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Shareholding (%)

Promoters	52.3
FII's	12.9
Banks/Insurance Co.	10.7
Corporate Bodies	9.8
Others	14.3

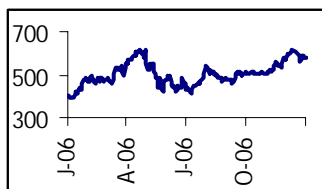
Share price performance

52-week high/low (Rs) 655/386

	-1m	-3m	-12m
Abs (%)	-1.3	13.2	44.0
Rel* (%)	-8.9	1.7	0.9

*to Nifty

Stock chart



Robust Quarter: 'Buy' maintained

In Q3FY07, Lupin Limited (Lupin) reported revenues of Rs4.9bn and net profit of Rs560mn, an increase of 15.5% and 26.8% YoY respectively. This growth was primarily driven by a 31% growth in formulation sales. Increase in formulation sales to the developing markets (including India) and high-margin exports to regulated markets (US and EU) expanded the company's operating profit margins by 260bps YoY and by 30bps QoQ.

On account of better than expected results, we are increasing our FY08E EPS estimate by 2.7% to Rs38. Currently, the stock is quoting at FY08E PER of 15.1x. Hence, we maintain our 'Buy' recommendation on the stock with a price target of Rs646, an upside of 12.3% from CMP.

- ▲ **Formulation sales drive topline:** Lupin reported sales of Rs4.9bn during Q3FY07, an increase of 15.5% YoY. This increase was driven by a 31% growth in formulation sales. Export revenues from advanced markets (US & EU) increased by 28% to Rs851mn, driven mainly by suprax sales that increased by 105% YoY from US\$ 3.7mn to US\$ 7.6mn. In Q3FY07, Lupin secured two ANDA approvals for Trandolapril tablets and Sertraline HCL tablets. API sales from the developing markets, however, declined 8% YoY.
- ▲ **Improving operating margins:** Operating margins increased by 260bps YoY and 30bps QoQ. This increase was mainly driven by higher revenues from the regulated markets and increase in finished dosage sales to the developing markets (including India).
- ▲ **Product filings increase R&D spend:** In Q3FY07, Lupin filed two ANDAs, two DMFs and four MAAs (EU). This resulted in a high R&D expenditure of Rs316mn i.e 6.4% of sales. In Q3FY07, anti-migraine NCE molecule moved into phase III clinical trials; thus showing Lupin's focus on product development and R&D capabilities.
- ▲ **Cefdinir- Key trigger for FY08E:** Lupin is the only generic company to win FDA approval for the launch of generic Cefdinir capsules. Cefdinir (Omnicef) is a brand of Abbott Laboratories, (IMS brand sales US\$543mn) used for treating bacterial infections. It is available in capsule and suspension forms. Lupin's DMF filing was the first one in

Buy

Rs575

January 19, 2007

Market cap

Rs bn 46

US\$ mn 1042

Avg 3m daily volume

78,234

Avg 3m daily value

Rs mn 43

Shares outstanding (mn)

80

Reuters

LUPN.BO/LUPIN.NS

Bloomberg

LPC IN

Sensex

14,218

Nifty

4,109

September 2004. Till date, Lupin is the only company that has got an USFDA approval. We believe that Lupin will be the only generic player in Cefdinir on 19 May 2007, when the patent expires.

- ▲ **Valuations:** Currently, Lupin is trading at a PER of 15.1x FY08E. Lupin's stable and growing formulations business, increased contribution from the developing markets, scaling up of its generic portfolio in the regulated markets (US and EU) and out-licensing opportunities arising from its NCEs strengthen our view further. Hence we maintain our 'Buy' recommendation on the stock with price target of Rs646.

Table 1. Quarterly result table

Rs mn	Q3FY07	Q2FY07	QoQ (%)	Q3FY06	YoY (%)
Net Sales	4929.3	4839.1	1.9	4269.0	15.5
Other income from operations	37.7	46.8			
Expenditure	4174.1	4123.3	1.2	3693.2	13.0
(%) of net sales	84.7	85.2		86.5	
(Increase)/ decrease in stock	-153.2	-276.7	-44.6	-44.4	245.0
Raw material consumed	2313.9	2470.3	-6.3	2072.9	11.6
(%) of net sales	46.9	51.0		48.6	
Staff cost	494.6	516.5	-4.2	383.2	29.1
(%) of net sales	10.0	10.7		9.0	
Manufacturing & Other Expenses	1518.8	1413.2	7.5	1281.5	18.5
(%) of net sales	30.8	29.2		30.0	
EBITDA	792.9	762.6	4.0	575.8	37.7
(%) of net sales	16.1	15.8		13.5	
Depreciation	120.7	112.4	7.4	100.8	19.7
EBIT	672.2	650.2	3.4	475.0	41.5
(%) of net sales	13.6	13.4		11.1	
Interest	88.7	93.1	-4.7	78.7	12.7
Other Income	144.9	171.0	-15.3	96.1	50.8
PBT	728.4	728.1	0.0	492.4	47.9
Provision for tax(including deferred tax)	168.2	209.6	-19.8	50.5	233.1
Tax Rate (%)	23.1	28.8	5.7	10.3	
PAT	560.2	518.5	8.0	441.9	26.8
NP Margin (%)	11.4	10.7		10.4	
Equity	803.3	803.1		401.4	
EPS (Rs.)	7.0	6.5		5.5	

Source: IISL research, company

Financials

Profit & Loss

In Rs million	FY05	FY06	FY07E	FY08E
Net sales	12,611.4	16,954.0	20,211.3	23,779.5
YoY (%)		34.4	19.2	17.7
Total expenses	11,277.2	14,718.4	17,284.1	19,666.1
Inc/dec in stock	1.1	(483.0)	(345.7)	(320.9)
Raw material cost	6,439.9	8,742.2	10,018.0	11,126.5
Staff cost	1,329.1	1,689.6	1,943.0	2,234.5
Power and fuel cost	622.9	746.0	883.8	1,046.5
Other manufacturing expens	634.7	765.0	881.3	1,005.6
Other expenses	2,249.5	3,258.6	3,903.6	4,573.9
EBIDTA	1,334.2	2,235.6	2,927.2	4,113.5
YoY (%)		67.6	30.9	40.5
EBIDTA (%)	10.6	13.2	14.5	17.3
Other income	234.1	741.0	701.1	754.0
PBIDT	1,568.3	2,976.6	3,628.3	4,867.5
Interest	282.5	312.8	380.6	288.1
Gross profit	1,285.8	2,663.8	3,247.6	4,579.4
Depreciation	336.2	408.8	465.7	526.0
PBT and extra ordinary	949.6	2,255.0	2,781.9	4,053.3
Extra ordinary items	0.0	0.0	0.0	0.0
PBT	949.6	2,255.0	2,781.9	4,053.3
(-) Tax	27.4	521.3	687.1	1,001.2
Tax/ PBT	2.9	23.1	24.7	24.7
PAT	922.2	1,733.7	2,094.8	3,052.2
Adjusted net profit	922.2	1,733.7	2,094.8	3,052.2
YoY (%)		88.0	20.8	45.7

Key Ratios

	FY05	FY06	FY07E	FY08E
EPS (Rs)	23.0	43.2	26.1	38.0
CEPS (Rs)	31.2	54.1	33.0	46.2
Book value (Rs)	121.9	155.3	96.3	121.9
Dividend per share (Rs)	7.4	7.4	7.4	7.4
Debt-equity (x)	0.9	1.5	0.6	0.5
ROCE	10.5	11.8	19.8	24.1
ROE	18.8	27.8	27.1	31.2
Valuations				
PE (x)	25.0	13.3	22.0	15.1
Cash PE (x)	18.4	10.6	17.4	12.4
Price/book value (x)	4.7	3.7	6.0	4.7
Dividend yield	1.3	1.3	1.3	1.3
Market cap/sales	1.8	1.4	2.3	1.9
EV/sales (x)	2.2	1.6	2.5	2.1
EV/EBDITA (x)	20.5	12.3	17.3	12.3

Balance Sheet

In Rs million	FY05	FY06	FY07E	FY08E
Equity capital	401.4	401.4	803.1	803.1
Preference capital	0.0	0.0	0.0	0.0
Reserves	4,492.4	5,831.4	6,929.7	8,985.4
Net worth	4,893.8	6,232.8	7,732.8	9,788.5
Total borrowings	4,572.1	9,249.0	4,701.6	5,095.1
Deferred tax	934.6	939.0	1,028.0	1,157.7
Total liabilities	10,400.5	16,420.8	13,462.4	16,041.3
Gross block	7,346.6	8,561.3	10,061.3	11,361.3
Less: Acc. depreciation	1,717.7	2,095.6	2,561.3	3,087.4
Net block	5,628.9	6,465.7	7,500.0	8,273.9
CWIP	698.1	252.1	100.0	100.0
Investments	26.4	28.0	1.2	919.2
Current assets	7,189.2	13,674.4	10,389.8	11,681.8
Inventories	2,614.7	3,429.1	4,019.5	4,457.5
Debtors	2,549.5	3,111.6	3,686.4	4,364.8
Cash	270.7	4,774.2	324.4	500.0
Loans and advances	1,754.3	2,359.5	2,359.5	2,359.5
Current liabilities	2,747.9	3,162.7	3,588.7	3,993.8
Provisions	394.2	836.7	939.8	939.8
Net current assets	4,047.1	9,675.0	5,861.3	6,748.2
Miscellaneous expenses	0.0	0.0	0.0	0.0
Total assets	10,400.5	16,420.8	13,462.4	16,041.3

Cash Flow

In Rs million	FY05	FY06	FY07E	FY08E
Net profit	922.2	1,733.7	2,094.8	3,052.2
Depn and w/o	336.2	408.8	465.7	526.0
Deferred tax	(7.2)	28.0	89.0	129.7
Change in working cap	(289.2)	(1,124.4)	(636.1)	(711.3)
Other income	0.0	0.0	0.0	0.0
Operating cash flow	962.0	1,046.1	2,013.4	2,996.6
Other income	0.0	0.0	0.0	0.0
Capex	(1,280.9)	(799.6)	(1,347.9)	(1,300.0)
Investments	0.0	(1.6)	26.8	(918.0)
Investing cash flow	(1,280.9)	(801.2)	(1,321.1)	(2,218.0)
Dividend	(298.2)	(297.5)	(595.1)	(595.1)
Fresh equity	(37.8)	(97.2)	0.3	(401.4)
Debt	624.0	4,676.9	(4,547.4)	393.5
Financing cash flow	288.0	4,282.2	(5,142.2)	(603.0)
Others	0.0	(23.6)	0.0	0.0
Net change in cash	(30.9)	4,503.5	(4,449.8)	0.0
Opening cash	301.6	270.7	4,774.2	324.4
Closing cash	270.7	4,774.2	324.4	500.0

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