

June 10, 2008

Rating	Not Rated
Price	Rs702
Target Price	NA
Implied Upside	NA
Sensex	15,066

(Prices as on June 9, 2008)

**Trading Data**

Market Cap. (Rs bn)	57.6
Shares o/s (m)	82.1
Free Float	48.9%
3M Avg. Daily Vol ('000)	215.0
3M Avg. Daily Value (Rs m)	132.3

**Major Shareholders**

Promoters	51.1%
Foreign	8.3%
Domestic Inst.	19.7%
Public & Others	20.9%

**Stock Performance**

(%)	1M	6M	12M
Absolute	25.9	24.5	2.5
Relative	36.2	49.2	(3.8)

Price Performance (RIC: LUPN.BO, BB: LPC IN)



Source: Bloomberg

# Lupin Industries

## Innovation driven growth

- **New initiatives:** Lupin has taken several new initiatives to achieve sustainable growth. The company has adopted a combination of generics and branded generics business model, and is also concentrating on intellectual property (IP) driven business. Lupin is constantly looking at acquisitions and alliances for inorganic growth. In October 2007, it acquired Kyowa Pharma, Japan, a leading generic company.
- **Perindopril IP sale:** Lupin has sold rights for two patents (in two separate deals) related to Perindopril, an anti-hypertensive drug to the innovator, Laboratories Servier, France. The company earned Rs1.14bn in FY07 and Rs1.13bn in FY08 from the sale of these IP rights.
- **Strategy for advanced markets:** The company uses a combination of branded, generic and partnership approach for advanced markets. Lupin has been very successful in the US and is the 3rd fastest growing company in the US by Rx's. Its major brand Suprax has achieved over 50% value growth and 55% volume growth in the US.
- **Capex:** Lupin is likely to spend US\$60m (Rs2.60bn) on capex in the current year. It is setting up a formulation facility at Indore SEZ.
- **Valuation:** At CMP of Rs702, the stock trades at 19.3x FY08 EPS of Rs36.4, 13.5x FY09E EPS of 52.0 and 9.6x FY10E EPS of Rs73.4. With strong growth expected in the domestic and regulated markets and the launch of new products, we expect the company to report strong growth in the coming years. We are positive on the long-term prospects of the company.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	20,138	27,064	36,924	50,152
Growth (%)	18.8	34.4	36.4	35.8
EBITDA (Rs m)	2,923	4,359	6,198	8,730
PAT (Rs m)	3,086	4,083	4,580	6,461
EPS (Rs)	25.0	36.4	52.0	73.4
Growth (%)	27.1	45.9	42.8	41.1
Net DPS (Rs)	5.0	10.0	12.0	15.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	14.5	16.1	16.8	17.4
RoE (%)	41.2	37.9	28.3	29.4
RoCE (%)	14.2	17.1	20.1	24.3
EV / sales (x)	3.2	2.4	1.8	1.3
EV / EBITDA (x)	22.2	15.2	10.7	7.5
PE (x)	28.1	19.3	13.5	9.6
P / BV (x)	6.5	4.5	3.2	2.5
Net dividend yield (%)	0.7	1.4	1.7	2.1

Source: Company Data; PL Research

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**Management representatives:**

Mr. S. Ramesh, President - Finance & Planning  
Mr. Ravindra Shenoy, Vice President - Finance

**Q: Lupin has achieved 27% growth in the domestic market. How could you manage such high growth?**

**A:** We are growing at twice the industry rate in the domestic market and grew by 26.9% in FY08 against the industry growth of 14.8%. The high growth is due to our presence in fast growing segments like cephalosporins, asthma, CVS, CNS, GI and anti-diabetic segments. Our top eight brands reported sales of Rs2.6bn in FY08. We have introduced five in-licensed products in the domestic market namely: Lupenox, Euggraf, Calgigraf, Bioclin and Faximab. We have increased the number of MRs from 800 in FY06 to 2,400 in FY08. We have developed strong relationship with doctors and hospitals. We plan to introduce 25-30 new products every year.

**Q: What is Lupin's strategy for the US market?**

**A:** We use a combination of branded and generics strategy for the US market. On the branded side, our Suprax brand (Cefixime) had 50% value growth and 55% growth in prescriptions. Suprax was acquired from Fujisawa, Japan and rejuvenated by us. We are the 3rd fastest growing company in the US. We have launched line extension products to increase longevity of brands. On the generic side, we have launched seven products in the US in FY08 and have plans to launch 7-8 products in FY09. We have filed 62 ANDA and have received 27 approvals till date. Currently, we market 15 generic products in the US market.

**Q: How do you see the Japanese pharma market and what is the company's strategy?**

**A:** We acquired 90% stake in Kyowa in Q3FY08. Kyowa is among the top 10 generic players in Japan and has presence in the CVS, CNS and GI segments. We have achieved sales of over US\$75m (Rs3.0bn) in a five-month period from the Japanese subsidiary in FY08. Kyowa has EBIDTA of 15% and is EPS neutral. It is

growing at 12-15% per annum. Kyowa has 60 MRs to market its products. In April 2008, it had received 10 product approvals, including Amlodipine (anti-hypertensive) and Risperidone (anti-psychotic). The Japanese government is giving incentives to doctors to popularise generics. We anticipate huge opportunity from the Japanese market.

**Q: What is Lupin's strategy for other advanced markets?**

**A:** We have achieved 75% MS for Cefpodoxime Proxetil (cephalosporin) in France and 10% MS for Lisinopril (anti-hypertensive) in UK. In Australia, we have recently established two subsidiaries. We have entered into alliance with Aspen, the largest generic manufacturer in South Africa.

**Q: How is Lupin placed in the other emerging markets?**

**A:** We are expanding the field force in Russia and CIS countries. We have received product approvals in the Middle-East and are likely to commence marketing soon. We have entered into marketing alliance with Ranbaxy Labs for the African markets. To serve the Latin American markets, we have commenced activities in Peru.

**Q: Can you elaborate on Lupin's future product pipeline?**

**A:** We have made 62 ANDA filings with US FDA and have received 27 approvals. We have filed 30 ANDAs with the EU and have received six approvals. For Australia/New Zealand, we have filed 21 ANDAs and have received 9 approvals till date.

**Q: What are the future prospects for intermediates and API business?**

**A:** We have one of the most profitable API businesses in India and have global leadership in anti-TB, cephalosporins and pril segments. We have achieved over 70% backward integration for our API



requirements. We are steadily filing DMFs and CoS across geographies.

**Q: How strong is Lupin on the R&D front?**

**A:** We currently have 450 scientists in R&D and spent Rs1.55bn (6% of sales) in FY08. We have received over US\$55m (Rs2.27bn) from the sale of two Perindopril patents. We have presence in NCE, NDDS and biotech areas, and have FTF status for Ramipril. The company has four molecules under clinical trials: anti-migraine (phase III), anti-psoriasis (phase IIb) and anti-TB (phase I).

**Q: What are the future plans for Lupin?**

**A:** We plan to enter into EU and South African markets and consolidate in Japan and Australian markets. The company is looking for brand acquisitions in the US.

**Q: Where are Lupin's manufacturing facilities located?**

**A:** Our manufacturing facilities are located at: Mandideep (MP) for cephalosporins and prils, Tarapur (Maharashtra) for Rifampicin and Lovastatin, Ankleshwar (Gujarat) for Ethambutol, Aurangabad (Maharashtra) for anti-TB, Verna (Goa) for non-cephalosporin formulations, Jammu for formulations, Indore for API and Baroda for CRAMS. Our R&D centre is located at Pune, Maharashtra. Kyowa has its manufacturing and R&D facility in Japan.

**Q: Can you elaborate the Novodigm acquisition?**

**A:** Novodigm was acquired by us in September 2007. The company has strong presence in the CRAMS segment and has manufacturing facility located at Vadodara. The acquisition has given us a readymade platform for CRAMS along with a client base.

**Q: What are the growth drivers for Lupin?**

**A:** We are looking at brand acquisitions in the US and have plans to enter into new therapies/business segments namely: biotech, hormones, women's health and oncology.

**Q: What are the capex plans for the company?**

**A:** We intend to spend US\$60m (Rs2.60bn) on capex in FY09. We are setting up a SEZ manufacturing facility at Indore for API and formulations.



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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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