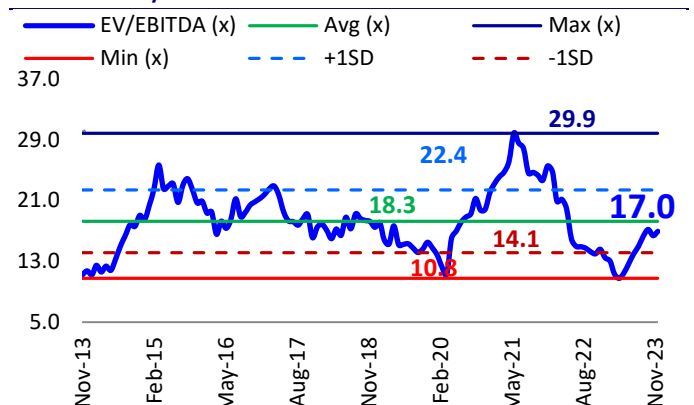
- We raise our earnings estimates by 20%/10% for FY24/FY25, factoring in: 1) better traction in limited competition opportunities, b) increased operating leverage, and c) lower effective tax rate. We value LPC at 23x 12M forward earnings to arrive at our TP of INR990.
- In addition to building a niche pipeline in injectable/nasal sprays/respiratory products, there has been a gradual improvement in core performance as well. Having said this, the valuation more than adequately factors in the earnings upside over the next 2-3 years. Hence, we retain our SELL rating.

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 5: Revenue mix in 1QFY24

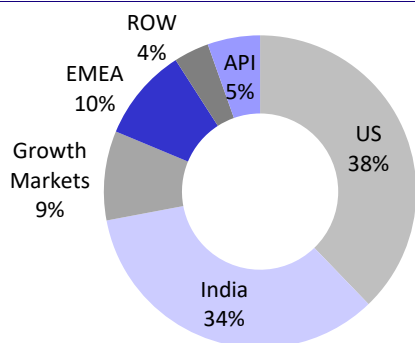


Exhibit 6: Expect 13% sales CAGR over FY23-25

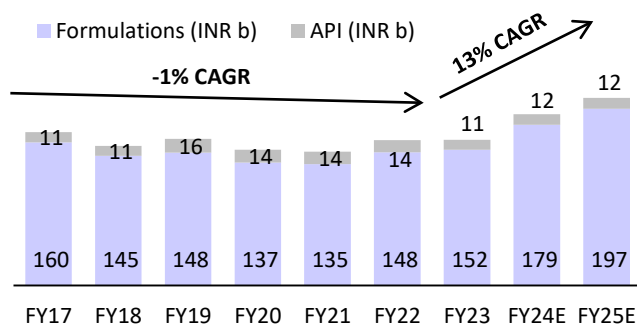


Exhibit 7: R&D spending as a % of sales to moderate

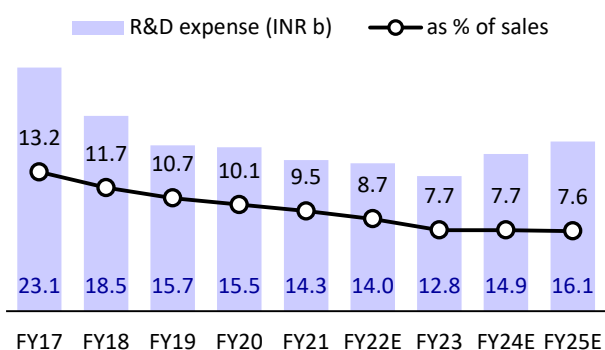


Exhibit 8: EBITDA margin to expand 650bp over FY23-25

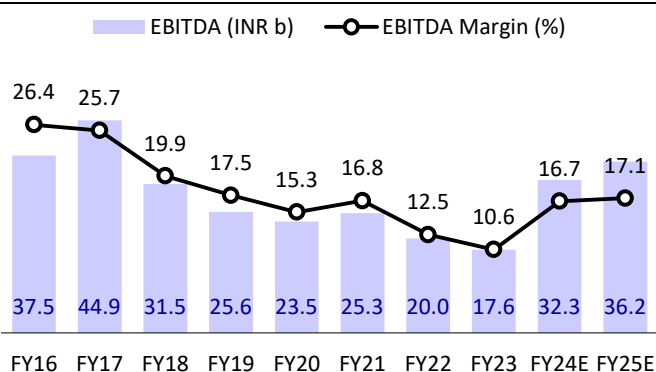


Exhibit 9: Expect EPS to be ~4x over FY23-25

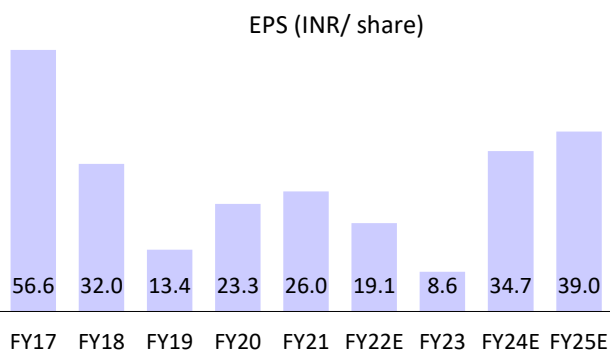
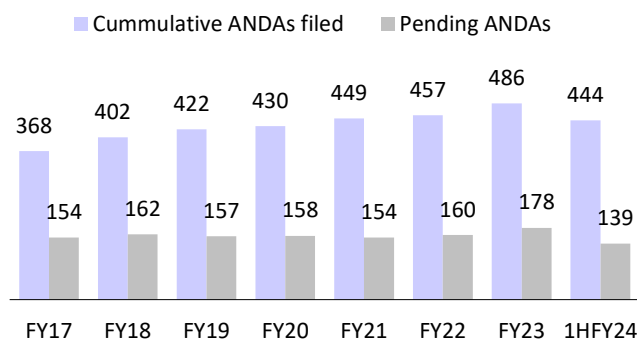


Exhibit 10: Rich ANDA pipeline



Source: MOFSL, Company,

Financials and valuations

Income Statement							(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	1,46,646	1,53,748	1,50,930	1,60,321	1,66,417	1,93,624	2,11,810
Change (%)	-7.2	4.8	-1.8	6.2	3.8	16.3	9.4
EBITDA	25,607	23,548	25,316	19,968	17,582	32,335	36,217
Margin (%)	17.5	15.3	16.8	12.5	10.6	16.7	17.1
Depreciation	8,461	9,702	8,874	8,220	8,807	9,796	9,812
EBIT	17,147	13,846	16,442	11,748	8,775	22,539	26,405
Int. and Finance Charges	3,025	3,630	1,406	1,428	2,743	3,263	3,497
Other Income - Rec.	3,330	3,578	1,479	1,504	757	1,250	1,150
PBT before EO item	17,452	13,794	16,515	11,824	6,790	20,526	24,058
EO Expense/(Income)	3,400	6,261	-236	25,550	-375	-1,999	0
PBT after EO item	14,052	7,533	16,751	-13,726	7,165	22,525	24,058
Tax	8,879	11,571	4,485	1,372	2,688	5,029	6,256
Tax Rate (%)	63.2	153.6	26.8	-10.0	37.5	22.3	26.0
Less: Minority Interest	52	-43	-101	-183	-176	-96	-97
Reported PAT	5,121	-3,995	12,165	-15,280	4,301	17,400	17,705
PAT Adj for EO items	6,066	10,572	11,790	8,699	3,915	15,772	17,705
Change (%)	-58.0	74.3	11.5	-26.2	-55.0	302.8	12.3
Margin (%)	4.1	6.9	7.8	5.4	2.4	8.1	8.4

Consolidated Balance Sheet							(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	905	906	907	909	910	909	909
Total Reserves	1,36,517	1,24,461	1,37,124	1,20,624	1,23,695	1,39,806	1,56,185
Net Worth	1,37,422	1,25,367	1,38,031	1,21,533	1,24,605	1,40,715	1,57,094
Minority Interest	469	445	550	687	783	879	976
Deferred liabilities	-4,457	252	496	711	738	738	738
Secured Loan	70,546	25,180	6,133	6,147	4,153	2,152	152
Unsecured Laon	15,802	24,928	30,494	37,023	42,165	42,165	42,165
Total Loans	86,347	50,108	36,627	43,170	46,318	44,317	42,317
Capital Employed	2,19,781	1,76,172	1,75,704	1,66,101	1,72,444	1,86,649	2,01,125
Gross Block	72,189	76,431	85,479	95,368	1,05,127	1,13,101	1,20,113
Less: Accum. Deprn.	23,073	32,776	41,650	49,870	58,677	68,473	78,284
Net Fixed Assets	49,115	43,656	43,829	45,498	46,450	44,628	41,828
Capital WIP	10,186	7,582	8,515	8,475	8,948	7,824	7,262
Investments	22,954	23,743	24,549	9,000	5,169	5,169	5,169
Goodwill & Intangibles	67,963	37,540	37,126	31,306	40,534	40,534	40,534
Curr. Assets	1,21,935	1,35,575	1,20,283	1,22,236	1,26,861	1,43,306	1,65,770
Inventory	38,368	34,569	40,920	46,307	44,918	47,372	52,238
Account Receivables	51,498	54,459	44,743	42,619	44,807	56,492	66,034
Cash and Bank Balance	9,872	24,543	17,425	10,981	12,931	15,195	23,198
Others	22,197	22,004	17,195	22,328	24,205	24,248	24,300
Curr. Liability & Prov.	52,372	71,924	58,598	50,414	55,519	54,811	59,438
Account Payables	41,390	59,884	47,460	42,254	46,937	46,230	50,856
Provisions	10,982	12,040	11,139	8,160	8,581	8,581	8,581
Net Current Assets	69,563	63,651	61,685	71,822	71,342	88,495	1,06,332
Appl. of Funds	2,19,781	1,76,172	1,75,704	1,66,101	1,72,444	1,86,649	2,01,125

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS (Fully Diluted)	13.4	23.3	26.0	19.1	8.6	34.7	39.0
Cash EPS (Fully Diluted)	32.1	44.8	45.5	37.2	28.0	56.3	60.5
BV/Share	303.7	276.7	304.2	267.4	273.9	309.6	345.6
DPS	5.0	9.0	7.0	9.0	2.0	2.5	2.5
Payout (%)	53.3	-119.0	30.4	-31.3	24.7	7.6	7.5
Valuation (x)							
P/E (Fully Diluted)	90.4	52.0	46.6	63.3	140.8	34.9	31.1
Cash P/E (Fully Diluted)	37.8	27.1	26.6	32.6	43.3	21.5	20.0
P/BV	4.0	4.4	4.0	4.5	4.4	3.9	3.5
EV/Sales	4.1	3.6	3.6	3.4	3.3	2.8	2.5
EV/EBITDA	23.3	23.2	21.3	27.7	31.5	17.0	14.9
Return Ratios (%)							
RoE	4.4	8.0	9.0	6.7	3.2	11.9	11.9
RoCE	3.5	4.8	7.5	8.6	3.5	10.4	10.6
RoIC	3.6	5.1	9.8	9.8	3.9	11.5	12.1
Working Capital Ratios							
Asset Turnover (x)	0.7	0.9	0.9	1.0	1.0	1.0	1.1
Fixed Asset Turnover (x)	3.0	3.3	3.5	3.6	3.6	4.3	4.9
Debtor (Days)	128	129	108	97	98	106	114
Creditor (Days)	184	162	137	129	136	135	139
Inventory (Days)	95	82	99	105	99	89	90
Leverage Ratio							
Current Ratio	2.3	1.9	2.1	2.4	2.3	2.6	2.8
Interest Cover Ratio	5.7	3.8	11.7	8.2	3.2	6.9	7.6
Debt/Equity (x)	0.6	0.2	0.1	0.3	0.3	0.2	0.1

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EBITDA	25,607	23,548	25,316	19,968	17,582	32,335	36,217
Interest/Dividends Recd.	3,330	3,578	1,479	1,504	757	1,250	1,150
Direct Taxes Paid	-9,026	-6,862	-4,242	-1,156	-2,661	-5,029	-6,256
(Inc)/Dec in WC	-1,888	20,583	-5,152	-16,581	2,430	-14,889	-9,834
CF from Operations	18,023	40,847	17,401	3,735	18,108	13,667	21,277
Others	2,036	-19,897	581	25,488	9,143	1	2
EO expense	3,400	6,261	-236	25,550	-375	-1,999	0
CF from Op. incl EO Exp.	16,660	14,688	18,218	3,673	27,627	15,668	21,279
(inc)/dec in FA	-6,123	28,785	-9,567	-4,029	-19,460	-6,850	-6,450
Free Cash Flow	11,900	69,631	7,834	-294	-1,352	6,817	14,827
(Pur)/Sale of Investments	-8,746	-788	-806	15,549	3,831	0	0
Others	-17,956	-16,926	-4,166	1,402	-9,228	0	0
CF from Investments	-32,825	11,070	-14,539	12,922	-24,857	-6,850	-6,450
Change in Net Worth	-724	-3,286	4,403	3,888	-69	-2	0
Inc/(Dec) in Debt	14,108	-36,240	-13,480	6,543	3,148	-2,001	-2,000
Interest Paid	-3,025	-3,630	-1,406	-1,428	-2,743	-3,263	-3,497
Dividend Paid	-2,728	-4,755	-3,788	-4,786	-1,064	-1,329	-1,329
Others	-189	39,005	-4,581	-19,941	-91	41	1
CF from Fin. Activity	7,441	-8,906	-18,852	-15,723	-819	-6,555	-6,826
Inc/Dec of Cash	-8,724	16,853	-15,173	872	1,951	2,263	8,003
Add: Beginning Balance	14,164	5,441	22,293	7,119	7,991	9,942	12,205
Cash and Eq. on acquisition	0	0	0	0	0	0	0
Cash/Cash Eq. at end of the year	5,441	22,293	7,119	7,991	9,942	12,205	20,208
Forex/Bank	4,431	2,250	10,305	2,990	2,990	2,990	2,990
Closing Balance	9,872	24,543	17,425	10,981	12,931	15,195	23,198

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NOTES

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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