

May 14, 2009

Rating	BUY
Price	Rs750
Target Price	Rs911
Implied Upside	21.6%
Sensex	11,873

(Prices as on May 14, 2009)
Trading Data

Market Cap. (Rs bn)	66.0
Shares o/s (m)	749.6
Free Float	49.4%
3M Avg. Daily Vol ('000)	43.7
3M Avg. Daily Value (Rs m)	28.5

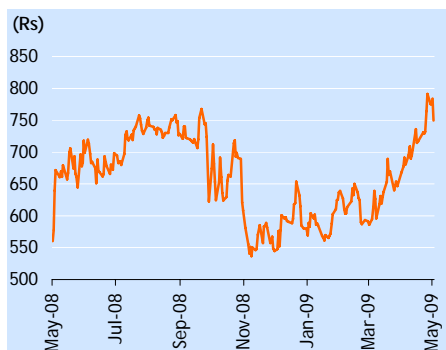
Major Shareholders

Promoters	50.6%
Foreign	11.2%
Domestic Inst.	27.3%
Public & Others	10.9%

Stock Performance

(%)	1M	6M	12M
Absolute	12.1	29.0	29.8
Relative	3.9	2.5	59.9

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



Source: Bloomberg

- Strong growth in revenues due to higher US sales:** Revenue of Lupin grew by 42.4% - from Rs7.55bn to Rs10.6bn (we expected Rs9.63bn). This was due to a strong growth of 82.4% YoY in the advanced market and addition of revenue from the Japanese market which was very low in Q4FY08. However, overall sales growth was affected by a de-growth in the API segment by 53.1% - from Rs2.9bn to Rs1.07bn. Domestic formulation grew at a healthy rate of 16.1% - from Rs2bn to Rs2.3bn.
- Improved margins due to lower other expense:** EBITDA margin of the company for the quarter was 20.1% as compared to 15.2% in Q4FY08 (we expected 21.3%). The deviation is due to a higher-than-expected material cost. This cost was high due to higher proportion of contractual work as well as significant increase in the purchase of traded goods. The tax rate for the quarter reduced from 22.0% to 7.9%, while for FY09, the tax rate reduced from 24.4% to 16.2%. This is mainly due to an increase in the sales from the manufacturing facility of Jammu. Thus, PAT for the quarter increased from Rs904m to Rs1.6bn.
- Outlook & Valuation:** USFDA issued a second warning letter to Lupin for cephalosporin facility of the Mandideep plant. There was no new issue raised by USFDA. However, they want Lupin to submit additional documentation and explanation for few selected observations on the previously submitted data. This ongoing inspection by USFDA would not impact the existing production or supply. However, the warning letter remains a dampener despite Lupin's strong performance for the quarter as well as for the year. We expect sales and net profit to grow at a CAGR of 15% and 20%, respectively. At the CMP, the stock trades at 11.1x FY10E and 9x FY11E, respectively. We maintain 'BUY' rating on the stock.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	27,064	38,666	43,717	51,103
Growth (%)	34.4	42.9	13.1	16.9
EBITDA (Rs m)	4,359	7,393	8,525	10,323
PAT (Rs m)	3,209	5,078	5,934	7,290
EPS (Rs)	36.5	57.0	67.4	82.8
Growth (%)	45.9	56.4	18.3	22.9
Net DPS (Rs)	10.1	12.5	15.0	16.6

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	16.1	19.1	19.5	20.2
RoE (%)	37.9	34.1	31.6	30.7
RoCE (%)	11.8	20.4	20.7	21.9
EV / sales (x)	2.7	2.0	1.7	1.4
EV / EBITDA (x)	16.9	10.2	8.8	7.1
PE (x)	20.6	13.2	11.1	9.0
P / BV (x)	4.8	4.0	3.1	2.5
Net dividend yield (%)	1.3	1.7	2.0	2.2

Source: Company Data; PL Research

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Q4FY09 Result Overview

(Rs m)

Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Net sales	10,687	7,504	42.4	9,837	38,666	27,064	42.9
Expenditure							
Raw materials	4,910	3,080	59.4	3,858	16,043	11,638	37.9
<i>as % of net sales</i>	<i>45.9</i>	<i>41.1</i>		<i>39.2</i>	<i>41.5</i>	<i>43.0</i>	
Personnel expenses	1,363	897	52.0	1,514	4,871	3,076	58.4
<i>as % of net sales</i>	<i>12.8</i>	<i>12.0</i>		<i>15.4</i>	<i>12.6</i>	<i>11.4</i>	
Other expenses	2,270	2,387	(4.9)	3,016	10,359	7,991	29.6
<i>as % of net sales</i>	<i>21.2</i>	<i>31.8</i>		<i>30.7</i>	<i>26.8</i>	<i>29.5</i>	
Total Expenditure	8,544	6,364	34.3	8,387	31,274	22,705	37.7
OPBDIT	2,143	1,140	88.0	1,450	7,393	4,359	69.6
<i>OP Margin (%)</i>	<i>20.1</i>	<i>15.2</i>		<i>14.7</i>	<i>19.1</i>	<i>16.1</i>	
Other income	5	328	(98.6)	3	46	2,065	(97.8)
PBDIT	2,148	1,468	46.3	1,453	7,439	6,423	15.8
Depreciation	266	206	29.6	219	880	647	35.9
Interest	124	104	19.6	146	499	374	33.5
PBT	1,758	1,159	51.7	1,088	6,061	5,402	12.2
Prov. For tax	139	255	(45.3)	219	983	1,318	(25.4)
<i>% of PBT</i>	<i>7.9</i>	<i>22.0</i>		<i>20.1</i>	<i>16.2</i>	<i>24.4</i>	
PAT	1,618	904	79.0	869	5,078	4,084	24.3
Extraordinary item	44	2	NA	6	62	2	NA
Reported PAT	1,574	902	74.6	863	5,016	4,083	22.9

Sales composition

(Rs m)

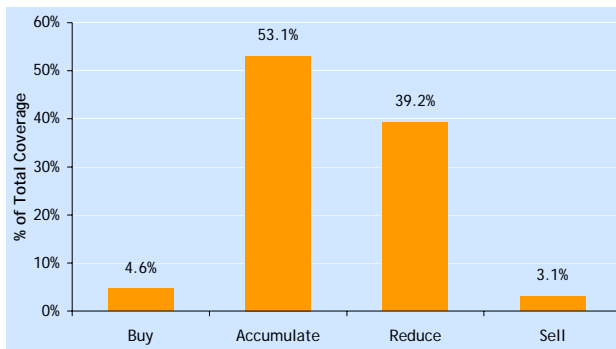
Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
API	1,070	2,280	(53.1)	1,492	7,105	8,202	(13.4)
Advanced Markets (USA)	105	1,126	(90.7)	164	676	3,195	(78.8)
Developing Markets	965	1,154	(16.4)	1,328	6,429	5,007	28.4
India (Domestic)	451	954	(52.7)	423	2,567	2,737	(6.2)
Rest of the World	514	200	157.0	905	3,862	2,270	70.1
Formulations	9,459	5,287	78.9	8,077	31,611	19,527	61.9
Advanced Markets	4,992	2,737	82.4	3,405	13,634	7,978	70.9
USA	4,512	2,616	72.5	3,190	12,563	7,205	74.4
EU	480	121	296.7	215	1,071	773	38.6
Developing Markets	4,467	2,550	75.2	4,672	17,977	11,549	55.7
India	2,304	1,985	16.1	2,791	11,054	9,496	16.4
Japan (Kyowa)	1,082	300	260.7	1,319	4,424	1,390	218.3
Rest of the World	1,081	265	307.9	562	2,499	663	276.9
Other operating Income	253	245	3.5	131	908	1,853	(51.0)
Gross Sales	10,782	7,812	38.0	9,700	39,145	29,582	32.3

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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