

Lupin Ltd.



Lupin Ltd.

Growth will be supported by new launches along with cost optimization strategy

CMP INR 765	Target INR 816	Potential Upside 6.7%	Market Cap (INR Mn) INR 3,48,094	Recommendation ACCUMULATE	Sector Pharmaceuticals
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Result Highlights of Q4 FY23:

- Lupin reported a revenue of INR 43303 Mn in Q4FY23, the revenue grew by 14.1% YoY and 2.5% QoQ. Growth is attributable to increase in YoY revenue across the region. Except India, all the geographies reported QoQ growth.
- EBITDA margins expanded by 721 bps YoY and 72bps QoQ to 13%. EBITDA for the quarter grew by 155.1% YoY and 8.5% QoQ to INR 5778 Mn. For FY23, EBITDA margins stood at 10.8% The margins have improved on annual basis as a result of better growth in India, improvement of margins in the US as well as growth in other areas like API business, EMEA and APAC region.
- The company reported a Net Profit of INR 2423 Mn in Q4FY23 as against net loss of INR 5179 Mn in Q4FY22 and net profits of INR 1577 Mn in Q3FY23. The PAT margins rose to 5.5% (+1881bps YoY, +182bps QoQ).

MARKET DATA

Shares outs (Mn)	455
Equity Cap (INR Mn)	1,19,237
Mkt Cap (INR Mn)	3,48,094
52 Wk H/L (INR)	788/5835
Volume Avg (3m K)	1,386
Face Value (INR)	2
Bloomberg Code	LPC IN Equity

KEY FINANCIALS

INR Millions	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,51,630	1,64,055	1,66,417	1,93,917	2,37,035
EBITDA	25,669	20,972	17,981	28,797	38,281
Adj. PAT	12,165	11,222	4,301	13,433	18,546
EPS (INR)	26.7	24.7	9.5	29.6	40.8
EBITDA Margin	16.9%	12.8%	10.8%	14.9%	16.2%
NPM	8.0%	6.8%	2.6%	6.9%	7.8%

Source: Company, KRChoksey Research

A healthy growth in the revenue across the market:

Lupin reported a 14.1% YoY/2.5% QoQ growth at INR 43303 Mn. US revenue rose 9.5% YoY and 1.5% QoQ to INR 15503Mn, it accounted for 36% of Lupin's global sales. However, during the quarter, the US business registered a slight decline of 1.3% in local currency terms on a sequential basis. Moreover, albuterol sales also came down marginally due to a seasonality factor. The Indian region declined by 2.8% on QoQ but improved by 9.4% on yearly basis to report at INR 14786 Mn; accounting for 34% of Lupin's revenue. The Growth markets sales increased by 15.1% YoY and 4.7% QoQ to INR 4385 Mn contributing to 10% of global sales. EMEA sales increased to INR 4535 Mn (+11.4% YoY, 19.3% QoQ). The API sales grew to INR 3226 Mn (+46.4% YoY, 14.6% QoQ) while ROW sales saw de growth of 2.1% YoY and 25% QoQ to INR 868 Mn. EMEA, API and ROW contributed 11%/7%/2% respectively to the global sales. The market growth during Q4 FY23 was 14.9%, while Lupin grew by 11.3%. The management is certain to deliver strong growth in FY24 with array of new product launches. However, Q1FY24 revenue is expected to be affected by the seasonality in the US market, offset by new product launch.

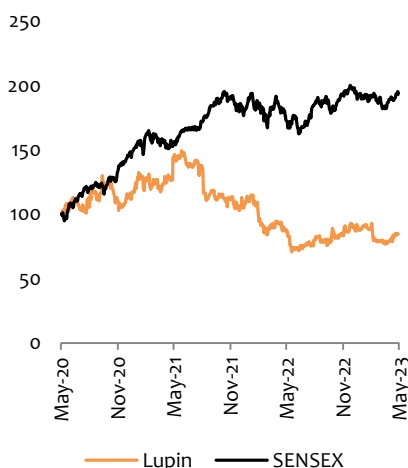
Margins improved sequentially aided by cost optimization:

For FY23, Lupin reported operating margins of 10.8% compared to 12.8% in FY22. Margins were impacted during the year due to continuous price erosion in the US market coupled with discontinuation of some of the products. However, the QoQ margins improved by 72 bps and 721 bps YoY in Q4FY23 to report at 13%. Despite higher R&D expenditures during the year, there was an overall margin improvement. In the US, the margins improved for a third consecutive quarter through various measures such as portfolio optimization, maximizing the high-value products, and continued cost optimization. With further curtailing on costs, the margins are expected to further improve.

Strong product pipeline to drive growth:

In India, during the quarter, the company launched 4 new products 1 in diabetes, 2 in cardiac and 1 in Anti – infective bringing the total to 16 products with 53 FTFs . It is poised to launch around 21 products in FY24. In US, the company has launched one new product in the quarter in total 9 launches were done in FY23. The company plans to broaden its product line through investments in injectables, inhalation, and biosimilars. The current pipeline includes 55 FTFs incl. 22 exclusive FTF. US launches like Spiriva, Diazepam Gel, Varenicline and Darunavir are expected to contribute significantly ensuing quarters.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	61,899
NIFTY	18,292

SHARE HOLDING PATTERN (%)

Particulars	Mar-23	Sep-22	Jun-22
Promoters	47.8	47.1	47.1
FIIIs	13.2	13.8	14.3
DIIIs	28.92	27.6	26.9
Others	0.28	11.5	11.7
Total	100%	100%	100

19.3%

Revenue CAGR between FY23 and FY25E

107.7%

Adj. PAT CAGR between FY23 and FY25E

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Key Concall Highlights:

i) The company would see double digit growth rate on the back of new product launches. End of fiscal year, exit rate would be upwards of 18% margin and full year about 15%. ii) The company expects the employee costs to be around 19%. iii) The company anticipates receiving approval for the Tiotropium between July and August. The company expects releasing Darunavir in June, Diazepam Gel in July and Somerset in August. Moreover, Bromfenac which is its exclusive FTF will be released by the end of March. iv) The management expects that its two injectables: Doxycycline and Pegfilgrastim would be getting the approvals soon and the launch of Doxycycline will happen in the next 12 months and Pegfilgrastim is expected to be launched in this fiscal year. v) The management anticipates seasonality in the US region in the first quarter, although it will be offset by the few new launches. Post launch of Spiriva, revenues will pick up in a major way in the US. vi) In India, the company has added 1,000 representatives, and its 6th division will come up in the first quarter. The management observes growth in the cardiac, respiratory and normalization in diabetes. vii) In FY24, R&D cost is expected to be in the range of INR 13bn-14bn. viii) Capex is anticipated to be in the range of Rs6bn-7bn (excluding acquisitions) annually. ix) The lower ETR was mainly due to higher profit in the US. The management expects ETR rates to be come around 30% in FY24.

Valuation and view:

Lupin has reported a healthy set of numbers in Q4FY23 supported by growth across the markets. We expect Lupin to deliver strong performance in FY24E/ FY25E on the back of the strong product launch pipeline and various cost optimization initiatives taken by the company. We expect the revenues/ EBITDA/ PAT to grow at a CAGR of 19.3%/ 45.9%/107.7% over FY23-25E.

Considering the better performance in Q4FY23, we revised our target price (TP) upward to INR 816/share (earlier 755), indicating a 6.7% upside over the CMP. Lupin is currently trading at a PE multiples of 25.8x/18.9x based on our FY24E/FY25E EPS respectively. Accordingly, we revise our rating to 'ACCUMULATE' (Previously HOLD) on the shares of Lupin Ltd.

Segments Result (INR Mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Revenue from Operations	38,645	36,040	40,912	42,446	43,303
Total Sales	38,645	36,040	40,912	42,446	43,303
Formulations	36,442	33,489	38,413	39,631	40,077
North America	14,162	10,104	13,295	15,271	15,503
India	13,511	14,920	15,841	15,213	14,786
Growth Markets	3,810	4,237	4,449	4,187	4,385
EMEA	4,072	3,335	3,842	3,802	4,535
ROW	887	893	986	1,158	868
API	2,203	2,551	2,499	2,815	3,226
Licensing	0	0	0	0	0

Segments Result (% YoY)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Revenue from Operations	2.8%	-14.9%	2.2%	3.8%	12.1%
Total Sales	2.8%	-14.9%	2.2%	3.8%	12.1%
Formulations	4.0%	-7.4%	2.8%	3.4%	10.0%
North America	-5.3%	-24.2%	-7.0%	-3.2%	9.5%
India	5.0%	-8.8%	2.6%	3.3%	9.4%
Growth Markets	25.6%	27.3%	27.5%	23.5%	15.1%
EMEA	8.6%	27.6%	10.3%	11.1%	11.4%
ROW	103.0%	63.0%	50.3%	16.9%	-2.1%
API	-13.8%	3.7%	-6.7%	9.8%	46.4%
Licensing	-	-	-	-	-

Revenue Mix (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Revenue from Operations	100%	100%	100%	100%	100%
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Formulations	94.3%	92.9%	93.9%	93.4%	92.6%
North America	36.6%	28.0%	32.5%	36.0%	35.8%
India	35.0%	41.4%	38.7%	35.8%	34.1%
Growth Markets	9.9%	11.8%	10.9%	9.9%	10.1%
EMEA	10.5%	9.3%	9.4%	9.0%	10.5%
ROW	2.3%	2.5%	2.4%	2.7%	2.0%
API	5.7%	7.1%	6.1%	6.6%	7.4%
Licensing	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 21	FY 22	FY 23	FY 24E	FY25E
Revenues	1,51,630	1,64,055	1,66,417	1,93,917	2,37,035
COGS	53,622	64,812	67,798	76,888	92,088
Gross profit	98,007	99,242	98,619	1,17,029	1,44,947
Employee cost	28,259	29,893	30,872	33,936	41,481
Other expenses	44,079	48,377	49,766	54,297	65,185
EBITDA	25,669	20,972	17,981	28,797	38,281
EBITDA Margin	16.93%	12.78%	10.80%	14.85%	16.15%
Depreciation & amortization	8,874	8,185	8,807	9,597	11,731
EBIT	16,795	12,787	9,174	19,200	26,551
Interest expense	1,406	1,428	2,743	2,919	3,148
Other income	1,363	1,417	734	1,629	1,659
PBT before excep. items	16,751	12,776	7,165	17,910	25,062
Exceptional Items	0	26,502	0	0	0
PBT	16,751	-13,726	7,165	17,910	25,062
Tax	4,485	1,372	2,688	4,478	6,516
Share of Profit/(Loss) of Associates/Minority	-101	-183	-176	0	0
PAT	12,165	-15,280	4,301	13,433	18,546
Adj. PAT	12,165	11,222	4,301	13,433	18,546
EPS (INR)	26.7	-33.6	9.5	29.6	40.8
Adj. EPS	26.7	24.7	9.5	29.6	40.8

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY 21	FY 22	FY 23	FY 24E	FY25E
Net Cash Generated From Operations	18,218	3,673	18,970	9,257	13,445
Net Cash Flow from/(used in) Investing Activities	-12,396	12,922	-12,868	-16,530	-20,231
Net Cash Flow from Financing Activities	-18,853	-15,723	-3,370	2,423	4,343
Net Inc/Dec in cash equivalents	-13,031	872	2,732	-4,850	-2,443
Opening Balance	22,149	9,206	9,693	11,990	7,468
Adjustment	89	-165	-107	328	0
Closing Balance Cash and Cash Equivalents	9,206	9,914	12,318	7,468	5,025

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY21	FY22E	FY23	FY24E	FY25E
EBITDA Margin (%)	16.9%	12.8%	10.8%	14.9%	16.2%
Tax rate (%)	26.8%	-10.0%	37.5%	25.0%	26.0%
Net Profit Margin (%)	8.0%	-9.3%	2.6%	6.9%	7.8%
RoE (%)	8.8%	9.2%	3.4%	9.5%	11.3%
RoCE (%)	9.0%	8.0%	5.5%	10.3%	12.5%
Current Ratio (x)	1.66	1.51	1.34	1.43	1.49
Adj. EPS (INR)	26.7	24.7	9.5	29.6	40.8

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY 21	FY 22	FY 23	FY 24E	FY 25E
Non-current assets					
Property, plant and equipment	43,829	45,498	42,896	49,683	57,979
Capital work-in-progress	8,515	8,475	8,948	8,948	8,948
Goodwill (Net)	19,624	21,241	22,188	22,188	22,188
Other intangible assets	15,354	7,077	14,914	14,914	14,914
Intangible assets under development	2,147	2,988	6,986	6,986	6,986
Investments accounted for using equity	319	303	301	359	438
Financial assets					
Investments	462	473	471	559	683
Loans	1	2	40	2	3
Other financial assets	703	818	987	768	939
Deferred tax assets (Net)	1,802	1,697	1,557	2,006	2,452
Tax assets (Net)	2,691	3,688	3,779	4,359	5,328
Other non-current assets	793	1,376	1,980	1,626	1,988
Total non-current assets	96,241	93,635	1,05,046	1,12,398	1,22,847
Current assets					
Inventories	40,920	46,307	44,918	54,935	65,795
Financial assets					
Investments	23,768	8,224	4,398	4,398	4,398
Trade receivables	44,743	42,619	44,807	50,377	61,579
Cash and Cash Equivalents	9,206	9,914	12,318	7,468	5,025
Bank balances other than above	8,218	1,068	613	613	613
Loans	15	23	21	21	21
Other financial assets	4,517	3,987	5,561	5,356	6,547
Other current assets + Current Tax Assets	8,475	12,435	11,877	15,300	18,702
Total current assets	1,31,645	1,23,509	1,23,900	1,37,856	1,62,067
TOTAL ASSETS	2,36,104	2,18,212	2,29,559	2,50,867	2,85,527
EQUITY AND LIABILITIES					
Equity					
Equity share capital	907	909	910	910	910
Other equity	1,37,124	1,20,624	1,23,735	1,40,044	1,62,562
Equity attributable to the equity shareholders	1,38,031	1,21,533	1,24,645	1,40,954	1,63,472
Non-controlling interests	550	687	783	783	783
Total equity	1,38,581	1,22,220	1,25,428	1,41,737	1,64,255
Liabilities					
Non-current liabilities					
Financial liabilities					
Borrowings	161	1,419	275	922	922
Other financial liabilities	5,972	4,729	3,878	3,878	3,878
Provisions	3,295	3,330	3,430	3,430	3,430
Deferred tax liabilities (Net)	2,298	2,408	2,294	2,294	2,294
Other non-current liabilities + Trade payables	1,437	1,342	1,600	1,600	1,600
Total non-current liabilities	13,162	13,228	11,477	12,124	12,124
Current liabilities					
Financial liabilities					
Borrowings	47,669	37,023	42,165	43,983	47,502
Trade payables	20,144	22,829	25,315	27,083	32,437
Other financial liabilities	5,499	6,862	7,063	8,140	9,749
Other current liabilities	4,994	7,080	8,709	8,399	10,059
Provisions	4,687	4,830	4,250	4,250	4,250
Current tax liabilities (Net)	1,368	4,141	5,151	5,151	5,151
Total current liabilities	84,361	82,764	92,654	97,005	1,09,147
Total liabilities	97,523	95,992	1,04,131	1,09,130	1,21,272
TOTAL EQUITY AND LIABILITIES	2,36,104	2,18,212	2,29,559	2,50,867	2,85,527

Source: Company, KRChoksey Research

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Lupin Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
12-May-23	765	816	ACCUMULATE	Buy	More than 15%
14-Nov-22	725	755	HOLD		
04-Aug-22	660	690	HOLD	Accumulate	5% – 15%
20-May-22	638	611	REDUCE		
08-Feb-22	805	836	HOLD	Hold	0 – 5%
01-Nov-21	923	978	ACCUMULATE		
06-Sep-21	986	1,137	BUY	Reduce	-5% – 0
12-Aug-21	976	1,072	ACCUMULATE		
30-Jun-21	1,167	1,258	ACCUMULATE	Sell	Less than – 5%
14-May-21	1,178	1,258	ACCUMULATE		
17-Mar-21	1,054	1,081	HOLD		
15-Dec-20	939	994	ACCUMULATE		

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