Cadila Healthcare Limited

In a growth sweet spot

Stock Update

Pharmaceuticals	Sharekhan code: CADILAHC	Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Summary

- Cadila Healthcare's (Cadila) Q4FY2021 numbers were healthy and earnings beat estimates, due to a tax credit and an adjustment for a one-time impairment expenses.
- Cadila is in a sweet spot, wherein both its geographies, India and the US have an improved growth outlook.
- Efforts to build a portfolio of Covid drugs including Vaccines augurs well from a growth perspective
- We retain our Buy recommendation on the stock with unchanged PT of Rs. 720.

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 626**	
Price Target: **Rs. 720**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

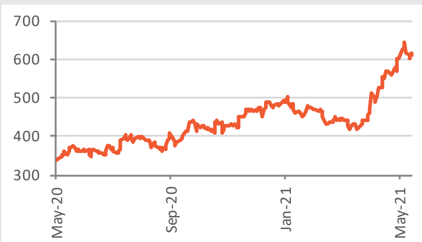
Company details

Market cap:	Rs. 64,158 cr
52-week high/low:	Rs. 673 / 333
NSE volume: (No of shares)	60.7 lakh
BSE code:	532321
NSE code:	CADILAHC
Free float: (No of shares)	25.7 cr

Shareholding (%)

Promoters	74.9
FII	5.6
DII	11.3
Others	8.28

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.2	44.0	39.1	85.3
Relative to Sensex	6.8	39.9	23.3	23.6

Sharekhan Research, Bloomberg

Cadila Healthcare Limited (Cadila) reported healthy numbers in Q4FY2021. Earnings beat estimates, due to a tax credit and an adjustment for a one-time impairment expenses. Consolidated sales at Rs. 3,847 crore grew 2.5% y-o-y backed by an 18% growth in the India business while US sales declined by 14% y-o-y. Operating profit expanded by 115 bps y-o-y to 22.2% led by savings in other expenses. Operating profit stood at Rs. 855 crore up 8.1% y-o-y. Due to an impairment charge and a tax credit on account of recognition of deferred tax asset, the adjusted PAT stood at Rs. 752 crore up by 69% y-o-y and was ahead of estimates. Cadila is getting into a sweet spot, wherein both its geographies have an improved growth outlook. The US, which accounts for close to almost half its revenue, is on a strong footing. A sturdy new product pipeline and ramp-up in the recent product launches would be key growth drivers. Efforts to build up presence in the injectables space with the management looking to grow the injectables franchise to $300 million over the near term, offers a strong growth potential, while IP-led products such as Saroglitzar and Desidustat provide growth visibility over the long term. In addition, Cadila has launched 30 new products in the US in FY2021 and looks to maintain the run rate in FY2022 as well, thus pointing at a strong growth outlook. The India business is also showing signs of a strong growth. A solid presence in the chronic and sub-chronic segments (which are the key growth drivers for Indian pharmaceutical markets) and a gradual improvement for the acute segment provide ample growth visibility. Further Cadila is taking efforts to build a strong COVID-19 portfolio comprising drugs and the vaccines. Cadila looks to approach the DCGI over the next two weeks for emergency approval of its Covid Vaccine – ZyCoV-D. This coupled with increasing response for the recent launched Virafin (pegalyted Interferon for treating COVID-19 patients) in India augurs well. In addition, the company is working on another COVID-19 vaccine (ZyCoV-MV) which is under trials now. Collectively, this points at a strong growth potential from the COVID-19 portfolio as well and augurs well for the company.

Key positives

- The India business reported an 18% growth backed by double-digit growth across all segments.
- OPM expanded by 115 bps y-o-y, primarily led by a lower operating cost.
- The company looks to approach the DCGI for Emergency approval for its COVID-19 vaccine ZyCoV-D within the next two weeks

Key negatives

- US sales declined by 14% y-o-y because of pricing pressures and low offtake in few products.

Our Call

Valuation - Retain Buy with an unchanged PT of Rs 720: Cadila reported a healthy performance for Q4FY2021. The company's key segments, the US and India, are expected to witness improved growth traction. In the US markets, a sturdy product pipeline with a focus on specialty and complex generics products would be key growth driver. Over the long term, IP driven products such as Saroglitzar Mg and Desidustat provide sizeable growth opportunities. While in India, new launches, especially in the diabetes and cardiac segments and pick up in IPM would fuel growth which would be complimented by a string growth in the consumer business as well. Further, Cadila is also focusing on building a strong portfolio of COVID-19 drugs including Vaccines. Cadila's COVID-19 vaccine -ZyCoV-D Is under phase III clinical trials and the company expects to file for emergency approval over the next two weeks. This coupled with Virafin (recently approved for Covid patients) points at strong growth potential from the Covid portfolio. At CMP, the stock trades at 28.7x/23.3x its FY2022E/FY2023E estimates and we have largely retained our estimates post the results. Strong growth prospects and earnings visibility, a sturdy balance sheet, healthy return ratios, and multiple growth triggers including the COVID-19 vaccine are key positives for Cadila. We retain our Buy recommendation on the stock with unchanged PT of Rs. 720.

Key Risks

- Price erosion in the US generic business could hurt performance.
- Delay in resolution of USFDA issues at Moraiya plant.
- Forex volatility could impact earnings.

Valuation (Consolidated) Rs cr

Particulars	FY2019	FY2020	FY2021	FY2022E	FY2023E
Net sales	13,165.6	14,253.1	15,102.2	16,247.4	18,261.6
Operating Profit	2,983.5	2,783.4	3,341.0	3,618.4	4,198.6
OPM (%)	22.7	19.5	22.1	22.3	23.0
Adjusted Net profit	1,812.3	1,511.4	2,291.3	2,232.2	2,750.9
EPS (Rs)	17.7	14.8	22.4	21.8	26.9
PER (x)	35.4	42.4	28.0	28.7	23.3
EV/EBITDA (x)	24.3	25.9	20.6	17.6	14.5
P/BV (x)	6.2	6.2	4.9	4.4	3.8
RoCE (%)	12.3	10.5	12.8	14.5	16.2
RoNW(%)	17.4	14.6	17.6	15.3	16.4

Source: Company; Sharekhan estimates

Q4FY2021 a healthy quarter: Cadila reported healthy numbers in Q4FY2021. Earnings beat estimates due to a tax credit and an adjustment for one-time impairment expenses the earnings are ahead of estimates. Consolidated sales at Rs. 3,847 crore grew 2.5% y-o-y (1.3% QoQ) driven by a strong growth in the India business while the US business was weak and revenues declined y-o-y. Operating profit expanded by 115 bps y-o-y to 22.2% led by savings in other expenses. OPM was ahead of the estimates. The operating profit for the quarter stood at Rs 855 crore up 8.1% y-o-y. During the quarter, the company reported an impairment charge amounting to Rs 73 crore on account of Levorphonal – a US specialty product. Also the quarter reflected a tax credit of Rs 329 crore on account of recognition of deferred tax assets consequent to the merger of a wholly owned subsidiary – Rs 71 crore and Rs 218 crore due to recognition of deferred tax asset on MAT credit of earlier years available to a wholly-owned subsidiary. Adjusting for the one time impairment charge the Pat stood at Rs 752 crore, up by 69% y-o-y and was ahead of estimates. Reported PAT stood at Rs. 679 crore.

Strong new product pipeline to drive US sales: US sales declined by 14% y-o-y to Rs. 1,508 crore for the quarter. Sequentially as well, revenue declined due to pricing pressures in few products. Going ahead, the company has a healthy outlook for the US. Growth would be backed by strong new product launch pipeline, which would also include two new chemical entities (NCEs) to be launched over the next two years. Cadila has launched 30 new products in the US in FY2021, which include complex injectable product as well. Further, for FY2022, the company looks to launch 30+ new products in the US and these would also include injectables. Cadila is looking to grow its complex injectables portfolio to around $300 million in the near term and is looking at this to be a key growth driver. The USFDA has also granted an 'Orphan Drug Designation' to Saroglitazar MG for the treatment of patients with Primary Biliary Cholangitis. The orphan drug designation points towards certain development incentives, including tax credits for qualified clinical testing, prescription drug user fee exemptions and a seven-year marketing exclusivity for the drug. Moreover, given the unmet medical needs, the USFDA has awarded a fast-track status to the drug. Therefore, Cadila looks to launch the drug for the indication by CY2023-CY2024. Also part of Cadila's US portfolio is under the pricing pressures and is impacted by price erosion. However the sturdy quantum of new launches Including injectables and high potential products, growth in the base business would offset the pricing pressures and would be a key growth driver for the US business. Over the long term focus on IP driven products like Saroglitazar and Desidustat would be the key growth drivers for Cadila and could have a substantial contribution to growth.

Domestic business reports double-digit growth for the quarter: Cadila's domestic formulations business recorded strong 18% y-o-y growth and was one of the key growth drivers for the company. Growth for the quarter was led by strong 14.7% y-o-y growth in the human health segment followed by 22.1% and 25% growth, respectively, in the consumer as well animal health business. Going ahead, the domestic formulations business is expected to sustain the strong growth traction. This would be driven by a higher momentum in chronic and sub-chronic therapies, with the acute segment expected to catch up. Further, the company specialty products grew at a faster pace as compared to the mass products. In addition to this, the company has a strong product pipeline lined up for India business, and includes high potential products such as Saroglitazar which have been approved by the DCGI for NAFLD (fatty liver disease). Also the company is working on it to get an approval for other indications as well. The consumer health business is also well poised to grow in double digits. The company's strong brand position and well-spread distribution reach and broadening of the product portfolio would be key growth drivers.

COVID portfolio building up: Cadila is developing a strong portfolio to treat the COVID-19 virus and this includes the vaccines as well as drugs. In its efforts to build a strong COVID-19 portfolio, the company is developing two vaccines (ZyCov-D and ZyCov-MV), while it has received an approval for Virafin (a pegylated interferon) which is slowly getting in to a routine course of treatment with several state governments in India. In addition to this the company is also evaluating the biologics route and small molecules route to treat Covid patients. Currently, its vaccine ZyCoV-D is undergoing Phase III clinical trials and the management expects to file for emergency approval over the next two weeks. Moreover, it is setting up a plant to manufacture the COVID-19 vaccine, which is expected to go onstream soon. Cadila has also received strong orders for the Covid Vaccine and is now required to prioritise supplies as orders are way ahead of the capacity. In addition to this, the company is working on other vaccines. Currently, the contribution of the COVID-19 portfolio is very small in the overall scheme of things, but going ahead with the expected approval for the vaccine, expansion in manufacturing facility thereof and likely launch of COVID-19 drugs would strengthen the COVID-19 portfolio and augurs well from a growth perspective.

Q4FY2021 Conference Call Highlights

- **US business:** US sales for the quarter at Rs 1,508.90 crore declined by 14.3% y-o-y. The company has filed 22 ANDAs during the year with the USFDA, taking the cumulative filings to 412 and also strengthening its respiratory pipeline. The company received 35 ANDAs approvals during the year, taking the total to 317 product approvals, thus pointing at a strong product pipeline. Moreover, over the long term, products such as Saroglitazar and Desidustat as and when approved would provide substantial growth opportunities in the US markets.
- **Updates on Saroglitazar:** Cadila has received approval for Saroglitazar Mg, for the treatment of Non Alcoholic Fatty Liver Disease (NAFLD) and with this the drug is now indicated for both NAFLD and Non-Alcoholic Steatohepatitis (NASH). Saroglitazar is also being evaluated for the treatment of Primary Biliary Cholangitis, and was given the 'Fast Track Designation' also received the Orphan Drug Designation from the USFDA. This augurs well from a growth perspective ahead.
- **India business:** Cadila's India revenue has reported 18% y-o-y growth for Q4FY2021 to Rs 1771.8 crore. Traction in the domestic formulations business (human health) backed by strong growth in the human formulations and consumer wellness business which reported a growth of 15% y-o-y and 22% y-o-y respectively. The animal health business too has reported a growth of 25% y-o-y to Rs 150 crore.
- **Regulatory aspects:** Cadila is done with the remediation process at its Moraiya facility and has submitted updates/responses to the USFDA. The company has completed all CAPAs and has submitted its responses to the USFDA. A revert from the regulator is awaited. Regulatory clearance for Moraiya plant could be a key growth driver for the company and once approved the management would be in a position to go ahead with the transdermal patches portfolio launch in the US, which are filed from Moraiya.
- **Biosimilars:** Cadila is working around a few products in the biosimilars space and has recently launched a biosimilar Pegfilgrastim in Russia. With this launch, Cadila is also expecting to enter the other CIS countries for the product.
- **R&D:** The company has guided for R&D expense of 7-8% for FY2022 and beyond.

Results Rs cr

Particulars	Q4FY2021	Q4FY2020	Y-o-Y %	Q3FY2021	Q-o-Q %
Total Operating revenues	3,846.7	3,752.1	2.5	3,795.6	1.3
Operating profit	855.3	791.2	8.1	806.9	6.0
Other Income	-40.3	44.3	-191.0	27.5	-246.5
EBITDA	815.0	835.5	-2.5	834.4	-2.3
Interest	23.3	82.5	-71.8	26.8	-13.1
Depreciation	188.6	178.5	5.7	180.4	4.5
PBT	603.1	574.5	5.0	627.2	-3.8
PAT	804.7	466.0	72.7	512.5	57.0
Adjusted PAT	752.1	444.4	69.2	527.2	42.7
Reported PAT	679.0	391.9	73.3	527.2	28.8
Margins			**BPS**		**BPS**
OPM %	22.2	21.1	114.8	21.3	97.6

Source: Company; Sharekhan Research

Revenue Mix Rs cr

Revenue break up	Q4FY2021	Q4FY2020	Y-o-Y %	Q3FY2021	Q-o-Q %
India	**1771.8**	**1502.0**	**18.0%**	**1642.6**	**7.9%**
Human formulations	*1023.3*	*892.2*	*14.7%*	*1103.5*	*-7.3%*
Consumer Wellness	*598.4*	*489.9*	*22.1%*	*375.7*	*59.3%*
Animal Health & Others	*150.1*	*119.9*	*25.2%*	*163.4*	*-8.1%*
US Formulation	1508.9	1760.7	-14.3%	1603.4	-5.9%
EM & LATAM Formulations	249.9	171.7	45.5%	293.2	-14.8%
Europe Formulations	62.6	58.2	7.6%	61.4	2.0%
APIs	139.5	116.3	19.9%	132	5.7%
Alliances	23.6	18.3	29.0%	21.1	11.8%
Grand Total	**3756.3**	**3627.2**	**3.6%**	**3753.7**	**0.1%**
OOI	90.5	124.9	-27.5%	41.9	116.0%
Total Operating revenues	**3846.8**	**3752.1**	**2.5%**	**3795.6**	**1.3%**

Source: Company; Sharekhan Research

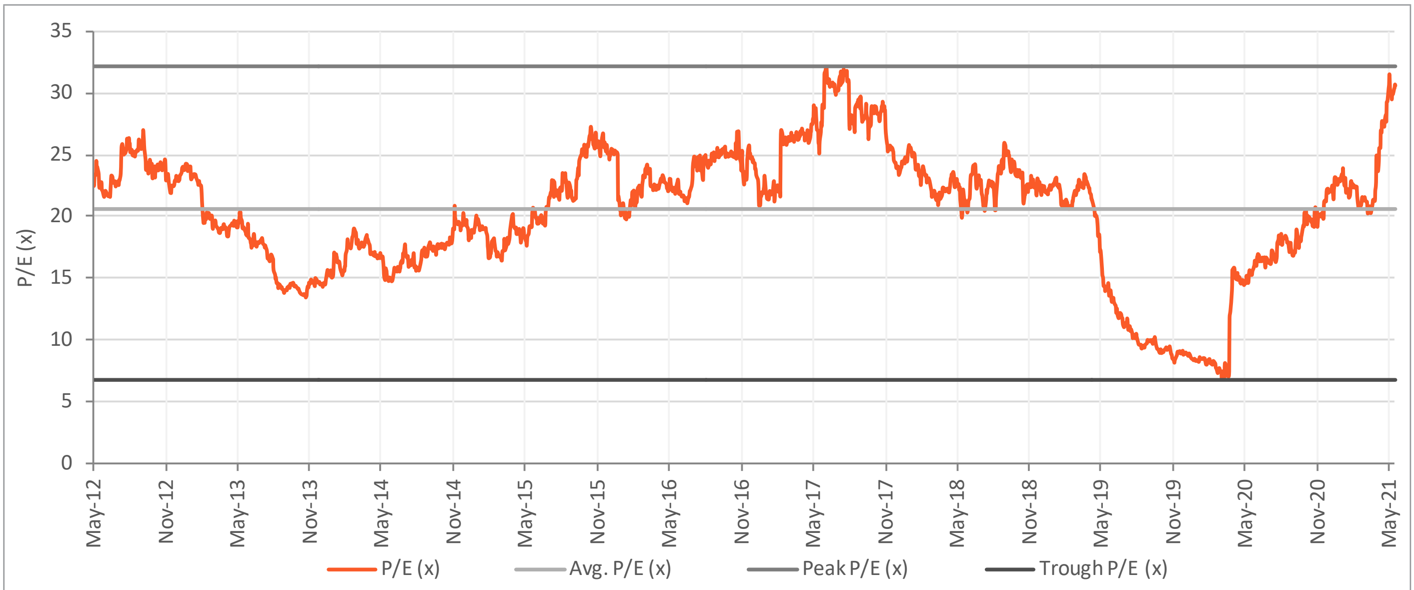
Outlook and Valuation

■ **Sector View - Growth momentum to improve:** Indian pharmaceutical companies are better-placed to harness opportunities and register healthy growth going ahead. Indian companies are among the most competitive ones globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in the US generics market), a rise in product approvals, and plant resolutions by the USFDA coupled with strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules and biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for pharmaceutical companies.

■ **Company outlook - Healthy growth outlook:** Cadila is getting in a sweet spot, wherein both geographies have an improved growth outlook. The US, which accounts for close to almost half its revenues, is on a strong footing helped by sturdy new product pipeline and ramp-up in recent product launches, which would be key growth drivers. The efforts to build up a presence in the injectables space would also add to growth albeit over the medium to long term. The India business is also showing signs of pick-up in growth momentum. Solid presence in the chronic and sub-chronic segments (which are key growth drivers for the Indian pharmaceutical markets) and an improving outlook for the acute segment provide ample growth visibility. Over the long term, product launches such as Saroglitazar and Desidustat offer substantial growth potential. Further, opportunities from the COVID-19 Vaccine are also immense and provide a strong growth visibility. With substantial reduction in debt, Cadila has strengthened its balance sheet. Management looks to keep an eye on debt reduction going ahead as well. This augurs well and would go towards strengthening the financial muscle of the company. Strong earnings prospects, healthy return ratios, and strengthening balance sheet are key positives for Cadila.

■ **Valuation - Retain Buy with an unchanged PT of Rs 720:** Cadila reported a healthy performance for Q4FY2021. The company's key segments, the US and India, are expected to witness improved growth traction. In the US markets, a sturdy product pipeline with a focus on specialty and complex generics products would be key growth driver. Over the long term, IP driven products such as Saroglitzar Mg and Desidustat provide sizeable growth opportunities. While in India, new launches, especially in the diabetes and cardiac segments and pick up in IPM would fuel growth. Further, Cadila is also focusing on building a strong portfolio of COVID-19 drugs including Vaccines. Cadila's COVID-19 vaccine -ZyCoV-D Is under phase III clinical trials and the company expects to file for emergency approval over the next two weeks. Cadila looks to commence the manufacturing of the vaccine soon and is also looking to increase manufacturing capacity. At CMP, the stock trades at 28.7x/23.3x its FY2022E/FY2023E estimates and we have largely retained our estimates post the results. Strong growth prospects and earnings visibility, a sturdy balance sheet, and healthy return ratios, and multiple growth triggers including the COVID-19 vaccine are key positives for Cadila. We retain our Buy recommendation on the stock with unchanged PT of Rs. 720.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Cadila Healthcare	626.0	102.4	64,158.0	28.0	28.7	23.3	20.6	17.6	14.5	17.6	15.3	16.4
Dr Reddys	5,269.0	16.6	87,614.0	44.2	29.0	21.8	17.1	15.3	11.6	11.1	15.6	18.4

Source: Company, Sharekhan estimates

About company

Cadila is one of the leading pharmaceutical companies in India. The company is present across the pharmaceutical value chain of research, development, manufacturing, marketing, and selling of finished dosage human formulations (generics, branded generics, and specialty formulations, including biosimilars and vaccines), active pharmaceutical ingredients (APIs), animal healthcare products, and consumer wellness products. The company has a global presence and sells its products in the US, India, Europe, and emerging markets, including countries in Latin America, Asia Pacific region, and Africa. The company is also engaged in research and development activities focused across the value chain of API process development, generics development for simple as well as differentiated dosage forms such as modified release oral solids, transdermals, topicals and nasals, biologics, vaccines, and new chemical entities (NCE).

Investment theme

Cadila is favourably progressing in its efforts to build an alternative growth platform (NCE, biologics, and vaccines) that should start delivering over the medium to long-term and reduce the company's dependence on limited competition assets in the US for its earnings. India business including the consumer wellness segment is likely to grow at a healthy pace, albeit over the medium to long term. Cadila is getting in a sweet spot, wherein both its geographies have an improved growth outlook. Easing pricing pressures, sturdy new product pipeline, and ramp-up in the recent product launches would be key growth drivers for the US business. The efforts to build up presence in the injectables space would also add to growth albeit over the medium to long term. India business is also showing signs of pick-up in growth momentum, led by solid presence in the chronic and sub-chronic segments and an improving outlook for the acute segment. Further, COVID-19 related opportunities would add to the growth momentum..

Key Risks

1) Regulatory compliance risk; 2) delay in product approvals; 3) currency risk; and 4) concentration risk in the US portfolio.

Additional Data

Key management personnel

Pankaj R. Patel	Chairman
Dr. Sharvil P. Patel	Managing Director
Mr. Ganesh Nayak	COO & Executive Director
Mr. Nitin Parekh	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	3.3
2	Kotak Mahindra Asset Management Co	2.24
3	GOVERNMENT PENSION FUND - GLOBAL	1.18
4	Norges Bank	1.18
5	UTI Asset Management Co	0.83
6	Vangaurd Group	0.75
7	Nippon Life Asset Management	0.68
8	Franklin resources	0.48
9	Fund Rock Management	0.46
10	ICICI Prudential Asset Management	0.37

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Know more about our products and services

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