Narnolia™

CADILA HEALTHCARE LTD.

BUY

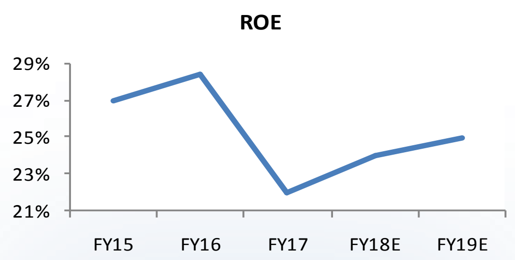
09-Feb-18

INDUSTRY -	Pharmaceuticals
BLOOMBERG-	CDH IN
BSE Code -	532321
NSE Code -	CADILAHC
NIFTY -	10577

Company Data

CMP	405
Target Price	**526**
Previous Target Price	526
Upside	**30%**
52wk Range H/L	558/356
Mkt Capital (Rs Cr)	41,435
Av. Volume (,000)	824

ROE to maintain over 20% in FY19E

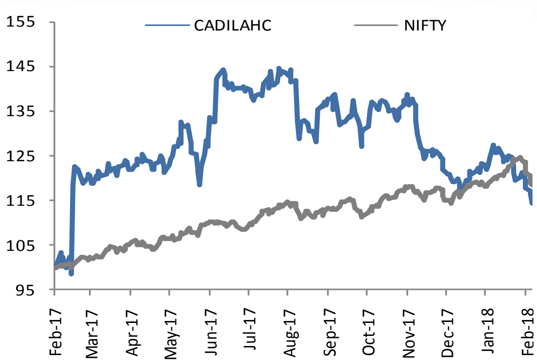


Shareholding patterns %

	3QFY18	2QFY18	1QFY18
Promoters	74.79	74.79	74.79
Public	25.21	25.21	25.21
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(10.7)	(20.3)	6.5
Rel.to Nifty	(1.5)	1.2	19.5



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Key Highlights of the Report:

- ☑ CADILA has posted a sales growth of 41% YoY to Rs 3260Cr and PAT growth of 74.1% YoY to Rs564 Cr in Q3FY18.
- ☑ The Company expects to launch 10-12 products in 4QFY18 in the US and going forward every quarter 10-12 product launches.
- ☑ Management do not expect crowded market in gLaliida, unlike other generics, due to natural entry barrier of complex technology.The Company expects approval for gToprol XL (CVS) coming soon.
- ☑ Tamiflu suspension and gLalida contributed meaningfully to the revenue in 3QFY18.
- ☑ Presently we maintain a BUY rating for the stock with 22.77x times of FY19 expected EPS and with same target price of Rs.526.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	8,707	9,838	9,625	12,013	14,084
EBITDA	1,756	2,383	1,904	2,813	3,475
EBIT	1,468	2,081	1,529	2,311	2,967
PAT	1,151	1,523	1,488	1,796	2,365
EPS (Rs)	11	15	15	18	23
EPS growth (%)	43%	32%	-2%	21%	32%
ROE (%)	27%	28%	21%	21%	25%
ROCE (%)	27%	33%	16%	22%	24%
BV	42	53	68	82	101
P/B (X)	8	6	7	5	4
P/E (x)	31	21	31	23	18

Concall Highlights:

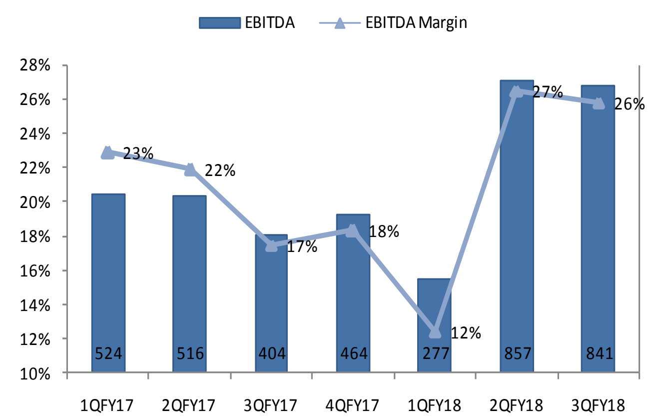
- ✓ Management expects US base business price erosion in single digit in FY18E. For 3QFY18 US base business price erosion was at 4%.
- ✓ R&D costs are guided to be in the range of 7% 8% in FY18E despite requirements of many clinical trials of NCE molecules and biosimilar products in regulated markets (Q3FY18 R&D Expense-6.4%).
- ✓ Management has guided for capex of Rs1000Cr in FY19 due to expected approvals from Moraiya and Baddi plant, which would require additional capex
- ✓ Cadila expects to commence supply of MR, MMR and Measles containing vaccines (MCV) in CY19, and pentavalent vaccine in CY20.
- ✓ The company expects double digit growth for India Business in Q4FY18.

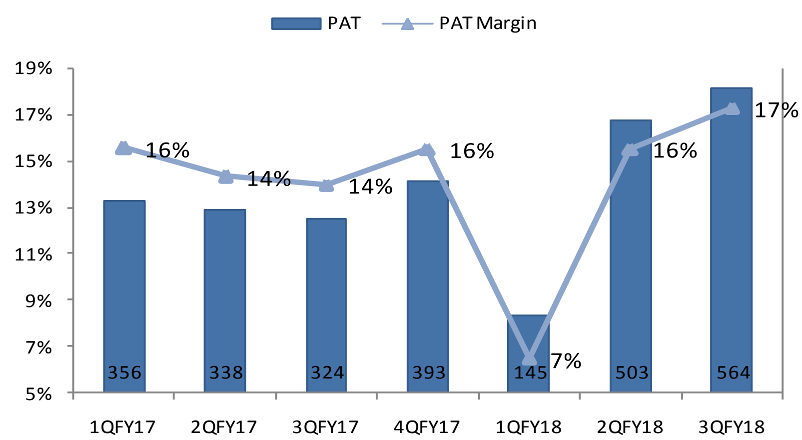
Quarterly Performance

Financials	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	2,311	2,525	2,229	3,234	3,260	41%	1%	9,838	9,625	-2%
Other Income	17	73	21	23	41	148%	83%	94	129	37%
COGS	899	928	829	1,101	1,125	25%	2%	3,277	3,445	5%
Employee Cost	371	401	429	459	461	24%	0%	1,332	1,500	13%
Other Expenses	636	686	662	817	833	31%	2%	2,846	2,581	-9%
EBITDA	404	464	277	857	841	108%	-2%	2,383	1,904	-20%
Depreciation	90	115	122	127	127	41%	0%	302	375	24%
Interest	7	10	22	41	14	105%	-67%	49	45	-7%
PBT	325	412	154	712	742	129%	4%	2,126	1,612	-24%
Tax	8	2	29	212	179	2105%	-16%	571	129	-77%
PAT	324	393	145	503	564	74%	12%	1,523	1,522	0%

Margin %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY %	QoQ%	FY16	FY17	YoY(+/-)
Gross Margin	61%	63%	63%	66%	65%	7%	-1%	67%	64%	-2%
EBITDA Margin	17%	18%	12%	27%	26%	48%	-3%	24%	20%	-4%
PAT Margin	14%	16%	7%	16%	17%	23%	11%	15%	15%	0%

- ✓ Gross margin expanded by ~440 bps YoY to 65.5% aided by favourable movements in inventories.
- ✓ EBITDA margin improved by 830 bps YoY to 25.8% driven by new product launches.
- ✓ PAT margin improved by 330 bps YoY and PAT remained Rs 564 cr for this quarter. Tax provisioning increased by 2160 bps YoY to 24.1% in Q3FY18.
- ✓ Tamiflu suspension and gLalida contributed meaningfully to the revenue in 3QFY18





Investment Arguments:

- **Successful Resolution of the Moraiya plant:** The company has cleared re-inspection without any Form-483 observations.Post this resolution, Cadila has received the highest number of approvals—~70 since April 2017—and management expect the momentum to sustain.Company expect ~80 ANDA approvals until FY19 .Around ~50% of these are expected to come from the Moraiya facility and the rest from Baddi and SEZ facilities.
- **Entry into the specialty pain market:**Cadila has acquired US-based specialty pharmaceutical company Sentynl Therapeutics (annual sales of USD58mn), engaged in marketing of products in the pain management segment. The company expects speciality segment to contribute 30% to the overall US sales in next three years.
- **Recent Acquistion to Drive India Business Growth:**Cadila has acquired 6 brands (Deca-Durabolin, Durabolin, Sustanon, Multiload, Sicastat and Axeten) from MSD in men's health, women's health, cardiovascular and select product basket from AstraZeneca's stable. The combined sales from the acquired products from MSD and AstraZeneca is close to Rs100Cr.Management is confident that going forward these brand will contribute meaningfully and indian business can grow at a double digit growth rate.
- **Healthy Transdermal Pipeline:**Cadila is targeting the limited competition transdermal market, having a market size of ~USD6-7bn. It is primarily an off-patent market with 10-15 products currently in the fray. The top 3-4 products account for 60% of the market.Other players in the market are Mylan, Dr Reddy's and Sandoz.The company further expects to launch Transdermal Exelon in the US in FY18.

Cadila's key launches

	FY18		FY19	FY20
<USD100mn		Zegerid		Rotigotine patch
		Zegerid OTC		Silenor
USD100-500mn		Astelin spray	Solodyn	Daliresp
		Toprol XL	Prevacid ODT	Delzicol
		Clonidine patch	Aloxi	Qudexy XR
		Estradiol patch		
USD500mn-1bn		Pristiq	Exelon patch	Namenda XR
		Strattera		
>USD1bn		Niaspan	Lidocaine patch	

View & Valuation

Cadila is set to witness a strong growth prospects backed by rich US pipeline and several high potential products await FDA approval. The clearance of the Moraiya facility has kick-started approvals of some limited-competition products in oral solids, transdermal & nasal segment. Post this resolution, Cadila has received the highest number of approvals—~70 since April 2017—and management expect the momentum to sustain. We have a positive view on the stock considering company's focus on Para IV filings, speciality products and expected pick-up in launch momentum from the Moraiya facility. Key risk to our estimate may be delay in new product launches, FDA Approval and any regulatory concern related to USFDA. Presently we maintain a BUY rating for the stock with 22.77x times of FY19 expected EPS and with same target price of Rs.526.

CADILA HEALTHCARE LTD.

Financials Snap Shot

Income Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	9,838	9,625	12,013	14,084
Change (%)	*14%*	*-2%*	*25%*	*17%*
EBITDA	*2,383*	*1,904*	*2,813*	*3,475*
Change (%)	36%	-20%	48%	24%
Margin (%)	**24%**	**20%**	**23%**	**25%**
Dep & Amortization	*302*	*375*	*502*	*508*
EBIT	2,081	1,529	2,311	2,967
Interest & other finance cost	*49*	*45*	*90*	*100*
Other Income	94	129	126	164
EBT	2,126	1,612	2,347	3,032
Exceptional Item	**3**	**0**	-	-
Tax	571	129	552	667
Minority Int & P/L share of Ass.	(30)	5	-	-
Reported PAT	*1,523*	*1,488*	*1,796*	*2,365*
Adjusted PAT	**1,521**	**1,487**	**1,796**	**2,365**
Change (%)	*32%*	*-2%*	*21%*	*32%*

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
ROE	28%	22%	23%	24%
ROCE	33%	16%	21%	22%
Asset Turnover	1.0	0.6	0.7	0.7
Debtor Days	62	86	86	86
Inventory Days	54	68	68	68
Payable Days	50	63	63	63
Interest Coverage	43	34	26	30
P/E	21	31	23	18
Price / Book Value	6	7	5.0	4.0

Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	102	102	102	102
Reserves	5,250	6,858	8,270	10,252
Networth	**5,352**	**6,960**	**8,373**	**10,354**
Debt	*2107*	*4945*	*4492*	*4392*
Other Non Cur Liab	40	-	-	-
Total Capital Employed	*7,459*	*11,905*	*12,865*	*14,746*
Net Fixed Assets (incl CWIP)	*4,790*	*6,149*	*7,249*	*8,849*
Non Cur Investments	*33*	-	-	-
Other Non Cur Asst	-	*285*	*285*	*285*
Non Curr Assets	**5,579**	**9,198**	**10,298**	**11,898**
Inventory	1,451	1,804	2,251	2,639
Debtors	*1,680*	*2,278*	*2,843*	*3,332*
Cash & Bank	695	1,544	805	569
Other Curr Assets	**134**	**336**	**336**	**336**
Curr Assets	4,438	*6,022*	*6,297*	*6,938*
Creditors	1,345	1,674	2,089	2,449
Provisons	90	*57*	*57*	*57*
Other finicial liabilities	-	935	935	935
Other Curr Liab	762	152	152	152
Curr Liabilities	**2,196**	**2,829**	**3,244**	**3,604**
Net Curr Assets	*2,241*	*3,193*	*3,053*	*3,334*
Total Assets	10016.3	15220.7	16595.19	18836.6

Cash Flow Statement

in Rs Crores

Y/E March	FY16	FY17	FY18E	FY19E
PBT	2,124	1,612	2,347	3,032
(inc)/Dec in Working Capital	266	(373)	(597)	(518)
Non Cash Op Exp	302	375	502	508
Int Paid (+)	43	57	90	100
Tax Paid	(662)	(238)	(552)	(667)
others	(16)	(98)	-	-
CF from Op. Activities	**1,994**	**1,350**	**1,790**	**2,455**
(inc)/Dec in FA & CWIP	*(966)*	*(2,973)*	*(1,602)*	*(2,108)*
Free Cashflow	*1,022*	*(1,629)*	*188*	*347*
(Pur)/Sale of Inv	(0)	5	-	-
others	63	58	-	-
CF from Inv. Activities	**(904)**	**(2,910)**	**(1,602)**	**(2,108)**
inc/(dec) in NW				
inc/(dec) in Debt	(209)	2,765	(453)	(100)
Int. Paid	(47)	(56)	(90)	(100)
Div Paid (inc tax)	**(697)**	**(394)**	**(383)**	**(383)**
others				
CF from Fin. Activities	(953)	2,316	(926)	(583)
Inc(Dec) in Cash	137	755	(738)	(237)
Add: Opening Balance	**790**	**837**	**1,544**	**805**
Closing Balance	928	1,593	805	569

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