

10 November 2024

India | Equity Research | Q2FY25 results review

Lupin

Pharma

Strong near-term US pipeline aids visibility

Lupin's outperformance in Q2FY25 was driven by launch of Mirabegron (50mg) in US and momentum across India and EMEA. Complex product revenue in US was up 0.8% YoY (10.8% QoQ) while volume dip in Suprep and doxycycline impacted growth in residual portfolio. Indian branded growth was ~11% and its OTC, tender and diagnostics biz further aided 8% growth in India biz. EBITDA grew 48.1% led by gSpiriva, mirabegron and higher PLI incentives. Near-term pipeline is healthy, including products like glucagon (USD 200mn sales p.a.), Dalbavancin and Tolvaptan (Q1FY26 launch). Management maintains double-digit growth in US in FY25. Raise FY25/26E EPS by 16%/21% to factor traction in US. Upgrade to **HOLD** with higher TP of INR 2,090 based on 25x FY26E EPS of INR 84.

Robust quarter aided by launches in US and PLI income

Revenue grew ~12.6% YoY (1.3% QoQ) to INR 56.7bn (I-Sec: INR 54.2bn) led by strong growth in India and EMEA. Gross margin surged 400bps YoY (+136bps QoQ) to 70.2% (I-Sec: 69%) on the back of Mirabegron launch in US, lower RM cost and sourcing efficiencies. R&D spending surged 19% YoY (28% QoQ) to INR 4.5bn (7.9% of sales vs 7.5% in Q2FY24 and 6.2% in Q1FY25). Adj. EBITDA grew robust 48.1% YoY to INR 13.7bn (I-Sec: INR 11.4bn). Margin expanded 577bps YoY (-22bps QoQ) to 24.1%. Adj. PAT stood at INR 8.7bn, up 76.4% YoY (I-Sec: INR 6.9bn).

Healthy traction in India and EMEA

US revenue declined 3.1% QoQ (up 3.3% YoY) to USD 220mn. Volume growth in base and respiratory business was offset by inventory rationalisation of Mirabegron 25mg and lower sales of Suprep and Doxycycline. Pipeline includes 20 respiratory and 40 injectable products which will be launched over the next couple of years. We expect US business to register ~12% CAGR over FY24-26E. Domestic revenue grew at 18.8% YoY (4.3% QoQ) to INR 20.1bn. India branded formulation grew 10.9% YoY driven by volume growth of 3.5%. 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 15% CAGR over FY24-26E. EMEA posted 19.6% YoY growth to INR 5.7bn. Growth markets sales rose 11.8% YoY to INR 4.9bn. RoW sales declined 18.1% YoY (-2.6% QoQ) to INR 1.6bn. APIs revenue grew 9.7% YoY (-18.7% QoQ) to INR 2.9bn.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	2,00,108	2,23,559	2,48,529	2,64,661
EBITDA	38,000	48,848	57,410	62,195
EBITDA Margin (%)	19.0	21.9	23.1	23.5
Net Profit	21,435	30,669	38,095	42,817
EPS (INR)	47.0	67.3	83.6	94.0
EPS % Chg YoY	459.6	43.1	24.2	12.4
P/E (x)	50.1	33.2	25.2	22.4
EV/EBITDA (x)	25.4	19.3	15.9	14.0
RoCE (%)	13.7	18.3	19.9	19.2
RoE (%)	16.0	19.7	20.6	19.5

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Market Data

Market Cap (INR)	960bn
Market Cap (USD)	11,379mn
Bloomberg Code	LPC IN
Reuters Code	LUPN.BO
52-week Range (INR)	2,312 / 1,154
Free Float (%)	53.0
ADTV-3M (mn) (USD)	34.1

Price Performance (%)	3m	6m	12m
Absolute	2.6	30.2	73.8
Relative to Sensex	1.9	22.0	51.4

ESG Score	2022	2023	Change
ESG score	63.3	67.4	4.1
Environment	50.6	60.2	9.6
Social	49.6	52	2.4
Governance	77.8	81.1	3.3

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

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	2.7	4.8
EBITDA	13.7	17.5
EPS	16.4	21.0

Previous Reports

08-08-2024: [Q1FY25 results review](#)

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

Valuations and risks

Strong growth in India and EMEA aided Lupin's Q2 performance. India is likely to continue growing ahead of the market. In US, its momentum had halted a bit due to competition in Suprep and Doxycycline and inventory rationalisation of Mirabegron 25mg. Near-term pipeline includes limited competition products like Glucagon, Dalbavancin, Tolvaptan, Risperidone and Liraglutide which it will launch over the next 6-18 months. Lupin is also developing GLP 1 products. It is likely to launch these products in next couple of years in India and emerging markets. The company has completed phase 3 for Ranibizumab biosimilar and the product will be filed in Q4FY25 in EU and US.

We raise our FY25/26E earnings by 16%/21%, respectively, to factor better performance in India and traction in US. We estimate revenue/EBITDA/PAT CAGR of 11.4%/22.9%/33.3% over FY24–26E. We expect margin to improve by 410bps over FY24–26E to 23.1%. The stock trades at 31.3x FY25E and 25.2x FY26E earnings. We upgrade our rating to **HOLD** (earlier Sell) with a revised target price of INR 2,090 (earlier INR 1,650) based on 25x FY26E EPS (earlier 24x).

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

Key downside risks: Competition in exclusive products in US, delay in launch timeline of pipeline products and more products under price control in India.

Q2FY25 conference call highlights

India

- India Rx business grew 10.9% YoY driven by volume growth of 3.5%.
- Diabetes, cardiology, respiratory, gastrointestinal and vitamins minerals therapies grew faster than market.
- Management aims to grow India branded business faster than market.
- It has field force of 7,700 MRs (+2,300 managers). Productivity at INR 0.78mn per MR.
- The company plans to launch GLP-1 products in India. It will launch first product in FY26 and will likely be in the first wave of launch in most of these products.
- INR 1.5bn worth of sales from OTC, diagnostics and tender business aided additional 8% YoY growth in India.

US

- US profitability has rose to above company average due to improvement in profitability of the base business.
- Share of complex generics stood at 40%. It is targeting 50%+ sales from complex products in some years.
- It has 20 respiratory and 40 injectables in pipeline.
- Base business has witnessed strong growth. Sequential decline in revenue was mainly due to inventory rationalisation of Mirabegron 25mg, lower sales of Suprep and Doxycycline. Key respiratory products did not face any erosion.
- 66% of R&D is now spent on development of complex generics products.
- Management aims to achieve double-digit growth in US in FY25.

- Glucagon (USD 200mn product, 2-player market) and Dalbavancin are likely to be approved in next 4-7 months.
- Dalbavancin has a couple of competitors, but it will not be a crowded market at launch.
- Tolvaptan (Q1FY26 launch), risperidone and liraglutide launches are lined up for FY26.
- Focus towards development of novel specialty assets is on products targeting respiratory and CNS therapies.
- R&D spending on specialty products is likely to go up from 23% to 25-27%.
- The company may acquire a mid-size specialty focused company.
- Lupin's market share in Spiriva is stable at 30%.
- Nasal sprays and Dulera (to reply to USFDA next year) are key product filings for next year. Respimat products to be filed in Q4FY25 (beyond FY27 opportunity).
- In Q2FY25, the company did not see any impact of generic entry in Albuterol.
- It is targeting to reach USD 250mn quarterly sales run-rate by Q1FY26.

Biosimilars

- Completed phase 3 for Ranibizumab biosimilar. The product will be filed in Q4FY25 in EU and US. Lupin may not be able to enter the market in first wave.
- Pegfilgrastim biosimilar is awaiting approval from USFDA.
- Aflibercept is under development.
- It is developing Denosumab for Japan.
- Etanercept will be filed in US in FY29.
- A few respiratory biosimilars are under development.

EMEA and growth markets

- APAC grew 10% and was driven by Australia.
- GLP-1 products will be launched as market opens for generics.

Q2 performance

- It recorded income of INR 1.65bn (INR 860mn in Q1) from PLI and other export incentive.
- Gross margin improvement was due to mirabegron launch in US, lower RM cost and sourcing efficiencies.
- ESOP and salary hikes led to surge in employee cost.
- It made provision of INR 580mn related to litigation.
- The company has floated a subsidiary to explore CDMO opportunity arising out of the Biosecure act in US and supply chain de-risking.

FY25 guidance

- R&D spending will be INR 18bn in FY25.
- Management targets EBITDA margin between 22-23% for H2FY25.
- Effective tax rate will be between 20-21%.
- Gross margin will be between 68-69%.
- Margin in US is now higher than company level margin of Lupin.
- In medium term, EBITDA margin may scale up to 23-25%.

Exhibit 1: Quarterly review

Y/E Mar (INR mn)	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY(%)
Net Sales	56,727	50,386	12.6	56,003	1.3	1,12,731	98,526	14.4
Gross Profit	39,828	33,358	19.4	38,558	3.3	78,386	65,091	20.4
Gross Margins (%)	70.2	66.2	400	68.8	136	69.5	66.1	346.9
Employee Expenses	10,075	8,607	17.1	9,710	3.8	19,786	17,051	16.0
Other expenses (ex R&D)	11,604	11,755	-1.3	11,733	-1.1	23,337	22,801	2.4
R&D	4,481	3,764	19.0	3,500	28.0	7,981	7,443	7.2
EBITDA	13,668	9,231	48.1	13,614	0.4	27,282	17,796	53.3
EBITDA Margins (%)	24.1	18.3	577	24.3	-22	24.2	18.1	613.9
Other income	423	404	4.7	678	-37.6	1,101	632	74.1
Interest	709	806	-12.1	680	4.2	1,389	1,663	
Depreciation	2,569	2,479	3.7	2,477	3.7	5,046	4,825	4.6
Extraordinary expense / (income)	264	54	391.3	1,204	-78.1	1,469	56	2,541.5
PBT	10,549	6,297	67.5	9,930	6.2	20,479	11,885	72.3
Tax	1,954	1,344	45.4	1,875	4.2	3,829	2,398	59.7
Tax Rate (%)	18.5	21.3		18.9		18.7	20.2	
PAT	8,595	4,953	73.5	8,055	6.7	16,650	9,486	75.5
Minority Interest	69	57	21.2	42		111	67	
Net Income	8,526	4,897	74.1	8,013	6.4	16,539	9,419	75.6
Adjusted PAT	8,711	4,939	76.4	8,856	-1.6	17,567	9,463	85.6
EPS	19.1	10.8	76.4	19.5	-1.6	38.6	20.8	

Source: I-Sec research, Company data

Exhibit 2: Segmental breakup

INR mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Formulations	38,413	39,631	40,077	41,997	46,708	48,020	46,370	51,521	52,025	11.4	1.0
North America	13,295	15,271	15,503	15,905	18,666	18,885	19,006	20,408	19,711	5.6	-3.4
India	15,841	15,213	14,786	16,384	16,915	17,251	16,015	19,259	20,096	18.8	4.3
Growth markets	4,449	4,187	4,385	4,066	4,378	4,729	5,093	5,151	4,896	11.8	-5.0
EMEA	3,842	3,802	4,535	3,987	4,759	5,170	5,318	5,031	5,693	19.6	13.2
ROW	986	1,158	868	1,655	1,990	1,985	938	1,672	1,629	-18.1	-2.6
API	2,499	2,815	3,226	3,371	2,684	2,779	2,581	3,622	2,944	9.7	-18.7
Other operating income	544	777	998	719	993	1,175	657	860	1,757	76.9	104.3
Total	41,456	43,223	44,301	46,087	50,385	51,974	49,608	56,003	56,726	12.6	1.3

Source: I-Sec research, Company data

Exhibit 3: Key growth drivers of domestic business in Q2FY25

Brands (INR mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	MAT Sep'24	MAT Sep'23	YoY (%)
GLUCONORM-G	922	808	14.1	908	1.5	3,500	3,122	-10.8
BUDAMATE	563	597	-5.7	576	-2.3	2,509	2,390	-4.7
HUMINSULIN	568	474	20.0	511	11.3	2,057	2,037	-0.9
IVABRAD	395	340	16.1	398	-0.8	1,539	1,374	-10.7
RABLET-D	338	311	8.7	305	11.0	1,217	1,144	-6.0
TONACT	274	266	2.7	277	-1.1	1,078	1,068	-0.9
AJADUO	269	266	1.0	278	-3.4	1,071	1,107	3.3
BEPLEX FORTE	242	236	2.7	241	0.4	933	915	-2.0
TELEKAST-L	228	224	1.6	205	11.0	924	1,001	8.3
SIGNOFLAM	240	233	3.2	235	2.2	892	838	-6.0

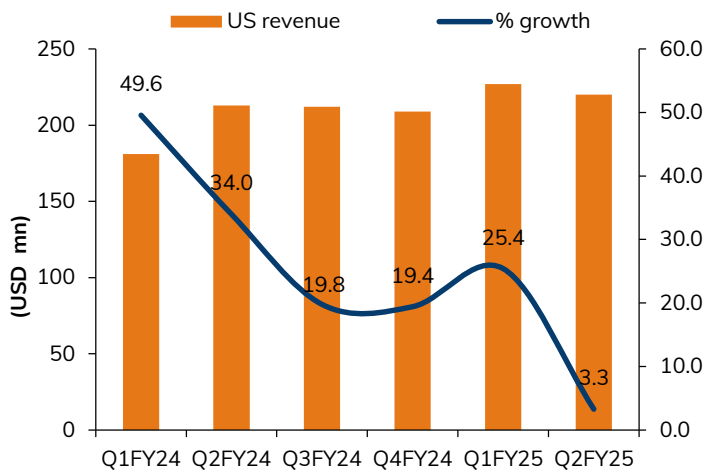
Source: IQVIA

Exhibit 4: Growth profile of key therapies in India

Therapies (INR mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	MAT Sep'24	MAT Sep'23	YoY (%)
CARDIAC	4,615	4,056	13.8	4,566	1.1	17,572	15,612	12.6
ANTI DIABETIC	4,182	3,718	12.5	4,043	3.4	15,664	14,760	6.1
RESPIRATORY	2,694	2,542	6.0	2,564	5.1	11,212	10,540	6.4
GASTRO INTESTINAL	1,918	1,724	11.2	1,752	9.5	6,862	6,229	10.2
ANTI-INFECTIVES	1,500	1,374	9.1	1,261	18.9	5,424	4,983	8.9
GYNAEC.	1,071	1,097	-2.3	1,062	0.9	4,025	4,036	-0.3
VITAMINS/MINERALS/NUTRIENTS	1,033	982	5.3	1,001	3.3	3,787	3,528	7.3
NEURO / CNS	977	892	9.6	938	4.2	3,661	3,499	4.6
PAIN / ANALGESICS	791	792	-0.1	770	2.6	2,973	2,957	0.5
ANTI-TB	717	596	20.3	739	-2.9	2,596	2,236	16.1

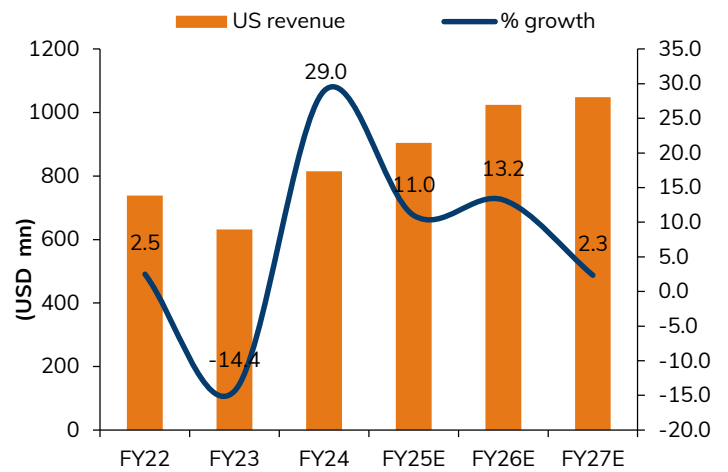
Source: IQVIA

Exhibit 5: Volume growth in base and respiratory business drives US revenue



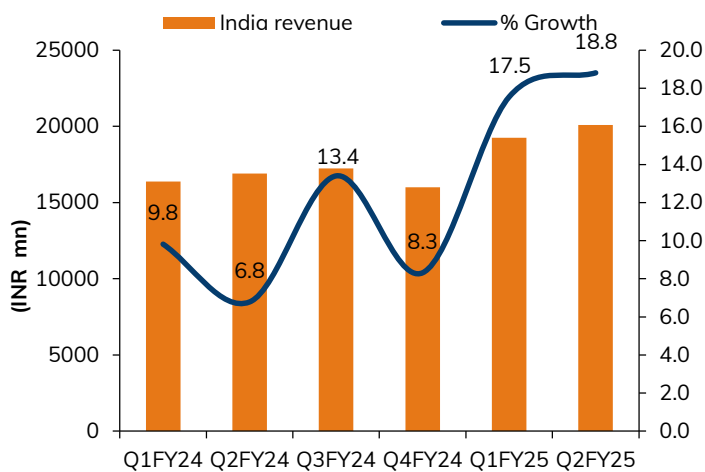
Source: I-Sec research, Company data

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



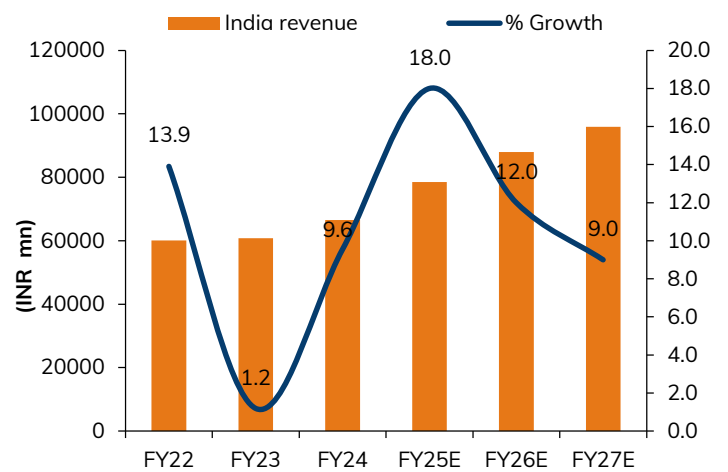
Source: I-Sec research, Company data

Exhibit 7: Domestic business grew 18.8% YoY in Q2FY25



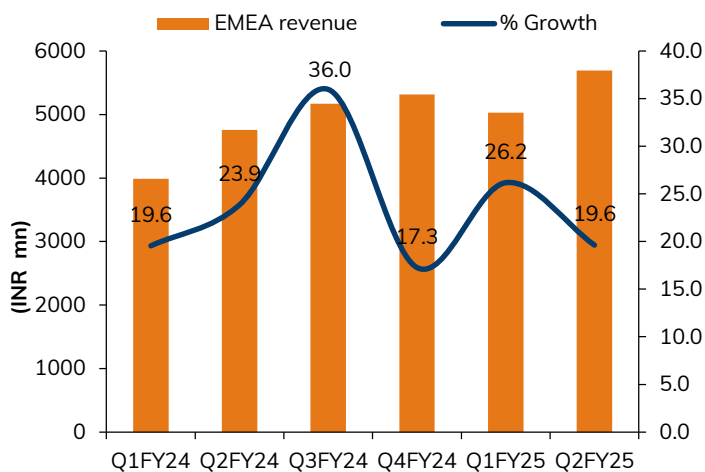
Source: I-Sec research, Company data

Exhibit 8: 20 brands launch lined up for FY25



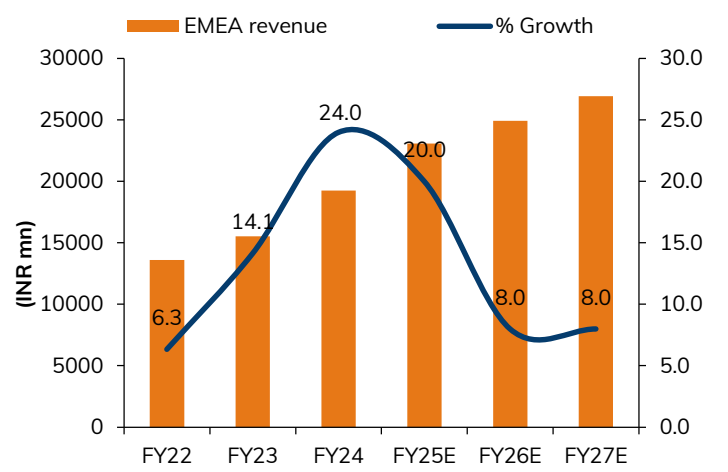
Source: I-Sec research, Company data

Exhibit 9: EMEA region grew 19.6% YoY



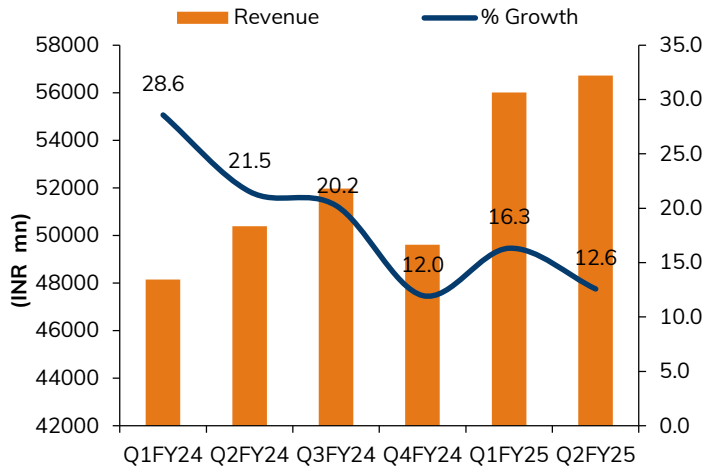
Source: I-Sec research, Company data

Exhibit 10: EMEA to grow at ~13.8% CAGR over FY24-26E



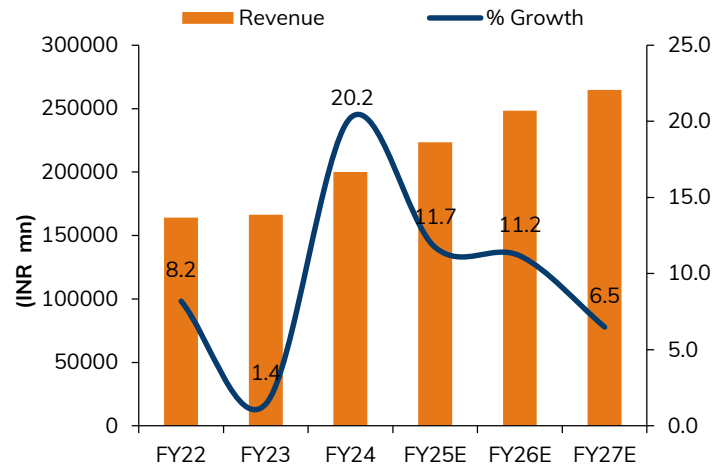
Source: I-Sec research, Company data

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



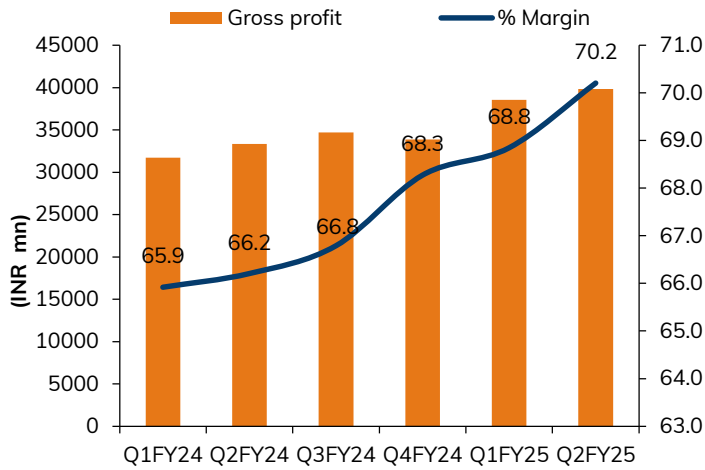
Source: I-Sec research, Company data

Exhibit 12: Revenue to grow ~11.4% over FY24-26E



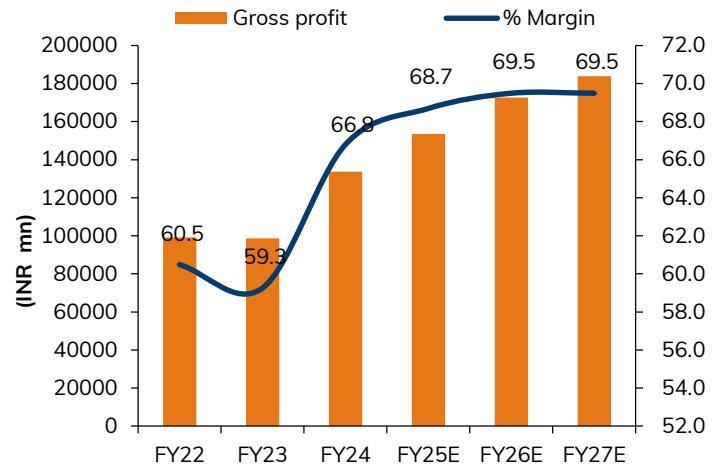
Source: I-Sec research, Company data

Exhibit 13: Gross margin expanded on the back of lower RM costs and sourcing efficiencies



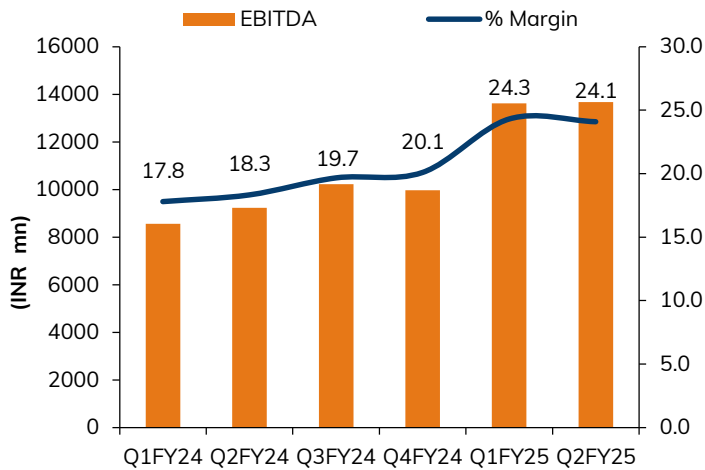
Source: I-Sec research, Company data

Exhibit 14: Gross margin to improve 270bps over FY24-26E



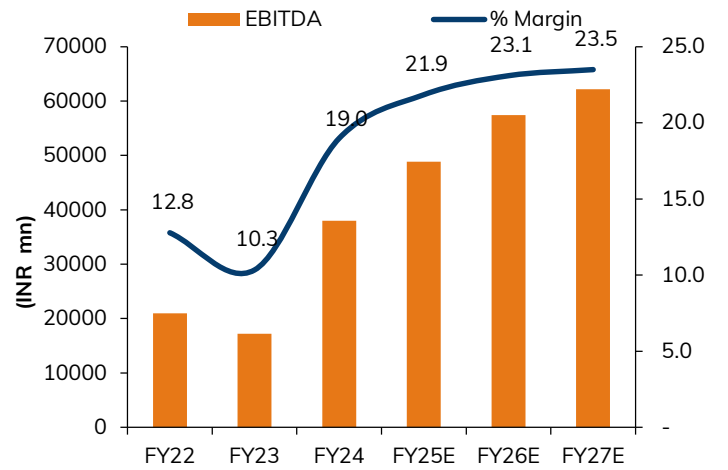
Source: I-Sec research, Company data

Exhibit 15: EBITDA margin rose despite 19% YoY increase in R&D costs



Source: I-Sec research, Company data

Exhibit 16: EBITDA margin likely to expand by 411bps over FY24-26E



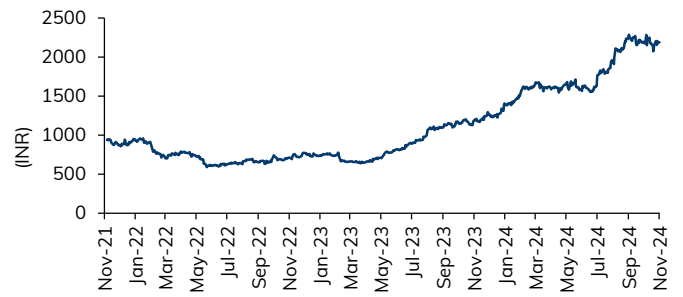
Source: I-Sec research, Company data

Exhibit 17: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	47.0	47.0	47.0
Institutional investors	46.0	45.0	45.7
MFs and others	16.8	16.2	16.9
Insurance	10.1	9.5	7.3
FIIIs	19.1	19.3	21.5
Others	7.0	8.0	7.3

Source: Bloomberg

Exhibit 18: Price chart



Source: Bloomberg

Financial Summary

Exhibit 19: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	2,00,108	2,23,559	2,48,529	2,64,661
Operating Expenses	1,62,108	1,74,712	1,91,119	2,02,466
EBITDA	38,000	48,848	57,410	62,195
EBITDA Margin (%)	19.0	21.9	23.1	23.5
Depreciation & Amortization	9,956	10,411	10,925	11,440
EBIT	28,045	38,437	46,485	50,756
Interest expenditure	3,116	2,826	1,226	106
Other Non-operating Income	1,202	2,403	2,884	3,461
Recurring PBT	26,130	38,014	48,143	54,110
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	4,867	7,309	9,629	10,822
PAT	19,356	29,236	38,514	43,288
Less: Minority Interest	211	319	420	472
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	19,145	28,918	38,095	42,817
Net Income (Adjusted)	21,435	30,669	38,095	42,817

Source Company data, I-Sec research

Exhibit 20: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	1,26,007	1,49,450	1,80,687	2,17,994
of which cash & cash eqv.	12,025	22,695	43,223	75,260
Total Current Liabilities & Provisions	57,350	62,953	68,919	72,773
Net Current Assets	68,657	86,497	1,11,768	1,45,221
Investments	10,746	10,746	10,746	10,746
Net Fixed Assets	45,842	45,680	45,288	44,668
ROU Assets	3,144	3,140	3,120	3,083
Capital Work-in-Progress	7,725	7,725	7,725	7,725
Total Intangible Assets	39,798	38,553	37,039	35,257
Other assets	3,649	3,950	4,271	4,479
Deferred Tax Assets	3,025	3,025	3,025	3,025
Total Assets	1,82,622	1,99,357	2,23,028	2,54,251
Liabilities				
Borrowings	27,665	17,665	7,665	665
Deferred Tax Liability	2,459	2,459	2,459	2,459
provisions	3,754	3,754	3,754	3,754
other Liabilities	5,010	5,597	6,222	6,626
Equity Share Capital	911	911	911	911
Reserves & Surplus	1,41,992	1,67,821	2,00,447	2,37,795
Total Net Worth	1,42,903	1,68,732	2,01,358	2,38,707
Minority Interest	832	1,150	1,570	2,041
Total Liabilities	1,82,622	1,99,357	2,23,028	2,54,251

Source Company data, I-Sec research

Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	35,794	34,649	43,339	50,150
Working Capital Changes	(427)	(4,132)	6,889	4,442
Capital Commitments	10,532	9,000	9,000	9,000
Free Cashflow	25,262	25,649	34,339	41,150
Other investing cashflow	5,577	-	-	-
Cashflow from Investing Activities	(16,109)	(9,000)	(9,000)	(9,000)
Issue of Share Capital	1	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(15,886)	(10,000)	(10,000)	(7,000)
Dividend paid	(3,646)	(4,557)	(5,468)	(5,468)
Others	849	1,046	1,658	3,355
Cash flow from Financing Activities	(18,682)	(13,511)	(13,811)	(9,114)
Chg. in Cash & Bank balance	1,003	12,138	20,529	32,036
Closing cash & balance	13,934	24,163	43,223	75,260

Source Company data, I-Sec research

Exhibit 22: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	42.0	63.5	83.6	94.0
Adjusted EPS (Diluted)	47.0	67.3	83.6	94.0
Cash EPS	68.9	90.1	107.6	119.1
Dividend per share (DPS)	8.0	10.0	12.0	12.0
Book Value per share (BV)	313.6	370.3	441.9	523.8
Dividend Payout (%)	19.0	15.8	14.4	12.8
Growth (%)				
Net Sales	20.2	11.7	11.2	6.5
EBITDA	120.9	28.5	17.5	8.3
EPS (INR)	459.6	43.1	24.2	12.4
Valuation Ratios (x)				
P/E	50.1	33.2	25.2	22.4
P/CEPS	30.6	23.3	19.6	17.7
P/BV	6.7	5.7	4.8	4.0
EV / EBITDA	25.4	19.3	15.9	14.0
P / Sales	4.8	4.3	3.9	3.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	66.8	68.7	69.5	69.5
EBITDA Margins (%)	19.0	21.9	23.1	23.5
Effective Tax Rate (%)	20.1	20.0	20.0	20.0
Net Profit Margins (%)	10.7	13.7	15.3	16.2
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.0	(0.1)	(0.2)	(0.4)
Net Debt / EBITDA (x)	0.1	(0.3)	(0.8)	(1.4)
Profitability Ratios				
RoCE (%)	13.7	18.3	19.9	19.2
RoE (%)	16.0	19.7	20.6	19.5
RoC (%)	17.2	24.0	29.6	32.7
Fixed Asset Turnover (x)	4.5	4.9	5.5	5.9
Inventory Turnover Days	99	94	94	92
Receivables Days	93	90	85	78
Payables Days	59	57	57	56

Source Company data, I-Sec research

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