

Cadila Healthcare Ltd.



Cadila Healthcare Ltd.

US business weakness likely to continue with price erosions in FY23E

CMP INR 409	Target INR 445	Potential Upside 9%	Market Cap (INR Mn) INR 418,970	Recommendation ACCUMULATE	Sector Pharmaceuticals
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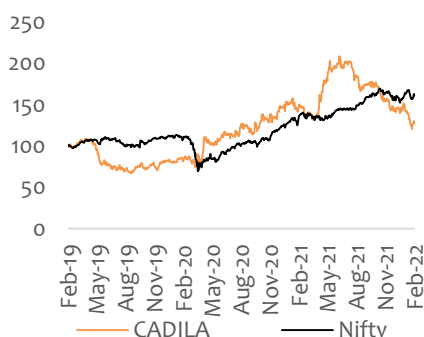
Result Highlights of Q3FY22

- The company posted a 3.7% YoY (-3.4% QoQ) decline in revenue to INR 36.55 bn. It was due to 5.6% YoY (-3.9% QoQ) decline in revenue from operations (97% of revenue) and a 164.0% YoY (+13.1% QoQ) rise in other operating revenue (3% of revenue)
- Cadila's Gross Profit Margin (GPM) declined 278 bps YoY (-34 bps QoQ) to 63.1% in Q3FY22
- Adjusted net profits declined 5.1% YoY (-40.6% QoQ) to INR 5,004 mn due to fall in margins and 16.0% YoY (+3.3% QoQ) rise in interest expenses; partially offset by 121.1% YoY (+14.1% QoQ) increase in other income in Q3FY22
- The company plans to scale up the US segments revenue with high value launches from FY24; however, before that weakness in the US market is expected to lead to slowdown in the US revenue in FY23E

MARKET DATA

Shares outs (Mn)	1,024
Equity Cap (INR Mn)	181,756
Mkt Cap (INR Mn)	418,970
52 Wk H/L (INR)	674/380
Volume Avg (3m K)	2,365
Face Value (INR)	1
Bloomberg Code	CDH IS

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	58,645
NIFTY	17,516

KEY FINANCIALS

INR Millions	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,42,531	1,51,022	1,65,108	1,78,121	1,92,875
Adj EBITDA	27,834	33,410	34,471	36,656	39,692
Adj. PAT	17,302	23,387	22,248	23,269	25,327
Adj EPS (INR)	16.9	22.8	21.7	22.7	24.7
Adj EBITDA Margin	19.5%	22.1%	20.9%	20.6%	20.6%
Adj. NPM	12.1%	15.5%	13.5%	13.1%	13.1%

Source: Company, KRChoksey Research

Weaker growth across major segments such as US, India and Emerging Markets in Q3FY22:

The company posted a 3.7% YoY (-3.4% QoQ) decline in revenue to INR 36.55 bn. It was due to 5.6% YoY (-3.9% QoQ) decline in revenue from operations (97% of revenue) and a 164.0% YoY (+13.1% QoQ) rise in other operating revenue (3% of revenue). The fall in sales of COVID 19 products affected the growth in revenue from operations. Excluding COVID 19 sales, the company's sales would have grown at 5.0% YoY in Q3FY22. Revenue from operations was driven by 6.2% YoY (+0.4% QoQ) decline in the US revenue (42% of revenue from operations), 1.2% YoY (-8.2% QoQ) decline in India revenue (41.0% of revenue), 0.8% YoY (-16.6% QoQ) decline in Emerging Market (EM) revenue (8% of revenue), 10.7% YoY (+11.5% QoQ) rise in Europe revenue (2% of revenue), 25.0% YoY (+23.1% QoQ) increase in API (5% of revenue). The US revenue fell YoY due to pricing pressure and decline in the sales of Mesalamine products as it manages to gain volumes in existing and new products. India business was affected due to fall in demand for COVID 19 products in Q3FY22. Excluding COVID 19 sales, generic portfolio and divested products, the India business grew at 12.0% YoY in Q3FY22.

Gross Profits margin declined both YoY and QoQ: Cadila's Gross Profit Margin (GPM) declined 278 bps YoY (-34 bps QoQ) to 63.1% in Q3FY22 vs. 65.9% in Q3FY21 vs. 63.5% in Q2FY22 due to pricing pressure felt in the US business segment and input costs rise. The EBITDA margins compressed 67 bps YoY (-216 bps QoQ) to 20.6%, despite 210 bps YoY (+180 bps QoQ) decline in other expenses (% of revenue) in Q3FY22. The fall in other expenses was driven by closure of manufacturing facilities (Nesher and Hercon). Adjusted net profits declined 5.1% YoY (-40.6% QoQ) to INR 5,004 mn due to fall in margins and 16.0% YoY (+3.3% QoQ) rise in interest expenses; partially offset by 121.1% YoY (+14.1% QoQ) increase in other income in Q3FY22. Interest expenses increased due to increase in borrowings.

SHARE HOLDING PATTERN (%)

Particulars	Dec-21 (%)	Sep-21 (%)	June-21 (%)
Promoters	74.9	74.9	74.9
FIIIs	3.8	4.1	4.7
DIIIs	11.8	11.3	10.5
Others	9.5	9.7	9.9
Total	100	100	100

8.5%

Revenue CAGR between FY21 and FY24E

2.7%

Adj. PAT CAGR between FY21 and FY24E

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Key Concall Highlights: (i) India witnessed reduced demand for COVID 19 products in Q3FY22, which led to decline in COVID19 product sales, QoQ and YoY, in Q3FY22 (ii) The company took up cost optimization and efficiency enhancement initiatives, which helped it contain EBITDA margin decline in Q3FY22 (iii) Excluding COVID 19 product sales, generics and divested product sales, India branded business grew at 17.0% YoY driven by volume expansion in the existing products and key new product launches as the company gained market share in its key therapeutic areas such as anti-diabetic, cardiovascular, gynecology, and anti-infective therapeutic areas during Q3FY22 (iv) The company has taken price hike in key brands in India consumer wellness segment by the end of Q2FY22, which helped it to protect gross margins (iv) The company received 9 product approvals including 5 tentative approvals and launched 3 new products during Q3FY22. The new launches included Nelarabine injection for which the company has been granted 180 days of exclusivity. (v) The company filed 12 ANDAs during Q3FY22 (vi) The company has the order to supply 1 cr of doses of vaccines to Gol and is entered into a technology transfer agreement with a South Korean company called Enzychem Lifesciences of South Korea. The partnership is slated to produce ~ 80 mn of DNA vaccines in Latin America and Asia (vii) Expects an average R&D spend at 8.0% of revenue over 3 years. (viii) The capex was INR 3.10 bn in Q3FY22

Valuation and view: US Formulations revenue growth has been in negative (on a YoY basis) since Q3FY21, indicating inability of the company to overcome US price erosions, effectively. Also, India market has slowed down considerably in Q3FY22 due to fall in human health formulation revenue driven by lower demand for COVID 19 product sales and slower revenue growth in Consumer Health business (due to high base effect and rural market slowdown) in Q3FY22. The company expects US weakness to continue in FY23E. **Shares of Cadila Healthcare have declined 18.0% since our last update in Nov 21. We introduce FY24E projection and estimate an 8.5% and a 2.7% CAGR growth in revenue and adjusted net income over FY21-FY24E, respectively. The shares are trading at 18.8x/18.0x/16.5x on FY22E/23E/FY24E EPS estimates, respectively. We apply an 18.0x PE multiple to FY24E EPS of INR 24.7 and reduce our target price (TP) to INR 445 (earlier 563/share), which gives an upside potential of 9.0% from its CMP of INR 409. Accordingly, we maintain ACCUMULATE on the shares of Cadila Healthcare.**

Segment Result (INR Mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Total	37,537	37,562	39,180	36,880	35,450
US Formulations	16,034	15,089	14,510	14,980	15,040
India Formulations	14,792	10,232	13,570	15,910	14,610
EM Formulations	2,932	2,499	2,770	3,490	2,910
Europe Formulations	614	626	600	610	680
Consumer Wellness	3,757	5,984	5,860	3,770	3,820
Animal & Others	1,634	1,501	0	0	0
APIs	1,320	1,395	1,360	1,340	1,650
Alliances	211	236	510	550	560

Segment Performance (% YoY)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Total	6.2%	3.6%	10.4%	-2.0%	-5.6%
US Formulations	-4.3%	-14.3%	-10.6%	-12.3%	-6.2%
India Formulations	62.5%	14.7%	63.7%	46.4%	-1.2%
EM Formulations	10.9%	45.5%	16.6%	47.8%	-0.8%
Europe Formulations	24.3%	7.6%	22.7%	11.7%	10.7%
Consumer Wellness	15.8%	22.1%	10.2%	12.5%	1.7%
Animal & Others	16.7%	25.2%	-100.0%	-100.0%	-100.0%
APIs	-18.8%	19.9%	3.9%	-16.1%	25.0%
Alliances	148.2%	29.0%	123.7%	180.6%	165.4%

Sales Mix (% Revenue)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Total	100%	100%	100%	100%	100%
US Formulations	43%	40%	37%	41%	42%
India Formulations	39%	27%	35%	43%	41%
EM Formulations	8%	7%	7%	9%	8%
Europe Formulations	2%	2%	2%	2%	2%
Consumer Wellness	10%	16%	15%	10%	11%
Animal & Others	4%	4%	0%	0%	0%
APIs	4%	4%	3%	4%	5%
Alliances	1%	1%	1%	1%	2%

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 20	FY 21	FY 22E	FY 23E	FY 24E
Revenues	1,42,531	1,51,022	1,65,108	1,78,121	1,92,875
COGS	49,200	52,101	61,785	64,873	70,247
Gross profit	93,331	98,921	1,03,323	1,13,248	1,22,628
Employee cost	24,145	24,902	27,544	30,281	32,789
Other expenses	41,352	40,609	41,308	46,311	50,147
EBITDA	27,834	33,410	34,471	36,656	39,692
EBITDA Margin	20.2%	22.5%	20.9%	20.6%	20.6%
Adjusted EBITDA	29,734	33,410	34,471	36,656	39,692
Adj EBITDA Margin	21.5%	22.5%	20.9%	20.6%	20.6%
Depreciation & amortization	6,965	7,248	9,039	9,751	10,559
EBIT	20,869	26,162	25,432	26,904	29,133
Interest expense	3,418	1,635	1,635	1,635	1,635
Other income	1,139	372	826	445	482
PBT before exceptional items	18,590	24,899	24,622	25,715	27,980
Exceptional Items	3,636	2,051	0	0	0
PBT	14,954	22,848	24,622	25,715	27,980
Tax	3,198	1,472	2,462	2,571	2,798
Share of Profit/(Loss) of Associates	288	474	624	687	755
Loss from Discontinued Operations	0	0	0	0	0
Minority Interest	278	514	536	561	610
PAT	11,766	21,336	22,248	23,269	25,327
EPS (INR)	11.49	20.84	21.73	22.72	24.73
Adj. PAT	17,302	23,387	22,248	23,269	25,327
Adj EPS (INR)	16.90	22.84	21.73	22.72	24.73

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	25,054	32,930	15,154	46,922	34,229
Net Cash Flow from/(used in) Investing Activities	(10,123)	(7,225)	7,090*	(9,052)	(9,534)
Net Cash Flow from Financing Activities	(10,942)	(25,489)	2,740	(16,941)	(7,714)
Net Inc/Dec in cash equivalents	3,989	216	24,984	20,930	16,982
Opening Balance	4,207	8,453	6,652	3,751	24,215
Adjustments	4,246	(1,801)	(2,901)	20,464	16,982
Closing Balance Cash and Cash Equivalents	8,453	6,652	3,751	24,215	41,197

Source: Company, KRChoksey Research * Positive due to inflows from sale of animal health business in Q2FY22

Key Ratio	FY20	FY21	FY22E	FY23E	FY24E
Adj EBITDA Margin	21.5%	22.5%	20.9%	20.6%	20.6%
Tax rate (%)	21.4%	6.4%	10.0%	10.0%	10.0%
Adj Net Profit Margin (%)	12.1%	15.5%	13.5%	13.1%	13.1%
RoE (%)	14.8%	15.7%	12.2%	11.6%	11.5%
RoCE (%)	11.1%	14.1%	11.1%	11.4%	11.4%
Current Ratio (x)	1.05	1.11	1.48	1.65	1.83
Adj EPS (INR)	16.9	22.8	21.7	22.7	24.7

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY20	FY21	FY22E	FY23E	FY24E
Non-current assets					
Property, plant and equipment	54,522	55,500	52,875	52,163	51,391
Capital work-in-progress	7,415	7,832	9,263	9,263	9,263
Goodwill (Net)	53,915	53,465	53,531	53,531	53,531
Other intangible assets	13,868	12,363	11,070	9,334	7,454
Investments accounted for using equity method	3,516	3,570	3,589	4,070	4,599
Investments	2,006	2,742	3,143	3,234	3,502
Loans	0	0	0	0	0
Other financial assets	2,860	2,518	2,440	2,970	3,216
Deferred tax assets (Net)	8,529	10,744	11,191	12,672	13,721
Tax assets (Net)	1,506	909	0	1,072	1,161
Other non-current assets	1,575	2,044	3,630	2,411	2,610
Total non-current assets	1,49,712	1,51,687	1,50,732	1,50,719	1,50,449
Current assets					
Inventories	27,890	32,362	35,188	40,295	43,633
Investments	2,128	1,989	29,865	29,865	29,865
Trade receivables	36,632	31,273	32,323	36,884	39,940
Cash and cash equivalents	8,453	6,652	3,751	23,042	40,024
Bank balances other than (iii) above	1,196	2,231	2,706	2,706	2,706
Loans	0	0	0	0	0
Other financial assets	2,306	2,344	8,225	5,159	5,586
Other current assets + Current Tax Assets	8,549	10,309	9,992	10,090	10,926
Assets classified as held for sale	0	0	1,931	1,931	1,931
Total current assets	87,154	87,160	1,23,981	1,49,973	1,74,611
TOTAL ASSETS	2,36,866	2,38,847	2,74,713	3,00,692	3,25,060
EQUITY AND LIABILITIES					
Equity					
Equity share capital	1,024	1,024	1,024	1,024	1,024
Other equity	1,02,733	1,28,899	1,60,859	1,78,544	1,97,792
Equity attributable to the equity shareholders	1,03,757	1,29,923	1,61,883	1,79,568	1,98,816
Non-controlling interests	13,347	19,373	19,873	20,434	21,044
Total equity	1,17,104	1,49,296	1,81,756	2,00,001	2,19,860
Liabilities					
Non-current liabilities					
Borrowings	32,146	6,095	4,456	4,456	4,456
Other financial liabilities	454	541	590	590	590
Provisions	2,352	3,095	3,105	3,105	3,105
Deferred tax liabilities (Net)	2,099	1,197	1,135	1,135	1,135
Other non-current liabilities + Trade payables	17	10	7	7	7
Total non-current liabilities	37,068	10,938	9,293	9,293	9,293
Current liabilities					
Borrowings	38,265	30,709	42,069	30,709	30,709
Trade payables	20,310	22,059	21,457	27,467	29,742
Other financial liabilities	19,492	19,880	11,959	24,753	26,804
Other current liabilities	1,904	1,782	1,929	2,219	2,403
Provisions	2,432	3,299	3,559	3,559	3,559
Current tax liabilities (Net)	291	884	2,691	2,691	2,691
Total current liabilities	82,694	78,613	83,664	91,398	95,907
Total liabilities	1,19,762	89,551	92,957	1,00,691	1,05,200
TOTAL EQUITY AND LIABILITIES	2,36,866	2,38,847	2,74,713	3,00,692	3,25,060

Source: Company, KRChoksey Research

Cadila Healthcare Ltd.

Cadila Healthcare Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
07-Feb-22	409	445	ACCUMULATE	Buy	More than 15%
01-Nov-21	501	563	ACCUMULATE		
23-Aug-21	547	666	BUY	Accumulate	5% – 15%
13-Aug-21	558	634	ACCUMULATE		
01-Jun-21	619	684	ACCUMULATE	Hold	0 – 5%
07-Aug-20	391	413	ACCUMULATE		
22-Jun-20	361	391	ACCUMULATE	Reduce	-5% – 0
22-Apr-20	344	365	ACCUMULATE		
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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