

CMP: ₹ 892

Target: ₹ 1075 (21%)

Target Period: 12 months

February 2, 2022

## Strong performance on all fronts; specialty buoyed...

**About the stock:** Sun is the world's fourth largest specialty generic company with sales of US\$3.8 billion and boasts of 43 manufacturing sites addressing segments like specialty products, branded generics, complex generics, pure generics and APIs.

- With a market share of 8.2%, Sun is ranked No. 1 in domestic formulations. It enjoys leadership position in 11 specialties based on prescription
- Revenue breakup: US formulation~30%, Indian branded~30%, Emerging markets~17%, RoW~14%, API & Others~6%

**Q3FY22 Results:** Strong set of numbers in line with our estimates amid strong momentum across business verticals.

- Sales were up 11.6% YoY to ₹ 9863.1 crore
- EBITDA was at ₹ 2606.3 crore, up 8.3% YoY with margins at 26.4%
- Adjusted PAT was at ₹ 2058.8 crore (up 11.1% YoY)

**What should investors do?** Sun Pharma's share price has increased by ~1.4x over the past five years (from ~₹ 636 in February 2017 to ~₹ 892 levels in February 2022).

- Maintain BUY on the back of consistent traction on the specialty front, linear growth in India formulations besides calibrated approach in generics

**Target Price and Valuation:** Valued at ₹ 1075 i.e. 28x P/E on FY24E EPS of ₹ 38.3

### Key triggers for future price performance:

- Higher contribution from specialty & strong domestic franchise is likely to change the product mix towards more remunerative businesses by FY23
- It has embarked on a strategy to in-license latest generation patent protected products from various innovators for India market
- In US, Sun is diversifying into specialty products like Ilumya, Levulan, BromSite, Cequa, Xelpros, Odomzo, Yonsa, Winlevi, etc
- Launch momentum in India (25 launches in Q3), pick-up in demand for chronic and sub-chronic segment backed by high PCPM to sustain growth

**Alternate Stock Idea:** Apart from Sun, in our healthcare coverage we also like Cipla.

- Cipla has a long-drawn strategy of targeting four verticals viz. One-India, South Africa & EMs, US generics & specialty and lung leadership
- BUY with target price of ₹ 1100

### Key Financial Summary

| Key Financials (₹ Crore) | FY20    | FY21    | 5 year CAGR (FY16-21) | FY22E   | FY23E   | FY24E   | 3 year CAGR (FY21-24E) |
|--------------------------|---------|---------|-----------------------|---------|---------|---------|------------------------|
| Net Sales                | 32837.5 | 33498.1 | 3.2                   | 38573.2 | 41562.8 | 45151.3 | 10.5                   |
| EBITDA                   | 6989.8  | 8491.4  | -0.5                  | 10545.0 | 11414.3 | 12793.6 | 14.6                   |
| EBITDA Margins (%)       | 21.3    | 25.3    |                       | 27.3    | 27.5    | 28.3    |                        |
| Adj. Profit              | 4025.6  | 7210.0  | 5.0                   | 7899.6  | 8062.0  | 9192.2  | 8.4                    |
| Adj. EPS (₹)             | 16.8    | 30.0    |                       | 32.9    | 33.6    | 38.3    |                        |
| PE (x)                   | 56.8    | 73.7    |                       | 34.8    | 26.5    | 23.3    |                        |
| EV to EBITDA (x)         | 30.2    | 24.5    |                       | 19.4    | 17.4    | 15.0    |                        |
| RoE (%)                  | 8.9     | 15.5    |                       | 15.2    | 13.6    | 13.6    |                        |
| RoCE (%)                 | 10.0    | 14.2    |                       | 17.4    | 16.9    | 17.0    |                        |

Source: Company, ICICI Direct Research

BUY



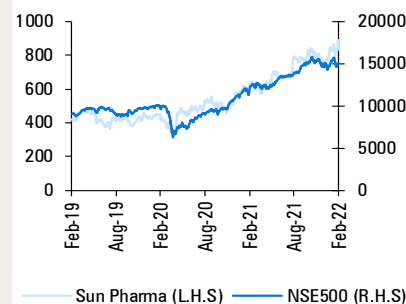
### Particulars

| Particular                | Amount         |
|---------------------------|----------------|
| Market Capitalisation     | ₹ 214033 crore |
| Debt (FY21)               | ₹ 1669 crore   |
| Cash & Equivalents (FY21) | ₹ 7593 crore   |
| EV (₹ Cr)                 | ₹ 208108 crore |
| 52 week H/L (₹)           | 895/562        |
| Equity capital            | ₹ 239.9 crore  |
| Face value                | ₹ 1            |

### Shareholding pattern

| (in %)   | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 54.5   | 54.5   | 54.5   | 54.5   | 54.5   |
| Others   | 45.5   | 45.5   | 45.5   | 45.5   | 45.5   |

### Price Chart



### Recent Event & Key risks

- USFDA approval for Amphotericin B Injection
- **Key Risk:** (i) Regulatory Concern (ii) Less than expected traction for specialty products

### Research Analyst

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## Key takeaways of recent quarter & conference call highlights

### Q3FY22 Results: Robust quarterly performance

- Revenues grew 11.6% YoY to ₹ 9863.1 crore. Indian formulations grew 15.1% YoY to ₹ 3167.6 crore. US formulations grew to ₹ 2971.8 crore, up 7.6% YoY. Emerging Markets business grew 18.8% YoY to ₹ 1789.9 crore while RoW Markets business grew 4.2% YoY to ₹ 1353.2 crore. API segment grew 9.2% YoY to ₹ 531.8 crore. EBITDA margins declined just 80 bps and stood at 26.4% on back of marginal dip in gross margins and higher other expenditure. Subsequently, EBITDA grew 8.3% YoY to ₹ 2606.3 crore. Adjusted profit grew 11.1% YoY to ₹ 2058.8 crore. Delta vis-à-vis EBITDA was mainly due to higher other income and lower interest expense being partially offset by higher tax expense
- Sun Pharma's Q3FY22 operational performance was in line with I-direct estimates with sustained momentum and good growth across businesses. India business continues to grow faster than market, leading to increase in market share. The company's US generics front is going through calibrated product rationalisation, the specialty segment looks promising due to robust product pipeline, steady progress and for 9MFY22 has already crossed the previous full-year revenues. This metamorphic shift from generics to specialty and strong domestic franchise is likely to change the product mix towards more remunerative businesses by FY22. This would have positive implications for margins also as we expect faster absorption of frontloaded costs on the specialty front

### Q3FY22 Earnings Conference Call highlights

- Global speciality revenue was at US\$183 million in Q3FY22 mainly on back of demand uptick for Cequa, Ilumya, Levulan and Absorica. Recently launched Winlevi has been well received in US and management expects significant traction to be visible from Q4
- In the US, launched five generics. US pipeline: 88 ANDAs and 13 NDAs. No timeline on Halol re-inspection by USFDA
- Speciality R&D is 22% of total R&D
- In India, growth in chronic and sub-chronic segment on back of improving patient inflow and normalisation in marketing activity. New field force in 70% of territory performing in-line with expectations, management expecting rest to improve going forward
- Growth in key therapies: CNS (up 7.8% YoY), CVS (up 12% YoY), GI: (up 10.8% YoY). Sun pharma launched 25 products in India during Q3FY22
- Sun Pharma repaid debt of US\$254 billion in 9MFY22
- R&D Investment for Q3FY22 is ₹ 547 crore
- Sun Pharma announced interim dividend of ₹ 7 per share

**Exhibit 1: Variance Analysis**

|                     | Q3FY22  | Q3FY22E | Q3FY21  | YoY (%) | Q2FY22  | QoQ (%) | Comments   |
|---------------------|---------|---------|---------|---------|---------|---------|--|
| Revenue             | 9,863.1 | 9,656.9 | 8,836.8 | 11.6    | 9,625.9 | 2.5     | YoY growth driven by momentum across business segments   |
| Raw Material Expens | 2,640.6 | 2,607.4 | 2,333.4 | 13.2    | 2,521.9 | 4.7     |  |
| Gross margins (%)   | 73.2    | 73.0    | 73.6    | -37 bps | 73.8    | -57 bps |  |
| Employee Expenses   | 1,850.9 | 1,834.8 | 1,720.5 | 7.6     | 1,806.3 | 2.5     |  |
| Other Expenditure   | 2,765.2 | 2,655.7 | 2,376.8 | 16.3    | 2,667.9 | 3.6     |  |
| Total Expenditure   | 7,256.7 | 7,097.8 | 6,430.6 | 12.8    | 6,996.0 | 3.7     |  |
| EBITDA              | 2,606.3 | 2,559.1 | 2,406.1 | 8.3     | 2,629.9 | -0.9    |  |
| EBITDA (%)          | 26.4    | 26.5    | 27.2    | -80 bps | 27.3    | -90 bps | YoY decline amid marginal dip in gross margins and higher other expenditure  |
| Interest            | 19.0    | 36.0    | 26.1    | -27.3   | 36.0    | -47.2   |  |
| Depreciation        | 553.7   | 530.4   | 531.9   | 4.1     | 530.4   | 4.4     |  |
| Other income        | 432.5   | 223.6   | 315.0   | 37.3    | 222.9   | 94.0    |  |
| EO                  | 0.0     | 0.0     | 0.0     |         | 0.0     |         |  |
| PBT                 | 2,466.2 | 2,216.4 | 2,163.1 | 14.0    | 2,286.5 | 7.9     |  |
| Tax                 | 335.4   | 421.1   | 244.9   | 36.9    | 197.8   | 69.6    |  |
| MI                  | 67.5    | 43.8    | 60.9    | 10.8    | 39.3    | 71.6    |  |
| Net Profit          | 2,058.8 | 1,749.0 | 1,852.5 | 11.1    | 2,047.0 | 0.6     |  |
| Adj. Net Profit     | 2,058.8 | 1,749.0 | 1,852.5 | 11.1    | 2,047.0 | 0.6     | Delta vis-à-vis EBITDA was mainly due to higher other income and lower interest expense being partially offset by higher tax expense |

**Key Metrics**

|                    |         |         |         |      |         |      |   |
|--------------------|---------|---------|---------|------|---------|------|---|
| India formulations | 3,167.6 | 3,083.1 | 2,752.8 | 15.1 | 3,187.8 | -0.6 | YoY growth driven by demand in chronic and sub-chronic segments                           |
| US formulations    | 2,971.8 | 2,903.5 | 2,762.9 | 7.6  | 2,677.3 | 11.0 | YoY growth driven by specialty portfolio amid demand uptick for cequa, ilumya and levulan |
| Emerging Markets   | 1,789.9 | 1,687.9 | 1,507.3 | 18.8 | 1,800.5 | -0.6 | YoY growth in US\$ term was 17%   |
| RoW                | 1,353.2 | 1,403.4 | 1,299.1 | 4.2  | 1,392.6 | -2.8 | YoY growth in US\$ term was 3%  |
| APIs               | 531.8   | 509.5   | 486.8   | 9.2  | 498.5   | 6.7  |   |
| US Sales (Ex Taro) | 1,930.2 | 1,799.9 | 1,729.0 | 11.6 | 1,699.4 | 13.6 |   |

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

| ₹ Crore)               | FY22E    |          |          | FY23E    |          |          | FY24E    | Introduced   |
|------------------------|----------|----------|----------|----------|----------|----------|----------|--|
|                        | Old      | New      | % Change | Old      | New      | % Change |          |  |
| Total Operating Income | 38,142.4 | 38,573.2 | 1.1      | 41,297.9 | 41,562.8 | 0.6      | 45,151.3 |  |
| EBITDA                 | 10,367.7 | 10,545.0 | 1.7      | 10,737.5 | 11,414.3 | 6.3      | 12,793.6 | Changed mainly due to better operational performance in Q3FY22 |
| EBITDA Margin (%)      | 27.2     | 27.3     | 16 bps   | 26.0     | 27.5     | 146 bps  | 28.3     | Changed mainly due to visible portfolio mix change             |
| Adjusted PAT           | 7,346.4  | 7,899.6  | 7.5      | 7,735.3  | 8,062.0  | 4.2      | 9,192.2  |  |
| EPS (Adjusted)         | 30.6     | 32.9     | 7.5      | 32.2     | 33.6     | 4.2      | 38.3     |  |

Source: ICICI Direct Research

**Exhibit 3: Assumptions**

| ₹ crore             | Current  |          |          |          | Earlier  |          | Comments   |
|---------------------|----------|----------|----------|----------|----------|----------|--|
|                     | FY21     | FY22E    | FY23E    | FY24E    | FY22E    | FY23E    |  |
| Indian Formulations | 10,343.2 | 12,655.1 | 13,776.7 | 15,429.9 | 12,570.6 | 13,682.1 | Changed on back of better than expected Q3FY22   |
| US Formulations     | 10,085.9 | 11,297.2 | 11,963.0 | 12,285.8 | 11,145.8 | 12,085.2 | Changed on back of revision in US (ex-specialty) |
| RoW markets         | 10,626.0 | 12,255.5 | 13,333.5 | 14,813.2 | 12,079.7 | 13,058.7 | Changed on back of better than expected Q3FY22   |
| APIs                | 2,111.2  | 2,151.6  | 2,259.2  | 2,372.2  | 2,092.6  | 2,197.2  |  |

Source: ICICI Direct Research

**Exhibit 4: Financial Summary**

|       | Revenues  | Growth | EPS  | Growth | P/E  | EV/EBITDA | RoE  | RoCE |
|-------|-----------|--------|------|--------|------|-----------|------|------|
|       | (₹ crore) | (%)    | (₹)  | (%)    | (x)  | (X)       | (%)  | (%)  |
| FY21  | 33498     | 2.0    | 30.0 | 79.1   | 73.7 | 24.5      | 15.5 | 14.2 |
| FY22E | 38573     | 15.2   | 32.9 | 9.6    | 34.8 | 19.4      | 15.2 | 17.4 |
| FY23E | 41563     | 7.8    | 33.6 | 2.1    | 26.5 | 17.4      | 13.6 | 16.9 |
| FY24E | 45151     | 8.6    | 38.3 | 14.0   | 23.3 | 15.0      | 13.6 | 17.0 |

Source: ICICI Direct Research

**Exhibit 5: Revenue Breakup**

| ₹ crore          | FY16     | FY17     | FY18    | FY19     | FY20     | FY21     | FY22E    | FY23E    | FY24E    | FY16-21 (%) | FY21-24E (%) |
|------------------|----------|----------|---------|----------|----------|----------|----------|----------|----------|-------------|--------------|
| Domestic         | 7,299.2  | 7,749.1  | 8,029.3 | 7,348.3  | 9,710.5  | 10,343.2 | 12,655.1 | 13,776.7 | 15,429.9 | 7.2         | 14.3         |
| US               | 13,516.9 | 13,758.8 | 8,746.6 | 10,673.6 | 10,542.5 | 10,085.9 | 11,297.2 | 11,963.0 | 12,285.8 | -5.7        | 6.8          |
| Emerging Markets | 3,584.3  | 4,544.8  | 4,839.2 | 5,359.0  | 5,504.4  | 5,783.6  | 6,807.5  | 7,314.4  | 8,192.1  | 10.0        | 12.3         |
| ROW              | 2,161.8  | 2,583.2  | 2,974.0 | 3,452.6  | 4,521.0  | 4,842.3  | 5,448.0  | 6,019.2  | 6,621.1  | 17.5        | 11.0         |
| API & Others     | 1,475.2  | 1,634.5  | 1,476.8 | 1,811.7  | 2,047.0  | 2,111.2  | 2,151.6  | 2,259.2  | 2,372.2  | 7.4         | 4.0          |
| ROW              | 5,746.1  | 7,128.0  | 7,813.2 | 8,811.7  | 10,025.3 | 10,626.0 | 12,255.5 | 13,333.5 | 14,813.2 | 13.1        | 11.7         |

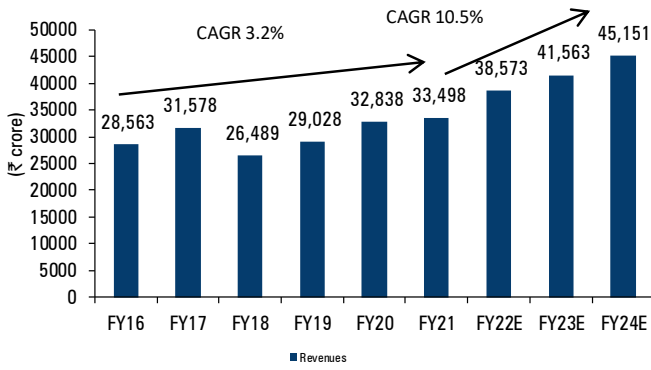
Source: ICICI Direct Research

**Exhibit 6: Trends in Quarterly Performance**

| (₹ Crore)               | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21  | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | YoY (%) | QoQ (%) |
|-------------------------|--------|--------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|---------|---------|
| Total Operating Income  | 7740.2 | 7163.9 | 8374.4 | 8123.4 | 8154.9 | 8184.9 | 7585.3  | 8553.1 | 8836.8 | 8523.0 | 9718.7 | 9625.9 | 9863.1 | 11.6    | 2.5     |
| Raw Material Expenses   | 2165.7 | 1838.8 | 2457.8 | 2267.9 | 2200.0 | 2304.8 | 1969.6  | 2146.3 | 2333.4 | 2240.8 | 2649.4 | 2521.9 | 2640.6 | 13.2    | 4.7     |
| Gross Profit Margin (%) | 72.0   | 74.3   | 70.7   | 72.1   | 73.0   | 71.8   | 74.0    | 74.9   | 73.6   | 73.7   | 72.7   | 73.8   | 73.2   |         |         |
| Employee Expenses       | 1495.0 | 1568.8 | 1540.4 | 1620.9 | 1549.1 | 1651.9 | 1759.0  | 1705.3 | 1720.5 | 1677.5 | 1758.7 | 1806.3 | 1850.9 | 7.6     | 2.5     |
| % of Revenue            | 19.3   | 21.9   | 18.4   | 20.0   | 19.0   | 20.2   | 23.2    | 19.9   | 19.5   | 19.7   | 18.1   | 18.8   | 18.8   |         |         |
| Other Expenditure       | 1926.7 | 2739.6 | 2380.6 | 2444.8 | 2564.3 | 2865.2 | 2013.1  | 2508.2 | 2376.8 | 2556.3 | 2489.5 | 2667.9 | 2765.2 | 16.3    | 3.6     |
| % of Revenue            | 24.9   | 38.2   | 28.4   | 30.1   | 31.4   | 35.0   | 26.5    | 29.3   | 26.9   | 30.0   | 25.6   | 27.7   | 28.0   |         |         |
| Total Expenditure       | 5587.3 | 6147.1 | 6378.8 | 6333.6 | 6313.5 | 6821.9 | 5741.7  | 6359.9 | 6430.6 | 6474.5 | 6897.7 | 6996.0 | 7256.7 | 12.8    | 3.7     |
| % of Revenue            | 72.2   | 85.8   | 76.2   | 78.0   | 77.4   | 83.3   | 75.7    | 74.4   | 72.8   | 76.0   | 71.0   | 72.7   | 73.6   |         |         |
| EBITDA                  | 2152.9 | 1016.8 | 1995.6 | 1789.7 | 1841.4 | 1363.0 | 1843.5  | 2193.3 | 2406.1 | 2048.5 | 2821.1 | 2629.9 | 2606.3 | 8.3     | -0.9    |
| EBITDA Margin (%)       | 27.8   | 14.2   | 23.8   | 22.0   | 22.6   | 16.7   | 24.3    | 25.6   | 27.2   | 24.0   | 29.0   | 27.3   | 26.4   |         |         |
| Depreciation            | 471.1  | 454.1  | 457.1  | 473.3  | 547.0  | 575.4  | 495.9   | 498.6  | 531.9  | 553.5  | 503.2  | 530.4  | 553.7  | 4.1     | 4.4     |
| Other Income            | 193.1  | 281.5  | 213.0  | 200.9  | 119.9  | 102.2  | 153.8   | 255.8  | 315.0  | 111.0  | 152.5  | 222.9  | 432.5  | 37.3    | 94.0    |
| PBIT                    | 1874.9 | 844.3  | 1751.5 | 1517.3 | 1414.3 | 889.9  | 1501.4  | 1950.5 | 2189.2 | 1606.0 | 2470.4 | 2322.5 | 2485.2 | 13.5    | 7.0     |
| Interest                | 144.8  | 150.0  | 104.1  | 83.9   | 63.0   | 51.8   | 52.0    | 33.3   | 26.1   | 30.1   | 35.1   | 36.0   | 19.0   | -27.3   | -47.2   |
| Less: Exceptional Items | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 260.6  | 3633.3  | 0.0    | 0.0    | 672.8  | 631.1  | 0.0    | 0.0    |         |         |
| PBT                     | 1730.1 | 694.2  | 1647.4 | 1433.4 | 1351.3 | 577.4  | -2183.9 | 1917.2 | 2163.1 | 903.0  | 1804.2 | 2286.5 | 2466.2 | 14.0    | 7.9     |
| Total Tax               | 270.9  | -28.8  | 146.1  | 266.0  | 327.6  | 83.1   | 245.9   | -31.2  | 244.9  | 55.0   | 395.6  | 197.8  | 335.4  | 36.9    | 69.6    |
| PAT before MI           | 1459.2 | 723.1  | 1501.4 | 1167.4 | 1023.7 | 494.3  | -2429.8 | 1948.4 | 1918.1 | 848.0  | 1408.7 | 2088.7 | 2130.8 | 11.1    | 2.0     |
| Minority Interest       | 219.2  | 105.2  | 109.2  | 99.1   | 105.9  | 92.9   | -770.6  | 130.0  | 60.9   | -51.7  | -40.1  | 39.3   | 67.5   | 10.8    | 71.6    |
| PAT after MI            | 1240.0 | 617.8  | 1392.2 | 1068.3 | 917.9  | 401.4  | -1659.2 | 1818.4 | 1857.2 | 899.7  | 1448.8 | 2049.4 | 2063.3 | 11.1    | 0.7     |
| Profit from Associates  | 1.8    | -2.4   | -4.7   | -4.2   | -4.3   | -1.6   | 3.6     | -5.6   | -4.7   | -5.6   | -4.6   | -2.4   | -4.5   |         |         |
| PAT                     | 1241.9 | 615.4  | 1387.5 | 1064.1 | 913.5  | 399.8  | -1655.6 | 1812.8 | 1852.5 | 894.2  | 1444.2 | 2047.0 | 2058.8 | 11.1    | 0.6     |
| Adjusted PAT            | 1241.9 | 615.4  | 1387.5 | 1064.1 | 913.5  | 660.5  | 1146.0  | 1812.8 | 1852.5 | 1343.1 | 1979.2 | 2047.0 | 2058.8 | 11.1    | 0.6     |
| Adjusted EPS (₹)        | 5.2    | 2.6    | 5.8    | 4.4    | 3.8    | 2.8    | 4.8     | 7.6    | 7.7    | 5.6    | 8.2    | 8.5    | 8.6    |         |         |

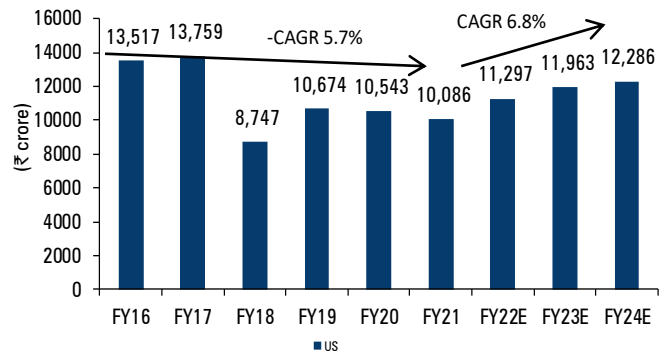
Source: ICICI Direct Research

Exhibit 7: Revenue to grow at CAGR of 10.5% over FY21-24E



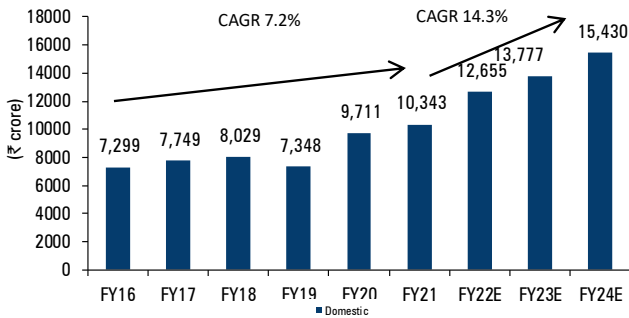
Source: ICICI Direct Research, Company

Exhibit 8: US to grow at CAGR of ~6.8% over FY21-24E



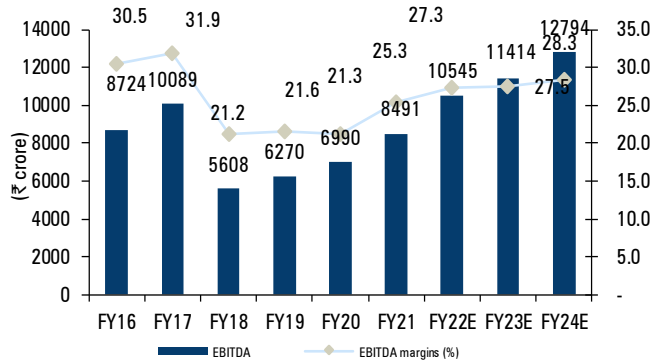
Source: ICICI Direct Research, Company

Exhibit 9: Domestic to grow at 14.3% CAGR in FY21-24E



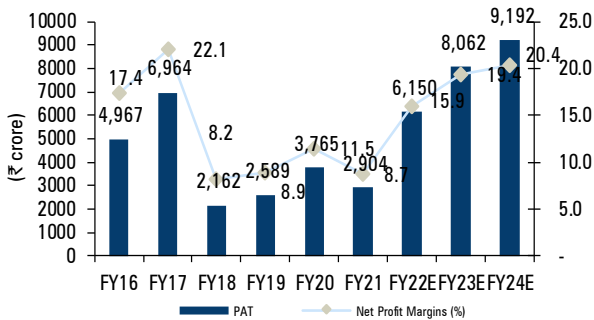
Source: ICICI Direct Research, Company

Exhibit 10: EBITDA & EBITDA margins trend



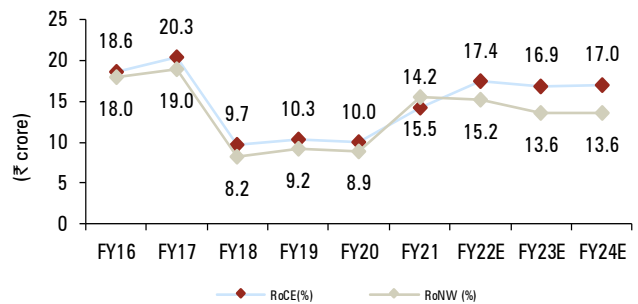
Source: ICICI Direct Research, Company

Exhibit 11: PAT & PAT margins trend



Source: ICICI Direct Research, Company

Exhibit 12: RoCE & RoE trend



Source: ICICI Direct Research, Company

Exhibit 1: ICICI Direct Coverage Universe (Healthcare)

| Company               | I-Direct Code | CMP (₹) | TP (₹) | Rating | M Cap (₹ cr) | EPS (₹) |       |       |       | PE(x) |       |       |       | RoCE (%) |      |       |       | RoE (%) |      |       |       |
|-----------------------|---------------|---------|--------|--------|--------------|---------|-------|-------|-------|-------|-------|-------|-------|----------|------|-------|-------|---------|------|-------|-------|
|                       |               |         |        |        |              | FY20    | FY21  | FY22E | FY23E | FY20  | FY21  | FY22E | FY23E | FY20     | FY21 | FY22E | FY23E | FY20    | FY21 | FY22E | FY23E |
| <b>Hospitals</b>      |               |         |        |        |              |         |       |       |       |       |       |       |       |          |      |       |       |         |      |       |       |
| Apollo Hospitals      | APOHOS        | 4511    | 5,930  | Buy    | 64861        | 22.6    | 7.9   | 72.9  | 99.4  | 199.8 | 573.9 | 61.9  | 45.4  | 10.2     | 6.3  | 18.1  | 21.7  | 9.7     | 2.5  | 18.6  | 20.9  |
| Narayana Hrudalaya    | NARHRU        | 646     | 650    | Buy    | 13203        | 6.4     | -0.7  | 16.4  | 18.3  | 101.7 | NA    | 39.5  | 35.3  | 11.0     | 1.2  | 17.5  | 18.4  | 11.4    | -1.3 | 23.3  | 20.9  |
| Shalby                | SHALIM        | 143     | 170    | Hold   | 1542         | 2.6     | 3.9   | 4.3   | 5.7   | 55.9  | 36.4  | 32.8  | 25.2  | 7.2      | 6.5  | 8.9   | 8.8   | 3.5     | 5.1  | 5.4   | 6.7   |
| Aster DM              | ASTDM         | 188     | 250    | Buy    | 9386         | 5.7     | 3.0   | 10.6  | 17.2  | 32.9  | 63.5  | 17.8  | 11.0  | 7.2      | 5.4  | 8.7   | 12.1  | 8.7     | 4.4  | 13.5  | 18.0  |
| Healthcare Global     | HEAGLO        | 248     | 240    | Hold   | 3111         | -12.0   | -21.7 | 15.6  | 8.4   | NA    | NA    | 16.0  | 29.4  | 1.0      | -0.9 | 7.6   | 10.4  | NA      | NA   | NA    | 7.2   |
| <b>MNC Pharma</b>     |               |         |        |        |              |         |       |       |       |       |       |       |       |          |      |       |       |         |      |       |       |
| Abbott India          | ABBIND        | 16126   | 20,360 | Buy    | 34266        | 279.0   | 325.0 | 362.3 | 471.9 | 57.8  | 49.6  | 44.5  | 34.2  | 30.7     | 33.8 | 35.3  | 37.2  | 24.4    | 26.5 | 27.6  | 28.9  |
| P&G Health            | MERLIM        | 5073    | 6,555  | Buy    | 8421         | 102.0   | 106.5 | 135.7 | 145.7 | 49.7  | 47.6  | 37.4  | 34.8  | 24.0     | 32.2 | 41.0  | 37.7  | 18.7    | 25.1 | 31.6  | 28.8  |
| Sanofi India          | SANOFI        | 7548    | 9,800  | Buy    | 17383        | 179.8   | 207.4 | 431.8 | 280.0 | 42.0  | 36.4  | 17.5  | 27.0  | 26.0     | 32.3 | 34.2  | 41.9  | 19.4    | 24.5 | 22.2  | 33.5  |
| Pfizer                | PFIZER        | 4526    | 6,020  | Buy    | 20705        | 111.3   | 108.8 | 139.7 | 158.4 | 40.7  | 41.6  | 32.4  | 28.6  | 18.5     | 27.6 | 27.5  | 26.3  | 15.0    | 20.8 | 22.3  | 21.2  |
| <b>Pharma</b>         |               |         |        |        |              |         |       |       |       |       |       |       |       |          |      |       |       |         |      |       |       |
| Ajanta Pharma         | AJAPHA        | 2178    | 2,605  | Buy    | 18847        | 53.4    | 74.0  | 86.1  | 86.7  | 40.8  | 29.4  | 25.3  | 25.1  | 24.7     | 29.0 | 27.2  | 23.7  | 18.1    | 21.8 | 22.5  | 19.4  |
| Alembic Pharma        | ALEMPHA       | 762     | 790    | Hold   | 14981        | 44.4    | 59.9  | 32.5  | 39.7  | 17.2  | 12.7  | 23.5  | 19.2  | 21.0     | 24.2 | 11.6  | 14.0  | 27.1    | 23.0 | 11.5  | 12.7  |
| Aurobindo Pharma      | AURPHA        | 657     | 795    | Hold   | 38511        | 48.8    | 55.0  | 50.5  | 61.7  | 13.5  | 11.9  | 13.0  | 10.6  | 17.2     | 16.9 | 13.9  | 15.3  | 17.0    | 14.7 | 12.0  | 12.9  |
| Biocon                | BIOCON        | 376     | 410    | Hold   | 45132        | 5.8     | 6.1   | 5.9   | 9.5   | 64.7  | 61.8  | 64.1  | 39.7  | 10.2     | 7.6  | 7.9   | 10.2  | 10.4    | 9.6  | 8.6   | 12.3  |
| Cadila Healthcare     | CADHEA        | 407     | 563    | Hold   | 41646        | 14.0    | 21.5  | 22.1  | 22.8  | 29.1  | 18.9  | 18.4  | 17.9  | 10.7     | 12.6 | 13.8  | 14.0  | 13.8    | 16.9 | 15.4  | 14.1  |
| Cipla                 | CIPLA         | 945     | 1,100  | Buy    | 76227        | 19.2    | 29.9  | 37.1  | 40.3  | 49.2  | 31.6  | 25.5  | 23.5  | 12.0     | 16.3 | 18.8  | 18.3  | 9.8     | 13.1 | 14.5  | 14.0  |
| Dr Reddy's Labs       | DRREDD        | 4311    | 5,160  | Buy    | 71720        | 121.7   | 117.3 | 163.6 | 192.9 | 35.4  | 36.8  | 26.3  | 22.3  | 9.6      | 13.1 | 16.1  | 18.8  | 13.0    | 11.1 | 13.6  | 14.1  |
| Glenmark Pharma       | GLEPHA        | 494     | 580    | Hold   | 13948        | 26.4    | 32.9  | 37.7  | 43.7  | 18.7  | 15.0  | 13.1  | 11.3  | 12.7     | 13.9 | 15.3  | 15.9  | 12.2    | 13.1 | 12.5  | 12.7  |
| Ipca Laboratories     | IPCLAB        | 1037    | 1,245  | Hold   | 26305        | 23.8    | 44.9  | 39.1  | 47.9  | 43.6  | 23.1  | 26.5  | 21.7  | 17.6     | 27.1 | 20.6  | 20.9  | 16.6    | 24.2 | 17.5  | 17.7  |
| Jubilant Pharmova     | JUBLIF        | 521     | 625    | Hold   | 8298         | 44.6    | 37.4  | 44.0  | 62.6  | 11.7  | 13.9  | 11.8  | 8.3   | 11.7     | 13.7 | 14.9  | 18.1  | 12.7    | 12.6 | 13.0  | 15.7  |
| Lupin                 | LUPIN         | 904     | 1,015  | Hold   | 41047        | -12.7   | 26.9  | 44.5  | 37.5  | NA    | 33.7  | 20.3  | 24.1  | 9.7      | 9.1  | 8.1   | 12.8  | -4.6    | 8.8  | 16.0  | 11.7  |
| Natco Pharma          | NATPHA        | 903     | 925    | Hold   | 16456        | 25.3    | 24.2  | 17.1  | 20.1  | 35.7  | 37.3  | 52.8  | 44.8  | 14.0     | 13.1 | 8.4   | 9.9   | 12.2    | 10.7 | 7.2   | 8.0   |
| Sun Pharma            | SUNPHA        | 892     | 1,075  | Buy    | 214033       | 16.8    | 30.0  | 32.9  | 33.6  | 53.2  | 29.7  | 27.1  | 26.5  | 10.0     | 14.2 | 17.4  | 16.9  | 8.9     | 15.5 | 15.2  | 13.6  |
| Torrent Pharma        | TORPHA        | 2679    | 3,235  | Hold   | 45335        | 60.6    | 74.0  | 70.4  | 95.6  | 44.2  | 36.2  | 38.1  | 28.0  | 15.4     | 17.7 | 18.8  | 21.2  | 21.2    | 21.4 | 17.7  | 20.3  |
| Indoco Remedies       | INDREM        | 401     | 575    | Buy    | 3701         | 2.6     | 10.1  | 17.3  | 23.9  | 153.1 | 39.7  | 23.1  | 16.8  | 4.6      | 11.7 | 19.8  | 21.5  | 3.5     | 12.1 | 17.6  | 20.2  |
| Caplin Point          | CAPPOI        | 800     | 1,080  | Buy    | 6049         | 28.4    | 32.0  | 38.3  | 45.0  | 28.1  | 25.0  | 20.9  | 17.8  | 26.5     | 25.4 | 25.1  | 24.8  | 22.7    | 20.4 | 20.1  | 19.4  |
| Advanced Enzymes      | ADVENZ        | 318     | 420    | Buy    | 3552         | 11.6    | 13.1  | 13.0  | 16.1  | 27.5  | 24.3  | 24.4  | 19.8  | 19.6     | 19.4 | 16.8  | 18.3  | 15.4    | 15.1 | 13.2  | 14.1  |
| Hester Biosciences    | HESPHA        | 2503    | 2,780  | Hold   | 2130         | 34.3    | 44.4  | 47.2  | 52.0  | 73.0  | 56.4  | 53.1  | 48.2  | 14.0     | 16.2 | 12.8  | 14.3  | 14.5    | 16.5 | 15.5  | 15.1  |
| <b>API/CRAMS</b>      |               |         |        |        |              |         |       |       |       |       |       |       |       |          |      |       |       |         |      |       |       |
| Divi's Lab            | DIVLAB        | 4105    | 5,600  | Buy    | 108970       | 51.9    | 74.7  | 91.6  | 111.0 | 79.2  | 54.9  | 44.8  | 37.0  | 23.9     | 27.6 | 27.9  | 28.4  | 18.8    | 21.3 | 22.0  | 22.3  |
| Hikal                 | HIKCHE        | 423     | 640    | Buy    | 5211         | 8.1     | 10.8  | 17.2  | 21.4  | 52.2  | 39.1  | 24.6  | 19.8  | 12.8     | 15.1 | 17.7  | 18.5  | 12.2    | 14.3 | 18.7  | 19.1  |
| Syngene Int.          | SYNINT        | 577     | 710    | Buy    | 23076        | 10.3    | 10.1  | 9.4   | 13.1  | 56.0  | 57.0  | 61.2  | 44.1  | 14.5     | 11.5 | 12.4  | 14.9  | 16.8    | 13.5 | 12.8  | 14.2  |
| Granules India        | GRANUL        | 311     | 350    | Hold   | 7696         | 12.4    | 22.2  | 15.0  | 23.3  | 25.0  | 14.0  | 20.7  | 13.3  | 15.2     | 24.0 | 16.1  | 21.7  | 16.7    | 25.3 | 14.8  | 18.9  |
| Laurus Labs           | LAULAB        | 524     | 625    | Buy    | 28139        | 4.8     | 18.3  | 15.1  | 20.7  | 110.4 | 28.6  | 34.8  | 25.3  | 13.0     | 31.7 | 21.3  | 24.3  | 14.4    | 37.9 | 24.3  | 25.7  |
| Suven Pharmaceuticals | SUVPH         | 539     | 600    | Buy    | 13721        | 12.5    | 14.2  | 15.0  | 18.7  | 43.3  | 37.9  | 35.8  | 28.8  | 35.6     | 31.2 | 25.7  | 24.7  | 37.5    | 30.7 | 24.9  | 23.9  |

Source: ICICI Direct Research

## Financial Summary

| Exhibit 2: Profit and loss statement |                 |                 |                 |                 |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                      | ₹ crore         |                 |                 |                 |
| (Year-end March)                     | FY21            | FY22E           | FY23E           | FY24E           |
| <b>Revenues</b>                      | <b>33,498.1</b> | <b>38,573.2</b> | <b>41,562.8</b> | <b>45,151.3</b> |
| Growth (%)                           | 2.0             | 15.2            | 7.8             | 8.6             |
| Raw Material Expenses                | 8,690.1         | 10,265.5        | 10,806.3        | 11,626.5        |
| Employee Expenses                    | 6,862.2         | 7,195.4         | 7,792.7         | 8,239.6         |
| Other Expenditure                    | 9,454.5         | 10,567.3        | 11,549.6        | 12,491.6        |
| Total Operating Expenditure          | 25,006.8        | 28,028.2        | 30,148.6        | 32,357.7        |
| <b>EBITDA</b>                        | <b>8,491.4</b>  | <b>10,545.0</b> | <b>11,414.3</b> | <b>12,793.6</b> |
| Growth (%)                           | 21.5            | 24.2            | 8.2             | 12.1            |
| Depreciation                         | 2,080.0         | 2,141.0         | 2,245.2         | 2,349.5         |
| Interest                             | 141.4           | 109.0           | 43.7            | 11.0            |
| Other Income                         | 835.5           | 1,042.9         | 1,042.1         | 1,132.1         |
| PBT                                  | 7,105.5         | 9,338.0         | 10,167.5        | 11,565.2        |
| Less: Exceptional Items              | 4,306.1         | 2,037.1         | 0.0             | 0.0             |
| Total Tax                            | 514.7           | 1,029.9         | 1,931.8         | 2,197.4         |
| PAT before MI                        | 2,284.7         | 6,271.0         | 8,235.7         | 9,367.8         |
| Minority Interest                    | -631.5          | 105.2           | 155.6           | 157.5           |
| PAT                                  | 2,903.8         | 6,149.8         | 8,062.0         | 9,192.2         |
| <b>Adjusted PAT</b>                  | <b>7,210.0</b>  | <b>7,899.6</b>  | <b>8,062.0</b>  | <b>9,192.2</b>  |
| Growth (%)                           | 79.1            | 9.6             | 2.1             | 14.0            |
| <b>EPS (Adjusted)</b>                | <b>30.0</b>     | <b>32.9</b>     | <b>33.6</b>     | <b>38.3</b>     |

Source: Company, ICICI Direct Research

| Exhibit 3: Cash flow statement       |                |                |                |                |
|--------------------------------------|----------------|----------------|----------------|----------------|
|                                      | ₹ crore        |                |                |                |
| (Year-end March)                     | FY21           | FY22E          | FY23E          | FY24E          |
| Profit/(Loss) after taxation         | 1796.4         | 6149.8         | 8062.0         | 9192.2         |
| Depreciation                         | 2080.0         | 2141.0         | 2245.2         | 2349.5         |
| (Inc)/Dec in Current Assets          | -869.9         | -1580.6        | -1717.2        | -2033.8        |
| (Inc)/Dec in Current Liabilities     | 3434.0         | 918.1          | 1041.1         | 1156.7         |
| Others                               | -270.1         | 109.0          | 43.7           | 11.0           |
| <b>CF from operation Activities</b>  | <b>6170.4</b>  | <b>7737.3</b>  | <b>9674.8</b>  | <b>10675.6</b> |
| Purchase of Fixed Assets             | -1073.0        | -1488.7        | -1498.8        | -1498.8        |
| (Inc)/Dec in Investments             | 1167.1         | -1805.4        | -1805.4        | -1805.4        |
| Others                               | -326.0         | -371.3         | -354.2         | -388.0         |
| <b>CF from Investing Activities</b>  | <b>-231.9</b>  | <b>-3665.4</b> | <b>-3658.4</b> | <b>-3692.2</b> |
| Inc / (Dec) in Loan Funds            | -4489.6        | -2200.0        | -1000.0        | -500.0         |
| Inc / (Dec) in Equity Capital        | -185.4         | 0.0            | 0.0            | 0.0            |
| Dividend and dividend tax            | -1586.2        | -615.0         | -806.2         | -919.2         |
| Other Financial Activities           | 280.8          | -109.0         | -43.7          | -11.0          |
| <b>CF from Financing Activities</b>  | <b>-5980.5</b> | <b>-2924.0</b> | <b>-1849.9</b> | <b>-1430.2</b> |
| Cash generation during the year      | -42.0          | 1147.9         | 4166.5         | 5553.2         |
| Op bal Cash & Cash equivalents       | 6487.6         | 6445.5         | 7593.4         | 11759.9        |
| <b>Closing Cash/ Cash Equivalent</b> | <b>6445.5</b>  | <b>7593.4</b>  | <b>11759.9</b> | <b>17313.1</b> |
| <b>Free Cash Flow</b>                | <b>5097.3</b>  | <b>6248.5</b>  | <b>8176.0</b>  | <b>9176.8</b>  |

Source: Company, ICICI Direct Research

| Exhibit 4: Balance Sheet             |                 |                 |                 |                 |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                      | ₹ crore         |                 |                 |                 |
| (Year-end March)                     | FY21            | FY22E           | FY23E           | FY24E           |
| Equity Capital                       | 239.9           | 239.9           | 239.9           | 239.9           |
| Reserve and Surplus                  | 46,222.9        | 51,757.6        | 59,013.5        | 67,286.5        |
| Total Shareholders funds             | 46,462.8        | 51,997.6        | 59,253.4        | 67,526.4        |
| Total Debt                           | 3,868.6         | 1,668.6         | 668.6           | 168.6           |
| Deferred Tax Liability               | 44.5            | 47.6            | 51.0            | 54.5            |
| Minority Interest                    | 3,017.1         | 3,122.2         | 3,277.8         | 3,435.3         |
| Other LT Liabilities & LT Provision  | 1,098.6         | 1,175.5         | 1,257.8         | 1,345.9         |
| <b>Total Liabilities</b>             | <b>54,491.6</b> | <b>58,011.5</b> | <b>64,508.6</b> | <b>72,530.7</b> |
| Gross Block - Fixed Assets           | 29,291.4        | 30,780.1        | 32,278.9        | 33,777.7        |
| Accumulated Depreciation             | 14,026.0        | 16,167.0        | 18,412.2        | 20,761.6        |
| Net Block                            | 15,265.3        | 14,613.1        | 13,866.7        | 13,016.0        |
| Capital WIP                          | 1,566.8         | 1,566.8         | 1,566.8         | 1,566.8         |
| Total Fixed Assets                   | 16,832.2        | 16,179.9        | 15,433.5        | 14,582.9        |
| Investments                          | 9,612.5         | 11,417.9        | 13,223.3        | 15,028.7        |
| Deferred tax assets                  | 3,556.4         | 3,805.4         | 4,071.8         | 4,356.8         |
| Goodwill on Consolidation            | 6,287.6         | 6,287.6         | 6,287.6         | 6,287.6         |
| LT Loans & Advances & Assets         | 4,066.0         | 4,350.6         | 4,655.2         | 4,981.0         |
| Cash                                 | 6,445.5         | 7,593.4         | 11,759.9        | 17,313.1        |
| Debtors                              | 9,061.4         | 9,931.4         | 10,701.1        | 11,625.1        |
| Loans and Advances                   | 56.0            | 59.9            | 64.1            | 68.6            |
| Inventory                            | 8,997.0         | 9,511.0         | 10,248.2        | 11,133.0        |
| Other current assets                 | 2,752.1         | 2,944.7         | 3,150.9         | 3,371.4         |
| Total Current Assets                 | 27,312.0        | 30,040.5        | 35,924.3        | 43,511.2        |
| Creditors                            | 3,973.7         | 4,224.8         | 4,552.2         | 4,945.3         |
| Provisions & other current liability | 920.2           | 9,845.6         | 10,534.8        | 11,272.3        |
| Total Current Liabilities            | 13,175.2        | 14,070.4        | 15,087.1        | 16,217.5        |
| Net Current Assets                   | 14,136.8        | 15,970.1        | 20,837.2        | 27,293.7        |
| <b>Application of Funds</b>          | <b>54,491.6</b> | <b>58,011.5</b> | <b>64,508.6</b> | <b>72,530.7</b> |

Source: Company, ICICI Direct Research

| Exhibit 5: Key ratios       |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March)            | FY21  | FY22E | FY23E | FY24E |
| <b>Per share data (₹)</b>   |       |       |       |       |
| Adjusted EPS                | 30.0  | 32.9  | 33.6  | 38.3  |
| BV per share                | 193.6 | 216.7 | 247.0 | 281.4 |
| Dividend per share          | 7.5   | 2.6   | 3.4   | 3.8   |
| Cash Per Share              | 26.9  | 31.6  | 49.0  | 72.2  |
| <b>Operating Ratios (%)</b> |       |       |       |       |
| Gross Margin                | 74.1  | 73.4  | 74.0  | 74.3  |
| EBITDA Margin               | 25.3  | 27.3  | 27.5  | 28.3  |
| PAT Margin                  | 21.5  | 20.5  | 19.4  | 20.4  |
| Inventory days              | 98.0  | 90.0  | 90.0  | 90.0  |
| Debtor days                 | 98.7  | 94.0  | 94.0  | 94.0  |
| Creditor days               | 43.3  | 40.0  | 40.0  | 40.0  |
| Asset Turnover              | 0.7   | 0.7   | 0.7   | 0.7   |
| EBITDA Conversion rate      | 72.7  | 73.4  | 84.8  | 83.4  |
| <b>Return Ratios (%)</b>    |       |       |       |       |
| RoE                         | 15.5  | 15.2  | 13.6  | 13.6  |
| RoCE                        | 14.2  | 17.4  | 16.9  | 17.0  |
| RoIC                        | 16.1  | 20.3  | 21.3  | 23.4  |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| P/E                         | 73.7  | 34.8  | 26.5  | 23.3  |
| EV / EBITDA                 | 24.5  | 19.4  | 17.4  | 15.0  |
| EV / Net Sales              | 6.2   | 5.3   | 4.8   | 4.3   |
| Market Cap / Sales          | 6.4   | 5.5   | 5.1   | 4.7   |
| Price to Book Value         | 4.6   | 4.1   | 3.6   | 3.2   |
| <b>Solvency Ratios</b>      |       |       |       |       |
| Debt / EBITDA               | 0.5   | 0.2   | 0.1   | 0.0   |
| Debt / Equity               | 0.1   | 0.0   | 0.0   | 0.0   |
| Current Ratio               | 1.6   | 1.6   | 1.6   | 1.6   |
| Working Capital Cycle       | 153.5 | 144.0 | 144.0 | 144.0 |

Source: Company, ICICI Direct Research



## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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