

JUBILANT LIFE SCIENCES

Deleveraging afoot

India Equity Research | Pharmaceuticals



Jubilant Life Sciences' (JOL) Q3FY13 numbers were better than consensus, but below our expectations. Revenue, at INR13bn (up 20%), surpassed our expectation; however, EBIDTA margin at 20% and APAT at INR976mn were lower than our estimates of 21.4% (consensus 20.7%) and INR1.1bn, respectively. Despite lower growth in fixed cost, OPM expansion was restricted to 90bps because of higher raw material cost (up 400bps YoY). Management has highlighted that pricing environment in pyridine and vitamin is stabilising and it expects realisation to improve going forward. During 9mFY13, net debt at constant currency dipped by INR1.9bn, which clearly highlights the company's focus on deleveraging the balance sheet. Maintain 'BUY' with target price of INR290 (10x FY14E).

Healthy growth in core operations

JOL's revenue growth of 20% was driven by volume expansion of 23%, currency benefits of 6% and price decline of 9%. Within the pharma segment (up 18% YoY), new product launches in generics and specialty pharma were key growth drivers while strong volume expansion in PPES aided LSI segment's growth.

Consolidation to trigger superior realisation in LSI business

Pricing pressure in pyridine and vitamin business impacted LSI performance in Q3FY13. However, management has indicated that there are early signs of market consolidation and expects realisations to improve going ahead. JOL is confident of posting 20% revenue CAGR and higher EBIDTA margin over FY12-15E, driven by ramp-up in capacity utilisation and strong momentum in Pharma segment.

Looking to cut debt by over INR10bn by FY15E

Management has guided for debt repayment of INR10bn over FY13-15E, funded via internal accruals. JOL is looking to bring DE below 1 by FY15E.

Outlook and valuations: Positive horizon; maintain 'BUY'

With the improved earnings visibility (30% CAGR), focus on deleveraging balance sheet and better return ratios, we expect JOL to trade in line with long-term multiple. We maintain 'BUY/SP' with TP of INR 290.

Financials (Consolidated)

(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	FY12	FY13E	FY14E
Net revenue	13,064	10,953	19.3	12,250	6.6	42,782	49,896	58,231
EBITDA	2,598	2,087	24.5	2,603	(0.2)	8,485	10,223	12,246
Adj. net profit	977	(784)	(224.6)	1,025	(4.7)	3,384	3,887	5,331
Adj. diluted EPS (INR)	6.1	4.8		6.4		16.9	20.2	28.8
Diluted P/E (x)						13.0	10.9	7.6
EV/EBITDA (x)						8.4	6.9	5.4
ROAE (%)						15.0	15.5	18.3

Note: Q2FY13 and Q1FY13 conference call highlights detailed in the document

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: JUBO.BO, B: JOL IN)

CMP	: INR 219
Target Price	: INR 290
52-week range (INR)	: 249 / 151
Share in issue (mn)	: 159.3
M cap (INR bn/USD mn)	: 35/ 650
Avg. Daily Vol.BSE/NSE('000)	: 162.7

SHARE HOLDING PATTERN (%)

	Current	Q2FY13	Q1FY13
Promoters *	49.0	49.0	49.0
MF's, FI's & BK's	9.2	9.2	8.8
FII's	20.5	20.5	21.5
others	21.3	21.3	20.6
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	0.7	3.4	(0.4)
3 months	(8.1)	5.8	11.3
12 months	21.3	19.8	50.0

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Table 1: Actual v/s estimates

Year to March	Actual Q3FY13	Y-o-Y Growth (%)	Estimates Q3FY13	Deviation from Actual (%)	Comments
Net Revenue (excl other op. inc.)	13,018	19.4	12,522	4.0	Higher growth in PPES led outperformance
Raw material costs	5,348	34.1	4,758	12.4	Product mix and higher cont. of LSI impacted RM cost
Gross profit	7,716	10.8	7,804	(1.1)	
Gross margin(%)	59.3		62.3	NM	
Employee costs	2,383	4.5	2,492	(4.4)	Rationalisation in Clinsys business has positive impact
Other expenses	2,734	5.3	2,625	4.2	Operating leverage
Total operating expenses	5,118	4.9	5,117	0.0	
EBITDA	2,598	24.5	2,687	(3.3)	
EBITDA margin (%)	19.9	80 bps	21.4	(7.0)	Lower gross margins impacted operating performance
EBITDA margin (ex. op inc) (%)	20.0	0.0	21.5	(7.0)	
Net finance expense (income)	544	(4.5)	590	(7.9)	Debt repayment
Depreciation	632	17.2	650	(2.8)	
Other income	36	1.4	32	11.3	
PBT	1,459	43.9	1,479	(1.4)	
Income tax expense	354	298.2	296	19.6	
PAT	1,105	19.4	1,183	(6.6)	
Minority Interest	128	0.0	50	156.4	Higher contribution from US generic business
Forex loss	(710)	45.6	0	NM	
Adj. PAT	977	(224.6)	1,133	(13.8)	Lower OPM and higher tax outgo impacted PAT
Adjusted diluted EPS (INR)	6.1	0.0	7.1	(13.8)	

Source: Company, Edelweiss research

Q3FY13 conference call: Key highlights

Generics and specialty business aided growth momentum

In the pharmaceutical segment, JOL expects growth momentum to sustain, driven by new launches in the generic business, higher capacity utilisation in CMO and strong growth momentum in specialty pharma business.

In the specialty pharma business, new launches over the next 12-15 months such as Rubifil, Magnevist and Molyfil will drive growth.

Consolidation to trigger superior realisation in LSI segment

Capacity ramp up in Niacinamide and Symtet and strong volume growth in Pyridine are LSI segment's key growth drivers. Though the LSI segment posted good volume growth in Q3FY13, pricing pressure on vitamins and Pyridine impacted realisations.

The company has also indicated that though there was some delay in stabilisation of the Symtet plant, all the teething issues have been sorted out now.

Consolidation to trigger superior realization in LSI business

EBIDTA margins in the pharma segment expanded by 240bps to 29.3%, driven by strong volume growth and higher realization in generic business. On the other hand, soft pricing environment in Pyridine and vitamin continued to impact LSI realizations. Management has indicated some early signs of consolidation in pyridine and vitamin business (some Chinese players are closing pyridine facility) and expect gradual improvement in realization in LSI business.



Financial discipline will improve DE

JOL has repaid debt of ~INR1bn while cash has increased by INR700mn during 9mFY13. The capex so far has been INR3.14bn (annual capex guidance of INR3.5bn). Management has highlighted that FY14 capex will be lower than FY13 and all incremental accruals will be used to repay the debt. The company is looking to repay debt of over INR10bn by FY15E.

Other highlights

Management maintained 20% revenue growth and 21% EBIDTA margin for FY13E.

The dollar realisation for FY13 works out to INR53.96 while forward hedges of USD302mn for FY14 stand at INR58.3/ USD.

Tax rate guidance for FY13: 25% of PBT.

Financial snapshot

(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13	FY13E	FY14E
Net revenues	13,064	10,953	19.3	12,250	6.6	30,938	49,896	58,231
Net Revenue (excl other operating income)	13,018	10,905	19.4	12,197	6.7	30,829	49,654	57,988
Raw material costs	5,348	3,987	34.1	4,589	16.5	12,550	18,620	21,920
Gross profit	7,716	6,966	10.8	7,660	0.7	18,388	31,276	36,312
Employee expenses	2,383	2,282	4.5	2,440	(2.3)	6,240	10,328	11,830
Other expenses	2,734	2,598	5.3	2,618	4.5	3,631	10,725	12,236
Total expenditure	5,118	4,879	4.9	5,058	1.2	9,871	21,053	24,065
EBITDA	2,598	2,087	24.5	2,603	(0.2)	8,517	10,223	12,246
Operating margin (%)	19.9	19.1		21.2		27.5	20.5	21.0
EBITDA margin (excl other operating income) (%)	20.0	19.1		21.3		27.6	20.6	21.1
Depreciation	632	539	17.2	620	1.9	1,545	2,500	2,800
Other income	36	35	1.4	35	2.9	106	120	80
Net finance expense	544	569	(4.5)	574	(5.3)	1,500	2,348	2,092
Profit before tax	1,459	1,014	43.9	1,443	1.1	5,578	5,495	7,434
Tax	354	89	298.2	353	0.2	333	1,374	1,859
Core profit	1,105	925	19.4	1,090	1.4	5,245	4,122	5,576
Extraordinary items	838	1,709	(51.0)	(430)	(294.9)	304	235	245
Net profit	267	(784)	(134.0)	1,520	(82.4)	4,941	3,887	5,331
Adjusted net profit	977	771	26.7	1,025	(4.7)	1,242	3,887	5,331
Adj. EPS (INR)	6.1	4.8		6.4		7.8	20.2	28.8
COGS	40.9	36.4		37.5		40.6	37.3	37.6
Gross profit	59.1	63.6		62.5		59.4	62.7	62.4
Employee cost	18.2	20.8		19.9		20.2	20.7	20.3
Other expenses	20.9	23.7		21.4		11.7	21.5	21.0
Total expenses	39.2	44.5		41.3		31.9	42.2	41.3
EBITDA	19.9	19.1		21.2		27.5	20.5	21.0
Reported net profit	2.0	(7.2)		12.4		16.0	7.8	9.2
Tax rate	24.2	8.8		24.5		6.0	25.0	25.0

Table 2: Segmental revenue, EBITDA and margin performance

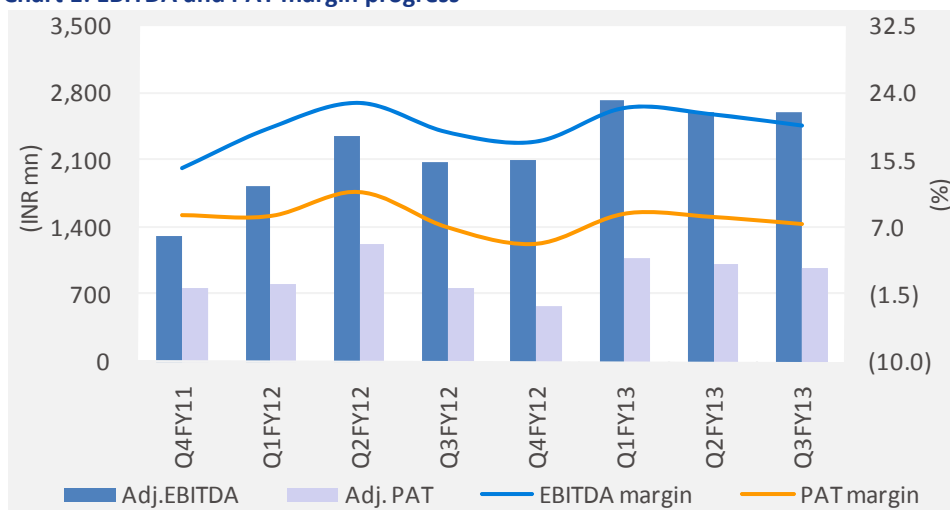
Revenue (INR mn)					
Segments	Q3FY13	Q3FY12	YoY Growth(%)	Q2FY13	QoQ Growth(%)
Pharmaceuticals	6650	5610	18.0	6500	2.0
Life Science Ingredients	6410	5340	20.0	5730	186.0
Income from Operations	13060	10950.0	19.0	12230	7.0

EBITDA (INR mn)					
Segments	Q3FY13	Q3FY12	YoY Growth(%)	Q2FY13	QoQ Growth(%)
Pharmaceuticals	1950	1510	29.1	1800	8.3
Life Science Ingredients	980	800	22.5	770	27.3
Reported EBITDA	2930	2310	26.8	2570	14.0

Margins (%)					
Segments	Q3FY13	Q3FY12	YoY Variance (Bps)	Q2FY13	QoQ Variance (Bps)
Pharmaceuticals	29.3	26.9	(240.0)	27.7	165.0
Life Science Ingredients	15.4	15	(38.0)	13.5	186.0
Reported EBITDA	20.2	19.4	(79.0)	22	(188.0)

Source: Company, Edelweiss research

Chart 1: EBITDA and PAT margin progress



Source: Company, Edelweiss research

Key Highlights & Relevant Data Points of Conference Call for Q2FY13

Revenues for the Quarter(INR 12250 mn) grew 16% YoY whereas H1FY13(INR 24650 mn) grew at 23% YoY

EBITDA margins at 21.9% grew marginally by 30 bps and profit after tax grew robustly at 92% YoY

The forex rate for H1 is INR 53, the balance fiscal it will be INR 54 and for the next year up to December 2013 has been covered at Rs. 59.23

NCA is assumed at 22% of sales

Net Debt is around INR 35950 mn, having dollar debt of USD 633 mn and INR debt of 7180 mn and cash of INR 3110 mn. It is guided to be stable and no increase in real debt is expected. There is a repayment schedule for the international debt from the subsidiaries cash generation. The management guides a repayment of INR 930 mn in FY13 and INR 3.9 bn in FY14. No repayment schedule for domestic debt.

Symtet capacity is 24000 tonnes, which contains two plants, first has stabilized this year and other shall commercialize from Q4FY13

Margin Pressure on Ingredients business: In ingredients business there is a reduction in margins by 6-7% due to

- EBITDA margins in life science business being at 8% this quarter versus normal levels at 12-14%.
- Competition in the vitamin business, but management believes that they are surviving better due to integrated facility and cost competitive advantage
- Delay in start up of the Symtet facility.

The management is confident that this is an exception and the normal margin levels will be achieved in the next 6 months.

Company description

JOL was founded in 1982 as a bulk chemicals producer and over the past decade has made a transition to an integrated solution provider in pharmaceuticals (51% of revenue) and LSI (49% of revenue) segments. The company now is one of the largest CRAMS players with presence in high-value derivatives like Pyridines, advance intermediaries, CMO, specialty pharmaceuticals like radio pharmaceuticals and drug discovery services. Within pharmaceuticals, the business segment is distributed between product and services where product business contributes 30% to pharmaceutical revenue while service segment contributes balance 21%. Within the LSI segment, PPES and Vitamins put together contribute 27% to revenue and balance 22% comes from life science chemicals. Proprietary products and exclusive synthesis (PPES) contribute 21% to revenue and enjoys operating margins in excess of 30%.

Investment theme

Jubilant Life's (JOL) recent performance highlights the improvement in core business. Capacity ramp up, new orders coupled with improved realisation have enhanced the earnings visibility over the next two years. We expect JOL to report 30% earnings CAGR over FY13-15E, driven by (a) 17% revenue CAGR and (b) 70 bps margin expansion. With improved earnings visibility and focus on balance sheet, we expect the stock to trade in its long term average of 8-10x. We have set a 12-m PE base target price of INR290 (9x FY14E; 35% upside potential).

Key risks

- Price volatility in PPES business can impact profitability
- Entry of new generics can hit generic formulation growth
- Isotope supply risk
- Currency risks

Financial Statements

Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.5	5.5	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
Sector				
India pharma market growth (Y-o-Y) %	16.0	14.1	13.0	15.0
Company				
Total Revenue (INR terms)	42,780	49,654	57,988	67,418
Pharmaceuticals	21,750	25,182	29,601	34,409
% of change	40.7	15.8	17.5	16.2
API	4,480	5,152	6,182	7,233
% of change	32.5	15.0	20.0	17.0
Generics	5,370	6,176	7,411	8,893
% of change	160.7	15.0	20.0	20.0
Specialty Pharma	3,110	3,432	3,893	4,436
% of change	25.0	10.4	13.4	13.9
Contract manufacturing	6,210	7,706	9,247	10,819
% of change	17.2	24.1	20.0	17.0
DDDS	2,440	2,562	2,690	2,825
% of change	15.6	5.0	5.0	5.0
Healthcare	140	154	177	204
% of change	16.7	10.0	15.0	15.0
Life Sciences Ingredients	21,030	24,472	28,387	33,008
Proprietary Prod. & Excl. Synthesis	9,320	11,361	13,292	15,552
% of change	(2.3)	21.9	17.0	17.0
Nutritional Ingredients	2,110	2,743	3,566	4,636
% of change	9.9	30.0	30.0	30.0
Life Science Chemicals	9,600	10,368	11,529	12,820
% of change	27.3	8.0	11.2	11.2
EBITDA margins (%)	19.9	20.6	21.1	21.3
API	21.0	22.0	22.0	23.0
Generics	45.0	38.0	33.0	28.0
Specialty Pharma	12.0	9.1	9.1	9.1
Contract manufacturing	15.0	20.0	22.0	23.0
DDDS	5.0	8.0	8.4	8.4
Healthcare	(6.5)	1.0	1.4	1.4
Proprietary Prod. & Excl. Synthesis - Life	30.0	30.0	31.0	31.0
Nutritional Ingredients - Life Sciences	10.0	12.0	15.0	18.0
Life Science Chemicals	8.0	9.0	10.0	11.0
ANDA filings (per annum)	21	-	-	-
USD/INR (Avg)	48.0	54.0	54.0	52.0
Capex (USD mn)	238	65	46	67
Net debt to equity ratio(x)	1.5	1.3	1.0	0.7

Income statement

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Income from operations	42,782	49,896	58,231	67,661
Materials costs	16,275	18,620	21,920	25,416
Employee costs	8,364	10,328	11,830	13,753
Total SG&A expenses	9,659	10,725	12,236	14,158
EBITDA	8,485	10,223	12,246	14,333
Depreciation & Amortization	2,207	2,500	2,800	3,200
EBIT	6,279	7,723	9,446	11,133
Other income	196	120	80	80
Interest expenses	2,096	2,348	2,092	1,832
Profit before tax	4,379	5,495	7,434	9,381
Provision for tax	684	1,374	1,859	2,439
Extraordinary income/ (loss)	3,238	-	-	-
Minority interest	311	235	245	293
Profit after minority interest	146	3,887	5,331	6,649
Diluted EPS (INR)	16.9	20.2	28.8	37.0
Dividend per share (INR)	3.0	3.0	3.0	3.0

Common size metrics

Year to March	FY12	FY13E	FY14E	FY15E
Materials costs	38.0	37.3	37.6	37.6
Employee expenses	19.5	20.7	20.3	20.3
Operating margins	20	20	21	21
Net profit margins	8.7	8.3	9.6	10.3

Growth ratios (%)

Year to March	FY12	FY13E	FY14E	FY15E
Revenues	24.3	16.6	16.7	16.2
EBITDA	53.3	20.5	19.8	17.0
Net profit	37.8	11.5	35.3	24.5
EPS	25.6	19.2	42.6	28.8

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	159	159	159	159	
Reserves & surplus	23,138	26,547	31,401	37,571	
Shareholders funds	23,298	26,707	31,560	37,731	
Minority interest (BS)	690	924	1,169	1,462	
Short term debt	9,790	7,671	7,671	7,671	
Long term debt	28,399	29,015	24,515	20,515	
Borrowings	38,189	36,686	32,186	28,186	
Deferred tax liability	2,137	2,137	2,137	2,137	
Sources of funds	64,314	66,454	67,052	69,516	
Tangible assets	27,428	33,880	35,301	37,322	
Intangible assets	17,173	18,577	16,856	15,135	
CWIP (incl. intangible)	6,855	-	-	-	
Total net fixed assets	51,457	52,457	52,157	52,457	
Non current investments	192	192	192	192	
Cash and equivalents	2,672	2,446	2,072	2,183	
Inventories	10,202	10,203	11,598	13,484	
Sundry debtors	6,527	7,346	8,261	9,605	
Loans and advances	6,123	7,258	8,675	10,278	
Other current assets	1,183	1,183	1,183	1,183	
Total current assets (ex cash)	24,035	25,990	29,717	34,549	
Trade payable	8,370	11,155	13,028	15,146	
Others current liabilities	5,673	3,476	4,059	4,719	
Total current liabilities &	14,043	14,631	17,087	19,865	
Net current assets (ex cash)	9,993	11,359	12,630	14,684	
Uses of funds	64,314	66,454	67,052	69,516	
Book value per share (INR)	146.3	167.7	198.1	236.9	

Free cash flow		(INR mn)			
Year to March	FY12	FY13E	FY14E	FY15E	
Net profit	457	4,122	5,576	6,942	
Depreciation	2,207	2,500	2,800	3,200	
Others	3,171	3	-	-	
Gross cash flow	5,835	6,625	8,376	10,142	
Less: Changes in WC	4,171	1,370	1,271	2,054	
Operating cash flow	1,663	5,255	7,105	8,088	
Less: Capex	11,415	3,500	2,500	3,500	
Free cash flow	(9,751)	1,755	4,605	4,588	

Cash flow metrics				
Year to March	FY12	FY13E	FY14E	FY15E
Operating cash flow	1,663	5,255	7,105	8,088
Investing cash flow	(11,279)	(3,500)	(2,500)	(3,500)
Financing cash flow	(655)	(1,978)	(4,978)	(4,478)
Net cash flow	(10,271)	(223)	(373)	110
Capex	(11,415)	(3,500)	(2,500)	(3,500)
Dividends paid	(478)	(478)	(478)	(478)

Profitability & efficiency ratios				
Year to March	FY12	FY13E	FY14E	FY15E
ROAE (%)	15.0	15.5	18.3	19.2
ROACE (%)	11.0	12.3	14.6	16.8
Inventory day	192	200	182	180
Debtors days	50	51	49	48
Payable days	152	191	201	202
Cash conversion cycle (days)	90	59	29	26
Current ratio	1.7	1.8	1.7	1.7
Debt/EBITDA	4.5	3.6	2.6	2.0
Debt/Equity	1.6	1.4	1.0	0.7
Adjusted debt/equity	1.6	1.4	1.0	0.7

Operating ratios				
Year to March	FY12	FY13E	FY14E	FY15E
Total asset turnover	0.7	0.8	0.9	1.0
Fixed asset turnover	1.7	1.6	1.7	1.9
Equity turnover	1.9	2.0	2.0	1.9

Valuation parameters				
Year to March	FY12	FY13E	FY14E	FY15E
Diluted EPS (INR)	16.9	20.2	28.8	37.0
Y-o-Y growth (%)	25.6	19.2	42.6	28.8
CEPS (INR)	35.1	40.1	51.0	61.8
Diluted PE (x)	13.0	10.9	7.6	5.9
Price/BV (x)	1.5	1.3	1.1	0.9
EV/Sales (x)	1.6	1.4	1.1	0.9
EV/EBITDA (x)	8.4	6.9	5.4	4.4
Dividend yield (%)	1.4	1.4	1.4	1.4

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		EV/EBITDA (X)		ROAE (%)	
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Jubilant Life Sciences	649	10.9	7.6	6.9	5.4	15.5	18.3
Dishman Pharmaceuticals & Chemicals	158	9.6	7.1	5.9	5.0	36.2	43.4
Divi's Laboratories	2,642	21.2	16.9	15.9	12.6	28.3	28.7
Shasun Pharmaceuticals Ltd	105	8.0	6.1	6.0	4.7	118.3	99.3
Median	-	10.2	7.3	6.4	5.2	32.3	36.1
AVERAGE	-	12.4	9.4	8.7	6.9	49.6	47.4

Source: Bloomberg, Edelweiss research

Additional Data

Directors Data

Shyam S Bhartia	Chairman & Managing Director	Hari S Bhartia	Co-Chairman & Managing Director
Shyamsundar Bang	Executive Director	Surendra Singh	Director
Naresh Trehan	Director	H K Khan	Director
Abhay Havaladar	Director	Inder Mohan Verma	Director
Shardul S Shroff	Director	Suresh Kumar	Additional Director

Auditors - K N Gutgutia & Co

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Samena Capital Management LLP	3.81	GCIC Ltd.	2.99
The Boston Company Asset Management LLC	2.29	Dreyfus Investment Advisors, Inc.	1.11
Canara Robeco Asset Management Co. Ltd.	0.61	Dimensional Fund Advisors, Inc.	0.54
Principal PNB Asset Management Co. Pvt Ltd.	0.32	CIBC Global Asset Management, Inc.	0.30
Handelsbanken Fonder AB	0.19	State Street Global Advisors	0.17

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Apollo Hospitals Enterprise	HOLD	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



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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
28-Jan-13	Glenmark Pharma	Strong upside form launch of Bactroban cream in US; <i>EdelFlash</i>	513	Buy
24-Jan-13	Lupin	Back to back OC approvals; <i>EdelFlash</i>	589	Buy
23-Jan-13	Sun Pharma	Global pursuits may singe premium valuations; <i>Company Update</i>	710	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	118	46	17	181
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	117	57	7	

Rating Interpretation

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

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