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	Rating		
Data current as of 30 Jun 2018	**Buy**	**Hold**	**Sell**
Citi Research US High Yield Issuer Coverage	23%	74%	3%
% of companies in each rating category that are investment banking clients	68%	82%	75%

Citi Research Equity Ratings Distribution

	12 Month Rating			Catalyst Watch		
Data current as of 30 Jun 2018	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	53%	36%	11%	5%	93%	2%
% of companies in each rating category that are investment banking clients	65%	64%	55%	64%	64%	66%
Citi Research Quantitative World Radar Screen Model Coverage	30%	40%	30%			
% of companies in each rating category that are investment banking clients	41%	35%	33%			

Citi Research Asia Quantitative Radar Screen Model Coverage	20%	60%	20%
% of companies in each rating category that are investment banking clients	38%	30%	22%
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Marketweight (MW): Over the next six months, the recommended sector or issuer is expected to perform in line with the returns on the relevant index or benchmark based on valuation and methodology provided below;
Underweight (UW): Over the next six months, the recommended sector or issuer is expected to underperform the returns on the relevant index or benchmark based on valuation and methodology provided below;
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VALUATION AND RISKS

We have a target price of Rs1,150/share for DLPL, based off 28x Mar '19E EBITDA. Our target multiple of 28x is based on a 50-60% premium to the target EV/EBITDA multiple we use for Indian hospital stocks. We believe this is warranted given that the business benefits from the same strong, multi-year growth runway as hospitals but is much more scalable (asset-light model, centralized testing) and enjoys far superior return ratios and cash flow profile.

Key downside risks to the business that could cause the stock to fall below our target price include: a) a macro slowdown that leads to slower growth for the diagnostics industry, b) any disruptive pricing strategy by an emerging player in order to try and gain scale rapidly, and c) inability to ramp up testing volumes in the Eastern and Central parts of India could suppress margins for longer than expected.

We value Aurobindo at Rs875, based on 18x Sept'19E EPS. Our target multiple is derived from 1) a 18x P/E for the US generics business, set at a 15-20% premium to the mid-sized US generics players given Aurobindo's pipeline strength, limited base biz risk and progress on the complexity curve and 2) 18x for Others businesses (ex. India and the US, including APIs). The 18x is benchmarked off the 16-19x P/E range for emerging-market peers such as Aspen, Adcock Ingram and Gedeon Richter.

The key risks that could impede the shares from reaching our target price are: (1) Execution hiccups in turning around the acquired EU businesses; (2) Inability to scale up utilization levels at its new facilities, as planned; (3) Any delay in products approvals especially in the US could hurt scale-up; (4) Compliance hiccups in the US could hurt growth prospects.

We value Cipla at Rs690, based on 23x Sept'19E EPS. Our target multiple is derived from 1) a 23x P/E for the US generics business, set at a 15-20% premium to the mid-sized US generics players given the low risk to Cipla's base biz, transition to being a front-end player and an improving pipeline; 2) a 25x P/E for the India business, ascribing a 5-10% premium to the 12M forward consensus-based P/E for Alkem, a close pure-India comparable, to reflect larger scale of operations, better therapy mix and stronger growth rates; and 3) 18x for Others businesses (ex. India and the US, including APIs). The 18x is in-line with the 16-19x P/E range for emerging-market peers such as Aspen Pharma, Adcock Ingram, and Gedeon Richter. We then apply a +5% adjustment factor for proprietary R&D efforts, financial strength, and track record.

Key downside risks that could prevent Cipla shares from reaching out target price include: a) Failure to gain benefits of operating leverage in the market where the company established its front end over the last couple of years; b) Execution failures related to respiratory products in terms of filings and approvals; c) Currency headwinds in emerging markets and Europe; d) Any slowdown in the Indian market; e) regulatory and compliance risks.

We value Lupin at Rs875, based on 21x Sept'19E EPS. Our target multiple is derived from 1) a 14x P/E for the US generics business, set at a 15-20% discount to mid-sized US generics players given the high risk to a couple of in-market products; 2) a 28x P/E for the India business, ascribing a 20-25% premium to the 12M forward consensus-based P/E for Alkem, a close pure-India comparable, to reflect its market leadership and good growth; and 3) 18x for Others businesses (ex. India and the US, including APIs). The 18x is in-line with the 16-19x P/E range for emerging-market peers. We then apply a +5% adjustment factor to account for the company's relatively healthy profitability/RoI.

Key risks to our recommendation: 1) Strong ramp up in US generic business driven by fast pace of approvals including some complex generics; 2) Lesser than expected price erosion in the US base business; 3) Increased pace of filings in respiratory and complex injectables space.

Our target price for Laurus of Rs515 is based on 20x June 2019E P/E, set at 10-15% premium to the current sector average of 18x. We are impressed with Laurus' ability to improve margins despite sluggish trends in some key businesses and heavy investment in gearing up for its formulations business. We believe it makes sense to value the company on June'19E earnings in order to capture upside from potential formulation launches in the US and ramp up in Aspen contract.

This stock is High Risk based upon our quantitative model, which mainly accounts for its short trading history, but we believe assigning a High Risk Rating is not supported by other qualitative factors such as: (1) strength in core ARV and Hep-C segments, where it is a global volume leader in key products (viz. efavirenz, tenofovir, emtricitabine, gemcitabine and sofosbuvir), (2) solid tie-ups with established companies, and (3) stable earnings profile, and so a High Risk Rating has not been applied

Downside risks that could cause the shares to trade below our target price include: (1) Slowdown in ARV APIs in LMICs, (2) Earlier than expected slowdown in Hep C sales, (3) Delay in formulations ramp up, (4) Delay in revenue recognition from Aspen contract, (5) Delay in US FDA approval of the company's formulation facility. Upside risks that could cause the shares to trade above our target price include: (1) Faster than expected growth in API sales (especially ARV and Hep C), (2) Stronger / faster ramp up in formulations sales / Aspen contract, (3) Visibility on longer term growth in Hep C sales.

We value Eris Lifesciences at 27x June '19E earnings, which is within the 24-28x PE range we use for India businesses of our coverage companies – yielding a target price of Rs910/share.

We assign higher than average PE multiples for the Indian formulations business, given the steadier and more secular growth rates, healthy profitability and strong cash generation in this market. We differentiate between companies primarily on the basis of therapy mix, growth rates and estimated profitability of their respective businesses as also demonstrated execution over a period of time.

ERIS' therapy mix as well as growth rates and profitability are superior to those of its larger peers that we have under coverage. Moreover, the company has made significant progress in expanding its franchise to more therapy areas and also demonstrated the ability to deliver on inorganic initiatives. We therefore value the

stock towards the higher end of the 24-28x range, which reflects its ability to sustain superior growth rates, profitability and return ratios even at higher scale of operations and with a diversified therapy mix.

Key risks that could mean the ERIS shares fail to achieve our target price include: a) Price control in India: If any of ERIS' top products are brought under price control, it may impact our forecasts and target price; b) Shift to unbranded generics in India: ERIS' business model is built around strong brands and relationships with specialists/ super specialists, a shift to unbranded generics would hurt meaningfully; c) Integration risk related to the multiple acquisitions that the company has done and may continue to do going forward.

Our target price of Rs2,480 for GSK Pharma is based on 40x Mar 2019E earnings. Given its steady earnings growth, we believe P/E is best suited to value GSK Pharma. GSK has traded at 15-40x in the past five years. We value the stock at the higher end given GSK's fundamentals and the fact that current profitability is suppressed by certain transient constraints. We also believe some premium is justified to factor in any potential parent stake hike.

Key downside risks that could impede the stock from reaching our target price include: a) Slowdown in Indian market growth, given that GSK operates entirely in this market and is among the top ten companies; b) Implementation of further price control related regulations in India, given that c25% of its current revenues are from products that are part of the NLEM product list. Key upside risks that could sustain the stock above our target price include: a) Any move by the parent to buy back more stake / delist the company; b) Higher than expected upside to margins from price hikes in the NLEM portfolio of products; c) Any big launch from its parent's pipeline.

We value Sun at Rs600, based on 24x Sept'19E EPS. Our target multiple is derived from 1) a 12x P/E for the US generics business, set at a 15-20% discount to mid-sized US generics players given the high risk to a couple of in-market products; 2) a 28x P/E for the India business, ascribing a 20-25% premium to the 12M forward consensus-based P/E for close pure-India comparables, to reflect strong chronic presence and above-industry growth; and 3) 18x for Others businesses (ex. India and the US, including APIs). The 18x is in-line with the 16x-19x P/E range for emerging-market peers. We then apply a +15% adjustment factor for progress on its specialty initiatives and healthy balance sheet/cash generation.

Key downside risks include: a) Taro (c30% of FY18E EBIDTA): sharper-than-expected pricing pressure in the dermatology business; b) earlier-than-expected competition in the company's key products such as gDoxil; and c) escalation of regulatory issues at Halol. Key upside risks include: faster-than-expected ramp-up in the US specialty business and earlier-than-expected resolution in compliance issues. Any of these risk factors could cause the shares to deviate from our target price.

We value Glenmark at Rs640/sh, based on 18x Sept'19E EPS. Our target multiple is derived from: 1) a 14x P/E for the US generics business, in-line with mid-sized US generics players; 2) a 25x P/E for the India business, ascribing a 5-10% premium to the 12M forward consensus-based P/E for Alkem, a close pure-India comparable, to reflect strong growth and a favorable therapy mix; and 3) 15x for Others businesses (ex. India and the US, including APIs). The 15x is at a discount to the 16-19x P/E range for emerging-market peers such as Aspen Pharma, Adcock Ingram, and Gedeon Richter to reflect sub-scale, and low margin and RoI. We then apply a -5% adjustment factor to account for the company's relatively weaker balance sheet and cash flow profile.

Key upside/downside risks to our recommendations are: (1) strong ramp-up in US generics driven by fast pace of approvals and higher market share in new launches, conversely weak ramp-up; (2) Success on specialty front such as positive clinical data of assets under pipeline or any lucrative out-licensing deal that can help the company in reducing debt, conversely failure on specialty front; and (3) Lesser/greater than expected price erosion in US base business.

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We value Cadila at Rs455, based on 20x Sept'2019E EPS. Our target multiple is derived from 1) a 19x P/E for the US generics business, set at a 15-20% premium to the mid-sized US generics players given Cadila's relatively low base, strong pipeline and complex products; 2) a 23x P/E for the India business, ascribing a 0-5% premium to the 12M forward consensus-based P/E for Alkem, a close pure-India comparable, to reflect a more favorable therapy mix; and 3) 15x for Others businesses (ex. India and the US, including APIs). The 15x is at a discount to the 16-19x P/E range for emerging-market peers such as Aspen Pharma, Adcock Ingram, and Gedeon Richter given Cadila's sub-scale and lower margins.

The key downside risks that could impede the stock from reaching our target price include: a) Complex product approvals being delayed or not gaining much traction on launch; b) any slowdown in the Indian market; c) Rising pricing pressure in the US generics business, if higher than our current assumption of c.10%.

Our target price of Rs3,060/sh is based on a SoTP valuation, given that the company has now deployed its cash in several areas and we have more clarity on future growth and margin prospects for different business lines. Our per share valuation is as follows: a) Healthcare at Rs965/sh – We assume cRs27bn debt is allocated to this business. We value pharma solutions, critical care & consumer separately – (i) Pharma Solutions: 15x EV/EBITDA (in-line with peers); (ii) Critical Care: 15x EV/EBTDA (in-line with EV/EBITDA multiple for pharma stocks under coverage); (iii) OTC & Consumer: 30x EV/EBTDA (c20% premium to peers in order to account for higher growth). b) Fin. Services & Strategic Investments at Rs1,885/sh – (i) Financial Services: 3.5x Mar'19E Book Value; we assume RoA of 4% / 3.5% for FY18E / FY19E and Loan Book growth of 60% / 40% in FY18E / FY19E; (ii) Strategic Investments: Sriram Transport is based on Citi target price & Sriram Citi Union Fin based on market cap, 10% holdco discount. c) Info Services at Rs210/sh – 20x EV/EBITDA in line with other listed comparables; We assume cRs30bn debt for this business.

The key downside risks to our target price include: 1) While custom manufacturing should drive Piramal's revenues, any slip-up in execution would be a negative; 2) Any unrelated diversification into high capital intensive areas. The key upside risks to our hypothesis include: 1) Sharper than expected ramp up in research services biz; 2) strong pickup in base business growth and profitability. These upside/downside risks could prevent the stock from achieving our target price.

Our target price for Apollo is Rs1,480, using the SoTP approach. While there are few listed comparables in India, the company has a reasonable and well-diversified global peer group. Indian hospitals have a predictable and steady revenue stream, given high unmet demand & low, but growing, penetration of organized healthcare. However, given that these companies are still in an investment phase, we believe EBITDA reflects the operating profitability of the business much better at this point. We therefore use EV/EBITDA vs. EBITDA CAGR as our primary methodology to value Apollo. Our target EV/EBITDA multiple of 18x is at the higher range (8-23x) to adjust for its aggressive expansion plans and resultant near-term pressure on margins - arriving at a value of Rs910/sh for its hospitals business . We value the Retail Pharmacy business at 2x Sept'18 Sales – there are no meaningful comparables, Apollo acquired Hetero Pharmacy (smaller, loss making) at c1x Sales – we value at a premium to that arriving at a value of Rs550/sh. We value the Health Insurance business at 1x Sept'18 Sales - arriving at a value of Rs20/sh.

The key downside risks to our target price are: 1) Apollo Hospitals has a fixed-cost-intensive business, with high operating leverage. Inability to scale up occupancy and realizations could depress capital efficiency; 2) Execution is a key risk - delays in setting up hospital projects; 3) Higher cost of real estate and / or inability to get property at the desired locations could impact operations.

We value Dr Reddy at Rs2,270, based on 20x Sept'19E EPS. Our target multiple is derived from: 1) a 16x P/E for the US generics business, in-line with mid-sized US generics players; 2) a 23x P/E for the India business, ascribing a 0-5% premium to the 12M forward consensus-based P/E for Alkem, a close pure-India

comparable, to reflect improving operations; and 3) 18x for Others businesses (ex. India and the US, including APIs). The 18x is in-line with the 16-19x P/E range for emerging-market peers such as Aspen Pharma, Adcock Ingram, and Gedeon Richter. We then apply a +5% adjustment factor for proprietary R&D efforts, financial strength, and track record.

Key downside risks that could impede the stock from reaching our target price include: (1) Escalation of Warning Letter to Import Alert; (2) Slowdown / delays in ANDA approvals - more critical in their case given high dependence on US; (3) Additional competition in key products / lower-than-expected ramp-up in market share. Key upside risks that could mean the stock trades above our target price include: (1) Any major product approval in the US; (2) Faster than expected growth in emerging markets; and (3) Warning Letter issues getting resolved sooner than expected.

We set a target price of Rs720 for Biocon which is a sum of the two parts. We assign a NPV of Rs130 to its three pipeline biosimilar products (glargine, adalimumab and bevacizumab), assuming 100% probability of the successful commercialization – as the biosimilar approvals process gets more certain post the approvals of bHerceptin and bNeulasta. We incorporate the earnings from bNeulasta and bHerceprin in the base business and value the base business at Rs 590 (30x Mar'20E EPS). Biocon has entered global biosimilar deal with Sandoz, though the specific product details have not been shared. We capture the additional upside by assigning higher multiple to the base business (PE of 30x against 20x earlier). Since pharma is a growth sector, we prefer to use P/E v/s EPS CAGR as our primary valuation methodology for the base business of pharma companies.

The main downside risks that could impede the Biocon stock from reaching our target price are: 1) failure/significant delay in development / launch of the company's biosimilars portfolio; 2) setback on the oral insulin project could hurt sentiment; and 3) price erosion in the Biopharma business given that it is still a reasonably high contributor to the company's revenues.

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