

11 November 2011

MF Global Quarterly Report

Ranbaxy Laboratories

| Anticipating timely generic Lipitor launch

PHARMACEUTICALS

RBXY IN: **NEUTRAL**

RS 470

Healthy growth in revenue and margin: Ranbaxy reported healthy numbers with revenue up by 10% to US\$ 443mn, despite the absence of upsides from exclusivities. The growth in revenue was led by improvement in the US base business (revenue of US\$ 94mn), Europe (benefited by launch of generic Nexium in UK) and Africa. India growth was weaker than market, as performance was impacted by weakness in segments like anti-infective. Operating margins improved to 8%, led by cost rationalisation. The company reported net loss of Rs 4.7bn owing to forex losses amounting to US\$ 144mn.

Anticipating timely generic Lipitor launch: With regard to Lipitor, the management indicated that the US FDA is evaluating the ANDA independently and the company is prepared to launch by the end of the month (30 Nov 2011). Based on commentary from Pfizer Inc. and Watson Pharma, we believe the likelihood of timely generic Lipitor launch by Ranbaxy is high and include upsides from Lipitor to our estimates (upsides of Rs 40 per share during exclusivity). We have kept of base business performance largely unchanged.

View: Ranbaxy has shown improvement in base business revenue, particularly US and EU, whilst it strengthens its position in emerging markets. We believe the slowdown in domestic formulations is a more of an industry lead phenomenon and expect Ranbaxy to benefit project Viraat going forward. Though the company is witnessing improvement in operating performance, it is gradual and the current valuations are steep given its core business earnings. We believe, at the current juncture, the stock performance will be driven by the news flows with regard to the company's FTF pipeline.

Valuation: We value Ranbaxy's base at 25% discount to the market leader at 20x our CY12E earnings estimates. We also value the FTF opportunities on a NPV basis and arrive at a target price of Rs 491 per share, which includes Rs 110 per share from exclusivity monetisation.

VALUATION SUMMARY

Y/E DEC, RS MN	CY2008	CY2009	CY2010	CY2011E	CY2012E
NET SALES	72,314	73,282	85,097	89,542	112,526
GROWTH, %	8.9	1.3	16.1	5.2	25.7
EBIDTA	5,838	7,124	18,652	16,288	30,708
EBIDTA MARGINS, %	8.1	9.7	21.9	18.2	27.3
NET PROFIT	9,046	-459	11,671	12,202	22,108
NET PROFIT MARGIN, %	12.5	-0.6	13.7	13.6	19.6
EPS, RS	21.5	(1.1)	27.8	29.1	52.6
EPS GROWTH, %	157.2	-	-	4.5	81.2
PER, X	24.0	-	18.6	16.2	8.9
EV/EBIDTA, X	40.5	33.9	12.2	12.6	6.1
EV/NET SALES, X	3.3	3.3	2.7	2.3	1.7
PRICE/BOOK VALUE, X	5.0	4.9	3.8	3.2	2.4
ROIC, %	3.2	2.6	15.4	14.1	29.5
ROE, %	25.0	(1.0)	23.2	20.5	30.4
DIVIDEND YIELD, %	-	-	0.4	0.4	0.4

Source: Company, MF Global India Research Estimates

TARGET RS 491 (+4%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES:	422MN
MARKET CAP (RS):	201BN
MARKET CAP (USD):	4BN
52 - WK HI/LO (RS) :	625 / 414
LIQUIDITY 3M (USD) :	6.4MN
FACE VALUE (RS):	5

SHAREHOLDING PATTERN, %

PROMOTERS:	63.8
FII / NRI:	10.5
FI / MF:	11.9
NON-PROMOTER CORP. HOLDINGS:	2.5
PUBLIC & OTHERS:	11.3

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-8.1	-5.2	-23.0
REL TO BSE	-15.1	-8.2	-5.9

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

Q3CY11 RESULTS

RS MN	SEP 10	DEC 10	MAR 11	JUN 11	SEP 11
REVENUE	18,838	20,404	21,430	20,545	20,228
QOQ (%)	(10.2)	8.3	5.0	(4.1)	(1.5)
YOY (%)	9.8	(9.9)	(13.8)	(2.1)	7.7
EXPENDITURE					
RAW MATERIAL COSTS	7,800	8,261	7,523	8,167	8,446
QOQ (%)	1.0	5.9	(8.9)	8.6	3.4
YOY (%)	4.8	(5.3)	0.1	5.7	9.4
GROSS PROFITS	11,038	12,143	13,907	12,378	11,781
GROSS MARGINS (%)	58.6	59.5	64.9	60.2	58.2
SELLING, GENERAL & ADMINISTRATIVE EXPENSES	10,160	15,484	10,255	10,948	10,768
AS A % OF SALES	53.9	75.9	47.9	53.3	53.2
QOQ (%)	5.7	52.4	(33.8)	6.8	(1.6)
YOY (%)	9.5	73.4	6.4	13.9	5.8
OPERATING PROFIT	878	(3,341)	3,653	1,430	1,013
OPERATING MARGIN (%)	4.7	(16.4)	17.0	7.0	5.0
QOQ (%)	(76.0)	(480.7)	(209.3)	(60.8)	(29.2)
YOY (%)	100.3	(166.8)	(52.6)	(60.8)	15.4
OTHER OPERATING INCOME	509	423	379	386	728
EBIDTA	1,386	(2,918)	4,032	1,817	1,741
EBIDTA MARGIN (%)	7.4	(14.3)	18.8	8.8	8.6
QOQ (%)	(66.7)	(310.5)	(238.2)	(54.9)	(4.2)
YOY (%)	(35.0)	(159.7)	(61.7)	(56.4)	25.6
OTHER INCOME	932	3,175	897	791	1,020
INTEREST EXPENSES	110	145	145	166	153
DEPRECIATION	987	2,845	736	735	788
PRE-TAX PROFIT (BEFORE NON-RECURRING ITEMS)	1,221	(2,734)	4,048	1,706	1,820
AS A % OF SALES	6.5	(13.4)	18.9	8.3	9.0
QOQ (%)	(73.7)	(323.9)	(248.1)	(57.8)	6.7
YOY (%)	(19.7)	(146.2)	(58.1)	(63.2)	49.0
NON-RECURRING ITEMS*	2,355	(2,797)	(206)	934	(6,134)
PRE-TAX PROFIT (AFTER NON-RECURRING ITEMS)	3,576	(5,531)	3,842	2,640	(4,313)
AS A % OF SALES	19.0	(27.1)	17.9	12.8	(21.3)
QOQ (%)	7.8	(254.7)	(169.5)	(31.3)	(263.4)
YOY (%)	123.4	(158.9)	(72.9)	(20.4)	(203.3)
TAX (CURRENT + DEFERRED)	448	880	782	185	256
TAX RATE (%)	12.5	(15.9)	20.4	7.0	(5.9)
PROFIT AFTER TAX	3,128	(6,411)	3,060	2,455	(4,569)
PRIOR PERIOD ADJUSTMENTS	12	15	0	0	48
MINORITY INTERESTS	37	33	16	23	29
NET INCOME	3,079	(6,458)	3,044	2,432	(4,646)
PAT MARGINS (%)	16.3	(31.7)	14.2	11.8	(23.0)
QOQ (%)	(5.5)	(309.7)	(147.1)	(20.1)	(291.0)
YOY (%)	168.9	(352.6)	(68.3)	(25.3)	(250.9)

Source: Company, MF Global India Research

*Note: Non-recurring pertains to: 1) Forex loss on loans – Rs 2,510mn. 2) Forex loss on foreign currency option – Rs 4,002mn and 3) Profit on sale of investments – Rs 378mn

REVENUE BREAK-UP

US\$ MN	SEP 10	DEC 10	MAR 11	JUN 11	SEP 11
DOSAGE FORMS					
INDIA	88	80	83	91	94
QOQ (%)	1.1	(9.1)	3.8	9.6	3.3
YOY (%)	18.9	5.3	10.7	4.6	6.8
GLOBAL CONSUMER	18	15	13	17	19
QOQ (%)	63.6	(16.7)	(13.3)	30.8	11.8
YOY (%)	50.0	0.0	30.0	54.5	5.6
CIS	26	31	26	21	32
QOQ (%)	30.0	19.2	(16.1)	(19.2)	52.4
YOY (%)	13.0	0.0	8.3	5.0	23.1
REST OF ASIA PACIFIC	27	33	17	33	28
QOQ (%)	3.8	22.2	(48.5)	94.1	(15.2)
YOY (%)	(18.2)	17.9	21.4	26.9	3.7
ROMANIA	19	13	27	30	21
QOQ (%)	(20.8)	(31.6)	107.7	11.1	(30.0)
YOY (%)	11.8	(31.6)	12.5	25.0	10.5
REST OF EUROPE	41	63	47	49	51
QOQ (%)	(8.9)	53.7	(25.4)	4.3	4.1
YOY (%)	(18.0)	3.3	9.3	8.9	24.4
AFRICA	35	41	45	51	44
QOQ (%)	(10.3)	17.1	9.8	13.3	(13.7)
YOY (%)	(2.8)	46.4	15.4	30.8	25.7
LATIN AMERICA	24	16	21	17	16
QOQ (%)	26.3	(33.3)	31.3	(19.0)	(5.9)
YOY (%)	14.3	(23.8)	(12.5)	(10.5)	(33.3)
US	86	117	155	95	84
QOQ (%)	(41.1)	36.0	32.5	(38.7)	(11.6)
YOY (%)	95.5	(25.9)	(38.2)	(34.9)	(2.3)
CANADA	19	13	15	17	19
QOQ (%)	26.7	(31.6)	15.4	13.3	11.8
YOY (%)	11.8	(23.5)	15.4	13.3	0.0
GLOBAL FORMULATIONS	383	422	449	421	408
QOQ (%)	(11.3)	10.2	6.4	(6.2)	(3.1)
YOY (%)	17.1	(7.0)	(13.2)	(2.5)	6.5
API	23	40	25	40	35
QOQ (%)	(11.5)	73.9	(37.5)	60.0	(12.5)
YOY (%)	(20.7)	42.9	0.0	53.8	52.2
GLOBAL SALES	406	462	474	461	443
QOQ (%)	(11.4)	13.8	2.6	(2.7)	(3.9)
YOY (%)	14.0	(4.1)	(12.5)	0.7	9.1

Source: Company, MF Global India Research

FINANCIALS

INCOME STATEMENT

Y/E DEC, RS MN	CY2008	CY2009	CY2010	CY2011E	CY2012E
NET SALES	72,314	73,282	85,097	89,542	112,526
GROWTH, %	9	1	16	5	26
OTHER INCOME	1,895	2,676	4,253	2,900	3,600
TOTAL INCOME	74,208	75,959	89,350	92,442	116,126
OPERATING EXPENSES	-68,370	-68,834	-70,698	-76,154	-85,418
EBITDA (CORE)	5,838	7,124	18,652	16,288	30,708
GROWTH, %	(18.2)	22.0	161.8	(12.7)	88.5
MARGIN, %	8.1	9.7	21.9	18.2	27.3
DEPRECIATION	-2,825	-2,676	-5,533	-4,318	-4,551
EBIT	3,014	4,448	13,120	11,970	26,157
GROWTH, %	(39.1)	47.6	194.9	(8.8)	118.5
MARGIN, %	4.2	6.1	15.4	13.4	23.2
INTEREST PAID	-2,055	-710	-614	-667	-667
OTHER NON-OPERATING INCOME	1,546	1,829	3,613	1,478	1,600
NON-RECURRING ITEMS	-18,558	3,424	3,296	-5,784	0
PRE-TAX PROFIT	-15,000	10,098	21,001	8,597	29,090
TAX PROVIDED	5,651	-6,991	-5,849	-2,063	-6,982
PROFIT AFTER TAX	-9,349	3,107	15,152	6,534	22,108
NET PROFIT	-9,512	2,965	14,968	6,418	22,108
MF NET PROFIT	9,046	-459	11,671	12,202	22,108
GROWTH, %	189.6	(105.1)	-	4.5	81.2
NET PROFIT (ADJUSTED)	9,046	(459)	11,671	12,202	22,108
UNADJ. SHARES (M)	420	420	420	420	420
WTD AVG SHARES (M)	420	420	420	420	420

CASH FLOW

Y/E DEC, RS MN	CY2008	CY2009	CY2010	CY2011E	CY2012E
PRE-TAX PROFIT	-15,000	10,098	21,001	8,597	29,090
DEPRECIATION	2,825	2,676	5,533	4,318	4,551
CHG IN WORKING CAPITAL	29,721	-12,565	-6,168	-1,746	-4,009
TOTAL TAX PAID	-11,322	1,762	-2,477	-2,063	-6,982
OTHER OPERATING ACTIVITIES	-11,761	14	5	0	0
CASH FLOW FROM OPERATING ACTIVITIES	-5,538	1,985	17,894	9,105	22,650
CAPITAL EXPENDITURE	-6,815	-4,319	-3,696	-4,500	-4,600
CHG IN INVESTMENTS	-3,028	24	423	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-9,843	-4,295	-3,273	-4,500	-4,600
FREE CASH FLOW	-15,381	-2,310	14,621	4,605	18,050
EQUITY RAISED/(REPAID)	36,204	-2,393	-1,374	0	0
DEBT RAISED/(REPAID)	1,433	-6,553	7,053	-9,986	0
DIVIDEND (INCL. TAX)	-2,620	0	0	-982	-966
OTHER FINANCING ACTIVITIES	0	0	0	-11,084	0
CASH FLOW FROM FINANCING ACTIVITIES	34,959	-9,230	5,608	-6,479	-966
NET CHG IN CASH	19,578	-11,540	20,228	8,597	17,084

BALANCE SHEET

AS AT 31ST DEC, RS MN	CY2008	CY2009	CY2010	CY2011E	CY2012E
CASH & BANK	23,956	12,416	32,644	26,165	43,249
DEBTORS	13,310	18,399	16,052	15,986	18,544
INVENTORY	19,643	18,407	21,926	24,118	26,378
LOANS & ADVANCES	6,436	9,065	12,338	12,297	15,453
OTHER CURRENT ASSETS	1,755	1,798	3,971	4,919	6,181
TOTAL CURRENT ASSETS	65,101	60,086	86,932	83,484	109,805
INVESTMENTS	5,432	5,407	4,985	4,985	4,985
GROSS FIXED ASSETS	61,942	62,786	67,050	71,550	76,150
LESS: DEPRECIATION	-17,042	-17,880	-21,571	-25,889	-30,440
ADD: CAPITAL WIP	4,707	6,231	3,818	3,818	3,818
NET FIXED ASSETS	49,607	51,136	49,297	49,479	49,528
TOTAL ASSETS	120,140	116,629	141,213	137,948	164,318
CURRENT LIABILITIES	45,651	39,610	40,060	41,346	46,574
PROVISIONS	232	1,502	1,338	1,322	1,322
TOTAL CURRENT LIABILITIES	45,883	41,112	41,398	42,668	47,895
NON-CURRENT LIABILITIES	30,619	31,550	43,121	33,134	33,134
TOTAL LIABILITIES	76,502	72,662	84,519	75,802	81,030
PAID-UP CAPITAL	3,858	3,861	2,171	2,171	2,171
RESERVES & SURPLUS	39,104	39,573	53,876	59,328	80,470
SHAREHOLDERS' EQUITY	43,637	43,967	56,694	62,146	83,288
TOTAL EQUITY & LIABILITIES	120,140	116,629	141,213	137,948	164,318

PER-SHARE DATA

	CY2008	CY2009	CY2010	CY2011E	CY2012E
MF EPS (INR)	21.5	(1.1)	27.8	29.1	52.6
GROWTH, %	-	-	-	4.5	81.2
BOOK NAV/SHARE (INR)	103.9	104.7	135.0	148.0	198.3
FDEPS (INR)	21.5	(1.1)	27.8	29.1	52.6
CEPS (INR)	72.5	(2.9)	33.1	53.1	63.5
CFPS (INR)	11.1	0.3	34.0	18.2	50.1
DPS (INR)	-	-	2.0	2.0	2.0

FINANCIAL STRUCTURE

	CY2008	CY2009	CY2010	CY2011E	CY2012E
TOTAL DEBT/EQUITY (%)	98.2	82.6	76.5	53.7	40.1
NET DEBT/EQUITY (%)	43.3	54.3	18.9	11.6	(11.9)

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	CY2008	CY2009	CY2010	CY2011E	CY2012E
RETURN ON ASSETS (%)	(7.5)	3.0	12.1	5.0	14.9
RETURN ON EQUITY (%)	25.0	(1.0)	23.2	20.5	30.4
RETURN ON INVESTED CAPITAL (%)	3.2	2.6	15.4	14.1	29.5
ROIC/COST OF CAPITAL (X)	0.4	0.3	1.7	1.6	3.4
ROIC - COST OF CAPITAL (%)	(6.0)	(6.5)	6.4	5.3	20.8
RETURN ON CAPITAL EMPLOYED (%)	(11.0)	4.8	17.7	7.1	21.3
COST OF CAPITAL (%)	9.2	9.1	9.0	8.8	8.7
ROCE - COST OF CAPITAL (%)	(20.2)	(4.3)	8.7	(1.7)	12.6
ASSET TURNOVER (X)	1.2	1.4	1.4	1.4	1.7
SALES/TOTAL ASSETS (X)	0.7	0.6	0.7	0.6	0.7
SALES/NET FA (X)	1.5	1.5	1.7	1.8	2.3
WORKING CAPITAL/SALES (X)	(0.1)	0.1	0.2	0.2	0.2
FIXED CAPITAL/SALES (X)	0.9	0.9	0.8	0.8	0.7
RECEIVABLE DAYS	67.2	91.6	68.9	65.2	60.2
INVENTORY DAYS	99.1	91.7	94.0	98.3	85.6
PAYABLE DAYS	212.5	172.4	164.5	159.3	161.7
CURRENT RATIO (X)	1.4	1.5	2.1	2.0	2.3
QUICK RATIO (X)	1.0	1.0	1.6	1.4	1.7
INTEREST COVER (X)	3.0	N/A	N/A	N/A	N/A
DIVIDEND COVER (X)			13.9	14.5	26.3
PER (X)	24.0	(473.5)	18.6	16.2	8.9
PEG (X) - Y-O-Y GROWTH	0.2	4.5	(0.0)	3.6	0.1
PRICE/BOOK (X)	5.0	4.9	3.8	3.2	2.4
YIELD (%)	-	-	0.4	0.4	0.4
EV/NET SALES (X)	3.3	3.3	2.7	2.3	1.7
EV/EBITDA (X)	40.5	33.9	12.2	12.6	6.1
EV/EBIT (X)	78.5	54.3	17.4	17.1	7.2
EV/NOPLAT (X)	20.6	1,808.7	17.8	14.4	7.9
EV/CE	3.2	3.2	2.3	2.1	1.6
EV/IC (X)	4.1	4.6	3.7	3.2	2.8

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
NEUTRAL	490	470	11 NOVEMBER 2011
NEUTRAL	523	518	10 OCTOBER 2011

VINEET BHATNAGAR	MANAGING DIRECTOR	91-22-2300 2999	VBHATNAGAR@MFGLOBAL.COM
SAJID KHALID	HEAD – INSTITUTIONAL EQUITIES	91-22-6667 9972	SAKHALID@MFGLOBAL.COM
JIGNESH SHAH	HEAD – EQUITY DERIVATIVES	91-22-6667 9735	JSHAH@MFGLOBAL.COM

EQUITY RESEARCH

MANISH AGARWALLA	VP - BANKING	91-22-6667 9962	MAGARWALLA@MFGLOBAL.COM
AARTHISUNDARI JAYAKUMAR	PHARMACEUTICALS	91-22-6667 9950	AJAYAKUMAR@MFGLOBAL.COM
ABHISHEK RANGANATHAN, CFA	RETAIL, REAL ESTATE	91-22-6667 9952	ABHISHEKR@MFGLOBAL.COM
ANJALI VERMA	ECONOMIST	91-22-6667 9969	ANVERMA@MFGLOBAL.COM
ANKUR SHARMA	ENGINEERING, CAPITAL GOODS	91-22-6667 9759	ASHARMA@MFGLOBAL.COM
DEEPAK JAIN	AUTOMOBILES & AUTO ANCILLARIES	91-22-6667 9758	DJAIN@MFGLOBAL.COM
DHAWAL DOSHI	METALS, POWER	91-22-6667 9769	DDOSHI@MFGLOBAL.COM
DIPESH SOHANI	REAL ESTATE, MIDCAP	91-22-6667 9756	DSOHANI@MFGLOBAL.COM
ENNETTE FERNANDES	FMCG	91-22-6667 9764	EFERNANDES@MFGLOBAL.COM
GAURI ANAND	OIL & GAS, FERTILISER	91-22-6667 9943	GANAND@MFGLOBAL.COM
KAPIL BAGARIA	MIDCAP, SUGAR	91-22-6667 9965	KBAGARIA@MFGLOBAL.COM
NAVEEN KULKARNI, CFA, FRM	TELECOM, FMCG, MEDIA	91-22-6667 9947	NKULKARNI@MFGLOBAL.COM
SACHIT MOTWANI	BANKING	91-22-6667 9953	SMOTWANI@MFGLOBAL.COM
VAIBHAV AGARWAL	CEMENT	91-22-6667 9967	VAGARWAL@MFGLOBAL.COM
VIBHOR SINGHAL	INFRASTRUCTURE	91-22-6667 9949	VSINGHAL@MFGLOBAL.COM
VIHANG NAIK, CFA	IT SERVICES, MIDCAP	91-22-6667 9768	VNAIK@MFGLOBAL.COM
VIVEKANAND SUBBARAMAN	TELECOM, MEDIA	91-22-6667 9766	VSUBBARAMAN@MFGLOBAL.COM
DHARMESH SHAH	RESEARCH ASSOCIATE	91-22-6667 9974	DHSHAH@MFGLOBAL.COM
JISHAR THOOMBATH	RESEARCH ASSOCIATE	91-22-6667 9986	JTHOOMBATH@MFGLOBAL.COM
NEHA GARG	RESEARCH ASSOCIATE	91-22-6667 9996	NGARG@MFGLOBAL.COM
SAURABH RATHI	RESEARCH ASSOCIATE	91-22-6667 9951	SRATHI@MFGLOBAL.COM
VARUN VIJAYAN	RESEARCH ASSOCIATE	91-22-6667 9992	VVIJAYAN@MFGLOBAL.COM
GANESH DEORUKHKAR	PRODUCTION	91-22-6667 9966	GDEORUKHKAR@MFGLOBAL.COM
ROSHNI KALLOOR	RESEARCH COMPLIANCE OFFICER	91-22-6667 9762	RKALLOOR@MFGLOBAL.COM

TECHNICAL & QUANT RESEARCH

NEPPOLIAN PILLAI	CHIEF TECHNICAL STRATEGIST	91-22-6667 9989	PNEPPOLIAN@MFGLOBAL.COM
SHIKHA KHURANA	QUANT ANALYST	91-22-6667 9948	SKHURANA@MFGLOBAL.COM

INSTITUTIONAL CASH EQUITY SALES

SUDHIR PADYAR	VP - EQUITY SALES (ASIAPAC)	91-22-6667 9991	SPADYAR@MFGLOBAL.COM
KINSHUK TIWARI	EQUITY SALES	91-22-6667 9946	KTIWARI@MFGLOBAL.COM
KSHITIJ SHAH	EQUITY SALES (EUROPE)	91-22-6667 9944	KSSHAN@MFGLOBAL.COM
PAWAN KAKUMANU	EQUITY SALES	91-22-6667 9934	PKAKUMANU@MFGLOBAL.COM
SHUBHANGI AGRAWAL	EQUITY SALES	91-22-6667 9964	SAGRAWAL@MFGLOBAL.COM
ROSIE FERNS	SR. EXEC. – EQUITIES SALES SUPPORT	91-22-6667 9971	RFERNS@MFGLOBAL.COM

INSTITUTIONAL CASH EQUITY SALES TRADING

SUNIL KAMATH	VP - SALES TRADER	91-22-6667 9747	SKAMATH@MFGLOBAL.COM
CHETAN SAVLA	SALES TRADER	91-22-6667 9749	CSAVLA@MFGLOBAL.COM
RAJESH ASHAR	SALES TRADER	91-22-6667 9746	RASHAR@MFGLOBAL.COM

INSTITUTIONAL CASH EQUITY DEALING

MAYUR SHAH	DEALER	91-22-6677 9945	MASHAH@MFGLOBAL.COM
GURUDATT UCHIL	DEALER	91-22-6667 9750	GUCHIL@MFGLOBAL.COM

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MF Global Sify Securities India Pvt. Limited, 2nd Floor, C-Block, Modern Centre, Mahalaxmi, Mumbai-400 011

**MF Global Sify Securities
India Pvt. Limited**
2nd Floor, C-Block, Modern Centre
Mahalaxmi, Mumbai
400 011

mfglobal.com