

Cadila Healthcare

Performance Highlights

Y/E March (₹ cr)	2QFY2016	1QFY2016	% chg (qoq)	2QFY2015	% chg (yoy)
Net sales	2,374	2378	(0.2)	2064	15.0
Other income	109	143	(23.6)	59	85.4
Gross profit	1567	1530	2.4	1242	26.2
Operating profit	536	479	12.0	377	42.3
Adj. Net profit	391	355	10.2	278	40.7

Source: Company, Angel Research

For 2QFY2016, Cadila Healthcare (Cadila) posted better than expected on the OPM front. Sales came in at ₹2,374cr (V/s our estimate of ₹2,500cr), a yoy growth of 15.0%. In terms of geographies, US, India and Emerging Markets grew by 25.2%, 10.3% and 34.9% yoy, respectively. On the operating front, the GPM came in at 66.0% V/s 60.2% in 2QFY2015, leading the OPM to come in at 22.6% V/s 18.2% in 2QFY2015. This was against our expectation of an OPM of 20.3%. The expansion in the OPM was lesser than in the GPM owing to a significant rise in R&D expenditure, which rose by 46.7% yoy. Thus, the net profit came in at ₹391cr (V/s our estimate of ₹367cr), ie a yoy growth of 40.7%. **We maintain our Neutral stance on the stock.**

Results better than expected at the OPM level: The company posted better than expected results on the OPM front, for the quarter. Sales came in at ₹2,374cr (V/s our estimate of ₹2,500cr), a yoy growth of 15.0%. In terms of geographies, US, India and Emerging Markets grew by 25.2%, 10.3% and 34.9% yoy, respectively. On the operating front, the GPM came in at 66.0% V/s 60.2% in 2QFY2015, leading the OPM to come in at 22.6% V/s 18.2% in 2QFY2015. This was against our expectation of an OPM of 20.3%. The expansion in the OPM was lesser than in the GPM owing to a significant rise in R&D expenditure, which rose by 46.7% yoy. The R&D expenditure as a % of sales came in at 7.3% V/s 5.7% in 2QFY2015. This led the net profit to come in at ₹391cr (V/s our estimate of ₹367cr), a yoy growth of 40.7%.

Outlook and valuation: We expect Cadila's net sales to post an 18.0% CAGR to ₹11,840cr and EPS to report a 24.6% CAGR to ₹17.6 over FY2015–17E.

We maintain our Neutral rating on the stock.

Key financials (Consolidated)

Y E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	7,060	8,497	10,224	11,840
% chg	14.7	20.4	20.3	15.8
Net profit	819	1,159	1,496	1,800
% chg	25.0	41.5	29.1	20.3
EPS	8.0	11.3	14.6	17.6
EBITDA margin (%)	14.7	18.8	21.0	22.0
P/E (x)	53.1	37.5	29.1	24.1
RoE (%)	25.3	30.1	30.8	29.0
RoCE (%)	13.8	20.2	24.5	25.2
P/BV (x)	2.5	10.2	8.0	6.2
EV/Sales (x)	1.4	5.2	4.3	3.6
EV/EBITDA (x)	9.7	27.8	20.2	16.3

Source: Company, Angel Research; Note: CMP as of October 27, 2015

NEUTRAL

CMP	₹425
Target Price	-
Investment Period	-

Stock Info

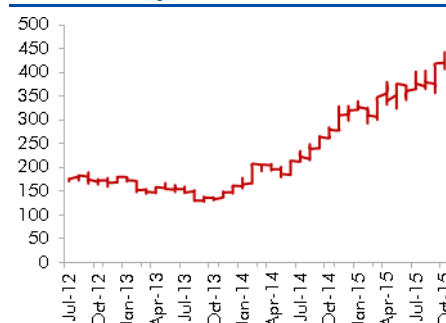
Sector	Pharmaceutical
Market Cap (₹ cr)	43,473
Net debt (₹ cr)	1,817
Beta	0.7
52 Week High / Low	454 / 255
Avg. Daily Volume	23,678
Face Value (₹)	1
BSE Sensex	27,253
Nifty	8,233
Reuters Code	CADI.BO
Bloomberg Code	CDH@IN

Shareholding Pattern (%)

Promoters	74.8
MF / Banks / Indian Fls	11.8
FII / NRIs / OCBs	7.7
Indian Public / Others	5.8

Abs.(%)	3m	1yr	3yr
Sensex	(1.1)	1.9	46.3
Cadila	10.9	55.3	145.0

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2016 performance (Consolidated)

Y/E March (₹ cr)	2QFY2016	1QFY2016	% chg (qoq)	2QFY2015	% chg (yoy)	1HFY2016	1HFY2015	% chg
Net Sales	2,374	2,378	(0.2)	2,064	15.0	4,752	4,084	16.4
Other Income	109	143	(23.6)	59	85.4	253	99	155.1
Total Income	2,483	2,521	(1.5)	2,123	17.0	4,183	4,183	0.0
Gross profit	1567	1530	2.4	1242	26.2	3097	2449	26.5
Gross margin (%)	66.0	64.3		60.2		65.2	60.0	
Operating profit	536	479	12.0	377	42.3	1016	722	40.7
Operating Margin (%)	22.6	20.1		18.3		21.4	17.7	
Financial Cost	13	13	(5.2)	17	(25.5)	26	35	(25.7)
Depreciation	73	74	(0.6)	73	0.3	147	141	4.2
PBT	560	535	4.6	346	61.8	1095	645	69.8
Tax	158	172	(8.3)	57	177.1	330	110	200.2
Adj. PAT before Extra-ordinary item	402	363	10.7	289	39.1	765	536	42.7
Exceptional loss/(gain)	0	(2)		0		(2)	1	
Minority	10	8	31.8	10		17	17	
Reported PAT	391	353	10.6	278	40.6	744	518	43.6
Adj. PAT	391	355	10.2	278	40.7	746	519	43.7
EPS (₹)	3.8	3.5		2.7		7.3	5.1	

Source: Company, Angel Research

Exhibit 2: 2QFY2016 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variance
Net Sales	2,374	2,500	(5.1)
Operating profit	536	506	5.9
Tax	158	110	43.4
Net profit	391	367	6.6

Source: Company, Angel Research

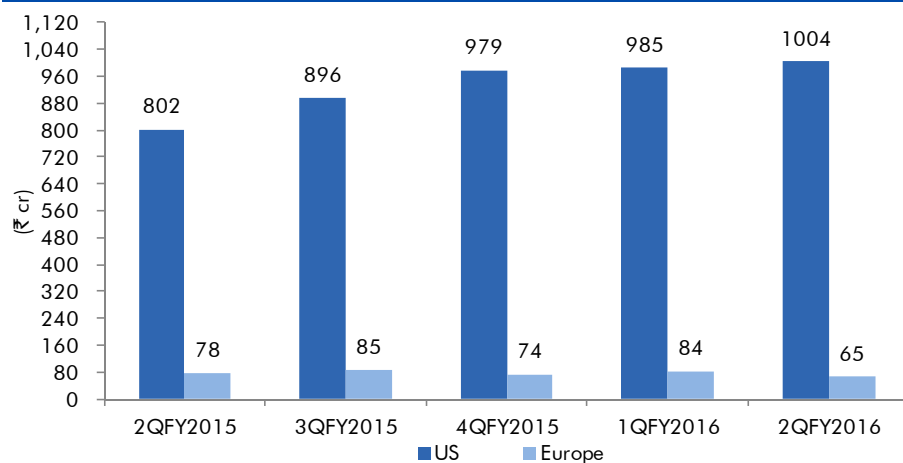
Revenue up 15.0% yoy; marginally lower than our expectation

The company posted a yoy growth of 15.0% in sales to ₹2,374cr (V/s ₹2,500cr expected), driven by exports. Domestic markets (₹1,034cr) grew by 7.8% yoy, while exports (₹1,384cr) grew by 20.7% yoy. Among exports, Emerging Markets and US Formulations posted a robust growth of 34.9% yoy and 25.2% yoy, respectively.

Exports (₹1,384cr) grew by 20.7% yoy, driven by Emerging Markets (₹1,198cr; which grew by 34.9% yoy). The domestic markets (₹1,034cr) posted a growth of 7.8%, driven by growth in domestic formulations by 10.3% yoy.

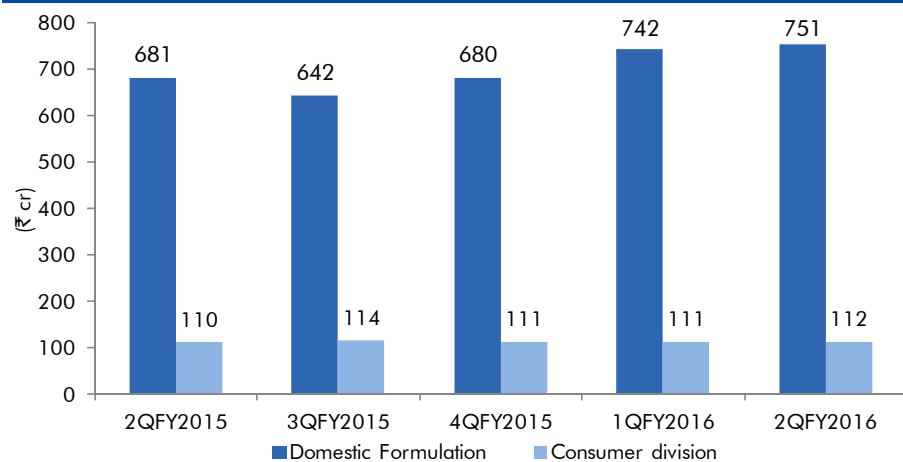
The growth in the domestic market (43% of sales) was 7.8% yoy mainly led by formulations (₹751cr) which grew by 10.3% yoy. API (₹90.7cr) on the other hand grew by 2.3% yoy, while Wellness (₹111.6cr) grew by 1.4% yoy. Animal Health and others (₹80.7cr) grew by 0.7% yoy.

Exports (₹1,384cr) posted a growth of 20.7% yoy. US formulations (₹1,004cr) posted a growth of 25.2% yoy. The other key growth region was Emerging Markets & others (₹119.8cr), which posted a yoy growth of 34.9%. Other markets - Europe (₹65cr) and Latin America (₹52cr), posted a dip of 16.1% and 18.5% respectively. Euro and Real's steep fall impacted the sales in the respective regions. However, constant currency growth in LATAM remained strong at 14% yoy. The Management expects EU revenues to grow in line with respective market growth in the coming years (7-8%).

Exhibit 3: Sales trend in the US and Europe


Source: Company, Angel Research

The growth in the domestic market (43% of sales) was 7.8% yoy mainly led by formulations (₹751cr) which grew by 10.3% yoy. API (₹90.7cr) on the other hand grew by 2.3% yoy, while Wellness (₹111.6cr) grew by 1.4% yoy. Animal Health and others (₹80.7cr) grew by 0.7% yoy.

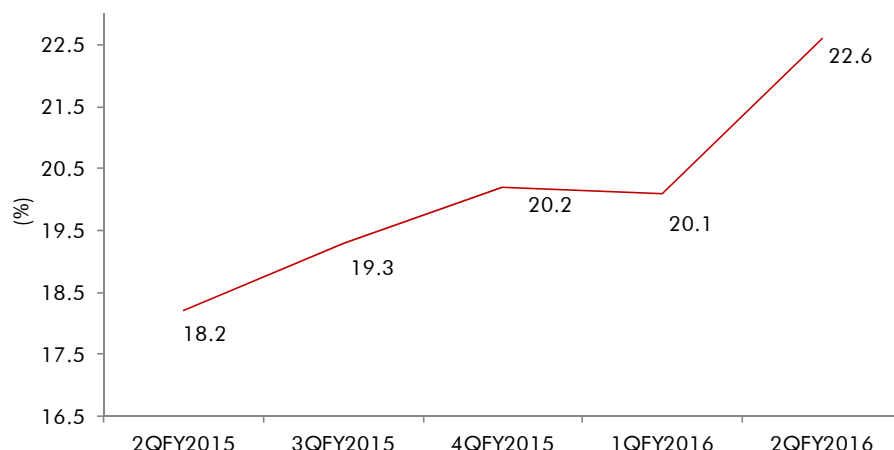
Exhibit 4: Sales trend in Domestic Formulation and Consumer Wellness Divisions


Source: Company, Angel Research

On the CRAMS front, the company generated sales of ₹142cr (vs ₹113.6cr in 2QFY2015), reporting a growth of 25.3% yoy.

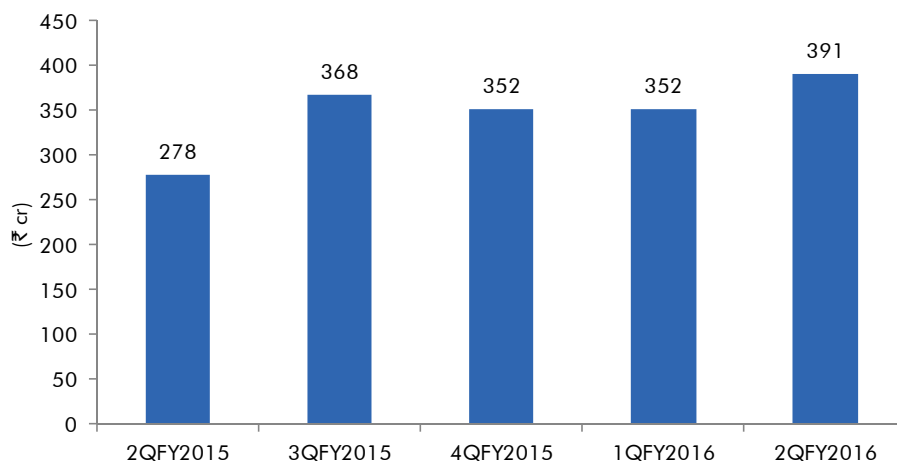
OPM expands by 440bp yoy

On the operating front, the GPM came in at 66.0% V/s 60.2% in 2QFY2015, leading the OPM to come in at 22.6% V/s 18.2% in 2QFY2015. The expansion in the OPM was lesser than in the GPM owing to a significant rise in R&D expenditure, which rose by 46.7% yoy. The R&D expenditure as a % of sales came in at 7.3% V/s 5.7% in 2QFY2015. Gross margins improved on back of currency benefits and improved sales mix.

Exhibit 5: OPM trend


Source: Company, Angel Research

Net profit up 40.7% yoy: The company posted an Adj. net profit of ₹391cr (V/s ₹367cr expected) a yoy growth of 40.7%. The reported net profit came in at ₹391cr V/s ₹278 in 2QFY2015, a yoy growth of 40.6%. Along with the expansion in the OPM, an 85.4% yoy rise in other income aided net profit growth. Other income during the quarter was at ₹109cr V/s ₹59 in 2QFY2015, which included a one-time payment of ₹20.3cr received from its partner, for the sale of eight ANDAs in the US.

Exhibit 6: Adjusted Net profit trend


Source: Company, Angel Research

Concall takeaways

- The Management is hopeful of resolving Moraiya facility Form 483 observations soon (by 3QFY2016), which would speed up product approvals in the US.
- The company filed 4 ANDAs and received 1 approval during this quarter. There are 260+ ANDAs filed cumulatively till date of which 102 are approved and 73 are being marketed actively (38 products filed in FY2015). Pending ANDA filings stands at 160+, one of the largest among Indian companies.

- The Management had given a sales guidance of ₹10,000cr for FY2016 and expects EBIDTA margin to improve to 21%+ levels, going forward.
- R&D expenditure is expected to remain at 7-8% of sales in FY2016.
- Tax rate as a % of PBT is expected to be around 22-24% in FY2016.
- Capex is expected to be around ₹600cr in FY2016.

Recommendation rationale

Strong domestic portfolio: Cadila is the fifth largest player in the domestic market, with sales of about ₹2,677cr in FY2015; the domestic market contributes ~44% to its top-line. The company enjoys a leadership position in the CVS, GI, women healthcare and respiratory segments, and has a sales force of 4,500 executives. The company, on an aggressive front, launched more than 75 new products in FY2014. During FY2009-14, the company reported a ~13% CAGR in its top-line in the domestic formulation business.

Further, the company has a strong consumer division through its stake in Zydus Wellness, which has premium brands such as *Sugarfree*, *Everyuth* and *Nutralite*, under its umbrella. This segment which contributes ~5.9% of sales, registered a growth of 3.1% yoy during FY2015.

Going forward, the company expects the segment to grow at an above-industry rate on the back of new product launches and field force expansion. In FY2014, sales were lower; however, FY2015 witnessed a rebound. During FY2015-17E, we expect the domestic segment to grow at a CAGR of 15.0%.

Exports on a strong footing: Cadila has a two-fold focus on exports, wherein it is targeting developed as well as emerging markets, which contributed around 50% to its FY2015 top-line. The company has established a formidable presence in the developed markets of US, Europe (France and Spain) and Japan. In the US, the company achieved critical scale of ₹3,393cr on the sales front in FY2015. The growth in exports to the US along with other regions like Europe would be driven by new product launches, going forward. Overall, exports are expected to post a CAGR of 20.0% over FY2015-17E.

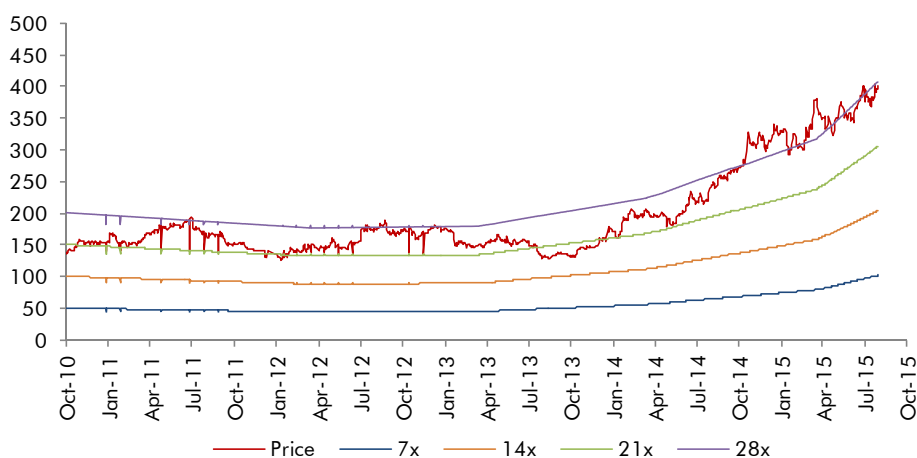
Outlook and valuation

We expect Cadila's net sales to post an 18.0% CAGR to ₹11,840cr and EPS to report a 24.6% CAGR to ₹17.6 over FY2015-17E. **We maintain our Neutral rating on the stock.**

Exhibit 7: Key Assumptions

Key assumptions	FY2016E	FY2017E
Domestic growth (%)	15.0	17.0
Exports growth (%)	20.0	20.0
Growth in employee expenses (%)	24.1	15.8
Operating margins (excl tech. know-how fees) (%)	21.0	22.0
Capex (₹ cr)	650	650

Source: Company, Angel Research

Exhibit 8: One-year forward PE band


Source: Company

Company background: Cadila Healthcare's operations range across API, formulations, animal health products and cosmeceuticals. The group has global operations spread across USA, Europe, Japan, Brazil, South Africa and 25 other emerging markets. Having already achieved the US\$1bn sales mark in 2011, the company is estimated to achieve a sales mark of over US\$3bn by 2015 and be a research-driven pharmaceutical company by 2020.

Exhibit 9: Recommendation Summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside %	PE (x)	FY2017E		FY15-17E	FY2017E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	664	-	-	27.8	4.0	19.7	26.2	31.5	31.8
Aurobindo Pharma	Neutral	846	-		19.4	3.1	13.5	16.3	23.4	30.2
Cadila Healthcare	Neutral	425	-	-	24.1	3.6	16.5	24.6	25.2	29.0
Cipla	Neutral	684	-	-	22.4	3.2	16.1	24.6	18.0	17.5
Dr Reddy's	Neutral	4,182	-	-	21.7	3.3	14.4	21.6	20.6	22.0
Dishman Pharma	Neutral	346	-	-	16.0	1.5	7.5	20.4	11.7	11.7
GSK Pharma*	Neutral	3,271	-	-	47.9	8.4	37.8	6.6	33.7	34.3
Indoco Remedies	Neutral	333	-	-	21.5	2.5	13.7	31.4	20.1	21.1
Ipca labs	Neutral	781	-	-	24.4	2.6	14.1	26.1	13.0	14.9
Lupin	Neutral	1,946	-	-	27.4	4.7	17.5	9.7	27.9	23.4
Sanofi India*	Neutral	4,262	-	-	28.1	3.6	17.4	33.1	27.9	25.5
Sun Pharma	Neutral	905	-	-	33.7	6.0	19.6	8.4	15.8	16.6

Source: Company, Angel Research; Note: *December year ending

Profit & Loss statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Gross sales	5,181	6,285	7,208	8,658	10,417	12,063
Less: Excise duty	91	129	148	161	193	223
Net sales	5,090	6,155	7,060	8,497	10,224	11,840
Other operating income	173	203	164	154	154	154
Total operating income	5,263	6,358	7,224	8,651	10,379	11,994
% chg	13.7	20.8	13.6	19.8	20.0	15.6
Total expenditure	4,179	5,232	6,024	6,896	8,073	9,229
Net raw materials	1,679	2,320	2,714	3,197	3,681	4,262
Other mfg costs	320	387	443	534	642	744
Personnel	751	903	1,071	1,209	1,500	1,737
Other	1,429	1,622	1,796	2,107	2,249	2,486
EBITDA	911	923	1,036	1,601	2,152	2,610
% chg	5.8	1.4	12.3	54.6	34.4	21.3
(% of Net Sales)	17.9	15.0	14.7	18.8	21.0	22.0
Depreciation & amortisation	158	183	201	287	304	373
EBIT	753	740	835	1,314	1,848	2,237
% chg	2.6	(1.7)	12.8	57.4	40.6	21.1
(% of Net Sales)	14.8	12.0	11.8	15.5	18.1	18.9
Interest & other charges	185	169	90	68	93	93
Other income	53	37	51	55	55	55
(% of PBT)	7	5	5	4	3	2
Recurring PBT	794	811	959	1,456	1,964	2,353
% chg	(5.7)	2.1	18.3	51.8	34.9	19.8
Extraordinary expense/(Inc.)	3	-	17	10	-	-
PBT (reported)	794	811	942	1,445	1,964	2,353
Tax	113.0	119.5	106.0	259.4	432.1	517.7
(% of PBT)	14.2	14.7	11.3	17.9	22.0	22.0
PAT (reported)	681	692	836	1,186	1,532	1,836
Less: Minority interest (MI)	28.6	36.4	32.6	35.5	35.5	35.5
PAT after MI (reported)	653	655	804	1,151	1,496	1,800
ADJ. PAT	650	655	819	1,159	1,496	1,800
% chg	(8.6)	0.8	25.0	41.5	29.1	20.3
(% of Net Sales)	12.8	10.6	11.4	13.5	14.6	15.2
Adj. Basic EPS (₹)	6.3	6.4	8.0	11.3	14.6	17.6
Adj. Fully Diluted EPS (₹)	6.3	6.4	8.0	11.3	14.6	17.6
% chg	(8.6)	0.8	25.0	41.5	29.1	20.3

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	102	102	102	102	102	102
Reserves & Surplus	2,471	2,938	3,337	4,149	5,358	6,871
Shareholders funds	2,574	3,040	3,439	4,252	5,460	6,973
Minority interest	90	119	144	169	204	240
Total loans	2,289	2,681	2,265	2,334	2,334	2,334
Other Long Term Liabilities	43	47	55	43	44	45
Long Term Provisions	79	64	76	110	77	78
Deferred tax liability	119	100	96	59	120	121
Total liabilities	5,193	6,053	6,075	6,966	8,118	9,667
APPLICATION OF FUNDS						
Gross block	3,008	4,104	3,756	4,353	5,003	5,653
Less: Acc. depreciation	1,175	1,358	1,540	1,827	2,132	2,504
Net block	1,833	2,746	2,214	2,526	2,871	3,148
Capital Work-in-Progress	484	248	892	892	892	892
Goodwill	1,015	862	908	733	733	733
Investments	24	21	87	154	154	154
Long Term Loans and Adv.	263	411	495	637	595	716
Current assets	2,760	3,191	3,391	4,105	5,642	7,230
Cash	467	582	549	670	1,684	2,699
Loans & advances	275	279	341	334	335	336
Other	2,019	2,330	2,501	3,102	3,623	4,195
Current liabilities	1,186	1,426	1,912	2,081	2,768	3,206
Net Current assets	1,574	1,765	1,480	2,024	2,873	4,024
Mis. Exp. not written off	-	-	-	-	-	-
Total assets	5,193	6,053	6,075	6,966	8,118	9,667

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	794	811	942	1,445	1,964	2,353
Depreciation	158	183	201	287	304	373
(Inc)/Dec in Working Capital	(427)	(223)	168	(565)	207	(257)
Less: Other income	53	37	51	55	55	55
Direct taxes paid	113	119	106	259	432	518
Cash Flow from Operations	359	614	1,154	853	1,988	1,896
(Inc.)/Dec.in Fixed Assets	(743)	(860)	(296)	(597)	(650)	(650)
(Inc.)/Dec. in Investments	(4)	3	(65)	(68)	-	-
Other income	53	37	51	55	55	55
Cash Flow from Investing	(694)	(820)	(310)	(609)	(595)	(595)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	1,238	382	(397)	91	(33)	2
Dividend Paid (Incl. Tax)	(175)	(175)	(216)	(287)	(287)	(287)
Others	(557)	115	(264)	74	(60)	(1)
Cash Flow from Financing	506	322	(877)	(122)	(380)	(286)
Inc./(Dec.) in Cash	171	116	(33)	121	1,013	1,015
Opening Cash balances	295	467	582	549	670	1,684
Closing Cash balances	467	582	549	670	1,684	2,699

Key Ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	66.9	66.3	53.1	37.5	29.1	24.1
P/CEPS	10.7	10.4	8.5	6.0	4.8	4.0
P/BV	16.9	14.3	12.6	10.2	8.0	6.2
Dividend yield (%)	1.8	1.8	1.8	1.8	1.8	1.8
EV/Sales	2.0	1.7	1.4	5.2	4.3	3.6
EV/EBITDA	11.4	11.4	9.7	27.8	20.2	16.3
EV / Total Assets	2.0	1.7	1.7	6.4	5.4	4.4
Per Share Data (₹)						
EPS (Basic)	6.3	6.4	8.0	11.3	14.6	17.6
EPS (fully diluted)	6.3	6.4	8.0	11.3	14.6	17.6
Cash EPS	39.5	41.0	49.9	70.8	88.1	106.3
DPS	7.5	7.5	7.5	7.5	7.5	7.5
Book Value	25.1	29.7	33.6	41.5	53.3	68.1
Dupont Analysis						
EBIT margin	14.8	12.0	11.8	15.5	18.1	18.9
Tax retention ratio	85.8	85.3	88.7	82.1	78.0	78.0
Asset turnover (x)	1.3	1.2	1.3	1.5	1.6	1.8
ROIC (Post-tax)	16.8	12.8	13.8	18.6	23.0	26.4
Cost of Debt (Post Tax)	9.4	5.8	3.2	2.4	3.1	3.1
Leverage (x)	0.5	0.7	0.6	0.4	0.3	0.0
Operating ROE	20.8	17.7	20.1	25.8	28.1	27.2
Returns (%)						
ROCE (Pre-tax)	17.3	13.2	13.8	20.2	24.5	25.2
Angel ROIC (Pre-tax)	27.2	19.5	20.6	31.3	39.0	44.1
ROE	27.4	23.3	25.3	30.1	30.8	29.0
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.0	1.8	1.8	2.1	2.2	2.3
Inventory / Sales (days)	66	66	69	61	71	79
Receivables (days)	57	54	57	57	58	64
Payables (days)	49	42	55	46	53	53
WC (ex-cash) (days)	64	66	53	48	45	38
Solvency ratios (x)						
Net debt to equity	0.7	0.7	0.5	0.4	0.1	(0.1)
Net debt to EBITDA	2.0	2.3	1.7	1.0	0.3	(0.1)
Interest Coverage (EBIT / Int.)	4.1	4.4	9.3	19.4	19.8	24.0

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 Website: www.angelbroking.com

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Disclosure of Interest Statement	Cadila Healthcare
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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