investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aditya Birla Nuvo	06-Dec-05	714	**1,203**	1,280
Ceat	28-Nov-06	122	**127**	190
India Cements	28-Sep-06	220	**230**	315
Lupin	06-Jan-06	403	**545**	670
Thermax	14-Jun-05	124	**373**	425

Market Outlook

Booming economy keeps sentiments upbeat

Key points

- We feel the government's improved performance so far in this fiscal has been partially overlooked by the market and the same could act as a catalyst for a rally in the stock market during the run-up to the Union Budget 2008.
- In our last Market Outlook report dated October 06, 2006, we had stated that we expected an upgrade in the Sensex' earnings estimates going forward and we have witnessed an 11.4% earnings upgrade for FY2007E, in line with our expectations of a 10-15% earnings revision.
- The domestic scenario remains upbeat: On a year-on-year (y-o-y) basis, the gross domestic product (GDP) has grown by 9.1% and the Index of Industrial Production (IIP) has risen by 10.9% in H1FY2007 with a strong growth of 12.1% in the manufacturing sector.
- In Q3FY2007, no major surprises are expected on the earnings front. However since the *Diwali* festival fell in October in FY2007 and in November in FY2006, some purchases could have already got reflected in the higher Q2FY2007 numbers, especially for the automobile sector. Hence the y-o-y growth in the profits could be slightly muted for Q3FY2007 compared with that in Q2FY2007.
- US housing data continues to be weak; however the third quarter GDP numbers were better than expected. The huge inventory build-up is the main concern, which is feared to limit growth in the last quarter. The market is expecting the US Federal Reserve (Fed) to start cutting rates from March 2007 onwards.
- Normally, December is the year-ending month for most foreign investors, who prefer to allocate fresh funds from January onwards. However there has been a change in this pattern since FY2004 and we expect the foreign institutional investors (FIIs) to actively participate in the stock market during the run-up to the next year's budget. A study of the trend of FII activity in the Indian stock market over the past two fiscals reveals that 51% of the net investments for FY2005 and 50% of that for FY2006 were made between November and February.
- We continue to prefer domestic demand-driven stories like automobiles, banking, capital goods and cement.

Government's improved performance could act as a catalyst

Tax collections remain buoyant: For the first seven months of FY2007, the gross tax collections were up 29.8% year on year (yoy). The Others category (comprising service tax, securities transaction tax, banking cash transaction tax, fringe benefit tax) saw a growth of 58.4% while corporate tax collections surged by 47.5%. Since the bulk of the direct tax revenues are collected in the second half of any financial year, we feel the government could surpass its tax collection target for FY2007.

Implied growth in total receipts likely to be surpassed: Further analysis of the government's accounts for the first seven months of FY2007 shows that the total receipts are 48.7% of the FY2007 budget estimate compared with 44.1% of the FY2006 budget estimate. The net tax collection as a percentage of the FY2007 budget estimate stood at 47.6% compared with 42.5% in FY2006. Going forward, based on the FY2007 budget estimate and the year-to-date reported numbers, the implied y-o-y growth rate for the total

Government accounts (Rs crore)

Particulars	YTD FY07	% yoy chg	YTD FY07 as % of FY07BE	YTD FY06 as % of FY06	Nov-Mar FY07 implied	% yoy chg
Tax (net)	155660	33.8	47.6	42.5	171545	11.6
Total receipt	202169	26.1	48.7	44.1	213136	8.0
Total expenditure	289269	14.6	51.3	49.1	274722	9.2
Fiscal surplus/(deficit)	(87100)	-5.4	58.6	60.9	(61586)	13.5

Source: Controller General of Accounts

receipts as well as the net tax collections stands at 8.0% and 11.6% respectively for the remaining five months. These targets appear very realistic and achievable.

Fiscal deficit numbers are broadly in line with estimates: On the year-to-date expenditure front, the total expenditure stood at 51.3% of the FY2007 budget estimate compared with 49.1% of the FY2006 number. The change has been marginal, as a lower planned capital expenditure (down 24.4% yoy) has offset the higher interest expenditure (up 17.2% yoy) on the non-planned side. The centre's April-to-October gross fiscal deficit stood at 58.6% of the budget estimate, broadly in line with 60.9% recorded last year.

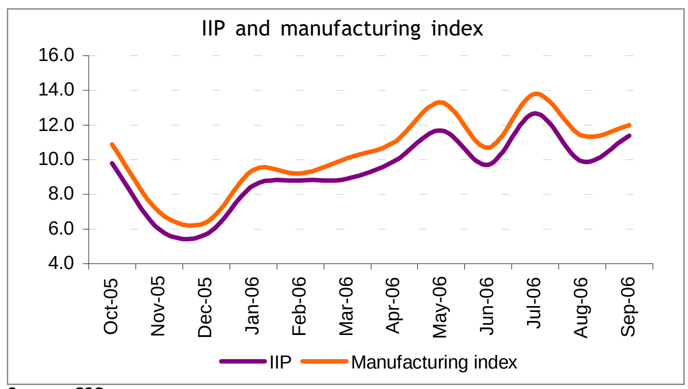
Fiscal deficit target likely to be reined in at 3.8%: With the government sticking to its borrowing plan of Rs152,000 crore for FY2007 and the GDP growing by a robust 9.1% in H1FY2007, we feel the fiscal deficit target could be reined in at 3.8% of the GDP. If it achieves its budget estimates, the government would definitely receive high praise from the investor community and the stock market could reflect this positive sentiment by rallying in the run-up to the Union Budget in February next year.

Indian economic scenario remains upbeat

In H1FY2007, on a y-o-y basis the GDP grew by 9.1% and the IIP was up 10.9% with a 12.1% growth in the manufacturing sector. Thus the domestic scenario remains optimistic. Credit growth remains at 28% yoy and most of the leading indicators continue to point upwards. However, the Capital Goods Index grew by only 2.2%, largely influenced by a higher base as the index had grown by 22.8% in September 2005. On a month-on-month basis, the growth in the index was strong at 9.3%; even in the (financial) year till date, the index has recorded a growth of 15.2% on a higher base of a 15.6% growth reported in FY2006.

Manufacturing sector continues to report strong growth

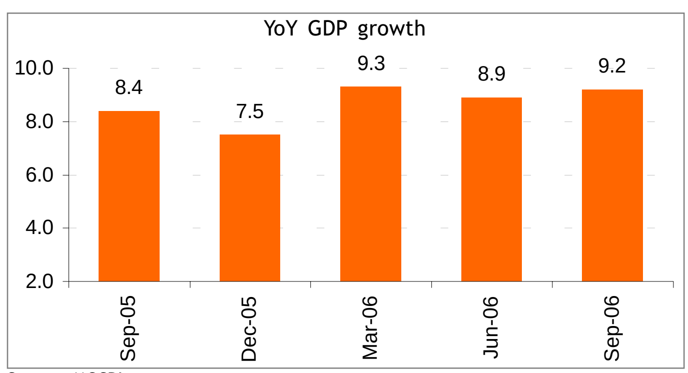
- The IIP for September 2006 grew by a strong 11.4% yoy.
- The manufacturing sector maintained its double-digit growth rate at 12.0% yoy.
- However, the Capital Goods Index grew by only 2.2%, largely influenced by a higher base, as the index had grown by 22.8% in September 2005.



Source: CSO

Robust GDP growth of over 9% for H1FY2007

- In Q2FY2007 India's GDP grew by 9.2% yoy, slightly above the expectation of an 8.9% growth. In H1FY2007 the GDP growth stood at 9.1%.
- The growth was achieved on the back of a 10.3% y-o-y rise in the industrial sector and a 10.9% y-o-y growth in the service sector.
- However, the agriculture sector grew by only 1.7% during this period due to a decline in the production of some major crops.



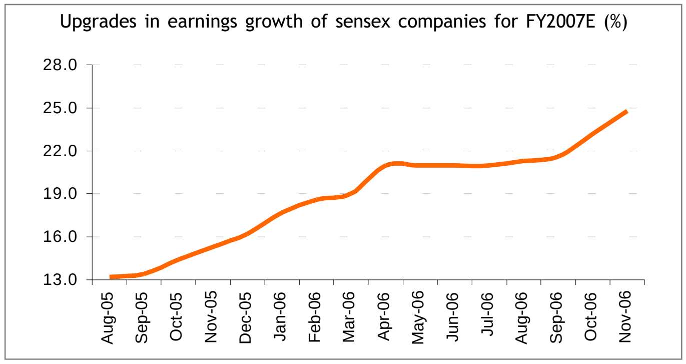
Source: MOSPI

Sensex' earnings estimate upgraded after Q2FY2007 results

The estimated growth in Sensex' earnings in FY2007 has been revised upwards to 24.8% from 21% as of September 2006. That's an 11.4% earnings upgrade for FY2007E and is in line with our expectations of a 10-15% earnings revision. However the Sensex has gone up by nearly 12% in the meantime and its valuations are at the higher end: The index is trading at 16.6x its one-year forward earnings. We feel India's valuations would continue to remain high, as the earnings growth remains intact and government policy changes are on track.

Sensex' earnings expected to grow by 24.8% yoy

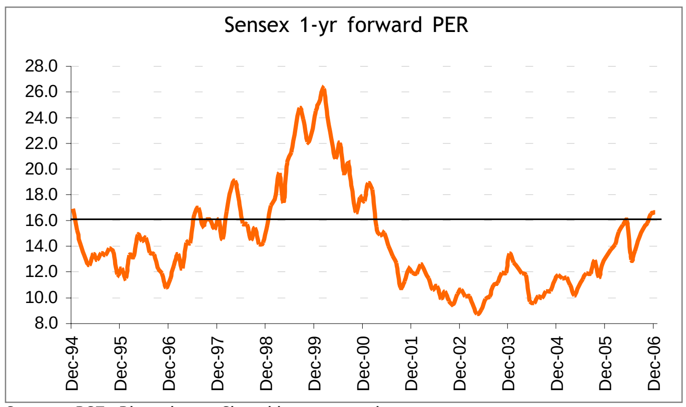
- The estimated growth in Sensex' earnings in FY2007 has been revised upwards to 24.8% from 21% as of September 2006.
- We have not seen any major downgrades in FY2007 earnings estimates after the Q2FY2007 corporate results.



Source: BSE, Bloomberg, Sharekhan research

Sensex trading at the higher end of its one-year forward PE band

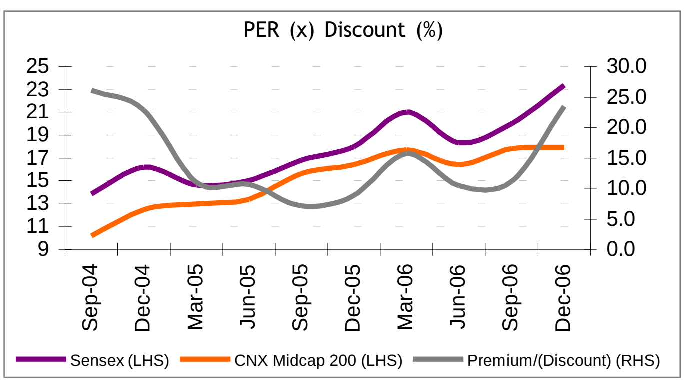
- The Sensex has usually traded between 12x and 16x one-year forward price/earnings (PE) over last ten years.
- Sensex continues to trade at 16.6x its one-year forward earnings (Sensex = 13972)
- We have seen an 11.4% earnings upgrade for FY2007 after the Q2FY2007 corporate results.



Source: BSE, Bloomberg, Sharekhan research

Discount between large-caps and mid-caps has increased sharply

- The Sensex has gone up by nearly 12% since the release of our last Market Outlook report on October 06, 2006.
- The CNX Midcap Index has gone up by only 7.8% over the same period.
- This has widened the valuation gap between the two indices to 23.5% as on December 04, 2006 on a trailing twelve-month basis compared with 11.1% in September 2006.



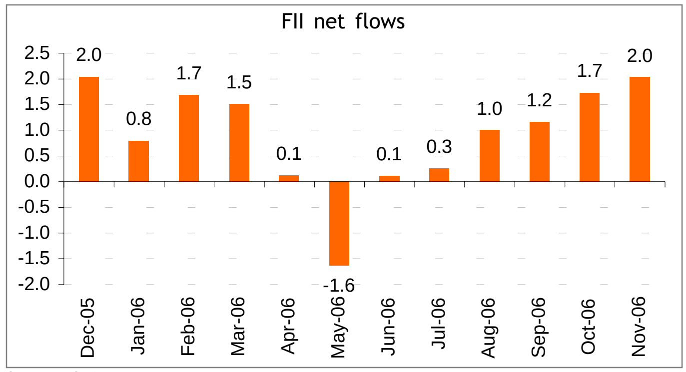
Source: BSE, NSE, Sharekhan research

FIIs continue to drive the domestic market

The Sensex and Nifty have scaled their all-time high levels of 14000 and 4000 respectively on the back of strong and continued inflow of funds from the FIIs into our markets. Even though the domestic fund houses have preferred to wait on the sidelines all this while, with the new fund offerings (NFOs) raising Rs1,800 crore in September and October, December could see higher participation from the domestic mutual funds.

FII buying remains unabated following strong Q2FY2007 numbers

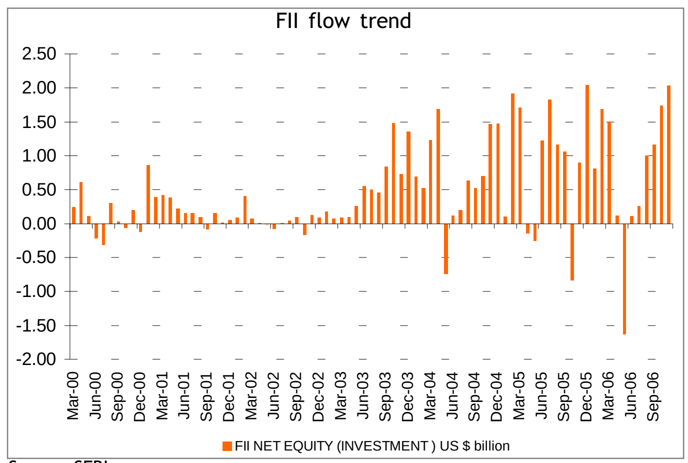
- The FIIs have invested $8.8 billion (net) in Indian equities in CY2006 so far.
- FII investments have shown a steady growth after the sharp sell-off witnessed in May 2006.
- Better-than-expected Q2FY2007 numbers leading to an upward revision in the earnings estimates of Indian companies coupled with strong industrial and economic data have once again attracted significant FII interest.



Source: SEBI

Pattern of FII flows have changed

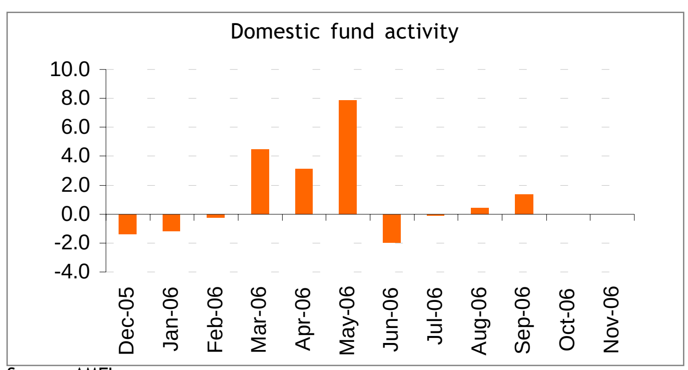
- If we look at the FII investment data from FY2000 to FY2003, the months of November and December don't see much activity, as it's the end of the year and holiday season for most foreign investors.
- However, things have changed since FY2004 and we have seen robust FII flows into our domestic market even in this period. We expect this trend to continue.



Source: SEBI

Domestic fund activities remain subdued

- Domestic funds have turned net sellers by a small margin in the market for the last two months (October and November 2006).
- However net equity investments made by them year to date remain at Rs10,693 crore compared with Rs14,302 crore in FY2006.
- As in October 2006, the cash levels of mutual funds as a percentage of the asset under management (without NFO money) stood at 6.2% (Rs6,689 crore); the same including the NFO collections stood at 7.4% (Rs8,155 crore).



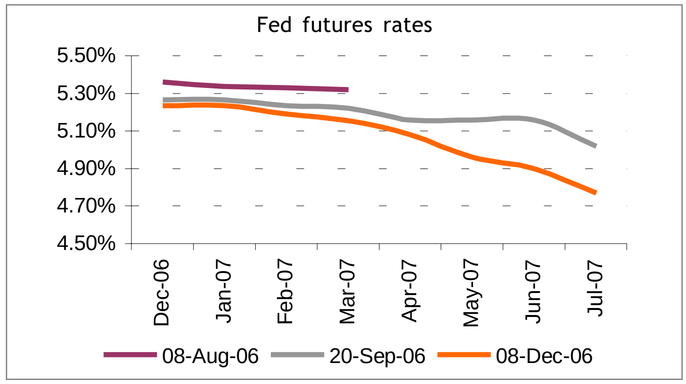
Source: AMFI

Housing slump affecting US economic growth

The US economy expanded at a revised 2.2% annual rate from July through September 2006,faster than forecast, reflecting an increase in inventories that may limit growth in the fourth quarter. Housing shaved around 1.1% from the economic growth last quarter. The core Consumer Price Index (CPI) excluding food and energy rose by 2.7% yoy as on October 2006, which is considered to be high. Policy makers are expecting the slowdown in the economy to reduce inflation. The pace of economic growth witnessed in the USA for the past few years is expected to slow down as the housing market indicators point to a slump and manufacturers are expected to cut production to reduce stockpiles. The market expects the Fed to start cutting rates as early as March 2007.

Markets expecting a rate cut next year

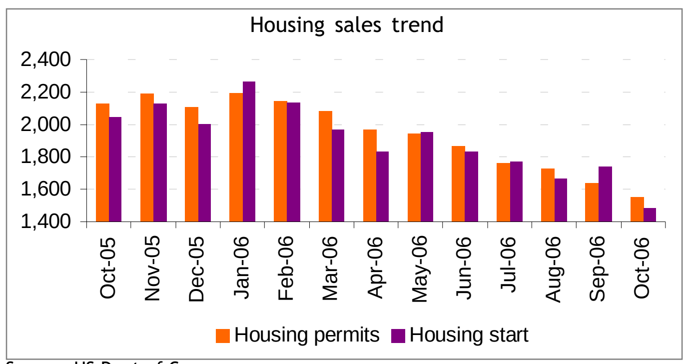
- Markets are expecting a rate cut between March and May 2007. The Fed futures maturing in April 2007 and May 2007 are trading at 5.08% and 4.96% respectively.



Source: Bloomberg

New housing permits continue to slow down (in thousands)

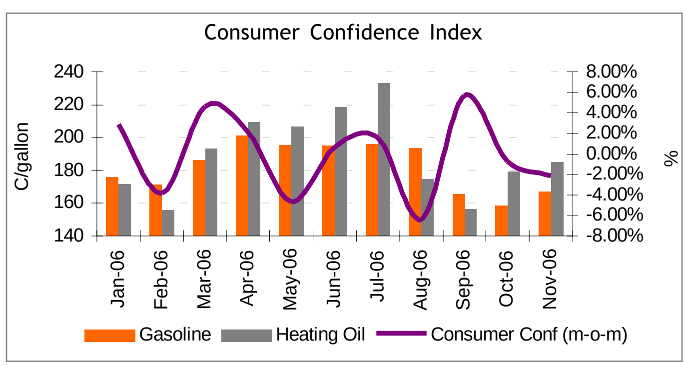
- New housing permits and new housing starts continue to report a slowdown.
- The housing starts reported a sudden spurt in September 2006, but October numbers confirm the declining trend has continued, reflecting mostly the impact of a huge inventory of unsold homes.



Source: US Dept of Commerce

Consumer Confidence Index declines from its September high

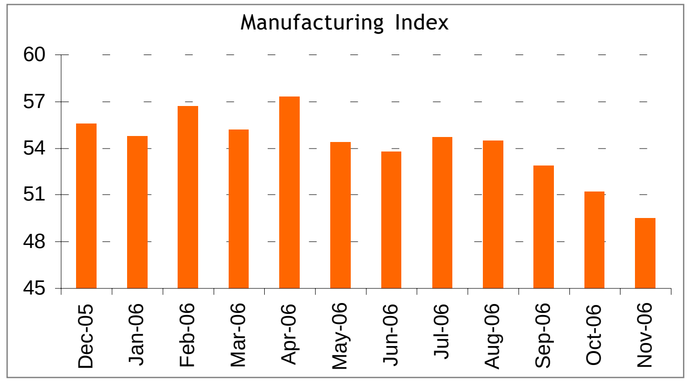
- The US Consumer Confidence Index has declined by 2.1% month on month.
- Retail sales for October 2006 dropped by 0.4% after remaining stable over the last two months.
- The decline in consumer confidence is perhaps because the housing market is witnessing a slump, the unemployment rate is creeping higher and job growth remains lower than last year's average.



Source: Conference Board, Nymex, Bloomberg

ISM Manufacturing Index continues to decline

- Growth in the manufacturing sector remained stable till August 2006 after which we have witnessed a gradual decline, as indicated by the ISM Manufacturing Index.
- The ISM Manufacturing Index has come down below 50 for the first time in 12 months. In November 2006 the index stood at 49.5.



Source: Institute of Supply Management

Lupin

Apple Green

Stock Update

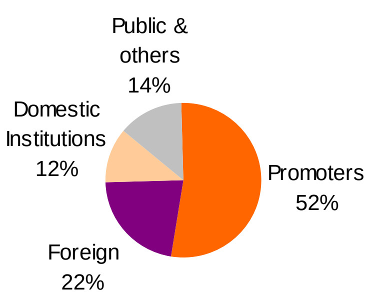
Price target revised to Rs670

Buy; CMP: Rs545

Company details

Price target:	Rs670
Market cap:	Rs4,377 cr
52 week high/low:	Rs655/373
NSE volume: (No of shares)	25,069
BSE code:	500257
NSE code:	LUPIN
Sharekhan code:	LUPLTD
Free float: (No of shares)	3.8 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	8.9	11.7	25.2	43.6
Relative to Sensex	3.2	-3.5	-15.7	-7.3

Key points

- A strong thrust on the chronic therapy segments, a doubling of its field force and aggressive new product launches have enabled Lupin's domestic formulation business to grow at higher than industry growth rates. We estimate Lupin's domestic business to grow at a compounded annual growth rate (CAGR) of 22.5% over FY2006-08E, on the back of 15-20 new launches per year and an increase in the productivity of the field force.

- We believe the US generics business will be the major growth driver for Lupin. Sizeable new product opportunities coupled with the sustained growth in existing products provide a strong visibility to Lupin's earnings from the US generics market. We have estimated revenues of $70 million in FY2007E and $130 million in FY2008E from the US generics business. Further, any Para IV wins will provide an upside to our estimates.

- Lupin has recently started formulation exports to the European countries. Having already made 11 dossier filings in FY2006, the company plans to file 10-12 dossiers every year. We estimate Europe to add $3 million and $10 million in FY2007E and FY2008E respectively to Lupin's top line.

- Lupin's anti-TB business is primarily geared towards the domestic and semi-regulated markets. Being a leader in the anti-TB space, Lupin is extremely well positioned to capitalise on the resurgence of TB due to the increased incidence of AIDS worldwide (including in the advanced markets like the USA). Even though we have not factored in any upside from the TB opportunity in the regulated markets, we are positive on Lupin's prospects in this area.

- The changing business mix, more focused towards advanced market formulations, coupled with the commissioning of the new finished dosages facility in the excise and tax-free state of Jammu is likely to cause Lupin's operating margins to improve. We believe that the margins will expand by 180 basis points over FY2006-08E.

Valuation table (stand-alone) Rs (cr)

Paticulars	FY2004	FY2005	FY2006	FY2007E	FY2008E
Net sales	1119.3	1161.1	1606.1	1934.1	2511.2
PAT	149.6	84.4	182.7	236.8	327.7
Shares in issue (cr)	8.8	8.8	8.8	8.8	8.8
EPS (Rs)	17.0	9.6	20.7	26.8	37.2
PER (x)	32.1	57.0	26.3	20.3	14.7
cash EPS (Rs)	20.3	13.3	25.3	32.3	43.3
cash PER (x)	26.9	40.9	21.6	16.9	12.6
EV	5169.8	5230.6	5264.6	4777.9	4754.4
EV/Ebidta (x)	21.9	41.2	23.1	15.7	11.8
Book value (Rs/share)	50.8	56.7	73.0	142.5	172.2
P/BV (x)	10.7	9.6	7.5	3.8	3.2
Mcap/sales	4.3	4.1	3.0	2.5	1.9

- Lupin has a robust pipeline of 4 new chemical entity (NCE) molecules, one of which has just completed Phase II trials and will shortly enter Phase III trials, two of which are in Phase II clinical trials and one in Phase I trials. Lupin's lead NCE, an anti-migraine molecule has received approval from the Drug Controller General of India (DCGI) for Phase III trials in India. The management has indicated that it may announce an out-liencing deal for the molecule. Any development in this regard will provide an upside to our estimates.
- With the sustained growth in the domestic market, huge opportunities arising out of the increased incidence of HIV-related TB worldwide, strong visibility in US earnings from sizeable product opportunities and the ramp-up of the business in Europe and the other markets, we expect Lupin to deliver a strong performance over the next few years. To factor in the above, we have revised our revenue and earnings estimates for Lupin. We expect Lupin's net sales to grow at a CAGR of 25% over FY2006-08E and earnings to expand at a CAGR of 33.9% over the same period.
- At the current market price of Rs545, Lupin is quoting at 14.7x its FY2008E earnings estimate, on a fully diluted basis. Keeping in mind the strong business fundamentals and growth potential of the company, we reiterate our Buy recommendation on Lupin, with a revised price target of Rs670. At our revised target price, the stock will discount its FY2008E earnings by 18x.

Domestic formulation business to continue double-digit growth

Lupin's domestic formulation business has been growing by over 20% in the last few quarters, way above the industry growth rate of roughly 15%. The growth has been driven by the company's strong thrust on the fast-growing lifestyle segments, a doubling of its field force over the past 2 years (from 800 in 2004 to 1,600 currently) and aggressive new product launches. From largely concentrating on the anti-TB segment, Lupin has broadened its horizons to cover cardiovascular, anti-diabetic and respiratory segments. The company has leveraged its relationship with chest physicians to become a leader in the asthma segment. The company has also maintained a steady pace of new product introductions, having launched 18 new products in FY2005 and 17 in FY2006.

Going forward, we believe Lupin's domestic formulation business will continue to show a healthy growth on the back of 15-20 new launches per year and an increase in the productivity of its field force.

US business—the major growth driver

Lupin's US business has been a major driving force in the past 2 years. The strength of the company's US business is evident from the healthy double-digit market share the company enjoys for meloxicam--a product witnessing a 98% price erosion due to 15+ players entering the market on Day 1 of the patent expiry. The company has already launched 3-4 new products in H1FY2007 and plans to launch another 3-4 products in H2FY2007. The key product opportunities for Lupin include Meloxicam, Lisinopril HCTZ, Sertraline, Simvastatin and Pravastatin in FY2007 and Cefdinir tablets and oral suspension, Quinapril, Azithromycin and Ceftiofur in FY2008E. As per our estimates, these new products will bring in additional revenues of $5.7 million in FY2007E and $46.7 million in FY2008E. We have not included the upside from Ceftiofur due to the impending uncertainties related to the timing of the launch.

Lupin's near-term product opportunities ($ million)

Generic name	Brand name	FY2007E	FY2008E
Meloxicam tablets	Mobic	2.0	2.2
Lisinopril HCTZ tablets	Zestril	1.3	2.5
Simvastatin tablets	Zocor	1.7	2.8
Pravastatin 10mg, 20mg, 40mg tablets	Pravachol	0.2	0.8
Quinapril tablets	Accupril	0.0	1.5
Sertraline tablets	Zoloft	0.5	1.8
Cefdinir capsules & suspension	Omnicef	0.0	21.1
Azithromycin tablets	Zithromax	0.0	14.0
Total		5.7	46.7

Apart from the new launches, Lupin's existing brands in the USA are also growing. Its branded generic product Suprax is expected to grow strongly in H2FY2007 due to the advent of the flu season in the USA. Moreover, Lupin is planning to launch line extensions of Suprax based on the novel drug delivery system (NDDS) technology by the end of FY2007. This is expected to provide a significant boost to Lupin as the new products will add value without any incremental costs.

Over the long-term, the company is targeting 10-12 new launches every year based on patent expiries and the FDA approvals. A robust pipeline of 28 abbreviated new drug applications (ANDAs) pending approval and 20-25 new filings per year, coupled with the steady growth in existing products will ensure Lupin's strong growth in the USA. The management has also indicated that 10-15% of its filings are Para IV challenges. However, considering the uncertain outcome of the litigations relating to these challenges, we have not factored in any upside from potential Para IV wins. We have estimated revenues of $70 million in FY2007E and $130 million in FY2008E from the US generics business.

European business to contribute significantly in FY2008

Lupin has recently started formulation exports to the European countries namely the UK and Croatia. Lupin is planning to replicate its US portfolio in the European markets using a partnership model. The company has already filed 11 dossiers in FY2006 and plans to file another 10-12 dossiers every year. Based on its filings, Lupin plans to launch 6-8 products in Europe in FY2008. We have factored in $3 million of revenue from Europe in FY2007E and $10 million in FY2008E.

Bulk business to grow at a CAGR of 10.6% over FY2006-08E

Bulk business formed around 45% of the revenues in FY2006. Lupin has shifted its strategy from the low-margin bulk business towards the value-added, higher-margin formulations. In order to compete in the competitive US market, Lupin has been striving for backward integration in most of its US formulations and is hence using more of its bulk products captively rather than selling it externally. This is evident from the declining active pharmaceutical ingredient (API) sales in the advanced markets. On the other hand, Lupin's bulk business in the semi-regulated and domestic markets has been witnessing a good growth. Going forward, we believe that Lupin's API business will grow at a CAGR of 10.6% over FY2006-08E, led by the strong momentum in the domestic market and an increase in sales across the semi-regulated markets as Lupin expands its business across geographies.

Anti-TB business to provide significant potential

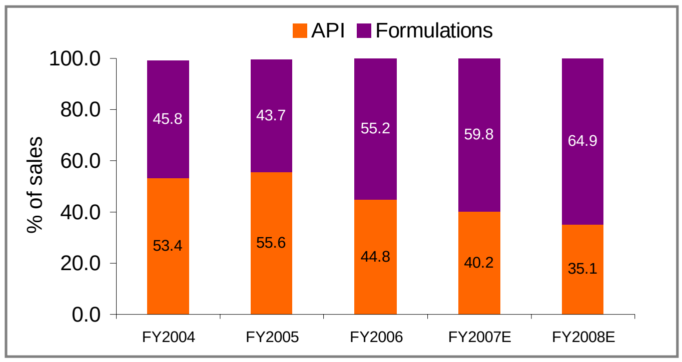
Currently, Lupin's anti-TB business is primarily geared towards the domestic market and the semi-regulated countries like Africa. Revenues from the un-regulated markets have been growing at over 30% over the past few quarters, primarily driven by Lupin's anti-TB products. Apart from participating in the annual global TB tenders, Lupin has expanded its presence in the non-institutional prescription-based anti-TB segment, by forging tie-ups with Ranbaxy, GSK and Aspen to market its TB products in West Africa, Philippines and South Africa respectively. The joint venture with Aspen will enable Lupin to capitalise on Aspen's strength in the multi drug resistant (MDR) TB business. Lupin's entry into the MDR TB market will provide a significant boost to its revenues, as the cost of treatment for MDR TB is ten times more than the cost of treatment for normal TB.

TB is increasing rapidly, fuelled by the increased incidence of AIDS in developing countries in Africa and in the advanced markets of the USA and Europe. Being a leader in the anti-TB space, Lupin is extremely well positioned to capitalise on the resurgence of TB due to the increased incidence of AIDS worldwide. Even though we have not factored in any upside from the TB opportunity in the regulated markets, we are positive on Lupin's prospects in this area.

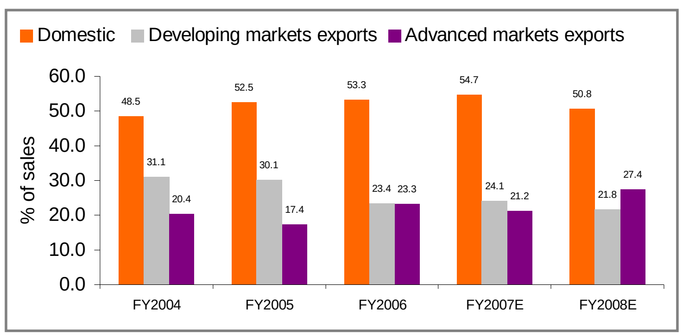
Changing business mix and commissioning of Jammu plant to improve margins

From being largely a bulk player in the domestic market, over the years Lupin has transformed its business model to become a wholly integrated global pharmaceutical player. The company's performance is indicative of its strong thrust on the regulated markets of the USA and Europe and its shift of strategy from the low-margin API business to the high-margin, value added formulations. We believe that over the next few years, an increasing share of the revenues will be derived from the high-margin regulated market formulations, which is likely to result in an improvement in the company's margins.

Formulations to form a larger share of the pie



Share of advanced markets to improve



Moreover, the company is in the process of setting up a finished dosages facility in the excise and tax-free state of Jammu, which will be commissioned towards the end of FY2007. Lupin plans to shift its entire domestic production, which is currently not coming from excise and tax exempt areas, to the new facility at Jammu and thus derive tremendous excise and tax savings.

We believe that the above-mentioned initiatives will cause Lupin's operating margins to expand by 180 basis points over FY2006-08E.

Potential NCE out-licencing to provide further upside

In line with its goal of deriving 15% of its targeted $1 billion turnover in FY2009 from proprietary products, Lupin has been investing significant amounts in innovative research. Investing in innovative research since the year 2001, Lupin has created a robust pipeline of 4 NCE molecules, one of which has completed Phase II clinical trials and will be shortly entering Phase III trials, two of which are in Phase II clinical trials and one in Phase I trials. Lupin's leading candidate, an anti-migraine molecule, with an estimated global market size of $2 billion has just completed Phase II clinical trials. The company has received the DGCI approval to conduct Phase III studies on this molecule in India and we believe that these will begin shortly. However, since the Phase II trials have been conducted in India, Lupin will have to conduct further Phase II studies in the USA/EU. The management has indicated that upon completion of Phase II trials, the company will probably enter into an out-licencing deal for the molecule and even explore the option of hiving off its innovative research into a separate arm. However, we have not factored in any revenues from the potential out-licencing deal for now. Going forward, Lupin plans to continue investing 6-7% of its sales income on research and development (R&D). It has recently increased its scientists to 450 from 300 at the end of FY2006, reinforcing its strong thrust on R&D.

Lupin's NCE pipeline

Molecule	Therapeutic segment	Stage
LL 2011	Anti-migraine	Completed Phase II
LL 4218	Anti-psoriasis	Phase I
LL 4858	Anti-TB	Phase I
LL 3348	Anti-psoriasis	Phase II

Acquisition on the cards

Lupin has been scouting for acquisitions in the markets of USA, Europe, Latin America & Australia. Specifically, the company is on the lookout for a branded formulations company with an onshore presence in any of its target markets. The management has indicated that it would feel comfortable with deal sizes ranging from $50 million to $150 million. Lupin had raised $100 million through a foreign currency convertible bond (FCCB) issue in FY2006, which we believe will be used for the acquisition. Our current estimates do not reflect the impact of any acquisition.

Valuation and view

Lupin's performance in H1FY2007 has been encouraging, with higher-than-expected growth in the domestic market and growing revenues from the advanced markets. With the sustained growth in the domestic market, huge opportunities arising out of the increased incidence of HIV-related TB worldwide, strong visibility in US earnings from sizeable product opportunities and the ramp-up of business in Europe and the other markets, we expect Lupin to deliver a strong performance over the next few years. To factor in the above, we have revised our revenue and earnings estimates for Lupin. We expect Lupin's net sales to grow at a CAGR of 25% over FY2006-08E and earnings to expand at a CAGR of 33.9% over the same period. Further, any out-licencing deals and potential acquisitions will provide a further upside to our estimates.

Due to a strong presence in the branded segment of the domestic market and greater visibility of the R&D pipeline, we believe that Lupin commands premium valuations as compared to its peers like Orchid and Aurobindo. Hence, we feel comfortable in assigning a P/E multiple of 18x to Lupin. At the current market price of Rs545, Lupin is quoting at 14.7x its FY2008E earnings estimate, on a fully diluted basis. Keeping in mind the strong business fundamentals and growth potential of the company, we reiterate our Buy recommendation on Lupin, with a revised price target of Rs670. At our revised target price, the stock will discount its FY2008E earnings by 18x.

The author doesn't hold any investment in any of the companies mentioned in the article.

ORG Informatics

Emerging Star

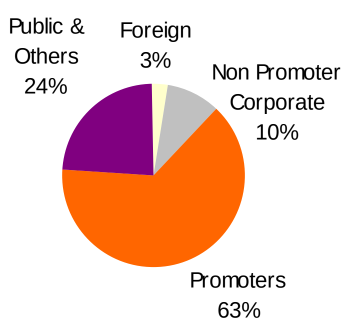
Stock Update

$10mn raised through GDR issue

Buy; CMP: Rs173

Company details	
Price target:	Rs190
Market cap:	Rs237 cr
52 week high/low:	Rs209/70
BSE volume: (No of shares)	88,398
BSE code:	517195
Sharekhan code:	SARAELE
Free float: (No of shares)	0.51 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	48.3	84.9	66.9	27.9
Relative to Sensex	40.4	59.7	12.4	-17.5

ORG Informatics has successfully raised $10 million through a global depository receipt (GDR) issue in the overseas markets. The issue has been priced at around Rs155 per share and would result in dilution of the equity base by 28.6 lakh shares. The company has also done a preferential issue of 6 lakh warrants to investors at an average price of Rs170 recently. Consequently, the fully diluted equity base would expand to Rs17.2 crore, up from Rs13.7 crore.

Proposed utilisation

The net proceeds from the issue would be utilised to largely fund the working capital needed to execute the pending order book of around Rs625 crore as on September 2006. Moreover, the company is actively scouting for inorganic opportunities to boost its range of service offerings and/or gain a foothold in newer geographies.

Valuation

To factor in the recent developments, we have revised upwards the earnings estimates of FY2008 by 15.3% but the stock's earning per share has declined by 8.3% due to the expansion in its diluted equity base.

We maintain our Buy call on the stock with price target of Rs190 (around 13x FY2008 revised earnings estimates).

Key financials (consolidated) Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Sales	85.5	155.2	328.0	426.2
Net profit (Rs cr)	2.7	8.1	16.4	24.9
No of shares (crs)	1.1	1.4	1.7	1.7
EPS (Rs)	2.4	5.9	9.5	14.5
% y-o-y change	*33.1*	*146.2*	*60.7*	*52.3*
PER (x)	72.0	29.2	18.2	11.9
Price/BV (x)	17.3	7.7	3.0	2.2
EV/EBIDTA(x)	34.7	15.1	9.2	7.2
RoCE (%)	18.7	37.5	35.8	30.4
RoNW (%)	28.3	43.2	25.9	21.3

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Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Autos
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
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International Combustion (India)
JK Cement
Madras Cement
Shree Cement
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Television Eighteen India
Thermax
TVS Motor Company
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
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KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
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