

May 18, 2006

Stock Rating
Underweight

Industry View
Attractive

Lupin Ltd.

Disappointing Quarter

Lupin reported rather disappointing F4Q06 results, on a low base comps, wherein other income was the key driver of net profits. Sales were up 45.3% (down 2% sequentially) and the operating margins expanded 320 bps (down 360 bps sequentially) to 9.9%. Net profits, Rs502 million (up 13.6% sequentially) were driven by other income (Rs410 million), 60% share in the overall profits we estimate. The company reported full year (F06) net profits of Rs1.83 billion, 4% below our expectation.

We reiterate our Underweight rating on the stock in view of modest growth expectation and rich valuation. The stock is trading at 22x F07 EPS estimates.

Sales Driver: Domestic market (up 76%, 67% of the overall growth), helped by low base due to VAT issues last year, and advanced market (up 68%, 33% of the overall growth) were the two key growth drivers. Suprax (US\$4.8 million sales) and ceftriaxone were the prominent contributors to the advanced market sales.

Operating margins were hit mainly because of higher SG&A expenses (up 56%). The research spend for the full year was Rs1.03 billion (6.2% of sales).

Other Income The company reported Rs410 million in other income (versus Rs102 million last year same quarter and Rs725 million for F06) on account of export incentives, forex gains and return on the FCCB funds (US\$100 million raised in Jan'06). The net profit for the quarter was Rs502 million, in large part on account of other income.

Key Ratios and Statistics

Reuters: LUPN.BO Bloomberg: LPC IN

India Pharmaceuticals

Price target	Rs907.00
Shr price, close (May 17, 2006)	Rs1,237.35
Mkt cap, curr (mn)	Rs49,667
52-Week Range	Rs1,275.00-558.60
Sh out, basic, curr (mn)	40
EV, curr (mn)	Rs53,510
Net debt/cap (06e) (%)	35.2
ROE (06e) (%)	37.9
Sh out, basic, per-end (06e) (mn)	40
S'hldr eqty (06e) (mn)	Rs6,597
RNOA (06e) (%)	19.7

e = Morgan Stanley Research estimates

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Exhibit 1

Lupin: F406 Quarterly Results

(Rs mn)	F4Q06	F4Q05	%chg	F3Q06	%chg	F2006	F2005	%chg
(period ending)	31-Mar-06	31-Mar-05	YoY	31-Dec-05	QoQ	31-Mar-06	31-Mar-05	YoY
Sales (Gross)	4344	2990	45.3%	4420	-1.7%	16610	12123	37.0%
Less Excise Duty	124	97	27.2%	151	-18.0%	549	511	7.4%
Net Sales	4220	2893	45.9%	4269	-1.1%	16061	11611	38.3%
Material Cost	1985	1507	31.8%	2029	-2.1%	7568	5684	33.1%
Staff Costs	406	287	41.3%	383	5.9%	1557	1257	23.9%
R&D Expenditure	336	227	48.5%	275	22.3%	1030	798	29.1%
Other Expenditure	1413	906	56.0%	1282	10.2%	4653	3400	36.8%
Total Expenditure	3804	2699	40.9%	3693	3.0%	13778	10341	33.2%
Operating profit	416	193	115.3%	576	-27.7%	2283	1270	79.8%
Other Income	410	102	301.4%	96	326.8%	725	188	286.3%
EBITDA	827	296	179.6%	672	23.0%	3009	1458	106.4%
Interest (Net)	95	69	37.1%	79	20.7%	303	273	10.9%
Depreciation	114	90	27.4%	101	13.1%	404	332	21.5%
PBT and Extraordinaries	618	137	351.5%	492	25.4%	2302	853	170.0%
Tax	116	-81	NM	51	129.1%	475	9	5117.6%
Core PAT	502	217	131.0%	442	13.6%	1827	844	116.6%
OPM (%)	9.9	6.7	3.2	13.5	-3.6	14.2	10.9	3.3
NPM (%)	11.9	7.5	4.4	10.4	1.5	11.4	7.3	4.1
Effective tax rate (%)	18.7	-58.8	77.6	10.3	8.5	20.6	1.1	19.6

Source: Company data, Morgan Stanley Research

Company Description

Lupin has traditionally been active in developing markets with an anti-TB and cephalosporin range of products. Over the past couple of years, the company has been diversifying into advanced markets and cardiovascular therapy.

Industry View: Attractive

Attractive

MSCI Country: India

Asia Strategist's Recommended Weight: 1.8%
 MSCI Asia/Pac All Country Ex Jp Weight: 6.3%



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(as of April 30, 2006)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
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Equal-weight/Hold	883	45%	295	46%	33%
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Total	1,963		640		

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Industry Coverage: India Pharmaceuticals

Company (Ticker)	Rating (as of)	Price (05/17/2006)
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Aventis (India) (AVPH.BO)	O (07/06/2005)	Rs1917.00
Biocon Ltd (BION.BO)	U (10/24/2005)	Rs457.75
Cipla Ltd. (CIPL.BO)	U (04/13/2006)	Rs258.65
Dr. Reddy's Lab (REDY.BO)	O (12/19/2005)	Rs1645.40
GlaxoSmithKline Pharma (GLAX.BO)	E (02/15/2006)	Rs1316.15
Lupin Ltd. (LUPN.BO)	Underweight (03/31/2006)	Rs1237.35
Ranbaxy Laboratories (RANB.BO)	E (04/29/2005)	Rs489.65
Sun Pharmaceutical Industries (SUN.BO)	O (09/27/2004)	Rs887.05
Wockhardt Limited (WCKH.BO)	E (08/17/2005)	Rs452.65

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