

RETAIL EQUITY RESEARCH

Cadila Healthcare Limited

Pharmaceuticals

BSE CODE: 532321

NSE CODE: CADILAH

Bloomberg CODE: CDH:IN

SENSEX: 37,755

HOLD

Rating as per Large cap

12months investment period

CMP Rs330 TARGET Rs358 RETURN 8% ↑

15th March, 2019**Robust US sales; high debt remains a concern**

Cadila Healthcare (Cadila) is India's leading vertically integrated pharmaceutical company. With its presence across the value chain, it manufactures finished dosage forms, active pharmaceutical ingredients, animal healthcare products and wellness products.

- Revenue rose by 10% YoY in Q3FY19 led by robust performance of US formulation business and improved Emerging market and API business.
- Indian formulation sales disappointed with 8% YoY decline impacted by rationalization of product portfolio and resources.
- US sales grew strongly by 22% YoY in Q3FY19 driven by new launches including AG Androgel coupled with increase in market share of existing products and growth in base business.
- EBITDA margin contracted by 286 bps YoY to 23.5% in Q3FY19 impacted by product mix, weak sales in the domestic formulation business and higher R&D spend.
- We expect Revenue/Adj. PAT to grow at 11%/4% CAGR over FY18-21E driven by new drug launches in the US and India.
- Highly leveraged balance sheet post Heinz India acquisition, which was funded largely through debt, remain a near term concern. Hence, we change our rating to 'HOLD' from 'BUY' on the stock with a revised rollover target price of Rs 358 based on 18x FY21E EPS.

Robust US formulations business boosts revenue

Cadila reported 10% YoY increase in revenue in Q3FY19 led by 22% YoY growth in the US sales along with 31%/14% YoY growth in Emerging market/API business. The growth was partially offset by weak Indian formulation growth which declined by 8% YoY impacted by high base (GST-related re-stocking) coupled with rationalization of product portfolio and resources with an aim to rationalize non-performing SKUs and improve the productivity of its field force. The management expects India business to normalise from Q1FY20. The company in Q3FY19 launched 10 new products. Revenue from Emerging market rose by 31% YoY. Biosimilars, oral solids, liquids and injectables are expected to be the key growth drivers in Emerging Markets going ahead. The company has already received 11 approvals for vaccines, out of which it has launched 5. The company is eyeing sales in the range of US\$ 200-250mn from vaccines in 4 years. However, Europe/LATAM reported 12.5%/8.3% YoY decline in sales in Q3FY19. Animal Health revenue too fell by 4.5% YoY. Consumer Wellness revenue surged 10% YoY. Cadila's subsidiary, Zydus Wellness, has completed the acquisition of Heinz India's consumer wellness business for Rs.4,595 crore in Jan 2019, for which Cadila has invested Rs.1,175 crore. This acquisition will strengthen Wellness product portfolio and boosts company's growth. Post the acquisition, Cadila expects Zydus wellness' contribution to increase to 10% of sales from 4% currently. APIs revenue grew by a robust 14.3% YoY. We expect domestic business to register 11% CAGR over FY18-21E driven by new launches.

Key launches to drive growth in US business

US business reported exceptional 22% YoY growth in revenue in Q3FY19 largely driven by new launches including AG Androgel coupled with increase in market share of existing products like Tamiflu, Toprol and Prevacid ODT and growth in base business. The company during the quarter launched 15 new products in the US taking total launches to 37 in 9MFY19 while it filed 8 additional ANDAs with the USFDA. Also, it received approval for 23 new products including 7 tentative approvals. Further, increase in market share of key molecules also supported the growth. The price erosion in the base business remains muted at 0.3% QoQ in Q3FY19. Going ahead, Cadila expects one approval in Transdermal segment in Q4FY19 and 2-3 approvals in FY20. The company expects launch momentum to continue in the US and is targeting to launch 40 plus products in FY20E. New launches in the Transdermal patch, nasal sprays and injectable space will aid market share gains. Also, further increase in market share of key molecules-gToprol XR and Prevacid ODT would support growth. Despite high base last year mainly due to key launches, we are factoring 5% US revenue CAGR over FY18-21E. Therefore, we expect overall revenue to grow at 11% CAGR over FY18-21E.

Weak India formulation business weighs on EBITDA margin

While, EBITDA fell by just 2%, EBITDA margin contracted by 286 bps YoY to 23.5% in Q3FY19 impacted by product mix, lower sales in the domestic formulation business and higher R&D spends. Adj. PAT fell by 6% YoY as 11% YoY decline in tax rate was offset by 240% YoY spurt in interest charges due to increase in debt on account of acquisition. The company has guided capex at Rs.800 crore-Rs.1000 crore for FY19E/20E. We expect marginal increase in EBITDA margin at 22.6% in FY19E/FY20E led by new launches. Further, portfolio re-organisation in the domestic formulation business augurs well for the margin outlook.

Outlook & Valuation

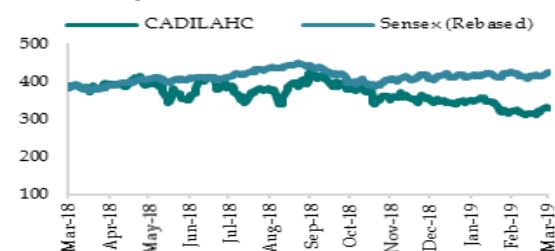
Although strong ANDA pipeline with focus on niche generics & speciality products and increased product launch momentum are key positives, highly leveraged balance sheet post Heinz India acquisition, which was funded largely through debt, remain a near term concern. We lower EBITDA margin estimates by 42bps/112bps for FY19E/20E mainly due to lower domestic sales and gross margins. Further, we lower adj.PAT estimates by 7%/19% for FY19E/20E in line with margin adjustments and to factor in higher interest cost & depreciation charges and tax rate. Hence, we downgrade our rating to 'HOLD' on the stock. Rolling over estimates to FY21E, our revised target price stands at Rs358 based on 18x FY21E EPS.

Company Data

Market Cap (cr)	Rs33,828
Enterprise Value (cr)	Rs37,240
Outstanding Shares (cr)	102.4
Free Float	25%
Dividend Yield	1.0%
52 week high	Rs432
52 week low	Rs306
6m average volume (cr)	0.1
Beta	0.7
Face value	Rs1

Shareholding %	Q1FY19	Q2FY19	Q3FY19
Promoters	74.8	74.8	74.8
FII's	8.7	8.3	8.2
MFs/Insti	8.7	9.1	9.1
Public	5.2	5.5	5.6
Others	2.6	2.3	2.3
Total	100.0	100.0	100.0
Price Performance	3mth	6mth	1 Year
Absolute Return	(4%)	(19%)	(13%)
Absolute Sensex	5%	(1%)	11%
Relative Return*	(9%)	(18%)	(24%)

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY19E	FY20E	FY21E
Sales	12,838	14,551	16,162
Growth (%)	7.8%	13.3%	11.1%
EBITDA	2,893	3,288	3,649
Margin (%)	22.5	22.6	22.6
PAT Adj	1,741	1,801	2,038
Growth (%)	-3.0%	3.4%	13.2%
Adj.EPS	17.0	17.6	19.9
Growth (%)	-3.0%	3.4%	13.2%
P/E	19.4	18.8	16.6
P/B	3.4	3.0	2.6
EV/EBITDA	14.4	12.5	11.0
RoE (%)	18.6	16.9	16.9
D/E	0.8	0.7	0.6

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs cr)	Q3FY19	Q3FY18	YoY Growth %	Q2FY19	QoQ Growth %	9MFY19	9MFY18	Growth %
Total Revenue	3,578	3,260	9.8	2,961	20.8	9,433	8,691	8.5
EBITDA	840	859	(2.2)	688	22.1	2,173	1,993	9.0
EBITDA Margin (%)	23.5	26.3	(286bps)	23.2	25bps	23.0	22.9	10bps
Depreciation	154	147	4.6	148	4.2	443	396	12.0
EBIT	686	712	(3.6)	540	27.0	1,730	1,597	8.3
Interest	46	13	239.6	36	27.5	116	76	53.1
Other Income	31	26	20.6	30	2.0	163	69	135.1
Exceptional Items	-	(3)	(100.0)	-	-	-	(3)	-100.0
PBT	672	727	(7.5)	535	25.6	1,776	1,593	11.5
Tax	159	179	(11.2)	125	27.2	404	420	-4.0
PAT	513	548	(6.4)	410	25.1	1,373	1,173	17.0
Minority Interest/P&L of Associates	(2)	1	(321.3)	7	(133.3)	16	18	-9.0
Reported PAT	511	549	(7.0)	418	22.3	1,389	1,191	16.6
Adjustment	-	3	(100.0)	-	-	-	3	-100.0
Adj PAT	510.7	546.5	(6.5)	417.5	22.3	1,388.7	1,188.2	16.9
No. of shares (cr)	102.4	102.4	-	102.4	-	102.4	102.4	0.0
Adj. EPS (Rs)	5.0	5.3	(6.4)	4.1	22.3	13.6	11.6	16.9

Segment Revenue

(Rs cr)	Q3FY18	Q3FY17	YoY Growth %	Q2FY18	QoQ Growth %
US	1584	887	78.6	1644	(3.6)
India	917	797	15.1	895	2.5
LAtaM	76	66	15.2	68	11.8
Emerging Market (EM)	121	114	6.1	131	(7.6)
Europe	65	65	0.0	54	20.4
Consumer Wellness	129	111	16.2	120	7.5
Animal Health	134	113	18.6	128	4.7
APIs	114	105	8.6	93	22.6
JVs and Alliances	53	44	20.5	24	120.8
Gross sales	3,192	2,302	38.6	3,155	1.2

Source: Company, Geojit Research

Change in estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	12,845	14,416	12838	14551	(0.1)	0.9
EBITDA	2,948	3,420	2893	3288	(1.9)	-3.8
Margins (%)	23.0%	23.7%	22.5%	22.6%	(42bps)	(113bps)
PAT	1,881	2,221	1741	1801	(7.4)	(19.1)
Adj.EPS	18.4	21.7	17.0	17.6	(7.4)	(19.1)

Source: Company, Geojit Research

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Sales	9,377	11,905	12,838	14,551	16,162
% change	-0.5%	27.0%	7.8%	13.3%	11.1%
EBITDA	1,904	2,848	2,893	3,288	3,649
% change	-18.3%	49.5%	1.6%	13.7%	11.0%
Depreciation	373	539	630	718	783
EBIT	1,531	2,309	2,263	2,570	2,866
Interest	45	91	180	324	315
Other Income	128	113	192	106	111
PBT	1,615	2,331	2,275	2,351	2,662
% change	-23.1%	44.3%	-2.4%	3.3%	13.2%
Tax	129	564	546	564	639
Tax Rate (%)	8.0%	24.2%	24.0%	24.0%	24.0%
Reported PAT	1,494	1,813	1,741	1,801	2,038
Adj*	3	19	-	-	-
Adj PAT	1,491	1,795	1,741	1,801	2,038
% change	-24.2%	20.4%	-3.0%	3.4%	13.2%
No. of shares (mn)	102.4	102.4	102.4	102.4	102.4
Adj EPS (Rs)	14.6	17.5	17.0	17.6	19.9
% change	-24.2%	20.4%	-3.0%	3.4%	13.2%
DPS (Rs)	3.2	3.2	3.9	4.3	4.3

Balance Sheet

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Cash	1,544	1,315	544	1,117	1,563
Accounts Receivable	2,278	3,206	3,445	3,936	4,380
Inventories	1,804	2,385	2,606	2,937	3,251
Other Cur. Assets	349	1,048	786	881	974
Investments	435	746	746	746	746
Gross Fixed Assets	6,939	7,939	9,466	10,366	11,266
Net Fixed Assets	4,606	5,097	5,994	6,176	6,292
CWIP	1,543	1,527	1,000	1,000	1,000
Intangible Assets	1,149	1,385	5,980	5,980	5,980
Def. Tax (Net)	779	643	925	925	925
Other Assets	619	430	430	430	430
Total Assets	15,104	17,783	22,457	24,128	25,541
Current Liabilities	2,829	3,526	3,799	4,156	4,514
Provisions	-	-	-	-	-
Debt Funds	4,945	5,113	8,213	8,213	7,713
Other Liabilities	214	210	210	210	210
Equity Capital	102	102	102	102	102
Reserves and Surplus	6,858	8,642	9,904	11,176	12,686
Shareholder's Fund	6,960	8,745	10,007	11,279	12,789
Minority Interest	156	191	229	271	317
Total Liabilities	15,104	17,783	22,457	24,128	25,541
BVPS (Rs)	68.0	85.4	97.7	110.1	124.9

Cash flow

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Pre-tax profit	1,612	2,312	2,325	2,407	2,723
Depreciation	375	541	630	718	783
Changes in W.C	(411)	(1,384)	(206)	(559)	(493)
Others	(41)	84	(12)	219	203
Tax paid	(223)	(633)	(546)	(564)	(639)
C.F.O	1,312	919	2,191	2,220	2,577
Capital exp.	(2,940)	(1,049)	(5,595)	(900)	(900)
Change in inv.	5	12	-	-	-
Other invest.CF	63	64	192	106	111
C.F - investing	(2,872)	(974)	(5,403)	(794)	(789)
Issue of equity	-	-	-	-	-
Issue/repay debt	2,765	157	3,100	-	(500)
Dividends paid	(394)	(1)	(479)	(528)	(528)
Other finance.CF	(56)	(105)	(180)	(324)	(315)
C.F - Financing	2,316	52	2,441	(853)	(1,343)
Chg. in cash	756	(3)	(771)	573	446
Closing cash	1,544	1,315	544	1,117	1,563

Ratios

Y.E March	FY17	FY18	FY19E	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	20.3	23.9	22.5	22.6	22.6
EBIT margin (%)	16.3	19.4	17.6	17.7	17.7
Net profit mgn.(%)	15.9	15.1	13.6	12.4	12.6
ROE (%)	23.6	22.9	18.6	16.9	16.9
ROCE (%)	16.6	18.6	15.1	14.0	14.7
W.C & Liquidity					
Receivables (days)	89	101	101	101	101
Inventory (days)	117	126	127	127	126
Payables (days)	76	76	76	76	76
Current ratio (x)	2.1	2.3	1.9	2.1	2.3
Quick ratio (x)	1.5	1.6	1.3	1.4	1.5
Turnover & Lev.					
Gross asset T.O (x)	1.6	1.6	1.4	1.4	1.5
Total asset T.O (x)	0.7	0.7	0.6	0.6	0.6
Adj. debt/equity (x)	0.7	0.6	0.8	0.7	0.6
Valuation ratios					
EV/Sales (x)	4.1	3.3	3.3	2.9	2.5
EV/EBITDA (x)	19.6	13.3	14.4	12.5	11.0
P/E (x)	22.7	18.8	19.4	18.8	16.6
P/BV (x)	4.9	3.9	3.4	3.0	2.6

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

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