Diwali Picks 2011

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Happy Diwali &

Samvat 2068.

Happy Trading

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Summary

It been a tough year for the Indian markets with a 19.5% correction in Samvat 2067, and volumes declining by 40% as the FII outflow for the period stood at Rs (-3) bn. All of this has lead to our markets trading at trough levels of 13x 1 yr fwd earnings, a discount of 10% to its past 15 year average.

A series of changes across the globe and in India have led to a fear for investment in equities and led to a scenario of uncertainty, volatility and currency depreciation. The higher commodity prices driven by QE2, the Middle East crisis and the pressure on financials with the debt concerns surrounding European banks have trickled down to our economy leading to a slower growth rate and higher inflation. What seems like an over ambitious deficit target, slow execution in India and political instability due to the recent exposure of scams, we have become more vulnerable to negative news flows.

However, with the current fear in the market, there lies a ray of hope, with plenty of stocks with good business ethics, practices and performances being able for a comparatively cheaper valuation. We have carefully picked up a few stocks, which we feel confident about & expected them to give good returns over a longer term. These stocks are our *fundamental picks* based on structural opportunities or business cycle reversals. The idea has been to pick stocks with low risk and above average return potential.

With that we would like to wish you, A very “Pleasant & Safe Deepavali” and a “Prosperous Samvat 2068”!

Happy Investing!

Index

Company Name	CMP (Rs.)	Target Price (Rs.)	Potential Upside (%)
Sintex Industries Ltd	112	165	47%
Jyothy Laboratories Ltd.	134.5	181	35%
Cox & Kings (india) Ltd.	207.5	259	25%
Bank of Baroda	730	901	23%
Coal India Ltd.	324	395	22%
Eicher Motors Ltd.	1637	1,896	16%
Lupin Ltd.	475	531	12%

CMP (₹)	Target (₹)
112	165
Potential Upside	**Absolute Rating**
47%	BUY

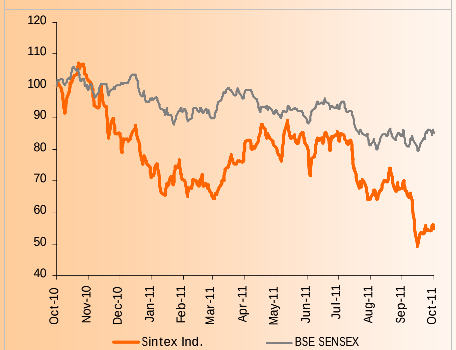
Market Info (as on 24th Oct, 2011)	
BSE Sensex	16939
Nifty S&P	5098

Stock Detail	
BSE Group	A
BSE Code	502742
NSE Code	SINTEX
Bloomberg Code	SINT IN
Market Cap (₹bn)	30.79
Free Float (%)	70%
52wk Hi/Lo	237 / 102
Avg. Daily Volume (NSE)	301346
Face Value / Div. per share (₹)	1.00 / 0.65
Shares Outstanding (mn)	272.99

Shareholding Pattern (in %)

Promoters	FIIs	DII	Others
34.96	38.17	8.15	18.72

Share Price Performance



Relative Performance (in %)

	1Mth	3 Mths	6Mths	1Yr
Sintex Ltd.	(25.3)	(36.8)	(36.6)	(48.4)
SENSEX	(1.60)	(9.00)	(14.40)	(17.20)

Source: Company data, GEPL Capital Research

Sintex Industries Ltd

Summary

Sintex Industries Ltd. has come a long way from its original Textile (Bharat Vijay Mills) & Water tank business to a technology backed complete business solution provider in plastics & composites market. The company has over the years leveraged its established brand name & dominance in water tank business to penetrate high margin, innovative & niche product segments (Monolithic & Composite segments) to become the market leader in Indian plastic processing industry. With its strong & cost effective domestic manufacturing base, efficiently evolving global delivery model and proficient & experienced management the company is well poised to deliver sales CAGR of 24% & earnings CAGR of 18% over FY11-13E.

Monolithic would lead from front; Pre-Fab to follow suit

Monolithic business, which formed 30% of Sintex's FY11 sales, was earlier based on government's social infra-spending. Now it has started seeing traction from Housing Boards & Pvt. players as well. Backed by buoyant order book of 2x sales, this segment would continue its upsurge of growth (85% sales CAGR over FY08-FY11), we expect it to give revenue CAGR of 40% & maintain its margins between 18-19% for next 2 years. Prefab business, which formed 14% of total FY11 sales, is expected to grow by 20% for next 2 years with margins maintained at 21% levels.

Custom Moldings could remain subdued; Textile to balance same

Owing to decline in US & European economies, Nief Plastic's Ltd & Wausaukee Inc would not grow by more then 10% for next 2 years, their margins would also be under pressure. Although domestic subsidiary Bright brothers, which is expected to grow at 30% CAGR for next 2 years with margins maintained & Sintex Stand alone which is expected to grow at 20% CAGR for same period; would balance out this segments damp growth. Textile business, which forms 10% of total sales generates highest margin of 24-25% among all segments, it is expected to grow at 10% for next 2 years with historical margins to remain strong.

Balance sheet strength would return; Return ratio's set to improve

Improvement in working capital from 130 days in FY10 to 105 days in FY11 helped Sintex generate FCF after 2 years. This coupled with expiring of FCCB's in 2013 will bring the D/E down from current 1.2 to 0.5 in FY13E. This would also help ROCE to improve from current 11.2% to 16% in FY13E. Sintex has enough cash & provisions to carry out FCCB redemption with out conversion

Valuation

Sintex has traded in range of 12x to 14x 1 yr fwd earnings in the past and is currently trading at 5x FY13E expected earnings of Rs 23.5. The stock has corrected by more then 200% in last 1 yr due to deteriorating working capital, for-ex exposure, concerns on Monolithic business & FCCB redemption issues. We believe that concerns are over done & stock price would bounce back sharply as Sintex would continue its performance going ahead. Our SOTP based target price of Rs 165 values the company at 7x 1yr fwd EPS & is at 40-45% discount to its historical long period average.

Financial Snapshot (₹mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
Net Sales	33,192	44,837	56,046	68,657
EBITDA	5,380	8,155	9,959	11,925
PAT	3,290	4,600	5,963	7,206
EPS	12.1	17.0	18.6	23.5
ROE (%)	16.7	19.2	21.3	21.1
ROCE (%)	8.5	11.2	13.4	16.5
P/E	13.6	9.7	8.9	7.0
EV/EBITDA	9.8	6.5	5.3	4.4

Source: Company data, GEPL Capital Research

CMP (₹)	CMP (₹)
134.5	181
Potential Upside	**Absolute Rating**
35%	BUY

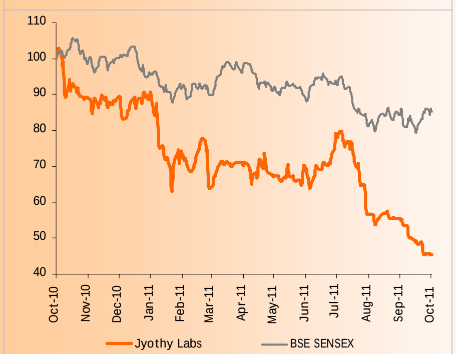
Market Info *(as on 24th Oct, 2011)*	
BSE Sensex	16939
Nifty S&P	5098

Stock Detail	
BSE Group	A
BSE Code	532926
NSE Code	JYOTHYLAB
Bloomberg Code	JYL IN
Market Cap (₹bn)	10.8
Free Float (%)	40%
52wk Hi/Lo	322 / 133
Avg. Daily Volume (NSE)	10449
Face Value / Div. per share (₹)	1.00 / 5.00
Shares Outstanding (mn)	80.63

Shareholding Pattern (in %)

Promoters	FIIs	DII	Others
64.81	13.00	14.19	8.00

Share Price Performance



Relative Performance (in %)

	1Mth	3 Mths	6Mths	1Yr
Jyothy Labs	(21.3)	(44.2)	(38.7)	(56.8)
SENSEX	(1.60)	(9.00)	(14.40)	(17.20)

Source: Company data, GEPL Capital Research

Jyothy Laboratories Ltd.

Summary

Jyothy Laboratories Ltd (JLL) has moved to the next orbit post acquisition of Henkel India which has positioned JLL as a multi-brand company, operating in multiple categories like fabric care, laundry, dish wash, mosquito repellants and personal care. Further acquisition has widened its distribution reach in urban modern retail and canteen sales. The synergies between both the companies are likely to benefit JLL, creating value for JLL. However, high interest cost, integration and restructuring in distribution channel has impacted short term performance of JLL. Return of growth momentum in core business and improvement in performance of Henkel India are the key catalyst for the stock

JLL to benefit from likely multi-level synergies with Henkel India in long-term

Henkel India acquisition likely to position JLL as a multi-brand FMCG Company (10 brands now v/s 3 pre-acquisition) while leaving a significant opportunity to exploit synergies to increase revenues and margins. JLL, in our view, will be able to achieve these synergies through 1) operational cost synergies and 2) broadening its distribution reach in modern retail, canteen sales along with its current strong rural distribution. Apart from these, the other key benefits to JLL, in our view includes : 1) reduce its dependence on the Ujala brand, 2) entry into personal care category with Fa, Margo and Neem brands (v/s currently in homecare, laundry and dishwashing categories) and 3) tax benefits from accumulated losses of Henkel India.

Expect steady state growth in core business

We expect JLL's core business to grow at a normal pace and model 11% revenue CAGR through FY14 driven by (1) *Ujala* – revival of growth in *Ujala* Supreme and contribution from detergent portfolio; (2) *Maxo* - growth driven by liquid vaporizer coupled with launch of outdoor variant and (3) *Exo* - extending footprint to national level.

laundry business still in expansion mode

We expect JLL's laundry business (JLL's 75%subsidiary) to report 140% revenue CAGR (from 94mn in FY11 to ₹1,312mn in FY14) through FY14 driven by – 1) Growth in its current operation in 4 cities, 2) Planned expansion in 2 more cities by the end of FY12 and 3) Favourable change in business mix

Valuation

The stock has witnessed more than 50% correction in last one year as against 18% correction on the Sensex as a result of concerns owing to competition in operating segments and acquisition of Henkel India. In the near term we remain cautious on the financial performance led by higher interest outflow and macro factors. However, we believe, earlier than expected growth momentum will be positive surprise for the stock. We believe acquisition of Henkel India will be value accretive over the longer term. We are positive on the JLL's long term growth potential. We value JLL on PE basis at ₹181 with target multiple of 20x on FY13 EPS of ₹9.1

Financial Snapshot (₹mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
Net Sales	3,635	5,981	6,276	11,306
EBITDA	488	918	805	1,100
PAT	384	743	688	482
EPS	5.3	10.2	8.5	6.0
ROE (%)	11.1	20.2	12.9	6.5
ROCE (%)	11.0	19.5	11.8	7.6
P/E	25.5	13.2	15.8	22.6
EV/EBITDA	18.0	9.5	10.9	14.0

Source: Company data, GEPL Capital Research

CMP (₹)	Target (₹)
207.5	259
Potential Upside	**Absolute Rating**
25%	BUY

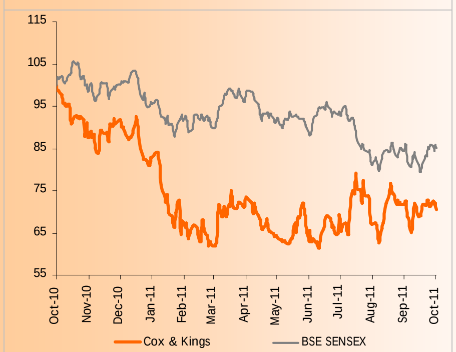
Market Info *(as on 24th Oct, 2011)*	
BSE Sensex	16939
Nifty S&P	5098

Stock Detail	
BSE Group	B
BSE Code	533144
NSE Code	COX&KINGS
Bloomberg Code	COXK IN
Market Cap (₹bn)	28.38
Free Float (%)	45%
52wk Hi/Lo	302 / 179
Avg. Daily Volume (NSE)	36938
Face Value / Div. per share (₹)	5.00 / 0.50
Shares Outstanding (mn)	136.52

Shareholding Pattern (in %)

Promoters	FIIs	DII	Others
58.66	21.48	8.97	10.89

Share Price Performance



Relative Performance (in %)

	1Mth	3 Mths	6Mths	1Yr
Cox&Kings	(3.4)	6.9	(4.6)	(29.1)
SENSEX	(1.60)	(9.00)	(14.40)	(17.20)

Source: Company data, GEPL Capital Research

Cox & Kings (india) Ltd.

Summary

We believe Cox & Kings (C&K) is best bet in the growing T&T industry with a 9.2% CAGR in India's travel and tourism demand over the next decade (CY11-21E), the second fastest in the world. The a) Pan-India presence with strong brand recall, b) integrated business model with a diversified product offering (price and destinations), and c) strong overseas network with presence in key outbound destinations offer it an edge over competitors to gain market share and capture a higher pie of the industry growth.

Emerging global tour operator with a strong set of synergies from acquisitions

In a short span of four years, C&K has completed seven acquisitions (in the UK, Japan, Australia, India and the US) to emerge as a global tour operator. With a strong management bandwidth, synergies from acquisitions led improvement in the consolidated EBIDTA margins. We believe there is scope for further margin expansion following synergies emanating from: a) consolidated product sourcing coupled with scale benefits, b) improved product mix (leveraging the global platform to cross-sell existing products), and c) expansion of captive destination management services for its various overseas subsidiaries.

HolidayBreak: an acquisition worth the wait

The recent acquisition of HolidayBreak Plc offers a host of benefits to C&K which include a) potential to double revenues in the next two years with margin improvement, b) entry into the education and camping markets increasing the volume and value for C&K, and c) utilization of cash on books which were earlier resulting in a net outflow of 3% for the company

Strong future growth avenues

C&K has also branched out into a) visa processing, where C&K has signed up with six embassies to process visa applications and expects more than a six-fold increase in volumes in the next two years, and b) a foray into rail tourism through the Maharajas' Express, a luxury train in JV with IRCTC. Though these segments contribute less than 8% to the company's revenues, we expect the revenue contribution to increase and with higher margins the company should benefit on the profit level as well.

Valuation

C&K is currently trading at 14.3x FY12E EPS and 8.9x FY13E EPS, a significant discount to its historical one-year forward P/E band. In view of a) the acquisition of HolidayBreak which should double revenues, b) the strong demand visibility, and c) the improvement in return on capital in view of successful track record of past acquisitions, we believe there is good potential upside in the stock. We recommend a Buy rating on the stock with a target price of ₹259 per share (11x FY13E EPS).

Financial Snapshot (₹mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
Net Sales	3,992	4,967	7,747	11,156
EBITDA	1,865	2,301	3,609	5,529
PAT	1,344	1,291	1,980	3,301
EPS	21.4	18.9	14.5	24.2
ROE (%)	25.9	12.8	15.2	21.2
ROCE (%)	16.3	9.9	11.4	15.3
P/E	23.4	13.2	14.5	8.7
EV/EBITDA	17.6	6.9	7.6	5.0

Source: Company data, GEPL Capital Research

CMP (₹)	Target (₹)
730	901

Potential Upside	Absolute Rating
23%	BUY

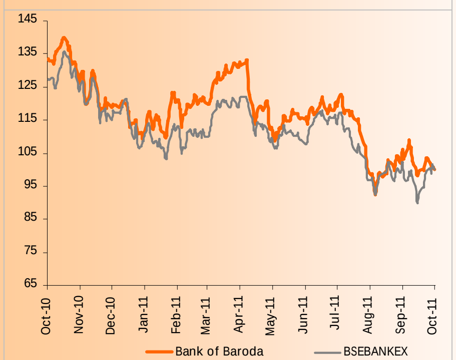
Market Info (as on 24th Oct, 2011)	
BSE Sensex	16939
Nifty S&P	5098

Stock Detail	
BSE Group	A
BSE Code	532134
NSE Code	BANKBARODA
Bloomberg Code	BOB IN
Market Cap (₹bn)	288.27
Free Float (%)	45%
52wk Hi/Lo	1050 / 681
Avg. Daily Volume (NSE)	354796
Face Value / Div. per share (₹)	10.0 /16.5
Shares Outstanding (mn)	391.54

Shareholding Pattern (in %)

Promoters	FIIs	DII	Others
57.03	14.34	16.75	11.88

Share Price Performance



Relative Performance (in %)

	1Mth	3 Mths	6Mths	1Yr
BoB	(6.7)	(17.0)	(24.8)	(25.9)
SENSEX	(1.60)	(9.00)	(14.40)	(17.20)

Source: Company data, GEPL Capital Research

Bank of Baroda – *a consistent performer*

Summary

Bank of Baroda (BoB) has always given consistent performance that to above industry and better than some of its peers. Currently the major concern for banks is business growth and asset quality. Even in tough economic conditions, the bank has grown well above the industry average and maintained its asset quality. The bank has 3409 branches spread across India.

Above industry growth in business

In Q1FY12, advances have grown by 25.2% and deposits by 23% Y-o-Y. The bank has good presence in international market and its international business constitutes around 20% of total business. Advance growth was supported by international loan book growing by 28% Y-o-Y, retail segment by 24% and SME by 31.4% Y-o-Y in Q1FY12. The bank has been reducing its unsecured loan book which now constitutes ~20% of total loan book. The banks CASA deposits are well above 30%, as share of domestic CASA deposits stood at 33.9% in terms of aggregate deposits and 35.9% in terms of core deposits in Q1FY12.The bank is expected to grow advance book by 24% above industry growth of 18% in FY12E.

Stable margins will add to profitability

The banks NIM was marginally down by 3bps to 2.87% in Q1FY12 vs 2.9% in Q1FY11. This was on account of higher increase in cost of deposits of 97bps Y-o-Y vs 94bps Y-o-Y increase in yield on funds. The bank is expected to maintain margins as it is reducing its dependence on bulk deposits and increasing proportion of high yielding assets.

Healthy asset quality as compared to peers

The bank has continuously maintained its asset quality. GNPA stood at 1.46% in Q1FY12 vs 1.41% in Q1FY11. The bank has maintained high Provision Coverage Ratio of 82.52% in Q1FY12. The bank has restructured loan book of ₹71.6bn (~3% of total advances) in Q1FY12. During the quarter ₹4.5 bn loans were restructured. The bank witnessed slippages in agriculture and corporate segment for which it has made provision of ₹1.3bn in Q1FY12. The bank had CAR of 13.1% and Tier 1 capital of 9.06% in Q1FY12. The banks balance sheet is strong and can support the growth targets set by the bank.

Valuation

The bank has traded in range of 1.7x to 1.8x ABV in the past and currently is trading at 1.4x ABV. The stock has corrected by 16% in last 3 months which has lead to lower valuation multiple due to growth and asset quality concerns that has crippled the banking industry. We feel the bank would continue its performance going ahead. The stock is trading at 1.2x and 1.0x BV of FY12E and FY13E. We feel such low multiple is not warranted for the stock with such strong fundamentals and it would trade at higher multiple once interest rate cycle peaks out. We expect the stock to trade at 1.2x BV of FY13E implying target price of ₹901 in long term.

Financial Snapshot (₹mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
Operating Income	91,767	124,509	136,218	162,211
PBT	44,285	59,311	65,103	81,577
PAT	31,793	44,337	44,260	54,165
EPS	87.3	113.2	121.3	146.2
BV	431.4	556.1	626.7	751.0
RoE	21.9	23.7	21.1	21.1
PBV	1.7	1.3	1.2	1.0

Source: Company data, GEPL Capital Research

CMP (₹)	Target (₹)
324	395
Potential Upside	**Absolute Rating**
22%	BUY

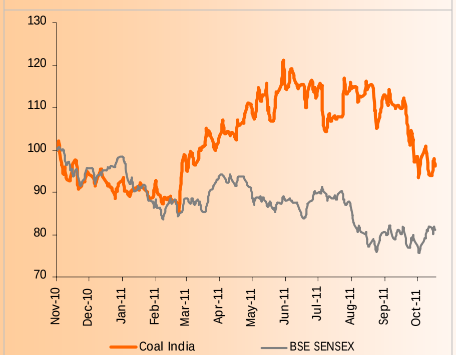
Market Info *(as on 24th Oct, 2011)*	
BSE Sensex	16939
Nifty S&P	5098

Stock Detail	
BSE Group	A
BSE Code	533278
NSE Code	COALINDIA
Bloomberg Code	COAL IN
Market Cap (₹bn)	2050.6
Free Float (%)	10%
52wk Hi/Lo	422 / 289
Avg. Daily Volume (NSE)	1191099
Face Value / Div. per share (₹)	10.00 / 0.40
Shares Outstanding (mn)	6316.36

Shareholding Pattern (in %)

Promoters	FIIs	DII	Others
90.00	6.32	1.57	2.11

Share Price Performance



Relative Performance (in %)

	1Mth	3 Mths	6Mths	1Yr
Coal India	(15.5)	(11.7)	(10.4)	NA
SENSEX	(1.60)	(9.00)	(14.40)	(17.20)

Source: Company data, GEPL Capital Research

Coal India Ltd.

Summary

Coal India ltd. (CIL) is the largest coal producing company in the world based on their raw coal production, it supplies to 80% of India's power production.

CIL to benefit from huge incremental potential for electricity generation from Coal

Coal supports around 52% of the primary energy consumption and over 80% of electricity generation in India. Given the reserves of over 60 bn MT of coal, it can support 409 GW of incremental power generation. Planned incremental capacity is expected to reach 196 GW from current levels of 99GW by the end of XIIth five year plan. This would benefit coal India limited over long term as it supplies to 80% of India's power production.

Indian Power plants designed to use imported coal only to around 50% reduces the risk of imports for CIL.

Given the huge demand supply gap of around 90 mn MT in FY11, which is expected to reach 170 to 200mn MT by end of FY12e as per the draft paper by planning commission poses a big advantage to CIL primarily because of following two reasons.

- Firstly Indian power plants are not designed to take more than 50 % of imported coal presently.
- Secondly imported coal meant for power plants being dearer by almost over 60% in comparison to domestic coal, makes it costlier to resort to imported coal.

Accordingly the off take risk for CIL's product remains negligible unlike players present in other commodities such as steel and cement, who face huge off take risk.

Rise in e-auction price to aid CIL in long term

With 25% of CIL sales being done at close to international prices, together with sales of ~11% of total sales through e-auction route and demand supply gap, we believe the prices of coal to remain firm over next one year impacting CIL's profitability positively over coming quarters.

The price increase for the linkage coal are not explicitly set out, however it aligns with inflation and wage increase, we expect another price increase of around 10% during this year. Company sells around 11% of total sales, through e-Auction with a premium to domestic linkage coal, which has risen from 60% in FY10 to 80% levels during FY11.Currently the premiums are running at 90%, with international coal prices expected to rise we see the premium to remain firms and would benefit the CIL.

Valuation

The stock has corrected more than 14.5% in last one month against a correction of 1.6% in sensex. While concerns over New Mining Bill for setting aside 26% of profit sharing to the regional development around the mines, would impact the earnings of CIL in FY13E. Company's volume has grown at a CAGR of 5.6% over past 4 years. We believe the new mining bill once implemented would help the company in getting approvals; mainly forest clearances. We are positive on the CIL's long term growth story, we have valued CIL on EV/EBIDTA basis at a target price of Rs.395 per share with a target multiple of 8.5x on FY13E EBIDTA of Rs. 293bn.

Financial Snapshot (₹mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
Net Sales	446,153	502,336	624,099	696,597
EBITDA	113,745	149,072	198,000	293,229
PAT	96,224	108,674	151,539	171,863
EPS	15.2	17.2	24.0	27.2
ROE (%)	42.9	36.8	37.6	33.1
ROCE (%)	--	--	--	--
P/E	23.4	13.2	14.5	8.7
EV/EBITDA	18.5	14.3	9.5	8.5

Source: Company data, GEPL Capital Research

CMP (₹)	Target (₹)
1,637	1,896
Potential Upside	**Absolute Rating**
16%	BUY

Market Info *(as on 24th Oct, 2011)*

BSE Sensex	16939
Nifty S&P	5098

Stock Detail

BSE Group	B
BSE Code	505200
NSE Code	EICHERMOT
Bloomberg Code	EIM IN
Market Cap (₹bn)	46.29
Free Float (%)	40%
52wk Hi/Lo	1728/970
Avg. Daily Volume (NSE)	22,246
Face Value / Div. per share (₹)	10.00 / 11.00
Shares Outstanding (mn)	26.97

Shareholding Pattern (in %)

Promoters	FIIs	DII	Others
55.26	6.64	16.52	21.58

Share Price Performance

Relative Performance (in %)

	1Mth	3 Mths	6Mths	1Yr
EML	1.2	22.6	29.8	30.9
SENSEX	(1.60)	(9.00)	(14.40)	(17.20)

Source: Company data, GEPL Capital Research

Eicher Motors Ltd.

Summary

Eicher Motors Ltd. (EML) operates in CV business through VECV Ltd. which is a JV with AB Volvo in which company holds 54.4%. On standalone basis company operates in two wheeler segment through Royal Enfield brand. The CV business contributes 90% to its consolidated revenues while 10% comes from the Royal Enfield business. CV industry grew by 35% and 30% in FY10 and FY11; however, currently this industry is facing a slowdown in line with the trends witnessed by the broader automobile sector. During April-September 2011, the CV industry growth came down to 20% due to rising interest rates and slowing industrial growth, EML outperformed by growing 25% in the same period. SIAM in the month of October has increased its growth forecast of CV segment by 1% to 13-15% in FY12E, we expect EML to continue outperforming the same.

EML's CV business to continue to grow above industry (~21% CAGR till 2015E); there by increasing its market share to 15%:

VECV, the commercial vehicle arm of the company is currently growing above the industry growth rate and company expects it to continue further going forward (~21% CAGR till 2015). This will help EML in increasing its market share to 15% from 8.2% in CY10 in HCV segment. Company intends to increase its monthly sales rate of 600 units to 1000 units by end of CY11E. EML also plans to increase its CV capacity to 100K units in next 3-4 years with a capital expenditure of ₹5 bn.

Contribution from stand alone business to increase from 10% to 15% by 2015E:

EML sells Royal Enfield bikes in the stand alone business which has good demand and the waiting period for same is between six to nine months. In order to cope up with the demand company is expanding its two wheeler capacity from 70K units to 150K units by Q3CY12E with an investment of ₹1.5 bn. We expect EML to garner ~29% CAGR in revenues from this stand alone business till 2015E. This will help in increasing the contribution from the stand alone business to 15% by 2015E.

High Tech Medium Duty Engine Project for Volvo's Global business to further add steam to the company's top line and bottom line:

VECV will invest ₹3-3.5 bn to design and manufacture medium duty engines (85K units per annum) for Volvo's global requirements. The commercial production will commence by end of CY12E. These engines will be supplied to Volvo's medium duty vehicles in Europe and US. This will further add steam to company's top line and bottom line.

Valuation

We value Eicher Motors based on SOTP as company derives earnings from 2 wheeler (Royal Enfield) business, CV business through VECV JV and returns on the surplus cash it holds. We value the two wheeler business at a P/E multiple of 14.5x its CY12E earnings, the CV business at a P/E multiple of 11x its CY12E earnings and add cash per share of ₹445 to arrive at a target price of ₹1896, which is a potential upside of 15%.

Financial Snapshot (₹mn)

Y/E Mar	CY09	CY10	CY11E	CY12E
Net Sales	29,386	43,971	53,848	64,455
EBITDA	1,583	3,719	5,602	6,615
PAT	834	1,889	2,769	3,261
EPS	30.8	70.5	102.3	120.5
ROE (%)	11.1	16.4	19.5	19.8
ROCE (%)	13.7	17.4	-	-
P/E	60.7	26.5	18.3	15.5
EV/EBITDA	25.4	10.8	7.2	6.1

Source: Company data, GEPL Capital Research

Lupin Ltd.

CMP (₹)	Target (₹)
475	531
Potential Upside	**Absolute Rating**
12%	BUY

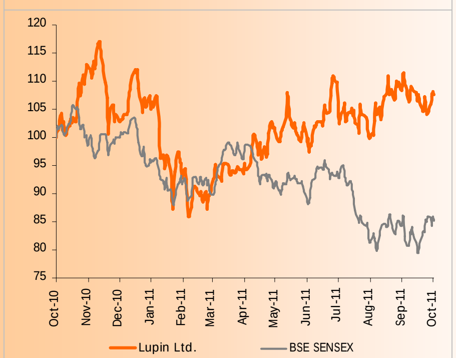
Market Info *(as on 24th Oct, 2011)*	
BSE Sensex	16939
Nifty S&P	5098

Stock Detail	
BSE Group	A / BSE 100
BSE Code	500257
NSE Code	LUPIN
Bloomberg Code	LPC IN
Market Cap (₹bn)	211.94
Free Float (%)	55%
52wk Hi/Lo	519.9/363.1
Avg. Daily Volume (NSE)	893,757
Face Value / Div. per share (₹)	2.00 / 3.00
Shares Outstanding (mn)	446.51

Shareholding Pattern (in %)

Promoters	FIIs	DII	Others
46.94%	26.16%	17.18%	9.72%

Share Price Performance



Relative Performance (in %)

	1Mth	3 Mths	6Mths	1Yr
Lupin Ltd.	(2.4)	6.2	15.4	7.4
SENSEX	(1.60)	(9.00)	(14.40)	(17.20)

Source: Company data, GEPL Capital Research

Summary

Lupin is an innovation-led pharmaceutical company having presence in multiple countries and producing generic and branded formulations and APIs. It has a direct marketing presence in almost all its target markets and is among the highest spenders on R&D of all Indian pharmaceutical companies. Lupin is the one of the world's largest manufacturers of TB drugs and the segment contributes 10% to Lupin's revenues.

Robust OC pipeline

Lupin has 26 products in its Oral Contraceptives (OC) pipeline which would help it grab a sizeable pie in the $600mn generic OC market. Already, it has released two OCs in the past two months (Femcon Fe and NOR-QD) and is expected to keep doing so over the next two years. Although the market for OCs is dominated by MNCs such as Teva, Watson, Mylan, etc., most of the products to be released are limited competition products having four or less competitors, thereby garnering higher revenues for each individual player.

Geographical diversification provides formidable presence

Lupin is present in several countries/regions such as USA, Europe, Japan, South Africa, Philippines, Australia and CIS making it geographically well diversified. Company derives almost 45% of its revenues from US, EU and Japan. It is 5th largest generic player in the US in terms of prescriptions. Japanese government plans to increase generic penetration to 30% of the $7bn Japanese pharmaceutical market by 2012. Lupin's 100% subsidiary, Kyowa with its 200 product portfolio is well positioned to capture this opportunity. Presence in the fast growing markets of South Africa, Philippines and CIS presents huge growth opportunity going ahead.

Consistent Financial Performance and Strong Balance Sheet

Lupin has a legacy of 26 quarters of consistent financial performance with sales growing annually at a 5-year CAGR of 27% and PAT growing annually at a CAGR of 38%. This is backed by a low leveraged balance sheet (D/E ratio has come down from 1.48 in FY06 to 0.35 in FY11). PAT margins have improved from 10% in FY06 to 15% in FY11 whereas EBITDA margins have moved up from 17% in FY06 to 21% in FY11.

Valuation

Lupin is expected to continue with its revenue growth rate over the next couple of years due to expected OC launches, limited competition products and large ANDA pipeline. Geographical diversification guarantees consistent revenue stream and regional risk mitigation. At the CMP of ₹465, Lupin is trading at 17x its consensus FY13E earnings. Given Lupin's continued focus on innovation, entry into newer, under-penetrated markets and relatively low underlying business risk, we have valued the stock at 19x its consensus FY13E earnings which is comparable to its peers. Hence, we recommend a BUY rating on the stock with a target price of ₹531.

Financial Snapshot (₹mn)

Y/E Mar	FY10	FY11	FY12E*	FY13E*
Net Sales	47,736	57,068	67,112	78,947
EBITDA	9,839	11,911	13,574	16,470
PAT	6,816	8,626	9,936	11,948
EPS	15.8	19.4	22.2	26.8
ROE (%)	29.5	26.2	25.4	23.6
ROCE (%)	33.8	31.1	--	--
P/E	33.5	27.4	23.9	19.8
EV/EBITDA	15.3	16.2	16.1	13.3

Source: Company data, GEPL Capital Research

**Consensus Estimates*

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