Lupin stock hits 8-year high on robust earnings outlook

Firm has a bunch of products lined up which will ensure limited earnings dip in FY27: Analysts

DEEPAK KORGAONKAR
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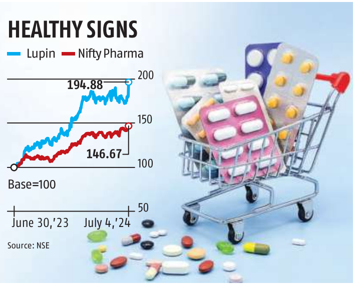
Shares of Lupin soared 7.9 per cent to hit an eight-year high of ₹1,749 on the BSE on Thursday, backed by heavy volumes on expectations of a robust earnings outlook. The stock has nearly doubled in value over the last year and trades at consensus valuations of 33 times its FY25 earnings estimates. It has delivered double the returns of Nifty Pharma over the past year, and its outperformance of the Nifty 50 Index is sharper at 4 times during the same period.



Analysts at Kotak Institutional Equities upgraded the stock to 'add' from 'sell' with a fair value of ₹1,805 (₹1,400 earlier). "Our analysis of Lupin's US portfolio leads us to believe that Lupin is well-poised to surprise positively on Street's estimates in the US in FY2025/26. This is despite baking in a sharp decline in Albuterol sales over the next couple of years," the brokerage firm said in its stock update.

The analysts believe there is a possibility of further positive surprises if Lupin continues to gain share in the generic version of the asthma drug Spiriva, and if there is a lower-than-expected hit from Albuterol (asthma) competition.

"While we stay cognizant of not ascribing a high multiple to one-off earnings, we highlight Lupin has a bunch of products lined up, which will ensure that the earnings per share decline in FY27 is limited," the brokerage firm said.

Analysts now ascribe a June 2026 price to earnings multiple of 25 times (22 times earlier), owing to better medium-term sales, as well as margin outlook (lower in-licensed mix in India to also help with Empagliflozin – medicine for Type 2 diabetes - the only drug to see a patent expiry over the medium term).

In the March 2024 quarter (Q4FY24), Lupin's gross margins and operating profit margins improved, based on better business and product mix, particularly in the US, as well as higher efficiencies. The US business continues at a strong $200 million plus revenue, despite lower seasonal products and a reduction in products like Darunavir (protease inhibitor for HIV infections) that experienced additional competition.

The management expects to sustain US business at the $200 million plus level, going ahead with the continued ramp-up of Tiotropium (asthma) and new product launches in the financial year 2024-25 (FY25).

Antique Stock Broking is also bullish on the company's prospects. It believes that US generic opportunities with limited competition launches and market share growth in Spiriva are likely to drive Lupin's US generic revenue to over $1 billion by FY27.

The pharma major enjoys a leadership position in the cardiovascular, anti-diabetic, and respiratory segments while having a significant presence in the anti-infective, gastrointestinal, central nervous system, and women's health areas. It is the third-largest pharmaceutical company in the US by prescriptions. The company invested 7.8 per cent of its revenue in research and development in FY24.

'Domestic flows will sustain, but not rise meaningfully'

The Sensex hit a record intraday high of 80,000 on July 3. **GAUTAM SINHA ROY**, chief of equity funds at ICICI Prudential Life Insurance, tells **Puneet Wadhwa** in an email interview that going forward, earnings delivery, which remains strong, would be the key driver for stock returns with some moderation in valuations possible. Edited excerpts:

Q&A
GAUTAM SINHA ROY
Chief — equity funds, ICICI Prudential Life

Would you call the market's recent spurt from June 4 low as irrational exuberance?
Short-term equity market movements are often driven by liquidity flows and sentiment changes. With the elections out of the way, the market has been reinvigorated, driven by domestic flows and the return of foreign institutional investors (FIIs). The market sentiment also seems to be acknowledging policy continuity for the next five years, which is supportive of investment-led gross domestic product (GDP) growth.

The market attention will gradually shift to earnings and valuations. Market earnings are expected to rise in the 'early teens' for the next two financial years, versus over 20 per cent per annum seen in the previous three years. Hence, we expect some tempering of market returns going forward.

The pockets of the market in which excess exuberance can be seen will undergo a reality check of earnings and valuations. Some laggard sectors of the last couple of years are likely to outperform.

What are your/market's expectations from the Budget?
The upcoming Budget in July will set the tone for the next five years' policy direction. The government is expected to strike a balance between infra and welfare spending. We expect the taxation framework to remain consistent and not cause any significant disruption. While the real estate market has seen a revival in the last three years, the affordable housing sector, crucial for lower-income groups, has been a laggard and might see some policy support.

What is your view on the mid and smallcaps?
The last three years (FY21-24) have seen midcap earnings compounding at around 25 per cent CAGR. During this period, the midcap index has delivered somewhat better returns and now stands rerated to 30x its one-year forward earnings, which is relatively high as compared to the long-term average. The smallcap index, too, follows a similar trend. Though the favourable domestic investor sentiment largely remains intact, the high valuations are raising some concerns. Going forward, earnings delivery (which remains strong) would be the key driver for stock returns with some moderation in valuations possible.

When will the foreign investors chase Indian stocks with 'animal spirits'?
FIIs purchased $21.4 billion in calendar year 2023 (CY23), whereas they sold $17 billion in CY22. In CY24, they had been net sellers till May but turned net buyers in June. As of March 2024, for the NSE-listed universe, the Foreign Portfolio Investment (FPI) ownership is down to the sub-18 per cent; lowest in the last 47 quarters.

What about domestic flows?
While looking at the FII positioning, we need to look at India's position vis-à-vis other emerging markets (EMs). MSCI India currently trades at a 72 per cent valuation premium to MSCI EM, making other EMs more attractive than India for the FIIs. However, FIIs will invest in India more vigorously when this valuation premium shrinks.

For Indian savers, there has been a shift in savings habits from other financial assets to equity financial assets. Among all asset classes, the household exposure to equity in March 2013 was 2.2 per cent; this has risen to 4.8 per cent as of March 2023. Considering the current macro/market scenario, domestic flows will sustain, but not rise meaningfully from here.

NSE imposes cap on SME debutants

Amid concerns of manipulation, the National Stock Exchange (NSE) has said the opening price on its small and medium enterprises (SME) platform for a stock can be only 90 per cent higher than the issue price. "To standardise the opening price discovery/ equilibrium price across exchanges during special pre-open session for initial public offering (IPO) for the SME platform, it has been decided to put an overall capping up to 90 per cent over the issue price for SME IPOs," said NSE.

The change will be made effective from Thursday onwards. The exchange has clarified that such price control has been imposed only on SME IPOs and not on those getting listed on the mainboard. The concerns in SME stocks stem from the irrational growth and return seen in the prices.

The exchange's decision follows an astronomical rise in the price of SMEs on the listing day, some as high as 200 per cent. The market regulator has also taken action on certain entities engaged in either inflating the subscription numbers or senior management of several SMEs which allegedly engaged in fraudulent practices such as manipulation in the financial statements.

KHUSHBOO TIWARI

NEWS IN BRIEF

Motilal Oswal Defence NFO collects ₹1,676 cr

Motilal Oswal Nifty India Defence Index Fund collected ₹1,676 crore during the new fund offer (NFO) period, Motilal Oswal AMC said in a release. According to the asset manager, the amount is the highest-ever collection by an equity index fund NFO. The defence fund, a first in the passive space, offers exposure to defence stocks listed in India, allowing investors to participate in the significant growth potential of the defence sector, it said. BS REPORTER

Mazagon Dock crosses ₹1 trillion mcap

Stock price of Mazagon Dock Shipbuilders rose 20 per cent on Thursday, and its market capitalisation (mcap) crossed the ₹1 trillion mark. The stock ended the session at ₹5,601 and commands a mcap of ₹1.1 trillion. So far in 2024, the stocks gained 146 per cent. BS REPORTER