RESULT UPDATE

AUROBINDO PHARMA

Numbers miss the mark; no respite from margin pressure

India Equity Research| Pharmaceuticals

Aurobindo Pharma (ARBP) reported muted Q4FY18 results. Adjusted PAT grew 5% YoY against our 16.5% expectation. The weak performance was due to product recall in injectables and erosion in key products like *gRenvela*. One-time receivables securitization made in FY17 was not sustainable as gross debt grew to USD731mn (FY17: USD439mn) to fund increase an in working capital and the Generis acquisition. Going forward, we expect growth to slow down, on a large base. In addition, we expect margins to remain under pressure as – 1) R&D is likely to increase once ARBP starts phase III clinical trials; 2) cost pressure on intermediates imported from China is likely to sustain; and 3) Europe margin levers have already played out, with double digit margin expected to sustain. Over FY18-20E, we forecast single digit top line growth on a high base, ~270bps decline in margins and flat earnings growth. We maintain 'HOLD' with a revised TP of INR630 (INR700 earlier).

US weak on decline in injectables; recent inspections clear plants

US (42%) declined 8% QoQ as injectables declined by USD11mn sequentially, to USD35mn, due to product recalls and stoppage of the bag line. During the full year, injectables sales remained flat at USD154mn. USFDA completed inspections at three injectable plants with EIR at Unit IV & XII and three observations at Unit XVI.

Margin pressure likely to sustain on higher R&D

ARBP's current ANDA filings focus is on oncology, dermatology and respiratory segments in the US market. In oncology, the company has already filled 13 ANDAs and is planning to file another 15 in FY19. In respiratory, it has filed 11 ANDAs so far and is planning to file its first nasal in FY20. In dermatology, the focus is on topical, followed by transdermals. ARBP is also working on biosimilars & microspheres and is expected to start clinical of Bevacizumab. As it focuses more on complex products, we estimate the R&D cost to rise from the current 4% of sales to 6% over FY18-20E.

Outlook and valuations: Execution risks remain; maintain 'HOLD'

Over FY18-20E, we estimate R&D cost to increase by ~80%, margin to decline ~270bps and earnings to remain almost flat. We maintain '**HOLD/SP**' and cut TP to INR630 (15x FY20E EPS).

Financials (Consolidated) (INR mn)

Year to March	Q4FY18	Q4FY17	*% change*	Q3FY18	*% change*	FY18E	FY19E	FY20E
Net revenue	40,491	36,416	*11.2*	43,361	*(6.6)*	164,998	177,956	192,559
EBITDA	8,040	7,212	*11.5*	10,256	(21.6)	37,885	37,958	39,093
Adjusted profit	5,414	5,169	*4.8*	6,614	(18.1)	24,399	24,533	24,640
Adj. diluted EPS	9.2	8.8	*4.8*	11.3	*(18.1)*	41.7	41.9	42.1
P/E (x)						13.9	13.8	13.8
ROAE (%)						23.2	19.1	16.3

EDELWEISS 4D RATINGS

Absolute Rating	**HOLD**
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	High
Sector Relative to Market	Equalweight

MARKET DATA *(R: ARBN.BO, B: ARBP IN)*

CMP	: INR 580
Target Price	: INR 630
52-week range (INR)	: 809 / 503
Share in issue (mn)	: 585.9
M cap (INR bn/USD mn)	: 355 / 5,244
Avg. Daily Vol.BSE/NSE('000)	: 2,857.3

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	51.9	51.9	51.9
MF's, FI's & BK's	15.6	15.6	15.4
FII's	18.9	18.9	18.8
Others	13.7	13.7	14.0

** Promoters pledged shares (% of share in issue) : 11.1*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	(4.0)	(0.0)	(5.1)
3 months	(1.4)	1.9	(5.6)
12 months	13.7	11.4	(2.0)

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May 29, 2018

Q4FY18 conference call: Key highlights

Guidance:

- R&D cost:
  - Company expects to maintain at 5% of sales levels
  - Company is positive on starting trials biosimilar product.
  - In FY20, this could increase to 8-9%, as company is positive on starting trials for the 2nd biosimilar as well.
- Net debt:
  - In FY19, company expects to reduce net debt by atleast USD100mn
  - Expect interest rate to go up commensurate to FED rate

US business (43% of sales):

- *Injectables business*
  - Recorded sales of USD35mn in Q4FY18, i.e. 30% sequential decline due to product recalls and stoppage of product bag line. In FY18, sales were USD154mn.
  - Company doesn't expect injectables business to be commoditized over the 3-4 years. But does expect competition to come in.
- *EIR on facilities:*
  - Received EIR for unit-IV and unit-XII.
  - Unit-XVI received 3 observations couple of weeks ago.
- *Pricing erosion:*
  - 8% YoY for FY18, 15% YoY including gRenvela. However, the direction is now changing because sequential erosion was only 1%, versus 5% earlier. Consider this as the new norm.
  - Customer consolidation: No material impact from the new consolidations
- *New Products:*
  - Ertapenem: Approval in the coming few weeks, launch couple of weeks after that, because the product is sensitive to cryogenics.
  - Toprol XL: Company has submitted response in Feb and can expect approval in Oct.
  - Welchol: Company filed update on query and should receive approval in next 2-3 months
  - FY19: Company expects to 30-40 products in the US. Of these, atleast 10 are already approved.

Europe (28% of sales):

- Key factor contributing to growth in Europe is the Generis acquisition.
- Organic sales growth was 15% YoY in Q4FY18
- In the long term, company expect to grow 10% in the long term
- Company topped double-digit EBITDA margins and is expected to continue going forward

ARV business (4% of sales):

- Decline was due to increase in pricing pressure in one of the products
- Expect ARV sales to be better in FY19 on back of Dolutegravir (DTG)
  - More DTG orders flowing in as the shift starts this year
  - Improvement will be visible from 2nd quarter onwards.

OTC (AuroHealth):

- In FY18, company launched two products, which are are doing well
- In FY19, expect 75% growth on the back of:
  - Launch of Omeprazole in Jul-Aug '18
  - Launch 12-14 other products

Imports from China:

- Company imports roughly ~USD400mn of API from China
- Most of the API pricing increases have been passed on to the customer. But for non-betalactams, ARPB has been absorbing the costs.

Financials/Guidance

- *Net debt:*
  - At the end of Q4FY18 stood at USD538mn. Company had previously guided for USD475mn, but was not able to reduce due to increased capex and higher inventory levels to improve service levels
  - Majority of the company debt is in foreign currency.
- *Increase in inventory:*
  - Company looks to maintain 3-3.5months of investory across all geographies, with raw material and excipients at the factory level
  - This is expected to go up slightly in Q1FY19 also.
  - One of the objectives is to keep extra inventory so that the company can cash in on new business opportunities (NBO) that might come in.
  - Working capital is at 40% of turnover (Refer Table 2 for comparison)

Table 1: Actual v/s. Estimates

Year to March	Q4FY18	*YoY Growth (%)*	Edel estimate	*YoY Growth (%)*	Dev. from Actual (%)
Net revenues	40,491	*11.2*	43,344	*19.0*	(6.6)
Gross profit	23,796	*11.3*	24,536	*14.7*	(3.0)
Gross margin(%)	59		57		
Employee Expenses	5,813	*25.4*	5,500	*18.7*	5.7
EBITDA	8,040	*11.5*	9,536	*32.2*	(15.7)
EBIDTA margin	20		22		
Net finance expense (income)	247	*56.6*	205	*43.7*	20.5
Depreciation	1,566	*56.6*	1,479	*47.8*	5.9
Income tax expense	1,224	*4.5*	1,618	*38.1*	(24.4)
Tax rate (%)	19		20		
Adjusted Profit	5,414	*4.8*	6,482	*25.4*	(16.5)
Reported Profit	5,285	*-0.7*	6482	*21.7*	(18.5)

Table 2: Free Cash Flow progression from FY13 to FY18

Aurobindo	FY13	FY14	FY15	FY16	FY17	FY18	Cumulative
Operating C/F before changes in WC	6,969	17,036	20,801	28,387	26,676	29,812	129,679
Add: Changes in WC	(4,216)	(10,574)	(8,417)	(10,794)	6,110	(12,848)	(40,739)
Operating C/F	2,753	6,462	12,383	17,593	32,786	16,963	88,940
Less: Interest paid	1,121	937	739	823	568	600	4,788
Operating cash flow (excluding int)	1,633	5,524	11,645	16,769	32,218	16,363	84,152
Less: Capex	2,676	3,741	7,459	15,492	16,846	12,540	58,754
Free cash flow	**(1,043)**	**1,784**	**4,186**	**1,277**	**15,372**	**3,823**	**25,398**
Acquisition	-	242	6,860	(1,380)	-	(1,000)	4,723
Free cash flow (after acquisitions)	**(1,043)**	**1,542**	**(2,675)**	**2,657**	**15,372**	**4,823**	**20,676**

Table 3: Working capital progression from FY13 to FY18

Aurobindo	FY13	FY14	FY15	FY16	FY17	FY18
Sales	58,553	80,998	121,205	139,552	150,899	164,998
Working Capital (Excluding Cash)	25,568	36,529	50,994	62,058	46,076	63,154
% of sales	43.7%	45.1%	42.1%	44.5%	30.5%	38.3%

Table 4: Working capital as a % of sales – peer comparison

Company	Aurobindo	DRL	Sun	Lupin	Cipla	Cadila
WC as % of sales as on FY18	**38**	38	37	40	33	31

Source: Company, Edelweiss research

Table 5: Segmental revenue (INR mn)

Year to March	Q4FY18	Q4FY17	*% change*	Q3FY18	*% change*
Total Fomulations	32,486	28,794	*12.8*	35,703	*(9.0)*
US	17,388	16,432	*5.8*	19,096	*(8.9)*
Europe	11,516	7,772	*48.2*	11,716	*(1.7)*
ROW	2,096	1,971	*6.3*	2,502	*(16.2)*
ARV	1,486	2,619	*(43.3)*	2,389	*(37.8)*
Total API	7,996	7,627	*4.8*	7,658	*4.4*
SSPs+ Cephs	5,327	5,121	*4.0*	5,366	*(0.7)*
ARV and others	2,669	2,506	*6.5*	2,292	*16.4*
Total gross sales	40,482	36,421	*11.2*	43,361	*(6.6)*
Milestone income	8	-6	*(233.3)*	1	*700.0*
Total gross sales (incl milestone)	40,490	36,415	*11.2*	43,362	*(6.6)*

Chart 1: *gRenvela* and Generis acquisition drive revenue growth

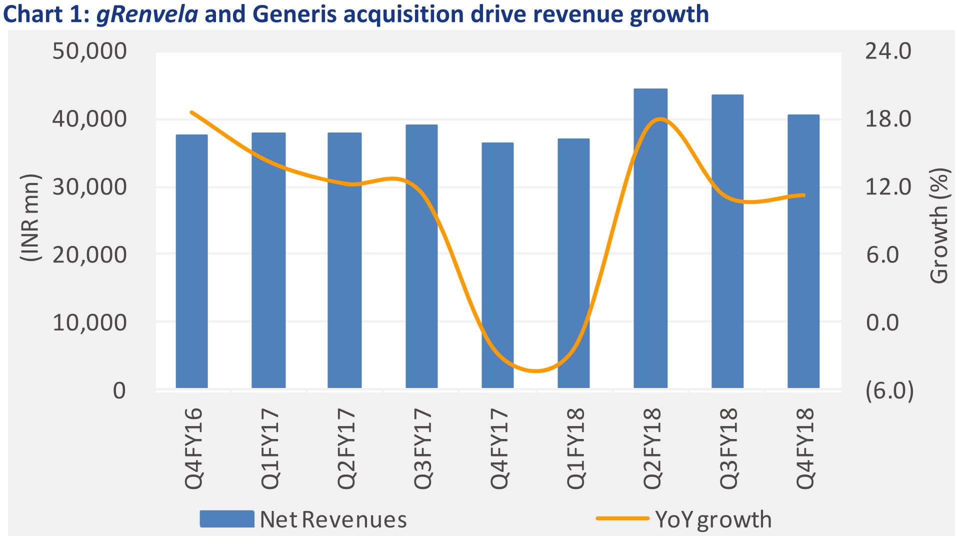
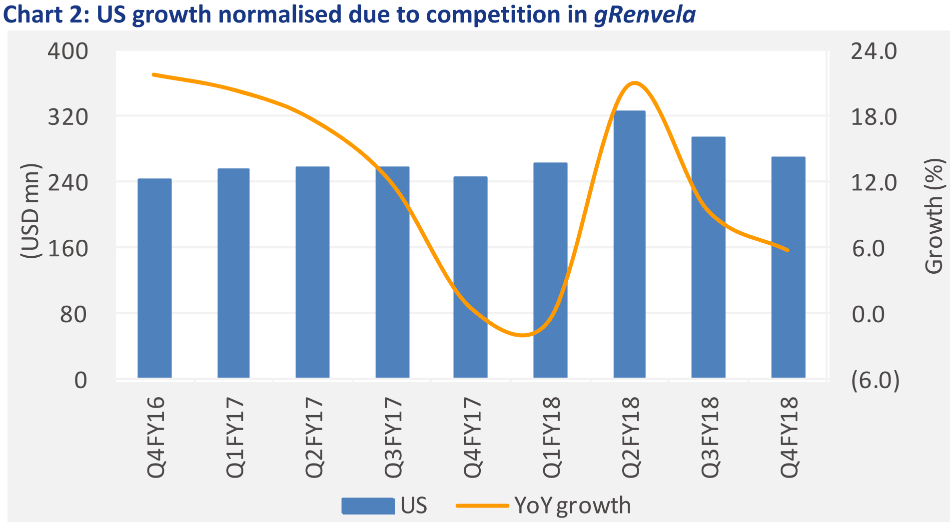


Chart 2: US growth normalised due to competition in *gRenvela*



Source: Company, Edelweiss research

Chart 3: API growth higher

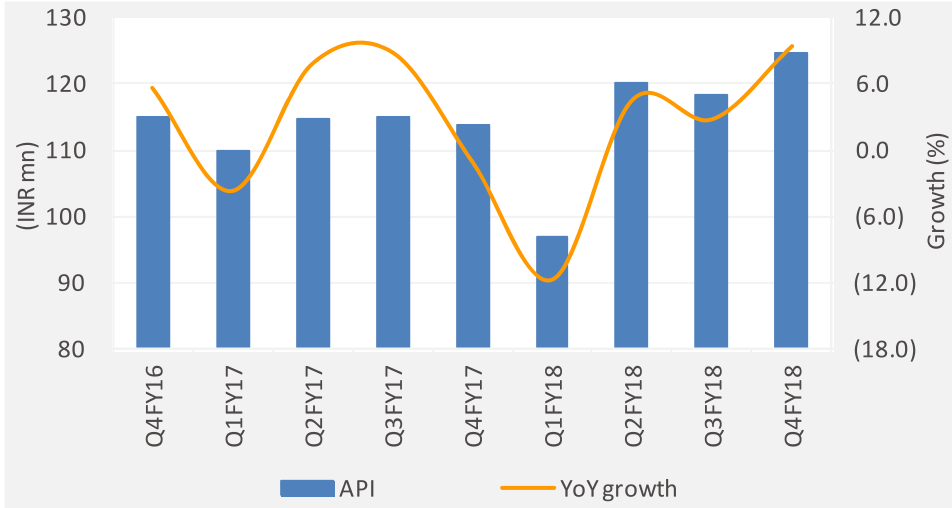
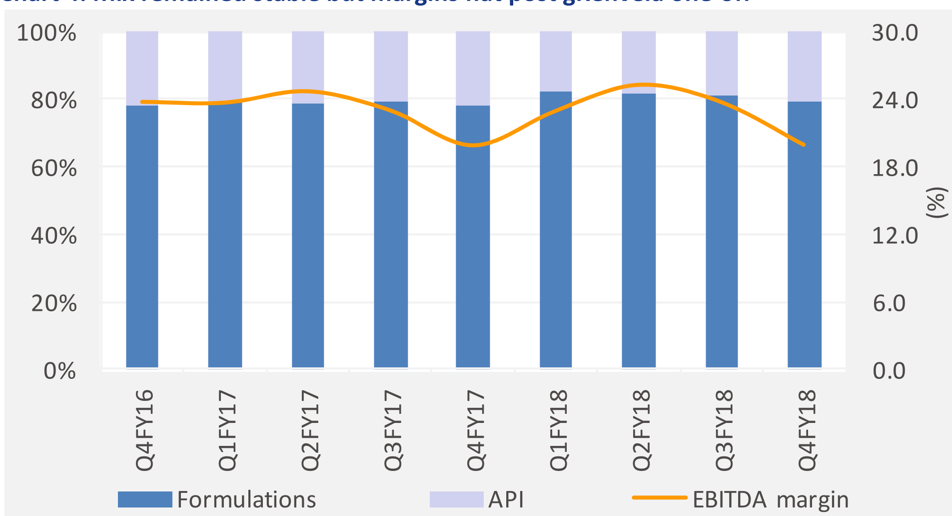


Chart 4: Mix remained stable but margins flat post gRenvela one-off



Source: Company, Edelweiss research

Financial snapshot (INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	40,491	36,416	*11.2*	43,361	*(6.6)*	164,998	177,956	192,559
Cost of revenue	16,695	15,028	*11.1*	18,175	*(8.1)*	67,527	73,852	78,949
Gross profit	23,796	21,388	*11.3*	25,186	*(5.5)*	97,471	104,104	113,610
R&D	-	-		-		6,665	8,898	11,939
EBITDA	8,040	7,212	*11.5*	10,256	*(21.6)*	37,885	37,958	39,093
EBITDA margin	19.9	19.8		23.7		23.0	21.3	20.3
Depreciation	1,566	1,001	*56.6*	1,381	*13.4*	5,580	6,148	7,636
EBIT	6,474	6,212	*4.2*	8,875	*(27.1)*	32,306	31,810	31,457
Interest	247	143	*73.1*	189	*31.1*	777	597	297
Other income	438	218	*101.5*	331	*32.6*	1,020	1,444	1,640
Add: Prior period items								
Profit before tax	6,506	6,477	*0.4*	9,017	*(27.8)*	32,381	32,658	32,800
Provision for taxes	1,224	1,172	*4.5*	3,069	*(60.1)*	8,183	8,164	8,200
Minority interest	3	(2)	*(208.7)*	(2)	*(266.7)*	(3)	(40)	(40)
Associate profit share	6	17	*(66.7)*	1	*409.1*	-	-	-
Add: Exceptional items	(159)	190	*NA*	-		(168)	-	-
Reported net profit	5,285	5,325	*(0.7)*	5,950	*(11.2)*	24,200	24,533	24,640
Adjusted Profit	5,414	5,169	*4.8*	6,614	*(18.1)*	24,399	24,533	24,640
Diluted shares (mn)	586	586		586		585	585	585
Adjusted Diluted EPS	9.2	8.8	*4.8*	11.3	*(18.1)*	41.7	41.9	42.1
Cost of revenue	41.2	41.3		41.9		40.9	41.5	41.0
Gross profit	58.8	58.7		58.1		59.1	58.5	59.0
Total expenses	80.1	80.2		76.3		77.0	78.7	79.7
Operating profit	16.0	17.1		20.5		19.6	17.9	16.3
Reported net profit	13.1	14.6		13.7		14.7	13.8	12.8
Tax rate	18.8	18.1		34.0		25.3	25.0	25.0

Company Description

Aurobindo Pharma is a mid-sized Indian pharma company with one of the largest portfolios and believes in low cost as a competitive advantage. Its dependence on the API business has gone down with 80% of its business coming from formulations. After resolving an import alert and warning letter for two of its facilities, Aurobindo staged a strong comeback. Over the last two years, the company has significantly grown in the US (its largest business) due to a large no of approvals and also has a large pipeline awaiting approval which will drive future growth. While majority of its business is international, it strengthened its presence in EU by acquiring Actavis' Western EU business.

Investment Theme

While US business momentum will continue and remain the primary driver for growth, consolidation of acquired EU business will show a dip in margin on consolidation. ARBP acquisition of Actavis' WE business (loss-making) has increased business risk and execution related challenges for them. We have assumed an EBITDA break even scenario for the acquired business, inline with management guidance.

Key Risks

Slower than expected turnaround of the acquired EU business

Slowdown in ANDA approvals and USFDA related regulatory risks are part of the generics business.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.8	7.4	7.6
Inflation (Avg)	4.5	4.0	4.5	5.0
Repo rate (exit rate)	6.3	5.8	5.8	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Sector				
IPM growth (Y-o-Y) %	12.0	12.0	12.0	12.0
Company				
Formulations (INR terms)	120,453	135,332	146,813	158,815
% change	8.9	12.4	8.5	8.2
USA	68,272	74,421	80,850	89,100
% change	12.3	9.0	8.6	10.2
Europe	40,327	52,515	56,896	59,740
% change	6.8	30.2	8.3	5.0
ARV's	11,854	8,396	9,068	9,974
% change	(2.0)	(29.2)	8.0	10.0
Dossier Income	24	44	40	40
USD/INR (Avg)	67.1	64.5	66.0	66.0
Capex (USD mn)	251	210	227	227
Net debt to equity (x)	0.2	0.2	0.1	-

Income statement (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Gross revenues	153,917	164,998	177,956	192,559
Net revenue	150,899	164,998	177,956	192,559
Income from operations	150,899	164,998	177,956	192,559
Materials costs	64,343	67,527	73,852	78,949
Employee costs	17,678	21,308	24,505	26,955
R&D Cost	5,430	6,665	8,898	11,939
EBITDA	34,343	37,885	37,958	39,093
Operating profit	34,343	37,885	37,958	39,093
EBIT	30,067	32,306	31,810	31,457
Less: Interest Expense	667	777	597	297
Add: Other income	538.4	1,019.8	1,444.43	1,639.52
Profit Before Tax	29,938	32,381	32,658	32,800
Less: Provision for Tax	7,596	8,183	8,164	8,200
Less: Minority Interest	(5)	(3)	(40)	(40)
Add: Exceptional items	-	(168)	-	-
Reported Profit	22,346	24,200	24,533	24,640
Exceptional Items	(671)	(199)	-	-
Adjusted Profit	23,017	24,399	24,533	24,640
Shares o /s (mn)	585	585	585	585
Adjusted Basic EPS	39.3	41.7	41.9	42.1
Diluted shares o/s (mn)	585	585	585	585
Adjusted Diluted EPS	39.3	41.7	41.9	42.1
Adjusted Cash EPS	46.6	51.2	52.4	55.2
Dividend per share (DPS)	3.2	-	2.9	2.9
Dividend Payout Ratio(%)	8.1	-	7.0	7.0

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	42.6	40.9	41.5	41.0
Staff costs	11.7	12.9	13.8	14.0
Operating expenses	77.2	77.0	78.7	79.7
R & D cost	3.6	4.0	5.0	6.2
Depreciation	2.8	3.4	3.5	4.0
EBITDA margins	22.8	23.0	21.3	20.3
Interest Expense	0.4	0.5	0.3	0.2
Net Profit margins	15.2	14.8	13.8	12.8

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	8.1	9.3	7.9	8.2
EBITDA	7.7	10.3	0.2	3.0
PBT	8.0	8.2	0.9	0.4
Adjusted Profit	5.1	6.0	0.5	0.4
EPS	5.1	6.0	0.5	0.4

Balance sheet				(INR mn)
As on 31st March	**FY17**	**FY18**	**FY19E**	**FY20E**
Share capital	586	586	586	586
Reserves & Surplus	93,133	116,218	138,691	161,261
Shareholders' funds	93,719	116,804	139,277	161,847
Minority Interest	21	18	18	18
Long term borrowings	1,814	4,512	25,313	10,313
Short term borrowings	29,027	40,313	4,512	4,512
Total Borrowings	30,841	44,825	29,825	14,825
Long Term Liabilities	224	559	559	559
Def. Tax Liability (net)	318	765	765	765
Sources of funds	**125,123**	**162,971**	**170,444**	**178,014**
Gross Block	54,499	72,473	87,473	102,473
Depreciation	4,276	5,580	6,148	7,636
Net Block	46,482	58,876	67,728	75,092
Capital work in progress	12,374	13,995	13,995	13,995
Intangible Assets	4,063	8,165	8,165	8,165
Total Fixed Assets	62,919	81,037	89,889	97,253
Non current investments	7,457	6,494	7,564	7,929
Cash and Equivalents	12,712	20,558	18,055	14,905
Inventories	43,305	58,584	59,689	62,727
Sundry Debtors	27,653	30,844	31,545	34,134
Loans & Advances	166	156	156	156
Other Current Assets	8,108	11,790	12,457	13,479
Current Assets (ex cash)	79,232	101,375	103,847	110,496
Trade payable	24,883	26,274	27,315	29,200
Other Current Liab	12,313	20,218	21,597	23,369
Total Current Liab	37,196	46,493	48,912	52,569
Net Curr Assets-ex cash	42,036	54,882	54,935	57,927
Uses of funds	**125,123**	**162,971**	**170,444**	**178,014**
BVPS (INR)	160.1	199.6	238.0	276.6

Free cash flow				(INR mn)
Year to March	**FY17**	**FY18**	**FY19E**	**FY20E**
Reported Profit	22,346	24,200	24,533	24,640
Add: Depreciation	4,276	5,580	6,148	7,636
Interest (Net of Tax)	498	581	447	222
Others	21,648	(30,475)	(1,266)	(6,955)
Less: Changes in WC	15,982	(17,078)	(765)	(3,741)
Operating cash flow	32,786	16,963	30,628	29,284
Less: Capex	16,846	13,540	15,000	15,000
Free Cash Flow	**15,940**	**3,423**	**15,628**	**14,284**

Cash flow metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	32,786	16,963	30,628	29,284
Financing cash flow	(20,166)	21,194	(15,683)	(15,298)
Investing cash flow	15,617	12,883	15,000	15,000
Net cash Flow	28,237	51,041	29,945	28,987
Capex	(16,846)	(13,540)	(15,000)	(15,000)
Dividend paid	(2,255)	-	(2,061)	(2,070)

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	25.3	23.2	20.0	19.1
ROAE (%)	27.6	23.2	19.1	16.3
Inventory Days	238	275	292	283
Debtors Days	89	65	64	62
Payable Days	140	138	132	131
Cash Conversion Cycle	187	202	224	215
Current Ratio	2.5	2.6	2.5	2.4
Gross Debt/EBITDA	0.9	1.2	0.8	0.4
Gross Debt/Equity	0.3	0.4	0.2	0.1
Adjusted Debt/Equity	0.3	0.4	0.2	0.1
Net Debt/Equity	0.2	0.2	0.1	-
Interest Coverage Ratio	45.1	41.6	53.3	106.1

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	1.2	1.1	1.1	1.1
Fixed Asset Turnover	3.3	2.8	2.5	2.4
Equity Turnover	1.8	1.6	1.4	1.3

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	39.3	41.7	41.9	42.1
Y-o-Y growth (%)	*5.1*	*6.0*	*0.5*	*0.4*
Adjusted Cash EPS (INR)	46.6	51.2	52.4	55.2
Diluted P/E (x)	14.7	13.9	13.8	13.8
P/B (x)	3.6	2.9	2.4	2.1
EV / Sales (x)	2.4	2.2	2.0	1.8
EV / EBITDA (x)	10.4	9.6	9.2	8.7
Dividend Yield (%)	0.6	-	0.5	0.5

Peer comparison valuation

	Market cap	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
Name	(USD mn)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Aurobindo Pharma	5,207	14.8	14.8	9.6	9.0	19.1	16.3
Cadila Healthcare	5,527	17.8	14.5	11.9	10.0	21.4	22.2
Glenmark Pharmaceuticals	2,203	17.6	15.6	10.9	9.8	15.2	14.9
Ipca Laboratories	1,290	18.0	14.1	12.0	14.1	12.0	10.1
Torrent Pharmaceuticals	3,377	27.4	20.1	14.2	11.8	16.3	19.6

Source: Edelweiss research

Additional Data

Directors Data

K.Ragunathan	Independent Director & Non-Executive Chairman	K. Nithyananda Reddy	Wholetime Director & Vice Chairman
P.V.Ramaprasad Reddy	Non-Executive Director	M.Sivakumaran	Wholetime Director
M. Madan Mohan Reddy	Wholetime Director	N.Govindarajan	Managing Director
M.Sitarama Murthy	Independent Director	Dr. D. Rajagopala Reddy	Independent Director
P.Sarath Chandra Reddy	Non-Executive Director	Avnit Bimal Singh	Director

Auditors - M/s. S.R. Batliboi & Associates

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
HDFC Asset Managment Co Ltd	5.81	Vanguard group	1.62
Axis Clinicals	2.97	Stitchting Dep APG EMRG EQ	1.07
Aditya Birla Sun Life Asset Management	2.4	UTI Asset Management	0.89
Reliance Capital Trustee	2.18	SBI Funds Management	0.74
Blackrock	1.69	Dimensional Fund Advisors	0.71

**in last one year*

Bulk Deals

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

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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	SU	H
Ipca Laboratories	BUY	SO	H	Lupin	HOLD	SP	M
Natco Pharma	BUY	SO	M	Sun Pharmaceuticals Industries	HOLD	SU	M
Torrent Pharmaceuticals	HOLD	SP	M				

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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Date: 2018.05.29 20:28:05 +05'30'

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
28-May-18	**Divis Laboratories**	Growth a concern; new capacity an issue; *Result Update*	1,146	Reduce
25-May-18	**Sun Pharma.**	Back on growth path; *Result Update*	467	Hold
25-May-18	**Cadila Healthcare**	Strong performance; bright outlook; *Result Update*	383	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

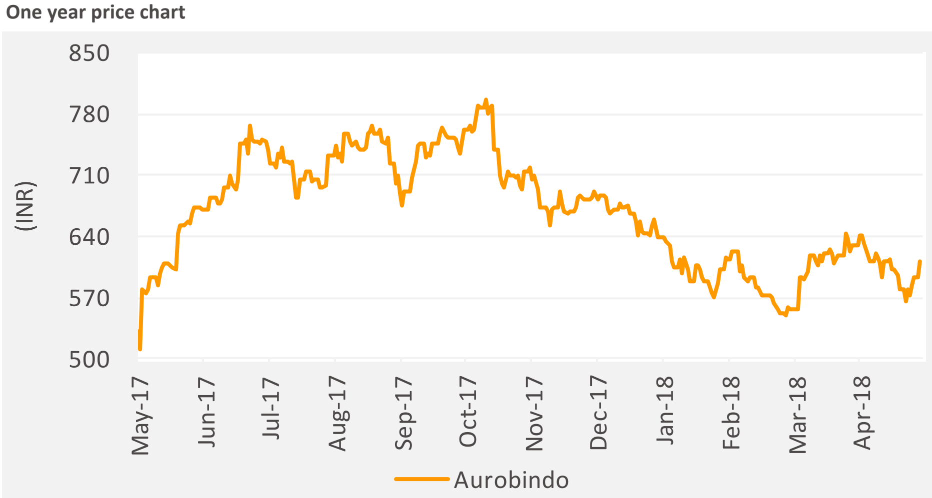
* 1stocks under review

	> 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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