

Lupin Ltd-----Maintain OUTPERFORM
4Q missed on leverage, but the story is still on

EPS: ▲ TP: ▲

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- Domestic sales disappointed, Suprax surprised positively, and margins missed, to deliver an overall in-line result.
- Management suggested decline in domestic sales in 4Q was a blip (we believe "spring cleaning"), and with growth back to 25% in Apr, business is likely back to normal.
- Staff expenses and R&D increased sharply, but we believe higher PenG prices were the main culprits for the margin miss. PenG prices are expected to sustain at current levels for a few quarters.
- Generic cefdinir has seen only 50% price decline (CS: 80%, consensus 80-85%). We have built in this level for 3 months, reverting to 80% thereafter as competition enters. Every further 3 month delay in new competition will add -8% to our estimates. Lupin is currently constrained on supply but ramping.
- We raise estimates to factor in cefdinir: the high profitability period will be viewed as a one-off, and wears off by FY09E. But we believe the leverage story is still on. We roll over our sum of the parts estimates to FY09E, and accordingly raise our T/P to Rs845. Maintain OUTPERFORM.

Bbg/RIC	LPC IN / LUPN.BO	Price (9 May 07, Rs)	722.00
Rating (prev. rating)	O (O)	TP (Rs) (prev. TP)	845 (698)
Shares outstanding (mn)	80.28	Est. pot. % chg. to TP	17
Daily trad vol-6m avg (mn)		52-wk range (Rs)	933.05 - 413.80
Daily trad val-6m avg (US\$ mn)		Mkt cap (Rs/US\$ mn)	57,962.2/ 1,344.2
Free float (%)	48.0	Performance	1M 3M 12M
Major shareholders	Promoters 52%	Absolute	13.7 15.5 17.6
		Relative	6.2 22.9 6.4

Year	3/05A	3/06A	3/07E	3/08E	3/09E
Revenues (Rs mn)	12,611	16,954	20,137	25,538	28,809
EBITDA (Rs mn)	1,334	2,236	2,865	5,140	5,291
Net profit (Rs mn)	918.4	1,729.9	3,083.4	4,006.5	4,137.8
EPS (Rs)	11.4	19.6	35.0	45.5	46.9
- Change from prev. EPS (%)	n.a.	n.a.	35	17	3
- Consensus EPS (Rs)	n.a.	n.a.	25.8	35.5	39.9
EPS growth (%)	(3.4)	71.5	78.2	29.9	3.3
P/E (x)	63.1	36.8	20.6	15.9	15.4
Dividend yield (%)	0.5	0.5	0.7	0.9	0.9
EV/EBITDA (x)	47.4	28.4	22.0	12.2	11.5
P/B (x)	11.8	10.2	6.8	5.0	3.9
ROE (%)	18.7	27.7	45.5	43.1	37.1
Net debt/equity (%)	93	80	55	32	13

Note 1: Lupin is a vertically integrated Indian pharmaceuticals manufacturer focusing on Cephalosporins and Anti-TB medicines. It is now expanding in regulated markets, and also changing product mix towards formulations.. Note 2: Lupin is a vertically integrated Indian pharmaceuticals manufacturer focusing on Cephs and Anti-TB medicines.

Blip in domestic market growth hurt, but results inline

Results were in-line – higher sales were offset by lower margins:

- Domestic sales growth dipped in 4Q. Since sales were back to 25% y/y in Apr, management indicated this should be seen as a blip, and expects 25% y/y growth in FY08E.
- Suprax sales growth surprised on the upside—TRx grew 50% (in-line) but sales grew 70%— above our estimates. Management suggested price increases and sales shift to the recently launched brand extension helped improve realisations.
- The key however was the miss on margins—despite significantly

higher formulations sales, margins did not improve. We believe the sharp increase in PenG prices (input for Cephalosporins— large part of Lupin's global sales) resulted in higher material costs. Only some of this increase can be passed on. Management expects the elevated levels to sustain for a few quarters till the China capacity (30% capacity shut down by the government due to pollution) comes back on again.

- Consolidated personnel costs rose sharply, and were 13% of sales in 4Q (vs. 9% in 1Q). R&D expenses also jumped up— management though targets to keep it at 7% of revenues.

Figure 1: 4Q07 Results vs. Estimates

Rs Mn	4Q07A	4Q07E	Diff (%)	4Q06A	Y/Y %
Net Sales	5,181	4,900	6%	4,220	23%
Total Expenditure	4,431	4,148	7%	3,804	16%
Material Cost	2,410	2,205	9%	1,985	21%
EBITDA	750	752	0%	416	80%
EBITDA Margin	14%	15%	-0.9%	10%	4.6%
Pretax Income	661	633	5%	618	8%
(Add) Perindopril Royalty w/ Tax	800				
Net Income	1,371	633	117%	502	173%

Source: Company data, Credit Suisse estimates.

Leverage story still on – convinced of improvement in FY08

If revenue growth comes (and we believe it will), EBITDA margins will increase sharply in FY08. We are not as bullish as management (internal targets are for 50% y/y growth vs. our expectation of 26%), but still believe consensus numbers (pre-results) have upside. We believe the market will take very favourably to the Chairman's remarks that price declines on Cefdinir have only been 50% so far. We had been expecting an 80% average decline for the year (consensus 80-85%). We now build in the 50% decline scenario for 3 months (expecting one or more of Orchid, Aurobindo and Ranbaxy [RANB.BO, Rs393.15, NEUTRAL, TP Rs380.00] will enter thereafter). We estimate every 3 month delay in entry of new competition will add ~US\$8mn, or 8% to our estimates. Lupin is currently constrained on supply, but ramping.

Expanding end-markets

Lupin reiterated plans to enter Europe, Japan, Australia and LatAm and announced entry into steroids (via JV with Symbiotic Pharma Lab (unlisted)) and CRAMS. We do not expect these to be significant near-term, though would remain wary of hurried over-diversification.

Raising estimates and target price

Much of the earnings increase in FY08E is due to cefdinir where the period of (relatively) low competition should ideally be viewed as exclusivity and a one-off. We however believe 15-18% EPS growth in FY09 on base business is possible. We roll over our sum of the parts valuation to FY09E, and raise T/P to Rs845. Maintain OUTPERFORM.

Risks: 1) blip in 4Q07 raises questions on domestic sales consistency; 2) lack of margin upside despite price increases on Suprax are worrying; and 3) impending pricing pressure on Lisinopril (with entry of Wockhardt [WOCK.BO, Rs408.95, not rated]), which is ~40% of US sales.

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Companies Mentioned (Price as of 07 May 07)

Lupin Ltd (LUPN.BO, Rs709.05, OUTPERFORM, TP Rs845.00)
 Wockhardt (WOCK.BO, Rs408.95, NOT RATED)
 Ranbaxy Laboratories Limited (RANB.BO, Rs393.15, NEUTRAL, TP Rs380.00)
 Teva Pharmaceutical Industries (TEVA, \$38.66, NEUTRAL, TP \$40.00, OVERWEIGHT)

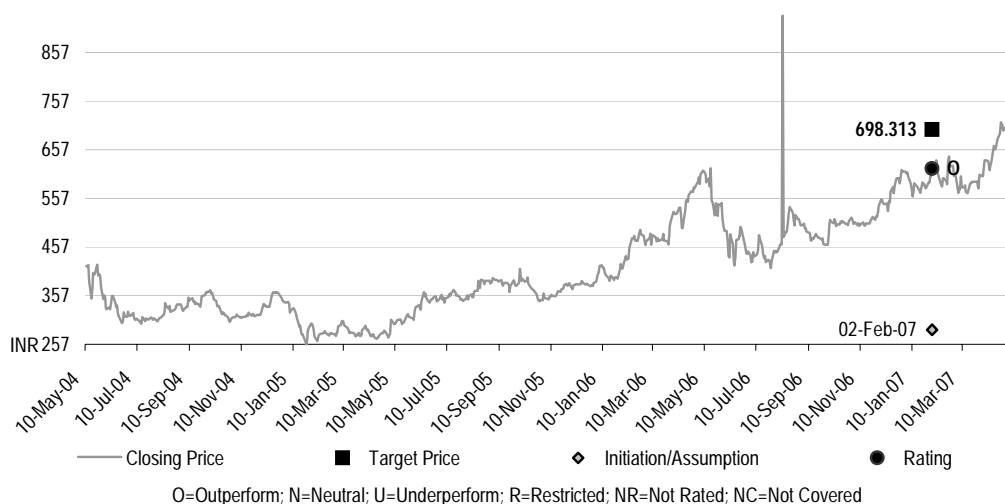
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for LUPN.BO



LUPN.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
2-Feb-07	618.1	698.313	OUTPERFORM	X

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Price Target: (12 months) for (LUPN.BO)

Method: For our Rs845 target price for Lupin, we use sum of the parts valuation, applying 20x to forward earnings for the domestic and developed markets formulations businesses. We use 15x for formulations profits from developing markets, and a 12x for bulk drug profits. We do not apply any value to the NCE pipeline. Using FY09 numbers, we arrive at a value of Rs845, which is 18x FY09E EPS.

Risks: Risks to our Rs845 target price for Lupin include: 1) a blip in 4Q07 raises questions on domestic sales consistency; 2) lack of margin upside despite price increases on Suprax are worrying; and 3) impending pricing pressure on Lisinopril (with the entry of Wockhardt), which is around 40% of US sales.

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