

Cadila Healthcare (CDH IN)

Rating: ACCUMULATE | CMP: Rs627 | TP: Rs696

May 28, 2021

Q4FY21 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		BUY	
Target Price	696		517	
Sales (Rs. m)	1,60,397	1,95,633	1,73,057	2,02,130
% Chng.	(7.3)	(3.2)		
EBITDA (Rs. m)	37,945	46,348	40,924	44,333
% Chng.	(7.3)	4.5		
EPS (Rs.)	24.0	31.7	24.6	25.9
% Chng.	(2.4)	22.4		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	1,38,121	1,51,022	1,60,397	1,95,633
EBITDA (Rs. m)	23,424	33,410	37,945	46,348
Margin (%)	17.0	22.1	23.7	23.7
PAT (Rs. m)	11,757	21,336	24,620	32,411
EPS (Rs.)	11.5	20.8	24.0	31.7
Gr. (%)	(36.4)	81.5	15.4	31.6
DPS (Rs.)	6.9	3.5	3.5	3.5
Yield (%)	1.1	0.6	0.6	0.6
RoE (%)	11.3	18.3	17.9	20.2
RoCE (%)	9.4	15.3	18.0	20.9
EV/Sales (x)	5.1	4.4	4.1	3.3
EV/EBITDA (x)	29.9	20.0	17.4	14.0
PE (x)	54.6	30.1	26.1	19.8
P/BV (x)	6.2	4.9	4.4	3.6

Key Data

CADI.BO | CDH IN

52-W High / Low	Rs.674 / Rs.333
Sensex / Nifty	51,115 / 15,338
Market Cap	Rs.642bn / \$ 8,841m
Shares Outstanding	1,024m
3M Avg. Daily Value	Rs.9768.2m

Shareholding Pattern (%)

Promoter's	74.88
Foreign	5.23
Domestic Institution	11.30
Public & Others	8.59
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.4	39.3	85.7
Relative	6.6	20.3	14.8

Surajit Pal

surajitpal@plindia.com | 91-22-66322259

Growth in India offsets fall in US

Quick Pointers:

- India formulation/Consumer healthcare grew 15%/20% YoY.
- Net debt reduced by Rs32bn in FY21 to Rs30bn.
- Guided for vaccine launch in end-Jun and 30+ launches in US in FY22E.

We revise upgrade our earnings estimate by 22% in FY23E while marginally decreased by 2.4% in FY22E as we increase estimates of Consumer healthcare, India formulations (with 40+ launches) and EU sales while removing animal healthcare sales from 2HFY22 due to sale of business. The 4QFY21 sales were in-line, while earnings beat our estimates with contribution of higher-margin products (Covid-19 drugs) in India, which more than offset the shortfall in US generics. The weak flu season, homebound population in lockdown and price erosion in older products were key reasons for 5% QoQ decline in US sales. There were however better contributions from India formulations, consumer wellness products and lower marketing overheads helped in maintaining adj. EBITDA margin at 20.4%. In addition, 70% reduction in interest cost and higher other operating income helped in normalized PBT growth of 5%.

While we remain positive on CDH's strong visibility of near term opportunity in Covid-19 led drugs and vaccines, stock price has already moved up steeply by 36% since Feb-2021. We believe the run-up discounted initial booster benefits of vaccine launch in April FY22E (which is delayed now to end-Jun CY21) and strong sales of Remdesivir (since Mar-CY21) on virulent arrival of second wave of Covid-19 in India. With increase in earnings estimates and assigned PE multiple to 22x (earlier 20x) on the back of 1) steep debt reduction and 2) visibility on near term launches, we increase our TP to Rs696 (from Rs517). Our recommendation however downgraded to 'Accumulate' (from 'Buy') as it offers 11% upside to current valuation.

- Earnings in-line with estimate:** Revenue grew 6% YoY/1% QoQ to Rs38.5b (PL: Rs38b). EU grew 2% while US/LATAM declined 5%/15% QoQ. EBITDA grew 8% YoY, while QoQ declined by 1% to Rs8.6b (PL: Rs8b). EBITDAM came at 22.2% (PL: 21.1%) v/s 21.1% YoY and 22.7% QoQ. R&D expense declined 19% YoY and 34% QoQ. Adj. PBT grew 5% YoY, while declined by 4% QoQ to Rs6bn (PL: Rs6.2bn). PAT grew 73% YoY and 12.5% QoQ to Rs6.8bn (PL: Rs4.9b), there was tax credit of 33% vs tax exp. of 18% YoY and 19% QoQ.

Conference Call and Key Highlights:

- India business (Formulation/Consumer/Animal):** Total sales for India business grew 18% YoY with India formulations/ Consumer/ Animal health growing at 15%/22%/25% in 4QFY21. India formulations adj. growth (ex-COVID prods.) would have been lower at single digit as short term opportunity in Remdesivir and Favipiravir skewed the lower growth in core portfolio.

- **Consumer wellness (16% of consolidated revenue for CDH):** Five of the Company's brands Glucon-D, Sugar Free, EverYuth Scrub, Peel Off Face Mask and Nycil maintained leadership positions in their respective categories. Sugar free witnessed a strong double digit growth while EverYuth Scrub and Nycil are already leading brands with a market share of 34.8% and 35.7% in their segments. Glucon-D also maintained its Number 1 position with a market share of 58.3%. In the Malted Food Drink category, Complian has a market share of 5.5%. The demand for Nutralite has been steadily increasing and there has been sequential improvement across the portfolio including institutional business.
- **US Formulations:** Declined 5% QoQ to US\$207m due to weak flu season product (Tamiflu), lower offtake of Asacol HD due to doctors' dispensaries and price erosion in older portfolio. In 3Q, CDH received 4 new product approvals from USFDA. Guided for 30+ products launch in FY22 with 7-10 high value and limited competition launch. It also aims injectable revenue to be US\$150m in FY23E v/s US\$15m in FY20. Currently 30 injectables are under development, while existing product line of injectables are in a process of site transfer from Moraiya to Liva plant. CDH in-Licensed 14 assets to be launched in next 3 years. Its Rx share of generic Mesalamine is above 50%, even after entry of few other players. Moraiya plant remediation has been completed and USFDA inspection is waited.
- **EU/LATAM/API:** EU/LATAM revenue grew 2%/(-15)% QoQ, while API increased by 6% QoQ.
- **Biosimilar and Vaccine:** CDH received emergency authorization approval of its biosimilar drug Peg-Interferon alfa for treating Covid-19 patients. There are phase-3 clinical trial of its Covid-19 vaccines going on in 28 centers with 35,000 patients in India. While it expects end-Jun FY22 launch of its 3-dose vaccines, management plans to launch 2-dose vaccines in near term. Is currently under trials.
- **R&D/Debt:** R&D expense decreased 19% YoY and 34% QoQ to 6% sales in 4QFY21, while guidance for FY22E was maintained at 8-9% of sales. CDH would spend 60% of R&D in US generics, while 40% is to be equally divided between biologics and vaccines.
- **Net debt fell sharply:** Net debt reduced by Rs31.8bn in FY21 to Rs30.2bn. Out of Rs31.8bn debt reduction, Rs22bn was from internal accruals, while rest from funds raised from preferential issue and QIP issue.
- **Regulatory Status:** CDH completed its remediation for Moraiya facility and is waiting for USFDA inspection. As Injectable filings has been withdrawn from the facility, CDH doesn't see escalation of regulatory issue for Moraiya.

Exhibit 1: 4QFY21 Result Overview (Rs m): India business drives growth

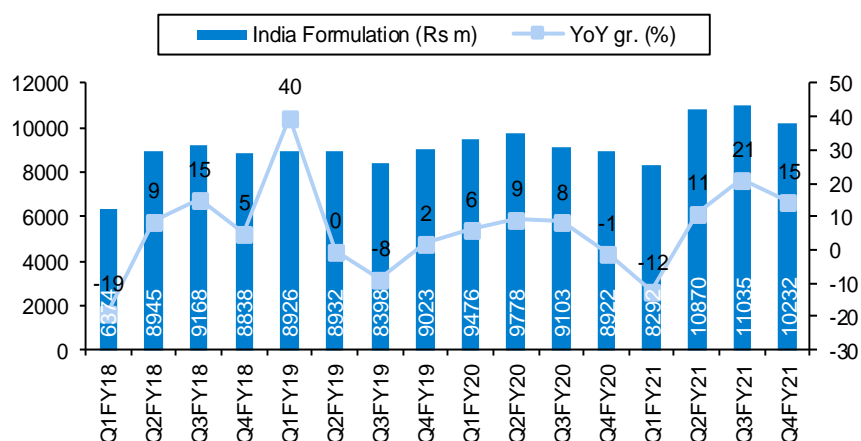
Y/e March	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	YoY gr. (%)	FY21	FY20	YoY gr. (%)
Net Sales	38,467	37,521	2.5	37,956	1.3	1,51,022	1,38,121	9.3
Raw Material	13,440	12,597	6.7	12,935	3.9	52,101	49,200	5.9
<i>% of Net Sales</i>	<i>34.9</i>	<i>33.6</i>		<i>34.6</i>		<i>34.5</i>	<i>35.6</i>	
Personnel Cost	6,209	6,090	2.0	6,286	(1.2)	24,902	24,145	3.1
<i>% of Net Sales</i>	<i>16.1</i>	<i>16.2</i>		<i>16.1</i>	<i>0.0</i>	<i>16.5</i>	<i>17.5</i>	
Others	10,265	10,922	(6.0)	10,666	(3.8)	40,609	41,352	(1.8)
<i>% of Net Sales</i>	<i>26.7</i>	<i>29.1</i>		<i>26.6</i>		<i>26.9</i>	<i>29.9</i>	
Total Expenditure	29,914	29,609	1.0	29,566	1.2	1,17,612	1,14,697	2.5
EBITDA	8,553	7,912	8.1	8,634	(0.9)	33,410	23,424	42.6
<i>Margin (%)</i>	<i>22.2</i>	<i>21.1</i>		<i>22.6</i>		<i>22.1</i>	<i>17.0</i>	
Depreciation	1,886	1,785	5.7	1,804	4.5	7,248	6,965	4.1
EBIT	6,667	6,127	8.8	6,844	(2.6)	26,162	16,459	59.0
Other Income	(403)	443	(191.0)	275	(246.5)	372	5,540	(93.3)
Interest	233	825	(71.8)	268	(13.1)	1,635	3,418	(52.2)
PBT	6,031	5,745	5.0	6,662	(9.5)	24,899	18,581	34.0
Extra-Ord. Inc./Exps.	1,257	741	69.6	(147)	(955.1)	(2,011)	3,626	(155.5)
Total Taxes	(2,016)	1,085	(285.8)	1,147	(275.8)	1,472	3,198	(54.0)
<i>ETR (%)</i>	<i>(33.4)</i>	<i>18.9</i>		<i>16.6</i>		<i>5.9</i>	<i>17.2</i>	
Reported PAT	6,790	3,919	73.3	4,734	43.4	25,438	11,757	116.4

Source: Company, PL

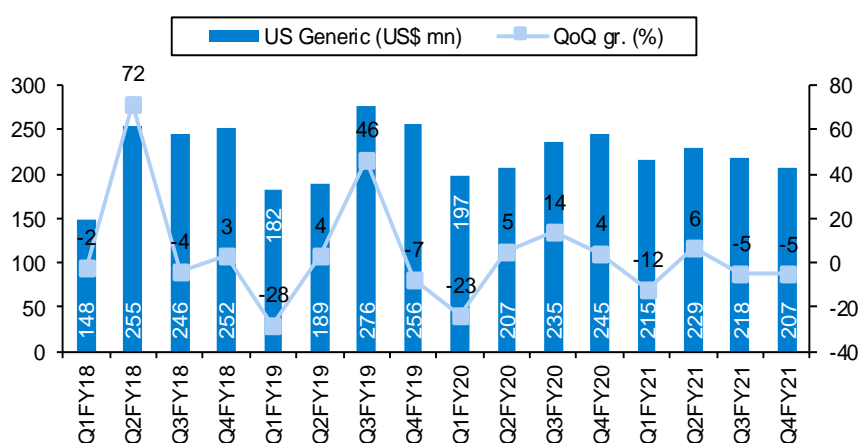
Exhibit 2: Major Sources of Revenues

Major Sources of Revenues	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	YoY gr. (%)	FY21	FY20	YoY gr. (%)
Domestic	19,112	16,183	18.1	17,746	7.7	67,302	64,199	4.8
<i>% of Net Sales</i>	<i>49.7</i>	<i>43.5</i>		<i>45.6</i>		<i>44.3</i>	<i>46.5</i>	
Formulation	10,232	8,922	14.7	11,035	(7.3)	39,369	37,141	6.0
<i>% of Net Sales</i>	<i>26.6</i>	<i>24.0</i>		<i>28.5</i>		<i>25.9</i>	<i>26.9</i>	
API	1,395	1,163	19.9	1,320	5.7	4,574	4,530	1.0
<i>% of Net Sales</i>	<i>3.6</i>	<i>3.1</i>		<i>4.2</i>		<i>3.0</i>	<i>3.3</i>	
Consumer HC & Others	5,984	4,899	22.1	3,757	59.3	17,900	17,379	3.0
<i>% of Net Sales</i>	<i>15.6</i>	<i>13.2</i>		<i>8.8</i>		<i>11.8</i>	<i>12.6</i>	
Animal Healthcare	1,501	1,199	25.2	1,634	(8.1)	5,458	5,149	6.0
<i>% of Net Sales</i>	<i>3.9</i>	<i>3.2</i>		<i>4.2</i>		<i>3.6</i>	<i>3.7</i>	
Exports	18,450	19,991	(7.7)	19,791	(6.8)	83,302	72,783	14.5
<i>% of Net Sales</i>	<i>48.0</i>	<i>53.7</i>		<i>52.9</i>		<i>54.9</i>	<i>52.7</i>	
Formulation	18,214	19,906	(8.5)	19,580	(7.0)	82,569	72,085	14.5
<i>% of Net Sales</i>	<i>47.3</i>	<i>53.5</i>		<i>52.3</i>		<i>54.4</i>	<i>52.2</i>	
North America	15,089	17,607	(14.3)	16,034	(5.9)	70,322	61,376	14.6
EU	626	582	7.6	614	2.0	2,200	1,957	12.4
LatAM	2,499	1,717	45.5	2,932	(14.8)	10,047	8,753	14.8

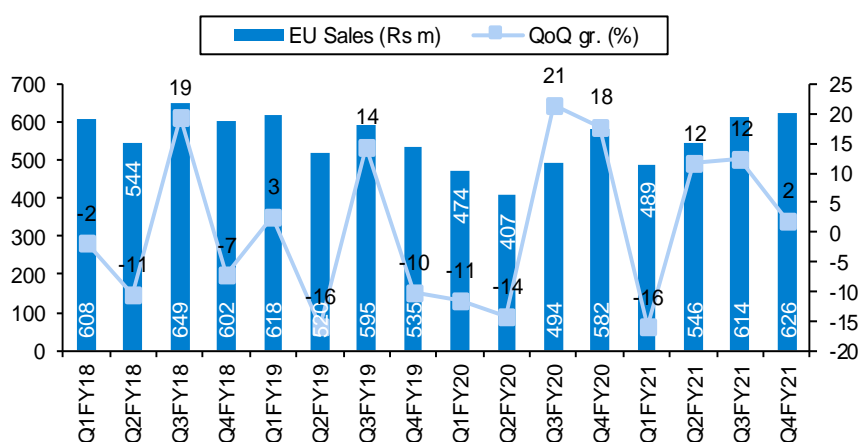
Source: Company, PL

Exhibit 3: India Formulation: Core growth is at par with IPM average growth


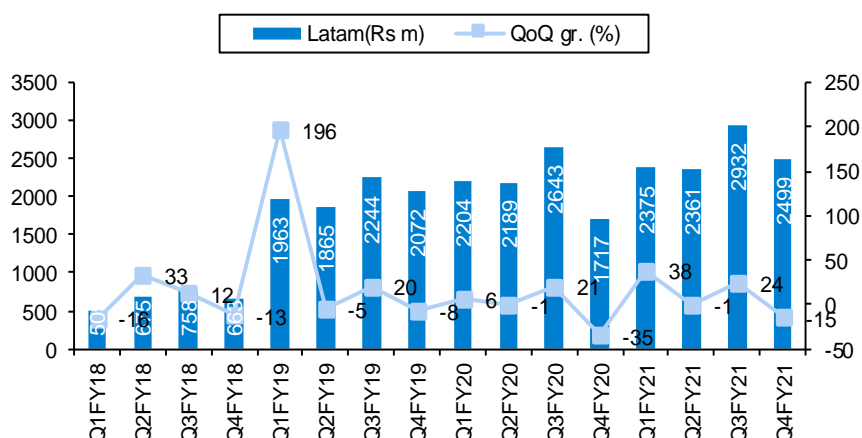
Source: Company, PL

Exhibit 4: US Generic(US\$ m): Weak flu season, lower Asacol HD offtake, price erosion in core portfolio impacted US growth in 2HFY21


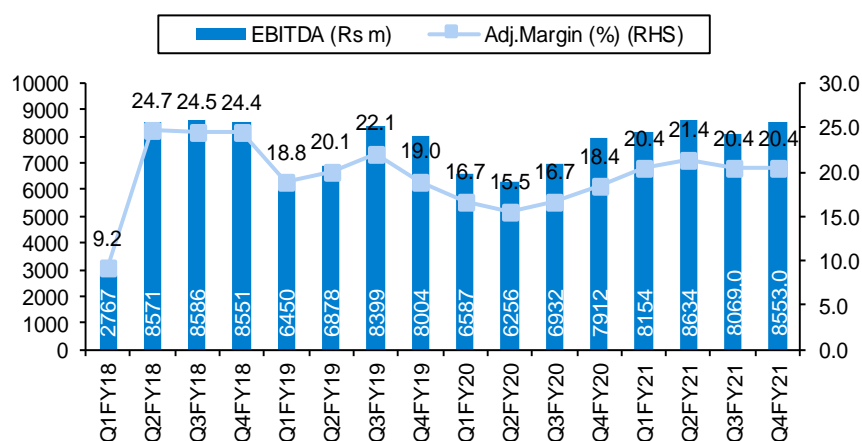
Source: Company, PL

Exhibit 5: EU sales (Rs m) & QoQ Gr(%): Growth remains muted


Source: Company, PL

Exhibit 6: LATAM (Rs m) and QoQ Gr(%): Covid impacted growth


Source: Company, PL

Exhibit 7: EBITDA and adj. Margin (%): Product mix management, lower overheads maintain growth, margin in 4QFY21


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	1,38,121	1,51,022	1,60,397	1,95,633
YoY gr. (%)	8.3	9.3	6.2	22.0
Cost of Goods Sold	49,200	52,101	53,427	64,431
Gross Profit	88,921	98,921	1,06,970	1,31,202
Margin (%)	64.4	65.5	66.7	67.1
Employee Cost	24,145	24,902	26,261	30,832
Other Expenses	10,974	11,290	11,521	15,900
EBITDA	23,424	33,410	37,945	46,348
YoY gr. (%)	(8.4)	42.6	13.6	22.1
Margin (%)	17.0	22.1	23.7	23.7
Depreciation and Amortization	6,965	7,248	6,945	7,078
EBIT	16,459	26,162	31,001	39,270
Margin (%)	11.9	17.3	19.3	20.1
Net Interest	3,418	1,635	722	235
Other Income	5,540	372	802	978
Profit Before Tax	18,581	24,899	31,081	40,013
Margin (%)	13.5	16.5	19.4	20.5
Total Tax	3,198	1,472	6,061	7,603
Effective tax rate (%)	17.2	5.9	19.5	19.0
Profit after tax	15,383	23,427	25,020	32,411
Minority interest	(10)	40	400	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,757	21,336	24,620	32,411
YoY gr. (%)	(36.4)	81.5	15.4	31.6
Margin (%)	8.5	14.1	15.3	16.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,757	21,336	24,620	32,411
YoY gr. (%)	(36.4)	81.5	15.4	31.6
Margin (%)	8.5	14.1	15.3	16.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,757	21,336	24,620	32,411
Equity Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	11.5	20.8	24.0	31.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	1,13,345	1,20,006	1,30,006	1,40,006
Tangibles	85,780	92,175	99,175	1,06,175
Intangibles	27,565	27,831	30,831	33,831
Acc: Dep / Amortization	44,955	52,143	59,183	66,511
Tangibles	31,258	36,675	42,025	47,519
Intangibles	13,697	15,468	17,158	18,992
Net fixed assets	68,390	67,863	70,823	73,495
Tangibles	54,522	55,500	57,150	58,655
Intangibles	13,868	12,363	13,673	14,839
Capital Work In Progress	7,415	7,832	7,832	7,832
Goodwill	53,915	53,465	53,465	53,465
Non-Current Investments	8,382	8,830	8,830	8,830
Net Deferred tax assets	6,430	9,547	9,547	9,547
Other Non-Current Assets	3,081	2,953	2,953	2,953
Current Assets				
Investments	2,128	1,989	1,989	1,989
Inventories	27,890	32,362	32,079	39,127
Trade receivables	36,632	31,273	35,156	45,558
Cash & Bank Balance	9,649	8,883	10,164	13,014
Other Current Assets	8,549	10,309	10,515	10,725
Total Assets	2,36,866	2,38,847	2,46,965	2,70,219
Equity				
Equity Share Capital	1,024	1,024	1,024	1,024
Other Equity	1,02,737	1,28,899	1,44,142	1,75,469
Total Network	1,03,761	1,29,923	1,45,166	1,76,493
Non-Current Liabilities				
Long Term borrowings	32,146	6,095	4,571	-
Provisions	2,352	3,095	3,250	3,412
Other non current liabilities	17	10	-	-
Current Liabilities				
ST Debt / Current of LT Debt	38,265	30,709	27,638	22,110
Trade payables	20,310	22,059	24,169	28,407
Other current liabilities	24,115	25,845	20,794	18,339
Total Equity & Liabilities	2,36,866	2,38,847	2,46,965	2,70,219

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	14,954	22,848	31,081	40,013
Add. Depreciation	6,965	7,248	6,945	7,078
Add. Interest	(3,236)	1,635	722	235
Less Financial Other Income	5,540	372	802	978
Add. Other	8,102	2,977	(13,311)	(490)
Op. profit before WC changes	26,785	34,708	25,437	46,837
Net Changes-WC	1,294	1,672	(6,929)	(16,067)
Direct tax	(3,025)	(3,450)	(6,667)	(8,363)
Net cash from Op. activities	25,054	32,930	11,841	22,407
Capital expenditures	(9,041)	(8,469)	(6,000)	(6,000)
Interest / Dividend Income	22	508	-	-
Others	(1,104)	736	-	-
Net Cash from Invst. activities	(10,123)	(7,225)	(6,000)	(6,000)
Issue of share cap. / premium	-	9,866	-	-
Debt changes	(3,489)	(33,427)	(4,595)	(10,099)
Dividend paid	(8,569)	(15)	(3,584)	(3,584)
Interest paid	1,116	(1,913)	(722)	(235)
Others	-	-	10	244
Net cash from Fin. activities	(10,942)	(25,489)	(8,891)	(13,675)
Net change in cash	3,989	216	(3,050)	2,732
Free Cash Flow	16,013	24,461	5,841	16,407

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Net Revenue	36,399	38,200	37,956	38,467
YoY gr. (%)	4.1	13.5	4.3	2.5
Raw Material Expenses	12,503	13,223	12,935	13,440
Gross Profit	23,896	24,977	25,021	25,027
Margin (%)	65.7	65.4	65.9	65.1
EBITDA	8,154	8,634	8,069	8,553
YoY gr. (%)	23.8	38.0	16.4	8.1
Margin (%)	22.4	22.6	21.3	22.2
Depreciation / Depletion	1,768	1,790	1,804	1,886
EBIT	6,386	6,844	6,265	6,667
Margin (%)	17.5	17.9	16.5	17.3
Net Interest	677	457	268	233
Other Income	225	275	275	(403)
Profit before Tax	5,934	6,662	6,272	6,031
Margin (%)	16.3	17.4	16.5	15.7
Total Tax	1,235	1,106	1,147	(2,016)
Effective tax rate (%)	20.8	16.6	18.3	(33.4)
Profit after Tax	4,699	5,556	5,125	8,047
Minority interest	159	(498)	(147)	526
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,540	4,734	5,272	6,790
YoY gr. (%)	39.3	341.6	41.0	73.3
Margin (%)	12.5	12.4	13.9	17.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,540	4,734	5,272	6,790
YoY gr. (%)	39.3	341.6	41.0	73.3
Margin (%)	12.5	12.4	13.9	17.7
Other Comprehensive Income	94	598	323	30
Total Comprehensive Income	4,634	5,332	5,595	6,820
Avg. Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	4.4	4.6	5.1	6.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	11.5	20.8	24.0	31.7
CEPS	18.3	27.9	30.8	38.6
BVPS	101.3	126.9	141.8	172.4
FCF	15.6	23.9	5.7	16.0
DPS	6.9	3.5	3.5	3.5
Return Ratio(%)				
RoCE	9.4	15.3	18.0	20.9
ROIC	8.4	15.4	15.6	18.4
RoE	11.3	18.3	17.9	20.2
Balance Sheet				
Net Debt : Equity (x)	0.6	0.2	0.1	0.0
Net Working Capital (Days)	117	100	98	105
Valuation(x)				
PER	54.6	30.1	26.1	19.8
P/B	6.2	4.9	4.4	3.6
P/CEPS	34.3	22.5	20.3	16.3
EV/EBITDA	29.9	20.0	17.4	14.0
EV/Sales	5.1	4.4	4.1	3.3
Dividend Yield (%)	1.1	0.6	0.6	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
US Formulations	63,140	62,514	72,467	76,880
Domestic Formulations	37,437	37,141	39,369	42,519
Consumer Healthcare	5,174	17,379	17,900	18,795
Income from JVs	986	698	733	770

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Apr-21	BUY	517	461
2	08-Feb-21	Accumulate	522	475
3	11-Jan-21	Sell	357	485
4	03-Nov-20	Sell	357	411
5	13-Oct-20	Sell	310	442
6	06-Aug-20	Sell	329	396
7	08-Jul-20	Reduce	329	360
8	22-Jun-20	Reduce	329	362

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	1,023	903
2	Cadila Healthcare	BUY	517	461
3	Cipla	Accumulate	960	904
4	Dr. Lal PathLabs	UR	-	2,996
5	Dr. Reddy's Laboratories	Accumulate	5,420	5,197
6	Eris Lifesciences	Accumulate	724	656
7	Glenmark Pharmaceuticals	Sell	422	503
8	Indoco Remedies	BUY	401	338
9	Ipca Laboratories	BUY	2,259	2,005
10	Jubilant Pharmova	Accumulate	1,088	916
11	Lupin	Accumulate	1,314	1,212
12	Sun Pharmaceutical Industries	BUY	696	621
13	Thyrocare Technologies	UR	-	988

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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