

Institutional Equity Research

# Cadila Healthcare

Pharmaceuticals | India

3QFY18 Result Update | February 12, 2018

CMP* (Rs)	418
Upside/ (Downside) (%)	29
Bloomberg Ticker	CDH IN
Market Cap. (Rs bn)	428
Free Float (%)	25
Shares O/S (mn)	1,024

**BUY** 

Target Price: Rs540

## Sustained Recovery in Domestic Biz; Strong Traction in US Biz to Continue

Cadila Healthcare (CDH) has delivered a better-than-expected performance on revenue and operating margin front, led by strong recovery in domestic business and robust performance in the US business. Its revenues grew by 41% YoY to Rs32.6bn due to recovery in domestic business and strong gTamiflu/Lialda sales in the US. While EBITDA zoomed by 108% YoY to Rs8.4bn, EBITDA margin expanded by 830bps YoY owing to better product-mix. Despite higher depreciation, interest and tax, PAT grew by 67.7% YoY, led by strong operating performance. Its US business grew by 84.1% YoY to US\$244mn owing to higher gTamiflu/gLialda sales and new launches. Its India business grew by 15.1% YoY due to new launches, which adjusted for GST-related accounting, grew by 19% YoY. Looking ahead, we expect significant ramp-up in US sales owing to niche launches (injectables/trans-dermal) and strong growth in domestic business. **Rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs540 (from Rs554 earlier).**

### Key Quarterly Highlights & Guidance

- ▶ **US Biz (50% of Sales):** Strong growth in US business is attributable to contribution from gLialda sales, strong flu season (gTamiflu) and volume growth in existing products. CDH observed 4% price erosion in base business. It witnessed volume growth in the US excluding gLialda and gTamiflu. CDH plans to launch 10-12 products per quarter (filed 10 ANDAs in 3QFY18). CDH plans to launch 2/3rd of approved products, while 1/3rd products are on hold due to market conditions.
- ▶ **gLialda:** As Teva is yet to launch gLialda and Mylan's launch is not likely anytime soon, CDH does not expect any major change in competitive landscape at least till Mar'18.
- ▶ **gTamiflu:** CDH plans to increase gTamiflu supplies to meet increased demand (attractive opportunity), which it will take a 1-2 months to build required capacities.
- ▶ **India Biz (29% of Sales):** CDH launched 12 new products in India. Though it recovered 80% of lost sales post GST-led disruptions, overall inventory days are still below the pre-GST level. Notably, the Company has received marketing authorisation from DCGI for typhoid vaccine.
- ▶ **FY18 Guidance:** Expecting R&D spend at 7% of sales for FY18E, CDH envisages tax rate of 25% in FY18E and 20-22% in FY19E owing to lower tax in the US. Further, the Management pegs capex to the tune of Rs10bn in FY19E.

### Outlook & Valuation

Looking ahead, we expect strong ramp-up in CDH's US business led by new product launches (100 products in 3 years), which will lead to improved profitability. Notably, CDH has a strong pending pipeline (157 ANDAs) in the US, which included complex generics. We expect CDH's sales and net profit to clock 16.6% and 18.3% CAGR, respectively through FY17-20E. We are trimming down our earnings estimate by 18% for FY19E due to lower revenue from gLialda.

**Rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs540 (from Rs554 earlier).**

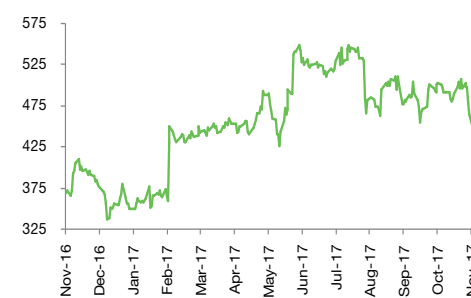
Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
Sales	94,295	116,335	130,010	149,290
EBITDA	19,036	27,357	31,530	37,031
Adj. PAT	15,171	17,182	21,081	25,138
EPS (Rs)	14.8	16.8	20.6	24.6
P/E (x)	28.2	24.9	20.3	17.0
EV/Sales (x)	4.9	4.0	3.5	3.0
EV/EBITDA (x)	24.4	17.0	14.5	12.0
ROE (%)	22.2	21.1	21.4	21.0
ROCE (%)	14.3	18.6	19.5	20.7

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(5.9)	(13.0)	14.5
Relative to Nifty	(4.3)	(14.6)	(5.3)

Shareholding Pattern (%)	Sept'17	Dec'17
Promoter	74.8	74.8
Public	25.2	25.2

### 1 Year Stock Price Performance



Note: \* CMP as on February 09, 2018

Research Analyst: Krishnanath.Munde  
 Contact: (022) 33201326  
 Email: Krishnanath.Munde@relianceada.com

Institutional Equity Research

# Cadila Healthcare

Pharmaceuticals | India

CMP* (Rs)	418
Upside/ (Downside) (%)	29
Bloomberg Ticker	CDH IN

**BUY** 

Target Price: Rs540

## Risks to the View

- ▶ Delayed recovery in domestic business.
- ▶ Lower-than-expected growth in US revenue.

### Exhibit 1: Segment-wise sales performance

(Rs mn)	3QFY18	3QFY17	YoY, %	2QFY18	QoQ, %
<b>India</b>	<b>9,168</b>	<b>7,968</b>	<b>15.1</b>	<b>8,945</b>	<b>2.5</b>
US	15,838	8,869	78.6	16,436	(3.6)
Europe	649	653	(0.6)	544	19.3
Brazil	758	659	15.0	675	12.3
JV	530	435	21.8	237	123.6
Emerging Market	1,206	1,139	5.9	1,309	(7.9)
API	1,137	1,053	8.0	929	22.4
Consumer & others	2,633	2,247	17.2	2,474	6.4
<b>Total</b>	<b>31,919</b>	<b>23,023</b>	<b>38.6</b>	<b>31,549</b>	<b>1.2</b>
<b>US (USD mn)</b>	<b>244</b>	<b>132</b>	<b>84.1</b>	<b>253</b>	<b>(3.6)</b>

Source: Company, RSec Research

### Exhibit 2: Quarterly Performance

(Rs mn)	3QFY18	3QFY17	YoY, %	2QFY18	QoQ, %
<b>Net Sales</b>	<b>32,596</b>	<b>23,111</b>	<b>41.0</b>	<b>32,340</b>	<b>0.8</b>
Cost of Revenues	11,246	8,994	25.0	11,007	2.2
Gross Profit	21,350	14,117	51.2	21,333	0.1
% of net sales	65.5	61.1	442 bps	66.0	(47 bps)
Employee expenses	4,608	3,710	24.2	4,592	0.3
Other Expenses	8,330	6,364	30.9	8,170	2.0
<b>Total operating expenses</b>	<b>24,184</b>	<b>19,068</b>	<b>26.8</b>	<b>23,769</b>	<b>1.7</b>
<b>EBITDA</b>	<b>8,412</b>	<b>4,043</b>	<b>108.1</b>	<b>8,571</b>	<b>(1.9)</b>
EBITDA margin (%)	25.8	17.5	831 bps	26.5	(70 bps)
Depreciation	1,473	898	64.0	1,267	16.3
<b>EBIT</b>	<b>6,939</b>	<b>3,145</b>	<b>120.6</b>	<b>7,304</b>	<b>(5.0)</b>
Other Income	411	166	147.6	225	82.7
Interest	135	66	104.5	406	(66.7)
<b>PBT</b>	<b>7,215</b>	<b>3,245</b>	<b>122.3</b>	<b>7,123</b>	<b>1.3</b>
Total tax	1,786	81	2,104.9	2,123	(15.9)
Tax Rate (%)	24.8	2.5	2,226 bps	29.8	(505 bps)
Minority Interest	(4)	(76)	(94.7)	(33)	(87.9)
<b>Adj PAT</b>	<b>5,433</b>	<b>3,240</b>	<b>67.7</b>	<b>5,033</b>	<b>7.9</b>
Adj. PAT margin (%)	16.7	14.0	265 bps	15.6	110 bps
Adj. EPS (Rs)	5.3	3.2	67.7	4.9	7.9

Source: Company, RSec Research

Institutional Equity Research

**Cadila Healthcare**

Pharmaceuticals | India

CMP* (Rs)	418
Upside/ (Downside) (%)	29
Bloomberg Ticker	CDH IN

**BUY** 

Target Price: Rs540

**Profit & Loss Statement**

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>Net Sales</b>	<b>94,295</b>	<b>116,335</b>	<b>130,010</b>	<b>149,290</b>
Total Expenditure	75,259	88,978	98,479	112,259
Raw Material	34,451	40,717	44,853	51,505
Staff cost	15,002	17,027	19,326	21,838
Other expenses	18,088	22,104	24,084	27,171
R&D expense	7,718	9,130	10,216	11,745
<b>EBITDA</b>	<b>19,036</b>	<b>27,357</b>	<b>31,530</b>	<b>37,031</b>
Margin	20.2	23.5	24.3	24.8
Depreciation & Amortisation	3,750	5,417	5,977	6,537
<b>EBIT</b>	<b>15,286</b>	<b>21,939</b>	<b>25,553</b>	<b>30,494</b>
Interest	450	877	805	733
Other Income	1,286	1,350	1,418	1,489
<b>PBT</b>	<b>16,122</b>	<b>22,413</b>	<b>26,167</b>	<b>31,250</b>
Tax	1,289	5,603	5,495	6,563
Tax rate	8.0	25.0	21.0	21.0
Minority Interest	(338)	(372)	(409)	(450)
<b>Adj. PAT</b>	<b>15,171</b>	<b>17,182</b>	<b>21,081</b>	<b>25,138</b>
% chg	(22.9)	13.3	22.7	19.2
Extraordinary item	3	-	-	-
<b>Reported PAT</b>	<b>15,168</b>	<b>17,182</b>	<b>21,081</b>	<b>25,138</b>
% chg	(22.8)	13.3	22.7	19.2
EPS (Rs)	14.8	16.8	20.6	24.6

Institutional Equity Research

# Cadila Healthcare

Pharmaceuticals | India

CMP* (Rs)	418
Upside/ (Downside) (%)	29
Bloomberg Ticker	CDH IN

**BUY** 

Target Price: Rs540

**Balance Sheet**

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	1,024	1,024	1,024	1,024
Reserves & Surplus	67,191	80,430	97,567	118,762
Shareholders Funds	68,215	81,454	98,591	119,786
Minority Interest	1,561	1,189	780	330
Deferred tax liability	(4,006)	(4,006)	(4,006)	(4,006)
Total Loans	52,700	48,700	44,700	40,700
<b>Total Liabilities</b>	<b>118,470</b>	<b>127,337</b>	<b>140,065</b>	<b>156,810</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	69,387	77,387	85,387	93,387
Less: Acc. Depreciation	23,330	28,747	34,724	41,261
Net Block	46,057	48,640	50,663	52,126
Capital Work-in-Progress	15,433	17,433	19,433	21,433
Goodwill on consolidation	11,494	11,494	11,494	11,494
Investments	3,857	3,921	3,992	4,070
Current Assets	60,373	64,945	75,667	92,147
Inventories	18,037	22,253	24,869	28,557
Debtors	22,775	28,098	31,401	36,058
Cash & Bank	15,926	10,559	14,953	22,626
Loans & advances	273	337	376	432
Other current assets	3,362	3,698	4,068	4,470
Current liabilities	26,725	27,870	30,839	35,076
Current liabilities	25,097	26,084	28,869	32,909
Provisions	1,628	1,791	1,970	2,167
Other non-current assets	7,980	8,778	9,656	10,621
<b>Total Assets</b>	<b>118,470</b>	<b>127,337</b>	<b>140,065</b>	<b>156,810</b>

Institutional Equity Research

# Cadila Healthcare

Pharmaceuticals | India

CMP* (Rs)	418
Upside/ (Downside) (%)	29
Bloomberg Ticker	CDH IN

**BUY** 

Target Price: Rs540

## Cash Flow Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Profit before tax	16,119	22,413	26,167	31,250
Depreciation	3,750	5,417	5,977	6,537
Interest provided	568	877	805	733
Change in Working Capital	(3,728)	(9,215)	(3,833)	(5,087)
Tax Paid	(2,376)	(5,603)	(5,495)	(6,563)
Others	(838)	(500)	(550)	(600)
<b>Cash Flow from Operations</b>	<b>13,495</b>	<b>13,388</b>	<b>23,071</b>	<b>26,271</b>
(Inc.)/ Dec. in Fixed Assets	(29,781)	(10,000)	(10,000)	(10,000)
Others	678	64	71	78
<b>Cash Flow from Investing</b>	<b>(29,103)</b>	<b>(9,936)</b>	<b>(9,929)</b>	<b>(9,922)</b>
Inc./(Dec.) in loans	27,652	(4,000)	(4,000)	(4,000)
Dividend Paid (Incl. Tax)	(3,938)	(3,943)	(3,943)	(3,943)
Interest provided	(550)	(877)	(805)	(733)
<b>Cash Flow from Financing</b>	<b>23,164</b>	<b>(8,820)</b>	<b>(8,748)</b>	<b>(8,676)</b>
Inc./(Dec.) in cash & cash equivalents	7,556	(5,367)	4,394	7,673
Opening cash & cash equivalents	8,370	15,926	10,559	14,953
<b>Closing cash and cash equivalents</b>	<b>15,926</b>	<b>10,559</b>	<b>14,953</b>	<b>22,626</b>

## Key Ratios

Y/E March	FY17	FY18E	FY19E	FY20E
<b>Valuation Ratio (x)</b>				
P/E	28.2	24.9	20.3	17.0
P/BV	6.3	5.3	4.3	3.6
Dividend yield (%)	0.8	0.8	0.8	0.8
EV/Sales	4.9	4.0	3.5	3.0
EV/EBITDA	24.4	17.0	14.5	12.0
EV / Total Assets	3.9	3.7	3.3	2.8
<b>Per Share Data (Rs)</b>				
EPS	14.8	16.8	20.6	24.5
DPS	3.2	3.2	3.2	3.2
Book Value	66.6	79.5	96.3	117.0
<b>Returns (%)</b>				
RoCE	14.3	18.6	19.5	20.7
RoIC	12.8	13.5	15.1	16.0
RoE	22.2	21.1	21.4	21.0
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	0.8	0.9	0.9	1.0
Inventory / Sales (days)	70	70	70	70
Receivables (days)	88	88	88	88
Payables (days)	97	107	107	107

Institutional Equity Research

# Cadila Healthcare

Pharmaceuticals | India

CMP* (Rs)	418
Upside/ (Downside) (%)	29
Bloomberg Ticker	CDH IN

**BUY** 

Target Price: Rs540

**Rating Guides**

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website [www.reliancecapital.co.in](http://www.reliancecapital.co.in). RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

**General Disclaimers:** This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

**Risks:** Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

**Disclaimers in respect of jurisdiction:** The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

**Disclosure of Interest:** The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)? No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies)? No

**Copyright:** The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

**RSL CIN:** U65990MH2005PLC154052. SEBI registration no. ( Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.