



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 Updated July 08, 2022 **31.4**

High Risk

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

Source: Morningstar

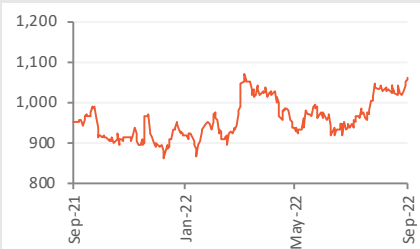
Company details

Market cap:	Rs. 85,416 cr
52-week high/low:	Rs. 1,083 / 850
NSE volume: (No of shares)	26.2 lakh
BSE code:	500087
NSE code:	CIPLA
Free float: (No of shares)	53.5 cr

Shareholding (%)

Promoters	33.6
FII	25.5
DII	21.4
Others	19.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.0	8.9	1.0	11.5
Relative to Sensex	0.4	0.8	-8.5	8.9

Sharekhan Research, Bloomberg

Pharmaceuticals

Sharekhan code: CIPLA

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,058

Price Target: Rs. 1,225



Summary

- Cipla's Annual report for Fy22 has mentioned of significant progress across all strategic areas whilst navigating tough external environment.
- Going ahead the commentary around growth prospects stays bright and future growth of the company would be guided by Cipla's 10 strategic business objective around passion, economic engine and capabilities.
- The outlook for US business is strong backed by growth in the respiratory products and highvalue launches being lined up in H2FY23 in the US markets, while it expects to outperform growth in the domestic markets.
- We maintain Buy on Cipla with a revised PT of Rs 1225.

In its annual report for FY2022, Cipla mentioned about significant progress across all strategic areas while navigating the tough external environment. During FY2022, Cipla continued its strong momentum across India, US, and other key markets and continued investments in portfolio expansion and several other growth linked initiatives. Going ahead, commentary around growth prospects stays bright and management aims to focus on creating depth in anti-diabetics and oncology therapy, building on existing and new partnerships with global multinational corporations. Cipla's future growth would be driven by 10 strategic business objective around passion, economic engine, and capabilities.

Sustainable growth supported by strategic business objectives: The healthcare industry has been grappling with pandemic-induced headwinds; geopolitical tensions in Europe suddenly reached a flashpoint and further affected the uncertain, complex, and ambiguous environment. However, Cipla is well equipped to navigate through such challenges. With sharper strategies, which continue to strengthen the core business and extend into adjacent areas as well, Cipla has laid its 10 strategic business objectives encompassing areas of passion, economic engine, and capability, which would drive the company's growth ahead.

Focus on complex products to drive US growth: Cipla has a strong product pipeline of complex and high-value products to be launched in the US with most of them likely in H2FY2023. These include the likes of Advair, gRevlimid, and peptides injectables – the approval for these is expected in FY2023. In addition to Advair, the company has two more assets in the pipeline, which are expected to be commercialised in late FY2023/early FY2024, coupled with the unlocking of the peptide portfolio, thus pointing toward strong traction in high-value complex products, which would strengthen the company's presence in US markets. Management believes price pressures would sustain, but the product launch momentum could enable it to tide over the same.

Cipla to outperform IPM growth: Cipla's One-India Strategy has played out well and management now expects that it would further aid growth. This coupled with the company's strong position in the chronic segments could help it post strong growth. Cipla has a strong product portfolio across therapies and sales from the same are expected to ramp up. The company is witnessing increased traction in the branded prescription business and has outpaced the industry's growth. Moreover, the company is witnessing healthy order flows in the trade generics business across regions, which would support growth. Cipla's consumer health business is witnessing strong traction and is expected to sustain the growth trajectory.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 1,225: In its Annual Report for FY2022, Cipla has mentioned about significant progress across all strategic areas while navigating the tough external environment. Going ahead, commentary around growth prospects stays bright and future growth of the company would be guided by Cipla's 10 strategic business objectives around passion, economic engine, and capabilities. Cipla expects India business to post strong growth going ahead, backed by growth in core therapies and synergies from One-India Strategy. Strengthening of the respiratory franchise and a strong product pipeline, including complex generics, could drive US sales higher. At the CMP, the stock is trading at P/E multiple of 27.5x/21.6x its FY2023E/FY2024E earnings, which is lower than the long-term historical average multiple and provides headroom for expansion. Hence, we maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 1,225.

Key Risks

- 1) Currency fluctuations,
- 2) Delay in key product approvals/faster approvals for competitors' products,
- and 3) Any regulatory changes in India, South Africa, or the US could affect business.

Valuation (Consolidated)

Particulars	FY2021	FY2022	FY2023E	FY2024E
Net sales	19159.6	21763.3	23390.3	26228.8
Operating Profits	4517.9	4833.7	5370.8	6525.8
OPM (%)	22.2	20.9	21.7	23.8
Reported PAT	2388.0	2546.8	3085.2	3921.8
EPS (Rs.)	29.8	34.0	38.5	48.9
PER (x)	35.5	31.1	27.5	21.6
EV/EBIDTA (x)	20.3	18.5	16.7	13.4
D:E	0.14	0.05	0.04	0.02
ROCE (%)	16.6	17.2	17.6	19.6
RONW (%)	13.9	14.6	13.9	15.4

Source: Company; Sharekhan estimates

FY2022 Annual Report highlights

In FY2021-FY2022, Cipla made significant progress across all strategic areas while navigating the tough external environment. During FY2022, Cipla continued its strong momentum across India, US, and other key markets and continued investments in portfolio expansion and several other growth linked initiatives. Cost re-imagination initiatives, supply consistency, and efforts on operational excellence helped sustain healthy metrics across markets. Based on this, Cipla has recorded the highest revenue and achieved several major milestones in One-India and US businesses in FY2022. Going ahead, commentary around growth prospects stays bright and management aims to focus on creating depth in anti-diabetics and oncology therapy, building on existing and new partnerships with global multinational corporations. Moreover, management is focused on creating innovative, digitally driven healthcare solutions, armed with deep patient insights and scientific knowledge. The company's future growth would be guided by Cipla's 10 strategic business objectives around passion, economic engine, and capabilities.

Sustainable growth supported by strategic business objectives: The healthcare industry in particular has been grappling with pandemic-induced headwinds; geopolitical tensions in Europe suddenly reached a flashpoint and further affected the uncertain, complex, and ambiguous environment. However, Cipla is well equipped to navigate through such challenges of the external environment. With sharper strategies, we continue to strengthen our core business and extend into adjacent areas as well. Based on this, the company has laid its 10 strategic business objectives, encompassing the strategic trinity of passion, economic engine, and capability, which would drive the company's growth ahead.

Passion

- ♦ **Eyeing a global lung leadership position:** Cipla continue to be the second-largest inhaler selling company globally while In India, it dominates the respiratory therapy segment with 22% market share in the overall therapy and 52% share in Cipla's covered markets. Respiratory product, gAlbuterol crossed USD 100 million in revenue in FY2021-FY2022 and has ~17.2% market share of the total market for Albuterol hydrofluoroalkane. Moreover, Cipla has launched multiple respiratory products in Spain, including Fluticasone MDI, Fluticasone + Salmeterol MDI, and Ipratropium MDI, leveraging its own front-end. Going ahead, over a three-year time frame, the company targets to increase its penetration in key markets to establish leadership in volumes of inhalers sold and build solutions around lung care continuum from easy and early diagnostics to efficient treatment and monitoring among others.
- ♦ **Focus on AMR (anti-microbial resistance):** Cipla is focused to address anti-microbial resistance (AMR) through robust AMR portfolio development, responsible manufacturing, and stewardship activities. Cipla has five products under development in the AMR space, targeted at India and other low and middle income countries (LMICs), which is commendable. Over FY2020 to FY2023, Cipla's strategy encompasses identifying innovative ways to fight AMR, such as drug repurposing, new routes of delivery, and identify new antibiotics and combinations. Moreover, among other areas, the company looks to promote responsible antibiotic manufacturing throughout supply chains and promote stewardship through alliances and renowned medical institutes.
- ♦ **Explore opportunities to expand wellness franchises globally:** Cipla's consumer wellness subsidiary – Cipla Health Limited has posted remarkable improvement in FY2022 with revenue of Rs. 500 crore and has achieved EBITDA breakeven. Brands such as Nicotex, Omnigel, and Cofsils along with Cipladine have maintained their ranks in the respective categories with Cipladine gaining the first rank in Indian markets. In the private market of South Africa, Cipla is the top-3 and fastest-growing OTC company, beating market growth by ~4.7%. Sustained leading position in existing brands and consistent new

launches have fueled the company's growth. Cipla's strategy over FY2020 to FY2023 aims at developing a strong global wellness franchise by building a comprehensive portfolio addressing the holistic well-being of a consumer, increase focus on top wellness brands, widen offerings, identify brands with higher consumer potential across India and South Africa, and strengthen the OTC play in South African markets.

Economic Engine

- ◆ **Build Scale in India and South African Markets:** India Bizz: Cipla's one India strategy is progressing well with market-beating growth across branded prescriptions, trade generics, and consumer health segments. The company's branded prescriptions business crossed \$1 bn milestone in FY22 and Cipla's 10 brands continue to remain in the top 100 list, exhibiting the company's strong leadership position.
- ◆ **South Africa Bizz:** Cipla continues to be the third-largest player in the South African private market with 7.5% market share, growing ~4.3% greater than market. Further, in FY2022, the company has launched 32 new products across therapy areas. Moreover, new Sub-Saharan strategy is beginning to deliver results with over 30% growth in secondary sales, specifically with Cipla being the second fastest growing corporation in Kenya.

Cipla's strategy over FY2020 to FY2023 for India business mentions about market beating growth, deepen channel engagement, invest in strategic partnerships, and enhance patient connects through respiratory campaigns. While in South Africa business, expansion of top OTC brands through line extensions and entry in new markets, continued respiratory leadership, and strengthened local manufacturing through the expansion of existing sites and developing new greenfield sites will be the growth drivers.

- ◆ **Focus on specialty business and divestment of non-core assets:** Cipla ranks among the top 10 players in the prescription generic markets with a share of 2.33% and is outpacing the market's growth. Strong traction in the respiratory and complex generic portfolio with Albuterol revenue crossing \$100 mn bodes well for the company. Cipla's three-year strategy encompasses maximisation of value opportunity in the US complex generics and continues to scale US core formulations sales riding on respiratory and peptide assets and monitor the upcoming high-value complex launches.
- ◆ **Fortifying presence in key emerging markets, strong fundamentals to drive growth ahead:** In light of volatility and uncertainty in world markets, commercial strategy is focused on increased revenue salience from stable economies and deep front-end markets, thus gradually de-risking global volatility. This is in line with the strategy to drive sustainable and profitable growth by establishing a strong presence in big markets. Further, focus on differentiated product portfolio and expansion of biosimilar partnerships in key deep markets would drive growth. Launching commercial operations in large markets such as China and Brazil coupled with exciting product launches in new markets (Spain, Mexico) will further accelerate the organic growth journey. Continued investments in meaningful partnerships and strategic acquisitions would further strengthen the company's presence in focused markets.

Capability

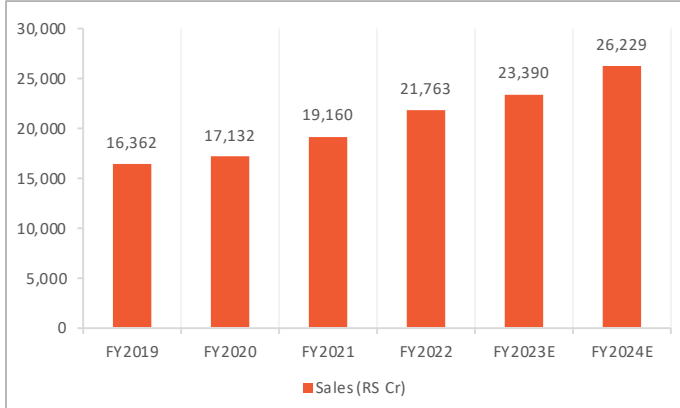
- ◆ **Enhancing efficiencies, redefining process to unlock capacity:** Cipla embarked on the journey of bringing in digital transformation and resorting to best manufacturing practices. Further, FY2022 witnessed unprecedented pressures on profitability due to adverse events in the external environment. Despite this, Cipla ensured focus on serviceability, while retaining efficiencies. Further, as a part of the three-year strategy, the company is expected to leverage digital analytics and automation to improve manufacturing excellence and operations. Further, technology upgradation and reducing operator dependence are likely

to result in touchless factories and implementing industry 4.0 technologies, which could enable real-time data transparency and decision making, thus pointing at better efficiencies.

- ◆ **Leveraging digital technologies by investing in technology 4.0 and enhance talent pool by development programs:** Cipla has been consistently investing in quality with an eye to improve the quality paradigm. The company has implemented rapid sterility at two of its manufacturing sites and is under evaluation for the third site. Rapid Bacterial Endotoxin Testing (BET) for accessories has been implemented and is under implementation for finished products at one of the manufacturing sites and this is likely to reduce quality control checks. Moreover, Cipla is in the process of implementing automation of MDI Delivered Drug Uniformity analysis; and after this, 83% reduction in analysis time is expected. Further, the company is looking at digital technologies as smart work environment enablers, including hybrid working model for corporate roles.
- ◆ **Focus on complex products to drive US growth:** Robust momentum in the core formulation business, strong traction in respiratory assets as well as a contribution from peptides asset resulted in strong double-digit growth for the US region. Cipla, in the recent past, has received approval for Arformoterol Tartrate Inhalation Solution. This has strengthened the company's respiratory franchise further. gAlbuterol continued its growth trajectory in the quarter and commanded a market share of ~22% of the overall market. Given substantial headroom available for growth in gAlbuterol, management is eyeing incremental market share gains. Moreover, Cipla has received approval from the USFDA for Lanreotide injection, which was under the 505 (b)(2) pathway, a complex product to manufacture and offers sizeable growth opportunities. The company has launched the product in US markets and is now working towards ramping up its sales. In addition to this, the company has a strong product pipeline of complex and high-value products to be launched in the US with most of them likely in H2FY2023. These include the likes of Advair, gRevlimid, and peptides injectables – the approval for these is expected in FY2023. In addition to Advair, the company has two more assets in the pipeline, which are expected to be commercialised in late FY2023/early FY2024, coupled with the unlocking of the peptide portfolio, thus pointing toward strong traction in high-value complex products, which would strengthen the company's presence in US markets. Management believes price pressures would sustain, but the product launch momentum could enable it to tide over the same.
- ◆ **Cipla to outperform IPM growth:** Cipla expects traction in India business to outperform IPM's growth. Cipla's One-India Strategy has played out well and management now aims to grow further. This, coupled with the company's strong position in the chronic segments in which it is among the top ranked players, could help it post strong growth. Chronic therapies account for 55% of the overall India sales. In the past, growth in chronic therapies has helped Cipla outpace the industry's growth in its prescriptions business. Cipla has a strong product portfolio across therapies and sales from the same are expected to ramp up. The company is witnessing increased traction in the branded prescription business and has outpaced the industry's growth. Moreover, the recent price hike initiated by the National Pharmaceutical Pricing Authority (NPPA) of 10.8% effective April 2022 could help companies such as Cipla to mitigate cost pressures, though partly. The National List of Essential Medicines (NLEM) drugs account for ~23% of Cipla's domestic sales and a price hike by the NPPA bodes well with the full impact of the same likely in FY2023E. Moreover, the company is witnessing healthy order flows in the trade generics business across regions, which would support growth. Cipla's consumer health business is witnessing strong traction and is expected to sustain the growth trajectory, driven by the recently acquired Endura Mass, which is strengthening the consumer portfolio.

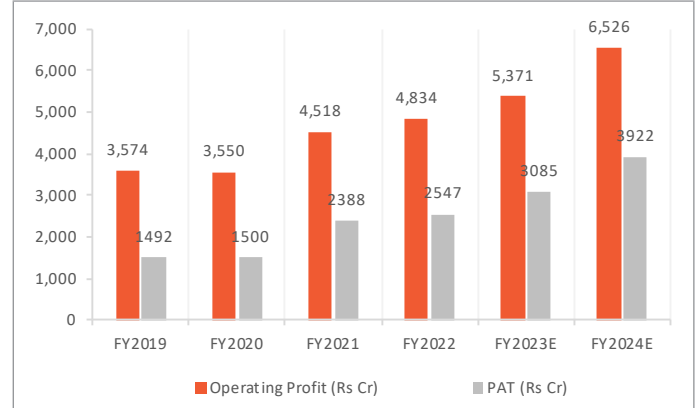
Financials in charts

Sales Trends



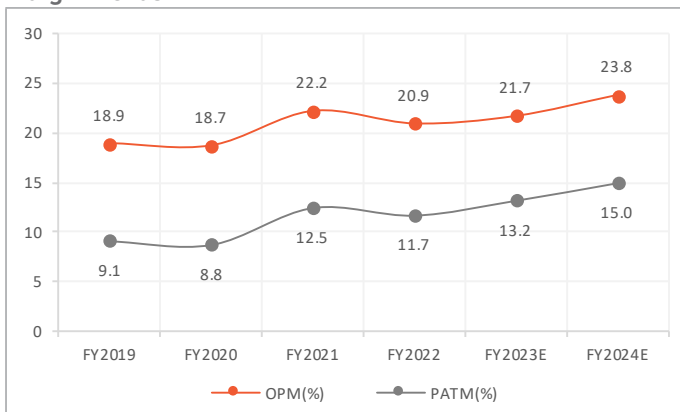
Source: Sharekhan Research

Operating Profit - PAT Trends



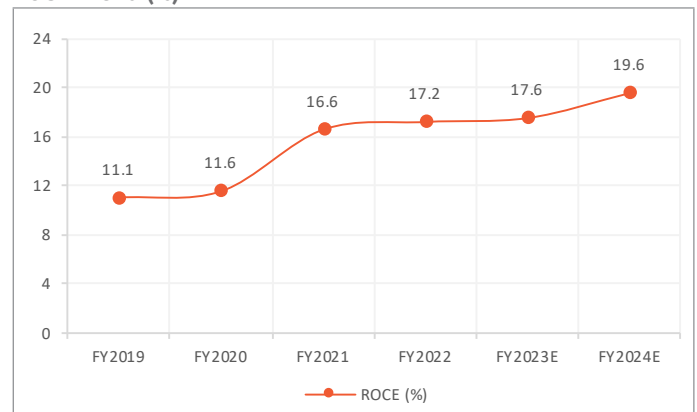
Source: Sharekhan Research

Margin Trends



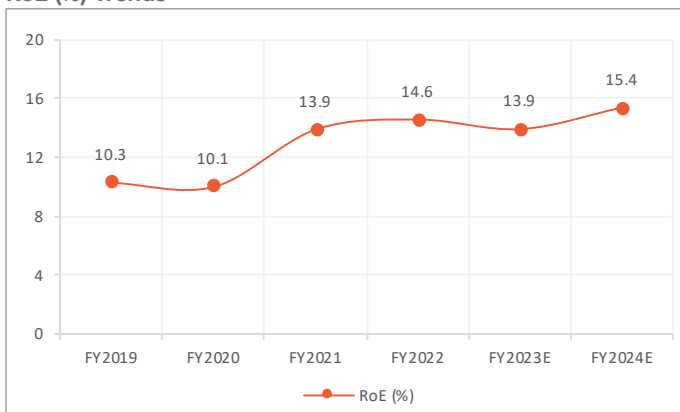
Source: Sharekhan Research

RoCE Trend (%)



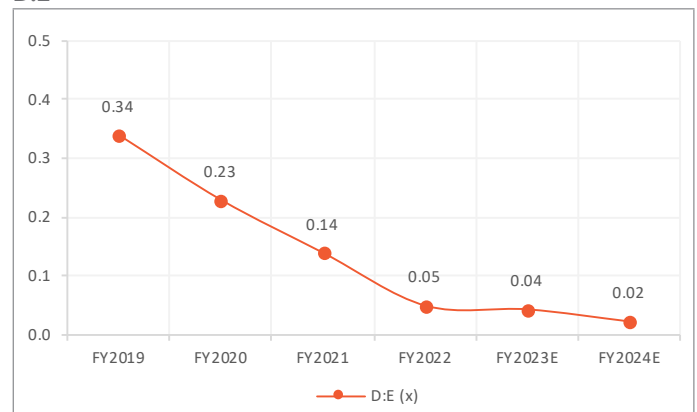
Source: Sharekhan Research

RoE (%) Trends



Source: Sharekhan Research

D:E



Source: Sharekhan Research

Outlook and Valuation

■ Sector View – Growth momentum to improve

Indian pharmaceutical companies are better placed to harness opportunities and post 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, plant resolutions by the USFDA, strong growth prospects in domestic markets, and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules and biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this points to a strong growth potential going ahead for pharmaceutical companies.

■ Company Outlook – Gaining traction

Cipla's domestic business is expected to be a key contributor towards the company's growth, followed by the US business, which is also expected to gain traction. A solid presence in the chronic segment along with market leadership position in select chronic therapies such as respiratory and inhalation bodes well for the company. Moreover, likely traction in the acute therapies segment could also fuel growth for India business. The One-India Strategy implemented by Cipla has played out well and is expected to result in strong growth momentum. The recent price hike announced by NPPA to the tune of 10.8% is likely to benefit Cipla as it has 23% of India's sales from the products under the NLEM. Backed by a strong product launch pipeline comprising complex generics and high market potential launches, the US business is expected to report healthy growth, with Albuterol, Aformeterol and Brovana ramp-up and likely new approvals being key growth drivers. Moreover, businesses across other geographies are well set to capitalise on the upcoming opportunities and are likely to gain traction. Cost-optimisation measures implemented by the company are expected to sustain going ahead as well, leading to an improvement in margin trajectory.

■ Valuation – Maintain Buy with a revised PT of Rs. 1,225

Cipla in its Annual report for FY2022 has mentioned about significant progress across all strategic areas while navigating the tough external environment. Going ahead, commentary around growth prospects stays bright and future growth of the company would be guided by Cipla's 10 strategic business objectives around passion, economic engine, and capabilities. Cipla expects India business to post strong growth going ahead, backed by growth in core therapies and synergies from One-India Strategy. Strengthening of the respiratory franchise and a strong product pipeline, including complex generics, could drive US sales higher. At the CMP, the stock is trading at P/E multiple of 27.5x/21.6x its FY2023E/FY2024E earnings, which is lower than the long-term historical average multiple and provides headroom for expansion. Hence, we maintain our Buy recommendation on the stock with a revised PT of Rs. 1,225.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Cipla	1,058.0	80.6	85,416	31.1	27.5	21.6	18.5	16.7	13.4	14.6	13.9	15.4
Strides Pharma Science	331.0	9.0	2,976	-	19.8	12.0	-	8.2	6.7	-	6.1	9.2
Torrent Pharma	1,520.5	16.99	51,456	41.0	33.0	27.0	22.8	19.3	15.7	21.1	24.0	25.0

Source: Company, Sharekhan estimates

About company

Cipla is a global pharmaceutical company with a geographically diversified presence and products registered in more than 170 countries. Indian branded formulations account for more than 40% of business and Cipla is among the top three players in the market. In the past, the company believed in the partnership model for international markets. However, in the past three years, the company is undergoing a strategic shift and has started setting up its own front-end divisions. Cipla is also a well-known global player in inhalers and antiretrovirals. Going forward, the company is planning to launch combination inhalers in larger markets such as the US and EU and is setting up its own front-ends to drive growth.

Investment theme

Cipla banks on its branded business in India and South Africa, both of which together constitute ~60% of the business. A solid presence in the chronics segment in domestic markets along with a market leadership position in select chronic therapies such as respiratory, inhalation, and urology bodes well for the company. Moreover, likely improvement in the acute therapy segment would fuel growth for India business. The One-India Strategy implemented by Cipla has played out well and is expected to result in strong growth momentum, well supported by COVID-19 portfolio. Backed by a strong product launch pipeline comprising complex generics, the US business is expected to report healthy growth, with Albuterol being a key growth driver. Moreover, businesses across other geographies are well set to capitalise on the upcoming opportunities and are likely to gain traction. Cost-optimisation measures implemented by the company could lead to margin expansion.

Key Risks

- ◆ Currency fluctuations could have an adverse impact.
- ◆ Delay in key product approvals/faster approvals for competitors.
- ◆ Any regulatory changes in India or South Africa or the US could affect business.

Additional Data

Key management personnel

Dr. Y. K. Hamied	Chairman
Ms. Samina Hamied	Executive Vice-Chairperson
Mr. Umang Vohra	Managing Director and Global Chief Executive Officer

Source: Company Website

Top 10 shareholders

as on May 10, 2022

Sr. No.	Holder Name	Holding (%)
1	SBI Fund Management	4.33
2	Life Insurance Corporation of India	3.6
3	Government Pension Fund	2.59
4	Norges Bank	2.31
5	BlackRock Inc	2.09
6	Vanguard Group Inc	2.06
7	ICICI prudential Asset Management Co	1.63
8	NPS Trust	1.44
9	HDFC Asset Management	1.33
10	UTI Asset Management Co Ltd	1.17

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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