

**CADILA HEALTHCARE LTD.**

**BUY**

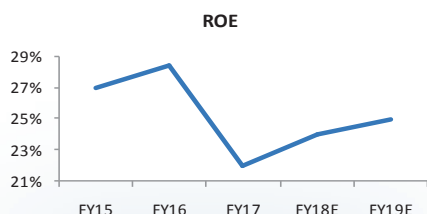
15-Nov-17

**INDUSTRY -** Pharmaceuticals  
**BLOOMBERG-** CDH IN  
**BSE Code -** 532321  
**NSE Code -** CADILAHC  
**NIFTY -** 10186

**Company Data**

CMP	448
<b>Target Price</b>	<b>526</b>
<b>Upside</b>	<b>17%</b>
52wk Range H/L	558/330
Mkt Capital (Rs Cr)	45,915
Av. Volume (,000)	103

**ROE to maintain over 20% in FY19E**

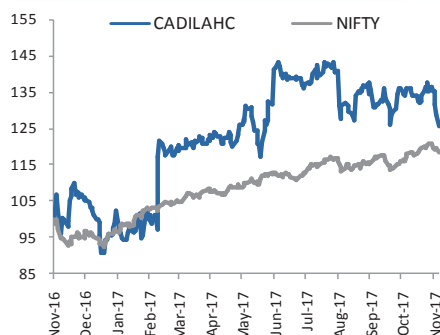


**Shareholding patterns %**

	2QFY18	1QFY18	4QFY17
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	(9.9)	(6.3)	25.9
Rel.to Nifty	(9.9)	(7.6)	(0.2)



Ritika Jalan

**Key Highlights of the Report:**

- ✓ CADILA has posted a sales growth of 37.4% YoY (on Sequential basis 45%) to Rs 3234Cr and PAT growth of 49.1% YoY in Q2FY18
- ✓ US Formulations sales has increased by 66% YoY(on Sequential basis 70%) to Rs.1644 Cr led by 180-day exclusivity of generic anti-ulcer drug
- ✓ The company has launched Tamiflu suspension having an estimated sales of USD 367.92 million.This can contribute meaningfully to the revenue going ahead as per the management.
- ✓ We believe cadila is best placed to reap the benefit of pending approval among the peers.We maintain a BUY Rating for the stock with one year target price of Rs 526Cr

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	8,707	9,932	9,754	12,447	14,717
EBITDA	1,756	2,383	1,904	2,912	3,385
EBIT	1,468	2,081	1,529	2,462	2,910
PAT	1,151	1,523	1,522	1,910	2,235
EPS (Rs)	11	15	15	19	22
EPS growth (%)	43%	32%	-2%	31%	16%
ROE (%)	27%	28%	22%	24%	25%
ROCE (%)	27%	33%	16%	21%	23%
BV	42	53	68	82	105
P/B (X)	8	6	7	6	4
P/E (x)	31	21	31	24	20

**Recent Developments:**

- ✓ **Approval of gLialda, a significant milestone:** Cadila received approval for Lialda (gMesalamine) generic from USFDA on 19th July 2017. This is a key product for Cadila, where it has first-to-file (FTF) status. Lialda's brand size is USD 1.1bn. Revenues from the product in exclusivity is reflected in US Formulation Sales in 2QFY18.
- ✓ As on 18th September 2017 Cadila has received the final approval from USFDA to market from the USFDA to market Oseltamivir powder for oral suspension, 6mg/ml.The US sales of Oseltamivir powder was estimated to be of USD 367.92 million, as per IMS MAT data.
- ✓ Cadila has acquired Sentyln Therapeutics, a US based Specialty Pharma The management expects to ramp-up Abstral (one of Sentyln's main products) with possibility of 25%+ growth in the brand given robust product potential.
- ✓ **Working Capital through remains at the same level of FY17, but still there are signs of stress in it going ahead.**

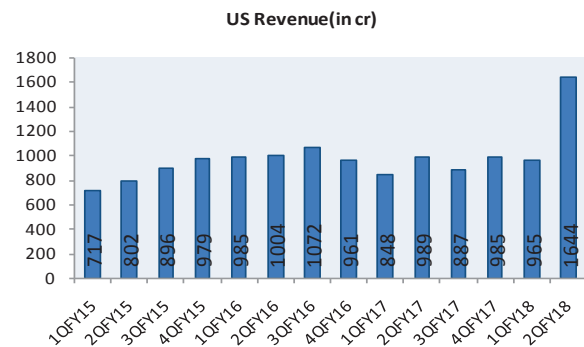
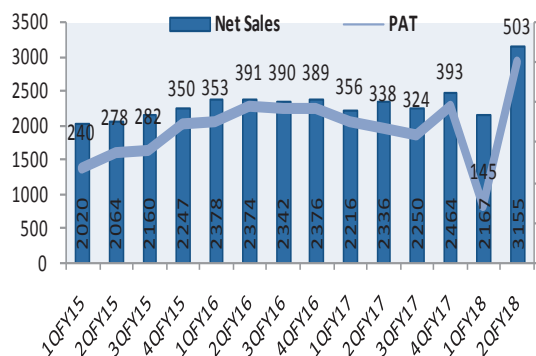
# CADILA HEALTHCARE LTD.

## Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	2,353	2,311	2,525	2,229	3,234	37%	45%	9,838	9,625	-2%
Other Income	24	17	73	21	23	-5%	7%	94	129	37%
COGS	843	899	928	829	1,101	31%	33%	3,277	3,445	5%
Employee Cost	372	371	401	429	459	24%	7%	1,332	1,500	13%
Other Expenses	622	636	686	662	817	31%	23%	2,846	2,581	-9%
EBITDA	516	404	464	277	857	66%	209%	2,383	1,904	-20%
Depreciation	86	90	115	122	127	47%	4%	302	375	24%
Interest	19	7	10	22	41	117%	85%	49	45	-7%
PBT	435	325	412	154	712	64%	361%	2,126	1,612	-24%
Tax	107	8	2	29	212	99%	625%	571	129	-77%
PAT	338	324	423	187	504	49%	169%	1,523	1,522	0%

## Q2FY18 Result Update:

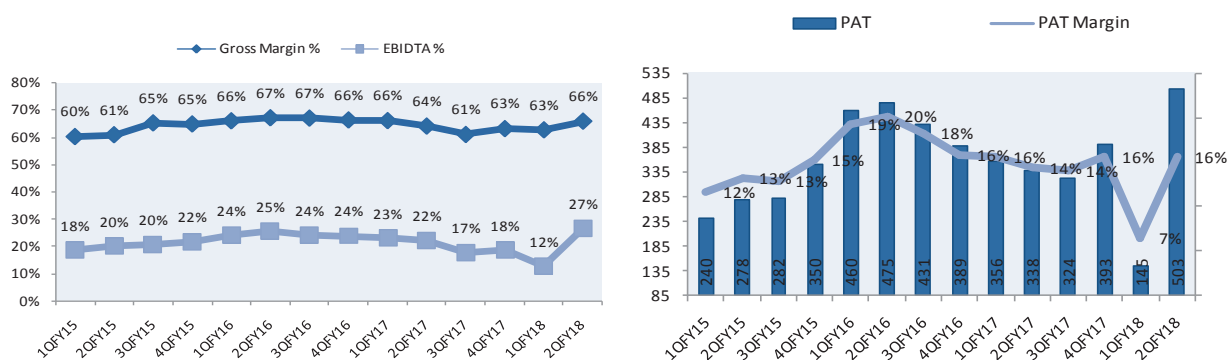
- ✓ CADILA has reported a sales growth of 37.4% YoY (on Sequential basis 45%) to Rs 3234 Cr benefited by strong US formulation sales led by 180-day exclusivity of generic anti-ulcer drug
- ✓ US Formulations sales has increased by 66% YoY (on Sequential basis 70%) to Rs. 1644 Cr led by 180-day exclusivity of generic anti-ulcer drug Lialda.
- ✓ India Formulations sales has increased by 15% YoY (on Sequential basis 35%) to Rs. 895 Cr excluding the excise duty.
- ✓ Latin America Sales has increased by 3% YoY (on Sequential basis 33%) to Rs. 68 Cr.
- ✓ Zydus Wellness Sales has increased by 7% YoY (on Sequential basis 4%) to Rs. 120 Cr.
- ✓ EBITDA margin improved by 457 bps YoY aided by favourable movements in inventories.
- ✓ Company received approval for 32 new products, including generic version of anti-ulcer drug Asacol and the generic version of Tamiflu suspension.
- ✓ The company filed nine additional abbreviated new drug applications (ANDAs) with the USFDA in Q2FY18.



# CADILA HEALTHCARE LTD.

Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	64%	61%	63%	63%	66%	2%	3%	67%	64%	-2%
EBITDA Margin	22%	17%	18%	12%	27%	5%	14%	24%	20%	-4%
PAT Margin	14%	14%	16%	7%	16%	1%	9%	15%	15%	0%

- ✓ Gross margin expanded by ~180 bps YoY and 318 bps QoQ.(comparable basis) to 66% aided by favourable movements in inventories.
- ✓ EBITDA margin improved by 457 bps YoY and 1406 bps QoQ Driven by gLialda exclusivity in the US and new product launches,
- ✓ PAT margin improved by 120 bps YoY and PAT remained Rs 504 cr for this quarter. Tax provisioning increased by 520 bps YoY to 29.8% in Q2FY18.



## Concall Highlights(Q2FY18):

- ✓ The Company further expects to launch gPrevacid ODT (GI), gMetoprolol XL (CVS), Transdermal Exelon and Tamiflu (oral Suspension) tablet in the US in FY18.
- ✓ Price Erosion in US Business Will continue at 10%-12% in FY18 and 8%-10% in FY19.
- ✓ Effective tax rate guidance stands at 20%-25% and 20%-22% for FY18 and FY19 respectively
- ✓ CAPEX Guidance of RS1000-Rs1200Cr per annum.
- ✓ The Company expect launch of 15 products by end of FY18.
- ✓ R&D to remain at ~7.0 8% in the coming years as it continues to invest in clinical trials of NCE molecules, biosimilar products in regulated markets and transdermal patches in US.
- ✓ Debt repayment of around Rs 700Cr-Rs 500Cr by FY18.
- ✓ CAPEX Guidance of RS1000-Rs1200Cr per annum with commissioning of the new injectable facility and phase 2 for Sikkim formulation plant coupled with M&A excluding Sentylnl.
- ✓ The company maintains its guidance to file ~30-35 products per year going forward, with focus on injectables, oral solids and topical derma products .

# CADILA HEALTHCARE LTD.

## Investment Arguments:

- ✓ **Successful Resolution of the Moraiya plant:** The company has cleared re-inspection without any Form-483 observations. This will aid in driving US business growth in FY18 through increasing approval rate. Company expects ~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. Toprol XL, Prevacid & Asacol HD are the key pending approvals from Moraiya with market size of USD 955mn
- ✓ **Entry into the specialty pain market:** Cadila has acquired US-based specialty pharmaceutical company Sentyln Therapeutics (annual sales of USD58mn), engaged in marketing of products in the pain management segment. The company expects specialty segment to contribute 30% to the overall US sales in next three years.
- ✓ **Recent Acquisition 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 brands 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 owing to rich US pipeline and several high potential products await FDA approval. The clearance of the Moraiya facility should kick-start approvals of some limited-competition products in oral solids, transdermal & nasal segment. On account of robust prospects for the US markets with 305 ANDAs pending approval as of August 2017, foray into the US specialty pain management segment through Sentyln acquisition and healthy growth trajectory in the domestic markets, we have a positive view on the stock. We expect Cadila to comfortably maintain a healthy product launch on the back of these key competitive opportunities. We believe Cadila is best placed to reap the benefit of pending approval among the peers. We maintain a BUY Rating for the stock with 5 times P/B and one year 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	12,447	14,717
Change (%)	14%	-2%	29%	28%
Other Operating Income	368	210	220	222
EBITDA	2,383	1,904	2,912	3,385
Change (%)	36%	-20%	53%	16%
Margin (%)	24%	20%	23%	23%
Dep & Amortization	302	375	450	475
EBIT	2,081	1,529	2,462	2,910
Interest & other finance cost	49	45	95	97
Other Income	94	129	84	84
EBT	2,126	1,612	2,435	2,865
Exceptional Item	3	0	-	-
Tax	571	129	525	630
Minority Int & P/L share of Ass.	(30)	5	3	3
Reported PAT	1,523	1,522	1,910	2,235
Adjusted PAT	1,523	1,522	1,910	2,235
Change (%)	32%	-2%	30%	17%
Margin(%)	15%	16%	16%	16%

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	19	21
P/E	21	31	24	20
Price / Book Value	6	7	6.0	4.0
EV/EBITDA	21	26	18	15

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	102	102	102	102
Reserves	5,250	6,858	8,207	10,091
Networth	5,352	6,960	8,310	10,194
Debt	2107	4945	4745	4745
Other Non Current Liab	226	330	330	330
Total Capital Employed	7,459	11,905	13,055	14,939
Net Fixed Assets (incl CWIP)	4,790	6,149	7,249	8,849
Non Current Investments	33	-	-	-
Other Non Current Assets		285	285	285
Non Current Assets	5,579	9,198	10,298	11,898
Inventory	1,451	1,804	2,012	2,266
Debtors	1,680	2,278	2,540	2,861
Cash & Bank	695	1,544	1,013	644
Other Current Assets	134	336	336	336
Current Assets	4,438	6,022	6,342	6,736
Creditors	1,345	1,674	1,867	2,102
Provisions	90	57	57	57
Other Current Liabilities	762	152	152	152
Curr Liabilities	2,196	2,829	3,022	3,258
Net Current Assets	2,241	3,193	3,320	3,479
Total Assets	10,016	15,221	16,716	19,031

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
PBT	2,124	1,612	2,228	2,722
(inc)/Dec in Working Capital	266	(373)	(498)	(620)
Non Cash Op Exp	330	334	565	610
Interest Paid (+)	43	57	115	135
Tax Paid	(662)	(238)	(421)	(381)
others				
CF from Op. Activities	1,994	1,350	1,874	2,331
(inc)/Dec in FA & CWIP	(972)	(2,978)	(1,550)	(2,075)
Free Cashflow	1,022	(1,629)	324	256
(Pur)/Sale of Investment	(0)	5		
others				
CF from Inv. Activities	(904)	(2,910)	(1,550)	(2,075)
inc/(dec) in NW				
inc/(dec) in Debt	(209)	2,765	(200)	
Interest Paid	(47)	(56)	(115)	(135)
Dividend Paid (inc tax)	(697)	(394)	(457)	(457)
others				
CF from Fin. Activities	(953)	2,316	(772)	(592)
Inc/Dec) in Cash	137	755	(449)	(336)
Add: Opening Balance	790	837	1,544	695
Closing Balance	928	1,593	1,095	359