

Lupin

Performance Highlights

Y/E March (₹ cr)	1QFY2016	4QFY2015	% chg qoq	1QFY2015	% chg yoy
Net sales	3,178	3,074	3.4	3,117	2.0
Other income	184	152	21.8	167	10.6
Operating profit	529	745	(29.0)	776	(31.9)
Interest	10	2	322.9	2	376.5
Net profit	409	525	(22.1)	630	(35.1)

Source: Company, Angel Research

For 2QFY2016, Lupin posted a poor set of numbers, with the OPM coming in lower than expected, and consequently the net profit as well. The company posted a 2.0% growth in sales to ₹3,178cr V/s ₹3,272cr estimated, mainly driven by the European markets. On the operating front, the Gross margin came in at 64.5% V/s 65.7% expected. Further, a 19.4% yoy and 36.2% yoy rise in the Staff cost and R&D expenditure led the OPM to come in at 16.6% V/s 24.6% expected and V/s 24.9% in 2QFY2015. Thus, the net profit came in at ₹408.5cr V/s ₹578.6cr expected and V/s ₹630.0cr in 2QFY2015, a yoy dip of 35.1%. **We maintain our Neutral stance on the stock.**

Below expectation numbers: The company posted a 2.0% yoy growth in sales to ₹3,178cr V/s ₹3,272cr estimated, mainly driven by European markets. Its key market US (₹1,155cr), posted a dip of 9.2% yoy, on account of slow pace of approvals. The company launched 4 products in the US during the period. The company expects US sales to get normalized by 4QFY2016. Other key markets: India, Europe, Japan, South Africa and ROW, posted a growth of 9.4%, 32.2%, -6.5%, -5.6% and 52.9% yoy, respectively. On the operating front, the Gross margin came in at 64.5% V/s 65.7% expected. Further, a 19.4% and 36.2% rise in Staff cost and R&D expenditure led the OPM to come in at 16.6% V/s 24.6% expected and V/s 24.9% in 2QFY2015. Thus, the net profit came in at ₹408.5cr V/s ₹578.6cr expected and V/s ₹630.0cr in 2QFY2015, a yoy dip of 35.1%.

Outlook and valuation: We expect Lupin to post a CAGR of 14.6% in net sales to ₹16,561cr and earnings to report a 13.1% CAGR to ₹68.3/share over FY2015–17E. Currently, the stock is trading at 36.8x and 27.1x its FY2016E and FY2017E earnings, respectively. **We remain Neutral on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	11,087	12,600	13,092	16,561
% chg	17.2	13.6	3.9	26.5
Net profit	1,836	2,403	2,266	3,072
% chg	39.7	30.9	(5.7)	35.5
EPS (₹)	41.0	53.5	50.4	68.3
EBITDA margin (%)	25.3	27.4	25.0	27.0
P/E (x)	44.9	34.4	36.5	26.9
RoE (%)	30.3	30.4	22.8	24.7
RoCE (%)	34.7	34.3	26.1	29.6
P/BV (x)	11.9	9.3	7.5	6.0
EV/sales (x)	7.4	6.5	6.1	4.7
EV/EBITDA (x)	29.2	23.7	24.5	17.5

Source: Company, Angel Research; Note: CMP as of November 5, 2015

NEUTRAL

CMP ₹1,838
 Target Price -

Investment Period -

Stock Info

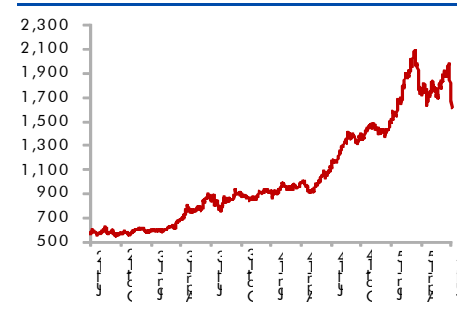
Sector	Pharmaceutical
Market Cap (₹ cr)	83,442
Net Debt (₹ cr)	(629)
Beta	0.7
52 Week High / Low	2,127 / 1,343
Avg. Daily Volume	88,469
Face Value (₹)	2
BSE Sensex	26,304
Nifty	7,955
Reuters Code	LUPN.BO
Bloomberg Code	LPC@IN

Shareholding Pattern (%)

Promoters	46.6
MF / Banks / Indian Fls	7.6
FII / NRIs / OCBs	37.4
Indian Public / Others	8.4

Abs. (%)	3m	1yr	3yr
Sensex	(7.2)	(5.9)	39.6
Lupin	8.8	34.1	215.8

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2016 – Consolidated performance

Y/E March (₹ cr)	2QFY2016	1QFY2016	% chg (qoq)	2QFY2015	% chg (yoy)	1HFY2016	1HFY2015	% chg (yoy)
Net sales	3,178	3,074	3.4	3,117	2.0	6,253	6,401	(2.3)
Other income	184	152	21.8	167	10.6	336	253	33.0
Total income	3,363	3,226	4.2	3,284	2.4	6,589	6,653	(1.0)
Gross profit	2,049	2,091	(2.0)	2,116		4,140	4,224	(2.0)
Gross margin	64.5	68.0		67.9		66.2	66.0	
Operating profit	528.8	744.5	(29.0)	776	(31.9)	1,273	1,833.8	(30.6)
OPM (%)	16.6	24.2		24.9		20.4	28.7	
Interest	10	2	322.9	2	376.5	13	5	167.0
Dep. & amortisation	107	101	6.1	109	(1.7)	208	217	(4.5)
PBT	596	793	(24.8)	832	(28.3)	1,389	1,864	(25.5)
Provision for taxation	185	264	(30.0)	193	(3.9)	450	596	(24.5)
Reported net profit	411	529	(22.2)	639	(35.7)	940	1,269	(26.0)
Less : exceptional items	-	-		-		-	-	
MI & share in associates	3	3	(12.0)	9	(71.8)	6	14	(60.3)
PAT after exceptional items	409	525	(22.1)	630	(35.1)	934	1,255	(25.6)
EPS (₹)	9.1	11.7		14.1		20.8	28.0	

Source: Company, Angel Research

Exhibit 2: 2QFY2016 – Actual vs Angel estimates

₹ cr	Actual	Estimates	Variation
Net Sales	3,178	3,273	(2.9)
Other Income	184	152	21.8
Operating Profit	529	804	(34.2)
Depreciation	107	101	6.1
Tax	185	264	(30.0)
Net Profit	409	579	(29.3)

Source: Company, Angel Research

Revenue grows 2.0% yoy: The company posted a 2.0% yoy growth in sales to end the period at ₹3,178cr V/s ₹3,272cr estimated, mainly driven by European markets. Overall formulations posted a sales growth of 2.0% yoy to ₹2,856.4cr and APIs posted a 1.1% yoy growth to ₹321.9cr. Indian formulation sales (₹874cr), a yoy growth of 9.4%. Overall, formulations posted a growth of 2.1% yoy (~90% of sales), while API grew by 1.1% yoy (~10% of sales).

Its key market US (₹1,155cr), posted a dip of 9.2% yoy, on slow pace of approvals. The company launched 4 products in the US during the period. The company expects US sales to get normalized by 4QFY2016. It has 84 products in the market.

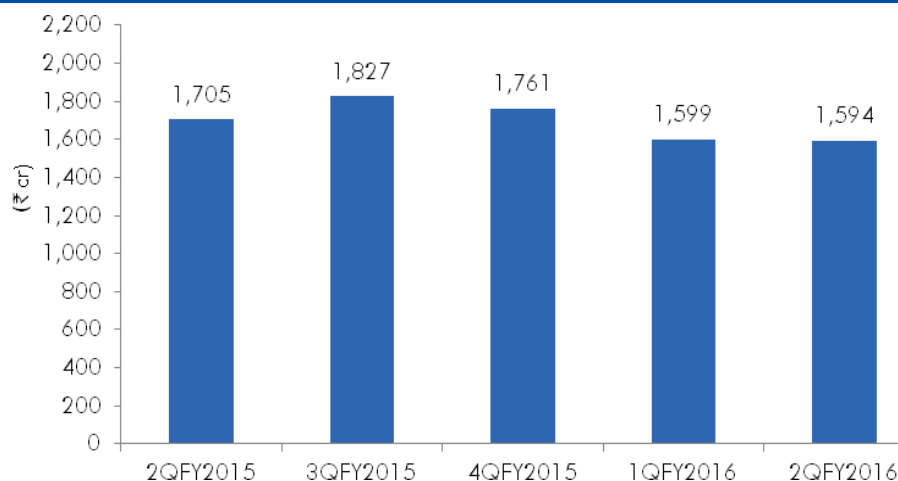
Another export destination – Japan, posted a yoy dip of 6.5% to ₹323.4cr, mainly on back of the currency impact. Sales in JPY terms grew 2.5% yoy to JPY6,077mn during the quarter. Lupin's sales in Europe (₹115.8cr) and India (₹873.8cr) posted a yoy growth of 32.2% and 9% yoy, respectively. ROW (₹288.6cr) posted a strong growth of 52.9% yoy in 2QFY2016.

Pharma Dynamics clocked in revenues of ₹99.8cr during 2QFY2016, a decline of 5.6% yoy, while growing by 6.1% in ZAR terms to end the quarter at ZAR199mn.

The company remains the fastest growing and the 4th largest generic company in the South African market with clear leadership in the cardiovascular space.

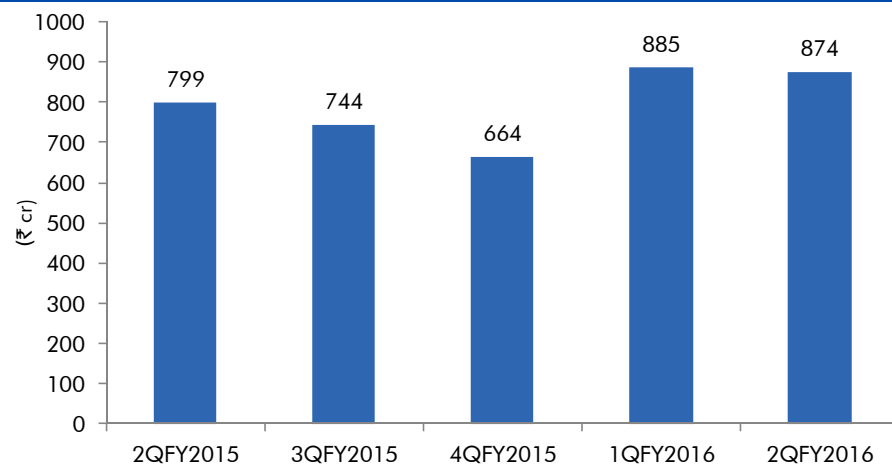
On the regulatory front, Lupin received 7 approvals from the USFDA during the quarter. Cumulative ANDA filings with the USFDA as of September 30, 2015 stood at 220 (35 FTFs) with the company having received 124 approvals to date.

Exhibit 3: Advanced markets – Sales trend



Source: Company, Angel Research

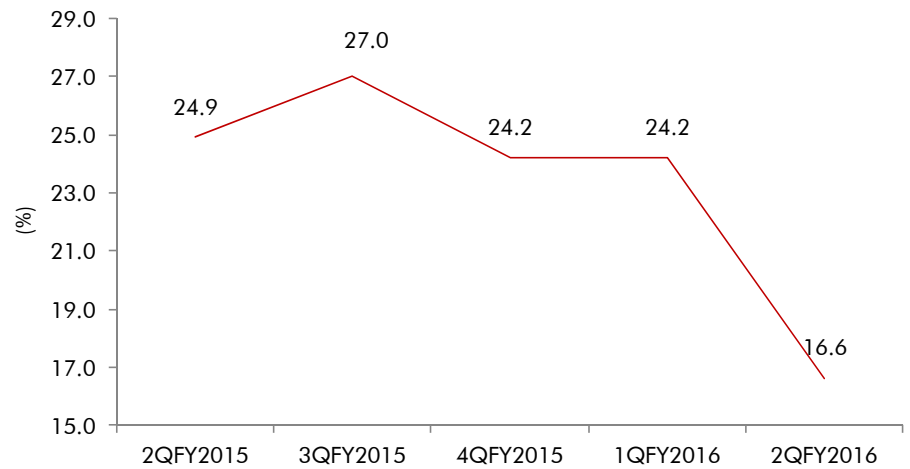
Exhibit 4: Domestic Formulation Market



Source: Company

OPM lower than expectation at 16.6%: On the operating front, the Gross margin came in at 64.5% V/s 65.7% expected. Further, a 19.4% and 36.2% yoy rise in Staff cost and R&D expenditure led the OPM to come in at 16.6% V/s 24.6% expected and V/s 24.9% in 2QFY2015.

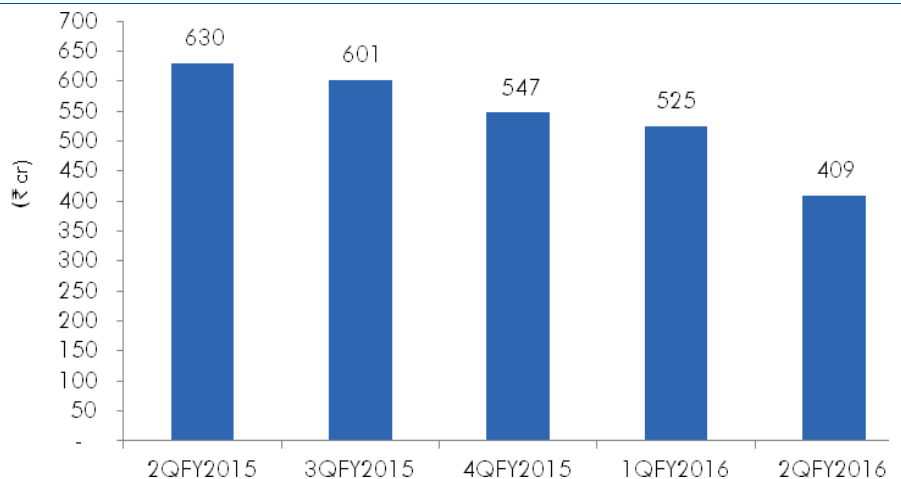
Exhibit 5: OPM trend



Source: Company, Angel Research

Net profit growth lower than our estimate: Thus, the net profit came in at ₹408.5cr V/s ₹578.6cr expected and V/s ₹630.0cr in 2QFY2015, a yoy dip of 35.1%.

Exhibit 6: Net profit trends



Source: Company, Angel Research

Conference call takeaways

- The Management expects to post 17% yoy growth in the domestic formulation business in FY2016E, despite slump seen in 2QFY2016.
- The Management has guided for lower sales growth in FY2016 and expects to report good numbers 3QFY2016 onwards, primarily helped by good number of quality launches in US and Gavis' acquisition (to close by 3QFY2016).
- EBITDA margins to stay in the range of 26-27% in FY2016E.

Recommendation rationale

- **US market – the key driver:** The high-margin branded generic business has been the key differentiator for Lupin in the Indian pharmaceuticals space. On the generic turf, Lupin is currently the fifth largest generic player in the US, with 5.3% market share in prescription. Lupin is now the market leader in 33 products marketed in the US generics market and is amongst the Top 3 by market share in 61 products.

Currently, the company's cumulative filings stand at 220, of which 124 have been approved, with 35 FTFs valued at more than US\$13bn. Lupin plans to launch 15-20 products in the US in FY2017. Another driver, the OC segment, is expected to contribute US\$100mn to the company's top-line over the next 2-3 years. Another significant portion of the company's US business, Branded segment which is around ~10% of its US sales (FY2015), is expected to increase to 30% of sales by FY2018, through acquisitions. We expect the region to post a CAGR of 15.0% during FY2015-17.

- **Domestic formulations on a strong footing:** Lupin continues to make strides in the Indian market. Currently, Lupin ranks No 3, and is the fastest growing company among the top five companies in the domestic formulation space, registering a strong CAGR of 20.0% over the last few years. Six of Lupin's products are among the top 300 brands in the country. Lupin introduced 54 new products in the Indian market in FY2014 and has a strong field force of ~5,400MRs (as of FY2015). We expect the domestic formulation market to grow at a CAGR of 16.0% over FY2015-17E.
- **First-mover advantage in Japan:** Lupin figures among the few Indian companies with a formidable presence in the world's second largest pharma market (ranked as the 8th largest as per IMS MAT March 2014). The Management believes there will be patent expiries (US\$14-16bn) in the next two years in the Japanese market, which along with increased generic penetration, would drive growth in the market. For FY2015, the market posted a moderate growth after a dip in FY2014; however going forward the company expects a healthy growth, with double digit growth (15% in constant currency) in the Kyowa business and a single digit growth in the I'rom business. The Management expects improvement in growth in the next 3-4 years. On a conservative basis, we expect the market to post a CAGR of 9.5% over FY2015-17E.

Valuation

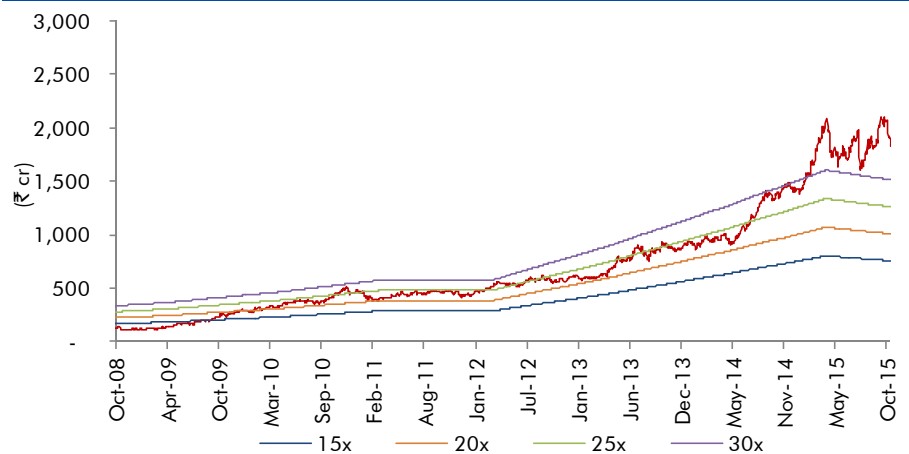
We expect Lupin to post a CAGR of 9.5% in net sales to ₹15,110cr and earnings to report a 14.6% CAGR to ₹68.3/share over FY2015–17E. Currently, the stock is trading at 36.8x and 27.1x its FY2016E and FY2017E earnings, respectively. **We remain Neutral on the stock.**

Exhibit 7: Key Assumptions

	FY2016E	FY2017E
Sales growth (%)	3.9	26.5
Domestic growth (%)	16.0	16.0
Exports growth (%)	1.0	30.2
Operating margins (%)	25.0	27.0
R&D Exp (% of sales)	10.0	10.0
Capex (₹ cr)	1000	1000

Source: Company, Angel Research

Exhibit 8: One-year forward PE



Source: Company, Angel Research

Exhibit 9: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside (%)	FY2017E		FY15-17E		FY2017E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	675	-	-	28.2	4.0	19.8	26.1	30.3	30.2
Aurobindo Pharma	Accumulate	820	872	6.3	18.8	3.0	13.2	16.3	23.4	30.2
Cadila Healthcare	Neutral	429	-	-	24.4	3.7	16.7	24.6	25.2	29.0
Cipla	Neutral	659	-	-	22.8	3.1	16.4	21.4	17.1	16.8
Dr Reddy's	Neutral	4,253	-	-	22.1	3.3	14.7	21.6	20.6	22.0
Dishman Pharma	Neutral	402	-	-	18.6	1.7	8.6	20.4	11.7	11.7
GSK Pharma*	Neutral	3,191	-	-	46.7	8.1	36.9	6.6	33.7	34.3
Indoco Remedies	Neutral	310	-	-	22.4	2.4	13.4	23.0	19.7	19.7
Ipca labs	Buy	733	900	22.7	26.2	2.6	14.0	26.1	13.0	14.9
Lupin	Neutral	1,838	-	-	26.9	4.7	17.5	13.1	29.6	24.7
Sanofi India*	Neutral	4,276	-	-	28.2	3.7	17.6	33.1	27.9	25.5
Sun Pharma	Buy	816	950	16.4	30.3	5.3	17.4	8.4	15.8	16.6

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

Company Background

Lupin, established in 1968, is primarily engaged in the manufacture and global distribution of active pharmaceutical ingredients (APIs) and finished dosages. Over the years, the company forayed into the US markets through a differentiated export strategy of tapping branded generics and consequently gaining a large share of the US prescription market. Further, to expand its foot-print in the global market, Lupin has prudently adopted the inorganic growth route. In line with this, over the last two years, the company made small acquisitions across geographies, prominent among these being the acquisition of Kyowa in the growing Japanese market. In the US, the company has acquired privately held GAVIS Pharmaceuticals LLC and Novel Laboratories Inc. The acquisition enhances Lupin's scale in the US generic market and also broadens Lupin's pipeline in dermatology, controlled substance products and other high-value and niche generics.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Gross sales	7,002	9,524	11,167	12,684	13,171	16,661
Less: Excise duty	42	62	80	84	79	100
Net sales	6,960	9,462	11,087	12,600	13,092	16,561
Other operating income	123	180	200	170	170	170
Total operating income	7,083	9,641	11,287	12,770	13,262	16,731
% chg	21.4	36.1	17.1	13.1	3.9	26.2
Total expenditure	5,638	7,371	8,284	9,150	9,819	12,089
Net raw materials	2,604	3,548	3,817	4,157	4,189	5,299
Other mfg costs	906	757	887	1,008	1,047	1,325
Personnel	970	1,249	1,465	1,747	2,053	2,153
Other	1,159	1,818	2,115	2,238	2,529	3,312
EBITDA	1,322	2,090	2,803	3,449	3,273	4,471
% chg	24.0	58.2	34.1	23.1	(5.1)	36.6
(% of Net Sales)	19.0	22.1	25.3	27.4	25.0	27.0
Depreciation & amortisation	228	332	261	435	468	548
EBIT	1,094	1,758	2,542	3,015	2,805	3,923
% chg	22.3	60.7	44.6	18.6	(7.0)	39.9
(% of Net Sales)	15.7	18.6	22.9	23.9	21.4	23.7
Interest & other charges	35	41	27	10	10	10
Other Income	14	28	116	240	240	240
(% of PBT)	1	1	4	7	7	6
Share in profit of associates	-	-	-	-	-	-
Recurring PBT	1,196	1,925	2,832	3,415	3,205	4,323
% chg	20.0	60.9	47.1	20.6	-6.1	34.9
Extraordinary expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	1,196	1,925	2,832	3,415	3,205	4,323
Tax	309	584	962	970	897	1,211
(% of PBT)	25.8	30.4	34.0	28.4	28.0	28.0
PAT (reported)	888	1,340	1,870	2,444	2,307	3,113
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	20	26	33	41	41	41
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	868	1,314	1,836	2,403	2,266	3,072
ADJ. PAT	868	1,314	1,836	2,403	2,266	3,072
% chg	0.6	51.5	39.7	30.9	(5.7)	35.5
(% of Net Sales)	12.5	13.9	16.6	19.1	17.3	18.5
Basic EPS (₹)	19.4	29.4	41.0	53.5	50.4	68.3
Fully Diluted EPS (₹)	19.4	29.4	41.0	53.5	50.4	68.3
% chg	0.6	51.0	39.5	30.5	(5.7)	35.5

Balance Sheet (Consolidated)

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	89	90	90	90	90	90
Reserves & surplus	3,924	5,115	6,842	8,784	10,882	13,785
Shareholders funds	4,013	5,204	6,932	8,874	10,972	13,875
Minority interest	72	59	67	24	65	106
Total loans	1,640	1,164	553	471	471	471
Other Long-Term Liabilities	73	50	46	74	75	76
Long-Term Provisions	67	112	132	132	69	70
Deferred tax liability	144	163	178	118	118	118
Total liabilities	6,010	6,754	7,908	9,693	11,771	14,717
APPLICATION OF FUNDS						
Gross block	3,627	4,114	4,564	5,355	6,355	7,355
Less: Acc. depreciation	1,442	1,684	1,928	2,363	2,831	3,380
Net block	2,185	2,430	2,635	2,992	3,524	3,975
Capital work-in-progress	444	311	304	304	304	304
Goodwill	564	570	720	1,648	1,648	1,648
Investments	3	2	178	1,658	1,658	1,658
Long-Term Loans and Adv.	394	387	373	275	284	359
Current assets	4,297	5,143	5,924	6,176	7,844	11,189
Cash	402	435	798	1,306	2,783	4,787
Loans & advances	309	340	302	671	697	882
Other	3,586	3,154	4,825	4,199	4,364	5,520
Current liabilities	1,878	2,089	2,227	3,360	3,491	4,416
Net current assets	2,420	3,054	3,697	2,816	4,352	6,772
Mis. Exp. not written off	-	-	-	-	-	-
Total assets	6,010	6,754	7,908	9,693	11,771	14,717

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	1,196	1,925	2,832	3,415	3,205	4,323
Depreciation	228	332	261	435	468	548
(Inc)/Dec in working capital	(724)	620	(1,481)	1,487	(69)	(491)
Direct taxes paid	(309)	(584)	(962)	(970)	(897)	(1,211)
Cash Flow from Operations	391	2,293	649	4,367	2,707	3,170
(Inc.)/Dec.in Fixed Assets	(997)	(353)	(443)	(791)	(1,000)	(1,000)
(Inc.)/Dec. in Investments	-	-	-	-	-	-
Cash Flow from Investing	(997)	(353)	(443)	(791)	(1,000)	(1,000)
Issue of equity	-	-	-	-	-	-
Inc./Dec.) in loans	550	(476)	(611)	(82)	0	-
Dividend Paid (Incl. Tax)	(165)	(209)	(157)	(168)	(168)	(168)
Others	204	499	(795)	(2,816)	(62)	2
Cash Flow from Financing	589	(186)	(1,564)	(3,067)	(230)	(166)
Inc./Dec.) in Cash	(18)	1,753	(1,358)	509	1,477	2,004
Opening Cash balances	420	402	435	798	1,306	2,783
Closing Cash balances	402	435	798	1,306	2,783	4,787

Key Ratios

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	94.5	62.6	44.9	34.4	36.5	26.9
P/CEPS	74.9	50.0	39.3	29.1	30.2	22.8
P/BV	20.4	15.8	11.9	9.3	7.5	6.0
Dividend yield (%)	0.2	0.2	0.2	0.2	0.2	0.2
EV/Sales	11.9	8.7	7.4	6.5	6.1	4.7
EV/EBITDA	62.8	39.6	29.2	23.7	24.5	17.5
EV / Total Assets	13.8	12.3	10.4	8.4	6.8	5.3
Per Share Data (₹)						
EPS (Basic)	19.4	29.4	41.0	53.5	50.4	68.3
EPS (fully diluted)	19.4	29.4	41.0	53.5	50.4	68.3
Cash EPS	24.5	36.8	46.8	63.1	60.8	80.5
DPS	3.4	4.0	4.0	4.0	4.0	4.0
Book Value	89.9	116.3	154.6	197.4	244.1	308.7
Dupont Analysis						
EBIT margin	15.7	18.6	22.9	23.9	21.4	23.7
Tax retention ratio	74.2	69.6	66.0	71.6	72.0	72.0
Asset turnover (x)	1.4	1.6	1.7	1.6	1.5	1.8
ROIC (Post-tax)	16.8	20.9	25.4	28.2	23.5	30.2
Cost of Debt (Post Tax)	1.9	2.0	2.0	1.4	1.5	1.5
Leverage (x)	0.3	0.0	0.0	0.0	0.0	0.0
Operating ROE	20.6	20.9	25.4	28.2	23.5	30.2
Returns (%)						
ROCE (Pre-tax)	20.5	27.5	34.7	34.3	26.1	29.6
Angel ROIC (Pre-tax)	27.5	35.0	44.1	48.2	41.6	52.3
ROE	23.8	28.5	30.3	30.4	22.8	24.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.3	2.5	2.6	2.6	2.3	2.4
Inventory / Sales (days)	76	70	66	62	69	75
Receivables (days)	77	75	75	66	74	80
Payables (days)	156	72	84	78	89	84
WC cycle (ex-cash) (days)	87	88	89	63	42	39
Solvency ratios (x)						
Net debt to equity	0.3	0.1	(0.0)	(0.1)	(0.2)	(0.3)
Net debt to EBITDA	0.9	0.3	(0.1)	(0.2)	(0.7)	(1.0)
Interest Coverage	30.8	42.9	95.4	307.3	285.9	399.9

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Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Pvt. Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	Lupin
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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