

Better operating performance, execution in specialty to drive growth

Cadila reported beat on the operating performance in 4Q as domestic formulations offset the subdued US (pricing pressure and lower offtake in Asacol HD). Revenue grew 4% YoY, an improved product mix (15% YoY growth in India formulations offset the US sales at \$207mn, down \$13mn QoQ) aided operating performance at 22% (our estimate 20%). Adjusted for write-off in Levarphanol and higher deferred tax, PAT grew 7% YoY at Rs4.4bn, in-line with expectation. Net debt halved to Rs35bn, with net debt/EBITDA at 0.8x, lowest in last 5 years. Management guided for sustenance in EBITDA margins over next 2 years; US to remain subdued in 1Q whereas; India to see higher sales from COVID n lower SGA spend.

Key triggers: (1) ZyCov-D phase 3 trials in final stage, commercial production to start from June end (2) 505 (b) (2) pipeline focusing on orphan and rare disease led by its flagship molecule Saroglitazar (received fast track designation from the USFDA) (3) Specialty drugs (injectables, nasal, transdermal, oncology, and complex orals) is 61% of pipeline along with in-licensed partnered portfolio (4) COVID portfolio (Vaccine, drugs, OTC)

Key risks: (1) Profit concentration from complex Mesalamine franchise due for patent expiry (Nov'21), (2) Adverse outcome for Saroglitazar, (3) Adverse regulatory outcome

Outlook and valuation: Cadila provides strong growth visibility led by progress in its key markets – US (transition towards innovation, injectables) and domestic business (enhanced focus on specialty and beneficiary of COVID); financial deleveraging; strong RoW / EM growth outlook on the back of biosimilars launches. COVID portfolio could surprise positively (Virafin priced at Rs11,995/dose could potentially add Rs1-1.5bn to the earnings, ZyCOV-D to add incremental sales of Rs40bn in FY23E). Besides, if successful, Saroglitazar peak sales (NAFLD and NASH indications) could be in the range of US\$100-400mn in the US. However, due to lack of clarity on approval and pricing, we value the COVID portfolio as optionality. Maintain Buy with a target price of Rs700 (24x PE valuing the base business and Rs140 as optionality of R&D initiatives).

Q4FY21 Result (Rs Mn)

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Revenue	38,467	37,521	2.5	37,957	1.3
Total Expense	29,914	29,609	1.0	29,887	0.1
EBITDA	8,553	7,912	8.1	8,070	6.0
Depreciation	1,886	1,785	5.7	1,804	4.5
EBIT	6,667	6,127	8.8	6,266	6.4
Other Income	(403)	443	(191.0)	275	(246.5)
Interest	233	825	(71.8)	268	(13.1)
EBT	5,300	5,220	1.5	6,273	(15.5)
Tax	(2,016)	1,085	(285.8)	1,147	(275.8)
RPAT	6,790	3,919	73.3	5,273	28.8
APAT	4,469	4,235	5.5	5,273	(15.2)
			(bps)		(bps)
Gross Margin (%)	65.1	66.4	(137)	65.9	(86)
EBITDA Margin (%)	22.2	21.1	115	21.3	97
NPM (%)	17.7	10.4	721	13.9	376
Tax Rate (%)	(38.0)	20.8	(5882)	18.3	(5632)
EBIT Margin (%)	17.3	16.3	100	16.5	82

CMP	Rs 627
Target / Upside	Rs 701 / 12%
NIFTY	15,338

Scrip Details

Equity / FV	Rs 1,024mn / Rs 1
Market Cap	Rs 642bn
	USD 9bn
52-week High/Low	Rs 674/ 333
Avg. Volume (no)	8,651,440
Bloom Code	CDH IN

Price Performance	1M	3M	12M
Absolute (%)	11	44	85
Rel to NIFTY (%)	8	40	26

Shareholding Pattern

	Sep'20	Dec'20	Mar'21
Promoters	74.9	74.9	74.9
MF/Banks/FIs	18.6	17.7	17.7
FIIIs	4.4	5.2	5.2
Public / Others	2.2	2.2	2.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	31.8	31.9	27.9
EV/EBITDA	20.0	19.4	17.1
ROE (%)	18.3	14.7	14.9
RoACE (%)	12.8	10.5	11.2

Estimates (Rs mn)

	FY21	FY22E	FY23E
Revenue	151,022	157,154	169,213
EBITDA	33,410	33,551	36,881
PAT	20,204	20,148	22,985
EPS (Rs.)	19.7	19.7	22.4

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Exhibit 1: Revenue Mix

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Domestic formulations	10,232	8,922	14.7	11,035	(7.3)	40,429	37,141	8.9
Consumer (Zydus Wellness)	5,984	4,899	22.1	3,757	59.3	18,409	17,379	5.9
Animal Health	1,501	1,199	25.2	1,634	(8.1)	5,998	5,149	16.5
US	15,089	17,607	(14.3)	16,034	(5.9)	64,445	62,514	3.1
Europe	626	582	7.6	614	2.0	2,275	1,957	16.2
Emerging Markets incl .LATAM / ROW	2,499	1,717	45.5	2,932	(14.8)	10,167	8,753	16.2
JV	236	183	29.0	211	11.8	871	698	24.8
APIs	1,395	1,163	19.9	1,320	5.7	5,621	4,530	24.1
Total	37,562	36,272	3.6	37,537	0.1	1,48,215	1,38,121	7.3

Source: Company, DART

Exhibit 2: Cadila has an extensive range of COVID products

Segment	Product	Type	Stage	Remarks
COVID Drugs	Remdesvir	Oral drug	Commercial	Cadila has lowest cost at Rs899 and has one of the largest capacities in India
	HCQS	Oral Drug	Commercial	-
	Dexamethasone	Oral Drug	Commercial	-
Diagnostic	Kavach Elisa	Test kit	Commercial	-
Wellness	Nycil	Sanitizer	Commercial	-
	Cimune and Superimune	Immunity booster	Commercial	-
NCE	Desidustat	Biologic	Phase 3	Phase 3 in India
	ZYL-1	Biologic	Clinical trial	Phase 1 trials in India for rare auto-immune disease
	Virafin	Pegylated Interferon Alpha 2D	Commercial	Repurposed drug launched at Rs11995/dose in India
Vaccine	ZyCoV-D	DNA platform vaccine	Phase 3	Expect commercialization in Q2FY22 (3 dose)
	ZyCoV-MV	Vector based vaccine	Pre-clinical trials	-

Source: Company, DART

Con-call takeaways

- **Covid-19 vaccine:** Phase III trials of ZyCov-D are towards completion with read outs expected to be submitted for review by 1st week June. Its new facility for vaccine has capacity to produce 120mn doses and manufacturing is expected to start from end of June'21. Company has invested Rs1.5bn in vaccine (capex + R&D) so far and has also procured the supply chain for the device required for this vaccine. Cadila has also included people aged 12-17 for its vaccine trials (which expands the target market significantly) and is also working on a 2 dose regimen as well as a reusable needle-free injector device to make vaccine administration easier, data of its abridged study is expected in next 10 days. Led by robust order book, Cadila aims to manufacture 10mn doses/month scalable to 20-30mn via partners. Pricing details are awaited.
- **US:** US revenue de-grew 6% QoQ to US\$207mn (down \$13mn QoQ) on the back of weaker flu season, pricing erosion and lower offtake in Asacol HD. Management has guided for a similar run-rate in Q1 as well, whereas Q2FY22 is expected to grow faster led by impending newer launches. Cadila remains confident of sustenance of its Mesalamine franchise sales as it believes that API scalability is very complex. Transdermal patches launch has been delayed due to delay in FDA clearance of its Moraiya plant. It expects to launch an injectable in 1HFY22E. With 30+ launches p.a., management guided for high single digit growth in the US on a YoY basis, in-line with our expectation.
- **US pipeline:** Cadila has 412 filings in the US of which 317 are approved. Company has been consistently launching 30+ products since past 3 years and expect the momentum to continue. The injectable portfolio (US\$15mn) is expected to revenues of US\$300mn over the next 3 years. Company has also entered into licensing pact in the US for 20 products (largely injectables) which are exclusive in nature.
- **Domestic formulations:** India Formulations reported 15% YoY growth driven by base portfolio (negligible COVID sales). Post restructuring, specialty (40% of sales) have ramped up faster. We factor 11% revenue CAGR in FY21-23E for India on the back of ongoing focused marketing initiatives in India formulations driven by new launches (guided for 20+ launches p.a.). Launch of Saroglitazar in India could potentially open a market of Rs2.5bn. Over the next 5 years, India should see higher launches in biosimilars, vaccines followed by small molecules.
- **Operating performance:** The company has guided for sustained margins at 22% driven by (1) manpower optimization, (2) improvement in field force productivity post restructuring in India formulations, (3) cost optimization (4) change in product mix with specialty launches – injectables, Saroglitazar, biosimilars, etc. (5) While digital initiatives may not lead to cost savings, it can enhance reach and improve productivity

Profit and Loss Account

(Rs Mn)	FY20A	FY21	FY22E	FY23E
Revenue	142,531	151,022	157,154	169,213
Total Expense	114,697	117,612	123,602	132,333
COGS	49,200	52,101	54,032	57,569
Employees Cost	24,145	24,902	27,869	30,677
Other expenses	41,352	40,609	41,702	44,086
EBIDTA	27,834	33,410	33,551	36,881
Depreciation	6,965	7,248	7,770	7,959
EBIT	20,869	26,162	25,781	28,922
Interest	3,418	1,635	1,288	878
Other Income	1,139	372	410	451
Exc. / E.O. items	(3,636)	(2,051)	0	0
EBT	14,954	22,848	24,903	28,495
Tax	3,198	1,472	5,230	5,984
RPAT	11,766	21,336	20,148	22,985
Minority Interest	278	514	0	0
Profit/Loss share of associates	288	474	474	474
APAT	15,402	20,204	20,148	22,985

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,024	1,024	1,024	1,024
Minority Interest	13,347	19,373	19,373	19,373
Reserves & Surplus	102,733	128,899	143,983	161,904
Net Worth	103,757	129,923	145,007	162,928
Total Debt	70,411	36,804	28,630	25,081
Net Deferred Tax Liability	7,645	9,026	9,324	9,357
Total Capital Employed	195,160	195,126	202,334	216,739

Applications of Funds

Net Block	68,390	67,863	62,467	57,165
CWIP	64,846	64,867	69,253	71,053
Investments	3,581	4,786	4,786	4,786
Current Assets, Loans & Advances	100,049	101,331	109,930	129,281
Inventories	27,890	32,362	31,713	32,104
Receivables	36,632	31,273	32,668	33,802
Cash and Bank Balances	9,649	8,883	16,413	33,980
Loans and Advances	12,895	14,171	14,422	14,617
Other Current Assets	10,855	12,653	12,725	12,790
Less: Current Liabilities & Provisions	41,706	43,721	44,103	45,545
Payables	20,310	22,059	21,881	22,529
Other Current Liabilities	21,396	21,662	22,222	23,016
		<i>sub total</i>		
Net Current Assets	58,343	57,610	65,828	83,736
Total Assets	195,160	195,126	202,334	216,739

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	65.5	65.5	65.6	66.0
EBIDTA Margin	19.5	22.1	21.3	21.8
EBIT Margin	14.6	17.3	16.4	17.1
Tax rate	21.4	6.4	21.0	21.0
Net Profit Margin	8.3	14.1	12.8	13.6
(B) As Percentage of Net Sales (%)				
COGS	34.5	34.5	34.4	34.0
Employee	16.9	16.5	17.7	18.1
Other	29.0	26.9	26.5	26.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.7	0.3	0.2	0.2
Interest Coverage	6.1	16.0	20.0	32.9
Inventory days	71	78	74	69
Debtors days	94	76	76	73
Average Cost of Debt	4.8	3.0	3.9	3.3
Payable days	52	53	51	49
Working Capital days	149	139	153	181
FA T/O	2.1	2.2	2.5	3.0
(D) Measures of Investment				
AEPS (Rs)	15.0	19.7	19.7	22.4
CEPS (Rs)	21.8	26.8	27.3	30.2
DPS (Rs)	8.4	4.2	4.2	4.2
Dividend Payout (%)	55.6	21.2	21.3	18.6
BVPS (Rs)	101.3	126.9	141.6	159.1
RoANW (%)	11.3	18.3	14.7	14.9
RoACE (%)	9.6	12.8	10.5	11.2
RoAIC (%)	11.2	14.1	13.9	15.7
(E) Valuation Ratios				
CMP (Rs)	627	627	627	627
P/E	41.7	31.8	31.9	27.9
Mcap (Rs Mn)	641,894	641,894	641,894	641,894
Mcap/ Sales	4.5	4.3	4.1	3.8
EV	700,528	667,826	652,121	631,007
EV/Sales	4.9	4.4	4.1	3.7
EV/EBITDA	25.2	20.0	19.4	17.1
P/BV	6.2	4.9	4.4	3.9
Dividend Yield (%)	1.3	0.7	0.7	0.7
(F) Growth Rate (%)				
Revenue	8.3	6.0	4.1	7.7
EBITDA	(6.4)	20.0	0.4	9.9
EBIT	(12.1)	25.4	(1.5)	12.2
PBT	(37.2)	52.8	9.0	14.4
APAT	(16.7)	31.2	(0.3)	14.1
EPS	(16.7)	31.2	(0.3)	14.1

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	24,198	40,841	28,343	31,039
CFI	(5,743)	(8,258)	(3,374)	(3,657)
CFF	(15,299)	(33,349)	(17,439)	(9,816)
FCFF	18,455	32,583	24,969	27,382
Opening Cash	6,493	9,649	8,883	16,413
Closing Cash	9,649	8,883	16,413	33,980

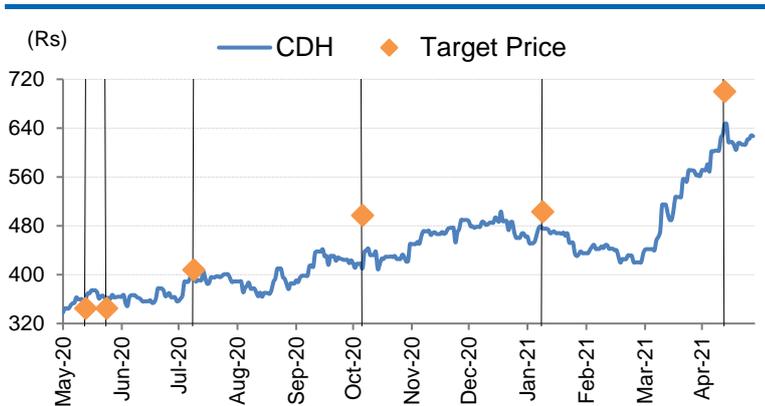
E – Estimates

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
Nov-20	Accumulate	497	411
Feb-21	Accumulate	503	475
May-21	Accumulate	700	647

*Price as on recommendation date

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