

Company update and
earnings revision

Pharmaceuticals

Target price: Rs740

Earnings revision

(%)	FY24E	FY25E
Sales	1.6	2.2
EPS	21.7	20.3

Target price revision

Rs740 from Rs630

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	47.1	47.1	47.1
Institutional investors	41.2	43.4	42.5
MFs and UTI	16.4	16.5	17.0
Insurance Cos.	11.0	12.8	12.2
FIs	13.7	14.1	13.3
Others	11.7	9.5	10.4

Source: BSE India

ESG disclosure score

Year	2021	2022	Chg
ESG score	41.8	45.3	3.4
Environment	17.5	22.6	5.1
Social	29.3	34.4	5.1
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Lupin

SELL

Maintained

Rs875

gSpiriva to rejuvenate margins

Lupin is the first company globally to receive the final approval of the USFDA for US\$1.264bn inhalation drug gSpiriva (Tiotropium Bromide). We factor in US\$100mn revenue from this drug in FY24E. Besides, Darunavir (approved in Jun'23), gNascobal and Diazepam gel (TAD in Jul'23) are the launches lined up in FY24. These launches could potentially drive 21.7% growth in Lupin's US revenue to US\$769mn in FY24E. The management has previously guided for over 500bps expansion in EBITDA margin to 15-16% for FY24E with exit margin to be higher at 18%. We raise our revenue/EBITDA/PAT estimate by 2%/13%/20%, respectively, for FY25E. The stock continues to trade a pricey 33x/28x FY24/25E earnings of Rs26.3/31.4, respectively. Maintain SELL with a revised TP of Rs740/share (earlier: Rs630/share).

- ▶ **About gSpiriva:** gSpiriva is a long-acting muscarinic antagonist, dry power inhaler (DPI) used by patients suffering from chronic obstructive pulmonary disease (COPD). The product is available in 18 mcg powder capsules and can be used only with HandiHaler inhalation device. Lupin had settled with innovator Boehringer Ingelheim on this product in FY22 and may remain the sole generic for the next couple of years. Lannett is the only known near competitor and had recently started with a pilot PK study of the product.
- ▶ **US sales to grow at a strong 22% in FY24E:** Launch of gSuprep has revived US prospects of Lupin. Near-term performance will likely be boosted by gSpiriva and Darunavir while smaller products like Diazepam gel and gNascobal spray may also contribute to growth in FY24E. The company aims to file Ellipta and Respimat in FY25 and also expects sizeable injectable approvals from FY25.
- ▶ **Margins at an inflection:** Reduction in failure to supply penalty, plant remediation cost and other cost curtailment efforts had soared Q4FY23 EBITDA margin to ~13.6%. Management expects further cost savings of Rs2-2.25bn and better contribution from higher margin US-based products like gSpiriva to drive margins of 15%+ by FY24E.
- ▶ **Outlook:** On a low base, we estimate revenue/EBITDA/PAT CAGR of 8.8%/36.6%/93.2% over FY23-FY25E, respectively. We expect margins to improve by 600bps over FY23-FY25E. RoCE may continue to be in single digit at 9.2% in FY25E from of 3.5% in FY23.
- ▶ **Valuations and risks:** gSpiriva was a critical approval for Lupin and the product will likely play a pivotal role in earnings revival in FY24E. Share of new products in US sales (35% by FY24E) is expected to rise rapidly for Lupin. However, given the nature of US generic business, an early entry of a competitor or regulatory issues at plants may dampen earnings significantly. The stock trades pricey at 27.9x FY25E EPS, maintain **SELL** with a revised target price of Rs740/share (earlier: Rs630/share) based on unchanged multiple of 24x FY25E EPS. **Key upside risks:** Quick resolution of USFDA issues and further high-value launches in the US.

Market Cap	US\$4.3bn / Rs352bn
Reuters/Bloomberg	LPC IN /LUPN.BO
Shares Outstanding (mn)	455.0
52-week Range (Rs)	776/590
Free Float (%)	52.9
FII (%)	13.3
Daily Volume (USD/'000)	9,493
Absolute Return 3m (%)	4.9
Absolute Return 12m (%)	12.1
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	1,64,055	1,66,417	1,85,424	1,96,870
Net Income (Rs mn)	9,015	3,824	11,972	14,278
EPS (Rs)	19.8	8.4	26.3	31.4
% Chg YoY	-32.4	-57.6	213.0	19.3
P/E (x)	44.1	104.1	33.3	27.9
CEPS (Rs)	56.3	27.8	46.5	52.7
EV/E (x)	19.9	24.6	14.6	12.7
Dividend Yield (%)	-	-	-	-
RoCE (%)	3.7	3.5	8.3	9.2
RoE (%)	6.9	3.1	9.3	10.2

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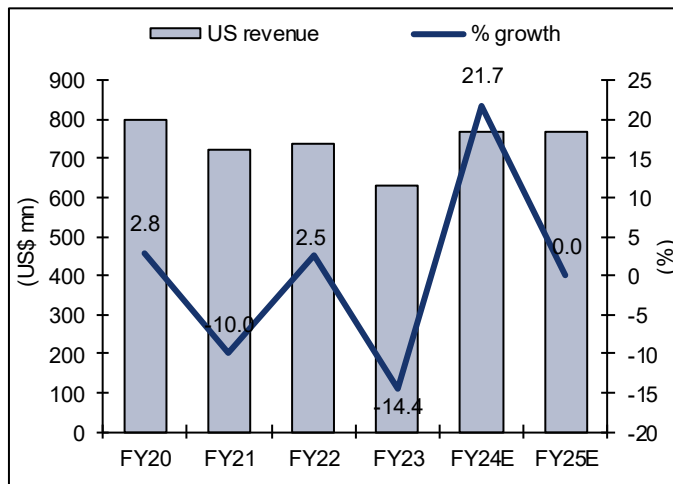
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Table 1: Lupin pipeline

Product	Molecule	Current Status
Spiriva	Tiotropium Bromide	Approved
Diazepam Gel	Diazepam Gel	Filed/Q1FY24 Launch
Nascobal Nasal Spray	Cyanocobalamin	Filed/H1FY24 Launch
Darunavir	Darunavir	Approved
Varenicline	Varenicline Tartrate	Pipeline
pegfilgrastim	pegfilgrastim	Pipeline
glucagon	Glucagon	Pipeline
Suprep	Sodium Sulfate; Potassium Sulfate; Magnesium Sulfate	Launched
Ellipta	Fluticasone Furoate	Pipeline
respimat Inhalers (Stiolto, Striverdi, and Combivent)		Pipeline
Risperdal Consta	Risperidone	Pipeline
Dulera	Formoterol Fumarate; Mometasone Furoate	CRL received

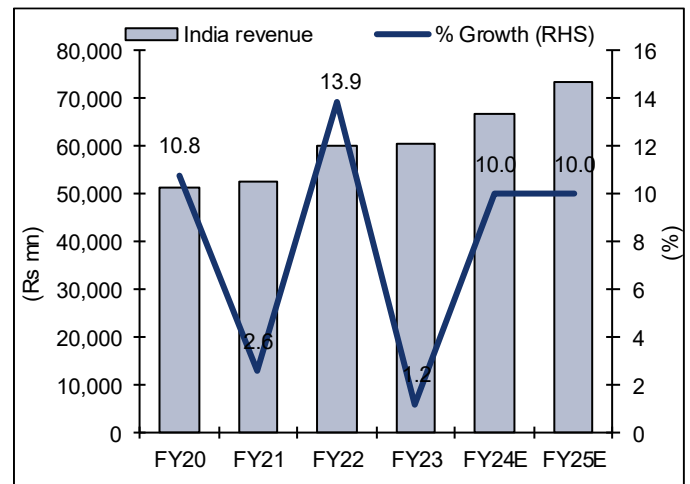
Source: USFDA, I-Sec research

Chart 1: US sales to be supported by gSpiriva and other complex launches



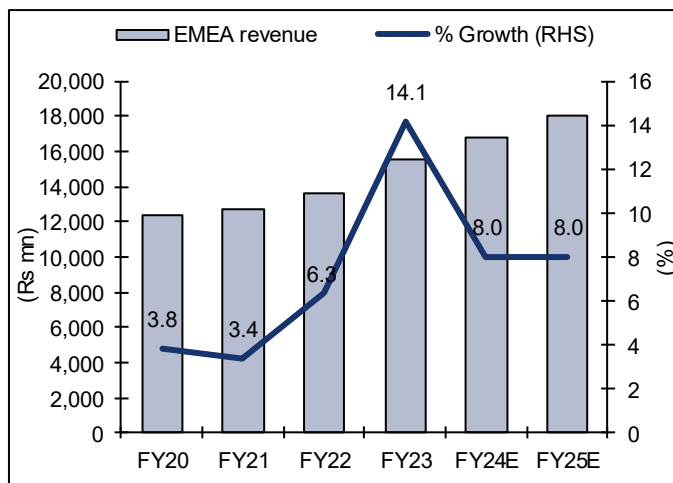
Source: Company data, I-Sec research.

Chart 2: MR addition and launches to drive India growth



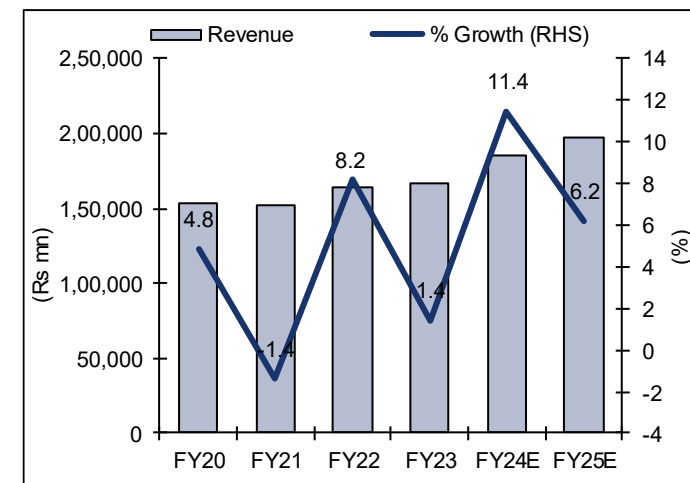
Source: Company data, I-Sec research.

Chart 3: EMEA growth at 8% over FY23-FY25E



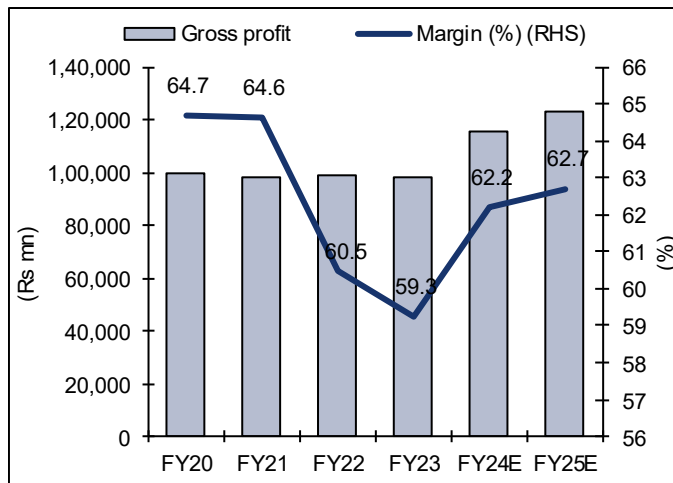
Source: Company data, I-Sec research.

Chart 4: Revenue to grow 8.8% over FY23-FY25E



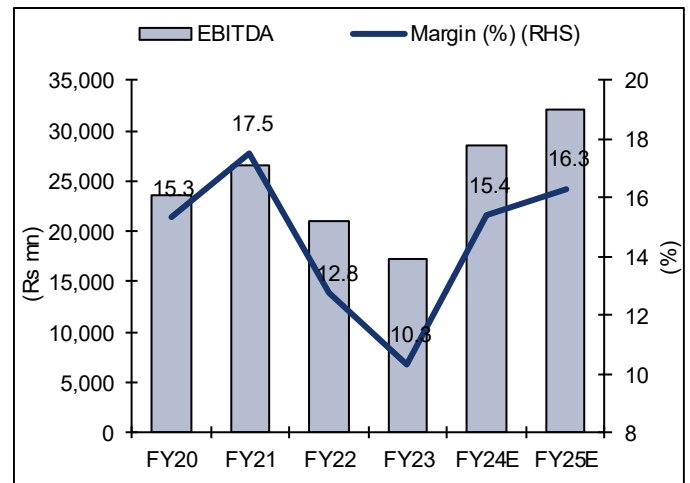
Source: Company data, I-Sec research.

Chart 5: Gross margin set to improve with improvement in US sales



Source: Company data, I-Sec research.

Chart 6: EBITDA margin to expand 600bps led by cost-control initiatives and high value launches



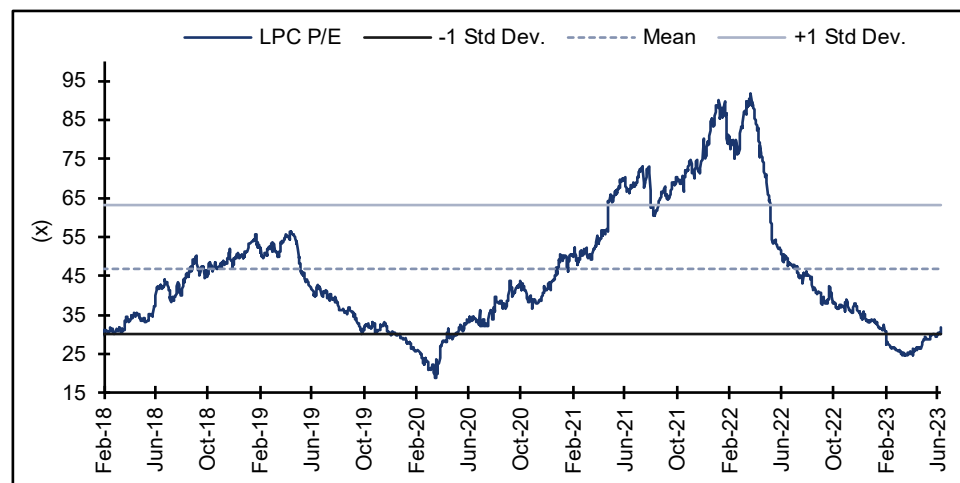
Source: Company data, I-Sec research.

Valuations

Lupin’s US business is likely to surge 21.7% in FY24E, primarily driven by gSuprep and gSpiriva, with other smaller approvals also likely to contribute. The management is on track for realising cost efficiencies and has already saved Rs3.25bn of cost of the targeted Rs5.5bn. Better cost management and exclusive launches in the US have helped the company revive EBITDA margin to ~13.6% in Q4FY23. With further cost rationalisation and gSpiriva, EBITDA margin is likely to touch ~18% by Q4FY24.

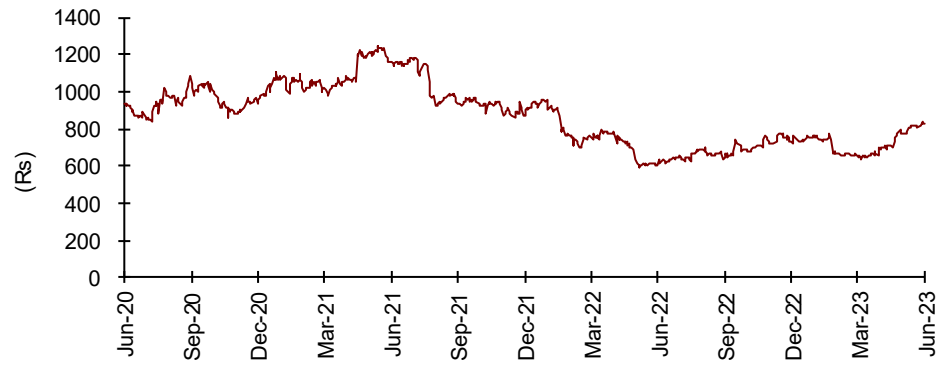
We upgrade our FY25 estimates for revenue/EBITDA/PAT by 2%/13%/20%, respectively. At CMP of Rs875, the stock trades at a pricey 27.9x FY25E EPS of Rs31.4. We maintain **SELL** rating on the stock though with a higher target price of Rs740 (Rs630 earlier) based on 24x FY25E earnings.

Chart 7: 1-year forward P/E chart



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary (consolidated)

Table 2: Profit and loss statement
(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Total Net Revenue	1,64,055	1,66,417	1,85,424	1,96,870
yoy Growth%	8	1	11	6
Total Op. Exp.	1,43,083	1,49,211	1,56,837	1,64,747
EBITDA	20,972	17,206	28,586	32,123
Margins %	12.8	10.3	15.4	16.3
yoy Growth%				
Depreciation	16,587	8,807	9,170	9,682
EBIT	4,385	8,399	19,416	22,441
Other Income	1,417	734	807	888
Interest	1,428	2,743	2,420	2,097
EO Items	18,100	(776)	-	-
PBT	(13,726)	7,165	17,803	21,232
Tax	1,372	2,688	5,341	6,369
Tax Rate (%)	(10.0)	37.5	30.0	30.0
Minority Interest	187	176	490	585
Reported PAT	(15,284)	4,301	11,972	14,278
Adj PAT	9,015	3,824	11,972	14,278
Net Margins (%)	5.5	2.3	6.5	7.3

Source: Company data, I-Sec research

Table 3: Balance sheet
(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Paid up Capital	909	910	910	910
Reserves & Surplus	1,21,533	1,24,645	1,33,890	1,44,986
Total Equity	1,22,442	1,25,555	1,34,800	1,45,896
Minority Interest	687	783	1,273	1,858
Total Debt	38,442	42,441	37,441	32,441
Deferred Liabilities	711	738	738	738
Capital Employed	1,61,372	1,68,607	1,73,342	1,80,023
Current Liabilities & Prov	55,143	59,396	66,739	70,067
Total Liabilities	2,16,515	2,28,003	2,40,081	2,50,089
Net Fixed Assets	85,279	95,932	95,762	95,080
Investments	9,000	5,169	5,169	5,169
Inventory	46,307	44,918	49,099	52,130
Debtors	42,619	44,807	49,925	53,006
Other Current Assets	22,328	24,246	26,541	27,924
Cash and Equivalents	10,981	12,931	13,585	16,780
Total Cur. Assets	1,31,236	1,32,071	1,44,319	1,55,010
Total Assets	2,16,515	2,28,003	2,40,081	2,50,089

Source: Company data, I-Sec research

Table 4: Cashflow statement
(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Cash profit adjusted for non cash items	19,364	14,742	23,245	25,753
Add/Less : Working Capital Changes	(649)	1,538	(4,252)	(4,167)
Operating Cash Flow	18,715	16,280	18,993	21,586
Less:- Capex	12,396	19,460	9,000	9,000
Free Cash Flow	6,319	(3,181)	9,993	12,586
Financing Cash Flow	3,211	6,006	(7,727)	(8,181)
Investing Cash Flow	2,128	(1,650)	(1,613)	(1,209)
Net change in Cash	11,658	1,176	653	3,196

Source: Company data, I-Sec research

Table 5: Key ratios
(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Adj EPS	19.8	8.4	26.3	31.4
yoy Growth%	(32.4)	(57.6)	213.0	19.3
Cash EPS	56.3	27.8	46.5	52.7
EBITDA (%)	12.8	10.3	15.4	16.3
NPM (%)	5.5	2.3	6.5	7.3
Net Debt to Equity (x)	0.2	0.2	0.1	0.1
P/E (x)	44.1	104.1	33.3	27.9
EV/EBITDA (x)	19.9	24.6	14.6	12.7
P/BV (x)	3.3	3.2	3.0	2.7
EV/Sales (x)	2.5	2.5	2.2	2.1
ROCE (%)	3.7	3.5	8.3	9.2
ROE (%)	6.9	3.1	9.3	10.2
ROIC (%)	(8.2)	6.4	12.7	14.3
Book Value (Rs)	267	274	294	319
DPS (Rs)	6.5	4.0	6.0	7.0
Dividend Payout (%)	(19.3)	42.4	22.8	22.3
Asset Turnover Ratio	1.2	1.1	1.1	1.2
Avg Collection days	95	98	98	98
Avg Inventory days	103	99	97	97

Source: Company data, I-Sec research

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