

BSE Sensex: 14,570.8 ↑ 26.3 (+0.2%)

NSE 50 Nifty: 4,297.1 ↑ 1.3 (+0.0%)

## Market Movement

	Close	Diff	% Chg
BSE 100	7,493.1	24.4	0.3
CNX Nifty Jr	8,133.6	111.0	1.4
Dow Jones	13,668.1	40.5	0.3
Nasdaq	2,613.9	9.4	0.4

## Turnover

	Rs mn		% Chg
BSE	47,090	↑	3.8
NSE	98,720	↓	-17.5

## Advances/Declines (%)

	Advances	Declines
BSE	50.8	45.7
NSE	55.4	40.6

## Nifty Delivered Statistics

	Delivered Quantity	% Daily Quantity*
<b>Most Delivered</b>		
BPCL	313,569	82.5
ITC	11,032,505	80.9
Federal Bank	145,112	77.9
Star	28,264	73.2
<b>Least Delivered</b>		
Tata Steel	540,800	24.4
Reliance Capital	502,703	21.5
Titan	85,952	20.9
Divis Lab	15,451	20.5

\* to trade quantity.

## Institutional Activity

31 May 2007	Cash (Rs mn)	F&O (Rs mn)
<b>FIIs</b>		
Buy	33,811	91,427
Sell	30,707	87,966
Net	3,104	3,462
<b>Mutual Funds</b>		
Buy	8,741	-
Sell	5,195	-
Net	3,546	-

## Key Statistics

	Close	Change
Rs/US\$	40.51	-0.03
Rs/Euro	54.47	-0.04
10 yr G-Sec (%)	8.11	-0.01
Call rate (%)	7.50	-
Brent-spot (US\$/bbl)	69.38	-0.23
WTI-spot (US\$/bbl)	65.08	1.07
Aluminium (LME, US\$/t)	2,775	42.00
Copper (LME, US\$/t)	7,510	70.00
Zinc (LME, US\$/t)	3,710	25.00
Steel (US\$/t)	565	0.00

## Inside

### □ Lupin: Expanding horizons

Lupin has been going through a major change in its business model over the last few years driven by shift from APIs to formulations, and unregulated markets to regulated markets. The process would further accelerate with increased focus on global generics markets of US/Europe (including inorganic opportunity), expansion in LatAm, S Africa, ANZ and Japan. Apart from this geographical and vertical shift, product baskets with stronger IPRs (Ceftriaxone, Cefdinir, Perindopril) have also been expanding. These changes are helping the company de-risk its business model; and also allows Lupin achieve sustained profitable growth over a longer period of time vis-à-vis high volatility witnessed in the past. Lupin's NCE pipeline is also maturing with likely licensing of one of the lead candidates over the next 12-15 months. This would put Lupin in the league of few select Indian companies having licensed their molecules to MNCs.

We are introducing FY09E numbers for Lupin with profits of Rs3.96 bn (FDEPS of Rs44.9). We are also increasing our sales estimates by 4% and profits (adjusted) by 13% for FY08E to reflect better visibility on most of the businesses and also launch of Cefdinir (US\$800 mn) in the US. Major risk to our growth expectations is pricing pressure intensifying any further in US generic markets or delay in product launches. The stock trades at 19.5x FY08E fully diluted earnings and 16.1x FY09E fully diluted earnings. We are upgrading our target price to Rs807 (18x FY09E FDEPS) from earlier Rs646. We have not built any revenues from out licensing of NCE or M&A in our model, which can provide significant upside to our target price. We reiterate our Buy rating on the stock.

[\(Please click here for details on page 2\)](#)

### Target Price Upgrade

#### Sector: Pharmaceuticals

<b>Target Price</b>	<b>Rs807</b>
Market cap	Rs58.2 bn/US\$1,279.2 mn
52-week range	Rs755/406
Shares in issue (mn)	80.3
6-mon avg daily vol (no of shares)	217,353
6-mon avg daily vol (mn)	Rs157.5/US\$3.5
Bloomberg	LPC IN
Reuters	LUPN.BO
BSE Sensex	14,496
Website	www.lupinworld.com

#### Shareholding Pattern (%)

Promoter	68.3
FII	15.8
MFs/FIs/Banks	3.5
Others/Public	12.4

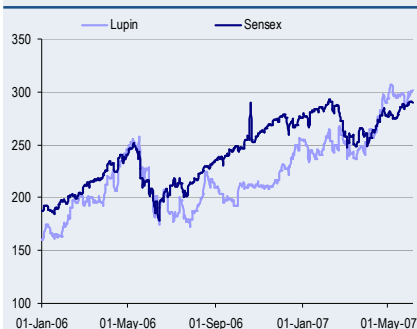
(As of 31 March 2007)

#### Price Performance (%)

	1M	3M	12M
Absolute	(1.7)	20.5	47.8
Relative*	(5.7)	8.0	9.1

\* To the BSE Sensex

#### Relative Performance



(As of 4 June 2007)

#### Analyst:

**Kirit Gogri**

kgogri@asksecurities.com

Tel: (91 22) 6646 0023

## Expanding horizons

Lupin has been going through a major change in its business model over the last few years driven by shift from APIs to formulations, and unregulated markets to regulated markets. The process would further accelerate with increased focus on global generics markets of US/ Europe (including inorganic opportunity), expansion in LatAm, S Africa, ANZ and Japan. Apart from this geographical and vertical shift, product baskets with stronger IPRs (Ceftriaxone, Cefdinir, Perindopril) have also been expanding. These changes are helping the company de-risk its business model; and also allows Lupin achieve sustained profitable growth over a longer period of time vis-à-vis high volatility witnessed in the past. Lupin's NCE pipeline is also maturing with likely licensing of one of the lead candidates over the next 12-15 months. This would put Lupin in the league of few select Indian companies having licensed their molecules to MNCs.

We are introducing FY09E numbers for Lupin with profits of Rs3.96 bn (FDEPS of Rs44.9). We are also increasing our sales estimates by 4% and profits (adjusted) by 13% for FY08E to reflect better visibility on most of the businesses and also launch of Cefdinir (US\$800 mn) in the US. Major risk to our growth expectations is pricing pressure intensifying any further in US generic markets or delay in product launches. The stock trades at 19.5x FY08E fully diluted earnings and 16.1x FY09E fully diluted earnings. We are upgrading our target price to Rs807 (18x FY09E FDEPS) from earlier Rs646. We have not built any revenues from out licensing of NCE or M&A in our model, which can provide significant upside to our target price. We reiterate our Buy rating on the stock.

#### Exhibit 1: Financial summary

(Rs mn)

Y/E March	FY05	FY06	FY07	FY08E	FY09E
Net Sales	11,611	16,061	19,709	24,533	29,063
EBITDA	1,270	2,192	2,853	4,214	5,149
EBITDA (%)	10.9	13.6	14.5	17.2	17.7
Net Profit (Adjusted)	822	1,790	3,018	3,264	3,960
Net Profit (Reported)	822	1,790	3,018	3,264	3,961
EPS (Rs)	10.2	22.3	37.6	40.7	49.3
EPS Growth (%)	(43.7)	117.6	68.7	8.1	21.3
ROCE (%)	12.2	19.5	25.1	22.7	23.6
ROE (%)	16.0	29.2	38.1	31.5	29.6
PE (x)	70.8	32.5	19.3	17.8	14.7
Price/Book Value (x)	10.8	8.5	6.5	5.0	3.9
EV/EBITDA (x)	49.1	28.6	21.6	14.5	11.7

Source: Company data, ASK Securities. Note: Valuations as of 4 June 2007.

## Highlights

- Shift in business model offers sustained profitable long-term growth:** Lupin has been going through a major change in its business model over the last few years driven by shift from APIs to formulations (60% of sales now from less than 40% four years back), from unregulated markets to regulated markets (23% from less than 10% four years back). The process would further accelerate with increased focus on global generics markets of US/Europe (including inorganic opportunity), expansion in LatAm, S Africa, ANZ and Japan. Apart from this geographical and vertical shift, product baskets with stronger IPRs (Ceftriaxone, Cefdinir, Perindopril) have also been expanding. Ability to create large capacities for APIs and lead the global market with large market share (Lisinopril) is helping in generating significant formulations sales. These are helping the company de-risk the business model and also allow it to achieve sustained profitable growth over a longer period of time vis-à-vis high volatility witnessed in the past. Lupin's NCE pipeline is also maturing with likely licensing of one of the lead candidates over the next 12-15 months. This would put Lupin in the league of few select Indian companies having licensed their molecules to MNCs.
- US generics business to double by FY09E:** Presently, 23 ANDAs have been approved and 28 are pending approvals. US generics posted sales of US\$73 mn in FY07, a significant scale up from less than US\$5 mn in FY05. Of this, Suprax (Cefixime) alone contributed US\$25 mn. Lisinopril and Cefprozil are other important products with significant market share. It recently launched Cefdinir (post markman hearing) with limited competition. We expect US generics sales to reach US\$156 mn in FY09E driven by around 15-20 launches over the next two years and consolidation of position in some of the existing products.

### Exhibit 2: Key products in the US markets

Molecule	Dosage	Brand Size at time of launch (US\$ mn)	Launch	Current Mkt. share	No of competitors	Remark
Ceftriaxone	Inj. 250,500 mg, 1 and 2 gm	500	July-05	26%	7	Lupin was amongst the first to launch this product in alliance with Baxter. It has managed to maintain market share at around 25% despite few new entrants. Though prices/revenues have fallen significantly with more players over time
Lisinopril	Tab. 2.5,5,10,20 mg	130	Dec-05	33%	10	Quite interesting products for the company considering being a global leader for the API. Despite late entry and high level of competition it has captured third of the market
Cefprozil	Tab. 250 and 500 mg	117	Dec-05	25%	5	Despite growing competition, Lupin is maintaining its strong position
Cefprozil	Sup 125 and 250 mg/base 5 ml	119	Dec-05	25%	5	Despite growing competition, Lupin is maintaining its strong position
Cefdinir	300 mg cap	320	May-07	Just Launched	3	Likely to capture 25-30% market share in less than a year
Cefdinir	Sup 125 & 250 mg/base 5 ml	480	May-07	Just Launched	3	Likely to capture 25-30% market share in less than a year

Source: Company, ASK Securities.

- **Robust pipeline of products for US generics:** Lupin has identified pipeline of 45-50 generic products for the US generics market. Going forward, Lupin plans to file 15-20 products annually. Majority of these filings would be based on own DMFs, leading to higher cost advantage and better control over supplies. Of these filings, 30% would be products difficult to develop or manufacture or with high technological barrier and 25% would be patent challenge Para IV filings.
- **Leveraging paediatric franchise in the US with more launches in FY09E:** Lupin entered the US specialty generic (paediatric) segment with the launch of Suprax suspension in early 2004. Suprax posted sales of US\$ 25 mn in FY07 with average 8,500 prescriptions per week during the peak season. It recently launched line extension Suprax DS. The company plans to launch three products in paediatric space through own development/NDDS platform by FY09E. With these initiatives, the management expects rapid expansion in branded sales over the next few years. However, we have not built much revenue from these products in our model. Lupin is also looking for a brand acquisition in the US to strengthen its position in this segment. The paediatric market is estimated to be US\$8 bn. However, efforts and resources required to reach out 35,000 paediatricians is relatively low, helps in generating prescriptions faster.
- **Domestic formulations sustaining robust growth:** Lupin has been growing at more than 20% in domestic formulations market (contributes 35% to sales) over the last 3-4 years. This growth has been driven by change in focus from traditional therapeutic groups of anti-TB and cephalosporins to new segments (CV, diabetes, CNS, asthma) with strong marketing mindset, addition of more people in the field, increased visibility with doctors. Lupin has a field force of 1,700 people and plans to add 300-400 in FY08.
- **Strong global position in APIs though growth may not be rapid:** Lupin holds significant position in anti-TB, cephalosporins and prils segments in global markets, with leadership position for many products. Lupin has six products with sales of Rs1 bn each. Lupin, as a strategy, focuses on products where it can be a global leader. This provides lot of cost advantage and ability to reach customers better. The company looking at launching 1-2 products in regulated markets in FY08 but largely APIs would be used for filing own dossiers in regulated markets. Over all growth in APIs business would largely depend on tie-up with customers. We expect 10-12% growth over the next two years. The management indicated that profitability of APIs business is quite robust.

The company has long term supply agreements with 12 pharmaceutical companies with sales in excess of US\$1 bn. As a strategy, the company has been focusing on relationship driven model for APIs business. A deal to supply cephalosporins on a long-term basis to DSM for their global requirements in FY06 is a strong indication of efforts in that direction. DSM was once a strong competitor for Lupin in many markets for cephalosporins.

- **Revenues from EU to scale up:** Presently, Lupin has limited presence in generics markets of Europe. In FY07, the company had 24 products filed in select European markets. In Europe, Lupin has two-pronged strategy to sell products either through own marketing arrangements/tie-ups or dossiers sales to local generic companies with contract manufacturing arrangement. The company plans to launch Cefpodoxime Proxetil (US\$100 mn) in France. Lupin is also looking at acquisition of generic companies in Europe to strengthen its position.
- **Contract manufacturing - can add value in the long run:** Lupin announced its intention to enter contract-manufacturing space two years back. This move is more tactical and less seen as part of core growth strategy. Lupin is considering working with innovators for their outsourcing requirements of intermediates, APIs and formulations primarily for patented products. Revenues from this stream could start from FY08 but scale up only in the long run. However, we have not built any revenues from this stream in our model
- **R&D pipeline - Licensing opportunity over 12-15 months:** Lupin's R&D activities are spread across value chain right from process development, formulations development, NDDS to NCE research. It has 400 scientists and spent Rs1.4 bn (6.7% of sales) on R&D activities in FY07. Lupin has four NCE molecules in development (see Exhibit 3). The management indicated that one of the molecules could be licensed out over the next 12-15 months. However, we have not built any upside from the licensing opportunity in our model and value of pipeline in our target price.

### Exhibit 3: Maturing R&D Pipeline

Molecule	Therapeutic segment	Development phase
LL4218	Anti Psoriasis (Herbal)	Completed Phase II
	Anti Migraine	In Phase III
	Anti Psoriasis (Chemical)	In Phase II
LL4858	Anti TB	In Phase I

Source: Company, ASK Securities.

### Not everything captured in valuations

- We are introducing FY09E numbers for Lupin with profits of Rs3.96 bn (FDEPS of Rs44.9). We are also increasing our sales estimates by 4% and profits (adj) by 13% for FY08E to reflect better visibility on most of the businesses and also launch of Cefdinir (US\$ 800 mn) in the US. Major risk to our growth expectations is pricing pressure intensifying any further in US generic markets or delay in product launches. The stock trades at 19.5x FY08E fully diluted earnings and 16.1x FY09E fully diluted earnings. We are upgrading our target price to Rs807 (18x FY09E FDEPS) from earlier Rs646. We have not built any revenues from out licensing of NCE in our model or M&A, which can provide significant upside to our target price. We reiterate our Buy rating on the stock

### Contact details – Sales & Dealing Team

#### Sales Team

**Tel:** (91 22) 6646 0017

**E-mail:** asksales@bloomberg.net

#### Sales Trading & Dealing Team

**Tel:** (91 22) 2497 5601-05

**E-mail:** askdealing@bloomberg.net

#### Derivatives Team

**Tel:** (91 22) 2497 5601-05

**E-mail:** askdealing@bloomberg.net



## ASK SECURITIES INDIA PRIVATE LIMITED

(Formerly known as ASK RAYMOND JAMES & ASSOCIATES PVT. LTD.)

#### MEMBER, BOMBAY AND NATIONAL STOCK EXCHANGES

Bandbox House (Rear), 1st Floor, 254-D, Dr Annie Besant Road, Worli, Mumbai-400 025. (India).

Tel: +91 22 6646 0000 • Dealers: +91 22 2497 5601-05 • Fax: +91 22 2498 5666 • E-mail: broking@asksecurities.com

#### Analyst Certification

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that:

- All of the views expressed in this research report accurately reflect his or her personal views about all of the issuers and their securities; and
- No part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

#### Disclaimer

This publication has been prepared by ASK Securities India Private Limited and may be distributed by it and its affiliated companies (collectively "ASK Group") solely for the information of the customers of ASK Group. ASK Group & Associated companies are a full-service, integrated investment banking, investment management and brokerage group.

While reasonable care has been used in its preparation, this report does not purport to be a complete description of the securities, markets or developments referred to herein, and ASK Securities India Pvt. Ltd. does not warrant its accuracy or completeness. The information contained herein may be changed without notice.

We and our affiliates, officers, directors, and employees world wide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of the companies mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the companies discussed herein or act as advisor or lender/borrower to such companies or have other potential conflict of interest with respect to any recommendation and related information and opinions. Our research analysts and sales persons provide important inputs into our investment banking activities.

This report is not an offer, or solicitation of an offer, to buy or sell any security mentioned herein. No part of this material may be duplicated in any form and/or redistributed without the prior written consent of ASK Securities India Pvt. Ltd.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASK Securities India Pvt. Ltd. and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restrictions.