

India

HOLD (no change)

Consensus ratings*: Buy 12 Hold 17 Sell 14

Current price:	Rs719
Target price:	Rs759 ▲
Previous target:	Rs664
Up/downside:	5.6%
InCred Research / Consensus:	13.3%
Reuters:	
Bloomberg:	LPC IN
Market cap:	US\$4,504m
	Rs327,083m
Average daily turnover:	US\$12.3m
	Rs891.5m
Current shares o/s:	454.7m
Free float:	5,290.0%
*Source: Bloomberg	

Key changes in this note

- Reduce FY23F core earnings by 17%; raise FY24F core earnings by 11%.
- Raise target price to Rs759 from Rs664.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.7	7.4	(23.6)
Relative (%)	(2.7)	4.2	(24.0)

Major shareholders	% held
PROMOTER	47.1
LIC	8.3
ICICI Pru MF	11.0

Analyst(s)



Bino PATHIPARAMPIL
 T (91) 22 4161 1552
 E bino.pathiparampil@incredcapital.com
Kashish THAKUR
 T (91) 22 4161 1549
 E kashish.thakur@incredcapital.com

Lupin Ltd

Many moving parts

- Lupin's 2QFY23 revenue was up just 1.3% and EBITDA was down 23% YoY. Still, the QoQ recovery in EBITDA margin from 4.4% to 10.5% was soothing.
- In our estimate, the stock is already factoring in a 16-18% EBITDA margin in FY24F and achieving it is critical for its price.
- Raise target price to Rs759 (18x FY25F core earnings plus cash per share) vs. Rs664 earlier. Higher product-related uncertainties explain the lower multiple.

US business helps growth and margins

Lupin's 2QFY23 performance was nothing commendable with revenue up by only 1.3% and EBITDA down 23% YoY. Still, the QoQ recovery in EBITDA margin from 4.4% to 10.5% was soothing. The recovery was led by US business, which was up by \$36m QoQ.

Further improvement critical; a lot depends on gSpiriva

The margin expansion QoQ was not unexpected and is well priced into the stock, in our view. Sustenance of the stock price at current levels is dependent on further margin expansion over the next few quarters. In our view, the stock is already pricing in a 16-18% EBITDA margin in FY24F. The US Food and Drug Administration's approval for gSpiriva is highly critical for such margin expansion and any delay on this front poses a serious risk.

More high-value product launches planned in FY24F

Lupin's management has given guidance of more high-value product launches in FY24F, mostly first-to-file with a marketing exclusivity period that runs for 180 days. It gave guidance of gPrezista launch in 1QFY24F and gNascobal launch in 1HFY24F. Management is also hopeful of bNeulasta launch in the next 6-12 months. These, in our view, could aid 1HFY24F growth and profitability.

Too many moving parts

FY24F could be a major growth year for Lupin with potential tripling of its core EPS, thanks to a very low FY23F base and the launch of generic drugs with a 180-day marketing exclusivity, and other high-value products. However, there are significant moving parts, including multiple one-off 180-day marketing exclusivities and the risk of gSpiriva approval, that add to the uncertainty.

Lower FY23F estimates but raise FY24F estimates

We reduce our FY23F core earnings estimate by 17% as we lower our margin assumption, but raise our FY24F core earnings estimate by 11% as we build in the sales from gPrezista & gNascobal. Lupin trades at 21.6x our FY24F core earnings. We retain HOLD rating and increase our target price on it to Rs759 (Rs664 earlier), which is 18x FY25F core earnings plus cash per share. Uncertainties around product launches and lack of FY26F growth visibility explain the lower multiple. Larger-than-expected upside from high-value products in the US will be key upside risk; delay in their launch will be key downside risk.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	151,630	164,055	166,576	191,858	209,650
Operating EBITDA (Rsm)	25,669	20,972	17,258	32,150	37,449
Net Profit (Rsm)	12,165	(15,280)	5,808	15,975	19,953
Core EPS (Rs)	26.7	23.3	12.8	35.1	43.9
Core EPS Growth	151.7%	(12.9%)	(45.1%)	175.1%	24.9%
FD Core P/E (x)	26.92	30.91	56.32	20.47	16.39
DPS (Rs)	7.5	10.5	7.5	7.5	8.5
Dividend Yield	1.04%	1.46%	1.04%	1.04%	1.18%
EV/EBITDA (x)	12.34	16.68	21.03	11.42	9.64
P/FCFE (x)	20.47	(23.55)	127.41	18.43	12.58
Net Gearing	(7.7%)	18.3%	28.7%	29.1%	21.8%
P/BV (x)	2.37	2.69	2.67	2.43	2.16
ROE	9.2%	8.2%	4.8%	12.4%	14.0%
% Change In Core EPS Estimates			(16.67%)	10.39%	1.02%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 2QFY23 results snapshot

(Rs m)	2QFY23	2QFY22	yoy(%)	1QFY23	qoq(%)
Revenue	41,455	40,913	1%	37,438	11%
EBITDA	4,342	5,638	-23%	1,639	165%
EBITDA Margin (%)	10%	14%	-3%	4%	6%
PAT	1,297	4,893	-73%	-891	Not comparable

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Actual vs estimates

(Rs m)	2QFY23A	2QFY23F	Variation (%)
Revenue	41,455	43,238	-4%
EBITDA	4,342	6,084	-29%
EBITDA Margin (%)	10%	14%	-26%
PAT	1,297	2,820	-54%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. Bloomberg consensus estimates

(Rs m)	2QFY23A	2QFY23F	Variation (%)
Revenue	41,455	41,182	1%
EBITDA	4,342	4,363	0%
EBITDA Margin (%)	10%	11%	-1%
PAT	1,297	1,775	-27%

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: Our revised estimates

(Rs m)	New Estimates		Old Estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	1,66,576	1,91,858	1,68,408	1,88,548	-1%	2%
EBITDA	17,258	32,150	20,321	32,232	-15%	0%
EBITDA Margin (%)	10%	17%	12%	17%	-2%	-2%
PAT	5,808	15,975	7,921	16,366	-27%	-2%

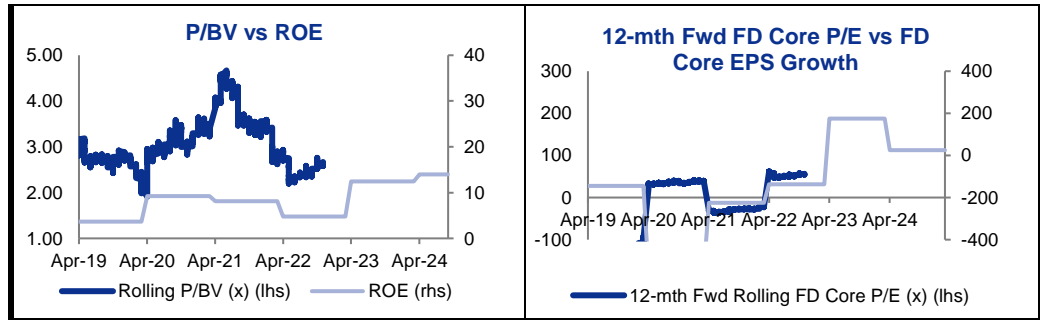
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Core valuation table

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	24.4	19.0	10.2	33.0	41.5
Core EPS growth	227.0%	-22.1%	-46.5%	223.4%	25.9%
Cash per share (Rs)	90.6	42.0	11.6	11.7	10.7
Current core P/E (Rs)	29.1	37.4	69.8	21.6	17.1
Core ROIC	11.7%	9.0%	6.2%	14.7%	16.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	151,630	164,055	166,576	191,858	209,650
Gross Profit	98,007	99,242	97,718	119,047	130,429
Operating EBITDA	25,669	20,972	17,258	32,150	37,449
Depreciation And Amortisation	(8,874)	(9,510)	(8,363)	(8,900)	(9,400)
Operating EBIT	16,795	11,462	8,895	23,250	28,049
Financial Income/(Expense)	(1,406)	(1,428)	(1,777)	(1,400)	(1,300)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,363	2,101	1,677	1,200	1,200
Profit Before Tax (pre-EI)	16,751	12,135	8,796	23,050	27,949
Exceptional Items					
Pre-tax Profit	16,751	12,135	8,796	23,050	27,949
Taxation	(4,485)	(1,372)	(2,844)	(6,915)	(7,826)
Exceptional Income - post-tax	13	(25,861)			
Profit After Tax	12,279	(15,097)	5,952	16,135	20,123
Minority Interests	(114)	(183)	(144)	(160)	(170)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	12,165	(15,280)	5,808	15,975	19,953
Recurring Net Profit	12,152	10,580	5,808	15,975	19,953
Fully Diluted Recurring Net Profit	12,152	10,580	5,808	15,975	19,953

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	25,669	20,972	17,258	32,150	37,449
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,925)	(150)	(3,009)	(14,552)	(8,169)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	3,035	(16,679)	(1,134)	(4,372)	(5,654)
Net Interest (Paid)/Received	(1,406)	(1,428)	(1,777)	(1,125)	(1,611)
Tax Paid	(7,155)	959	100	200	100
Cashflow From Operations	18,217	3,673	11,438	12,300	22,115
Capex	(6,776)	(8,980)	(10,000)	(11,000)	(11,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments		(1,468)	(9,400)		
Other Investing Cashflow					
Cash Flow From Investing	11,441	(6,775)	(7,962)	1,300	10,615
Debt Raised/(repaid)	(13,677)	(10,787)	(909)	4,145	(6,732)
Proceeds From Issue Of Shares	106	2			
Shares Repurchased					
Dividends Paid	(2,723)	(2,951)	(4,771)	(3,413)	(3,419)
Preferred Dividends					
Other Financing Cashflow	21,656	(1,606)	(100)	(200)	(100)
Cash Flow From Financing	5,361	(15,343)	(5,779)	532	(10,250)
Total Cash Generated	16,803	(22,117)	(13,741)	1,832	365
Free Cashflow To Equity	15,982	(13,888)	2,567	17,746	25,999
Free Cashflow To Firm	31,065	(1,674)	5,252	15,001	34,030

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	41,346	19,228	5,310	5,364	4,899
Total Debtors	44,743	42,619	49,973	57,557	62,895
Inventories	40,920	46,307	34,981	40,290	44,027
Total Other Current Assets	12,855	16,422	38,313	44,127	48,220
Total Current Assets	139,864	124,577	128,576	147,339	160,040
Fixed Assets	52,344	53,973	55,610	57,710	59,810
Total Investments	319	303	303	303	303
Intangible Assets	37,126	31,306	40,706	40,706	40,706
Total Other Non-Current Assets	6,451	8,053	8,053	8,053	8,053
Total Non-current Assets	96,241	93,635	104,672	106,772	108,872
Short-term Debt	30,494	37,946	37,946	10,000	10,000
Current Portion of Long-Term Debt					
Total Creditors	20,144	22,829	26,877	28,747	30,996
Other Current Liabilities	33,722	21,990	32,850	35,136	37,884
Total Current Liabilities	84,361	82,764	97,673	73,883	78,881
Total Long-term Debt	161	3,638	2,729	34,820	28,088
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	13,001	9,590	9,590	9,590	9,590
Total Non-current Liabilities	13,162	13,227	12,319	44,410	37,678
Total Provisions					
Total Liabilities	97,523	95,992	109,992	118,293	116,559
Shareholders Equity	138,031	121,533	122,425	134,827	151,192
Minority Interests	550	687	831	991	1,161
Total Equity	138,581	122,220	123,256	135,818	152,353

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(7.5%)	8.2%	1.5%	15.2%	9.3%
Operating EBITDA Growth	3.7%	(18.3%)	(17.7%)	86.3%	16.5%
Operating EBITDA Margin	16.9%	12.8%	10.4%	16.8%	17.9%
Net Cash Per Share (Rs)	23.51	(49.16)	(77.78)	(86.77)	(72.99)
BVPS (Rs)	303.57	267.28	269.24	296.52	332.51
Gross Interest Cover	11.94	8.03	5.01	16.61	21.58
Effective Tax Rate	26.8%	11.3%	32.3%	30.0%	28.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	119.40	97.19	101.44	102.29	104.85
Inventory Days	256.92	245.62	215.44	188.67	194.24
Accounts Payables Days	150.66	121.01	131.74	139.42	137.63
ROIC (%)	8.9%	5.6%	4.0%	9.4%	10.8%
ROCE (%)	9.9%	6.9%	5.4%	13.5%	15.1%
Return On Average Assets	5.5%	5.2%	3.2%	7.1%	8.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Disclaimer??