

Cadila Healthcare

Performance Highlights

Y/E March (₹ cr)	3QFY2016	2QFY2016	% chg (qoq)	3QFY2015	% chg (oy)
Net sales	2,342	2,374	(1.3)	2,160	8.4
Other income	112	109	2.5	40	180.7
Gross profit	1542	1567	(1.6)	1400	10.1
Operating profit	492	536	(8.3)	417	17.9
Adj. Net profit	390	391	(0.4)	278	40.0

Source: Company, Angel Research

For 3QFY2016, Cadila Healthcare (Cadila) posted a robust performance on the net profit front while sales came in lower than expected. Sales came in at ₹2,342cr (V/s ₹2,600cr expected), growing by 8.4% yoy. On the operating front, the OPM came in at 21.0% V/s 21.4% expected and V/s 19.3% in 3QFY2015. The expansion in the OPM was driven by expansion in the GPM to 65.9% V/s 64.8% in 3QFY2015 and almost flat growth in staff and other expenditure. R&D expenditure during the quarter came in at 10.1% V/s 8.7% of sales in 3QFY2015. The net profit came in at ₹389cr V/s ₹353cr expected and V/s ₹282cr in 3QFY2015, a yoy growth of 38.2%. The Adj. net profit came in at ₹390cr V/s ₹278cr in 3QFY2015, a yoy growth of 40.0%. **We maintain our Accumulate on the stock.**

Results better than expected at the net profit level: For 3QFY2016, sales came in at ₹2,342cr (V/s ₹2,600cr expected), growing by 8.4% yoy. On the operating front, the OPM came in at 21.0% V/s 21.4% expected and V/s 19.3% in 3QFY2015. The expansion in the OPM was driven by expansion in the GPM to 65.9% V/s 64.8% in 3QFY2015 and almost flat growth in staff and other expenditure. R&D expenditure during the quarter came in at 10.1% V/s 8.7% of sales in 3QFY2015. The net profit came in at ₹389cr V/s ₹353cr expected and V/s ₹282cr in 3QFY2015, a yoy growth of 38.2%. The Adj. net profit came in at ₹390cr V/s ₹278cr in 3QFY2015, a yoy growth of 40.0%.

Outlook and valuation: We expect Cadila's net sales to post an 18.0% CAGR to ₹11,840cr and EPS to report a 24.6% CAGR to ₹17.6 over FY2015–17E. **We maintain our Accumulate rating on the stock.**

Key financials (Consolidated)

Y E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	7,060	8,497	10,224	11,840
% chg	14.7	20.4	20.3	15.8
Net profit	819	1,159	1,496	1,800
% chg	25.0	41.5	29.1	20.3
EPS	8.0	11.3	14.6	17.6
EBITDA margin (%)	14.7	18.8	21.0	22.0
P/E (x)	53.1	37.5	29.1	24.1
RoE (%)	25.3	30.1	30.8	29.0
RoCE (%)	13.8	20.2	24.5	25.2
P/BV (x)	2.5	10.2	8.0	6.2
EV/Sales (x)	1.4	5.2	4.3	3.6
EV/EBITDA (x)	9.7	27.8	20.2	16.3

Source: Company, Angel Research; Note: CMP as of February 23, 2016

ACCUMULATE

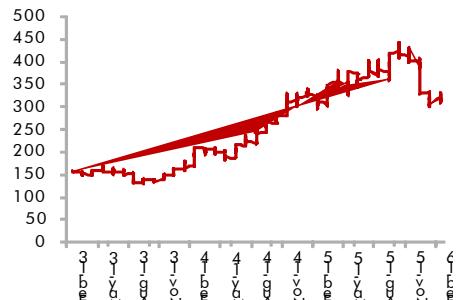
CMP	₹330
Target Price	₹352
Investment Period	12 Months
Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	33,748
Net debt (₹ cr)	1,817
Beta	0.8
52 Week High / Low	454 / 296
Avg. Daily Volume	95,007
Face Value (₹)	1
BSE Sensex	23,410
Nifty	7,110
Reuters Code	CADI.BO
Bloomberg Code	CDH@IN

Shareholding Pattern (%)

Promoters	74.8
MF / Banks / Indian FIs	9.7
FII / NRIs / OCBs	9.6
Indian Public / Others	6.0

Abs.(%)	3m	1yr	3yr
Sensex	(9.3)	(19.2)	21.2
Cadila	(22.2)	6.8	112.5

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2016 performance (Consolidated)

Y/E March (₹ cr)	3QFY2016	2QFY2016	% chg (qoq)	3QFY2015	% chg (oy)	9MFY2016	9MFY2015	% chg
Net Sales	2,342	2,374	(1.3)	2,160	8.4	7,094	6,250	13.5
Other Income	112	109	2.5	40	180.7	365	143	155.0
Total Income	2,454	2,483	(1.2)	2,199	11.6	7,459	6,393	16.7
Gross profit	1542	1567	(1.6)	1400	10.1	4640	3849	20.5
Gross margin (%)	65.9	66.0		64.8		65.4	61.6	
Operating profit	492	536	(8.3)	417	17.9	1504	1139	32.0
Operating Margin (%)	21.0	22.6		19.3		21.2	18.2	
Financial Cost	13	13	(0.5)	16	(22.4)	39	52	(25.8)
Depreciation	77	73	5.1	71	8.9	224	212	5.6
PBT	515	560	(8.1)	370	39.0	1606	1018	57.7
Tax	115	158	(27.3)	79	45.3	445	189	135.6
Adj. PAT before Extra-ordinary item	400	402	(0.6)	291	37.3	1161	829	40.0
Exceptional loss/(gain)	0	0		(5)		(3)	(5)	
Minority	9	10	(7.2)	14		27	31	
Reported PAT	390	391	(0.3)	282	38.2	1134	800	41.7
Adj. PAT	390	391	(0.4)	278	40.0	1136	796	42.8
EPS (₹)	3.8	3.8		2.7		11.1	7.8	

Source: Company, Angel Research

Exhibit 2: 3QFY2016 – Actual vs. Angel estimates

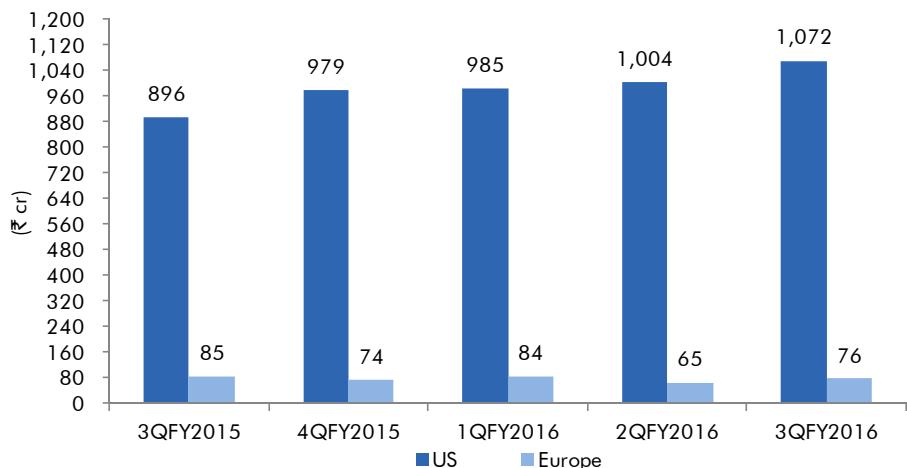
(₹ cr)	Actual	Estimates	Variance
Net Sales	2,342	2,600	(9.9)
Operating profit	492	556	(11.5)
Tax	115	143	(19.5)
Net profit	390	353	10.3

Source: Company, Angel Research

Revenue up 8.4% yoy; marginally lower than our expectation

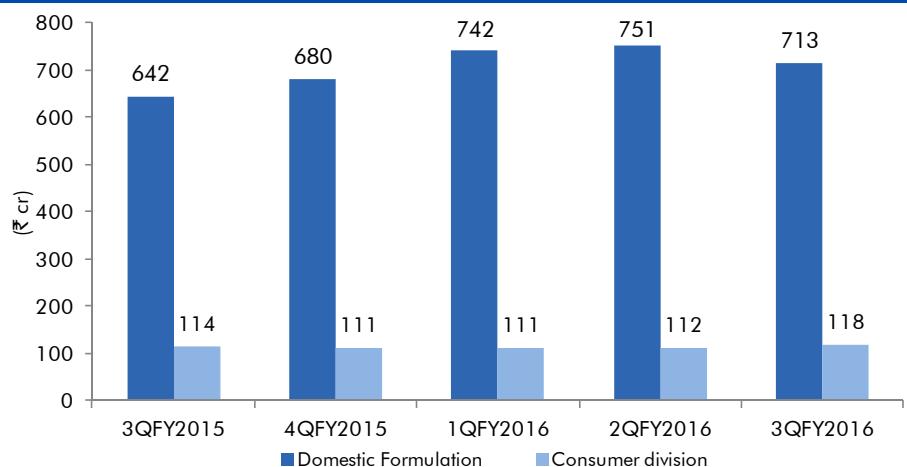
For 3QFY2016, the company posted sales of ₹2,342cr (V/s ₹2,600cr expected), a growth of 8.4% yoy. Exports (₹1,398.8cr) posted a 10.6% yoy growth during the quarter while domestic markets (₹993.2cr) posted a 6.4% yoy growth.

In exports the key market US (₹1071.7cr) posted a yoy growth of 19.6%, while the other key market Europe (₹76.2cr) posted a dip of 10.0%; JVs and alliances (₹100.2cr) posted a dip of 17.7% yoy. In domestic markets, the Indian formulation markets posted a yoy growth of 11.0%.

Exhibit 3: Sales trend in the US and Europe


Source: Company, Angel Research

The growth in the domestic market (42% of sales) was 6.4% yoy mainly led by formulations (₹713cr) which grew by 11.1% yoy. API (₹83.8cr) on the other hand de-grew by 12.6% yoy, while Wellness (₹117.8cr) grew by 3.3% yoy. Animal Health and others (₹78.5cr) de-grew by 3.8% yoy.

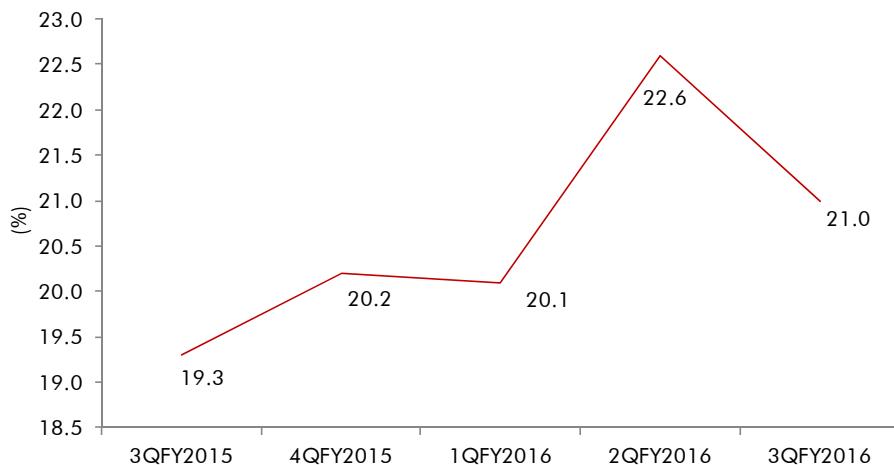
Exhibit 4: Sales trend in Domestic Formulation and Consumer Wellness Divisions


Source: Company, Angel Research

On the CRAMS front, the company generated sales of ₹100cr (vs ₹121.7cr in 3QFY2015), reporting a de-growth of 17.7% yoy.

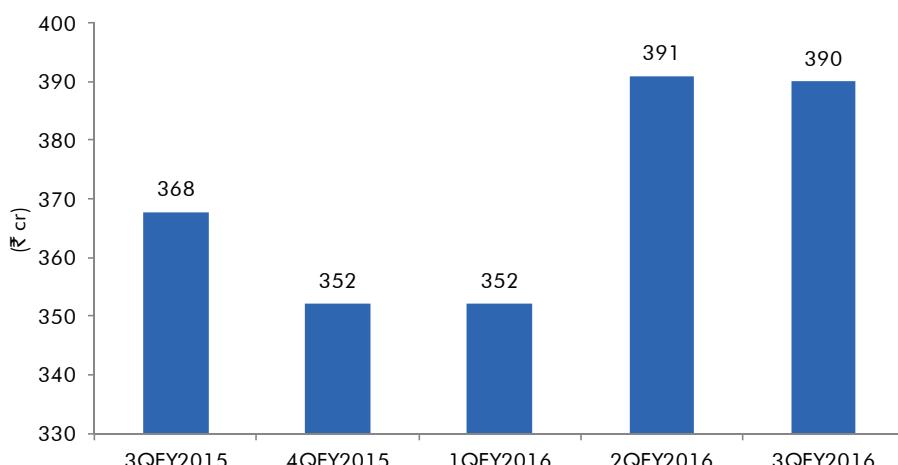
OPM in line with expectations

On the operating front, the OPM came in at 21.0% V/s 21.4% expected and V/s 19.3% in 3QFY2015. The expansion in the OPM was driven by expansion in the GPM to 65.9% V/s 64.8% in 3QFY2015 and almost flat growth in staff and other expenditure. R&D expenditure during the quarter came in at 10.1% V/s 8.7% of sales in 3QFY2015.

Exhibit 5: OPM trend


Source: Company, Angel Research

Net profit up 40.0% yoy: During the quarter, the company posted a other income of ₹112cr V/s ₹39.9cr in 3QFY2015. This aided the net profit to come in at ₹389cr (V/s ₹353cr expected) V/s ₹282cr in 3QFY2015, yoy growth of 38.2%. The Adj. net profit came in at ₹390cr V/s ₹278cr in 3QFY2015, a yoy growth of 40.0%.

Exhibit 6: Adjusted Net profit trend


Source: Company, Angel Research

Concall takeaways

- Margin improvement during the quarter was primarily driven by higher US and JV sales.
- Currently, the company has transferred 11 products from Moraiya facility to Ahmedabad based SEZ facility from its existing product portfolio. It is also in the process of site transferring 4 more key products from future pipeline that includes – Asacol HD and Prevacid ODT.
- Currently, Moraiya facility supplies 60% of total US sales. In terms of pending product approvals, Cadila Healthcare has filed 74 products from Moraiya facility which includes 40% of total oral solid filings. Cadila Healthcare expects

the remediation measures at Moraiya facility to get completed over the next 3-6 months. The Management highlighted that a re-inspection by USFDA might be required for full resolution. Meanwhile the company has successfully completed site transfer of 9 existing products and has already initiated site transfers for four key upcoming launches (including Asacol HD, Toprol XL, Prevacid ODT, etc).

- R&D expenditure is expected to remain at 7-8% of sales in FY2016.
- Tax rate as a % of PBT is expected to be around 20% in FY2017.
- The Management has guided for higher capex in FY2017 with construction of few greenfield and brownfield facilities.

Recommendation rationale

Strong domestic portfolio: Cadila is the fifth largest player in the domestic market, with sales of about ₹2,677cr in FY2015; the domestic market contributes ~44% to its top-line. The company enjoys a leadership position in the CVS, GI, women healthcare and respiratory segments, and has a sales force of 4,500 executives. The company, on an aggressive front, launched more than 75 new products in FY2014. During FY2009-14, the company reported a ~13% CAGR in its top-line in the domestic formulation business.

Further, the company has a strong consumer division through its stake in Zydus Wellness, which has premium brands such as *Sugarfree*, *Everyuth* and *Nutralite*, under its umbrella. This segment which contributes ~5.9% of sales, registered a growth of 3.1% yoy during FY2015.

Going forward, the company expects the segment to grow at an above-industry rate on the back of new product launches and field force expansion. In FY2014, sales were lower; however, FY2015 witnessed a rebound. During FY2015-17E, we expect the domestic segment to grow at a CAGR of 15.0%.

Exports on a strong footing: Cadila has a two-fold focus on exports, wherein it is targeting developed as well as emerging markets, which contributed around 50% to its FY2015 top-line. The company has established a formidable presence in the developed markets of US, Europe (France and Spain) and Japan. In the US, the company achieved critical scale of ₹3,393cr on the sales front in FY2015. The growth in exports to the US along with other regions like Europe would be driven by new product launches, going forward. Overall, exports are expected to post a CAGR of 20.0% over FY2015-17E.

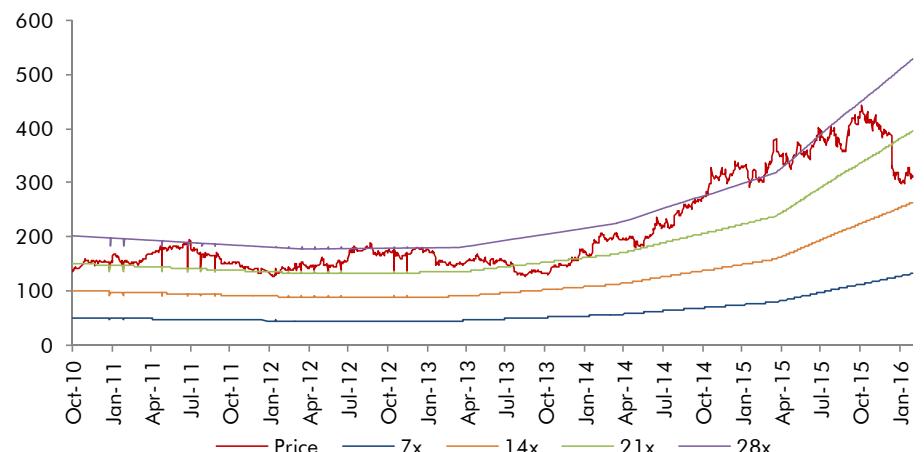
Outlook and valuation

We expect Cadila's net sales to post an 18.0% CAGR to ₹11,840cr and EPS to report a 24.6% CAGR to ₹17.6 over FY2015-17E. **We maintain our Accumulate rating on the stock.**

Exhibit 7: Key Assumptions

Key assumptions	FY2016E	FY2017E
Domestic growth (%)	15.0	17.0
Exports growth (%)	20.0	20.0
Growth in employee expenses (%)	24.1	15.8
Operating margins (excl tech. know-how fees) (%)	21.0	22.0
Capex (₹ cr)	650	650

Source: Company, Angel Research

Exhibit 8: One-year forward PE band


Source: Company

Company background: Cadila Healthcare's operations range across API, formulations, animal health products and cosmeceuticals. The group has global operations spread across USA, Europe, Japan, Brazil, South Africa and 25 other emerging markets. Having already achieved the US\$1bn sales mark in 2011, the company believes to be a research-driven pharmaceutical company by 2020.

Exhibit 9: Recommendation Summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside %	PE (x)	FY2017E		CAGR in EPS (%)	RoCE (%)	RoE (%)
						EV/Sales (x)	EV/EBITDA (x)			
Alembic Pharma	Neutral	618	-	-	21.5	3.0	15.3	38.2	31.3	31.2
Aurobindo Pharma	Buy	655	856	30.7	15.3	2.5	10.9	15.6	23.5	30.2
Cadila Healthcare	Accumulate	330	352	6.8	18.7	2.8	12.8	24.6	25.2	29.0
Cipla	Buy	523	605	15.8	19.0	2.5	17.7	18.3	16.7	16.1
Dr Reddy's	Buy	3,075	3,933	27.8	17.2	2.6	11.1	17.2	19.1	20.4
Dishman Pharma	Neutral	295	-	-	14.8	1.6	7.5	15.9	9.4	11.0
GSK Pharma*	Neutral	3,217	-	-	47.1	8.2	37.2	6.6	33.7	34.3
Indoco Remedies	Neutral	251	-	-	18.5	2.0	11.1	23.0	19.7	19.7
Ipca labs	Buy	622	900	44.8	22.2	2.2	12.1	17.9	11.8	14.0
Lupin	Neutral	1,777	-	-	26.0	4.5	16.6	13.1	29.6	24.7
Sanofi India*	Neutral	4,304	-	-	28.4	3.7	17.7	33.1	27.9	25.5
Sun Pharma	Accumulate	871	950	9.1	32.4	5.8	18.7	8.4	15.8	16.6

Source: Company, Angel Research; Note: *December year ending

Profit & Loss statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Gross sales	5,181	6,285	7,208	8,658	10,417	12,063
Less: Excise duty	91	129	148	161	193	223
Net sales	5,090	6,155	7,060	8,497	10,224	11,840
Other operating income	173	203	164	154	154	154
Total operating income	5,263	6,358	7,224	8,651	10,379	11,994
% chg	13.7	20.8	13.6	19.8	20.0	15.6
Total expenditure	4,179	5,232	6,024	6,896	8,073	9,229
Net raw materials	1,679	2,320	2,714	3,197	3,681	4,262
Other mfg costs	320	387	443	534	642	744
Personnel	751	903	1,071	1,209	1,500	1,737
Other	1,429	1,622	1,796	2,107	2,249	2,486
EBITDA	911	923	1,036	1,601	2,152	2,610
% chg	5.8	1.4	12.3	54.6	34.4	21.3
(% of Net Sales)	17.9	15.0	14.7	18.8	21.0	22.0
Depreciation & amortisation	158	183	201	287	304	373
EBIT	753	740	835	1,314	1,848	2,237
% chg	2.6	(1.7)	12.8	57.4	40.6	21.1
(% of Net Sales)	14.8	12.0	11.8	15.5	18.1	18.9
Interest & other charges	185	169	90	68	93	93
Other income	53	37	51	55	55	55
(% of PBT)	7	5	5	4	3	2
Recurring PBT	794	811	959	1,456	1,964	2,353
% chg	(5.7)	2.1	18.3	51.8	34.9	19.8
Extraordinary expense/(Inc.)	3	-	17	10	-	-
PBT (reported)	794	811	942	1,445	1,964	2,353
Tax	113.0	119.5	106.0	259.4	432.1	517.7
(% of PBT)	14.2	14.7	11.3	17.9	22.0	22.0
PAT (reported)	681	692	836	1,186	1,532	1,836
Less: Minority interest (MI)	28.6	36.4	32.6	35.5	35.5	35.5
PAT after MI (reported)	653	655	804	1,151	1,496	1,800
ADJ. PAT	650	655	819	1,159	1,496	1,800
% chg	(8.6)	0.8	25.0	41.5	29.1	20.3
(% of Net Sales)	12.8	10.6	11.4	13.5	14.6	15.2
Adj. Basic EPS (₹)	6.3	6.4	8.0	11.3	14.6	17.6
Adj. Fully Diluted EPS (₹)	6.3	6.4	8.0	11.3	14.6	17.6
% chg	(8.6)	0.8	25.0	41.5	29.1	20.3

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	102	102	102	102	102	102
Reserves & Surplus	2,471	2,938	3,337	4,149	5,358	6,871
Shareholders funds	2,574	3,040	3,439	4,252	5,460	6,973
Minority interest	90	119	144	169	204	240
Total loans	2,289	2,681	2,265	2,334	2,334	2,334
Other Long Term Liabilities	43	47	55	43	44	45
Long Term Provisions	79	64	76	110	77	78
Deferred tax liability	119	100	96	59	120	121
Total liabilities	5,193	6,053	6,075	6,966	8,118	9,667
APPLICATION OF FUNDS						
Gross block	3,008	4,104	3,756	4,353	5,003	5,653
Less: Acc. depreciation	1,175	1,358	1,540	1,827	2,132	2,504
Net block	1,833	2,746	2,214	2,526	2,871	3,148
Capital Work-in-Progress	484	248	892	892	892	892
Goodwill	1,015	862	908	733	733	733
Investments	24	21	87	154	154	154
Long Term Loans and Adv.	263	411	495	637	595	716
Current assets	2,760	3,191	3,391	4,105	5,642	7,230
Cash	467	582	549	670	1,684	2,699
Loans & advances	275	279	341	334	335	336
Other	2,019	2,330	2,501	3,102	3,623	4,195
Current liabilities	1,186	1,426	1,912	2,081	2,768	3,206
Net Current assets	1,574	1,765	1,480	2,024	2,873	4,024
Mis. Exp. not written off	-	-	-	-	-	-
Total assets	5,193	6,053	6,075	6,966	8,118	9,667

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	794	811	942	1,445	1,964	2,353
Depreciation	158	183	201	287	304	373
(Inc)/Dec in Working Capital	(427)	(223)	168	(565)	207	(257)
Less: Other income	53	37	51	55	55	55
Direct taxes paid	113	119	106	259	432	518
Cash Flow from Operations	359	614	1,154	853	1,988	1,896
(Inc.)/Dec.in Fixed Assets	(743)	(860)	(296)	(597)	(650)	(650)
(Inc.)/Dec. in Investments	(4)	3	(65)	(68)	-	-
Other income	53	37	51	55	55	55
Cash Flow from Investing	(694)	(820)	(310)	(609)	(595)	(595)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	1,238	382	(397)	91	(33)	2
Dividend Paid (Incl. Tax)	(175)	(175)	(216)	(287)	(287)	(287)
Others	(557)	115	(264)	74	(60)	(1)
Cash Flow from Financing	506	322	(877)	(122)	(380)	(286)
Inc./(Dec.) in Cash	171	116	(33)	121	1,013	1,015
Opening Cash balances	295	467	582	549	670	1,684
Closing Cash balances	467	582	549	670	1,684	2,699

Key Ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	51.9	51.5	41.2	29.1	22.6	18.7
P/CEPS	41.7	40.2	33.0	23.3	18.7	15.5
P/BV	13.1	11.1	9.8	7.9	6.2	4.8
Dividend yield (%)	2.3	2.3	2.3	2.3	2.3	2.3
EV/Sales	1.7	1.4	1.1	4.1	3.3	2.8
EV/EBITDA	9.2	9.2	7.8	21.8	15.7	12.5
EV / Total Assets	1.6	1.4	1.3	5.0	4.2	3.4
Per Share Data (₹)						
EPS (Basic)	6.3	6.4	8.0	11.3	14.6	17.6
EPS (fully diluted)	6.3	6.4	8.0	11.3	14.6	17.6
Cash EPS	7.9	8.2	10.0	14.2	17.6	21.3
DPS	7.5	7.5	7.5	7.5	7.5	7.5
Book Value	25.1	29.7	33.6	41.5	53.3	68.1
Dupont Analysis						
EBIT margin	14.8	12.0	11.8	15.5	18.1	18.9
Tax retention ratio	85.8	85.3	88.7	82.1	78.0	78.0
Asset turnover (x)	1.3	1.2	1.3	1.5	1.6	1.8
ROIC (Post-tax)	16.8	12.8	13.8	18.6	23.0	26.4
Cost of Debt (Post Tax)	9.4	5.8	3.2	2.4	3.1	3.1
Leverage (x)	0.5	0.7	0.6	0.4	0.3	0.0
Operating ROE	20.8	17.7	20.1	25.8	28.1	27.2
Returns (%)						
ROCE (Pre-tax)	17.3	13.2	13.8	20.2	24.5	25.2
Angel ROIC (Pre-tax)	27.2	19.5	20.6	31.3	39.0	44.1
ROE	27.4	23.3	25.3	30.1	30.8	29.0
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.0	1.8	1.8	2.1	2.2	2.3
Inventory / Sales (days)	66	66	69	61	71	79
Receivables (days)	57	54	57	57	58	64
Payables (days)	49	42	55	46	53	53
WC (ex-cash) (days)	64	66	53	48	45	38
Solvency ratios (x)						
Net debt to equity	0.7	0.7	0.5	0.4	0.1	(0.1)
Net debt to EBITDA	2.0	2.3	1.7	1.0	0.3	(0.1)
Interest Coverage (EBIT / Int.)	4.1	4.4	9.3	19.4	19.8	24.0

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 Website: www.angelbroking.com

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Disclosure of Interest Statement	Cadila Healthcare
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

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)
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