

Strong Gross Margins

Est. vs. Actual for Q1FY25: Revenue – **BEAT**; EBITDA Margin – **BEAT**; PAT – **BEAT**

Changes in Estimates (%) post Q1FY25

FY25E/FY26E: Revenue: -3.3%/9.2%; **EBITDA Abs:** -0.9%/1.1%; **PAT:** -1.1%/1.6%

Recommendation Rationale

The company's reported revenue experienced a robust 16.3% growth, accompanied by a significant enhancement in EBITDA margins. This resulted in the Reported PAT increasing to Rs 802 Cr.

The company's gross margin saw impressive improvements of 293 bps YoY and 58 bps QoQ, primarily driven by high-value drugs in the portfolio. EBITDA reached 22.2%, marking a notable 437 bps YoY improvement and a 207 bps QoQ increase, contributing to a remarkable 77.1% YoY growth in Reported PAT.

The recent launch approval of gMegabran holds the potential to contribute yearly incremental sales of \$50 Mn. Additionally, the company's India business demonstrated strong performance, surpassing IPM growth in key therapies such as CVS and anti-diabetic, with a growth rate of 10.5% YoY. Moreover, the EMEA segment reported impressive growth of 26.2% YoY, while the RoW business showed growth at 1.0% YoY.

Sector Outlook: Positive

Company Outlook & Guidance: 1) New launches in the US market like Darunavir and gSpiriva have gained MS upto 30% and 32% respectively; 2) Recent approvals for Tolvaptan (MS \$287 MN) and Xyway (MS \$958 Mn – 180 days exclusivity could add business in the second half; 3) Double-digit growth in the India business is expected with the company's MR number increasing to 1,000, 4) An uptick in the API business as the API industry is witnessing demand revival.

Current Valuation: PE30x for Sep FY26 earnings (Earlier Valuation: PE26x)

Current TP: Rs 2,200/share (Earlier TP: Rs 1,800/share)

Recommendation: BUY

Valuation & Recommendation:

Based on the strong performance delivered by Lupin and its upcoming product pipeline, which is outpacing IPM growth, we maintain our BUY rating with a target price of Rs 2200. This reflects an upside potential of 10% from the current market price, with a valuation of 30x PE H2FY26E.

Key Financials (Consolidated)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	5,600	12.9%	16%	5,225	7.2%
EBITDA	1,241	24.5%	45%	1,051	18.1%
EBITDA Margin	22.2%	207	437	20.1%	-
Net Profit	802	42.9%	78%	609	31.6%
EPS (Rs)	17.6	42.9%	78%	13.4	31.4%

Source: Company, Axis Securities Research

(CMP as of 7th August 2024)

CMP (Rs)	1,994
Upside /Downside (%)	10%
High/Low (Rs)	2.030/1,061
Market cap (Cr)	91,118
Avg. daily vol. (6m) Shrs.	1,20,000
No. of shares (Cr)	45.5

Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter	47.0	47.0	47.0
FII's	16.1	16.8	19.3
MFs / UTI	18.9	18.3	16.2
Others	17.9	17.8	0.2

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	20,011	20,854	23,433
EBITDA	3,811	4,379	5,155
Net Profit	1,915	2,620	3,200
EPS (Rs)	42.0	57.5	70.2
PER (x)	47.5	34.7	28.4
P/BV (x)	24.3	20.6	17.0
EV/EBITDA (x)	6.3	5.4	4.6
ROE (%)	13.3	15.7	16.3

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-3.3%	9.2%
EBITDA	-0.9%	1.1%
PAT	-1.1%	1.6%

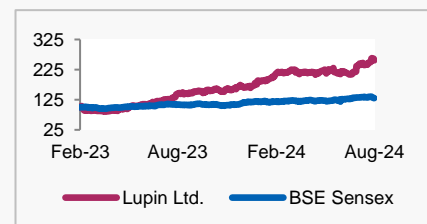
ESG disclosure Score**

Environmental Disclosure	N.A.
Social Disclosure Score	N.A.
Governance Disclosure Score	N.A.
Total ESG Disclosure Score	N.A.
Sector Average	N.A.

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity,

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Research Analyst

Email: ankush.mahajan@axissecurities.in

Financial Performance

Lupin reported strong financial results, largely above expectations. Its revenue increased by 16.3%, supported by notable improvements in EBITDA margins, resulting in Reported PAT reaching Rs 802 Cr. Gross margin showed a significant improvement of 293 bps YoY and 58 bps QoQ, driven by higher margins from high-value drugs in the portfolio. EBITDA stood at 22.2%, up by 435 bps YoY and 207 bps QoQ, contributing to a substantial growth in Reported PAT, which surged by 77.1% YoY. US revenue showed robust growth, reaching \$227 Mn, up 25.4% YoY. The company's India business grew by 10.5%, outpacing industry growth (1.3x IPM Growth), with core therapies like cardio and respiratory treatments exceeding market growth at 10.5% over IPM growth of 8%. Other markets also performed well in the last quarter.

In the US, the base business performed well, and new products like gSpiriva and gProlensa helped offset the seasonal product decline. Tiotropium is expected to continue to be a major growth driver in FY25E, as the company has achieved 30% MS in this product since its launch. It is expected that the company will sustain a quarterly run rate of over \$215-220 Mn in the US business based on new launches.

Outlook:

We have confidence in Lupin's business, supported by the following factors:

1. New launches in the US market, such as Darunavir and Spiriva, have gained market shares of up to 30% and 25%, respectively. The recent launch approval of gMegabran has the potential to add yearly incremental sales of \$50 Mn.
2. Recent approvals for Tolvaptan (market size \$287 Mn) and Xyway (market size \$958 Mn with 180 days exclusivity) could add business in the second half.
3. A strong pipeline of products, including Cynocobalamin, Diazepam Gel, Vereniciline, Bromfenac, Glucagen, and Risperidone.
4. Double-digit growth in the India business is expected, as the company has already increased its MR (Medical Representative) numbers to 1,000.
5. An uptick in the API (Active Pharmaceutical Ingredient) business, as the API industry is witnessing a demand revival.

Lupin's margins, currently at 19%, are still below the industry levels of 23%, indicating significant scope for margin improvement in the upcoming quarters. This improvement will be supported by the macro environment, which is currently favourable for the industry, with falling raw material prices, low logistic costs, and reduced fuel costs.

Key Concall Highlights

The US business registered \$227 Mn in Q1 FY25 on a sequential basis, driven by strong contributions from respiratory products, including Tiotropium and Albuterol, as well as new product launches like Mirabegron and Doxycycline. Additionally, new products such as Pred Forte, and liposomal Doxorubicin are in the process of being launched. The US business has returned to a strong level of margins due to the shift to complex generics and a strong focus on driving productivity and efficiencies in the base business. Management also indicates that they are targeting high single-digit growth for FY25.

Domestic formulations outperformed in the IPM with 10.5% YoY growth, and sales rose to Rs 1926 Cr, mainly led by cardiac, respiratory, GI, and vitamins businesses in India, which grew well ahead of the market. The non-licensed diabetes portfolio grew by 2x in its category. Lupin launched 28 products in FY24 and expects to launch 20 products in FY25. Rs 1,800 Cr is expected to be incurred as R&D for the current fiscal year.

A key highlight of the quarter is the strong performance in key segments, both in terms of sales and profitability margins. EBITDA margins stood at 23%. The US business is performing well ahead of the overall company margins. Management has guided sustainability in the growth of top lines as well as margins.

Key Risks to Our Estimates and TP

- USFDA inspection and issuing of WL/OAI or 483 observations may impact the revenue growth
- Entry of new players may increase pricing pressure in the injectables portfolio
- Delay in launching Biosimilars in the market

Change in Estimates

(Rs Cr)	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	20,854	20,854	21,559	23,727	-3.3%	9.2%
EBITDA	4,379	4,379	4,420	5,101	-0.9%	1.1%
PAT	2,620	2,620	2,650	3,150	-1.1%	1.6%

Source: Company, Axis Securities Research

Results Review

Particulars (Rs Cr)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY(%)	Q0Q(%)
Net Sales	4,814	5,039	5,197	4,961	5,600	16.3%	12.9%
Growth (%)	28.6%	21.5%	20.2%	12.0%	16.3%		
Total Expenditure	3,958	4,121	4,160	3,964	4,359	10.1%	10.0%
Raw Material Consumed	950	991	1,107	1,094	1,146	20.6%	4.7%
Stock Adjustment	767	855	676	661	641		
Development Costs	-76	-143	-57	-182	-42		
% of sales	34.1%	33.8%	33.2%	31.7%	31.2%		
Gross margins (%)	65.9%	66.2%	66.8%	68.3%	68.8%	293	58
Employee Expenses	844	861	889	900	971	15.0%	7.9%
% of sales	17.5%	17.1%	17.1%	18.1%	17.3%		
Other Expenses	1,473	1,557	1,544	1,490	1,644	11.6%	10.3%
% of sales	30.6%	30.9%	29.7%	30.0%	29.3%		
EBITDA	856	918	1,038	997	1,241	44.9%	24.5%
EBITDAM (%)	17.8%	18.2%	20.0%	20.1%	22.2%	437	207
Interest	86	81	74	71	68		
Depreciation	235	248	257	256	248		
Other Income	23	40	29	29	68		
Exceptional Items	0	0	0	0	0		
PBT	559	630	736	699	993	77.7%	42.1%
Tax	105	134	117	129	187		
Tax (%)	18.9%	21.3%	16.0%	18.5%	18.9%		
PAT	454	496	619	569	806	77.6%	41.5%
P/L Ass	-1	-6	-6	-9	-4		
Reported PAT	453	490	613	561	802	77.1%	42.9%

Source: Company, Axis Securities Research

Geographical Breakup

Particulars (Rs Cr)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY(%)	Q0Q(%)
US Business (USD Millions)	181	213	212	209	227	25.4%	8.6%
Geographical Revenue Breakdown							
North America	1,591	1,867	1,889	1,901	2,041	28.3%	7.4%
India	1,638	1,692	1,725	1,602	1,926	17.5%	20.3%
APAC	407	438	473	509	515	26.7%	1.1%
EMEA	399	476	517	532	503	26.2%	-5.4%
API	337	268	278	258	362	7.4%	40.3%

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Total Net Sales	20,011	20,854	23,433	25,259
% Change	20.2%	4.2%	12.4%	7.8%
Raw material Consumption	6,643	6,673	7,264	7,830
Staff costs	3,495	3,545	3,984	4,294
Other Expenditure	6,062	6,256	7,030	7,578
Total Expenditure	16,200	16,475	18,278	19,702
EBITDA	3,811	4,379	5,155	5,557
% Change	111.9%	14.9%	17.7%	7.8%
EBITDA Margin %	19.0%	21.0%	22.0%	22.0%
Depreciation	1,197	1,014	1,074	1,134
EBIT	2,614	3,366	4,082	4,423
EBIT Margin %	13.1%	16.1%	17.4%	17.5%
Interest	312	121	106	78
Other Income	120	114	126	142
PBT	2,422	3,359	4,102	4,487
Tax	487	739	902	987
Tax Rate %	20.1%	22.0%	22.0%	22.0%
APAT	1,936	2,620	3,200	3,500
P/L after discontinuation	-21	0	0	0
PAT after Ass.	1,915	2,620	3,200	3,500
Adj. PAT	1,915	2,620	3,200	3,500
Growth %	345.1%	36.8%	22.1%	9.4%

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E Mar, Rs. Cr	FY24	FY25E	FY26E	FY27E
Share Capital	91	91	91	91
Reserves & Surplus	14,282	16,607	19,512	22,717
Shareholders Fund	14,373	16,698	19,603	22,808
Total Debt	2,922	2,422	1,922	1,422
- Trade Payables	2,958	3,085	3,467	3,737
- Other Long Term Liabilities	346	343	385	415
- Other Current Liabilities	2,252	2,343	2,632	2,837
TOTAL EQUITY & LIABILITIES	23,997	26,036	29,155	32,365
Gross Block	9,535	10,135	10,735	11,335
Depreciation	4,951	5,965	7,038	8,172
% of GB	51.9%	58.9%	65.6%	72.1%
- Fixed Assets(incl. Capital Work in Progress)	9,677	9,264	8,790	8,257
- Other Non-Current Assets	872	881	881	881
- Current Investments	847	847	847	847
- Inventories	4,954	5,142	5,778	6,228
- Trade Receivables	4,692	4,914	5,521	5,951
- Cash & Cash Equivalents	1,202	3,161	5,283	7,986
- Other Current Assets	1,752	1,828	2,054	2,214
TOTAL ASSETS	23,997	26,037	29,155	32,365

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
PBT	2,422	3,359	4,102	4,487
Add: Depreciation	1,197	1,014	1,074	1,134
Add: Interest	312	121	106	78
Cash flow from operations	3,931	4,493	5,281	5,699
Change in working capital	-143	280	756	535
Taxes	487	739	902	987
Miscellaneous expenses	21	0	0	0
Net cash from operations	3,566	3,474	3,623	4,177
Capital expenditure	-1,251	-600	-600	-600
Change in Investments	-407	0	0	0
Net cash from investing	-1,658	-600	-600	-600
Increase/Decrease in debt	-1,620	-500	-500	-500
Dividends	-385	-295	-295	-295
Proceedings from equity	0	0	0	0
Interest	-312	-121	-106	-78
Others	317	0	0	0
Net cash from financing	-1,999	-916	-901	-873
Net Inc./(Dec.) in Cash	-91	1,958	2,122	2,703
Opening cash balance	1,293	1,202	3,161	5,283
Closing cash balance	1,202	3,161	5,283	7,986

Source: Company, Axis Securities Research

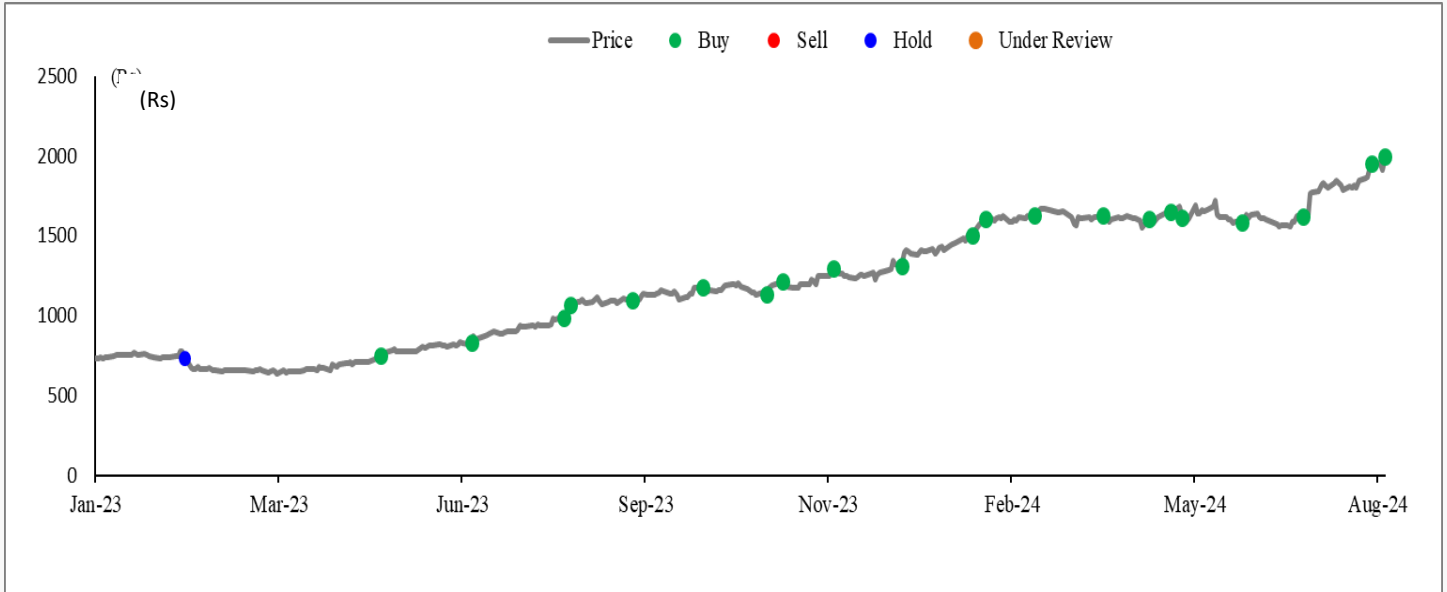
Ratio Analysis

(%)

Y/E Mar, Rs. Cr	FY24	FY25E	FY26E	FY27E
Sales growth (%)	20.2	4.2	12.4	7.8
OPM	19.0	21.0	22.0	22.0
Oper. profit growth	111.9	14.9	17.7	7.8
COGS / Net sales	33.2	32.0	31.0	31.0
Overheads/Net sales	-	-	-	-
Depreciation / G. block	12.6	10.0	10.0	10.0
Effective interest rate	20.1	22.0	22.0	22.0
Net wkg.cap / Net sales (%)	29.1	29.2	29.2	29.2
Net sales / Gr block (x)	2.1	2.1	2.2	2.2
RoCE	15.1	17.6	19.0	18.3
Debt/equity (x)	0.2	0.1	0.1	0.1
Effective tax rate	20.1	22.0	22.0	22.0
RoE	13.3	15.7	16.3	15.3
Payout ratio (Div/NP)	422.4	323.7	323.7	323.7
EPS (Rs.)	42.0	57.5	70.2	76.8
EPS Growth	345.1	36.8	22.1	9.4
CEPS (Rs.)	68.3	79.7	93.8	101.7
DPS (Rs.)	8.4	6.5	6.5	6.5

Source: Company, Axis Securities Research

Lupin Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
13-Feb-23	HOLD	780	Result Update
11-May-23	BUY	800	Result Update
21-Jun-23	BUY	950	Result Update
01-Aug-23	BUY	1,082	Top Picks
07-Aug-23	BUY	1,200	Result Update
01-Sep-23	BUY	1,210	Top Picks
03-Oct-23	BUY	1,290	Top Picks
01-Nov-23	BUY	1,290	Top Picks
09-Nov-23	BUY	1,300	Result Update
01-Dec-23	BUY	1,470	Top Picks
01-Jan-24	BUY	1,470	Top Picks
02-Feb-24	BUY	1,670	Top Picks
09-Feb-24	BUY	1,770	Result Update
01-Mar-24	BUY	1,785	Top Picks
01-Apr-24	BUY	1,785	Top Picks
23-Apr-24	BUY	1,770	Company Update
02-May-24	BUY	1,815	Top Picks
08-May-24	BUY	1,800	Result Update
03-Jun-24	BUY	1,764	Top Picks
01-Jul-24	BUY	1,785	Top Picks
01-Aug-24	BUY	2,105	Top Picks
08-Aug-24	BUY	2,200	Result Update

Source: Axis Securities

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RATING SCALE: Definitions of ratings

Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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