

Innovation based growth

We initiate coverage on FDC with a Buy recommendation and price target of Rs 210 based on 16xSept'16E EPS of Rs12.8. FDC is a pioneer in anti-infective, Oral Rehydration Salts (ORS) and ophthalmology segments with well-known brands in the domestic market. The company's top 15 brands contribute~59% to its revenues and grew at 12.3% against the industry growth of 9.7%. We expect FDC to achieve Revenues/EBITDA/Net profit CAGR of 14%/18%/16% over the next three years. Key risks to our call include price reduction by NPPA for its major brands and regulatory risks for its manufacturing facilities.

- **Zifi - the market leader:** FDC's major brand Zifi and its line extensions generated revenues of Rs2.47bn or ~27% of the company's revenues and grew at 6.5%. Zifi is the largest selling Cefixime brand in India. The company has been highly successful in developing several brand extensions of the mother brand Zifi. These products have 5.4%MS in the Rs45.81bn domestic cephalosporin market. The company has created a dedicated facility at Baddi to manufacture this product. We expect Zifi to drive future growth for FDC.
- **Benefits from pharma pricing policy:** As per National Pharmaceutical Pricing Policy (NPPP), manufacturers are allowed to increase prices of 348 drugs under price control in tandem with Wholesale Price Index (WPI) every year. Accordingly, manufacturers including FDC increased prices of price controlled products by 6.3% in April'14. For products outside price control, manufacturers can increase prices up to 10% per annum. We expect FDC to benefit from this automatic price revision. As FDC products do not have premium pricing, the impact of price control is lower for the company. The domestic pharma market which grew by ~9% in FY14 is expected to grow at 10-12% in FY15. Price revision along with volume growth is expected to drive future growth for the company.
- **Major brands to drive future growth:** FDC's top 15 brands generated revenues of Rs5.43bn and contributed ~59% to the company's revenues and grew at 12.3%. These brands have strong recall in the doctor's chamber. Eleven of top 15 brands grew faster than the market growth of 9.7%. FDC has a presence in over 30 therapeutic segments and markets over 100 brands. The company has strong presence in the ophthalmology and nutraceutical segments with well-known brands. We expect the company to benefit from the pricing policy as it can increase prices for its price controlled products in tandem with WPI every year. We expect major brands to help maintain growth momentum for the company.
- **Valuation and key risks:** FDC has achieved 11%CAGR in revenues, 16%CAGR in EBITDA and 12%CAGR in net profit over the past 10 years. We expect the company to maintain growth momentum due to its strong brands and presence in niche segments. We expect FDC to report 14%CAGR in revenues, 18%CAGR in EBITDA and 16%CAGR in net profit over FY14-17. We initiate coverage on FDC with a Buy rating with a target price of Rs210 based on 16x Sept'16E EPS of Rs12.8 with an upside of 45.0% from the CMP. Key risks to our call include price reduction by NPPA for its major brands and regulatory risks for its manufacturing facilities.

Target Price	Rs210	Key Data	
		Bloomberg Code	FDCLT IN
CMP*	Rs145	Curr Shares O/S (mn)	178.6
		Diluted Shares O/S(mn)	178.6
Upside	45.0%	Mkt Cap (R\$bn/USDmn)	25.8/419
Price Performance (%)*		52 Wk H / L (Rs)	170.9/81
		5 Year H / L (Rs)	170.9/40.4
FDCLT IN	(7.2)	Daily Vol. (3M NSE Avg.)	434588
NIFTY	(1.7)		

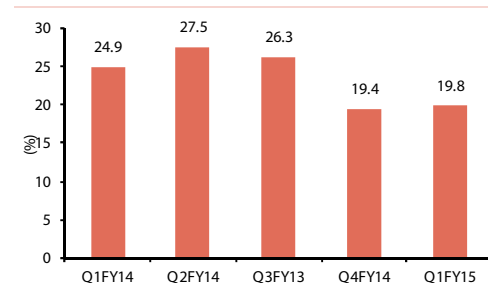
*as on 1 October 2014; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	June-14	Mar-14	Dec-13	Sept-13
Promoter	68.9	68.9	68.9	68.9
FIs	7.5	7.3	6.5	5.4
DIs	4.7	4.9	5.0	6.0
Others	18.9	18.9	19.6	19.7

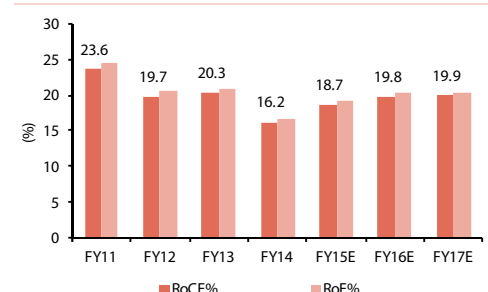
Source: BSE, *as on 1 October 2014

Trend in EBITDA margin (%)



Source: Company, Centrum Research

RoCE and RoE %



Source: Company, Centrum Research Estimates

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY13	7,728	8.8	1,809	23.4	1,551	15.7	8.7	21.0	20.3	16.6	14.4
FY14	8,459	9.4	2,070	24.5	1,353	(12.8)	7.6	16.6	16.2	19.1	12.4
FY15E	9,662	14.2	2,437	25.2	1,726	27.6	9.7	19.1	18.7	14.9	10.5
FY16E	10,967	13.5	2,901	26.5	2,107	22.0	11.8	20.2	19.8	12.2	8.8
FY17E	12,378	12.9	3,380	27.3	2,454	16.5	13.8	20.2	19.9	10.5	7.5

Source: Company, Centrum Research Estimates

Table of Contents

Strong brands to drive growth	3
Zifi - the market leader	3
Electral - a unique product	3
Major brands spread over therapeutic segments	4
Exports – the future growth driver	4
Pharma policy to improve revenues	4
Supplies API to generic manufacturers	5
Leading player in Ophthalmology	6
Nutraceuticals	6
New product launches	7
Research & development initiatives	8
Process development	8
Testing of New Chemical Entities	8
Acquisitions to improve business operations.....	8
Acquires Anand Synthochem.....	8
Key entry barriers	8
Financial Analysis	9
Good track record	9
Exports to grow at 17% CAGR.....	9
Net profit to rise.....	10
Return ratio set to improve	10
Buys back shares.....	11
Higher tax rate in FY14.....	11
Sharp rise in capex in FY15	11
Sharp drop in loans & advances expected	11
Performance of subsidiaries poor	11
Q1FY15 results.....	12
Q2FY15 estimates	13
Quarterly Financials.....	14
Assumptions	15
Valuation and Recommendations	16
Attractive Valuations.....	16
Good return ratios.....	16
Upside of 45.0% over CMP.....	16
Upside possibilities.....	16
Peer comparison.....	16
Business Risks	17
Company Background	18
About FDC.....	18
Key management personnel	19
Appendix-1: Major products and competing brands	20
Appendix-2:Therapeutic categories & brands	21
Appendix-3: Zifi and competing brand prices	22
Financials - consolidated-historical	23
Financials - consolidated.....	24

Strong brands to drive growth

Zifi - the market leader

Zifi is the largest selling Cefixime cephalosporin brand in India. As per IMS MAT-July'14 data, Zifi had revenues of Rs1.51bn and grew at 2.2%. The brand contributes ~16% to the revenues of company. To capitalise on the brand image, FDC has introduced several line extensions of Zifi including Zifi CV, Zifi AZ, Zifi O, Zifi Turbo, Zifi- LBX etc. The Zifi range generated revenues of Rs2.48bn or ~27% of the company's revenues and grew at 6.5%. FDC has been highly successful in leveraging the Zifi brand name. Zifi and its line extensions have 5.4%MS in the domestic cephalosporin segment placed at Rs45.81bn growing at (0.6) %. Competing brands in the domestic market are, Cefi-Abbott India, Cefspan-Glaxo SmithKline Pharma, Cefinar-Zydus Cadila, Fixx-Unichem Labs and Claferon O-Sanofi India. FDC has an advantage over its competitors as its products are competitively priced and Zifi has five line extensions and hence can capitalise on the mother brand. The price comparison of Zifi with competing brands is shown in Appendix-3. Most competing brands have premiums ranging from 4% to 580% for tablets (except Cefinar 200 of Zydus Cadila which is priced 9% lower than Zifi 200). In the case of syrups, competing brands have premiums of 18% to 289% (except Cefi-Abbott at 8% discount and Fixx-Unichem at 14% discount). We expect Zifi and its line extensions to drive future growth for the company as they contribute ~27% to the company's revenues.

The performance of Zifi and its line extensions is as follows:

Exhibit 1: Performance of Zifi and its line extensions

Brand name	MAT sales Rs mn	Gr. Rate%
Zifi	1512.2	2.2
Zifi CV	345.0	6.7
Zifi AZ	214.1	34.1
Zifi O	164.1	15.5
Zifi Turbo	140.2	32.2
Zifi-LBX	100.1	(11.4)
Total	2475.7	6.5

Source: IMS MAT-July'14

Electral - a unique product

FDC launched its Oral Rehydration Salts (ORS) brand Electral in 1972. Electral is niche product and market leader in the ORS segment. As per IMS MAT-July'14 data, Electral had sales of Rs1.08bn and grew at 18.9% against the industry growth of 9.7%. Electral contributes ~12% to the company's revenues. Due to unhygienic living conditions and contaminated food and water, Indian population is susceptible to gastroenteritis. ORS is a unique product which helps the body retains necessary salts through an oral therapy as an alternative to intravenous (IV) therapy. The domestic ORS market is placed at Rs2.49bn and grew at 13.4%. Electral has ~44%MS in the domestic oral electrolyte segment. We expect Electral's MS to increase to over 50% over next 2-3 years. Competing brands are ElectroBion-Merck, Elect ORS-Abbott Healthcare, ERO-Lupin, Genlyte-Cadila Healthcare and Thrive-Elder Pharma.

FDC is the major exporter of ORS to African countries and to various government tenders. The company has created multi locational manufacturing facilities for this product. We expect Electral to drive future growth due to economies of scale which will give cost advantage to FDC. The company also markets Electral as a ready-to-serve drink in tetra packs priced at Rs20 per 200ml pack. FDC increased Electral prices by 6.3% in April'14 to Rs17 from Rs16 per sachet of 21.8gm and is likely to benefit from it. Electral is the only innovative World Health Organisation (WHO) recommended ORS in a tetra pack. Electral is on the approved list of WHO and other government agencies for their tenders.

Major brands spread over therapeutic segments

As per IMS MAT-July'14 data, FDC reported revenues of Rs9.26bn and grew at 8.3% against the industry growth of 9.7%. The company's top 15 brands contributed ~59% of its revenues and grew by 12.3% against the industry growth of 9.7%. These brands have strong recall in the doctor's chamber. Eleven of top 15 brands grew faster than the market growth of 9.7%. These were Electral powder 18.9%, Vitcofol 35.2%, Amodep AT 15.2%, Zifi AZ 34.1%, Enerzal 21.1%, Simyl MCT 18.0%, Otek AC plus 16.7%, Femiclav 18.9%, Ocuvir 12.9%, Zifi O 15.5% and Zifi Turbo 32.2%. Though Zifi has grown by 2.2%, Zifi along with its line extensions have grown by 6.5%. The line extensions Zifi AZ, Zifi O and Zifi Turbo have grown by 34.1% , 15.5% and 32.2% respectively. We expect these brands to drive future growth. The details are as follows:

Exhibit 2: Major brands and their performance

Product	Therapeutic Category	MAT Rs mn	Gr. Rate%
Company		9262.6	8.3
Zifi	Anti-infective	1512.2	2.2
Electral powder	ORS	1080.9	18.9
Vitcofol	Vitamins, minerals	345.9	35.2
Zifi CV	Anti-infective	345.0	6.7
Zocon	Antifungal	250.1	4.9
Zathrin	Anti-infective	243.2	(3.4)
Amodep AT	Anti- hypertensive	221.6	15.2
Zifi AZ	Anti-infective	214.1	34.1
Enerzal	ORS	196.0	21.1
Simyl MCT	nutritional supplement	187.6	18.0
Otek AC plus	Antifungal	179.4	16.7
Flemiclav	Anti-infective	176.6	18.9
Ocuvir	Anti- herpes	169.2	12.9
Zifi O	Anti-infective	164.1	15.5
Zifi Turbo	Anti-infective	140.2	32.2
Total		5426.1	12.3

Source: IMS MAT-July'14

Exports – the future growth driver

FDC generated ~14% of its revenues from exports in FY14. Exports accounted for Rs1.14bn and grew at 19.3% in FY14. The company exports ophthalmic products, anti-diarrhoeal, anti-infective and dermatological products. The company continues to supply API worldwide to its customers. FDC is gaining expertise in handling tender/government business in various countries. The company has established good presence in other fast growing markets like Ukraine, Africa, SE Asia and L. America. FDC is a major exporter of ORS to Africa and ophthalmology products to UK and US. The company is looking at out licensing opportunities in US and UK. FDC has received new product registrations in UK, Ukraine, Malaysia, Vietnam, Kenya, Chile, Ethiopia and Mozambique.

Pharma policy to improve revenues

As per National Pharmaceutical Pricing Policy (NPPP) 2013, manufacturers are allowed price increases equivalent to Wholesale Price Index (WPI) every year in the month of April. Manufacturers took 6.3% price increase in April'14 equivalent to WPI of the previous year. For products outside price control, manufacturers have taken up to 10% increase in prices in April'14 and they will be allowed the same quantum annually. We expect domestic pharma companies including FDC to benefit from this as the price revision is automatic and does not need the approval of NPPA. In the past, pharma companies were submitting the cost data for formulations to seek price approvals, which was a time consuming process. We expect FDC to benefit as it does not have premium pricing for its products and the WPI increase will help the company report higher revenues. Higher revenue growth will help improve margins.

Supplies API to generic manufacturers

FDC has filed 16 DMFs with US FDA. These products are manufactured at its Roha manufacturing facility which was first approved by US FDA in 1984. The company exports these products to other generic manufacturers. FDC partly uses Flurbiprofen, Timolol maleate, Fluconazole, Brimonidine tartrate, Dorzolamide HCl and Latanoprost for captive consumption. We expect the API business to help enhance exports as there is limited competition in these specialised products. Most of the products are in the anti-fungal and glaucoma categories. Generic manufacturers can file ANDAs by using FDC's API and get their ANDA approved from regulatory authorities. The details of DMFs filed with US FDA are as follows:

Exhibit 3: DMF filed with US FDA

Sr.no.	Product	Th. Category	Submission year
1	Metronidazole	anti -amoebic	1987
2	Diazepam	sedative	1987
3	Miconazole nitrate	antifungal	1988
4	Albuterol sulphate	bronchodilator	1988
5	Flurbiprofen	NSAIDs	1989
6	Timolol maleate	glaucoma	1992
7	Econazole nitrate	antifungal	1993
8	Metaxalone	muscle relaxant	2003
9	Fluconazole	anti-fungal	2003
10	Ketoconazole	anti-fungal	2003
11	Dantrolene sodium	muscle relaxant	2004
12	Brimonidine tartrate	glaucoma	2007
13	Dorzolamide HCl	glaucoma	2007
14	Levalbutarol HCl	bronchodilator	2008
15	Latanoprost	glaucoma	2010
16	Miconazole	antifungal	2011

Source: US FDA website

Leading player in Ophthalmology

FDC is one of the leading players in the domestic ophthalmology market placed at Rs14.2bn and grew at 9.9%. The company's top 25 brands in the ophthalmology segment generated revenues of Rs539mn and grew at 9.4% in line with the segment's growth. These brands contribute ~6% to the company's domestic revenues. FDC's major ophthalmology brands include lotim (timolol maleate), Mosi (moxifloxacin), Otek AC Plus (chloramphenicol, clotrimazole, beclomethasone dipropionate and lignocaine HCl), Pilocar (pilocarpine) and Pyrimon (dexamrthasone and chloramphenicol). The details of revenues and growth rates for these brands are indicated in the following table:

Exhibit 4: Major ophthalmology brands

Brand name	MAT sales		% Change
	July'14	July'13	
Company	9262.6	8552.7	8.3
Allercrom	2.1	2.0	5.0
Cyclogik	2.0	2.0	0.0
Doloket	0.2	0.21	(4.8)
Drosyn	1.3	1.4	(7.1)
I-lube	5.3	5.4	-1.9
lobet	14.1	17.3	(18.5)
lobrim	11.3	9.4	20.2
lopar	9.8	10	(2.0)
lotim	66.9	60.2	11.1
lotim B	5.9	2.8	110.7
lotim plus	9.7	10.3	(5.8)
Moisol	15	12.4	21.0
Moisol Z	15.1	13.4	12.7
Mosi	54.7	44.8	22.1
Ocucel A	1.7	1.8	(5.6)
Ocudor	2.3	2.5	-8.0
Ocudor T	0.8	3.5	(77.1)
Ocuflur	12.7	12.6	0.8
Otac AC	0.7	0.7	0.0
Otek AC plus	179.4	153.7	16.7
Pilocar	25.3	24.2	4.5
Pyricort	6.4	6.2	3.2
Pyrimon	80.3	80.9	-0.7
Tearmax	10.9	9.1	19.8
Vanmycetin	5.2	6.1	-14.8
Total	539.1	492.9	9.4

Source: IMS MAT-July'14

Nutraceuticals

FDC markets its reputed energy drink Enerzal in the domestic market. As per IMS MAT-July'14 data, Enerzal generated revenues of Rs196mn and grew at 21.1%. FDC has launched Enerzal in PET bottles in orange and apple flavours. FDC is aggressively promoting this product through various sports events held across major metros of India. Another major brand Simyl MCT generated revenues of Rs188mn and grew at 18.0%. We expect these two brands to drive future growth for the company.

The company has successfully launched its infant milk substitute Mum Mum1 and has launched Mum Mum2 for infants between six months and one year. We expect the company to become a leading player in the nutraceutical segment due to its established brands. The domestic nutraceutical market is placed at Rs10.5bn and grew at 7.4%. FDC has ~4.4%MS in the domestic nutraceutical market. Competing products are Protinex (Danone), Protinules (Alembic), Lactodex (Reptakos Brett), Pediasure (Abbott India), Ensure (Abbott India), Threptin biscuits (Reptakos Brett), Dexolac (Wockhardt) etc. Except Enerzal and Simyl MCT, other nutraceutical brands of FDC do not have significant presence in the domestic market.

The list of nutraceutical products and their revenues are shown in the following table:

Exhibit 5: Nutraceutical brands and their performance

PRODUCT	MAT sales Rs mn	Gr. Rate%
Enerzal	196.0	21.1
Simyl MCT	187.6	18.0
Punarjal	27.9	(31.0)
Prosoyal	19.5	(4.8)
Mum Mum 1	18.7	(11.3)
Humyl	9.4	(5.6)
Total	459.1	NA

Source: IMS MAT-July'14

New product launches

FDC is a pioneer in launching new products and line extensions in the domestic market. It introduced the following new products in FY12-FY14:

Exhibit 6: New product launches FY12-FY14

Product	Therapeutic category	Active Ingredients
FY14		
Calyumm-P suspension	minerals	Calcium, phosphorous
Enerzal in PET bottles	nutritional	Carbohydrates, Citric acid, NaCl, KCl, Ca lactate
Mum Mum2	infant milk substitute	Protein, fat, carbohydrates, vitamins, minerals
FY13		
lotim B	anti-glaucoma	Timolol maleate
FY12		
Simyl MCT	nutritional supplement	Protein, fat, carbohydrates, triglycerides, Na, K, P
Prosoyal with milk fat	nutritional supplement	Protein, fat, carbohydrates, triglycerides, Na, K, P, minerals

Source: Company

Research & development initiatives

Process development

FDC has developed and improved processes for Dorzolamide (glaucoma), Fluconazole (antifungal), Famciclovir (anti-herpes), Flurbiprofen (NSAIDs), Brimonidine tartrate (glaucoma), Rupatadine fumarate (allergic rhinitis), Olopatadine (conjunctivitis), Salbutamol sulphate (anti-asthmatic) and Latanoprost (glaucoma). The company has developed processes for the following APIs: Bimatoprost (glaucoma), Betaxolol (glaucoma), Telmisartan (antihypertensive), Tioconazole (anti-fungal) and Duloxetine (depression) etc. It has developed three nanotechnology based ophthalmic suspensions and received approvals for four generic products from European agencies. FDC has developed a non-infringing process for Rupatadine fumarate - an antihistamine to treat allergies and for Fluconazole - an anti fungal drug. The R & D team has developed a process for Olopatadine HCl - an antihistamine. We expect these initiatives to generate a strong product pipeline for API and formulations for future especially in the area of ophthalmology.

Testing of New Chemical Entities

FDC has in-house developed cell line based assays for testing of New Chemical Entities (NCE) for anti-cancer activity. It has set up a Novel Drug Delivery Research (NDDR) for increasing overall therapeutic and commercial value of commonly prescribed drugs. The company's NDDR focuses on anti-infective, respiratory and NSAIDs areas. The company has developed bio therapeutics such as colony stimulating factors and third generation thrombolytic using recombinant DNA technology. FDC has been granted patents by Indian patent office for novel use of human cell line for biological assay of recombinant products. We expect these developments to help create intellectual property for the company.

Acquisitions to improve business operations

Acquires Anand Synthochem

FDC acquired 100% equity shares of Anand Synthochem (ASL) in October'11 for Rs64.4mn (including loan of Rs3.8mn) from its erstwhile shareholders based on independent valuations. ASL has become a 100% subsidiary of FDC. Though ASL does not have substantial operations, it owns 81,855 sq. feet property at Dombivali, which FDC proposes to use for its business operations.

Acquires land and building

In May'14, the company acquired land and building at Andheri (west) for Rs1.15bn. The company proposes to use this facility for future business expansion.

Key entry barriers

FDC has an edge over competitors. Key entry barriers for establishing this business are:

- Brand creation and brand nurturing
- R & D for New Product development
- Development of cost effective processes for API
- Regulatory approval for manufacturing facilities, DMF and ANDA filings

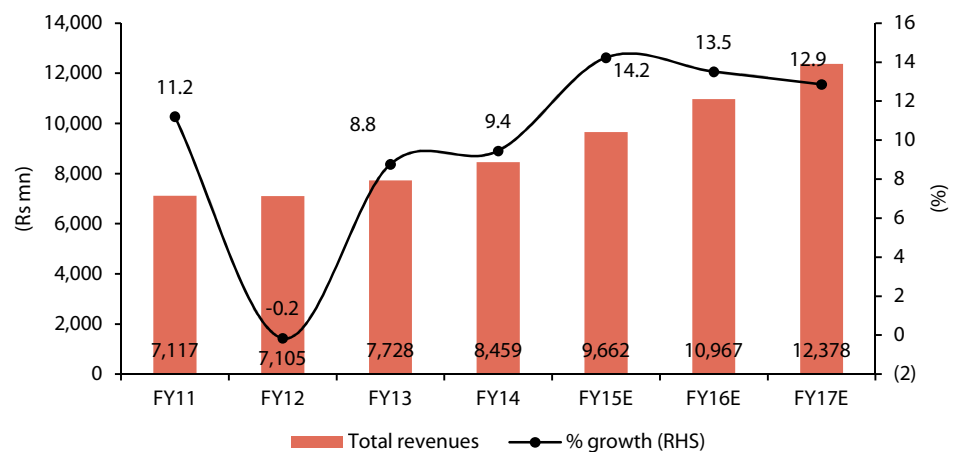
Financial Analysis

Good track record

FDC has achieved 11% CAGR in revenues, 16% CAGR in EBITDA and 12% CAGR in net profit over the past 10 years and hence has a good track record of revenues and profitability. The company has a presence in over 30 therapeutic categories with a basket of over 100 products. It has a US FDA approved API facility at Roha and hence is a preferred supplier of APIs to global generic companies. It also supplies ophthalmology and other products from its US FDA approved Waluj facility to US, UK and other markets.

We expect FDC's revenues to grow by 14% CAGR over FY14-FY17 due to good growth of its existing brands, new product launches and from the exports of API and ophthalmic formulations. This is indicated in the following graph:

Exhibit 7: Revenue and revenue growth %

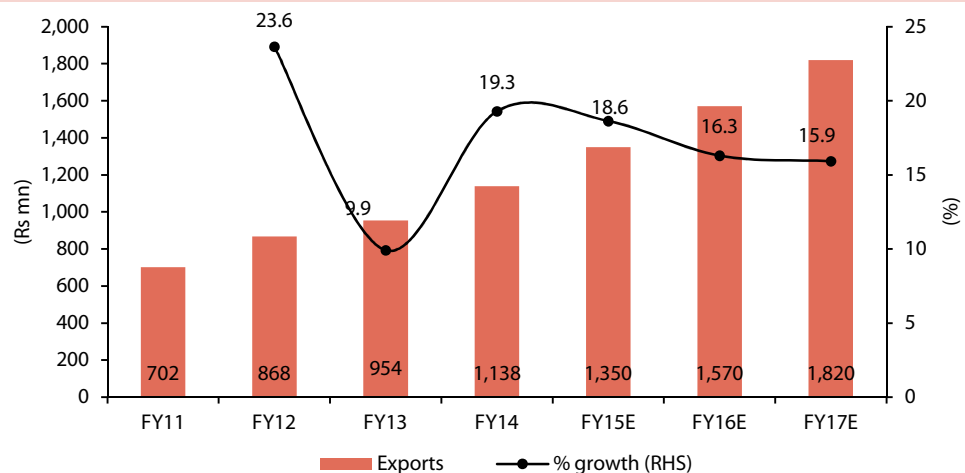


Source: company, Centrum Research Estimates

Exports to grow at 17% CAGR

FDC derives 14% of its revenues from exports and the balance 86% from the domestic market. Hence, it is predominantly a domestic player. The company has over 100 products spread across 30 therapeutic categories and hence has no major dependence on any therapeutic segment. We expect 17% CAGR in exports over next three years from the export of API to global generic players and export of ophthalmology products to the US and UK market. FDC's year-wise revenues for exports and growth rate are indicated in the following chart:

Exhibit 8: Export revenues and growth rates



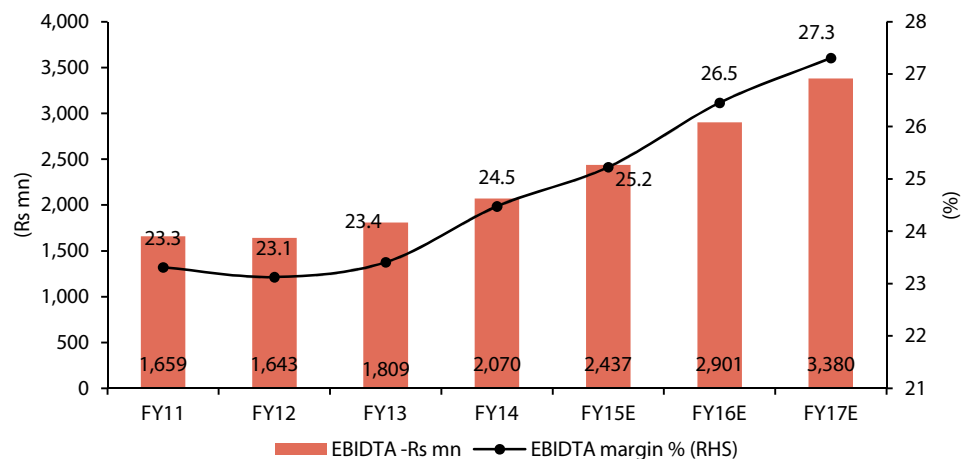
Source: company, Centrum Research Estimates

We expect FDC's EBIDTA to grow at 18% CAGR over FY14-FY17 due to the following:

- Price increase for products
- Rise in exports to regulated markets
- New product introductions
- Improvement in operational efficiencies
- Benefit of economies of scale

We expect the company's EBIDTA margin to improve to 25.2% in FY15 from 24.5% in FY14 and to 26.5% in FY16 to 27.3% in FY17. This is shown in the following chart:

Exhibit 9: EBIDTA and EBIDTA margin

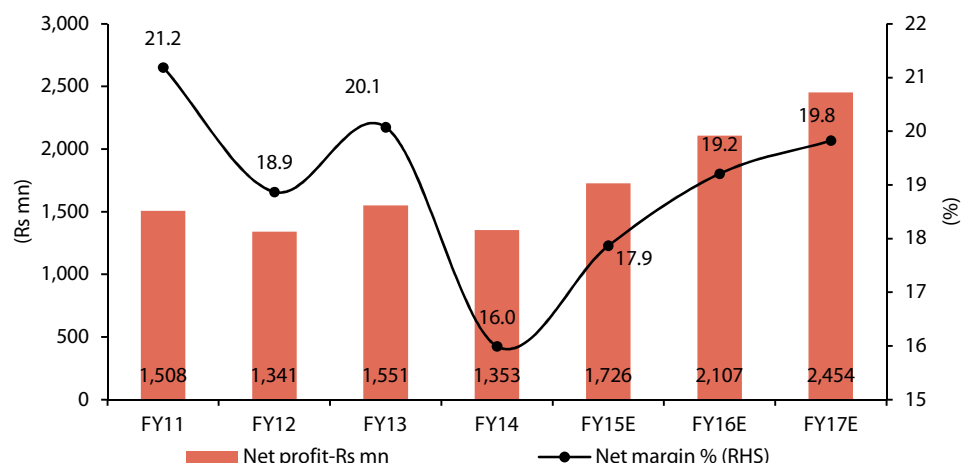


Source: company, Centrum Research Estimates

Net profit to rise

We expect FDC's net profit to grow at 16% CAGR over FY14-FY17 due to margin improvement and higher other income. Lower net profit in FY14 was attributed to additional tax of Rs225mn paid for the previous years. This is shown in the following chart:

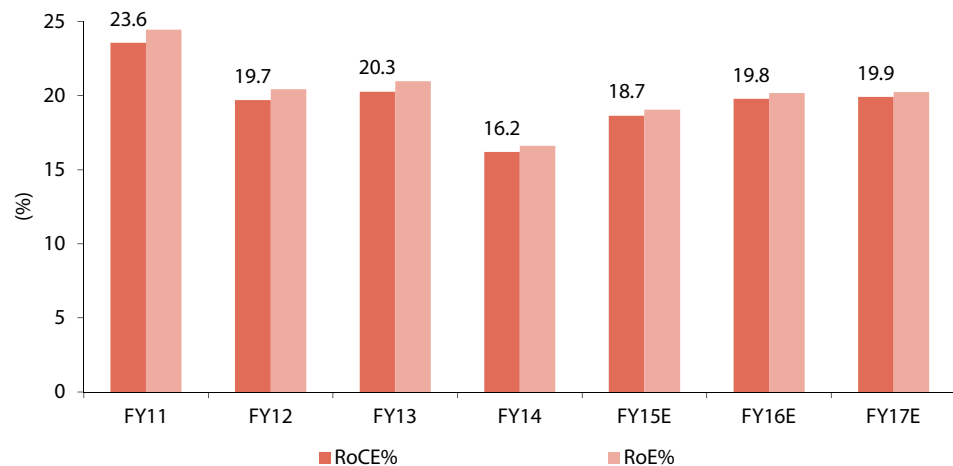
Exhibit 10: Net profit and net margin



Source: company, Centrum Research Estimates

Return ratio set to improve

We expect FDC's RoE to improve to 20.2% in FY17 from 16.6% in FY14 due to higher profitability from price increases of its products, operational efficiencies and higher other income. We also expect the company's RoCE to improve to 19.9% in FY17 from 16.2% in FY14. The details are shown in the following chart:

Exhibit 11: RoE and RoCE

Source: company, Centrum Research Estimates

Buys back shares

Due to strong cash flows from operations and limited capex, FDC had buyback programs for its equity shares. The buyback has helped to reduce equity, improve EPS and enhance promoter's stake. In the last 5 years, FDC has bought back 10.34mn equity shares at an average price of Rs83.62. The details of Buybacks in the recent past were as follows:

Exhibit 12: Buyback of shares

Period	No. of shares mn	Amt Rs mn.	Average price Rs.
FY14	3.00	271.7	90.57
FY13	2.09	193.3	92.49
FY12	1.65	146.1	88.55
FY11	1.71	179.1	104.74
FY10	1.89	74.4	39.37
Total	10.34	864.6	83.62

Source: Company

Higher tax rate in FY14

FDC's higher tax rate of 38.0% in FY14 was attributed to Rs225mn additional tax from previous years. Excluding this, the tax rate would have been 27.7%. We have assumed a tax rate of 27.7% for FY15 and 27.3% each for FY16 and FY17.

Sharp rise in capex in FY15

In May'14, FDC purchased land including a factory building at Andheri (west), Mumbai for Rs1.15bn. The company has plans to use this facility for business operations. We do not envisage any major capex for FDC in FY16 and FY17.

Sharp drop in loans & advances expected

We expect a sharp drop in other current assets and loans and advances in FY15 to Rs393mn from Rs1,538mn in FY14 as FY14 numbers include capital advances of Rs1,150mn towards the purchase of land and building at Andheri(West).

Performance of subsidiaries poor

FDC currently has three 100% subsidiaries – FDC International UK, FDC Inc. US and Anand Synthochem. In FY14, FDC Inc, US and Anand Synthochem did not generate any revenues and reported minor losses of Rs0.1mn and Rs0.5mn respectively. FDC International, UK generated revenues of Rs172mn (2% of consolidated revenues) and net profit of Rs17mn (1.3% of consolidated net profit). Hence, the contribution from these subsidiaries to the overall finance is not significant. FDC has a 49:51 JV in S. Africa called Fair Deal Corporation Pharmaceutical SA, which has reported loss of Rs14.0mn in FY14 on account of difference in rates taken for stock and deferred tax. We do not expect any major contribution from the two subsidiaries FDC Inc., US and Anand Synthochem in the near future.

Performance of the subsidiaries is shown in the following table:

Exhibit 13: Performance of subsidiaries

PARTICULARS (Rs mn)	FY10			FY11			FY12			FY13			FY14		
	FDC INT.	FDC Inc.	Anand S.	FDC INT.	FDC Inc.	Anand S.	FDC INT.	FDC Inc.	Anand S.	FDC INT.	FDC Inc.	Anand S.	FDC INT.	FDC Inc.	Anand S.
Revenues from operations	124.8	0	NA	92.7	0	NA	177.6	0	0	61.7	0	0	171.6	0	0
Other income	0	0	NA	0	0	NA	0	0	0	0.2	0	0	0	0	0
Profit/(loss) before tax	21.9	(0.6)	NA	13.6	0	NA	25.1	0	(0.2)	(10.8)	-0.1	(0.4)	21.8	(0.1)	(0.5)
Provision for taxation	6.9	0	NA	2.6	0	NA	6.3	0	0	(2.2)	0	0	4.6	0	0
Profit/(loss) after tax	15	(0.6)	NA	11	(0.1)	NA	18.8	0	(0.2)	(8.6)	(0.1)	(0.4)	17.2	(0.1)	(0.5)
Dividend	0	0	NA	0	0	NA	0	0	0	10.3	0	0	0	0	0

Source: Company, Centrum Research, FDC INT.=FDC International- UK, Anand S.= Anand Synthochem, NA= Not applicable

Q1FY15 results

FDC's Q1FY15 results were affected by NPPP. On a standalone basis, FDC reported 5%YoY growth in revenues to Rs2.18bn from Rs2.08bn. The company's EBIDTA margin declined by 510bps YoY to 19.8% from 24.9% due to the increase in personnel and other expenses.

FDC's material cost declined by 70bps to 39.8% from 40.5% due to the change in product mix. Personnel expenses increased by 270bps to 16.2% from 13.5% due to manpower addition and annual increments. Other expenses went up by 320bps to 24.2% from 21.0%. FDC's other income grew by 47%YoY to Rs154mn from Rs105mn mainly from treasury operations. The company's depreciation was up by 71%YoY to Rs106mn from Rs62mn due to the rise in depreciation rates based on the useful life of assets. FDC's tax rate grew to 27.6% from 22.8%. Net profit declined by 20%YoY to Rs343mn from Rs431mn due to the drop in EBIDTA margin, rise in depreciation and higher tax rate. The details are shown in the following table:

Exhibit 14: Q1FY15 results-standalone

Particulars (Rs mn)	Q1FY15	Q1FY14	YoY Gr%	Q4FY14	QoQ Gr %	FY14
Total income	2,184	2,083	4.8	1,980	10.3	8,370
Expenditure						
Raw materials	868	843	3.0	736	17.9	3,201
as % of total income	39.8	40.5		37.2		38.2
Personnel expenses	354	282	25.7	316	12.2	1,207
as % of total income	16.2	13.5		15.9		14.4
Other expenses	528	438	20.5	544	(2.8)	1,898
as % of total income	24.2	21.0		27.4		22.7
Total Expenditure	1,751	1,563	12.0	1,596	9.7	6,307
EBIDTA	433	519	(16.7)	385	12.5	2,063
EBIDTA Margin (%)	19.8	24.9		19.4		24.6
Other income	154	105	47.2	119	29.0	382
PBDIT	587	624	(6.0)	504	16.4	2,445
Depreciation	106	62	71.0	58	82.5	245
Interest	6	4	60.0	18	(65.2)	30
PBT	474	558	(15.0)	427	10.9	2,170
Prov. For tax	131	127	3.1	409	(68.0)	826
% of PBT	27.6	22.8		95.8		38.1
PAT before minority interest	343	431	(20.3)	18	1,816.8	1,344
Minority interest	0	0	NA	0	NA	0
Reported PAT	343	431	(20.3)	18	1,816.8	1,344
Equity capital	178	178	(0.1)	178	(0.1)	178
EPS Rs.(Rs. 1 Paid up)	1.93	2.42	(20.2)	0.10	1,818.9	7.55

Source: Company, Centrum Research

Q2FY15 estimates

- For Q2FY15 on a standalone basis, we expect FDC to report 12%YoY and 18%QoQ revenue growth due to the price increase for price controlled products and for products outside price control in April'14.
- We expect FDC's EBIDTA margin to decline by 40bps to 27.1% from 27.5% due to the expected increase in personnel cost and other expenses.
- We expect other income to grow by 65%YoY to Rs150mn from Rs91mn mainly from treasury operations.
- We expect FDC's depreciation to go up by 75%YoY to Rs110mn from Rs63mn due to revised depreciation rates based on the useful life of the asset.
- We expect FDC's net profit to grow by 7%YoY to Rs525mn from Rs491mn.
- Our target price of Rs210 is based on 16xSept'16E EPS of Rs12.8.

Exhibit 15: Q2FY15 estimates

Particulars (Rs mn)	Q2FY15E	Q2FY14	YoY Gr%	Q1FY15	QoQ Gr %	FY15E
Total income	2,565	2,287	12.2	2,184	17.5	9,662
EBIDTA	695	629	10.5	433	60.6	2,437
<i>EBIDTA Margin (%)</i>	<i>27.1</i>	<i>27.5</i>		<i>19.8</i>		<i>25.2</i>
Net profit	525	491	7.0	343	53.0	1,726
<i>Net margin (%)</i>	<i>20.5</i>	<i>21.5</i>		<i>15.7</i>		<i>17.9</i>

Source: Centrum Research Estimates

Quarterly Financials

Exhibit 16: Quarterly financials-standalone

Particulars (Rs mn)	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15
Total Sales	2,081	1,789	1,737	2,083	2,287	2,020	1,980	2,184
Materials Cost	814	703	666	843	870	752	736	868
Personnel expenses	268	255	274	282	303	307	316	354
Other expenses	443	389	478	438	486	431	544	528
Total Expenditure	1,524	1,347	1,419	1,563	1,658	1,490	1,596	1,751
EBIDTA	557	442	319	519	629	530	385	433
Other income	93	84	215	105	91	68	119	154
PBDIT	650	526	534	624	720	598	504	587
Depreciation	60	62	59	62	63	62	58	106
Interest	4	3	5	4	4	4	18	6
PBT	587	461	470	558	654	531	427	474
Tax	122	110	109	127	163	127	409	131
PAT	464	351	361	431	491	405	18	343
Extraordinary item	0	0	0	0	0	0	0	0
Reported PAT	464	351	361	431	491	405	18	343
Growth Rates %								
Sales	5.1	10.0	11.5	2.2	9.9	12.9	14.0	4.8
EBIDTA	18.3	9.4	0.3	2.2	12.9	20.1	20.8	(16.7)
Net profit	26.1	6.7	26.3	6.0	5.7	15.4	(95.0)	(20.3)
Margin %								
EBIDTA margin	26.8	24.7	18.3	24.9	27.5	26.3	19.4	19.8
PBT margin	28.2	25.8	27.1	26.8	28.6	26.3	21.6	21.7
Net margin	22.3	19.6	20.8	20.7	21.5	20.0	0.9	15.7

Source: Company, Centrum Research

Exhibit 17: Sensitivity to key variables

Sensitivity to key variables-FY15E	% change	% impact on EBIDTA	% impact on EPS
Sales	1	4.0	5.6
Material cost	1	(1.5)	(2.1)

Source: Centrum Research Estimates

Exhibit 18: Key performance indicators

Key performance indicator	FY13	FY14	FY15E	FY16E	FY17E
Sales growth %	8.8	9.4	14.2	13.5	12.9
Material cost %	40.2	38.4	38.1	37.5	37.2

Source: Company, Centrum Research Estimates

Assumptions

We expect the price increase of 6.3% for price controlled products in FY15 and up to 10% for products outside price control. This trend is likely to continue in future years too. Price increase along with the volume growth is likely to drive future revenues. We have assumed the following sales growth for its major brands as follows:

Exhibit 19: Sales growth for major brands

Particulars	FY12	FY13	FY14	FY15E	FY16E	FY17E
Growth rates%						
Zifi	2.5	2.9	5.3	11.0	10.0	9.0
Electral powder	(3.0)	5.4	(5.4)	10.0	9.0	8.0
Vitcofol	5.6	13.8	12.4	16.0	15.0	14.0
Zifi CV	10.4	8.5	7.8	13.0	12.0	11.0
Zifi AZ	NA	127.1	39.1	30.0	29.0	28.0
Simyl MCT	22.4	36.9	3.2	9.0	8.0	7.0
Zocon	15.5	(0.1)	(7.2)	10.0	9.0	8.0
Zathrin	(7.5)	(1.0)	(16.9)	10.0	9.0	8.0
Amodep AT	32.9	15.7	11.7	15.0	14.0	13.0
Otek AC plus	10.5	4.7	20.5	22.0	21.0	20.0
Zifi O	129.1	30.2	23.7	25.0	24.0	23.0
Flemiclav	19.5	5.0	2.4	10.0	9.0	8.0
Ocuvir	24.5	2.4	2.7	10.0	9.0	8.0
Enerzal	4.5	16.0	14.0	18.0	17.0	16.0
Zivast	(4.7)	3.8	10.0	14.0	13.0	12.0
Zifi Turbo	NA	NA	137.1	60.0	55.0	50.0
Ivimicin	(9.5)	(11.4)	(16.5)	8.0	7.0	6.0
Zo	(21.5)	(12.4)	(10.6)	10.0	9.0	8.0
Zoxan	(21.6)	(2.3)	(16.0)	8.0	7.0	6.0
Zipod	(5.4)	(9.5)	(4.2)	10.0	9.0	8.0
Zifi LBX plus	(5.2)	(15.0)	(0.9)	10.0	9.0	8.0
1 AL	2.6	11.9	6.6	12.0	11.0	10.0
Zefu	(13.9)	(9.0)	7.7	12.0	11.0	10.0
Flunarlin	16.8	0.8	6.5	12.0	11.0	10.0
Pyrimon	(26.4)	16.9	(0.4)	10.0	9.0	8.0
Others	(8.0)	13.4	20.5	15.0	14.0	13.0
Total	0.0	8.7	9.2	14.2	13.5	12.9

Source: AIOCD AWACS data, Centrum Research

Valuation and Recommendations

Attractive Valuations

FDC is poised for good growth. We expect the company to report 14% CAGR in revenues, 18% CAGR in EBITDA and 16% CAGR in net profit over the next three years due to growth of its major brands and rise in exports. We expect the company's EBITDA margin to improve to 25.2% in FY15 from 24.5% in FY14 due to operational efficiencies, change in product mix and increase in product prices. We expect EBITDA margin to improve to 26.5% in FY16 and to 27.3% in FY17. Hence, FDC has a better margin profile than its peers. These margins are higher than that of its peers Indoco Remedies, J B Chemicals and Unichem Labs. The details are shown on page no.17 under Peer Comparison.

Good return ratios

We expect FDC's RoE to improve to 19.1% in FY15 from 16.6% in FY14 due to margin improvement and higher other income leading to higher profitability. This is likely to improve to 20.2% each in FY16 and FY17. We expect RoCE to improve to 18.7% in FY15 from 16.2% in FY14 and to 19.8% in FY16. We expect this to improve further to 19.9% in FY17 indicating that FDC will have attractive return ratios. RoC is expected to be above 26% during FY15-17.

Upside of 45% over CMP

At the CMP of Rs145, the stock trades at 14.9x FY15E EPS of Rs9.7 and 12.2x FY16E EPS of Rs11.8 and 10.5x FY17E EPS of Rs13.8. We have valued the stock at 16x September'16E EPS of Rs12.8 with a target price of Rs210. This will give an upside of 45% over the CMP. Our target price is based on the current P/E of 16.0. As FDC has better margin profile and EV/EBITDA than some of its peers, we feel that the 16x September'16 valuation is justified for the company. FDC is a profit making, debt-free, cash rich, and dividend paying company and is poised for good growth. The cash/share is Rs25 (17% of CMP).

Upside possibilities

- FDC has a wide product portfolio of over 100 brands spread over 30 therapeutic segments and hence less dependence on any therapeutic category.
- The company is the leading player in ophthalmology segment with a range of products. FDC is likely to benefit from conjunctivitis eye infection prevailing in different parts of the country. These products have good export potential.
- It is likely to benefit from its nutraceutical product portfolio of well-established brands Simyl MCT, Soyal, Prosoyal and Mum Mum.
- We expect FDC to benefit from pharma policy as there is automatic revision in prices of drugs under price control. The Government announces Wholesale Price Index (WPI) every April based on the past 12-month's price movements. Manufacturers will be allowed to increase prices for price controlled products by WPI. The last WPI announced in April'14 was 6.3%.
- For products outside price control, manufacturers can increase prices up to 10% per annum.

Exhibit 20: 2 year forward P/E chart

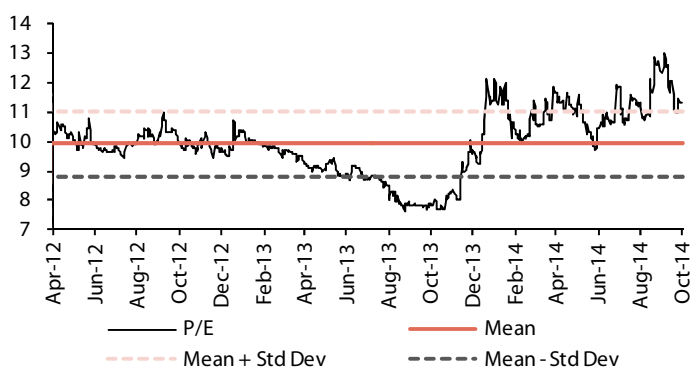
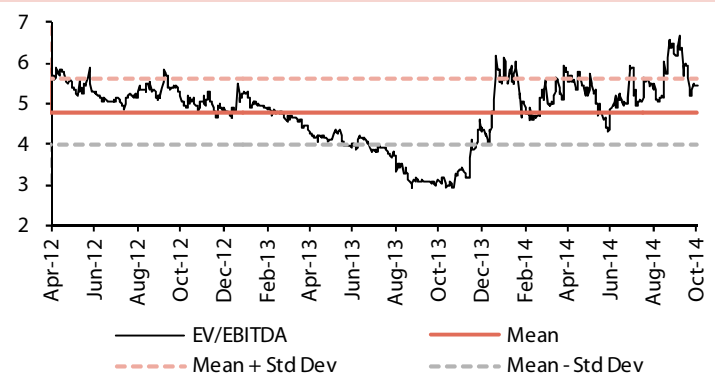


Exhibit 21: 2 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 22: Peer comparison

Company	Mkt Cap Rs mn.	CAGR FY14-16E%			EBIDTA margin (%)			P/E(x)			EV/EBIDTA(x)			RoE(%)			Div. Yield (%)		
		Revenue	EBIDTA	PAT	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E
FDC	25,781	13.9	18.4	24.8	24.5	25.2	26.5	19.1	14.9	12.2	12.4	10.5	8.8	16.6	19.1	20.2	1.6	1.7	1.9
Indoco Remedies	25,903	24.0	34.1	55.2	16.8	18.4	19.7	44.8	26.6	18.6	11.2	16.5	12.2	13.3	18.7	22.3	1.4	1.1	1.2
J B chemicals	18,713	13.5	24.0	67.6	15.5	17.7	18.4	30.4	12.9	10.8	4.3	7.3	6.1	6.0	15.7	17.4	1.8	3.1	3.5
Unichem Labs	20,014	15.1	21.7	1.2	15.7	16.6	17.5	11.8	14.2	11.5	11.5	9.2	7.5	21.9	16.3	18.1	0.5	0.6	0.7

Source: Company, Centrum Research estimates, Bloomberg Estimates Prices as on 1st October '14

Business Risks

- FDC has high exposure to the anti-infective segment. The demand for anti-infectives keeps on fluctuating based on various infections in different parts of India. A major portion of Indian population suffers from infections due to unhygienic conditions, contaminated food and high pollution levels. The company derives ~27% of its revenues from a single anti-infective brand Zifi and its line extensions.
- FDC was impacted by National Pharmaceutical Pricing Policy (NPPP) in FY14 as the number of formulations covered under price control has doubled under the new pharma policy and the percentage of formulations covered under price control has increased over six fold. Eleven out of top 25 brands of FDC are under price control.
- The company's manufacturing facilities face regulatory risks from global regulatory agencies US FDA, UK MHRA, and MCC-S. Africa, WHO etc.
- The company's two subsidiaries, FDC Inc., US and Anand Synthochem have reported minor losses in FY14 and they will take time to be profitable.

Exhibit 23: Shareholding pattern (%)

% Holding	June-14	Mar-14	Dec'13	Sept'13
Promoters	68.9	68.9	68.9	68.9
FIs	7.5	7.3	6.5	5.4
DIs	4.7	4.9	5.0	6.0
Public	18.9	18.9	19.6	19.7

Source: BSE

Company Background

FDC is the market leader in Oral Rehydration Salts (ORS) and ophthalmology products in India. The company has received approval from US FDA for Ofloxacin, Timolol maleate and Ciprofloxacin ophthalmic solutions used in the treatment of eye infections. FDC has strong brand image and its ORS brand Electral has a good brand recall. The company markets over 100 formulations across 30 therapeutic categories.

About FDC

FDC (Foods, Drugs and Chemicals) was established in 1936 as a partnership firm by Anand Chandavarkar to import pharmaceutical formulations, specialised infant foods and surgical goods. It was converted into a private limited company Fairdeal Corporation Private Limited in 1940. It set up a formulation manufacturing facility at Jogeshwari-Mumbai in 1949. FDC manufactures Electral-oral rehydration salt (ORS) since 1972. The company has set up an API and food manufacturing facility in Roha, Maharashtra. The Roha API facility was approved by US FDA in 1984. FDC received the Quality Excellence Award from Indian Drug Manufacturer's Association (IDMA) in 1993 and 1994. The company was the first to offer soya based infant foods in India. FDC become a public limited company in 1996. It has set up a formulation manufacturing plant at Goa in 2000. The company has set up a manufacturing facility in Baddi in 2006.

The company pioneered the manufacture of specialised ophthalmic formulations in India. FDC was the first company in South East Asia to offer Blow-Fill-Seal (BFS) technology based sterile ophthalmology products. In February'01, FDC signed a marketing deal with Aspen Pharma, S. Africa for 10-12 ophthalmic products and ORS for S. African market. The company has received US FDA approval for its ophthalmic facility at Waluj, Aurangabad. FDC first launched chloramphenicol and timolol maleate eye drops in the UK in FY99. FDC launched two new divisions in FY14 namely Pixel and Dil Se. The Pixel division will exclusively cater to ophthalmologists. The Dil Se division will cater the cardiovascular segment.

FDC's subsidiaries are FDC Holdings, Netherlands, FDC International, UK and FDC Inc, New Jersey, US. Fairdeal Corporation Pharmaceutical SA Pty Ltd. is a 49:51 joint venture company. The subsidiaries accounted for ~2% of the consolidated revenues in FY14.

The promoter's holding is 68.9% and none of the shares have been pledged by them. The board of directors has decided to amalgamate Soven Trading & Investment Company Private Ltd, Sudipta Trading & Investment Company Private Ltd, Transgene Trading & Investment Company Private Ltd and Anand Synthochem Ltd with FDC. This will help simplify the structure and alignment of the group's business resulting in the rationalisation of the company's business.

The detail of the company's manufacturing facilities, products manufactured at each facility and regulatory approvals is indicated in the following table:

Exhibit 24: Manufacturing facilities and products manufactured

Sr. No.	Location	products manufactured	Regulatory approvals
1	Baddi	tablets, dry powders and liquid orals of cephalosporin	WHO
2	Goa-I	tablets, capsules, ORS of non-betalactum, non-cephalosporin	WHO, Unicef, UK MHRA, IDA-Netherlands
3	Goa-III	tablets, capsules of non-betalactum, non-cephalosporin	WHO, Unicef
4	Roha	API and food manufacture	US FDA, WHO GMP, Bureau of Indian Standards, HACCP
5	Sinnar	ORS for exports and food products	WHO, Unicef, MSF-France, IDA-Netherlands, Tanzania FDA
6	Waluj	ophthalmic, liquid orals, ORS, external powder	UK MHRA, US FDA, MCC-S. Africa, WHO

Source: Company

Exhibit 25: Key management personnel

Name	Position	Profile
Mohan A. Chandavarkar	Managing Director	He is the Managing Director of the company since 1967. He holds Bachelor's Degree in Science. He has to his credit rich experience of 46 years in the field of commercial, marketing, operations and international business of the company. He has professional knowledge and vast experience in the pharma industry.
Nandan M. Chandavarkar	Jt. Managing Director	He is the Jt. Managing Director of the company since 1993. He holds Bachelor of Pharmacy degree. He is responsible for technical and regulatory operations and international business of the company. He has vast experience in the international operations.
Ashok A. Chandavarkar	Executive Director	He is the Executive Director since 1987. He holds Bachelor's Degree in Engineering and is actively involved in day-to-day operations of the company. He has in-depth professional knowledge and wide experience in pharma industry.
Ameya A. Chandavarkar	Whole time Director	He is a Graduate in Information Systems and Marketing Management from Florida Southern College, USA. He joined the company in 2000 as Manager-Corporate Affairs and was appointed Whole time Director in 2002. He obtained MBA from INSEAD in France and Singapore. He is responsible for Information Technology, International Business, Human Resources and other business affairs. He has worked for Medtronic, Switzerland a medical technology company as Market Development Manager covering Western Europe.
Girish C .Sharedalal	Director	He is a Non-Executive Independent Director. He is a Chartered Accountant by profession. He has wide experience in accounts, finance, audit and taxation. He is also the Director of Stovec Industries.
Vinod G. Yennemadi	Director	He is a Non-Executive Independent Director. He is a Fellow member of Chartered Accountants in England and Wales and Associate member of Chartered Accountants in India. He has over 20 years of experience in corporate finance. He has also worked for HDFC Bank and is on the Board of Shamrao Vithal Co-operative Bank.
Dr. Rahim H. Muljiani	Director	Dr. Muljiani is a reputed and one of the senior most ophthalmologist in India. He provides guidance for the ophthalmic range of products to the company.
Dr. Satish S. Ugrankar	Director	Dr. Ugrankar is a renowned orthopaedic surgeon and advises on the orthopaedic range of products to the company.
Ms. Nomita R. Chandavarkar	Executive Director	She is a Commerce Graduate and is associated with the company for over 13 years. She is responsible for website development, redesigning and content management. She also looks at various charitable activities of the company.
Ms. Swati S. Mayekar	Director	She is a Non-Executive Independent Director since September'14. She is also an independent Non-Executive Director at Uniphos Enterprises.

Source: Company

Appendix-1

Major products and competing brands

PRODUCT	ACTIVE INGREDIENTS	THERAPEUTIC CATEGORY	DPCO COVERAGE	COMPETING BRANDS & MANUFACTURERS
Zifi	Cefixime	Anti-infective	Yes	Cefi-Abbott, Cefinar-Zydus Cadila, Cefspan-Glaxo SK, Claferon O-Sanofi India, Fixx-Unichem
Electral powder	NaCl, KCl, Sodium citrate, Dextrose	ORS	Yes	Elect ORS-Abbott Healthcare, Electroblion-Merck, ERO-Lupin, Genlyte-Cadila HC, Thrive-Elder
Vitcofol	Fe fumarate, Folic Acid, Vitamin B6 & B12, Zn sulphate	Vitamins, minerals	No	Anemidox-Merck, Conviron TR-Ranbaxy, Dexorange-Franco Indian, Fefol Z-Glaxo SK
Zifi CV	Cefixime, Clavulanic acid	Anti-infective	No	Omnatax CV-Abbott Healthcare, Fixx Clav-Unichem, Topcef Clav-Torrent Pharma
Zifi AZ	Cefixime	Anti-infective	Yes	Cefi-Abbott, Cefinar-Zydus Cadila, Cefspan-Glaxo SK, Claferon O-Sanofi India, Fixx-Unichem
Simyl MCT	Protein, Fat, Carbohydrates, triglycerides, Na, K, P	nutritional supplement	No	Dexolac-Wockhardt, Easum-Wockhardt, Ensure-Abbott
Zocon	Fluconazole	Antifungal	Yes	Alfuzco-Alembic, F CON-Lupin, Fabizol-Unichem, Flumed-Zydus Cadila, Forcan-Cipla
Zathrin	Azithromycin	Anti-infective	Yes	Azee-Cipla, Azforin-Unichem, Azibact-Ipca Labs, Azifine-Glenmark, Azithral-Alembic
Amodep AT	Amlodipine besylate, Atenolol	anti-hypertensive	No	Amlo AT-Orchid, Amlobet-Sun Pharma, Betacard AM-torrent Pharma, Carvasc A-Aurobindo
Otek AC plus	Chloramphenicol, Clotrimazole, Beclomethasone	Antifungal	No	Candibiotic-Glenmark, Beclocin O-Haledew, Drep-DWD
Zifi O	Cefixime, Ofloxacin	Anti-infective	No	Nicef O-Intas, Tricef O-Wockhardt, Zytax OF-Zodley, Zufix OX-Hauz, Zofixi OF-Zodak
Flemiclav	Amoxicillin, Clavulanic acid	Anti-infective	Yes	Advent-Cipla, augmentin-Glaxo SK, Clamp-Dr. Reddy's, Moxclav-Ranbaxy, Nuclav-Abbott
Ocuvir	Aciclovir	Anti-herpes	Yes	Cyclovir-Zydus Cadila, Herpex-Torrent, Lovir-Eli Lilly, Zovirax-Glaxo SK, Acivir-Cipla
Enerzal	Carbohydrates, citric acid, NaCl, KCl, Ca lactate	ORS	No	Elect ORS-Abbott Healthcare, Electroblion-Merck, Genlyte-Cadila HC, Thrive RD-Elder
Zivast	Atorvastatin	Cholesterol reducer	Yes	Atocor-Dr. Reddy's, Atoril-Aurobindo, Atorva-Zydus Cadila, Aztor-Sun Pharma, Storvas-Ranbaxy
Zifi Turbo	Linezolid	Anti-infective	No	Alzolid-Alembic, Linid-Zydus Cadila, Linox-Unichem, Lizolid-Glenmark, Lizbid-Abbott Healthcare
Ivimicin	Amikacin	Urinary tract infection	Yes	Amikef-Lupin, Lupamik-Lupin, Orkacin-Orchid, Nimicin-Emcure, Amitax-Alkem
Zo	Ofloxacin	Anti-infective	Yes	Doact 200-Sun Pharma, Eufox-Lupin, harpoon-Merck, Oflin-Zydus Cadila, Zanocin-Ranbaxy
Zoxan	Ciprofloxacin	Anti-infective	Yes	C OD-Glaxo SK, Ceplox-Sun Pharma, Cifran-Ranbaxy, Ciplox-Cipla, ciprolet-Dr. Reddy's Labs
Zipod	Cefpodoxime	Anti-infective	No	Cefective-Merck, Cepocor-Ranbaxy, Doxcef-Lupin, Kefpod-Glenmark, Proxtl-Aurobindo
Zifi LBX plus	Cefixime, Dicloxacillin, Lactobacillus	Anti-infective	No	Formic XL-Elder, Hifen-LXX-Hetero, Milixim DLX-Glenmark, Topcef Plus-Torrent
1 AL	Levocetirizine	Anti-allergic	No	Allrite-Zydus Cadila, Glencet-Glenmark, L-Cetirizet-Sun Pharma, Laveta-Alembic, Starcet-Lupin
Zefu	Cefuroxime	Anti-infective	No	Altacef-Glenmark, Axtl-Aurobindo, Cefum-Glaxo SK, Cetil-Lupin, Furobid-Alembic
Flunarlin	Flunarizine	antimigraine	No	Flugraine-Orchid, Migon-Cadila Pharma, Nomigrain-Torrent, Profigran-Alkem, Sibelium- J & J
Pyrimon	Dexamethasone, Chloramphenicol	Anti-infective	No	Chlormet DM-Sun Pharma, Eptico D-Elder, Triclor D-Zee Labs

Source: Centrum Research, IDR

Appendix-2

Therapeutic categories & brands

Therapeutic category	Major brands
Antifungal	Cotaryl, Fungotek, Mycoderm, Zocon
Anti-anaemic	Vitcofer, Vitconyl
Antidiabetic	Ziglim, Zilmet, Zipio, Zoform
Anti-diarrhoeal, ORS	Electral, Punarjal, Zioral, Zomatriil, Zorno, Zoxan
Anti-haemorrhagic	Clip, Ethasyl, Vitcubin, Vitcofol
Anti-oxidants	lozeal, MMO3
Anti-spasmodic	Drofem, Dropar
Antibacterial	Duoclox, Flemiclav, Zadro, Zathrin, Zilee, Zipod, Zemi, Zifi, Zifilac
Antibiotics	Ivamicin, Zefu, Zinir, Flemiklox, Piperapen-T
Antibacterial- Quinolones	Zigat, Zo, Zospar
Antiemetic	Vorast
Antiulcerant	Pepcia, Pepcia-D, Zipant, Zipant-D
Antiviral	Ocuvir, Virovir
Balanced Energy Drink	Enerzal
Calcium supplement	Zium
CVS	Amodep, Amodep AT, Ziblok, Zilos, Zinebi, Ziram
Cholesterol reducer	Zivast, Zivast E, Zivast F
Diuretic	Torsemi, Zitelmi, Zivast AM
CNS	Dulife, Lamogin
ENT	Cinzan DT, Flunarin
Genitourinal & sex hormones	Zerect, Mizolast, Undo, Zocon, Uipro
Laxatives	Rapidue
Muscle relaxant	Nizi
Ophthalmic-antibacterial	Doloket, lotim, Mosi, Norzen, Tozen, Vanmycetin, Zigat, Zo, Zoxan
Ophthalmic-anti allergic	Ocucel
Ophthalmic-anti fungal	Natoptic, Zocon
Ophthalmic-anti glaucoma	lobet, lobrim, lopar, loprost, lotim, Ocudor, Pilocar
Ophthalmic-anti inflammatory	Ocuflur
Ophthalmic-demulcent	Moisol, Moisol Z
Ophthalmic-GPS	Bactigen, Pyricort, Pyrimon
Ophthalmic-mydratics	Cyclogik, Drosyn, Drosyn T
Ophthalmic-lubricants	Hymoist, Tearmax
Ophthalmic-others	Allercrom, Flomon, I-Lube, Ocuvir, Olodin, UV-Lube
Orthopaedic	Artifit, Calci-3, Arflur, mitilor,
Otologicals	Otek AC
Pre-probiotic	Gutrite
Respiratory, anti-allergic	ETO-salbetol, Salbetol, 1 AL, Lastuss, Ralzal, Salmodil, Tritofen
Mouthwash & tooth paste	Triguard
Vitamins & nutraceuticals	Humyl, Mum Mum, Prosoyal, Simyl LBW, Simyl MCT, Sucralite
Vitamins	Vitcofol C

Source: Company

Appendix-3

ZIFI and Competing brand prices

Brand Name	Manufacturer	Pack size	Price Rs	% premium
Zifi 50mg	FDC	10	29.00	
Cefi 50mg	Abbott	10	70.00	141.4
Zifi 100mg	FDC	10	49.50	
Cefi 100mg	Abbott	10	125.00	152.5
Cefinar 100mg	Zydus Cadila	10	69.90	41.2
Cefspan 100mg	Glaxo SmithKline	10	336.55	579.9
Fixx 100mg	Unichem	10	51.50	4.0
Zifi 200mg	FDC	10	99.00	
Cefi 200mg	Abbott	10	218.00	120.2
Cefinar 200mg	Zydus Cadila	10	90.00	(9.1)
Cefspan 200mg	Glaxo SmithKline	10	582.4	488.3
Claferon-O 200mg	Sanofi India	10	110.00	11.1
Fixx 200mg	Unichem	10	103.00	4.0
Zifi 400mg	FDC	5	97.50	
Cefi 400mg	Abbott	5	149.00	52.8
Zifi syrup 50mg/5ml	FDC	30ml	38.00	
Cefi syrup 50mg/5ml	Abbott	30ml	35.00	(7.9)
Cefspan 50mg/5ml	Glaxo SmithKline	30ml	45.00	18.4
Fixx syrup 50mg/5ml	Unichem	30ml	32.54	(14.4)
Zifi syrup 100mg/5ml	FDC	30ml	53.50	
Cefspan 100mg/5ml	Glaxo SmithKline	30ml	208.00	288.8

Source: Centrum Research, IDR

Financials –consolidated-historical

Exhibit 26: Income Statement

Y/E Mar (Rs mn)	FY08	FY09	FY10	FY11	FY12
Net Sales	4,966	5,953	6,399	7,117	7,105
-Growth (%)		19.9	7.5	11.2	(0.2)
Material Cost	2,550	2,703	2,592	2,992	2,855
% of sales	51.3	45.4	40.5	42.0	40.2
Personnel Expenses	522	587	724	856	990
% of sales	10.5	9.9	11.3	12.0	13.9
Other Expenses	1,188	1,496	1,340	1,610	1,617
% of sales	23.9	25.1	20.9	22.6	22.8
Operating Expenses	4,260	4,787	4,656	5,458	5,462
% of sales	85.8	80.4	72.8	76.7	76.9
EBIDTA	707	1,166	1,743	1,659	1,643
-EBIDTA margin (%)	14.2	19.6	27.2	23.3	23.1
Depreciation	112	130	160	175	185
EBIT	595	1,036	1,584	1,485	1,458
Interest Income/(expenses)	(16)	(18)	(15)	(14)	(14)
PBT from operations	579	1,018	1,569	1,470	1,444
Other non-operating income	173	61	236	283	278
PBT	753	1,079	1,805	1,753	1,722
-PBT margin (%)	15.2	18.1	28.2	24.6	24.2
Provision for tax	121	218	315	245	381
Effective tax rate (%)	16.1	20.2	17.4	14.0	22.1
Net profit	632	861	1,490	1,508	1,341
Adj. PAT	632	861	1,490	1,508	1,341

Source: Company, Centrum Research

Exhibit 27: Key Ratios

Y/E June/Mar (Rs mn)	FY08	FY09	FY10	FY11	FY12
Growth Matrices (%)					
Net sales	NA	19.9	7.5	11.2	(0.2)
EBIDTA	NA	65.1	49.5	(4.8)	(1.0)
Adjusted PAT	NA	36.3	73.1	1.2	(11.1)
Profitability Matrices (%)					
EBIDTA margin	14.2	19.6	27.2	23.3	23.1
EBIT margin	15.5	18.4	28.4	24.8	24.4
PAT margin	12.7	14.5	23.3	21.2	18.9
Return ratios (%)					
ROE	16.9	20.4	28.3	24.5	20.4
ROCE	16.0	19.5	27.1	23.6	19.7
ROIC	19.9	25.2	33.7	28.1	25.9
Turnover Ratios (days)					
Inventory	67.0	57.3	53.0	48.1	51.5
Debtors	14.6	16.9	20.6	19.9	21.2
Creditors	61.5	53.5	58.2	51.9	54.5
Solvency Ratio (X)					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Net Debt -equity	0.0	0.0	0.0	0.0	0.0
Liquidity ratio	1.6	1.7	1.3	1.8	1.6
Interest coverage	48.9	62.0	125.5	122.7	123.1
Dividend					
DPS Rs.	1.0	1.2	1.7	2.0	2.0
Dividend Yield (%)	0.7	0.9	1.2	1.4	1.4
Dividend Payout (%)	28.1	25.7	20.8	23.5	26.4
Per share (Rs)					
Basic EPS (reported)	3.3	4.6	8.0	8.1	7.3
FDEPS (reported)	3.6	4.8	8.4	8.5	7.5
FDEPS(adjusted)	3.6	4.8	8.4	8.5	7.5
BVPS	19.4	22.4	28.1	33.2	37.8
CEPS	4.2	5.6	9.3	9.5	8.6
Valuation metrics (x)					
P/E	40.8	29.9	17.3	17.1	19.2
P/BV	7.5	6.5	5.2	4.4	3.8
EV/EBIDTA	39.4	23.4	15.5	16.1	16.1
EV/Sales	5.6	4.6	4.2	3.8	3.7

Source: Company, Centrum Research

Exhibit 28: Balance Sheet

Y/E June/Mar (Rs mn)	FY08	FY09	FY10	FY11	FY12
Share capital	192	189	187	185	184
Reserves & surplus	3,545	4,039	5,076	5,977	6,769
Total shareholder's fund	3,737	4,228	5,263	6,163	6,952
Loan fund	141	65	50	38	33
Deferred tax liability	140	184	239	251	285
Total capital employed	4,018	4,478	5,551	6,451	7,270
Gross block	2,489	3,315	3,588	3,961	4,300
Accumulated depreciation	(761)	(888)	(1,033)	(1,194)	(1,370)
Net Block	1,728	2,428	2,555	2,767	2,930
Capital WIP	515	271	299	102	107
Net fixed assets	2,243	2,698	2,854	2,869	3,038
Investments	1,204	1,110	2,292	2,629	3,401
Cash and bank	154	129	168	179	169
Inventories	912	956	902	974	1,029
Debtors	199	352	368	407	420
Other current assets and loans and advances	269	217	207	637	570
Total current assets and loans and advances	2,737	2,764	3,937	4,826	5,589
Current liabilities and provisions	962	985	1,240	1,244	1,356
Net current assets	1,775	1,779	2,697	3,583	4,233
Total assets	4,018	4,478	5,551	6,451	7,270

Source: Company, Centrum Research

Exhibit 29: Cash Flow

Y/E June/Mar (Rs mn)	FY08	FY09	FY10	FY11	FY12
Cash flow from operations					
Net Profit		861	1,490	1,508	1,341
Depreciation and amortization		130	160	175	185
Change in working capital		(123)	303	(537)	112
Deferred tax liability		45	55	12	34
Cash flow from operations		913	2,008	1,157	1,672
Cash flow from investments					
Capex		(586)	(316)	(189)	(354)
Other investing activities		94	(1,182)	(337)	(773)
Cash flow from investments		(492)	(1,497)	(526)	(1,126)
Cash flow from financing					
Inc / (dec) in long term debt		(76)	(15)	(12)	(5)
Dividends paid		(275)	(380)	(429)	(425)
Share issuance / (repurchase)		(3)	(2)	(2)	(2)
Cash flow from financing		(354)	(397)	(442)	(432)
Net Cash Flow		67	113	189	114

Source: Company, Centrum Research

Financials -consolidated

Exhibit 30: Income Statement

Y/E Mar (Rs mn)	FY13	FY 14	FY 15E	FY 16E	FY 17E
Net Sales	7,728	8,459	9,662	10,967	12,378
-Growth (%)	8.8	9.4	14.2	13.5	12.9
Material Cost	3,106	3,251	3,680	4,110	4,600
% of sales	40.2	38.4	38.1	37.5	37.2
Personnel Expenses	1,075	1,220	1,378	1,555	1,732
% of sales	13.9	14.4	14.3	14.2	14.0
Other Expenses	1,739	1,916	2,167	2,401	2,666
% of sales	22.5	22.7	22.4	21.9	21.5
Operating Expenses	5,919	6,388	7,225	8,066	8,998
% of sales	76.6	75.5	74.8	73.5	72.7
EBIDTA	1,809	2,070	2,437	2,901	3,380
-EBIDTA margin (%)	23.4	24.5	25.2	26.5	27.3
Depreciation	280	250	428	481	546
EBIT	1,529	1,821	2,010	2,420	2,834
Interest Income/(expenses)	(16)	(31)	(36)	(38)	(42)
PBT from operations	1,513	1,790	1,974	2,382	2,792
Other non-operating income	463	394	413	517	584
PBT	1,977	2,183	2,387	2,899	3,376
-PBT margin (%)	25.6	25.8	24.7	26.4	27.3
Provision for tax	425	830	661	792	923
Effective tax rate (%)	21.5	38.0	27.7	27.3	27.3
Net profit	1,551	1,353	1,726	2,107	2,454
Adj. PAT	1,551	1,353	1,726	2,107	2,454

Source: Company, Centrum Research Estimates

Exhibit 31: Key Ratios

Y/E Mar (Rs mn)	FY13	FY 14	FY 15E	FY 16E	FY 17E
Growth Matrices (%)					
Net sales	8.8	9.4	14.2	13.5	12.9
EBIDTA	10.1	14.4	17.7	19.0	16.5
Adjusted PAT	15.7	-12.8	27.6	22.0	16.5
Profitability Matrices (%)					
EBIDTA margin	23.4	24.5	25.2	26.5	27.3
EBIT margin	25.8	26.2	25.1	26.8	27.6
PAT margin	20.1	16.0	17.9	19.2	19.8
Return ratios (%)					
ROE	21.0	16.6	19.1	20.2	20.2
ROCE	20.3	16.2	18.7	19.8	19.9
ROIC	27.0	26.7	26.5	28.0	28.2
Turnover Ratios (days)					
Inventory	47.8	43.7	41.9	41.3	40.7
Debtors	20.1	21.7	21.6	21.0	21.4
Creditors	57.0	62.5	62.2	61.2	61.9
Solvency Ratio (X)					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Net Debt -equity	0.0	0.0	0.0	0.0	0.0
Liquidity ratio	1.7	1.9	1.3	1.3	1.3
Interest coverage	124.5	71.4	68.2	76.9	81.6
Dividend					
DPS Rs.	2.2	2.3	2.4	2.7	3.0
Dividend Yield (%)	1.5	1.6	1.7	1.9	2.1
Dividend Payout (%)	25.5	29.6	24.8	22.9	21.8
Per share (Rs)					
Basic EPS (reported)	8.5	7.6	9.7	11.8	13.8
FDEPS (reported)	8.7	7.6	9.7	11.8	13.8
FDEPS(adjusted)	8.7	7.6	9.7	11.8	13.8
BVPS	43.2	47.5	54.4	63.1	73.3
CEPS	10.3	9.0	12.1	14.6	16.9
Valuation metrics (x)					
P/E	16.6	19.1	14.9	12.2	10.5
P/BV	3.4	3.1	2.7	2.3	2.0
EV/EBIDTA	14.4	12.4	10.5	8.8	7.5
EV/Sales	3.4	3.0	2.6	2.3	2.1

Source: Company, Centrum Research Estimates

Exhibit 32: Balance Sheet

Y/E June/Mar (Rs mn)	FY13	FY 14	FY 15E	FY 16E	FY 17E
Share capital	182	178	178	178	178
Reserves & surplus	7,659	8,272	9,491	11,033	12,859
Total shareholder's fund	7,840	8,449	9,669	11,211	13,037
Loan fund	26	22	19	19	19
Deferred tax liability	299	299	325	327	329
Total capital employed	8,165	8,770	10,013	11,557	13,385
Gross block	4,530	4,704	6,016	6,222	6,498
Accumulated depreciation	(1,638)	(1,860)	(2,288)	(2,769)	(3,315)
Net Block	2,892	2,844	3,728	3,453	3,183
Capital WIP	71	180	150	120	100
Net fixed assets	2,963	3,024	3,878	3,573	3,283
Investments	4,160	4,168	5,584	7,394	9,343
Cash and bank	364	220	271	320	385
Inventories	997	1,030	1,190	1,290	1,470
Debtors	432	572	571	691	762
Other current assets and loans and advances	741	1,538	393	469	550
Total current assets and loans and advances	6,695	7,527	8,009	10,164	12,510
Current liabilities and provisions	1,493	1,781	1,873	2,180	2,407
Net current assets	5,202	5,747	6,136	7,984	10,102
Total assets	8,165	8,770	10,013	11,557	13,385

Source: Company, Centrum Research Estimates

Exhibit 33: Cash Flow

Y/E June/Mar (Rs mn)	FY13	FY 14	FY 15E	FY 16E	FY 17E
Cash flow from operations					
Net Profit	1,551	1,353	1,726	2,107	2,454
Depreciation and amortization	280	250	428	481	546
Change in working capital	(14)	(682)	1,078	11	(105)
Deferred tax liability	14	1	26	2	2
Cash flow from operations	1,830	922	3,258	2,601	2,897
Cash flow from investments					
Capex	(205)	(310)	(1,282)	(176)	(256)
Other investing activities	(759)	(8)	(1,416)	(1,810)	(1,949)
Cash flow from investments	(965)	(318)	(2,698)	(1,986)	(2,205)
Cash flow from financing					
Inc / (dec) in long term debt	(7)	(4)	(3)	-	-
Dividends paid	(472)	(468)	(501)	(564)	(627)
Share issuance / (repurchase)	(2)	(4)	-	-	-
Cash flow from financing	(481)	(476)	(504)	(564)	(627)
Net Cash Flow	384	127	56	50	65

Source: Company, Centrum Research Estimates

Appendix A

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Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
Buy	Upside > 25%	Upside > 20%	Upside > 15%
Hold	Upside between -25% to +25%	Upside between -20% to +20%	Upside between -15% to +15%
Sell	Downside > 25%	Downside > 20%	Downside > 15%

Member (NSE, BSE, MCX-SX), Depository Participant (CDSL) and SEBI registered Portfolio Manager

Registration Nos.

CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239, NSE: INB231454233

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CDSL DP ID: 12200. **SEBI REGISTRATION NO.:** IN-DP-CDSL-661-2012

PMS REGISTRATION NO.: INP000004383

MCX – SX (Currency Derivative segment) REGN. NO.: INE261454230

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