

| INDUSTRY | PHARMA |
|--------------------------------|---------------|
| CMP (as on 30 Oct 2013) | Rs 902 |
| Target Price | Rs 994 |
| Nifty | 6,252 |
| Sensex | 21,034 |

KEY STOCK DATA

| | |
|-----------------------------|----------------|
| Bloomberg /Reuters | LPC IN/LUPN.BO |
| No. of Shares (mn) | 448 |
| MCap (Rs bn) / (\$ mn) | 404/6,596 |
| 6m avg traded value (Rs mn) | 983 |

STOCK PERFORMANCE (%)

| | Rs 946 / 557 | | |
|--------------|--------------|------|------|
| | 3M | 6M | 12M |
| Absolute (%) | 7.4 | 28.4 | 59.4 |
| Relative (%) | (1.3) | 20.6 | 45.3 |

SHAREHOLDING PATTERN (%)

| | |
|-----------------|-------|
| Promoters | 46.78 |
| FIs & Local MFs | 12.07 |
| FIIIs | 31.45 |
| Public & Others | 9.70 |

Source : BSE

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In line quarter, outlook strong

Lupin Ltd (LPC) results were in line with expectations. Domestic formulations growth at 9% was ahead of our expectations (5%). US sales were a disappointment at US\$167mn, however management indicated to post ~US\$775mn (in line with our expectations) for the fiscal. Gross margins expanded by ~800bps due to currency benefits, however ~200bps increase in employee spend as well as other expenses restricted EBIDTA margins at 24.7%. Higher tax rate at 38%, resulted to Adj PAT of Rs 4.04b (up 35%), in spite of higher other income of Rs0.8bn.

Main concern for LPC in recent times has been increasing competition in its US branded portfolio and gTricor, but we believe interesting opportunities lined up in 2HFY14 and gradual ramp up in the OC's portfolio would more than offset for the weakness. With most visible pipeline for the US and a strong product portfolio at homeland, we firmly believe LPC is poised for strong 20/25% CAGR on its revenue/PAT for the coming years. Delays in US approvals remain key risk to our call.

FINANCIAL SUMMARY

| Year Ending March (Rs mn) | 2QFY14 | 2QFY13 | YoY (%) | 1QFY14 | QoQ (%) | FY12 | FY13 | FY14E | FY15E |
|---------------------------|--------|--------|---------|--------|---------|--------|--------|---------|---------|
| Net Sales | 26,315 | 22,393 | 17.5 | 24,207 | 8.7 | 68,204 | 93,694 | 111,168 | 134,584 |
| EBITDA | 6,596 | 5,159 | 27.8 | 5,895 | 11.9 | 14,447 | 22,700 | 27,009 | 33,377 |
| APAT | 4,062 | 2,905 | 39.8 | 4,011 | 1.3 | 8,745 | 13,025 | 17,573 | 20,225 |
| Diluted EPS (Rs) | 9.1 | 6.5 | 39.2 | 9.0 | 0.8 | 19.6 | 29.1 | 39.3 | 45.2 |
| P/E (x) | - | - | - | - | - | 52.2 | 31.0 | 23.0 | 20.0 |
| EV / EBITDA (x) | - | - | - | - | - | 28.7 | 18.9 | 15.0 | 11.9 |
| RoE (%) | - | - | - | - | - | 23.8 | 28.5 | 29.5 | 26.8 |

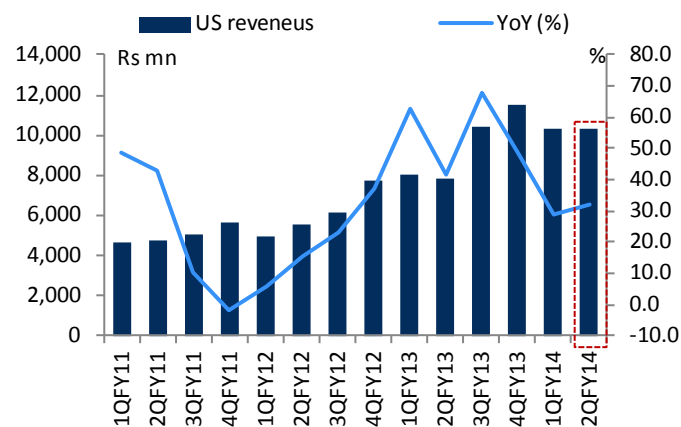
Source: Company, HDFC sec Inst Research

HDFC securities Institutional Research is also available on Bloomberg HSLB <GO> & Thomson Reuters

- US – 2H to be sanguine :** Though LPC has posted lower than expected US revenues, management indicated of ~US\$775mn revenues for the fiscal. Lower than expected revenues were due to expiration of Aero chamber deal with Forest and lower sales in anti-infective products. Limited competition in 2HFY14 would keep the momentum strong. We largely maintain our estimates at US\$773/946mn in FY14/15E for US.
- Fierce gross margin expansion :** LPC's gross margins expanded by ~800bps YoY at 68% driven by currency benefit on both operational as well as translation front. However, if currency remains at current levels, we expect gross margins to subside back to its run-rate of 62-63%.
- Domestic formulations growth to taper :** Owing to high base of 2HFY13 and weak 1HFY14, management has lowered its growth guidance for the segment from 15% to 10-11%.
- We remain positive on the stock and maintain Buy with a revised target price of Rs 994 at 22x its FY15E EPS of Rs 45.2 (earlier Rs 42.8).

Business highlights

Disappointment continued

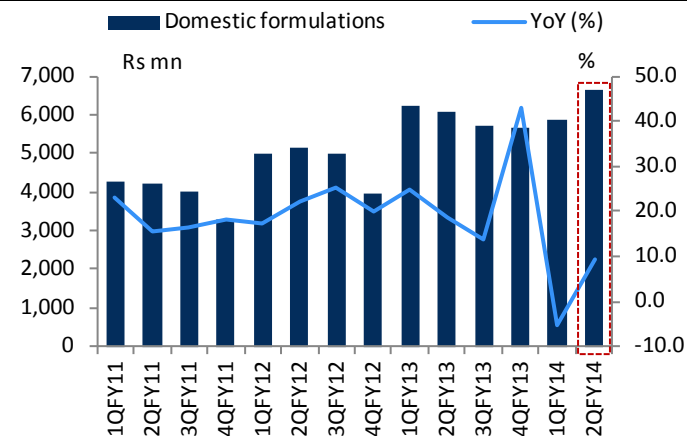


Source: Company, HDFC sec Inst Research

US revenues [43% of sales]

- US revenues were at Rs 10.3bn, up 32% in rupee terms and ~16% in dollar terms (USD 167mn).
- LPC's deal with Forest labs to promote Aero chambers expired last quarter, which partially led to lower than expected US revenues.
- Branded generics contribution came down significantly to 11% during the quarter from ~20% levels in earlier quarter.
- Generic revenues were ~USD 150mn, due to increased competition on Tricor. Lower off take in anti-infective segment also kept the revenues low.
- We expect limited competition opportunities like Niaspan, Trizivir and Trilipix to materialize in 2HFY14.
- We tone down our expectation for OC's to US\$ 40/89mn from US\$55/114mn owing to intense competition. Overall we expect LPC to post US\$ 773/946mn revenues for US segment.

Manages a good show

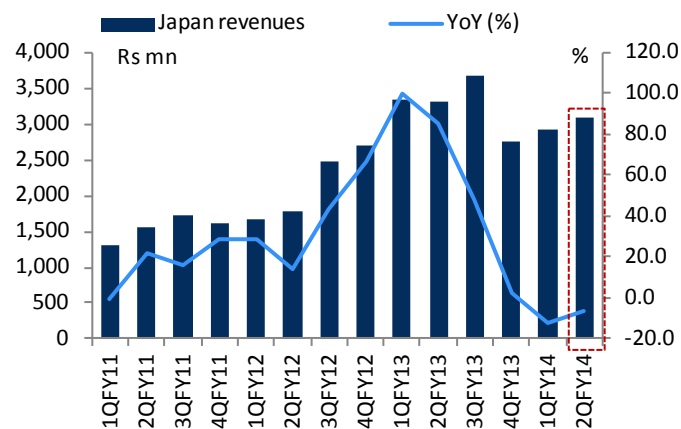


Source: Company, HDFC sec Inst Research

Domestic revenues [23% of sales]

- Domestic formulations posted growth of 9% during the quarter at Rs 6.6bn.
- LPC has not given into the demands of wholesaler/retailer for higher margins and this could lead to some more restriction in growth for coming quarters.
- Owing to high base of 2HFY13, management has further revised its guidance from 15% to 10-11% for the segment in FY14E. (Last quarter management revised it from 18% to 15%).
- However, we expect revival in FY15E, given the strong product portfolio and proven track record of consistently outperforming IPM.
- We revise our growth for FY14 from 13.4% to 10.5% and maintain 18.5% for FY15E.

l'rom de-growth to continue



Source: Company, HDFC sec Inst Research

Japan revenues [12% of sales]

- Japan posted de-growth of 6% during the quarter in rupee terms at Rs 3.1bn.
- l'rom revenues degrew by 11% for the quarter resulting in weak Japan sales. l'rom constitutes ~30% to the region.
- l'rom contract manufacturing segment (30% contribution to sales) continued to see lower off take resulting in de-growth.
- LPC expects l'rom sales to remain under pressure for the fiscal and expects it to de-grow by 7-8%. Hence we revise our l'rom growth estimates from 11% growth to 7% de-growth.
- Kyowa maintained its growth at 9% for the quarter, we expect it to grow at 12% CAGR over FY13-15E.
- Overall, including both subsidiaries, We expect Japan to post 7% growth (earlier 12%) in rupee terms.

Key highlights of concall

- LPC expects Niaspan to be a limited competition opportunity in spite of 7/8 filers for the product. Expects to enter the market in Teva's exclusivity, ending in Mar-14
- Management expects to regain its revenues loss on Antara through its low dosage launch of 90mg Antara.
- Tricor still has 30% market share post Maylan entry. Price has although seen some correction.
- For US, Lupin plans to enter inhalation, derma and controlled substance areas in the coming future.
- Antara market share – Lupin at 35%, Lupin AG at 40%, Mylan at 25%
- Antara – Apotex yet to launch the product.
- Other income includes forex gain of Rs 714mn (Reported Other income at Rs 814mn).
- However, overall forex impact in PAT at Rs 42mn.

QUARTERLY FINANCIALS SNAPSHOT

| (Rs mn) | 2QFY14 | 2QFY13 | YoY (%) | 1QFY14 | QoQ (%) |
|-----------------------------------|--------|--------|---------|--------|---------|
| Net Sales | 26,315 | 22,393 | 17.5 | 24,207 | 8.7 |
| Material Expenses | 8,413 | 8,898 | (5.4) | 8,748 | (3.8) |
| Employee Expenses | 3,682 | 3,000 | 22.7 | 3,281 | 12.2 |
| Other Operating Expenses | 5,816 | 5,014 | 16.0 | 4,882 | 19.1 |
| Research and Development expenses | 2,172 | 935 | 132.3 | 1,956 | 11.0 |
| Operating Profits | 6,232 | 4,545 | 37.1 | 5,340 | 16.7 |
| Other Operating Income | 364 | 614 | (40.7) | 555 | (34.4) |
| EBITDA | 6,596 | 5,159 | 27.8 | 5,895 | 11.9 |
| EBITDA (excl one-offs) | 6,596 | 5,159 | 27.8 | 5,895 | 11.9 |
| Interest Cost | 49 | 101 | (51.5) | 54 | (10.1) |
| Depreciation | 606 | 690 | (12.2) | 624 | (2.9) |
| Other Income | 857 | 43 | 1,882.9 | 1,009 | (15.1) |
| PBT | 6,798 | 4,412 | 54.1 | 6,226 | 9.2 |
| Tax | 2,582 | 1,438 | 79.5 | 2,172 | 18.9 |
| RPAT | 4,216 | 2,974 | 41.8 | 4,055 | 4.0 |
| Minority interest | (111) | (69) | 60.9 | (44) | 152.3 |
| Reported PAT | 4,062 | 2,905 | 39.8 | 4,011 | 1.3 |
| E/o (adj for tax) | (16) | 85 | - | - | - |
| APAT | 4,045 | 2,989 | 35.3 | 4,011 | 0.9 |

Source: Company, HDFC sec Inst Research

MARGIN ANALYSIS

| Margin Analysis | 2QFY14 | 2QFY13 | YoY (bps) | 1QFY14 | QoQ (bps) |
|--|--------|--------|-----------|--------|-----------|
| Material Expenses as % of Net Sales | 32 | 40 | (776.5) | 36 | (416.6) |
| Employee Expenses as % of Net Sales | 14 | 13 | 59.4 | 14 | 43.7 |
| Other Operating Expenses as % of Net Sales | 22 | 22 | (29.2) | 20 | 193.5 |
| Operating Margin (%) | 24 | 20 | 338.5 | 22 | 162.1 |
| EBITDA Margin (%) | 25 | 22 | 229.8 | 24 | 91.5 |
| Adj EBITDA Margin (%) | 25 | 22 | 229.8 | 24 | 91.5 |
| APAT Margin (%) | 15 | 13 | 217.0 | 16 | (103.4) |

Source: Company, HDFC sec Inst Research

SALES MIX

| (Rs mn) | 2QFY14 | 2QFY13 | YoY (%) | 1QFY14 | QoQ (%) | FY12 | FY13 | FY14 | FY15 |
|-------------------------|----------|--------|---------|--------|---------|--------|--------|---------|---------|
| Formulations | 23,942.0 | 20,001 | 20 | 21,778 | 10 | 60,163 | 84,447 | 101,059 | 123,492 |
| - Domestic Formulations | 6,635.0 | 6,064 | 9 | 5,894 | 13 | 19,374 | 23,840 | 26,336 | 31,214 |
| - US formulaitons | 10,349.0 | 7,818 | 32 | 10,350 | (0) | 24,230 | 36,830 | 47,183 | 59,574 |
| - US generics (Inc IP) | 9,257 | 6,254 | 48 | 9,200 | 1 | 17,203 | 29,096 | 39,702 | 51,574 |
| - US Branded | 1,092 | 1,564 | (30) | 1,150 | (5) | 7,027 | 7,734 | 7,481 | 8,000 |
| - Japan formulations | 3,098.0 | 3,301 | (6) | 2,923 | 6 | 8,577 | 13,068 | 13,926 | 15,704 |
| - Europe formulaitons | 741.0 | 626 | 18 | 644 | 15 | 1,975 | 2,356 | 2,718 | 2,990 |
| - Other EM formulations | 3,119.0 | 2,192 | 42 | 1,967 | 59 | 6,007 | 8,353 | 10,895 | 14,011 |
| API | 2,392.0 | 2,392 | 0 | 2,429 | (2) | 8,885 | 9,498 | 10,110 | 11,092 |
| Revenues | 26,334.0 | 22,393 | 18 | 24,207 | 9 | 69,048 | 93,945 | 111,168 | 134,584 |

Source: Company, HDFC sec Inst Research

CHANGE IN ESTIMATES

| (Rs mn) | Revised | | Old | |
|-----------|---------|---------|---------|---------|
| | FY14E | FY15E | FY14E | FY15E |
| Net Sales | 111,168 | 134,584 | 115,750 | 134,284 |
| EBIDTA | 27,009 | 33,377 | 28,778 | 32,897 |
| EBIDTA % | 23.9 | 24.4 | 24.5 | 24.1 |
| APAT | 17,573 | 20,225 | 16,452 | 19,105 |

Source: HDFC sec Inst Research

INCOME STATEMENT

| Year ending March (Rs mn) | FY11 | FY12 | FY13 | FY14E | FY15E |
|------------------------------------|---------------|---------------|---------------|----------------|----------------|
| Net Sales | 56,478 | 68,204 | 93,694 | 111,168 | 134,584 |
| Growth (%) | 19.1 | 20.8 | 39.6 | 16.7 | 21.1 |
| Material Expenses | 22,379 | 26,039 | 35,480 | 40,021 | 50,469 |
| Employee Expenses | 7,677 | 9,695 | 12,488 | 15,235 | 18,587 |
| Other Operating Expenses | 16,353 | 20,648 | 25,745 | 30,661 | 34,228 |
| Operating Profits | 10,068 | 11,822 | 19,981 | 25,252 | 31,299 |
| Operating Profit Margin (%) | 17.6 | 17.0 | 19.3 | 21.1 | 21.7 |
| Other Operating Income | 1,712 | 2,626 | 1,797 | 1,758 | 2,078 |
| EBIDTA | 11,780 | 14,447 | 21,778 | 27,009 | 33,377 |
| EBIDTA (%) | 20.2 | 20.4 | 23.5 | 23.9 | 24.4 |
| EBIDTA Growth (%) | 19.7 | 22.6 | 57.1 | 19.0 | 23.6 |
| Other Income | 222 | 143 | 279 | 2,317 | 739 |
| Depreciation | 1,712 | 2,275 | 3,322 | 2,806 | 3,641 |
| EBIT | 10,290 | 12,315 | 18,734 | 26,520 | 30,475 |
| Interest | 345 | 355 | 410 | 354 | 359 |
| Forex gain/loss | - | - | - | - | - |
| PBT | 9,945 | 11,961 | 18,324 | 26,167 | 30,116 |
| Tax | 1,169 | 3,086 | 5,842 | 8,243 | 9,487 |
| PAT | 8,776 | 8,875 | 12,482 | 17,924 | 20,629 |
| Minority Interest | (168) | (199) | (263) | (351) | (404) |
| EO items (net of tax) | - | - | - | - | - |
| APAT | 8,048 | 7,717 | 13,025 | 17,573 | 20,225 |
| APAT Growth (%) | 19.9 | (4.1) | 68.8 | 34.9 | 15.1 |
| EPS | 18.0 | 17.3 | 29.1 | 39.3 | 45.2 |
| EPS Growth (%) | 19.9 | (4.1) | 68.8 | 34.9 | 15.1 |

Source: Company, HDFC sec Inst Research

BALANCE SHEET

| Year ending March (Rs mn) | FY11 | FY12 | FY13 | FY14E | FY15E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| SOURCES OF FUNDS | | | | | |
| Share Capital | 892 | 893 | 895 | 895 | 895 |
| Reserves | 31,918 | 39,236 | 51,147 | 66,083 | 83,145 |
| Total Shareholders' Funds | 32,811 | 40,129 | 52,042 | 66,978 | 84,040 |
| Minority Interest | 515 | 723 | 595 | 946 | 1,350 |
| Long Term Debt | 3,713 | 5,921 | 4,377 | 2,471 | 971 |
| Short Term Debt | 7,911 | 10,470 | 7,268 | 7,632 | 8,013 |
| Total Debt | 11,624 | 16,391 | 11,645 | 10,102 | 8,984 |
| Deferred Taxes | 1,792 | 1,910 | 2,337 | 2,468 | 2,618 |
| Long Term Provisions & Others | 933 | 1,528 | 1,626 | 1,417 | 1,588 |
| TOTAL SOURCES OF FUNDS | 47,675 | 60,681 | 68,244 | 81,911 | 98,580 |
| APPLICATION OF FUNDS | | | | | |
| Net Block | 17,313 | 22,457 | 24,929 | 27,119 | 28,725 |
| CWIP | 4,904 | 4,437 | 3,107 | 2,747 | 3,021 |
| Goodwill | 3,255 | 5,040 | 5,073 | 5,073 | 5,073 |
| Investments, LT Loans & Advances | 3,601 | 4,465 | 4,599 | 4,413 | 4,498 |
| Inventories | 12,000 | 17,327 | 19,489 | 25,888 | 31,341 |
| Debtors | 12,556 | 17,800 | 21,870 | 25,279 | 31,341 |
| Cash & Equivalent | 4,202 | 4,025 | 4,349 | 8,697 | 14,545 |
| ST Loans & Advances, Others | 3,412 | 4,272 | 5,723 | 6,296 | 6,925 |
| Total Current Assets | 32,170 | 43,423 | 51,431 | 66,160 | 84,153 |
| Creditors | 9,930 | 13,793 | 15,431 | 18,640 | 21,432 |
| Other Current Liabilities & Provns | 3,639 | 5,349 | 5,464 | 4,962 | 5,458 |
| Total Current Liabilities | 13,569 | 19,142 | 20,895 | 23,601 | 26,890 |
| Net Current Assets | 18,601 | 24,282 | 30,536 | 42,559 | 57,263 |
| Misc Expenses & Others | - | - | - | - | - |
| TOTAL APPLICATION OF FUNDS | 47,675 | 60,681 | 68,244 | 81,911 | 98,580 |

Source: Company, HDFC sec Inst Research

CASH FLOW

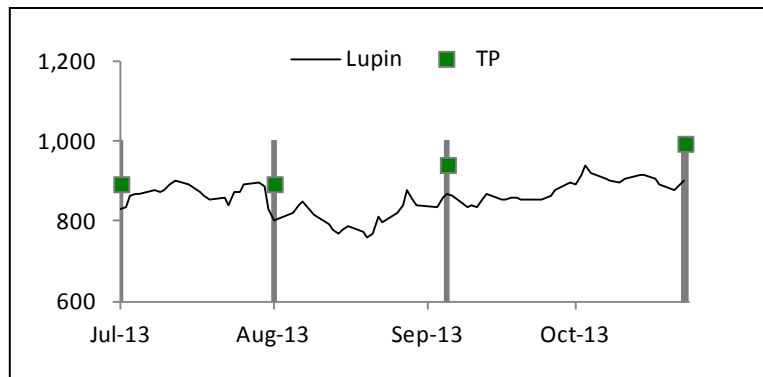
| (Rs mn) | FY11 | FY12 | FY13P | FY14E | FY15E |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Reported PAT | 8,776 | 8,875 | 13,404 | 17,924 | 20,629 |
| Non-operating & EO items | (193) | 59 | (24) | (1,587) | (506) |
| PAT from Operations | 8,583 | 8,934 | 13,380 | 16,337 | 20,123 |
| Interest expenses | 345 | 355 | 410 | 354 | 359 |
| Depreciation | 1,712 | 2,275 | 3,322 | 2,806 | 3,641 |
| Working Capital Change | (552) | (5,858) | (5,931) | (7,675) | (8,856) |
| OPERATING CASH FLOW (a) | 10,087 | 5,706 | 11,181 | 11,822 | 15,268 |
| Capex | (4,544) | (8,737) | (4,497) | (4,636) | (5,521) |
| Free cash flow (FCF) | 5,543 | (3,031) | 6,685 | 7,186 | 9,747 |
| Investments | (3,142) | (864) | (133) | 186 | (85) |
| INVESTING CASH FLOW (b) | (7,686) | (9,600) | (4,630) | (4,451) | (5,606) |
| Share capital Issuance | 3 | 1 | 2 | 0 | 0 |
| Debt Issuance | 225 | 4,767 | (4,746) | (1,543) | (1,118) |
| Other long term lia | 1,283 | 1,047 | 1,012 | (78) | 321 |
| Interest expenses | (345) | (355) | (410) | (354) | (359) |
| Dividend | (1,575) | (1,684) | (2,109) | (2,636) | (3,163) |
| FINANCING CASH FLOW (c) | (408) | 3,776 | (6,251) | (4,610) | (4,320) |
| NET CASH FLOW (a+b+c) | 1,993 | (118) | 300 | 2,761 | 5,342 |
| Non-operating and EO items | 193 | (59) | 24 | 1,587 | 506 |
| Closing Cash & Equivalents | 4,202 | 4,025 | 4,349 | 8,697 | 14,545 |

Source: Company, HDFC sec Inst Research

KEY RATIOS

| | FY11 | FY12 | FY13P | FY14E | FY15E |
|------------------------------|-------|-------|-------|-------|-------|
| PROFITABILITY (%) | | | | | |
| GPM | 60.8 | 62.6 | 62.5 | 64.0 | 62.5 |
| EBITDA Margin | 20.2 | 20.4 | 23.5 | 23.9 | 24.4 |
| APAT Margin | 14.3 | 11.3 | 13.9 | 15.8 | 15.0 |
| RoE | 29.4 | 23.8 | 28.5 | 29.5 | 26.8 |
| ROIC | 20.5 | 15.8 | 21.0 | 24.3 | 24.4 |
| RoCE | 18.4 | 15.8 | 23.3 | 27.2 | 26.4 |
| EFFICIENCY | 21.0 | 16.5 | 20.8 | 23.7 | 22.7 |
| Tax Rate (%) | 11.8 | 25.8 | 30.4 | 31.5 | 31.5 |
| Asset Turnover (x) | 0.9 | 0.9 | 1.1 | 1.1 | 1.1 |
| Inventory (days) | 69.4 | 76.9 | 71.2 | 74.5 | 77.6 |
| Debtors (days) | 76.2 | 79.6 | 76.8 | 77.4 | 76.8 |
| Payables (days) | 138.9 | 166.3 | 150.3 | 155.4 | 144.9 |
| Cash Conversion Cycle (days) | 6.7 | -9.8 | -2.3 | -3.5 | 9.5 |
| Debt/EBITDA (x) | 1.0 | 1.1 | 0.5 | 0.4 | 0.3 |
| Net D/E | 0.2 | 0.3 | 0.1 | 0.0 | -0.1 |
| Interest Coverage | 25.8 | 25.2 | 32.7 | 50.4 | 57.0 |
| PER SHARE DATA | | | | | |
| EPS (Rs/sh) | 18.0 | 17.3 | 29.1 | 39.3 | 45.2 |
| Core EPS | 23.5 | 25.0 | 37.4 | 46.3 | 54.2 |
| CEPS (Rs/sh) | 3.0 | 3.2 | 4.0 | 5.0 | 6.0 |
| DPS (Rs/sh) | 73.5 | 89.8 | 116.3 | 149.7 | 187.8 |
| BV (Rs/sh) | | | | | |
| VALUATION | | | | | |
| P/E | 50.0 | 52.2 | 31.0 | 23.0 | 20.0 |
| P/BV | 12.3 | 10.0 | 7.8 | 6.0 | 4.8 |
| EV/EBITDA | 34.8 | 28.7 | 18.9 | 15.0 | 11.9 |
| OCF/EV (%) | 2.5 | 1.4 | 2.7 | 2.9 | 3.8 |
| FCF/EV (%) | 1.3 | (0.8) | 1.5 | 1.7 | 2.4 |
| FCFE/EV (%) | 1.4 | (0.7) | 1.6 | 1.8 | 2.4 |
| Dividend Yield (%) | 0.3 | 0.4 | 0.4 | 0.6 | 0.7 |

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


| Date | CMP | Reco | Target |
|-----------|-----|------|--------|
| 5-Jul-13 | 835 | BUY | 893 |
| 9-Aug-13 | 801 | BUY | 893 |
| 12-Sep-13 | 866 | BUY | 941 |
| 31-Oct-13 | 902 | BUY | 994 |

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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