

CADILA HEALTHCARE LTD

Warning letter clearance should drive a re-rating

Cadila Healthcare has received Establishment Inspection Report (EIR) from the US health regulator for its manufacturing facility in Moraiya, indicating "closure of the inspection points" of initial review in 2014 .New approvals from the US were blocked till now due to a warning letter from Moraiya facility, which is resolved on 8 July 2016. The Moraiya formulation plant is critical as it has 74 of the company's ~160 pending ANDAs.Asacol HD and Prevacid ODT are some of the high-value approvals from this facility.Also as on 12th July Cadila Healthcare Limited will start selling an authorized generic of Asacol HD (mesalamine delayed release tablets 800 mg) in the United States commencing on August 1, 2016.The clearance of the facility should kick-start approvals of low-competition products and should drive a re-rating.Maintain a BUY Rating on this stock at a target price of Rs395.

BACKGROUND

→Moraiya the largest USFDA-approved facility for Cadila. Out of these two facilities, the Moraiya facility is the important formulation plant for Cadila as ~60% of its US revenues (25% of overall revenues) are derived from this facility.Of the total 160 pending ANDAs, 74 are from this facility, reflecting huge dependence on one facility.

→This facility was inspected in September, 2014 and had received 483 observations from the agency.

→Again in the beginning of 4QFY16 "The company has received a warning letter issued by the US Food and Drug Administration relating to its Moraiya formulation facility and Ahmedabad oncology API facility (Zyfine).

→ Management highlighted that it has already site transferred nine products from moraiya, which have already been approved and launched.

→The four key pending product approvals are still to be transferred by the company to other manufacturing sites. Filing of these key products is expected to be in FY 2017(Delay in filing earlier it was 2016).

Company Update

CMP	360
Target Price	395
Previous Target Price	290
Upside	10%
Change from Previous	36%

Market Data

BSE Code	532321
NSE Symbol	CADILAH
52wk Range H/L	454.40/295.50
Mkt Capital (Rs Cr)	36839
Av. Volume(,000)	967
Nifty	8519.5

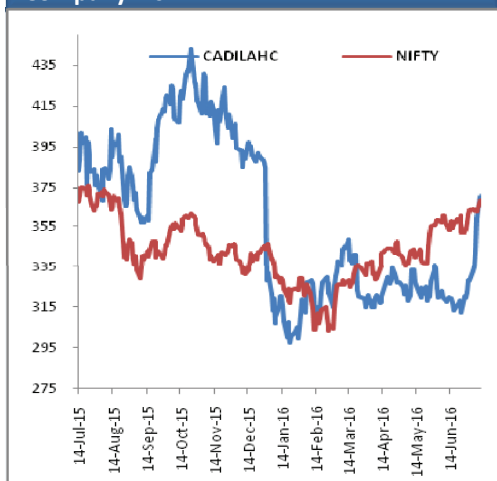
Stock Performance

	1M	3M	12M
Absolute	18.3	-4.6	0.8
Rel.to Nifty	14.7	-4.0	0.6

Share Holding Pattern-%

	1QFY17	4QFY16	3QFY16
Promoters	74.8	74.8	74.8
Public	25.2	25.2	25.2
Others	-	-	-
Total	100.0	100.0	100.0

Company Vs NIFTY



	Rs,Cr				
Financials	2012	2013	2014	2015	2016
Sales	5263	6358	7224	8651	9838
EBITDA	1084	1125	1200	1756	2383
Net Profit	652	653	803	1151	1523
EPS	4	4	4	5	6
P/E	49.5	49.4	57.8	49.9	45.6

(Source: Company/Eastwind)

Key Product launches in FY18

Generic name	Brand Name	Market size (USD mn)	Expected launch	Patent expiration	Comments
Lansoprazole	PrevacidSolutab	240	FY18	17-Nov-19	Cadila won the non-infringement case in Mar'14 and will launch on approval
Mesalamine	Asacol HD	250	FY18	15-Nov-21	Cadila has tied for an AG launch or can launch its own ANDA post approval
Mesalamine	Lialda	300	FY18	8-Jun-20	Cadila is sole FTF. Other filers are Osmotica, Mylan&Watson with litigation ongoing
Sirolimus	Rapamune (1 mg, 2mg)	190	FY18	Expired	Cadila has launched 0.5 mg strength (USD 12 mn) has TA on other two strengths; Dr. Reddy's has launched 1mg & 2 mg strengths

Other Highlights

→Management has guided for higher capex in FY17(Rs1000Cr) for expansion of the Ahmedabad SEZ facility, new injectable facility at Baroda (expects to be commercialised from July 2016) and construction of new facility at Sikkim for domestic markets.

→R&D to remain at ~7.0-7.5% for FY17 of sales.

→Tax rate to be ~25% for FY16, but to be reduce to ~20% again FY17 onwards due to R&D benefits.

→Expects a rebound in the domestic sales from 2QFY17.

→ The company expects the margins to be sustainable by increasing market share of certain key products.

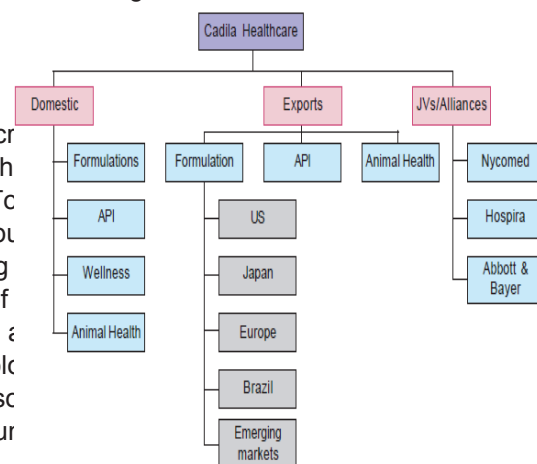
→ Its transdermal formulations facility in SEZ received establishment inspection report (EIR) from USFDA for its Baddi manufacturing facility.

View and Valuation

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About Company

Cadila Healthcare (CDH) is a well diversified Pharma company with presence across more than 100 countries in the world and among the few Indian players to have presence in Consumer and Animal health businesses. Cadila ranks among the Top 10 companies in the Indian pharma market and the India branded business contributes more than 30% of its sales. US contributes 35% of its revenues and is among top 15 generic companies in the US in terms of prescriptions. Cadila is one of the leading players in CV, gastrointestinal and women's healthcare segments. It is also present in respiratory, pain management, CNS, anti-infectives, oncology, neurosciences, dermatology and nephrology segments. It also plans to tap special unique opportunities through its JVs with Takeda, Hospira, Bayer and Bharat Seru



CADILA HEALTHCARE LTD

Financials Snap Shot

INCOME STATEMENT

	FY13	FY14	FY15	FY16E
Revenue (Net of Excise D	6358	7224	8651	9838
Other Income	37	51	55	94
Total Revenue	6395	7275	8707	9932
COGS	2320	2714	3197	3277
GPM	36.5%	37.6%	36.9%	33.3%
Other Expenses	2008	2239	2491	2846
EBITDA	1125	1200	1756	2383
EBITDA Margin (%)	18%	17%	20%	24%
Depreciation	185	201	287	302
EBIT	940	999	1468	2081
Interest	169	90	68	49
PBT	809	959	1456	2126
Tax	119	106	259	571
Tax Rate (%)	15%	11%	18%	27%
Reported PAT	653	804	1151	1523
Dividend Paid	180	216	240	688
No. of Shares	180	216	240	264

Source: Eastwind/Company

RATIOS

	FY13	FY14	FY15	FY16E
EPS	3.6	3.7	4.8	5.8
Book Value	16.4	16.0	17.7	20.3
DPS	1.0	1.0	1.0	2.6
Payout (incl. Div. Tax.)	27%	27%	21%	45%
Valuation(x)				
P/E	49.4	57.8	49.9	45.6
Price / Book Value	11.0	13.5	13.5	13.0
Dividend Yield (%)	1%	0%	0%	1%
Profitability Ratios				
RoE	22%	23%	27%	28%
RoCE	22%	21%	27%	33%
Turnover Ratios				
Asset Turnover (x)	0.9	0.9	1.0	1.0
Debtors (No. of Days)	55	57	67	62
Inventory (No. of Days)	70	69	65	54
Creditors (No. of Days)	38	46	46	50
Net Debt/Equity (x)	0.5	0.4	0.3	0.2

Source: Eastwind/Company

BALANCE SHEET

	FY13	FY14	FY15	FY16E
Share Capital	102	102	102	102
Reserves	2842	3337	4149	5250
Net Worth	2945	3439	4252	5352
Long term Debt	1426	1362	1150	896
Short term Debt	1257	902	1184	1211
Deferred Tax	101	96	59	61
Total Capital Employed	4371	4801	5402	6248
Net Fixed Assets	3761	4015	4150	4790
Capital WIP	736	892	798	0
Debtors	955	1134	1588	1680
Cash & Bank Balances	584	549	670	695
Trade payables	657	911	1091	1345
Total Provisions	314	369	473	215
Net Current Assets	1778	1542	2145	2241
Total Assets	7374	7987	9047	10016

Source: Eastwind/Company

CASH FLOW STATEMENT

	FY13	FY14	FY15	FY16E
OP/(Loss) before Tax	809	942	1446	2124
Depreciation	185	201	287	302
Direct Taxes Paid	-272	-173	-387	-662
Operating profit before v	923	1191	1413	2719
CF from Op. Activity	603	903	994	1994
Purchase of Non Current	0	0	1	0
Capital expenditure on fi	-724	-484	-512	-972
CF from Inv. Activity	-682	-438	-465	-904
Repayment of Long Term	353	552	570	232
Interest Paid	-164	-86	-67	-47
Divd Paid (incl Tax)	-179	-219	-235	-697
CF from Fin. Activity	286	-529	-351	-953
Inc/(Dec) in Cash	207	-64	178	137
Add: Opening Balance	470	677	613	790
Closing Balance	677	613	790	928

Source: Eastwind/Company