

# CIPLA

## Strong operational performance

India Equity Research | Pharmaceuticals



Cipla Q2FY13 results surpassed our expectations with an Adj. PAT of INR4.8bn (61%YoY). Revenue growth of 23% was led by a 38% growth in exports while domestic sales grew 13.5%. EBITDA margin expansion of 630bpsYoY and 330bpsQoQ was surprising led by a) favourable currency (250bps), b) higher Lexapro sales (140bps) and c) operational improvement (240-250bps). While the benefit from currency and Lexapro may not sustain, operational improvement could remain over the rest of the fiscal, giving 250-300bps margin upside YoY, built in our estimates. We increase our FY13-14E estimates by 6%-3%, respectively. We maintain 'BUY' with revised TP of INR425 (INR410 earlier).

### Robust performance on margins front

EBITDA grew 55%YoY to INR6.7bn with 630bpsYoY margin expansion led by four legs: a) price increases across multiple geographies and lower contribution from low margin ARV ales (~10% from 25% earlier), b) capacity ramp-up from Indore SEZ, c) favourable currency realization (250bps cont.) and d) Lexapro sales (~140bps cont.).

### Growth led by exports, favourable currency realizations

Exports grew 38% (15% in USD terms) was led by a robust growth across key markets. Adj. for lower ARV sales, exports grew 29%YoY (Const. Currency) including ~USD27-30mn contribution from Lexapro. We believe that growth in exports (ex-Lexapro) could sustain at 15% CAGR (Const. Curr) over FY12-14 with USD21m sales from Dymista (including Royalty) and USD20mn built in for inhaler launch in FY14.

### Outlook and valuations: Revised FY13/14E EPS; Maintain 'BUY'

We revise our earnings estimates for FY13-14E by 6%-3% to INR19.6 (core EPS of INR17.8)/INR21.2 per share, respectively, building in higher margins from strong operating performance (330bps margin expansion over FY13E while assuming some margin compression in FY14 due to base effect of Lexapro), offset by an increase in tax rate to 23.5% (earlier guidance of 21%). We have estimated 17% CAGR in sales and 22% CAGR in earnings over FY12-14E. Combination inhaler approval could be a positive trigger in FY14, while pricing policy could be a negative overhang in medium term.

Financials (Consolidated)		(INR mn)						
Year to March	Q2FY13	Q2FY12	% change	Q1FY12	% change	FY12	FY13E	FY14E
Net revenue	21,919	17,780	23.3	19,582	11.9	69,892	83,847	95,502
EBITDA	6,770	4,376	54.7	5,399	25.4	16,273	22,505	24,580
Adj. net profit	4,803	2,980	61.2	3,820	25.7	10,996	14,255	17,042
Core EPS (INR)	6.0	3.7	61.2	4.8	25.7	13.7	17.8	21.2
Diluted P/E (x)						27.7	21.4	17.9
EV/EBITDA (x)						17.9	12.9	11.6
ROAE(%)						15.4	17.3	18.1

Note: Core EPS (Adjusted for Lexapro supplies of USD60mn); P/E based on Core EPS

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

#### MARKET DATA (R: CIPL.BO, B: CIPLA IN)

CMP	: INR 380
Target Price	: INR 425
52-week range (INR)	: 395 / 284
Share in issue (mn)	: 802.9
M cap (INR bn/USD mn)	: 305 / 5,598
Avg. Daily Vol.BSE/NSE('000)	: 1,645.9

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters*	36.8	36.8	36.8
MF's, FI's & BK's	13.4	16.2	17.2
FII's	20.8	18.1	16.1
Others	29.0	29.0	29.9
* Promoters pledged shares (% of share in issue)			NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	4.4	(0.7)	(0.4)
3 months	8.7	9.4	11.3
12 months	29.3	7.9	50.0

**Manoj Garg**  
+91 22 6623 3302  
manoj.garg@edelweissfin.com

**Perin Ali**  
+91 22 6620 3032  
perin.ali@edelweissfin.com

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### Inhaler opportunity in EU to add incremental upside to FY14 earnings

Combination Inhaler opportunity in EU is estimated at USD3bn and Cipla is expected to be the key beneficiary of the same. The company has initially filed 11 inhalers for EU, of which six are in process of approvals and four have been approved. The company plans to launch generic Advair (Seroflo) in EU markets by FY14, which could be a significant opportunity (USD 2bn sales) and would add incremental upsides to exports. Other players which are targeting entry into the market include Sandoz, Mylan (2015), Teva among others. We believe that the incremental upside assuming multiple player market (6-7 players) could be USD75-80mn in peak sales with 50-60% EBITDA margins. We have build in USD20mn sales from the product in FY14 earnings.

**Table 1: Inhaler opportunity in EU**

Combination Inhaler	Generic	Innovator	Revenue (USD mn)	Expected launch
Seretide/Advair	Fluticasone + Salmeterol	GSK	2,021	Sep'13- Italy, France, Germany and Spain
Symbicort	Budesonide + Formetrol	AZN	1,039	August'15
Combivent	Albuterol + Ipratropium	Boeh. Ingelheim	291	CY2015
<b>Total</b>			<b>3,351</b>	

Source: Edelweiss research

### Revise up earnings estimates by 6%-3% for FY13-14E

We have estimate 17% CAGR in sales and 22% CAGR in earnings over FY12-14E. We have revise up our earning estimates for FY13-14E by 6%-3% to INR19.6-INR21.2 per share, respectively, building in higher margins from strong operating performance (330bps margin expansion over FY13E), while assuming some margin compression in FY14 due to base effect of Lexapro and lower currency realizations. The increase in operating margins is partly offset by higher tax rate of 23.5% from 21% earlier guidance.

**Table 2: Change in Estimates**

	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	83,847	84,572	(0.9)	95,502	95,783	(0.3)	17% CAGR sales assuming USD21mn sales from Dymista (incl USD6mn milestone income) and USD20mn for Inhaler launch in EU during FY14
EBITDA	22,505	21,056	6.9	24,580	23,543	4.4	330 bps YOY margin expansion from higher currency realization, strong operational improvement and Lexapro contribution of USD60mn
EBITDA Margin	26.8	24.9		25.7	24.6		FY14 margins are estimated to see some compression due to Lexapro base effect and lower currency realizations
Core profit	15,713	14,824	6.0	17,042	16,515	3.2	PAT for FY13-14 post 23.5% tax rate higher than earlier estimate of 21% which partly offsets gain in operating performance
PAT Margin	19.2	17.9		18.3	17.6		
Capex	5,000	5,000	0.0	5,000	5,000	0.0	

Source: Edelweiss research

### Other key highlights of the conference call

Revenue growth of 23% (including other operating income) led by domestic growth of 13.5% and exports growth of 33% (38% in formulations and 9% API). Domestic growth in branded and unbranded was similar (at 14%) and management expects to maintain growth in-line with market over balance fiscal.

We estimate Lexapro revenue of USD60mn during exclusivity.

Other operating income included INR240mn export incentives, INR100m processing fees and INR50mn technological income.

EBITDA margins at 30.9% improved from 24.6% in Q2FY12 and 27.6% in Q1FY13 led by improvement in gross margins (140bps QoQ and 430bps YoY). Employee cots increased by 29%YoY due to annual increments.

Gross margin improvement was led by change in product mix with rationalization of low margin ARV sales, higher currency realization, incremental contribution from Lexapro and price increases across segments.

Indore SEZ received approval for USFDA. With the approval, company plans to file its own ANDA, a digression from previous strategy to participate via partnerships route in regulated markets. Cipla has filed 4 ANDAs over last six months for own franchise and expect to ramp-up the same going forward.

**Dymista:** started exporting the product and has not received milestone income (expected USD10mn) during the quarter. Management expects peak potential sales of USD25-30 from the product, going forward.

**Capex** of INR2bn in H1FY13 and maintains INR4-5bn guidance for FY13

Other income of INR641mn included INR260mn fore gain.

Tax rate at 23.5% was higher than 22% estimated and company has going forward guided increase in tax rate to 24% for FY13

Cash has increased to INR14.9bn by end Sept 2012 versus INR6.28bn in March 2012; management expects to prudently utilize this cash as and when the opportunity emerges

**Table 3: Revenue mix by segment – consolidated**

(INR mn)

Year to March	Q2FY13	Q2FY12	% change	Q1FY12	% change	FY12	FY13E	FY14E
Total Formulations	20,010	15,986	25.2	17,798	12.4	61,806	74,793	85,561
Domestic	9,620	8,470	13.6	9,697	(0.8)	32,129	37,912	43,978
Exports	10,390	7,516	38.2	8,101	28.3	29,677	36,881	41,583
API - exports	1,740	1,595	9.1	1,685	3.3	7,244	7,993	8,546
<b>Total gross sales</b>	<b>21,750</b>	<b>17,581</b>	<b>23.7</b>	<b>19,482</b>	<b>11.6</b>	<b>69,049</b>	<b>82,786</b>	<b>94,106</b>

Source: Edelweiss research

### Impending pricing policy risk to earnings

We highlights that Cipla generates 47% of its revenue from the domestic market. Implementation of new Drug Pricing Policy in any form (market base or cost base pricing) will have negative impact on Cipla's earnings. The impact on Cipla as per market based pricing (EGOM recommendation) will be 4% of FY14PBT while cost based pricing can knock 21% of FY14E PBT. We will remain this will remain an overhang on Cipla's valuation in near term.

**Financial Snapshot - Consolidated**

(INR mn)

Year to March	Q2FY13	Q2FY12	% change	Q1FY12	% change	FY12	FY13E	FY14E
Net revenue	21,919	17,780	23.3	19,582	11.9	69,892	83,847	95,502
Net revenue (excl other oper income)	21,459	17,318	23.9	19,174	11.9	69,582	83,472	94,826
Raw material costs	7,886	7,117	10.8	7,324	7.7	27,393	31,862	37,437
Gross profit	14,033	10,664	31.6	12,258	14.5	42,499	51,985	58,065
Employee costs	2,426	1,875	29.4	2,130	13.9	7,725	9,227	10,348
Other expenses	4,837	4,413	9.6	4,729	2.3	18,500	20,253	23,137
Total operating expenses	7,263	6,288	15.5	6,859	5.9	26,226	29,480	33,486
EBITDA	6,770	4,376	54.7	5,399	25.4	16,273	22,505	24,580
EBITDA margin (%)	30.9	24.6		27.6		23.3	26.8	25.7
EBITDA - excl tech sales	6,720	4,159	61.6	5,341	25.8	15,963	22,131	23,904
EBITDA margin - excl. other op inc (%)	31.3	24.0		27.9		22.9	26.5	25.2
Net finance expense (income)	54	24		11		154	43	43
Depreciation	740	656	12.7	728	1.6	3,122	3,240	3,679
Other income	381	243	56.9	297	28.6	953	1,319	1,420
PBT	6,358	3,939	61.4	4,956	28.3	13,950	20,540	22,277
Income tax expense	1,618	850	90.4	1,182	36.8	3,065	4,827	5,235
Core profit	4,740	3,090	53.4	3,774	25.6	10,884	15,713	17,042
Extraordinaries (loss)/gain	260	140		234		529	0	0
Net profit	5,000	3,230	54.8	4,008	24.8	10,356	15,713	17,042
Adjusted Profit after tax	4,803	2,980	61.2	3,820	25.7	10,996	14,255	17,042
<b>As % of revenues</b>								
COGS	36.0	40.0		37.4		39.2	38.0	39.2
Employee costs	11.1	10.5		10.9		11.1	11.0	10.8
Other expenses	22.1	24.8		24.2		26.5	24.2	24.2
Total operating expenses	33.1	35.4		35.0		37.5	35.2	35.1
Gross profit	64.0	60.0		62.6		60.8	62.0	60.8
EBITDA	30.9	24.6		27.6		23.3	26.8	25.7
EBITDA margin - excl. tech sales (%)	31.3	24.0		27.9		22.9	26.5	25.2
Net profit	22.8	18.2		20.5		14.8	18.7	17.8
Tax rate	25.4	21.6		23.9		22.0	23.5	23.5

## Company Description

Owned and managed by Dr. Y.K. Hamied, a second generation entrepreneur, Cipla is India's third largest company by domestic sales. Cipla's revenues (excluding tech fees) and profits have posted 17% and 13% CAGR in FY06-10, to INR 65 bn and INR 12 bn in FY10 respectively. Cipla's domestic formulations contribute 46% to total FY10 revenues (excluding tech fees) and have posted 14% CAGR in FY06-10. With a market share of ~5%, Cipla is the third largest player in the Indian market, with leadership positions in ARTs, respiratory and urology. Cipla's export sales (excluding tech fees) have grown at 22% CAGR during FY06-10, to INR 28 bn, in FY10. Africa, with 34% share, is the largest contributor to exports, followed by the Americas (26%) and Europe (17%).

## Investment Theme

We expect Cipla gross sales to grow at 17% CAGR to INR96bn by FY14E, led by 17-19% CAGR in domestic branded formulation and export formulations business to INR44bn and INR42bn, respectively. Bulk business is expected to grow at 11% CAGR in FY12-14E. We believe Cipla's growth profile and margin expansion render strong earnings growth. We expect net profit to grow at 24.5% CAGR in FY12-14E to INR 17bn. Further, timely approval of inhalers for EU and/or long-term partnerships with innovator companies could add large upsides to our estimates.

## Key Risks

### Contingent NPPA liability

NPPA (National Pharmaceutical pricing Authority) has served notice to Cipla demanding INR 12.3 bn (including interest) penalty for overcharging on certain products which comes under Drug Price Control Order (DPCO). Cipla has challenged the NPPA assertions and the matter is currently under sub-judice in the Supreme Court. We highlight that Cipla has not made any provisions for such a contingency and any adverse ruling can have one time material impact on its profitability. Moreover, Supreme Court in its recent verdict has asked Glaxo India to pay principal amount of outstanding dues to NPPA, over the dispute on pricing of DPCO controlled drug, which could be used as precedent for future litigations and thus increases risk for Cipla.

## Financial Statements

### Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
<b>Macro -</b>	GDP(Y-o-Y %)	8.4	8.4	6.5	5.8	6.5
	Inflation (Avg)	3.6	9.9	8.8	7.8	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.5	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	52.0
<b>Sector -</b>	Domestic growth (Y-o-Y %)	15.9	13.3	14.2	16.0	16.5
<b>Company -</b>	India growth (Y-o-Y %)	10.2	12.2	14.0	18.0	16.0
	Export formulation growth Y-o-	4.2	21.5	3.5	11.5	16.0
	API growth Y-o-Y %	(2.7)	23.2	(0.5)	(1.0)	10.0
	Tech income as % of exports	6.6	2.4	1.0	1.0	1.6
	R&D (% of sales)	4.5	4.1	4.4	4.0	4.0
	Tax rate (%)	18.4	16.8	21.2	23.5	23.5
	USD/INR (Avg)	47.1	44.8	48.0	53.5	52.0

### Income statement

(INR mn)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Income from operations	56,057	63,145	69,892	83,847	95,502
Materials costs	24,530	27,471	27,393	31,862	37,437
Employee costs	3,191	4,895	7,725	9,227	10,348
Total SG&A expenses	12,034	14,906	18,500	20,253	23,137
EBITDA	13,795	13,276	16,273	22,505	24,580
Depreciation & Amortization	1,671	2,542	3,122	3,240	3,679
Other income	285	1,050	1,481	1,319	1,420
Interest expenses	99	160	154	43	43
Profit before tax	12,311	11,625	14,478	20,540	22,277
Provision for tax	2,435	1,952	3,065	4,827	5,235
Net profit	9,876	9,673	11,413	15,713	17,042
Extraordinary income/ (loss)	950	-	-	-	-
Profit after minority interest	10,826	9,897	11,413	15,713	17,042
Diluted core EPS (INR)	13.1	11.9	13.7	17.8	21.2
CEPS (INR)	14.4	15.5	18.1	23.6	25.8
Dividend per share (INR)	2.0	2.8	3.1	4.0	5.3

### Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Materials costs	43.8	43.5	39.2	38.0	39.2
R & D cost	4.5	4.1	4.4	4.0	4.0
EBITDA margins	24.6	21.0	23.3	26.8	25.7
Net profit margins	18.4	15.8	16.7	19.2	18.3

### Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	7.1	12.6	10.7	20.0	13.9
EBITDA	11.2	(3.8)	22.6	38.3	9.2
PBT	37.3	(5.6)	24.5	41.9	8.5
Net profit	8.6	(9.3)	15.0	29.6	19.5
EPS growth (%)	8.6	(9.3)	15.0	29.6	19.5

<b>Balance sheet</b>						(INR mn)
<b>As on 31st March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	
Equity capital	1,606	1,606	1,606	1,606	1,606	
Reserves & surplus	57,500	65,056	74,784	86,744	98,801	
Shareholders funds	59,106	66,661	76,389	88,350	100,407	
Borrowings	51	5,719	541	541	541	
Deferred tax liability	1,792	2,131	2,332	2,332	2,332	
<b>Sources of funds</b>	<b>60,948</b>	<b>74,511</b>	<b>79,263</b>	<b>91,224</b>	<b>103,281</b>	
Gross block	28,973	42,411	46,269	54,981	59,981	
Depreciation	8,861	11,465	14,111	17,351	21,030	
Net block	20,112	30,946	32,158	37,630	38,951	
Investments	2,464	5,904	3,283	3,283	3,283	
Inventories	15,126	19,062	18,501	22,972	26,165	
Sundry debtors	15,666	14,908	15,536	23,201	26,688	
Cash and equivalents	621	1,010	10,310	12,038	17,907	
Loans and advances	11,682	11,619	9,412	9,992	10,630	
Other current assets	578	1	592	621	714	
Total current assets	43,673	46,599	54,350	68,823	82,104	
Sundry creditors and others	9,980	9,581	11,807	14,193	15,506	
Provisions	2,164	2,210	2,432	4,319	5,551	
Total current liabilities & provisions	12,143	11,791	14,240	18,512	21,057	
Net current assets	31,530	34,808	40,111	50,311	61,047	
<b>Uses of funds</b>	<b>60,948</b>	<b>74,511</b>	<b>79,263</b>	<b>91,224</b>	<b>103,281</b>	
Book value per share (INR)	73.6	83.0	95.1	110.0	125.1	

<b>Free cash flow</b>						(INR mn)
<b>Year to March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	
Net profit	10,826	9,897	11,413	15,713	17,042	
Depreciation	1,671	2,542	3,122	3,240	3,679	
Others	150	108	201	-	-	
Gross cash flow	12,647	12,546	14,736	18,953	20,721	
Less: Changes in WC	1,310	2,889	(7,662)	8,525	4,867	
Operating cash flow	11,337	9,657	22,398	10,429	15,854	
Less: Capex	5,037	9,386	5,193	5,000	5,000	
<b>Free cash flow</b>	<b>6,300</b>	<b>271</b>	<b>17,206</b>	<b>5,429</b>	<b>10,854</b>	

<b>Cash flow metrics</b>					
<b>Year to March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Operating cash flow	11,337	9,657	22,398	10,429	15,854
Investing cash flow	(6,700)	(12,826)	(2,624)	(4,948)	(5,000)
Financing cash flow	(4,568)	3,346	(7,920)	(3,753)	(4,985)
Net cash flow	69	177	11,854	1,728	5,869
Capex	(5,037)	(9,386)	(5,193)	(5,000)	(5,000)
Dividends paid	(1,873)	(2,615)	(2,895)	(3,753)	(4,985)



**Profitability & efficiency ratios**

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	20.6	15.2	15.4	17.3	18.1
ROACE (%)	21.7	17.0	19.6	25.4	24.6
Inventory day	217	227	250	238	240
Debtors days	116	91	81	86	98
Payable days	150	130	142	149	145
Cash conversion cycle (days)	183	188	189	175	192
Current ratio	3.6	4.0	3.8	3.7	3.9
Debt/EBITDA	-	0.4	-	-	-
Debt/Equity	-	0.1	-	-	-
Adjusted debt/equity	-	0.1	-	-	-

**Operating ratios**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	0.9	0.9	0.9	1.0	1.0
Fixed asset turnover	2.7	2.4	2.2	2.4	2.4
Equity turnover	1.0	1.0	1.0	1.0	1.0

**Valuation parameters**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	13.1	11.9	13.7	17.8	21.2
Y-o-Y growth (%)	8.6	(9.3)	15.0	29.6	19.5
CEPS (INR)	14.4	15.5	18.1	23.6	25.8
Diluted PE (x)	29.0	31.9	27.7	21.4	17.9
Price/BV (x)	5.2	4.6	4.0	3.5	3.0
EV/Sales (x)	5.4	4.8	4.2	3.5	3.0
EV/EBITDA (x)	21.9	22.9	17.9	12.9	11.6
Dividend yield (%)	0.5	0.7	0.8	1.1	1.4

**Peer comparison valuation**

	Market cap (INR bn)	EPS (INR)		P/E (x)		EV/EBITDA (x)		ROAE (%)	
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Sun Pharma	718	26.6	30.3	25.6	22.5	13.8	14.3	26.2	21.3
Cipla	305	17.8	21.2	21.4	17.9	12.9	11.6	17.3	18.1
Ranbaxy	226	14.3	19.5	33.3	24.4	9.6	13.2	52.0	25.6
Cadila	176	38.2	47.6	23.3	18.7	14.7	12.0	27.1	27.1
Dr. Reddy's	298	89.0	98.1	19.7	17.9	10.7	9.6	26.3	23.9
Lupin	253	26.3	33.0	22.2	17.7	13.8	11.0	25.9	26.8
<b>Large Cap</b>				<b>24.3</b>	<b>19.8</b>	<b>12.6</b>	<b>11.9</b>		
Glenmark	116	20.7	27.6	19.7	14.8	13.6	11.0	22.3	22.9
Torrent pharma	57	49.6	58.3	13.5	11.5	8.9	7.4	31.1	29.1
IPCA	59	32.8	41.6	14.0	11.1	9.0	7.2	28.4	30.9
Aurobindo	46	13.5	19.0	12.6	8.9	8.9	6.6	15.4	18.5
Unichem	17	13.9	16.9	13.5	11.1	7.5	6.5	26.5	26.5
<b>Mid cap</b>				<b>14.7</b>	<b>11.5</b>	<b>9.6</b>	<b>7.7</b>		
<b>Overall - Generics</b>				<b>19.5</b>	<b>15.7</b>	<b>11.1</b>	<b>9.8</b>		

Source: Edelweiss research

Note: Price to earning for Sun, Ranbaxy, Cipla, Dr. Reddy's and Glenmark is based on core EPS (ex-one-offs)

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Apollo Hospitals Enterprise	BUY	None	None	Aurobindo Pharma	BUY	SP	H
Cadila Healthcare	BUY	SO	L	Cipla	BUY	SO	L
Divi's Laboratories	BUY	SP	M	Dr.Reddys Laboratories	HOLD	SP	M
Glenmark Pharmaceuticals	BUY	SO	H	Ipca Laboratories	BUY	SO	L
Jubilant Life Sciences	BUY	SP	M	Lupin	BUY	SO	M
Ranbaxy Laboratories	REDUCE	SU	H	Sun Pharmaceuticals Industries	HOLD	SO	L
Torrent Pharmaceuticals	BUY	SO	H				

## 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
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	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@edelcap.com](mailto:research@edelcap.com)

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelweissfin.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelweissfin.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelweissfin.com	+91 22 4040 7499

**Coverage group(s) of stocks by primary analyst(s): Pharmaceuticals**

Apollo Hospitals Enterprise, Aurobindo Pharma, Cadila Healthcare, Cipla, Divi's Laboratories, Dr.Reddys Laboratories, Glenmark Pharmaceuticals, Ipca Laboratories, Jubilant Life Sciences, Lupin, Ranbaxy Laboratories, Sun Pharmaceuticals Industries, Torrent Pharmaceuticals

**Recent Research**

Date	Company	Title	Price (INR)	Recos
05-Nov-12	<b>Divi's Laboratories</b>	Smooth sailing; <i>Result Update</i>	1193	Buy
02-Nov-12	<b>Watson Pharma</b>	Strong guidance post Actavis acquisition; <i>Global Pulse</i>		Not Rated
02-Nov-12	<b>Teve Pharma</b>	The tipping point;; <i>Global Pulse</i>		

**Distribution of Ratings / Market Cap**

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

**Rating Interpretation**

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

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