

# Cadila Healthcare

 BSE SENSEX 19,092  
 S&P CNX 5,724

**Rs766**
**Buy**

		YEAR	NET SALES	PAT	EPS	EPS	P/E	PIBY	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GR. (₹)	(X)	(X)	(%)	(%)	SALES	EBITDA
Bloomberg	CDHIN	03/10A	36,868	5,092	24.9	57.7	30.8	9.7	36.0	26.7	4.5	20.4
Equity Shares (m)	204.7	03/11E	44,186	6,239	30.5	22.5	25.1	7.3	35.2	29.9	3.7	16.1
52-Week Range (Rs)	809/413	03/12E	50,725	7,696	37.6	23.3	20.4	5.7	31.6	29.7	3.2	13.9
1,6,12 Rel. Perf. (%)	-6/3/56	03/13E	58,760	9,565	46.7	24.3	16.4	4.5	30.7	31.6	2.7	11.4
M.Cap. (Rs b)	156.8											
M.Cap. (US\$ b)	3.5											

Cadila's 3QFY11 operational performance was in line with our estimates. Key highlights are:

- Cadila reported 3QFY11 revenue growth of 17.7% YoY at Rs11.67b (against our estimate of Rs11.59b) and adjusted PAT growth of 24% YoY at Rs1.62b (against our estimate of Rs1.64b). Topline growth was led by formulation exports (up 19.6% YoY) due to strong growth in North America (up 33% YoY), Latin America (up 33% YoY) and Japan (up 21.5% YoY).
- The growth momentum in exports to the US continued, led by new launches and market share gains in existing products. While the domestic formulations revenue grew by 16.8% YoY to Rs4b, consumer and other businesses grew 20.8% YoY to Rs908m.
- EBITDA was in line with estimates at Rs2.56b (up 22% YoY) and EBITDA margins improved by 80bp YoY to 22% (against our estimate of 22.5%).
- Adjusted PAT of Rs1.62b was in line with estimates and partly boosted by lower interest and depreciation charges.

Cadila's growth will be led by increased traction in its international businesses, ramp-up in supplies to Hospira and sustained double-digit growth in the domestic formulations and consumer businesses. Besides, a de-risked business model should ensure good long-term potential. We estimate 17.3% revenue and 23% earnings CAGR over FY10-12 led by 23% CAGR for Cadila's US operations and 26% CAGR in domestic consumer revenue, coupled with a ramp-up in supplies to Hospira. We expect RoE of more than 30% over two years. We expect EPS of Rs30.5 in FY11 (up 22.5%), Rs37.6 in FY12 (up 23.3%) and Rs46.7 in FY13 (up 24.3%) implying 23% EPS CAGR over FY10-12 and 24% over FY11-13. Cadila is valued at 25.1x FY11E, 20.4x FY12E and 16.4x FY13E consolidated earnings. Our estimates do not include upsides from the supply agreement with Abbott. Maintain **Buy** with a target price of Rs1,028 (22x FY13E EPS), revised from the earlier Rs827 (22x FY12E EPS).

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(Rs Million)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Revenues</b>	<b>9,036</b>	<b>9,458</b>	<b>9,910</b>	<b>8,465</b>	<b>11,338</b>	<b>11,166</b>	<b>11,668</b>	<b>10,014</b>	<b>36,868</b>	<b>44,186</b>
<i>YoY Change (%)</i>	<i>29.4</i>	<i>25.0</i>	<i>32.3</i>	<i>17.0</i>	<i>25.5</i>	<i>18.1</i>	<i>17.7</i>	<i>18.3</i>	<i>25.9</i>	<i>19.8</i>
Total Expenditure	6,998	7,401	7,810	6,572	8,364	8,718	9,106	7,731	28,782	33,920
<b>EBITDA</b>	<b>2,037</b>	<b>2,057</b>	<b>2,100</b>	<b>1,893</b>	<b>2,974</b>	<b>2,448</b>	<b>2,561</b>	<b>2,283</b>	<b>8,087</b>	<b>10,266</b>
<i>Margins (%)</i>	<i>22.5</i>	<i>21.7</i>	<i>21.2</i>	<i>22.4</i>	<i>26.2</i>	<i>21.9</i>	<i>22.0</i>	<i>22.8</i>	<i>21.9</i>	<i>23.2</i>
Depreciation	296	311	334	398	314	304	334	537	1,339	1,489
Interest	229	206	217	170	224	179	187	174	821	765
Other Income	28	16	63	52	-63	57	23	88	159	106
<b>PBT before EO Income</b>	<b>1,540</b>	<b>1,556</b>	<b>1,612</b>	<b>1,378</b>	<b>2,373</b>	<b>2,022</b>	<b>2,064</b>	<b>1,660</b>	<b>6,085</b>	<b>8,118</b>
EO Exp/(Inc)	9	26	11	0	0	0	0	0	46	0
<b>PBT after EO Income</b>	<b>1,531</b>	<b>1,530</b>	<b>1,601</b>	<b>1,378</b>	<b>2,373</b>	<b>2,022</b>	<b>2,064</b>	<b>1,660</b>	<b>6,039</b>	<b>8,118</b>
Tax	242	176	255	68	338	254	368	258	741	1,218
<i>Rate (%)</i>	<i>15.8</i>	<i>11.5</i>	<i>15.9</i>	<i>4.9</i>	<i>14.2</i>	<i>12.6</i>	<i>17.8</i>	<i>15.6</i>	<i>12.3</i>	<i>15.0</i>
Minority Int/Adj on Consol	40	35	49	123	43	60	76	117	247	296
<b>Reported PAT</b>	<b>1,248</b>	<b>1,319</b>	<b>1,297</b>	<b>1,187</b>	<b>1,992</b>	<b>1,708</b>	<b>1,620</b>	<b>1,285</b>	<b>5,051</b>	<b>6,604</b>
<b>Adj PAT</b>	<b>1,256</b>	<b>1,342</b>	<b>1,307</b>	<b>1,187</b>	<b>1,627</b>	<b>1,708</b>	<b>1,620</b>	<b>1,285</b>	<b>5,092</b>	<b>6,239</b>
<i>YoY Change (%)</i>	<i>40.0</i>	<i>39.0</i>	<i>115.8</i>	<i>18.5</i>	<i>29.6</i>	<i>27.3</i>	<i>24.0</i>	<i>8.2</i>	<i>57.7</i>	<i>22.5</i>
<i>Margins (%)</i>	<i>13.9</i>	<i>14.2</i>	<i>13.2</i>	<i>14.0</i>	<i>14.3</i>	<i>15.3</i>	<i>13.9</i>	<i>12.8</i>	<i>13.8</i>	<i>14.1</i>

E: MOSL Estimates; Quarterly numbers don't add up to full year numbers due to restatement

### Revenue growth led by formulation exports

Cadila's 3QFY11 operational performance was in line with our estimates with revenue growth of 17.7% YoY at Rs11.67b (against our estimate of Rs11.59b) and adjusted PAT growth of 24% YoY at Rs1.62b (against our estimate of Rs1.64b).

Topline growth was led by formulation exports (up 19.6% YoY) due to strong growth in North America (up 33% YoY), Latin America (up 33% YoY) and Japan (up 21.5% YoY) on a low base. European revenue declined by 15% and exports to emerging markets were flat at Rs499m. The growth momentum in exports to the US continued with revenue growing 33% YoY, led by new launches and market share gains in existing products.

The domestic formulations revenue in 3QFY11 grew by 16.8% YoY to Rs4b, the consumer business grew by 20.8% YoY to Rs908m and animal health and others grew by 12.2% to Rs362m.

### Revenue mix and EBITDA trend (Rs m)

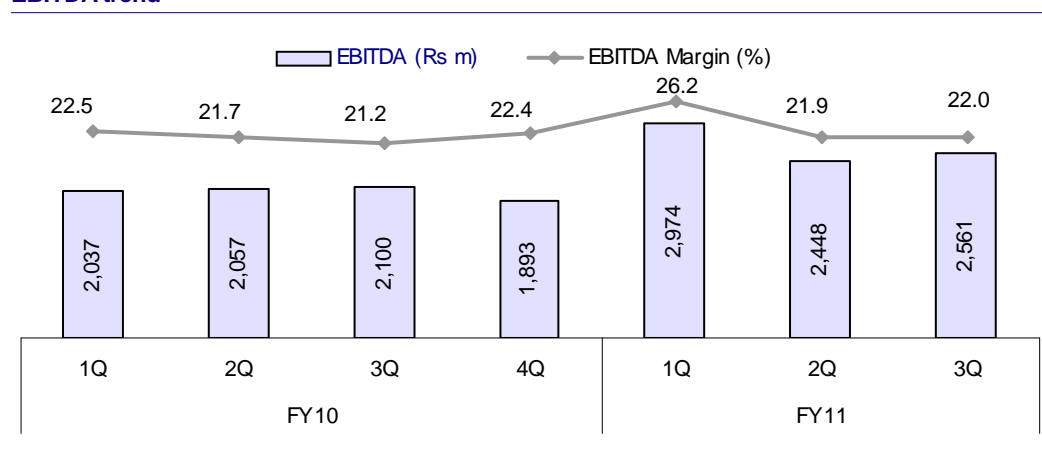
	3QFY11	3QFY10	% Chg	2QFY11	% Chg
<b>Gross Domestic Sales</b>	<b>5,588</b>	<b>4,792</b>	<b>16.6</b>	<b>5,934</b>	<b>-5.8</b>
Formulations	4,243	3,640	16.6	4,668	-9.1
APIs	75	78	-3.8	64	17.2
Consumer & Others	1,270	1,074	18.2	1,202	5.7
<b>Export sales</b>	<b>5,883</b>	<b>4,945</b>	<b>19.0</b>	<b>5,279</b>	<b>11.4</b>
Formulations	4,974	4,160	19.6	4,314	15.3
APIs	909	785	15.8	965	-5.8
<b>Other Operating Income</b>	<b>323</b>	<b>256</b>	<b>26.2</b>	<b>104</b>	<b>211.1</b>
<b>Gross Sales</b>	<b>11,794</b>	<b>9,993</b>	<b>18.0</b>	<b>11,317</b>	<b>4.2</b>

Source: Company

### Reported EBITDA in line with estimates at Rs2.56b, up 22% YoY

EBITDA was in line with estimates at Rs2.56b (up 22% YoY) and EBITDA margins improved by 80bp YoY to 22% (against our estimate of 22.5%). Adjusted PAT of Rs1.62b was in line with estimates and partly boosted by lower interest and depreciation charges. Depreciation of Rs334m was flat YoY due to declining intangible amortization of the animal health business in India and a favorable impact of the rupee's appreciation against the euro for the French operations.

### EBITDA trend



Source: Company/MOSL

### **New launches to drive growth in US market**

Cadila has 59 ANDAs pending approval and has received 59 ANDA approvals so far (including tentative approvals). It expects to file 15-20 ANDAs with the US FDA every year and get 8-10 approvals each year. There is increased traction in Cadila's US business due to the absence of some competitors (due to US FDA issues) and new product launches. We expect Cadila to post Rs9b sales in FY11 against Rs6.7b in FY10. We expect this business to grow at 23% CAGR over FY10-12. Cadila has also started development and filing of potential low-competition products with delivery advantages (such as trans-dermal patches and respiratory products) and is focusing on developing such niche products (likely to be commercialized after FY12).

### **Hospira supplies to ramp up from FY12**

Cadila's started supplies to Hospira in FY10, recording Rs839m in revenue from supplies to Europe. We expect a ramp-up in this business in FY12, led by commercialization of more products and the possibility of commencement of supplies to the US. Cadila posted revenue of Rs818m as its share of the Hospira JV in 9mFY11 and we expect full-year revenue of Rs1.13b and Rs1.78b from this partnership in FY11 and FY12 respectively. Our FY11 estimates do not include upsides from supplies to the US, which we have factored-in for FY12 estimates. The management indicated it did not expect significant delays in Taxotere supplies (one of the products covered in the supply agreement) to Hospira since the latter indicated that final approval for the products had been delayed by labeling issues, which are likely to be resolved in the near future.

### **Domestic branded business to post double-digit growth led by new product launches**

After the correction in its distribution channel, undertaken in FY09 (which temporarily impacted growth), Cadila's growth in the domestic formulations business recovered partly in FY10, posting 12.2% growth, which was still lower than the average industry growth of ~17%. In 9mFY11, it posted 17.7% growth. We believe a ramp-up in the growth of this business is imperative to support Cadila's initiatives in other markets as it is a high cash generating business. In 3QFY11 Cadila launched nine new products in the domestic formulations market. The management had, in the past, guided for 15% growth of this business in FY11 and Cadila expects to launch 45 new products through the business in FY11.

### **Consumer business showing strong traction**

Cadila's consumer business (~8% of revenue) has a leadership position in niche consumer healthcare segments of sugar substitutes, butter substitutes and facial care. The business has been growing rapidly due to strong growth in their respective product categories and dominant market share in the segments (more than 50% market share). The company posted 37% growth in this business in FY10 and 9mFY11 growth was 26%. We expect revenue of 26% CAGR over FY10-12.

### Europe, emerging markets had an adverse quarter

Cadila's European operations posted 15% de-growth and emerging market revenues (excluding Latam) were flat in 3QFY11. European revenue growth suffered due to lower Clopidogrel supplies YoY and a depreciating euro. We expect this business to post 9% revenue CAGR over FY10-12. Emerging market revenue was flat due to supply issues in South Africa and lack of new approvals.

### Outlook and valuation

Cadila's growth will be led by increased traction in its international businesses, ramp-up in supplies to Hospira and sustained double-digit growth in domestic formulations and consumer businesses. Besides, a de-risked business model should ensure good long-term potential. We estimate 17.3% revenue and 23% earnings CAGR over FY10-12 led by 23% CAGR for the US operations and 26% CAGR in domestic consumer revenue coupled with a ramp-up in supplies to Hospira. We expect RoE of more than 30% over the next two years. We expect FY11 EPS of Rs30.5 (up 22.5%), Rs37.6 in FY12 (up 23.3%) and Rs46.7 in FY13 (up 24.3%) implying 23% EPS CAGR over FY10-12 and 24% over FY11-13. Cadila is valued at 25.1x FY11E, 20.4x FY12E and 16.4x FY13E consolidated earnings. Our estimates do not include upsides from the supply agreement with Abbott. Maintain **Buy** with a target price of Rs1,028 (22x FY13 EPS), revised from the earlier Rs827 (22x FY12 EPS).

## Cadila Healthcare: an investment profile

### Company description

Cadila is one of the largest domestic pharmaceutical companies in India with a strong focus on the global generics opportunity. The company is gradually building its presence in regulated generic markets beginning with the US and France. It also plans to tap opportunities through its JVs with Altana, Hospira and Bharat Serums.

### Key investment arguments

- Efforts to step up the number of filings in regulated markets and focus on partnerships in overseas markets will help build critical scale over 2-3 years.
- A de-risked strategy, with less focus on patent challenges and expensive acquisitions.

### Key investment risks

- Cadila is a late entrant in the international generics space and hence lags its peers in terms of global footprint and underlying product basket.

### Recent development

- Entered into a supply agreement with Abbott to supply 24 branded generic products to meet Abbott's requirements in 15 emerging markets.

### Valuation and view

- We expect EPS of Rs30.5 in FY11 (up 22.5% YoY), Rs37.6 in FY12 (up 23.3% YoY) and Rs46.7 in FY13 leading to 24% EPS CAGR over FY10-13. Cadila is valued at 25.1x FY11E, 20.4x FY12E and 16.4x FY13E consolidated earnings.
- Increased traction based on improvement in domestic and international businesses coupled with de-risked strategy. Maintain **Buy**.

### Sector view

- Regulated markets will be the key sales and profit drivers in the medium term. Europe is expected to emerge as the next growth driver.
- We are Overweight on companies that are nearing the end of the investment phase.

### Comparative valuations

		Cadila	Lupin	Sun
P/E (x)	FY11E	25.1	27.3	38.4
	FY12E	20.4	21.1	29.0
P/BV (x)	FY11E	7.3	24.0	38.0
	FY12E	5.7	19.8	29.5
EV/Sales (x)	FY11E	3.7	26.4	20.9
	FY12E	3.2	27.1	19.5
EV/EBITDA (x)	FY11E	16.1	3.7	8.2
	FY12E	13.9	3.2	6.9

### EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	30.5	32.2	-5.2
FY12	37.6	39.7	-5.2

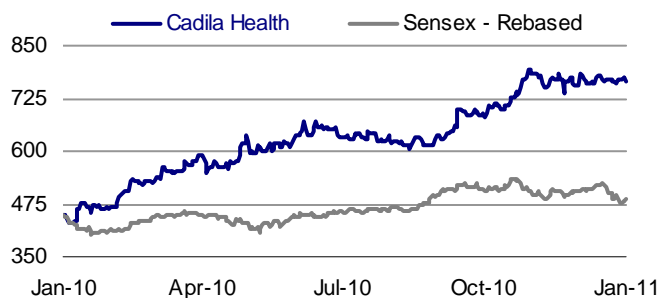
### Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
766	1,028	34.2	Buy

### Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	74.8	74.8	74.8
Domestic Inst	13.8	13.7	13.9
Foreign	5.1	5.1	5.3
Others	6.4	6.4	6.1

### Stock performance (1 year)



## Financials and Valuation

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
<b>Net Sales</b>	<b>29,275</b>	<b>36,868</b>	<b>44,186</b>	<b>50,725</b>	<b>58,760</b>	
<i>Change (%)</i>	<i>26.0</i>	<i>25.9</i>	<i>19.8</i>	<i>14.8</i>	<i>15.8</i>	
Total Expenditure	23,217	28,782	33,920	39,027	44,940	
<b>EBITDA</b>	<b>6,058</b>	<b>8,087</b>	<b>10,266</b>	<b>11,698</b>	<b>13,820</b>	
<i>Margin (%)</i>	<i>20.7</i>	<i>21.9</i>	<i>23.2</i>	<i>23.1</i>	<i>23.5</i>	
Depreciation	1,118	1,339	1,489	1,751	1,961	
<b>EBIT</b>	<b>4,940</b>	<b>6,748</b>	<b>8,777</b>	<b>9,946</b>	<b>11,859</b>	
Int. and Finance Charges	1,205	821	765	716	525	
Other Income - Rec.	204	159	106	242	417	
<b>PBT before EO Expen:</b>	<b>3,939</b>	<b>6,085</b>	<b>8,118</b>	<b>9,472</b>	<b>11,750</b>	
Extra Ordinary Expense/(Inc)	241	46	0	0	0	
<b>PBT after EO Expense</b>	<b>3,698</b>	<b>6,039</b>	<b>8,118</b>	<b>9,472</b>	<b>11,750</b>	
Current Tax	666	741	1,218	1,421	1,763	
Deferred Tax	0	0	0	0	0	
Tax	666	741	1,218	1,421	1,763	
<i>Tax Rate (%)</i>	<i>18.0</i>	<i>12.3</i>	<i>15.0</i>	<i>15.0</i>	<i>15.0</i>	
<b>Reported PAT</b>	<b>3,032</b>	<b>5,298</b>	<b>6,901</b>	<b>8,051</b>	<b>9,988</b>	
Less: Mionrity Interest	1	247	296	356	423	
<b>Net Profit</b>	<b>3,031</b>	<b>5,051</b>	<b>6,604</b>	<b>7,696</b>	<b>9,565</b>	
<b>PAT Adj for EO Items</b>	<b>3,229</b>	<b>5,092</b>	<b>6,239</b>	<b>7,696</b>	<b>9,565</b>	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Equity Share Capital	682	682	1,024	1,024	1,024	
Total Reserves	11,232	15,501	20,335	26,374	33,865	
<b>Net Worth</b>	<b>11,914</b>	<b>16,183</b>	<b>21,359</b>	<b>27,398</b>	<b>34,888</b>	
Minority Interest	228	392	0	0	0	
Deferred liabilities	1,316	1,141	1,141	1,141	1,141	
Total Loans	12,674	10,905	10,923	8,955	6,561	
<b>Capital Employed</b>	<b>26,132</b>	<b>28,621</b>	<b>33,423</b>	<b>37,493</b>	<b>42,591</b>	
Gross Block	22,870	25,578	29,328	33,078	36,078	
Less: Accum. Deprn.	7,572	8,734	10,223	11,974	13,936	
<b>Net Fixed Assets</b>	<b>15,298</b>	<b>16,844</b>	<b>19,105</b>	<b>21,104</b>	<b>22,142</b>	
Capital WIP	1,889	2,482	2,482	2,482	2,482	
Investments	249	207	209	209	209	
<b>Curr. Assets</b>	<b>15,611</b>	<b>17,749</b>	<b>22,255</b>	<b>26,172</b>	<b>32,736</b>	
Inventory	6,012	7,504	9,209	10,957	13,004	
Account Receivables	4,845	4,668	6,425	7,720	9,247	
Cash and Bank Balance	2,517	2,507	2,767	3,012	4,994	
Loans & Advances	2,237	3,070	3,855	4,483	5,491	
<b>Curr. Liability &amp; Prov.</b>	<b>6,915</b>	<b>8,661</b>	<b>10,628</b>	<b>12,473</b>	<b>14,979</b>	
Account Payables	5,729	6,710	7,924	9,214	10,981	
Provisions	1,186	1,951	2,705	3,259	3,998	
<b>Net Current Assets</b>	<b>8,696</b>	<b>9,088</b>	<b>11,627</b>	<b>13,699</b>	<b>17,757</b>	
Misc Expenditure	0	0	0	0	0	
<b>Appl. of Funds</b>	<b>26,132</b>	<b>28,621</b>	<b>33,423</b>	<b>37,494</b>	<b>42,590</b>	

E: MCSI Estimates

RATIOS						
Y/E MARCH	2009	2010	2011E	2012E	2013E	
<b>Basic (Rs)</b>						
<b>EPS</b>	<b>15.8</b>	<b>24.9</b>	<b>30.5</b>	<b>37.6</b>	<b>46.7</b>	
Cash EPS	20.3	31.2	39.5	46.1	56.3	
BV/Share	58.2	79.0	104.3	133.8	170.4	
DPS	3.0	5.0	7.2	8.4	10.4	
Payout (%)	26.3	23.3	25.0	25.0	25.0	
<b>Valuation (x)</b>						
P/E	48.6	30.8	25.1	20.4	16.4	
Cash P/E	37.8	24.5	19.4	16.6	13.6	
P/BV	13.2	9.7	7.3	5.7	4.5	
EV/Sales	5.7	4.5	3.7	3.2	2.7	
EV/EBITDA	27.5	20.4	16.1	13.9	11.4	
Dividend Yield (%)	0.4	0.7	0.9	1.1	1.4	
<b>Return Ratios (%)</b>						
RoE	26.9	36.0	35.2	31.6	30.7	
RoCE	23.6	26.7	29.9	29.7	31.6	
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	2.1	2.3	2.5	2.5	2.7	
Debtor (Days)	59	46	53	55	57	
Inventory (Days)	75	74	76	79	81	
Working Capital Turnover (l)	77	65	73	77	79	
<b>Leverage Ratio (x)</b>						
Current Ratio	2.3	2.0	2.1	2.1	2.2	
Debt/Equity	0.9	0.5	0.4	0.2	0.0	

\* Ratios adjusted for bonus issue

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Oper. Profit/(Loss) before *	6,058	8,087	10,266	11,698	13,820	
Interest/Dividends Recd.	204	159	106	242	417	
Direct Taxes Paid	-666	-741	-1,218	-1,421	-1,763	
(Inc)/Dec in WC	-933	-402	-2,279	-1,827	-2,076	
<b>CF from Operations</b>	<b>4,663</b>	<b>7,103</b>	<b>6,875</b>	<b>8,692</b>	<b>10,398</b>	
EO Expense / (Income)	241	46	0	0	0	
<b>CF from Operating inc</b>	<b>4,423</b>	<b>7,057</b>	<b>6,875</b>	<b>8,692</b>	<b>10,398</b>	
(inc)/dec in FA	-4,304	-3,478	-3,750	-3,750	-3,000	
(Pur)/Sale of Investments	5	42	-2	0	0	
<b>CF from Investments</b>	<b>-4,299</b>	<b>-3,436</b>	<b>-3,752</b>	<b>-3,750</b>	<b>-3,000</b>	
Change in Networth	-944	208	0	0	0	
Inc/(Dec) in Debt	4,331	-1,605	-374	-1,968	-2,393	
Interest Paid	-1,205	-821	-765	-716	-525	
Dividend Paid	-796	-1,237	-1,725	-2,013	-2,497	
Others	81	-175	0	0	0	
<b>CF from Fin. Activity</b>	<b>1,467</b>	<b>-3,631</b>	<b>-2,864</b>	<b>-4,697</b>	<b>-5,415</b>	
<b>Inc/Dec of Cash</b>	<b>1,591</b>	<b>-10</b>	<b>259</b>	<b>245</b>	<b>1,983</b>	
Add: Beginning Balance	926	2,517	2,507	2,767	3,012	
<b>Closing Balance</b>	<b>2,517</b>	<b>2,507</b>	<b>2,766</b>	<b>3,012</b>	<b>4,995</b>	

**N O T E S**



For more copies or other information, contact

**Institutional:** Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motiloswal.com

**Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021**

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**Disclosure of Interest Statement**

**Cadila Healthcare**

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|---------------------------------------------------------|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
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