

## **Equity Research Analysis on LUPIN Ltd.**

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## **Comments by the Faculty**

The present study has analyzed the fundamentals of Lupin Ltd for the period 2012-2015. The author has taken efforts to study the performance of the Company by taking into account the macroeconomic factors, industry factors and the Company's financials. According to the findings of the study conducted by the author, the impact of macroeconomic factors on the performance of the Company was the minimum. The industry factor had an impact on the performance of the Company.

From the organizational point of view, the study provides essential inputs to Hedge Equities Ltd to take the position on the script of Lupin Ltd. It might also help the Organisation to decide about the suitability of the stock in the portfolio created by Hedge Equities Ltd. The macroeconomic findings are useful particularly for Hedge Equities Ltd in designing a general approach towards the selection of stocks of other pharmaceutical companies.

The study has profound managerial and business implication. Such analysis supplies useful and very essential information to the investing fraternity in taking a decision on investing in the stock of Lupin Ltd, mainly to the new investors and helps existing holders to decide either to 'hold' or 'sell' the stock.

**B.Venkatraja**

## **Equity Research on Lupin Ltd.**

The summer internship project in Hedge Equities Ltd., Kochi (Cochin), involved doing an Equity Research analysis on Lupin Ltd with main focus on finding out the real intrinsic worth of a share. The project required to evaluate whether the share is undervalued or overvalued. And then, give the recommendation of "BUY/SELL/HOLD". Starting from top down approach of analysing pharma industry the researcher could identify LUPIN Ltd. as the company to be researched because of its market capitalization, strong financials, strong R&D performance, and efficient management. It will be the best option to start with, for beginner and for easy understanding of equity research analysis without complications.

### **Overview**

Equity Research Analysis is a mathematical and fundamental way of looking at a company and its future prospects. Analysis or valuation of any company can be done in two ways i.e. Fundamental analysis and Technical analysis. Fundamental analysis is analysing the company with the help of financial statements of the company which will be published annually and quarterly. And technical analysis is analysing the movement of stock price in the stock markets. Equity research is more of fundamental analysis whereby one tries to project the future earnings of the company by analysing the past trends of growth of the company looking at the financial statements of the same.

When companies are expanding if they want to raise capital from the market, they should decide the price at which the shares should be offered to public which is determined with the help of equity research. Private equity firms, venture capital firms also use these models in their operations to determine fair value of the possible exit valuation.

Equity Research exercise starts with gathering together the historical financial data from the annual and quarterly reports of the company. The researcher gathered the revenue drivers of the company to check what drives the revenue and cost. After this some analysis as to how it is changing year on year (YOY) and gather data about the industry to find which stage of industry life cycle is it going through. We make some assumptions based on that to estimate a growth rate for various items. Once all this is done, we try to project the future earnings of the company. Then projections are made for the income statement, the balance sheet first and then the cash flow statement.

### **Project Objectives**

To perform stock valuation and find the intrinsic value of LUPIN Ltd. using fundamental analysis.

- **Industry Analysis:** To analyse the Pharmaceuticals industry ( focused markets in this research are: India, US and Japan) and analyse the key revenue drivers, trends, growth potential, opportunities and challenges, Government regulations and policies, economic scenario and their impact.
- **Company Analysis:** To analyse the business of Lupin Ltd, its products offerings, business divisions, subsidiaries, manufacturing plants, core competencies, strength and weaknesses.

- To perform the financial analysis of the company and create the financial model applying the relevant valuation techniques to arrive at the firm's fair value and target price.

### **Structure and Format of the Excel Sheet**

Structuring and formatting of excel sheets is very vital for conducting an equity research analysis in a proper way. One should have pre-determined styles, layout, and user interface to make the model deliver proper results. Otherwise if one makes some correction in the model somewhere it might affect various cells in the model. It can be very well said that building the model on a new excel sheet is much easier than finding and correcting a mistake.

Few tips for proper and easier modelling with respect to design and formatting are as follows:

- Referencing is very important in making a proper model. Hence, all statements should be entered in different Excel sheets so that referencing becomes easy.
- Other than the historical financial data and growth rates, it is suggested not to enter anything manually. Referencing the cells should be done everywhere possible as it avoids the task of tracking which cells are affected if one cell in the statement is changed.
- Calculations should be broken down into smaller work groups so that it becomes easy to understand.
- We should take care of circular reference which might happen when same cell has been referred in many places otherwise the output of modelling will not be reliable.
- It is important to use same number format in the entire spreadsheet be it in terms of units (crores or millions) or decimals.

### **Collection of Data and Performance Analysis**

Data for the financial modelling is basically derived from the three fundamental financial statements of the company and the revenue drivers of the company. In addition to this, conference call and earnings call transcripts are used for the purpose of our analysis. All the financial data is fed into excel, with one statement in one sheet. The entire modelling revolves around arriving at the revenue drivers and cost drivers. They are the major things that are required for the projection. Revenue drivers are as name itself says they are the ones that drive that revenue of the company. For example, number of models of cars of Toyota sold is the revenue driver of Toyota, similarly number of units of Lupin pharmaceutical products sold is the revenue drivers of Lupin Ltd. In my project on Lupin Ltd, collection of data on revenue drivers took a lot of time. The researcher had to collect yearly sales data of formulations and Active Pharma Ingredients (API). And under formulations, sales data was collected for different geographies like US, Europe, Japan, India etc. because the researchers needed to project the sales for individual geographies at individual levels based on the market scenario and the economy. One can see this in the table from model given below.

**Table 1 - Raw Data Geography Wise**

<b>FY</b>	<b>2012 (A)</b>	<b>2013 (A)</b>	<b>2014 A)</b>	<b>2015 (A)</b>
<b>Formulations</b>				
US Sales	2530.00	3769.50	4875.10	5657.60
India Sales	1905.80	2364.40	2479.50	2967.90
Europe Sales	197.50	235.60	305.40	327.90
Japan Sales	860.70	1304.00	1295.50	1323.90
S.Africa Sales	255.40	321.00	380.00	421.80
ROW Sales	360.90	517.30	637.10	706.50
	<b>6110.30</b>	<b>8511.80</b>	<b>9972.60</b>	<b>11405.60</b>
<b>API</b>	849.10	949.80	1114.00	1194.10
<b>Net Sales</b>	<b>6959.40</b>	<b>9461.60</b>	<b>11086.60</b>	<b>12599.70</b>

Source: Lupin Ltd. Annual reports.

**Table 2 - Projections – Geography Wise**

<b>FY</b>	<b>2016 [E]</b>	<b>2017 [E]</b>	<b>2018 [E]</b>	<b>2019 [E]</b>	<b>2020 [E]</b>	<b>2021 [E]</b>
Formulations						
US Sales	7641.176	9593.928	12045.72	15124.08	18989.14	23841.94
India Sales	3254.75	3569.324	3914.302	4292.623	4707.509	5162.493
Europe Sales	381.85	444.6765	517.8399	603.0411	702.2606	817.8049
Japan Sales	1541.3	1794.4	2089.061	2432.11	2831.491	3296.455
S.Africa Sales	484.1	555.6017	637.6643	731.8475	839.9416	964.0013
ROW Sales	844.6	1009.694	1207.06	1443.005	1725.07	2062.271
	<b>14147.78</b>	<b>16967.63</b>	<b>20411.65</b>	<b>24626.71</b>	<b>29795.42</b>	<b>36144.97</b>
<b>API</b>	1326.55	1473.691	1637.154	1818.747	2020.484	2244.596
<b>Net Sales</b>	<b>15474.33</b>	<b>18441.32</b>	<b>22048.8</b>	<b>26445.46</b>	<b>31815.9</b>	<b>38389.57</b>

Revenue drivers can be collected from many authentic sources available on the internet. This data of sales segment wise is available in the company website as well. By summing up the sales of from all the geographies and segments one gets the annual sales of Lupin Ltd. The entire process of modelling starts by projecting the revenue drivers for future years. Industry analysis and some more research is done to arrive at a growth rate for the sales of the company. Once this is done revenue per unit is calculated by dividing the sales of the company by number of

units sold. And based on some analysis taking into account-inflation, income levels, level of economy etc. growth rate for increase in geographic wise sales price per unit is ascertained and it is multiplied with revenue drivers for the purpose of arriving at the figure of sales.

**Performance Analysis** of the company will start from the analysis of the annual reports of the company for past few years which will contain director's report, auditor's report, management discussion and analysis and the basic financial statements of the company etc. These are all great sources of information about the company. Another kind of analysis could be analyzing risks for the company, which may be:

- Currency Risks
- Regulatory and Legal Risks
- Research Risks
- Capacity Utilization Risks
- Geographical Risks
- Environment Risks

But, my analysis was primarily focused on data points available from the company's annual reports.

### **Ratio Analysis to Determine the Financial Health**

- Liquidity Measurement Ratios
  - Current Ratio
  - Quick Ratio
  - Cash Conversion Cycle (CCC)
- Profitability Indicator Ratios
  - Gross Profit Margin
  - Net Profit Margin
  - Return on Assets
  - Return on Equity
  - Return on Capital Employed
- Investment Valuation Ratios
  - Dividend Payout Ratio
  - Price to Book Value Ratio
  - Price to Earnings Ratio
  - Dividend Yield Ratio
  - Market Capitalization to Sales Ratio
- Operating Performance Ratios
  - Fixed Assets Turnover Ratio

- Debt Ratio
- Debt Ratio
- Debt Equity Ratio
- Interest Coverage Ratio

A quick analysis has shown that Lupin's ROCE value has increased from 27.74% to 39.83%, net increment of 43.58%, this implies that the company is making judicious use of the capital employed. ROE has increased from 22.12% to 26.97% for 2014-15. Gross Profit ratio has increased from 32.97% to 40.49%. Net profit ratio has also increased from 12.75% to 16.86%. One thing very peculiar for Lupin is that it is a no-debt company. And this can be very clearly seen from the debt equity ratio of recent year which has declined from 40.85% to 9.43%. All the major profitability ratios has increased Y-O-Y basis. This implies that the company is working efficiently to convert every rupee earned in revenue to profit.

**Table 3 - Key Ratios Indicating the Financial Health of Lupin Ltd.**

Key Ratios	Mar-12	Mar-13	Mar-14
Current Ratio	1.392	1.710	2.253
Cash Conversion Cycle	94.274	91.166	92.059
Gross Profit Margin	32.97%	36.95%	40.49%
Net Profit Margin	12.75%	14.17%	16.86%
Return on Assets (ROA)	11.18%	15.16%	18.77%
Return on Equity (ROE)	22.12%	25.76%	26.97%
Return on Capital Employed	27.74%	39.37%	39.83%
Debt Equity Ratio	40.85%	22.38%	9.43%
Dividend Payout Ratio	16.24%	10.88%	17.49%
Price/Book Value Ratio	5.761	6.401	11.455
Price/Earnings Ratio	26.511	25.270	43.186
Dividend Yield Ratio	0.62%	0.54%	0.17%
Price to Sales Ratio	3.264	3.455	7.035

### Forecasting Models

The type of forecasting method you select depends on the nature of your item. Are there seasonal trends? Is demand steady, cyclical or sporadic? Are trends strong or limited? Is the item new? Because each item you forecast has a different history (and future), you should select a method most appropriate to each item. A forecasting method that fits well for one data set might be inaccurate for another item. Deciding which forecasting method to select can be challenging, especially across a large product line and using only spreadsheets. Sophisticated forecasting software can test multiple methods for each item and determine which method will give you the most accurate results.

Few methods that could be used in different situations include moving averages (when no particular trend or pattern is observed in sales), weighted moving average (when we need to lay some emphasis on some data points than on others), exponential smoothing (when more stress is to laid on recent data and you want to capture some trend or pattern), adaptive filtering (when we want to rearrange the weights and make the data get closer to reality). These are few of the different methods that could be used for the purpose of forecasting. All these methods unless backed up by proper research and analysis cannot give reliable answers.

### Forecasting Financials

Forecasting of financials starts from forecasting of revenue drivers in the models. Forecast of revenue drivers is done based on the industry analysis, research as to what drives the growth of revenue drivers etc. For example, if we are forecasting revenue drivers of Lupin i.e. number of units of pharmaceutical products that will be sold, we have to do research on what drives increase in pharmaceutical products sale i.e. it can be increase in per capita income of people, increase of lifestyle diseases, better medical insurance coverage etc. we also look at the conference call transcripts of the company which gives some indications as to what could be the growth rate of pharmaceutical products in the country and around. Based on all this one sets a percentage growth rate for specific geographies in which the company is operating. Based on this, revenue drivers are forecasted for future. Once the revenue drivers are forecasted, one calculates the sales price per unit of pharmaceutical product sold and cost per unit of pharmaceutical product sold. With the help of this one can arrive at the gross profit. Next the researcher tried to forecast the other operating expenses like staff costs, selling and administrative expenses etc. which helps in arriving at the net profit.

The method used in modelling of Lupin was “Percentage of sales method.” This method takes all costs and line items as a percentage of sales, so that it becomes easy to track and project as well. In the modelling exercise all the costs were taken as percentage of sales which can be seen from the Table 4.

**Table 4 - Percentage of Sales Method in Modelling**

<b>As a Percentage of Net Sales</b>	<b>Mar 12 [A]</b>	<b>Mar 13 [A]</b>	<b>Mar 14 [A]</b>	<b>Mar 15 [A]</b>	<b>Mar 16 [E]</b>
Raw Material Consumed	38.41%	35.96%	33.10%	33.10%	33.10%
Power & Fuel Cost	3.86%	3.38%	3.02%	3.02%	3.02%
Employee Cost	13.93%	13.39%	13.21%	13.51%	13.51%
Other Manufacturing Expenses	10.82%	10.32%	10.19%	10.19%	10.19%
General and Administration Expenses	6.77%	7.31%	7.31%	7.31%	7.31%
Selling and Distribution Expenses	9.31%	7.50%	6.99%	7.93%	7.93%
Miscellaneous Expenses	2.34%	1.95%	2.56%	2.28%	2.28%
Other Income	0.20%	0.29%	1.03%	2.00%	1.52%
Depreciation	3.21%	3.45%	2.31%	3.00%	2.92%



For further years, based on the historical average, inflation, GDP growth rate and various other parameters a growth rate will be fixed and cost items will be forecasted. For projecting accounts receivables and payables, we look at the historical trend and if we observe there is no much volatility we use the average of last 3 year's day's payables and receivables for forecasting into future. If we observe too much volatility and then we have to dig down and find out the reason why it is so and then fix a growth rate based on the observation. Capital expenditure has to be done by companies to grow their businesses. This could be in the form of new plant or new building. Capital expenditure projections for the 1<sup>st</sup> two three years can be done with the guidance of the management or we can even get planned capital expenditure from the conference call transcript of the company and such announcements made by the company. Over the long term capital expenditure has to be in-line to maintain the revenue to gross assets ratio.

### **Cash Flow**

Forecasting the free cash flow for future years is very important output of modelling as it is the one which shows the future profitability of the company. Business have to generate free cash flow over long run in order to meet the financial needs of the organization. It can be paying of dividends to owners of the company (equity shareholders), interest, meeting capital expenditure, paying dividend to preference shareholders. In essence of analysis and valuation, free cash flow is expressed as operating cash flow less, any capital expenditure essential to maintain the current growth rate.

Investors prefer using free cash flow instead of net income to measure a company's financial performance, because free cash flow is more difficult to manipulate than net income. Negative free cash flow is not always a bad thing, if there are huge investments in new capacities, which would enhance growth over the years it is good and creates value for shareholders.

Free cash flow is determined for the projected years, which could be five years or ten years. Companies continue to operate and generate cash flow after the projected period. This means companies live into perpetuity. To project cash flows after a few years is extremely difficult task and the present value of cash flows far into future will have little impact, to solve the problem we use terminal value.

Terminal value is the value of all the future cash flows of the company from the end of the projected period to perpetuity. Terminal value is a factor of free cash flow of the last year of the projected period, long term growth rate and weighted average cost of capital of the company. Terminal value is the product of free cash flow of one year forward at the end of the projected (FCFn+1 = FCFn x (1+long term growth rate) period and terminal multiple ( 1/(Weighted Average Cost of Capital - Long term growth rate))

We can see the cash flows projected in Lupin financial model from the Table 5.

**Table 5 – Part A: Calculation of Free Cash to the Firm (FCFF)**

PART A	Actual				Forecast					
	FY2012 [A]	FY2013 [A]	FY2014 [A]	FY 2015 [A]	FY 2016 [E]	FY 2017 [E]	FY 2018 [E]	FY 2019 [E]	FY 2020 [E]	FY2021 [E]
<b>Full year Sales</b>	6959.40	9461.60	11086.60	12599.70	15474.33	18441.32	22048.80	26445.46	31815.90	38389.57
Sales Reduction	0.00	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Full Year Net Sales</b>	<b>6959.40</b>	<b>9461.60</b>	<b>11086.60</b>	<b>12599.70</b>	<b>15474.33</b>	<b>18441.32</b>	<b>22048.80</b>	<b>26445.46</b>	<b>31815.90</b>	38389.57
Other Operating Income	0	0	0	0	0	0	0	0	0	0
<b>Net Sales &amp; Other Operating Income</b>	6959.40	9461.60	11086.60	12599.70	15474.33	18441.32	22048.80	26445.46	31815.90	38389.57
<b>Total Expenditure</b>	5638.20	7371.41	8283.78	9440.64	11646.59	13869.20	16528.83	19857.70	23880.72	28806.65
<b>PBIDT (Excluding Other Income)</b>	1321.20	2090.19	2802.82	3159.06	3827.73	4572.11	5519.97	6587.75	7935.18	9582.91
Other Income	14.35	27.85	116.48	239.70	234.44	279.39	369.68	414.90	504.87	618.38
<b>Operating Profit</b>	1335.55	2118.04	2919.30	3398.76	4062.17	4851.50	5889.65	7002.65	8440.05	10201.29
Interest	35.47	40.95	26.65	13.77	10.66	9.13	7.30	6.22	5.31	4.55
Exceptional Items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>PBDT</b>	1300.08	2077.09	2892.65	3384.99	4051.51	4842.37	5882.36	6996.44	8434.74	10196.75
Depreciation	227.52	332.19	260.97	434.70	451.85	538.49	643.83	772.21	929.02	1120.98
<b>PBT</b>	1072.56	1744.90	2631.68	2950.29	3599.66	4303.88	5238.53	6224.23	7505.72	9075.77
Tax	308.56	584.16	962.15	970.40	899.91	1075.97	1309.63	1556.06	1876.43	2268.94
<b>Profit After Tax</b>	764.00	1160.74	1669.53	1979.89	2699.74	3227.91	3928.90	4668.17	5629.29	6806.83
Minority Interest	19.86	26.28	33.13	33.79	34.46	35.15	35.85	36.56	37.29	38.03
<b>Consolidated Net Profit</b>	783.86	1187.02	1702.66	2013.68	2734.21	3263.06	3964.74	4704.73	5666.57	6844.86
PAT Margin	0.11	0.12	0.15	0.16	0.17	0.18	0.18	0.18	0.18	0.18
EPS	17.48	26.47	37.97	44.91	60.98	72.78	88.42	104.93	126.38	152.66

**Table 5 – Part B: Calculation of Free Cash to the Firm (FCFF)**

PART B	Actual				Forecast					
	FY2012 [A]	FY2013 [A]	FY2014 [A]	FY 2015 [A]	FY 2016 [E]	FY 2017 [E]	FY 2018 [E]	FY 2019 [E]	FY 2020 [E]	FY2021 [E]
<b>PAT</b>	783.86	1187.02	1702.66	2013.68	2734.21	3263.06	3964.74	4704.73	5666.57	6844.86
<b>Net</b>	<b>784</b>	<b>1,187</b>	<b>1,703</b>	<b>2,014</b>	<b>2,734</b>	<b>3,263</b>	<b>3,965</b>	<b>4,705</b>	<b>5,667</b>	<b>6,845</b>
Add back Depreciation	227.52	332.19	260.97	434.70	451.85	538.49	643.83	772.21	929.02	1120.98
Less Capex	551.40	487.10	437.60	790.20	850.00	400.00	400.00	400.00	400.00	400.00
Inventories	1732.67	1,949	2,129	2,589	3,147	3,826	4,651	5,654	6,873	8,356
Debtors	1780.01	2186.99	2464.10	3046.59	3766.78	4657.21	5758.14	7119.31	8,655	10,521
Loans and advances	306.12	339.67	301.69	312.46	323.61	335.17	347.13	359.53	437	531
Other current assets	121.05	232.66	231.30	236.15	241.09	246.14	251.30	256.56	312	379
Liabilities & provisions	3120.30	3006.92	2629.55	3509.00	4682.57	6248.65	8338.49	11127.28	13,527	16,445
Net Working Capital	820	1,701	2,497	2,675	2,796	2,816	2,669	2,262	2,750	3,343
Change in Net Working Capital		882	796	178	121	20	-147	-407	488	593
FCFF	460	150	730	1,480	2,215	3,382	4,355	5,484	5,708	6,973
Terminal Value										94976.474
<b>FCFF for NPV Calculation</b>	<b>460</b>	<b>150</b>	<b>730</b>	<b>1,480</b>	<b>2,215</b>	<b>3,382</b>	<b>4,355</b>	<b>5,484</b>	<b>5,708</b>	<b>1,01,949</b>

## Valuation

Valuation is the process of determining the current worth of an asset or company. There are many techniques that can be used to determine value, some are subjective and others are objective. The whole objective of financial modelling exercise is to find the value of the stock of the company. By finding this out we will be able to say whether the company is over-valued or under-valued. Valuation can be classified into absolute valuation and relative valuation. Absolute valuation is finding the present value of future cash flows of the company. The second method is relative valuation, where the stocks are priced in relation to their peers by various methods based on earnings, book value, enterprise value to sales etc. Absolute valuation is the present value of the cash flows that we calculate in the financial modelling exercise. Discount rate will be the cost of capital which can be found out using capital asset pricing model and we find out the present value, then we divide it by number of shares outstanding to find out the value of the share.

Free cash flow can be calculated in various ways. One way is to take profit after tax and as a first step add back depreciation and amortization expenses because they are non-cash expenditure and a positive cash flow for the company. Then second step is adjusting working capital changes. It includes all the items components that form part of the operating activities. The key is to follow a consistent approach on how the calculations is done, as long as the direction of cash flow is clear and applied it should not change the ultimate result. For the purpose of valuation we deduct interest income and income generated from investments adjusted for taxes (interest income x (1-tax rate)) from cash flow calculations.

Formula to calculate FCFF:

$$\text{FCFF} = \text{NI} + \text{NCC} + [\text{Int} * (1 - \text{tax rate})] - \text{FCInv} - \text{WCInv}$$

Wherein,

NI = Net income,

NCC = Noncash expenses,

FCInv = capital expenditure

WCInv = changes in working capital

In the valuation process calculation of cost of capital & growth rate becomes important. Cost of capital can be calculated with the help of weighted average cost of capital. Companies raise capital from different sources like equity, debt, preference shares and retained earnings. The cost of capital is the minimum return that should be earned by the company to satisfy all the suppliers of capital. Dividend should be paid to shareholders and interest should be paid to debt holders. So that minimum amount of profits that the company should earn is the cost of capital. Weighted average cost of capital is broadly a factor a cost of debt and cost of equity where as other forms of financing will cost fall in between the two poles. To determine the cost of debt, the easiest is to see the cost of debt on the company balance sheet. Cost of equity is

calculated using typical capital asset pricing model (CAPM) method. Cost of equity is a factor of risk free rate, market premium and beta. Beta is the measure of volatility of the stock in relation to the market. It can be calculated manually using regression analysis or another formula (covariance of asset/ variance of market). The third component of cost of equity is to determine the market premium which is the difference between expected market return and risk free rate.

Enterprise value is calculated as market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents. The reason for using enterprise value is in the event of a buyout; an acquirer would have to take on the company's debt, but will also get the cash. Enterprise value differs significantly from simple market capitalization in several ways, and many consider it to be a more accurate representation of a firm's value. The value of a firm's debt, for example, would need to be paid by the buyer when taking over a company, thus EV provides a much more accurate takeover valuation because it includes debt in its value calculation.

In this study, in financial modelling exercise all the cash flows projected are at the company level and this is used to calculate the enterprise value to arrive at a fair market price for the stock. Enterprise value for the financial modelling exercise is the net present value (NPV) of the projected cash flows and terminal value for the company. Enterprise value includes all forms of shareholders like debt, minority interest, preferred equity and equity holders.

The objective of modelling exercise is to identify the fair value for the stock, so from the enterprise value we deduct debt, minority interest, and add cash and investments to arrive at the fair market value of the company. Fair market value divided by the number of shares outstanding would give us the fair market value per share. This is how we calculate the intrinsic value of share using discounted cash flow. We perform relative valuation as well to compare the intrinsic value with peers on various metrics like price to book value, earnings per share, enterprise value to sales etc. in order to arrive at a fair band within which the share's intrinsic value lies. Based on this value we take a position in the stock.

## Final Results

DCF Price	1,641
PE Price	1,829
Target Weighted Price	1,735
MOS	10%
Price after MOS	1,438
Closing Price as on 26-05-2015	1,752

## Summary

- After the thorough analysis of the company's fundamentals, the industry perspectives and the geographic based opportunities and challenges, the fundamental analysis for the LUPIN Ltd. was done.
- Not many macroeconomic parameters like GDP growth, consumer spending and changing interest rates affects the industry as key drugs form the necessity rather than the luxury.
- The company has an experienced management team and strong business fundamentals, and it has shown continuous above average growth in last 3 years.
- The company is now much aggressive on the acquisition front with a calibre to spend USD \$ 1 to 1.2 Billion.

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