

CADILA HEALTHCARE

An aberration

India Equity Research | Pharmaceuticals



Cadila's (CDH) Q3FY13 Adj.PAT of INR1.2bn was lower than INR2bn estimated. Revenue growth of 15% was lower than estimated 21% and EBITDA margins declined to 14.8% from 19% in Q2FY13. This underperformance is attributed to - a) discretionary/non-recurring costs of INR300-350mn that impacted margins by 250bps and; b) decline in gross margins (150bps impact) led by disruption in Brazil and price erosion in US. We expect these fixed costs to come-off in Q4FY13, retracting margins to 17%, while improvement in product mix and operating leverage should lead to further expansion in Gross/EBITDA margins by FY14. Maintain 'BUY' and revise TP to INR910 (18x FY15 EPS) factoring in lower revised EPS of INR30.2/38.6 for FY13E-14E.

Margins to recover to historic levels

The sharp decline in margins was due to costs such as donation (INR60mn), GDUFA fees (INR100mn), filings of 18 ANDAs scaling R&D to 8.7% and lumpy ad-spend for re-launch of Everyouth and Nutralite. Overall the impact is INR550mn, of which INR300-350mn is non-recurring and hence we expect some recovery in margins during Q4FY13.

Levers for growth

There are multiple levers of growth spearheaded by 22 products launches in US (including two products from Neshier), recovery in Brazil, higher currency realization and continued momentum in India which would drive 19% growth over FY14E.

Margins expansion is a strong possibility

We expect EBITDA margins to expand by 100bps to 19% in FY14 (18.2% in FY13E) as scale-up in US, margin uptick in Neshier and Biochem, higher currency realization and recovery in Brazil partly offset margin erosion in Taxotere and potential impact of price control on India.

Outlook and Valuations: Multiple levers for growth; Maintain 'BUY'

We expect 32% earnings CAGR over FY13-FY16E as investments in international markets begin to scale-up. Despite near term pressure on operational performance, the company has multiple growth levers. Thus we believe that investors should use current weakness in the price to accumulate the stock.

Financials (Consolidated)

(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	FY12	FY13E	FY14E
Net revenue	15,924	13,832	15.1	15,459	3.0	52,301	62,531	74,479
EBITDA	2,351	2,640	(10.9)	2,930	(19.8)	10,998	11,391	14,152
Adj. net profit	1,226	1,800	(31.9)	1,630	(24.8)	7,358	6,179	7,965
Adj. dilu. EPS (INR)	6.0	8.8	(31.9)	8.0	(24.8)	35.9	30.2	38.9
Diluted P/E (x)						22.0	26.2	20.3
EV/EBITDA (x)						16.5	15.9	12.8
ROAE (%)						31.0	22.0	23.8

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

MARKET DATA (R: CADI.BO, B: CDH IN)

CMP	: INR 791
Target Price	: INR 910
52-week range (INR)	: 975 / 649
Share in issue (mn)	: 204.7
M cap (INR bn/USD mn)	: 166/ 3,124
Avg. Daily Vol.BSE/NSE('000)	: 122.4

SHARE HOLDING PATTERN (%)

	Current	Q2FY13	Q1FY13
Promoters *	74.8	74.8	74.8
MF's, FI's & BK's	11.4	11.6	12.1
FII's	4.9	4.8	4.4
others	8.9	8.8	8.7
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	(4.4)	(1.0)	(0.4)
3 months	(4.3)	4.4	11.3
12 months	25.4	11.8	50.0

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Table 1: Actual vs. Estimates

Year to March	Actual Q3FY13	Y-o-Y Growth (%)	Estimates Q3FY13	Y-o-Y Growth (%)	Deviation from Actual (%)	Comments
Net revenue	15,610	15.4	16,360	21.0	(4.6)	De-growth in Brazil impacted performance
Other operating income	314	2.0	350	13.8	(10.3)	
Net revenue (incl other operating inc)	15,924	15.1	16,710	20.8	(4.7)	
Raw material costs	5,461	20.8	5,481	21.2	(0.4)	
Gross profit	10,463	12.4	11,229	20.6	(6.8)	Price erosion in US and adverse product mix impacted gross margins
Gross margins(%)	65.7		67.2			
Employee costs	2,319	20.7	2,351	22.4	(1.4)	
Other expenses	5,793	21.9	5,408	13.8	7.1	Higher R&D and discretionary spending resulted higher expenses
Total operating expenses	8,112	21.6	7,759	16.3	4.5	
EBITDA	2,351	(10.9)	3,470	31.5	(32.3)	
EBITDA margin (%)	14.8		20.8			Lower gross margins and one-off expenditures impacted
EBITDA margin excl other op inc. (%)	13.0		19.1			
Net finance expense (income)	446	61.9	290	5.3	53.8	Higher working capital INR loan resulted higher interest cost
Depreciation	496	6.6	450	(3.3)	10.2	
Other income	171	(6.4)	70	(61.6)	143.7	Higher dividend income
PBT	1,580	(24.1)	2,800	34.5	(43.6)	
Income tax expense	630	263.1	700	303.3	(10.0)	
Tax rate	39.9		25.0			Higher tax rate because some subsidiaries have reported higher profit
Extraordinaries (loss)/gain	166		0			Forex gain
Minority interest	86		88			
Net profit	1,029	(31.0)	2,012	34.8	(48.9)	
Adjusted PAT	1,226	(31.9)	2,012	11.8	(39.1)	Poor operational performance resulted lower PAT
Adjusted EPS	6.0	(31.9)	10.3	17.1	(41.8)	

Source: Company, Edelweiss research

Table 2: Revenue Mix (INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	Comments
Domestic formulations	5,699	4,693	21.4	6,018	(5.3)	Organic growth was 18% for the quarter
Export formulations	6,562	5,783	13.5	5,820	12.7	
US	3,920	3,435	14.1	3,674	6.7	Lack of new launches impacted growth
EU	1,119	889	25.9	762	46.9	New launches spurt growth in EU
Brazil	666	792	(15.9)	487	36.8	Lack of new approvals and poor off-take impacted growth
Japan	180	154	16.9	143	25.9	
Emerging markets	677	513	32.0	754	(10.2)	
JVs	1,263	1,212	4.2	1,300	(2.8)	Taxotere faced pricing pressure
API	778	734	6.0	704	10.5	
Zydus Wellness	1,018	796	27.9	965	5.5	Higher promotional activities in Ever Youth range
Animal health	622	519	19.8	640	(2.8)	
Total gross sales	15,942	13,737	16.1	15,447	3.2	

Source: Company, Edelweiss research

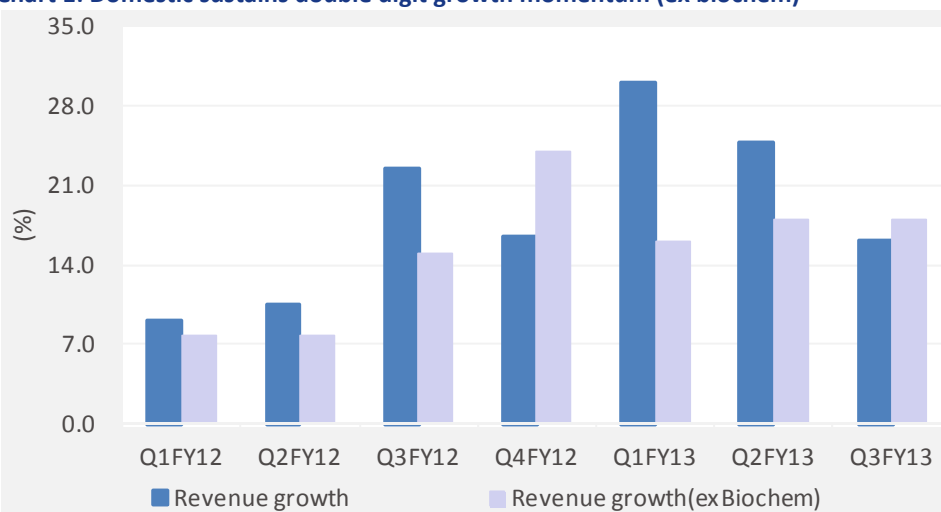
Table 3: Change in estimates

	FY13E			FY14E			Comments
	New	Old	(% change)	New	Old	(% change)	
Revenues (INR mn)	62,531	64249	(2.7)	74,479	76602	(2.8)	Factoring in lower sales in Brazil due to slower approvals and temporary disruptions; also factors in lower JV sales from potential price erosion in Taxotere
EBITDA (INR mn)	11,391	13110	(13.1)	14,152	16110	(12.2)	
EBITDA margin (%)	18.2	20.4	220 bps	19.0	21.0	200 bps	To factor in lower margins during the quarter; expect margins to retract to 19% in FY14 with potential upside risk
PAT (INR mn)	6,179	7549	(18.2)	7,965	9617	(17.2)	Lower operating performance, higher tax and interest expense and potential impact of pricing policy(5% earnings impact) has been built in our estimates
Profit Margin (%)	10.5	12.5		11.4	13.3		
Capex (INR mn)	6,500	6500	(0.0)	6,000	6000	0.0	We had already build in higher capex

Source: Edelweiss research

This quarter domestic revenue grew 21% (18% ex- biochem) with launch of 15 new products during the quarter including line extensions

Chart 1: Domestic sustains double digit growth momentum (ex biochem)



Source: Company, Edelweiss research

Table 4: Top 10 brands performance in the domestic market

Brands	Therapy	% of total	Mkt. share	Dec-12		Q3FY13	
				Growth rate	Cont. to growth	Growth rate	Cont. to growth
Deriphyllin	Acute	4.1	93.3	35.2	6.7	30.0	4.8
Pantodac	Acute	2.9	18.3	(3.3)	(0.6)	23.5	4.0
Atorva	Chronic	3.7	13.5	26.4	4.8	25.3	4.1
Skinlite	Chronic	3.8	61.5	89.5	11.3	100.0	9.0
Aten	Chronic	3.0	57.8	25.3	3.8	28.7	3.9
Mifegest Kit	Acute	3.1	18.4	(5.0)	(1.0)	(3.6)	(0.6)
Dexona	Acute	2.6	54.0	35.8	4.3	24.1	2.5
Falcigo	Acute	1.5	38.0	(32.3)	(4.3)	(1.7)	(0.2)
Amlodac	Chronic	2.1	18.5	38.1	3.6	32.6	3.0
Dulcolax	Acute	1.8	97.2	15.3	1.5	59.9	3.9
Total		28.7		20.2	29.9	27.3	34.5

Table 5: Therapy wise performance in the domestic market

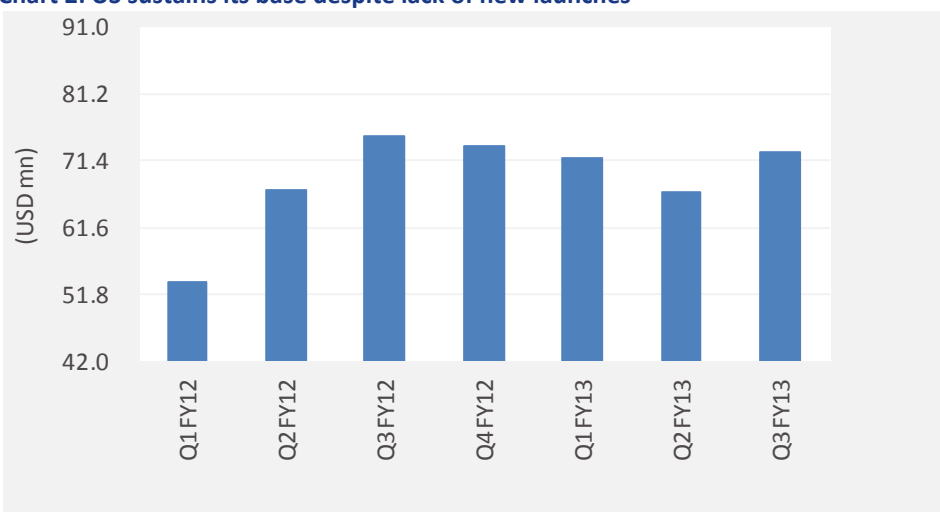
Therapeutic area	% of total	Market share	Dec-12			Q3FY13		
			Cadila growth	Industry Growth	Cont. to growth	Cadila growth	Industry Growth	Cont. to growth
CVS	20.7	6.2	21.6	11.0	↑ 22.9	25.8	11.7	↑ 21.5
Gastro	15.5	6.1	1.6	4.0	↓ 1.5	7.1	8.1	↓ 5.6
Gyneacology	12.0	9.0	6.0	4.0	↑ 4.2	12.4	5.5	↑ 6.7
Respiratory	10.9	5.2	23.4	0.7	↑ 12.8	29.8	8.0	↑ 13.1
Pain management	7.7	4.4	22.0	1.3	↑ 8.7	25.6	4.2	↑ 8.2
Dermatology	6.3	4.9	64.7	5.9	↑ 15.4	75.1	9.0	↑ 13.6
Anti-Infectives	5.9	1.4	5.3	0.3	↑ 1.8	19.9	8.0	↑ 6.1
Neurologicals	2.3	1.5	37.4	9.3	↑ 3.9	36.6	10.2	↑ 3.2
Anti diabetic	1.1	0.7	122.0	9.6	↑ 3.7	104.7	13.8	↑ 2.6
Chronic cont.	24.1				30.5			27.3

US growth was 14%YoY aided by AG launches which had lower gross margins thereby impacting product mix of the business

However as Moriya is approved and company has gained approvals, it expects scale-up in the business

Management has guided 22 new launches in US in FY14

Chart 2: US sustains its base despite lack of new launches



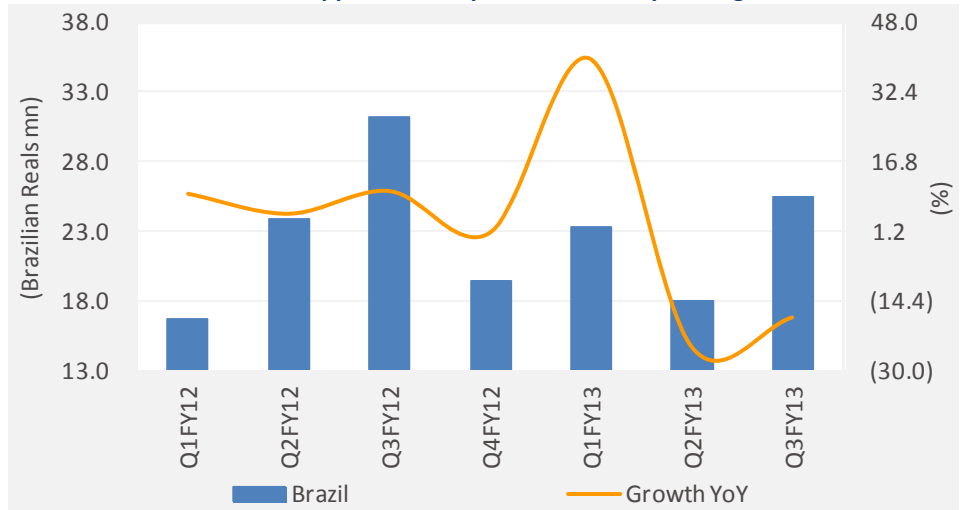
Source: Company, Edelweiss research

Table 6: USFDA approvals till date; expect incremental four approvals during Q4FY13

Date	Brand Name	Generic	Market Sales (Potential) (USD mn)	Innovator Company	Key players
6-Sep-12	Ultracet	Acetaminophen; Tramadol hydrochloride	135	Janssen Pharma	8-9 players
7-Sep-12	Levaquin	Levofloxacin	NA	Janssen Pharma	12-14 players
11-Sep-12	Lexapro	Escitalopram Oxalate	2800	Forest Labs	12-14 players
25-Sep-12	Zarontin	Ethosuximide	NA	Parke Davis	Banner, Versapharm, Parke Davis
27-Sep-12	Avapro	Irbesartan	400.7	Sanofi Aventis	14-15players
10-Oct-12	Plavix	Clopidogrel Bisulfate	6154	BMS and Sanofi	10-11 players
24-Oct-12	Aricept	Donepezil Hydrochloride	NA	Eisai Inc	18-20 players
19-Nov-12	Prilosec	Omeprazole	NA	Astrazeneca	8-9 players

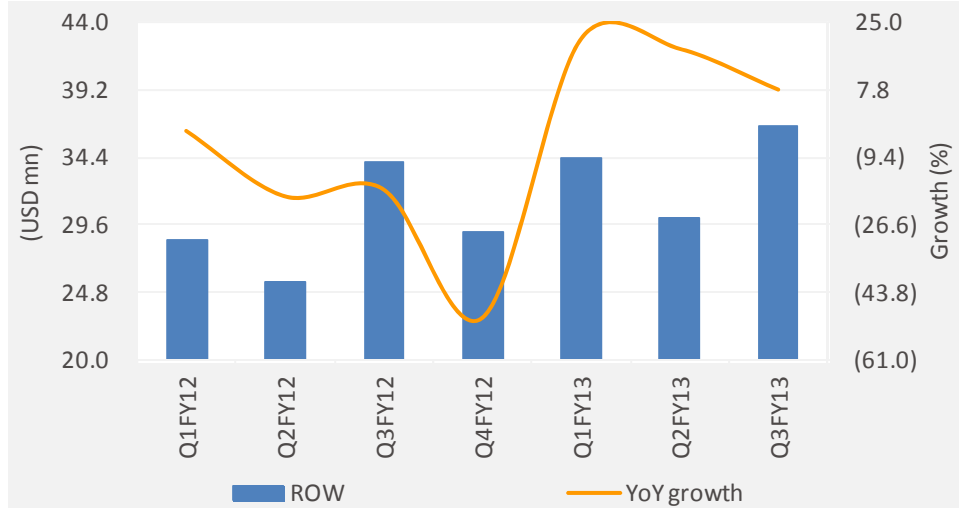
Source: Company, Edelweiss research

Chart 3: Brazil: Lack of new approvals and poor off-take impacted growth



Source: Company, Edelweiss research

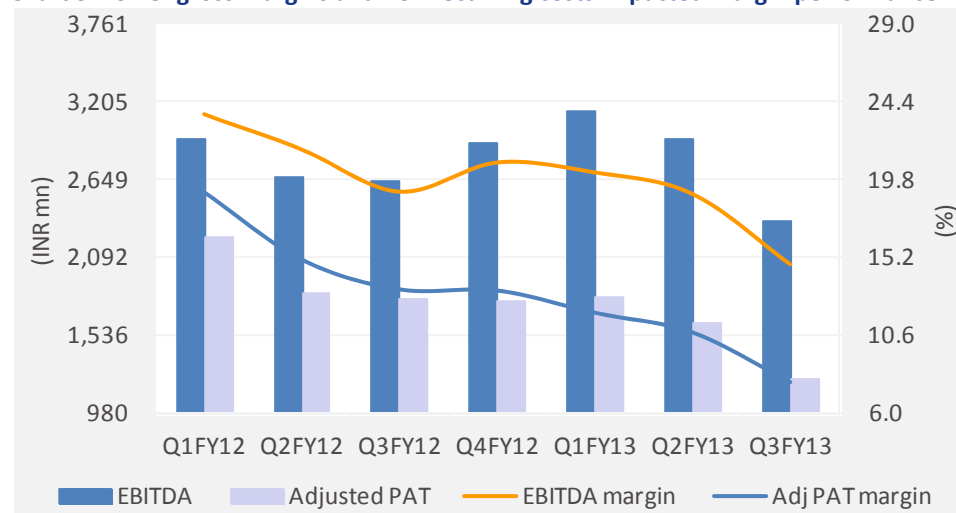
Chart 4: New launches spurt growth in France



Source: Company, Edelweiss research

Earnings have bottomed and we expect strong momentum in FY14

Chart 5: Lower gross margins and non recurring costs impacted margin performance



Source: Company, Edelweiss research

Key Highlights of Conference Call

Geographies and Segments

- Domestic revenues were up 21%YoY while ex-biochem revenues grew by 18%. Management expects growth momentum to sustain going forward
- US generics have grown 14%, on the back of 2 new product launches under AG in the current qtr management has launches co 3 products including one from Neshar
- EU - 26% YoY; driven by 3 new product launches in France and 10 in Spain
- Japan revenues grew by 17%YoY with 5 new launches
- Zydus Wellness grew by 28% YoY in revenue whereas net profit grew only by 21% During the quarter it re-launched `ever youth men`; new variant of `everyouth face washes` and `nutralite`
- Animal health up 19% backed by 4 new launches in India
- **Filings & Approvals** - Cadila has launched 15 new products including line extension; 4 in India for first time. They have filed 18 ANDAs (incl. one injectible and 2 topical ointment/cream) in the last quarter, making it 30 filings YTD In CY2013 expect to launch 22 own products in US including Neshar; Continue to file 30 ANDAs each year. Total Pending approvals are 90 of which 55 are oral products

Margins:

- Gross margins were lower due to lack of new launches in US that impacted margins and some margin impact on Brazil as well, pricing pressure on base business impacted margins in US
- R&D spends increased due to one-time generic user fees (INR100-110mn) and high No of ANDA filings (18 during the quarter)
- Other non-recurring costs included donation (INR60mn) and lumpy ad-spend for re-launch of Everyouth and Nutralite. These amounted to ~INR300-350mn.

- Lack of royalty income this quarter
- Interest costs increase from additional borrowings and higher quantum of WC loans in India. INR28bn debt (added INR2.55bn); Cash on hand INR4.45bn; . Out of the total debt, INR9.85bn is in foreign currency

Management Outlook

- In CY2013 management guides launch of 22 own products in US including Neshar.(Most of the products expected to be in Oral form).
- R&D spend expected to be same on absolute level
- Company expects launch of first Transdermal in FY14
- Zydus Wellness –revenues INR5.0bn by FY14
- Growth in Brazil should be in the range of 20% and above in 2013; Generics will become larger than branded going forward.
- Biosimilar – begun first product clinical study
- No forward cover now
- Capex guidance INR6.50bn

Financial snapshot

(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13	FY13E	FY14E
Net revenues	15,610	13,525	15.4	15,125	3.2	45,896	61,214	73,070
Other operating income	314	308	2.0	334	(6.1)	974	1,317	1,409
Net sales (incl other oper inc)	15,924	13,832	15.1	15,459	3.0	46,870	62,531	74,479
Raw material costs	5,461	4,520	20.8	5,070	7.7	15,647	21,043	24,969
Gross profit	10,463	9,312	12.4	10,389	0.7	31,223	41,488	49,510
Employee expenses	2,319	1,922	20.7	2,283	1.6	6,900	9,144	10,936
Other expenses	5,793	4,751	21.9	5,176	11.9	15,907	20,954	24,421
Other operating expenses	8,112	6,672	21.6	7,459	8.8	22,807	30,098	35,358
EBITDA	2,351	2,640	(10.9)	2,930	(19.8)	8,415	11,391	14,152
Operating margin (%)	14.8	19.1		19.0		18.0	18.2	19.0
EBITDA margin (excl other operating income) (%)	13.0	17.2		17.2		16.2	16.5	17.4
Depreciation	496	465	6.6	432	14.8	1,363	1,844	2,094
Other income	171	182	(6.4)	65	164.1	330	494	354
Net finance expense	446	276	61.9	272	63.9	1,019	1,335	1,189
Profit before tax	1,580	2,081	(24.1)	2,291	(31.0)	6,364	8,706	11,223
Tax	630	174	263.1	494	27.6	1,778	2,264	2,918
Core profit	949	1,908	(50.2)	1,797	(47.2)	4,586	6,442	8,305
Minority interest	86	74	17.3	88	(2.4)	236	263	340
Extraordinaries (loss)/gain	166	(342)	(148.5)	(757)	(121.9)	(754)	-	-
Net profit	1,029	1,492	(31.0)	951	8.2	3,596	6,179	7,965
Adjusted net profit	1,226	1,800	(31.9)	1,630	(24.8)	4,665	6,179	7,965
Adj. EPS (INR)	6.0	8.8		8.0		22.8	30.2	38.9

As % of net revenues

COGS	35.0	33.4		33.5		34.1	34.4	34.2
Gross profit	67.0	68.9		68.7		68.0	67.8	67.8
Employee cost	14.9	14.2		15.1		15.0	14.9	15.0
Other expenses	37.1	35.1		34.2		34.7	34.2	33.4
Total expenses	52.0	49.3		49.3		49.7	49.2	48.4
EBITDA	14.8	19.1		19.4		18.0	18.2	19.0
Reported net profit	6.5	10.8		6.2		7.7	9.9	10.7
Tax rate	39.9	8.3		21.6		27.9	26.0	26.0

Company Description

Cadila Healthcare (CDH), founded in 1952 and headed by second generation entrepreneur Pankaj R Patel, is the sixth largest company in Indian pharma market with 3.8% market share. The domestic franchise, with widespread field force (4,500) and pan-India presence constitute 38% of total sales. The chronic segment accounts for 26% of total domestic business with largest contribution from cardio vascular therapy (CVS), where CDH has leading market share (5.5%) after Sun Pharma and Lupin. Apart from prescription products, CDH has built a formidable presence in nutraceuticals through its listed entity Zydus Wellness (owns 72% of total share holding). CDH has successfully build its international operations, with presence in branded generics emerging markets of Brazil, Asia-Pac and Africa and plain generics regulated markets of US, EU and Japan, which together account for 38% of CDH's total business. Moreover, management's strategic focus on building strong partnerships in the US through Hospira and Nycomed JVs has been significantly accretive to business over the past five years.

Investment theme

We expect CDH's sales to post 20% CAGR(FY12-FY15E) to INR90bn by FY15E, led by 14% CAGR in domestic branded formulation and 32% CAGR in US formulations business. We believe that CDH is readying itself for the next leg of growth by investing in future technology and pipeline. Moreover, the cost optimization initiative along with niche opportunities should lead to margin expansion. Overall, we expect net profit to post 12% CAGR over FY12-15E.

Key risks

- Pricing Policy impact on FY14E and FY15E earnings is expected to be 7% and 6% respectively.
- Regulatory risks
- Currency appreciation could hit profitability

Financial Statements

Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.5	5.5	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
Sector				
India pharma market growth (Y-o-Y) %	16.0	14.1	13.0	15.0
Company				
A) India sales (INR mn)	18,954	23,364	26,610	30,833
% change	10.5	23.3	13.9	15.9
ex-Biochem	6	14	12	15
Biochem	-	-	12	13
% of sales	36.5	37.5	35.8	34.1
1) Respiratory	2,104	2,409	2,758	3,144
% change	14.7	14.5	14.5	14.0
2) Gastro Intestinal	3,146	3,603	4,125	4,723
% change	5.5	14.5	14.5	14.5
3) Cardiovascular	3,712	4,306	5,081	5,995
% change	17.5	16.0	18.0	18.0
4) Anti-infectives	3,108	5,472	6,238	7,049
% change	77.7	76.0	14.0	13.0
B) US generics (USD mn)	259	294	371	513
Growth (YoY)%	19.6	13.5	26.1	38.5
US base business	238	227	286	414
C) JV sales (USD terms)	105	103	121	168
% change	5.9	(1.5)	17.0	39.3
4) Zydus Wellness (INR terms)	3,446	4,066	4,717	5,472
% change	2.7	18.0	16.0	16.0
EBITDA margins (%)	21.0	18.2	19.0	20.0
- Domestic	20.0	21.0	21.5	22.4
- Exports	17.0	18.7	20.0	21.7
- API	12.0	12.0	13.0	13.4
- Consumer	21.0	22.0	22.0	22.0
- Animal health	9.0	10.0	10.0	11.0
- Hospira JV	80.0	45.0	45.0	45.0
- Nycomed JV	45.0	42.0	42.0	35.0
R&D (INR mn)	3,638	4,458	4,785	5,679
R&D (% of sales)	7.6	7.8	7.0	6.8
ANDA filings (per annum)	21	30	30	30
USD/INR (Avg)	48.0	52.0	54.0	52.0
Capex (USD mn)	6,954	6,500	6,000	6,000
Net debt (INR mn)	18,285	18,502	18,440	16,023

Income statement

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Income from operations	52,301	62,531	74,479	90,491
Materials costs	16,794	21,043	24,969	29,558
Employee costs	7,512	9,144	10,936	13,278
Total SG&A expenses	9,939	12,733	15,125	18,419
EBITDA	10,998	11,391	14,152	18,100
Depreciation & Amortization	1,579	1,844	2,094	2,354
EBIT	9,419	9,546	12,058	15,746
Other income	531	494	354	371
Interest expenses	1,069	1,335	1,189	1,051
Profit before tax	8,881	8,706	11,223	15,065
Provision for tax	1,130	2,264	2,918	4,218
Extraordinary income/ (loss)	(757)	-	-	-
Profit After Tax	6,993	6,442	8,305	10,847
Adjusted PAT	7,358	6,179	7,965	10,404
Basic EPS (INR)	36.5	30.2	38.9	50.8
Shares outstanding (mn)	205	205	205	205
Diluted EPS (INR)	35.9	30.2	38.9	50.8
CEPS (INR)	44.2	39.2	49.1	62.3
Dividend per share (INR)	7.5	7.5	7.5	7.5

Common size metrics

Year to March	FY12	FY13E	FY14E	FY15E
Operating expenses	79.0	81.8	81.0	80.0
Materials costs	32.1	33.7	33.5	32.7
R & D cost	7.0	7.1	6.4	6.3
EBITDA margins	21.0	18.2	19.0	20.0
Net profit margins	15.2	10.5	11.4	12.2

Growth ratios (%)

Year to March	FY12	FY13E	FY14E	FY15E
Revenues	13.7	19.6	19.1	21.5
EBITDA	5.2	3.6	24.2	27.9
Net profit	2.7	(16.9)	28.9	30.6
EPS	0.8	(16.0)	28.9	30.6

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	1,024	1,024	1,024	1,024	
Reserves & surplus	24,743	29,369	35,537	44,143	
Shareholders funds	25,767	30,393	36,561	45,167	
Minority interest (BS)	904	1,167	1,507	1,951	
Short term debt	9,728	9,228	8,228	7,228	
Long term debt	13,223	11,589	10,589	9,589	
Borrowings	22,951	20,817	18,817	16,817	
Deferred tax liability	1,185	1,185	1,185	1,185	
Sources of funds	50,807	53,562	58,070	65,120	
Tangible assets	17,526	27,021	30,926	34,572	
Intangible assets	10,953	10,953	10,953	10,953	
CWIP (incl. intangible)	4,839	-	-	-	
Total net fixed assets	33,318	37,974	41,879	45,525	
Non current investments	212	212	212	212	
Current Investments	30	30	30	30	
Cash and equivalents	4,666	2,315	377	794	
Inventories	10,905	11,668	13,671	16,354	
Sundry debtors	8,863	10,239	12,247	14,962	
Loans and advances	5,377	5,715	6,835	8,351	
Other current assets	421	505	604	738	
Total current assets (ex cash)	25,566	28,126	33,356	40,405	
Trade payable	5,455	6,667	7,974	10,091	
Others current liabilities	7,530	8,428	9,811	11,756	
Total current liabilities &	12,985	15,095	17,785	21,847	
Net current assets (ex cash)	12,581	13,031	15,571	18,558	
Uses of funds	50,807	53,562	58,070	65,120	
Book value per share (INR)	130.2	154.1	185.9	230.1	

Free cash flow		(INR mn)			
Year to March	FY12	FY13E	FY14E	FY15E	
Net profit	7,358	6,179	7,965	10,404	
Depreciation	1,579	1,844	2,094	2,354	
Others	(365)	263	340	444	
Gross cash flow	8,572	8,286	10,399	13,202	
Less: Changes in WC	3,891	450	2,540	2,987	
Operating cash flow	4,681	7,836	7,860	10,214	
Less: Capex	6,954	6,500	6,000	6,000	
Free cash flow	(2,273)	1,336	1,860	4,214	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		EV/EBITDA (X)		ROAE (%)	
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Cadila Healthcare	3,017	26.2	20.3	15.9	12.8	22.0	23.8
Cipla	5,699	20.0	18.5	13.4	12.2	19.2	17.6
Dr.Reddys Laboratories	5,874	19.6	17.1	12.2	10.4	27.2	25.1
Lupin	4,985	21.3	18.5	12.8	10.2	27.9	28.8
Sun Pharmaceuticals Industries	14,386	25.5	21.5	14.6	13.2	25.4	23.5
Median	-	21.3	18.5	13.4	12.2	25.4	23.8
AVERAGE	-	22.5	19.2	13.8	11.8	24.3	23.8

Source: Edelweiss research

Cash flow metrics					
Year to March	FY12	FY13E	FY14E	FY15E	
Operating cash flow	4,681	7,836	7,860	10,214	
Investing cash flow	(12,496)	(6,500)	(6,000)	(6,000)	
Financing cash flow	9,322	(3,687)	(3,797)	(3,797)	
Net cash flow	1,507	(2,351)	(1,937)	417	
Capex	(6,954)	(6,500)	(6,000)	(6,000)	
Dividends paid	(1,797)	(1,797)	(1,797)	(1,797)	

Profitability & efficiency ratios

Year to March	FY12	FY13E	FY14E	FY15E
ROAE (%)	31.0	22.0	23.8	25.5
ROACE (%)	24.5	19.7	22.2	25.9
Inventory day	204	193	183	183
Debtors days	57	55	54	54
Payable days	120	104	106	110
Cash conversion cycle (days)	141	144	131	127
Current ratio	2.3	2.0	1.9	1.9
Debt/EBITDA	2.1	1.8	1.3	0.9
Debt/Equity	0.9	0.7	0.5	0.4
Adjusted debt/equity	0.9	0.7	0.5	0.4

Operating ratios

Year to March	FY12	FY13E	FY14E	FY15E
Total asset turnover	1.2	1.2	1.3	1.4
Fixed asset turnover	2.4	2.0	2.1	2.3
Equity turnover	2.2	2.2	2.2	2.2

Valuation parameters

Year to March	FY12	FY13E	FY14E	FY15E
Diluted EPS (INR)	35.9	30.2	38.9	50.8
Y-o-Y growth (%)	0.8	(16.0)	28.9	30.6
CEPS (INR)	44.2	39.2	49.1	62.3
Diluted PE (x)	22.0	26.2	20.3	15.6
Price/BV (x)	6.1	5.1	4.3	3.4
EV/Sales (x)	3.5	2.9	2.4	2.0
EV/EBITDA (x)	16.5	15.9	12.8	9.9
Dividend yield (%)	0.9	0.9	0.9	0.9

Additional Data

Directors Data

Pankaj R. Patel	Chairman and Managing Director	Dr. Sharvil P. Patel	Deputy Managing Director
Mukesh M. Patel	Director	Pranlal Bhogilal	Director
H. Dhanrajgir	Director	A.S. Diwanji	Director
Nitin Raajibhai Desai	Director		

Auditors - M/s. Mukesh M. Shah & Co., Chartered Accountants

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Life Insurance Corp. of India	3.70	SBI Funds Management Pvt Ltd.	1.84
Franklin Templeton Asset Management (India) Pvt Ltd.	1.41	HDFC Standard Life Insurance Co. Ltd.	1.20
Franklin Advisers, Inc.	0.98	UTI Asset Management Co. Ltd.	0.78
Eastspring Securities Investment Trust Co., Ltd.	0.52	Tata AIG Life Insurance Co. Ltd.	0.43
ICICI Prudential Asset Management Co. Ltd.	0.34	Birla Sun Life Asset Management Co. Ltd.	0.33

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Apollo Hospitals Enterprise	HOLD	None	None	Aurobindo Pharma	BUY	SP	H
Cadila Healthcare	BUY	SO	L	Cipla	BUY	SO	L
Divi's Laboratories	BUY	SP	M	Dr.Reddys Laboratories	HOLD	SP	M
Glenmark Pharmaceuticals	BUY	SO	H	Ipca Laboratories	BUY	SO	L
Jubilant Life Sciences	BUY	SP	M	Lupin	BUY	SO	M
Ranbaxy Laboratories	REDUCE	SU	H	Sun Pharmaceuticals Industries	HOLD	SO	L
Torrent Pharmaceuticals	BUY	SO	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Pharmaceuticals

Apollo Hospitals Enterprise, Aurobindo Pharma, Cadila Healthcare, Cipla, Divi's Laboratories, Dr.Reddys Laboratories, Glenmark Pharmaceuticals, Ipca Laboratories, Jubilant Life Sciences, Lupin, Ranbaxy Laboratories, Sun Pharmaceuticals Industries, Torrent Pharmaceuticals

Recent Research

Date	Company	Title	Price (INR)	Recos
08-Feb-13	Aurobindo Pharma	Gathering pace; <i>Result Update</i>	184	Buy
08-Feb-13	Apollo Hospitals	Upcoming capacities to fuel growth ; <i>Result Update</i>	840	Hold
06-Feb-13	Cipla	Stepping ahead in the right direction; <i>Result Update</i>	405	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	118	46	17	181
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	117	57	7	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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