

Sector: Pharmaceuticals

Target Price	Rs828
Market cap	Rs49.1 bn/US\$1,093.9 mn
52-week range	Rs800/428
Shares in issue (mn)	62.8
6-mon avg daily vol (no of shares)	62,492
6-mon avg daily vol (mn)	Rs48.8/US\$1.1
Bloomberg	CDH IN
Reuters	CADI.BO
BSE Sensex	12043
Website	www.zyduscadila.com

Shareholding Pattern (%)

Promoters	72.0
FII's	7.9
MFs/FIs/Banks	3.9
Others	7.8

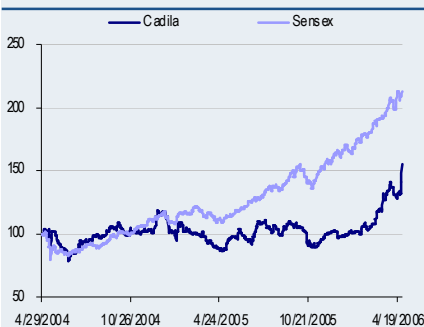
(As of 31 March 2006)

Price Performance (%)

	1M	3M	12M
Absolute	15.7	53.2	80.1
Relative*	9.0	31.1	(15.6)

*To the BSE Sensex

Relative Performance



(As of 29 April 2006)

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Generics and CM to drive growth

Cadila reported 296% growth in adjusted profits (consolidated) at Rs332 mn in 4Q FY06, significantly better than our expectation of Rs216 mn. Reduced losses of three subsidiaries at Rs40 mn from Rs138 mn and better performance in domestic formulations primarily drove the growth in 4Q FY06. Sales growth of 44% at Rs3.5 bn is primarily driven by the generics business in US and France, which grew 294% YoY at Rs410 mn.

We have marginally upgraded our sales estimates for the coming two years and profits estimates by 6% for FY07E and FY08E respectively. Generics business (US/Europe) and contract manufacturing (CM) would drive top line and bottom line growth over the next two years. The management indicated that two large CM deals are already in the pipeline. The stock trades at a PE of 24x for FY07E and 18.2x for FY08E. We have raised our price target to Rs828 (14x FY08E EV/EBITDA) from earlier Rs775. We maintain our Buy rating on the stock.

Highlights

Generics, domestic formulations help post better profits

- Three subsidiaries (French, US and Ambalal Sarabhai) have collectively reduced losses to Rs40 mn during the quarter from Rs138 mn in 4Q FY06. This has positively contributed to the profits growth of 296% during the quarter. Further, 40% growth in domestic formulations business driven by the base effect has also helped post better profits during the quarter without much additional expenses.

Exhibit 1: Improving performance of subsidiaries

(Rs mn)

Subsidiary	4Q FY06 Profit/(Loss)	4Q FY05 Profit/(Loss)
Alpha ma, France	(83)	(108)
US subsidiary	40	(24)
Ambalal Sarabhai (50% share)	3	(6)

Source: Company data, ASK Raymond James.

Exhibit 2: Financial summary

(Rs mn)

Y/E March	2004	2005	2006AE	2007E	2008E
Net Sales	11,962	12,430	14,543	17,424	20,871
EBITDA	2,229	2,079	2,564	3,173	3,935
EBITDA (%)	18.6	16.7	17.6	18.2	18.9
Net Profit (adj)	1,393	1,285	1,629	2,047	2,690
EPS (Rs)	22.2	20.5	25.9	32.6	42.8
EPS Growth (%)	50.4	(7.7)	26.8	25.7	31.4
ROCE (%)	19.8	18.2	20.1	21.8	24.2
ROE (%)	28.0	22.7	25.3	26.8	28.8
PE (x)	35.3	38.2	30.1	24.0	18.2
Price/Book Value (x)	0.9	0.9	1.0	1.1	1.3
EV/EBITDA (x)	23.6	24.9	20.6	16.7	13.3

Source: Company data, ASK Raymond James. Note: Valuations as of 29 April 2006.

US generics to grow 200% to US\$30 mn in FY07E

- Cadila Healthcare posted US generics sales of Rs250 mn in 4Q FY06 and Rs500 mn in FY06 in the first year of sales. Currently, the company has five products in the market. The management has guided for six more product launches and US\$30 mn sales from the US market in FY07. US generics business has already become marginally profitable (without ANDAs cost) in the very first year of operations. This would significantly improve going forward with more product launches and rapidly expanding sales. As indicated earlier, the management aims to achieve US\$70-80 mn sales from US markets by FY08.

French business to scale up significantly

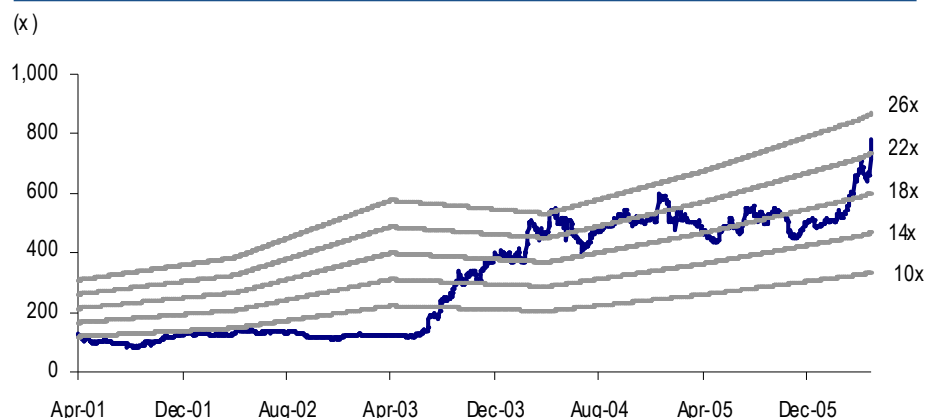
- Its French subsidiary reported 54% growth in sales at Rs160 mn in 4Q FY06 driven by the recent launch of simvastatin and omeprazole on day one in 2Q FY06. The company launched sertraline in France in 4Q FY06. Recently, Zydus France signed a deal with Evolupharm (second largest distributor) to sell its generics products in the French markets. This would significantly expand the reach from 700 pharmacies to more than 3000 pharmacies. From January 2007, complete marketing and distribution activities would be routed through Evolupharm, leading to significant reduction in SG&A cost. Zydus France would shift around 60% of its products to India for manufacturing in order to reduce cost. These initiatives would help Cadila Healthcare to turnaround its French subsidiary by FY08 from losses of Rs238 mn incurred in FY06.

Upgrading profits estimates by 6% for next 2 years

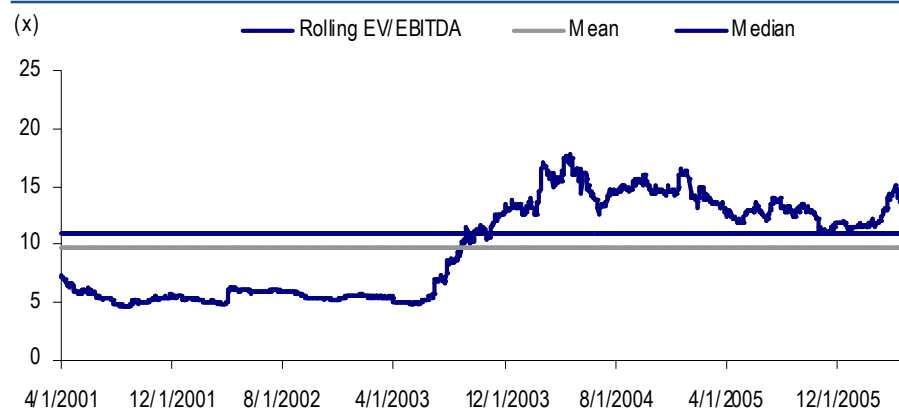
- Cadila Healthcare posted consolidated profits (adjusted) of Rs1.63 bn for FY06 against our expectation of Rs1.49 bn. We have marginally upgraded our sales estimates for FY07E and FY08E. However, we have upgraded our profits estimates by 6% for FY07E and FY08E, primarily to reflect improving performance of the US and French businesses as explained earlier.

Valuations to sustain

- The stock trades at a PE of 24x for FY07E and 18.2x for FY08E. Visibility of significant growth in profits over the next two years driven by generics and contract manufacturing coupled with improving outlook for APIs would sustain current valuations. Any positive development on its NCEs pipeline would help recognise the company's research capabilities, which is currently not factored in valuations. Also, signing of more contracts (two large deals in the pipeline) would enhance the company's long-term growth visibility. All these would eventually get reflected in valuations. We have raised our price target to Rs828 (14x FY08E EV/EBITDA) from earlier Rs775. We maintain our Buy rating on the stock.

Exhibit 3: PE band chart (1-year forward)

Source: Bloomberg, ASK Raymond James.

Exhibit 4: Rolling EV/ EBITDA chart

Source: Bloomberg, ASK Raymond James.

Exhibit 5: Quarterly financials**(Rs mn)**

Particulars	4Q FY06	4Q FY05	% chg	FY06	FY05	% chg
Gross sales	3,501	2,433	43.9	15,077	13,051	15.5
Excise	137	136	0.7	625	621	0.7
Net sales	3,364	2,297	46.5	14,452	12,430	16.3
EBITDA	555	160	246.9	2,472	2,079	18.9
EBITDA (%)	16.5	7.0		17.1	16.7	
Other Income	87	163	(46.6)	428	378	13.2
Interest	36	50	(28.0)	251	245	2.4
Depreciation	194	180	7.8	779	716	8.8
PBT	412	93	343.0	1,870	1,496	25.0
Tax	64	18	255.6	231	192	20.3
Adj on consolidation	(16)	20	(180.0)	(1)	20	(105.0)
PAT (Adj)	332	84	295.8	1,629	1,314	23.9
Extraordinary	(26)	(31)	(16.1)	(115)	(125)	(8.1)
PAT (reported)	306	64	378.1	1,523	1,199	27.0
EPS (Rs)	5.3	1.3	295.8	25.9	20.9	23.9

Source: Company data, ASK Raymond James.

Exhibit 6: Sales mix**(Rs mn)**

Particulars	4Q FY06	4Q FY05	% chg	FY06	FY05	% chg
Domestic	2,296	1,682	36.5	11,358	9,891	14.8
Formulations	1,978	1,414	39.9	9,792	8,487	15.4
APIs	77	95	(18.9)	452	499	(9.4)
OTC/Others	241	173	39.3	1,114	905	23.1
Exports	1,205	751	60.5	3,718	3,159	17.7
Formulations	654	270	142.2	1,976	979	101.8
APIs	551	481	14.6	1,742	2,180	(20.1)
Total	3,501	2,433	43.9	15,076	13,050	15.5

Source: Company data, ASK Raymond James.

Exhibit 7: Financials

Profit & Loss						(Rs mn)
Y/E March	FY04	FY05	FY06AE	FY07E	FY08E	
Net Sales	11,962	12,430	14,543	17,424	20,871	
CoGS	(6,711)	(6,794)	(8,027)	(9,233)	(10,854)	
SG&A	(2,407)	(2,821)	(3,158)	(3,755)	(4,517)	
R&D	(615)	(736)	(794)	(1,263)	(1,565)	
E BITDA	2,229	2,079	2,564	3,173	3,935	
EBITDA Margin (%)	18.6	16.7	17.6	18.2	18.9	
Depreciation	(712)	(716)	(779)	(891)	(960)	
Interest	(260)	(278)	(251)	(307)	(304)	
Other income	383	411	335	378	421	
Exceptional items gain/(loss)	(96)	(109)	(115)	-	-	
PBT	1,544	1,387	1,754	2,353	3,092	
Tax	(213)	(192)	(231)	(306)	(402)	
PAT (Reported)	1,331	1,215	1,523	2,047	2,690	
PAT (Adj)	1,393	1,285	1,629	2,047	2,690	
EPS (Rs)	22.2	20.5	25.9	32.6	42.8	

Source: Company data, ASK Raymond James.

Balance sheet						(Rs mn)
Y/E March	FY04	FY05	FY06E	FY07E	FY08E	
Equity Capital	314	314	314	314	314	
Reserves and Surplus	5,050	5,620	6,613	8,042	10,025	
Total Debt	4,376	3,833	4,376	4,754	4,636	
Deffered Tax Asset/Liability	972	1,010	1,090	1,190	1,290	
Sources of Funds	10,712	10,777	12,393	14,300	16,265	
Fixed asset						
Gross Block	10,063	11,158	12,308	13,533	14,758	
Net Block	7,328	7,481	7,852	8,186	8,451	
WIP	415	425	250	250	250	
Investments	479	467	967	1,367	1,367	
Current Assets						
Debtors	2,012	1,235	2,528	3,285	3,924	
Inventories	1,768	2,221	2,564	3,078	3,769	
Loans and Advances	647	924	970	1,019	1,070	
Cash	442	612	265	398	1,060	
Liabilities & Provisions						
Creditors	1,715	1,861	2,118	2,308	2,563	
Other liabilities & provisions	817	805	848	937	1,027	
Misc Expenses	153	78	(37)	(37)	(37)	
Application of Funds	10,712	10,777	12,393	14,300	16,265	

Source: Company data, ASK-Raymond James.

Cash flow statement		(Rs mn)			
Y/E March	FY04	FY05	FY06E	FY07E	FY08E
Operations Profits	2,229	2,079	2,564	3,173	3,935
Change in working capital	230	304	(1,423)	(1,128)	(1,126)
Interest and others	(358)	(364)	(402)	(513)	(606)
Net Cash from operations	2,101	2,019	739	1,532	2,203
Investment	-	-	(500)	(400)	-
Capital expenditure	(1,040)	(1,248)	(975)	(1,225)	(1,225)
Free Cashflow	1,061	771	(736)	(93)	978
Change in Debt	(527)	(543)	543	378	(118)
Dividends & others	(195)	(58)	(154)	(152)	(197)
Net Cash from Financing	(722)	(601)	389	226	(315)
Opening cash	103	442	612	265	398
(Dec)/Inc in Cash	339	170	(347)	133	663
Closing cash	442	612	265	398	1,060

Source: Company data, ASK Raymond James.

Ratios		(%)			
Y/E March	FY04	FY05	FY06E	FY07E	FY08E
Growth (%)					
Sales	15.5	3.9	17.0	19.8	19.8
EBITDA	3.4	(6.7)	23.3	23.8	24.0
EPS	50.4	(7.7)	26.8	25.7	31.4
Valuation (x)					
PER	35.3	38.2	30.1	24.0	18.2
EV/EBITDA	23.6	24.9	20.6	16.7	13.3
EV/Sales	4.4	4.2	3.6	3.0	2.5
Profitability (%)					
EBITDA Margins	18.6	16.7	17.6	18.2	18.9
RoE	28.0	22.7	25.3	26.8	28.8
RoCE	19.8	18.2	20.1	21.8	24.2
Turnover (Days)					
Receivables	57	34	60	65	65
Payables	92	99	95	90	85
Financial (x)					
Net Debt/Equity	0.8	0.6	0.6	0.6	0.4
Current Ratio	1.9	1.9	2.1	2.4	2.7

Source: Company data, ASK Raymond James.

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