

Restructuring for future, US business is driving the growth

CMP: Rs 331

Rating: Not Rated

Outlook: Positive

Stock Info

BSE	532321
NSE	CADILAHC
Bloomberg	CDH IN
Reuters	CDH.BO
Sector	Pharma
Face Value (Rs)	1
Equity Capital (Rs cr)	102
Mkt Cap (Rs cr)	33,921
52w H/L (Rs)	374/ 202
Avg Yearly Vol (in 000')	2,551

Shareholding Pattern %

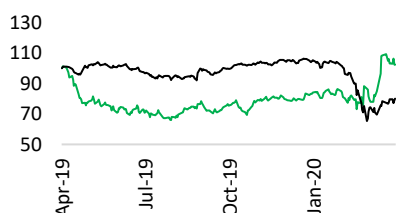
(As on Mar, 2020)

Promoters	74.9
FII	4.4
DII	12.9
Public & Others	7.8

Stock Performance (%)

	3m	6m	12m
Cadila	28.9	40.3	4.1
Nifty	-24.1	-20.7	-20.8

Cadila Vs Nifty



Indian pharma sector is reversing its past few years downtrend/ underperformance, which has left current valuations much lower than its historical averages. On YTD basis, Nifty Pharma index & BSE Healthcare index surged by 18.3% & 14.2% respectively, outperforming the benchmark Nifty index at -23.4% YTD. In spite of Covid-19 pandemic that has taken a toll on most sectors, Pharma sector remained resilient in this carnage while there has been some supply side constraints seen (primarily due to lock-down and less transportation facility) due to outbreak of Covid-19. This would result some pressure on earnings of the company which would partially offset by i) INR currency weakness, ii) Continuity of business as it comes under essential services and iii) Strong presence in some segments.

In this report, we have summarised Cadila Healthcare's business overview:

Company Overview

Cadila Healthcare (CDH) is a leading Indian pharmaceutical company having a well diversified portfolio and presence in the market of US, Europe, Latin America and 25 other emerging markets worldwide. The company is the fourth largest pharmaceutical company in India with 4.1% market share and it is covered under the market of gynaecology, respiratory, pain management, cardiovascular, dermatology and gastrointestinal therapeutic areas. The company also has a presence in Consumer wellness and Animal health business. US and India account for important geographies for the company with their formulations business contributing 50% and 28% respectively to the total revenue.

Key Rationales: Strong growth visibility led by its key markets:

- US** – Currency benefits as 50% revenue comes from US and Significant products in pipelines which will lead to increase in new launches.
- India** - India's business is restructuring and growing at double digit.
- Wellness Portfolio** - Wellness consumer business to aid growth and margin led by sales and leadership in few brands.

Valuation and Outlook: At CMP of Rs 331, CDH is trading at 20.9x/19.2x to its FY21E/FY22E, consensus estimates. We believe, US business is likely to continue its growth momentum on the back of new launches. Strong ANDA pipeline and synergy benefit of wellness portfolio acquisition is likely to drive the growth going forward.

Key Risk: 1) Delay in approval of new products 2) As US being a key market for the company so, any competition will lead to price erosion.

(in Cr.)	FY19	FY20E	FY21E	FY22E
Revenue	13,166	14,147	15,255	16,364
EBITDA	2,968	2,682	3,023	3,228
Margin (%)	22.5	19.0	19.8	19.7
PAT	1,849	1,409	1,621	1,780
EPS	18.1	13.5	15.8	17.3
ROE (%)	19.4	12.4	13.3	13.3
P/E	18.3	24.5	20.9	19.2

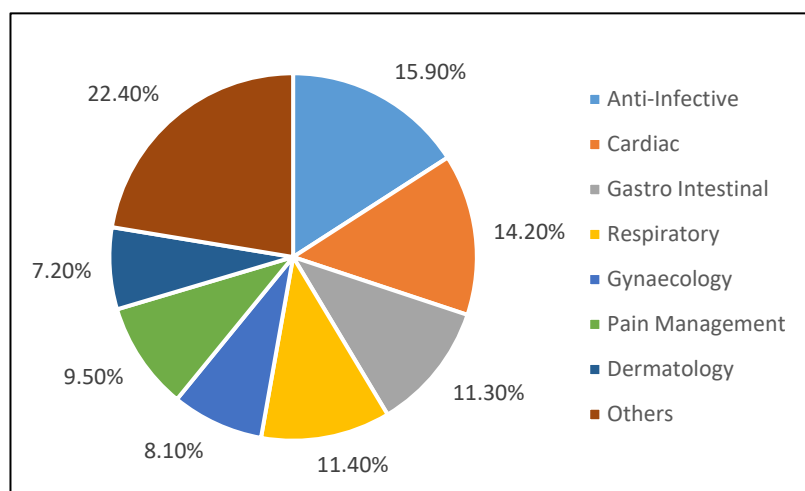
Source: Company, *Bloomberg Consensus

Revenue Verticals of the Company

In Rs Cr.	FY19	FY18	% Change
US	6279.4	5834.8	8%
India	485.3	426.7	14%
Drug Formulations	3533.8	3332.4	6%
Consumer Wellness	808.2	492.0	64%
Animal Wealth	510.9	442.6	15%
Emerging Markets	831.2	1002.3	-17%
API	424.5	365.6	16%
JV Sales	472.8	400.1	18%
Total	12748.4	11630.8	10%

- Domestic Formulation Business is on growing path:** CDH generates 29% of its revenues from the domestic market and has top ranking products in oncology, respiratory and gynaecology. CDH has been undertaking various strategic initiative for its domestic business in order to focus on large brands.

Therapeutic area-wise break up of formulations sales in India



- Consumer Wellness Business:** After the acquisition of Heinz India Pvt Ltd., CDH's wellness portfolio expanded and it strengthen its core business of food and nutrition. The acquired business has 4 brands out of which 3 are iconic brands i.e. Glucon-D, Nycil and Complian. This segment is expected to perform highly on the back of its market leading brands like Sugar free, Everyuth and acquired brands of Nycil, Complian and Glucon-D. During the year FY19, Zydus wellness (ZWL) (subsidiary of the company) posted a sales of Rs 808 cr up 64% and profit growth of 26% to Rs 169 cr. Excluding Heinz acquisition, the growth in sales was 10%. The acquisition is expected to unlock value for ZWL by enriching its portfolio in its core business of health food and nutrition and expanding its reach with a combined strength of 5 manufacturing facilities, 1800 distributors and nearly 2 million customer touchpoints.
- Animal Health:** The Company is one of the leading animal healthcare players in India having a portfolio of drugs, vaccines and feed supplements for livestock, poultry and companion animals. During the year FY19, the Company successfully completed the audit by Saudi Food and Drug Authority at its Haridwar manufacturing plant for all three product lines viz. liquid orals, liquid injections and tablets. The Company launched 8 new products in India during the year FY19. On the international front, the Company received 25 new marketing authorizations for the exports business during the year. The company's animal health business posted sales of Rs 511 cr, +15% YoY.

- API:** Company’s APIs and intermediaries business, comprises supply of key input materials to the formulation manufacturing plants, which in turn manufacture finished formulations and services the demands of the customers globally. The company also supplies APIs to third parties located across the globe. The API business contributed 3% to the total revenue as on FY19.
- US Formulations:** US market contribute almost half of the total revenue from the past 2 years. It is the largest source of revenue for the company. The company is ranked seventh amongst US generic companies (based on prescription) , gain of two positions from FY18. The company gained its market share by 0.43% compared to FY18 and currently has 3.48% market share as on FY19. Company has launched 43 new products during FY19, which is highest number of product launches in any year. In terms of ANDA filings, 29 ANDAs were filed with the US FDA during the year taking the total cumulative number of ANDA filings to 360.

Details of Filings	FY19	FY18
ANDA filings during the year	29.0	26.0
Cumulative ANDAs	360.0	330.0
Final Approval	60.0	69.0
Tentative Approval	14.0	8.0
Total Approval	74.0	77.0
Cumulative Approval	254.0	186.0
Product Launches	43.0	20.0

Going forward, the US business is likely to continue its growth momentum on the back of new product launches and expansion of overall product offerings as the company is planning to introduce additional topical transdermals and injectable products in coming years.

Research and Development

The company invests approximately 7-8% of its total revenue in R&D. Company is engaged in R&D activities focused across generics, biosimilars, vaccines, API chain and NCEs (new chemical entity).

New Chemical Entity (NCE) research

NCE research include pain management, oncology and infectious diseases. During the year company completed Phase II clinical trials of Desidustat, an oral hypoxia-inducible factor, in non-dialysis dependent Chronic kidney disease patients with Anemia.

NCE pipeline				Pre-clinical	Phase I	Phase II	Phase III	NDA	Market
Saroglitazar*	PPARα/g	India and Mexico	Diabetic dyslipidemia	In Indian market since Sep-13. Approved in Mexico in Oct-17					
		India and Mexico	Hypertriglyceridemia	In Indian market since Sep-13. Approved in Mexico in Oct-17					
		India	Lipodystrophy						
		India	T2 Diabetes						
		India	NASH-biopsy						
		India	NASH-MRI PDFF						
		Mexico	NASH						
		Mexico	PBC						
		Mexico	TG>500						
		US	NASH						
		US	PBC						
		US	TG>500						
		US	NAFLD with PCOS						
		US	Liver transplant						
	US	Liver biopsy							
ZYH7	PPARα	India	Dyslipidemia						
Desidustat (ZYANI)	HIF-PH	India	Anemia in CKD-ND						
		India	Anemia in CKD-D						
ZRC-3278	first-in-class ATPase inhibitor	Australia	Malaria						

* Evaluation in over 23 different, controlled clinical trials involving 3800+ patients

Biologics

Company’s biologics pipeline comprises of 6 novel (in development stage) biologics and 21 biosimilars and covers therapeutic areas such as oncology, autoimmune disease, nephrology, ophthalmology, inflammation, hepatology and infectious disease.

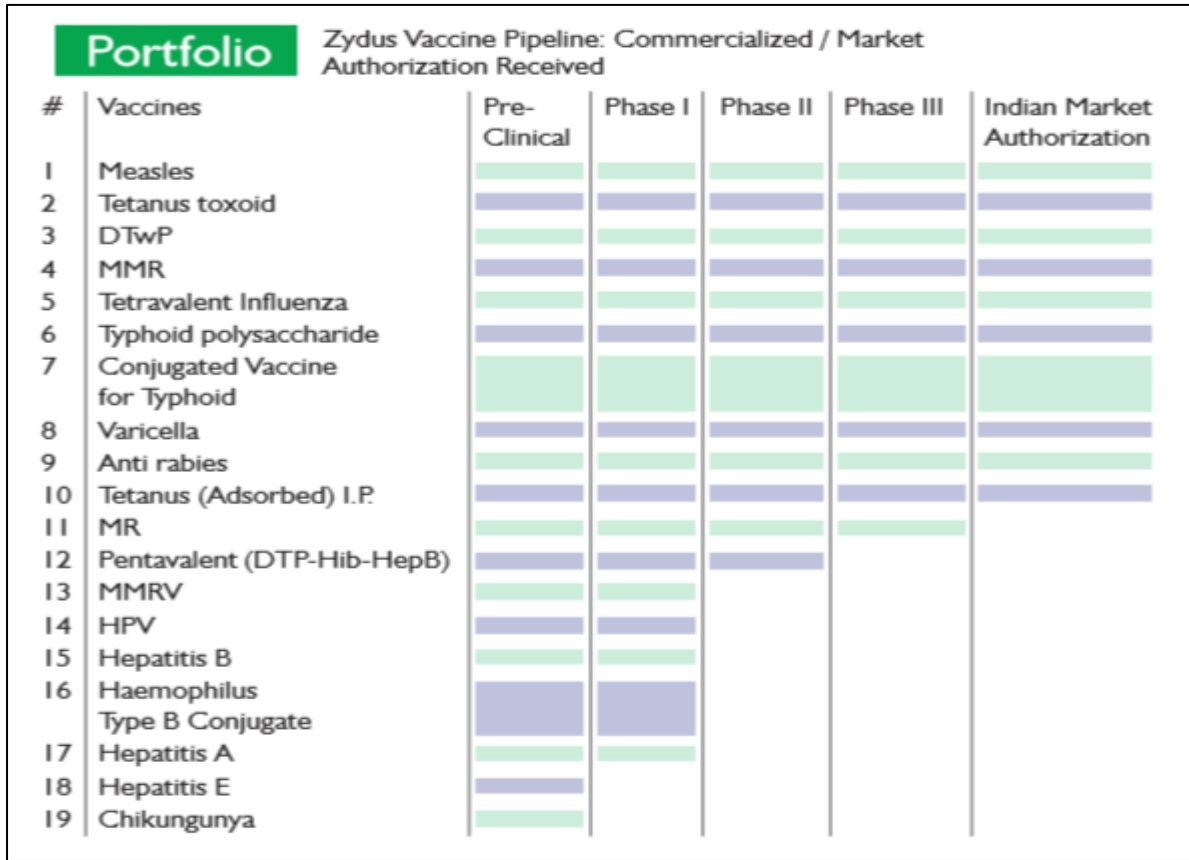
During the year FY19, the company has completed Phase III clinical trials in India for its first novel biologics Rabimabs.



Vaccines

The company has portfolio of 19 vaccines (both in the pipeline as well as launched) as on FY19. During the year FY19, Company received marketing authorization for 2 vaccines in India viz. Measles and Rubella vaccine and pediatric version of Inactivated Tetravalent Influenza Vaccine and initiated phase II/III clinicals trials for Hepatitis B vaccine in India.

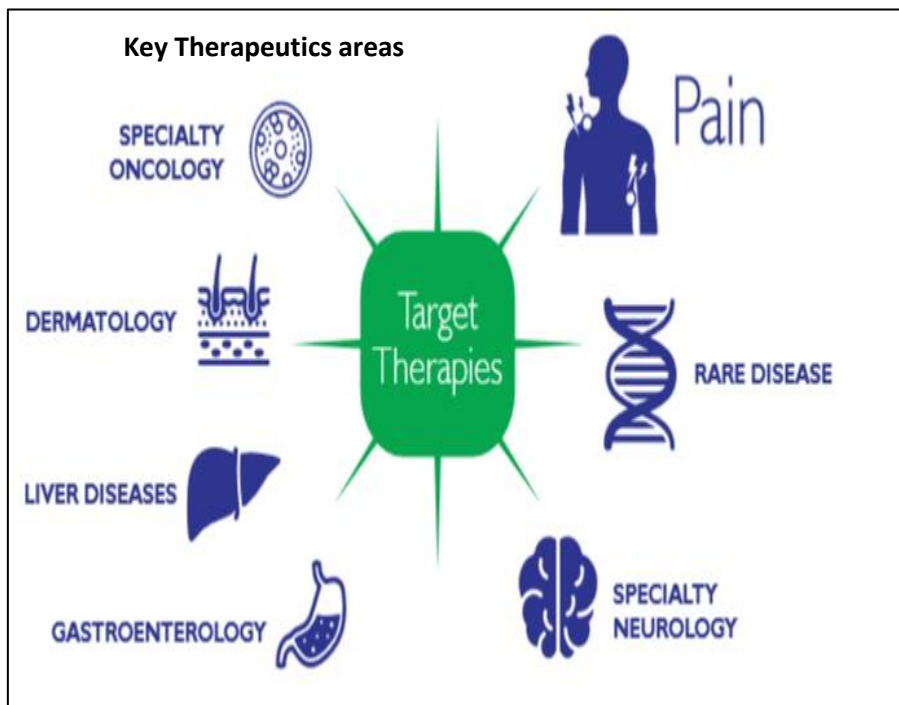
Vaccine Portfolio



Specialty and Complex Generics

The Company is present in the specialty space in the US market through its wholly owned subsidiary, Sentyln Therapeutics Inc.

Complex generics are the products which are either difficult to manufacture and hence have significant entry barriers to the market. The company has invested the resource to develop and manufacture complex generics such as transdermals and drug injectable, complex, device combination to ensure sustainable future cash flows.



Key Financial

Key Financials (in Cr.)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Income Statement								
Gross Sales	5354	6487	7372	8812	9617	9572	12004	13166
EBITDA	1082	1124	1193	1754	2330	1902	2829	2968
EBITDA M (%)	20.2	17.3	16.2	19.9	24.2	19.9	23.6	22.5
PAT	653	654	804	1151	1934	1488	1776	1849
PAT M (%)	12.2	10.1	10.9	13.1	20.1	15.5	14.8	14.0
Balance Sheet								
Net Worth	2586	2945	3439	4252	5699	6960	8745	10386
Total Debt	2289	2918	2700	2651	2442	5207	5407	7899
Cash & Bank	467	584	549	670	639	1544	1315	649
Total Assets	6423	7374	7987	9047	10032	14325	17141	22513
Cash Flow								
Cash from Operations	511	603	903	994	1894	1312	919	2882
Cash from Investing	-1200	-682	-438	-465	-864	-2872	-974	-5739
Cash from Finance	860	286	-529	-351	-935	2316	52	1885
Free Cash Flow	-836	-51	533	584	1523	-1493	-145	2031
Ratios								
Sales Growth (%)	13.7	20.8	13.6	19.8	9.0	-0.5	27.5	10.1
Profit Growth (%)	-7.5	1.3	21.2	41.8	62.0	-22.8	17.8	6.0
ROE (%)	28.6	24.9	26.2	30.8	38.6	23.4	22.3	19.4
ROCE (%)	24.0	18.2	17.2	23.2	28.6	16.5	18.3	15.9
D/E (x)	0.9	1.0	0.8	0.6	0.4	0.7	0.6	0.8
Current Ratio (%)	1.3	1.2	1.2	1.3	1.2	1.1	1.4	1.2
Valuation								
EPS	6.4	6.4	7.8	11.2	18.9	14.5	17.3	18.1
P/E	23.9	23.2	26.2	31.0	16.8	30.5	21.8	19.2
P/B	6.0	5.2	6.1	8.4	5.7	6.5	4.4	3.4
EV/EBITDA	15.3	15.1	18.5	20.8	14.0	23.9	14.6	13.5
Dividend Yield (%)	1.0	1.0	0.9	0.7	1.0	0.7	0.9	1.0
Close Price (Rs)	152	148	205	348	317	443	379	347
Market Capitalization	15567	15183	21021	35621	32456	45389	38774	35492

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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