

Retail Equity Research

Cadila Healthcare Limited

Pharmaceuticals

BSE CODE: 532321 NSE CODE: CADILAH
Bloomberg CODE: CDH:IN SENSEX: 41,021

HOLD

12M Investment period Rating as per Large Cap

CMP Rs 255 TARGET Rs 270 RETURN 6% ↑
(Closing: 27-11-19)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Bottom line impacted by one-time expense

Cadila Healthcare is India's leading vertically integrated pharmaceutical company. With its presence across the value chain, it manufactures finished dosage forms, active pharmaceutical ingredients, animal healthcare products and wellness products.

- Revenue rose 13.7% YoY to Rs. 3,367cr in Q2FY20, largely driven by US business (~+10% YoY; ~45% of total revenue) and India business (~+24% YoY; ~40% of total revenue).
- EBITDA stood at Rs. 626cr (-9.0% YoY), while EBITDA margin contracted by 464bps to 18.6% on account of higher expenses.
- Net profit declined 74.3% YoY to Rs. 107cr, impacted by one-time charge of Rs. 268cr (impairment of Levorphanol intangibles on entry of new drug), while adjusted profit stood fell 25.5% YoY to Rs. 311cr.
- Strong ANDA pipeline with new product launches are key positives. However, considering the higher interest cost, depreciation and tax expenses, we estimate PAT to decline at a modest 3% CAGR over FY19-21E.
- We maintain our HOLD rating on the stock with a revised target price of Rs. 270 based on 16x FY21E adj. EPS.

Growth momentum continues

Q2FY20 revenue rose 13.7% YoY to Rs. 3,367cr vs. 2961cr in Q2FY19. India business which includes human health, consumer wellness and animal health grew +24% YoY following the restructuring of SKU last quarter. Additionally, CDH outpaced market growth as gynecological portfolio grew ~11.5% YoY vs. market growth of ~6.5%, derma portfolio (11.7% vs. 8.2%), hormone (15.5% vs. 11.6%). In US, the company recorded sales up ~+10% YoY supported by ~7 new launches and US generics business excluding the speciality portfolio of Sentyln and the one-time AG opportunity of the testosterone gel grew ~22% YoY. Emerging market which includes Asia, Africa and Latin America grew ~8% (~15% of total revenue).

Margin impacted by higher cost

Gross margin expanded 167bps QoQ to 65.6% in Q2FY20 significantly attributable to growth in Indian and US business. EBITDA fell 9.0% to Rs. 626cr and EBITDA margin declined 464bps to 18.6% due to higher costs. Margin expansion remains contingent on recovery in domestic generic business and new US launches. Management highlighted launches of ~15 new products in US market in H2FY20.

Key concall highlights

- CDH filed 8 additional ANDAS and received 6 ANDA approvals from USFDA in Q2FY20. It also got the approval for generic muscle relaxing injection from USFDA.
- The company acquired remaining ~15% stake in Zydus Technologies Ltd and Zydus Noveltch Inc.
- CDH has received OAI classification from the US FDA in its Moraiya facility. Management expects it will not have impact on current supply and revenue in US. It also initiated site transfer of injectable products from Moraiya to Liva.
- Management indicated capital expenditure back to normal range of Rs. ~700 to 800cr for FY20, and net debt reduction by Rs. 300 to 400cr by March 2020.

Valuation

We estimate PAT to decline ~3% CAGR over FY19-21E considering the impact of decline in margin, higher interest expenses, tax and depreciation. We reiterate our HOLD rating on the stock with a revised target price of Rs. 270 based on a target multiple of 16x FY21E adj. EPS.

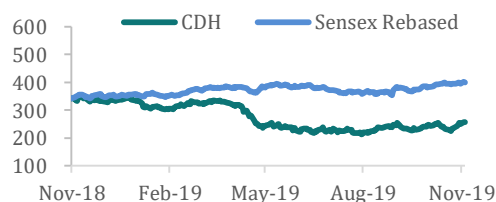
Company Data

Market Cap (cr)	Rs.26,164
Enterprise Value (cr)	Rs.33,721
Outstanding Shares (cr)	102.2
Free Float	25.0%
Dividend Yield	1.4%
52 week high	Rs.370
52 week low	Rs.206
6m average volume	61,972
Beta	0.94
Face value	Rs.1

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	74.8	74.8	74.9
FII's	8.1	4.7	4.5
MFs/Insti	9.2	11.7	12.6
Public	5.6	6.0	5.9
Others	2.3	2.8	2.1
Total	100.0	100.0	100.0
Promoters pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	16.8%	4.4%	-25.3%
Absolute Sensex	8.9%	3.5%	15.5%
Relative Return*	7.9%	0.9%	-40.7%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	13,166	14,461	15,627
Growth (%)	10.3	9.8	8.1
EBITDA	2,973	2,948	3,129
EBITDA Margin (%)	22.6	20.4	20.0
Adj. PAT	1,849	1,602	1,727
Growth (%)	3.0	-13.3	7.7
Adj. EPS	18.1	15.7	16.9
Growth (%)	3.0	-13.3	7.7
P/E	18.9	16.4	15.2
P/B	3.4	2.3	2.0
EV/EBITDA	14.5	11.4	10.6
ROE (%)	17.8	12.2	13.5
D/E	0.6	0.5	0.5

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	3,367	2,961	13.7	3,496	(3.7)	6,863	5,855	17.2
EBITDA	626	688	<i>(9.0)</i>	632	<i>(1.0)</i>	1,258	1,333	<i>(5.6)</i>
EBITDA margins	18.6	23.2	(464bps)	18.1	51bps	18.3	22.8	(444bps)
Depreciation	172	148	16.8	172	0.4	344	289	18.9
EBIT	453	540	<i>(16.1)</i>	460	<i>(1.5)</i>	914	1,044	<i>(12.4)</i>
Interest	90	36	151.3	89	0.7	179	71	152.9
Other Income	27	30	(11.5)	23	19.0	50	132	(62.4)
Exceptional Items	(268)	-	-	-	-	(268)	-	-
PBT	122	535	<i>(77.1)</i>	394	<i>(68.9)</i>	516	1,105	<i>(53.3)</i>
Tax	40	125	(68.3)	79	(50.1)	119	245	(51.6)
Share of profit from Associate	11	18	(38.0)	11	5.7	22	36	(39.8)
Minority Interest	(13)	11	-	22	-	9	17	(51.1)
Reported PAT	107	418	<i>(74.3)</i>	304	<i>(64.7)</i>	411	878	<i>(53.2)</i>
Adjustments	204	-	-	-	-	204	-	-
Adjusted PAT	311	418	<i>(25.5)</i>	304	2.4	615	878	<i>(30.0)</i>
No. of shares	102.2	102.4	-	102.2	-	102.2	102.4	-
EPS (Rs)	3.0	4.1	<i>(25.4)</i>	3.0	2.4	6.0	8.6	<i>(29.9)</i>

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	14,551	16,162	14,461	15,627	(0.6)	(2.9)
EBITDA	3,288	3,649	2,948	3,129	(10.3)	(14.3)
Margins (%)	22.6	22.6	20.4	20.0	(220bps)	(260bps)
Adj. PAT	1,801	2,038	1,602	1,727	(11.0)	(15.3)
EPS	17.6	19.9	15.7	16.9	(10.8)	(15.1)



PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	9,625	11,936	13,166	14,461	15,627
% change	(2.2)	24.0	10.3	9.8	8.1
EBITDA	1,904	2,849	2,973	2,948	3,129
% change	(20.1)	49.7	4.3	(0.8)	6.1
Depreciation	375	541	599	697	701
EBIT	1,529	2,309	2,375	2,252	2,428
Interest	45	91	194	284	262
Other Income	129	113	201	121	133
Exceptional items	(0)	0	0	(268)	0
PBT	1,612	2,331	2,382	1,820	2,299
% change	(24.1)	44.6	2.2	(23.6)	26.3
Tax	129	564	530	435	575
Tax Rate (%)	8.0	24.2	22.3	23.9	25.0
Reported PAT	1,488	1,776	1,849	1,399	1,727
Adj*	0	19	-	204	-
Adj PAT	1,488	1,795	1,849	1,602	1,727
% change	(2.4)	20.6	3.0	(13.3)	7.7
No. of shares (cr)	102.4	102.4	102.4	102.4	102.4
Adj EPS (Rs)	14.5	17.5	18.1	15.7	16.9
% change	(2.4)	20.6	3.0	(13.3)	7.7
DPS (Rs)	3.2	3.5	3.5	3.3	3.5
CEPS (Rs)	18.2	22.8	23.9	22.5	23.7

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	1,863	2,316	2,447	2,095	2,427
Non-cash adj.	170	(152)	1,404	442	115
Changes in W.C	(683)	(1,245)	(969)	(639)	(615)
C.F. Operation	1,350	919	2,882	1,898	1,928
Capital exp.	(2,973)	(1,035)	(1,046)	(723)	(781)
Change in inv.	5	12	(4,746)	(20)	(17)
Other invest.CF	58	50	54	0	(0)
C.F - Investment	(2,910)	(974)	(5,739)	(743)	(798)
Issue of equity	-	-	-	-	-
Issue/repay debt	2,765	157	2,396	(300)	(300)
Dividends paid	(394)	(1)	(431)	(333)	(358)
Other finance.CF	(56)	(105)	(80)	(284)	(262)
C.F - Finance	2,316	52	1,885	(917)	(920)
Chg. in cash	755	(3)	(972)	238	210
Closing cash	1,544	537	421	659	868

BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	1,544	537	421	659	868
Accounts Receivable	2,278	3,206	3,951	4,484	5,002
Inventories	1,804	2,385	2,688	2,832	3,033
Other Cur. Assets	398	2,101	1,439	1,462	1,485
Investments	386	471	444	393	338
Gross Fixed Assets	3,579	4,189	4,713	5,436	6,218
Net Fixed Assets	3,290	3,816	5,106	5,182	5,283
CWIP	1,543	1,527	837	787	767
Intangible Assets	2,465	2,667	7,058	7,128	7,200
Def. Tax (Net)	517	925	970	796	1,052
Other Assets	997	430	570	575	580
Total Assets	15,221	18,065	23,483	24,299	25,607
Current Liabilities	2,829	3,526	4,146	4,203	4,323
Provisions	151	156	184	184	184
Debt Funds	4,945	5,113	7,147	6,847	6,547
Other Liabilities	179	336	328	282	349
Equity Capital	102	102	102	102	102
Reserves & Surplus	6,858	8,642	10,284	11,350	12,718
Shareholder's Fund	6,960	8,745	10,386	11,452	12,820
Minority Interest	156	191	1,293	1,331	1,384
Total Liabilities	15,221	18,065	23,483	24,299	25,607
BVPS (Rs)	68	85	101	112	125

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	19.8	23.9	22.6	20.4	20.0
EBIT margin (%)	15.9	19.3	18.0	15.6	15.5
Net profit mgn.(%)	15.5	14.9	14.0	9.7	11.0
ROE (%)	21.4	20.3	17.8	12.2	13.5
ROCE (%)	12.7	16.4	12.6	11.5	11.7
W.C & Liquidity					
Receivables (days)	86.4	98.0	109.5	113.2	116.8
Inventory (days)	180.8	209.6	208.0	204.4	202.5
Payables (days)	167.8	165.9	148.8	141.5	137.8
Current ratio (x)	1.1	1.4	1.2	1.3	1.4
Quick ratio (x)	0.7	0.8	0.7	0.8	0.8
Turnover & Leverage					
Gross asset T.O (x)	2.9	3.1	3.0	2.8	2.7
Total asset T.O (x)	0.8	0.7	0.6	0.6	0.6
Int. covge. ratio (x)	34.0	25.3	12.3	7.9	9.3
Adj. debt/equity (x)	0.7	0.6	0.6	0.5	0.5
Valuation					
EV/Sales (x)	5.0	3.6	3.3	2.3	2.1
EV/EBITDA (x)	25.1	14.9	14.5	11.4	10.6
P/E (x)	29.7	21.0	18.9	16.4	15.2
P/BV (x)	6.3	4.3	3.4	2.3	2.0

Recommendation Summary



Dates	Rating	Target
23-Mar-17	BUY	491
28-Sep-17	BUY	506
27-Mar-18	BUY	434
15-Mar-19	HOLD	358
28-Nov-19	HOLD	270

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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