

CADILA HEALTHCARE

Waiting for Moraiya clearance with bated breath

India Equity Research | Pharmaceuticals

Cadila Healthcare's (CDH) Q4FY17 earnings surpassed expectations driven by EBITDA beat. While revenue grew 6% YoY, EBITDA & PAT fell 16% and 32% YoY, respectively, owing to HCQS in base. With Moraiya on the verge of resolving its Warning Letter, the company is geared to deliver a slew of ~40 approvals including niche ones like Lialda and Asacol HD. This, we believe, will lead to best-in-class US growth among peers, which, in turn, will drive strong earnings growth over FY17-19 (refer our [upgrade note](#)). Maintain 'BUY' with TP of INR460 (20x FY19E EPS).

Earnings beat estimate

Revenue of INR24.2bn rose 6% YoY. US generics revenue (40% of total) jumped 11% QoQ in constant currency as CDH launched ANDAs from facilities other than Moraiya. India (34% of total) grew 9% YoY. Gross margin tumbled ~413bps YoY as Asacol HD's authorised generic has replaced HCQS contribution. However, gross margin improved QoQ, leading to EBITDA margin jumping 18.7%.

Strong acceleration ahead

Moraiya has recently undergone FDA reaudit without being issued any observations. Thus, CDH looks good to sort out the facility's Warning Letter, which, in turn, will lead to a flurry of ANDA approvals (~40 from Moraiya) including the long-awaited niche approvals like Mesalamines, Transdermals and Injectables, among others. Most importantly, according to management, Lialda's sole FTF launch is now contingent only on this resolution, which could add annualised EPS of ~INR6-8/share to current base EPS. Good growth is also anticipated in domestic business post absorbing the NLEM/FDC impact in base as vaccines, biologics and new acquisitions drive growth. Specialty initiative in US will be driven via near-term opportunities (NDDS filings + small brand acquisitions in pain area) as well as long-term ones (own products in 3-4 therapeutic areas).

Outlook and valuations: Niche pipeline to kick in; maintain 'BUY'

We had recently [upgraded](#) the stock. Going ahead, with imminent resolution of Moraiya Warning Letter, CDH is geared to deliver a bunch of approvals including niche ones that could drive US growth (28%) to the best-in-class over FY17-19E. This will accelerate top line and bottom line growth to 19% and 26%, respectively. We maintain 'BUY/SO' with target price of INR460.

Financials

(INR mn)

Year to March	Q4FY17	Q4FY16	% Chg	Q3FY17	% Chg	FY17	FY18E	FY19E
Net revenues	24,782	23,346	6.2	23,111	7.2	94,295	114,588	132,478
EBITDA	4,636	5,502	(15.7)	4,043	14.7	19,036	26,919	32,920
Adjusted Profit	3,855	5,673	(32.0)	3,240	19.0	14,880	18,642	23,620
Adjusted Diluted EPS	3.8	5.5	(32.1)	3.2	19.0	14.5	18.2	23.1
Diluted P/E (x)						30.5	24.4	19.2
ROAE (%)						22.9	23.7	24.7

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

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

CMP	: INR 444
Target Price	: INR 460
52-week range (INR)	: 497 / 305
Share in issue (mn)	: 1,023.7
M cap (INR bn/USD mn)	: 454 / 7,044
Avg. Daily Vol.BSE/NSE('000)	: 1,047.1

SHARE HOLDING PATTERN (%)

	Current	Q3FY17	Q2FY17
Promoters *	74.8	74.8	74.8
MF's, FI's & BK's	7.3	7.2	7.1
FII's	9.9	10.0	10.1
Others	8.1	8.0	8.0
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	0.8	3.1	(9.5)
3 months	0.8	8.1	(11.7)
12 months	35.7	17.6	(12.1)

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Q4FY17 conference call: Key highlights

US

- **Moraiya:** Status has been updated to NAI; CDH unaware as to when FDA will commence approvals.
- ~40 approvals likely from Moraiya post Warning Letter resolution.
- Lialda should be approved post Warning Letter resolution. CDH confident that Asacol HD will also be approved.
- **Lialda:** Exclusivity is safe.
- **Asacol HD:** Cannot give timelines for ANDA launch due to agreement's terms with innovator.
- **Specialty:** There are some short-term opportunities (line extension, small brand acquisitions in pain area); long-term will be CDH's own products (3-4 therapeutic areas, not disclosing areas apart from pain; diabetes likely to be one). Will start filing some pain area NDDS NDAs going forward.
- **Sentinyl:** Meeting targets; does not need to add field force.
- **Lipaglyn:** Expects clinical trial to finish by April 2018.

India

- GST: Destocking underway as transition rules unclear. Companies ready to pass full excise credit to stockists.

Financials and others

- **Tax rate:** Overall tax including deferred tax will be <20%.
- **FY18 Capex:** INR10bn
- **R&D:** Will spend 7-8% in future.
- **Debt/ equity ratio:** <1.

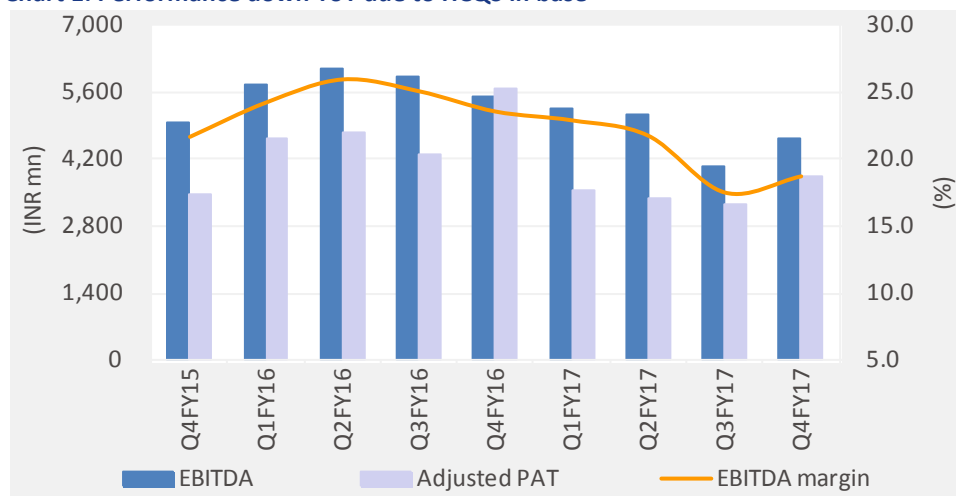
Table 1: Actual versus estimates

(INR mn)

Year to March	Actual Q4FY17	Y-o-Y Growth (%)	Edel estimates	Y-o-Y Growth (%)	Deviation from Actual (%)
Net revenue	24,175	6.5	24,467	7.8	(1.2)
Other operating income	607	(5.6)	700	8.9	(13.3)
Raw material costs	9,284	19.3	9,689	24.5	(4.2)
Gross profit	19,328	(9.2)	15,478	(97.2)	24.9
Gross margins(%)	80.0		63.3		
Employee costs	4,005	15.2	4,322	24.3	(7.3)
Other expenses	6,857	4.1	7,047	7.0	(2.7)
EBITDA	4,636	(15.7)	4,109	(25.3)	12.8
EBITDA margin (%)	18.7	-	16.3	-	
Net finance expense (income)	99	(37.3)	150	(5.1)	(34.0)
Depreciation	1,145	49.9	920	20.4	24.5
Other income	731	86.0	200	(49.1)	265.5
PBT	4,123	(17.1)	3,239	(34.9)	27.3
Income tax expense	19	(103.0)	503	(180.2)	(96.2)
Tax rate	0.5		15.5		
Net profit	3,855	(32.2)	2,836	(50.1)	35.9
Adjusted PAT	3,855	(32.0)	2,836	(50.0)	35.9
Adjusted EPS	3.8	(32.1)	2.8	(50.0)	35.9

Source: Company, Edelweiss research

Chart 1: Performance down YoY due to HCQS in base



Source: Company, Edelweiss research

Table 2: Revenue mix by segment

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change
Domestic formulations	8,402	7,716	8.9	7,968	5.4
Export formulations	12,518	12,201	2.6	11,320	10.6
USA	9,851	9,610	2.5	8,869	11.1
Europe	620	705	(12.1)	653	(5.1)
LatAm	603	553	9.0	659	(8.5)
Emerging markets	1,444	1,333	8.3	1,139	26.8
Alliances	514	487	5.5	435	
APIs	934	922	1.3	1,053	(11.3)
Zydus Wellness	1,200	1,057	13.5	1,113	7.8
Animal Health & Others	1,074	844	27.3	1,134	(5.3)
Total gross sales	24,642	23,227	6.1	23,023	7.0

Source: Company, Edelweiss research

Table 3: Therapy-wise break up

(INR mn)

	Contribution (%)	MAT Mar'17	MAT Mar'16	Growth YoY (%)
Anti-Infectives	15	6,932	5,964	16.2
Cardiac	15	6,833	6,409	6.6
Gastro Intestinal	12	5,526	4,972	11.1
Respiratory	10	4,765	4,182	13.9
Gynaecological	10	4,477	4,606	(2.8)
Pain / Analgesics	9	4,266	3,686	15.7
Derma	7	3,508	3,114	12.7
Anti-Neoplastics	6	3,044	2,070	47.0
Vitamins / Minerals / Nutrients	4	2,001	1,631	22.7
Hormones	2	1,109	835	32.8
Others	10	4,531	4,476	1.2
Acute	49	23,171	20,490	13.1
Chronic	32	15,074	13,678	10.2
Sub-Chronic	19	8,747	7,777	12.5
Total Sales	100	46,993	41,944	12.0

Source: Company, Edelweiss research

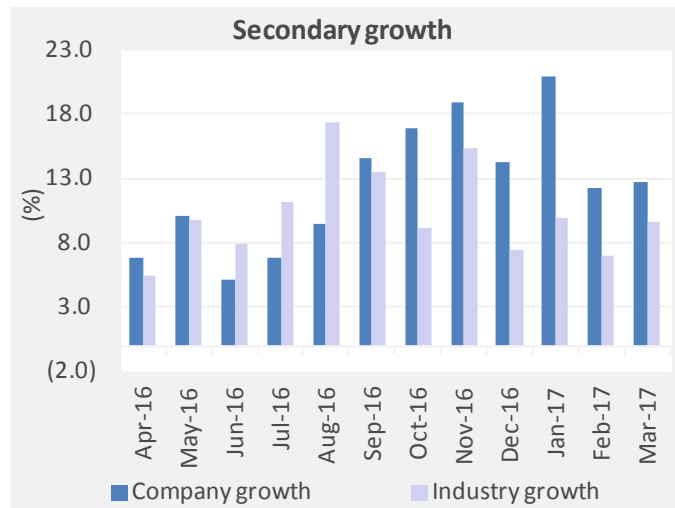
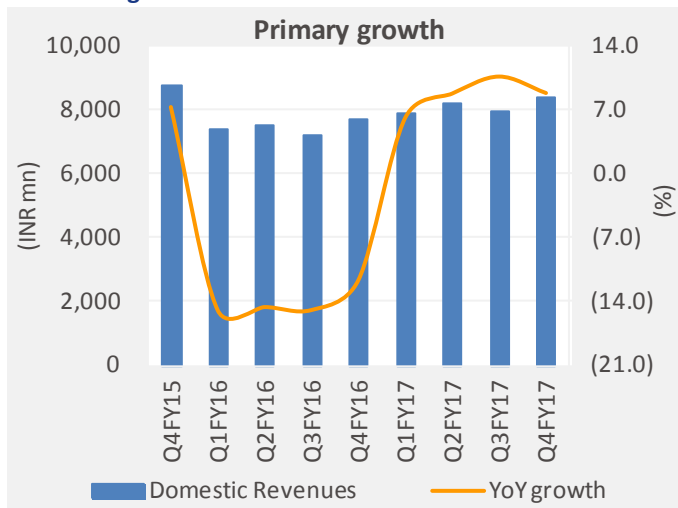
Table 4: Top brands

(INR mn)

		MAT Mar'17	MAT Mar'16	Growth YoY (%)
Skinlite	Derma	1,924	1,796	7.1
Deriphyllin	Respiratory	1,137	997	14.1
Atorva	Cardiac	1,133	1,311	(13.5)
Mifegest Kit	Gynaecological	1,129	1,293	(12.7)
Pantodac	Gastro Intestinal	1,116	975	14.4
Zyrop	Blood Related	771	629	22.6
Formonide	Respiratory	668	591	13.0
Thrombophob	Pain/ analgesics	664	576	15.3
Amlodac	Cardiac	629	705	(10.8)
Ampilox	Anti-infectives	620	618	0.3
Total		9,792	9,492	3.2

Source: AIOCD, Edelweiss research

Chart 2: 9% growth for India business



Source: AIOCD, Company, Edelweiss research

Chart 3: US sales grow QoQ

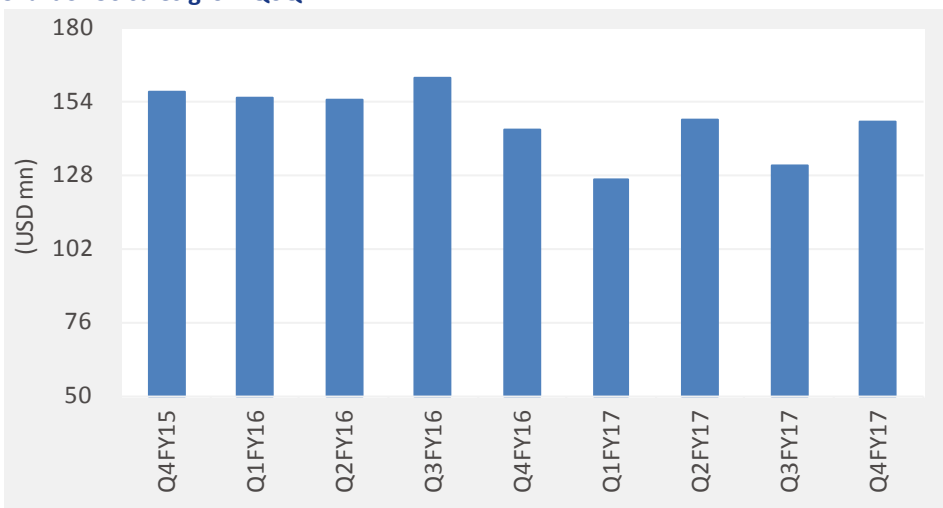
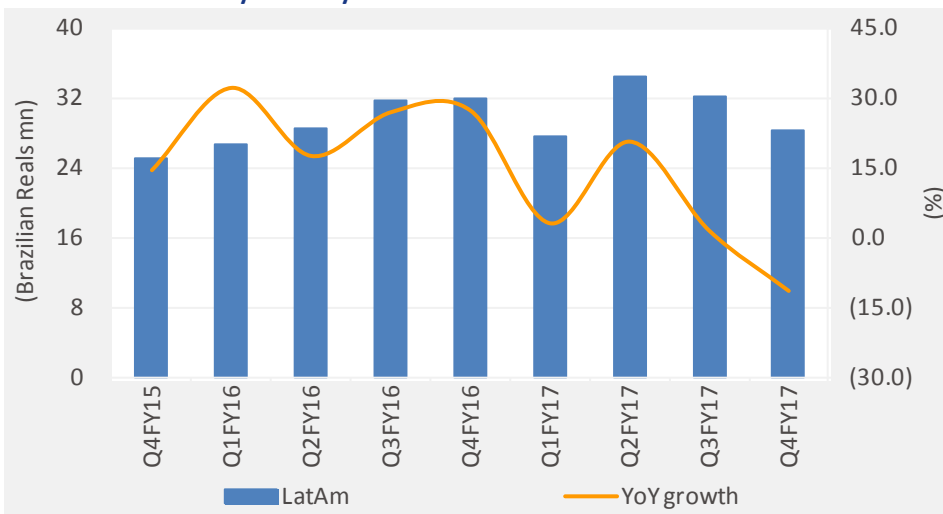
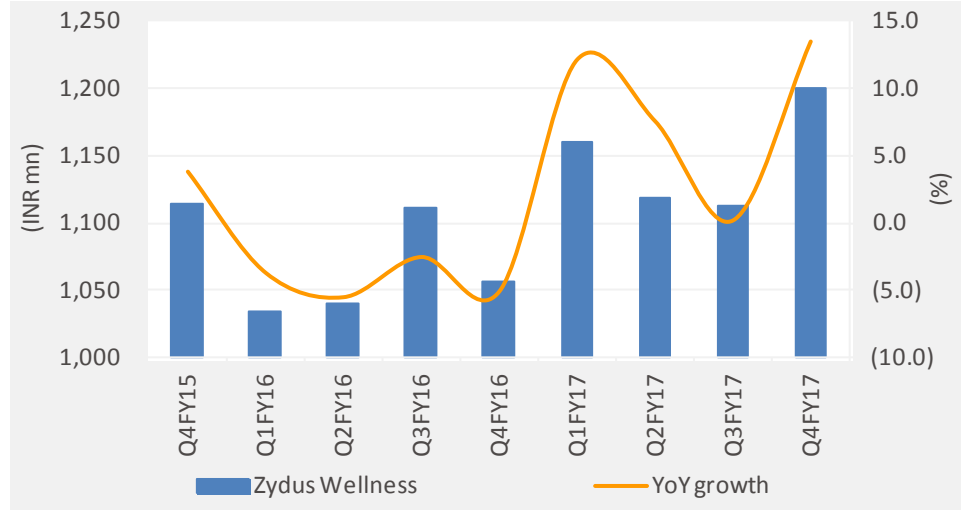


Chart 4: LatAm hurt by currency issues



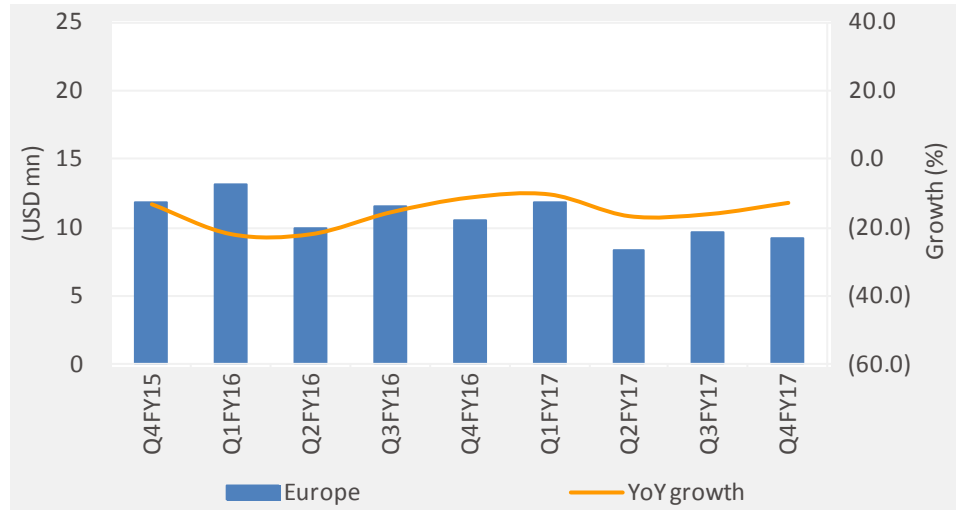
Source: Company, Edelweiss research

Chart 5: Zydus Wellness' growth improved



Source: Company, Edelweiss research

Chart 6: Europe disappoints



Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net revenues	24,782	23,346	6.2	23,111	7.2	94,295	114,588	132,478
Cost of revenue	9,284	7,782	19.3	8,994	3.2	34,451	39,189	44,645
Gross profit	15,498	15,564	(0.4)	14,117	9.8	59,844	75,399	87,833
R&D	2,180	1,812	20.3	2,210	(1.4)	7,539	9,167	10,598
EBITDA	4,636	5,502	(15.7)	4,043	14.7	19,036	26,919	32,920
EBITDA margin	18.7	23.6		17.5		20.2	23.5	24.8
Depreciation	1,145	764	49.9	898	27.5	3,750	4,602	5,055
EBIT	3,491	4,738	(26.3)	3,145	11.0	15,286	22,317	27,865
Other income	731	393	86.0	166	340.4	1,286	1,653	2,557
Interest	99	158	(37.3)	66	50.0	450	742	989
Add: Exceptional items	-	8	(100.0)	(1)	(100.0)	(3)	-	-
Profit before tax	4,123	4,981	(17.2)	3,244	27.1	16,119	23,229	29,432
Provision for taxes	19	(627)	(103.0)	81	(76.5)	1,289	4,646	5,886
Minority interest	249	(74)	(436.5)	(76)	(427.6)	(47)	(59)	(75)
Associate profit share								
Reported net profit	3,855	5,682	(32.2)	3,239	19.0	14,877	18,642	23,620
Adjusted Profit	3,855	5,673	(32.0)	3,240	19.0	14,880	18,642	23,620
Diluted shares (mn)	1,024	1,024		1,024		1,024	1,024	1,024
Adjusted Diluted EPS	3.8	5.5	(32.1)	3.2	19.0	14.5	18.2	23.1
Diluted P/E (x)	-	-		-		30.5	24.4	19.2
EV/EBITDA (x)	-	-		-		25.7	17.6	14.1
ROAE (%)	-	-		-		22.9	23.7	24.7

As % of net revenues

Cost of revenue	37.5	33.3		38.9		36.5	34.2	33.7
Gross profit	62.5	66.7		61.1		63.5	65.8	66.3
R&D	8.8	7.8		9.6		8.0	8.0	8.0
Total expenses	81.3	76.4		82.5		79.8	76.5	75.2
Operating profit	14.1	20.3		13.6		16.2	19.5	21.0
Reported net profit	15.6	24.3		14.0		15.8	16.3	17.8
Tax rate	0.5	(12.6)		2.5		8.0	20.0	20.0

Company Description

Cadila Healthcare (CDH) is a well-diversified pharma company with presence across more than 100 countries in the world and among the few Indian players to have presence in Consumer and Animal health businesses. Cadila ranks among the Top-5 companies in the Indian pharma market and the India branded business contributes more than 30% of its sales. US contributes 35% of its revenues and is among the top-15 generic companies in the US in terms of prescriptions. Acquisition has been a core to its strategy in recent times primarily aimed at strengthening presence in these markets - Spain, France, Brazil, Nesher Pharma in US, etc. to its credit it also has joint ventures with leading Global Pharma players like Abbott, Bayer, Hospira, Takeda, etc.

Investment Theme

In the past three years, Cadila Healthcare's (CDH) operating metrics came for a beating owing to lack of approvals in US (Warning letter on Moraiya plant) and weak performance of other key businesses. In recent quarters signs of a rebound have started to show led by growth in the US and India. We believe that the company's niche US pipeline (170+ ANDA pending approval) will lend impetus to its earnings as we expect ANDA approvals to pick up (signs visible). We expect operating leverage to aid margin expansion. With more productive US pipeline awaiting approval, hope of a strong earnings growth for Cadila in the next few years continues and will support premium valuations.

Key Risks

- Delays in US ANDA approvals could hurt growth
- Any further diversification of the business could dilute return ratios

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	67.0	67.0
Sector				
IPM growth (Y-o-Y) %	12.0	12.0	12.0	12.0
Company				
India sales (INR mn)	29,852	32,441	36,658	41,424
% change	11.5	8.7	13.0	13.0
US generics (USD mn)	660	549	750	900
Growth (YoY)%	18.9	(16.7)	36.5	20.0
EBITDA margins (%)	24.7	20.2	23.5	24.8
R&D (INR mn)	7,594	7,539	9,167	10,598
R&D (% of sales)	8.4	8.2	8.2	8.1
USD/INR (Avg)	65.0	67.5	67.0	67.0
Capex (USD mn)	(149)	(88)	(149)	(149)
Net debt (INR mn)	12,695	33,527	18,139	7,720

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Gross revenues	92,618	94,156	114,618	132,718
Net revenue	90,717	92,198	112,419	130,233
Other Operating Income	3,551	2,097	2,169	2,245
Income from operations	94,268	94,295	114,588	132,478
Materials costs	30,959	34,451	39,189	44,645
Employee costs	12,616	15,002	15,191	17,222
R&D Cost	7,594	7,539	9,167	10,598
Total SG&A expenses	19,794	18,267	24,121	27,092
EBITDA	23,305	19,036	26,919	32,920
Operating profit	23,305	19,036	26,919	32,920
EBIT	20,384	15,286	22,317	27,865
Add: Other income	1,156.00	1,286.00	1,653.39	2,556.65
Less: Interest Expense	528	450	742	989
Add: Exceptional items	(25)	(3)	-	-
Profit Before Tax	20,987	16,119	23,229	29,432
Less: Provision for Tax	1,774	1,289	4,646	5,886
Less: Minority Interest	(126)	(47)	(59)	(75)
Reported Profit	19,339	14,877	18,642	23,620
Exceptional Items	(23)	(3)	-	-
Adjusted Profit	19,362	14,880	18,642	23,620
Shares o /s (mn)	1,024	1,024	1,024	1,024
Adjusted Basic EPS	18.9	14.5	18.2	23.1
Diluted shares o/s (mn)	1,024	1,024	1,024	1,024
Adjusted Diluted EPS	18.9	14.5	18.2	23.1
Adjusted Cash EPS	21.8	18.2	22.7	28.0
Dividend per share (DPS)	3.2	2.5	3.1	3.9
Dividend Payout Ratio(%)	16.9	16.9	16.9	16.9

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	75.3	79.8	76.5	75.2
Materials costs	32.8	36.5	34.2	33.7
Staff costs	13.4	15.9	13.3	13.0
S G & A expenses	21.0	19.4	21.1	20.5
R & D cost	8.1	8.0	8.0	8.0
Depreciation	3.1	4.0	4.0	3.8
Interest Expense	0.6	0.5	0.6	0.7
EBITDA margins	24.7	20.2	23.5	24.8
Net Profit margins	20.4	15.7	16.2	17.8

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	6.8	1.6	21.9	15.8
EBITDA	32.7	(18.3)	41.4	22.3
PBT	45.0	(23.2)	44.1	26.7
Adjusted Profit	67.3	(23.1)	25.3	26.7
EPS	67.3	(23.1)	25.3	26.7

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	1,024	1,024	1,024	1,024	
Reserves & Surplus	55,968	68,576	83,417	102,222	
Shareholders' funds	56,992	69,600	84,441	103,246	
Minority Interest	1,358	1,561	1,502	1,427	
Short term borrowings	12,109	24,769	24,769	24,769	
Long term borrowings	8,964	24,684	24,684	24,684	
Total Borrowings	21,073	49,453	49,453	49,453	
Long Term Liabilities	1,573	2,140	2,140	2,140	
Def. Tax Liability (net)	(3,176)	(4,006)	(4,006)	(4,006)	
Sources of funds	77,820	118,748	133,530	152,260	
Gross Block	55,867	79,689	89,689	99,689	
Depreciation	2,921	3,750	4,602	5,055	
Net Block	37,479	57,551	62,949	67,894	
Capital work in progress	9,508	15,433	15,433	15,433	
Total Fixed Assets	46,987	72,984	78,382	83,327	
Non current investments	2,171	3,857	332	332	
Cash and Equivalents	8,378	15,926	31,314	41,733	
Inventories	13,371	18,037	16,926	19,282	
Sundry Debtors	17,466	22,775	21,231	24,546	
Loans & Advances	11,948	13,458	13,458	13,458	
Current Assets (ex cash)	42,785	54,270	51,614	57,285	
Trade payable	13,081	16,736	16,558	18,864	
Other Current Liab	9,420	11,553	11,553	11,553	
Total Current Liab	22,501	28,289	28,111	30,417	
Net Curr Assets-ex cash	20,284	25,981	23,503	26,869	
Uses of funds	77,820	118,748	133,530	152,260	
BVPS (INR)	55.7	68.0	82.5	100.9	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	19,339	14,877	18,642	23,620	
Add: Depreciation	2,921	3,750	4,602	5,055	
Interest (Net of Tax)	483	414	593	791	
Others	(229)	(13,054)	4,363	(7,523)	
Less: Changes in WC	2,576	(6,320)	2,478	(3,366)	
Operating cash flow	19,938	12,307	25,722	25,310	
Less: Capex	9,663	5,925	10,000	10,000	
Free Cash Flow	10,275	6,382	15,722	15,310	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		19,938	12,307	25,722	25,310
Investing cash flow		(9,039)	(5,925)	(10,000)	(10,000)
Financing cash flow		(9,527)	24,224	(334)	(4,891)
Net cash Flow		1,372	30,606	15,388	10,419
Capex		(9,663)	(5,925)	(10,000)	(10,000)
Dividend paid		(6,969)	(3,033)	(3,801)	(4,816)

Profitability and efficiency ratios		FY16	FY17	FY18E	FY19E
Year to March					
ROAE (%)		37.5	22.9	23.7	24.7
ROACE (%)		29.3	16.7	18.9	21.2
Inventory Days		169	166	163	148
Debtors Days		67	80	71	64
Payable Days		141	158	155	145
Cash Conversion Cycle		95	88	79	67
Current Ratio		2.3	2.5	2.9	3.3
Gross Debt/EBITDA		0.9	2.6	1.8	1.5
Gross Debt/Equity		0.4	0.7	0.6	0.5
Adjusted Debt/Equity		0.4	0.7	0.6	0.5
Net Debt/Equity		0.2	0.5	0.2	0.1
Interest Coverage Ratio		38.6	34.0	30.1	28.2

Operating ratios		FY16	FY17	FY18E	FY19E
Year to March					
Total Asset Turnover		1.2	0.9	0.9	0.9
Fixed Asset Turnover		2.6	1.9	1.9	2.0
Equity Turnover		1.8	1.4	1.4	1.4

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)		18.9	14.5	18.2	23.1
Y-o-Y growth (%)		67.3	(23.1)	25.3	26.7
Adjusted Cash EPS (INR)		21.8	18.2	22.7	28.0
Diluted P/E (x)		23.5	30.5	24.4	19.2
P/B (x)		8.0	6.5	5.4	4.4
EV / Sales (x)		5.2	5.3	4.2	3.6
EV / EBITDA (x)		20.1	25.7	17.6	14.1
Dividend Yield (%)		0.7	0.6	0.7	0.9

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Cadila Healthcare	7,044	24.4	19.2	17.6	14.1	23.7	24.7
Aurobindo Pharma	4,835	12.1	11.4	8.0	7.2	24.7	21.3
Dr.Reddys Laboratories	6,199	25.1	16.3	14.1	10.2	12.3	17.1
Lupin	7,788	21.9	18.2	13.6	11.3	15.9	16.7
Sun Pharmaceuticals Industries	21,107	23.4	18.3	14.3	10.9	14.8	16.2
Median	-	23.4	18.2	14.1	10.9	15.9	17.1
AVERAGE	-	21.4	16.7	13.5	10.7	18.3	19.2

Source: Edelweiss research

Additional Data

Directors Data

Pankaj R. Patel	Chairman and Managing Director	Dr. Sharvil P. Patel	Deputy Managing Director
Mukesh M. Patel	Director	Humayun Dhanrajgir	Director
Nitin Raojibhai Desai	Director	Dharmishtaben N. Raval	Director

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

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Zydus family trust	74.78	Life insurance corp	2.77
Franklin resources	2.56	Templeton asset mgmt	1.46
Norges bank	1.06	Government pension f	1.06
Vanguard group	0.8	Blackrock	0.74
Reliance capital tru	0.53	Axis asset managemen	0.49

**in last one year*

Bulk Deals

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

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
21 Nov 2016	Pankaj R. Patel	Buy	15000.00
21 Nov 2016	Pankaj R. Patel	Buy	15000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aurobindo Pharma	HOLD	SP	H	Cadila Healthcare	BUY	SO	M
Cipla	HOLD	SP	L	Divi's Laboratories	HOLD	SO	M
Dr.Reddys Laboratories	HOLD	SP	M	Glenmark Pharmaceuticals	HOLD	SP	M
Ipca Laboratories	REDUCE	SU	M	Lupin	HOLD	SP	M
Natco Pharma	BUY	SO	M	Sun Pharmaceuticals Industries	BUY	SO	M
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

Edelweiss
Ideas create, values protect



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Aditya Narain

Head of Research

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

Aurobindo Pharma, Cadila Healthcare, Cipla, Divi's Laboratories, Dr.Reddys Laboratories, Glenmark Pharmaceuticals, Ipca Laboratories, Lupin, Natco Pharma, Sun Pharmaceuticals Industries, Torrent Pharmaceuticals

Recent Research

Date	Company	Title	Price (INR)	Recos
26-May-17	Sun Pharma	Poor near-term guidance, but specialty closer to fruition; <i>Result Update</i>	568	Buy
25-May-17	Cipla	Another quarter misses the mark; <i>Result Update</i>	504	Hold
25-May-17	Healthcare Global Enterprises	Extends strong performance ; <i>Result Update</i>	253	Buy

Distribution of Ratings / Market Cap

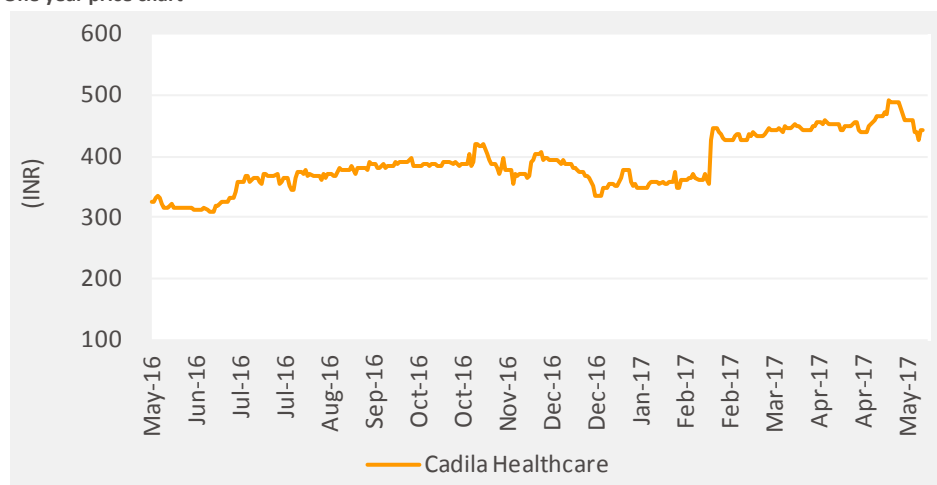
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

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

One year price chart



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