

November 3, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	SELL		SELL	
Target Price	357		310	
Sales (Rs. m)	1,61,203	1,70,819	1,51,976	1,72,217
% Chng.	6.1	(0.8)		
EBITDA (Rs. m)	37,007	35,832	32,376	36,682
% Chng.	14.3	(2.3)		
EPS (Rs.)	20.4	19.8	17.2	20.7
% Chng.	18.6	(4.3)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,38,121	1,53,614	1,61,203	1,70,819
EBITDA (Rs. m)	23,424	34,938	37,007	35,832
Margin (%)	17.0	22.7	23.0	21.0
PAT (Rs. m)	11,757	19,528	20,884	20,325
EPS (Rs.)	11.5	19.1	20.4	19.8
Gr. (%)	(36.4)	66.1	6.9	(2.7)
DPS (Rs.)	6.9	3.5	3.5	3.5
Yield (%)	1.7	0.9	0.9	0.9
RoE (%)	11.3	19.6	20.1	16.9
RoCE (%)	9.4	16.2	17.5	15.4
EV/Sales (x)	3.5	3.2	3.0	2.7
EV/EBITDA (x)	20.5	14.0	12.9	13.0
PE (x)	35.8	21.5	20.1	20.7
P/BV (x)	4.1	4.4	3.7	3.3

Key Data

CADI.BO | CDH IN

52-W High / Low	Rs.448 / Rs.202
Sensex / Nifty	39,758 / 11,669
Market Cap	Rs.420bn / \$ 5,648m
Shares Outstanding	1,024m
3M Avg. Daily Value	Rs.4280.53m

Shareholding Pattern (%)

Promoter's	74.87
Foreign	4.38
Domestic Institution	15.70
Public & Others	5.05
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.1	26.8	60.7
Relative	0.4	7.5	62.4

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Domestic biz drives 2Q but sustainability holds the key

Quick Pointers:

- India formulation/Consumer healthcare/ US(Gx) grew 11% YoY/ 6 %YoY/ 5% QoQ.
- Net debt stands at Rs40.3bn after reduction of Rs27bn in 1HFY21.

We increase our EPS by 21%/19% for FY21/22E on back on improved domestic formulation guidance and debt reduction while we marginally reduce EPS by 4% for FY23E on increased R&D spends on specialty products. While India growth was higher in 2Q post easing of lockdown restrictions, CDH has an uphill task to achieve consistent and better growth than peers as 53% of India formulations are acute products and consumer wellness is also a seasonality segment. CDH also made significant investment in R&D for specialty and COVID led products, which lacks visibility and sustainability of earnings till FY23E. Moreover, CDH could face disappointment for its ambitious COVID vaccine as world class innovators are far ahead in the race. We roll forward our valuation to FY23E (earlier FY22E) and increase our TP to Rs357 (earlier Rs310) based on 18x PE of FY23E EPS of Rs20 while we maintain our rating "SELL" (Unchanged).

Earnings marginally higher led by India business: 2QFY21 earnings were marginally higher than our estimate led by recovery in domestic business. Revenue grew 5% QoQ to Rs38.2bn (PLe: Rs36.8bn) led by India business growth of 11% YoY. US and EU grew 5% and 12% QoQ respectively, while LATAM declined 1% QoQ. EBITDA grew 6% QoQ to Rs8.6bn (PLe: Rs8bn). EBITDA was 22.6% (PLe: 22%) v/s 22.4% QoQ. SG&A grew 10% QoQ due to easing of lockdown restrictions in India. PBT grew 12.3% QoQ to Rs6.6bn (PLe: Rs5.7bn). Adj PAT grew 18% QoQ to Rs5.5bn (PLe: Rs4.3bn). CDH paid one-time debenture redemption premium of Rs.1.3bn which is recorded as an exceptional item in this quarter's financials v/s last year Impairment charge of Rs2.7bn related to Levorphanol.

Conference Call and Key Highlights:

- India business(Human/Consumer/Animal):** Total sales for India business grew 11% YoY led by ease in lockdown restrictions. India formulations/ Consumer/ Animal grew 11%/6%/20% in 2QFY21. Key brands in Consumer Wellness like Sugar Free, Everyuth Scrub and Everyuth Peel Off, Glucon D and Nycil continued to hold strong positions in their respective categories. While Glucon-D ImmunoVolt, Everyuth Aloe Vera and Cucumber Gel were newly launched products. CDH launched Remdesivir injection in India and other emerging markets in 2Q at most economical price, however as per CDH-Remdesivir has not been a key growth driver for India formulations. While India formulation grew better than expected, it's too early to discount strong growth in India given its track record of tepid growth and 53% contribution of acute therapy drugs. Its sales team restructuring also failed to revive the growth in line with peers since FY19.

- **US Formulations:** Grew 7% QoQ (CC) to US\$229m v/s US\$215m. The growth was primarily led by volume expansion. CDH launched 6 products including re-launch of Doxycycline Injection (product was transferred from Moraiya) and it also filed new 5 ANDA's. US injectable business was less than US\$15mn in FY20 v/s total US revenue of US\$883m. We anticipate CDH injectable revenue to be US\$150mn in FY23E. Currently 30 injectables are under development, while the current approved injectables are in a process of site transfer from Moraiya to Liva plant. CDH has in-Licensed 14 assets to be launched in next 3 years.
- **EU/LATAM/API:** Revenue grew 12% QoQ for EU while LATAM declined 1% QoQ. API witnessed 22% QoQ.
- **Biosimilar and Vaccine:** India and EM's revenues for biosimilar and vaccine products were Rs2.8bn and Rs500m in FY20 with combined growth of 19% YoY. Currently there are 7 products in the pipeline for EMs, to be launched in FY21E.
- **R&D/CAPEX/Debt:** R&D spend was 7.5% of sales in 2QFY21. CDH would spend 60% of R&D in US generics while 40% is to be equally divided between biologics and vaccines. CDH successfully completed Phase-1 clinical trial and recruitment of patient for Phase-2 COVID vaccine. CAPEX in last few years has been mainly towards the US market. CDH reduced its net debt-by Rs27bn in 1HFY21. The net debt was Rs40.3bn in 1HFY20 v/s Rs67.4bn in 4QFY20. Out of Rs27bn debt reduction, Rs17bn was from internal accruals while rest from funds raised from preferential issue and QIP issue.
- **Regulatory Status:** CDH has completed its remediation for Moraiya facility and is waiting for virtual FDA inspection.

Exhibit 1: 2QFY21 Result Overview (Rs mn): India business makes a comeback in 2QFY21

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	38,200	33,666	13.5	36,399	74,599	68,629	8.7
Raw Material	13,223	11,565	14.3	12,503	25,726	24,160	6.5
<i>% of Net Sales</i>	<i>34.6</i>	<i>34.4</i>		<i>34.3</i>	<i>34.5</i>	<i>35.2</i>	
Personnel Cost	6,165	5,967	3.3	6,345	12,510	11,865	5.4
<i>% of Net Sales</i>	<i>16.1</i>	<i>17.7</i>		<i>17.4</i>	<i>16.8</i>	<i>17.3</i>	
Others	10,178	9,878	3.0	9,397	19,575	19,761	(0.9)
<i>% of Net Sales</i>	<i>26.6</i>	<i>29.3</i>		<i>25.8</i>	<i>26.2</i>	<i>28.8</i>	
Total Expenditure	29,566	27,410	7.9	28,245	57,811	55,786	3.6
EBITDA	8,634	6,256	38.0	8,154	16,788	12,843	30.7
<i>Margin (%)</i>	<i>22.6</i>	<i>18.6</i>		<i>22.4</i>	<i>22.5</i>	<i>18.7</i>	
Depreciation	1,790	1,723	3.9	1,768	3,558	3,439	3.5
EBIT	6,844	4,533	51.0	6,386	13,230	9,404	40.7
Other Income	275	269	2.2	225	500	495	1.0
Interest	457	897	(49.1)	677	1,134	1,788	(36.6)
PBT	6,662	3,905	70.6	5,934	12,596	8,111	55.3
Extra-Ord. Inc./Exps.	822	2,438	(66.3)	159	981	2,593	(62.2)
Total Taxes	1,106	395	180.0	1,235	2,341	1,186	97.4
<i>ETR (%)</i>	<i>16.6</i>	<i>10.1</i>		<i>20.8</i>	<i>18.6</i>	<i>14.6</i>	
Reported PAT	4,734	1,072	341.6	4,540	9,274	4,332	114.1

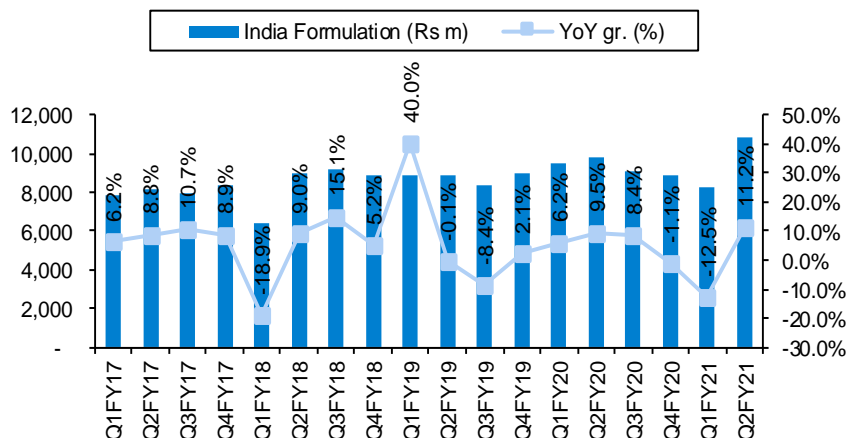
Source: Company, PL

Exhibit 2: Major Sources of Revenues

Major Sources of Revenues	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Domestic	17,430	15,347	13.6	16,169	33,599	32,784	2.5
<i>% of Net Sales</i>	<i>45.6</i>	<i>45.6</i>		<i>44.4</i>	<i>45.3</i>	<i>47.7</i>	
Formulation	10,870	9,778	11.2	8,292	19,162	19,254	(0.5)
<i>% of Net Sales</i>	<i>28.5</i>	<i>29.0</i>		<i>22.8</i>	<i>25.8</i>	<i>28.0</i>	
API	1,597	1,049	52.3	1,309	2,906	1,741	66.9
<i>% of Net Sales</i>	<i>4.2</i>	<i>3.1</i>		<i>3.6</i>	<i>3.9</i>	<i>2.5</i>	
Consumer HC & Others	3,352	3,172	5.7	5,316	8,668	9,236	(6.1)
<i>% of Net Sales</i>	<i>8.8</i>	<i>9.4</i>		<i>14.6</i>	<i>11.7</i>	<i>13.4</i>	
Animal Healthcare	1,611	1,348	19.5	1,252	2,863	2,553	12.1
<i>% of Net Sales</i>	<i>4.2</i>	<i>4.0</i>		<i>3.4</i>	<i>3.9</i>	<i>3.7</i>	
Exports	20,193	17,095	18.1	19,324	39,092	33,861	15.4
<i>% of Net Sales</i>	<i>52.9</i>	<i>50.8</i>		<i>53.1</i>	<i>52.7</i>	<i>49.2</i>	
Formulation	19,997	17,080	17.1	19,096	39,092	33,569	16.5
<i>% of Net Sales</i>	<i>52.3</i>	<i>50.7</i>		<i>52.5</i>	<i>52.7</i>	<i>48.8</i>	
North America	17,090	14,484	18.0	16,232	33,322	28,154	18.4
EU	546	407	34.2	489	1,035	881	17.5
LatAM	2,361	2,189	7.9	2,375	4,736	4,393	7.8

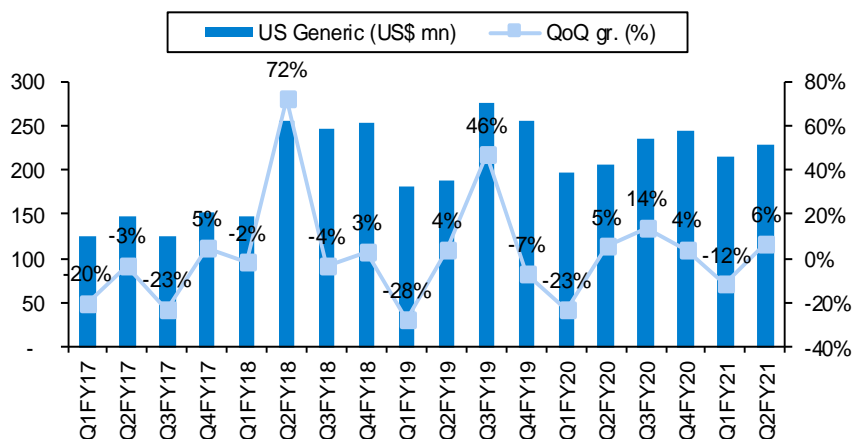
Source: Company, PL

Exhibit 3: India Formulation : Growth trend still lower than peers



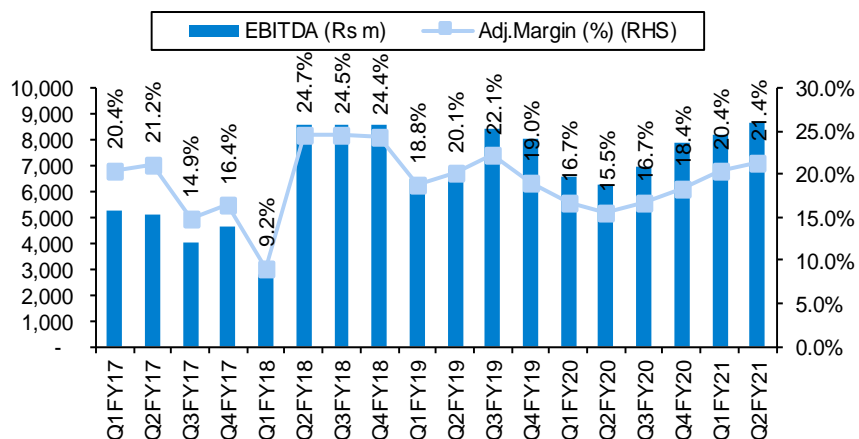
Source: Company, PL

Exhibit 4: US Generic(US\$mn) & QoQ Gr (%) : Pricing environment stable



Source: Company, PL

Exhibit 5: EBITDA (Rs mn) and Adj.Margin (%)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,38,121	1,53,614	1,61,203	1,70,819
YoY gr. (%)	8.3	11.2	4.9	6.0
Cost of Goods Sold	49,200	52,818	54,464	58,126
Gross Profit	88,921	1,00,795	1,06,739	1,12,693
Margin (%)	64.4	65.6	66.2	66.0
Employee Cost	24,145	25,733	26,393	28,414
Other Expenses	10,974	11,415	11,727	13,776
EBITDA	23,424	34,938	37,007	35,832
YoY gr. (%)	(8.4)	49.2	5.9	(3.2)
Margin (%)	17.0	22.7	23.0	21.0
Depreciation and Amortization	6,965	8,570	9,483	10,148
EBIT	16,459	26,368	27,525	25,685
Margin (%)	11.9	17.2	17.1	15.0
Net Interest	3,418	2,048	2,055	1,691
Other Income	5,540	1,064	806	854
Profit Before Tax	18,581	25,384	26,276	24,848
Margin (%)	13.5	16.5	16.3	14.5
Total Tax	3,198	4,950	4,992	4,522
Effective tax rate (%)	17.2	19.5	19.0	18.2
Profit after tax	15,383	20,434	21,284	20,325
Minority interest	(10)	(439)	400	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,757	19,528	20,884	20,325
YoY gr. (%)	(36.4)	66.1	6.9	(2.7)
Margin (%)	8.5	12.7	13.0	11.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,757	19,528	20,884	20,325
YoY gr. (%)	(36.4)	66.1	6.9	(2.7)
Margin (%)	8.5	12.7	13.0	11.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,757	19,528	20,884	20,325
Equity Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	11.5	19.1	20.4	19.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	1,13,345	1,22,345	1,32,345	1,42,345
Tangibles	85,780	91,780	98,780	1,05,780
Intangibles	27,565	30,565	33,565	36,565
Acc: Dep / Amortization	44,955	52,310	59,579	67,131
Tangibles	31,258	36,572	41,880	47,357
Intangibles	13,697	15,738	17,699	19,774
Net fixed assets	68,390	70,035	72,766	75,214
Tangibles	54,522	55,208	56,900	58,423
Intangibles	13,868	14,827	15,866	16,791
Capital Work In Progress	7,415	5,932	4,746	3,796
Goodwill	53,915	51,219	48,658	46,225
Non-Current Investments	8,382	7,552	7,348	7,214
Net Deferred tax assets	6,430	5,440	4,442	3,537
Other Non-Current Assets	3,081	2,927	2,781	2,642
Current Assets				
Investments	2,128	2,128	2,128	2,128
Inventories	27,890	30,302	31,357	33,228
Trade receivables	36,632	41,244	43,282	46,800
Cash & Bank Balance	9,649	(14,429)	(7,100)	(4,077)
Other Current Assets	8,549	8,720	8,894	9,072
Total Assets	2,36,866	2,16,040	2,24,840	2,31,844
Equity				
Equity Share Capital	1,024	1,024	1,024	1,024
Other Equity	1,02,737	94,614	1,11,333	1,27,493
Total Networkth	1,03,761	95,638	1,12,357	1,28,517
Non-Current Liabilities				
Long Term borrowings	32,146	15,016	13,514	12,163
Provisions	2,352	2,470	2,593	2,723
Other non current liabilities	17	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	38,265	41,419	37,277	29,822
Trade payables	20,310	23,147	24,291	25,740
Other current liabilities	24,115	22,303	17,753	15,242
Total Equity & Liabilities	2,36,866	2,16,040	2,24,840	2,31,844

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	14,954	24,039	26,276	24,848
Add. Depreciation	6,965	8,570	9,483	10,148
Add. Interest	3,418	2,048	2,055	1,691
Less Financial Other Income	5,540	1,064	806	854
Add. Other	(8,742)	(9,871)	1,619	898
Op. profit before WC changes	16,595	24,786	39,432	37,584
Net Changes-WC	3,681	(6,239)	(6,745)	(6,702)
Direct tax	(2,377)	(5,445)	(5,492)	(4,974)
Net cash from Op. activities	17,899	13,102	27,195	25,908
Capital expenditures	(8,938)	(7,517)	(8,814)	(9,051)
Interest / Dividend Income	22	22	22	22
Others	1,086	(401)	160	177
Net Cash from Inv. activities	(7,830)	(7,897)	(8,631)	(8,853)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,055)	(13,976)	(5,644)	(8,807)
Dividend paid	(8,596)	(3,600)	(3,600)	(3,600)
Interest paid	(3,418)	(2,048)	(2,055)	(1,691)
Others	-	-	-	-
Net cash from Fin. activities	(13,069)	(19,624)	(11,298)	(14,098)
Net change in cash	(3,001)	(14,418)	7,266	2,957
Free Cash Flow	8,961	5,585	18,382	16,857

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	36,381	37,521	36,399	38,200
YoY gr. (%)	1.7	0.5	4.1	13.5
Raw Material Expenses	12,443	12,597	12,503	13,223
Gross Profit	23,938	24,924	23,896	24,977
Margin (%)	65.8	66.4	65.7	65.4
EBITDA	6,932	7,912	8,154	8,634
YoY gr. (%)	(17.5)	(1.1)	23.8	38.0
Margin (%)	19.1	21.1	22.4	22.6
Depreciation / Depletion	1,741	1,785	1,768	1,790
EBIT	5,191	6,127	6,386	6,844
Margin (%)	14.3	16.3	17.5	17.9
Net Interest	805	825	677	457
Other Income	201	443	225	275
Profit before Tax	4,587	5,745	5,934	6,662
Margin (%)	12.6	15.3	16.3	17.4
Total Tax	927	1,085	1,235	1,106
Effective tax rate (%)	20.2	18.9	20.8	16.6
Profit after Tax	3,660	4,660	4,699	5,556
Minority interest	(95)	216	159	(498)
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,739	3,919	4,540	4,734
YoY gr. (%)	(26.8)	(14.8)	39.3	341.6
Margin (%)	10.3	10.4	12.5	12.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,739	3,919	4,540	4,734
YoY gr. (%)	(26.8)	(14.8)	39.3	341.6
Margin (%)	10.3	10.4	12.5	12.4
Other Comprehensive Income	(147)	(2,205)	94	598
Total Comprehensive Income	3,592	1,714	4,634	5,332
Avg. Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	3.7	3.8	4.4	4.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	11.5	19.1	20.4	19.8
CEPS	18.3	27.4	29.7	29.8
BVPS	101.3	93.4	109.7	125.5
FCF	8.8	5.5	18.0	16.5
DPS	6.9	3.5	3.5	3.5
Return Ratio(%)				
RoCE	9.4	16.2	17.5	15.4
ROIC	8.4	12.1	13.7	12.4
RoE	11.3	19.6	20.1	16.9
Balance Sheet				
Net Debt : Equity (x)	0.6	0.7	0.5	0.3
Net Working Capital (Days)	117	115	114	116
Valuation(x)				
PER	35.8	21.5	20.1	20.7
P/B	4.1	4.4	3.7	3.3
P/CEPS	22.5	15.0	13.8	13.8
EV/EBITDA	20.5	14.0	12.9	13.0
EV/Sales	3.5	3.2	3.0	2.7
Dividend Yield (%)	1.7	0.9	0.9	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	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	13-Oct-20	Sell	310	442
2	06-Aug-20	Sell	329	396
3	08-Jul-20	Reduce	329	360
4	22-Jun-20	Reduce	329	362
5	04-May-20	Sell	263	324
6	18-Apr-20	Sell	263	334
7	14-Apr-20	Reduce	247	351
8	05-Feb-20	Hold	247	272
9	03-Jan-20	Hold	220	260
10	13-Nov-19	Hold	220	225

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	808	834
2	Cadila Healthcare	Sell	310	442
3	Cipla	Reduce	657	814
4	Cipla	Reduce	657	787
5	Dr. Lal PathLabs	UR	-	2,179
6	Dr. Reddy's Laboratories	BUY	5,964	4,951
7	Eris Lifesciences	BUY	615	510
8	Glenmark Pharmaceuticals	Sell	349	496
9	Indoco Remedies	Hold	239	252
10	Ipca Laboratories	Hold	1,886	2,113
11	Jubilant Life Sciences	Sell	455	708
12	Lupin	BUY	1,085	1,047
13	Sun Pharmaceutical Industries	Reduce	476	456
14	Thyrocare Technologies	UR	-	1,138

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



ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Surajit Pal- PGDBA, CFA, M.Com, Mr. Tausif Shaikh- BA, Major in Economics, Financial Management Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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