

Lupin

Performance Highlights

Y/E March (₹ cr)	2QFY2017	1QFY2017	% chg qoq	2QFY2016	% chg yoy
Net sales	4,212	4,316	(2.4)	3,193	31.9
Other income	106	208	(49.0)	195	(45.4)
Operating profit	949	1,185	(19.9)	526	80.6
Interest	26	32	(17.8)bp	24	9.3bp
Net profit	662	882	(24.9)	420	57.8

Source: Company, Angel Research

Lupin posted results lower than expected. Sales came in at ₹4,212cr vs. ₹4,300cr expected, registering a yoy growth of 31.9%, mainly aided by exports. The sales growth was driven by Formulations sales (₹3,919.3cr), posting a yoy growth of 37.1%; while API sales (₹291.9cr) posted a yoy de-growth of 12.3%. On the operating front, the EBITDA margin came in at 22.5% vs. 24.3% expected vs. 16.5% in 2QFY2016. The OPM contracted in spite of the gross margin expansion, which came in at 70.5% vs. 70.5% in 2QFY2016, on the back of 35.9% and 32.8% yoy growth in the employee and other expenses, respectively. Consequently, the Adj. PAT came in at ₹662cr vs. ₹758cr expected vs. ₹420cr in 2QFY2016, a yoy growth of 57.8%. **We maintain our Buy rating on the stock.**

Numbers lower than expectations: Company posted sales of ₹4,212cr vs. ₹4,300cr expected, registering a yoy growth of 31.9%, mainly aided by exports. The sales growth was driven by Formulations sales (₹3,919.3cr), posting a yoy growth of 37.1%; while API sales (₹291.9cr), posted a yoy de-growth of 12.3%. USA (₹1,997.8cr) grew by 73.1% yoy, India (₹995.8cr) grew by 12.1% yoy, APAC (₹552cr) grew by 23.7% yoy, and EMEA (₹235.5cr) grew by 6.2% yoy. On the operating front, the EBITDA margin came in at 22.5% vs. 24.3% expected vs. 16.5% in 2QFY2016. The R&D expenses came in at 11.9% of sales vs. 12.2% of sales in 2QFY2016. Consequently, the Adj. PAT came in at ₹662cr vs. ₹758cr expected vs. ₹420cr in 2QFY2016, a yoy growth of 57.8%.

Outlook and valuation: We expect Lupin to post a net sales CAGR of 16.7% to ₹18,644cr and earnings CAGR of 17.2% to ₹69.3/share over FY2016–18E. Currently, the stock is trading at 21.5x its FY2018E earnings, respectively. **We recommend a Buy rating on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	12,600	13,702	15,912	18,644
% chg	13.6	8.7	16.1	17.2
Net profit	2,403	2,271	2,611	3,117
% chg	30.9	(5.5)	15.0	19.4
EPS (₹)	53.5	50.5	58.1	69.3
EBITDA margin (%)	27.4	23.7	26.4	26.7
P/E (x)	27.9	29.6	25.7	21.5
RoE (%)	30.4	22.9	21.4	20.9
RoCE (%)	34.3	19.6	19.3	24.4
P/BV (x)	7.6	6.1	5.0	4.1
EV/sales (x)	5.3	5.3	4.2	3.5
EV/EBITDA (x)	19.2	22.5	16.0	13.0

Source: Company, Angel Research; Note: CMP as of November 10, 2016

BUY

CMP	₹1,493
Target Price	₹1,809

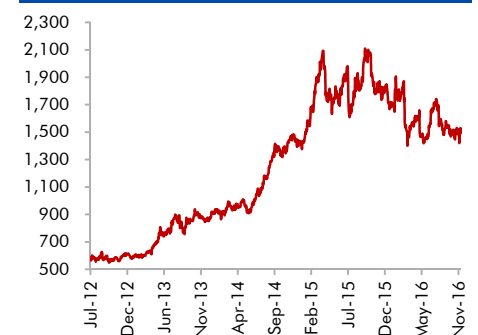
Investment Period	12 months
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	67,380
Net Debt (₹ cr)	6,737
Beta	0.7
52 Week High / Low	1,912 / 1,294
Avg. Daily Volume	162,309
Face Value (₹)	2
BSE Sensex	27,518
Nifty	8,750
Reuters Code	LUPN.BO
Bloomberg Code	LPC@IN

Shareholding Pattern (%)	
Promoters	46.7
MF / Banks / Indian Fls	8.3
FII / NRIs / OCBs	35.4
Indian Public / Others	9.6

Abs. (%)	3m	1yr	3yr
Sensex	(0.9)	6.9	33.2
Lupin	(3.4)	(16.6)	69.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2017 – Consolidated performance

Y/E March (₹ cr)	2QFY2017	1QFY2017	% chg (qoq)	2QFY2016	% chg (yoy)	1HFY2017	1HFY2016	% chg (yoy)
Net sales	4,212	4,316	(2.4)	3,193	31.9	8,553	6,299	35.8
Other income	106	208	(49.0)	195	(45.4)	258	330	(21.8)
Total income	4,318	4,524	(4.6)	3,387	27.5	8,811	6,629	32.9
Gross profit	2,969	3,044	(2.5)	2,068		6,038	4,190	44.1
Gross margin	70.5	70.5		64.8		70.6	66.5	
Operating profit	949.4	1,184.5	(19.9)	526	80.6	2,188	1,290.7	69.5
OPM (%)	22.5	27.4		16.5		25.6	20.5	
Interest	26	32	(17.8)	24	9.3	58	31	87.5
Dep. & amortization	203	203	0.0	115	75.6	414	217	90.9
PBT	827	1,158	(28.6)	581	42.3	1,974	1,373	43.7
Provision for taxation	159	273	(41.8)	159	(0.1)	432	385	12.3
Reported net profit	668	885	(24.6)	422	58.3	1,541	988	56.0
Less : exceptional items	-	-		-		-	-	
MI & share in associates	5	(1)	(930.0)	3	88.6	(3)	(0)	-
PAT after exceptional items	662	882	(24.9)	420	57.8	1,544	988	56.2
EPS (₹)	14.8	19.7		9.4		34.4	22.1	

Source: Company, Angel Research

Exhibit 2: 2QFY2017 – Actual Vs Angel estimates

₹ cr	Actual	Estimates	Variation
Net Sales	4,212	4,300	(2.1)
Other Income	106	184	(42.3)
Operating Profit	949	1,047	(9.3)
Depreciation	203	203	-
Tax	159	235	(32.4)
Net Profit	662	758	(12.7)

Source: Company, Angel Research

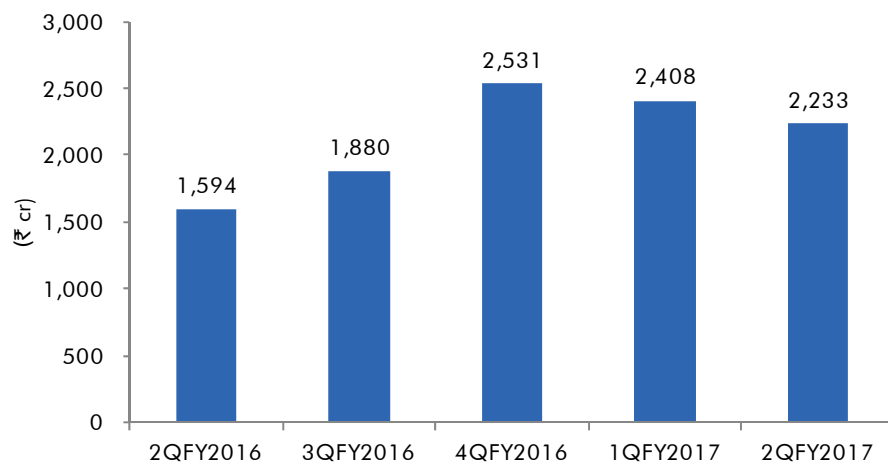
Revenue grows 31.9% yoy: Lupin posted sales of ₹4,212cr vs. ₹4,300cr expected, registering a yoy growth of 31.9%, mainly aided by exports. The sales growth was driven by Formulations sales (₹3,919.3cr), posting a yoy growth of 37.1% yoy; while API sales (₹291.9cr) posted a yoy de-growth of 12.3%. USA (₹1,997.8cr) grew by 73.1% yoy, India (₹995.8cr) grew by 12.1% yoy, APAC (₹552cr) grew by 23.7% yoy, and EMEA (₹235.5cr) grew by 6.2% yoy.

Lupin's USA sales grew by 73.1% to ₹1997.8cr during 2QFY2017 as compared to during 2QFY2016; contributing 47% of Lupin's global sales. The Company launched 2 products in the US market during the quarter. The Company now has 124 products in the US generics market. Lupin is now the leader in 42 products marketed in the US generics market and amongst the top 3 in 79 of its marketed products (market share by prescriptions, IMS Health, September 2016).

Lupin's India formulation sales grew by 12.1% to ₹995.8cr during 2QFY2017 as compared to ₹8,88.1cr during 2QFY2016; contributing 24% of Lupin's global sales.

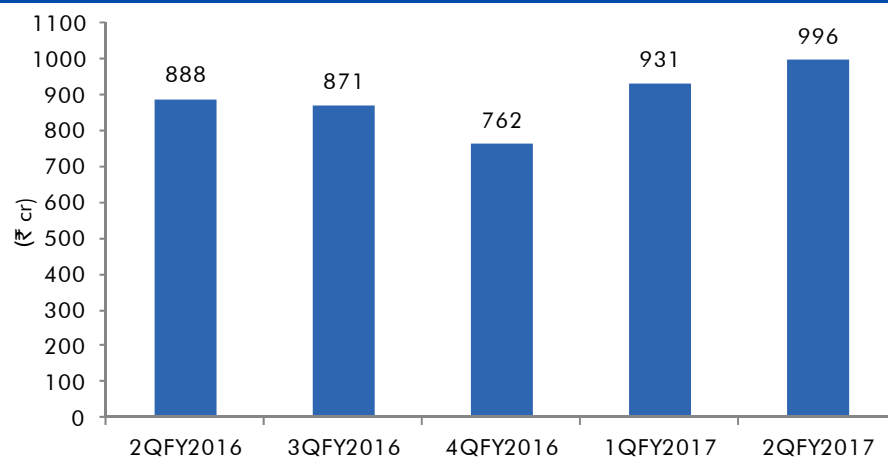
API sales (₹291.9cr) posted a dip of 12.3% yoy.

Exhibit 3: Advanced markets – Sales trend



Source: Company, Angel Research

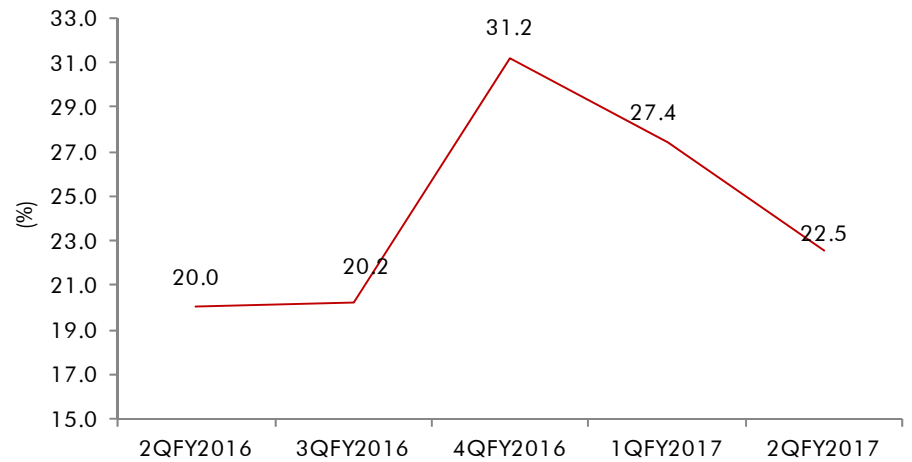
Exhibit 4: Domestic Formulation Market



Source: Company

OPM at 22.5%, lower than expected: On the operating front, the EBITDA margin came in at 22.5% vs. 24.3% expected vs. 16.5% in 2QFY2016. The OPM contracted in spite of the gross margin expansion, which came in at 70.5% vs. 70.5% in 2QFY2016, on back of the 35.9% and 32.8% yoy growth in the employee and other expenses, respectively. The R&D expenses came in at 11.9% of sales vs. 12.2% of sales in 2QFY2016.

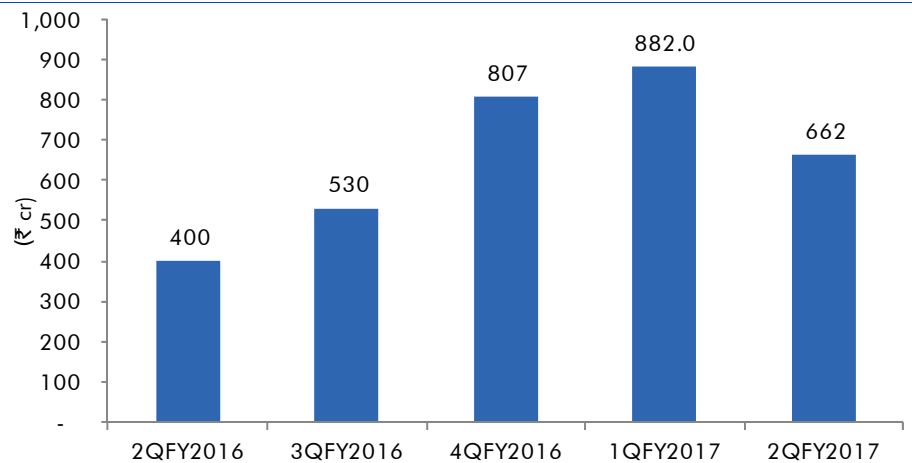
Exhibit 5: OPM trend



Source: Company, Angel Research

Net profit growth lower than our estimate: Expansion in OPM along with low taxation and higher other income aided the Adj. net profit to grow by 55.1% yoy to ₹882cr (vs. ₹777cr expected).

Exhibit 6: Net profit trends



Source: Company, Angel Research

Conference call takeaways

- Management has guided for US\$250mn of sales in FY2018 from the Gavis portfolio.
- Company expects to deliver double-digit growth over the remainder of FY2017.
- R&D as % of sales to be at 12-15% in FY2017.
- Currently ~23% of the company’s domestic portfolio is under NLEM.
- Tax rate guided to be between 28-30% of PBT.
- Capex guidance, ₹1500cr in FY2018.

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 42 products marketed in the US generics market and is amongst the top 3 by market share in 79 products. Currently, the company's cumulative filings stand at 338, of which 196 have been approved, with 45 FTFs valued at more than US\$13bn. Lupin plans to launch 25-30 products in the US in FY2017. We expect the region to post a CAGR of 22.9% during FY2016-18E on back of new product launches.
- **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 has a strong field force of ~6,000MRs (as of FY2016). We expect the domestic formulation market to grow at a CAGR of 15.0% over FY2016-18E.
- **First-mover advantage in Japan:** Lupin figures among the few Indian companies with a formidable presence in Japan, the world's second largest pharma market (Lupin 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. 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 10.0% over FY2016-18E.

Valuation

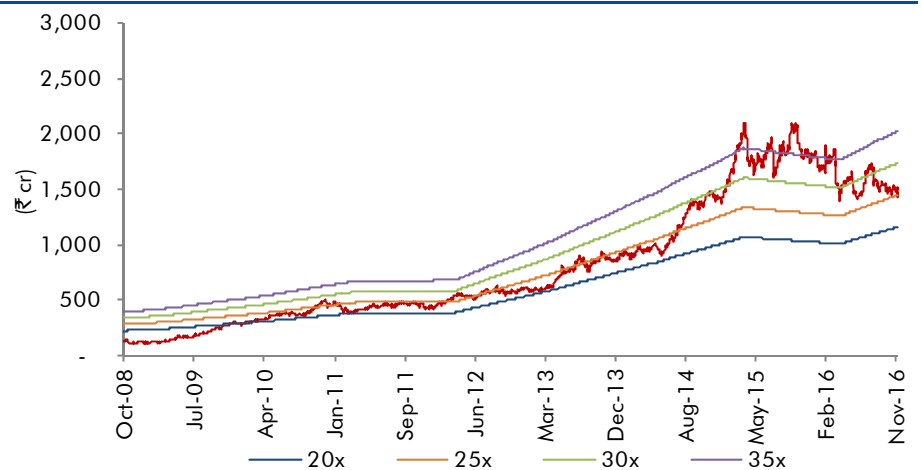
We expect Lupin to post a net sales CAGR of 16.7% to ₹18,644cr and earnings CAGR of 17.2% to ₹69.3/share over FY2016–18E. Currently, the stock is trading at 21.5x its FY2018E earnings, respectively. **We recommend a Buy rating on the stock.**

Exhibit 7: Key Assumptions

	FY2017E	FY2018E
Sales growth (%)	16.1	17.2
Domestic growth (%)	14.0	16.0
Exports growth (%)	17.8	17.5
Operating margins (%)	26.4	26.7
R&D Exp (% of sales)	12.0	12.0
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 (%)	FY2018E			FY16-18E	FY2018E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	655	-	-	21.6	2.9	13.5	(10.8)	27.5	25.3
Aurobindo Pharma	Accumulate	790	877	10.9	16.7	2.7	11.6	18.1	22.5	26.1
Cadila Healthcare	Neutral	401	-	-	20.9	3.2	14.7	13.4	22.7	25.7
Cipla	Neutral	564	-	-	20.7	2.6	14.3	20.4	13.5	15.2
Dr Reddy's	Neutral	3,274	-	-	22.9	2.9	13.2	1.7	16.2	15.9
Dishman Pharma	Neutral	237	-	-	21.4	2.4	10.5	3.1	10.3	10.9
GSK Pharma*	Neutral	2,616	-	-	43.0	6.5	31.5	17.3	35.3	32.1
Indoco Remedies	Sell	295	240	(18.5)	18.4	2.2	11.8	33.2	19.1	20.1
Ipca labs	Neutral	593	-	-	30.1	2.1	13.6	36.5	8.8	9.4
Lupin	Buy	1,493	1,809	21.1	21.5	3.5	13.3	17.2	24.4	20.9
Sanofi India*	Neutral	4,265	-	-	24.8	2.7	17.8	22.2	24.9	28.8
Sun Pharma	Buy	667	944	41.5	20.3	4.0	12.9	22.0	33.1	18.9

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 footprint in the global markets, 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 acquisitions enhance Lupin's scale in the US generic market and also broadens its pipeline in dermatology, controlled substance products and other high-value and niche generics.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Gross sales	9,524	11,167	12,684	13,797	16,008	18,757
Less: Excise duty	62	80	84	96	96	113
Net sales	9,462	11,087	12,600	13,702	15,912	18,644
Other operating income	180	200	170	507	200	200
Total operating income	9,641	11,287	12,770	14,208	16,112	18,844
% chg	36.1	17.1	13.1	11.3	13.4	17.0
Total expenditure	7,371	8,284	9,150	10,455	11,718	13,667
Net raw materials	3,548	3,817	4,157	4,309	5,092	5,864
Other mfg costs	757	847	963	1,047	1,216	1,425
Personnel	1,249	1,465	1,747	2,108	2,069	2,868
Other	1,818	2,155	2,283	2,580	3,342	3,511
EBITDA	2,090	2,803	3,449	3,247	4,194	4,977
% chg	58.2	34.1	23.1	(5.9)	29.2	18.7
(% of Net Sales)	22.1	25.3	27.4	23.7	26.4	26.7
Dep. & Amortization	332	261	435	464	933	1,013
EBIT	1,758	2,542	3,015	2,783	3,261	3,964
% chg	60.7	44.6	18.6	(7.7)	17.2	21.5
(% of Net Sales)	18.6	22.9	23.9	20.3	20.5	21.3
Interest & other charges	41	27	10	45	10	10
Other Income	28	116	240	188	188	188
(% of PBT)	1	4	7	5	5	4
Share in profit of asso.	-	-	-	-	-	-
Recurring PBT	1,925	2,832	3,415	3,433	3,639	4,342
% chg	60.9	47.1	20.6	0.5	6.0	19.3
Extraordinary exp./ (Inc.)	-	-	-	-	-	-
PBT (reported)	1,925	2,832	3,415	3,433	3,639	4,342
Tax	584	962	970	1,154	1,019	1,216
(% of PBT)	30.4	34.0	28.4	33.6	28.0	28.0
PAT (reported)	1,340	1,870	2,444	2,279	2,620	3,126
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	26	33	41	9	9	9
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	1,314	1,836	2,403	2,271	2,611	3,117
ADJ. PAT	1,314	1,836	2,403	2,271	2,611	3,117
% chg	51.5	39.7	30.9	(5.5)	15.0	19.4
(% of Net Sales)	13.9	16.6	19.1	16.6	16.4	16.7
Basic EPS (₹)	29.4	41.0	53.5	50.5	58.1	69.3
Fully Diluted EPS (₹)	29.4	41.0	53.5	50.5	58.1	69.3
% chg	51.0	39.5	30.5	(5.5)	15.0	19.4

Balance Sheet (Consolidated)

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity share capital	90	90	90	90	90	90
Reserves & surplus	5,115	6,842	8,784	10,894	13,337	16,286
Shareholders funds	5,204	6,932	8,874	10,984	13,427	16,376
Minority interest	59	67	24	32	41	50
Total loans	1,164	553	471	7,119	1,000	500
Other Long-Term Liabilities	50	46	74	75	76	77
Long-Term Provisions	112	132	132	380	380	380
Deferred tax liability	163	178	118	124	124	124
Total liabilities	6,754	7,908	9,693	18,715	15,049	17,507
APPLICATION OF FUNDS						
Gross block	4,114	4,564	5,355	11,160	12,160	13,160
Less: Acc. depreciation	1,684	1,928	2,363	2,827	3,759	4,772
Net block	2,430	2,635	2,992	8,334	8,401	8,388
Capital work-in-progress	311	304	304	304	304	304
Goodwill	570	720	1,648	2,964	2,964	2,964
Investments	2	178	1,658	8	8	8
Long-Term Loans and Adv.	387	373	275	970	1,126	1,320
Current assets	5,143	5,924	6,176	9,777	6,489	9,495
Cash	435	798	1,306	838	338	2,288
Loans & advances	340	302	671	737	847	993
Other	3,154	4,825	4,199	8,202	5,303	6,214
Current liabilities	2,089	2,227	3,360	3,642	4,243	4,972
Net current assets	3,054	3,697	2,816	6,135	2,245	4,523
Mis. Exp. not written off	-	-	-	-	-	-
Total assets	6,754	7,908	9,693	18,715	15,049	17,507

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	1,925	2,832	3,415	3,433	3,639	4,342
Depreciation	332	261	435	464	933	1,013
(Inc)/Dec in working capital	620	(1,481)	1,487	(4,482)	3,233	(521)
Direct taxes paid	(584)	(962)	(970)	(1,154)	(1,019)	(1,216)
Cash Flow from Operations	2,293	649	4,367	(1,739)	6,786	3,618
(Inc.)/Dec.in Fixed Assets	(353)	(443)	(791)	(5,805)	(1,000)	(1,000)
(Inc.)/Dec. in Investments	-	-	-	-	-	-
Cash Flow from Investing	(353)	(443)	(791)	(5,805)	(1,000)	(1,000)
Issue of equity	-	-	-	-	-	-
Inc./Dec.) in loans	(476)	(611)	(82)	6,648	(6,119)	(500)
Dividend Paid (Incl. Tax)	(209)	(157)	(168)	(168)	(168)	(168)
Others	499	(795)	(2,816)	597	1	-
Cash Flow from Financing	(186)	(1,564)	(3,067)	7,077	(6,287)	(668)
Inc./Dec.) in Cash	1,753	(1,358)	509	(468)	(500)	1,950
Opening Cash balances	402	435	798	1,306	838	338
Closing Cash balances	435	798	1,306	838	338	2,288

Key Ratios

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	50.9	36.5	27.9	29.6	25.7	21.5
P/CEPS	40.6	31.9	23.7	24.5	18.9	16.3
P/BV	12.8	9.7	7.6	6.1	5.0	4.1
Dividend yield (%)	0.3	0.4	0.5	0.5	0.5	0.5
EV/Sales	7.1	6.0	5.3	5.3	4.2	3.5
EV/EBITDA	32.2	23.7	19.2	22.5	16.0	13.0
EV / Total Assets	10.0	8.4	6.8	3.9	4.5	3.7
Per Share Data (₹)						
EPS (Basic)	29.4	41.0	53.5	50.5	58.1	69.3
EPS (fully diluted)	29.4	41.0	53.5	50.5	58.1	69.3
Cash EPS	36.8	46.8	63.1	60.8	78.8	91.9
DPS	4.0	6.0	8.0	8.0	8.0	8.0
Book Value	116.3	154.6	197.4	244.4	298.7	364.3
Dupont Analysis						
EBIT margin	18.6	22.9	23.9	20.3	20.5	21.3
Tax retention ratio	69.6	66.0	71.6	66.4	72.0	72.0
Asset turnover (x)	1.6	1.7	1.6	1.1	1.0	1.3
ROIC (Post-tax)	20.9	25.4	28.2	14.6	14.6	19.3
Cost of Debt (Post Tax)	2.0	2.0	1.4	0.8	0.2	1.0
Leverage (x)	0.0	0.0	0.0	0.0	0.2	0.0
Operating ROE	20.9	25.4	28.2	14.6	17.2	19.6
Returns (%)						
ROCE (Pre-tax)	27.5	34.7	34.3	19.6	19.3	24.4
Angel ROIC (Pre-tax)	35.0	44.1	48.2	26.4	25.0	33.9
ROE	28.5	30.3	30.4	22.9	21.4	20.9
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.5	2.6	2.6	1.7	1.4	1.5
Inventory / Sales (days)	70	66	62	74	66	56
Receivables (days)	75	75	66	78	71	59
Payables (days)	72	84	78	86	86	86
WC cycle (ex-cash) (days)	88	89	63	87	82	40
Solvency ratios (x)						
Net debt to equity	0.1	(0.0)	(0.1)	0.6	0.0	(0.1)
Net debt to EBITDA	0.3	(0.1)	(0.2)	1.9	0.2	(0.4)
Interest Coverage	42.9	95.4	307.3	62.4	326.1	396.4

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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)