

India

HOLD (no change)

Consensus ratings*: Buy 11 Hold 17 Sell 14

Current price: Rs678
 Target price:  Rs664
 Previous target: Rs664
 Up/downside: -2.1%
 InCred Research / Consensus: -0.5%

Reuters:
 Bloomberg: LPC IN
 Market cap: US\$4,242m
 Rs308,064m
 Average daily turnover: US\$12.6m
 Rs914.8m
 Current shares o/s: 454.4m
 Free float: 5,290.0%

*Source: Bloomberg

Key changes in this note

- Maintain Hold rating.
- Target price remains unchanged at Rs664.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-----|------|--------|
| Absolute (%) | 6.0 | 12.8 | (27.9) |
| Relative (%) | 0.0 | 2.6 | (31.7) |

| Major shareholders | % held |
|--------------------|--------|
| Promoter | 47.1 |
| LIC | 8.4 |
| ICICI Pru MF | 5.5 |

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Lupin Ltd

All eyes on gSpiriva launch

- Regulatory approval for gPerforomist in the US and diabetes brand acquisitions in India do not change our projections or our view on Lupin stock.
- We are concerned about the delay in approval to gSpiriva in the US, which poses a 25-40% risk to FY23F/24F core earnings.
- Our estimates remain unchanged; maintain Hold rating on the stock.

New developments don't change projections; gSpiriva nod critical

In two separate developments, Lupin announced the US Food and Drug Administration or US FDA approval for gPerforomist and the acquisition of Ondero and Ondero-Met brands from Boehringer. These developments neither materially change our projections or our view on the company. However, we are concerned about the delay in US FDA approval for gSpiriva, which poses a downside risk to our estimates. gSpiriva contributes 40% and 25% to our FY23F and FY24F core earnings, respectively.

Lupin is the third entrant in gPerforomist market

Perforomist is Formoterol inhalation solution, originally from Mylan, for obstructive pulmonary diseases. The brand had pre-generic sales of about US\$300m. Teva and Alembic already have generic versions of the drug in the US market; Lupin is the third generic entry. We expect gPerforomist to be a US\$10-15m product for Lupin and this does not materially change our forward earnings estimates.

Acquired brands were already in Lupin's existing portfolio

Lupin acquired the brands Ondero and Ondero-Met from Boehringer for a consideration of Euro 26m. These are brands of linagliptin and linagliptin + metformin, that were already being marketed in India by Lupin under a license from Boehringer. Hence, we do not expect any change in our domestic revenue estimates from this development.

Acquisition is a post-patent strategy

Linagliptin is under patent protection in India till Aug 2023, and Boehringer & Lupin are the only players in this market. Generic competition will emerge in Aug 2023, leading to price decline. With acquisition of these brands, Lupin will be able to manufacture its own low-cost generic versions and market them under the same brand names after Aug 2023.

Character of domestic business is changing

We continue to view these sort of transactions as becoming essential to sustaining a healthy growth rate for companies in the domestic pharmaceutical market. This will incrementally reduce the high return ratios and cash flow that the domestic branded market has historically enjoyed. We retain Hold rating on Lupin with an unchanged target price of Rs664. Significant delay in regulatory approval for gSpiriva is key downside risk. Major improvement in margins beyond what we have built in is key upside risk.

| Financial Summary | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|-----------------------------------|---------|----------|---------|---------|---------|
| Revenue (Rsm) | 151,630 | 164,055 | 170,435 | 184,330 | 203,427 |
| Operating EBITDA (Rsm) | 25,669 | 20,972 | 22,315 | 29,659 | 37,003 |
| Net Profit (Rsm) | 12,165 | (15,280) | 9,556 | 14,462 | 19,739 |
| Core EPS (Rs) | 26.7 | 23.3 | 21.0 | 31.8 | 43.4 |
| Core EPS Growth | 151.7% | (12.9%) | (9.7%) | 51.3% | 36.5% |
| FD Core P/E (x) | 25.34 | 29.10 | 32.22 | 21.29 | 15.60 |
| DPS (Rs) | 7.5 | 10.5 | 7.5 | 7.5 | 8.5 |
| Dividend Yield | 1.11% | 1.55% | 1.11% | 1.11% | 1.25% |
| EV/EBITDA (x) | 11.59 | 15.77 | 15.06 | 11.27 | 8.89 |
| P/FCFE (x) | 19.27 | (22.17) | 36.11 | 16.37 | 13.63 |
| Net Gearing | (7.7%) | 18.3% | 21.8% | 18.6% | 13.1% |
| P/BV (x) | 2.23 | 2.53 | 2.44 | 2.25 | 2.01 |
| ROE | 9.2% | 8.2% | 7.7% | 11.0% | 13.6% |
| % Change In Core EPS Estimates | | | | | |
| InCred Research/Consensus EPS (x) | | | | | |

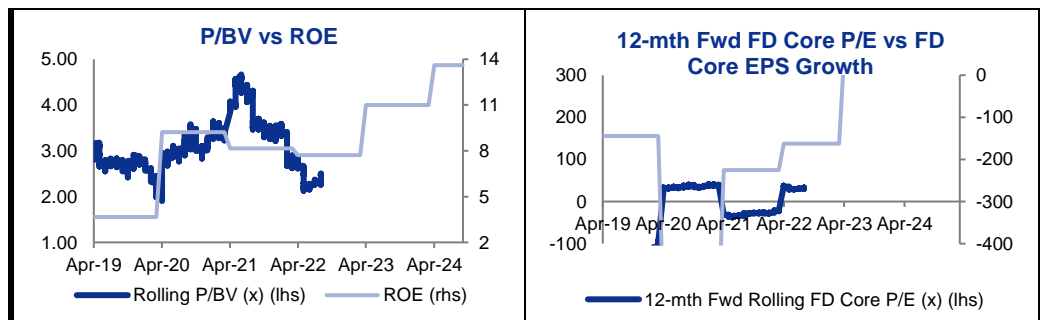
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Core valuation table

| | FY21 | FY22 | FY23F | FY24F | FY25F |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| Core EPS (Rs) | 24.4 | 19.1 | 18.2 | 29.7 | 41.2 |
| Core EPS growth | 227.0% | -22.0% | -4.5% | 63.1% | 38.9% |
| Cash per share (Rs) | 90.6 | 42.1 | 22.7 | 19.4 | 16.5 |
| Current core P/E (Rs) | 26.0 | 33.3 | 34.9 | 21.4 | 15.4 |
| Core ROIC | 11.7% | 9.0% | 8.9% | 12.9% | 16.5% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs m) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|---|----------------|-----------------|----------------|----------------|----------------|
| Total Net Revenue | 151,630 | 164,055 | 170,435 | 184,330 | 203,427 |
| Gross Profit | 98,007 | 99,242 | 102,371 | 113,717 | 126,105 |
| Operating EBITDA | 25,669 | 20,972 | 22,315 | 29,659 | 37,003 |
| Depreciation And Amortisation | (8,874) | (9,510) | (9,428) | (9,700) | (10,000) |
| Operating EBIT | 16,795 | 11,462 | 12,887 | 19,959 | 27,003 |
| Financial Income/(Expense) | (1,406) | (1,428) | (1,628) | (1,400) | (1,300) |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | 1,363 | 2,101 | 1,639 | 1,200 | 1,200 |
| Profit Before Tax (pre-EI) | 16,751 | 12,135 | 12,898 | 19,759 | 26,903 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 16,751 | 12,135 | 12,898 | 19,759 | 26,903 |
| Taxation | (4,485) | (1,372) | (3,209) | (5,137) | (6,995) |
| Exceptional Income - post-tax | 13 | (25,861) | | | |
| Profit After Tax | 12,279 | (15,097) | 9,690 | 14,622 | 19,909 |
| Minority Interests | (114) | (183) | (134) | (160) | (170) |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 12,165 | (15,280) | 9,556 | 14,462 | 19,739 |
| Recurring Net Profit | 12,152 | 10,580 | 9,556 | 14,462 | 19,739 |
| Fully Diluted Recurring Net Profit | 12,152 | 10,580 | 9,556 | 14,462 | 19,739 |

Cash Flow

| (Rs m) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|----------------------------------|---------------|-----------------|----------------|----------------|-----------------|
| EBITDA | 25,669 | 20,972 | 22,315 | 29,659 | 37,003 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (1,925) | 150 | (6,344) | (7,662) | (9,431) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 3,035 | (16,679) | (1,703) | (4,372) | (5,654) |
| Net Interest (Paid)/Received | (1,406) | (1,428) | (1,628) | (1,125) | (1,611) |
| Tax Paid | (7,155) | 658 | (12) | 200 | 100 |
| Cashflow From Operations | 18,217 | 3,673 | 12,629 | 16,700 | 20,408 |
| Capex | (6,776) | (8,980) | (10,000) | (11,000) | (11,500) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | (1,468) | (3,250) | | |
| Other Investing Cashflow | | | | | |
| Cash Flow From Investing | 11,441 | (6,775) | (621) | 5,700 | 8,908 |
| Debt Raised/(repaid) | (13,677) | (10,787) | (3,482) | (3,587) | (6,725) |
| Proceeds From Issue Of Shares | 106 | 2 | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (2,723) | (2,951) | (4,771) | (3,408) | (3,408) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | 21,656 | (1,606) | 12 | (200) | (100) |
| Cash Flow From Financing | 5,361 | (15,343) | (8,241) | (7,195) | (10,233) |
| Total Cash Generated | 16,803 | (22,117) | (8,862) | (1,495) | (1,325) |
| Free Cashflow To Equity | 15,982 | (13,888) | 8,526 | 18,813 | 22,591 |
| Free Cashflow To Firm | 31,065 | (1,674) | 13,636 | 23,800 | 30,615 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

| (Rs m) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 41,346 | 19,228 | 10,366 | 8,871 | 7,546 |
| Total Debtors | 44,743 | 42,619 | 51,130 | 55,299 | 61,028 |
| Inventories | 40,920 | 46,307 | 35,791 | 38,709 | 42,720 |
| Total Other Current Assets | 12,855 | 16,422 | 39,200 | 42,396 | 46,788 |
| Total Current Assets | 139,864 | 124,577 | 136,488 | 145,275 | 158,082 |
| Fixed Assets | 52,344 | 53,973 | 54,545 | 55,845 | 57,345 |
| Total Investments | 319 | 303 | 303 | 303 | 303 |
| Intangible Assets | 37,126 | 31,306 | 34,556 | 34,556 | 34,556 |
| Total Other Non-Current Assets | 6,451 | 8,053 | 8,053 | 8,053 | 8,053 |
| Total Non-current Assets | 96,241 | 93,635 | 97,457 | 98,757 | 100,257 |
| 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 | 26,662 | 27,841 | 29,956 |
| Other Current Liabilities | 33,722 | 21,990 | 32,586 | 34,028 | 36,613 |
| Total Current Liabilities | 84,361 | 82,764 | 97,193 | 71,868 | 76,570 |
| Total Long-term Debt | 161 | 3,638 | 156 | 24,515 | 17,790 |
| 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 | 9,746 | 34,104 | 27,380 |
| Total Provisions | | | | | |
| Total Liabilities | 97,523 | 95,992 | 106,939 | 105,973 | 103,949 |
| Shareholders' Equity | 138,031 | 121,533 | 126,184 | 137,078 | 153,238 |
| Minority Interests | 550 | 687 | 821 | 981 | 1,151 |
| Total Equity | 138,581 | 122,220 | 127,005 | 138,059 | 154,389 |

Key Ratios

| | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | (7.5%) | 8.2% | 3.9% | 8.2% | 10.4% |
| Operating EBITDA Growth | 3.7% | (18.3%) | 6.4% | 32.9% | 24.8% |
| Operating EBITDA Margin | 16.9% | 12.8% | 13.1% | 16.1% | 18.2% |
| Net Cash Per Share (Rs) | 23.53 | (49.20) | (61.04) | (56.44) | (44.55) |
| BVPS (Rs) | 303.78 | 267.47 | 277.71 | 301.68 | 337.25 |
| Gross Interest Cover | 11.94 | 8.03 | 7.92 | 14.26 | 20.77 |
| Effective Tax Rate | 26.8% | 11.3% | 24.9% | 26.0% | 26.0% |
| Net Dividend Payout Ratio | | | | | |
| Accounts Receivables Days | 119.40 | 97.19 | 100.39 | 105.37 | 104.36 |
| Inventory Days | 256.92 | 245.62 | 220.13 | 192.55 | 192.19 |
| Accounts Payables Days | 150.66 | 121.01 | 132.70 | 140.86 | 136.42 |
| ROIC (%) | 8.9% | 5.6% | 5.9% | 8.6% | 11.0% |
| ROCE (%) | 9.9% | 6.9% | 7.8% | 11.8% | 15.2% |
| Return On Average Assets | 5.5% | 5.2% | 4.8% | 6.6% | 8.3% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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