



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score **NEW**

ESG RISK RATING **43.39**
Updated Apr 08, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

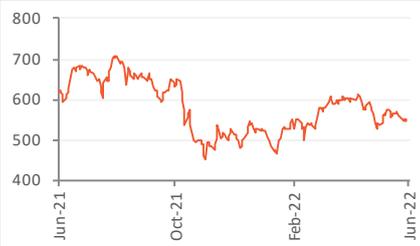
Company details

Market cap:	Rs. 28,349 cr
52-week high/low:	Rs. 724 / 433
NSE volume: (No of shares)	28.1 lakh
BSE code:	540222
NSE code:	LAURUSLABS
Free float: (No of shares)	39.0 cr

Shareholding (%)

Promoters	27.3
FII	24.1
DII	6.9
Others	41.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.0	-8.7	2.7	-13.7
Relative to Sensex	-2.1	-3.8	12.0	-15.5

Sharekhan Research, Bloomberg

Pharmaceuticals

Sharekhan code: LAURUSLABS

Reco/View: Buy

CMP: Rs. 528

Price Target: Rs. 735

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- In its Annual report for FY22, Laurus Labs Limited (Laurus) has mentioned a robust growth outlook and has also highlighted key areas that the management intends to focus on
- An eye to strengthen the R&D, focusing on drugs going off patent and plans to invest 10% of profits towards disruptive technologies, could enable the company to create a platform for sustained growth ahead
- A strong demand environment, defined strategy for growth and massive capex plans provides ample visibility on the growth ahead.
- We retain a Buy recommendation on Laurus with an unchanged PT of Rs. 735.

In its Annual report for FY22, Laurus Labs Limited (Laurus) has mentioned a robust growth outlook and has also highlighted key areas that the management intends to focus on. Given the increasing needs due to advancements in the life sciences space, it sees new opportunities arising, which bodes well. In order to capitalize on these opportunities, Laurus is in the midst of massive capex plans of Rs 2000-Rs 2500 cr spread over two years across segments. Also an eye to strengthen the R&D, focusing on drugs going off patent and plans to invest 10% of profits towards disruptive technologies, could enable the company to create a platform for sustained growth ahead. Efforts directed towards proactive portfolio de-risking, enhanced procurement, operational efficiency and market share gains are the key positives to aid the growth of Laurus. Consequently, the management has retained its \$1 billion revenue guidance for FY23.

- Investing in the capacities to support the growth:** Laurus is in the midst of a substantially large capex plan to the tune of Rs 2000 – Rs 2500 cr over the next two years. Laurus has been proactively investing / re-investing in its capacities so as to create the platform for strong growth ahead. Laurus plans to commission a 4 billion tablet capacity by end of Q1FY-23, (it has already commissioned a 6 bn tablet capacity) thus doubling the FDF division's capacity to 10 billion tablets per year. Collectively, a healthy demand environment well complimented by the commissioning of expanded capacities provides ample visibility on the growth ahead.
- Strong R&D to support the growth ahead:** Laurus has been proactively investing in state-of-the-art R&D and manufacturing infrastructure to ramp up the supply of critical medications across geographies with continued emphasis on best-in-class quality and global compliances. Laurus ensures improving existing products through R&D while also paving the path for new ones in high-growth sectors. Also, the company plans to spend around 10% of profits towards investments in disruptive technologies which going ahead would offer Laurus a platform for growth across segments.
- Laurus outlines long-term and Short term strategies:** Laurus has charted out its focus areas across segments in the short term and long term, which could propel the growth for the company. In the short term, the company plans to focus on leveraging the API cost advantage and diversifying in to non-ARV space and growing the Synthesis segment. While in the long term the company plans to focus on proactive portfolio de-risking, enhanced procurement and operational efficiency and strengthening its position with big pharma companies with an objective to gain market share.

Our Call

Valuation: Strong growth outlook Retain Buy: Laurus in its Annual report has shared encouraging growth prospects, that are well-supported by capacity expansion plans and the management has retained its revenue guidance of \$1 billion by FY2023. The recent trends suggest that freight costs are expected to normalize in the subsequent quarters as the container availability has been improving, thus pointing to likely easing of cost pressures, partially. Citing the strong demand environment, defined strategy for growth and massive capex plans provides comfort in the growth ahead. At CMP, the stock trades at 22.4x/17.2x its FY23E/FY24E EPS, which provides ample headroom for expansion basis the above. We retain a Buy recommendation on Laurus with an unchanged PT of Rs. 735.

Key Risks

Any delay in product approvals or any negative outcome of facility inspection by the USFDA can affect earnings prospects.

Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
Sales	4813.5	4935.6	7053.5	8570.4
Operating Profits	1550.7	1422.4	2116.1	2674.0
OPM(%)	32.2	28.8	30.0	31.2
PAT	983.9	832.2	1254.2	1636.8
EPS	18.5	15.6	23.6	30.8
P/E	28.5	33.8	22.4	17.2
EV/EBIDTA	18.9	20.9	14.2	11.1
ROE (%)	37.9	24.8	27.2	26.2
ROCE (%)	32.2	21.6	26.3	27.1

Source: Company; Sharekhan estimates

Key Takeaways and Business Highlights

- ◆ Laurus has cumulatively filed 30 ANDAs in the US with 14 PARA IV filings and 10 First to File opportunities
- ◆ Laurus Labs has initiated a brownfield expansion and expects to add significant capacity which should be operational by the beginning of 2022-23 and contribute to the topline growth.
- ◆ Laurus has filed 315 patents out of that 184 patents granted as of March 31, 2022
- ◆ Expansion in CDMO capability on track to include new opportunities and extended service
- ◆ Greenfield investment to set up a dedicated R&D center and manufacturing units is progressing as per schedule on the expected lines

Emerging industry trends point to a buoyant outlook for the industry

Laurus sees the business environment undergoing a substantial change and the companies are confronting new challenges be it increasing patient needs, the complexity of care and increasing pressure on healthcare budgets. At the same time, it sees new opportunities arising from major advances in life sciences and from digitalisation in the healthcare space.

- ◆ **Demographic changes triggering the global healthcare needs:** A demographic trend across the world is changing continuously thus pointing towards a requirement for improved healthcare systems. The world's population is projected to increase to 8.5 billion people by 2030 and reach almost 10 billion by 2050. The current population of sub-Saharan Africa is projected to double by 2050. Global ageing is expected to accelerate in the coming decades as a result of significant gains in life expectancy in recent years coupled with declining fertility rates. Increasing urbanisation and improved economic activity result in better-informed patients, actively involved in sustaining their health with increasing expectations for access to medicines and surgical procedures. In turn, this creates greater socio-economic awareness and political pressure to ensure broader and affordable
- ◆ **Medicine pricing under pressures:** The rising demand for healthcare, which is being driven in part by demographic and socioeconomic factors, is putting a strain on public healthcare systems. As countries seek to achieve better value in healthcare spending, the debate over access to affordable healthcare, pricing, and reimbursement has gained traction in policy discussions around the world.
- ◆ **Leveraging digital tools to improve patient outcomes:** Technology continues to evolve at a rapid pace, reshaping the way we live, work, and interact with one another. Advances in artificial intelligence, digital technology, and data analytics are allowing researchers in the healthcare industry to explore and interpret increasing volumes of data more efficiently. Digital tools, including telemedicine and remote-working instruments, are bound to change patient interactions and make access to healthcare services easier. Embracing new technologies will open up alternative opportunities for more precise chronic disease management. The growing number of academic and industry-sponsored partnerships for asset selection and early clinical development, particularly in the field of cell and gene therapy, is an encouraging development (CAGT). With emerging biopharma taking the lead in developing advanced therapies, the future looks promising for more collaborative partnerships and innovative multi-stakeholder engagement models.

- ◆ Overall Laurus expects that the demand for healthcare services will continue to grow with longer life expectancy and so treatments will need to be adjusted to respond to more complex health issues. Laurus has a broad product portfolio, high-quality operations and a steady stream of new product launches across geographies, which help it to be resilient to the changing landscape and will also help to strengthen global leadership in some of the existing products by focusing on high potent molecules and increase our market share.

Re-investing to support growth in the times to come

Laurus has been proactively investing / re-investing in its capacities so as to create the platform for strong growth ahead. During FY22 Laurus commissioned 1 billion tablet capacity and plans to commission another 4 billion tablet capacity by end of Q1FY-23 thus doubling the FDF division's capacity to 10 billion tablets per year. Material benefits from capacity expansion plans are likely to be visible in FY23. Further, the expanded capacities do not need regulatory approvals as they are already at an approved site. With the product approvals flowing in, the utilisation rates of the new capacities could improve gradually and would add to the overall growth. Also it has undertaken a greenfield investment to set up a dedicated R&D centre in Hyderabad, and three manufacturing units in Visakhapatnam. However, in order to capture the strong demand trends, the company had announced a capex plan Rs 2000 to 2500 crore over the next two years. Collectively, a healthy demand environment well complimented by the commissioning of expanded capacities provides ample visibility on the growth ahead.

Capacity expansion plans

Location	Division	Plant / Unit	Capacity	Operational Timelines
Vizag - Brownfield	Generic formulations (FDF)	Unit 2	4 bn units (new building)	Completion before June 2022
Vizag - Brownfield	Generic formulations (FDF)	Unit 2	1 bn units (de-bottlenecking)	Completed
Vizag - Brownfield	Generic API	Unit 3 & 4	1000 KL	Completed
Vizag - Brownfield	Generic API	Unit 1 (Laurus Synthesis Pvt Limited)	-	Completed
Vizag - Greenfield	Generic API	Unit 7 & 8	Land acquired	2024-25
Vizag - Greenfield	CDMO - Synthesis	Unit 2 & 4 (Laurus Synthesis Pvt Limited)	Land acquired	2023-24
Vizag - Greenfield	CDMO - Synthesis	Unit 3 (Laurus Synthesis Pvt Limited)	Land acquired	2024-25

Source: Company, Sharekhan Research

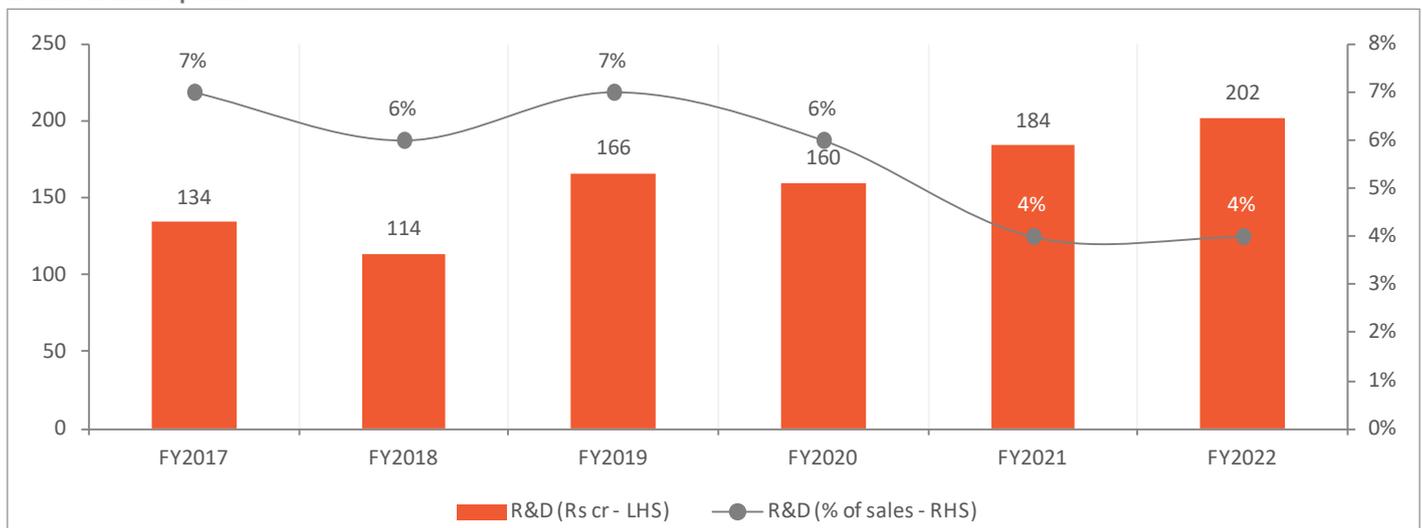
Location	Division	Plant / Unit	Capacity	Operational Timelines
Hyderabad - Greenfield	Generic formulations (FDF)	Unit 9	Land acquired	Phase - 1: 2023-24
Hyderabad - Greenfield	Synthesis	R&D Center	Land acquired	2023-24

Source: Company, Sharekhan Research

Strong R&D to support the growth ahead

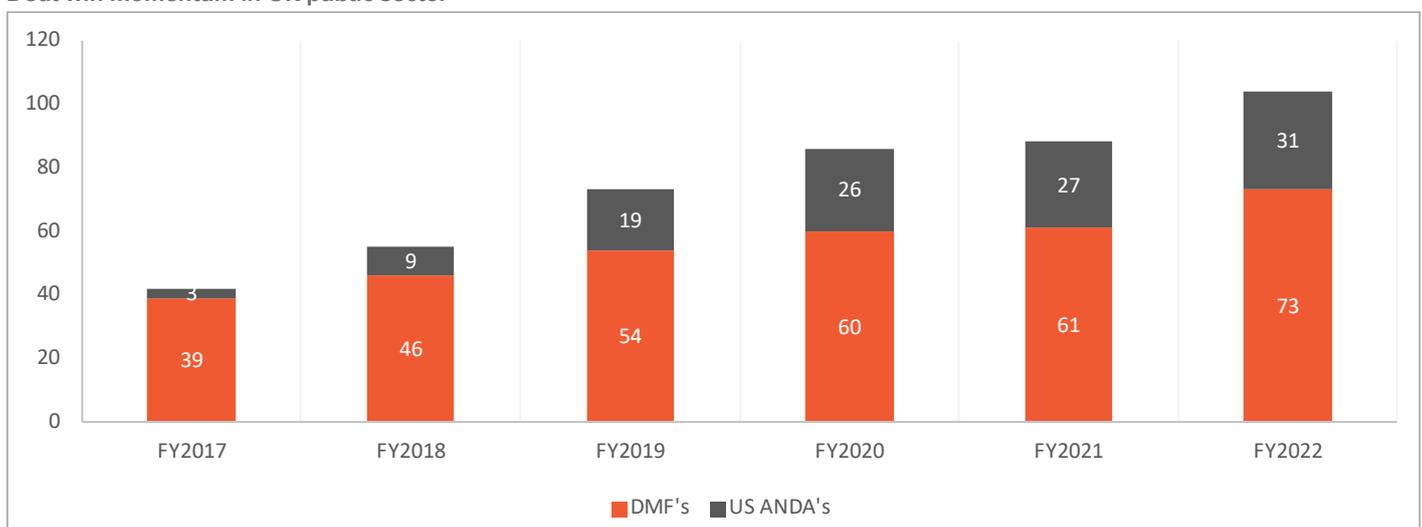
Laurus proactively invest in state-of-the-art research & development activities and manufacturing infrastructure to ramp up the supply of critical medications across geographies with continued emphasis on best-in-class quality and global compliances. Laurus has a specialized R&D team of over 790 people, made up of competent researchers, scientists, and product specialists who are committed to strengthening Laurus Lab's intellectual property via excellence and innovation. The R&D team focuses on process intensification, technology absorption, and commercialization of technologies. A technical and commercial feasibility assessment is conducted before selecting molecules. Feedback from the customers is a key input and is used to enhance research acumen and focus on margin accretive businesses. Laurus ensures improving existing products through research and development while also paving the path for new ones in high-growth sectors. Also, the company plans to spend around 10% of profits towards investments in disruptive technologies which going ahead would offer Laurus a platform for growth across segments.

Trends in R&D spends



Source: Company; Sharekhan Research

Deal win momentum in UK public sector



Source: Company; Sharekhan Research

Laurus outlines long-term and Short term strategies

Well supported by a strong financial muscle, Laurus has charted out its focus areas across the segment in the short term and long term, which could propel the growth for the company.

Short Term Strategies

- ◆ Leverage API cost advantage and diversification into Non-ARV APIs and formulations. Here the focus would be on drugs going off patent in the next 2 years, especially in the area of diabetes and cardiology, along with other areas.
- ◆ Focus on developing the synthesis business
- ◆ To Invest in fermentation capacity expansion at Laurus Bio
- ◆ ESG Integration

Long Term Strategies

- ◆ Proactive portfolio de-risking, enhanced procurement and operational efficiency
- ◆ Integrating & leveraging Richcore acquisition
- ◆ Widen technology portfolio and access to new market opportunities
- ◆ Strengthen position with Big Pharma and market share gains in ARV portfolio Focus on talent attraction to support new growth projects

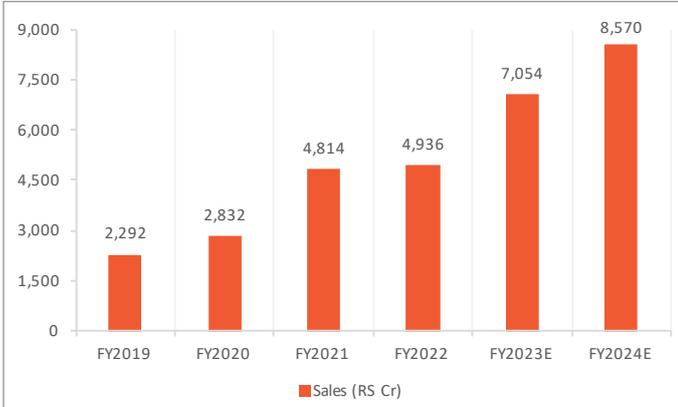
Buoyant outlook provides visibility on growth ahead

The management has charted out a strong growth trajectory, spanning across APIs in the non-ARV space, fortifying its position in the formulations and CDMO segments and tapping the new area of biologics (through Laurus Bio). The company is looking to build in new capacities/facilities which would be the key factor for driving growth in the coming years.

- ◆ **API segment outlook:** The healthcare segment recently has been witnessing strong demand traction across major markets. With the Covid pandemic, the dynamics have been ever evolving and the company is taking due efforts to be able to meet the same. The rising accessibility to affordable healthcare services has increased the demand for cost-effective and high-quality medicines and hence the need for making the cost-effective and high-quality API is also increasing. Also increasing prevalence of infectious diseases, cardiovascular conditions, and other chronic disorders are the other factors that could drive the growth ahead. A marquee list of customers and benefits of backward integration is one of its key strengths.
- ◆ **CRAMS / Synthesis segment:** Laurus is uniquely positioned to work with customer needs at any stage of the product lifecycle. With over 250 scientists to provide process chemistry services to global clients, the CDMO division is well positioned to offer development and manufacturing services across the value chain from preclinical to lifecycle management. Laurus has created a wholly-owned subsidiary - Laurus Synthesis Pvt Ltd to increase its focus and dedicated R&D and two manufacturing site construction started to provide scale and flexibility for this division.
- ◆ **Overall outlook:** Laurus sees the impact of transient issues in the ARV-API sales to normalize with a possible gradual improvement expected in the subsequent quarters. With the commissioning of the 4-billion tablets capacity in June 2022 the FDF segment's sales are expected to witness a marked improvement from FY23 onwards. The Synthesis segment, backed by a growth in demand from existing customers, and ongoing client additions, is set to stage a strong double-digit growth. Raw material availability and increasing prices (especially that of solvents), higher logistics costs, the management expects the EBITDA margins to be sustained around 30% levels over the next one – to two years. Though the recent trends indicate better availability of the freight containers and a possible easing of the freight rates, a material improvement is expected in 2HFY23. Also overall basis the expected improvement in the ARV API sales and sustained traction in the CDMO as well as the FDF segment, the management has retained its revenues targets of \$1bn for FY23, which bodes well.

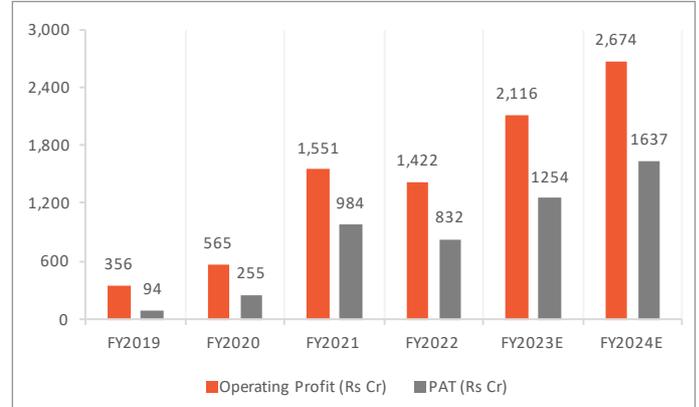
Financials in charts

Sales Trends (Rs Cr)



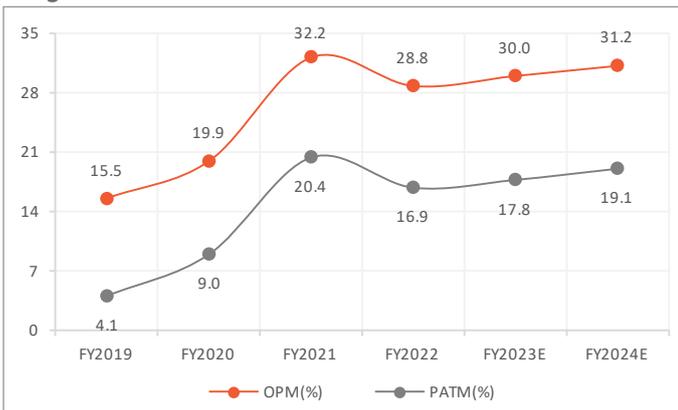
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



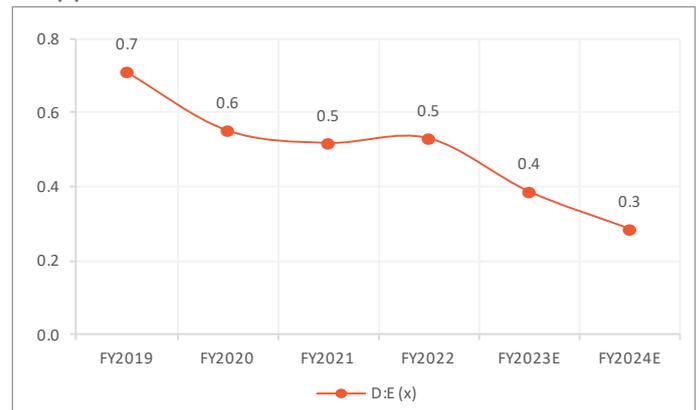
Source: Company, Sharekhan Research

Margin Trends



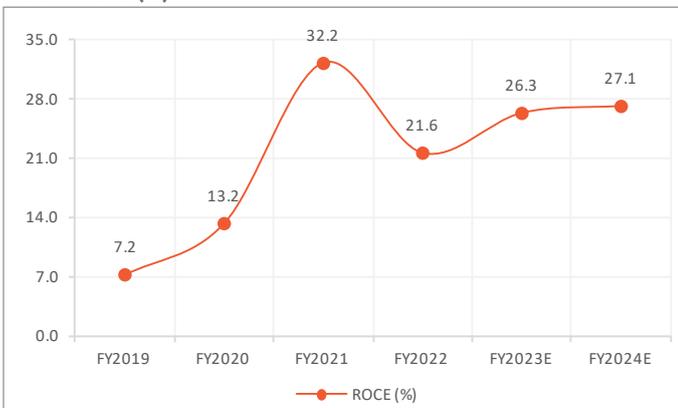
Source: Company, Sharekhan Research

D:E (x) Trend



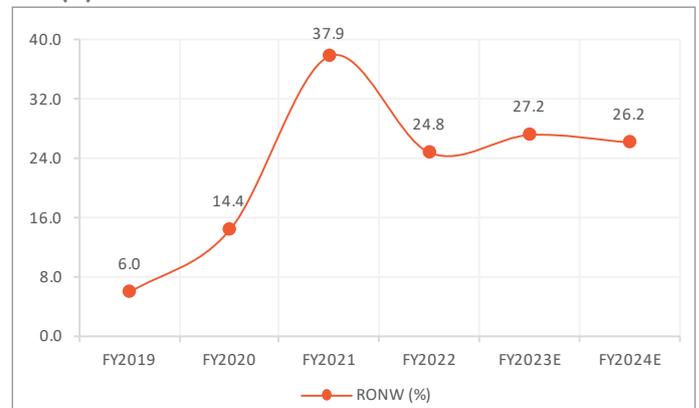
Source: Company, Sharekhan Research

RoCE Trend (%)



Source: Company, Sharekhan Research

RoE (%) Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Growth momentum to improve

Indian pharmaceutical companies are better placed to harness opportunities and clock healthy growth going ahead. Indian companies are among the most competitive ones globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in the US generics market), rise in product approvals and plant resolutions by the USFDA and strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by the strong capabilities developed by Indian companies (leading to a shift towards complex molecules, and biosimilars) and the commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for pharma companies.

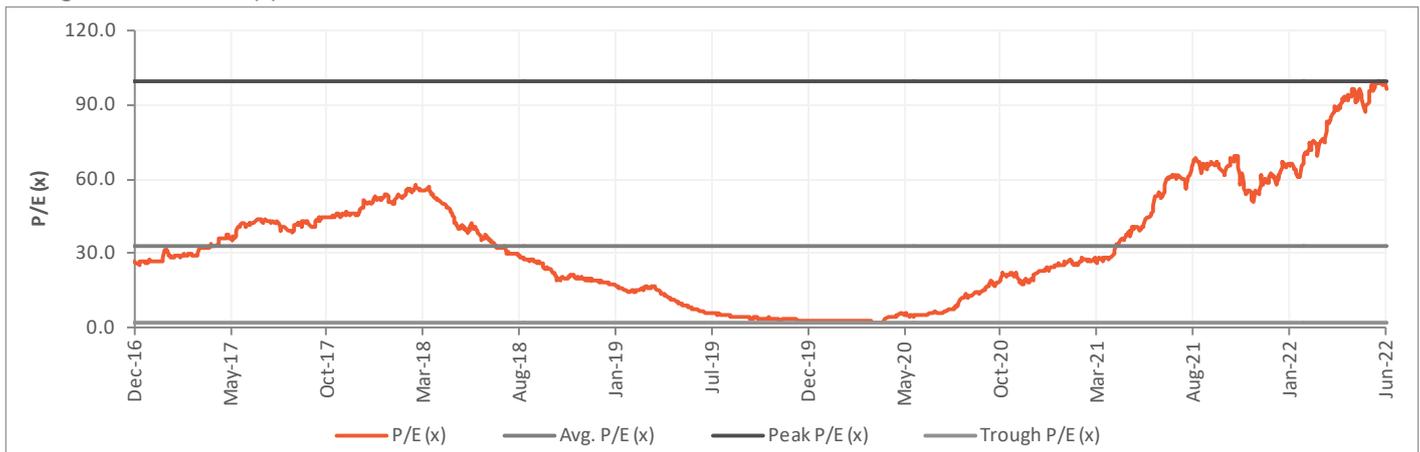
■ Company Outlook – Growth prospects strengthening

Growth prospects across the synthesis and FDF business are strong and are well backed by improving demand and capacity expansion plans. The company is enhancing its current portfolio, stepping up R&D activity and strengthening and expanding manufacturing capabilities. Further, Laurus is looking to double its formulation capacities so as to cater to surging demand and management is confident of sustaining the strong growth momentum. Further, over the long term, Laurus is also in the process to diversify in to non-ARV-APIs of cardiology and diabetology and in the process reduce the dependence on the ARV segment. In addition, the synthesis business is expected to grow strongly in the next two years with sustained new client additions, growth in existing business and likely commercialisation of new products. The management is quite optimistic about the performance of the synthesis division and sees this as one of the key growth drivers. Laurus Bio is also expected to grow substantially and would make the company a fully integrated player in the pharmaceutical space. However, channel de-stocking for ARV API and input costs pressures could act as transient issues, and the management has witnessed the green shoots of trend normalizing for the ARV API business.

■ Valuation – Strong growth outlook Retain Buy

Laurus in its Annual report has shared encouraging growth prospects, that are well-supported by capacity expansion plans and the management has retained its revenue guidance of \$1 billion by FY2023. The recent updates suggest that freight cost are expected to normalize in the subsequent quarters as the container availability has been improving, thus pointing a likely easing of cost pressures. Citing the strong demand environment, defined strategy for growth and massive capex plans provides comfort in the growth ahead. At CMP, the stock trades at 22.4x/17.2x its FY23E/FY24E EPS, which provides ample headroom for expansion basis the above. We retain Buy recommendation on Laurus with an unchanged PT of Rs. 735.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBITDA (x)			RoE (%)		
				FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Laurus Labs	528.0	53.2	28,348.0	33.8	22.4	17.2	20.9	14.2	11.1	24.8	27.2	26.2
Granules	259	45.3	6,412	15.5	12.8	10.2	9.8	7.8	6.2	16.0	16.8	18.2
Divis Labs	3473	3.5	92187	26.4	16.4	14.4	10.8	8.7	7.1	11.4	16.9	16.8

Source: Company, Sharekhan estimates

About company

Laurus is a leading research-driven pharmaceutical company, working with nine of the world's top 10 generic pharmaceutical companies in the world. Laurus sells APIs in 56 countries. The company's major focus areas include anti-retroviral, Hepatitis C, and Oncology drugs. Oncology is one of its core competencies, where it offers a comprehensive range of APIs in this segment. Laurus is continuously extending its portfolio by focusing on molecules in diabetes, ophthalmology, and cardiovascular therapy areas. Laurus has four distinct business units, namely: Generics API, Generics FDF, Ingredients and Synthesis.

Investment theme

Built on strong capabilities in chemical development and manufacturing, Laurus has developed a wide range of in-house APIs and intermediates. Laurus is one of the world's leading suppliers of anti-retroviral APIs and intermediates. The company's low-cost technologies give it an edge over other players. Leveraging on API cost advantage for forwarding integration into generic formulations (FDF) and capitalizing on its leadership position in APIs (in key areas such as oncology, cardiovascular, anti-diabetics, and ophthalmology) with a foray into other regulated markets will drive the company's business over the next couple of years. Moreover, the company is doubling its capacity to support growth in the formulation business, which points towards healthy growth going ahead. Overall, in the wake of an expected robust growth outlook, Laurus has embarked upon a massive capex program for the next two years, which provides ample visibility on growth.

Key Risks

- ◆ Slower-than-expected ramp-up in formulations, API or custom synthesis businesses.
- ◆ Reforms in the healthcare industry and uncertainty associated with pharmaceutical pricing, could affect the growth prospects

Additional Data

Key management personnel

Dr. Satyanarayana Chava	Founder and CEO
Mr. V Ravi Kumar	Executive Director and CFO
Dr. Lakshmana Rao C V	ED & Head, Quality
Mr. Krishna Chaitanya Chava	Head – Synthesis Division

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group cos Inc	8.2
2	New World Fund Inc	4.8
3	Amansa Holdings Pvt Ltd	3.8
4	Anukar Projects Pvt Ltd	3.2
5	Smallcap World Fund Inc	3.1
6	Life Insurance Corporation of India	2.2
7	Vanguard Group Inc	2.1
8	BlackRock Inc	1.2
9	HBM Healthcare Investments Cayman	0.7
10	Kotak Mahindra Asset management Company Ltd	0.6

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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