

Analyst & Advisor: Abhishek Jain
www.stocksidea.com
+91-98260-41144

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Cadila Healthcare Limited—Buy—335—INR

Sector — Pharmaceuticals
Regd.Off. — Zydus Tower, Ahmedabad, Gujarat-380 015.
Listed — NSE, BSE.

Company overview—

Cadila Healthcare Limited is one of the largest Indian companies in the domestic pharmaceutical market. The company is the flagship of the Zydus Cadila group. Its operations include pharmaceuticals, diagnostics, herbal products, skin care products and other over-the-counter products. Company came into current status after the group restructuring in 1995 under which the operations of the group were consolidated. The company also has co-marketing agreement with number of Indian drug companies like E. Merck, Kopran, Nicholas Piramal and Ranbaxy. Further, the company plans to ramp up export of its brands and establish overseas operations in the high margin export markets like the Hong Kong, China, Malaysia, South America and West Africa.

Products & services—

Cadila has more than 80 brands across segments of anti-infective, gastrointestinal, cardiovascular, pain management, biologicals, vaccines and OTC of which many belong to the top 300 India pharma brands. Bulk drugs manufactured by company include Loratidine, Famotidine, Omeprazole, Losartan and Amlodipine. The company also exports both bulk drugs and formulations.

Cadila has overseas operations at Sri Lanka, Kenya, Czechoslovakia, Romania, Mauritius, Myanmar, Cambodia and the Russian markets. The company covers over 1,10,000 retail outlets and have a work force of field over 1500. Company has a technical collaboration under license agreement with Swiss Serum Vaccine Institute (SSVI), Switzerland for the manufacture of human rabies vaccine. It also has a 50:50 research-cum-manufacturing joint venture with the DM 1.76 billion Byk Gulden in India. The German multinational is the global patent holder for pantoprazole, a proton pump inhibitor used to treat various gastrointestinal disorders. The company has subsidiaries include Indon Healthcare Limited, Zydus Pharmaceuticals Limited, Zydus Agrovet Limited, Zoom Properties Private Limited, Zydus International Private Limited, Ireland and Zydus Healthcare S.A (Pty) Ltd., South Africa, Zydus Pharmaceuticals (USA) and Zydus Pharma, Japan.

Company has plans to enter the biotech business. For this company is building a strong pipeline of biopharmaceuticals in areas like cancer and blood disorders. The company expects to commercialize its bio-pharma products by fiscal 07-08. The company is exploring options of launching innovative and generic biopharma products. In long-term the biotech division will eventually account for nearly 30% of Cadila's turnover.

Recent developments—

Cadila Healthcare has filed 4th IND application for the New Molecular Entity (NME) ZYO1, a novel drug candidate for treating obesity and related disorders with the DCGI. ZYO1 is a novel experimental drug working through CB-1 mechanism, which will help obese patients lose weight, and also help in controlling blood sugar levels in type 2 diabetes. The drug could also have a role in protecting the heart. Besides, the company plans to initiate Phase I clinical trials to ensure the safety and tolerability of ZYO1.

Cadila Healthcare is gearing up for a national rollout of “sugar free” boutiques. The company plans to set up the first boutique in Kolkata within the next six months, while more boutiques will be set up in 20 cities and towns across the country in the next 2-3 years. Size of the Indian market for low-calorie sweeteners has been pegged at Rs 1 billion “at the MRP level”. Cadila accounts for nearly 75% of the Indian market for low-calorie sweeteners. Indian market for low-calorie sweeteners growing at 22% per year.

Company received approval to market azathioprine tablets 50 mg and tentative approvals for divalproex sodium extended release tablets 250 and 500 mg and venlafaxine hydrochloride tablets 25, 37.5, 50, 75 and 100 mg. The branded sales in the US market of azathioprine tablets, which falls in the immuno-suppressant segment estimated at USD 113 million in 2006 as per NDC. The branded sales of divalproex sodium extended release, an anti-convulsant, was estimated at USD 700 million in 2006 and that of venlafaxine hydrochloride tablets, an anti-depressant, was estimated at USD 141 million in 2006 as per NDC. The company will market all the three drugs through its US subsidiary Zydus Pharmaceuticals (USA).

Financials—

01-oct-2006 to 31-dec-2006 (Third Quarter)

Financial Results	Rs. Lakhs
Net Sales	46090.00
Other Income	3110.00
Gross Income	49200.00
Increase/Decrease in Stock	-320.00
Consumption of Raw Materials	17150.00
Staff Cost	5190.00
Total Expenditure (Excluding Other Expenditure)	22020.00
Other Expenditure	17030.00
Total Expenditure	39050.00
Interest	450.00
Profit Before Depreciation & Taxes	9700.00
Depreciation	2120.00
Profit Before Tax	7580.00
Provision for Taxation	980.00
Adjusted Net Profit	6600.00
Basic EPS (in Rs.)	5.25

Valuation—

Company already filed 46 ANDAs and 46 DMFs in last few years. Company is targeting to become the Top 10 global generic companies of the world, and sales of more than \$ 1bn by 2010. The company is in talks with 2-3 Generic drug maker companies with an investment of about USD 25 million for its expansion plans in Japan. Company also opened its new subsidiary in Japan, Zydus Pharma, Japan to start operations in the USD 60 billion Japanese market. The subsidiary plans to market APIs and formulations in Japan, and start product registration by the end of the year. At CMP, stock is trading at 14.2 X multiple of its FY08 Estimated earnings. We recommend investors to “Buy “Cadila healthcare” at every correction with a medium to long-term investment prospective.

We invite Readers to send Feedback, stock and subscription queries at E-mail investment_guru1@yahoo.com

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