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PINC Quick Bite  
Sector: Pharmaceuticals  
BSE Sensex : 16,462

**LUPIN**

BUY  
CMP Rs447  
TP Rs513

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## Lupin strengthens its position in Japan

Lupin announced the acquisition of I'rom Pharma (IP) in Japan. IP is a specialty injectables company headquartered in Tokyo. For FY11, the company clocked sales of USD70mn (JPY5,361mn). IP has a significant presence in the Diagnosis Procedure Combination (DPC) hospital segments which are fixed-rate payment hospitals and treat acute conditions. Though Lupin has not provided any details on the acquisition cost, we expect the deal to be valued between 1-1.5x Price/Sales (USD70-105mn). Lupin is also expected to fund the acquisition through a combination of debt and internal accruals. We estimate the acquisition to contribute ~4% to our FY13E sales and be marginally EPS accretive. The stock is trading at 21.0x FY12E and 18.6x FY13E earnings. We maintain 'BUY' on the stock with a target price of Rs513.

**About IP Pharma:** Established in 1947, IP is a specialty injectables company headquartered in Tokyo and a subsidiary of I'rom Holdings. For FY11, the company clocked sales of USD70mn (JPY5,361mn). IP has a significant presence in the DPC hospital segments which are fixed-rate payment hospitals and treat acute conditions. DPC hospitals promote the use of generic drugs to cut cost. There are currently over 1,400 DPC hospitals in Japan, covering over 35% of all hospital beds nationwide and has a market size of USD11bn. Thus, generic injectable penetration is slated to grow significantly in the future.

**Alliance with I'rom Holdings:** Lupin has also entered into strategic alliance with I'rom Holdings (IH). Under the agreement, IH would provide support to Kyowa, Lupin's subsidiary, for clinical studies for generic drugs in Japan.

**Our Take:** Though Lupin has not provided any details on the acquisition cost, we expect the deal to be valued between 1-1.5x Price/Sales (USD 70-105mn). Lupin is expected to fund the deal through combination of debt and internal accruals. We estimate the acquisition to contribute ~4% to our FY13E sales and to be marginally EPS accretive. The acquisition now strengthens Lupin's position in Japan and provides an entry into the injectable space in the region. Japan is a second largest pharmaceutical market with total size of USD96bn and a generic penetration of mere 23% (volume terms). The government in Japan is targeting to increase the penetration of low-cost generic drugs to 30% (volume terms) by end of FY12. Japan region is now expected to contribute ~16% to Lupin's FY13E sales (Kyowa 12% and IP 4%).

**Outlook and Valuations:** The stock is trading at 21.0x FY12E and 18.6x FY13E earnings. We are currently not changing our estimates to factor in the acquisition. We are positive on the stock given strong growth across regions (US- OC, India-increasing presence in the chronic space and Japan- strong traction expected in the generic pharma space) over the next few years. We maintain 'BUY' on the stock with a target price of Rs513.

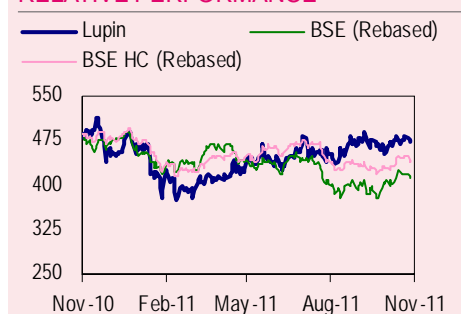
### KEY FINANCIALS (CONSOLIDATED)

|                     | (Rs mn) |        |        |        |        |
|---------------------|---------|--------|--------|--------|--------|
|                     | FY09    | FY10   | FY11   | FY12E  | FY13E  |
| Net Revenue         | 37,967  | 47,405 | 56,477 | 66,466 | 76,620 |
| YoY Gr. (%)         | 40.3    | 24.9   | 19.1   | 17.7   | 15.3   |
| Recurring EBITDA    | 6,694   | 8,536  | 10,067 | 11,499 | 13,792 |
| OPM (%)             | 17.6    | 18.0   | 17.8   | 17.3   | 18.0   |
| Reported Net Profit | 5,224   | 6,816  | 8,624  | 9,482  | 10,709 |
| YoY Gr. (%)         | 28.0    | 30.5   | 26.5   | 9.9    | 12.9   |

### KEY RATIOS

|               |      |      |      |      |      |
|---------------|------|------|------|------|------|
| Dil.EPS (Rs)  | 12.6 | 15.3 | 19.3 | 21.3 | 24.0 |
| ROCE (%)      | 26.1 | 26.9 | 24.8 | 23.7 | 23.2 |
| RONW (%)      | 38.6 | 34.1 | 29.5 | 26.0 | 24.2 |
| P/E (x)       | 35.4 | 29.1 | 23.1 | 21.0 | 18.6 |
| EV/Sales (x)  | 5.1  | 4.3  | 3.6  | 3.0  | 2.5  |
| EV/EBITDA (x) | 29.0 | 23.9 | 20.0 | 17.2 | 14.1 |

### RELATIVE PERFORMANCE



### PERFORMANCE (%)

|          | 1M    | 3M  | 12M   |
|----------|-------|-----|-------|
| Absolute | (3.8) | 1.7 | (9.4) |
| Relative | (0.5) | 1.8 | 9.7   |

**Consolidated Financials**

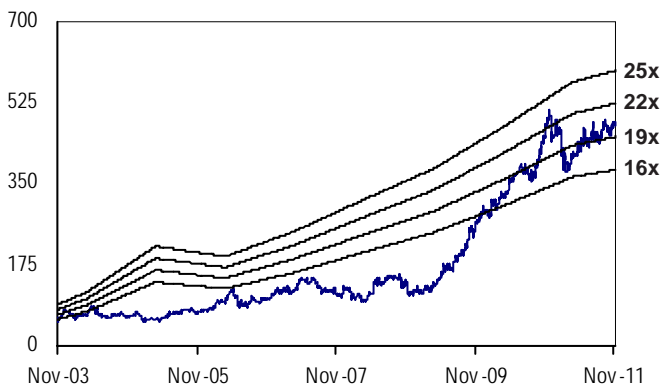
| Income Statement    | FY09   | FY10   | FY11   | FY12E  | FY13E  |
|---------------------|--------|--------|--------|--------|--------|
| Net Sales           | 37,967 | 47,405 | 56,477 | 66,466 | 76,620 |
| Growth (%)          | 40.3   | 24.9   | 19.1   | 17.7   | 15.3   |
| Gross Profit        | 21,924 | 27,711 | 34,097 | 39,879 | 45,972 |
| Growth (%)          | 42.1   | 26.4   | 23.0   | 17.0   | 15.3   |
| EBITDA              | 6,694  | 8,536  | 10,067 | 11,499 | 13,792 |
| Growth (%)          | 53.6   | 27.5   | 17.9   | 14.2   | 19.9   |
| Other Income        | 954    | 1,445  | 1,931  | 2,045  | 1,650  |
| Interest expense    | 499    | 385    | 325    | 344    | 354    |
| Depreciation        | 880    | 1,239  | 1,712  | 1,945  | 2,224  |
| EBT                 | 6,269  | 8,357  | 9,962  | 11,255 | 12,863 |
| Tax Provision       | 983    | 1,360  | 1,169  | 1,773  | 2,154  |
| Tax rate            | 15.7   | 16.3   | 11.7   | 15.8   | 16.7   |
| Minority Interest   | 62     | 180    | 168    | -      | -      |
| Reported Net Profit | 5,224  | 6,816  | 8,624  | 9,482  | 10,709 |
| Growth (%)          | 28.0   | 30.5   | 26.5   | 9.9    | 12.9   |
| Reported EPS (Rs)   | 12.6   | 15.3   | 19.3   | 21.3   | 24.0   |
| EPS Growth (%)      | 26.8   | 21.5   | 26.1   | 9.9    | 12.9   |

| Cash Flow Statement        | FY09    | FY10    | FY11    | FY12E   | FY13E   |
|----------------------------|---------|---------|---------|---------|---------|
| Pre-tax profit             | 6,269   | 8,357   | 9,963   | 11,255  | 12,863  |
| Depreciation               | 880     | 1,239   | 1,712   | 1,945   | 2,224   |
| Total Tax Paid             | (1,068) | (1,670) | (2,459) | (1,069) | (1,801) |
| Chg in working capital     | (1,739) | (1,366) | (1,510) | (1,508) | (2,392) |
| Other operating activities | 563     | -       | -       | -       | -       |
| Cash flow from oper (a)    | 4,904   | 6,560   | 7,705   | 10,623  | 10,894  |
| Capital Expenditure        | (3,387) | (6,692) | (4,276) | (4,895) | (4,420) |
| Chg in investments         | (183)   | (111)   | 30      | -       | -       |
| Other investing activities | (1,527) | (136)   | (101)   | -       | -       |
| Cash flow from inv.(b)     | (5,097) | (6,939) | (4,348) | (4,895) | (4,420) |
| Free cash flow (a+b)       | (192)   | (379)   | 3,357   | 5,728   | 6,474   |
| Equity raised/(repaid)     | 54      | 107     | 138     | -       | -       |
| Debt raised/(repaid)       | (246)   | 2,895   | 1       | (284)   | 948     |
| Dividend (incl. Tax)       | (983)   | (1,262) | (1,432) | (2,219) | (2,506) |
| Other financing activities | (496)   | -       | -       | -       | -       |
| Cash flow from fin. (c)    | (1,672) | 1,741   | (1,293) | (2,503) | (1,558) |
| Net chg in cash (a+b+c)    | (1,864) | 1,361   | 2,064   | 3,225   | 4,916   |

| Balance Sheet        | FY09    | FY10    | FY11    | FY12E   | FY13E   |
|----------------------|---------|---------|---------|---------|---------|
| Equity Share Capital | 828     | 889     | 892     | 892     | 892     |
| Reserves & surplus   | 13,420  | 24,789  | 31,918  | 39,182  | 47,385  |
| Shareholders' funds  | 14,248  | 25,678  | 32,810  | 40,074  | 48,277  |
| Minorities interests | 143     | 255     | 515     | 515     | 515     |
| Total Debt           | 12,233  | 11,399  | 11,624  | 11,340  | 12,288  |
| Capital Employed     | 26,623  | 37,332  | 44,950  | 51,930  | 61,080  |
| Net fixed assets     | 17,425  | 22,640  | 25,880  | 28,830  | 31,026  |
| Cash & Cash Eq.      | 778     | 2,015   | 4,201   | 7,427   | 12,344  |
| Other current assets | 9,369   | 13,847  | 16,248  | 17,756  | 20,148  |
| Investments          | 216     | 264     | 32      | 32      | 32      |
| Deferred tax Assets  | (1,164) | (1,435) | (1,411) | (2,115) | (2,469) |
| Total Assets         | 26,623  | 37,332  | 44,950  | 51,930  | 61,080  |

| Key Ratios                 | FY09 | FY10 | FY11 | FY12E | FY13E |
|----------------------------|------|------|------|-------|-------|
| OPM (%)                    | 17.6 | 18.0 | 17.8 | 17.3  | 18.0  |
| Net Margin (%)             | 13.8 | 14.4 | 15.3 | 14.3  | 14.0  |
| Div. Yield (%)             | 0.5  | 0.6  | 0.7  | 0.9   | 1.0   |
| Net debt/Equity (x)        | 0.8  | 0.4  | 0.2  | 0.1   | (0.0) |
| Net Working Capital (days) | 90   | 107  | 105  | 98    | 96    |
| ROCE (%)                   | 26.1 | 26.9 | 24.8 | 23.7  | 23.2  |
| RoE (%)                    | 38.6 | 34.1 | 29.5 | 26.0  | 24.2  |
| EV/Net Sales (x)           | 5.1  | 4.3  | 3.6  | 3.0   | 2.5   |
| EV/EBITDA (x)              | 29.0 | 23.9 | 20.0 | 17.2  | 14.1  |
| PER (x)                    | 35.4 | 29.1 | 23.1 | 21.0  | 18.6  |
| PCE (x)                    | 32.2 | 26.2 | 20.5 | 18.5  | 16.4  |
| Price/Book (x)             | 13.0 | 7.7  | 6.1  | 5.0   | 4.1   |

1-Year forward P/E Band



Key Assumptions

|          | FY2012E | FY2013E | CAGR (FY11-13E) |
|----------|---------|---------|-----------------|
| US       | 23,830  | 26,902  | 15.7%           |
| Japan    | 7,292   | 8,913   | 19.8%           |
| Europe   | 2,571   | 3,645   | 39.3%           |
| RoW      | 5,426   | 6,835   | 22.9%           |
| Domestic | 18,668  | 21,676  | 17.4%           |
| API      | 9,052   | 9,299   | 5.2%            |
| Total    | 66,839  | 77,271  | 16.6%           |

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