Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Lupin Ltd

Mixed Earnings; healthy pipeline of complex products to drive growth

Pharmaceuticals	Sharekhan code: LUPIN

Reco/View: Buy	↔	CMP: Rs. 1,611	Price Target: Rs. 1,868	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

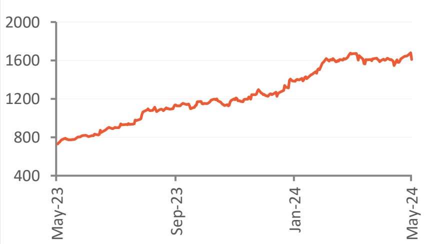
Company details

Market cap:	Rs. 73,400 cr
52-week high/low:	Rs. 1,703 / 704
NSE volume: (No of shares)	35.2 lakh
BSE code:	500257
NSE code:	LUPIN
Free float: (No of shares)	24.1 cr

Shareholding (%)

Promoters	47.1
FII	13.9
DII	29.4
Others	9.63

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.4	6.3	37.8	120.0
Relative to Sensex	0.9	3.7	23.1	101.0

Sharekhan Research, Bloomberg

Summary

- Lupin reported a mix set of earnings where sales were 4% below our estimates at Rs. 4,895 crore. EBITDA was 4% below our estimates at Rs. 997 crore, while adjusted PAT was in-line with our estimate of Rs. 561 crore.
- A healthy product mix led by 80% growth from non-oral solids in the U.S. resulted in 67.8% gross margin, which was offset by higher R&D expense resulting in 20.1% EBITDA margin in 4QFY2024.
- U.S. sales in CC terms were at US$209mn, which was 4% lower than our estimate due to a decline in seasonal products, but it was offset by the launch of new products like Tiotropium and Prolensa.
- The company has guided for above 20% EBITDA margin, led by a healthy pipeline of complex generics and specialty products; hence, we maintain our BUY rating on the stock. At the CMP, the stock trades at 31.8x and 26.8x its FY2025E and FY2026E PE and as 70% of the product pipeline in non-oral solids. We maintain our PT at Rs. 1,868 (ascribing 31x its FY2026 P/E).

Lupin's Q4FY2024 numbers were a mixed bag. Sales and EBITDA missed our estimates, while EBITDA margin and adjusted PAT were in-line with our estimates. The company posted sales growth of 13% YoY to Rs. 4,895 crore (4% below our estimates). Growth was driven by 22.6% YoY growth in North America region to Rs. 1,900 crore, 8.31% growth in India business to Rs. 1,601 crore, 16% y-o-y growth in the growth market to Rs. 509 crore, 17% y-o-y growth in the EMEA market to Rs. 532 crore, and 8% y-o-y growth in the ROW market to Rs. 94 crore. During the quarter, U.S. sales in CC terms were impacted due to lower seasonal products, which was offset by launch of key products like Tiotropium and Prolensa. India region growth of 8% was driven by new product launches and higher traction in the Rx business. Europe region growth was driven by key products like Fostair, while other regions markets like Australia and Philippines also contributed to growth. Healthy product mix and lower raw-material (RM) cost resulted in a higher gross margin of 67.8%, which was offset by 40% y-o-y growth in research and development (R&D). The company witnessed one-time expense of Rs. 201 crore towards impairments of ANDAs; hence, adjusting against the impairment cost, PAT reported 167% y-o-y growth to Rs. 560 crore. Going forward, U.S. sales are expected to remain stable at US$200mn quarterly run rate due to expected competition in key products like Suprep and other base products, which will result in sustaining EBITDA margin at 20% in FY2025E.

Key positives

- Gross margin was reported higher at 67.8% due to a healthy product mix and RM cost rationalisation.
- Despite higher R&D expense, which grew 40% YoY. EBITDA margin stood at 20.1%, largely due to a healthy product mix.

Key negatives

- U.S. sales in CC terms came 4% below our estimates at US$209mn due to lower traction in seasonal products.
- Total sales growth was 4% below our estimates to Rs. 489 crore, largely affected by lower U.S. and India sales.

Management Commentary

- EBITDA margin is expected to sustain at 20% despite meaningful launches due to the expectation of competition in products like Suprep and increased freight cost.
- Out of the FY2025E pipeline of new products, 70% of the products are from non-oral solids.
- The company expects to retain U.S. Dollar sales marginally above $200mn on a quarterly basis due to the expectation of competition in the base products. gSpiriva's market share is expected to inch up to 30-35% from 30% currently.
- Management envisages the opportunity to relaunch Mirabegron in the U.S. market despite multiple patents filed by the innovator company.

Revision in estimates – Management has retained its EBITDA margin guidance of 20% for FY2025E due to expected competition in Suprep and no immediate launch of Mirabegron. Hence, we have marginally reduced our EPS estimates by 3% and 6% to Rs. 50.7 and Rs. 60.2 for FY2025E and FY2026E, respectively.

Our Call

Valuation – Maintain BUY with a similar PT of Rs. 1,868: Lupin reported a mixed set of earnings for the quarter where sales and EBITDA missed our estimates but EBITDA margin was in-line with our estimates. Overall, due to a healthy product pipeline, the company retained its 20% EBITDA margin. The company is focused on complex generic products like inhalation in the respiratory segment and injectables to spur growth. The company has 80% of its U.S. sales driven by non-oral solids. This resulted in sustaining a quarterly run rate of US$200mn plus. Going forward, the company has a healthy product pipeline of complex generics and specialty products, which constitute 70% of the product pipeline. The company envisages US$250mn quarterly run rate from FY2026E, driven by 1) no immediate competition expected in Spiriva, 2) expected launch of Mirabegron, 3) launch of peptide-based products like Liraglutide, 4) launch of ophthalmic products like Glucagon, and 5) high-value low competitor products like Tolvaptan, Slynd, and Loteprednol and Risperdal Consta. The new product pipeline is expected to aid in increasing EBITDA margin towards 22-23%, in line with peers. The company's India business is also expected to sustain double-digit growth, led by 1) increasing productivity through 7,500 medical representatives (MRs), 2) a healthy chronic portfolio of 62%, and 3) venturing into newer segments like respiratory, cardiology, and diabetes therapy areas. However, for FY2025E, the company has retained flat EBITDA margin guidance of 20% due to expected competition in Suprep and no launch of Mirabegron. We have lowered our EPS guidance by 3% and 6% for FY2025E and FY2026E to Rs. 50.7 and Rs. 60.2 for FY2025E and FY2026E respectively. Overall, the company has guided for above 20% EBITDA margin, led by a healthy pipeline of complex generics and specialty products. Hence, we maintain BUY on the stock. At the CMP, the stock trades at 31.8x and 26.8x its FY2025E and FY2026E P/E and as 70% of the product pipeline is in non-oral solids. We maintain our PT at Rs. 1,868 (ascribing 31x its FY2026 P/E).

Key Risks

1) Adverse development on the regulatory front can impact earnings prospects; 2) Currency risks; and 3) Delay in the inspection of Pithampur and Tarapur plants by USFDA.

Valuation Rs cr

Particulars	FY2022	FY2023	FY2024	FY2025E	FY2026E
Net sales	16,193	16,270	19,656	21,450	23,709
Sales growth	-	0.5	20.8	9.1	10.5
EBITDA	2,166	1,721	3,791	4,381	5,097
OPM (%)	13.37	10.58	19.29	20.42	21.50
Net profit	-1,510	448	1,916	2,339	2,779
Adj. EPS (Rs)	7.7	7.7	42.1	50.7	60.2
PER (x)	82.8	207.9	38.7	31.8	26.8
P/BV (x)	2.4	5.9	5.1	4.7	4.1
RoCE (%)	3.5	5.2	15.0	17.8	20.8

Source: Company; Sharekhan estimates

4QFY24 Con-call highlights

Guidance

- Revenue growth of 10% in FY25
- EBITDA margin guidance of 20% plus in FY25 and expects to do 23% margin in next two years.
- The company expects the gross margin to sustain at current levels.
- More than 70% of new launches in the US will be from non-oral solid in FY25.
- US business is expected to sustain quarterly revenue run rate of US$200mn+ for FY25.
- India business is expected to continue to outperform the IPM by 20-30%

North America

- Lupin maintains its leadership position, ranks #3 in both US generic market and US total market by prescriptions.
- North America accounts for 37% of Lupin's global sales.
- The Company has filed 1 ANDA in the quarter, received 12 ANDA approvals from the USFDA, and launched 6 products in the quarter in the US. The Company now has 161 generic products in the US.
- Lupin is the leader in 47 of its marketed generics in the US and amongst the top 3 in 105 of its marketed products (IQVIA Qtr March 2024).
- Inhalation portfolio contributes approximately 40% of total US sales in Q4FY24.
- It has a strong pipeline with 40+ injectables and 20+ inhalation products.
- Currently the company has 51 FTFs and 18 exclusives FTFs.
- In Respiratory portfolio, Albuterol market share is 23.4% and Arformoterol market share is 28.0%.
- ***Mirabegron*** **–** The company has received a Temporary Restraining Order (TRO) and expects to be able to launch the product once it is lifted. The company expects two to three generics in the next 12 months.
- ***gOracea*** **–** has been a good launch for the company.
- Price erosion is currently at single digit which is a reasonable level as drug shortages continue to be high in the US.
- ***Pegfilgrastim*** **-** Company responded to USFDA for CRL and expect to file in FY25. As a late entrant it will be a learning opportunity for the company.
- ***Albuterol*** **-** market share is stable at 23% level, there has been some uptick due to seasonality. From a competition standpoint, it is a difficult product to make.
- ***Dulera*** **–** The company has met FDA to discuss the CRL and will respond in next 12 months but not likely to launch in next 12 months.
- ***gSpiriva (Tiotropium) –***
    - The company has seen 25-30% share in the market in 10 months and expects to increase to 35-40% in FY25.
    - Will continue as the only generic along with the innovator.
    - Pricing – the brand is announced as part of a response on respiratory products. As part of this response a $35 cap on out-of-pocket for patients was announced. The company will adjust its strategy if required.
    - Pricing is expected to remain same for the full year.
    - Do not expect competition in next few years.
- Expect 5 to 6 filings from Nagpur. Currently two products are manufactured from this facility, one product for US (Ganirelix injection) and one product for some other region.
- ***Slynd*** **–** read out in Aug'24 on progress of litigation.

- Peptide product – Liraglutide is the nearest material opportunity.
- ***Ellipta*** **–** expected to see good progress on filing in FY25.
- Respimat and Ambisome – Respimat is progressing well, and will be filed by the end of FY25, depending upon supplier of the product. Ambisome got out of the transaction as did not see profitability.
- The company Invested Rs4.5-5.0bn in Biosimilar and R&D spent for FY25 will be less than 10%.
- The company expects to launch 20 complex products by 2028 in areas of inhalation and injectables.
- By 2028, the company expects to file three biosimilars in regulated markets and launch 10 novel complex products in India.

India

- Lupin is the 7th largest company in the Indian Pharmaceutical Market (IQVIA MAT Mar 2024).
- India Rx business grew 8.7% YoY (9.3% ex-Cidmus) in FY24 vs IPM growth of 7.6%.
- Key segments including Cardiology, Respiratory & Oncology are growing faster than the market.
- In the anti-diabetes space, non-in-licensed portfolio has grown at 12%.
- The company launched seven brands across therapies during the quarter and 28 products in FY24.
- Lupin prescription business is well positioned to outperform IPM with key drivers in place.
- Lupin is a chronic focused company with more than 62% contribution from chronic therapies.
- Diagnostic business grew 160% YoY in FY24 with 40 labs under operation serving 1.25+ lacs patients monthly.
- MR strength is 7,500 excluding managers and 10,000 sales force including managers.
- The in-licensed portfolio contributed 11% of India revenue as on Q4FY24 & 12% in FY24
- ***Trade generic*** **–** The company sees it as a growth opportunity, this business has to be managed closely, which is the main reason to spin off into different entity.

Facility update

- FDA inspection of company's Vizag, Dabhasa and Aurangabad plant was completed successfully.
- Aurangabad, Nagpur Unit-1 and Mandideep Unit-2 received EIR.
- Resumption of Mexico site after successful inspection by COFEPRIS
- Remediation completed for Tarapur / Mandideep Unit-1, which was earlier impacted due to warning letters.

Other highlights

- **FY24 –** more than 80% revenue in the US were from non-oral solids.
- EBITDA margin improved, despite higher R&D investment & Q4 seasonality in US & India.
- The Philippines is a very stable and highly profitable business.
- **Mexico –** seen significant challenges as facility had been closed down for 10 months, caused disruption in product supply. FY25 is expected to be strong.
- Brazil continues to be low margin business.
- Expects higher quantum of R&D spend in FY25, freight has uncertainty, which lead to moderate guidance of 20% plus.
- **Europe**
  - Steady growth witnessed in key markets (UK & Germany).
  - Growth driven by higher NaMuscla and inhalation products like Luforbec.

- Brazil reported sales of BRL51mn in Q4FY24 and ranked #2 in reference market.
- **South Africa**
  - 8th largest generics player.
  - Revenue grew by 18% QoQ.
  - South Africa business has seen good scale, it had been under pressure due to currency volatility.
- **Australia**
  - 4th largest generics player.
  - Revenue grew by 20% YoY.
- Global institutional sales growth was driven by higher Anti-TB sales

Results (Consolidated) Rs cr

Particulars	Q4FY24	Q4FY23	YoY %	Q3FY24	QoQ %
Total sales	4,895	4,330	13.0%	5,080	-3.6%
Expenditure	3,964	3,826	3.6%	4,175	-5.1%
EBITDA	997	604	65.0%	1,022	-2.5%
Depreciation	256	264	-3.1%	257	-0.5%
EBIT	770	377	104.1%	810	-4.9%
Other income	29	37	-21.5%	45	-35.5%
Interest	71	93	-23.0%	74	-3.7%
PBT	699	285	145.4%	736	-5.1%
Tax	106	16	558.2%	226	-53.0%
PAT	359	236	52.3%	613	-41.4%
APAT	561	210	167.4%	613	-8.6%
EPS	12.3	4.6	167.4%	13.5	-8.5%
			BPS		**BPS**
GPMs (%)	67.8	59.6	826	66.0	183
EBITDA (%)	20.1	13.6	646	19.7	43
NPM (%)	7.3	5.4	189	12.1	-473
Tax rate (%)	15.2	5.7	951	30.6	-1546

Source: Company, Sharekhan Research

Segmental Revenue Mix Rs cr

Particulars	Q4FY24	Q4FY23	YoY %	Q3FY24	QoQ
North America	1901	1550	22.60	1889	0.64
India	1602	1479	8.31	1725	-7.16
Growth Markets	509	439	16.15	473	7.70
EMEA	532	454	17.27	517	2.86
ROW	94	87	8.06	199	-52.75
Total Formulations	**4637**	**4008**	**16**	**4802**	**-3.44**
API	268	323	-16.80	278	-3.42
Consolidated sales	4905	4330	13.28	5080	-3.44

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Input cost easing with companies focusing on complex product launches

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global peers. A confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. The sector is witnessing an easing of input costs – of raw material, freight, and power, which should aid the sector in growing margins. The sector is also witnessing an easing of price erosion, followed by increasing contribution from product launches. We believe the sector is in a sweet spot, where it is experiencing a healthy product mix and cost rationalisation, which increases operational profit of the companies. The sector is mainly a low-debt sector and increasing operational profit followed by experiencing the advantage of a low tax rate due to its operations in the SEZ sector. Hence, overall, we stay positive on the sector.

■ Company Outlook – Net profitability to improve

Lupin has been gaining strong margin expansions on the back of restructuring in the U.S. and intends to enhance it further with the help of the launching of complex generics and specialty products in respiratory, injectables, and biosimilar segments. The company is expected to see the launch of its key product, gSpiriva, in Q2FY2024. Additionally, it has added 1,300 sales representatives in India; also, the company has been seeing improved traction for diabetes, cardiology, and respiratory products sales in India. Three out of five of its plants, which were going through regulatory actions, are compliant with the USFDA now. The company has guided for continued improvement in earnings on account of improved product mix, strong line-up of product launches, and lower taxes over the short-medium term.

■ Valuation – Maintain Buy with similar PT of Rs. 1,868

Lupin reported a mixed set of earnings for the quarter where sales and EBITDA missed our estimates but EBITDA margin was in-line with our estimates. Overall, due to a healthy product pipeline, the company retained its 20% EBITDA margin. The company is focused on complex generic products like inhalation in the respiratory segment and injectables to spur growth. The company has 80% of its U.S. sales driven by non-oral solids. This resulted in sustaining a quarterly run rate of US$200mn plus. Going forward, the company has a healthy product pipeline of complex generics and specialty products, which constitute 70% of the product pipeline. The company envisages US$250mn quarterly run rate from FY2026E, driven by 1) no immediate competition expected in Spiriva, 2) expected launch of Mirabegron, 3) launch of peptide-based products like Liraglutide, 4) launch of ophthalmic products like Glucagon, and 5) high-value low competitor products like Tolvaptan, Slynd, and Loteprednol and Risperdal Consta. The new product pipeline is expected to aid in increasing EBITDA margin towards 22-23%, in line with peers. The company's India business is also expected to sustain double-digit growth, led by 1) increasing productivity through 7,500 medical representatives (MRs), 2) a healthy chronic portfolio of 62%, and 3) venturing into newer segments like respiratory, cardiology, and diabetes therapy areas. However, for FY2025E, the company has retained flat EBITDA margin guidance of 20% due to expected competition in Suprep and no launch of Mirabegron. We have lowered our EPS guidance by 3% and 6% for FY2025E and FY2026E to Rs. 50.7 and Rs. 60.2 for FY2025E and FY2026E respectively. Overall, the company has guided for above 20% EBITDA margin, led by a healthy pipeline of complex generics and specialty products. Hence, we maintain BUY on the stock. At the CMP, the stock trades at 31.8x and 26.8x its FY2025E and FY2026E P/E and as 70% of the product pipeline is in non-oral solids. We maintain our PT at Rs. 1,868 (ascribing 31x its FY2026 P/E).

About company

Over the past decade, Lupin has established itself as a leading generic player from India. U.S. and India are the company's largest markets and contribute around 37% and 35%, respectively, to the company's FY2021 sales. The company develops and commercialises a wide range of branded and generic formulations, biotechnology products, and APIs in over 100 markets in the U.S., India, South Africa, across Asia Pacific (APAC), Latin America (LATAM), Europe, and Middle East regions. While in India, Lupin is among the top-10 and fastest-growing companies as well. The company is also among the top five companies in terms of prescriptions in the U.S. Therapy wise, the company has a leadership position in the cardiovascular, anti-diabetic, and respiratory segments and has a significant presence in the anti-infective, gastrointestinal (GI), central nervous system (CNS), and women's health segments. In terms of manufacturing capabilities, Lupin has 15 manufacturing sites and seven research centres globally.

Investment theme

Lupin is one of the leading pharmaceutical companies and is present in most markets globally. After establishing itself as a major player in the generics space, the company is making efforts to improve its presence in the specialty business. The U.S. is a key market for Lupin where it is grappling with issues surrounding the high intensity of competition in the Oral Solid Dosage (OSD) segment in the U.S. The company has been trying to restructure or optimise the U.S. business and enhance it with the help of launching complex generics and specialty products in respiratory, injectables, and biosimilar segments. With improvement in U.S. profitability post restructuring and key product launches lined up, including gSpiriva, and as it has added sales representatives in India, we expect a sustained improvement in profitability on an operating and net basis.

Key Risks

1) Delay in the resolution of USFDA issues at its plants

2) Slower-than-expected ramp-up in gAlbuterol

3) Currency risk

Additional Data

Key management personnel

Manju D Gupta	Chairman
Dr. Kamal K. Sharma	Vice Chairman
Vinita Gupta	Chief Executive Officer
Nilesh Deshbandhu Gupta	Managing Director
Sunil Makharia	Interim CFO

Source: Company Website

Top shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp India	5.87
2	ICICI Prudential Housing Fund	5.05
3	ICICI Prudential AMC Ltd.	4.27
4	HDFC AMC	3.09
5	Vanguard Group	2.12
6	Blackrock Inc.	1.97
7	Nippon Life AMC	1.77
8	Mirae Asset Global Investment	1.54
9	HDFC Life Insurance Company	1.37

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-67502000.

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669. BSE – 748, NSE – 10733, MCX – 56125, MSEI – 1043.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200/022 - 33054600