

### In line 2Q, vaccine data key monitorable

Cadila reported an in-line 2Q driven by strong growth across India, US and the API segment offsetting the muted growth in consumer segment. Revenue grew 16% YoY, an improved product mix (double digit growth in India formulations and US sales at \$230mn, up \$13mn QoQ) led to healthy gross margins at 64.9%. Impact of MEIS offset lower marketing spends, thereby, restricting EBITDA margins at 22.6%. Adjusting for the one-time charge of Rs1.3bn, for NCD purchase and forex loss, PAT grew 63% YoY at Rs6.2bn. Cadila strengthened its balance sheet by reducing debt of Rs27bn vs its earlier guidance of Rs10bn in FY21 on the back of proceeds from Wellness QIP and internal free cash generation.

A significant part of US gains come from specific opportunities like gLialda and gAsacol which bring in 8% of sales but 26% of the company's overall EBITDA. Cadila holds a dominant and increasing market share in gLialda due to manufacturing complexity, a situation that could play out in Asacol HD also when it comes up for competition. Further, it is all set for new launches (45 injectable filings including site transferred and in-licensed products, 30 under development, 50 launches expected in next 2-3 years) in FY22/FY23E. Injectables currently contribute sales of US\$15mn and is guided to scale up to US\$150-200mn by FY24E in the US.

We expect Q3 margins to be subdued as full quarter impact of MEIS as well as travelling and marketing costs normalizes. Further, clinical trials of vaccines and specialty products (R&D guidance of 7-8% of revenue) are expected to partly offset productivity improvement initiatives. Read out of Phase II trials on COVID vaccine is expected by end of Nov'20. We build in margins sustenance at 21% for the next 2 years.

**Regulatory compliance, higher profit dependency on mesalamines remain key concerns. Monetization of its complex injectables pipeline shall help improve asset utilization, we believe the substantial part will be played out post FY23E. We incorporate lower interest outgo and upgrade our estimates by 10% for FY22E and introduce FY23E. At 21x FY22E, 18x FY23E earnings, the risk reward becomes favourable. Upgrade to Accumulate with a target price of Rs497 (22x PE valuing the R&D initiatives).**

### Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	38,200	33,667	13.5	36,399	4.9
Total Expense	29,566	27,410	7.9	28,245	4.7
EBITDA	8,634	6,257	38.0	8,154	5.9
Depreciation	1,790	1,723	3.9	1,768	1.2
EBIT	6,844	4,534	50.9	6,386	7.2
Other Income	275	269	2.2	225	22.2
Interest	457	897	(49.1)	677	(32.5)
EBT	5,342	1,225	336.1	5,934	(10.0)
Tax	1,106	395	180.0	1,235	(10.4)
RPAT	4,734	1,073	341.2	4,540	4.3
APAT	6,168	3,698	66.8	4,380	40.8
			(bps)		(bps)
Gross Margin (%)	65.4	65.6	(26)	65.7	(27)
EBITDA Margin (%)	22.6	18.6	402	22.4	20
NPM (%)	12.4	3.2	921	12.5	(8)
Tax Rate (%)	20.7	32.2	(1154)	20.8	(11)
EBIT Margin (%)	17.9	13.5	445	17.5	37

CMP	Rs 411
Target / Upside	Rs 497 / 21%
NIFTY	11,669

### Script Details

Equity / FV	Rs 1,024mn / Rs 1
Market Cap	Rs 421bn
	USD 6bn
52-week High/Low	Rs 448/ 202
Avg. Volume (no)	5,072,620
Bloom Code	CDH IN

Price Performance	1M	3M	12M
Absolute (%)	3	4	61
Rel to NIFTY (%)	0	(3)	62

### Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	74.9	74.9	74.9
MF/Banks/FIs	17.3	17.2	16.9
FII	4.4	4.7	4.4
Public / Others	3.4	3.3	3.9

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	22.6	20.9	18.2
EV/EBITDA	14.5	13.2	11.5
ROE (%)	16.0	17.1	17.8
RoACE (%)	10.9	11.7	12.7

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	152,865	167,452	181,955
EBITDA	32,113	34,175	37,784
PAT	18,598	20,099	23,156
EPS (Rs.)	18.2	19.6	22.6

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## Exhibit 1: Revenue Mix

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	1HFY21	1HFY20	YoY (%)	FY21	FY20	YoY (%)
Domestic formulations	10,870	9,778	11.2	8,292	31.1	19,162	19,116	0.2	39,741	37,141	7.0
Consumer (Zydus Wellness)	3,352	3,172	5.7	5,316	(36.9)	8,668	9,236	(6.1)	20,160	17,379	16.0
Animal Health	1,611	1,348	19.5	1,252	28.7	2,863	2,553	12.1	5,509	5,149	7.0
US	17,090	14,484	18.0	16,232	5.3	33,322	28,154	18.4	66,082	62,514	5.7
Europe	546	407	34.2	489	11.7	1,035	881	17.5	2,055	1,957	5.0
Emerging Markets incl.LATAM / ROW	2,361	2,189	7.9	2,375	(0.6)	4,736	4,393	7.8	9,541	8,753	9.0
JV	196	15	1,206.7	228	(14.0)	424	430	(1.4)	733	698	5.0
APIs	1,597	1,049	52.2	1,309	22.0	2,906	1,741	66.9	5,527	4,530	22.0
Total	37,623	32,442	16.0	35,493	6.0	73,116	66,504	9.9	149,347	138,121	8.1

Source: Company, DART

## Conference call takeaways

**Debt reduction:** Cadila reduced its debt by Rs27bn in 1HFY21 vs guidance of Rs10bn. Apart from Zydus Wellness' Rs 11bn QIP (it is a 58% subsidiary of Cadila), strong free cash generation enabled it to pay higher amount. This will lower the interest outgo sharply.

**Covid-19 vaccine:** Cadila's aggressive efforts for the pandemic are spanning test kits, generic drugs, partnered drugs, vaccines and biologic drugs, etc. It is in advanced phase 2 trials for its DNA based plasma vaccine, Zycov-D, and expects the read out by November end. Recruitment for Phase III is expected to start in December, with read outs expected by Mar'21. We believe it is still early to assign value to the success and opportunity size in what could be a fairly crowded opportunity over the next year (number of vaccines under development globally).

**US:** US revenue grew 12% YoY to US\$230mn (up \$13mn QoQ) led by volume growth in a steady base business.

- On a generic base of US\$800mn, to grow in single digits on the base portfolio (ex-specialty and AG products), Cadila is looking for in-licensing opportunities and acquisitions opportunities to fill the portfolio gap.
- gAsacol and gLialda are the top 2 products for the company. It's integrated manufacturing and complexity in both has enabled Cadila to maintain its market share of >70% through volumes as well as price hikes in the US despite competition.
- The management has guided for a single-digit growth in the US generic portfolio on the back of 30+ new launches in FY21, including high-value injectables.
- Transdermal approvals are contingent to Moraiya clearance.
- It is developing a portfolio of branded specialty products including some with focus on orphan and rare diseases. As of now, it has 9 products are under different stages of clinical development and plans to file 1 NDA in pain management during FY21.

**Mid-to long term growth to be led by injectables:** Injectables business is currently <US\$15mn but company expects to build a competitive portfolio of 20 products in the next 2 years. Some of these are approved, or under site transfer or partnered products. It has a product basket of 45 injectables and 30 are under development. While some benefit of these launches will be seen in FY22, meaningful revenues will be seen in FY23/24. Company has targeted sales of US\$150-200mn from injectable portfolio by FY24E from complex and onco injectables. Liva and Moraiya are key manufacturing sites for the same.

**Moraiya:** Management indicated that the facility is ready for inspection and it awaits USFDA for a re-inspection hoping for a desktop inspection. This should push out approvals from this facility to FY22E assuming clearance by end of CY20. So far, there are ~34 ANDAs pending from Moraiya (total 110 ANDAs pending approvals), however as per the management, none of them are critical in nature.

**Domestic formulations:** India Formulations reported 11% YoY growth after a long time aided by specialty portfolio.

- Through the restructuring of divisions as Mass (55% of sales) and Specialty (45% of sales), the company expects to achieve better profitability from 2HFY21.
- Given its enhanced specialty infrastructure, Cadila expects new qualitative drug launches such as complex branded generics, biosimilars, novel biologics, vaccines, and COVID portfolio.
- **Cadila, so far, is the only integrated manufacturer of Remdesvir in India offering the drug at ~40% discount vs peers.**
- **We factor 10% revenue CAGR in FY21-23E for India on the back of ongoing focused marketing initiatives in India Formulations and recovery in Wellness brands.**

**Heinz consolidation drives consumer wellness:** The consumer wellness grew 10% YoY on the back of strong growth in animal health segment. Management guided for double digit growth in animal health for FY21E.

### Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>142,531</b>	<b>152,865</b>	<b>167,452</b>	<b>181,955</b>
<b>Total Expense</b>	<b>114,697</b>	<b>120,752</b>	<b>133,277</b>	<b>144,171</b>
COGS	49,200	52,968	57,462	62,295
Employees Cost	24,145	26,882	30,280	33,805
Other expenses	41,352	40,902	45,536	48,072
<b>EBIDTA</b>	<b>27,834</b>	<b>32,113</b>	<b>34,175</b>	<b>37,784</b>
Depreciation	6,965	7,738	8,168	8,353
<b>EBIT</b>	<b>20,869</b>	<b>24,375</b>	<b>26,006</b>	<b>29,431</b>
Interest	3,418	2,369	1,789	1,382
Other Income	1,139	927	983	1,040
Exc. / E.O. items	(3,636)	(1,320)	0	0
<b>EBT</b>	<b>14,954</b>	<b>21,612</b>	<b>25,200</b>	<b>29,089</b>
Tax	3,198	4,622	5,389	6,221
RPAT	11,766	17,278	20,099	23,156
Minority Interest	278	0	0	0
<b>Profit/Loss share of associates</b>	<b>288</b>	<b>288</b>	<b>288</b>	<b>288</b>
<b>APAT</b>	<b>15,402</b>	<b>18,598</b>	<b>20,099</b>	<b>23,156</b>

### Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	1,024	1,024	1,024	1,024
Minority Interest	13,347	13,347	13,347	13,347
Reserves & Surplus	102,733	110,850	121,788	135,783
<b>Net Worth</b>	<b>103,757</b>	<b>111,874</b>	<b>122,812</b>	<b>136,807</b>
Total Debt	70,411	50,411	42,603	36,366
Net Deferred Tax Liability	7,645	7,836	8,080	8,323
<b>Total Capital Employed</b>	<b>195,160</b>	<b>183,469</b>	<b>186,842</b>	<b>194,843</b>

### Applications of Funds

Net Block	68,390	65,850	62,011	55,716
CWIP	64,846	67,648	69,785	71,261
Investments	3,581	3,581	3,581	3,581
<b>Current Assets, Loans &amp; Advances</b>	<b>100,049</b>	<b>100,478</b>	<b>109,406</b>	<b>126,394</b>
Inventories	27,890	29,856	31,384	34,032
Receivables	36,632	40,099	41,255	44,846
Cash and Bank Balances	9,649	4,255	9,976	18,578
Loans and Advances	12,895	13,093	13,453	14,624
Other Current Assets	10,855	11,048	11,210	12,186
<b>Less: Current Liabilities &amp; Provisions</b>	<b>41,706</b>	<b>54,089</b>	<b>57,941</b>	<b>62,109</b>
Payables	20,310	21,930	23,428	25,252
Other Current Liabilities	21,396	32,159	34,512	36,857
<i>sub total</i>				
Net Current Assets	58,343	46,389	51,465	64,285
<b>Total Assets</b>	<b>195,160</b>	<b>183,469</b>	<b>186,842</b>	<b>194,843</b>

E – Estimates

### Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	65.5	65.3	65.7	65.8
EBIDTA Margin	19.5	21.0	20.4	20.8
EBIT Margin	14.6	15.9	15.5	16.2
Tax rate	21.4	21.4	21.4	21.4
Net Profit Margin	8.3	11.3	12.0	12.7
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	34.5	34.7	34.3	34.2
Employee	16.9	17.6	18.1	18.6
Other	29.0	26.8	27.2	26.4
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.7	0.5	0.3	0.3
Interest Coverage	6.1	10.3	14.5	21.3
Inventory days	71	71	68	68
Debtors days	94	96	90	90
Average Cost of Debt	4.8	3.9	3.8	3.5
Payable days	52	52	51	51
Working Capital days	149	111	112	129
FA T/O	2.1	2.3	2.7	3.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	15.0	18.2	19.6	22.6
CEPS (Rs)	21.8	25.7	27.6	30.8
DPS (Rs)	8.4	8.4	8.4	8.4
Dividend Payout (%)	55.6	46.1	42.6	37.0
BVPS (Rs)	101.3	109.3	119.9	133.6
RoANW (%)	11.3	16.0	17.1	17.8
RoACE (%)	9.6	10.9	11.7	12.7
RoAIC (%)	11.2	13.4	14.6	16.7
<b>(E) Valuation Ratios</b>				
CMP (Rs)	411	411	411	411
P/E	27.3	22.6	20.9	18.2
Mcap (Rs Mn)	420,506	420,506	420,506	420,506
MCap/ Sales	3.0	2.8	2.5	2.3
EV	479,140	464,534	451,004	436,166
EV/Sales	3.4	3.0	2.7	2.4
EV/EBITDA	17.2	14.5	13.2	11.5
P/BV	4.1	3.8	3.4	3.1
Dividend Yield (%)	2.0	2.0	2.0	2.0
<b>(F) Growth Rate (%)</b>				
Revenue	8.3	7.3	9.5	8.7
EBITDA	(6.4)	15.4	6.4	10.6
EBIT	(12.1)	16.8	6.7	13.2
PBT	(37.2)	44.5	16.6	15.4
APAT	(16.7)	20.8	8.1	15.2
EPS	(16.7)	20.8	8.1	15.2

### Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	24,198	33,659	30,465	28,430
CFI	(5,743)	(6,198)	(5,330)	(3,057)
CFF	(15,299)	(32,855)	(19,414)	(16,771)
FCFF	18,455	27,461	25,135	25,373
Opening Cash	6,493	9,649	4,255	9,976
Closing Cash	9,649	4,255	9,976	18,578

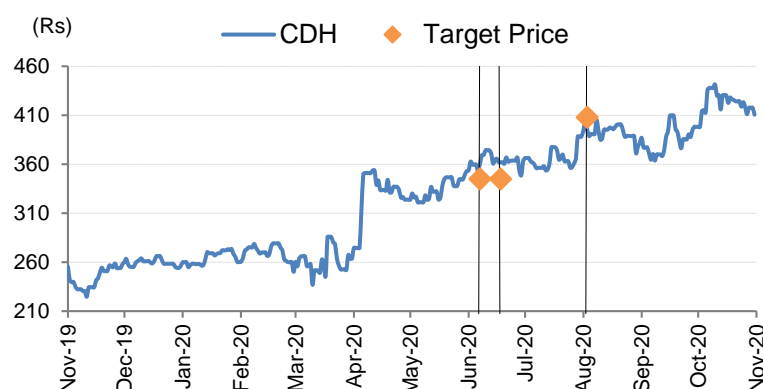
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jun-20	Reduce	345	360
Jun-20	Reduce	345	362
Aug-20	Accumulate	408	396

\*Price as on recommendation date

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