

Cipla (CIPLA)

One-offs impact margins; blur visibility going ahead

- Revenues grew 5.6% YoY to ₹ 3267 crore, (I-direct estimate: ₹ 3196 crore) on account of 15.8% growth in domestic formulations to ₹ 1258 crore (I-direct estimate: ₹ 1140 crore). Export formulations grew 3.2% YoY to ₹ 1744 crore (I-direct estimates: ₹ 1824 crore).
- EBITDA margins decreased 971 bps to 6.7% (I-direct estimate: 17.7%) on account of 1) inventory write-off and reduction, 2) incremental R&D spending and 3) other one-offs. EBITDA de-grew 56.9% YoY to ₹ 219 crore (I-direct estimate: ₹ 565.4 crore).
- Net profit de-grew 68.9% YoY to ₹ 80.9 crore, (I-direct estimate: ₹ 299.1 crore) mainly on account of a poor operational performance.

Products launches, front end shift key for formulation exports growth

Formulation exports constitute ~56% of the total revenues. To improve the quality of exports, Cipla has undertaken scores of measures off-late. Partnership deals and participation in global tenders were the growth drivers in the past for exports. The focus has now shifted to front-end model especially for the US and a gradual shift from loss making HIV and other tenders to more lucrative respiratory and other opportunities in US and EU. The acquisition of US based Invagen will strengthen Cipla's transformation from back-end to front-end. Similarly recent acquisitions in Africa and other geographies is testimony to this transformation. We expect export sales to grow at a CAGR of 14.7% to ₹ 11058.6 crore during FY16P-18E. Key drivers will be 1) launch of combination inhalers in the developed markets, 2) incremental product launches in the US 3) Increase ARV tender business 4) Medpro consolidation.

Indian formulations growth backed by continuous new launches

With ~5% market share, Cipla is the second largest player in the domestic formulations market. The Acute, Chronic and sub-chronic revenues for the company stands at 43%, 51% and 6%. Domestic formulations comprise ~37% of total revenues. It commands ~20% market share in the respiratory segment. We expect domestic formulations to grow at a CAGR of 16% during FY16P-18E to ₹ 6881.1 crore driven by improved productivity of the newly inducted field force and incremental product launches.

Product rationalisation to be the key; to impact near term margins

In its quest to transform itself from back end to front end (albeit late) the company has initiated some structural changes at the cost of margins such as 1) higher R&D cost on the back of incremental product filings across geographies, 3) higher staff cost on the back of hiring at the global level and 4) higher front-end and SG&A expenses. These measures are likely to dent the base EBITDA margins in the near to mid-term.

Margins enigma to weigh in the near term; downgrade to HOLD

Q4 results were completely subdued on the profitability front due to multiple one-offs and restructuring in exports business. However, what came as a negative surprise from the management commentary was an exceptionally conservative margin guidance (16-18% for base business for the next 0-3 years). This is despite factoring respiratory and other interesting launches in the developed markets. Frequent restructuring indicates that the management is still some distance away from a sustainable business model. In this backdrop the street is likely to focus only on the profitability aspect. In synch with the guidance we have downgraded our FY17E/18E EPS estimates by 18.3%/20.5% to ₹ 19.9/₹ 26.2. What will add to the misery will be the poor return ratios besides margins and like-to-like peer comparison. Our new target price stands at at ₹ 470 based on 18x (earlier 21x) FY18E EPS of ₹ 26.2.

| Rating matrix | |
|------------------|----------------|
| Rating | : Hold |
| Target | : ₹ 470 |
| Target Period | : 15-18 months |
| Potential Upside | : 0% |

| What's Changed? | |
|-----------------|-------------------------------|
| Target | Changed from ₹ 690 to ₹ 470 |
| EPS FY16P | Changed from ₹ 21.7 to ₹ 18.8 |
| EPS FY17E | Changed from ₹ 24.4 to ₹ 19.9 |
| EPS FY18E | Changed from ₹ 32.9 to ₹ 26.2 |
| Rating | Changed from Buy to Hold |

| Quarterly Performance | | | | | |
|-----------------------|---------|---------|----------|---------|----------|
| | Q4FY16 | Q4FY15 | YoY (%) | Q3FY16 | QoQ (%) |
| Revenue | 3,266.5 | 3,092.7 | 5.6 | 3,106.6 | 5.2 |
| EBITDA | 219.0 | 507.7 | -56.9 | 453.7 | -51.7 |
| EBITDA (%) | 6.7 | 16.4 | -971 bps | 14.6 | -790 bps |
| Net Profit | 80.9 | 259.7 | -68.9 | 343.2 | -76.4 |

| Key Financials | | | | | |
|----------------|---------|---------|---------|---------|--|
| (₹crore) | FY15 | FY16P | FY17E | FY18E | |
| Revenues | 11345.4 | 13678.3 | 16129.4 | 18477.9 | |
| EBITDA | 2161.7 | 2501.1 | 2761.6 | 3349.2 | |
| Adjusted PAT | 1180.8 | 1505.9 | 1600.7 | 2101.3 | |
| Adj. EPS (₹) | 14.7 | 18.8 | 19.9 | 26.2 | |

| Valuation summary | | | | | |
|-------------------|------|-------|-------|-------|--|
| | FY15 | FY16E | FY17E | FY18E | |
| PE (x) | 32.0 | 25.1 | 23.6 | 18.0 | |
| Target PE (x) | 32.0 | 25.1 | 23.6 | 18.0 | |
| EV to EBITDA (x) | 17.8 | 16.7 | 14.8 | 11.9 | |
| Price to book (x) | 3.5 | 3.2 | 2.9 | 2.5 | |
| RoNW (%) | 10.9 | 12.7 | 12.1 | 14.1 | |
| RoCE (%) | 13.8 | 12.1 | 13.1 | 16.0 | |

| Stock data | |
|-----------------------|---------------|
| Particular | Amount |
| Market Capitalisation | ₹ 39763 crore |
| Debt (FY16P) | ₹ 5191 crore |
| Cash (FY16P) | ₹ 871 crore |
| EV | ₹ 44083 crore |
| 52 week H/L (₹) | 748/492 |
| Equity capital | ₹ 161 crore |
| Face value | ₹ 2 |

| Price performance (%) | | | | |
|-----------------------|------|-------|-------|-------|
| | 1M | 3M | 6M | 1Y |
| Cipla | -7.0 | -3.9 | -22.5 | -26.7 |
| Lupin | -6.0 | -16.8 | -21.3 | -15.6 |
| Sun Pharma | -5.8 | -9.6 | 9.4 | -23.1 |

| Research Analyst | |
|--------------------|--|
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Variance analysis

| | Q4FY16 | Q4FY16E | Q4FY15 | Q3FY16 | YoY (%) | QoQ (%) | Comments |
|----------------------------------|---------|---------|---------|---------|-----------|----------|---|
| Revenue | 3,266.5 | 3,195.7 | 3,092.7 | 3,106.6 | 5.6 | 5.2 | YoY growth attributed to ~15% growth in domestic formulations which was partially offset by mere 3.2% growth in export formulations |
| Raw Material Expenses | 1,416.0 | 1,182.4 | 1,158.8 | 1,233.8 | 22.2 | 14.8 | |
| Gross Profit | 1,850.6 | 2,013.3 | 1,933.9 | 1,872.7 | -4.3 | -1.2 | |
| Gross Margin (%) | 56.7 | 63.0 | 62.5 | 60.3 | -588 bps | -363 bps | Gross margins were impacted due to inventory write-off and reduction |
| Employee Expenses | 659.1 | 591.2 | 514.7 | 586.2 | 28.1 | 12.4 | YoY increase in employee cost mainly due to one-offs |
| Other Expenditure | 972.5 | 856.7 | 911.5 | 832.8 | 6.7 | 16.8 | |
| Total Operating Expenditure | 3,047.6 | 2,630.3 | 2,585.0 | 2,652.8 | 17.9 | 14.9 | |
| EBITDA | 219.0 | 565.4 | 507.7 | 453.7 | -56.9 | -51.7 | |
| EBITDA (%) | 6.7 | 17.7 | 16.4 | 14.6 | -971 bps | -790 bps | Margins were impacted by write-off and reduction of inventory, higher R&D spend and one-offs |
| Interest | 36.8 | 50.0 | 43.4 | 23.0 | -15.2 | 60.2 | |
| Depreciation | 141.4 | 137.5 | 135.7 | 137.5 | 4.2 | 2.9 | |
| Other income | 54.7 | 24.9 | 61.2 | 79.3 | -10.6 | -31.0 | |
| PBT before EO | 95.5 | 402.9 | 389.8 | 372.6 | -75.5 | -74.4 | |
| Less: Exceptional Items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| PBT | 95.5 | 402.9 | 389.8 | 372.6 | -75.5 | -74.4 | |
| Tax | -3.9 | 88.6 | 103.0 | 12.0 | PL | PL | Included MAT credit of ~₹ 55 crore in Q4FY16 |
| Tax Rate (%) | -4.1 | 22.0 | 26.4 | 3.2 | -3051 bps | -730 bps | |
| MI & Share of loss/ (gain) asso. | 18.5 | 15.2 | 27.1 | 17.4 | -31.7 | 6.4 | |
| Net Profit | 80.9 | 299.1 | 259.7 | 343.2 | -68.9 | -76.4 | De-growth was mainly in Sync with EBITDA. Increase in depreciation, interest cost and lower other income was largely offset by tax write-back |
| Key Metrics | | | | | | | |
| Domestic | 1258.0 | 1140.3 | 1086.0 | 1194.0 | 15.8 | 5.4 | YoY growth was due to incremental product launches and strong growth in respiratory and other key segments |
| Export Formulations | 1744.0 | 1823.6 | 1690.0 | 1833.0 | 3.2 | -4.9 | YoY growth was impacted mainly due to restructuring in Europe and accounting adjustment in South Africa |
| Export API | 204.0 | 150.3 | 205.0 | 143.0 | -0.5 | 42.7 | |

Source: Company, ICICIdirect.com Research

Change in estimates

| ₹ Crore) | FY17E | | | FY18E | | | Comments |
|-------------------|----------|----------|----------|----------|----------|----------|--|
| | Old | New | % Change | Old | New | % Change | |
| Revenues | 16,910.8 | 16,129.4 | -4.6 | 19,382.4 | 18,477.9 | -4.7 | Revised our estimates downward due to restructuring in European business and currency impact |
| EBITDA | 3,193.2 | 2,761.6 | -13.5 | 4,022.4 | 3,349.2 | -16.7 | |
| EBITDA Margin (%) | 18.9 | 17.1 | -178 bps | 20.8 | 18.1 | -267 bps | Changed as per management guidance |
| PAT | 1,955.4 | 1,600.7 | -18.1 | 2,641.0 | 2,101.3 | -20.4 | Decline mainly in sync with operational performance |
| EPS (₹) | 24.4 | 19.9 | -18.3 | 32.9 | 26.2 | -20.5 | |

Source: Company, ICICIdirect.com Research

Assumptions

| ₹ crore) | Current | | Earlier | | Comments | | |
|---------------------|---------|---------|---------|---------|----------|---------|--|
| | FY15 | FY16P | FY17E | FY18E | | | |
| Domestic | 4,825.0 | 5,111.0 | 5,983.6 | 6,881.1 | 6,112.8 | 7,029.7 | |
| Export Formulations | 5425.6 | 7624.8 | 8988.1 | 10336.3 | 9674.0 | 11125.1 | Revised our estimates downward due to restructuring in European business and currency impact |
| API | 631.9 | 779.0 | 688.0 | 722.4 | 631.5 | 663.1 | |

Source: Company, ICICIdirect.com Research

Company Analysis

Formed by Dr KA Hamied way back in 1935, Cipla is one of the oldest ventures set up by an Indian in the pre-independence era. With 34 manufacturing facilities spread over seven different locations, Cipla has a gamut of therapeutic offerings ranging from simple anti-infectives to complex oncology products. The product basket includes ~2000+ products encompassing almost all therapies and over 40 dosage forms. The facilities have been approved by various agencies such as the USFDA, WHO-Geneva, MHRA-UK, TGA-Australia, SUKL-Slovak Republic, APVMA-Australia, MCC-South Africa, PIC-Germany, Danish Medical Agency, ANVISA-Brazil, INVIMAColombia, NDA-Uganda, Department of Health-Canada and MOH-Saudi Arabia, among others. So far, the company has not faced any cGMP issues or import alerts from any regulatory authorities.

Cipla's business model focuses on having marketing partnerships with local companies across the globe. Most partners are large generic players in developed countries. The company has partnership deals with ~22 partners in the US and ~65 in Europe. Cipla has also formed strategic alliances for product development, registration and distribution of its products. For the non-regulated markets, the company has maintained long-standing relationships with non-government organisations and institutions globally. However, recent JVs and buying out front-end companies stakes in majority of its markets shows Cipla's clear intension to shifting its partnership model to own front-end model in almost all markets including the US.

Exports constitute around ~61% of total sales. The company exports both APIs and formulations to more than 170 countries including advanced regions such as the US and Europe. Cipla derives 34% of its export revenues from North and Latin America followed by 33% from Africa, 14% from Europe, 13% from Australasia and 6% from the Middle East.

On the product filing front, Cipla has filed 168 ANDAs and ~200 DMFs with the USFDA cumulatively. It has 90 approved products so far in the US market. As far as other geographies are concerned, the count is ~1000 DMFs for 100 odd APIs. Similarly, ~30 of Cipla's products are pre-qualified for WHO tenders. The company spends ~6% of revenues on R&D.

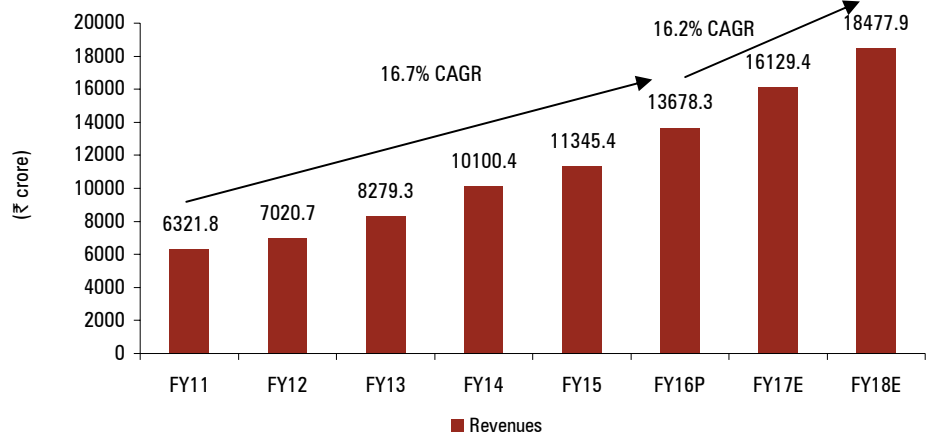
The company acquired two US-based companies, InvaGen Pharmaceuticals and Exelan Pharmaceuticals. InvaGen Pharma has 40 approved ANDAs, 32 marketed products, and 30 pipeline products which it expects to get approvals over the next four years. The above pipeline also includes five FTFs which represent a market size of ~\$8 billion in revenue by 2018. The transaction is valued at US\$ 550 million and is an all cash deal. The combined revenues of these two companies in CY14 were ~US\$ 200 million (~US\$ 225 million TTM June 2015) with EBITDA margins of ~25%. Its revenue grew at ~20% CAGR over the last 3 years.

In the domestic market, Cipla remains among the top five players, thanks to a gamut of product offerings, which covers almost all therapies built on a network of ~7500 medical representatives (MRs) covering a doctor base of ~5,00,000. As per the latest AIOCD ranking (MAT December 2015), Cipla ranks second with market share of ~5%. Breaking it down further, its ranking in acute therapies stands at 1 with a market share of 4.3%. Similarly, its chronic ranking is 2 with a market share of 6.8%.

Respiratory therapy accounts for ~20% of Cipla's turnover. The company introduced Salbutamol tablets in 1976 and Salbutamol inhaler in 1978 for the first time in India. Since then, Cipla has consistently introduced new products for asthma, chronic obstructive pulmonary disease (COPD) and allergic rhinitis (AR). More recently, the company did the same in other diseases such as pulmonary arterial hypertension (PAH), lung cancer and idiopathic pulmonary fibrosis (IPF).

Overall we expect revenues to grow at a CAGR of 16.2% in FY16P-18E to ₹ 18477.9 crore driven by incremental product launches in the Europe and other geographies.

Exhibit 1: Revenues to grow at a CAGR of 16.2% in FY16P-18E



Source: Company, ICICIdirect.com Research

Exhibit 2: Consolidated Revenues Break up

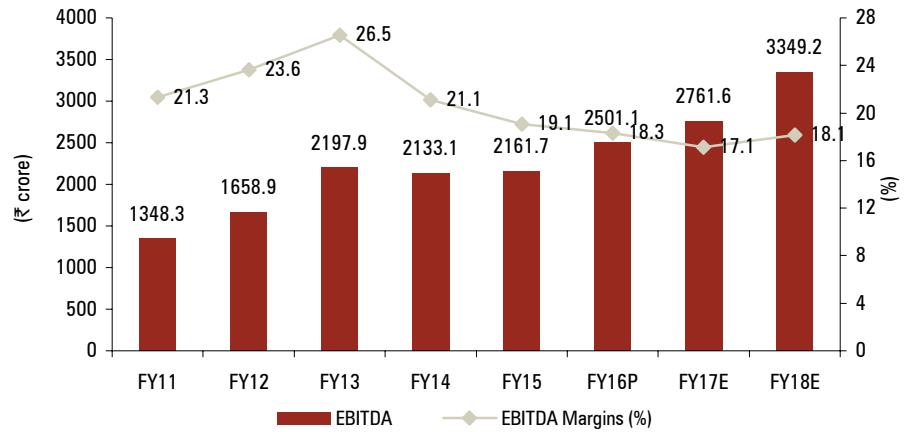
| (₹ crore) | FY15 | FY16E | FY17E | FY18E |
|---------------------|--------|--------|--------|---------|
| Domestic | 4825.0 | 5111.0 | 5983.6 | 6881.1 |
| Export APIs | 631.9 | 779.0 | 688.0 | 722.4 |
| Export Formulations | 5425.6 | 7624.8 | 8988.1 | 10336.3 |

Source: Company, ICICIdirect.com Research

Formulation exports constitute ~56% of the total revenues. To improve the quality of exports, Cipla has undertaken scores of measures off-late. Partnership deals and participation in global tenders were the growth drivers in the past for exports. The focus has now shifted to front-end model especially for the US and a gradual shift from loss making HIV and other tenders to more lucrative respiratory and other opportunities in US and EU. Recent acquisitions in Africa and other geographies is testimony to this transformation. We expect export sales to grow at a CAGR of 14.7% to ₹ 11058.6 crore during FY16P-18E. Key drivers will be 1) launch of combination inhalers in EU markets, 2) incremental product launches by its partners and increase in own product filings in the US 3) reduced focus on the ARV tender business & at the same time increased focus on PEPFAR like tenders 4) and 4) Medpro consolidation.

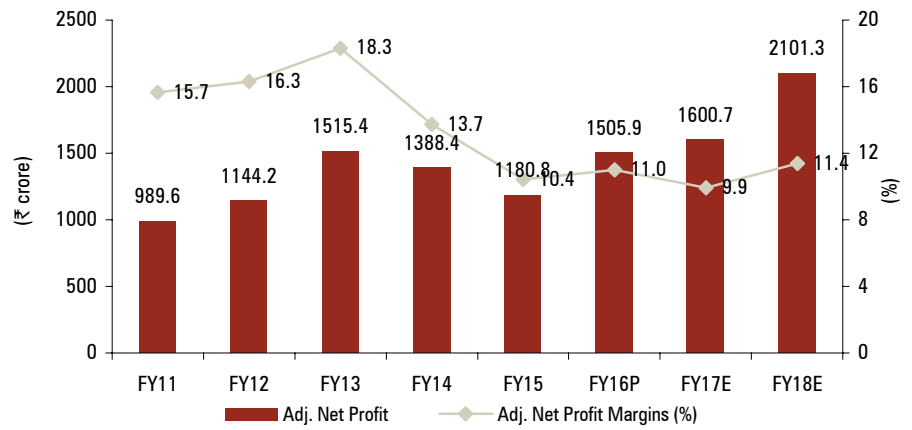
With ~5% market share, Cipla is the second largest player in the domestic formulations market. The Acute: Chronic: Sub-chronic ratio for the company stands at 43:51:6. Domestic formulations comprise ~37% of total revenues. It commands ~20% market share in respiratory segment. We expect domestic formulations to grow at a CAGR of 16% during FY16P-18E to ₹ 6881.1 crore driven by improved productivity of the newly inducted field force and incremental product launches.

Exhibit 3: EBITDA to grow at a CAGR of 15.7% in FY16P-18E



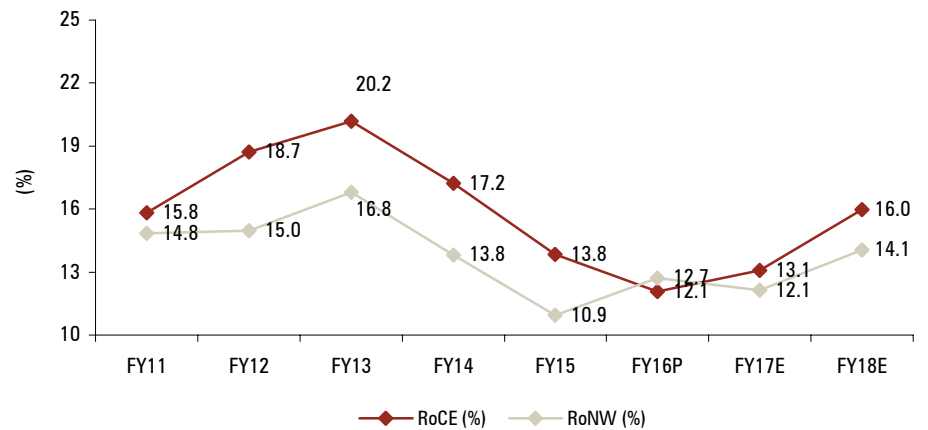
Source: Company, ICICIdirect.com Research

Exhibit 4: Adjusted net profit to grow at a CAGR of 18.1% in FY16P-18E



Source: Company, ICICIdirect.com Research

Exhibit 5: Trends in return ratios



Source: Company, ICICIdirect.com Research

Exhibit 6: Trends in quarterly financials

| (₹ crore) | Q4FY14 | Q1FY15 | Q2FY15 | Q3FY15 | Q4FY15 | Q1FY16 | Q2FY16 | Q3FY16 | Q4FY16 | YoY (%) | QoQ. (%) |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| Net Sales | 2445.3 | 2647.2 | 2629.8 | 2624.7 | 2980.7 | 3776.8 | 3361.7 | 3027.3 | 3206.7 | 7.6 | 5.9 |
| Other Operating Income | 90.2 | 72.8 | 137.5 | 140.8 | 112.0 | 76.0 | 90.7 | 79.3 | 59.9 | -46.5 | -24.5 |
| Total Operating Income | 2535.6 | 2720.0 | 2767.3 | 2765.5 | 3092.7 | 3852.8 | 3452.4 | 3106.6 | 3266.5 | 5.6 | 5.2 |
| Raw Material Expenses | 1003.5 | 1025.2 | 1015.9 | 989.8 | 1158.8 | 1251.6 | 1216.9 | 1233.8 | 1416.0 | 22.2 | 14.8 |
| Gross Profit | 1532.0 | 1694.8 | 1751.4 | 1775.7 | 1933.9 | 2601.2 | 2235.5 | 1872.7 | 1850.6 | -4.3 | -1.2 |
| Gross Profit Margins | 60.4 | 62.3 | 63.3 | 64.2 | 62.5 | 67.5 | 64.8 | 60.3 | 56.7 | -588 bps | -363 bps |
| Employee Expenses | 427.9 | 480.0 | 473.5 | 505.5 | 514.7 | 620.3 | 585.9 | 586.2 | 659.1 | 28.1 | 12.4 |
| % of revenues | 16.9 | 17.6 | 17.1 | 18.3 | 16.6 | 16.1 | 17.0 | 18.9 | 20.2 | 353 bps | 131 bps |
| Other Expenditure | 694.8 | 673.0 | 719.4 | 716.4 | 911.5 | 941.9 | 860.2 | 832.8 | 972.5 | 6.7 | 16.8 |
| % of revenues | 27.4 | 24.7 | 26.0 | 25.9 | 29.5 | 24.4 | 24.9 | 26.8 | 29.8 | 30 bps | 296 bps |
| Total Expenditure | 2126.3 | 2178.2 | 2208.9 | 2211.6 | 2585.0 | 2813.8 | 2663.0 | 2652.8 | 3047.6 | 17.9 | 14.9 |
| EBITDA | 409.3 | 541.8 | 558.4 | 553.8 | 507.7 | 1039.0 | 789.4 | 453.7 | 219.0 | -56.9 | -51.7 |
| EBITDA (%) | 16.1 | 19.9 | 20.2 | 20.0 | 16.4 | 27.0 | 22.9 | 14.6 | 6.7 | -971 bps | -790 bps |
| Interest | 34.1 | 33.3 | 46.9 | 44.7 | 43.4 | 51.4 | 50.3 | 23.0 | 36.8 | -15.2 | 60.2 |
| Depreciation | 105.0 | 125.4 | 122.0 | 121.6 | 135.7 | 128.8 | 134.0 | 137.5 | 141.4 | 4.2 | 2.9 |
| Other Income | 77.5 | 40.4 | 23.3 | 40.7 | 61.2 | 48.9 | 25.9 | 79.3 | 54.7 | -10.6 | -31.0 |
| PBT | 347.7 | 423.5 | 412.8 | 428.2 | 389.8 | 907.8 | 631.1 | 372.6 | 95.5 | -75.5 | -74.4 |
| Total Tax | 75.3 | 101.9 | 100.7 | 94.4 | 103.0 | 250.3 | 181.2 | 12.0 | -3.9 | -103.8 | -132.6 |
| PAT before MI | 272.4 | 321.6 | 312.1 | 333.7 | 286.8 | 657.5 | 449.9 | 360.6 | 99.4 | -65.3 | -72.4 |
| Minority Interest | 11.7 | 27.0 | 13.4 | 5.9 | 27.1 | 6.9 | 18.6 | 17.4 | 18.5 | -31.7 | 6.4 |
| Net Profit | 260.7 | 294.6 | 298.7 | 327.9 | 259.7 | 650.6 | 431.2 | 343.2 | 80.9 | -68.9 | -76.4 |
| EPS (₹) | 3.2 | 3.7 | 3.7 | 4.1 | 3.2 | 8.1 | 5.4 | 4.3 | 1.0 | | |

Source: Company, ICICIdirect.com Research

SWOT Analysis

Strengths- Huge product basket, large capacities, relatively clean regulatory record, presence in almost all therapeutic areas, strong balance sheet

Weakness- Late in adopting the front-end model in the US. Frequent restructuring and hit on the margins on account of his.

Opportunities- The US Generics space. Well poised to establish dominance in niche therapies like Respiratory, Oncology etc.

Threats- Increased USFDA scrutiny across the globe regarding cGMP issues and consolidation in the US pharmacy space. Recently Form 483s were issued to company's Indore and InvaGen's plants.

Concall Highlights

- The impact of the DPCO and FDC ban in FY16 on the domestic portfolio was in the range of 2-3% of sales.
- The company plans to launch 15-17 products in the US (including 5-7 through InvaGen) and file 20-25 ANDAs in FY17. The filings will include respiratory and oncology products. The company has filed 168 cumulative ANDAs with the USFDA, of which 90 have been approved.
- The company has completed InvaGen acquisition and most of its products have been transitioned from Camber to Cipla. The company expects InvaGen's annual run rate of ~US\$ 250 million to sustain going ahead. Top three products account for 30-35% of InvaGen's revenues.
- The management has indicated that InvaGen's 483 observations have been closed.
- Post acquisition, the contribution of US sales to the overall revenues is ~20% and the company expects it to increase further.
- In FY16, the company filed for 7 products in the US, 19 in Europe and over 700 in International markets.
- The company has over 200 formulation development projects underway, of which top 50 projects cover addressable market of US\$ 30 billion, based on innovative sales. Of these, the US

accounts for 26 projects. Further inhalation and injectable delivery forms account for 25 of the 50 top projects.

- In FY16, the company has executed six in-licensing deals in oncology, respiratory and dermatology segments in domestic market. It also initiated five incremental innovation projects, of which three would be commercialized in FY17.
- The company's tender business in South Africa grew 60% YoY in FY16. Currently, it has ~5% market share in South African private market and is the third largest generics player in the market.
- The company accelerated execution plan for in-house biologics – clinical trial for Bevacizumab (angiogenesis inhibitor) and proof-of-concept (POC) for 2-3 other products.
- R&D spend for FY16 was 6.5% of sales and 8.2% for Q4FY16. The company gave R&D guidance of 8% of sales for FY17.
- The company gave guidance of mid-teens revenue growth and EBITDA growth of 15-20% on its base business. Base EBITDA margins are expected to be 16-18% going forward.
- The company plans clinical trials and filing for its MDI (Metered Dose Inhaler) device in the US in FY17.
- The company's capex for FY16 was ~8% of sales. It guided for similar % of capex for FY17.

Exhibit 7: Adjustments in Q4FY16

| Adjustments (% of sales) | Q4FY16 |
|--|--------|
| Non-moving inventory write-off | ~1.3% |
| Complexity reduction – restructuring and rationalization | ~2.1% |
| Other one-offs (primarily regulatory changes) | ~1.3% |
| Incremental R&D spending | ~2.2% |
| Inventory reduction | ~2.1% |

Source: Company, ICICIdirect.com Research

Exhibit 8: Major Facilities

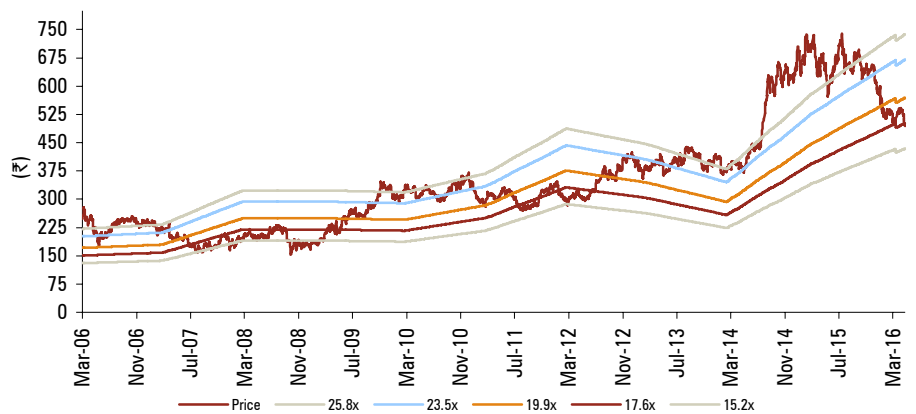
| Location | Segment | Regulatory Approvals |
|-------------------------------|--------------------|----------------------|
| Bengaluru – Virgonagar, India | API | USFDA, UKMHRA |
| Bengaluru– Bommasandra, India | API | USFDA |
| Patalganga, India | API & Formulations | USFDA, UKMHRA |
| Kurkumbh, India | Formulations | USFDA, UKMHRA |
| Goa, India | Formulations | USFDA, UKMHRA |
| Baddi, India | Formulations | |
| Indore, India | Formulations | USFDA, UKMHRA |
| Sikkim, India | Formulations | |
| Kampala, Uganda | Formulations | |
| Durban, South Africa | Formulations | |
| Satara, Maharashtra, India | API | |

Source: Company, ICICIdirect.com Research

Valuation

Q4 results were completely subdued on the profitability front due to multiple one-offs and restructuring in exports business. However, what came as a negative surprise from the management commentary was an exceptionally conservative margin guidance (16-18% for base business for the next 0-3 years). This is despite factoring respiratory and other interesting launches in the developed markets. Frequent restructuring indicates that the management is still some distance away from a sustainable business model. In this backdrop the street is likely to focus only on the profitability aspect. In synch with the guidance we have downgraded our FY17E/18E EPS estimates by 18.3%/20.5% to ₹ 19.9/₹ 26.2. What will add to the misery will be the poor return ratios besides margins and like-to-like peer comparison. Our new target price stands at at ₹ 470 based on 18x (earlier 21x) FY18E EPS of ₹ 26.2.

Exhibit 9: One year forward PE



Source: Company, ICICIdirect.com Research

Exhibit 10: One year forward PE of company vs. BSE Healthcare Index



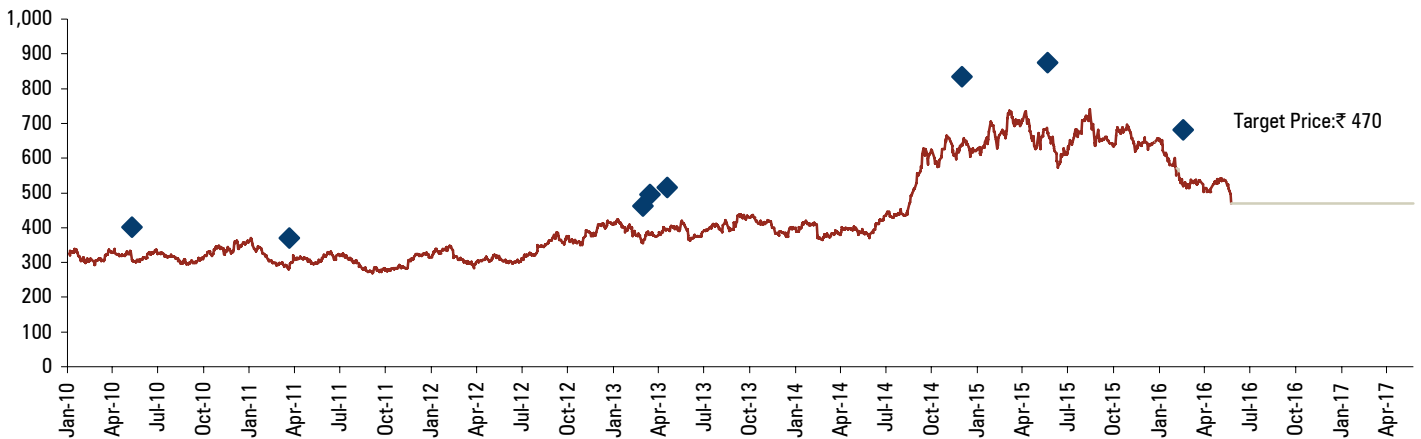
Source: Company, ICICIdirect.com Research

Exhibit 11: Valuation

| | Revenues (₹ crore) | Growth (%) | EPS (₹) | Growth (%) | P/E (x) | EV/EBITDA (X) | RoNW (%) | RoCE (%) |
|-------|-----------------------|---------------|------------|---------------|------------|------------------|-------------|-------------|
| FY15 | 11345 | 12 | 14.7 | -15 | 32.0 | 17.8 | 10.9 | 13.8 |
| FY16P | 13678 | 21 | 18.8 | 28 | 25.1 | 16.7 | 12.7 | 12.1 |
| FY17E | 16129 | 18 | 19.9 | 6 | 23.6 | 14.8 | 12.1 | 13.1 |
| FY18E | 18478 | 15 | 26.2 | 31 | 18.0 | 11.9 | 14.1 | 16.0 |

Source: Company, ICICIdirect.com Research

Company snapshot



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

| Date | Event |
|--------|--|
| Mar-09 | Sells contraceptive brand I-pill to Piramal Healthcare for ₹ 95 crore |
| May-10 | Approves to acquire two manufacturing facilities located in Sikkim and Pune for ₹ 82 crore from its contract manufacturers |
| Feb-13 | Plans to buy its South Africa's marketing partner Cipla Medpro for ₹ 2700 crore |
| Feb-14 | Enters into a JV with existing business partners in Morocco – Societe Marocaine De Cooperation Pharmaceutique ("Cooper Pharma") and The Pharmaceutical Institute (PHI). As per the agreement, Cipla (EU) Limited will hold 60% stake in the JV |
| May-14 | Company signs a definitive agreement to invest USD 1.5 million in Chase Pharmaceuticals Corporation Inc, US ("Chase") to acquire 14.6% stake |
| Jun-14 | Company signs a definitive agreement for US\$ 14 million with the Company's existing Sri Lankan distributor to acquire of 60% stake in a new company |
| Jun-14 | Company signs a definitive agreement to acquire a 51% stake in a pharmaceuticals manufacturing and distribution business in Yemen (in turn owned by a UAE based parent company). |
| Jul-14 | Company, has acquired 75% stake in Mabpharm Private Limited ("Mabpharm"). Mabpharm has now become 100% subsidiary of the Company. |
| Oct-14 | Company signs a definitive agreement with its existing Iranian distributor to set up a manufacturing facility in Iran. The total contribution from the Company over the next 3 years will include machinery, equipment, technical know-how and is expected to be approx INR 225 crore for a 75% stake. |
| Oct-14 | Cipla Medpro announces collaboration with Teva to exclusively market Teva's product portfolio in South Africa |
| Nov-14 | Cipla announces a distribution agreement with Serum Institute of India for affordable paediatric vaccines in Europe |
| Dec-14 | Cipla Medpro, the third largest pharmaceutical company in South Africa, announces it has been awarded R2 billion share of the South African Government's 2015-17 National ARV tender. The contract is effective from the 1 st of April 2015 and will run for a period of three years. |
| Feb-15 | Cipla (EU) enters into a joint venture (JV) agreement with Company's existing business partners in Morocco - Societe Marocaine De Cooperation Pharmaceutique ("Cooper Pharma") and The Pharmaceutical Institute (PHI). |
| May-15 | Acquires 51% stake in Uganda-based Quality Chemicals (QCL) for US\$30 million (around ₹ 191 crore). The turnover of the company in FY14 was US\$ 4.98 million |
| Feb-16 | Cipla completed acquisitions of InvaGen and Exelan, companies it purchased last September in an all cash transaction worth US\$ 550 million |

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

| Rank | Investor Name | Latest Filing Date | % O/S | Position (%) | Position Chan |
|------|--|--------------------|-------|--------------|---------------|
| 1 | Hamied (Yusuf K) | 31-Mar-16 | 20.8 | 166.7m | 0.0m |
| 2 | Life Insurance Corporation of India | 31-Mar-16 | 6.0 | 48.1m | 6.7m |
| 3 | Ahmed (Sophie) | 31-Mar-16 | 5.7 | 46.0m | 0.0m |
| 4 | Hamied (Mustafa Khwaja) | 31-Mar-16 | 4.9 | 39.7m | 0.0m |
| 5 | ICICI Prudential Asset Management Co. Ltd. | 31-Mar-16 | 4.3 | 34.4m | 10.3m |
| 6 | OppenheimerFunds, Inc. | 31-Mar-16 | 1.4 | 11.3m | -0.3m |
| 7 | Hamied (Kamil) | 31-Mar-16 | 1.4 | 10.9m | 0.0m |
| 8 | Vontobel Asset Management, Inc. | 31-Mar-16 | 1.3 | 10.1m | -9.1m |
| 9 | Hamied (Rumana) | 31-Mar-16 | 1.2 | 9.9m | 0.0m |
| 10 | Vaziralli (Samina) | 31-Mar-16 | 1.2 | 9.9m | 0.0m |

Source: Reuters, ICICIdirect.com Research

Recent Activity

| Buys | | | Sells | | |
|--|------------|--------|---|------------|--------|
| Investor name | Value (\$) | Shares | Investor name | Value (\$) | Shares |
| ICICI Prudential Asset Management Co. Ltd. | 80.0m | 10.3m | Hamied (Farida Yusuf) | -361.4m | -41.9m |
| Abu Dhabi Investment Authority | 65.9m | 8.5m | Vontobel Asset Management, Inc. | -70.4m | -9.1m |
| Life Insurance Corporation of India | 51.8m | 6.7m | Unigestion | -8.4m | -0.9m |
| Birla Sun Life Asset Management Company Ltd. | 18.8m | 2.3m | APG Asset Management | -5.5m | -0.6m |
| Causeway Capital Management LLC | 12.6m | 1.6m | JM Financial Asset Management Pvt. Ltd. | -3.9m | -0.5m |

Source: Reuters, ICICIdirect.com Research

Financial summary

| Profit and loss statement | | ₹ Crore | | | |
|-----------------------------|----------|----------|----------|----------|--|
| (Year-end March) | FY15 | FY16P | FY17E | FY18E | |
| Revenues | 11,345.4 | 13,678.3 | 16,129.4 | 18,477.9 | |
| Growth (%) | 12.3 | 20.6 | 17.9 | 14.6 | |
| Raw Material Expenses | 4,189.7 | 5,118.4 | 5,846.7 | 6,721.3 | |
| Gross Profit | 7,155.7 | 8,559.9 | 10,282.7 | 11,756.6 | |
| Employee Expenses | 1,973.7 | 2,451.5 | 2,862.7 | 3,233.6 | |
| Other Expenditure | 3,020.4 | 3,607.3 | 4,658.3 | 5,173.8 | |
| Total Operating Expenditure | 9,183.7 | 11,177.2 | 13,367.7 | 15,128.7 | |
| EBITDA | 2,161.7 | 2,501.1 | 2,761.6 | 3,349.2 | |
| Growth (%) | 1.3 | 15.7 | 10.4 | 21.3 | |
| Depreciation | 504.7 | 541.7 | 570.8 | 590.3 | |
| Interest | 168.3 | 161.3 | 241.5 | 159.0 | |
| Other Income | 165.6 | 208.9 | 244.6 | 280.2 | |
| PBT | 1,654.3 | 2,007.0 | 2,193.9 | 2,880.1 | |
| Total Tax | 400.0 | 439.6 | 526.5 | 691.2 | |
| PAT before MI | 1,254.2 | 1,567.4 | 1,667.4 | 2,188.9 | |
| Minority Interest | 73.5 | 61.5 | 66.7 | 87.6 | |
| Adjusted PAT | 1,180.8 | 1,505.9 | 1,600.7 | 2,101.3 | |
| Growth (%) | -15.0 | 27.5 | 6.3 | 31.3 | |
| EPS (Adjusted) | 14.7 | 18.8 | 19.9 | 26.2 | |

Source: Company, ICICIdirect.com Research

| Balance sheet | | ₹ Crore | | | |
|----------------------------|----------|----------|----------|----------|--|
| (Year-end March) | FY15 | FY16E | FY17E | FY18E | |
| Equity Capital | 160.6 | 160.7 | 160.7 | 160.7 | |
| Reserve and Surplus | 10,640.9 | 11,696.7 | 13,035.4 | 14,792.8 | |
| Total Shareholders funds | 10,801.5 | 11,857.4 | 13,196.1 | 14,953.5 | |
| Total Debt | 1,703.3 | 5,191.4 | 4,391.4 | 2,891.4 | |
| Deferred Tax Liability | 284.6 | 447.3 | 472.3 | 522.3 | |
| Long Term Provision | 160.4 | 144.7 | 164.7 | 184.7 | |
| MI & Other Liabilities | 221.1 | 312.4 | 379.1 | 466.7 | |
| Source of Funds | 13,170.9 | 17,953.2 | 18,603.6 | 19,018.5 | |
| Gross Block | 7,003.1 | 8,031.5 | 8,781.5 | 9,081.5 | |
| Accumulated Depreciation | 2,731.9 | 3,273.6 | 3,844.4 | 4,434.7 | |
| Net Block | 4,271.2 | 4,758.0 | 4,937.2 | 4,646.9 | |
| Capital WIP | 580.9 | 809.3 | 759.3 | 789.3 | |
| Fixed Assets | 4,852.1 | 5,567.3 | 5,696.5 | 5,436.2 | |
| Investments | 639.8 | 756.9 | 539.8 | 639.8 | |
| Goodwill on Consolidation | 2,558.5 | 5,511.4 | 5,511.4 | 5,511.4 | |
| Long term Loans & Advances | 297.0 | 590.9 | 660.9 | 740.9 | |
| Other Non current assets | 121.7 | 123.7 | 163.7 | 203.7 | |
| Inventory | 3,780.6 | 3,808.0 | 4,719.3 | 5,406.5 | |
| Debtors | 2,004.3 | 2,359.3 | 2,660.0 | 3,047.3 | |
| Loans and Advances | 707.4 | 958.0 | 1,061.6 | 1,165.2 | |
| Other Current Assets | 144.9 | 264.9 | 274.4 | 283.9 | |
| Cash | 564.3 | 871.4 | 863.3 | 490.4 | |
| Total Current Assets | 7,201.4 | 8,261.6 | 9,578.7 | 10,393.3 | |
| Creditors | 1,577.2 | 1,409.5 | 1,716.1 | 1,966.0 | |
| Provisions | 420.2 | 506.1 | 544.2 | 594.1 | |
| Other current liabilities | 502.1 | 1,023.8 | 1,083.4 | 1,143.0 | |
| Total Current Liabilities | 2,499.6 | 2,939.4 | 3,343.7 | 3,703.1 | |
| Net Current Assets | 4,701.9 | 5,322.2 | 6,235.0 | 6,690.2 | |
| Application of Funds | 13,170.9 | 17,872.3 | 18,807.1 | 19,222.0 | |

Source: Company, ICICIdirect.com Research

| Cash flow statement | | ₹ Crore | | | |
|----------------------------------|----------|----------|----------|----------|--|
| (Year-end March) | FY15 | FY16E | FY17E | FY18E | |
| Profit/(Loss) after taxation | 1,180.8 | 1,505.9 | 1,600.7 | 2,101.3 | |
| Add: Depreciation | 504.7 | 541.7 | 570.8 | 590.3 | |
| (inc)/Dec in Current Assets | -1,472.4 | -753.1 | -1,325.1 | -1,187.6 | |
| inc/(Dec) in Current Liabilities | 866.0 | 439.8 | 404.3 | 359.5 | |
| Others | 168.3 | 161.3 | 241.5 | 159.0 | |
| CF from Operating activities | 1,247.4 | 1,895.7 | 1,492.2 | 2,022.5 | |
| Change In Investment | 68.8 | -117.1 | 217.1 | -100.0 | |
| (Purchase)/Sale of Fixed Assets | -1,024.3 | -4,209.8 | -700.0 | -330.0 | |
| Others | 93.8 | -21.8 | 1.7 | 37.6 | |
| CF from Investing activities | -861.8 | -4,348.7 | -481.2 | -392.4 | |
| Change in Equity | 0.0 | 0.0 | 0.0 | 0.0 | |
| Change in Loan | 455.4 | 3,488.1 | -800.0 | -1,500.0 | |
| Dividend & Dividend tax | -193.3 | -246.5 | -262.0 | -343.9 | |
| Others | -294.4 | -161.3 | -241.5 | -159.0 | |
| CF from Financing activities | -32.2 | 3,080.2 | -1,303.5 | -2,003.0 | |
| Net Cash Flow | 353.4 | 627.2 | -292.5 | -372.9 | |
| Cash and Cash equ. at beginning | 175.2 | 528.6 | 1,155.8 | 863.3 | |
| Cash | 528.6 | 1,155.8 | 863.3 | 490.4 | |
| Free Cash Flow | 223.1 | -2,314.1 | 792.2 | 1,692.5 | |

Source: Company, ICICIdirect.com Research

| Key ratios | | | | | |
|----------------------|-------|-------|-------|-------|--|
| (Year-end March) | FY15 | FY16E | FY17E | FY18E | |
| Per share data (₹) | | | | | |
| Adjusted EPS | 14.7 | 18.8 | 19.9 | 26.2 | |
| BV per share | 134.5 | 147.7 | 164.4 | 186.2 | |
| Cash per Share | 7.0 | 10.9 | 10.8 | 6.1 | |
| Dividend per share | 2.4 | 3.1 | 3.3 | 4.3 | |
| Operating Ratios (%) | | | | | |
| Gross Margins | 63.1 | 62.6 | 63.8 | 63.6 | |
| EBITDA margins | 19.1 | 18.3 | 17.1 | 18.1 | |
| PAT Margins | 10.4 | 11.0 | 9.9 | 11.4 | |
| Inventory days | 121.6 | 101.6 | 106.8 | 106.8 | |
| Debtor days | 64.5 | 63.0 | 60.2 | 60.2 | |
| Creditor days | 50.7 | 37.6 | 38.8 | 38.8 | |
| Asset Turnover | 0.9 | 0.8 | 0.9 | 1.0 | |
| EBITDA convsion rate | 57.7 | 75.8 | 54.0 | 60.4 | |
| Return Ratios (%) | | | | | |
| RoE | 10.9 | 12.7 | 12.1 | 14.1 | |
| RoCE | 13.8 | 12.1 | 13.1 | 16.0 | |
| RoIC | 14.2 | 12.3 | 13.1 | 15.9 | |
| Valuation Ratios (x) | | | | | |
| P/E | 32.0 | 25.1 | 23.6 | 18.0 | |
| EV / EBITDA | 17.8 | 16.7 | 14.8 | 11.9 | |
| EV / Net Sales | 3.4 | 3.0 | 2.5 | 2.2 | |
| Market Cap / Sales | 3.3 | 2.8 | 2.3 | 2.0 | |
| Price to Book Value | 3.5 | 3.2 | 2.9 | 2.5 | |
| Solvency Ratios | | | | | |
| Debt / EBITDA | 0.8 | 2.1 | 1.6 | 0.9 | |
| Debt / Equity | 0.2 | 0.4 | 0.3 | 0.2 | |
| Current Ratio | 2.7 | 2.5 | 2.6 | 2.7 | |
| Quick Ratio | 1.1 | 1.2 | 1.2 | 1.2 | |

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Healthcare)

| Company | I-Direct Code | CMP (₹) | TP (₹) | Rating | M Cap (₹ Cr) | EPS (₹) | | | PE(x) | | | EV/EBITDA (x) | | | RoCE (%) | | | RoE (%) | | |
|------------------------|---------------|---------|--------|--------|--------------|---------|-------|-------|-------|-------|-------|---------------|-------|-------|----------|-------|-------|---------|-------|-------|
| | | | | | | FY15 | FY16E | FY17E | FY15 | FY16E | FY17E | FY15 | FY16E | FY17E | FY15 | FY16E | FY17E | FY15 | FY16E | FY17E |
| Ajanta Pharma | AJAPHA | 1467 | 1,780 | Buy | 12911.2 | 36.0 | 45.7 | 52.4 | 40.7 | 32.1 | 28.0 | 26.8 | 23.3 | 19.9 | 50.3 | 43.7 | 37.9 | 37.8 | 34.4 | 30.0 |
| Apollo Hospitals | APOHOS | 1363 | 1,420 | Hold | 18955.1 | 23.7 | 27.6 | 34.6 | 57.4 | 49.4 | 39.3 | 27.6 | 23.9 | 18.9 | 9.9 | 11.2 | 13.0 | 10.4 | 11.1 | 12.5 |
| Aurobindo Pharma | AURPHA | 727 | 990 | Buy | 42541.8 | 28.1 | 33.9 | 37.7 | 25.9 | 21.4 | 19.3 | 30.7 | 25.1 | 22.0 | 23.4 | 24.7 | 25.0 | 31.7 | 28.7 | 24.7 |
| Alembic Pharma | ALEMPHA | 542 | 620 | Hold | 10219.5 | 15.1 | 38.2 | 19.6 | 35.9 | 14.2 | 27.6 | 32.2 | 12.6 | 23.9 | 30.7 | 58.0 | 24.8 | 32.1 | 51.5 | 22.3 |
| Biocon | BIOCON | 642.9 | 560 | Hold | 12857.0 | 20.4 | 22.1 | 28.3 | 31.5 | 29.1 | 22.7 | 8.3 | 7.6 | 6.4 | 10.4 | 9.1 | 10.9 | 12.5 | 10.9 | 12.7 |
| Cadila Healthcare | CADHEA | 318 | 390 | Buy | 32570.4 | 11.2 | 15.0 | 15.5 | 28.4 | 21.3 | 20.5 | 20.3 | 14.5 | 14.4 | 20.7 | 27.9 | 24.6 | 27.0 | 28.6 | 24.4 |
| Cipla | CIPLA | 470 | 470 | Hold | 39763.1 | 14.7 | 18.8 | 19.9 | 32.0 | 25.1 | 23.6 | 17.8 | 16.7 | 14.8 | 13.8 | 12.1 | 13.1 | 10.9 | 12.7 | 12.1 |
| Divi's Laboratories | DIVLAB | 1032 | 1,320 | Buy | 27383.1 | 32.1 | 40.2 | 46.7 | 32.2 | 25.7 | 22.1 | 22.3 | 18.7 | 15.9 | 29.4 | 31.3 | 31.1 | 24.4 | 25.6 | 25.1 |
| Dr Reddy's Labs | DRREDD | 2974 | 3,480 | Buy | 51613.1 | 129.0 | 142.1 | 139.2 | 23.0 | 20.9 | 21.4 | 14.4 | 12.6 | 12.3 | 16.7 | 15.1 | 15.1 | 22.3 | 18.9 | 16.1 |
| Glenmark Pharma | GLEPHA | 858 | 1,000 | Buy | 24229.6 | 23.1 | 32.2 | 41.4 | 37.1 | 26.7 | 20.7 | 22.2 | 16.8 | 13.8 | 13.3 | 16.2 | 18.8 | 21.7 | 21.2 | 21.7 |
| Indoco Remedies | INDREM | 263.2 | 390 | Buy | 2424.9 | 9.0 | 9.3 | 15.6 | 29.3 | 28.4 | 16.9 | 15.9 | 14.8 | 10.7 | 16.4 | 15.4 | 22.2 | 16.0 | 14.7 | 20.8 |
| Ipca Laboratories | IPCLAB | 440 | 515 | Hold | 5552.8 | 19.9 | 12.1 | 24.7 | 22.1 | 36.4 | 17.8 | 13.5 | 18.2 | 12.2 | 11.5 | 6.7 | 11.7 | 11.4 | 6.6 | 12.2 |
| Jubilant Life Sciences | VAMORG | 355.2 | 405 | Buy | 5657.5 | -0.6 | 26.0 | 41.2 | NA | 13.7 | 8.6 | 14.6 | 7.1 | 5.7 | 5.8 | 13.2 | 16.2 | NA | 14.2 | 18.7 |
| Lupin | LUPIN | 1466 | 1,850 | Buy | 66060.9 | 53.6 | 50.4 | 66.0 | 27.3 | 29.1 | 22.2 | 18.3 | 19.8 | 13.8 | 35.1 | 18.6 | 22.5 | 27.1 | 20.7 | 22.1 |
| Natco Pharma | NATPHA | 447.4 | 630 | Buy | 7791.7 | 8.3 | 7.5 | 11.6 | 53.8 | 60.0 | 38.4 | 35.3 | 29.3 | 21.6 | 15.4 | 13.0 | 16.5 | 17.9 | 10.0 | 13.8 |
| Sun Pharma | SUNPHA | 773 | 845 | Hold | 185994.0 | 19.8 | 23.6 | 28.4 | 39.0 | 32.7 | 27.2 | 24.1 | 21.2 | 17.7 | 18.8 | 20.0 | 21.1 | 18.6 | 18.8 | 19.1 |
| Syngene International | SYNINT | 399 | 445 | Buy | 7971.0 | 8.8 | 11.1 | 15.6 | 43.3 | 34.2 | 24.3 | 26.6 | 20.9 | 17.0 | 19.5 | 13.3 | 16.7 | 20.7 | 21.2 | 23.5 |
| Torrent Pharma | TORPHA | 1356 | 1,650 | Buy | 22944.5 | 44.4 | 115.5 | 67.8 | 30.6 | 11.7 | 20.0 | 23.7 | 8.0 | 13.5 | 20.1 | 51.1 | 27.0 | 30.2 | 57.7 | 27.0 |
| Unichem Laboratories | UNILAB | 267.7 | 310 | Buy | 2431.9 | 8.3 | 12.3 | 15.5 | 32.2 | 21.7 | 17.2 | 23.3 | 14.7 | 11.7 | 8.5 | 13.8 | 16.2 | 8.7 | 11.7 | 13.4 |

Source: Company, ICICIdirect.com Research

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