

Cadila Healthcare

Refer to important disclosures at the end of this report

Revlimid settlement: directionally positive

- Cadila announced the settlement of Revlimid patent suit with the innovator Celgene (BMS). As part of the settlement, Cadila is enjoined from marketing generic lenalidomide before the expiration of the patents-in-suit, except as provided for in the settlement. The settlement terms are not disclosed yet.
- While this is a positive news for the company, it is difficult to quantify the positive impact of the settlement given the confidential nature of the settlement. Our estimates suggest that gRevlimid could represent a stock price upside of Rs20-40, depending on the settlement terms.
- Our base-case upside of ~Rs20/share assumes low-single digit volume share in FY23E, with it gradually increasing to mid-single digit in FY26E. The bull-case of Rs40/share assumes settlement terms similar to Alvogen and mid-single digit volume share in FY23E, with it increasing to high-single digit in FY26.
- Given the lack of clarity on settlement terms and approval time, we view this as an option upside to our TP of Rs655. We reiterate Buy rating on the stock as we believe that the company's innovation efforts continue to remain underappreciated.

Reiterate Buy but maintain TP: While the revlimid settlement is a positive news for Cadila, we await more clarity on the settlement terms before baking in the upside. Hence, we maintain our TP of Rs655 despite, with an estimated upside of Rs20-40 per share from the settlement. Our base-case NPV calculation of Rs20/share is conservative and assumes: 1) settlement terms inferior than Alvogen; 2) launch in FY23E and market share of low-single digit in FY23E, with it increasing to mid-single digit in FY26E; 3) all the 11 Para IV filers launching before January 31, 2026 though in a staggered manner; 4) 10% incremental price erosion per generic in FY23E, increasing to 25% incremental price erosion in FY26; and 5) WACC of 10%. Our bull-case upside of Rs40/share assumes settlement terms in line with Alvogen (Exhibit 1-3).

Limited impact on DRL (Buy), Cipla (Buy) and Natco (not rated): We believe Cadila's settlement has limited impact on the companies which have previously settled their revlimid patent suits with the innovator. This is because 1) all the companies have received volume limited license till now which will limit the market share gains and 2) staggered entry. Both these tactics will lessen the price erosion. Natco (not rated) continues to have the most favorable gRevlimid settlement. We estimate gRevlimid NPV of Rs135/share for Natco based on its settlement terms and profit share of 30% with Teva. Natco's settlement allows it to capture mid-single digit volume share starting from Mar'22 and gradually increasing to no more than 33% by Jan'26E (Exhibit 4). For Dr Reddy's Labs, we estimate gRevlimid NPV calculation of Rs330 per share assuming volume share inferior to the Natco settlement but better than the Alvogen settlement (Exhibit 5). For Cipla, we estimate gRevlimid NPV of Rs45/share assuming settlement terms similar to Alvogen (Exhibit 6).

Future gRevlimid settlements to be in line or inferior to Alvogen settlement: Our base-case scenario for Cadila assumes settlement terms inferior than Alvogen because we believe that the innovator would eventually want a market share that is sustainable after January 31, 2026. With 11 Para IV filers, each company, including the innovator, can have a fair share of ~8%, which is roughly in line with the exit volume allowed to Alvogen. Moreover, the patent expiration schedule and patents asserted in the court cases also provide us with a view on strength of the IP situation of each Para IV filer. Of the 11 Para IV filers, only 4 (Natco, DRL, Alvogen/Lotus and Apotex) challenged the innovator's patents expiring in 2020, potentially allowing them to have better settlement terms. We believe that future gRevlimid settlements will likely be inferior to the Alvogen settlement. Assuming that, we estimate gRevlimid NPV for Sun Pharma (Buy), Lupin (Buy) and Aurobindo (Buy) to be Rs18, Rs80, and Rs65 per share, respectively. None of them currently has any settlement with the innovator; hence, we do not factor in potential gRevlimid NPV to our TP (Exhibit 7-9).

Risk from FTC minimal: While we cannot entirely rule out regulatory scrutiny from the US Federal Trade Commission (FTC) on Revlimid settlements, we believe that the regulatory risk is minimal as all such settlement agreements need to be submitted to FTC once they are finalized.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Pharmaceuticals \(page 8\)](#)

CMP	Target Price
Rs 431 as of (March 24, 2021)	Rs 655 (■) 12 months
Rating	Upside
BUY (■)	52.0 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	4.1/
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	20.5	29.9
Consensus	19.4	20.7
Mean Consensus TP (12M)	Rs 501	

Stock Details

Bloomberg Code	CDH IN
Face Value (Rs)	1
Shares outstanding (mn)	1,024
52 Week H/L	509 / 248
M Cap (Rs bn/USD bn)	441 / 6.08
Daily Avg Volume (nos.)	3,096,751
Daily Avg Turnover (US\$ mn)	20.0

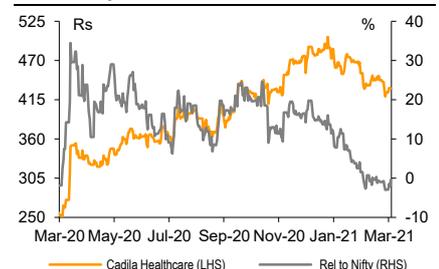
Shareholding Pattern Dec '20

Promoters	74.9%
FII's	5.2%
DII's	11.7%
Public and Others	8.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(12)	15	55
Rel. to Nifty	2	(17)	(15)	(17)

Relative price chart



Source: Bloomberg

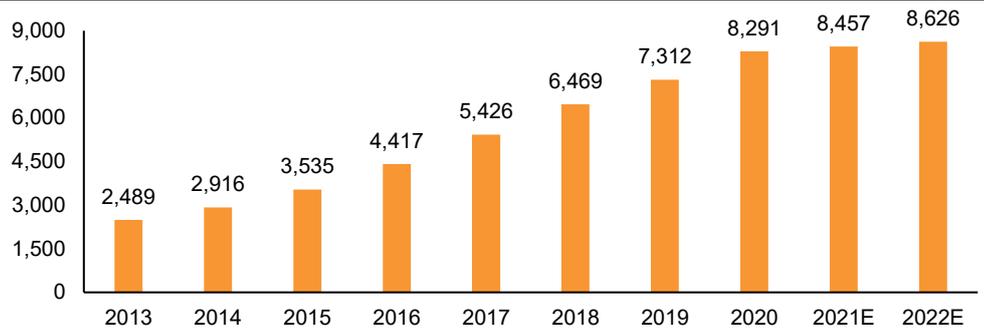
This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Kunal Dhamesha

kunal.dhamesha@emkayglobal.com
 +91 22 6612 1254

Anas Dadarkar

anas.dadarkar@emkayglobal.com
 +91 22 6612 1235

Exhibit 1: With over US\$8bn in annual sales, Revlimid is a huge opportunity for generic players

Source: Company reports, Emkay Research

Exhibit 2: Natco has received the most favourable settlement till now

Company	Settlement terms
Cadila	Settlement terms not yet disclosed, but we assume FY23 launch; low-single digit percentage in FY23E, gradual increase to no more than mid-single digit percentage in the final year (Mar'26E)
Natco	Mid-single digit volume starting from Mar'22E, gradual increase annually but not exceeding 1/3 of total volumes by Mar'26E
Alvogen	Single digit percentage after Mar'22E, gradual increase to no more than single digit percentage in the final year (Mar'26E)
DRL	Starting from sometime after Mar'22E, volume percentage confidential
Cipla	Starting from sometime after Mar'22E, volume percentage confidential

Source: Company reports

Exhibit 3: We estimate gRevlimid NPV of Rs20/ share for Cadila in base case scenario**Base case (settlement terms inferior than Alvogen)**

2022E US sales (US\$ mn)	8450			
	FY23E	FY24E	FY25E	FY26E
Volume allowance	2%	3%	4%	5%
Price erosion	35%	50%	70%	85%
Potential revenue (US\$ mn)	121	145	112	68
Gross margin	98%	98%	97%	93%
FCF (US\$ mn)	93	111	84	50
WACC	10%			
	0.91	0.83	0.75	0.68
PV (US\$ mn)	85	91	63	34
NPV	273			
NPV per share (Rs)	20			

Source: Company reports; Emkay research

Exhibit 4: We estimate gRevlimid NPV of Rs135/share for Natco in base-case scenario**Revlimid NPV**

2022E US sales (US\$ mn)	8,454			
	FY23E	FY24E	FY25E	FY26E
Volume allowance	5%	15%	24%	33%
Price erosion	35%	50%	70%	85%
Potential revenue (US\$ mn)	275	634	609	418
Gross margin	98%	98%	97%	93%
FCF (US\$ mn)	203	466	441	293
WACC	10%			
	0.91	0.83	0.75	0.68
PV (US\$ mn)	184	385	332	200
NPV (US\$ mn)	1,101			
Natco's share	30%			
NPV per share (Rs)	136			

Source: Company reports, Emkay research

Exhibit 5: We estimate gRevlimid NPV of Rs330/share for DRL in base-case scenario**Base-case (settlement terms in between Natco and Alvogen)**

2022E US sales (US\$ mn)	8,450			
	FY23E	FY24E	FY25E	FY26E
Volume allowance	5%	10%	15%	20%
Price erosion	35%	50%	75%	85%
Potential revenue (US\$ mn)	275	423	317	254
Gross margin	98%	98%	96%	93%
FCF (US\$ mn)	203	311	228	178
WACC	10%			
	0.91	0.83	0.75	0.68
PV (US\$ mn)	184	257	171	121
NPV (US\$ mn)	734			
NPV per share (Rs)	330			

Source: Company reports; Emkay research

Exhibit 6: We estimate gRevlimid NPV of Rs45/ share for Cipla in base case scenario**Base case (settlement terms in line with Alvogen)**

2022E US sales (US\$mn)	8,454			
	FY23	FY24	FY25	FY26
Volume allowance	5%	7%	8%	9%
Price erosion	35%	50%	70%	85%
Potential revenue (US\$mn)	275	296	203	114
Gross margin	98%	98%	97%	93%
FCF (US\$mn)	195	209	141	77
WACC	10%			
	0.91	0.83	0.75	0.68
PV (US\$mn)	177	173	106	52
NPV (US\$mn)	508			
NPV per share (Rs)	47			

Source: Company reports, Emkay Research

Exhibit 7: Revlimid NPV estimate (Rs per share) and sensitivity for our coverage

Company	Bear case	Base case	Bull case	Comment
Cadila Healthcare (Buy)	NA	20	40	Base case assumes settlement terms inferior than Alvogen; bull case assumes settlement terms in line with Alvogen
Natco (not rated)	NA	135	NA	Assuming volume % in line with the settlement terms
Dr Reddy's Labs (Buy)	230	330	475	Base case assumes volume % in between Alvogen and Natco settlements, Bear case in line with Alvogen settlement and Bull case in line with Natco settlement
Cipla (Buy)	35	45	70	Base case assume volume % similar to Alvogen, Bear case assumes volume % inferior to Alvogen and Bull case assumes volume % in between Alvogen and Natco settlements
Sun Pharma (Buy)	NA	18	NA	Assuming settlement terms inferior than Alvogen
Lupin (Buy)	NA	80	NA	Assuming settlement terms inferior than Alvogen
Aurobindo Pharma (Buy)	NA	65	NA	Assuming settlement terms inferior than Alvogen

Source: Company reports, Emkay research

Exhibit 8: Revlimid Para IV filers and case details

Para IV filer	Case filed	Settlement announced	Patents asserted	Comment
Natco	08-Oct-10	05-Jan-16	517, '501, '230, '720, '554, '976, '977, '784, '106, '800	Para IV certificate for 3 patents expiring in 2020 and 1 in 2027
Alvogen/Lotus	06-Sep-17	05-Sep-19	517, '501, '230, '720, '554, '976, '977, '784, '106, '800, '740, '886, '717, '498, '531, '095, '120, '621, '622	Para IV certification against 4 out of 5 patents expiring in 2020, 5 out of 12 patents expiring in 2023 and one patent expiring in 2027
Dr Reddy's Labs	12-Apr-18	17-Sep-20	720,'977,'784,'886,'531	Para IV for all the five patents expiring in 2020
Cipla	08-May-2018 and 03-Jul-19	11-Nov-20	357,'219,'598,'800,'217,'569,'498,'095,'621,'622,'740,'717,'120	Para IV certification for 8 out of 12 patents expiring in 2023 and one patent expiring in 2024, and 2027. Some patents not listed in the US FDA orange book
Apotex	19-Jun-19		357,'219,'598,'720,'977,'784,'866,'531,'800,'217,'363,'929,'740,'717,'120	Para IV certification against 5 out of 5 patents expiring in 2020, 4 out of 12 patents expiring in 2023 and one patent expiring in 2024, 2027 and 2028
Sun Pharma	13-Jul-2018 and 16-Apr-2019		800, '217, '569, '357, '219, '598	Para IV certification against 1 out of 12 patents expiring in 2023, 1 patent expiring in 2024 and one in 2027. Some patents not listed in the US FDA orange book
Hetero	16-Jul-19		740, '569, '717, '498, '095, '120, '621, '622, '800, '217, '363, '929	Para IV certification for 8 out of 12 patents expiring in 2023 and one patent expiring in 2024, 2027 and 2028.
Mylan	02-Jan-20		740, '217, '800, '569, '717, '498, '095, '120, '621, '622	Para IV certification for 8 out of 12 patents expiring in 2023 and one patent expiring in 2024, and 2027.
Zydus	27-Apr-18		'800, '217, '569, '498, '095, '621, '622 357, '219, '598	Para IV certification for 5 out of 12 patents expiring in 2023 and one patent expiring in 2024, and 2027; 3 Patents not listed in the US FDA orange book
Aurobindo	08-Jan-20		217, '800, '569, '498, '095, '621, '622	Para IV certification for 5 out of 12 patents expiring in 2023 and one patent expiring in 2024, and 2027.
Lupin	09-Jul-20		217, '800, '569, '498, '095, '621, '622	Para IV certification for 5 out of 12 patents expiring in 2023 and one patent expiring in 2024, and 2027.

Source: Company reports; Emkay research

Exhibit 9: Revlimid US FDA Orange book listed patents

Patent No	Patent Expiration	Drug Substance	Drug Product	Patent Use Code	Submission Date
8626531	10/23/2020			U-1210	02-05-2014
6315720	10/23/2020			U-1210	01/17/2012
6755784	10/23/2020			U-1210	01/17/2012
8315886	10/23/2020			U-1249	
6561977	10/23/2020			U-1210	01/17/2012
8648095	05/15/2023			U-1984	
9393238	05/15/2023			U-2550	06/25/2019
8530498	05/15/2023			U-1984	09/26/2013
9101621	05/15/2023			U-1985	08/26/2015
9101622	05/15/2023			U-1986	08/26/2015
9155730	05/15/2023			U-2550	06/25/2019
9056120	04-11-2023			U-1982	07-09-2015
8404717	04-11-2023			U-1982	
7189740	04-11-2023			U-1982	01/17/2012
7468363	10-07-2023			U-1983	06/27/2013
8492406	10-07-2023			U-2550	06/25/2019
7968569	10-07-2023			U-1984	01/17/2012
7855217	11/24/2024	DS	DP		01/17/2012
7465800	04/27/2027	DS	DP		01/17/2012
8741929	03-08-2028			U-1983	06/17/2014

Source: US FDA; Emkay research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	131,656	142,531	150,930	203,188	224,371
Expenditure	101,925	115,111	117,822	156,261	172,982
EBITDA	29,731	27,420	33,108	46,927	51,389
Depreciation	5,986	6,965	7,023	7,270	7,336
EBIT	23,745	20,455	26,085	39,657	44,053
Other Income	2,011	1,139	965	687	1,500
Interest expenses	1,935	3,418	1,760	1,605	1,440
PBT	23,821	18,176	25,289	38,739	44,113
Tax	5,303	3,780	4,901	8,523	9,705
Extraordinary Items	0	(2,640)	0	0	0
Minority Int./Income from Assoc.	(30)	10	550	387	441
Reported Net Income	18,488	11,766	20,939	30,604	34,849
Adjusted PAT	18,488	14,406	20,939	30,604	34,849

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	1,024	1,024	1,024	1,024	1,024
Reserves & surplus	102,839	102,733	119,910	146,588	177,566
Net worth	103,863	103,757	120,934	147,612	178,590
Minority Interest	12,929	13,347	12,797	12,409	11,968
Loan Funds	76,583	75,333	58,414	52,928	43,034
Other Liabilities	5,117	4,922	4,922	4,922	4,922
Total Liabilities	193,375	192,437	192,144	212,950	233,592
Net block	59,431	61,937	76,782	77,512	78,176
Investment	19,841	19,992	19,992	19,992	19,992
Current Assets	84,981	87,154	88,584	124,036	150,702
Cash & bank balance	6,493	9,649	8,591	21,426	40,760
Other Current Assets	12,100	12,983	13,584	17,271	17,950
Current liabilities & Provision	41,456	44,429	47,129	62,504	69,193
Net current assets	43,525	42,725	41,455	61,531	81,509
Misc. exp	0	0	0	0	0
Total Assets	193,375	192,437	192,144	212,950	233,592

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income)	21,810	17,037	24,325	38,052	42,613
Depreciation & Amortisation	5,986	6,965	7,023	7,270	7,336
Chg in working cap	6,378	1,294	212	(7,242)	(644)
Operating Cashflow	29,137	26,453	28,969	31,550	41,482
Capital expenditure	(10,464)	(8,888)	(8,000)	(8,000)	(8,000)
Free Cash Flow	18,673	17,565	20,969	23,550	33,482
Investments	(13,876)	0	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(24,340)	(8,888)	(8,000)	(8,000)	(8,000)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	23,955	(3,489)	(16,919)	(5,486)	(9,895)
Dividend paid (incl tax)	(4,314)	(8,569)	(4,313)	(4,313)	(4,313)
Other Financing Cash Flow	(33,047)	(1,235)	965	687	1,500
Financing Cashflow	(14,201)	(14,409)	(22,027)	(10,716)	(14,148)
Net chg in cash	(9,404)	3,156	(1,058)	12,835	19,334
Opening cash position	15,897	6,493	9,649	8,591	21,426
Closing cash position	6,493	9,649	8,591	21,426	40,760

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	22.6	19.2	21.9	23.1	22.9
EBIT Margin	18.0	14.4	17.3	19.5	19.6
Effective Tax Rate	22.3	20.8	19.4	22.0	22.0
Net Margin	14.1	10.1	13.5	14.9	15.3
ROCE	14.4	10.9	13.9	20.1	20.2
ROE	17.9	12.3	16.7	20.8	19.9
RoIC	15.5	11.4	14.6	21.7	23.5

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	18.1	14.1	20.5	29.9	34.0
CEPS	23.9	20.9	27.3	37.0	41.2
BVPS	101.5	101.4	118.1	144.2	174.4
DPS	3.1	3.6	3.6	3.6	3.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	23.9	30.6	21.1	14.4	12.7
P/CEPS	19.9	22.7	17.4	12.8	11.5
P/BV	4.2	4.3	3.6	3.0	2.5
EV / Sales	3.8	3.5	3.2	2.3	1.9
EV / EBITDA	16.9	18.2	14.6	9.9	8.5
Dividend Yield (%)	0.7	0.8	0.8	0.8	0.8

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.6	0.6	0.3	0.2	0.0
Net Debt/EBIDTA	2.1	2.1	1.3	0.5	(0.1)
Working Cap Cycle (days)	102.7	84.7	79.5	72.0	66.3

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	10.3	8.3	5.9	34.6	10.4
EBITDA	4.4	(7.8)	20.7	41.7	9.5
EBIT	2.9	(13.9)	27.5	52.0	11.1
PAT	4.1	(36.4)	78.0	46.2	13.9

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	36,381	37,521	36,399	38,200	37,956
EBITDA	6,932	7,912	8,154	8,634	8,069
EBITDA Margin (%)	19.1	21.1	22.4	22.6	21.3
PAT	3,739	4,351	4,540	4,734	5,272
EPS (Rs)	3.7	4.2	4.4	4.6	5.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	74.9	74.9	74.9	74.9	74.9
FIs	4.6	4.4	4.6	4.4	5.2
DIs	12.6	12.9	12.6	12.5	11.7
Public and Others	7.9	7.8	8.0	8.2	8.2

Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
12-Mar-21	443	655	12m	Buy	Kunal Dhamesha
14-Feb-21	468	655	12m	Buy	Kunal Dhamesha
07-Feb-21	475	655	12m	Buy	Kunal Dhamesha
22-Jan-21	461	655	12m	Buy	Kunal Dhamesha
12-Jan-21	490	430	12m	Hold	Kunal Dhamesha
16-Dec-20	469	430	12m	Hold	Kunal Dhamesha
03-Nov-20	438	430	12m	Hold	Kunal Dhamesha
05-Aug-20	396	402	12m	Hold	Praful Bohra
20-Jun-20	362	328	12m	Hold	Praful Bohra
08-Apr-20	350	303	12m	Hold	Praful Bohra
06-Feb-20	273	275	12m	Hold	Praful Bohra
16-Dec-19	261	240	12m	Hold	Praful Bohra
14-Nov-19	234	240	12m	Hold	Praful Bohra
13-Nov-19	225	240	12m <td Hold	Praful Bohra	
19-Aug-19	219	288	12m	Hold	Praful Bohra
29-May-19	264	288	12m	Hold	Praful Bohra
05-Nov-18	360	400	12m	Accumulate	Jatin Kotian
19-Sep-18	408	380	12m	Hold	Jatin Kotian
11-Jul-18	371	380	12m	Hold	Jatin Kotian
10-Jul-18	381	380	12m	Hold	Jatin Kotian
29-Jun-18	377	380	12m	Hold	Jatin Kotian
01-Jun-18	353	380	12m	Hold	Jatin Kotian
10-May-18	399	430	12m	Hold	Jatin Kotian
26-Apr-18	409	430	12m	Hold	Jatin Kotian

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Pharmaceuticals

Analyst: Dr. Kunal Dhamesha

Contact Details

kunal.dhamesha@emkayglobal.com
+91-22-6612 1254

Sector

Pharmaceuticals

Analyst bio

Dr. Kunal Dhamesha holds an MBA from IIM Lucknow and completed his MBBS from B.J. Medical College. As an equity analyst he has tracked multiple healthcare verticals for 8+ years. His team currently covers 7 stocks.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Pharmaceuticals	2.73	2.73	0%	0	100.00
Aurobindo Pharma	0.29	0.32	14%	4	11.86
Cadila Healthcare	0.13	0.22	67%	9	8.09
Cipla	0.47	0.54	15%	7	19.86
Dr. Reddy's Lab	0.64	0.68	8%	5	25.05
Ipca Lab	0.15	0.14	-8%	-1	5.06
Lupin	0.29	0.28	-5%	-2	10.13
Sun Pharma	0.76	0.54	-29%	-22	19.86
Cash	0.00	0.00	NA	0	0.09

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	01-Apr-19	24-Mar-20	22-Sep-20	22-Dec-20	19-Feb-21	23-Mar-21
EAP - Pharmaceuticals	100.0	82.4	155.4	163.8	161.2	154.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	80.6	141.1	148.7	150.2	144.2

*Performance measurement base date 1st April 2019

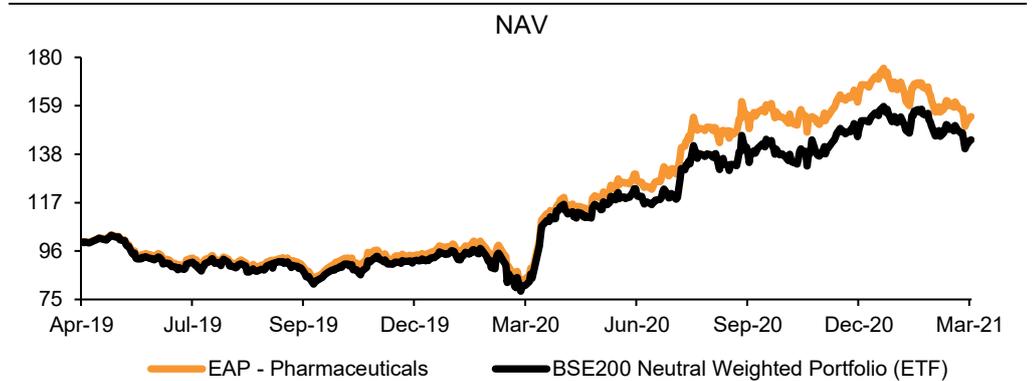
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Pharmaceuticals	-4.3%	-5.8%	-0.7%	87.2%
BSE200 Neutral Weighted Portfolio (ETF)	-4.0%	-3.0%	2.2%	79.0%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com