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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Deepak Fertiliser	17-Mar-05	51	83	126
♦ HCL Tech	30-Dec-03	103	331	395
♦ JP Associates	30-Dec-03	125	610	850
♦ Madras Cement	17-Nov-05	1,498	2,820	4,000
♦ NIIT Technologies	31-Mar-06	204	488	570

Lupin

Apple Green

Stock Update

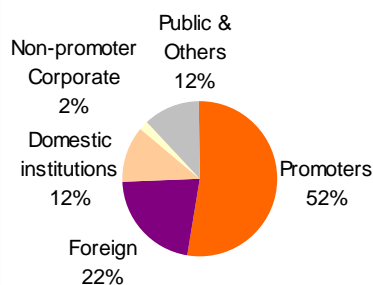
Price target revised to Rs840

Buy; CMP: Rs707

Company details

Price target:	Rs840
Market cap:	Rs5,680 cr
52 week high/low:	Rs755/406
NSE volume: (No of shares)	4.0 lakh
BSE code:	500257
NSE code:	LUPIN
Sharekhan code:	LUPLTD
Free float: (No of shares)	3.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.2	17.4	41.5	17.9
Relative to Sensex	9.3	23.6	35.9	6.2

Result highlights

- ◆ Lupin's net sales increased by 22.8% year on year (yoy) to Rs518.1 crore in Q4FY2007. The growth in the top line is above our expectations. The sales growth was driven by a 12% rise in the domestic formulation business to Rs144.3 crore and a 53.4% increase in the formulation exports to Rs165.9 crore.
- ◆ Lupin's operating profit margin (OPM) expanded by 460 basis points yoy to 14.5% in Q4FY2007; the same was lower than our expectation of 15.7%. The OPM was below expectations on account of a higher than anticipated rise in the company's raw material cost and higher research and development (R&D) expenses. Consequently, the company's operating profit grew by 80.0% yoy to Rs75.0 crore.
- ◆ The company's reported net profit stood at Rs137.1 crore, up by 173.1% yoy. However, this includes the one-time income related to the sale of the Perindopril patent. Based on our estimates, the net profit excluding the post-tax consideration received from the sale of the Perindopril patent stood at Rs61.3 crore, a jump of 22% yoy. The same was above our estimate of Rs57.5 crore.
- ◆ For FY2007, the company's net sales increased by 22.7% to Rs1,970.9 crore, which was above our estimate. The OPM expanded by 70 basis points to 14.9% as against our estimate of 15.7%, driven largely by higher R&D expenses. The company's reported net profit stood at Rs302.1 crore, up by 65.3% yoy. However, this includes the one-time income related to the sale of the Perindopril patent. Based on our estimates, the net profit excluding the post-tax consideration received from the sale of the Perindopril patent stood at Rs226.2 crore, a jump of 23.8% yoy. The same was in line with our estimate of Rs228.4 crore.
- ◆ Lupin's FY2007 profit performance (exclusive of the one-time gain) was just in line with our expectations. Hence, we are maintaining our FY2008 sales and profit estimates at Rs2,600 crore and Rs328.9 crore respectively. For FY2009, we expect the revenue to grow by 18% to Rs3,054.4 crore and the profit to rise by 25% to Rs410.5 crore. As per FY2009 estimates, the revenue and profit

Result table

Rs (cr)

Particulars	Q4FY2007	Q4FY2006	% yoy	FY2007	FY2006	% yoy
Net sales	518.1	422.0	22.8	1606.1	1970.9	-18.5
Expenditure	443.1	380.4	16.5	1377.8	1677.4	-17.9
Operating profit	75.0	41.6	80.0	228.3	293.6	-22.2
Other income	128.3	41.0	212.9	72.5	186.7	-61.2
EBIDTA	203.3	82.7	145.9	300.9	480.2	-37.4
Interest	9.8	9.5	3.3	30.3	37.1	-18.3
Depreciation	12.5	11.4	9.8	40.4	46.4	-13.0
PBT	181.0	61.8	193.0	230.2	396.8	-42.0
Taxes	43.9	11.6	279.3	47.5	94.7	-49.9
Net profit	137.1	50.2	173.1	182.7	302.1	-39.5
OPM (%)	14.5	9.9		14.2	14.9	
EBIDTA margin (%)	39.2	19.6		18.7	24.4	
Net profit margin (%)	26.5	11.9		11.4	15.3	

(exclusive of the one-time gain from the patent sale) would grow at compounded annual growth rate (CAGR) of 24% and 35% respectively. We have not included the earnings upside from the R&D pipeline in our estimates.

- ♦ The management has given an impressive revenue guidance of Rs3,000 crore for FY2008 (a 50% growth) and of Rs4,200 crore (a 40% growth) for FY2009. The growth would be achieved through various initiatives in the USA, Europe and semi-regulated markets. As per the management, a small part of the growth would also come from acquisitions. However, as per our organic growth estimates, at the current price Rs707 the stock is available at Rs19x its FY2008E and 15.2x its FY2009E earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs840 (18x of FY2009E earnings).

Formulation exports drive growth

Lupin reported a 22.8% year-on-year (y-o-y) growth in its net sales to Rs518.1 crore in Q4FY2007; the same was above our expectations. The sales growth was driven largely by the impressive 53.4% increase in the formulation exports to Rs165.9 crore.

In fact, the formulation exports to developing markets jumped up by 58.6% to Rs48.5 crore, while that to advanced markets rose by 51.3% to Rs117.4 crore in the quarter. The growth in the formulation exports was led largely by the increasing product registrations in both advanced and developing markets. Also the rising focus on US market catalysed the formulation exports.

In the USA, Lupin launched six products in FY2007 and maintained a healthy double-digit market share in most of its products. It managed to grab a market share of 33% in Lisinopril and that of 25% in Cefprozil tablets and suspension. On the other hand, Suprax, its own brand, saw a strong volume growth with prescriptions exceeding 8,500 a week during the peak season. Lupin has also launched one line extension of Suprax—Suprax DS—in the USA during FY2007.

Formulation exports to grow at 55% CAGR during FY2007-09

Lupin has aggressive plans for the US market. With 31 abbreviated new drug application filings pending approvals, Lupin plans to launch nine to ten products in the USA in FY2008. The management has indicated that the filing mix consists of roughly 25% Para IV filings and 30% difficult to manufacture sustained release products, where the competition would be limited. Further, the recent launch of Cefdinir (with a market size of \$787 million) in the US

market with limited competition would significantly scale up the US revenues for the company.

Lupin is in the process of ramping up its business in Europe. For the European market the company has chalked out a partnership model related to the sale of dossiers supported by the supply of formulations. Lupin has so far made 24 dossier filings in Europe, approvals for which are expected during FY2008. The company has already received the approval to market in France the formulation Cefpodoxime proxetil, which has a market of euro 75 million. With more approvals expected, Lupin plans to launch six to seven products in Europe starting mid FY2008.

Having secured product registrations in various semi-regulated markets, Lupin plans to aggressively expand its business in the markets of Latin America, South Africa, Australia and Japan. The company plans to enter these markets through joint venture alliances or acquisitions. With 397 pending patents in the rest of the world markets, Lupin expects significant ramp-up in the formulation exports to developing markets.

With these formulation export triggers, we estimate the formulation exports would grow at a CAGR of 55% during FY2007-09 to touch Rs1,154 crore in FY2009.

Domestic formulation growth muted at 12%

Lupin reported a 12% y-o-y growth in its domestic formulation business, whose revenues touched Rs144.3 crore in the quarter. This growth was just in line with the industry growth for the quarter.

But going forward, we believe Lupin's domestic formulation business would grow at a 19% CAGR during FY2007-09, on the back on an increase in its sales force, continued momentum in new product launches and expansion into newer therapeutic segments.

	Revenue break-up			Rs(cr)		
	Q4FY06	Q4FY07	% chg	FY06	FY07	% chg
API	194.3	207.7	6.9	739.0	781.3	5.7
- Domestic markets	83.6	82.4	-1.4	271.7	300.6	10.6
- Developing markets	76.9	94.4	22.8	305.9	360.4	17.8
- Advanced markets	33.8	30.9	-8.7	161.4	120.3	-25.4
Formulations	237.0	310.2	30.9	910.8	1232.7	35.3
- Domestic markets	128.8	144.3	12.0	606.4	753.1	24.2
- Developing markets	30.6	48.5	58.6	80.8	147.8	82.9
- Advanced markets	77.6	117.4	51.3	223.6	331.8	48.4
Total	431.3	517.9	20.1	1,649.8	2,014.0	22.1

API business delivers sluggish performance

Lupin's API business delivered a marginal growth of 6.9% to Rs207.7 crore in the quarter. The growth was muted due to flat sales of active pharmaceutical ingredients (APIs) in the domestic market and a 9% decline in the API exports to advanced markets in Q4FY2007. The sluggish performance in API sales was due to a greater captive use of the APIs.

With the increased focus on formulation exports and greater captive use, Lupin would deliver sluggish growth going forward. We estimate an 8% CAGR for APIs during FY2007-09.

Margin growth below expectation but expansion on cards

Lupin's OPM expanded by 460 basis points yoy to 14.5% in Q4FY2007; the same was lower than our expectation of 15.7%. The OPM was below expectations on account of a higher than anticipated rise in the company's raw material cost and higher R&D expenses.

However, with the increasing formulation exports to advanced markets and complete backward integration, we believe the OPM of the company would be in the range of 16-17% by FY2007-09.

One-time gain boosts profit by 173%

With a 22.8% growth in the revenues and a 460-basis-point expansion in the OPM, the company's operating profit grew by 80.0% yoy to Rs75.0 crore in Q4FY2007. Subsequently, the other income jumped up by 213%, as the company earned a one-time income of Rs114.32 crore (euro 20 million) in relation to the sale of the Perindopril patent to Laboratories Servier of France. With the one-time income, the net profit jumped by 173.1% to Rs137.1 crore. But the net profit excluding the post-tax consideration received from the sale of the Perindopril patent stood at Rs61.3 crore, a jump of 22% yoy. The same was above our estimate of Rs57.5 crore.

FY2007 performance was in line with expectation

For FY2007, the company's net sales increased by 22.7% to Rs1,970.9 crore, which was above our estimates. The OPM expanded by 70 basis points to 14.9% as against our estimate of 15.7%, driven largely by higher R&D expenses. The company's reported net profit stood at Rs302.1 crore, up by 65.3% yoy. However, this includes the one-time income related to the sale of the Perindopril patent. Based on our estimates, the net profit excluding the post-tax consideration received from the sale of the Perindopril patent stood at Rs226.2 crore, an increase of 23.8% yoy. The same was in line with our estimate of Rs228.4 crore.

Lupin forms JV with Symbiotec Pharmalab

Lupin has announced the formation of a joint venture with Symbiotec Pharmalab (Symbiotec), an Indian company

focused on steroids. With this joint venture Lupin hopes to enter the \$10-billion global market of steroids. Using the domain knowledge of Symbiotec in steroids, Lupin will leverage its global reach to increase its presence in this new segment. Using Symbiotec's steroidal API, Lupin will convert steroids into formulations and market them globally. Symbiotec has a strong pipeline of 32-36 steroidal molecules. The management expects this partnership to reach a turnover of \$100 million in the next five years.

Monetisation of R&D to provide earning surprises

Lupin's management has indicated that it might out-licence its lead anti-migraine new chemical entity (which is currently in Phase-III trials) in FY2008. The management also aims to monetise a couple of its patents in FY2008. Currently, Lupin has 70 allowed patents and 487 pending patents in various markets. Hence, any news on this front will come as a positive earnings surprise for the company.

Introduce FY2009 estimates

Lupin's FY2007 profit performance (exclusive of the one-time gain) was just in line with our expectations. Hence, we are maintaining our FY2008 sales and profit estimates at Rs2,600 crore and Rs328.9 crore respectively. For FY2009, we expect the revenue to grow by 18% to Rs3,054.4 crore and the profit to rise by 25% to Rs410.5 crore. As per FY2009 estimates, the revenue and profit (exclusive of the one-time gain from the patent sale) would grow at CAGR of 24% and 35% respectively. We have not included the earnings upside from the R&D pipeline in our estimates.

Valuation and view

The management has given an impressive revenue guidance of Rs3,000 crore for FY2008 (a 50% growth) and of Rs4,200 crore (a 40% growth) for FY2009. The growth would be achieved through various initiatives in the USA, Europe and semi-regulated markets. As per the management, a small part of the growth would also come from acquisitions. However, as per our organic growth estimates, at the current price Rs707 the stock is available at Rs19x its FY2008E and 15.2x its FY2009E earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs840 (18x of FY2009E earnings).

Valuation table

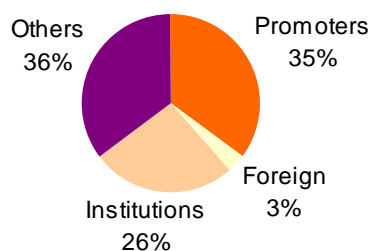
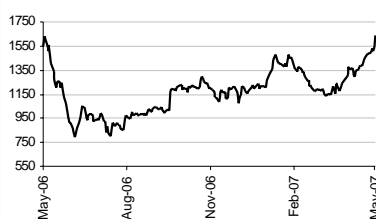
Particular	FY05	FY06	FY07	FY08E	FY09E
Net sales	1161.1	1606.1	1970.9	2600.0	3054.4
PAT	84.4	182.7	302.1	328.9	410.5
Shares in issue (cr)	8.8	8.8	8.8	8.8	8.8
EPS (Rs)	9.6	20.7	34.2	37.3	46.5
PER (x)	73.9	34.1	20.6	19.0	15.2
Cash EPS (Rs)	13.3	25.3	39.5	43.7	53.5
Cash PER (x)	53.0	28.0	17.9	16.2	13.2

The author doesn't hold any investment in any of the companies mentioned in the article.

Bharat Bijlee

Apple Green
Stock Update
Q4FY2007 results: first-cut analysis
Buy; CMP: Rs1,637
Company details

Price target:	Rs1,730
Market cap:	Rs925 cr
52 week high/low:	Rs1,709/750
BSE volume: (No of shares)	11,565
BSE code:	503960
NSE code:	BBL
Sharekhan code:	BHARATBIJ
Free float: (No of shares)	0.4 cr

Shareholding pattern

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	18.5	8.9	27.5	3.2
Relative to Sensex	13.5	14.6	22.5	-7.0

Result highlights

- ◆ The Q4FY2007 results of Bharat Bijlee Ltd (BBL) are much ahead of our expectations.
- ◆ The revenue for the quarter grew by 73% to Rs179 crore on the back of a strong order book. The net profit increased by a superb 123% to Rs29.07 crore, much ahead of our expectations.
- ◆ The operating profit for the quarter grew by 105% to Rs44.5 crore, as the operating profit margin (OPM) for the quarter improved by 370 basis points to 24.8% against 21.1% on a year-on-year (y-o-y) basis.
- ◆ The improvement in the OPM is on account of a lower raw material/sales ratio, which stood at 62.8% as against 64.9% in the same quarter last year. The OPM also improved because of other operational efficiencies as the other expenses/sales ratio declined to 5.9% from 7.6% on a y-o-y basis.
- ◆ The interest cost for the quarter decreased by 20% while the depreciation charge increased by 89%.
- ◆ The company has declared a dividend of Rs25 (250%) per share.
- ◆ The timely expansion of its transformer manufacturing capacity, by 3000MVA to 8000 MVA per annum, has benefited the company. Going forward, the huge investments lined up in the power sector and the continuing activity in the industrial sector will drive BBL's order book.
- ◆ At the current market price of Rs1,637, the stock is discounting its FY2007 earnings by 16.3x and earnings before interest, depreciation, tax and amortisation by 8.6x. Excluding the value of the cash and cash equivalents, the stock is trading at 13x its FY2007 earnings. In view of the better than expected results and strong order backlog, we maintain our Buy recommendation on the stock with a price target of Rs1,730. We shall be upgrading our FY2008 earnings estimates and price target after analysing the annual report of the company. Watch this space.

Result table

Rs (cr)

Particulars	Q4FY2007	Q4FY2006	% yoy	FY2007	FY2006	% yoy
Net sales	179.0	103.0	73.7	469.9	300.8	56.2
Total expenditure	134.5	81.3	65.4	381.5	249.4	53.0
Operating profit	44.5	21.7	104.7	88.3	51.4	71.9
Other income	2.3	1.6	43.8	4.5	3.7	23.4
EBIDTA	46.8	23.3	100.5	92.9	55.1	68.7
Interest	1.4	1.7	-19.5	5.3	4.7	12.8
Depreciation	1.2	0.6	89.1	2.9	2.0	48.0
PBT	44.2	21.0	110.5	84.7	48.4	75.0
Tax	14.8	7.6	96.0	28.1	16.6	69.3
PAT	29.4	13.5	118.6	56.5	31.8	77.9
Extraordinary items	0.4	0.4	-	-1.4	1.9	-
Reported PAT	29.1	13.1	122.6	55.1	33.7	63.6
EPS	51.5	23.1	122.6	97.5	59.6	63.6
Margins						
OPM (%)	24.8	21.1		18.8	17.1	
PATM (%)	16.4	13.1		12.0	10.6	

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Lever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Udyog
Lupin
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Wipro

Cannonball

Allahabad Bank
Andhra Bank
Cipla
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
Federal-Mogul Goetze (India)
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Tata Elxsi
Television Eighteen India
Thermax
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Power Infrastructures
Hexaware Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
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Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
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Wockhardt

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India

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