

NATCO PHARMA

Finally the party starts

India Equity Research | Pharmaceuticals

Natco Pharma (NATP)/Mylan after 9 years of wait, finally got approval for gCopaxone (20/40mg) and is currently the first player in the USD2.7bn market for 40mg dosage. This is the drug which had brought NATP in the lime light. Now that NATP/Mylan has launched it, earnings are set to clock robust spurt in the near term. Meanwhile, NATP's board has approved raising of funds of up to INR15bn for expansion in India & RoW and investments in US complex generics business. Though the current quarter performance was muted due to decline in Hep-C and gTamiflu, going forward launch of gCopaxone (20/40 mg), gTamiflu suspension and uptick in gDoxil sales will keep the momentum going. Maintain 'BUY' with TP of INR950.

Soft quarter, performance to pickup going forward

Q2FY18 revenue dipped 9%YoY/4%QoQ. Key highlights: 1) oncology business (24% of sales) grew 26% YoY; 2) non-onco (24% of sales) declined 15% YoY on price erosion in Hep-C & cannibalisation from Velpanat; (3) export formulation (32% of sales) declined 9% YoY as the base included INR999mn from gTamiflu. Profitability improved by 620bps YoY on a base that included costs, but not profit share from gTamiflu. On the recent gCopaxone 40 mg 'at-risk' launch (75% of gCopaxone market), NATP remains confident of its legal position. Teva has already secured 60% of 40mg market via contracts with PBMs and payers, thus making it tougher to gain market share despite being the only generics player.

Fund-raising to aid expansion strategy

Going forward, gDoxil, and gCopaxone are expected to provide strong momentum to earnings in FY19/20 and then tail off with multiple competitors coming through. gRevlimid and gNexavar are expected to come post FY22. Stronger balance sheet post gCopaxone has increased the risk appetite and management is keen to raise additional funds to plug the gap in FY20-22 by: 1) inorganic initiatives in India and by expanding in Canada, Brazil, Singapore & Philippines; 2) making newer, more sustainable filings in the US complex generics space with more favourable profit-sharing agreements.

Outlook and valuations: Catalysts aplenty; maintain 'BUY'

We expect growth in the base business to sustain and keep valuations buoyant. FDA compliance risks are significantly mitigated post recent EIRs and approvals. We maintain 'BUY/SO' recommendation/rating with TP of INR950 (20x FY19E EPS).

Financials

(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	FY17	FY18E	FY19E
Net revenue	4,267	4,679	(8.8)	4,453	(4.2)	20,648	22,375	27,525
EBITDA	1,219	1,048	16.3	1,367	(10.8)	6,832	7,479	11,406
Adjusted Profit	848	665	27.5	940	(9.8)	4,858	5,349	8,409
Adj EPS (INR)	4.9	3.8	27.5	5.4	(9.8)	27.9	30.7	48.3
P/E (x)						34.3	31.2	19.8
ROAE (%)						32.8	28.9	34.7

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: NATP.BO, B: NTCPH IN)

CMP	: INR 957
Target Price	: INR 950
52-week range (INR)	: 1,090 / 495
Share in issue (mn)	: 174.3
M cap (INR bn/USD mn)	: 167 / 2,584
Avg. Daily Vol.BSE/NSE('000)	: 416.6

SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	51.2	73.7	51.2
MF's, FI's & BK's	5.4	11.2	7.3
FII's	21.5	11.3	19.4
Others	21.9	3.8	22.1
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	20.3	6.0	7.2
3 months	(1.5)	4.4	3.7
12 months	65.4	23.2	(8.1)

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Q2FY18 conference call: Key highlights

Fund raising and strategy:

- Outlook:
 - FY18, FY19 will be driven by Copaxone.
 - FY20, FY21: RoW and India will be key.
 - FY22 onwards: Revlimid, Nexavar etc.
- Investing now to build beyond FY22 (next Copaxone and Tamiflu).
- Stronger India and RoW. Most of the funds raised will be allocated towards this.
- **US:** Complex generics market is more competitive. Will do less filings, but more complex ones. Will look at either API complexity or drug delivery complexity (injectable, peptide).
- Will not invest in biologics or biosimilars. They will in-licence.
- **Partnership agreements:** Will continue the partnership model for complex products. Trying to double share. Will invest with the partner and get a better share. Also, sharing legal cost now.
- **NDDS:** Doing some work.
- Copaxone strengthens balance sheet to take more risks in terms of complexity of products been worked on.
- **RoW:** Taking regulated market pipeline to RoW.

YoY performance comparison:

Revenue: Difference due to accounting of taxes.

Costs: Last year had costs related to stock build up of Tamiflu, but profit had not been booked.

Employee **costs:** ESOPs and new hiring.

US:

Copaxone:

- Mylan confident on legal position.
- Natco is comfortable taking the risk. Has an arrangement with Mylan.
- Pending litigation: Appeal on favourable lower court judgment (4 patents) and 5th patent at district level.
- On pricing, expects update from Mylan soon.
- Booking cashflows and revenues for 20mg and 40mg immediately.

Revlimid: Settlement date can get accelerated in certain conditions. Expects approval in CY18. Has been asked to submit another study. Query will be answered soon. Key entry barriers: (1) cytotoxic oral product; (2) litigation (polymorph patent); (3) REMS programme (Settlement allows use of innovators REMS).

Tamiflu suspension: Launched yesterday. Cadila has not yet launched. Revenue will depend on flu season.

Lanthanum carbonate: Not a large number this quarter (1 month, some legal settlement). Contribution will be better next quarter.

Doxil: Majority share goes to Dr. Reddy's, but Natco still has a significant share. Profit share included in other income.

Key products: Revlimid, Nexavar, Lapatanum (180 days), Everolimus (small niche product).

Bosentan: 13-14 filers. Approval expected in 2018. Will make money only if among the first few. Generic Bosentan not launched in the US.

Canada: Good performance. Only Tamiflu generic. Does not expect another generic in this flu season.

India:

3 new launches this year: Pomilast (FTF), Hep-C follow on drug, Cardiac- argotheron (only one in the market. market size: small niche product).

Has more launches in cardiac this year.

Armodafenal and budesonide—discontinued.

Hep-C: Price erosion due to cannibalising effect of new products (new one is pan genotype, but old one is only 2 genotypes).

CND: Has innovative cardio pipeline where Natco will be first generic. Will pan out in next 12 months.

3 verticals currently: Hep-c, Onco and CND.

Open for deals for API and formulation: Hep-C agreement with Laurus Labs.

RoW:

Focus on Canada, Brazil, Singapore, Philippines (own front end).

Focus on Hep-C (RoW), onco (regulated market).

Hep-C: Expects traction from ongoing registration from Indonesia and Philippines.

Guidance:

- Capex: INR3.5bn for FY18.

Financials:

Revenue split

- API business: INR584mn

- Domestic: INR118mn
- Export: INR465mn
- Formulation:
 - Domestic: INR2135mn
 - Onco(including small portion of CND): INR973mn
 - Brand: INR948mn
 - Third party: INR213mn
 - Exports: INR1268mn
 - Profit share (Doxil and Tamiflu): INR600mn
 - Hep-C: INR110mn
 - Third party: INR90mn

Gross debt: INR1.94bn (including bill discounting)

Cash: INR1.34bn

Other expenses lower due to: (1) change in accounting of excise; (2) base included costs for Tamiflu even though sales were included only in Q2 and Q3.

Q2FY17 included stocking quantity of Tamiflu.

Accounting for partnerships: Bill at cost + mark up; profit element shown in other income.

Table 1: Actual versus estimates

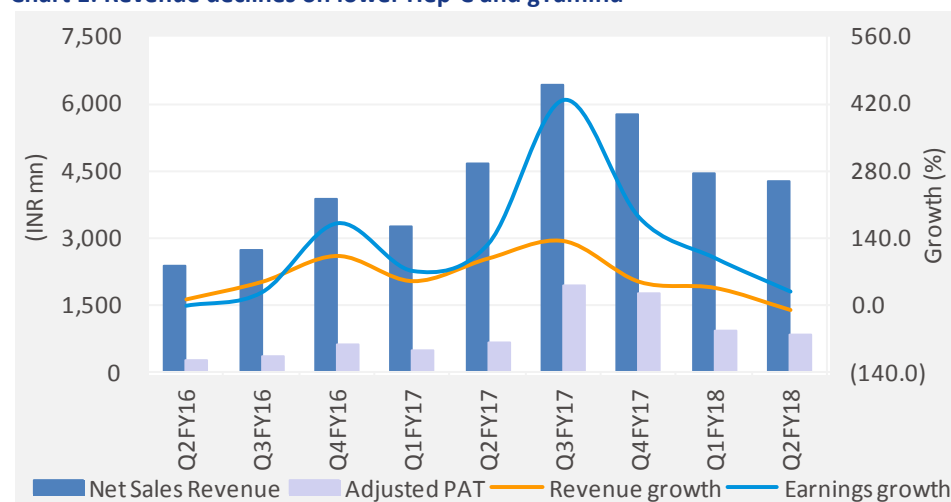
(INR mn)

Year to March	Actual Q2FY18	Y-o-Y growth (%)	Edel estimates	Y-o-Y growth (%)	Deviation from Actual (%)
Net revenue	4,267	(8.8)	4,397	(6.0)	(3.0)
Raw material costs	1,129	(38.6)	1,099	(40.2)	2.7
Gross profit	3,138	10.5	3,298	34.2	(4.9)
Gross Margin (%)	73.5		75.0		
Employee costs	736	25.8	609	4.1	20.9
Other expenses	1,183	(2.1)	1,320	9.3	(10.4)
EBITDA	1,219	16.3	1,369	30.6	(11.0)
EBITDA margin (%)	28.6		31.1		
Net finance expense (income)	42.0	-	40.0	(4.8)	5.0
Depreciation	160	-	150	6.4	6.7
Other income	55	71.9	50	56.3	10.0
PBT	1,072	19.5	1,229	37.0	(12.8)
Income tax expense	228	(3.0)	283	20.3	(19.3)
Tax rate (%)	21.27	(15.3)	23.00	54.8	
Reported Net profit	844	26.9	949	42.7	(11.1)
Adjusted Profit after tax	844	26.9	949	42.7	(11.1)

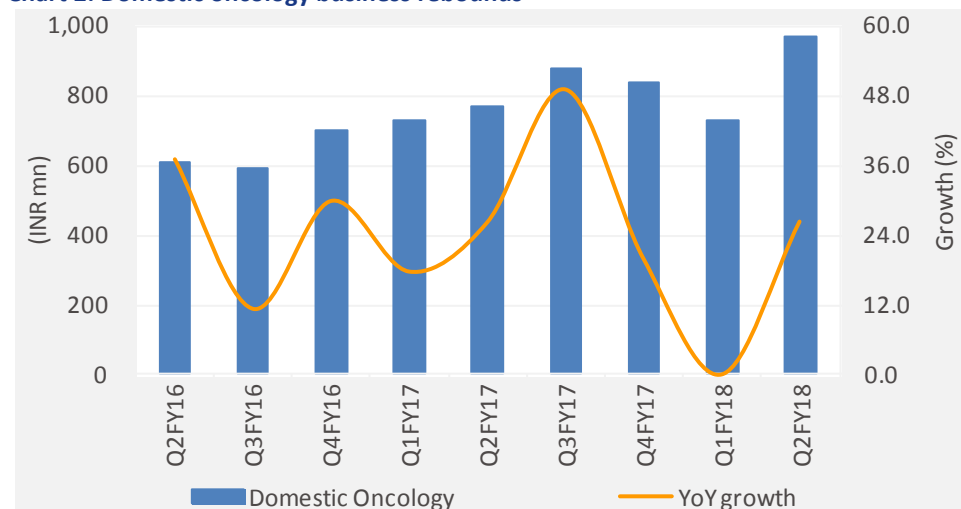
Source: Company, Edelweiss research

Table 2: Revenue break up
(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change
API	583	476	22.5	507	15.0
Domestic	118	146	(19.2)	186	(36.6)
Exports	465	330	40.9	321	44.9
Formulation	3,402	3,550	(4.2)	5,760	(40.9)
Domestic	2,134	2,160	(1.2)	2,180	(2.1)
Onco	973	770	26.4	880	10.6
Non-Onco	948	1,120	(15.4)	1,120	(15.4)
Third party	213	270	(21.1)	180	18.3
Exports	1,268	1,390	(8.8)	3,580	(64.6)
Total sales	3,985	4,026	(1.0)	6,267	(36.4)

Chart 1: Revenue declines on lower Hep-C and gTamiflu


Source: Company, Edelweiss research

Chart 2: Domestic oncology business rebounds


Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	YTD17	FY18E	FY19E
Net revenues	4,267	4,679	(8.8)	4,453	(4.2)	8,720	22,375	27,525
Cost of revenue	1,129	1,838	(38.6)	1,094	3.2	2,223	6,224	7,011
Gross profit	3,138	2,841	10.5	3,359	(6.6)	6,497	16,150	20,515
R&D	-	-	-	-	-	-	1,410	1,514
EBITDA	1,219	1,048	16.3	1,367	(10.8)	2,586	7,479	11,406
EBITDA margin	28.6	22.4	-	30.7	-	29.7	33.4	41.4
Depreciation	160	141	13.5	150	6.7	310	673	707
EBIT	1,059	907	16.8	1,217	(13.0)	2,276	6,806	10,700
Other income	55	32	71.9	34	61.8	89	220	220
Interest	42	42	0.0	39	7.7	81	180	150
Add: Prior period items								
Add: Exceptional items								
Profit before tax	1,072	897	19.5	1,212	(11.6)	2,284	6,846	10,770
Provision for taxes	228	235	(3.0)	275	(17.1)	503	1,509	2,372
Minority interest	-	(3)	(100.0)	(3)	(100.0)	(3)	(11)	(11)
Associate profit share								
Reported net profit	844	665	26.9	940	(10.2)	1,784	5,349	8,409
Adjusted Profit	844	665	26.9	940	(10.2)	1,784	5,349	8,409
Diluted shares (mn)	174	174	-	174	-	174	174	174
Adjusted Diluted EPS	4.8	3.8	26.9	5.4	(10.2)	10.2	30.7	48.3
Diluted P/E (x)	-	-	-	-	-	-	31.2	19.8
EV/EBITDA (x)	-	-	-	-	-	-	21.7	13.7
ROAE (%)	-	-	-	-	-	-	28.9	34.7
Cost of revenue	26.5	39.3	-	24.6	-	25.5	27.8	25.5
Gross profit	73.5	60.7	-	75.4	-	74.5	72.2	74.5
R&D	-	-	-	-	-	-	6.3	5.5
Total expenses	71.4	77.6	-	69.3	-	70.3	66.6	58.6
Operating profit	24.8	19.4	-	27.3	-	26.1	30.4	38.9
Reported net profit	19.8	14.2	-	21.1	-	20.5	23.9	30.5
Tax rate	21.3	26.2	-	22.7	-	22.0	22.0	22.0

Company Description

NATP, incorporated in September 1981 by Mr. V.C Nannapaneni, started operations as a contract manufacturer for various companies in the pharmaceutical industry. The company has the distinction of introducing the time release technology in India and manufactured formulations in conventional as well as sustained release forms. It faced difficult times in 1990s in its bid to diversify operations and had to sell off a portfolio of branded products. However, by 2003, NATP was able to turn around its operations. While it now has a strong India business with focus on the niche oncology segment, it has filed several niche ANDAs like Copaxone, Revlimid and Tamiflu in the US, partnering with some of the biggest global generic players like Mylan, Actavis and Breckenbridge, among others. It is also focusing on de-risking its revenue base and growing business in several geographies like Brazil, Venezuela and Canada. The company also runs a chain of retail pharmacies in the US. NATP also has a new chemical entity (NCE) pipeline. The most advanced drug candidate is NRC-019 that is undergoing Ph II studies for chronic myeloid leukemia (CML). Since this drug candidate is targeting a special subject pool of Imatinib resistant strain patients, it has also received an orphan drug status in the US.

Investment Theme

Natco Pharma (NATP) is on the cusp of scripting a multi-year growth story propelled by a niche complex generics pipeline. The company's differentiated business model has helped it punch above its weight and efforts over the past decade have positioned it to reap significant rewards in less crowded products. While Copaxone 20mg is a potent near-term opportunity, pipeline products have adequate fire power to boost profit multifold (~10x) over the next 5 years, even if Copaxone profits ebb. In fact, with pipeline products like Revlimid and Tamiflu, among others, NATP has one of the best US pipelines amongst Indian peers regardless of company size. In India, its first mover advantage in Hepatitis C franchise will sustain, yielding handsome benefits.

Key Risks

Delay in ANDA approvals

Delay in ANDA approvals is a risk to the entire pharma sector. Given the niche pipeline that mostly addresses FTF and limited competition opportunities, NATP's ANDAs should get priority over other "me-too" ANDAs.

Currency risk

NATP operates in multiple markets across the world and is prone to currency movements. Any adverse movement in respective geographies will be a downside risk. Since US is the biggest growth driver, USD movement versus INR needs to be monitored the most. In recent times, USD / INR movement has been favourable.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	65.0	66.0
Sector				
IPM growth (Y-o-Y) %	12.0	12.0	12.0	13.0

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	10,566	20,328	21,875	27,025
Other Operating Income	235	320	500	500
Income from operations	10,801	20,648	22,375	27,525
Materials costs	2,706	5,991	6,224	7,011
Employee costs	1,798	2,432	2,675	2,943
R&D Cost	552	1,230	1,410	1,514
Total SG&A expenses	-	-	-	3,578
Other Expenses	3,089	4,163	4,587	1,073
Total operating expenses	8,145	13,816	14,896	16,119
EBITDA	2,656	6,832	7,479	11,406
Operating profit	2,656	6,832	7,479	11,406
EBIT	2,148	6,288	6,806	10,700
Add: Other income	96.00	139.00	220.00	220.00
Less: Interest Expense	229	185	180	150
Profit Before Tax	2,015	6,242	6,846	10,770
Less: Provision for Tax	479	1,395	1,509	2,372
Less: Minority Interest	(13)	(11)	(11)	(11)
Reported Profit	1,549	4,858	5,349	8,409
Adjusted Profit	1,549	4,858	5,349	8,409
Shares o /s (mn)	174	174	174	174
Adjusted Basic EPS	8.9	27.9	30.7	48.3
Diluted shares o/s (mn)	174	174	174	174
Adjusted Diluted EPS	8.9	27.9	30.7	48.3
Adjusted Cash EPS	11.8	31.0	34.6	52.3
Dividend per share (DPS)	1.3	6.8	4.6	7.2
Dividend Payout Ratio(%)	14.1	24.2	15.0	15.0

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	75.4	66.9	66.6	58.6
Materials costs	25.1	29.0	27.8	25.5
Staff costs	16.6	11.8	12.0	10.7
S G & A expenses	-	-	-	13.0
R & D cost	5.1	6.0	6.3	5.5
Depreciation	4.7	2.6	3.0	2.6
Interest Expense	2.1	0.9	0.8	0.5
EBITDA margins	24.6	33.1	33.4	41.4
Net Profit margins	14.2	23.5	23.9	30.5

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	32.7	92.4	7.6	23.5
EBITDA	13.7	157.2	9.5	52.5
PBT	30.5	209.8	9.7	57.3
Adjusted Profit	10.7	213.6	10.1	57.2
EPS	10.7	213.6	10.1	57.2

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	348	349	349	349	
Reserves & Surplus	12,609	16,144	20,077	27,523	
Shareholders' funds	12,957	16,493	20,426	27,872	
Minority Interest	49	41	41	41	
Short term borrowings	984	2,216	2,216	2,216	
Total Borrowings	984	2,216	2,216	2,216	
Long Term Liabilities	133	227	227	227	
Def. Tax Liability (net)	147	150	150	150	
Sources of funds	14,270	19,127	23,060	30,506	
Gross Block	9,721	11,456	15,456	15,956	
Depreciation	508	544	673	707	
Net Block	7,046	8,272	11,599	11,392	
Capital work in progress	2,118	3,363	3,363	3,363	
Intangible Assets	55	58	-	-	
Total Fixed Assets	9,219	11,693	14,962	14,755	
Non current investments	1	1	1	1	
Cash and Equivalents	673	679	990	6,581	
Inventories	3,573	3,489	5,037	4,566	
Sundry Debtors	2,616	4,752	4,291	6,267	
Loans & Advances	28	35	35	35	
Other Current Assets	1,480	1,918	1,662	2,742	
Current Assets (ex cash)	7,697	10,194	11,025	13,610	
Trade payable	2,756	2,627	2,965	3,334	
Other Current Liab	1,191	1,422	1,562	1,717	
Total Current Liab	3,947	4,049	4,528	5,051	
Net Curr Assets-ex cash	3,750	6,145	6,497	8,560	
Uses of funds	14,270	19,127	23,060	30,506	
BVPS (INR)	74.4	94.7	117.3	160.0	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	1,549	4,858	5,349	8,409	
Add: Depreciation	508	544	673	707	
Interest (Net of Tax)	175	144	140	117	
Others	(3,112)	(3,919)	(767)	(3,760)	
Less: Changes in WC	(2,002)	(1,831)	(947)	(1,351)	
Operating cash flow	1,122	3,458	6,341	6,823	
Less: Capex	1,382	2,789	4,000	500	
Free Cash Flow	(260)	669	2,341	6,323	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		1,122	3,458	6,341	6,823
Investing cash flow		(1,755)	(2,994)	(3,780)	(280)
Financing cash flow		1,540	(1,709)	(1,356)	(952)
Net cash Flow		907	(1,245)	1,206	5,590
Capex		(1,382)	(2,789)	(4,000)	(500)
Dividend paid		261	1,409	1,176	802

Profitability and efficiency ratios		FY16	FY17	FY18E	FY19E
Year to March					
ROAE (%)		14.3	32.8	28.9	34.7
ROACE (%)		17.6	38.9	33.6	41.1
Inventory Days		389	215	250	250
Debtors Days		78	66	75	71
Payable Days		270	164	164	164
Cash Conversion Cycle		197	117	161	157
Current Ratio		2.1	2.7	2.7	4.0
Gross Debt/EBITDA		0.4	0.3	0.3	0.2
Gross Debt/Equity		0.1	0.1	0.1	0.1
Adjusted Debt/Equity		0.1	0.1	0.1	0.1
Net Debt/Equity		-	0.1	0.1	(0.2)
Interest Coverage Ratio		9.4	34.0	37.8	71.3

Operating ratios		FY16	FY17	FY18E	FY19E
Year to March					
Total Asset Turnover		0.8	1.2	1.0	1.0
Fixed Asset Turnover		1.5	2.6	2.2	2.4
Equity Turnover		1.0	1.4	1.2	1.1

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)		8.9	27.9	30.7	48.3
Y-o-Y growth (%)		10.7	213.6	10.1	57.2
Adjusted Cash EPS (INR)		11.8	31.0	34.6	52.3
Diluted P/E (x)		107.6	34.3	31.2	19.8
P/B (x)		12.9	10.1	8.2	6.0
EV / Sales (x)		15.3	8.0	7.4	5.8
EV / EBITDA (x)		62.9	24.6	22.4	14.2
Dividend Yield (%)		0.1	0.7	0.5	0.8

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Glenmark Pharmaceuticals	2,740	15.5	14.8	10.6	10.3	22.6	19.5
Lupin	7,335	26.5	20.6	14.7	11.9	12.5	14.4
Natco Pharma	2,584	32.6	20.3	23.5	14.1	27.4	33.5
Sun Pharmaceuticals Industries	20,494	36.0	23.2	21.0	14.3	9.9	13.4
Torrent Pharmaceuticals	3,451	23.8	18.1	15.2	12.0	20.0	22.7
Median	-	26.5	20.3	15.2	12.0	20.0	19.5
AVERAGE	-	26.9	19.4	17.0	12.5	18.5	20.7

Source: Edelweiss research

Additional Data

Directors Data

V C Nannapaneni	Chairman	Rajeev Nannapaneni	Vice Chairman
G S Murthy	Director	B S Bajaj	Director
A K S Bhujanga Rao	Director	Vivek Chhachhi	Director
Dasu Govind Prasad	Director	T V Rao	Director
Leela Digumarti	Director	P S R K Prasad	Director

Auditors -

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Nomura	2.92	Wasatch Advisors Inc	1.6
CX Securities Ltd	2.58	EM Resurgent Fund	1.18
Visra ITCL India Limited	2.34	Jupiter Investment Mgmt group	1.13
Vanguard group	2.23	SBI Funds Management	1.04
Aditya Birla Sun Life Asset Management	2.23	Goldman Sachs group	0.68

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aurobindo Pharma	HOLD	SP	H	Cadila Healthcare	BUY	SO	M
Cipla	HOLD	SP	L	Divi's Laboratories	REDUCE	SU	H
Dr.Reddys Laboratories	BUY	SP	M	Glenmark Pharmaceuticals	HOLD	SP	M
Ipca Laboratories	REDUCE	SU	M	Lupin	HOLD	SP	M
Natco Pharma	BUY	SO	M	Sun Pharmaceuticals Industries	BUY	SO	M
Torrent Pharmaceuticals	BUY	SO	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Aditya Narain

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Coverage group(s) of stocks by primary analyst(s): Pharmaceuticals

Aurobindo Pharma, Cadila Healthcare, Cipla, Divi's Laboratories, Dr.Reddys Laboratories, Glenmark Pharmaceuticals, Ipca Laboratories, Lupin, Natco Pharma, Sun Pharmaceuticals Industries, Torrent Pharmaceuticals

Recent Research

Date	Company	Title	Price (INR)	Recos
03-Nov-17	Glenmark Pharma	Debt rises again; outlook gloomy; <i>Result Update</i>	627	Hold
02-Nov-17	Max India	Earnings soft on regulatory interventions; <i>Result Update</i>	134	Buy
02-Nov-17	Divis Laboratories	Overcomes regulatory hurdle, but valuations expensive; <i>Event Update</i>	1,073	Reduce

Distribution of Ratings / Market Cap

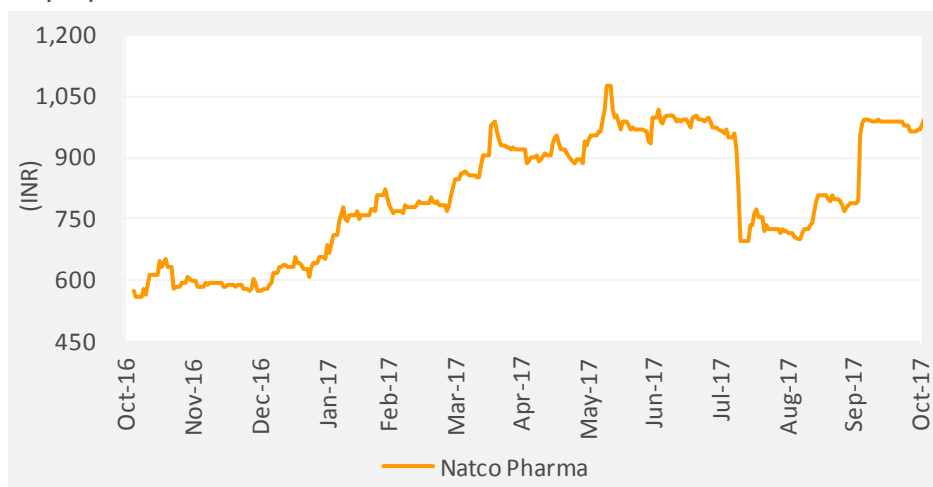
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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