

India

**HOLD** (no change)

Consensus ratings\*: Buy 11 Hold 17 Sell 14

Current price:	Rs665
Target price:	Rs664
Previous target:	Rs664
Up/downside:	-0.2%
InCred Research / Consensus:	-0.5%

Reuters:	
Bloomberg:	LPC IN
Market cap:	US\$4,163m Rs302,290m
Average daily turnover:	US\$12.6m Rs916.9m
Current shares o/s:	454.4m
Free float:	5,290.0%

\*Source: Bloomberg

**Key changes in this note**

- Reduce FY23F core earnings estimate by 30%.
- Maintain Hold rating with an unchanged target price of Rs664.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	5.1	12.6	(29.3)
Relative (%)	(1.1)	4.0	(32.7)

<b>Major shareholders</b>	% held
Promoter	47.1
LIC	8.4
ICICI Pru MF	5.5

**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

## The wait gets longer

- After the CRL letter from the US FDA on gSpiriva ANDA, we have removed it from our FY23F estimate but continue to build in a full upside in FY24F.
- Accordingly, we have cut our FY23F core earnings estimate by 30% but maintain FY24F core earnings estimate.
- We continue our preference to wait on the sidelines for better visibility. Maintain Hold rating on the stock with an unchanged target price of Rs664.

### CRL letter delays gSpiriva approval by at least six months

The Complete Response Letter (CRL) from the US Food and Drug Administration or US FDA will delay the approval for Lupin's generic version of Spiriva inhaler by at least six months. Spiriva is a Tiotropium inhaler from Boehringer and registered about US\$700m in sales in the US at the innovator's prices. Lupin is the only generic player in advanced stages of development of this drug and could enjoy a long duration of limited competition upon approval. We believe the product could generate US\$75-100m of high-margin revenue for Lupin once it is approved by the regulator.

### Base business profitability becomes more critical

With the delay in gSpiriva launch, the profitability of Lupin's base business has become highly critical to improve margin levels. The company reported single-digit EBITDA margin for the last three quarters. The stock is pricing in a significant rebound in margins to at least mid-teens.

### Cut our FY23F earnings estimate but maintain FY24F estimate

We have removed gSpiriva revenue from our FY23F estimate and, accordingly, cut our FY23F core earnings estimate by 30%. However, we maintain our FY24F core earnings estimate as we go by management's guidance of a potential approval for the drug in 4QFY23F.

### Downside limited; upside only after margin delivery

While the valuation is not cheap based on current profitability, we see a limited downside to Lupin's stock price given the value of the company's high quality domestic business franchise. However, any upside in the stock price, in our view, will be after margin delivery north of mid-teens, the visibility on which is currently weak.

### Will continue to wait on the sidelines

Lupin trades at 49x our revised FY23F and 21x FY24F core earnings estimates. We continue our preference to wait on the sidelines for better visibility of improvement in base business profitability and high-value product upside. We maintain Hold rating on Lupin with an unchanged target price of Rs664, which is 21.6x FY24F core earnings plus cash per share. Faster rebound in base business profitability and value unlocking through corporate actions will be key upside risks. Continued subdued profitability of the base business and further delay in gSpiriva approval will be key downside risks.

<b>Financial Summary</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue (Rsm)	151,630	164,055	166,485	184,330	203,427
Operating EBITDA (Rsm)	25,669	20,972	19,155	29,659	37,003
Net Profit (Rsm)	12,165	(15,280)	6,965	14,462	19,739
Core EPS (Rs)	26.7	23.3	15.3	31.8	43.4
Core EPS Growth	151.7%	(12.9%)	(34.2%)	107.6%	36.5%
FD Core P/E (x)	24.86	28.55	43.38	20.89	15.31
DPS (Rs)	7.5	10.5	7.5	7.5	8.5
Dividend Yield	1.13%	1.58%	1.13%	1.13%	1.28%
EV/EBITDA (x)	11.36	15.49	17.25	11.16	8.80
P/FCFE (x)	18.90	(21.75)	38.83	22.01	13.27
Net Gearing	(7.7%)	18.3%	22.3%	20.8%	15.0%
P/BV (x)	2.19	2.49	2.44	2.25	2.01
ROE	9.2%	8.2%	5.7%	11.2%	13.8%
% Change In Core EPS Estimates			(27.11%)		
InCred Research/Consensus EPS (x)					

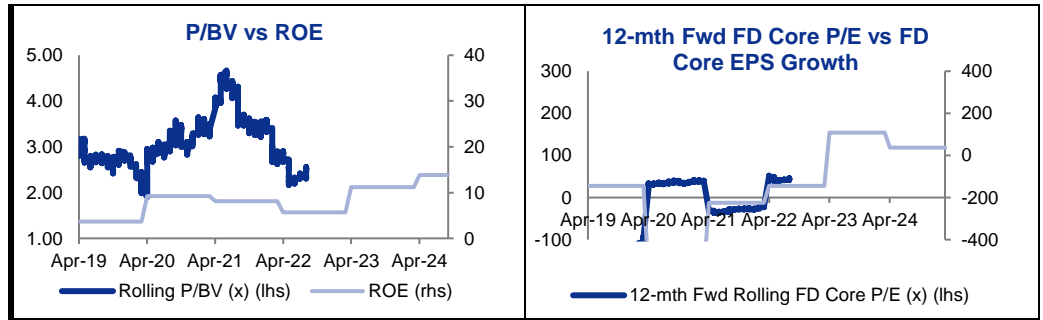
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Core valuation table**

	<b>FY21</b>	<b>FY22</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>
Core EPS (Rs)	24.4	19.1	12.6	29.7	41.2
Core EPS growth	227.0%	-22.0%	-33.8%	135.2%	38.9%
Cash per share (Rs)	90.6	42.1	21.0	12.3	9.8
Current core P/E (Rs)	25.4	32.6	49.3	20.9	15.1
Core ROIC	11.7%	9.0%	6.7%	13.1%	16.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenue</b>	<b>151,630</b>	<b>164,055</b>	<b>166,485</b>	<b>184,330</b>	<b>203,427</b>
<b>Gross Profit</b>	<b>98,007</b>	<b>99,242</b>	<b>99,211</b>	<b>113,717</b>	<b>126,105</b>
<b>Operating EBITDA</b>	<b>25,669</b>	<b>20,972</b>	<b>19,155</b>	<b>29,659</b>	<b>37,003</b>
Depreciation And Amortization	(8,874)	(9,510)	(9,428)	(9,700)	(10,000)
<b>Operating EBIT</b>	<b>16,795</b>	<b>11,462</b>	<b>9,727</b>	<b>19,959</b>	<b>27,003</b>
Financial Income/(Expense)	(1,406)	(1,428)	(1,628)	(1,400)	(1,300)
Pre-tax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,363	2,101	1,639	1,200	1,200
<b>Profit Before Tax (pre-EI)</b>	<b>16,751</b>	<b>12,135</b>	<b>9,738</b>	<b>19,759</b>	<b>26,903</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>16,751</b>	<b>12,135</b>	<b>9,738</b>	<b>19,759</b>	<b>26,903</b>
Taxation	(4,485)	(1,372)	(2,640)	(5,137)	(6,995)
Exceptional Income - post-tax	13	(25,861)			
<b>Profit After Tax</b>	<b>12,279</b>	<b>(15,097)</b>	<b>7,099</b>	<b>14,622</b>	<b>19,909</b>
Minority Interests	(114)	(183)	(134)	(160)	(170)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>12,165</b>	<b>(15,280)</b>	<b>6,965</b>	<b>14,462</b>	<b>19,739</b>
Recurring Net Profit	12,152	10,580	6,965	14,462	19,739
<b>Fully Diluted Recurring Net Profit</b>	<b>12,152</b>	<b>10,580</b>	<b>6,965</b>	<b>14,462</b>	<b>19,739</b>

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>25,669</b>	<b>20,972</b>	<b>19,155</b>	<b>29,659</b>	<b>37,003</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,925)	150	(3,737)	(10,269)	(9,431)
(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)	(1,628)	(1,125)	(1,611)
Tax Paid	(7,155)	658	(12)	200	100
<b>Cashflow From Operations</b>	<b>18,217</b>	<b>3,673</b>	<b>12,645</b>	<b>14,093</b>	<b>20,408</b>
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					
<b>Cash Flow From Investing</b>	<b>11,441</b>	<b>(6,775)</b>	<b>(605)</b>	<b>3,093</b>	<b>8,908</b>
Debt Raised/(repaid)	(13,677)	(10,787)	(4,259)	(3,457)	(6,543)
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)
<b>Cash Flow From Financing</b>	<b>5,361</b>	<b>(15,343)</b>	<b>(9,019)</b>	<b>(7,065)</b>	<b>(10,051)</b>
Total Cash Generated	16,803	(22,117)	(9,624)	(3,972)	(1,144)
<b>Free Cashflow To Equity</b>	<b>15,982</b>	<b>(13,888)</b>	<b>7,780</b>	<b>13,728</b>	<b>22,772</b>
<b>Free Cashflow To Firm</b>	<b>31,065</b>	<b>(1,674)</b>	<b>13,667</b>	<b>18,586</b>	<b>30,615</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs m)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	41,346	19,228	9,604	5,632	4,488
Total Debtors	44,743	42,619	49,945	55,299	61,028
Inventories	40,920	46,307	34,962	38,709	42,720
Total Other Current Assets	12,855	16,422	38,292	42,396	46,788
<b>Total Current Assets</b>	<b>139,864</b>	<b>124,577</b>	<b>132,803</b>	<b>142,036</b>	<b>155,024</b>
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
<b>Total Non-current Assets</b>	<b>96,241</b>	<b>93,635</b>	<b>97,457</b>	<b>98,757</b>	<b>100,257</b>
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	26,519	27,841	29,956
Other Current Liabilities	33,722	21,990	32,413	34,028	36,613
<b>Total Current Liabilities</b>	<b>84,361</b>	<b>82,764</b>	<b>96,877</b>	<b>71,868</b>	<b>76,570</b>
Total Long-term Debt	161	3,638	(621)	23,867	17,324
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	13,001	9,590	9,590	9,590	9,590
<b>Total Non-current Liabilities</b>	<b>13,162</b>	<b>13,227</b>	<b>8,968</b>	<b>33,457</b>	<b>26,913</b>
Total Provisions					
<b>Total Liabilities</b>	<b>97,523</b>	<b>95,992</b>	<b>105,846</b>	<b>105,325</b>	<b>103,483</b>
Shareholders' Equity	138,031	121,533	123,593	134,487	150,647
Minority Interests	550	687	821	981	1,151
<b>Total Equity</b>	<b>138,581</b>	<b>122,220</b>	<b>124,414</b>	<b>135,467</b>	<b>151,798</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	(7.5%)	8.2%	1.5%	10.7%	10.4%
Operating EBITDA Growth	3.7%	(18.3%)	(8.7%)	54.8%	24.8%
Operating EBITDA Margin	16.9%	12.8%	11.5%	16.1%	18.2%
Net Cash Per Share (Rs)	23.53	(49.20)	(61.01)	(62.14)	(50.26)
BVPS (Rs)	303.78	267.47	272.00	295.98	331.54
Gross Interest Cover	11.94	8.03	5.98	14.26	20.77
Effective Tax Rate	26.8%	11.3%	27.1%	26.0%	26.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	119.40	97.19	101.47	104.20	104.36
Inventory Days	256.92	245.62	220.46	190.40	192.19
Accounts Payables Days	150.66	121.01	133.87	140.49	136.42
ROIC (%)	8.9%	5.6%	4.5%	8.6%	11.0%
ROCE (%)	9.9%	6.9%	6.0%	12.1%	15.5%
Return On Average Assets	5.5%	5.2%	3.7%	6.7%	8.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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