

08 August 2024

India | Equity Research | Q1FY25 results review

## Lupin

Pharma

### Limited exclusivity products drive delta in earnings

Lupin's outperformance in Q1FY25 was driven by launch of Mirabegron (6 months exclusivity) in US (sales up 8.6% QoQ) and institutional sales (INR 1.2bn) in India, while lower R&D (down ~5% YoY) also comforted margins. Its market share in key products such as gSpiriva has been steady at ~30% QoQ while that in Albuterol has come down marginally (-110bps) to ~22%. Management has maintained its single digit growth guidance for FY25 due to entry of competition in Albuterol in FY25. It will also launch Tolvaptan in Q1FY26 which should drive overall US sales to USD 1bn by FY26. We raise our FY25/26E EPS by 7%/3% to factor in the traction in US. The stock trades at a pricey 29x FY26E EPS. Downgrade to **SELL** (earlier Reduce), but raise TP to INR 1,650 based on 24x FY26E (unchanged) EPS of INR 69.

### Traction in US and India boost growth and margins

Revenue grew 16.3% YoY (+12.9% QoQ) to INR 56.0bn (I-Sec: INR 51bn) led by strong growth in US and India. Gross margin surged 293bps YoY (+57bps QoQ) to 68.8% on the back of limited competition launched in US and lower RM cost. R&D spending declined 4.9% YoY (-17.7% QoQ) to INR 3.5bn (6.2% of sales vs 7.6% in Q1FY24). Adjusting for provision for litigation settlement of Glumeza for INR 750mn, EBITDA jumped 59% YoY to INR 13.6bn (I-Sec: INR 10.4bn). Margin expanded 652bps YoY (+422bps QoQ) to 24.3%. Adj. PAT stood at INR 8.9bn, up 95.8% YoY (I-Sec: INR 5.8bn).

### Mirabegron offsets impact of price erosion in US

US revenue grew 25.4% YoY (+8.6% QoQ) to USD 227mn. Impact of mid-single digit price erosion and competition in gSuprep was offset by launch of Mirabegron and Doxycycline. Management is bracing for a couple of niche ophthalmic and injectable launches in H2FY25 and Tolvaptan in Q1FY26. We expect US business to register ~10% CAGR over FY24–26E. Domestic revenue grew 17.5% YoY (+20.3% QoQ) to INR 19.3bn. India branded formulation business grew 10% YoY and it recorded higher institutional sales of INR 1.2bn as against INR 150mn last year. Management plans to launch 20 brands in India in FY25 which will help it grow at 1.2-1.3x higher vs market growth rate. We expect India business to register a CAGR of 11% over FY24–26E. EMEA posted 26.2% YoY (-5.4%) growth to INR 5bn. Growth market sales rose 26.7% YoY (1.1% QoQ) to INR 5.2bn. RoW grew 1.0% YoY (+78.3% QoQ) to INR 1.7bn. APIs revenue grew 7.4% YoY (+40.3% QoQ) to INR 3.6bn.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,66,417	2,00,108	2,17,734	2,37,120
EBITDA	17,206	38,000	42,959	48,847
EBITDA Margin (%)	10.3	19.0	19.7	20.6
Net Profit	3,824	21,435	26,323	31,500
EPS (INR)	8.4	47.0	57.8	69.1
EPS % Chg YoY	(57.6)	459.6	22.8	19.7
P/E (x)	211.0	47.5	36.5	28.9
EV/EBITDA (x)	54.3	24.0	20.8	17.8
RoCE (%)	3.4	13.7	15.8	17.1
RoE (%)	3.1	16.0	17.1	17.8

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#### Market Data

Market Cap (INR)	910bn
Market Cap (USD)	10,834mn
Bloomberg Code	LPC IN
Reuters Code	LUPN.BO
52-week Range (INR)	2,030 / 1,044
Free Float (%)	53.0
ADTV-3M (mn) (USD)	30.3

Price Performance (%)	3m	6m	12m
Absolute	23.8	25.1	84.5
Relative to Sensex	15.7	13.8	63.8

Earnings Revisions (%)	FY25E	FY26E
Revenue	1.6	0.7
EBITDA	2.8	1.7
EPS	7.1	2.7

#### Previous Reports

10-07-2024: [Company Update](#)

08-05-2024: [Q4FY24 results review](#)

## Valuations and risks

Lupin's Q1 performance was driven by launch of Mirabegron (25mg) which has helped the company to boost steady increase in sequential sales despite competition in gSuprep. Its dependence on gSpiriva is significant (expect sales/EBITDA contribution of 4%/17%, respectively), while competition in this product may not be imminent in the near term, potential price cuts by innovator and limited scope for market share improvement (30-35%) may limit further upside from this product in FY25-26E. Further, competition in Albuterol may hurt US sales run-rate in couple of quarters while we believe the impact on EBITDA and margin may not be high (less than 4% of sales and EBITDA) and can be absorbed by launch of gPredforte in H2FY25E. The company has a pipeline of ~20 complex products which can aid growth in US beyond FY27.

We raise our FY25/26E earnings by 7/3%, respectively, to factor in Q1FY25's better performance. We estimate revenue/EBITDA/PAT CAGR of 8.9%/13.4%/21.2% over FY24-26E. We expect margins to improve a mere 160bps over FY24-26E to 20.6%. The stock trades at a pricey 28.8x FY26E EPS. We lower our rating to **SELL** (earlier Reduce) with a revised target price of INR 1,650 (earlier INR 1,615) based on 24x FY26E EPS (earlier 23x).

**Key upside risks:** Better market share in high-value launches in the US, and M&A in India.

## Q1FY25 conference call highlights

### India

- India rx business grew 20% higher than IPM growth; going ahead, it is aiming to grow 20-30% higher than market growth.
- 5% growth in Q1 was aided by better volume, price increase fetched 3.5% and new launches boosted growth by 1.5%.
- Lupin is likely to launch 20 products in FY25.
- It has sales force of 9,876 (including 7,571 MRs).
- In-license products accounted for 14% of sales vs 15% in Q1FY24.
- Institution sales rose to INR 1.2bn from INR 150mn in Q1FY24.
- The company may add 100-150 MRs in India in FY25.

### US

- Share of complex portfolio stood at ~35% of US sales.
- Lupin has a strong pipeline of 40+ injectables and 20+ inhalation products.
- Impact of competition in gSuprep and mid-single digit price erosion was offset by launch of Mirabegron and Doxycycline.
- gPredforte, glucagon (filed from Nagpur), doxorubicin and 3-4 ophthalmic products will be launched in H2FY25.
- Management has maintained its high single digit growth guidance (factors competition in Albuterol) in US business for FY25.
- Management is working to increase its market share in 25mg of Mirabegron while launch of 50mg dose will be contingent on the outcome of patent litigation and expiry of 30 months stay period.
- Management is confident of launching Tolvaptan in Q1FY26; it will have 180-days exclusivity on this product.
- Its market share in gSpiriva has remained flat QoQ at 30%.

- FY26 will be a strong year in US driven by launch of Liraglutide (filed from Nagpur), risperidone (filed from a CMO site) and Tolvaptan.
- Lupin's EBITDA margin in US (post R&D) was higher than company level margins.
- Management believes biosimilar Ranibizumab (Lucentis) will still be a decent launch for the company, despite it being a late entrant in the product.
- Approval for pegfilgrastim will be contingent to regulatory clearance of plant.
- US launch of etanercept may take some time though the product was launched in Canada in Q1.
- The company has filed for generic Victoza and Saxenda with the USFDA and currently has a CRL for it.
- The company may file its response to CRL for gDulera in FY25 and may be launched in FY26-27.
- Ellipta is currently under development and will be filed in FY26.

#### **Q1 performance**

- Lower inventory and product mix drove gross margins in Q1.
- Higher legal and professional fees inflated other expenses.
- Other expenses include INR 750mn pertaining to provision for litigation settlement of Glumetza.

#### **Regulatory compliance**

- USFDA conducted inspection at injectable facility in Nagpur with zero observations.
- It has also received EIR for Somerset, Aurangabad and Dabhasa plants.

#### **Guidance**

- Company is targeting double-digit growth across all businesses in near term.
- EBITDA margin in medium term will be between 23-24%.
- Management expects to incur R&D cost of INR 18bn in FY25.
- Effective tax rate is likely to be 20% in FY25.

### Exhibit 1: Quarterly review

Y/E Mar (INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY23	YoY (%)
Net Sales	56,003	48,141	16.3	49,608	12.9	2,00,108	1,66,417	20.2
Gross Profit	38,558	31,733	21.5	33,870	13.8	1,33,674	98,619	35.5
Gross Margins (%)	68.8	65.9	293	68.3	57	66.8	59.3	754.0
Employee Expenses	9,710	8,444	15.0	9,002	7.9	34,946	30,872	13.2
Other expenses (ex R&D)	11,733	11,045	6.2	10,645	10.2	45,463	37,742	20.5
R&D	3,500	3,679	-4.9	4,255	-17.7	15,265	12,800	19.3
EBITDA	13,614	8,565	59.0	9,968	36.6	38,000	17,206	120.9
EBITDA Margins (%)	24.3	17.8	652	20.1	422	19.0	10.3	865.1
Other income	678	228	196.9	293	131.7	1,202	734	63.8
Interest	680	857	-20.6	713	-4.6	9,956	8,807	
Depreciation	2,477	2,347	5.6	2,559	-3.2	3,116	2,743	13.6
Extraordinary expense/(income)	1,204	2	-	2,012	-	1,907	-776	-
PBT	9,930	5,588	77.7	4,977	99.5	24,223	7,165	238.1
Tax	1,875	1,055	77.8	1,295	44.8	4,867	2,688	81.1
Tax Rate (%)	18.9	18.9		26.0		20.1	37.5	
PAT	8,055	4,533	77.7	3,682	118.8	19,356	4,477	332.3
Minority Interest	42	11	295.3	88		211	176	
Net Income	8,013	4,523	77.2	3,594	122.9	19,145	4,301	345.1
Adjusted PAT	8,856	4,524	95.8	5,083	74.2	21,435	3,824	460.5
EPS	19.5	9.9	95.8	11.2	74.2	47.0	8.4	

Source: I-Sec research, Company data

### Exhibit 2: Segmental breakup

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
<b>Formulations</b>	<b>33,489</b>	<b>38,413</b>	<b>39,631</b>	<b>40,077</b>	<b>41,997</b>	<b>46,708</b>	<b>48,020</b>	<b>46,370</b>	<b>51,521</b>	<b>22.7</b>	<b>11.1</b>
North America	10,104	13,295	15,271	15,503	15,905	18,666	18,885	19,006	20,408	28.3	7.4
India	14,920	15,841	15,213	14,786	16,384	16,915	17,251	16,015	19,259	17.5	20.3
Growth markets	4,237	4,449	4,187	4,385	4,066	4,378	4,729	5,093	5,151	26.7	1.1
EMEA	3,335	3,842	3,802	4,535	3,987	4,759	5,170	5,318	5,031	26.2	-5.4
ROW	893	986	1,158	868	1,655	1,990	1,985	938	1,672	1.0	78.3
<b>API</b>	<b>2,551</b>	<b>2,499</b>	<b>2,815</b>	<b>3,226</b>	<b>3,371</b>	<b>2,684</b>	<b>2,779</b>	<b>2,581</b>	<b>3,622</b>	<b>7.4</b>	<b>40.3</b>
Other operating income	1,399	544	777	998	719	993	1,175	657	860	19.5	30.9
<b>Total</b>	<b>37,439</b>	<b>41,456</b>	<b>43,223</b>	<b>44,301</b>	<b>46,087</b>	<b>50,385</b>	<b>51,974</b>	<b>49,608</b>	<b>56,003</b>	<b>21.5</b>	<b>12.9</b>

Source: I-Sec research, Company data

### Exhibit 3: Key growth drivers of domestic business in Q1FY25

Brands (INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	MAT Mar'24	MAT Mar'23	YoY (%)
GLUCONORM-G	908	796	14.1	862	5.3	3,274	3,054	7.2
BUDAMATE	576	584	-1.3	676	-14.7	2,550	2,151	18.6
HUMINSULIN	511	504	1.3	496	2.9	1,955	2,101	-6.9
IVABRAD	398	359	10.8	394	0.9	1,445	1,305	10.8
RABLET-D	305	291	4.5	279	9.3	1,177	1,072	9.9
AJADUO	278	275	1.4	267	4.2	1,065	1,141	-6.7
TONACT	277	239	15.7	264	5.0	1,033	1,120	-7.8
TELEKAST-L	205	217	-5.5	240	-14.5	933	1,022	-8.8
BEPLEX FORTE	241	233	3.7	216	11.6	918	893	2.8
SIGNOFLAM	235	220	6.9	206	14.3	869	779	11.5

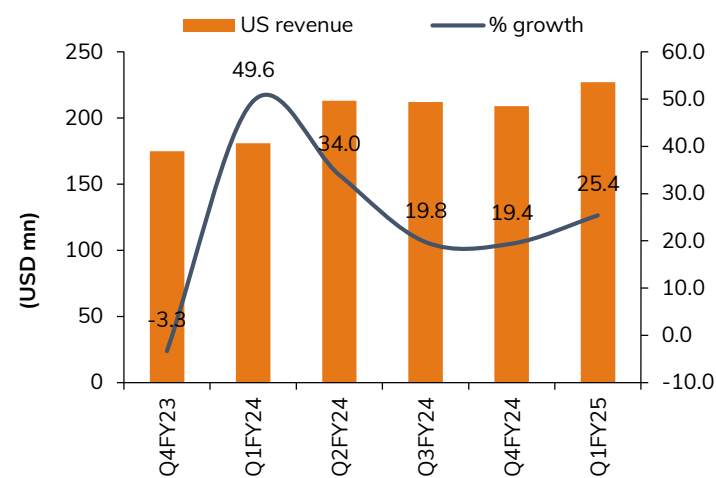
Source: IQVIA

### Exhibit 4: Growth profile of key therapies in India

Therapies (INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	MAT Mar'24	MAT Mar'23	YoY (%)
CARDIAC	4,566	3,914	16.6	4,291	6.4	16,361	14,995	9.1
ANTI DIABETIC	4,043	3,767	7.3	3,786	6.8	14,924	14,855	0.5
RESPIRATORY	2,564	2,386	7.4	2,952	-13.2	10,883	10,087	7.9
GASTRO INTESTINAL	1,752	1,559	12.4	1,552	12.9	6,475	5,980	8.3
ANTI-INFECTIVES	1,142	1,155	-1.2	1,225	-6.8	5,102	4,791	6.5
GYNAEC.	1,062	1,074	-1.1	921	15.3	4,062	3,792	7.1
VITAMINS/MINERALS/NUTRIENTS	1,001	911	9.8	843	18.6	3,646	3,505	4.0
NEURO / CNS	938	877	6.9	876	7.0	3,514	3,379	4.0
PAIN / ANALGESICS	770	747	3.1	688	12.0	2,950	2,906	1.5
ANTI-TB	739	569	29.9	580	27.3	2,305	2,196	5.0

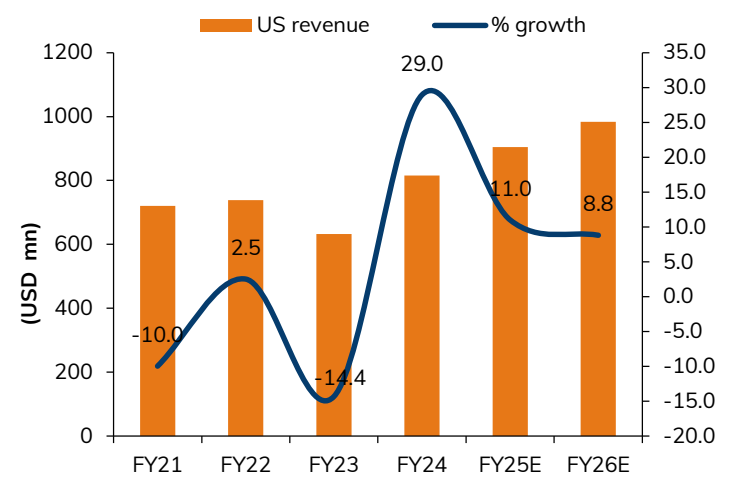
Source: IQVIA

### Exhibit 5: Launch of Mirabegron and Doxycycline drove growth



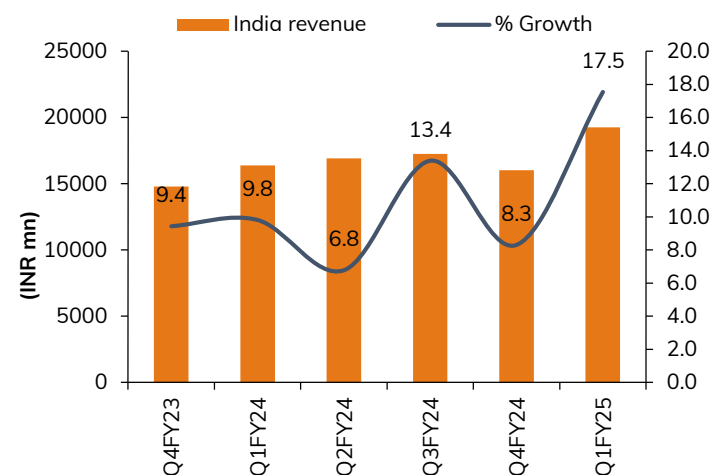
Source: I-Sec research, Company data

### Exhibit 6: US sales to be supported by key launches ahead



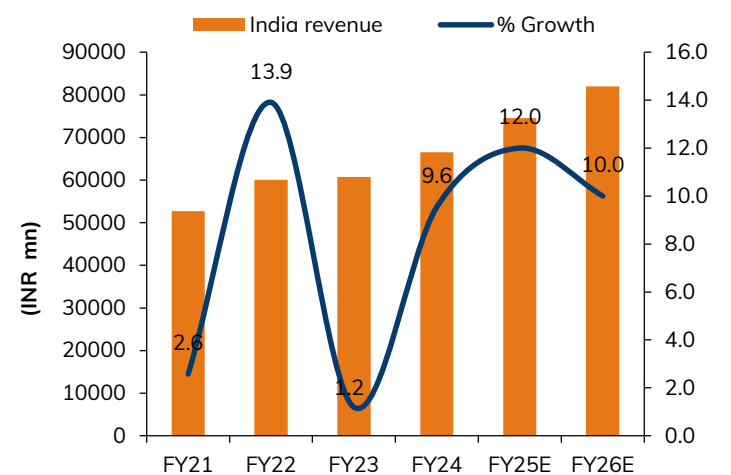
Source: I-Sec research, Company data

### Exhibit 7: Domestic business grew 17.5% YoY in Q1FY25



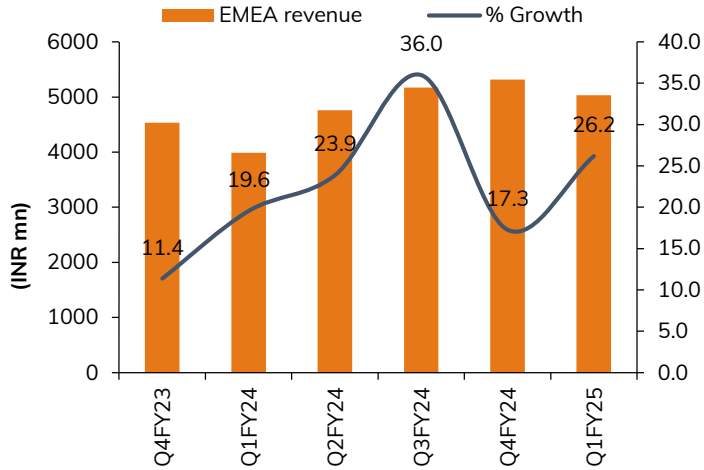
Source: I-Sec research, Company data

### Exhibit 8: 20 brands launch lined up for FY25



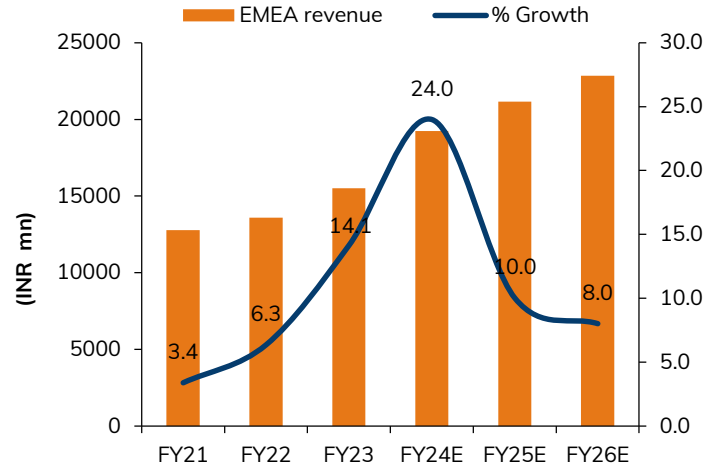
Source: I-Sec research, Company data

**Exhibit 9: EMEA region grew by 26.2% YoY**



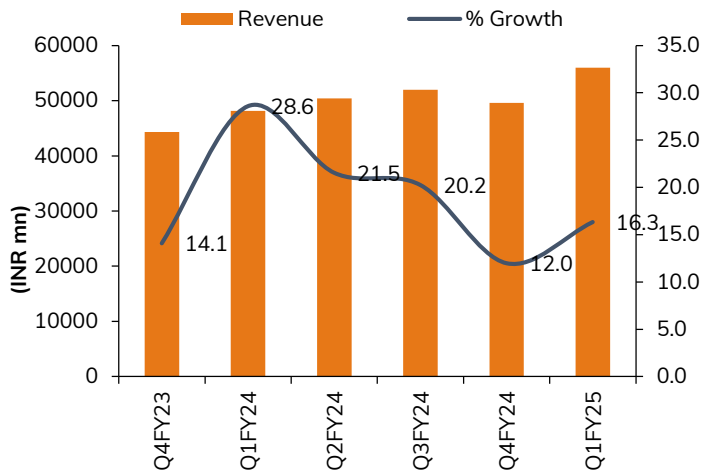
Source: I-Sec research, Company data

**Exhibit 10: EMEA to grow at CAGR of ~9% over FY24-26E**



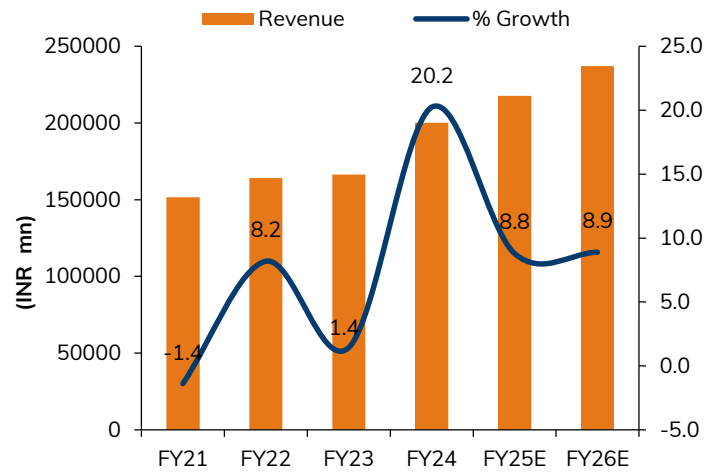
Source: I-Sec research, Company data

**Exhibit 11: Growth driven by strong performance of US and India businesses**



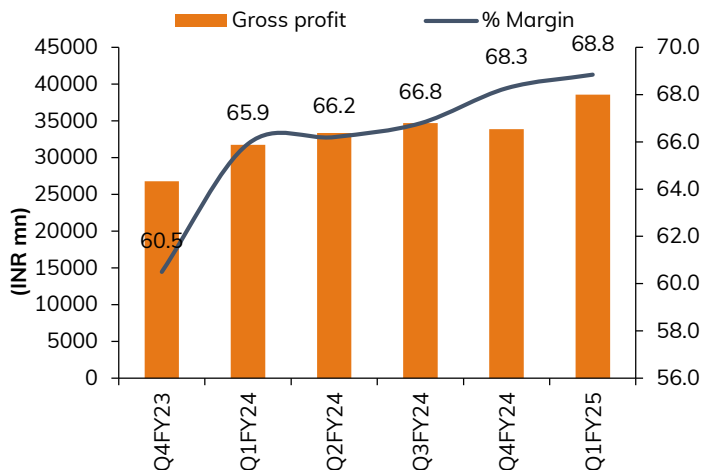
Source: I-Sec research, Company data

**Exhibit 12: Revenue to grow ~9% over FY24-26E**



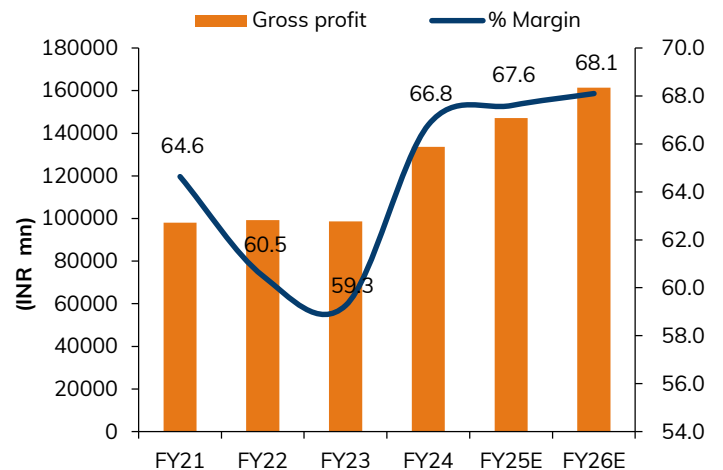
Source: I-Sec research, Company data

**Exhibit 13: Gross margin expanded on the back of lower inventory and product mix**



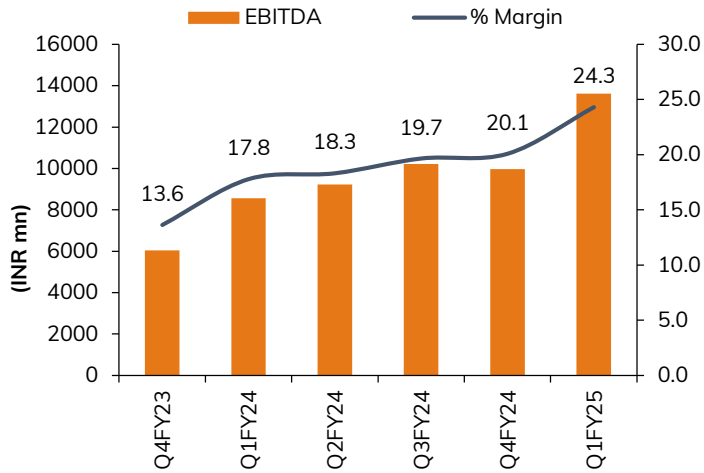
Source: I-Sec research, Company data

**Exhibit 14: Gross margin to improve 130bps over FY24-26E**



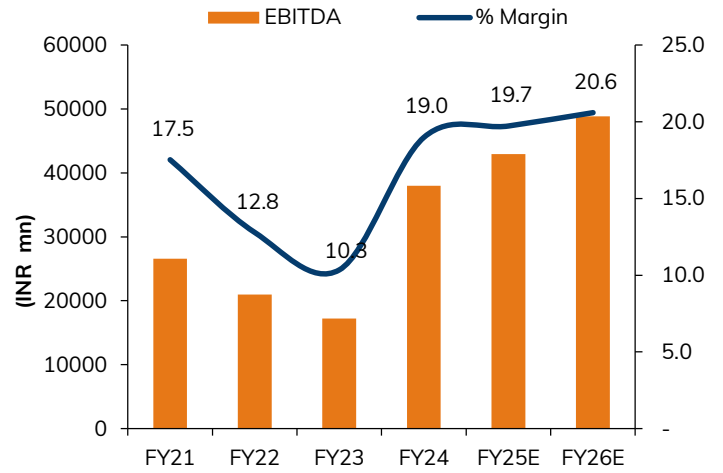
Source: I-Sec research, Company data

**Exhibit 15: Lower R&D spends drove EBITDA margin to 24.3% in Q1FY25**



Source: I-Sec research, Company data

**Exhibit 16: EBITDA margin likely to expand by 160bps over FY24–26E**



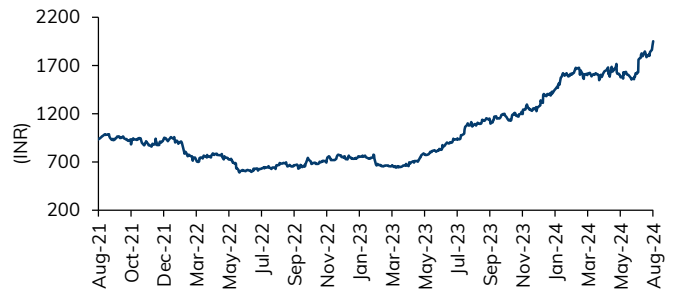
Source: I-Sec research, Company data

**Exhibit 17: Shareholding pattern**

%	Dec'23	Mar'24	Jun'24
Promoters	47.0	47.0	47.0
Institutional investors	45.8	46.0	45.0
MFs and others	18.9	16.8	16.2
Insurance	9.8	10.1	9.5
FIIIs	17.1	19.1	19.3
Others	7.2	7.0	8.0

Source: Bloomberg

**Exhibit 18: Price chart**



Source: Bloomberg



## Financial Summary

### Exhibit 19: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,66,417	2,00,108	2,17,734	2,37,120
<b>Operating Expenses</b>	<b>1,49,211</b>	<b>1,62,108</b>	<b>1,74,775</b>	<b>1,88,273</b>
EBITDA	17,206	38,000	42,959	48,847
<b>EBITDA Margin (%)</b>	<b>10.3</b>	<b>19.0</b>	<b>19.7</b>	<b>20.6</b>
Depreciation & Amortization	8,807	9,956	10,411	10,925
EBIT	8,399	28,045	32,548	37,922
Interest expenditure	2,743	3,116	2,296	996
Other Non-operating Income	734	1,202	2,403	2,884
Recurring PBT	6,389	26,130	32,655	39,809
<b>Profit / (Loss) from Associates</b>	-	-	-	-
<b>Less: Taxes</b>	<b>2,688</b>	<b>4,867</b>	<b>6,290</b>	<b>7,962</b>
PAT	4,477	19,356	25,161	31,847
Less: Minority Interest	176	211	274	347
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	4,301	19,145	24,886	31,500
<b>Net Income (Adjusted)</b>	<b>3,824</b>	<b>21,435</b>	<b>26,323</b>	<b>31,500</b>

Source Company data, I-Sec research

### Exhibit 20: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,20,115	1,26,007	1,43,649	1,66,817
of which cash & cash eqv.	12,931	12,025	20,185	35,646
Total Current Liabilities & Provisions	49,378	57,350	61,561	66,193
<b>Net Current Assets</b>	<b>70,738</b>	<b>68,657</b>	<b>82,087</b>	<b>1,00,624</b>
Investments	5,169	10,746	10,746	10,746
Net Fixed Assets	42,896	45,842	45,680	45,288
ROU Assets	3,554	3,144	3,140	3,120
Capital Work-in-Progress	12,380	7,725	7,725	7,725
Total Intangible Assets	37,102	39,798	38,553	37,039
Other assets	6,746	3,649	3,876	4,125
Deferred Tax Assets	1,557	3,025	3,025	3,025
<b>Total Assets</b>	<b>1,80,182</b>	<b>1,82,622</b>	<b>1,94,871</b>	<b>2,11,735</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>43,551</b>	<b>27,665</b>	<b>17,665</b>	<b>7,665</b>
<b>Deferred Tax Liability</b>	<b>2,294</b>	<b>2,459</b>	<b>2,459</b>	<b>2,459</b>
provisions	3,430	3,754	3,754	3,754
other Liabilities	5,478	5,010	5,451	5,936
Equity Share Capital	910	911	911	911
Reserves & Surplus	1,23,735	1,41,992	1,63,525	1,89,557
<b>Total Net Worth</b>	<b>1,24,645</b>	<b>1,42,903</b>	<b>1,64,437</b>	<b>1,90,469</b>
Minority Interest	783	832	1,106	1,453
<b>Total Liabilities</b>	<b>1,80,182</b>	<b>1,82,622</b>	<b>1,94,871</b>	<b>2,11,735</b>

Source Company data, I-Sec research

### Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>15,169</b>	<b>35,794</b>	<b>31,610</b>	<b>38,041</b>
Working Capital Changes	649	(427)	(4,132)	5,059
Capital Commitments	19,460	10,532	9,000	9,000
<b>Free Cashflow</b>	<b>(4,291)</b>	<b>25,262</b>	<b>22,610</b>	<b>29,041</b>
<b>Other investing cashflow</b>	<b>(3,831)</b>	<b>5,577</b>	-	-
Cashflow from Investing Activities	(15,629)	(16,109)	(9,000)	(9,000)
Issue of Share Capital	1	1	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	5,110	(15,886)	(10,000)	(10,000)
Dividend paid	(1,825)	(3,646)	(4,557)	(5,468)
Others	(1,650)	849	1,311	1,888
Cash flow from Financing Activities	1,636	(18,682)	(13,246)	(13,581)
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,176</b>	<b>1,003</b>	<b>9,364</b>	<b>15,460</b>
Closing cash & balance	12,157	13,934	21,390	35,646

Source Company data, I-Sec research

### Exhibit 22: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	9.5	42.0	54.6	69.1
Adjusted EPS (Diluted)	8.4	47.0	57.8	69.1
Cash EPS	27.8	68.9	80.6	93.1
Dividend per share (DPS)	4.0	8.0	10.0	12.0
Book Value per share (BV)	273.9	313.6	360.8	418.0
Dividend Payout (%)	42.4	19.0	18.3	17.4
<b>Growth (%)</b>				
Net Sales	1.4	20.2	8.8	8.9
EBITDA	(18.0)	120.9	13.0	13.7
EPS (INR)	(57.6)	459.6	22.8	19.7
<b>Valuation Ratios (x)</b>				
P/E	211.0	47.5	36.5	28.9
P/CEPS	71.8	29.0	24.7	21.4
P/BV	7.3	6.4	5.5	4.8
EV / EBITDA	54.3	24.0	20.8	17.8
P / Sales	5.5	4.5	4.2	3.8
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	59.3	66.8	67.6	68.1
EBITDA Margins (%)	10.3	19.0	19.7	20.6
Effective Tax Rate (%)	37.5	20.1	20.0	20.0
Net Profit Margins (%)	2.3	10.7	12.1	13.3
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.2	0.0	(0.1)	(0.2)
Net Debt / EBITDA (x)	1.5	0.1	(0.3)	(0.8)
<b>Profitability Ratios</b>				
RoCE (%)	3.4	13.7	15.8	17.1
RoE (%)	3.1	16.0	17.1	17.8
RoC (%)	6.3	17.2	20.8	25.0
Fixed Asset Turnover (x)	3.9	4.5	4.8	5.2
Inventory Turnover Days	99	99	93	93
Receivables Days	99	93	89	84
Payables Days	56	59	56	56

Source Company data, I-Sec research



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