

Lupin (LPC IN)

Buy: Higher costs restrain net profit growth

- ▶ 2QFY17 net profit miss on account of higher other expenses, including R&D at 13.6% of sales
- ▶ US sales muted and showed early signs of Mylan entry in gFortamet; does not expect precipitous decline in metformin
- ▶ Goa facility clearance should augment approvals pace. Maintain Buy with revised TP of INR1,796 (from INR1,846)

2QFY17 PAT miss: Lupin reported PAT of INR6.6bn (57.8% yoy), 11.5% lower than HSBCe on higher R&D and other expenses as well as on lower other income. Sales at INR43bn were marginally short of our estimate at INR44.3bn mainly due to the currency impact in emerging markets. Higher R&D cost (13.6% of sales vs 11.6% in 1Q) led to EBITDA margins of 24%, c550bps lower on a qoq basis (HSBCe 27.6%). Tax rate normalized to 19.4% in 2Q vs 23.7% seen in the previous quarter. 2Q includes forex loss of INR450m adjusting for which would have resulted in a PAT miss of c6%.

US pipeline is strong but more back-ended: 2QFY17 US sales at USD292m (-9% qoq) were c6% below estimates on account of low sales of cephalosporins (seasonality impact) and showed early signs of erosion in gFortamet post Mylan launch. Lupin is hopeful of a gradual decline rather than a precipitous decline in the metformin basket of gFortamet and gGlumetza as products are difficult to scale up and require extensive biostudies. The company saw price erosion in the higher single digits for its US base portfolio during 2Q. While the decline of metformin will come at a cost given higher profitability of products, new launches such as Minastrin Fe, bupropion XL, Paxil CR, Epzicom and some controlled substances and oral contraceptives can offset some declines in the US. In addition, the company expects a pick-up in Methergine and capacity led volume gains in the Gavis portfolio to drive leverage. Lupin expects 15-16 launches in FY17e and high value products such as Renagel, Renvela, Welchol, Tamiflu, Fosrenol in FY18/19e. In addition, it expects derma launches to start in FY18e.

Revising estimates, maintain Buy: We have revised our US model and build in net addition of cUSD200m sales in FY17-18e. We believe realization of the above-mentioned high value products will be critical to achieve this growth. We also adjust for higher R&D and build in 13-14% of sales R&D in FY17-19e in lieu of respiratory and biosimilar trials. We forecast EBITDA margins of 26-27% for FY17-19e. We believe these numbers are realistic and can be met provided the approvals pace remains healthy (given all facilities are now clear). We roll forward valuation and value LPC at 25x (Gordon growth based PE, unchanged) Sep-18e (from FY18e) EPS of INR77 and discount this to get our new TP of INR1,796 (INR1,846). See Valuation & Risks for full details.

EQUITIES PHARMACEUTICALS

India



MAINTAIN BUY

TARGET PRICE (INR)

1,796

PREVIOUS TARGET (INR)

1,846

SHARE PRICE (INR)

1,507.6

UPSIDE/DOWNSIDE

+19.1%

(as of 08 Nov 2016)

MARKET DATA

Market cap (INRm)	680,294	Free float	53%
Market cap (USDm)	10,212	BBG	LPC IN
3m ADTV (USDm)	29	RIC	LUPN.BO

FINANCIALS AND RATIOS (INR)

Year to	03/2016a	03/2017e	03/2018e	03/2019e
HSBC EPS	47.41	59.92	73.38	80.58
HSBC EPS (prev)	-	61.89	79.51	89.44
Change (%)	-	-3.2	-7.7	-9.9
Consensus EPS	49.25	65.82	76.71	86.67
PE (x)	31.8	25.2	20.5	18.7
Dividend yield (%)	0.4	0.5	0.6	0.7
EV/EBITDA (x)	20.6	16.9	13.7	12.2
ROE (%)	21.4	22.1	22.4	20.5

52-WEEK PRICE (INR)



Source: Thomson Reuters IBES, HSBC estimates

Girish Bakhru*, CFA

Analyst, South East Asia Healthcare
HSBC Securities and Capital Markets (India) Private Limited
girishbakhru@hsbc.co.in
+9122 22681638

Damayanti Kerai*

Analyst, Healthcare & Hospitals
HSBC Securities and Capital Markets (India) Private Limited
damayantikerai@hsbc.co.in
+9122 3396 0692

* Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Issuer of report: HSBC Securities and Capital Markets (India) Private Limited

View HSBC Global Research at:
<https://www.research.hsbc.com>

Financials & valuation: Lupin

Buy

Financial statements

Year to	03/2016a	03/2017e	03/2018e	03/2019e
Profit & loss summary (INRm)				
Revenue	140,588	169,136	196,219	217,802
EBITDA	36,037	43,424	52,117	57,716
Depreciation & amortisation	-4,635	-7,634	-9,043	-10,146
Operating profit/EBIT	31,402	35,790	43,074	47,570
Net interest	-258	-1,200	-1,100	-1,100
PBT	34,330	36,790	44,474	49,510
HSBC PBT	34,330	36,790	44,474	49,510
Taxation	-11,536	-9,933	-11,563	-13,368
Net profit	22,707	26,832	32,861	36,142
HSBC net profit	21,229	26,832	32,861	36,082

Cash flow summary (INRm)

Cash flow from operations	-4,107	30,210	38,785	35,123
Capex	-11,751	-18,000	-15,000	-15,000
Cash flow from investment	-92,936	-18,000	-15,000	-15,000
Dividends	-3,368	-4,025	-4,929	-5,412
Change in net debt	62,918	-8,186	-18,856	-14,711
FCF equity	-19,044	10,010	21,285	17,083

Balance sheet summary (INRm)

Intangible fixed assets	73,586	73,586	73,586	73,586
Tangible fixed assets	42,437	52,803	58,760	63,615
Current assets	97,790	95,121	113,254	120,365
Cash & others	8,379	6,565	10,420	13,131
Total assets	224,378	232,074	256,165	268,130
Operating liabilities	32,318	27,182	38,291	31,526
Gross debt	71,193	61,193	46,193	34,193
Net debt	62,814	54,628	35,773	21,062
Shareholders' funds	109,844	132,651	160,583	191,252
Invested capital	173,117	187,763	196,889	212,908

Ratio, growth and per share analysis

Year to	03/2016a	03/2017e	03/2018e	03/2019e
Y-o-y % change				
Revenue	10.3	20.3	16.0	11.0
EBITDA	0.2	20.5	20.0	10.7
Operating profit	-0.6	14.0	20.4	10.4
PBT	0.5	7.2	20.9	11.3
HSBC EPS	-11.8	26.4	22.5	9.8

Ratios (%)

Revenue/IC (x)	1.1	0.9	1.0	1.1
ROIC	15.7	14.7	16.8	17.2
ROE	21.4	22.1	22.4	20.5
ROA	13.0	12.2	13.9	14.1
EBITDA margin	25.6	25.7	26.6	26.5
Operating profit margin	22.3	21.2	22.0	21.8
EBITDA/net interest (x)	139.6	36.2	47.4	52.5
Net debt/equity	57.0	41.1	22.2	11.0
Net debt/EBITDA (x)	1.7	1.3	0.7	0.4
CF from operations/net debt		55.3	108.4	166.8

Per share data (INR)

EPS Rep (diluted)	50.71	59.92	73.38	80.71
HSBC EPS (diluted)	47.41	59.92	73.38	80.58
DPS	6.01	7.64	9.36	10.27
Book value	245.30	296.23	358.60	427.09

Valuation data

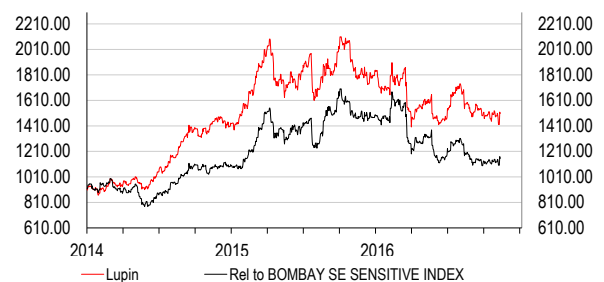
Year to	03/2016a	03/2017e	03/2018e	03/2019e
EV/sales	5.3	4.3	3.7	3.2
EV/EBITDA	20.6	16.9	13.7	12.2
EV/IC	4.3	3.9	3.6	3.3
PE*	31.8	25.2	20.5	18.7
PB	6.1	5.1	4.2	3.5
FCF yield (%)	-2.8	1.5	3.1	2.5
Dividend yield (%)	0.4	0.5	0.6	0.7

* Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	1507.60	Free float	53%
Target price (INR)	1796.00	Sector	Pharmaceuticals
Reuters (Equity)	LUPN.BO	Country	India
Bloomberg (Equity)	LPC IN	Analyst	Girish Bakhru, CFA
Market cap (USDm)	10,212	Contact	+91 22 22681638

Price relative



Source: HSBC

Note: Priced at close of 08 Nov 2016

2QFY17 highlights

- ▶ 2QFY17 sales declined 9% qoq on lower cephalosporin sales and competition from Mylan in gFortamet
- ▶ Lupin does not expect a precipitous decline in metformin sales in the US
- ▶ R&D expense to remain high on ongoing focus on increasing specialty pipeline

US: 2QFY17 US sales at USD292m (-9% qoq) were c6% below estimates on account of low sales of cephalosporins (seasonality impact) and showed early signs of erosion in gFortamet post Mylan launch where it has lost 6% share so far. Branded portfolio sales during 2Q were USD20m led by Methergine, Antara and Suprax.

Lupin is hopeful of a gradual decline rather than a precipitous decline in the metformin basket of gFortamet and gGlumetza as products are difficult to scale up and require extensive biostudies.

Lupin saw price erosion in the higher single digits for its US base portfolio during 2Q and it does not expect price erosion to reach double digits. However with the approval of backlog ANDAs by the FDA, additional competition can impact sales of base products.

In the near term, new launches such as Minastrin Fe, bupropion XL, Paxil CR, Epzicom and some controlled substances (HYCD/APAP & oxycodone/APAP) and oral contraceptives can offset some declines in the US on price erosion and lower metformin sales. In addition, the company expects a pick-up in Methergine and capacity led volume gains in the Gavis portfolio to drive positive leverage.

The company has filed 4 ANDAs and received 9 approvals during 2QFY17, taking cumulative filings and approvals to 196 and 338 respectively. It expects to launch 15-16 products in FY17e and more than 30+ approvals in FY18e. With the recent clearance of the Goa facility, it expects the approval pace for it to improve though most of its material opportunities such as Renagel, Renvela, Welchol, Tamiflu, Fosrenol are in FY18/19e.

In view of the delay in capacity addition and product sales build up, Lupin has revised down its FY18e sales guidance for Gavis to USD250m from USD300m.

India formulations: 2QFY17 sales at INR9,958m grew 12.1% yoy and were helped by a seasonally strong quarter.

Lupin expects 15-20% growth to continue for India sales while it continues to focus on new launches, including in-licensed products (it launched 8-9 new products in 1HFY17).

Regulatory concerns such as price control and the proposed ban on certain fixed dose combination drugs remain in India and sales growth will only be driven by better operating efficiency and new launches as per the company. Lupin has 23% of total India sales under price control.

Japan: In 2QFY17, Japan sales grew 10.4% yoy in yen terms.

Lupin expects the Shionogi deal to close in 3QFY17. This deal was announced in August 2016 under which Lupin acquired 21 products from Shionogi which have annual sales of USD90m covering therapeutic areas such as central nervous system (CNS), oncology, cardiac and anti-infectives. With this proposed acquisition, Lupin would be ranked fifth among generic companies in Japan from the current No 10 rank. Lupin aims to get into the top 5 position among generics in Japan where generic penetration is expected to reach 80% in the next three years from the current level of 55-56%.

This acquisition would help Lupin to enter the Japanese branded market as well as help it in introducing its own products in Japan. As per Lupin, Shionogi product margins are closer to overall company margins but higher than overall margins of c11% industry-wide.

R&D expense: Lupin reported 2QFY17 R&D expenses of INR5.7bn (13.6% of net sales) compared to 11.6% of net sales in 1QFY17. In absolute terms, Lupin expects R&D spend of INR25bn for FY17e.

Lupin expects its R&D spend to remain high at 12-14% of sales as it continues to focus on strengthening its offerings in specialty segments of derma, ophthalmology, controlled substances, injectables, respiratory inhalers, biosimilars and NCE (new chemical entity)/NDDS (new drug and device delivery systems).

Its clinical trial for the albuterol inhaler is ongoing and Lupin expects to make a regulatory filing for it in 3QFY17e. It further expects to initiate DPI inhaler trials in 4QFY17e. Trials for biosimilar etanercept (for EU and Japan markets) are progressing as per expectations.

R&D will remain elevated on back of ongoing trials of DPI inhalers, derma and other specialty products development.

Lupin 2QFY17 earnings summary

(INRm)	2QFY17	2QFY17e	Actual vs HSBC est.	2QFY16	y-o-y	1QFY17	q-o-q
Net revenue	42,905	44,319	-3.2%	33,297	28.9%	44,394	-3.4%
Raw materials	12,429	13,074	-4.9%	11,249	10.5%	12,719	-2.3%
Staff cost	7,124	7,076	0.7%	5,328	33.7%	7,059	0.9%
Other expenses	13,072	11,947	9.4%	10,094	29.5%	11,535	13.3%
EBITDA	10,281	12,221	-15.9%	6,626	55.2%	13,080	-21.4%
Other income	271	400	-32.2%	578	-53.1%	826	-67.2%
Net interest	263	350	-24.9%	241	9.3%	320	-17.8%
Depreciation	2,112	2,019	4.6%	1,155	82.9%	2,027	4.2%
PBT	8,177	10,252	-20.2%	5,809	40.8%	11,560	-29.3%
Tax	1,589	2,768	-42.6%	1,591	-0.1%	2,734	-41.9%
Minority interest & profit share in JV	34	-5		-20		-6	
Adj. Net Profit	7,004	7,479	-6.3%	4,198	66.9%	7,341	-4.6%
Reported Net Profit	6,622	7,479	-11.5%	4,198	57.8%	8,819	-24.9%

As % of revenues

Raw Materials	29.0%	29.5%		33.8%		28.7%	
Staff Cost	16.6%	16.0%		16.0%		15.9%	
Other expenses	30.5%	27.0%		30.3%		26.0%	
EBITDA	24.0%	27.6%		19.9%		29.5%	
PBT	19.1%	23.1%		17.4%		26.0%	
Tax Rate (%)	19.4%	27.0%		27.4%		23.7%	
Net profit (adj.)	16.3%	16.9%		12.6%		16.5%	

Source: Company data, HSBC estimates

Lupin 2QFY17 sales split

Region	2QFY17	2QFY16	% yoy	1QFY17	% qoq
North America	19,978	11,539	73.1%	21,886	-8.7%
India	9,958	8,881	12.1%	9,499	4.8%
APAC	5,520	4,462	23.7%	5,416	1.9%
EMEA	2,355	2,218	6.2%	2,194	7.3%
LATAM	986	1,082	-8.9%	1,089	-9.5%
RoW	396	414	-4.3%	368	7.6%
API	2,919	3,330	-12.3%	2,966	-1.6%
Total sales	42,112	31,926	31.9%	43,418	-3.0%

Source: Company data, HSBC estimates

Changes in estimates**Lupin: Changes in estimates**

(INRm)	New estimates			Old estimates			% change in estimates		
	FY17e	FY18e	FY19e	FY17e	FY18e	FY19e	FY17e	FY18e	FY19e
Revenues	169,136	196,219	217,802	167,601	196,284	221,856	0.9%	0.0%	-1.8%
EBITDA	43,424	52,117	57,716	44,832	55,824	63,150	-3.1%	-6.6%	-8.6%
Net Profit	26,832	32,861	36,082	27,714	35,604	40,049	-3.2%	-7.7%	-9.9%
EPS (INR)	59.9	73.4	80.6	61.9	79.5	89.4	-3.2%	-7.7%	-9.9%

Source: HSBC estimates

We have revised our US model in-line with current visibility on key product launches and build in net addition of cUSD200m sales in FY17-18e. We also adjust for higher R&D and build in 13-14% of sales R&D in FY17-19e in lieu of respiratory and biosimilar trials. All these adjustments have led to a decline of 3.2%/7.7%/9.9% in our FY17/18/19 EPS estimates.

We are 9%/4%/7% below consensus EPS estimates for FY17/18/19, respectively.

Valuation and risks

We maintain our Buy rating as the long-term outlook remains strong in the US. Near-term, new launches such as Minastrin Fe, bupropion XL, Paxil CR, Epzicom and some controlled substances (HYCD/APAP & oxycodone/APAP) and oral contraceptives sustain US sales and can offset some declines in the US on price erosion and lower metformin sales. In the long term R&D driven specialty focused products should drive US growth.

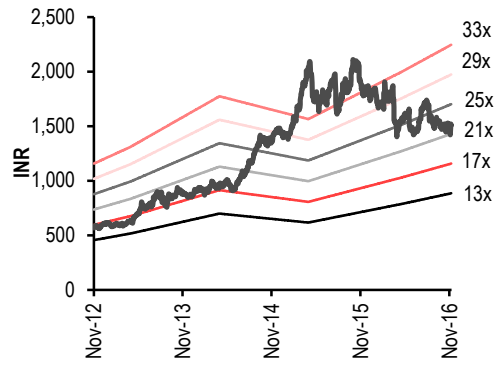
We roll forward valuation and value Lupin at 25x (Gordon growth based PE, unchanged) Sep-18e (from FY18e) EPS of INR77 and discount this to get TP of INR1,796 (from INR1,846).

Our assumption remains unchanged for c23% sustainable ROE in our Gordon growth model. However, we have incorporated a lower cost of equity of 7.2% (from 7.7%) in-line with our house view. At the same time we have revised down our long-term growth rate to 4.5% from 4.0%. These changes however have resulted in an unchanged valuation multiple of 25x.

Our revised TP implies upside of 19.1% and we maintain Buy rating on a strong long-term outlook for the US.

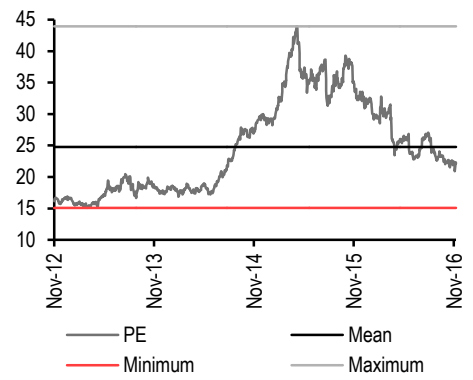
Key downside risks: Faster-than-expected erosion in high-value products (gFortamet and gGlumetza) sales, delay in FDA approvals of key products.

Lupin 12-month forward PE (x) band



Source: HSBC estimates, Thomson Reuters Datastream

Lupin 12-month forward PE (x) range



Source: HSBC estimates, Thomson Reuters Datastream

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Girish Bakhru, CFA and Damayanti Kerai

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

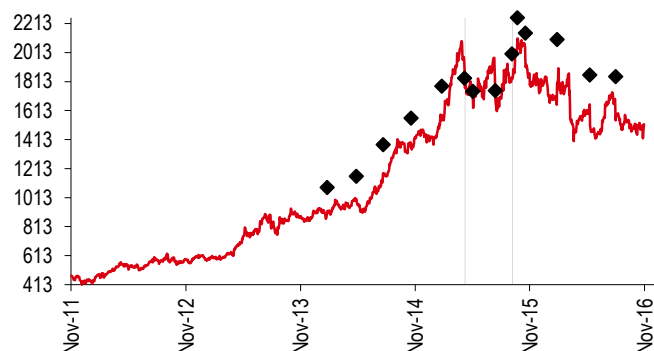
Rating distribution for long-term investment opportunities

As of 10 November 2016, the distribution of all independent ratings published by HSBC is as follows:

Buy	44%	(25% of these provided with Investment Banking Services)
Hold	40%	(26% of these provided with Investment Banking Services)
Sell	16%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at <http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures>.

Share price and rating changes for long-term investment opportunities**Lupin (LUPN.BO) share price performance INR Vs HSBC rating history**

Source: HSBC

Rating & target price history

From	To	Date	Analyst
Overweight	Hold	17 Apr 2015	Girish Bakhru
Hold	Buy	15 Sep 2015	Girish Bakhru
Target price	Value	Date	Analyst
Price 1	1081.00	03 Feb 2014	Girish Bakhru
Price 2	1159.00	07 May 2014	Girish Bakhru
Price 3	1377.00	31 Jul 2014	Girish Bakhru
Price 4	1560.00	28 Oct 2014	Girish Bakhru
Price 5	1780.00	03 Feb 2015	Girish Bakhru
Price 6	1835.00	17 Apr 2015	Girish Bakhru
Price 7	1744.00	13 May 2015	Girish Bakhru
Price 8	1750.00	24 Jul 2015	Girish Bakhru
Price 9	2002.00	15 Sep 2015	Girish Bakhru
Price 10	2252.00	02 Oct 2015	Girish Bakhru
Price 11	2146.00	27 Oct 2015	Girish Bakhru
Price 12	2101.00	05 Feb 2016	Girish Bakhru
Price 13	1858.00	20 May 2016	Girish Bakhru
Price 14	1846.00	10 Aug 2016	Girish Bakhru

Source: HSBC

To view a list of all the independent fundamental ratings disseminated by HSBC during the preceding 12-month period, please see the disclosure page available at www.research.hsbc.com/A/Disclosures.

HSBC & Analyst disclosures**Disclosure checklist**

Company	Ticker	Recent price	Price date	Disclosure
LUPIN	LUPN.BO	1507.60	08 Nov 2016	6, 7

Source: HSBC

- HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- As of 31 October 2016 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- As of 30 September 2016, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- As of 30 September 2016, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.
- As of 30 September 2016, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.

- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company
- 12 As of 04 November 2016, HSBC beneficially held a net long position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.
- 13 As of 04 November 2016, HSBC beneficially held a net short position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

Economic sanctions imposed by the EU and OFAC prohibit transacting or dealing in new debt or equity of Russian SSI entities. This report does not constitute advice in relation to any securities issued by Russian SSI entities on or after July 16 2014 and as such, this report should not be construed as an inducement to transact in any sanctioned securities.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research. In order to find out more about the proprietary models used to produce this report, please contact the authoring analyst.

Additional disclosures

1. This report is dated as at 10 November 2016.
2. All market data included in this report are dated as at close 08 November 2016, unless a different date and/or a specific time of day is indicated in the report.
3. HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
4. You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument.

Production & distribution disclosures

1. This report was produced and signed off by the author on 09 Nov 2016 19:59 GMT.
2. In order to see when this report was first disseminated please see the disclosure page available at <https://www.research.hsbc.com/R/34/qnPgfPQ>

Disclaimer

Legal entities as at 1 July 2016

'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Bank Canada, Toronto; HSBC Bank, Paris Branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Issuer of report

HSBC Securities and Capital Markets (India) Private Limited

Registered Office
52/60 Mahatma Gandhi Road
Fort, Mumbai 400 001, India
Telephone: +91 22 2267 4921
Fax: +91 22 2263 1983
Website: www.research.hsbc.com
SEBI Reg No. INH000001287
CIN: U67120MH1994PTC081575

This document has been issued by HSBC Securities and Capital Markets (India) Private Limited ("HSBC") for the information of its customers only. HSBC Securities and Capital Markets (India) Private Limited is registered as "Research Analyst" (Reg No. INH000001287), Merchant Banker (Reg No. INM000010353) and Stock Broker (Reg. No. NSE Cash -INB230791734, NSE F & O- INF230791734, BSE Cash- INB010791730, BSE F & O- INF010791730) and regulated by the Securities and Exchange Board of India. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or any other committee of those companies. Details of Associates of HSBC Securities and Capital Markets (India) Private Limited can be obtained from Compliance Officer: Mudit Tayal, Email: mudit.tayal@hsbc.co.in The information and opinions contained within the research reports are based upon publicly available information and rates of taxation applicable at the time of publication which are subject to change from time to time. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea.

In Canada, this document has been distributed by HSBC Bank Canada and/or its affiliates. Where this document contains market updates/overviews, or similar materials (collectively deemed "Commentary" in Canada although other affiliate jurisdictions may term "Commentary" as either "macro-research" or "research"), the Commentary is not an offer to sell, or a solicitation of an offer to sell or subscribe for, any financial product or instrument (including, without limitation, any currencies, securities, commodities or other financial instruments).

© Copyright 2016, HSBC Securities and Capital Markets (India) Private Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Securities and Capital Markets (India) Private Limited. MCI (P) 094/06/2016, MCI (P) 085/06/2016 and MICA (P) 021/01/2016

[535096]

Global Healthcare Research Team

Europe

Dr Stephen McGarry +44 20 7991 3164
stephen.mcgarry@hsbc.com

Julie Mead +44 20 7991 9643
julie.mead@hsbc.com

Jan Keppeler, CFA +49 211 910 2446
jan.keppeler@hsbc.de

Richard Latz +49 211 910 1074
richard.latz@hsbc.de

Asia

Girish Bakhru, CFA +91 22 2268 1638
girishbakhru@hsbc.co.in

Damayanti Kerai +91 22 3396 0692
damayantikerai@hsbc.co.in

Zhijie Zhao +852 2996 6591
zhijie.zhao@hsbc.com.hk

Yumeng Wang +852 2996 6586
y.m.wang@hsbc.com.hk

LatAm

Ricardo N Rezende, CFA +1 212 525 5901
ricardo.n.rezende@us.hsbc.com