



Initiating Coverage
SECTOR: PHARMACEUTICALS

Cadila Healthcare



Growth Unfolding

Contents

	Page No.
Targeting to double revenues over the next four years	4
a) Rising exports – the key growth driver	4
b) Domestic business – growth to rebound	6
c) Joint ventures to tap specific opportunities	7
Contract manufacturing contribution unlikely to be significant	9
Nascent efforts in NCE research	9
No major capex expected beyond FY07	10
Not an aggressive bidder for generics assets	10
2HFY07 PAT to be lower than 1HFY07	11
Valuation and view	11
Annexure	14
Financial statements	16-19

Cadila Healthcare

STOCK INFO.	BLOOMBERG
BSE Sensex: 13,385	CDH IN
	REUTERS CODE
S&P CNX: 3,834	CADI.BO

21 December 2006

Buy

Initiating Coverage

Rs330

Y/E MARCH	2006	2007E	2008E	2009E
Sales (Rs m)	14,845	17,667	21,164	24,782
EBITDA (Rs m)	2,876	3,811	4,431	5,105
Adj. NP (Rs m)	1,633	2,315	2,778	3,344
EPS (Rs)	13.0	18.4	22.1	26.6
EPS Growth (%)	36.3	41.7	20.0	20.4
BV/Share (Rs)	55.6	72.4	89.7	110.4
P/E (x)	25.4	17.9	14.9	12.4
P/BV (x)	5.9	4.6	3.7	3.0
EV/EBITDA (x)	15.5	11.4	9.6	8.0
EV/Sales (x)	3.0	2.5	2.0	1.6
RoE (%)	23.7	28.8	27.3	26.6
RoCE (%)	20.2	23.4	23.2	23.2

KEY FINANCIALS

Shares Outstanding (m)	125.6
Market Cap (Rs b)	41.4
Market Cap (US\$ b)	0.9
Past 3 yrs. Sales Growth (%)	11.8
Past 3 yrs. NP Growth (%)	7.8
Dividend Payout (%)	41.5
Dividend Yield (%)	0.9

STOCK DATA

52-Week Range (H/L Rs)	400/231
Major Shareholders (as of September 2006)	(%)
Promoters	72.0
Domestic Institutions	14.7
FII/FDIs	4.7
Public	8.6
Average Daily Turnover	
Volume ('000 shares)	63.8
Value (Rs million)	32.8
1/6/12 Month Rel. Performance (%)	1/-15/-8
1/6/12 Month Abs. Performance (%)	1/21/35

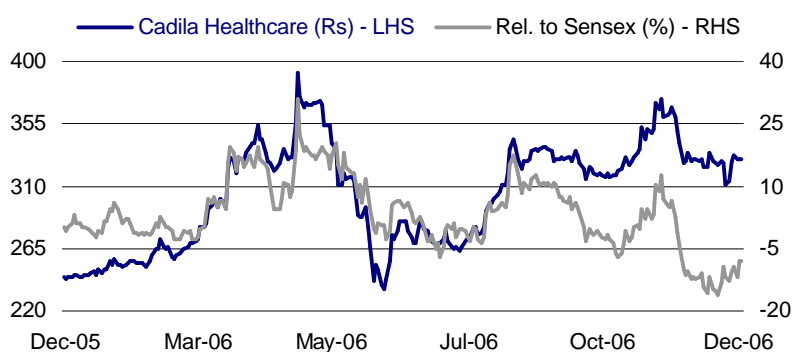
Targeting to double organic sales in next four years: Cadila aims to double sales in the next four years, led by ramp-up in international business and steady double-digit growth in its domestic business. International operations have reached an inflexion point, where most of its business initiatives should start contributing to overall growth. We expect Cadila's exports to record 34% CAGR over FY06-09.

De-risked operations: Less focus on patent challenges coupled with initiatives through the partnership route has de-risked Cadila's operations. However, early loss of IPR protection for Altana's Pantoprazole remains the key risk and could impact our estimates significantly, as intermediate supplies for Pantoprazole will account for 24% of FY07 PAT.

Expect 27% PAT CAGR over FY06-09: We expect 27% PAT CAGR over FY06-09, led by 19% sales CAGR, gradual expansion of EBITDA margins and incremental benefits from fiscal incentives. We expect Cadila to maintain a consistent RoE of over 25% for the next three years.

Upside of 21%; Buy: Cadila is currently valued at 18x FY07E and 15x FY08E consolidated earnings. Traction in international operations and steady contribution from Altana JV are likely to be key triggers over the next two years. This coupled with a de-risked business model should ensure good long-term potential. We initiate coverage on the stock with a **Buy** recommendation and a price target of Rs400 (18x FY08E earnings).

STOCK PERFORMANCE (1 YEAR)



Targeting to double revenues over the next four years

Cadila is targeting revenues of US\$1b by FY11 (FY07 revenues estimated at US\$420m), of which, about US\$800m will come from organic initiatives and the remaining 20% from inorganic initiatives. This implies doubling of revenues over the next four years – a 19% CAGR. Key drivers for this growth will be:

- a) **Exports:** Targeted to grow from US\$115m in FY07 to US\$370m (34% CAGR), led mainly by the US, French and non-regulated markets. New launches coupled with increasing penetration are likely to be the key drivers of this growth.
- b) **Domestic operations:** Likely to grow from US\$284m in FY07 to US\$430m (11% CAGR), led by new launches, increased market share and better healthcare awareness amongst the masses.
- c) **Joint ventures:** Cadila's key joint ventures – with Hospira and Bharat Serums – are also likely to contribute incrementally to overall revenues (albeit from FY09 onwards). Revenue contribution from Altana JV is expected to be stable at Rs700m per year, assuming Pantoprazole patent expiry post 2009.

a) Rising exports – the key growth driver

We expect Cadila's exports to grow from US\$115m in FY07 to US\$204m in FY09, led mainly by the US, French and non-regulated markets. New launches coupled with increasing penetration are likely to be the key growth propellants.

New launches would drive growth in the US market...

Cadila initiated filings for the US generic markets in the year 2003 and has filed 45 DMFs and 41 ANDAs with the US FDA till date. It has received 18 ANDA approvals (including tentative approvals) and has launched 7 products in the US market. Most of the company's products are backward integrated into APIs; this is likely to enhance its sustainability in the intensely competitive generics markets. The company plans to file about 15 ANDAs on annualized basis for the next few years. We believe that Cadila's nascent US business is likely to grow significantly (albeit on a lower base) over the next few years, as its generics pipeline gets commercialized. Refer annexure for key products in Cadila's generic pipeline.

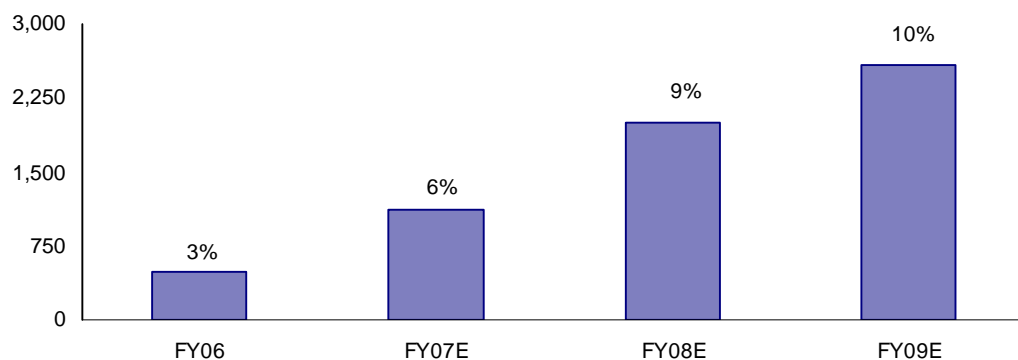
...where Cadila has adopted a relatively risk-free strategy...

Being a late entrant, Cadila has adopted a de-risked strategy for the US generics market. It is not excessively focused on patent challenges (in fact, most of its current filings are Para-III filings), thus ensuring that litigation costs are almost negligible. Secondly, it has adopted a mix of partnership and self-distribution models to sell its products. It has entered into a tie-up with Mallinckrodt for distribution of some of its products. Mallinckrodt is a unit of Tyco Healthcare and ranks amongst the top ten generic players in the US.

...and has taken a pragmatic approach to new launches

Cadila has taken a very pragmatic approach to new launches in the US. Despite having final US FDA approvals for products like Clindamycin, Metformin XR and Zonisamide, it did not launch them due to the intense competition for these products. We believe that the company is launching only those products where either it is in the first wave of launches or where it enjoys a competitive advantage. We believe that this is a better option to launching products where no meaningful revenues are generated.

CADILA – US SALES (RS M) & % OF TOTAL SALES



Source: Company/Motilal Oswal Securities

French operations are likely to turn around in 2HFY08...

Cadila acquired Alparma's loss-making French business, consisting of a combination of generics and branded OTC and mature products in 2003 for €5.5m. It later sold the branded business to Aerocid for €7m and has entered into a distribution agreement with Evolupharm. Cadila will transfer products to Evolupharm at a certain price (including profit margin) and the latter will sell the products in France. The resultant fixed cost reduction has made Cadila's French operations, which reported a loss of Rs270m for the year ended December 2005, more viable. As the new distribution arrangement is likely to come into force from 1 January 2007, the full impact of this arrangement will be visible from FY08. Also, new launches would result in higher revenues. The Cadila management has guided a turnaround in the French operations in 2HFY08.

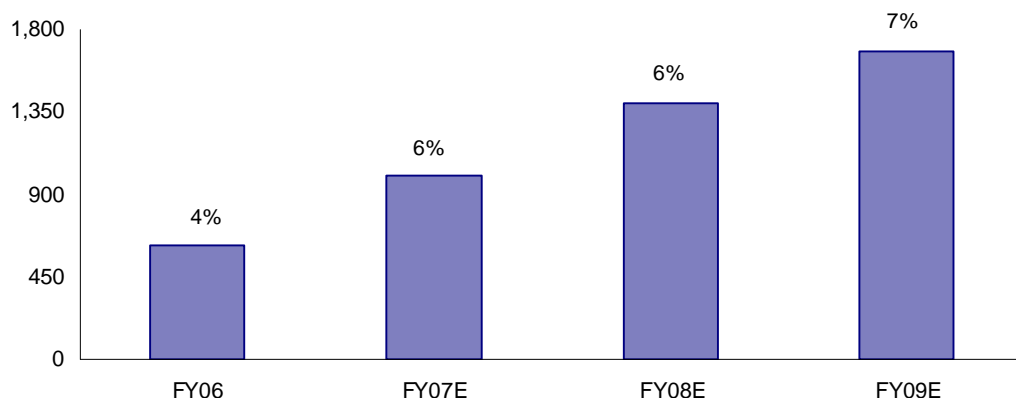
...aided by gradual site transfer to India...

Cadila is in the process of transferring manufacturing of products for the French market to India through the site transfer mechanism. It has applied for 12 site transfers of which three have been approved till date. It plans to file a total of 28 site transfers. While we believe that such site transfers will have a positive impact on the profitability of Cadila's French business, longer approval times could delay the benefits of margin expansion. Site transfer approvals from the French regulatory authorities are taking longer than expected. The first site transfer took almost 15 months to come through. Hence, the margin expansion due to site transfer is likely to be very gradual.

...and higher sales, driven by rising market share, new launches

Cadila plans to significantly strengthen its product pipeline for the French generic market with about 30 new launches lined up for the next few years. It has already filed 13 dossiers and plans to file 15 more in 2007. We believe that new launches and increase in market share (current market share of 1.5%) will be the main top-line drivers for the French business. Evolupharm's network of 2,250 pharmacies will also help Cadila gain higher market share for its products.

FRANCE SALES (RS M) & % OF TOTAL SALES



Source: Company/Motilal Oswal Securities

No major initiatives for the remaining EU markets

Cadila is currently in the process of strengthening its presence in the US and the French generics markets. It is yet to take any significant initiatives for establishing its presence in other markets in Europe (mainly Germany, UK, Italy, Spain, etc). We do not expect any major contribution from these markets in the foreseeable future.

b) Domestic business – growth to rebound

The domestic pharmaceutical market is showing increased traction, led by higher volume growth of about 12% and positive price contribution of about 2% (first time in last five years). The industry has recorded 17% MAT growth for September 2006, with Cadila recording about 10% growth in the same period. Cadila's growth has been impacted due to the field force and product restructuring that it is currently implementing.

Generally, Cadila's domestic business has outperformed the average industry growth and we expect this trend to continue as soon as the temporary decline (due to restructuring) is arrested. Increasing penetration has also helped the market to record higher growth. Cadila is one of the leading players in the domestic market and is likely to benefit from the higher growth in the domestic market.

DOMESTIC SALES (RS M)

	FY06	FY07E	FY08E	FY09E
Formulations	9,793	10,772	12,173	13,755
Change (%)	15.4	10.0	13.0	13.0
APIs	451	451	496	545
Change (%)	-9.7	-	10.0	10.0
Consumer & Others	1,114	1,560	1,817	2,117
Change (%)	23.1	40.0	16.5	16.5
Total Domestic Sales	11,358	12,783	14,485	16,417
Change (%)		12.5	13.3	13.3

Source: Company/Motilal Oswal Securities

Acquisition of Recon Healthcare (2000-01), German Remedies (2001-02) and Aten Brand (2001-02) has given Cadila a strong presence in the female healthcare, cardiovascular, respiratory and oncology segments, which are high-growth therapeutic areas.

c) Joint ventures to tap specific opportunities

Cadila has resorted to joint ventures to tap specific opportunities. It has entered into partnerships with companies like Altana, Mayne and Bharat Serums:

1. Zydus Altana Healthcare – for supplying Pantoprazole intermediates to Altana
2. Zydus Mayne Oncology – for supplying 8 oncology products to Mayne
3. Bharat Serum JV – for marketing and distribution of an oncology NDDS

1. Altana JV – steady supplies but patent challenges raise uncertainties

Cadila has entered into a joint venture (JV) with Altana AG (Germany) for supply of Pantoprazole intermediates (anti-ulcer product) to the latter from India. Due to the patent protection enjoyed by Pantoprazole and the significant size of the product (€2.7b), the JV also enjoys good margins on supply of intermediates. These supplies contribute significantly to Cadila's consolidated bottomline. The table below indicates the contribution of the JV to Cadila's overall performance:

CONTRIBUTION OF PANTOPRAZOLE (RS M)- CADILA'S SHARE

	FY05	FY06	FY07E	FY08E	FY09E
Sales	648	653	700	700	700
PAT	571	460	550	550	550
% of total PAT	48.5	30.0	23.8	19.8	16.4
PAT Margin (%)	88.1	70.4	78.6	78.6	78.6

Source: Company/ Motilal Oswal Securities

Protonix patent challenge raises uncertainty on Cadila's Pantoprazole supplies:

Pantoprazole is sold as *Protonix* in the US market and as *Pantozol* in some of the European markets. Various generics companies (Teva, Sun Pharma, etc) have challenged Altana AG's patents on Pantoprazole. The US FDA Orange Book lists two patents in connection with *Protonix* tablets. The first covers Pantoprazole and expires in July 2010. The other listed patent is a formulation patent and expires in December 2016. Although the patent on the product does not expire before 2010, the patent challenge raises uncertainty on Cadila's supplies of Pantoprazole intermediates (through the JV with Altana) to its partner.

Teva's 30-month stay on Protonix patent challenge expires in August 2007: Teva is one of the patent challengers on the Protonix patents. Altana and Wyeth (Altana's marketing partner in the US) have sued Teva. While the district court is yet to set a trial date, Teva's 30-month stay period expires in August 2007. It has already received tentative approval from the US FDA and is likely to receive final approval post expiry of the 30-month stay period making it eligible for launch-at-risk. Loss of patent protection for Pantoprazole remains the biggest risk to our estimates for the next two years, as the Altana JV is likely to contribute about 25-30% of consolidated profits.

Sale of Altana's pharmaceutical business will not impact Cadila

Altana AG has recently decided to divest its pharmaceutical business to Nycomed Holdings. Altana has indicated that patent expiry for Pantoprazole (2009 in EU and 2010 in USA), increasing R&D costs, stricter requirements by the regulatory authorities, and growing competition from generics as the main reasons for the divestment. We do not expect any adverse impact on Cadila's supplies for Pantoprazole as the company has indicated that the original agreement with Altana will still hold good and that the supplies will now be for Nycomed.

2. Mayne JV to start contributing from FY09...

Cadila has entered into a joint venture with Mayne (Australia) for supplying 8 oncology products to the latter. Currently, the JV is in the process of setting up the manufacturing facility with product filings expected in FY08. Most of the products will involve a site transfer from the current source to the JV and hence product approvals are likely to come through starting FY09 onwards. Supplies will be made for Mayne's global requirements including the regulated markets. Cadila's partner (Mayne) will be filing the ANDAs for these products to be sourced from the JV's Indian facilities.

...but Hospira's takeover of Mayne raises uncertainty

Hospira Inc (USA) has recently made an open offer for taking over Mayne Pharma. The Board of Directors of Mayne has recommended acceptance of Hospira's offer. Hospira, Inc is a global specialty pharmaceutical and medication delivery company. It is a leader in the development, manufacture and marketing of specialty injectable pharmaceuticals and medication delivery systems that deliver drugs and intravenous fluids. It is also a leading provider of contract manufacturing services to pharmaceutical and biotechnology companies for formulation development, and filling and finishing of injectable pharmaceuticals. The takeover raises the following uncertainties:

- ✍ Uncertainty related to Cadila-Mayne JV – Cadila's management has indicated that this arrangement will not be impacted, as Hospira is likely to continue with the JV.
- ✍ Uncertainty related to upside from supplies to Hospira – On one hand, the combined reach of Hospira and Mayne should augur well for the JV, while on the other, we note that Hospira already has an existing tie-up with Dabur Pharma for about 15 oncology products for the US market.

3. Bharat Serum JV to contribute only in the long-term

Cadila has entered into a 50:50 JV with Bharat Serums & Vaccines (BSV) for developing and marketing an anti-cancer NDDS (name not disclosed). We believe that the companies are targeting to develop a long-lasting version of an existing cancer drug through the depot technology. Existing market size for this drug in the US and EU together is about US\$250m. Clinical trials for the development and testing of this NDDS have been initiated. We expect supplies to non-regulated markets to commence from FY08. Contribution from regulated markets will be visible only in the long-term since the company is likely to file this product as a 505(b)(2) application with the US FDA. We note that, if successful, this NDDS is likely to enjoy IPR protection in the regulated markets, implying that margins on this product could be significantly higher as compared to normal generics.

INTERNATIONAL FORMULATIONS (RS M)

	FY06	FY07E	FY08E	FY09E
US Business	500	1,125	2,003	2,580
<i>Growth (%)</i>		125.0	78.0	28.8
France Business	623	1,000	1,400	1,680
<i>Growth (%)</i>	77.7	60.5	40.0	20.0
Hospira JV (Cadila's Share)				430
Emerging Markets	853	1,000	1,250	1,500
<i>Growth (%)</i>	49.1	17.2	25.0	20.0
Total International Formulations	1,976	3,125	4,653	6,190
<i>Growth (%)</i>	114.2	58.1	48.9	33.0

Source: Company/Motilal Oswal Securities

Contract manufacturing contribution unlikely to be significant

Cadila has entered into various contracts with innovator pharmaceutical companies for CCS and commercial supplies. It has also entered into contract manufacturing arrangements with some of the generics companies for supply of commercial quantities. The management has indicated that it currently has a pipeline of 17 contracts with peak revenues of about US\$25m. We believe that this is likely to be achieved by FY10, implying that the contribution from this initiative is unlikely to be significant in the short-to-medium term. We also believe that the peak revenue of US\$25m is contingent on successful commercialization of some of the products which, currently are undergoing clinical development.

Nascent efforts in NCE research

Cadila has four NCEs under development, of which three are undergoing clinical development. Cadila's NCE efforts are mainly focused on Metabolic Disorders (Diabetes, Obesity, and Dyslipidemia), Inflammation and Pain (Rheumatoid Arthritis, Pain Management) and Bacterial Infections. The company employs about 250 scientists for conducting NCE research and targets at least one IND filing every year. We believe that Cadila's NCE efforts are still at a nascent stage and hence have not attached any valuation to the company's R&D. The table below gives the current status of Cadila's NCEs.

NCE RESEARCH

MOLECULE	THERAPEUTIC CATEGORY	CURRENT STATUS
ZYH1	Dyslipidemia	Currently undergoing Phase-II trials
ZYH2	Anti-diabetic	Currently undergoing Phase-I trials
ZYI1	Inflammation & pain management	Currently undergoing Phase-I trials
ZYO1	Obesity	Currently undergoing pre-clinical trials

Source: Company

No major capex expected beyond FY07

We believe that Cadila has already set up the requisite manufacturing infrastructure and that it will not have to invest significant funds for capacity enhancement beyond FY07. The company expects consolidated capex of Rs1.8b for FY07, which is likely to reduce to Rs1.2b/year from FY08 onwards.

CADILA- MANUFACTURING INFRASTRUCTURE

TYPE	DETAIL	CERTIFICATION
Formulations		
Moraiya (Ahmedabad)	Tabs, Capsules, Metered Dose Inhalers, Dry Powder Inhalers, Injectibles, Lyophilised Vials, Transdermal Patches and Vaccines	USFDA (for tabs), MHRA, ANVISA, AFSSAPS, BFAD, MCC
Baddi (HP)	Tabs & Caps	GMP
Goa	Orals, Injectibles and suppositories	GMP
Bulk Drugs & Fine Chemicals		
Ankleshwar (Gujarat)-API	Multi-purpose	USFDA
Vadodara (Gujarat)-API	Partially dedicated	USFDA
Patalganga (Maharashtra)-API	Multi-purpose	GMP
Ahmedabad (Gujarat)-Fine Chem	Fully dedicated	
Contract Manufacturing		
Mayne JV	Fully dedicated	Under construction
New Mumbai - Altana JV	Dedicated Facility	GMP
- Pantoprazole Intermediates		

Source: Company

Not an aggressive bidder for generics assets

Cadila has adopted a conservative approach towards its inorganic initiatives in the global generics markets. The management is not in favour of acquiring generics assets with extended paybacks. Hence, although it has participated in the bidding process for some of the generics assets in the last one year, it has not acquired any of these assets. We believe that this is a part of the management's de-risked strategy for the generic markets. However, the company has indicated that about 20% of its targeted US\$1b revenue (by FY11) is likely to come through its inorganic initiatives. Key markets where the company could look at acquisitions include Spain and Italy, as the company currently does not have any presence in these markets.

2HFY07 PAT to be lower than 1HFY07

Cadila recorded 45% PAT growth in 1HFY07 led by higher supplies to Altana (it has already shipped 60-65% of annual supplies) and tighter control over expenses. We believe that the 1HFY07 performance is unlikely to be sustained in the 2HFY07 due to:

1. Lower supplies to Altana as Cadila has already shipped 60-65% of its annual target in 1HFY07. These are high-margin supplies with NPM of about 70-80%.
2. Higher R&D costs in 2HFY07 as the company will be filing about 10 ANDAs (compared to five in 1HFY07) and increased expenses on the company's NCE research programme.
3. Higher tax rate for 2HFY07 - We expect an effective tax rate of 15% for FY07 while the company has provided tax at about 11.5% for 1HFY07.

Hence we believe that Cadila's 2HFY07 performance will be muted (compared to 1HFY07).

CADILA - REVENUE MODEL (CONSOLIDATED)

(RS MILLION)

	FY05	FY06	FY07E	FY08E	FY09E
Formulations	8,487	9,793	10,772	12,173	13,755
Change (%)	-	15.4	10.0	13.0	13.0
% of Sales	66.6	64.9	59.9	56.7	54.6
APIs	499	451	451	496	545
Change (%)	-	-9.7	0.0	10.0	10.0
% of Sales	3.9	3.0	2.5	2.3	2.2
Consumer & Others	905	1,114	1,560	1,817	2,117
Change (%)	-	23.1	40.0	16.5	16.5
% of Sales	7.1	7.4	8.7	8.5	8.4
Total Domestic Sales	9,891	11,358	12,783	14,485	16,417
Formulations	923	1,976	3,125	4,653	6,190
Change (%)	-	114.2	58.1	48.9	33.0
% of Sales	7.2	13.1	17.3	21.5	24.4
APIs	1,930	1,744	2,173	2,467	2,733
Change (%)	-	-9.6	24.6	13.6	10.7
% of Sales	15.1	11.6	12.0	11.4	10.8
Total International Sales	2,853	3,720	5,298	7,120	8,923
Total Gross Sales	12,744	15,078	18,081	21,605	25,339
Change (%)	-	18.3	19.9	19.5	17.3

Source: Motilal Oswal Securities

Valuation and view

We believe that Cadila has reached the inflexion point from where all of its major business initiatives will record significant growth:

- ✎ International business is likely to grow significantly, as Cadila's generic pipeline gets commercialized. The restructuring of French operations is also likely to aid overall export growth.
- ✎ With the distribution and portfolio restructuring for the domestic operations completed, Cadila is likely to revert back to its normal double-digit growth in the domestic market.

Expect 19% sales CAGR...

We expect Cadila's topline to record 19% CAGR over FY06-09, led mainly by a 46% CAGR in the international formulations business. This division is likely to contribute about 25% of sales by FY09 as compared to 13% for FY06. The US and French operations are likely to be the major contributors to this growth. Overall exports, are likely to account for about 35% of sales by FY09, as compared to 28% for FY06. Domestic operations are likely to record 13% CAGR over FY06-09.

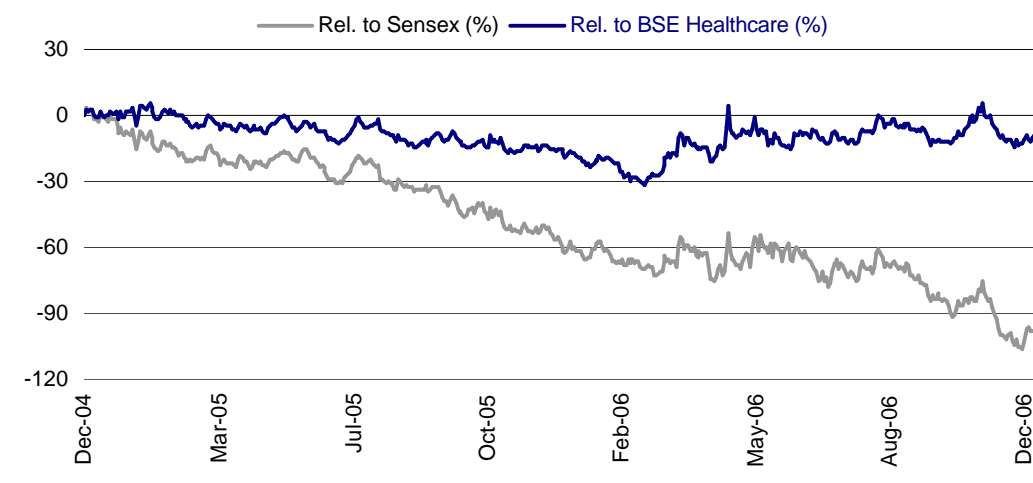
...resulting in 27% PAT CAGR over FY06-09

We expect steady contribution from domestic operations and Altana JV as well as higher export growth over the next few years. This is likely to result in a 27% bottomline CAGR for FY06-09. Fiscal benefits arising out of operations in tax-exempt zones (enjoying excise duty and income tax exemption) are also likely to aid bottomline growth. We expect Cadila to maintain a consistent higher RoE (>25%) for the next three years since we do not expect any significant capex post FY07.

Stock has underperformed the market significantly in the last two years

Cadila's stock price has underperformed the Sensex since December 2004. We believe that the underperformance will be gradually corrected as Cadila's initiatives in the regulated markets start bearing fruits. Successful execution of export initiatives and the joint ventures are likely to be critical determinants of Cadila's future success (and its stock price). Sustainability of supplies to Altana will also be critical and any adverse outcome in the Pantoprazole litigation (for Altana) is likely to impact Cadila's valuations.

CADILA V/S BSE SENSEX (RELATIVE)

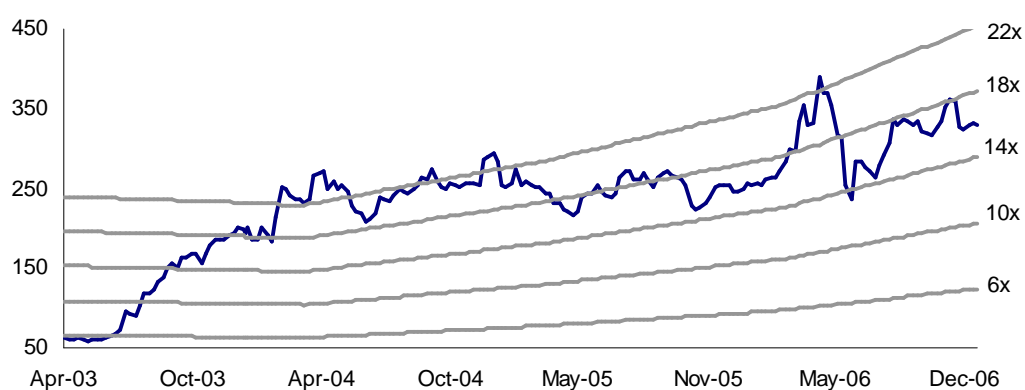


Source: Motilal Oswal Securities

Upside of 21%; we recommend Buy

Cadila is currently valued at 18x FY07E and 15x FY08E consolidated earnings. Traction in international operations coupled with steady contribution from Altana JV are likely to be key triggers over the next two years. This, coupled with a de-risked business model should ensure good long-term potential. We initiate coverage on the stock with **Buy** recommendation with a price target of Rs400 (18x FY08E earnings).

CADILA P/E BANDS



Source: Motilal Oswal Securities

COMPARATIVE VALUATIONS

		CADILA	NPIL	SUN PHARMA
P/E (x)	FY07E	17.9	25.2	29.6
	FY08E	14.9	18.9	23.8
P/BV (x)	FY07E	4.6	5.1	9.3
	FY08E	3.7	4.5	6.9
EV/Sales (x)	FY07E	2.5	2.5	8.7
	FY08E	2.0	2.2	6.9
EV/EBITDA (x)	FY07E	11.4	16.1	27.5
	FY08E	9.6	12.8	20.9

Source: Motilal Oswal Securities

Annexure

CADILA - DMF PIPELINE

GENERIC NAME	DMF FILING DATE
Anagrelide Hydrochloride	30-Mar-03
Paroxetine Hydrochloride Hemihydrate	27-Jun-03
Loratidine	18-Nov-03
Gatifloxacin Anhydrous	3-Dec-03
Gatifloxacin Sesquihydrate	12-Jan-04
Tramadol Hydrochloride	17-Feb-04
Paroxetine Hydrochloride, Anhydrous	2-Apr-04
Meloxicam	5-May-04
Terazosin Hydrochloride Anhydrous	16-Aug-04
Tamsulosin Hydrochloride	17-Sep-04
Fluvastatin Sodium	7-Dec-04
Carvedilol	29-Dec-04
Carvedilol	29-Dec-04
Sertraline HCl	3-Feb-05
Risperidone	9-Feb-05
Lamotrigine	17-Feb-05
Levofloxacin	23-Feb-05
Escitalopram Oxalate	25-Feb-05
Losartan Potassium	4-Mar-05
Zonisamide	25-Mar-05
Simvastatin	31-Mar-05
Venlafaxine Hydrochloride	28-Mar-05
Rabeprazole Sodium	31-Mar-05
Omeprazole	11-Jul-05
Famotidine	19-Jul-05
Topiramate	25-Aug-05
Loratidine	25-Aug-05
Atorvastatin Protected Diol	30-Sep-05
Amlodipine Besilate	30-Sep-05
Candesartan Cilexetil	3-Oct-05
Ziprasidone Hydrochloride Anhydrous	11-Nov-05
Olanzapine	10-Feb-06
Zolpidem Tartrate	3-Mar-06
Glyburide	10-Mar-06
Bupropion Hydrochloride	28-Mar-06
Duloxetine Hydrochloride	25-Jul-06
Metoprolol Succinate	13-Sep-06

Source: US FDA

CADILA - ANDA PIPELINE

GENERIC NAME	THERAPEUTIC SEGMENT	DMF FILING DATE	APPROVAL/ LAUNCH DATE	PATENT EXPIRY STATUS	INNOVATOR DRUG BRAND	BRANDED SALES IN USA (US\$M)	PATENT HOLDER	OTHER GENERIC FILINGS
Atenolol 25, 50 & 100mg tablets	CVS	DMF outsourced	Launched	Expired	Tenormin	Already generic	Astra Zeneca	Many generics
Clindamycin HCl, 75, 150 & 300mg capsules	Anti-infective	DMF outsourced	Yet to launch	Expired	Cleocin	Already generic	Pfizer	Many generics
Meloxicam 7.5, 15mg tablets	Pain management	5-May-04	Launched immediately with first wave of launches	Expired	Mobic	1260	Boehringer Ingelheim	Many generics
Metformin HCl XR 500, 750mg tablets	Anti-diabetic	DMF outsourced	Yet to launch	Expired	Glucophage XR	Already generic	BMS	Many generics
Metformin HCl 500, 800, 1000mg tablets	Anti-diabetic	DMF outsourced	Launched	Expired	Glucophage	Already generic	BMS	Many generics
Promethazine HCl 12.5, 25, 50mg tablets		DMF outsourced	Launched	Expired	Phenergan	Already generic	Wyeth	Many generics
Ribavirin 200mg tablets & capsules		DMF outsourced	Launched	Expired	Rebetol/ Copegus	Already generic	Schering/ Roche	Only 4 generics
Warfarin Sodium tablets		DMF outsourced	US FDA approval received on 30-May-06. Launched in Jul-06	Expired	Coumadin	210	BMS	Many generics
Zonisamide 25, 50 & 100mg capsules	Anti-epileptic	25-Mar-05	Yet to launch	Expired	Zonegran	178	Dainippon	Many generics
Simvastatin tablets all dosages	Cholestrol, CVS	31-Mar-05	Received tentative approval on 07-Nov-06. Will launch on 20-Dec-06 as normal generic post expiry of 180-day exclusivity	180-day exclusivity expires on 20-Dec-06	Zocor	4500	Merck	Many generics expected
Pravastatin Sodium tablets all dosages	Cholestrol, CVS	DMF outsourced	Received tentative approval on 14-Jun-06. US FDA has asked for some more information which has delayed the final approval	Expired	Pravachol	1800	BMS	7 players in the market post expiry of Teva's exclusivity
Levofloxacin 250, 500 & 750mg tablets	Anti-infective	23-Feb-05	US FDA approval received on 23-Apr-06. Will launch post patent expiry	2010	Levaquin	1200	Ortho Mcneil Pharma (J&J)	No as yet generics
Carvedilol 3.125, 6.25, 12.5 & 25mg tablets	CVS	29-Dec-04	Received tentative approval on 12-Mar-06.	Sep-07,	Coreg	1240	GSK	No generics as yet
Sertraline HCl 25, 50 & 100mg tablets	CNS	3-Feb-05	Received tentative approval on 28-Feb-06. Will launch on patent expiry & after 180-day exclusivity (i.e. on 27-Dec-06)	180-day exclusivity expires on 27-Dec-06	Zoloft	3200	Pfizer	Many generics expected

Note: Above list includes only disclosed ANDAs

Source: US FDA/Company/Motilal Oswal Securities

INCOME STATEMENT (CONSOLIDATED)						(RS MILLION)
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Net Sales	12,779	14,845	17,667	21,164	24,782	
<i>Change (%)</i>	4.3	16.2	19.0	19.8	17.1	
Total Expenditure	10,350	11,969	13,856	16,733	19,678	
EBITDA	2,429	2,876	3,811	4,431	5,105	
<i>Margin (%)</i>	19.0	19.4	21.6	20.9	20.6	
Depreciation	718	779	869	929	989	
EBIT	1,711	2,097	2,942	3,502	4,116	
Int. and Finance Charges	245	251	312	429	487	
Other Income - Rec.	29	36	62	121	215	
PBT before EO Expense	1,495	1,882	2,692	3,194	3,844	
Extra Ordinary Expense/(Income)	125	115	0	0	0	
PBT after EO Expense	1,370	1,767	2,692	3,194	3,844	
Current Tax	86	146	215	255	308	
Deferred Tax	106	87	161	160	192	
Tax	192	233	377	415	500	
<i>Tax Rate (%)</i>	14.0	13.2	14.0	13.0	13.0	
Reported PAT	1,178	1,534	2,315	2,778	3,344	
Less: Mionrity Interest	-20	1	0	0	0	
Net Profit	1,198	1,523	2,315	2,778	3,344	
PAT Adj for EO Items	1,306	1,633	2,315	2,778	3,344	

E: MOST Estimates

BALANCE SHEET (CONSOLIDATED)		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Equity Share Capital	314	314	628	628	628	
Total Reserves	5,619	6,675	8,467	10,634	13,237	
Net Worth	5,933	6,989	9,095	11,262	13,865	
Minority Interest	0	7	0	0	0	
Deferred liabilities	1010	1097	1258	1418	1610	
Total Loans	3,834	4,432	5,207	5,721	6,487	
Capital Employed	10,777	12,525	15,561	18,401	21,963	
Gross Block	11,158	12,086	13,886	15,086	16,286	
Less: Accum. Deprn.	3,677	4,393	5,262	6,191	7,180	
Net Fixed Assets	7,481	7,693	8,624	8,895	9,106	
Capital WIP	425	636	0	0	0	
Investments	467	714	2,597	4,082	6,286	
Curr. Assets	4,992	6,491	7,840	9,616	11,514	
Inventory	2,221	2,475	2,929	3,516	4,121	
Account Receivables	1,235	1,990	2,412	3,102	3,878	
Cash and Bank Balance	612	438	603	724	848	
Loans & Advances	924	1,588	1,895	2,275	2,666	
Curr. Liability & Prov.	2,666	3,009	3,500	4,193	4,942	
Account Payables	2,060	2,404	2,757	3,309	3,878	
Provisions	606	605	743	884	1,064	
Net Current Assets	2,326	3,482	4,340	5,424	6,571	
Misc Expenditure	78	0	0	0	0	
Appl. of Funds	10,777	12,525	15,561	18,401	21,963	

E: MOST Estimates

RATIOS (CONSOLIDATED)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	9.5	13.0	18.4	22.1	26.6
Cash EPS	15.3	18.3	25.3	29.5	34.5
BV/Share	46.6	55.6	72.4	89.7	110.4
DPS	3.0	3.0	4.2	4.9	5.9
Payout (%)	41.5	31.5	22.6	22.0	22.2
Valuation (x)					
P/E		25.4	17.9	14.9	12.4
Cash P/E		18.0	13.0	11.2	9.6
P/BV		5.9	4.6	3.7	3.0
EV/Sales		3.0	2.5	2.0	1.6
EV/EBITDA		15.5	11.4	9.6	8.0
Dividend Yield (%)		0.9	1.3	1.5	1.8
Return Ratios (%)					
RoE	21.7	23.7	28.8	27.3	26.6
RoCE	18.1	20.2	23.4	23.2	23.2
Working Capital Ratios					
Debtor (Days)	34	47	48	51	55
Creditor (Days)	155	154	162	162	160
Inventory (Days)	63	61	61	61	61
Working Capital Turnover (Days)	49	75	77	81	84
Leverage Ratio (x)					
Current Ratio	1.9	2.2	2.2	2.3	2.3
Debt/Equity	0.7	0.6	0.6	0.5	0.5

E: MOST Estimates; Ratios adjusted for bonus issue

CASH FLOW STATEMENT (CONSOLIDATED)						(RS MILLION)
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Oper. Profit/(Loss) before Tax	2,429	2,876	3,811	4,431	5,105	
Interest/Dividends Recd.	29	36	62	121	215	
Direct Taxes Paid	-86	-146	-215	-255	-308	
(Inc)/Dec in WC	181	-1,330	-693	-963	-1,023	
CF from Operations	2,553	1,436	2,965	3,333	3,989	
EO Expense / (Income)	125	115	0	0	0	
CF from Operating incl EO Expense	2,428	1,321	2,965	3,333	3,989	
(inc)/dec in FA	-881	-1,202	-1,164	-1,200	-1,200	
(Pur)/Sale of Investments	12	-247	-1,883	-1,486	-2,203	
CF from Investments	-869	-1,449	-3,047	-2,686	-3,403	
Issue of Shares	0	0	0	0	0	
(Inc)/Dec in Debt	-542	605	768	513	767	
Interest Paid	-245	-251	-312	-429	-487	
Dividend Paid	-489	-483	-523	-611	-741	
Others	-113	83	314	0	0	
CF from Fin. Activity	-1,390	-46	247	-527	-461	
Inc/Dec of Cash	170	-174	165	121	125	
Add: Beginning Balance	442	612	438	603	724	
Closing Balance	612	438	603	724	848	

E: MOST Estimates

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	Cadila Healthcare
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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