

United Phosphorus

Performance Highlights

Y/E March (` cr)	4QFY2017	3QFY2017	% chg (qoq)	4QFY2016	% chg (yoy)
Net sales	5,341	3855	38.6	4434	20.5
Other income	147	164	(10.1)	89	65.9
Gross profit	2569	2052	25.2	2145	19.8
Operating profit	1037	685	51.4	597	73.9
Adj. net profit	740	457	62.0	208	256.2

Source: Company, Angel Research,

United Phosphorus Ltd. (UPL) posted robust numbers for 4QFY2017. In sales, the company posted gross revenues of ₹5,341cr v/s ₹4,434cr in 4QFY2016, growth of 20.5% yoy. The growth was driven by volumes (21% yoy), while dip in pricing was around 4%, which coupled with exchange gains added 3% to the top-line rise. On EBITDA front, the company posted an EBITDA of 19.4% v/s 13.5% in 4QFY2016. Along with this, dip of 6.1% in the depreciation & 65.9% yoy growth in other income aided the PBT to grow by 151.6% yoy. Consequently, PAT came in at `740cr v/s `208cr in 4QFY2016, growth of 256.2% yoy. The management has maintained guidance of 12-15% revenue growth (owing to presence in fast-growing countries) and 50-70bps improvement in EBITDA margin. **We maintain our Neutral rating on the stock.**

Quarterly highlights: UPL posted robust numbers for 4QFY2017. In sales, the company posted gross revenues of ₹5,341cr v/s ₹4,434cr in 4QFY2016, growth of 20.5% yoy. The growth was driven by volumes (21% yoy), while pricing growth was around 4%, which coupled with exchange gains added 3% to the top-line rise. On EBITDA front, the company posted an EBITDA of 19.4% v/s 13.5% in 4QFY2016. Along with this, dip of 6.1% in the depreciation & 65.9% yoy growth in other income aided the PBT to grow by 151.6% yoy. Consequently, PAT came in at `740cr v/s `208cr in 4QFY2016, growth of 256.2% yoy.

Outlook and Valuation: We expect UPL to post a CAGR of 16.0% and 12.3% in its sales and PAT respectively over FY2017-19E. **At the current market price, we maintain our Neutral rating on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
Total revenue	13,083	16,312	18,922	21,949
% chg	9.8	24.7	16.0	16.0
Adj. profit	1,352	1,800	1,889	2,272
% chg	17.9	33.2	4.9	20.3
EBITDA (%)	18.5	17.8	17.8	17.8
EPS (₹)	31.5	35.5	37.3	44.8
P/E (x)	26.9	23.9	22.8	19.0
P/BV (x)	5.4	10.5	8.8	7.3
RoE (%)	21.4	25.4	23.3	23.3
RoCE (%)	20.8	20.8	21.7	22.5
EV/Sales (x)	3.4	2.8	2.4	2.0
EV/EBITDA (x)	18.5	15.8	13.5	11.3

Source: Company, Angel Research; Note: CMP as of June 13, 2017

NEUTRAL

CMP `849
Target Price -

Investment Period -

Stock Info

Sector	Agrichemical
Market Cap (₹ cr)	43,142
Net Debt (₹ cr)	3,231
Beta	1.0
52 Week High / Low	822/491
Avg. Daily Volume	1,14,734
Face Value (₹)	2
BSE Sensex	31,103
Nifty	8,603
Reuters Code	UNPO.BO
Bloomberg Code	UNTP@IN

Shareholding Pattern (%)

Promoters	27.7
MF / Banks / Indian Fls	14.0
FII / NRIs / OCBs	51.5
Indian Public / Others	6.8

Abs. (%)	3m	1yr	3yr
Sensex	5.8	18.0	23.7
UPL	20.5	45.4	180.4

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 Performance (Consolidated)

Y/E March (` cr)	4QFY2017	3QFY2017	% chg (qoq)	4QFY2016	% chg (yoy)	FY2017	FY2016	% chg
Net sales	5,341	3,855	38.6	4,434	20.5	16,312	14,048	16.1
Other income	147	164	(10.1)	89	65.9	444	316	40.5
Total income	5,488	4,018	36.6	4,523	21.3	16,755	14,364	16.6
Gross profit	2569	2052	25.2	2145	19.8	8496	7268	16.9
Gross margin (%)	48.1	53.2		48.4		52.1	51.7	
Operating profit	1037	685	51.4	597	73.9	2904	2266	28.2
Operating margin (%)	19.4	17.8		13.5		17.8	16.1	
Financial cost	213	176	20.6	174	22.0	735	704	
Depreciation	187	162	15.3	199	(6.1)	672	676	-0.6
PBT	785	511	53.7	312	151.6	1941	1202	61.5
Provision for taxation	56	46		79	-	189	165	14.6
PAT Before Exc. And MI	729	464	57.0	234	212.2	1753	1037	69.0
Minority Income/ (Exp.)	1	3		8		6	12	
Income from Associate/ (Exp)	13	(3)		(42)		(19)	(85)	
Extra ordinary Income/(Exp.)	1	2		(19)		(73)	(111)	
Reported PAT	741	459	61.4	184	302.6	1,727	940	83.8
Adjusted PAT	740	457	62.0	208	256.2	1800	1051	71.3
EPS (`)	14.6	9.0		4.8		35.5	24.5	

Source: Company, Angel Research,

Top-line growth mainly led by ROW & North America

In sales, the company posted gross revenues of `5,341cr v/s `4,434cr in 4QFY2016, growth of 20.5% yoy. The growth was driven by volume (21% yoy), while pricing dip was around 4% and exchange gains added 3% to the top-line rise. In terms of geography – Latin America (₹1,646cr, up 17.0% yoy), India (`442cr, rose by 6%), ROW (₹1127cr, yoy rise of 28.0%), Europe (₹916cr, yoy growth of 21%). USA (`1,215cr), the key market, posted a yoy growth of 25.0%.

USA sales grew by 25% yoy, whereas the market grew by 1.1%. The company launched three new products – two herbicides and one fungicide. Farm grower income continues to be low, affecting consumption of inputs.

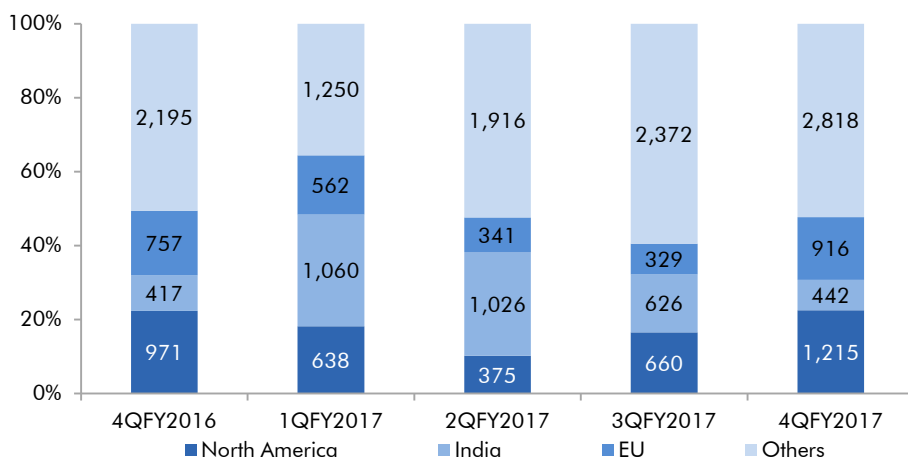
The ROW sales grew by 28% yoy, led by a better monsoon in Asia, especially Australia after several years of drought. Company expanded its non-selective herbicide to key markets, including China, and also established a distribution partnership in Nigeria, resulting in significant growth.

Latin America sales grew by 17.0% despite the market declining by 6.6%. Low disease pressure on soybean in Brazil led to reduced consumption of fungicides. Company successfully launched eight new products in the LatAm market, which comprised six herbicides, one fungicide and one insecticide. The company saw higher penetration for resistant weeds in soybean.

Indian sales grew due to a better monsoon (except in Karnataka, Tamil Nadu, parts of Andhra Pradesh and Maharashtra). The planted area increased significantly for pulses and oilseeds, whereas cotton acreages reduced, especially in the North. Brands like Ullala, Saaf and Phoskill have joined the `1,000cr club. Company introduced biological and nutritional products and has achieved substantial growth in vegetable and fruit crops over the previous year.

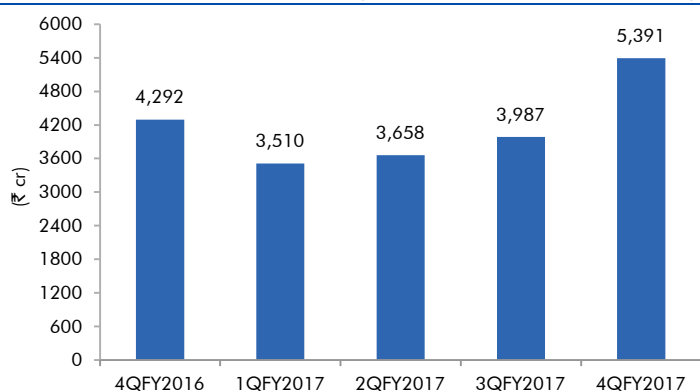
European sales grew 21%, despite the market declining by 1.9%. The sugar beet area in Europe increased by 15% yoy, which helped company's portfolio grow. Wet weather in North Europe resulted in high disease pressure on potatoes.

Exhibit 2: Sales break-up (Marketwise)



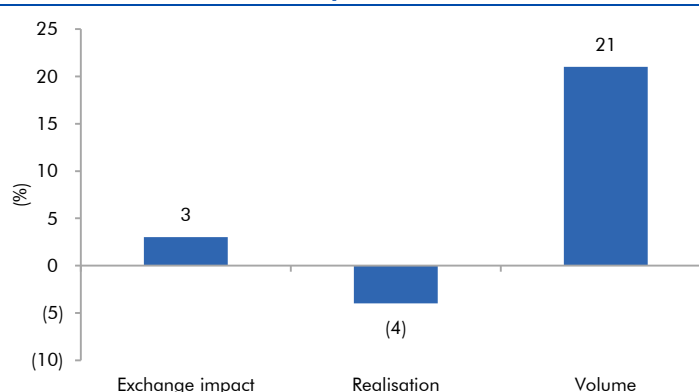
Source: Company

Exhibit 3: Sales performance (including export incentives)



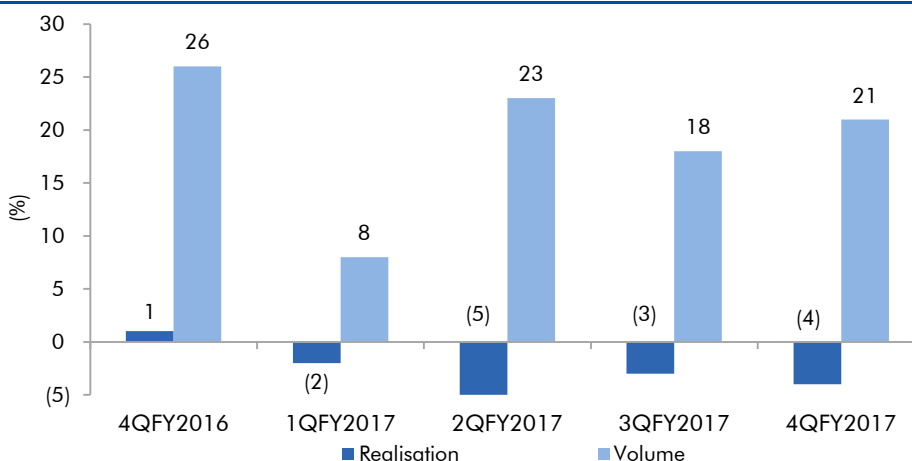
Source: Company, Angel Research

Exhibit 4: Growth break-up



Source: Company, Angel Research

Exhibit 5: Volume and realization break-up (yoy)

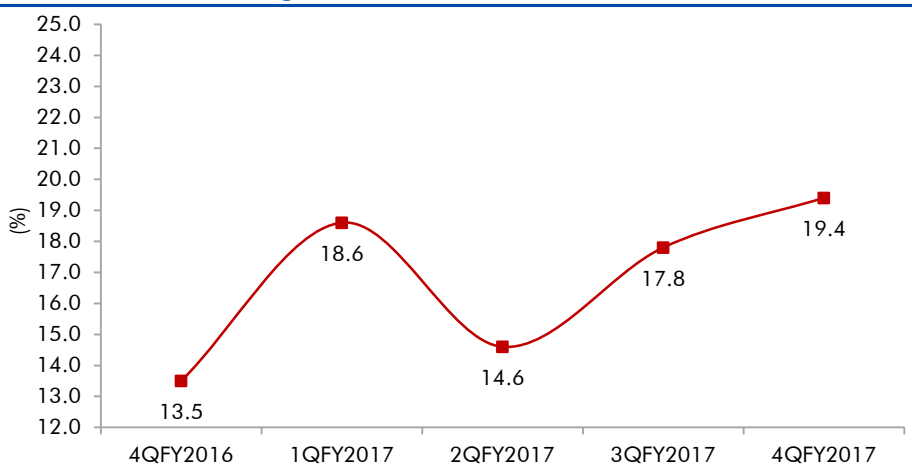


Source: Company, Angel Research

EBITDA margin expands

On EBITDA front, the company posted an EBITDA of 19.4% v/s 13.5% in 4QFY2016. The expansion in OPM was more than the gross margin expansion, on the back of employee expenses, which rose only by 7.4% yoy.

Exhibit 6: EBITDA margin trend

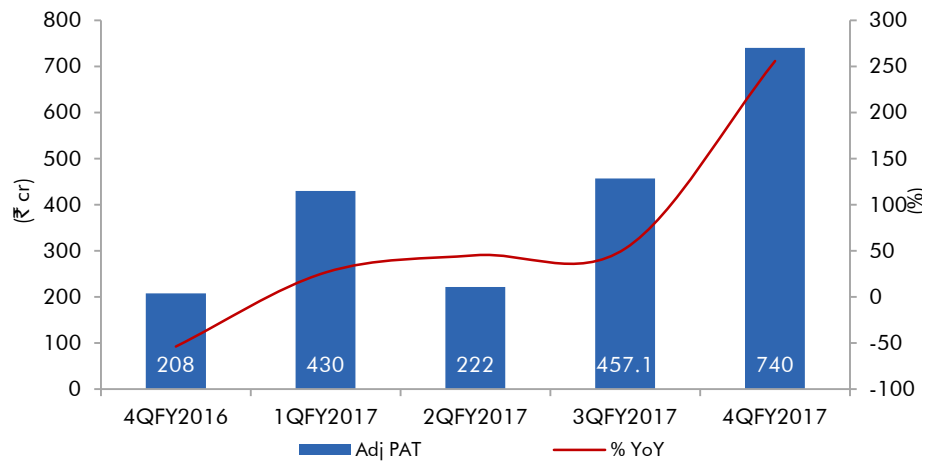


Source: Company, Angel Research

Adjusted Net Profit grew 256.4% yoy

Along with this, dip of 6.1% in the depreciation & 65.9% yoy growth in other income aided the PBT to grow by 151.6% yoy. Consequently, PAT came in at `740cr v/s `208cr in 4QFY2016, growth of 256.2% yoy.

Exhibit 7: Adjusted PAT trend



Source: Company, Angel Research

Investment arguments

Innovators dominant in the off-patent space; Generic firms in a sweet spot

The global agrichemical industry, valued at US\$56bn (CY2015), is dominated by the top six innovators, viz. Bayer, Syngenta, Monsanto, BASF, DuPont and Dow, which enjoy a large market share of the patented (23%) and off-patent (54%) market. The top six innovators enjoy a large share of the off-patent market due to high entry barriers for pure generic players. Thus, of the total pie worth US\$30bn, which is controlled by the top six innovators through proprietary off-patent products, provides a high-growth opportunity for larger integrated generic players like UPL.

Generic segment's market share to increase

The industry registered a CAGR of 3% over 1998-2015, while generic players outpaced the industry with a CAGR of 6%. Going ahead, given the opportunities and a drop in the rate of new molecule introduction by innovators, we expect generic players to continue to outpace the industry's growth rate and augment their market share in the overall pie. Historically, global agrichem players have been logging in-line growth with global GDP. Going ahead, over CY2017-18, the global economy is expected to grow by 3-4%. Assuming this trend plays out in terms of growth for the agrichemical industry and the same rate of genericization occurs, the agrichemical generic industry could log in 6-8% yoy growth during the period and garner a higher market share.

A global generic play

UPL is the second largest global generic agrichemical player with presence across major markets including the US, EU, Latin America, and India. Given the high entry barriers by way of high investments, entry of new players is restricted. Thus, amidst this scenario and on account of having a low-cost base, we believe UPL enjoys an edge over competition and is placed in a sweet spot to leverage the upcoming opportunities in the global generic space.

Advanta – An Entry into seeds business

During FY2016, UPL announced a merger of Advanta with itself. With this, the company has made its foray into the seed business, thus, widening its business offerings in the Agri-business. The company had sales of around US\$204mn in 2015, with OPM of around 15-16%. It is the 11th largest seeds company globally, with world leadership in Sorghum. Along with this, it also completes the company's business portfolio, in-line with the other major Agri-businesses, who have around 5-20% (Monsanto and DuPont have around 65% of their sales mix through seeds) of their sales mix through seeds business. While the acquisition improves the presence of the company in the low capital intensive industry coupled with the propriety products, which will yield long term profitability; the near term challenges include high R&D cost coupled with long legislation period for the product commercialization.

According to the industry numbers, the international seeds sector is growing at 6% per annum. In value terms, the Indian hybrid seed sector, estimated to be worth

₹12,000cr comprises some 14 states seeds corporations and two national-level corporations, 20 large players including multinationals and around 500 small regional players. About 10 domestic and multinational companies control over 80% of the market. The market has been growing at 15-20% annually over the past several years, and is projected to reach around ₹18,000cr by 2018. Though, we have included the Advanta numbers in our projections, we have been conservative on the same.

Outlook and valuation

Over the last few years, the global agriculture sector has been reviving on the back of rising food prices. Food security is also a top priority for most governments, and reducing food loss is one of the easiest ways to boost food inventory. Hence, we believe agrichemical companies would continue to do well in the wake of heightened food security risks, and strong demand is likely to be witnessed across the world. Overall, we expect the global agrichemical industry to perform well from here on. Generics are expected to register a healthy growth due to – (a) increasing penetration and wresting market share from innovators, and (b) patent expiries worth US\$3bn–4bn during the next five years.

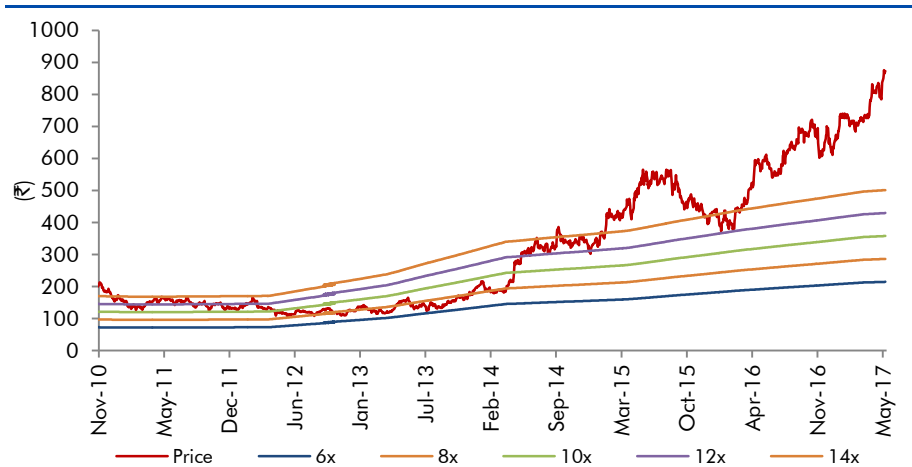
We estimate UPL to post a 16.0% and 12.3% CAGR in sales and PAT respectively over FY2017-19E. The stock is trading at 19.0x FY2019E EPS, which we believe provides very little room for appreciation. Hence, we maintain our Neutral rating on the stock.

Exhibit 8: Key assumption

	FY2018E	FY2019E
Sales growth	16.0	16.0
EBITDA margin	17.8	17.8
Tax rate	20.0	20.0

Source: Company, Angel Research

Exhibit 9: P/E band



Source: Company, Angel Research

Exhibit 10: Peer valuation

Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		EV/EBITDA (x)		RoE (%)		CAGR (%)	
						FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	Sales	PAT
Rallis	Neutral	4,808	247	-	-	26.1	23.4	2.1	1.9	13.7	12.4	15.8	16.0	11.5	21.6
UPL	Neutral	43,142	847	-	-	22.8	19.0	2.4	2.0	13.5	11.3	23.3	23.3	16.0	12.3

Source: Company, Angel Research, Bloomberg, All numbers in FY18 and FY19 are expected numbers

Company background

United Phosphorus (UPL) is a global generic crop protection, chemicals and seeds company. The company is fully backward and forward integrated by taking advantage of the consolidation opportunities within the agrochemical industry. UPL is the largest Indian agrochemical company and had revenue of about ₹16,312cr for the year ended March 2017. During FY2016, UPL announced its merger with Advanta. With this, the company has made its foray into the seed business, thus, widening its business offerings in the Agri-business.

Profit & Loss Statement (Consolidated)

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Net Sales	10,580	11,911	13,083	16,312	18,922	21,949
Other operating income	191	45	219	332	332	332
Total operating income	10,771	11,956	13,302	16,644	19,254	22,281
% chg	17.1	11.0	11.3	25.1	15.7	15.7
Total Expenditure	8,751	9,736	10,663	13,407	15,552	18,041
Net Raw Materials	5,441	6,016	6,411	7,816	9,067	10,517
Other Mfg costs	942	842	1,164	1,452	1,684	1,953
Personnel	946	1,043	1,224	1,627	1,887	2,189
Other	1,422	1,835	1,864	2,512	2,914	3,381
EBITDA	1,829	2,175	2,419	2,904	3,369	3,908
% chg	26.8	19.0	11.2	20.1	16.0	16.0
(% of Net Sales)	17.3	18.3	18.5	17.8	17.8	17.8
Dep. & Amortisation	407	425	502	672	629	685
EBIT	1,613	1,796	2,137	2,565	3,072	3,555
% chg	26.7	11.4	19.0	20.0	19.8	15.7
(% of Net Sales)	15.0	15.0	16.1	15.4	16.0	16.0
Interest & other Charges	487	517	622	735	788	788
Other Income	131	131	112	112	112	112
(% of PBT)	10	9	7	6	5	4
Recurring PBT	1,257	1,410	1,626	1,941	2,396	2,879
% chg	37.1	12.2	15.3	19.4	23.4	20.2
Extraordinary Exp./ (Inc.)	85	(2)	(53)	(73)	-	-
PBT (reported)	1,172	1,413	1,679	1,941	2,396	2,879
Tax	222	244	283	189	479	576
(% of PBT)	18.9	17.3	16.9	9.7	20.0	20.0
PAT (reported)	950	1,169	1,396	1,753	1,917	2,303
Add: Share of earnings of asso.	30	21	(31)	(19)	(21)	(24)
Less: Minority interest (MI)	7	43	13	6	6	6
Prior period items	24	-	-	-	-	1
PAT after MI (reported)	950	1,144	1,299	1,727	1,889	2,272
ADJ. PAT	1,040	1,147	1,352	1,800	1,889	2,272
% chg	38.0	10.2	17.9	33.2	4.9	20.3
(% of Net Sales)	9.8	9.6	10.3	11.0	10.0	10.4
Basic EPS (`)	24.3	26.7	31.5	35.5	37.3	44.8
Fully Diluted EPS (`)	24.3	26.7	31.5	35.5	37.3	44.8
% chg	42.5	10.2	17.9	12.6	4.9	20.3

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
SOURCES OF FUNDS						
Equity Share Capital	86	86	86	183	183	183
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	5,162	5,775	6,705	7,214	8,645	10,459
Shareholders' Funds	5,247	5,860	6,791	7,398	8,828	10,642
Minority Interest	172	44	42	33	39	45
Total Loans	2,873	2,781	3,860	6,058	6,058	6,058
Other Long term liab.	311	594	464	446	446	446
Long Term Provisions	53	53	53	-	-	-
Deferred Tax Liability	57	45	(5)	(501)	(501)	(501)
Total Liabilities	8,713	9,378	11,205	13,434	14,870	16,690
APPLICATION OF FUNDS						
Gross Block	6,039	6,792	7,791	8,591	9,391	10,191
Less: Acc. Depreciation	3,580	4,005	4,507	5,178	5,807	6,493
Net Block	2,459	2,787	3,285	2,738	3,584	3,699
Capital Work-in-Progress	378	378	378	378	378	378
Goodwill / Intangibles	1,212	1,449	1,463	1,747	1,747	1,747
Investments	737	764	1,066	379	379	379
Long Term Loan & Adv.	389	418	537	811	664	770
Current Assets	7,572	8,372	10,069	13,657	15,727	18,544
Cash	1,023	1,010	1,068	2,894	3,382	4,475
Loans & Advances	771	586	840	1,380	1,581	1,582
Other	5,779	6,776	8,162	9,383	10,764	12,487
Current liabilities	4,033	4,789	5,593	6,277	7,608	8,825
Net Current Assets	3,539	3,582	4,476	7,380	8,119	9,718
Others	-	-	-	-	-	-
Total Assets	8,714	9,378	11,205	13,434	14,870	16,690

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	1,172	1,413	1,679	1,941	2,396	2,879
Depreciation	407	425	502	672	629	685
Change in Working Capital	171	(86)	(955)	(1,352)	(103)	(612)
Less: Other income	-	-	-	-	-	1
Direct taxes paid	(222)	(244)	(283)	(189)	(479)	(576)
Cash Flow from Operations	1,528	1,508	942	1,072	2,443	2,377
(Inc.)/ Dec. in Fixed Assets	(653)	(753)	(1,000)	(800)	(800)	(800)
(Inc.)/ Dec. in Investments	-	-	-	-	-	-
Inc./ (Dec.) in loans and adv.	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(653)	(753)	(1,000)	(800)	(800)	(800)
Issue of Equity	(3)	-	-	98	-	-
Inc./ (Dec.) in loans	1,413	(192)	(949)	(2,127)	(0)	(0)
Dividend Paid (Incl. Tax)	(201)	(214)	(214)	(642)	(458)	(458)
Others	(2,612)	(362)	1,278	4,323	(696)	(26)
Cash Flow from Financing	(1,403)	(768)	115	1,652	(1,155)	(484)
Inc./ (Dec.) in Cash	(525)	(13)	58	1,826	488	1,093
Opening Cash balances	1,548	1,023	1,010	1,068	2,894	3,382
Closing Cash balances	1,023	1,010	1,068	2,894	3,382	4,475

Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)						
P/E (on FDEPS)	35.0	31.7	26.9	23.9	22.8	19.0
P/CEPS	25.2	23.2	19.6	19.8	19.2	16.2
P/BV	6.9	6.2	5.4	10.5	8.8	7.3
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4	0.4
EV/Sales	4.2	3.7	3.4	2.8	2.4	2.0
EV/EBITDA	24.2	20.3	18.5	15.8	13.5	11.3
EV / Total Assets	5.1	4.7	4.0	3.4	3.1	2.7
Per Share Data (₹)						
EPS (Basic)	24.3	26.7	31.5	35.5	37.3	44.8
EPS (fully diluted)	24.3	26.7	31.5	35.5	37.3	44.8
Cash EPS	33.8	36.7	43.2	42.8	44.1	52.3
DPS	2.5	2.5	2.5	2.5	2.5	2.5
Book Value	122.4	136.7	158.4	80.7	96.3	116.1
DuPont Analysis						
EBIT margin	15.0	15.0	16.1	15.4	16.0	16.0
Tax retention ratio	81.1	82.7	83.1	90.3	80.0	80.0
Asset turnover (x)	1.5	1.6	1.6	1.7	1.8	1.9
ROIC (Post-tax)	18.5	20.3	21.0	23.6	22.7	24.4
Cost of Debt (Post Tax)	11.2	15.1	15.6	13.4	10.4	10.4
Leverage (x)	0.5	0.3	0.4	0.4	0.4	0.2
Operating ROE	21.9	22.0	22.9	27.9	27.2	27.6
Returns (%)						
ROCE (Pre-tax)	17.7	19.9	20.8	20.8	21.7	22.5
Angel ROIC (Pre-tax)	23.2	24.7	25.6	26.7	28.9	31.0
ROE	21.0	20.6	21.4	25.4	23.3	23.3
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.9	1.9	1.8	2.0	2.1	2.3
Inventory / Sales (days)	83	86	86	81	83	84
Receivables (days)	83	86	86	81	83	84
Payables (days)	69	72	73	68	70	70
WCcycle (ex-cash) (days)	92	78	83	88	89	83
Solvency ratios (x)						
Net debt to equity	0.6	0.4	0.3	0.4	0.4	0.3
Net debt to EBITDA	1.8	1.0	0.8	1.2	1.1	0.8
Interest Coverage (EBIT / Int.)	3.3	3.5	3.4	3.5	3.9	4.5

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	UPL
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)