

ACTION

Buy**Lupin (LUPN.BO)****Return Potential: 18%****Goldman
Sachs****Best positioned on LT horizon in Indian pharma; add Lupin to C-Buy****Source of opportunity**

We add Lupin (LUPN.BO) to the Conviction Buy list, raising our 12-month TP by 5% to Rs2,184, to yield potential upside of 18%. We revise our earnings estimates by 2%-4% over FY11E-FY13E on the back of better-than-expected sales from US formulations (primarily Lotrel). We continue to forecast above consensus earnings for EPS, and note that our FY11 EPS of Rs98.97 is 8% above Reuters. We forecast Lupin to post one of the highest revenue and earnings CAGR of 20%/22% over FY10-12E. We continue to make the case for Lupin's re-rating to an industry leader (Jan 25 note – "Identifying value picks for 2010; add Piramal to C-Buy; Lupin to Buy").

Catalyst

Lupin currently has one of the best FTF pipelines in the industry, in our view, with 3 exclusive FTFs (Fortamet, Glumetza, Cipro DS) and 9 other FTFs addressing a total market size of US\$8.5bn. Approvals for these products would trigger earnings upgrades for the company. Additionally, strong quarterly performance could continue the re-rating for the stock.

Valuation

Our 12-mth target price of Rs 2,184 is based on Director's Cut framework implying 18% potential upside. We believe Lupin is moving towards an industry leadership position, with consistent top-quartile CROCI returns, which we expect could propel the company to trade at a higher premium on earnings multiples vs. its peers.

The stock currently trades at an 11% discount to its domestic peers on FY2012E P/E of 15.3X and 4% on FY2012E EV/EBITDA of 11.3X. Our target price of Rs2,184 implies a P/E multiple of 18.1X, which is at a 4% premium to the sector's implied 17.5X (ex Ranbaxy).

Key risks

Regulatory actions and weak execution of generic oral contraceptive strategies could pose downside risk.

INVESTMENT LIST MEMBERSHIP

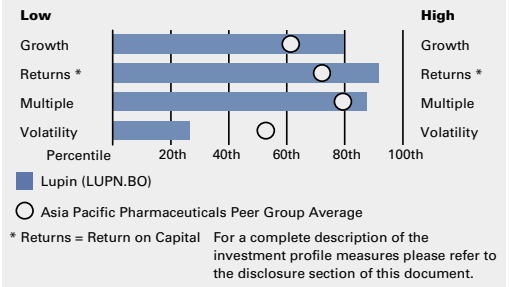
Asia Pacific Buy List
Asia Pacific Conviction Buy List
Coverage View: Neutral

India
Pharmaceuticals

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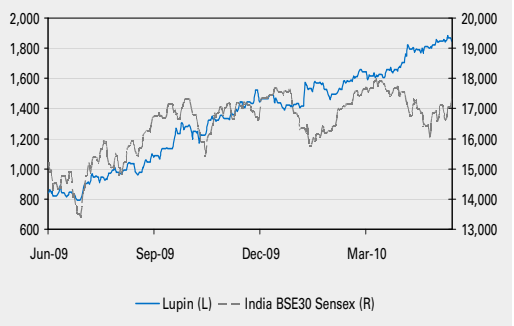
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Investment Profile

Key data	Current
Price (Rs)	1,849.30
12 month price target (Rs)	2,184.00
Market cap (Rs mn / US\$ mn)	151,792.2 / 3,241.3
Foreign ownership (%)	23.4

	3/10	3/11E	3/12E	3/13E
EPS (Rs) New	76.64	98.97	120.62	147.37
EPS revision (%)	0.4	0.6	(1.4)	(1.2)
EPS growth (%)	34.5	29.1	21.9	22.2
EPS (dil) (Rs) New	76.64	98.97	120.62	147.37
P/E (X)	24.1	18.7	15.3	12.5
P/B (X)	8.3	6.0	4.5	3.5
EV/EBITDA (X)	11.7	13.8	11.3	9.3
Dividend yield (%)	0.8	1.1	1.3	1.6
ROE (%)	40.0	37.3	33.8	31.4

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	16.9	28.3	119.9
Rel. to India BSE30 Sensex	15.7	26.5	93.3

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/14/2010 close.

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Lupin: Summary Financials

Profit model (Rs mn)	3/10	3/11E	3/12E	3/13E	Balance sheet (Rs mn)	3/10	3/11E	3/12E	3/13E
Total revenue	47,405.2	59,428.4	71,479.1	85,697.3	Cash & equivalents	745.9	1,746.6	3,877.5	6,722.9
Cost of goods sold	(20,933.3)	(25,767.6)	(30,992.6)	(37,157.5)	Accounts receivable	12,993.1	16,288.4	19,591.3	23,488.3
SG&A	(16,093.5)	(20,026.6)	(24,051.8)	(28,836.0)	Inventory	11,839.8	14,574.1	17,529.3	21,016.2
R&D	(3,081.3)	(3,862.8)	(4,646.1)	(5,570.3)	Other current assets	2,779.7	2,779.7	2,779.7	2,779.7
Other operating profit/(expense)	1,302.7	1,545.1	1,787.0	2,142.4	Total current assets	28,358.4	35,388.8	43,777.9	54,007.1
EBITDA	9,697.1	12,692.1	15,230.0	18,259.4	Net PP&E	16,789.9	19,574.3	22,566.0	26,152.7
Depreciation & amortization	(1,097.3)	(1,375.5)	(1,654.5)	(1,983.6)	Net intangibles	3,330.7	3,330.7	3,330.7	3,330.7
EBIT	8,599.8	11,316.5	13,575.5	16,275.8	Total investments	369.6	369.6	369.6	369.6
Interest income	--	74.6	174.7	387.8	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(384.9)	(611.6)	(611.6)	(611.6)	Total assets	48,848.6	58,663.4	70,044.2	83,860.1
Income/(loss) from uncons. subs.	(68.8)	0.0	0.0	0.0	Accounts payable	8,796.8	11,027.9	13,264.1	15,902.5
Others	142.0	0.0	0.0	0.0	Short-term debt	6,000.7	6,000.7	6,000.7	6,000.7
Pretax profits	8,288.1	10,779.5	13,138.5	16,052.0	Other current liabilities	6,324.5	6,324.5	6,324.5	6,324.5
Income tax	(1,360.2)	(1,832.5)	(2,233.5)	(2,728.8)	Total current liabilities	21,122.0	23,353.1	25,589.3	28,227.7
Minorities	(111.6)	(145.1)	(176.9)	(216.1)	Long-term debt	6,232.0	6,232.0	6,232.0	6,232.0
Net income pre-preferred dividends	6,816.3	8,801.8	10,728.0	13,107.0	Other long-term liabilities	1,387.2	1,387.2	1,387.2	1,387.2
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	7,619.2	7,619.2	7,619.2	7,619.2
Net income (pre-exceptionals)	6,816.3	8,801.8	10,728.0	13,107.0	Total liabilities	28,741.2	30,972.3	33,208.5	35,846.9
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	6,816.3	8,801.8	10,728.0	13,107.0	Total common equity	19,853.3	27,291.8	36,259.5	47,220.9
EPS (basic, pre-exception) (Rs)	76.64	98.97	120.62	147.37	Minority interest	254.1	399.2	576.2	792.3
EPS (basic, post-exception) (Rs)	76.64	98.97	120.62	147.37	Total liabilities & equity	48,848.6	58,663.4	70,044.2	83,860.1
EPS (diluted, post-exception) (Rs)	76.64	98.97	120.62	147.37	BVPS (Rs)	223.23	306.87	407.70	530.95
DPS (Rs)	15.33	19.79	24.12	29.47					
Dividend payout ratio (%)	20.0	20.0	20.0	20.0					
Free cash flow yield (%)	0.8	1.2	2.1	2.9					
Growth & margins (%)	3/10	3/11E	3/12E	3/13E	Ratios	3/10	3/11E	3/12E	3/13E
Sales growth	25.6	25.4	20.3	19.9	ROE (%)	40.0	37.3	33.8	31.4
EBITDA growth	31.2	30.9	20.0	19.9	ROA (%)	15.1	16.4	16.7	17.0
EBIT growth	32.1	31.6	20.0	19.9	ROACE (%)	25.2	26.9	27.0	27.4
Net income growth	35.9	29.1	21.9	22.2	Inventory days	186.7	187.1	189.0	189.3
EPS growth	26.6	29.1	21.9	22.2	Receivables days	89.9	89.9	91.6	91.7
Gross margin	55.8	56.6	56.6	56.6	Payable days	137.8	140.4	143.0	143.3
EBITDA margin	20.5	21.4	21.3	21.3	Net debt/equity (%)	57.1	37.9	22.7	11.5
EBIT margin	18.1	19.0	19.0	19.0	Interest cover - EBIT (X)	22.3	21.1	31.1	72.7
Cash flow statement (Rs mn)	3/10	3/11E	3/12E	3/13E	Valuation	3/10	3/11E	3/12E	3/13E
Net income pre-preferred dividends	6,816.3	8,801.8	10,728.0	13,107.0	P/E (analyst) (X)	24.1	18.7	15.3	12.5
D&A add-back	1,097.3	1,375.5	1,654.5	1,983.6	P/B (X)	8.3	6.0	4.5	3.5
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	11.7	13.8	11.3	9.3
Net (inc)/dec working capital	(3,122.2)	(3,798.5)	(4,022.0)	(4,745.4)	Dividend yield (%)	0.8	1.1	1.3	1.6
Other operating cash flow	142.0	0.0	0.0	0.0					
Cash flow from operations	4,971.8	6,524.0	8,537.4	10,561.3					
Capital expenditures	(3,792.4)	(4,160.0)	(4,646.1)	(5,570.3)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	0.0	0.0	0.0	0.0					
Cash flow from investments	(3,792.4)	(4,160.0)	(4,646.1)	(5,570.3)					
Dividends paid (common & pref)	(1,211.2)	(1,363.3)	(1,760.4)	(2,145.6)					
Inc/(dec) in debt	0.0	0.0	0.0	0.0					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	0.0	0.0	0.0	0.0					
Cash flow from financing	(1,211.2)	(1,363.3)	(1,760.4)	(2,145.6)					
Total cash flow	(31.8)	1,000.7	2,130.9	2,845.4					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Overview: Industry leading returns warrant 1st quartile positioning

We forecast Lupin to have the highest revenue and earnings growth amongst our coverage universe and expect Lupin to deliver revenue CAGR of 22% and earnings CAGR of 27% over FY2010-FY2013E. We re-iterate our Buy rating on Lupin and add it to our Asia-Pacific Conviction Buy list. We revise our 12-month Director's Cut-based target price to Rs2,184 (from Rs2,075). We continue to believe Lupin is the best positioned stock in our coverage group on a long term horizon and expect it to propel to 1st quartile on Director's Cut framework for the following reasons:

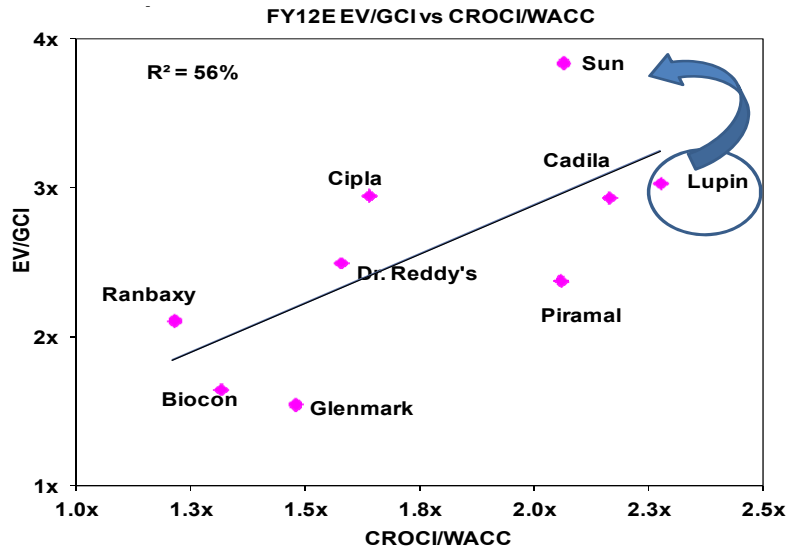
- The Indian Pharma sector has outperformed the broader market by 17% YTD and 56% in the last 12 months. During the same period, Lupin outperformed the market by 28%/102%. We believe that Lupin should be valued as an industry leader. Hence, we believe that further multiple expansion is possible for Lupin, owing to its earnings growth and Cash Returns profile and the long term outlook for the company. We continue to believe that Lupin is the best positioned stock in our coverage group on a medium to long term horizon.
- First-to-File (FTF) basket: Lupin currently has one of the best FTF pipelines in the industry, with three exclusive FTFs (Fortamet, Glumetza, Cipro DS) and nine other FTFs addressing a total market size of US\$ 8.5bn. Potential approvals / launches of these products, could see Lupin gaining anywhere between US\$300-500mn, depending on launch, generic companies in the market and exclusivity (Exhibit 1).
- Lupin has one of the highest prescription volumes by an Indian generic firm in the US, and is in the top ten generic firms by prescription, driven by its branded generic market. Lotrel sales have been better than our expectations, Antara is clocking \$13-15mn per quarter, and Suprax continues to be strong, as per IMS.
- We expect generic oral contraceptive (OC) approvals to trickle in from end FY11E and start making a material contribution to Lupin's FY2012E revenues. In our view, Lupin is one of the best positioned companies to enter this segment and challenge the incumbents, owing to its early mover advantage over other Indian competitors and its broad basket of ANDA filings to date.
- Lupin has the best CROCI profile among its domestic peers and is positioned attractively on Director's Cut framework with Cash Returns consistently improving. Hence, we expect Lupin to move to the first quartile (Exhibit 2).

Exhibit 1: FTF opportunity with an addressable market of US\$8.5bn may bring US\$300-500mn for Lupin

Active ingredient	Branded drug	Innovator co.	Primary indication	LTM US Sales (US \$ mn)	# of other FTF cos.	Approval Status
Ciprofloxacin	Cipro (excl FTF)	Bayer Schering	Anti biotic	\$153	0	
Metformin	Fortamet (excl FTF)	Shionogi	Diabetes	\$72	0	
Metformin	Glumetza (excl FTF)	Depomed	Diabetes	\$42	0	
Duloxetine	Cymbalta	Eli Lilly	Depression	\$2,951	8	
Pregabalin	Lyrica	Pfizer	Pain	\$1,593	8	
Memantine	Namenda	Forest	Alzheimer	\$1,230	13	Tentative FDA approval in 01/2010
Ziprasidone	Geodon	Pfizer	Schizophrenia	\$1,221	N/A	Tentative FDA approval in 05/2010
Eszopiclone	Lunesta	Sepracor	Insomnia	\$776	N/A	Tentative FDA approval in 03/2010
Desloratadine	Clarinx	Schering Plough	Allergic rhinitis	\$283	13	
Lanthanum Carbonate	Fosrenol	Shire	Phosphate binder	\$133	N/A	
Levonorgestrel + Ethinyl Estradiol	LoSeasonique	Teva	Contraceptive	\$10	N/A	
Levonorgestrel + Ethinyl Estradiol	Seasonale	Teva	Contraceptive	\$9	N/A	
Total FTF market opportunity				\$8,473		

Source: FDA, Company data, Goldman Sachs Research.

Exhibit 2: Best positioned company on Director's Cut; on its way to 1st quadrant position



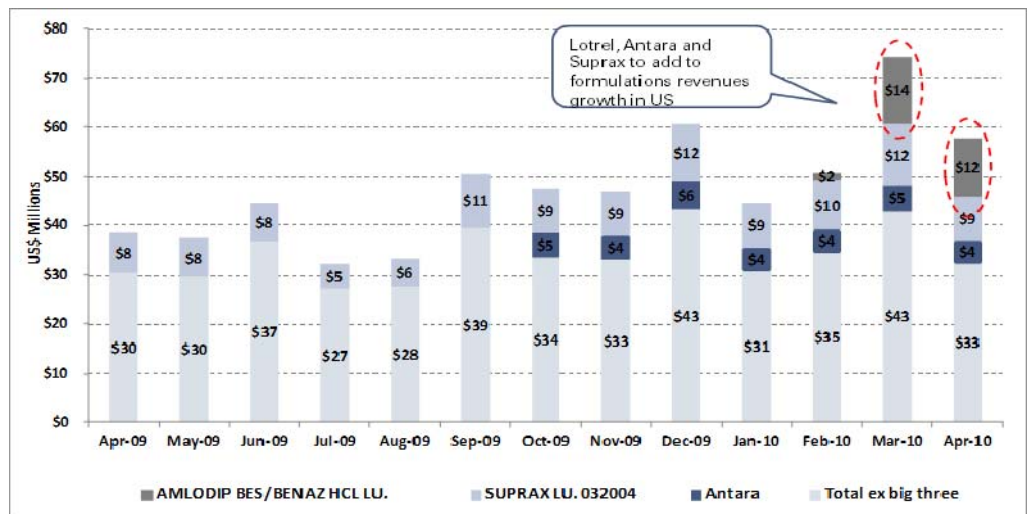
Source: Goldman Sachs Research estimates.

US Formulations trajectory to fuel superior growth and returns

Three drugs constitute 45% of US formulations revenues; to drive growth in FY11E

We believe that Lupin will continue to protect its market position with most of its products which are in the top three market share slots. In our view, the top three revenue generators, i.e, Lotrel (launched in Feb 2010), Antara (acquired in Sep 2009) and Suprax will drive US formulations growth in FY2011E.

Exhibit 3: Suprax, Antara and Lotrel to drive US formulations business in the near term



Source: IMS.

- **Lotrel (\$70-75mn FY11E revenues)**, which Lupin launched in Feb 2010, has started well registering \$26mn sales in the first two full months, as per IMS, despite other large companies (Teva, Novartis and Sandoz) already operating. We believe that Lupin will continue to capture market share in this product which should drive its FY11E revenue growth for US formulations.
- **Antara (\$80-85mn FY11E revenues)**, which Lupin acquired from Oscient Pharma in Sep 2009, has stabilized its revenues from a declining trend that was visible in 2009, in our view. We believe that Lupin will be able to maintain Antara’s revenues in the US and forecast US\$80-85mn for FY2011E.
- **Suprax (\$65-70mn FY11E revenues)**, has been the most successful product in the US for Lupin, and will maintain its market share; we expect Lupin to generate US\$80-90mn in CY10E.

First-to-file basket offers strong potential revenue pipeline

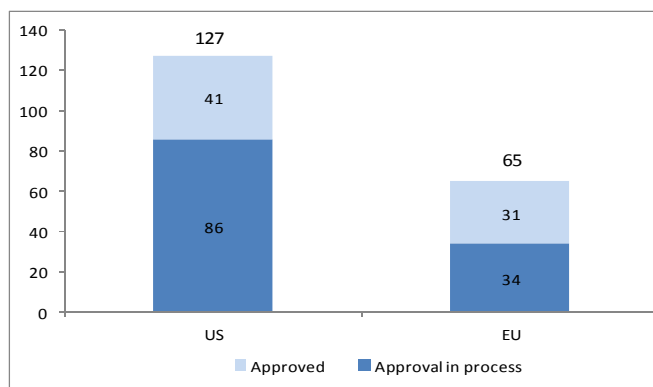
Lupin currently has one of the best FTF pipelines in the industry, with three exclusive FTFs (Fortamet, Glumetza, Cipro DS) and nine other FTFs addressing a total market size of US\$ 8.5bn. Potential approvals and launches of these products could see Lupin gaining anywhere between US\$200-500mn, depending on launch, generic companies in the market and exclusivity. The three largest opportunities, i.e., Duloxetine, Pregabalin and Menantine, with current market size of about US\$5.6bn have 8/8/13 other companies with FTF status on these drugs. Hence, these three products may offer an opportunity of US\$150-350mn for Lupin, depending on launch timing and approvals received by various other companies. Lupin has already received tentative approvals for Memnatine, Ziprasidone and Eszopiclone over the last six months. (Exhibit 1)

ANDA filing picks up in FY10; OC ANDAs constitute bulk of pending ANDAs

Lupin has one of the strongest ANDA pipelines (along with Sun/DRL) in the Indian pharma space which we believe will fuel formulations business growth. It has filed 127/65 ANDAs in the US/EU as of March 2010 and received approvals for 41/31 applications. With 86/34 ANDAs pending approval, we expect these to act as future growth engines.

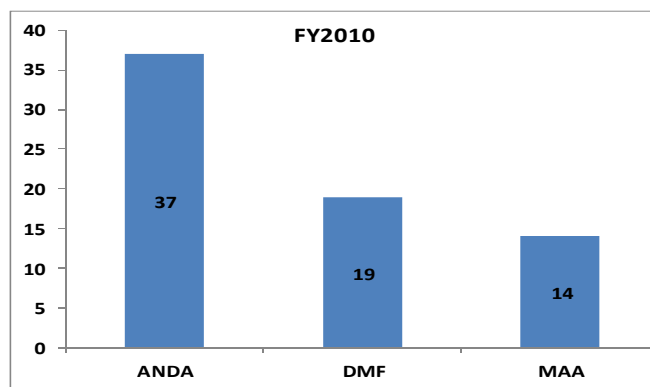
Within the ANDAs pending with the USFDA, we estimate Lupin to have around 35 ANDAs from the Oral Contraceptive space. We expect Lupin to become a meaningful name in the \$2.3 bn generic oral contraceptive (OC) market with its broad ANDA pipeline. We estimate Lupin to have filed around 35 ANDAs in the OC segment in the last 2 years and expect generic OCs to start making a material contribution to Lupin’s FY12E revenues.

Exhibit 4: Strong ANDA pipeline in the US/EU (FY2010)



Source: Company data.

Exhibit 5: Robust filing activity in FY2010



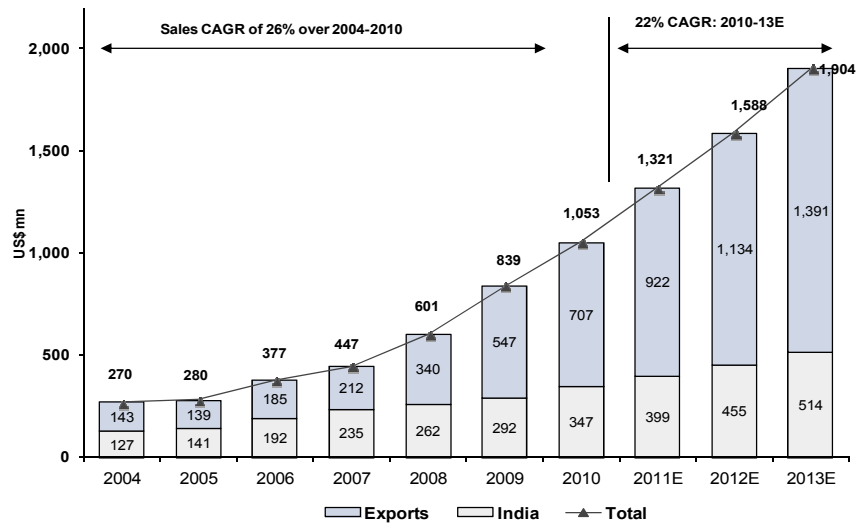
Source: Company data.

Lupin to register one of the highest revenue and earnings growth rates in the sector

We forecast Lupin to have the highest revenue and earnings growth amongst our coverage universe and expect Lupin to deliver revenue CAGR of 22% and earnings CAGR of 27% over FY2010-FY2013E. We believe that Lupin is in a sweet spot in its growth trajectory, driven by a strong formulations franchise in the US and Japan, which is complemented by its stable domestic positioning.

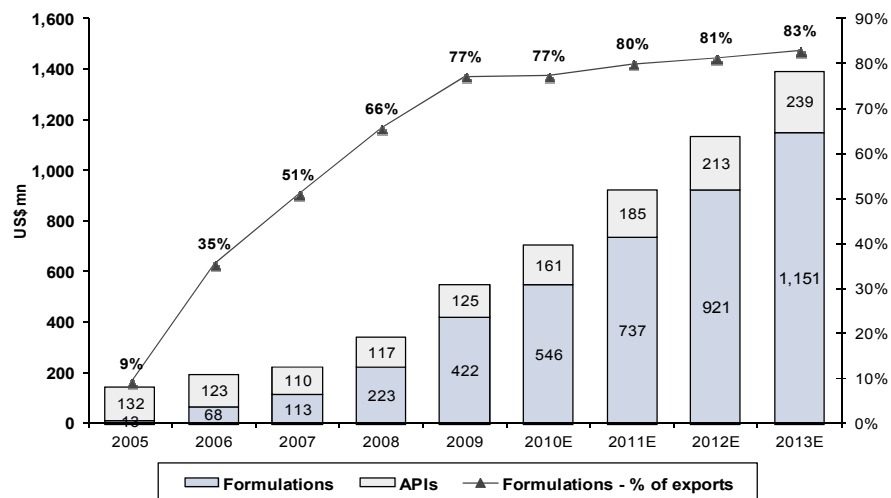
We expect this growth to be driven by strength in the formulations business in the key markets of the US and Japan. As a consequence, we expect formulations to account for 83% of its revenues in FY2013E vs. 77% of revenues in FY2010.

Exhibit 6: We forecast Lupin to register revenue CAGR of 22% over FY2010-FY2013E



Source: Company data, Goldman Sachs Research estimates.

Exhibit 7: US formulations business to drive growth despite flat API business growth



Source: Company data, Goldman Sachs Research estimates.

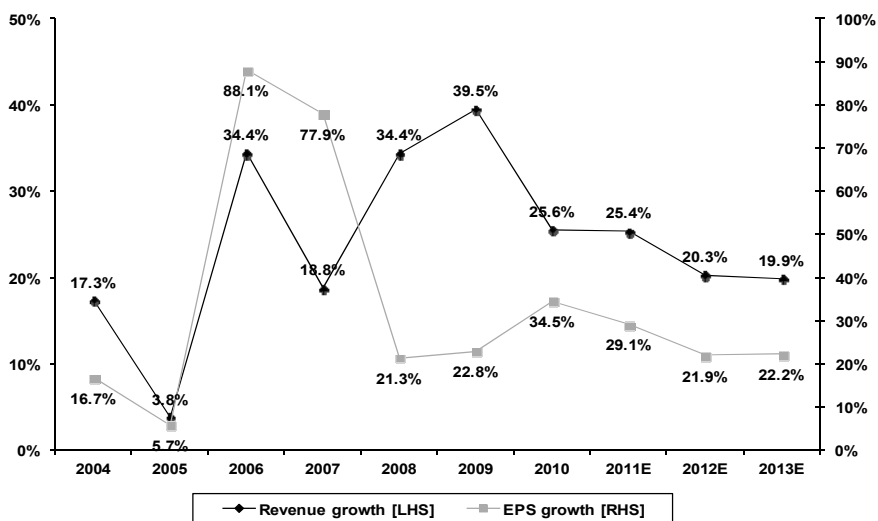
The consistently declining contribution of the low-margin API (Active Pharmaceutical Ingredient) business also augurs well for operating profits. Even though API growth is flattening, we expect growth in formulations to more than compensate for it and lead to strong sales performance.

We believe the company is on the cusp of achieving industry leadership alongside other industry-leading names like DRL, Sun, Ranbaxy and Cipla. We forecast revenue CAGR of 28% over FY10E-12E in US formulations, which compares with 27% for Dr Reddy's, 18% for Sun and 6% for Glenmark.

Raising our revenue and EPS estimates marginally for FY2011E-FY2013E

We raise our revenue estimates by 1%-2% and earnings estimates by 2%-4% over FY11E-FY13E to reflect continued growth in the US formulations business and better-than-expected revenues from Lotrel. Our EPS estimates imply a CAGR of 24% over FY2010-FY2013E. We believe Lupin's lead products Suprax, Lotrel and Antara, which contributed 43% of US sales in April 2010 as per IMS, should continue their strong performance in FY2011E. We expect the recently launched Lotrel (launched Feb 2010) to start contributing more meaningfully to revenues going ahead and forecast full-year sales of US\$100mn.

Exhibit 8: We expect 22% revenue CAGR and 24% earnings CAGR over FY10-FY13E



Source: Company data, Goldman Sachs Research estimates.

Valuations: Industry leading CROCI profile warrants further re-rating

We revise our 12-month Director's Cut-based target price to Rs 2,184 (from Rs 2,075) implying 18% potential upside and add the stock to the Asia-Pacific Conviction Buy list. We triangulate our target price with other methodologies (1-year P/E, EV/EBITDA, implied P/E) as a cross-check (Exhibit 14).

Despite its price performance (up 117% in the last 12 months vs. 71% for the sector and 15% for the broader market), we believe that Lupin is moving towards an industry leadership position, with consistent top-quartile CROCI returns, which we expect to continue over the next few years. We believe that the cash returns profile could propel the company to trade at a higher premium on earnings multiples vs. its peers.

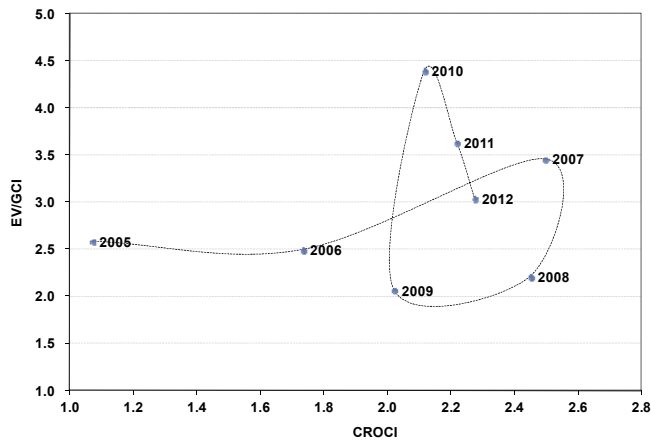
The stock currently trades at 11% discount to its domestic peers on FY2012E P/E of 15.3X and 4% on FY2012E EV/EBITDA of 11.3X. Our target price of Rs2,184 implies a P/E multiple of 18.1X, which is at a 4% premium to the sector's implied P/E of 17.5X (ex Ranbaxy).

Exhibit 9: Lupin to maintain its industry leading CROCI returns profile

CROCI quartiling									
Company	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Biocon	1	1	2	3	3	4	4	4	4
Cadila Healthcare	3	4	3	4	2	2	1	2	1
Cipla	3	3	1	3	3	2	2	3	3
Dr. Reddy's Laboratories	4	4	4	1	4	3	4	4	4
Glenmark Pharmaceuticals	4	2	4	2	1	3	3	4	4
Lupin	2	4	1	1	2	1	1	1	1
Piramal Healthcare	4	3	3	4	4	4	3	3	2
Ranbaxy Laboratories	2	1	4	4	4	4	4	1	3
Sun Pharmaceutical Industries	1	2	2	2	1	1	2	2	2

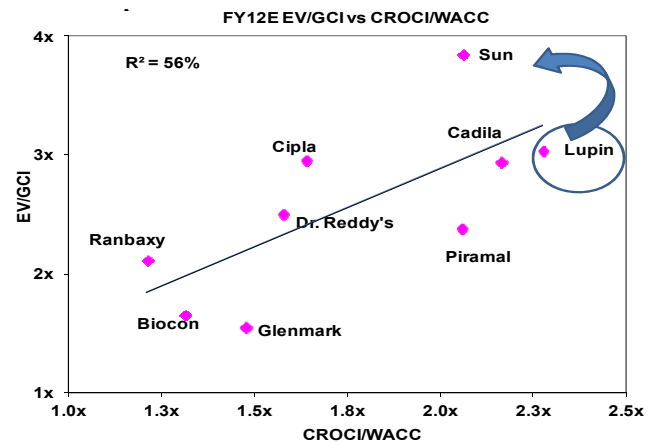
Source: Goldman Sachs Research estimates.

Exhibit 10: We expect Lupin to improve returns further



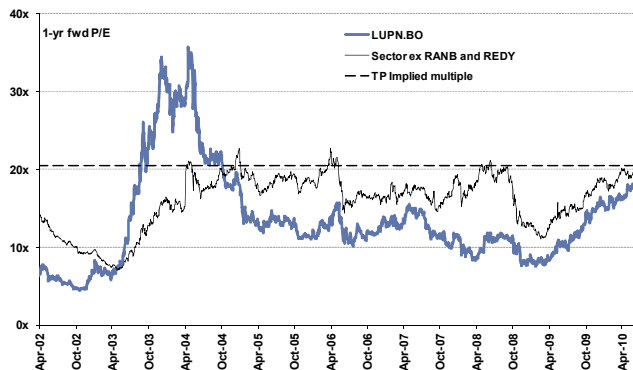
Source: Goldman Sachs Research estimates.

Exhibit 11: Top quartile return warrant better positioning



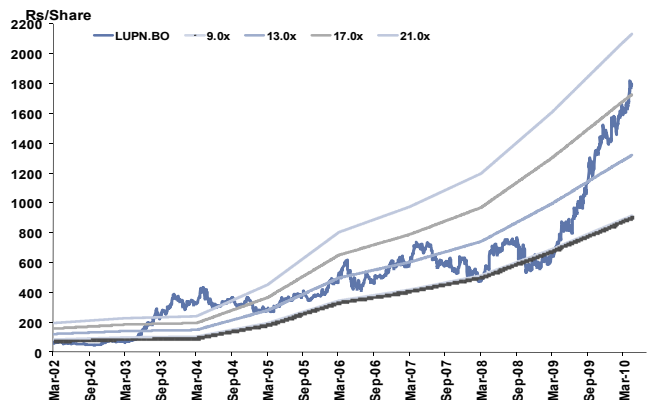
Source: Goldman Sachs Research estimates.

Exhibit 12: Stock trades at a 11% discount to the sector on FY12E P/E; discount to converge



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 13: Despite the price performance, stock will re-rate further towards industry valuations, in our view



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 14: Indian Pharma snapshot—Sector's implied P/E of 16.7X on FY2012E multiples
 Director's Cut-based 12-month target prices for our coverage group, with four other ratios as a check.

Goldman Sachs India Healthcare Coverage													
Ticker	M Cap (\$mn)	Free float	Rating	Price		Potential upside / downside	FY2012E (x)			TP implied P/E (x)	GS 2 yr CAGR		
				Current (Rs)	12-mth TP (Rs)		P/E	EV/ EBITDA	2 yr PEG		Sales	EPS	
Piramal Healthcare <i>Versus coverage group</i>	PIRA.BO	\$2,235	36%	Buy	500.7	625.0	25%	13.5 -22%	9.9 -16%	0.5	16.9 -3%	15%	26%
Lupin <i>Versus coverage group</i>	LUPN.BO	\$3,241	43%	Buy*	1849.3	2184.0	18%	15.3 -11%	11.3 -4%	0.7	18.1 4%	20%	22%
Cipla <i>Versus coverage group</i>	CIPL.BO	\$5,647	58%	Sell	340.2	276.0	-19%	20.7 20%	14.7 24%	2.0	16.8 -4%	13%	10%
Ranbaxy <i>Versus coverage group</i>	RANB.BO	\$3,932	35%	Sell	438.0	311.0	-29%	15.1 -13%	8.2 -31%	NM	10.7 -39%	16%	-4%
Sun Pharmaceuticals <i>Versus coverage group</i>	SUN.BO	\$7,523	34%	Sell*	1701.0	1225.0	-28%	20.5 19%	16.9 42%	1.5	14.8 -15%	17%	14%
Biocon <i>Versus coverage group</i>	BION.BO	\$1,257	30%	Neutral	304.8	338.0	11%	20.7 20%	10.9 -8%	NM	22.9 31%	14%	3%
Cadila Healthcare <i>Versus coverage group</i>	CADI.BO	\$2,668	21%	Neutral	610.3	672.0	10%	16.4 -5%	11.0 -7%	0.9	18.1 4%	16%	19%
Dr Reddys <i>Versus coverage group</i>	REDY.BO	\$5,070	66%	Neutral	1410.4	1363.0	-3%	19.0 10%	12.2 3%	NM	18.3 5%	17%	23%
Glenmark <i>Versus coverage group</i>	GLEN.BO	\$1,326	42%	Neutral	260.8	296.0	14%	12.1 -30%	7.9 -33%	0.9	13.7 -21%	11%	14%
Coverage group average		\$32,899						17.0	11.4	1.1	16.7	15.5%	14.0%
Coverage Group (Ex Ranbaxy)		\$28,967						17.3	11.8	1.1	17.5	15.4%	16.2%

* This stock is on our Regional Conviction list.

Glenmark's TP includes risk-adjusted NPV of its pipeline; Ranbaxy's TP includes NPV of its settlements.

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Source: Company data, Goldman Sachs Research estimates.

Reg AC

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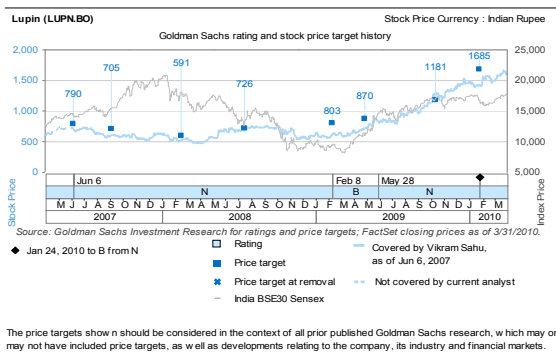
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Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
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