

TORRENT PHARMACEUTICALS

Growth elusive at expensive valuations

India Equity Research | Pharmaceuticals

Torrent Pharmaceuticals (TRP) missed estimates and reported a loss in Q4FY19 as: i) domestic business slowed to 9% YoY as Unichem portfolio continued to be a drag; ii) US suffered from losartan product recalls; and iii) sales in Germany & Brazil remained stagnant in constant currency terms. Unichem portfolio comprising mature brands and high overlap with the TRP portfolio has slower growth profile than TRP. Most of the growth levers from the acquisition have been captured in terms of cost synergies and PCPM improvement; going forward, focus will shift to growth in the core business. To factor in the slower growth, we revise down FY20/21E EPS 16%/10%. At current valuations, TRP is fairly valued. Maintain 'HOLD' with revised TP of INR1,600 (earlier INR1,760).

Weak performance across geographies

TRP's domestic business grew 9% YoY, in line with our estimate of muted growth in the Unichem portfolio. US declined ~25% QoQ in constant currency as base benefitted from one-time supply disruptions, while Germany (~EUR29mn) and Brazil (~BRL108mn) sales remained range bound for the ninth consecutive quarter. Q4FY19 was impacted by: i) impairment provision of INR2.17bn for suspension of operations at the Levittown, Pennsylvania facility; and ii) INR1.4bn product recall charges associated with losartan & losartan H, primarily in the US.

Unichem and US business likely to drag performance

Q4FY19 was the first full quarter with Unichem in the base and the growth rate fell to single digit despite double digit growth in TRP's domestic portfolio. Unichem portfolio comprising mature brands and high overlap with TRP portfolio has slower growth profile than TRP. Recall of losartan and losartan H in the US, Germany and Brazil will impact growth in these businesses. Consensus is building 17% top-line growth and 20% EBITDA growth, which we believe is hard to achieve.

Outlook and valuation: Fairly valued; maintain 'HOLD'

We are building in ~10%/12% growth in top-line and EBITDA, each, over FY20/FY21. We revise down FY20/21E EPS 16%/10% to reflect the slower growth. At CMP, the stock is fully valued. Hence, we maintain 'HOLD/SP' with a revised TP of INR1,600 (23x September 2020E TTM EPS).

Financials (Consolidated)

(INR mn)

Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Net revenue	18,560	17,080	8.7	19,880	(6.6)	74,620	83,077	93,464
EBITDA	4,730	3,500	35.1	5,260	(10.1)	19,840	21,925	24,642
Adj. diluted EPS	9.0	12.6	(29.2)	12.5	(28.2)	43.9	56.6	72.0
P/E (x)						37.6	29.2	23.0
EV/EBITDA (x)						16.0	14.2	12.4
RoAE (%)						15.9	18.9	20.9

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: TORP.BO, B: TRP IN)

CMP	: INR 1,654
Target Price	: INR 1,600
52-week range (INR)	: 1,964 / 1,282
Share in issue (mn)	: 169.2
M cap (INR bn/USD mn)	: 280 / 4,015
Avg. Daily Vol.BSE/NSE('000)	: 280.6

SHARE HOLDING PATTERN (%)

	Current	Q3FY19	Q2FY19
Promoters *	71.2	71.2	71.2
MF's, FI's & BK's	10.9	10.9	11.3
FII's	8.1	8.1	8.1
Others	9.7	9.7	9.4
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	(9.9)	(2.6)	(4.4)
3 months	(6.7)	3.1	(1.3)
12 months	24.5	5.2	2.5

Deepak Malik
+91 22 6620 3147
deepak.malik@edelweissfin.com

Ankit Hatalkar
+91 22 2286 3097
ankit.hatalkar@edelweissfin.com

Aashita Jain
aashita.jain@edelweissfin.com

May 20, 2019

Q4FY19 conference call: Key highlights

Guidance

- R&D likely to remain in the 8%-of-sales range.
- Capex requirement should be INR3–3.5bn, which is mainly maintenance capex, over FY20.
- Tax rate in FY20 should be a little above 25%.
- The company expects to launch at least ten products each year.

Domestic (43% of total)

- Normalised growth came in at 11%. Factors that led to the normalisation were:
 - Discontinuation of low-value low-volume products in FY19.
 - Scaling down of the discounted business.
- Excluding Unichem, India business grew in double digit.
- Top-25 acquired brands comprise 87% of sales and grew by 23% YoY during the quarter.
- The company has completed rationalisation from the Unichem integration
 - Achieving synergies is a continuous process.
- Shelcal is now an INR450mn brand.
- Chronic growth: 13%; sub-chronic growth: 21% YoY.

US (24% of total)

- USD52mn in sales in Q4FY19.
- The quarter marks the impact of discontinuation of losartan and losartan H.
- Accelerated pace of product launches and ANDAs filing
- TRP has 32 pending ANDAs and 10 tentative approvals have been received.
- Dahej and Indrad observations have been already responded to, and the company expects to receive the response in the stipulated 90 days.
 - Indrad and Dahej make up about 50:50 in terms of filings.
 - A substantial part of Dahej was utilised for Losartan and Losartan H.
 - Capacity utilisation at Dahej is 50%.
- The company expects to return to the Losartan market but cautiously.
 - It already has contract-manufactured API available.

Germany (13% of total)

- EUR29mn in sales in Q4FY19
- Value market share of 7.4%.
- Continues to launch seven–eight products each year.
- Decent performance in the tender (60–80%) and non-tender markets.

Brazil (8% of total)

- BRL108mn in sales.
- In this geography, the company expects to grow close to double digit, which is faster than the market.

Debt repayment schedule

- Net debt: INR48bn.
- Net debt reduced by INR4.5bn in FY19.

Financials

- EBITDA margin before exceptional items stood at 26%.
- Write-off for recalls on losartan (Losar and Losar-H)
 - The company does not supply this product any more in the US, Brazil and Germany.
 - It had a market share of 30% in Losar and 20% in Losar-H in the US.
 - Provisions should cover any recall-related expenses.
 - The company did not undertake any major write-offs in Brazil and Germany.
- Biopharma – Suspension of Levittown products from the Pennsylvania plant
 - The facility was upgraded in order to shift the mix from OTC to regulated formulations.
 - Sales in FY18–19 were USD11.7mn.
 - The company paid USD60mn for the acquisition.
- R&D: 7% of sales.
- Cash dividend paid out in FY19: INR3.1bn.

Table 1: Actual versus our estimates
(INR mn)

	Q4FY19	YoY (%)	Edel estimates	YoY (%)	Deviation from Actual (%)
Net Revenue	18,560	8.67	19,702	15.4	(5.8)
Raw material costs	5,330	15.1	5,911	27.7	(9.8)
Gross profit	13,230	6.3	13,792	10.8	(4.1)
Gross margin (%)	71.3		70.0		
Employee costs	3,470	9.5	3,804	20.0	(8.8)
Other expenses	5,030	(17.6)	3,743	(15.3)	34.4
EBITDA	4,730	35.1	4,865	39.0	(2.8)
EBITDA margin (%)	25.5		24.7		
Net finance expense (income)	1,230	1.7	1,350	11.6	(8.9)
Depreciation	1,600	6.0	1,550	2.6	3.2
Other income	170	(59.5)	100	(76.2)	70.0
PBT	5,640	370.0	2,065	72.1	173.1
Income tax expense	20	(102.1)	413	(143.9)	(95.2)
Tax rate (%)	NA		20.0		
Reported net profit	5,620	162.6	1,652	(22.8)	240.2
Adj. PAT	1,515	(29.2)	1,652	(22.8)	(8.3)
Adjusted diluted EPS (INR)	9.0	(29.2)	9.8	(22.8)	(8.3)

Source: Company, Edelweiss research
Table 2: Revenue mix by segment – Consolidated
(INR mn)

Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change
India	7,540	6,930	8.8	8,350	(9.7)
US	3,720	3,070	21.2	4,900	(24.1)
Brazil	2,050	2,150	(4.7)	1,680	22.0
Germany	2,400	2,340	2.6	2,670	(10.1)
Others	1,780	1,320	34.8	1,670	6.6
Others (Incl. Contract Manufacturing)	1,070	1,270	(15.7)	1,200	(10.8)
Total	18,560	17,080	8.7	20,470	(9.3)

Source: Company, Edelweiss research
Table 3: Top therapies after Unichem acquisition
(INR bn)

	Contribution (%)	MAT Mar '19	MAT Mar '18	Change (%)
CARDIAC	28.1	13.43	11.90	12.9
GASTRO INTESTINAL	13.6	6.49	5.42	19.8
NEURO / CNS	13.4	6.41	5.86	9.4
VITAMINS / MINERALS / NUTRIENTS	10.7	5.12	4.18	22.6
ANTI DIABETIC	6.9	3.30	2.71	21.6
PAIN / ANALGESICS	5.9	2.80	2.34	19.9
ANTI-INFECTIVES	4.3	2.08	2.07	0.0
DERMA	2.5	1.19	1.08	10.3
GYNAECOLOGICAL	1.8	0.87	0.72	21.2
RESPIRATORY	0.6	0.31	0.31	-1.2
TOTAL		42.37	36.93	

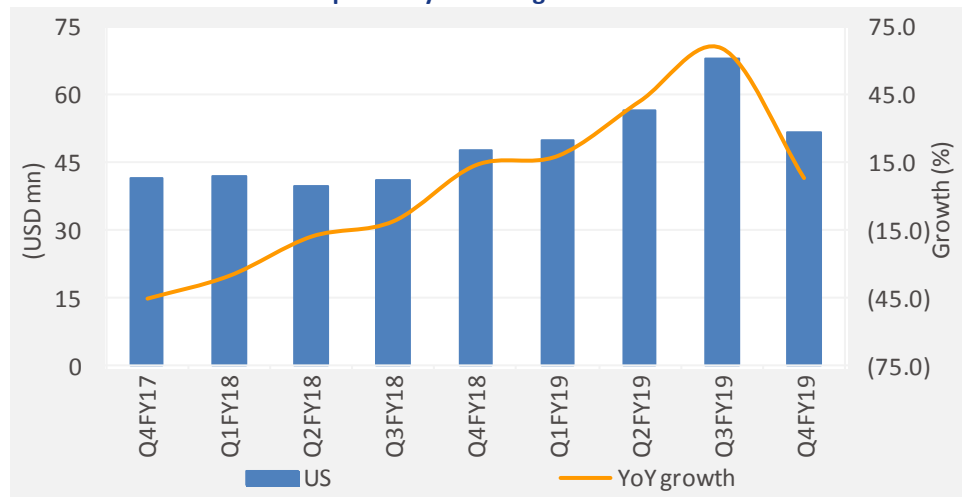
Source: AIOCD AWACS, Edelweiss research

Table 4: Top TRP brands after Unichem acquisition

			(INR bn)
	MAT Mar '19	MAT Mar '18	Change (%)
SHELCAL	2.25	1.92	17.0
CHYMORAL FORTE	1.54	1.18	31.3
NIKORAN	1.13	0.97	16.6
LOSAR H	1.10	1.00	10.2
AZULIX-MF	1.01	0.87	16.4
NEBICARD	0.93	0.82	13.3
DILZEM	0.89	0.78	14.0
NEXPRO RD	0.88	0.74	19.1
UNIENZYME	0.81	0.64	25.3
LOSAR	0.78	0.70	10.9
TOTAL	42.37	36.93	

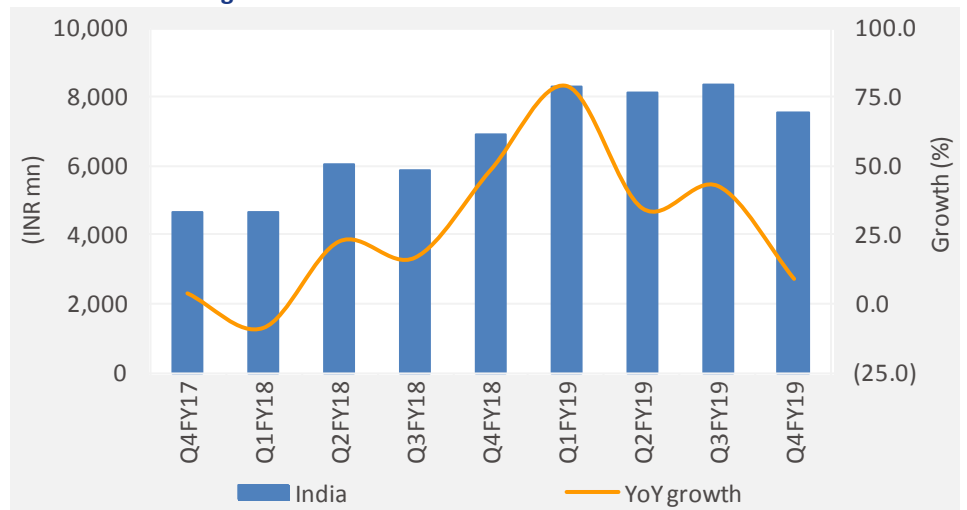
Source: AIOCD AWACS, Edelweiss research

Chart 1: US sales declined sequentially following losartan recalls



Source: Company, Edelweiss research

Chart 2: India sales grew 9% YoY



Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Net revenues	18,560	17,080	8.7	19,880	(6.6)	76,730	84,610	95,128
Cost of revenue	5,330	4,630	15.1	5,800	(8.1)	22,190	24,537	27,587
Gross profit	13,230	12,450	6.3	14,080	(6.0)	54,540	60,073	67,541
R&D	1,390	1,360	2.2	1,350	3.0	5,380	6,346	7,515
EBITDA	4,730	3,500	35.1	5,260	(10.1)	19,840	21,925	24,642
EBITDA margin	25.5	20.5		26.5		25.9	25.9	25.9
Depreciation	1,600	1,510	6.0	1,560	2.6	6,180	6,200	6,200
EBIT	3,130	1,990	57.3	3,700	(15.4)	13,660	15,725	18,442
Interest	1,230	1,210	1.7	1,330	(7.5)	5,040	4,516	3,891
Other income	170	420	(59.5)	30	466.7	570	1,572	1,477
Add: Exceptional items	3,570	-		(350)	(1,120.0)	3,570	-	-
Profit before tax	5,640	1,200	370.0	2,050	175.1	12,760	12,780	16,028
Provision for taxes	20	(940)	(102.1)	290	(93.1)	1,260	3,195	3,847
Minority interest								
Reported net profit	5,620	2,140	162.6	1,760	219.3	11,500	9,585	12,181
Adjusted Profit	1,515	2,140	(29.2)	2,110	(28.2)	7,441	9,585	12,181
Diluted shares (mn)	169	169		169		169	169	169
Adjusted Diluted EPS	9.0	12.6	(29.2)	12.5	(28.2)	43.9	56.6	72.0
Cost of revenue	28.7	27.1		29.2		28.9	29.0	29.0
Gross profit	71.3	72.9		70.8		71.1	71.0	71.0
R&D	7.5	8.0		6.8		7.0	7.5	7.9
Total expenses	74.5	79.5		73.5		74.1	74.1	74.1
Operating profit	16.9	11.7		18.6		17.8	18.6	19.4
Reported net profit	8.2	12.5		10.6		9.7	11.3	12.8
Tax rate	-	(78.3)		14.1		9.9	25.0	24.0

Company Description

TRP is focused on branded formulations with majority of the business coming from India, US, Brazil and emerging markets. India branded business contributes over 25% to revenue and is largely focused on chronic therapies. Its acquisition of Elder Pharma's brands strengthens its position. It is among the largest Indian companies in Brazil with consistently strong performance over the years. It entered EU through acquisition of Heumann (Germany) in 2005 and has now started scaling up its US business by launching more products.

Investment Theme

TRP continues to focus on branded business mix from India and Brazil, which bodes well for sustainable growth in a challenging global environment for the pharma sector. However, additional costs from the recent Unichem acquisition are likely to offset any synergy benefits arising from the overlap in the portfolio.

Key Risks

- Slower-than-expected ramp up in Unichem's sales.
- Slowdown in ANDA approvals and USFDA related regulatory risks are part of the generics business.
- Delay in product launches in Brazil, Germany and US could restrict growth in these key geographies
- Currency risk.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.5	7.1	7.6	7.6
Inflation (Avg)	3.6	4.5	5.0	5.0
Repo rate (exit rate)	6.0	6.3	6.5	6.5
USD/INR (Avg)	64.5	70.0	72.0	72.0

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	58,771	74,620	83,077	93,464
Other Operating Income	1,250	2,110	1,533	1,664
Income from operations	60,021	76,730	84,610	95,128
Materials costs	16,735	22,190	24,537	27,587
Employee costs	11,353	14,040	15,304	16,834
R&D Cost	4,600	5,380	6,346	7,515
Total SG&A expenses	13,841	15,280	16,499	18,550
EBITDA	13,493	19,840	21,925	24,642
EBIT	9,407	13,660	15,725	18,442
Less: Interest Expense	3,085	5,040	4,516	3,891
Add: Other income	2,988.4	570.00	1,571.57	1,477.33
Profit Before Tax	9,310	12,760	12,780	16,028
Less: Provision for Tax	2,529	1,260	3,195	3,847
Less: Minority Interest	-	-	-	-
Add: Exceptional items	-	3,570	-	-
Profit- Discontinued Ops	-	7,140	-	-
Reported Profit	6,781	11,500	9,585	12,181
Exceptional Items	-	4,059	-	-
Adjusted Profit	6,782	7,441	9,585	12,181
Shares o /s (mn)	169	169	169	169
Adjusted Basic EPS	40.1	43.9	56.6	72.0
Diluted shares o/s (mn)	169	169	169	169
Adjusted Diluted EPS	40.1	43.9	56.6	72.0
Adjusted Cash EPS	64.2	80.5	93.2	108.6
Dividend per share (DPS)	15.6	10.3	17.0	21.6
Dividend Payout Ratio(%)	39.0	40.0	30.0	30.0

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Materials costs	27.9	28.9	29.0	29.0
Staff costs	18.9	18.3	18.1	17.7
S G & A expenses	23.1	19.9	19.5	19.5
Operating expenses	77.5	74.1	74.1	74.1
R & D cost	7.7	7.0	7.5	7.9
Depreciation	6.8	8.1	7.3	6.5
Interest Expense	5.1	6.6	5.3	4.1
EBITDA margins	22.5	25.9	25.9	25.9
Net Profit margins	11.3	9.7	11.3	12.8

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	2.9	27.0	11.3	12.5
EBITDA	(2.0)	47.0	10.5	12.4
PBT	(14.4)	37.1	0.2	25.4
Adjusted Profit	(27.4)	9.7	28.8	27.1
EPS	(27.4)	9.7	28.8	27.1

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	846	850	850	850	
Reserves & Surplus	45,376	46,390	53,099	61,626	
Shareholders' funds	46,222	47,240	53,949	62,476	
Minority Interest	5	-	-	-	
Long term borrowings	41,115	39,130	36,130	31,130	
Short term borrowings	16,256	9,340	9,340	9,340	
Total Borrowings	57,371	48,470	45,470	40,470	
Long Term Liabilities	3,068	3,110	3,110	3,110	
Def. Tax Liability (net)	(2,759)	(3,630)	(3,630)	(3,630)	
Sources of funds	103,907	95,190	98,899	102,426	
Gross Block	90,510	95,401	100,401	105,401	
Depreciation	4,086	6,180	6,200	6,200	
Net Block	76,799	75,510	74,310	73,110	
Capital work in progress	4,232	4,790	4,790	4,790	
Total Fixed Assets	85,016	83,650	82,450	81,250	
Non current investments	1	20	20	20	
Cash and Equivalents	13,595	11,670	14,315	15,466	
Inventories	19,663	19,350	25,018	24,866	
Sundry Debtors	12,535	14,360	20,253	18,663	
Loans & Advances	6,831	5,000	9,630	10,827	
Current Assets (ex cash)	39,029	38,710	54,900	54,356	
Trade payable	20,482	20,980	34,701	27,902	
Other Current Liab	15,283	21,340	21,544	24,223	
Total Current Liab	35,766	42,320	56,246	52,125	
Net Curr Assets-ex cash	3,263	(3,610)	(1,345)	2,231	
Uses of funds	103,907	95,190	98,899	102,426	
BVPS (INR)	273.0	279.0	318.7	369.0	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	6,781	11,500	9,585	12,181	
Add: Depreciation	4,086	6,180	6,200	6,200	
Interest (Net of Tax)	2,247	4,542	3,387	2,957	
Others	(8,280)	(13,712)	934	(13,071)	
Less: Changes in WC	(4,108)	(1,015)	2,161	(5,057)	
Operating cash flow	8,942	9,525	17,946	13,324	
Less: Capex	47,511	4,814	5,000	5,000	
Free Cash Flow	(38,569)	4,711	12,946	8,324	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Torrent Pharmaceuticals	4,015	29.2	23.2	14.2	12.4	18.9	20.9
Cipla	6,533	24.5	23.2	13.4	12.4	11.2	10.7
Divi's Laboratories	6,318	24.0	21.0	16.6	14.2	24.6	24.0
Glenmark Pharmaceuticals	2,334	13.5	12.1	8.7	7.9	17.9	17.0
Ipca Laboratories	1,689	19.8	15.9	12.8	10.1	17.4	18.3
Natco Pharma	1,378	13.7	13.1	9.0	7.6	17.0	15.6

Source: Edelweiss research

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow		8,942	9,525	17,946	13,324
Financing cash flow		34,615	(6,618)	(10,301)	(7,173)
Investing cash flow		(47,511)	(4,833)	(5,000)	(5,000)
Net cash Flow		(3,954)	(1,925)	2,645	1,151
Capex		(47,511)	(4,814)	(5,000)	(5,000)
Dividend paid		(2,648)	(2,648)	(1,744)	(2,875)

Profitability and efficiency ratios

Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	15.1	15.9	18.9	20.9
ROACE (%)	14.6	14.3	17.8	19.7
Inventory Days	384	321	330	330
Debtors Days	68	66	76	76
Payable Days	414	341	414	414
Cash Conversion Cycle	39	46	(8)	(8)
Current Ratio	1.5	1.2	1.2	1.3
Gross Debt/EBITDA	4.3	2.4	2.1	1.6
Gross Debt/Equity	1.2	1.0	0.8	0.6
Adjusted Debt/Equity	0.3	0.2	0.3	0.2
Net Debt/Equity	0.9	0.8	0.6	0.4
Interest Coverage Ratio	3.0	2.7	3.5	4.7

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	0.7	0.7	0.9	0.9
Fixed Asset Turnover	1.0	0.9	1.1	1.2
Equity Turnover	1.3	1.6	1.6	1.6

Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	40.1	43.9	56.6	72.0
Y-o-Y growth (%)	(27.4)	9.7	28.8	27.1
Adjusted Cash EPS (INR)	64.2	80.5	93.2	108.6
Diluted P/E (x)	41.3	37.6	29.2	23.0
P/B (x)	6.1	5.9	5.2	4.5
EV / Sales (x)	5.5	4.2	3.7	3.3
EV / EBITDA (x)	24.0	16.0	14.2	12.4
Dividend Yield (%)	0.9	0.6	1.0	1.3

Additional Data

Directors Data

Samir Mehta	Chairman	Pradeep Bhargava	Non-executive Independent Director
Shailesh Haribhakti	Independent Director	Haigreve Khaitan	Independent Director
Chaitanya Dutt	Director (Research & Development)	Ms. Ameera Shah	Independent Director
Ashok Modi	Executive Director		

Auditors - Deloitte Haskins & Sells

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
HDFC Asset Management	2.73	Vanguard group	0.86
FMR LLC	1.64	T Rowe Price Group Inc	0.80
UTI Asset Management	1.56	Reliance Capital Trustee	0.79
HDFC Life Insurance	1.03	Mirae Asset Global Investment	0.76
SBI Funds Management	0.98	Sundaram Asset Management	0.62

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
15 Jun 2018	LAVENDER INVESTMENTS LIMITED	SELL	901207	1475.08

**in last one year*

Insider Trades

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

**in last one year*

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

ABSOLUTE RATING

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

RELATIVE RETURNS RATING

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

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

RELATIVE RISK RATING

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

Risk ratings are based on Edelweiss risk model

SECTOR RATING

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



Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

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

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

Recent Research

Date	Company	Title	Price (INR)	Recos
17-May-19	Dr. Reddy's Laboratories	Performance on track; strong outlook; <i>Result Update</i>	2745	Buy
15-May-19	Lupin	Muted quarter; outlook strong; <i>Result Update</i>	782	Buy
26-Apr-19	Biocon	Risk-reward unfavourable; <i>Result Update</i>	621	Reduce

Distribution of Ratings / Market Cap

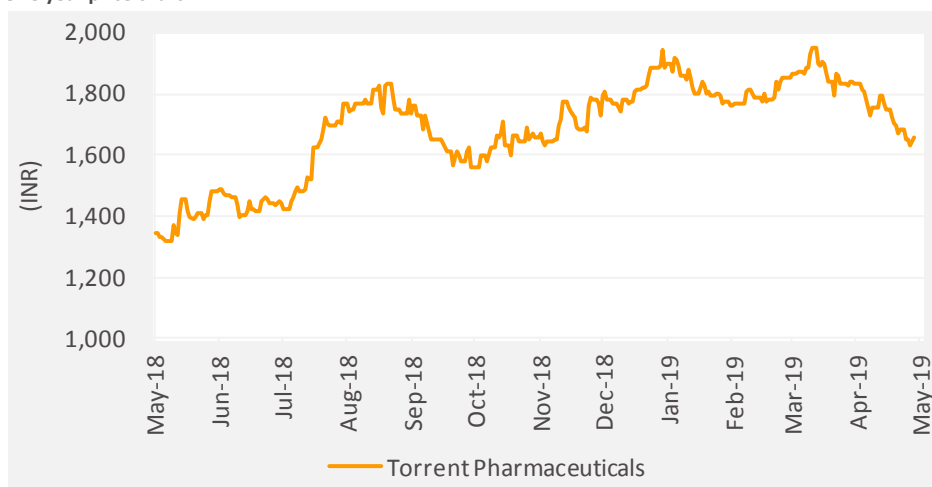
Edelweiss Research Coverage Universe

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

Rating Interpretation

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

One year price chart



DISCLAIMER

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved