

## CRAMs strong; another formulations foray on cards...

**About the stock:** Suven Pharma is a CRAMs player that supports global life sciences industry & fine chemical majors in their NCE development endeavours. Its services include custom synthesis, process R&D, scale-up & contract manufacturing.

- In FY21, CRAMs Pharma vertical contributed 62% of sales. Besides CRAMs Pharma Suven has also developed & supplied intermediates / technical for specialty chemicals CRAMs, which accounted for 30% of sales
- Suven is currently on a three pronged investment plan, 1) Relocating R&D centre, 2) Replacement and upgradation of blocks at Suryapet facility and 3) Additional new block in line with FDA regulations at Pashamylaram facility

**Q3FY22 Results:** Suven reported strong Q3 numbers driven by strong traction in Speciality Chemical CRAMs.

- Sales were up 42.4% YoY to ₹ 391.6 crore
- EBITDA was at ₹ 186 crore, up 34.7% YoY with margins at 47.5%
- Consequent adjusted PAT was at ₹ 160.1 crore (up 40.9% YoY)

**What should investors do?** Suven's share price has grown by ~1.7x over the past two years (from ~₹ 316 in July 2020 to ~₹ 538 levels in February 2022).

- Changed from BUY to HOLD due to uncertainty regarding acquisition of Casper Pharma, a generic OSD formulations company which is yet to start generating revenues and which is waiting for USFDA inspection, in the backdrop of challenging environment in the generics space

**Target Price and Valuation:** Valued at ₹ 555 i.e. 28x P/E on FY24E EPS of ₹ 19.8

### Key triggers for future price performance:

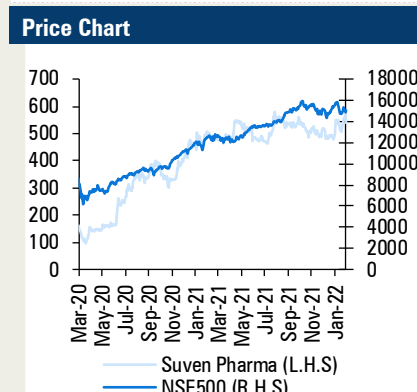
- Focus on research by global innovators has intensified post Covid & augurs well for pharma CRAMs operations, which remain a key growth driver
- The company has announced a ₹ 600 crore investment – in upgradation of facilities, absorbing new technology & moving its R&D – executable over a two to three-year horizon, benefits of which may be visible in the long run
- Formulations: 17 ANDAs filed, however proposed acquisition of OSD facility of Casper pharma and subsequent operational performance in ramping up this segment amid various challenges would be a key monitorable

**Alternate Stock Idea:** Apart from Suven, in our coverage we like Syngene.

- Syngene with years of experience in operating in the niche of CRO/CRM the company is well poised to capitalise on growing opportunities globally.
- BUY with a target price of ₹ 710

Particulars	
Particular	Amount
Market Capitalisation	₹ 13721 crore
Debt (FY21)	₹ 121 crore
Cash (FY21)	₹ 93 crore
EV	₹ 13750 crore
52 week H/L (₹)	590/445
Equity capital	₹ 25.5 crore
Face value	₹ 1

Shareholding pattern					
(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	60.0	60.0	60.0	60.0	60.0
Others	40.0	40.0	40.0	40.0	40.0



- ### Recent Event & Key risks
- Divestment of Rising Pharma
  - Key Risk:** (i) Better execution in formulations (ii) B2B model with heavy reliance on guidance

### Research Analyst

Siddhant Khandekar  
siddhant.khandekar@icicisecurities.com

Raunak Thakur  
raunak.thakur@icicisecurities.com

Kush Mehta  
kush.mehta@icicisecurities.com

### Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	CAGR (FY20-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Revenues	833.8	1009.7	21.1	1256.6	1412.0	1606.0	16.7
EBITDA	384.8	442.4	15.0	566.5	635.7	722.7	17.8
EBITDA margins (%)	46.1	43.8		45.1	45.0	45.0	
Net Profit	317.0	362.3	14.3	465.2	450.0	503.9	11.6
EPS (₹)	12.5	14.2		18.3	17.7	19.8	
PE (x)	43.3	37.9		29.5	30.5	27.2	
EV to EBITDA (x)	36.0	30.9		24.0	21.1	18.2	
RoE (%)	37.5	30.7		29.6	23.2	21.3	
RoCE (%)	35.6	31.2		35.0	28.7	26.6	

## Key takeaways of recent quarter & conference call highlights

### Q3FY22 Results: Margins back amid CRAMS growth trajectory

- Revenues grew 42.4% YoY to ₹ 391.6 crore driven by 200.7% YoY growth in CRAMS-Specialty Chemical to ₹ 104.6 crore and 22.7% YoY growth in CRAMS Pharma to ₹ 266.2 crore. EBITDA margins declined 274 bps YoY to 47.5% mainly due to lower gross margins and increase in other expenditure. EBITDA grew 34.7% YoY to ₹ 186 crore and PAT was up 40.9% YoY to ₹ 160.1 crore. Delta vis-a-vis EBITDA was due to higher other income being partially offset by higher tax expense.
- Suven's quarterly results were better than I-direct estimates on all fronts with 704 bps sequential improvement in EBITDA margins being a positive surprise. Going ahead, the company hopes to achieve 15-20% growth in FY22 based on strong order book position. It has also planned to invest ₹ 600 crore for modernisation, technology upgradation, which likely stems from the need to cater to the changed priorities and requirements of its clients, the benefits of which may be visible in the long run. We continue to emphasise on the strong execution capability and focused approach

### Q3FY22 Earnings Conference Call highlights

- Suven Pharma posted a good quarter despite rise in input cost, unavailability of raw materials and logistic cost challenges
- Suven Pharma has divested its entire stake in Rising Pharma and as part of the deal will hold 7% stake in Raisin Aggregators LLP. Suven has received US\$41.5 million
- The company is looking to acquire Caper Pharma, SEZ unit in Hyderabad engaged in formulations. Caper Pharma has 1.2 billion oral solid dosage capacity and has filed six ANDAs (USFDA approval awaited). The management indicated Suven has existing capacity of ~ 300 million for formulations and is looking at this acquisition for asset only. Also, Rising Pharma has a contract with Caper Pharma to manufacture and supply drugs
- Suven has five commissioned molecules in CRAMS with another five in Phase III. Youngest molecule in Phase III is nine months old while oldest is four years mature.
- Suven has filed 17 ANDA with nine approved, seven launched and two more to be launched in subsequent weeks. The management has indicated at another 10 fillings to be done, going ahead
- The management has guided for good visibility in the next six months and is likely to maintain growth and margins (~45%) in-line with Q3FY22
- The board has declared an interim dividend of ₹ 1 per equity share and one-time special dividend of ₹ 2 per equity share, totalling to ₹ 3 per equity share for FY22
- Capex guidance of ₹ 600 crore is mainly for one replacement block at Suryapet, Telangana, R&D centre relocation from inner ring road (₹ 150 crore) and 1 block (Intermediates) in Pashamylaram, Telangana

**Exhibit 1: Variance Analysis**

	Q3FY22	Q3FY21	Q2FY22	YoY (%)	QoQ (%)	Comments
Revenue	391.6	274.9	301.0	42.4	30.1	YoY growth amid strong growth in CRAMS Spec Chem business
Raw Material Expenses	119.4	66.2	92.6	80.4	29.0	
Gross margins (%)	69.5	75.9	69.2	-641.9	25.5	YoY decline mainly due to increase in raw material cost
Employee Expenses	25.0	21.3	23.2	17.2	7.8	
Other Expenditure	61.1	49.2	63.4	24.1	-3.7	Increased mainly due to higher logistic cost
EBITDA	186.0	138.1	121.8	34.7	52.8	
EBITDA (%)	47.5	50.2	40.5	-274.3	704.6	YoY decline amid higher raw material and logistic cost
Interest	0.7	2.7	1.2	-72.8	-36.9	
Depreciation	10.5	8.8	9.2	20.0	14.5	
Other Income	64.7	4.8	5.0	1,235.7	1,183.2	₹ 33.29 crore pertaining to dividend received from subsidiary
PBT before EO & Forex	239.5	131.5	116.5	82.1	105.6	
Forex & EO	0.0	0.0	0.0			
Profit from Associates	0.0	16.0	17.5	-100.0	-100.0	
PBT	239.5	147.5	133.9	62.3	78.8	
Tax	79.4	33.9	36.9	134.4	114.9	Higher tax expense mainly due to ₹ 4.9 crore tax paid on capital gains
Net Profit	160.1	113.6	97.0	40.9	65.0	Delta vis-à-vis EBITDA due to higher other income
<b>Key Metrics</b>						
CRAMS - Pharma	266.2	217.0	144.4	22.7	84.4	
CRAMS - Spec Chem	104.6	34.8	137.3	200.7	-23.8	YoY growth due to increased demand from customers
Formulations & Others	14.4	23.3	19.3	-38.1	-25.4	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E			FY24E	
	Old	New	% Change	Old	New	% Change	Inroduced	
Revenue	1,118.4	1,256.6	12.4	1,246.8	1,412.0	13.3	1,606.0	Changed due to visible order book in medium term
EBITDA	459.6	566.5	23.3	526.8	635.7	20.7	722.7	
EBITDA Margin (%)	41.1	45.1	399 bps	42.3	45.0	277 bps	45.0	Guidance for 45% EBITDA margins
PAT	383.1	465.2	21.4	477.2	450.0	-5.7	503.9	
EPS (₹)	15.0	18.3	21.4	18.7	17.7	-5.7	19.8	

Source: ICICI Direct Research

**Exhibit 3: Assumptions**

(₹ crore)	Current				Earlier		Comments
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	
CRAMS - Pharma	623.7	756.7	872.4	1,003.2	647.2	724.9	Changed due to guidance for steady growth to continue
CRAMS - Spec Chem	305.9	419.8	460.8	516.1	388.0	429.9	Changed amid better-than-expected growth in Q3FY22
Formulations & Others	80.2	72.7	78.9	86.7	82.1	92.0	

Source: ICICI Direct Research

Exhibit 4: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
<b>Hospitals</b>																					
Apollo Hospitals	APOHOS	4571	5,930	Buy	65730	22.6	7.9	72.9	99.4	202.4	581.6	62.7	46.0	10.2	6.3	18.1	21.7	9.7	2.5	18.6	20.9
Narayana Hrudalaya	NARHRU	641	765	Buy	13091	6.4	-0.7	17.4	19.9	100.9	NA	36.8	32.1	11.0	1.2	21.0	22.3	11.4	-1.3	24.4	22.1
Shalby	SHALIM	139	170	Buy	1496	2.6	3.9	5.9	5.8	54.2	35.3	23.4	23.9	7.2	6.5	8.9	9.6	3.5	5.1	7.2	6.7
Aster DM	ASTDM	192	250	Buy	9598	5.7	3.0	10.6	17.2	33.7	65.0	18.2	11.2	7.2	5.4	8.7	12.1	8.7	4.4	13.5	18.0
Healthcare Global	HEAGLO	252	240	Hold	3163	-12.0	-21.7	15.6	8.4	NA	NA	16.2	29.9	1.0	-0.9	7.6	10.4	NA	NA	NA	7.2
<b>MNC Pharma</b>																					
Abbott India	ABBIND	16665	20,360	Buy	35413	279.0	325.0	362.3	471.9	59.7	51.3	46.0	35.3	30.7	33.8	35.3	37.2	24.4	26.5	27.6	28.9
P&G Health	MERLIM	5014	6,555	Buy	8323	102.0	106.5	135.7	145.7	49.2	47.1	37.0	34.4	24.0	32.2	41.0	37.7	18.7	25.1	31.6	28.8
Sanofi India	SANOFI	7357	9,800	Buy	16944	179.8	207.4	431.8	280.0	40.9	35.5	17.0	26.3	26.0	32.3	34.2	41.9	19.4	24.5	22.2	33.5
Pfizer	PFIZER	4560	5,350	Buy	20861	111.3	108.8	135.2	133.0	41.0	41.9	33.7	34.3	18.5	27.6	27.4	23.6	15.0	20.8	21.7	18.6
<b>Pharma</b>																					
Ajanta Pharma	AJAPHA	2078	2,500	Buy	17981	53.4	74.0	79.3	89.3	38.9	28.1	26.2	23.3	24.7	29.0	25.2	23.8	18.1	21.8	19.9	19.2
Alembic Pharma	ALEMPHA	752	790	Hold	14782	44.4	59.9	33.3	39.6	16.9	12.5	22.6	19.0	21.0	24.2	11.9	13.9	27.1	23.0	11.7	12.6
Aurobindo Pharma	AURPHA	655	795	Hold	38394	48.8	55.0	50.3	61.2	13.4	11.9	13.0	10.7	17.2	16.9	13.8	15.2	17.0	14.7	11.9	12.8
Biocon	BIOCON	407	380	Hold	48852	5.8	6.1	5.4	9.3	70.0	66.9	75.7	43.9	10.2	7.6	7.8	10.0	10.4	9.6	7.9	12.2
Cadila Healthcare	CADHEA	405	477	Hold	41503	14.0	21.5	20.9	21.8	29.0	18.9	19.4	18.6	10.7	12.6	13.4	13.4	13.8	16.9	14.7	13.7
Cipla	CIPLA	968	1,085	Buy	78058	19.2	29.9	34.6	41.8	50.4	32.4	27.9	23.2	12.0	16.3	17.8	18.4	9.8	13.1	13.7	14.6
Dr Reddy's Labs	DRREDD	4362	5,170	Hold	72567	121.8	117.3	181.2	204.2	35.8	37.2	24.1	21.4	9.6	13.1	16.3	17.3	13.0	11.1	14.9	14.7
Glenmark Pharma	GLEPHA	502	580	Hold	14154	26.4	32.9	37.7	43.7	19.0	15.3	13.3	11.5	12.7	13.9	15.3	15.9	12.2	13.1	12.5	12.7
Ipca Laboratories	IPCLAB	1019	2,490	Buy	12926	47.6	89.9	78.0	95.8	21.4	11.3	13.1	10.6	17.6	27.1	20.5	20.9	16.6	24.2	17.5	17.7
Jubilant Pharmova	JUBLIF	464	490	Hold	7398	44.6	37.4	28.7	32.5	10.4	12.4	16.2	14.3	11.7	13.7	10.1	10.4	12.7	12.6	8.9	9.2
Lupin	LUPIN	804	960	Hold	36494	-12.7	26.9	16.2	30.2	NA	29.9	49.6	26.6	9.7	9.1	6.1	10.5	-4.6	8.8	5.8	9.6
Natco Pharma	NATPHA	919	925	Hold	16760	25.3	24.2	17.1	20.1	36.4	38.0	53.8	45.7	14.0	13.1	8.4	9.9	12.2	10.7	7.2	8.0
Sun Pharma	SUNPHA	887	965	Buy	212917	16.8	30.0	30.6	32.2	52.9	29.5	29.0	27.5	10.0	14.2	16.7	16.3	8.9	15.5	14.2	13.2
Torrent Pharma	TORPHA	2605	3,110	Hold	44074	60.6	74.0	78.3	103.7	43.0	35.2	33.3	25.1	15.4	17.7	21.0	22.6	21.2	21.4	19.4	21.5
Indoco Remedies	INDREM	371	575	Buy	3423	2.6	10.1	17.3	23.9	141.6	36.7	21.4	15.5	4.6	11.7	19.8	21.5	3.5	12.1	17.6	20.2
Caplin Point	CAPPOI	776	1,010	Buy	5871	17.2	81.7	76.7	55.5	45.2	9.5	10.1	14.0	25.4	25.6	24.1	23.5	22.7	20.4	20.5	18.8
Advanced Enzymes	ADVENZ	311	380	Buy	3474	11.6	13.1	11.3	13.6	26.9	23.8	27.6	22.9	19.6	19.4	15.4	16.7	15.4	15.1	11.6	12.4
Hester Biosciences	HESPHA	2497	2,780	Hold	2124	34.3	44.4	47.2	52.0	72.8	56.3	52.9	48.0	14.0	16.2	12.8	14.3	14.5	16.5	15.5	15.1
<b>API/CRAMS</b>																					
Divi's Lab	DIVLAB	4325	5,815	Buy	114815	51.9	74.7	90.6	107.5	83.4	57.9	47.7	40.2	23.9	27.6	27.7	27.7	18.8	21.3	21.8	21.8
Hikal	HIKCHE	426	640	Buy	5256	8.1	10.8	17.2	21.4	52.6	39.5	24.8	20.0	12.8	15.1	17.7	18.5	12.2	14.3	18.7	19.1
Syngene Int.	SYNINT	587	710	Buy	23482	10.3	10.1	9.8	13.9	57.0	58.0	60.0	42.1	14.5	11.5	12.6	15.5	16.8	13.5	13.2	14.9
Granules India	GRANUL	312	360	Buy	7721	12.4	22.2	16.2	19.4	25.1	14.1	19.2	16.1	15.2	24.0	16.2	17.4	16.7	25.3	15.8	16.1
Laurus Labs	LAULAB	525	670	Buy	28182	4.8	18.3	17.6	23.9	110.4	28.7	29.9	22.0	13.0	31.7	25.1	28.0	14.4	37.9	27.4	27.9
Suven Pharmaceuticals	SUVPH	539	555	Hold	13721	12.5	14.2	18.3	17.7	43.3	37.9	29.5	30.5	35.6	31.2	35.0	28.7	37.5	30.7	29.6	23.2

Source: ICICI Direct Research

## Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Revenues</b>	<b>1,009.7</b>	<b>1,256.6</b>	<b>1,412.0</b>	<b>1,606.0</b>
Growth (%)	NA	24.5	12.4	13.7
Raw Material Expenses	301.9	378.8	416.2	465.8
Employee Expenses	76.2	88.5	113.0	128.5
Other Manufacturing Expenses	189.1	222.7	247.1	289.1
Total Operating Expenditure	567.3	690.1	776.3	883.3
<b>EBITDA</b>	<b>442.4</b>	<b>566.5</b>	<b>635.7</b>	<b>722.7</b>
Growth (%)	15.0	28.1	12.2	13.7
Interest	11.1	4.8	4.8	4.8
Depreciation	31.6	39.2	52.1	70.1
Other Income	14.2	80.0	21.2	24.1
PBT before Exceptional Items	413.9	602.6	600.0	671.9
Less: Forex & Exceptional Items	0.0	0.0	0.0	0.0
PBT	467.7	643.7	600.0	671.9
Total Tax	105.3	178.5	150.0	168.0
PAT before MI	362.3	465.2	450.0	503.9
Minority Interest	0.0	0.0	0.0	0.0
PAT	362.3	465.2	450.0	503.9
<b>Adjusted PAT</b>	<b>362.3</b>	<b>465.2</b>	<b>450.0</b>	<b>503.9</b>
Growth (%)	14.3	28.4	-3.3	12.0
EPS	14.2	18.3	17.7	19.8
<b>EPS (Adjusted)</b>	<b>14.2</b>	<b>18.3</b>	<b>17.7</b>	<b>19.8</b>

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	358.2	465.2	450.0	503.9
Add: Depreciation & Amortization	31.2	39.2	52.1	70.1
Net Increase in Current Assets	-25.5	-151.2	-63.2	-77.7
Net Increase in Current Liabilities	15.1	23.4	16.2	19.7
Others	-4.7	0.0	0	0
<b>CF from operating activities</b>	<b>383.4</b>	<b>381.3</b>	<b>459.9</b>	<b>517.2</b>
(Inc)/dec in Fixed Assets	-110.8	-200.0	-200.0	-200.0
(Inc)/dec in Investments	-200.5	0.0	-50.0	-50.0
Others	0.0	2.7	3.0	3.3
<b>CF from investing activities</b>	<b>-311.3</b>	<b>-197.3</b>	<b>-247.0</b>	<b>-246.7</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in sec. Loan	-42.4	-20.0	0.0	0.0
Dividend & Dividend Tax	-25.5	-76.4	-76.4	-76.4
Others	-8.67	-4.78	-4.78	-1.20
<b>CF from financing activities</b>	<b>-76.6</b>	<b>-101.2</b>	<b>-81.2</b>	<b>-77.6</b>
Net Cash flow	-4.4	82.9	131.8	193.0
Opening Cash	14.1	9.7	92.6	224.3
<b>Closing Cash</b>	<b>9.7</b>	<b>92.6</b>	<b>224.3</b>	<b>417.3</b>
Free Cash Flow	272.6	181.3	259.9	317.2

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	25.5	25.5	25.5	25.5
Reserve and Surplus	1,155.4	1,544.2	1,917.8	2,345.3
Total Shareholders fund	1,180.8	1,569.6	1,943.2	2,370.8
Total Debt	141.2	121.2	121.2	121.2
Deferred Tax Liability	30.9	34.0	37.4	41.2
Minority Interest	0.0	0.0	0.0	0.0
Other Non Current Liabilities	7.4	8.1	8.9	9.8
<b>Source of Funds</b>	<b>1,360.4</b>	<b>1,733.0</b>	<b>2,110.8</b>	<b>2,543.0</b>
Gross Block - Fixed Assets	568.8	718.8	868.8	1,168.8
Accumulated Depreciation	127.6	166.8	218.9	289.0
Net Block	441.2	552.0	649.8	879.7
Capital WIP	96.3	146.3	196.3	96.3
Net Fixed Assets	537.5	698.3	846.2	976.0
Investments	541.8	541.8	591.8	641.8
Inventory	201.1	275.4	309.5	352.0
Cash	9.7	92.6	224.3	417.3
Debtors	102.4	172.1	193.4	220.0
Loans & Advances & Other CA	0.0	0.0	0.0	0.0
Total Current Assets	384.2	618.3	813.2	1,083.9
Creditors	82.9	103.2	116.0	131.9
Provisions & Other CL	31.2	34.3	37.7	41.5
Total Current Liabilities	114.1	137.5	153.7	173.4
Net Current Assets	270.1	480.8	659.5	910.5
LT L& A, Other Assets	11.0	12.1	13.3	14.6
Deferred Tax Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,360.4</b>	<b>1,733.0</b>	<b>2,110.8</b>	<b>2,543.0</b>

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	14.2	18.3	17.7	19.8
Cash EPS	13.5	16.8	16.7	19.6
BV	46.4	61.7	76.3	93.1
DPS	2.0	3.0	3.0	3.0
Cash Per Share	5.0	6.6	8.6	11.4
<b>Operating Ratios (%)</b>				
Gross Profit margins	70.1	69.9	70.5	71.0
EBITDA margins	43.8	45.1	45.0	45.0
Net Profit margins	35.9	37.0	31.9	31.4
Asset Turnover	1.8	1.7	1.6	1.4
Inventory days	72.7	80.0	80.0	80.0
Debtor days	37.0	50.0	50.0	50.0
Creditor days	30.0	30.0	30.0	30.0
<b>Return Ratios (%)</b>				
RoE	30.7	29.6	23.2	21.3
RoCE	31.2	35.0	28.7	26.6
RoIC	38.3	40.1	40.0	37.3
<b>Valuation Ratios (x)</b>				
P/E	37.9	29.5	30.5	27.2
EV / EBITDA	30.9	24.0	21.1	18.2
EV / Revenues	13.5	10.8	9.5	8.2
Market Cap / Revenues	13.6	10.9	9.7	8.5
Price to Book Value	11.6	8.7	7.1	5.8
<b>Solvency Ratios</b>				
Debt / Equity	0.1	0.1	0.1	0.1
Debt/EBITDA	0.3	0.2	0.2	0.2
Current Ratio	3.3	3.8	3.8	3.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

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