

# Lupin Ltd.

CMP: Rs. 1,133 | Target : Rs. 1,280 | Rating : Outperform

**Prescription for Growth**

25<sup>th</sup> September 2009

We initiate coverage on Lupin LTD. (LPC) with an Outperform rating and target price of Rs.1280, implying an upside of 13% over a period of 12-months. LPC's product portfolio, presence in the crucial markets, and integrated infrastructure make it a key contender in the fast changing global generics space. We believe LPC offers a better investment bet owing to the fundamental strength and the underlying growth in its business; our bottomline growth estimate of 17.6% over FY09-12E outpaces the topline growth, which we estimate to grow at 13.6% over the same period.

(Rs. mn)

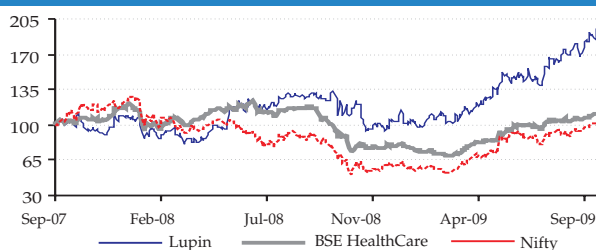
Key Financials	FY08	FY09	FY10E	FY11E	FY12E
Total Income	28,917	38,666	44,640	49,981	56,684
Growth (%)	46.7	33.7	15.4	12.0	13.4
EBITDA	6,212	7,393	8,685	9,837	11,321
Margin (%)	21.5	19.1	19.5	19.7	20.0
Growth (%)	nm	19.0	17.5	13.3	15.1
EBIT	5,564	6,513	7,607	8,577	9,932
Margin (%)	19.2	16.8	17.0	17.2	17.5
Growth (%)	nm	17.0	16.8	12.7	15.8
PAT	4,084	5,015	5,978	6,964	8,162
Margin (%)	14.1	13.0	13.4	13.9	14.4
Growth (%)	35.2	22.8	19.2	16.5	17.2
EPS (Rs.)	47.40	58.20	69.37	80.81	94.71
FD EPS (Rs.)	45.46	55.83	66.54	77.51	90.85

Key Ratios	FY08	FY09	FY10E	FY11E	FY12E
P/E	24.9	20.3	17.0	14.6	12.5
P/S	3.5	2.6	2.3	2.0	1.8
P/BV	8.0	7.1	5.1	3.8	2.9
EV/EBITDA	18.3	15.3	13.1	11.5	10.0
EV/Sales	3.9	2.9	2.5	2.3	2.0
RoCE (%)	21.3	23.3	23.1	22.0	21.4
RoE (%)	31.9	35.6	30.3	26.4	23.8

Key Data	
Face Value (Rs)	10
FD SoS (mn)	89.8
Free Float (%)	49.6
Market Cap (Rs. bn/ USD mn)	95.3/1,972
Enterprise Value (Rs. bn/ USD mn)	106.9/2,212
52-Week Range(H/L)	1,115/518
1-Year Avg Vol (mn)	181,462
Nifty	4,958
Bloomberg Code	LPC.IN
Year End	March

Shareholding (%)	Dec 08	Mar 09	Jun 09
Promoter	50.7	50.6	50.4
Institutional	35.0	38.4	38.5
Other	14.4	10.9	11.0

**Relative Price Performance**



**US franchise continues to deliver; navigation of generic threat to Suprax (medium term) and the positive clearance from US FDA (near term) will be key catalysts**

US franchise has continued to be the key growth driver (+65% yoy in FY09) for LPC, now mainly aided by the success of direct-to-market generics initiative and improved robust performance of the branded segment, LPC succeeded in getting the fastest growing prescriptions last year (+90% yoy in FY09) and has emerged as the fastest growing Indian generic company in the US (9th largest - as per IMS). Now in the interim, the navigation of generic threat to *Suprax* (cefixime USP, urinary tract infections) and positive clearance from US FDA (for LPC's Mandideep facility) will be the key catalysts.

**Expansion of generic footprint into Japan and other emerging markets bode well for the long term growth potential**

LPC's expanded geographic presence with six acquisitions in the last two years. This gives its business necessary scale and edge, even as the company looks to make further opportunistic and strategic acquisitions in EU and other important generic markets. The recent robust performance, both at topline (~34% over FY05-09) and bottomline (~56% over FY05-09) has been contributed by a healthy mix of organic and inorganic initiatives by the company.

**Domestic markets continue to demonstrate stellar performance**

LPC has embarked on a multi pronged strategy to consolidate and grow in the Indian pharmaceutical market, namely, (1) through launch of new products - overall 54 in the last year, (2) focus on chronic therapy segments, (3) incisive marketing strategies, (4) development of significant outreach through a field force of 3000+, and (5) in-licensing of novel products. We expect a modest slowdown vis-à-vis its recent trend (grew at a CAGR of 23.3% over last 4 years) and estimate a growth of ~16% in this segment over FY09-12E.

**Valuation**

At the CMP of RS.1,033 the stock is trading at 17.0x and 14.6x over our estimated FD EPS of Rs.66.54 and Rs.77.51 for FY10E and FY11E respectively, inline with its historical PE multiple. We expect LPC to Outperform the market owing to its strong fundamentals and estimated earnings CAGR of ~17.6% over FY09-FY12E and accordingly assign a target price of Rs.1,280 implying an exit multiple of 16.5x over FY11E.

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## COMPANY OVERVIEW

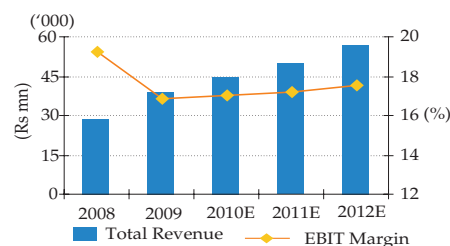
### Valuation and Financial Overview

We forecast a revenue of Rs. 44,640mn, Rs.49,981 and Rs. 56,684 mn for FY10E, FY11E, and FY12E respectively with a 3-year revenue CAGR of 13.6% (over FY09-FY12E); Our net profit estimates at Rs.5,978mn, Rs.6,964mn, and Rs.8,162mn for FY10E, FY11E, and FY12E respectively with a 3-year revenue CAGR of 17.6% (over FY09-FY12E), outpace the topline. We believe our topline numbers are conservative and expect positive surprises on this front.

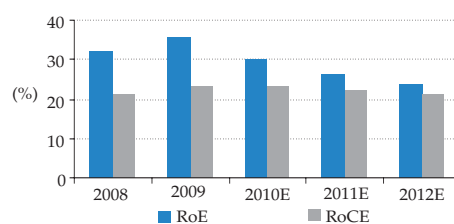
On the operational front we expect contraction in the operating costs as the company focuses to rationalize costs and expect the EBITDA margins to improve from the current levels (vs. 19.6% in FY09) and estimate a growth of ~15.3% on an absolute basis over FY09-FY12E. At the PAT level we expect the margins to rise to ~14.5% over FY09-FY12E, translating into a growth of ~17.6% over this period.

LPC has a C&CE of Rs.778mn (FY09) and its net D/E is comfortable at 0.80 (FY09), we believe LPC is in the midst of its CAPEX cycle and estimate a spending of Rs.8,000mn over the next 3 years, with most of it being front ended. We expect LPC to fund a major portion of its spending through internal accruals.

### Sales and Operating Margin

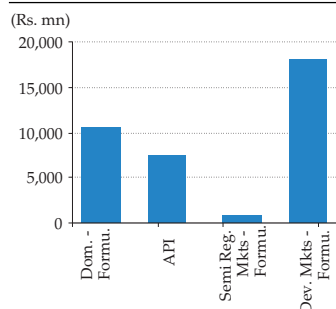


### Capital Efficiency



Source: Company, SBICAP Securities Research

### Business mix



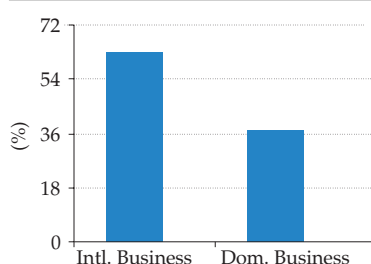
Source: Company

### Company description:

Established in 1968, Lupin (LPC IN) has over the years transformed itself into a significant contender in the global generics space. LPC has leadership position in most of the markets it is present in. Its ranked amongst the top 5 players in India (ORG IMS - March 2009); it has the fastest growing generic business in the US and is ranked 9th largest generic player in terms of prescription base; it is amongst the top 10 generic players in Japan and South Africa (IMS).

LPC has significant presence in Cardiovasculars (prils and statins), Diabetology, Asthma, Pediatrics, CNS, GI, Anti-Infectives and NSAIDs and a leadership position in its legacy business i.e. Anti-TB.

### Geographic break-up



Source: Company

With strengths in manufacturing and IP driven products, the company has expanded its geographic reach to Rest of the World (RoW) markets as well as advanced markets like EU and Japan. Formulations comprise 80% of its business while balance come from API. LPC's R&D endeavors have resulted in progress in its NCE program. Its foray into Advanced Drug Delivery Systems has resulted in the development of platform technologies that are being used to develop value-added generic pharmaceuticals.

## INVESTMENT ARGUMENT

**US franchise continues to deliver; navigation of generic threat to Suprax (medium term) and the positive clearance from US FDA (near term) will be key catalysts:**

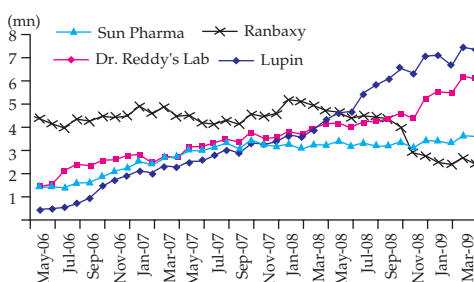
*LPC has the highest Per Capita /Product revenue, amongst the Indian contemporaries in USA*

US franchise has continued to be the key growth driver (+65% yoy in FY09) for LPC, now mainly aided by the success of direct-to-market generics initiative and robust performance of the branded segment, LPC succeeded in getting the fastest growing prescriptions last year (+90% yoy in FY09) and has emerged as the fastest growing Indian generic company in the US (9th largest - as per IMS). We have however taken a conservative estimate for this segment, ~14% CAGR over FY09-12E (likely to be revised upwards on further clarity on generics threat to Suprax).

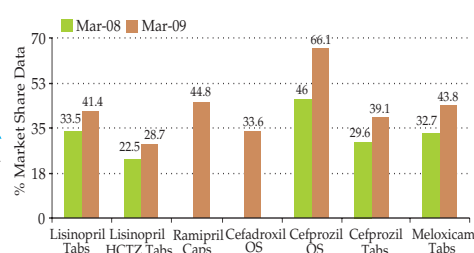
### Product pipeline build up

	FY07	FY08	FY09
Cumulative filings	52	62	90
ANDAs filed in the yr.	15	11	28
ANDAs approved in the yr.	8	10	6
ANDAs approved	17	27	34
ANDAs pending approval	35	35	56
Tentative approvals	2	1	2

### Prescription trends in US market



### Mkt share gains across products



Source: Company, IMS, SBICAP Securities Research

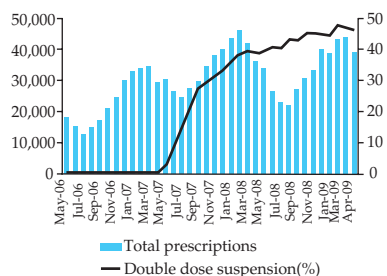
*Off the total 22 products in the mkt, 8 are market leaders and 18 hold the top 3 positions in terms of market share*

Over the years LPC has built a robust product pipeline for the US markets. Last financial year alone the company has filed 28 Abbreviated New Drug Applications (ANDAs), taking the total cumulative filings to 90 ANDAs and First to File (FTF) drugs to 8. The company received approval for 6 ANDAs during the year, and has 34 overall approvals till date. LPC has also made a strategic entry into the new segments like Oral Contraceptives (OC) and Ophthalmologic drugs and has so far filed 7 OC ANDAs and associated Drug Master Files (DMF), this foray would be crucial in the near term, more so because of the anticipated generics threat to LPC's branded franchise.

### ...now the navigation of generic threat to Suprax and bolstering of branded portfolio will be crucial

Branded portfolio with sales of USD74 mn in FY09 contributed nearly quarter of LPC's US business with *Suprax* (cefixime USP, urinary tract infections) LPC's flagship drug continuing to be the main stay of this franchise. With an eminent generic threat underway, LPC has been successful in shifting significant prescriptions to its new double dose 400 mg tablets (Rx growth of 48% yoy, launched in April 2008), even as it tries to bolster this segment by introduction of new products, namely, *Aerochamber Plus* (launched in FY09), *AllerNaze* (expected launch in 4QFY10), and recently the acquisition of *Antara* (branded sales value of USD75 mn).

### Suprax Growth



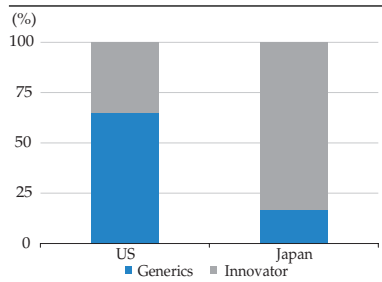
Source: IMS, Company

### ...while the positive clearance from US FDA remains the key near term catalyst

The resolution of the issues raised in the Warning Letters (dt. 7th May 2009) by US FDA for LPC's Mandideep facility (contributes 8% of topline, and 12% of profits) remains a key catalyst for the re-rating of the stock in the medium term. We expect a re-inspection of Mandideep facility in the next 2-3 months.

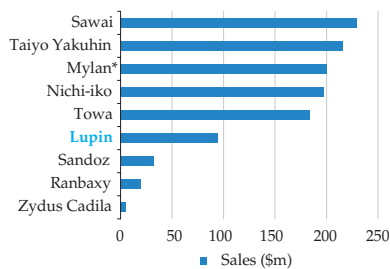
*Expect the re-inspection of Mandideep facility in the next 2-3 months*

**Generic penetration in Japan**



Source: Sandoz, IMS Health

**Major generics in Japan**



Source: Company, SBICAP Securities Research

LPC now is the 5th largest Pharmaceutical company, with a market share of 2.73% - as per IMS ORG

**Entry into the Japanese generic markets bode well for the long term growth potential:**

Japanese pharmaceuticals market is seeing a paradigm shift as the Japanese government is looking to reduce healthcare cost and consequently has been introducing a slew of reforms over the last two years with an intent to grow the generics to 30% by volume by 2012 (vs. the current 5%), translating into a value proposition of USD ~6.5bn.

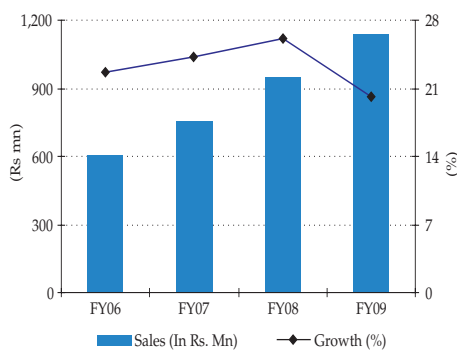
LPC through its opportunistic acquisition of Kyowa (amongst the top 10 generic companies with a focus on Neurology, Cardiovascular, Gastroenterology, and Respiratory. It currently has a sales force of 75) has been able to set up a significant strategic base in the important Japanese generic market.

Kyowa has reported a sale of JPY9.6 bn in FY09 and grew at 23% yoy (vs. 15% market growth) while the gross margins of the company improved by 5%. We expect further improvement in the margins as the synergies from various cost rationalization initiatives will play out going forward. Japanese market contributed ~12% of total sales in FY09 for LPC, we expect this segment to grow to ~14% by FY12E, translating into a CAGR of ~22% over FY09-12E.

**Domestic markets continue to demonstrate stellar performance:**

With a growth rate of 20.1% in FY09 (vs. the market growth rate of 10%), LPC is outperforming the domestic pharmaceuticals market by a significant margin, and now with an overall market share of 2.73% (ORG IMS March 09) the company has emerged as the 5th largest pharmaceutical company in India.

**Sales growth trend in Dom. Mkts Mkt performance in key segments LPC's top 10 Brands**

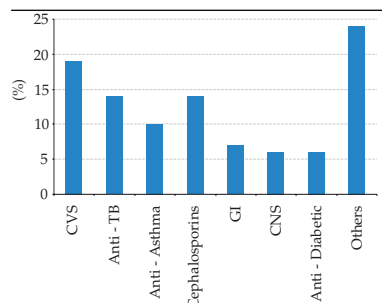


Therapeutic	Market Growth Rate %	Lupin Growth Rate %
CVS	13.2	25.5
Anti-TB	-5.9	5.6
Anti-Asthma	13.1	48.8
Anti Infective	9.8	22.1
GI	8.2	30.4
CNS	10.4	48.7
Anti-Diabetic	16.7	53

Product	Therapy	Ranking
Tonact	Anti-TB	2
R-Cinex	CVS	1
AKT	Anti-TB	1
Ramistar	CVS	2
Gluconorm	Anti-diabetic	3
Odoxil	Anti-infective	1
Rablet	Gastro Intestinal	2
L-Cin	Levofloxacin	1
Akurit	Anti-TB	1
Clopitab	CVS	1

Source: Company, SBICAP Securities Research

**Therapeutic contribution (Dom formulations)**



LPC has embarked on a multi pronged strategy to consolidate and grow in the Indian pharmaceuticals market, namely, (1) through launch of new products - overall 54 in the last year, (2) focus on chronic therapy segments, (3) incisive marketing strategies, (4) development of significant outreach through a field force of 3000+, and (5) in-licensing of novel products.

Over the last four years LPC has grown at a CAGR of 23.3%, we expect a modest slowdown vis-à-vis its recent trend, partly due to the high base of the recent years and expect a growth of ~16% in this segment over FY09-12E.

Source: Company, SBICAP Securities Research

**Acquisitions over last two years**

Company	Country	% Acquired
<b>FY08</b>		
Kyowa	Japan	100%
Rubamin (Novodigm Ltd.)	India	100%
<b>FY09</b>		
Multicare Pharmaceuticals	Philippines	51%
Pharma Dynamics	South Africa	60%
Hormosan Pharma GmbH	Germany	100%
Generic Health	Australia	37%

Source: Company, SBICAP Securities Research

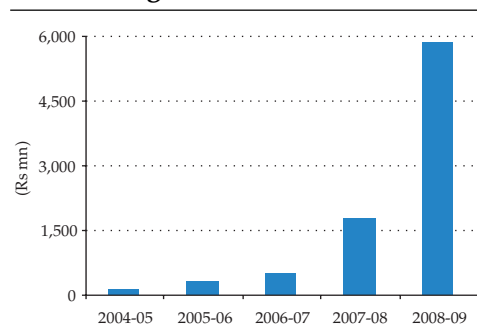
Nearly 15% of the total consolidated sales came from the ROW market in FY09.

**Increased presence in the Rest of the World (RoW) markets gives necessary scale and edge to the business:**

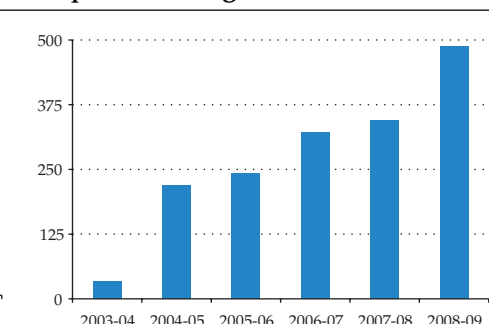
The recent robust performance, both at topline (~34% over FY05-09) and bottomline (~56% over FY05-09) has been contributed by a healthy mix of organic and inorganic initiatives by the company. LPC expanded its geographic presence with six acquisitions in the last two years and in the process has gained necessary scale essential to succeed, even as the company is looking to make further opportunistic and strategic acquisitions in EU and other important generic markets.

We believe that LPC's business model now is favorably placed vis-à-vis the competitors even as ~66% of the total business comes from the overseas markets, due to its focus on (1) branded formulations business, (2) Early entry into the vital Japanese generics market, through its acquisition of Kyowa, and (3) strong emergence as a crucial player in the domestic formulations segment, thus giving it sufficient cushion against pricing pressure.

**RoW Sales growth trend**



**RoW product filings**

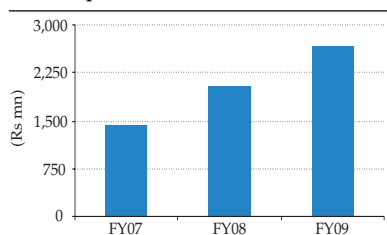


Source: Company, SBICAP Securities Research

**Research & Development remains a key strategic focus:**

R&D is a key strategic focus for LPC with its research initiatives spanning - generics, advanced drug delivery systems, novel drug discovery, and biotechnology. LPC through its research initiatives has been building significant IP which will enable it to maintain the momentum in terms of quality of its product filings like controlled release, first-to-file opportunities, and unique drugs.

**R&D Spend**



Source: Company, SBICAP Securities Research

LPC till date has filed ~90 ANDAs for the US markets and ~490 product filing for the rest of the world markets. We expect LPC to maintain momentum in this segment.

LPC's new chemical entity (NCE) pipeline is currently focusing on three different disease areas of Migraine, Psoriasis, and Tuberculosis. We believe this pipeline is still in the early stages and will take some time before we can have some meaningful assessment on its commercial potential.

LPC spends 6-7% of consolidated sales on its R&D initiatives

**New Chemical Entity pipeline:**

NCE Pipeline	Preclinical	Phase I	Phase II	Phase III	Market
Anti-Migraine, Herbal (Amigra)	● ● ● ●	● ● ● ●	● ● ● ●	● ● ●	
Anti-Psoriasis (Desoside-P)	● ● ● ●	● ● ● ●	● ● ●		
Anti-TB (Sudoterb)	● ● ● ●	● ● ● ●			
Anti-Psoriasis, Herbal (Desoris)	● ● ● ●	● ● ● ●	● ● ●		
Type 2 diabetes	● ● ●				
Rheumatoid arthritis	● ●				

Source: Company, SBICAP Securities Research

## KEY CONCERNS

### Regulatory risk:

The positive clearance from US FDA for its Mandideep facility remains the immediate near term catalyst (re-inspection expected in 2H/CY2009). While the European Commission's antitrust investigations, following LPC's sale of patent rights and other intellectual property for a generic version of Perindopril, remains a medium term risk.

### Risk from competition:

Navigation of generic threat to Suprax, scale-up of branded generic business in US (medium term effect), and increased pricing pressure on currently marketed products are the key risks.

### Integration risk:

Over last two years LPC has made many small and prudent acquisitions in emerging markets and Japan; the integration and uptake of these businesses will be crucial for LPC's long term growth visibility.

### Forex risk:

Approximately 66% of the total topline comes from overseas markets; hence adverse movements in currency will impact financials.

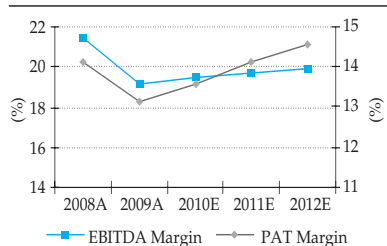
### Key Price Catalysts

Expected Events	Timing	Risk	Impact
Re-inspection and Positive clearance of Mandideep facility by US FDA	2H FY10	Med	High
Positive surprises from the Japanese markets	FY10 +	Med	High
Biosimilar and Oncology product launches in India and Other semi-regulated countries	FY11 +	High	Med
Optionality from out-licensing	FY10+	Low	Med-High
Margin improvements due to Cost cutting/ Synergies from the recent acquisitions	FY10 +	High	High
Smaller Inorganic initiatives in Eastern EU, South Asia, Latam, Gulf region	FY10-11	Med	Med
Navigation of generic threat to Suprax	Mid 2010	High	High
Adverse ruling in anti-trust investigations by EU legislators	FY10-11	High	Med

Source: SBICAP Securities Research, Company

## FINANCIAL OVERVIEW AND VALUATION

### EBITDA and PAT margins

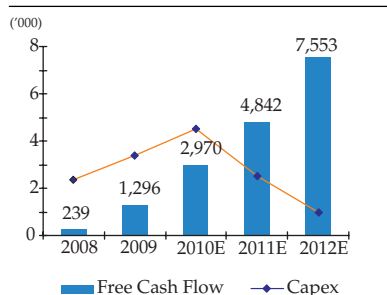


Source: Company, SBICAP Securities Research

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On the operational front we expect contraction in the operating costs as the company focuses to rationalize costs and expect the EBITDA margins to improve from the current levels (vs. 19.6% in FY09) and estimate a growth of ~15.3% on an absolute basis over FY09-FY12E. At the PAT level we expect the margins to rise to ~14.5% over FY09-FY12E, translating into a growth of ~17.6% over this period.

### Free Cash Flow and CAPEX trend

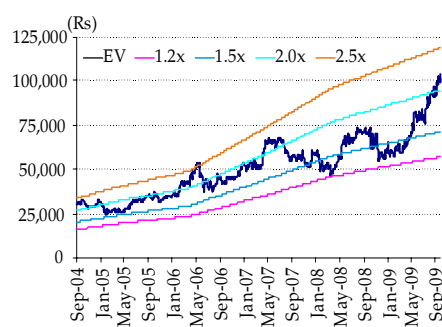


Source: Company, SBICAP Securities Research

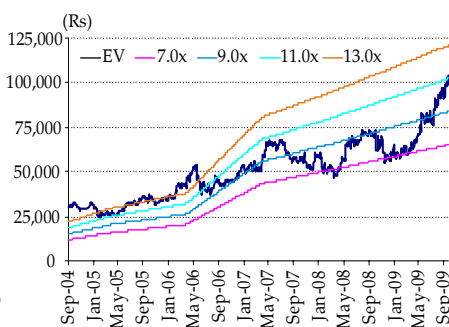
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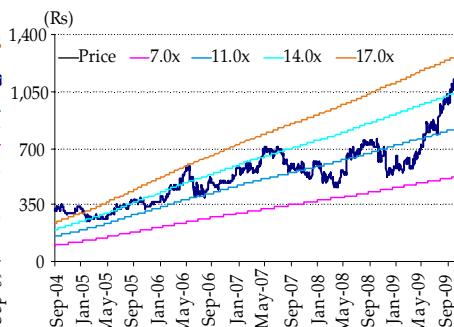
### Rolling EV/ Sales



### Rolling Ev/ EBITDA



### Rolling Ev/ PE



Source:Company, SBICAP Securities Research



## FINANCIAL STATEMENTS

		Income Statement				(Rs mn)
Particulars	FY08	FY09	FY10E	FY11E	FY12E	
<b>Total Revenue</b>	<b>28,917</b>	<b>38,666</b>	<b>44,640</b>	<b>49,981</b>	<b>56,684</b>	
<i>Growth %</i>	46.7	33.7	15.4	12.0	13.4	
<b>COGS</b>	<b>11,638</b>	<b>16,043</b>	<b>18,887</b>	<b>20,992</b>	<b>23,807</b>	
<b>Gross Profit</b>	<b>17,279</b>	<b>22,623</b>	<b>25,753</b>	<b>28,989</b>	<b>32,876</b>	
<i>Gross Margin</i>	59.8	58.5	57.7	58.0	58.0	
<i>Growth %</i>	63.3	30.9	13.8	12.6	13.4	
<b>Staff Cost</b>	<b>3,076</b>	<b>4,871</b>	<b>5,429</b>	<b>5,998</b>	<b>6,632</b>	
<i>% of Sales</i>	10.6	12.6	12.2	12.0	11.7	
<i>Growth %</i>	64.1	58.4	11.4	10.5	10.6	
<b>SG&amp;A</b>	<b>6,445</b>	<b>8,286</b>	<b>8,974</b>	<b>10,155</b>	<b>11,523</b>	
<i>% of Sales</i>	22.3	21.4	20.1	20.3	20.3	
<i>Growth %</i>	44.5	28.6	8.3	13.2	13.5	
<b>R&amp;D</b>	<b>1,546</b>	<b>2,073</b>	<b>2,665</b>	<b>2,999</b>	<b>3,401</b>	
<i>% of Sales</i>	5.3	5.4	6.0	6.0	6.0	
<i>Growth %</i>	17.8	34.1	28.5	12.5	13.4	
<b>EBITDA</b>	<b>6,212</b>	<b>7,393</b>	<b>8,685</b>	<b>9,837</b>	<b>11,321</b>	
<i>EBITDA Margin</i>	21.5	19.1	19.5	19.7	20.0	
<i>Growth %</i>	111.6	19.0	17.5	13.3	15.1	
<b>Depreciation</b>	<b>647</b>	<b>880</b>	<b>1,078</b>	<b>1,260</b>	<b>1,389</b>	
<b>EBIT</b>	<b>5,564</b>	<b>6,513</b>	<b>7,607</b>	<b>8,577</b>	<b>9,932</b>	
<i>EBIT Margin</i>	19.2	16.8	17.0	17.2	17.5	
<i>Growth %</i>	125.1	17.0	16.8	12.7	15.8	
<b>Interest</b>	<b>374</b>	<b>499</b>	<b>573</b>	<b>517</b>	<b>476</b>	
<b>PBT</b>	<b>5,402</b>	<b>6,060</b>	<b>7,110</b>	<b>8,136</b>	<b>9,532</b>	
<b>Tax</b>	<b>1,318</b>	<b>983</b>	<b>1,060</b>	<b>1,091</b>	<b>1,278</b>	
<b>Tax %</b>	<b>24.4</b>	<b>16.2</b>	<b>14.9</b>	<b>13.4</b>	<b>13.4</b>	
<b>PAT</b>	<b>4,084</b>	<b>5,015</b>	<b>5,978</b>	<b>6,964</b>	<b>8,162</b>	
<i>PAT Margin</i>	14.1	13.0	13.4	13.9	14.4	
<i>Growth %</i>	35.2	22.8	19.2	16.5	17.2	

Source: Company, SBICAP Securities Research

We estimate a topline growth of ~14% over FY09-11E

Operating margins set to improve modestly from the current levels due to cost rationalization and synergies from the acquisitions

Effective tax rate is estimated to be in the range of 15-16%

Bottomline growth will outpace the topline growth, we estimate it to grow at ~18% over FY09-11E

<b>Balance Sheet</b>		(Rs mn)			
<b>Particulars</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>
<b>Sources of Funds</b>					
Shareholders Equity	12,797	14,248	19,941	26,725	34,719
Minority Interest	95	143	143	143	143
Secured Debt	7,081	7,569	6,812	6,131	5,518
Unsecured Debt	4,948	4,664	4,430	4,209	3,998
Current Liab.& Prov.	7,470	13,331	14,538	15,962	17,078
Deffered Tax Liabilities	1,248	1,387	1,579	1,799	2,059
<b>Total Liabilites</b>	<b>33,638</b>	<b>41,342</b>	<b>47,439</b>	<b>54,964</b>	<b>63,508</b>
<b>Uses of Fund</b>					
<b>Fixed Assets</b>					
Tangible Fixed Assets	11,125	14,252	17,673	18,913	18,525
Goodwill	1,872	3,174	3,174	3,174	3,174
Investments	58	216	216	216	216
Deffered Tax Assets	141	223	253	253	253
<b>CA, Loans &amp; Advances</b>					
Inventories	7,893	9,572	11,003	11,964	14,112
Sundry Debtors	7,439	10,349	10,653	12,949	13,866
C&CE	2,742	778	1,826	4,987	10,980
Loans & Advances	2,367	2,780	2,641	2,509	2,383
<b>Total Assets</b>	<b>33,638</b>	<b>41,342</b>	<b>47,439</b>	<b>54,964</b>	<b>63,508</b>

Source: Company, SBICAP Securities Research

<b>Cash Flow Statement</b>		(Rs mn)			
<b>Particulars</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>
PBT & EI	5,402	6,060	7,110	8,136	9,532
<i>Add:</i>					
Depreciation	647	880	1,078	1,260	1,389
P/L on Sale of Assets	24	37	0	0	0
Interest Paid	374	499	573	517	476
Prov. for Doubtful Debts	0	0	0	0	0
Others	(182)	26	158	219	258
	<b>6,264</b>	<b>7,502</b>	<b>8,919</b>	<b>10,133</b>	<b>11,655</b>
<i>Adjustments for:</i>					
Receivables	(1,368)	(2,727)	(166)	(2,163)	(792)
Inventories	(2,470)	(1,283)	(1,431)	(961)	(2,148)
Trade Payables	1,249	2,272	1,207	1,424	1,116
<b>Cash from Operations</b>	<b>3,675</b>	<b>5,764</b>	<b>8,529</b>	<b>8,433</b>	<b>9,831</b>
<i>Less: Taxes paid</i>	<i>(1,090)</i>	<i>(1,068)</i>	<i>(1,060)</i>	<i>(1,091)</i>	<i>(1,278)</i>
Net CF from Operations	2,586	4,695	7,470	7,342	8,553
Capex	(2,347)	(3,399)	(4,500)	(2,500)	(1,000)
<b>Net CF from Investing</b>	<b>(4,918)</b>	<b>(5,096)</b>	<b>(4,500)</b>	<b>(2,500)</b>	<b>(1,000)</b>
Inc./Dec. in Borrowings	1,626	(246)	(990)	(903)	(824)
Interest Paid	(355)	(496)	(573)	(517)	(476)
Dividend Paid	(407)	(841)	(261)	(261)	(261)
<b>Net CF from Financing</b>	<b>819</b>	<b>(1,671)</b>	<b>(1,825)</b>	<b>(1,681)</b>	<b>(1,561)</b>
<b>Free Cash Flow</b>	<b>239</b>	<b>1,296</b>	<b>2,970</b>	<b>4,842</b>	<b>7,553</b>

LPC has guided for the CAPEX spend of >Rs.4500 mn in FY10

Source: Company, SBICAP Securities Research

<b>Key Ratio's</b>					
<b>Particulars</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>
<b>Growth Ratios (%)</b>					
Sales	46.7	33.7	15.4	12.0	13.4
EBITDA	111.6	19.0	17.5	13.3	15.1
EBIT	125.1	17.0	16.8	12.7	15.8
PAT	35.2	22.8	19.2	16.5	17.2
<b>Margins (%)</b>					
Gross Margin	59.8	58.5	57.7	58.0	58.0
EBITDA	21.5	19.1	19.5	19.7	20.0
EBIT	19.2	16.8	17.0	17.2	17.5
PAT	14.1	13.0	13.4	13.9	14.4
<b>Per Share Data (Rs.)</b>					
FD EPS	45.5	56.5	67.3	78.4	91.9
FCF/ Share	2.7	14.4	33.1	53.9	84.1
BV / Share	142.4	158.6	222.0	297.5	386.5
<b>Returns Ratios (%)</b>					
Return on Equity	31.9	35.6	30.3	26.4	23.8
Return on Capital Emp.	21.3	23.3	23.1	22.0	21.4
<b>Equity Value (x)</b>					
P /E	24.9	20.3	17.0	14.6	12.5
P /S	3.5	2.6	2.3	2.0	1.8
P /BV	8.0	7.1	5.1	3.8	2.9
P /CF	426.6	78.5	34.3	21.0	13.5
<b>Enterprise Values (x)</b>					
EV / Sales	3.9	2.9	2.5	2.3	2.0
EV / EBITDA	18.3	15.3	13.1	11.5	10.0

*We anticipate expansion in trading multiples for LPC, in line with its larger peers. Owing to the strong growth expectations*

Source: Company, SBICAP Securities Research

## Recent Reports

Date	Company Name	Recommendation	Recommended Price	Target Price
22-Sept-09	Bajaj Hindusthan ( <i>Earnings Upgrade</i> )	Buy	180	300
14-Sept-09	Yes Bank	Buy	175	239
28-Aug-09	<b>Power Transmission Sector Report</b>			
	Jyoti Structures Ltd	Buy	146	223
	KEC International Ltd	Buy	537	692
	Kalpataru Power Transmission Ltd	Sell	853	820
5-Aug-09	Balrampur Chini Mills Limited	Buy	126	149
23-July-09	Bajaj Hindusthan Limited	Buy	171	235
4-July-09	Triveni Engineering Industries Limited	Buy	99	121
1-Jun-09	Colgate Palmolive India Ltd (Update)	Buy	475	624
28-May-09	Godrej Consumer Products Ltd (Update)	Outperform	176	195
26-May-09	Oracle Financial Services Software Ltd (Update)	Outperform	1,079	1,200
20-May-09	Godrej Consumer Products Ltd (Update)	Marketperform	160	-
18-May-09	Infosys Technologies (Update)	Marketperform	1,750	-
14-May-09	ABG Shipyard Ltd (Update)	Buy	145	265
27-Apr-09	Hindustan Unilever Ltd	Marketperform	231	-
17-Apr-09	GlaxoSmithKline Pharmaceuticals Ltd	Outperform	1,099	1,200
17-Mar-09	Mercator Lines Ltd	Buy	23	33
16-Mar-09	3i Infotech Ltd	Buy	27	45
16-Mar-09	Axis Bank	Buy	331	639
13-Mar-09	Oracle Financial Services Software Ltd	Buy	618	800
13-Mar-09	IVRCL Infrastructures & Projects Ltd	Buy	111	140
9-Mar-09	Sun Pharmaceutical Industries Ltd	Marketperform	1,021	-
15-Jan-09	Zee Entertainment Enterprises Ltd	Buy	116	167
12-Jan-09	Godrej Consumer Products Ltd	Buy	128	154
2-Jan-09	Andhra Bank	Buy	58	102
2-Jan-09	Federal Bank	Buy	165	203
31-Dec-08	Gateway Distriparks Ltd	Buy	82	105
18-Dec-08	Biocon	Marketperform	118	-
22-Nov-08	TAKE Solutions	Buy	18	50
21-Nov-08	<b>Pipe Sector Report</b>			
	PSL Limited	Buy	95	181
	Welspun Gujarat Stahl Rohren Limited	Buy	102	165
	Jindal Saw Limited	Buy	272	435
	Maharashtra Seamless Limited	Buy	159	225
	Man Industries Limited	Buy	33	55

**Key to investment Ratings:** Guide to the expected return relative to market over the next 12 months. 1=Buy (expected to outperform the market by 15 or more percentage points); 2=Outperform (expected to outperform the market by 5-15 percentage points); 3=Marketperform (expected to perform in line with the market); 4=Underperform (expected to underperform the market by 5-15 percentage points); 5=Sell (expected to underperform the market by 15 or more percentage points)

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