

CADILA HEALTHCARE - Good Quarter, As Expected

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Abstracts

CDH's Q1 FY13 result was largely in line with our estimates with Y-o-Y growth in sales and EBITDA of 33% and 34% respectively. Net Profit declined by 15% owing to forex losses on translation and hedging, one off income (milestone from Abbott) in Q1 FY12, higher tax rate and higher interest cost. We estimate organic and constant currency sales growth of ~15%.

Going forward, the company has many earnings triggers like (1) Boost in US sales now that USFDA warning is resolved. This will help clear 10-15 approvals including Astelin – a low competition opportunity. (2) Improvement in margin of Biochem from the 8.5% (during the time of acquisition) to 15% due to immediate synergies related to procurement and distribution of inputs (3) ramp up in sales from Hospira JV as it launched 2 new products in Europe and in US each in last 2 quarters. Besides this launch of Urokinase in US in 2015 remains a longer term opportunity.

We continue to like CDH's transnational business model built on partnerships. We change neither our estimate nor our target price. Although the current price is near our target price, we continue to rate the stock as Outperform and recommend investors to accumulate at every correction

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