

# Forbes

## Lupin's Unsexy Bet

By Robyn Meredith

An Indian company prospers by going after the untouchables of the drug market.

As a young scientist in what was then Bombay and is now called Mumbai, Desh Bandhu Gupta got frustrated by all the discoveries he couldn't pursue working for a British pharmaceutical company that is now part of Sanofi-Aventis. So he quit, borrowed \$120 from his wife and bought a tiny Indian vitamin company called Lupin to be the vehicle of his dreams. "I had a lot of ideas," he says.

### By the Numbers

#### Growing Fast in India

**135,000** Annual college graduates with pharma-related degrees.

**15.4%** Compound annual growth rate of leading Indian drug firms.

**72** FDA-approved drug manufacturing sites in India.

Source: India Capital Fund.

Among them were ways to check the contagions that cut short millions of lives in his native India. Thirty-six years later Lupin is the sixth-largest drug company in a pharmaceuticals-minded nation and has world leadership in the treatment of tuberculosis, an unsexy disease most drug companies have ignored but India cannot. Gupta and his family own 52% of the company.

With \$262 million in revenue for the fiscal year that ended March 2004, Lupin is a small fry vis-à-vis international Big Pharma. It hasn't set out to cure cancer or AIDS. Instead, Lupin's strategy is to focus on neglected niches like TB. It is also working on drugs for hard-to-treat ailments like migraine headaches and skin rashes.

So why is Lupin, which turned in dismal earnings for the quarter ended Sept. 30, still commanding a stock price 19 times its fiscal 2004 earnings? Because buy-and-hold investors like Lupin's long-term strategy—treating patients other drug companies shun—and they especially like a single drug that may help Lupin next year: ceftriaxone.

Ceftriaxone is Hoffmann-La Roche's \$1.1 billion antibiotic marketed as Rocephin, going off patent in July. Lupin, which is traded on the Bombay Stock Exchange but may soon offer American Depositary Shares, already has approval for the generic version and has built a new Food & Drug Administration-approved factory to churn it out. Analysts say the drug, which treats ear infections, pneumonia and other infections, could significantly boost Lupin's revenue in the next fiscal year.

**"Lupin is a pint-size company but has a very attractive business model," says Jon Thorn, managing director of the India Capital Fund in Hong Kong. While he thinks ceftriaxone holds "huge potential" for Lupin, he also likes that there are plenty of other sturdy revenue streams, like the TB drugs: "They aren't betting the whole company on any single element of the business." Lupin is his fund's single largest pharmaceutical holding.** Citibank's private equity arms have also placed big bets: Citi owns 12.5% of Lupin.

At Lupin's office in a newly built suburban Mumbai office park, a barefoot guard in a green uniform eyes those getting off the elevators. Inside the company's doors it is all cubicles and business-school jargon about value chains. Greeting a visitor, Gupta, 67, is wearing a *bundgala*, or Indian-style coat, in a dark-gray pinstripe, and a new pair of gray Nike tennis shoes.

If he is concerned about the quarterly stumble, he doesn't show it. Earnings were down because the company more than doubled its research and development spending to \$4 million. Ceftriaxone is not the only new drug Lupin is betting on. The increased R&D has enabled Lupin to ready four new drugs for animal or human trials.

Gupta is most excited about a new molecule Lupin is developing that, if successful, would treat TB in just two months instead of the current

regimen that takes six. There's a \$600 million annual market for anti-TB drugs worldwide. Lupin hopes to receive permission soon to go ahead with human trials, which would take at least four years to complete. "If we succeed, it will be a total revolution in tuberculosis treatment," says Gupta.

Tuberculosis is the most prevalent disease in India and has a growing presence in China, in Russian prisons and in developing countries. TB attacks those with weakened immune systems, and victims usually first have difficulty breathing, then start vomiting blood as bacteria eat up their lungs. Three million people a year die from TB. "We are trying to eliminate TB completely," says Gupta. The Indian government has funded 40% of Lupin's research bill for the new TB treatment so far. Meantime other efforts to seek a vaccine continue (*see box*).

"Most companies would not be interested in that from a licensing standpoint because it is a low-profit, developing-country disease," says Nilesh Gupta, executive vice president and one of two Gupta children who work at Lupin. For tuberculosis, "this is the first new drug in 40 years."

Research for the new drugs is done in the Lupin Research Center on the outskirts of Pune (pronounced "poona"), a booming technology and manufacturing center. Pune is a three-hour drive from the outskirts of Mumbai, because of heavy traffic and poor roads, and the research park is another poke: a 15-minute drive on a bumpy country road past barefoot goatherds and wandering cows.

But inside Lupin's guarded gates comes the culture clash again: A minimalist building emerges from a hillside, all right angles and glass walls, decorated with postmodern sculptures. It seems to have been beamed down from outer space, or at least from California. Glimmering waterfalls built between the wings of the complex break the silence of the ancient countryside.

Inside, about 250 scientists in white lab coats stare at computers and watch over beakers that may contain Lupin's next big discovery. Marketers research which drugs are coming off patent soon that fit Lupin's niches. Out back is what they call the Animal House, where scientists check on the mice and other creatures used in their drug trials.

All the first-rate science is coming at Indian wages for Lupin's 3,500 workers. Lupin's 74 Ph.D.s earn between \$12,000 and \$30,000 a year, depending on experience, a seventh what they would earn in the U.S. or Japan. Workers at Lupin's ten factories earn between \$150 and \$350 a month, depending on experience. The low wages let firms like Lupin spend more money on research, proportionately, than rivals in Europe, Japan or the U.S.

Despite the cost advantages, plenty could go wrong. Clinical trials sometimes flop—so all of Lupin's R&D spending on smart scientists could fail to deliver results. Although Lupin has a head start, AstraZeneca is on its tail, with scientists at its lab in Bangalore searching for a new TB treatment. Lupin is relatively new to the U.S., where it sells the generic antibiotics and the pediatric antibiotic cefixime (sold under the name Suprax), so it must leverage its marketing dollars to gain traction with ceftriaxone. Lupin is partnering with Baxter Healthcare to put ceftriaxone in hospitals, and with generics maker Watson Pharmaceuticals in the U.S and Merck Generics in Europe to help in marketing other products.

The man who parlayed that \$120 into a company worth \$560 million sees wide-open territory ahead. "Next year should be very strong," Gupta says. "We've invested substantially for the future."