



RESULT UPDATE

DR.REDDYS LABORATORIES

One-offs boosted performance

India Equity Research | Pharmaceuticals



Edelweiss
Ideas create, values protect

Dr. Reddy's Laboratories' (DRRD) Q2FY20 numbers came largely in line with broad-based growth across geographies, although US was weak. While a part of US sales was pushed to the next quarter due to logistic issues, some was lost due to voluntary *ranitidine* recalls. Update on key growth drivers: i) *gNuvaring* & *gCopaxone*: DRRD is still to reply to USFDA queries; ii) Srikakulam: Expects USFDA re-inspection soon; and iii) Biosimilars: Pegfilgrastim in filing stage, rituximab phase III trial ongoing & xenoport phase IIb completed. We revise down FY20/21E EPS 11% each due to lack of visibility on FY21 launch of *gNuvaring* and *gCopaxone*. Maintain 'BUY' with TP of INR3,400 as we roll forward to December 2020E EPS.

Broad-based growth; US impacted by one-offs

India grew by 9%, Europe by 44%, Russia and CIS by 11% and other EMs by 9% YoY. US declined 13% QoQ, impacted by logistics issues and *ranitidine* recall. The quarter was marked by various one offs – 1) Revenue included INR7.2bn one-off impact from sale of *Zembrace* and *Tosymra*; 2) SG&A included one-time impairment charges of ~INR3.6bn related to intangibles and additional one-off cost of INR1bn; 3) tax benefit of ~INR5bn on recognition of DTA following lowering of MAT rate. Adjusted for these one offs, revenue came in at INR40.8bn, EBITDA margin was ~21% and EPS INR26.7 per share.

Management pushing limits in all six focus areas

DRRD's FY20 priorities include: 1) accelerating *gNuvaring* and *gCopaxone* approval; 2) addressing Srikakulam and Duvvada observations; 3) strengthening the portfolio across markets & outpacing respective markets; and 4) improving cost efficiencies & productivity across functions. Management's calibrated growth approach in India and other EMs has also paid off as its growth improved across markets. In China, DRRD is growing in strong double digits and has already earmarked 70 products to be filed over three–four years.

Outlook and valuation: Steady; reiterate 'BUY'

With a focused management, promising complex pipeline, 21% earnings CAGR and compelling valuations, DRRD remains on strong growth trajectory over FY20–21. We reiterate 'BUY/SP' with TP of INR3,400 (20x December 2020E EPS). The stock trades at 16.5x FY21E earnings.

Financials (Consolidated)

(INR mn)

Year to Mar.	Q2FY20	Q2FY19	% change	Q1FY20	% change	FY19	FY20E	FY21E
Net revenue	48,009	37,978	26.4	38,435	24.9	1,53,851	1,76,873	1,90,045
EBITDA	14,081	7,403	90.2	7,267	93.8	31,333	44,218	46,561
Adj. profit	4,431	4,713	(6.0)	3,898	13.7	18,795	22,751	27,742
Adj. dil. EPS	26.7	28.4	(6.0)	23.5	13.7	113.4	137.3	167.4
P/E (x)						24.3	20.1	16.5
ROAE (%)						14.1	14.8	15.4

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: REDY.BO, B: DRRD IN)

CMP	: INR 2,757
Target Price	: INR 3,400
52-week range (INR)	: 2,965 / 1,873
Share in issue (mn)	: 166.1
M cap (INR bn/USD mn)	: 458 / 6,516
Avg. Daily Vol.BSE/NSE('000)	: 802.3

SHARE HOLDING PATTERN (%)

	Current	Q1FY20	Q4FY19
Promoters *	26.8	26.8	26.8
MF's, FI's & BK's	15.0	13.8	14.5
FII's	30.1	30.7	30.9
Others	28.2	28.7	27.8
* Promoters pledged shares (% of share in issue)			1.2

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	0.7	1.2	0.8
3 months	5.2	2.9	0.5
12 months	16.8	14.3	(7.2)

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

Ankit Hatakar, CFA
+91 22 2286 3097
ankit.hatakar@edelweissfin.com

Aashita Jain
aashita.jain@edelweissfin.com

November 1, 2019



Q2FY20 conference call: Key highlights

Financials

- Translation rate of INR70.64.
- Revenue grew 26% YoY and 25% QoQ.
 - Gross margin was not impacted ranitidine recalls.
 - Mix changes also impacted adjusted gross margin.
- One-offs:
 - INR7.2bn revenue from sale of *Zembrace* and *Tosymra*.
 - SG&A: Intangibles impairment on decision not to launch the third product; other one-offs more than INR1bn; adjusted for all one-offs, SG&A is lower QoQ.
 - Tax benefit due to reduction of MAT rate.
- FCF during the quarter came at INR8.7bn.
- Net debt/equity at 0.01x.
- Forex cash flow hedges at INR70.2-73.95/ USD and INR1.081/RUB.
- Guidance:
 - EBITDA margin to recover to pre-warning letter situation over a period of time.
 - Still further scope to reduce SG&A.
 - R&D to be around INR2.0-2.4bn for FY20.
 1. The company filed one ANDA in Q2FY20.
 2. Filed eight DMFs globally.
 - ETR for FY20 will be less than 10%.
 - Evaluating multiple inorganic initiatives – branded generic markets (India in particular).

North America

- USD202mn revenue, declined 1% YoY / 14% QoQ.
 - Provisions for nation-wide recall of ranitidine. Completely suspended sales of ranitidine. Covered the entire impact of the voluntary recall.
 - Temporary supply disruption due to logistics issues (US distribution issues specific to DRRD).
 - Any penalties for the above disruptions were already booked in Q2FY20.
 - The company launched eight products in Q2FY20.
 - Excluding impact of one-offs, sales would have been little less than in Q1FY20.
- DRRD is on track to launch more than 30 plus products in FY20.
- **gSuboxone:**
 - Potential exit of AG is positive and DRRD has the capacity to take up the opportunity.
 - Market share is higher than 15%.
- **gNuvaring & gCopaxone:**



- DRRD is still addressing the CRL.
 1. For this the company had to buy certain equipment and conduct certain experiments. This will happen over the next few months.
- Still unable to commit to a specific date.

Europe

- Made certain adjustments to the portfolio and to the team.
- Growth now is due to launch of a couple of good products.

India

- Launched five products, leading to 9% YoY growth.

PSAI

- USD100mn, up 15% YoY.
- Manufacturing issues have now been resolved:
 - Issues with regards to committing to customer delivery.
- Management expects this to normalise in Q2FY20 led by a healthy order book.

Proprietary products

- **DFN-15:** NDA has been accepted by the USFDA.
- **DFD29:** Completed phase IIb.
- **XP23892:** Completed phase IIb programme. DRRD still in planning phase for phase III.
- The company is looking to either out-license or divest this business.

China

- Won olanzapine tender:
 - Pricing significantly lower than other channels.
 - Volumes will be higher.
 - Profitability is high because sales force is not required.
- Channels:
 - i) regional channel for branded generics;
 - ii) direct sales of generics with partner sales company;
 - iii) new tender programme.
- DRRD receives exemptions to certain bio-studies when products are manufactured in China.

Biosimilars

- Rituximab trial is progressing well.
- Pegfilgrastim: Phase III was completed and Fresenius Kabi is preparing to file.
- Xenoport: Completed IIb studies; in active dialogue with USFDA to craft the way forward.

Regulatory

- Srikakulam (CTO-6): Expects inspection by the USFDA in the near future.

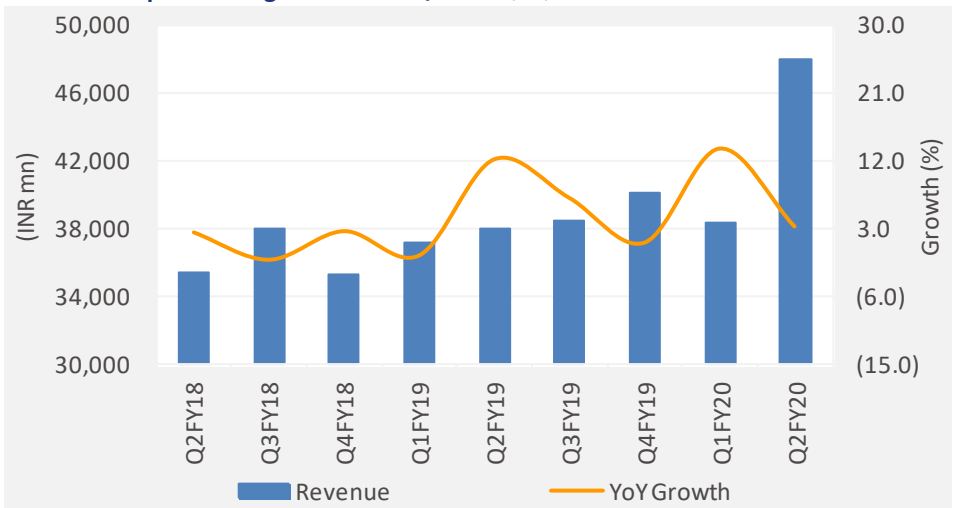


Table 1: Actual versus estimates

(INR mn)

	Q2FY20	YoY (%)	Edel estimate	YoY (%)	Deviation from Actual (%)
Net revenue	48,009	26.4	41,867	10.2	14.7
Cost of revenue	20,389	19.4	19,678	15.2	3.6
Gross profit	27,620	32.2	22,190	6.2	24.5
Gross margin (%)	57.5		53.0		
S,G&A	9,877	5.4	9,629	2.7	2.6
R&D	3,662	(11.1)	3,601	(12.6)	1.7
EBITDA	14,081	90.2	8,960	21.0	57.2
EBITDA margin (%)	29.3		21.4		
Depreciation	2,306	13.4	2,100	3.3	9.8
Amortization	4,594	376.1	900	(6.7)	410.4
Total operating expenses	20,439	23.9	16,230	(1.6)	25.9
EBIT	7,181	63.0	5,960	35.3	20.5
Less: Interest Expense	(231.0)		(300.0)		
Add: Other income	135.0	(78.9)	300.0	(53.2)	(55.0)
Profit before tax	7,547	33.1	6,560	15.7	15.1
Tax rate (%)	(43.2)	(1,630.8)	22.0		
Less: Provision for Tax	(3,261)	(539.5)	1,443	94.5	(326.0)
Less: Minority Interest	(117)	7.3	(100)	(8.3)	17.0
Reported Profit	10,925	116.9	5,216	3.5	109.4
Adjusted Profit	4,431	(6.0)	5,216	10.7	(15.1)

Chart 1: Group revenue grew 26% YoY / 25% QoQ on one-time sale of assets



Source: Company, Edelweiss research



Chart 2: US declined 13% QoQ on supply disruptions and ranitidine recall

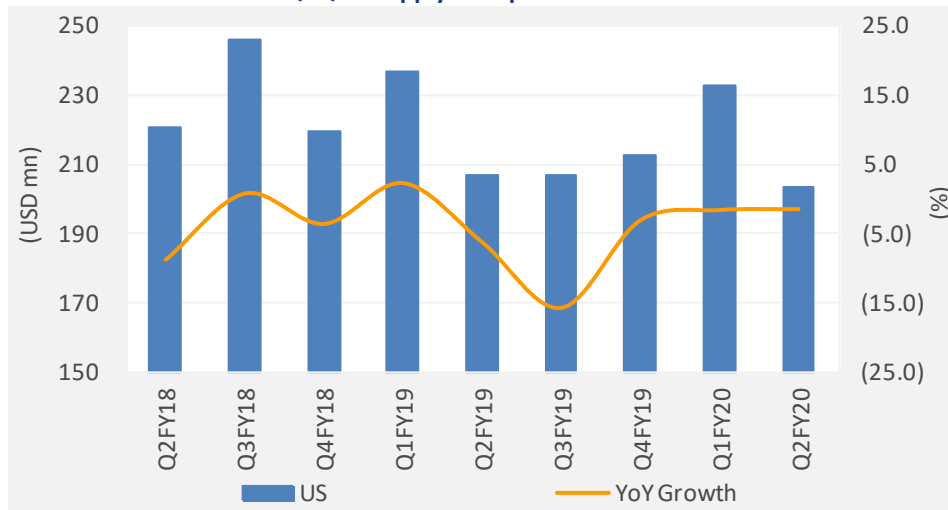
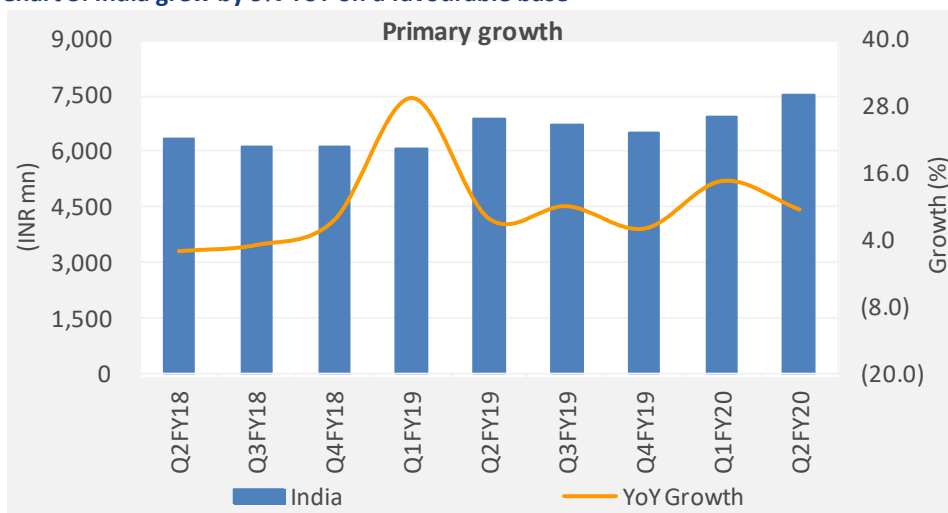


Chart 3: India grew by 9% YoY on a favourable base



Source: Company, Edelweiss research

Table 3: Therapy-wise breakup of sales

	Contribution (%)	MAT Sep '19	MAT Sep '18	Change (%)
Gastro-intestinal	22.8	7.2	6.1	18.5
Cardiac	13.5	4.3	3.8	12.2
Derma	10.8	3.4	2.7	26.4
Respiratory	8.1	2.6	2.3	12.4
Anti-diabetic	7.5	2.4	2.0	18.8
Anti-infectives	6.9	2.2	2.4	(9.7)
Pain / Analgesics	6.5	2.1	1.9	11.1
Anti-neoplastics	5.8	1.9	1.9	(4.9)
Urology	4.5	1.4	1.2	18.1
Stomatologicals	3.8	1.2	1.0	25.3
Total		31.7	28.2	

Source: AIOCD AWACS, Edelweiss research

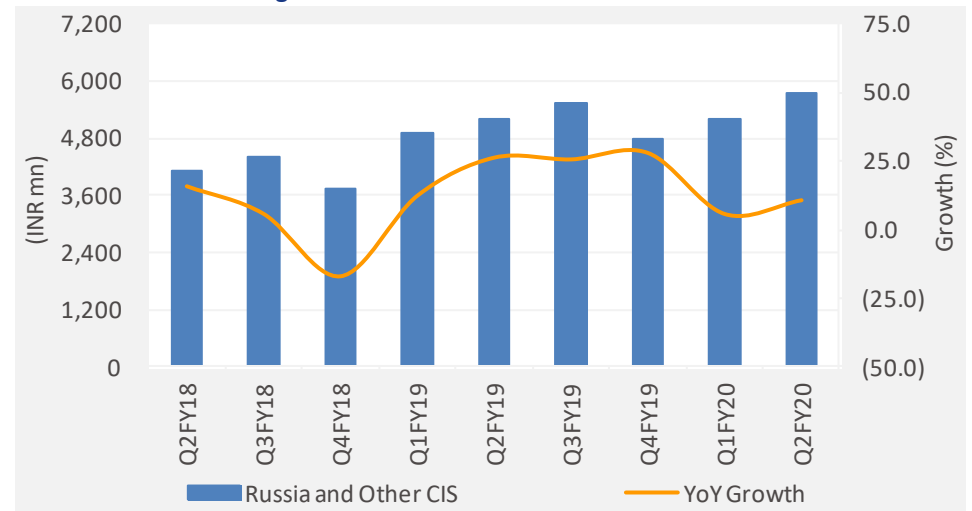


Table 4: Top brands

	MAT Sep '19	MAT Sep '18	Change (%)
Omez	1.4	1.2	14.1
Omez D	1.3	1.1	18.9
Econorm	1.2	1.0	28.8
Atarax	1.1	0.9	21.0
Razo D	0.8	0.7	14.6
Stamlo	0.8	0.7	10.9
Nise	0.8	0.7	14.9
Ketorol	0.7	0.6	24.0
Razo	0.7	0.6	10.2
Reclimet	0.7	0.5	24.9
Total	31.7	28.2	

Source: AIOCD AWACS, Edelweiss research

Chart 4: Russia revenue grew 11% YoY



Source: Company, Edelweiss research



Financial snapshot

(INR mn)

Year to March	Q2FY20	Q2FY19	% change	Q1FY20	% change	YTD20	FY20E	FY21E
Net revenues	48,009	37,978	26.4	38,435	24.9	86,444	176,873	190,045
Cost of revenue	20,389	17,081	19.4	18,576	9.8	38,965	79,593	87,421
Gross profit	27,620	20,897	32.2	19,859	39.1	47,479	97,280	102,624
SG&A	9,877	9,374	5.4	8,983	10.0	18,860	37,143	38,959
R&D	3,662	4,120	(11.1)	3,609	1.5	7,271	15,919	17,104
Amortization expenses	4,594	965	376.1	958	379.5	5,552	-	-
Total expenditure	20,439	16,492	23.9	15,674	30.4	36,113	53,062	56,063
EBITDA	14,081	7,403	90.2	7,267	93.8	21,348	44,218	46,561
EBITDA margin	29.3	19.5		18.9		24.7	25.0	24.5
Depreciation	2,306	2,033	13.4	2,124	8.6	4,430	15,953	13,609
EBIT	7,181	4,405	63.0	4,185	71.6	11,366	28,265	32,953
Interest	(231)	(625)	NA	(393)	NA	(624)	(1,117)	(1,117)
Other income	135	641	(78.9)	3,759	(96.4)	3,894	4,316	997
Add: Exceptional items	-	-		-		-	9,224	-
Profit before tax	7,547	5,671	33.1	8,337	(9.5)	15,884	42,922	35,066
Provision for taxes	(3,261)	742	NA	1,872	NA	(1,389)	2,223	7,825
Minority interest	(117)	(109)	NA	(163)	NA	(280)	(500)	(500)
Reported net profit	10,925	5,038	116.9	6,628	64.8	17,553	31,975	27,742
Adjusted Profit	4,431	4,713	(6.0)	3,898	13.7	8,329	22,751	27,742
Diluted shares (mn)	166	166		166		-	166	166
Adjusted Diluted EPS	26.7	28.4	(6.0)	23.5	13.7	50.3	137.3	167.4



Company Description

Dr. Reddy's is one of the largest Indian generic companies in the world with presence in more than 40 countries. The US is its largest market, contributing 40% of its revenues. It has one of the largest complex generic portfolios among Indian generic players, which has enabled it to become a prominent generic player in the US. Russia and India are the two other key geographies, where it has significant presence. Apart from strengths in developing niche generic products, vertical integration into APIs has enabled it to become a global generic powerhouse. It operates 30 facilities (10 US FDA approved) and is actively supported by an extensive R&D programme. It also has a deep biosimilar pipeline.

Investment Theme

Dr. Reddy's stands out with its world class R&D skills in developing technically complex/niche products which attract limited competition and is well set to capture the less-explored world of higher complexity generic products in the US. It is also among the leading players globally with a strong pipeline in the high potential biosimilars space which will be a long term growth driver. We believe that higher contribution from niche pipeline in the US, strong growth in India & Russia should drive strong earnings growth.

Key Risks

Escalation of observations at the Srikakulam API facility

Delay in approval for *gCopaxone* and *gNuvaring*

Failure to get approvals for biosimilars and delays in ramp up of proprietary pipeline

Currency fluctuation



Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.3	6.8
Inflation (Avg)	3.6	3.4	3.7	4.0
Repo rate (exit rate)	6.0	6.3	4.5	4.5
USD/INR (Avg)	64.5	70.0	71.0	71.0

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	142,028	153,851	176,873	190,045
Income from operations	142,028	153,851	176,873	190,045
Materials costs	65,724	70,421	79,593	87,421
R&D Cost	18,265	15,607	15,919	17,104
Total SG&A expenses	35,148	36,490	37,143	38,959
EBITDA	22,891	31,333	44,218	46,561
Operating profit	22,891	31,333	44,218	46,561
EBIT	11,129	18,933	28,265	32,953
Less: Interest Expense	(2,080)	(1,117)	(1,117)	(1,117)
Add: Other income	788.00	1,955.00	4,315.5	996.8
Profit Before Tax	13,997	22,005	33,698	35,066
Less: Provision for Tax	4,535	3,648	2,223	7,825
Add: Exceptional items	-	-	9,224	-
Associate profit share	344	438	500	500
Reported Profit	9,806	18,795	31,975	27,742
Exceptional Items	-	-	9,224	-
Adjusted Profit	9,806	18,795	22,751	27,742
Shares o/s (mn)	166	166	166	166
Adjusted Basic EPS	59.2	113.4	137.3	167.4
Diluted shares o/s (mn)	166	166	166	166
Adjusted Diluted EPS	59.2	113.4	137.3	167.4
Adjusted Cash EPS	130.1	188.2	233.5	249.5
Dividend per share (DPS)	20.0	20.0	20.0	20.0
Dividend Payout Ratio(%)	33.8	17.6	10.4	11.9

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Materials costs	46.3	45.8	45.0	46.0
S G & A expenses	24.7	23.7	21.0	20.5
Operating expenses	83.9	79.6	75.0	75.5
R & D cost	12.9	10.1	9.0	9.0
Depreciation	8.3	8.1	9.0	7.2
Interest Expense	(1.5)	(0.7)	(0.6)	(0.6)
EBITDA margins	16.1	20.4	25.0	24.5
Net Profit margins	6.9	12.2	12.9	14.6

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	0.9	8.3	15.0	7.4
EBITDA	(5.2)	36.9	41.1	5.3
PBT	(2.1)	57.2	53.1	4.1
Adjusted Profit	(18.5)	91.7	21.0	21.9
EPS	(18.5)	91.7	21.0	21.9



Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	830	830	830	830	
Reserves & Surplus	125,630	139,327	167,325	191,089	
Shareholders' funds	126,460	140,157	168,155	191,919	
Long term borrowings	25,089	22,000	22,000	22,000	
Short term borrowings	25,529	16,381	16,381	16,381	
Total Borrowings	50,618	38,381	38,381	38,381	
Long Term Liabilities	3,633	2,920	2,920	2,920	
Def. Tax Liability (net)	(2,898)	(3,558)	(3,558)	(3,558)	
Sources of funds	177,813	177,900	205,898	229,662	
Depreciation	11,762	12,400	15,953	13,609	
Net Block	57,869	54,088	50,135	51,527	
Intangible Assets	48,610	48,269	48,269	48,269	
Total Fixed Assets	106,479	102,357	98,404	99,796	
Non current investments	4,653	3,342	3,342	3,342	
Cash and Equivalents	20,968	24,757	43,155	58,635	
Inventories	29,089	33,579	37,952	41,685	
Sundry Debtors	40,617	39,869	45,835	49,248	
Loans & Advances	18,971	16,296	23,625	25,385	
Current Assets (ex cash)	88,677	89,744	107,412	116,318	
Trade payable	16,052	14,553	16,448	18,066	
Other Current Liab	28,111	28,766	29,906	30,301	
Total Current Liab	44,163	43,319	46,355	48,367	
Net Curr Assets-ex cash	44,514	46,425	61,058	67,951	
Uses of funds	177,813	177,900	205,898	229,662	
BVPS (INR)	763.1	845.7	1,014.7	1,158.0	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	9,806	18,795	31,975	27,742	
Add: Depreciation	11,762	12,400	15,953	13,609	
Interest (Net of Tax)	(1,406)	(932)	(1,043)	(868)	
Others	(2,610)	(10,419)	(22,033)	(11,554)	
Less: Changes in WC	(477)	(5,241)	(8,444)	(5,528)	
Operating cash flow	18,029	25,085	33,295	34,457	
Less: Capex	10,904	8,278	12,000	15,000	
Free Cash Flow	7,125	16,807	21,295	19,457	

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow		18,029	25,085	33,295	34,457
Financing cash flow		(3,971)	(17,447)	(3,977)	(3,977)
Investing cash flow		(15,295)	(6,967)	(12,000)	(15,000)
Net cash Flow		(1,237)	671	17,317	15,480
Capex		(10,904)	(8,278)	(12,000)	(15,000)
Dividend paid		(4,911)	(3,977)	(3,977)	(3,977)

Profitability and efficiency ratios		FY18	FY19	FY20E	FY21E
Year to March					
ROAE (%)		7.8	14.1	14.8	15.4
ROACE (%)		6.8	11.7	16.9	15.6
Inventory Days		160	162	164	166
Debtors Days		101	95	88	91
Payable Days		82	79	71	72
Cash Conversion Cycle		179	179	181	186
Current Ratio		2.5	2.6	3.2	3.6
Gross Debt/EBITDA		2.2	1.2	0.9	0.8
Gross Debt/Equity		0.4	0.3	0.2	0.2
Adjusted Debt/Equity		0.4	0.3	0.2	0.2
Net Debt/Equity		0.2	0.1	-	(0.1)
Interest Coverage Ratio		(5.4)	(16.9)	(25.3)	(29.5)

Operating ratios		FY18	FY19	FY20E	FY21E
Year to March					
Total Asset Turnover		0.8	0.9	0.9	0.9
Fixed Asset Turnover		1.3	1.5	1.8	1.9
Equity Turnover		1.1	1.2	1.1	1.1

Valuation parameters		FY18	FY19	FY20E	FY21E
Year to March					
Adj. Diluted EPS (INR)		59.2	113.4	137.3	167.4
Y-o-Y growth (%)		(18.5)	91.7	21.0	21.9
Adjusted Cash EPS (INR)		130.1	188.2	233.5	249.5
Diluted P/E (x)		46.6	24.3	20.1	16.5
P/B (x)		3.6	3.3	2.7	2.4
EV / Sales (x)		3.4	3.1	2.6	2.3
EV / EBITDA (x)		21.3	15.0	10.2	9.4
Dividend Yield (%)		0.7	0.7	0.7	0.7

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Dr. Reddy's Laboratories	6,466	20.1	16.5	10.2	9.4	14.8	15.4
Aurobindo Pharma	3,976	9.9	8.8	7.6	6.3	18.8	17.9
Cadila Healthcare	3,694	18.3	16.8	11.8	10.4	11.7	11.7
Cipla	5,342	22.1	20.2	10.8	9.5	10.4	10.5
Lupin	4,900	25.3	17.4	11.0	9.3	9.7	13.0
Sun Pharmaceuticals Industries	14,827	27.1	23.1	14.8	12.7	9.7	10.2

Source: Edelweiss research



Additional Data

Directors Data

Satish Reddy	Chairman	G V Prasad	Co-Chairman, Managing Director & CEO
Dr. Omkar Goswami	Independent Director	Kalpana Morparia	Independent Director
Bruce LA Carter	Independent Director	Sridar Iyengar	Independent Director
Bharat N Doshi	Independent Director	Hans Peter Hansler	Independent Director
Prasad Menon	Independent Director		

Auditors - B S R & Co., Chartered Accountants, and KPMG India

Holding – Top10

	Perc. Holding		Perc. Holding
BlackRock Inc	6.73	Aditya Birla Sun Life Trustee Co P	1.45
Life Insurance Corp of India	3.91	SBI Funds Management Pvt Ltd	1.32
Oppenheimer Holdings Inc	2.94	ICICI Prudential Life Insurance Co	1.31
Franklin Resources Inc	2.55	Vanguard Group Inc/The	1.30
Aditya Birla Sun Life Asset Manage	1.54	Mitsubishi UFJ Financial Group Inc	0.89

**in last one year*

Bulk Deals

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

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
23 May 2019	Dr. Reddy'S Employees Esos Trust	Buy	179124.00
19 Feb 2019	Dr. Reddy'S Employees Esos Trust	Buy	15903.00

**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	SP	M	Cipla	BUY	SO	M
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
Sector Underperformer (SU)	Stock return < 1.25 x Sector return
	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
24-Oct-19	Biocon	Profitability declines sharply; <i>Result Update</i>	245	Reduce
24-Oct-19	Torrent Pharma	Performance soft; debt trajectory encouraging; <i>Result Update</i>	1,680	Hold
11-Oct-19	Cipla	Goa observations: Much ado about nothing?; <i>EdelFlash</i>	422	Buy

Distribution of Ratings / Market Cap

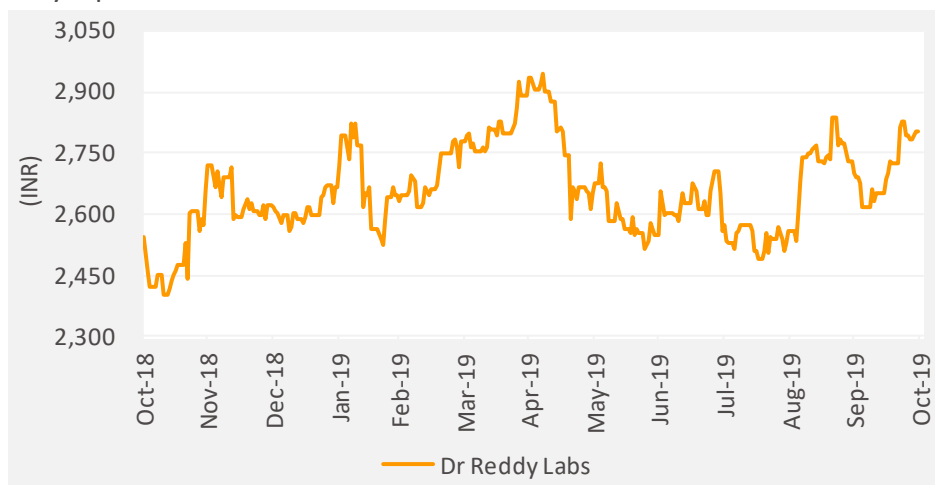
Edelweiss Research Coverage Universe

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

Rating Interpretation

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

One year price chart





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