# Initiating Coverage

ndia Research

# Lupin Limited (Lupin)

# CMP: Rs 1065 Target Price: Rs 1291

# Right Fomula(tion)...!!!

Lupin has successfully transformed itself from a Tier-II API manufacturer to a fully integrated global generic player. It has managed to deliver superior track record growth (86% CAGR in export formulations; 23% CAGR in domestic formulations over FY06-09) with a balanced business portfolio. Its growth strategy entwines an interesting mix of strategic acquisitions that complements its existent business-mix. There exists a positive surprise in case of any favourable outcome from the re-inspection due in the next 3-4 months. We initiate coverage with an "Accumulate" rating on the stock with a target price of Rs.1291 (PER of 15xFY11E).

BSE Sensex	16781
NSE Nifty	4986
Scrip Details	
Equity	Rs.887.5mn
Face Value	Rs.10/-
Market Cap	Rs.94.5bn
	US\$1969.2mn
52 week High/Low	Rs.1115/518
1-Month Avg. Volume	160065
BSE Code	500257
NSE Symbol	LUPIN
Bloomberg Code	LPC IN
Reuters Code	LUPN.BO

#### **Business Group - Indian Private**

#### Shareholding Pattern as on June'09(%)

· · · · · · · · · · · · · · · · · · ·	
Promoter	50.4
MF/Banks/FIs	24.8
Flls	12.2
Corporate Bodies	1.3
Public / Others	11.3



# **Investment Rational**

# Among the largest vertically integrated generic players.

Lupin has transformed itself from an API manufacturer to a fully integrated generic company. Formulations constitute a dominant share - 81% of the product mix with API's mainly captively consumed. Its emphasis on complex generics and branded formulations in niche therapeutic areas fetches relatively higher margins.

#### Balanced Business Portfolio.

It has not only consolidated its position in the domestic market (35% sales) but established its credentials in the export formulations market The company has gradually reduced dependency on Anti-TB's and cephalosporins and increased its focus on high growth lifestyle category - CVS, CNS etc.

#### **Export Formulations – Growth Engine**

The company derives 51% of sales (FY09) from export formulations. Its exceptional track record in US generics (9<sup>th</sup> largest by prescription) is primarily attributed to selective product launches (limited competition) and increasing contribution from branded formulations. We anticipate the success model to be replicated in key European markets while it consolidates its position in Japan –  $2^{nd}$  largest market. We estimate export formulations to grow by 28% CAGR over FY09-11E and contribute 58% of sales.

#### Domestic Formulation business: An Established Cash Cow...

Lupin owns 2.7% market share and ranks 5th in the domestic pharma market with leadership in Anti-TB (48% share) and Anti-Asthma (12% share) segments. Gradual migration towards fast growing chronic based portfolio and incisive marketing strategies has resulted in consistent outperformance vis-à-vis the domestic industry with 23% CAGR over FY07-09. We estimate the division to record 20% CAGR over FY09-11E to Rs.16.4bn.

# Grey clouds over Mandideep FDA compliance - suppress valuations

The warning letter issued however doesn't impact sales of existing products; although no new products including pending applications (1 pending approval) will be approved until a favorable resolution. We believe outcome from the reinspection due in the next 3-4 months remains crucial to future US sales and will until then remain an overhang on overall valuations.

#### Valuations

At CMP, the stock trades at 15.8x FY10E and 12.4x FY11E earnings. We believe current valuations do not fully reflect scalability in Lupin's business model (23% EPS growth over FY09-11E and strong return ratios). We value the stock at 15x FY11E earnings (~10% discount to average multiple of large cap peers) with a target price of 1291/- and recommend "Accumulate" on the stock.

#### **Financials**

Year	Net Sales	% growth	EBIDTA	OPM %	PAT	% growth	EPS(Rs.)	% growth	PER (x)	ROANW %	ROACE %
FY08	28,917	43.6	6,212	21.5	4,083	32.3	46.0	32.3	23.2	37.9	26.0
FY09	38,666	33.7	7,393	19.1	5,015	22.9	56.5	22.9	18.8	37.1	24.4
FY10E	45,983	18.9	8,967	19.5	5,970	19.0	67.3	19.0	15.8	34.5	26.2
FY11E	56,040	21.9	11,264	20.1	7,637	27.9	86.1	27.9	12.4	35.2	28.3

Figure in Rs.mn

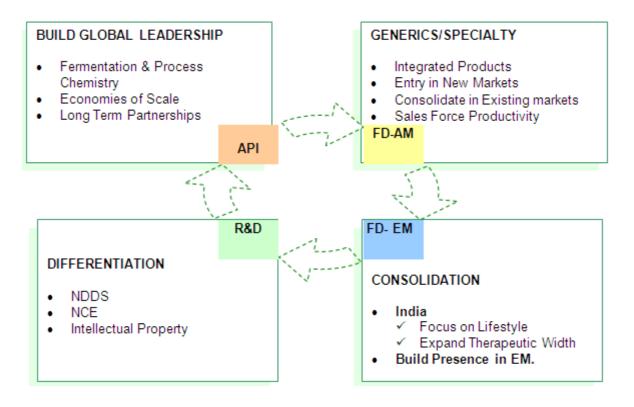
Analyst: Bhavin Shah Tel : +91-22-4096 9731 E-mail: <u>bhavin@dolatcapital.com</u>



Pharmaceuticals / Accumulate



Among the largest vertically integrated generic players.



\*FD – Finished Dosages, AM – Advanced Markets, EM – Emerging Markets, Source: Dolat Research

# Inorganic Road Map: Balancing Scale and Profitability....

Selective acquisitions enable entry in key markets having potential of scaling up operations and achieving market leadership in niche therapeutic segments for e.g. Oral Contraceptives etc.

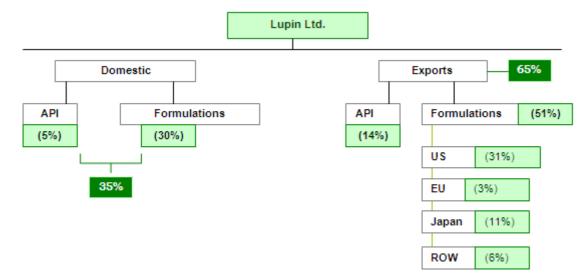
						Multicare Pharma (Philippines) – 51%
					Pharma Dynamics (S.Africa) - 60%	Cost: Rs.251mn
			Hormosan (Ger.) - 100%	Generic Australia (Aust.) – 37%	Cost: Rs.901mn	Goodwill: Rs.210mn
		Kyowa (Japan) -	Cost: Rs.311mn	Cost: Rs.205mn	Goodwill: Rs.799mn	Sales: Rs.14.6mn
		100%	Goodwill: Rs.251mn	Goodwill: Rs.157mn	Sales: Rs.919mn	PAT: Rs.2.9mn
	Novodigm (India) - 100%	Cost: Rs.2482mn	Sales: Rs.174mn		PAT: Rs.82mn	
٦	Cost: Rs.373mn	Goodwill: Rs.1696mn Sales: Rs.4368mn				
FY09	Goodwill: Rs.218mn Sales: Rs.676mn	PAT: Rs.602mn				
JI	PAT: Rs.79mn					
Acqui	ired: Sep'07	Ocť07	Jul'08	Sep'08	Ocť08	Mar'09

Source: Company, Dolat Research



#### **Business Model**

Lupin - Tier II generic player is fully integrated from the intermediate stage to finished dosages (FD) with strong capabilities in chemical fermentation technologies. The company has secured global leadership position in Anti-TB and Cephalosporins and has built its forte in the areas of Cardiovasculars (prils and statins), Diabetology, Asthma and NSAID's. It has also successfully monetized on its research capabilities by outlicensing intellectual property related rights.



Source: Company, Dolat Research (% - As of FY09 Sales)

# **Manufacturing Facilities**

Location	Products	Accreditations	Inspection
API's			
Mandideep	Lisinopril, Cephalexin etc.	WHO, USFDA, UKMHRA	Mandideep [Ceph Block] :
Tarapur	Rifampicin, Lovastatin	USFDA, WHO	(~8% of sales)
Ankleshwar	Ethambutol Intermediates	WHO	Warning Letter Issued – 7th
Vadodara	Contract Manufacturing		May'09. Observed ~8
			violations – Manufacturing
			process. Compliance underway
			Tarapur Inspection – 2
			observations-Complied!
Formulations			
Aurangabad	Anti-TB, Lisinopril	WHO	
Mandideep	Cephalosporins, Prils	WHO, USFDA, UKMHRA	
Goa	Non Cephalosporin Oral	USFDA, UKMHRA	Goa Inspection – 1 observation
	Dosage		Complied!
Jammu	Oral Finished Dosage		
Indore SEZ	NA		
Japan – Sanda	NA	Approvals in Pipeline	

Source: Company, Dolat Research.



# Export Formulations – Growth Engine...

The company derives 51% of sales (FY09) from export formulations. Its exceptional track record in US generics (9<sup>th</sup> largest by prescription) is primarily attributed to selective product launches (limited competition) and increasing contribution from branded formulations. We anticipate the success model to be replicated in key European markets while it consolidates its position in Japan –  $2^{nd}$  largest market.

#### Presence across Key Markets :

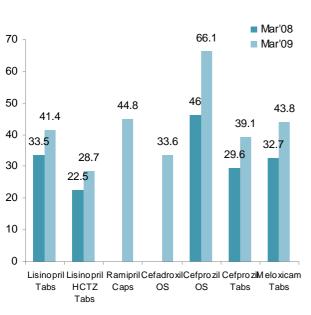
US	Europe	Japan	ROW
• Revenue CAGR (2006-09) : 74%	• Revenue CAGR (2007-09) : 292%	<ul> <li>Revenue CAGR (2008-09) : 235%</li> </ul>	• Revenue CAGR (2006-09) : 42%
<ul> <li>Focus on High Value Cephalosporins and Branded formulations.</li> <li>Aggressive Patent Challenges         <ul> <li>Para IV/ FTF pipeline addressing market size over \$30bn.</li> </ul> </li> </ul>	<ul> <li>Present in markets – UK, Germany, and France.</li> <li>Acquired Hormosan (Ger) – marketing firm.</li> <li>Leveraging on domestic manufacturing – launch</li> </ul>	<ul> <li>Potential Opportunity : Generic penetration by volume to increase to 30% (~5% currently) by 2012E.</li> <li>Acquired Kyowa (Oct'07) - 7th largest species approximately)</li> </ul>	<ul> <li>Key Markets - CIS &amp; LATAM</li> <li>Building scale of operations through Inorganic route</li> <li>Focus on multi therapy areas.</li> <li>Scouting for acquisitions in</li> </ul>
	complex value added products (Cephalosporins, CNS etc)	<ul><li>7<sup>th</sup> largest generic company</li><li>Focus on CNS, CVS segments</li></ul>	GCC and Brazil.

Source : Dolat Research

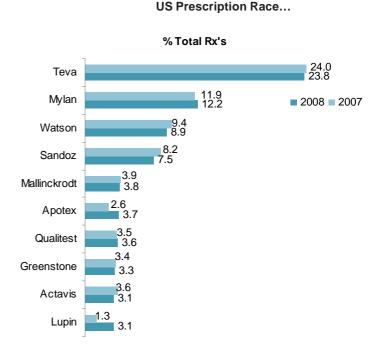
#### US - Scaling New Heights.....

Lupin adopts a two pronged strategy in the US market viz. Focus on complex value added product pipeline and Branded formulations. Its differentiated approach of combining cost leadership with focus on niche segments has enabled it to withstand generic competition. Strong relationships with pediatricians and channel partner's have resulted in higher penetration in the branded formulation segment. It further plans to increase its field force by 40 totaling to 100 by FY10E.

The company's US wing has grown five fold during FY06-09 to Rs.1185.6mn (31% sales) with only 22 products launched so far. Revenue per product at \$11 is highest amongst its Indian peers (range \$3 to \$9) competing in US.







Source: Company, Dolat Research

Source: Company, Dolat Research



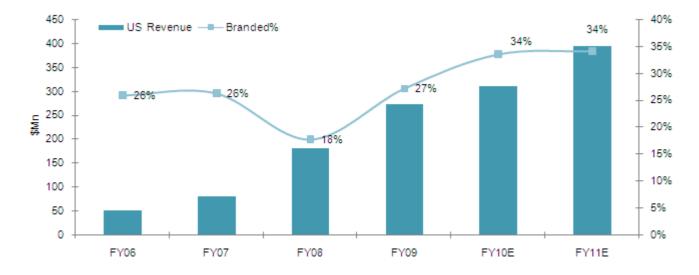
Generics Business (73% US Sales)	Branded Formulations Business (27% US Sales)				
Therapeutic Focus: Lifestyle based – CVS, CNS etc.	<b>Objective:</b> Derisk against price erosion in generics segment.				
Value accretive Pipeline: 91 ANDA filings; 56 pending approvals.	Milestones in US Branded Formulations:				
Next Leg of growth:	<ul> <li>✓ Forays in Branded formulations with launch of 'Suprax'</li> <li>– Cefixime – oral suspension (Anti-infective) .Wyeth</li> </ul>				
✓ Oral Conceptives: 7 ANDA filings with 2 competing Players - Teva & Watson. Filings include Norethindrone, Levonorgestrel and Ethinyl Estradiol (combined market)	discontinued marketing in 2003. (Innovator: Fujisawa). Creates entry barriers for Generic companies with launch of line extensions – 100mg/200mg/400mg.				
potential of ~\$1.1bn)	$\checkmark$ Forges strategic alliance with Forest Labs –				
✓ To also enter Ophthalmology.	'Aerochamber Plus' (COPD/Asthma). This extends				

Latent Opportunity: Para IV/FTF's portfolio addressing Market size of \$30bn+ (Ref: Annexure)

#### Dress . .

- its presence in respiratory segment and strengthens relationships with Pediatricians.
- ✓ Acquired global rights for 'Allernaze' triamcinolone acetonide (Anti-allergy) - Nasal spray, from Collegium Pharma. Anticipates launch by H2FY10E. Teva to launch generic (manufactured by Perrigo) under license from Sanofi Aventis in June'2011E.

We estimate the company to register 25% growth over FY09-11E driven by expansion of its branded portfolio and selective product launches catering to niche therapeutic segments.



Source : Dolat Research



# Annexure: Para IV's /FTF's - Addressing Market size of \$30bn+

Brand	Innovator	Molecule	Therapy	Sales (\$Mn)	Patent Expiry	Remarks
Clarinex	Schering Plough	Desloratidine	Anti-allergy	329	Jun-12	Para IV Settlement to launch it on July-2012. Dr. Reddy's, Ranbaxy, Caraco amongst other filers.
Namenda	Forest Labs	Memantine Hydrochloride	Alzheimers	900	Apr-15	Lupin amongst Sun. Ranbaxy, Wockhardt, Orchid sued.
Cymbalta	Eli-Lilly	Duloxetin Hydrochloride	Anti-depressant	2200	Aug-13	Has been sued amongst Wockhardt & Aurobindo along with 3 US generic companies.
Lunesta	Sepracor	Eszopiclone	Hypnotic agent	600	Jun-12	Dainippon Sumitomo Pharma Co Ltd. to buy Sepracor Inc - \$2.6 bn.Amongst others viz. Sun, Dr.Reddy's Glenmark, Wockhardt, Orchid sued.
Geodon	Pfizer	Ziprasidone	Schizophrenia	1000	Sep-12	Tentative approval received. Other filers include - Sun, Dr.reddy's, Cadila Healthcare etc
Lyrica	Pfizer	Pregablin	Anti-convulsants	1200	Mar-18	Amongst other sued - Sun, Wockhardt, Orchid. Other filers - Teva, Sandoz, Actavis etc.
Lotrel	Novartis	Amlodipine besylate; benazepril hydrochloride	Hypertension	385	Dec-17	Out of court settlement to launch prior to expiry.Teva has launched product 'at risk' in 2007. Sandoz has generic version in the market as well.
Loestrin 24	Warner Chilcott Plc	Ethinyl Estradiol	Oral Contraceptive	220	Jul-14	Warner Chilcott sues Lupin, has settlement with Watson (launch generic - 2014)
Femcon FE	Warner Chilcott Plc	Norethindrone	Oral Contraceptive	50	Jul-12	Has been Sued. Teva is the first filer with respect to FEMCON FE.
Potential Ex	clusive					
Fortamet	Sciele Pharma, Inc	Metformin	Type 2 Diabetes	70	Mar-18	Andrx Corp. and Sciele Pharma Inc. have accused company for infringing two patents viz. 859 & 866.
Antara	Oscient	Fenofibrate	Dyslipidaemia	85	Aug-20	Exclusive FTF holder.Only company sued so far
Effexor XR	Wyeth	Venlafaxine Hydrochloride	Anti-depressants	3000	Dec-10	Para IV Settlement. Would be free to commercially launch its generic product on or after June, 2011.
<u>Niche</u>						
Niaspan	Abbott	Niacin	Cholesterol lowering	786	2013	Is sued on 7 patents.
Technology	Barriers					
Renagel	Genzyme	Sevelamer Hydro	chloride	Nephrology	678	Aug 2013 to Sep 2014 Two companies Impax & Lupin with Para IV's,Suit against Lupin covers all patents

\* Not factored upside from Para IV launches in our estimates.



#### Europe – Holds Immense Potential.....

Lupin has kicked off operations in three of EU's largest markets viz. UK, France and Germany. The company aims to replicate its US strategy in selected EU markets. It has cumulative 54 filings with 32 products pending approval and has launched 17 products. The run rate of filings is expected at 15 every year.

UK: (Generic Market: \$5bn, Penetration: 20%, Growth Rate: 6%) :

Lisinopril launched during FY08, through the 'Direct to Market' route recorded 15% market share within four months. It has approvals for Trandolapril and Perindopril and has a pipeline of 22 MAA's.

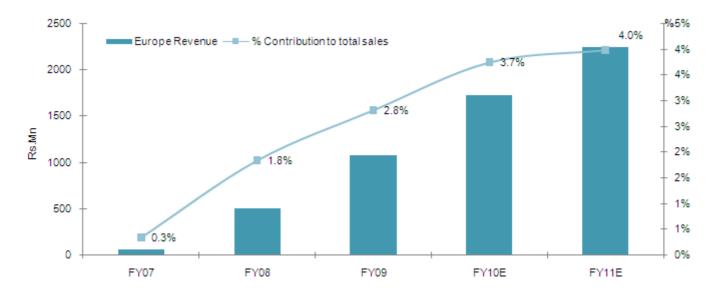
France: (Generic Market: ~\$3bn, Penetration: 10%, Growth Rate: 20%) :

Leveraging on the partnership model Lupin launched Cefpodoxime Proxetil tablets and garners 60% market share (50% during FY08). Following its success, Cefpodoxime Proxetil Powder for suspension was launched in FY09. Earlier, the company received Rs.2.3bn from sale of Perindopril IPR's to Servier France.

Germany: (Generic Market: \$6bn, Penetration: 18%, Growth Rate: 9%):

Lupin entered the German market through the acquisition of Hormosan Pharma (marketing company) for EUR 7mn (1x sales) having focus on CNS segment. We anticipate faster turnaround in operations with incremental sales from Sertraline supplies post AOK tender win.

We anticipate sales from European formulations to grow at 44% over FY09-11E and contribute 4% of total sales in FY11E



Source :Dolat Research

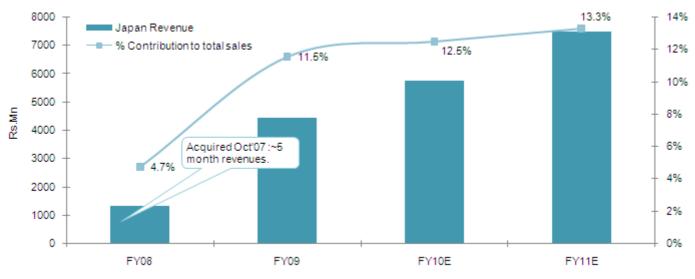


#### Japan – On a Strong Turf....

The Japanese Pharmaceutical market (2<sup>nd</sup> largest) is valued at \$65bn and represents a huge untapped opportunity considering low generic penetration at ~5%. Series of reforms initiated by the government over the past two years is estimated to grow the generic market to 30% by volume and \$6.5bn in value by 2012E.

The company forayed into the market with the acquisition of Kyowa (Oct'07) – 7th largest generic company in Japan.

- Kyowa specializes in CNS, CVS respiratory and Gastro therapeutic segments and has a field force of 75 specialists covering 1258 out of 1379 psychiatry hospitals in the Neurology segment.
- It registered sales of JPY 9.6bn during FY09 registering 23% growth outperforming the generic pharma industry growth at 15%. The company turned profitable with profit of JPY 776mn (loss of JPY 14mn FY08).
- > The company introduced 10 products during FY09 and has attained market leadership in 'Risperidone' (volumes) and is now a significant player in Amlodipine.



Source : Dolat Research

Lupin aims to maximize profitability by leveraging on its vertically integrated chain of operations and subsequently source in house API's for some of the key existing products as well as for future filings. We estimate Japanese operations to register 30% revenue growth (over FY09-11E) and contribute 13% to total sales by FY11E.

#### Rest of World Markets - Sowing Beachheads...

South Africa: Estimated Size / Growth Rate: \$2.5bn / 13.5%	Philippines: Estimated Size: \$2.5bn	Australia: Estimated Size / (Growth Rate): \$9bn / 7%
• <b>Key Characteristics:</b> The Generic of Industry is growing at ~22%. Compulsory Generic substitution implemented by the legislation, emergence of national health insurance and patent expiries sets the pace for overall growth.	<ul> <li>Key Characteristics: The Generic Industry accounts for ~\$850mn.</li> <li>Presence: a) Acquired Multicare Pharma - 51% stake (Mar'09). Specialises in Women healthcare and child care segments with a field force of 140</li> </ul>	• Key Characteristics: ~10% Generic. There is active generic substitution by pharmacists - one in every four prescriptions presented to pharmacists. >50% of the top 100 selling prescription medicines are to go off-patent by FY14E.
• <b>Presence:</b> a) Acquired Pharma Dynamics - 60% stake (Oct'08). One of the top 6 generic companies specializing in cardiovascular segment (~65% of PD's sales), CNS, Gastro and OTC products. Leadership in Amlodipine and Bilocor in volumes.	personnel.	• <b>Presence:</b> a) Acquired Generic Health - 36.6% stake (Jul'08). Has wide range of OTC and generic prescription products and has forged alliances with Bellwether Pharma and Actavis. b) Max Pharma – 100% subsidiary focuses on OTC and hospital segments.
• Filings/ Participatory Size: 20 filings.		• Filings/ Participatory Size: 20 filings targeting market size of \$850mn.



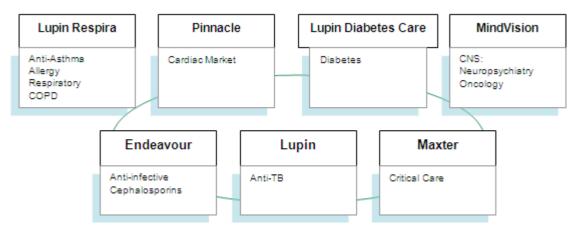
#### Domestic Formulations – Consistent Outperformer.....

Lupin owns 2.7% market share and ranks 5th in the domestic pharma market with leadership in Anti-TB (48% share) and Anti-Asthma (12% share) segments. 6 of its products rank in the top 300 brands in the country. Further its field force of 3000+ marketing representatives positions it as a preferred licensing partner.

Gradual migration towards fast growing chronic based portfolio and incisive marketing strategies has resulted in consistent outperformance vis-à-vis the domestic industry with 23% CAGR recorded over FY07-09.

New therapeutic segments such as Gynecology and Oncology have been added recently. Its concentrated sales and marketing efforts - segregation division wise has led to outperformance in key therapeutic segments compared to the industry.

# Focused Approach – Marketing Strategy...

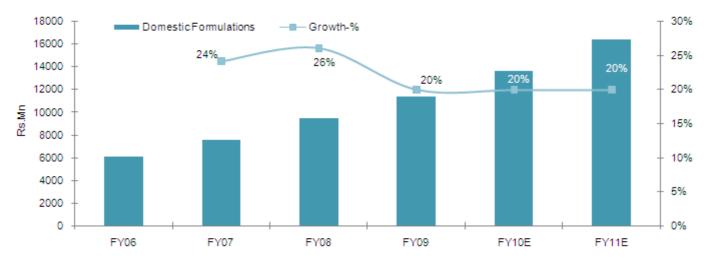


#### Outperformance

Market Growth %	Lupin Growth%
-5.9	5.6
13.2	25.5
16.7	53.0
13.1	48.8
10.4	48.7
8.2	30.4
9.8	22.1
	-5.9 13.2 16.7 13.1 10.4 8.2

Source : Company, Dolat Research

We estimate the domestic formulations segment to grow at 20% CAGR over FY09-11E, driven by new product launches, expansion of therapeutic portfolio and higher sales force productivity.

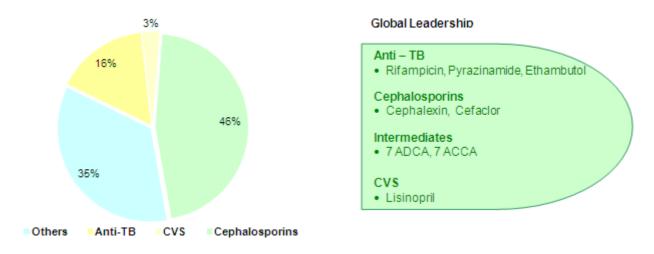


Source : Dolat Research



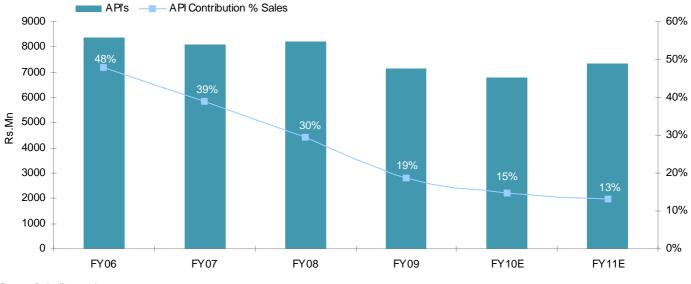
#### API's - Bedrock to Expanding Portfolio....

The API's division is the foundation of the overall business. Lupin has attained global leadership status in key API's and intermediates and has a strong position in Cephalosporins, Anti – TB and CVS space.



#### More than 80% vertically integrated...

The API portfolio constituted 19% of sales (48% - FY06) with increasing focus on captive consumption to meet the fast growing formulation portfolio.



Source: Dolat Research

#### **R&D** Initiatives - Investing for Future...

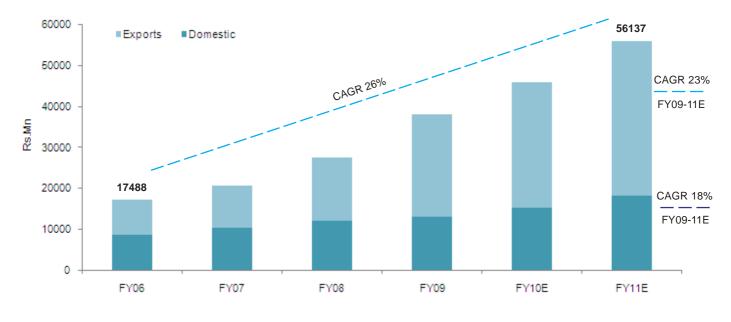
Lupin has developed capabilities across the spectrum of research - Complex API's to Drug Discovery. It incurs ~7% of sales on R&D and has an intellectual pool of over 550 scientists. It has been successful in monetising its research capabilities by licensing out IPR's to Servier for Rs.2.3bn. Lupin also has a pipeline of four IND's adressing three different disease areas of Migraine, Psoriasis and Tuberculosis. We have not factored any upside from commercialisation/outlicensing of these molecules.

Molecule	NCE Pipeline	Preclinical	Phase 1	Phase 2	Phase 3	Market
LL 2011	Anti-Migraine, Herbal (Amigra)					
LL 4218	Anti-Psoriasis (Desoside-P)					
LL 3858	Anti-TB (Sudoterb)					
LLL 3348	Anti-Psoriasis, Herbal (Desoris)					
	Type 2 diabetes					
	Rheumatoid Arthritis					



# **Financials**

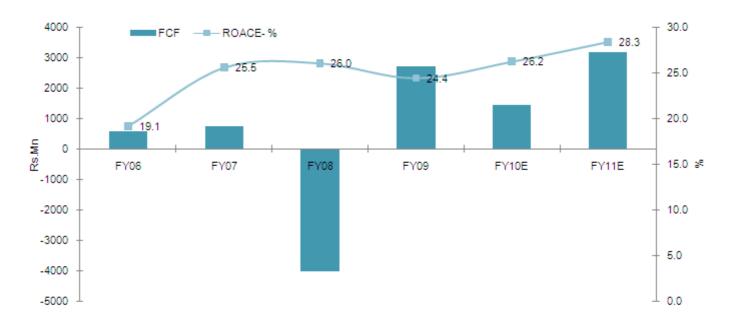
#### **Revenue Mix - Exports Led Growth..!**



Source : Company, Dolat Research

#### Balance Sheet – Comfortable Leverage and High ROACE...

- Lupin had issued FCCB's in 2006 US\$100mn at conversion price of Rs. 567/- share maturing in 2011E. It is one of the few companies having FCCB's in the money. We have assumed conversion of outstanding FCCB's Rs.3.4bn in our estimates.
- We expect Debt/Equity at 0.6x during FY11E (FY09 0.9x) and increasing cash flows to support Capex requirements while inorganic opportunities in GCC, LATAM and Japan remains on cards.



Source : Company, Dolat Reaearch



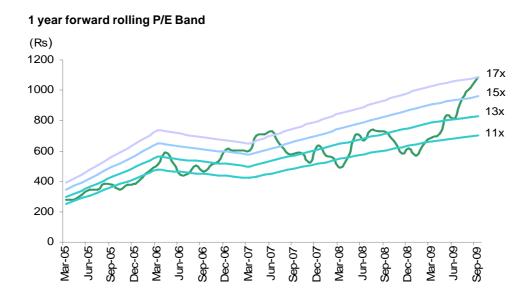
# Valuations

At CMP, the stock trades at 15.8x FY10E and 12.4x FY11E earnings. We believe current valuations do not fully reflect scalability in Lupin's business model (23% EPS growth over FY09-11E and strong return ratios).

#### **Comparative Landscape**

Company Name	СМР	Мсар	N	let Sales	6		OPM%			PE(x)		F	ROACE(%	6)
(Rs.mn)			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Sun Pharma #	1,212	251,029	42,723	40,041	45,353	43.6	35.6	37.3	13.8	18.4	16.1	24.7	16.7	17.0
Cipla #	260	202,098	52,570	60,808	69,592	19.7	20.7	21.0	26.0	19.6	17.2	19.0	15.0	16.0
Dr.reddys #	868	146,223	69,441	74,110	82,325	15.6	14.6	14.6	17.2	18.3	15.6	12.9	9.0	10.0
									A	verage:	16.3			
Lupin Ltd.	1,065	94,520	38,666	45,983	56,040	19.1	19.5	20.1	18.8	15.8	12.4	24.4	26.2	28.3
Cadila Healthcare Ltd.	490	66,836	29,275	34,575	41,149	20.7	21.1	21.5	19.3	16.0	12.9	21.9	20.8	21.3

# Bloomberg Estimates



We value the stock at 15x FY11E earnings (~10% discount to average multiple of large cap peers) with a target price of 1291/-. There exists a positive surprise in case of any favourable outcome from the re-inspection due in the next 3-4 months.



INCOME STATEMENT				Rs.mr
Particulars	Mar'08	Mar'09	Mar'10E	Mar'11E
Net Sales	27,063.7	37,758.8	45,377.0	55,433.8
Operating income	1,853.2	907.6	606.5	606.5
Income from Operations	28,916.9	38,666.4	45,983.5	56,040.3
Other Income	211.3	46.1	38.5	46.5
Total Income	29,128.2	38,712.5	46,022.0	56,086.8
Total Expenditure	22,705.2	31,273.6	37,016.7	44,776.2
Raw Material	11,638.0	16,043.1	19,083.1	23,200.7
Employee Expenses	3,076.0	4,871.3	5,518.0	6,724.8
Other Expenses	7,991.2	10,359.2	12,415.5	14,850.7
EBIDTA (Excl. Other Income)	6,211.7	7,392.8	8,966.8	11,264.1
EBIDTA (Incl. Other Income)	6,423.0	7,438.9	9,005.3	11,310.0
Interest	373.5	498.6	614.3	793.
Gross Profit	6,049.5	6,940.3	8,390.9	10,517.
Depreciation	647.4	879.9	1,078.2	1,219.2
Profit Before Tax	5,402.1	6,060.4	7,312.8	9,297.
Tax	1,318.0	983.0	1,243.2	1,580.0
Net Profit before Minority Interest	4,084.1	5,077.4	6,069.6	7,717.
Share of Associates	0.3	33.4	50.0	50.
Minority Interest	1.3	28.6	50.0	30.
Net Profit	4,082.5	5,015.4	5,969.6	7,637.
BALANCE SHEET				
Particulars	Mar'08	Mar'09	Mar'10E	Mar'11
Sources of Funds				
Equity Capital	820.8	828.2	887.5	887.
Share Premium	1,361.4	1,731.4	3,303.8	0.
Other Reserves	10,614.6	11,688.6	16,148.0	22,151.
Net Worth	12,796.8	14,248.2	20,339.3	23,038.
Secured Loans	7,080.6	7,569.2	8,069.2	9,069.
Unsecured Loans	4,948.2	4,663.5	3,100.4	5,100.
Loan Funds	12,028.8	12,232.7	11,169.6	14,169.
Deferred Tax Liability	1,106.8	1,164.4	1,177.2	1,177.
Minority Interest	94.5	142.5	100.0	80.
Total Capital Employed	26,026.9	27,787.8	32,786.1	38,465.
Applications of Funds				
Gross Block	14,858.8	18,200.3	22,940.0	25,940.
Less: Accumulated Depreciation	4,697.5	6,188.3	7,266.5	8,485.
Net Block	10,161.3	12,012.0	15,673.5	17,454.
Capital Work in Progress	963.8	2,239.7	1,000.0	500.
Goodwill on consolidation	1,872.3	3,173.7	3,173.7	3,173.
Investments	58.2	215.6	215.6	215.
Current Assets, Loans & Advances				
Inventories	7,893.4	9,571.6	11,810.4	14,731.
Sundry Debtors	7,439.0	10,348.9	12,556.4	15,946.
Cash and Bank Balance	2,741.8	777.7	532.9	855.
Loans and Advances	2,367.0	2,779.7	2,594.8	3,063.
Other Current Assets				
sub total	20,441.2	23,477.9	27,494.5	34,597
Less : Current Liabilities & Provisions				
Current Liabilities	6,018.8	11,504.0	12,521.0	15,001.
Provisions	1,451.1	1,827.1	2,250.2	2,474.
sub total	7,469.9	13,331.1	14,771.2	17,475
Net Current Assets	12,971.3	10,146.8	12,723.3	17,121.
Misc Expenses				
Total Assets	26,026.9	27,787.8	32,786.1	38,465.
CASHELOW				
CASH FLOW Particulars	Mar'08	Mar'09	Mar'10E	Mar'11
Profit before tax and extra ordinary items	5,402.1	6,060.4	7,312.8	9,297.
Depreciation & w.o.	647.4	879.9	1,078.2	1,219.
Net Interest Exp	373.5	498.6	614.3	793.
Direct taxes paid			(1,243.2)	(1,580.6
	(1,318.0)	(983.0) 860.4		
Change in Working Capital (Non Cash)	(3,666.7)	860.4	(2,821.3)	(4,075.8
(A) Cash Flow from Operating Activities	1,438.3	7,316.3	4,940.8	5,654.
Capex {Inc./ (Dec.) in Fixed Assets n WIP}	(5,469.2)	(4,617.4)	(3,500.0)	(2,500.0
Free Cash Flow	(4,030.9)	2,698.9	1,440.8	3,154.
Inc./ (Dec.) in Investments	(30.2)	(157.4)	0.0	0.
Other	(89.4)	(3,421.5)	(139.5)	(133.8
(B) Cash Flow from Investing Activities	(5,588.8)	(8,196.3)	(3,639.5)	(2,633.8
Issue of Equity/ Preference	965.1	377.4	1,631.7	(3,303.8
Inc./(Dec.) in Debt	3,381.2	203.9	(1,063.1)	3,000.
Interest exp net	(373.5)	(498.6)	(614.3)	(793.5
Dividend Paid (Incl. Tax)	(925.0)	(1,166.8)	(1,500.3)	(1,600.4
(C) Cash Flow from Financing	3.047.8	(1.084.1)	(1.546.1)	(2.697.6

3,047.8

(1,102.7)

3,844.5

2,741.8

(1,084.1)

(1,964.1)

2,741.8

777.7

(1,546.1)

(244.8)

777.7

532.9

(2,697.6)

322.7

532.9

855.6

Particulars	Mar'08	Mar'09	Mar'10E	Mar'11E
(A) Measures of Performance (%)	indi vo	indi oo		
Contribution Margin				
EBIDTA Margin (excl. O.I.)	21.5	19.1	19.5	20.1
EBIDTA Margin (incl. O.I.)	22.2	19.2	19.6	20.2
Interest / Sales	1.4	1.3	1.4	20.2
Gross Profit Margin	20.9	17.9	18.2	 18.8
Tax/PBT	20.3	16.2	17.0	10.0
Net Profit Margin	14.1	13.0	13.0	13.6
Het Font Margin	14.1	10.0	10.0	10.0
(B) As Percentage of Net Sales				
Raw Material	43.0	42.5	42.1	41.9
Employee Expenses	11.4	12.9	12.2	12.1
Power, Oil & Fuel	0.0	0.0	0.0	0.0
Selling & Administrative Expenses	0.0	0.0	0.0	0.0
Provisions & Write Offs	0.0	0.0	0.0	0.0
Other Expenses	29.5	27.4	27.4	26.8
(C) Measures of Financial Status				
Debt / Equity (x)	0.9	0.9	0.5	0.6
Interest Coverage (x)	17.2	14.9	14.7	14.3
Average Cost Of Debt (%)	3.6	4.1	5.3	6.3
Debtors Period (days)	100.3	100.0	101.0	105.0
Closing stock (days)	106.5	92.5	95.0	97.0
Inventory Turnover Ratio (x)	3.4	3.9	3.8	3.8
Fixed Assets Turnover (x)	1.8	2.1	2.0	2.1
Working Capital Turnover (x)	2.1	3.7	3.6	3.2
Non Cash Working Capital (Rs Mn)	10,229.5	9,369.1	12,190.4	16,266.2
(D) Measures of Investment				
EPS (Rs.) (excl EO)	46.0	56.5	67.3	86.1
EPS (Rs.)	46.0	56.5	67.3	86.1
CEPS (Rs.)	57.6	71.2	79.4	99.8
DPS (Rs.)	10.00	12.50	15.0	16.0
Dividend Payout (%)	21.7	22.1	22.3	18.6
Profit Ploughback (%)	78.3	77.9	77.7	81.4
Book Value (Rs.)	155.9	172.0	229.2	259.6
RoANW (%)	37.9	37.1	34.5	35.2
RoACE (%)	26.0	24.4	26.2	28.3
RoAIC (%) (Excl Cash & Invest.)	30.5	26.1	26.8	28.9
(E) Valuation Ratios	4 0 0 5	4 005	1 005	4.000
CMP (Rs.)	1,065	1,065	1,065	1,065
P/E (x)	23.2	18.8	15.8	12.4
Market Cap. (Rs. Mn.)	87,415.2	88,203.3	94,519.8	94,519.8
MCap/ Sales (x)	3.2	2.3	2.1	1.7
EV (Rs. Mn.)	96,702.2	99,658.3	105,156.5	107,833.8
EV/Sales (x)	3.6	2.6	2.3	1.9
EV/EBDITA (x)	15.6	13.5	11.7	9.6
P/BV (x)	6.8	6.2	4.6	4.
Dividend Yield (%)	0.9	1.2	1.4	1.5

(C) Cash Flow from Financing

Net Change in Cash

**Opening Cash balances** 

Closing Cash balances E-estimates



Tel. No.

The ratings are based on the absolute upside of our target price from the current price.

Upside > 25 % 15% - 25% 0% - 15%

< 0 %

Ratings Buy Accumulate Reduce Sell

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