

August 18, 2017

Cadila Healthcare

Performance Highlights

Y/E March (` cr)	1QFY2018	4QFY2017	% chg (qoq)	1QFY2017	% chg (yoy)
Net sales	2,136	2418	(11.7)	2216	(3.6)
Other income	83	134	(38.3)	86	(4.0)
Gross profit	1306	1489	(12.3)	1456	(10.3)
Operating profit	216	403	(46.5)	453	(52.4)
Adj. Net profit	138	386	(64.2)	398	(65.3)

Source: Company, Angel Research

Cadila Healthcare posted poor set of numbers for 1QFY2018. Sales came in at `2,136cr (`2,216cr expected) v/s. `2,500cr in 1QFY2017, a yoy de-growth of 3.6%, mainly driven by the dip in sales of Indian formulations. Indian formulation sales registered (`637cr) a yoy dip of 18.9%. Its key market USA registered (`965cr), 13.8% yoy growth. On operating front, the EBITDA margins came in at 10.1% (18.4% expected) v/s. 20.4% in 1QFY2017, mainly on the back of lower than expected sales during the quarter and a 20.0% and 25.3% rise in the employee and R&D expenses respectively. Thus, the PAT came in at `138cr V/s `492cr expected. **We maintain our reduce rating with a price target of `426.**

Results lower than expected: Sales came in at `2,136cr (`2,216cr expected) v/s. `2,500cr in 1QFY2017, a yoy de-growth of 3.6%, mainly driven by the dip in sales of Indian formulation. Indian formulation sales registered (`637cr) a yoy dip of 18.9%. Its key market USA registered (`965cr) 13.8% yoy growth. On operating front, the EBITDA margins came in at 10.1% (18.4% expected) v/s. 20.4% in 1QFY2017, mainly on the back of lower than expected sales during the quarter and a 20.0% and 25.3% rise in the employee and R&D expenses respectively. Gross margins came in at 61.2% v/s. 65.1% in 1QFY2017; while R&D expenses were 9.5% of sales in 1QFY2018 v/s. 7.3% of sales in 1QFY2017. Thus, the PAT came in at `138cr (`492cr expected) v/s. `398cr in 1QFY2017.

Outlook and valuation: We expect Cadila's net sales to post 19.8% CAGR to `13,228cr and EPS to report 21.0% CAGR to `21.3 over FY2017–19E. **We maintain our reduce rating.**

Key financials (Consolidated)

Y E March (` cr)	FY2016	FY2017	FY2018E	FY2019E
Net sales	9,072	9,220	11,584	13,228
% chg	6.8	1.6	25.6	14.2
Net profit	1,936	1,488	1,915	2,179
% chg	67.0	(23.2)	28.7	13.8
EPS	18.9	14.5	18.7	21.3
EBITDA margin (%)	21.7	18.4	20.3	20.4
P/E (x)	25.6	33.3	25.9	22.7
RoE (%)	38.9	23.5	24.6	22.9
RoCE (%)	22.8	13.4	16.2	17.3
P/BV (x)	8.7	7.1	5.8	4.7
EV/Sales (x)	5.5	5.6	4.3	3.7
EV/EBITDA (x)	25.5	30.7	21.1	18.0

Source: Company, Angel Research; Note: CMP as of August 16, 2017

REDUCE

CMP	₹484
Target Price	₹426

Investment Period

Stock Info

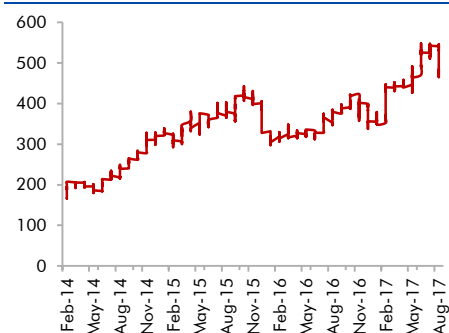
Sector	Pharmaceutical
Market Cap (₹ cr)	49,508
Net debt (₹ cr)	3,616
Beta	1.0
52 Week High / Low	558 / 330
Avg. Daily Volume	1,09,548
Face Value (₹)	1
BSE Sensex	31,771
Nifty	9,897
Reuters Code	CADI.BO
Bloomberg Code	CDH@IN

Shareholding Pattern (%)

Promoters	74.8
MF / Banks / Indian Fls	9.8
FII / NRIs / OCBs	10.2
Indian Public / Others	5.2

Abs.(%)	3m	1yr	3yr
Sensex	8.0	13.2	20.4
Cadila	7.0	32.9	108.9

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2018 performance (Consolidated)

Y/E March (` cr)	1QFY2018	4QFY2017	% chg (qoq)	1QFY2017	% chg (yoy)	FY2017	FY2016	% chg
Net Sales	2,136	2,418	(11.7)	2,216	(3.6)	9,220	9,072	1.6
Other Income	83	134	(38.3)	86	(4.0)	338	471	(28.2)
Total Income	2,218	2,551	(13.1)	2,302	(3.7)	9,558	9,542	0.2
Gross profit	1306	1489	(12.3)	1456	(10.3)	5775	5976	(3.4)
Gross margin (%)	61.2	61.6		65.7		62.6	65.9	
Operating profit	216	403	(46.5)	453	(52.4)	1694	1973	(14.1)
Operating Margin (%)	10.1	16.7		20.4		18.4	21.7	
Financial Cost	22	10	121.2	14	56.4	45	53	(14.8)
Depreciation	122	115	6.6	84	44.7	375	292	28.4
PBT	154	412	(62.6)	441	(65.0)	1612	2099	(23.2)
Tax	30	2	1,459.5	54	(45.1)	129	177	(27.3)
Adj. PAT before Extra-ordinary item	125	410	(69.6)	387	(67.8)	1483	1921	(22.8)
Exceptional loss/(gain)	0	(0)		0		0	(2)	
Minority	(13)	25	(153.4)	(12)		(5)	(13)	
Reported PAT	138	386	(64.2)	398	(65.3)	1488	1936	(23.1)
Adj. PAT	138	386	(64.2)	398	(65.3)	1488	1936	(23.1)
EPS (`)	1.3	3.8		3.9		14.5	18.9	

Source: Company, Angel Research

Exhibit 2: 1QFY2018 – Actual vs. Angel estimates

(` cr)	Actual	Estimates	Variance
Net Sales	2,136	2,500	(14.6)
Operating profit	216	460	(53.1)
Tax	30	2	1,459.5
Net profit	138	492	(71.9)

Source: Company, Angel Research

Revenue lower than our expectation

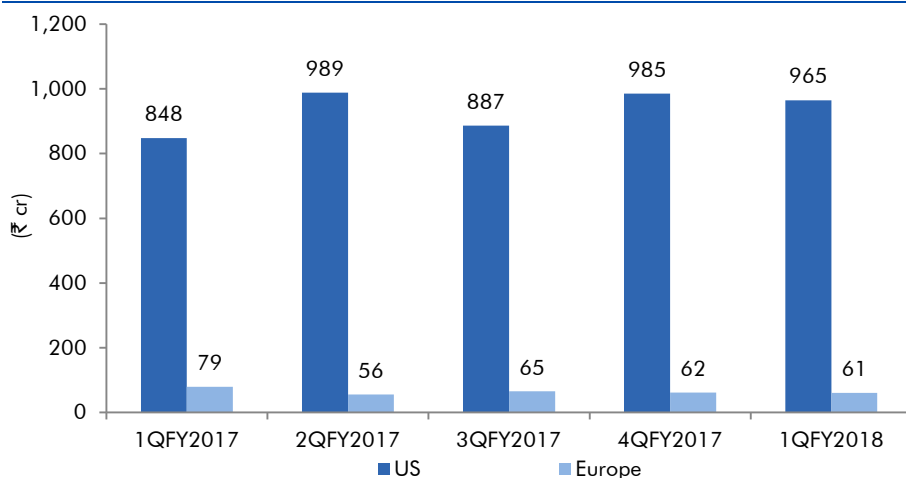
Sales came in at `2,136cr (`2,500cr expected) v/s. `2,216cr in 1QFY2017, a yoy de-growth of 3.6%, mainly driven by the dip in sales of Indian formulation. Indian formulation sales registered (`637cr) a yoy dip of 18.9%. The dip in the domestic business was primarily due to destocking of inventories with the implementation of GST.

The sales recorded in key markets were US (₹965cr, up 13.8% yoy), Indian Formulation (₹634cr, a yoy de-growth of 18.9%), Emerging market Formulation (₹122cr, down 8.1% yoy) and Latin America formulation (₹51cr, a yoy growth of 3.4%).

The Alliances (₹41.1cr) grew by 5.3% yoy. Europe Formulation (₹61cr, a yoy dip of 23.1%), Consumer Wellness (₹115cr, a yoy de-growth of 1.3%), Animal Healthcare (₹106cr, a yoy de-growth of 3.6%), API (`68cr, a yoy de-growth of 29.4%) and Alliances (`51cr, a yoy growth of 5.4%).

Company filed for 2 ANDAs and received 18 approvals in 1QFY2018, taking cumulative approvals to 128. Post successful resolution of the Moraiya plant USFDA issue, the company expects ~80 ANDA approvals until FY2019 for the company. Around ~50% of these are expected to come from the Moraiya facility and the rest from Baddi and SEZ facilities.

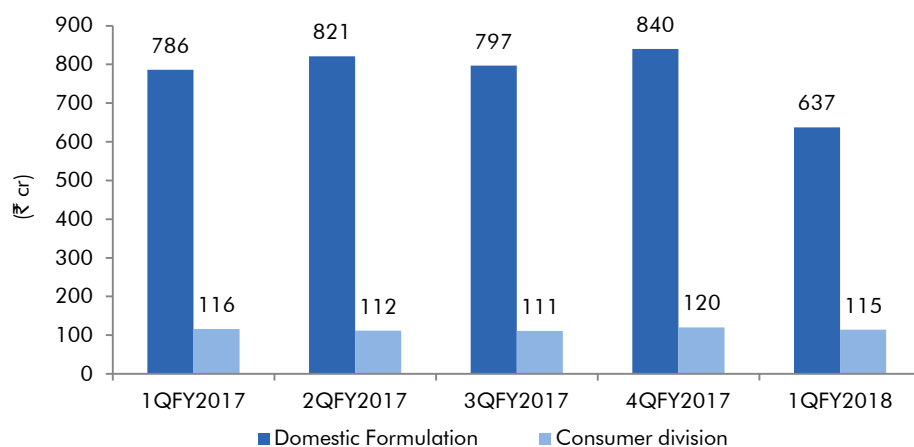
Exhibit 3: Sales trend in the US and Europe



Source: Company, Angel Research

The growth in the domestic market was mainly led by Animal Health & Others (₹106cr), which de-grew by 3.6%; while formulations (`637cr) de-grew by 18.9% yoy. API (`68.4cr), on the other hand, de-grew by 29.4% yoy.

Exhibit 4: Sales trend in Domestic Formulation and Consumer Wellness Divisions

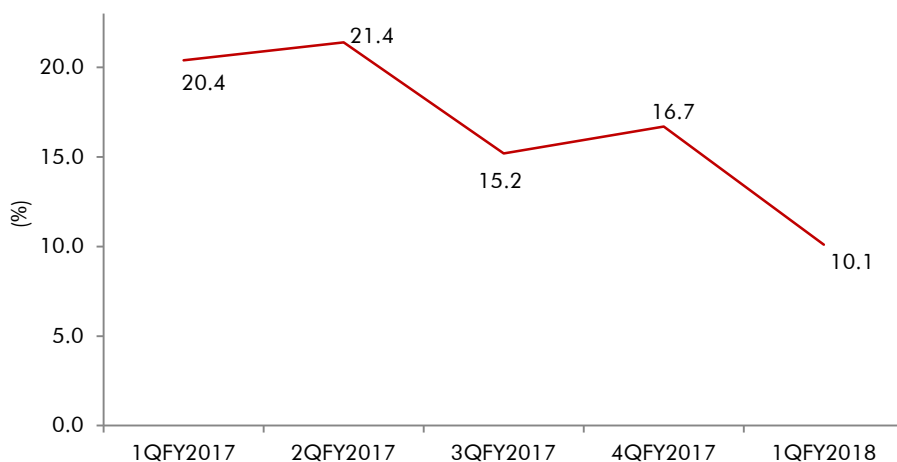


Source: Company, Angel Research

OPM lower than expectation

On operating front, the EBITDA margins came in at 10.1% (18.4% expected) v/s. 20.4% in 1QFY2017, mainly on back of lower than expected sales during the quarter and a 20.0% and 25.3% rise in the employee and R&D expenses respectively. Gross margins came in at 61.2% v/s. 65.1% in 1QFY2017; while R&D expenses were 9.5% of sales in 1QFY2018 v/s 7.3% of sales in 1QFY2017.

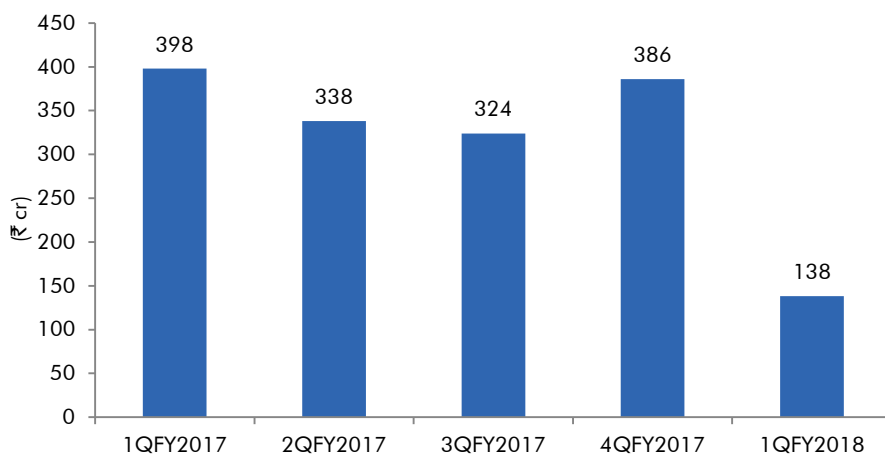
Exhibit 5: OPM trend



Source: Company, Angel Research

Net profit plunges 65.3% yoy: Consequently, the Adj. PAT came in at `138cr (`492cr expected) v/s. `398cr in 1QFY2017, yoy de-growth of 65.3%. A yoy rise in the deprecation of around 44.7% and higher financial expenses by 56.4% yoy, aided the overall dip in the net profit.

Exhibit 6: Adjusted Net profit trend



Source: Company, Angel Research

Concall takeaways

- In 1QFY2018, the pricing pressure in US was in low-double-digits.
- Management expects R&D to remain at 7-8% of sales with increased filings in complex products in the US.
- Capex of `800-1,000cr expected in FY2018.

Recommendation rationale

Strong domestic portfolio: Cadila is the fifth largest player in the domestic market with sales of about ₹3,244cr in FY2017; the domestic market contributes ~39% to its top-line. The company enjoys a leadership position in the CVS, GI, women healthcare and respiratory segments, and has a sales force of 4,500 executives. Further, the company has a strong consumer division through its stake in Zydus Wellness, which has premium brands such as *Sugarfree*, *Everyuth* and *Nutralite* under its umbrella. This segment, which contributes ~4.9% of sales, registered a growth of 13.6% during FY2017.

Going forward, the company expects the segment to grow at an above industry rate on the back of new product launches and field force expansion. In FY2017, sales were lower however, FY2018 should witness a rebound. During FY2017-19E, we expect the domestic segment to grow at a CAGR of 14.3%.

Exports on a strong footing: Cadila has a two-fold focus on exports, wherein it is targeting developed as well as emerging markets, which contributed around 61% to its FY2017 top-line. The company has established a formidable presence in the developed markets of US, Europe (France and Spain) and Japan. In the US, the company achieved critical scale of ₹3,709cr on the sales front in FY2017. The growth in exports to the US along with other regions like Europe would be driven by new product launches, going forward. Overall, exports are expected to post a CAGR of 23.7% over FY2017-19E.

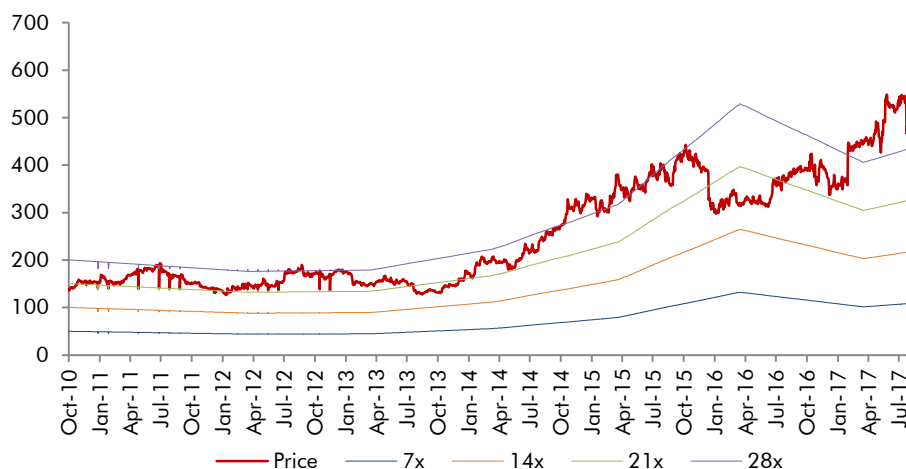
Outlook and valuation

We expect Cadila's net sales to post 19.8% CAGR to ₹13,228cr and EPS to report 21.0% CAGR to ₹21.3 over FY2017-19E. **We maintain our reduce rating on the stock.**

Exhibit 7: Key Assumptions

Key assumptions	FY2018E	FY2019E
Domestic growth (%)	15.5	13.0
Exports growth (%)	33.0	15.0
Growth in employee expenses (%)	16.8	13.5
Operating margins (excl tech. know-how fees) (%)	20.3	20.4
Capex (₹ cr)	1,000	1,000

Source: Company, Angel Research

Exhibit 8: One-year forward PE band


Source: Company

Company background: Cadila Healthcare's operations range across API, formulations, animal health products and cosmeceuticals. The group has global operations spread across USA, Europe, Japan, Brazil, South Africa and 25 other emerging markets. Having already achieved the US\$1bn sales mark in 2011, the company aims to be a research-driven pharmaceutical company by 2020.

Exhibit 9: Recommendation Summary

Company	Reco	CMP	Tgt. price	Upside	FY2019E			FY17-19E	FY2019E	
		(₹)	(₹)	%	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Buy	515	600	16.5	18.9	2.1	11.0	12.8	24.3	20.6
Aurobindo Pharma	Buy	714	823	15.3	13.9	2.1	9.7	14.2	25.3	22.7
Cadila Healthcare	Reduce	484	426	(11.9)	22.7	3.7	18.0	21.0	17.3	22.9
Cipla	Sell	590	458	(22.4)	24.5	2.5	15.7	38.7	10.9	13.1
Dr Reddy's	Accumulate	1,999	2,219	11.0	18.0	2.0	11.2	23.6	11.2	13.0
Dishman Pharma	Under Review	293	-	-	18.9	1.3	10.1	(7.2)	2.9	2.5
GSK Pharma	Neutral	2,365	-	-	40.4	5.4	30.3	30.6	28.9	26.5
Indoco Remedies	Sell	193	153	(20.9)	15.2	1.5	10.1	23.0	11.3	15.6
Ipca labs	Buy	420	620	47.6	16.7	1.3	8.5	27.9	12.8	11.2
Lupin	Buy	962	1,467	52.5	14.4	2.0	8.4	8.2	20.5	17.5
Sanofi India*	Reduce	4,127	3,845	(6.8)	26.8	2.8	16.5	9.2	23.9	25.8
Sun Pharma	Buy	485	558	15.0	19.6	3.2	14.4	8.0	12.3	15.2

Source: Company, Angel Research; Note: *December year ending

Profit & Loss statement (Consolidated)

Y/E March ('cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Gross sales	7,208	8,658	9,262	9,416	11,803	13,477
Less: Excise duty	148	161	190	196	218	249
Net sales	7,060	8,497	9,072	9,220	11,584	13,228
Other operating income	164	154	355	210	210	210
Total operating income	7,224	8,651	9,427	9,430	11,794	13,437
% chg	13.6	19.8	9.0	0.0	25.1	13.9
Total expenditure	6,024	6,896	7,099	7,526	9,227	10,527
Net raw materials	2,714	3,197	3,096	3,445	4,170	4,630
Other mfg costs	443	534	570	579	728	831
Personnel	1,071	1,209	1,262	1,500	1,815	2,196
Other	1,796	2,107	2,172	2,002	2,514	2,870
EBITDA	1,036	1,601	1,973	1,694	2,357	2,700
% chg	12.3	54.6	23.2	(14.2)	39.2	14.6
(% of Net Sales)	14.7	18.8	21.7	18.4	20.3	20.4
Dep. & amortisation	201	287	292	375	415	485
EBIT	835	1,314	1,681	1,319	1,942	2,215
% chg	12.8	57.4	27.9	(21.5)	47.3	14.1
(% of Net Sales)	11.8	15.5	18.5	14.3	16.8	16.7
Interest & other charges	90	68	53	45	120	100
Other income	51	55	116	129	129	129
(% of PBT)	5	4	6	8	6	5
Recurring PBT	959	1,456	2,099	1,612	2,160	2,453
% chg	18.3	51.8	44.1	(23.2)	34.0	13.6
Extraordinary exp./(Inc.)	17	10	2	-	-	0
PBT (reported)	942	1,445	2,099	1,612	2,160	2,453
Tax	106.0	259.4	177.4	128.9	216.0	245.3
(% of PBT)	11.3	17.9	8.5	8.0	10.0	10.0
PAT (reported)	836	1,186	1,921	1,483	1,944	2,208
Less: Minority int. (MI)	32.6	35.5	30.0	29.1	29.1	29.1
PAT after MI (reported)	804	1,151	1,934	1,488	1,915	2,179
ADJ. PAT	819	1,159	1,936	1,488	1,915	2,179
% chg	25.0	41.5	67.0	(23.2)	28.7	13.8
(% of Net Sales)	11.4	13.5	21.3	16.1	16.5	16.5
Adj. Basic EPS (^)	8.0	11.3	18.9	14.5	18.7	21.3
Adj. Fully Diluted EPS (^)	8.0	11.3	18.9	14.5	18.7	21.3
% chg	25.0	41.5	67.0	(23.2)	28.7	13.8

Balance Sheet (Consolidated)

Y/E March (' cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
SOURCES OF FUNDS						
Equity share capital	102	102	102	102	102	102
Reserves & Surplus	3,337	4,149	5,597	6,858	8,485	10,376
Shareholders funds	3,439	4,252	5,699	6,960	8,589	10,481
Minority interest	144	169	135	156	185	214
Total loans	2,265	2,334	2,107	4,945	3,000	2,500
Other Long Term Liabilities	55	43	61	45	46	47
Long Term Provisions	76	110	97	169	169	169
Deferred tax liability	96	59	(318)	(401)	122	123
Total liabilities	6,075	6,966	7,782	11,875	12,110	13,534
APPLICATION OF FUNDS						
Gross block	3,756	4,353	4,786	5,436	6,436	7,436
Less: Acc. depreciation	1,540	1,827	2,120	2,495	2,910	3,396
Net block	2,214	2,526	2,666	3,942	3,526	4,040
Capital Work-in-Progress	892	892	892	892	892	892
Goodwill	908	733	1,141	2,465	2,465	2,465
Investments	87	154	416	435	435	435
Long Term Loans and Adv.	495	637	836	997	997	997
Current assets	3,391	4,105	4,081	5,973	7,351	8,764
Cash	549	670	639	1,544	1,870	2,553
Loans & advances	341	334	335	336	337	338
Other	2,501	3,102	3,108	4,094	5,144	5,873
Current liabilities	1,912	2,081	2,250	2,829	3,554	4,059
Net Current assets	1,480	2,024	1,831	3,144	3,796	4,706
Mis. Exp. not written off	-	-	-	-	-	-
Total assets	6,075	6,966	7,782	11,875	12,110	13,534

Cash Flow Statement (Consolidated)

Y/E March (' cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	942	1,445	2,099	1,612	2,160	2,453
Depreciation	201	287	292	375	415	485
(Inc)/Dec in Working Cap.	168	(565)	(37)	(570)	(325)	(226)
Less: Other income	51	55	116	129	129	129
Direct taxes paid	106	259	177	129	216	245
Cash Flow from Operations	1,154	853	2,061	1,160	1,906	2,338
(Inc.)/Dec.in Fixed Assets	(296)	(597)	(433)	(650)	(1,000)	(1,000)
(Inc.)/Dec. in Investments	(65)	(68)	(262)	(19)	-	-
Other income	51	55	116	129	129	129
Cash Flow from Investing	(310)	(609)	(579)	(540)	(871)	(871)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(397)	91	(222)	2,894	(1,944)	(499)
Dividend Paid (Incl. Tax)	(216)	(287)	(287)	(287)	(287)	(287)
Others	(264)	74	(1,004)	(2,322)	1,524	2
Cash Flow from Financing	(877)	(122)	(1,513)	285	(708)	(784)
Inc./(Dec.) in Cash	(33)	121	(31)	905	326	683
Opening Cash balances	582	549	670	639	1,544	1,870
Closing Cash balances	549	670	639	1,544	1,870	2,553

Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)						
P/E (on FDEPS)	60.5	42.7	25.6	33.3	25.9	22.7
P/CEPS	48.5	34.2	22.2	26.5	21.2	18.6
P/BV	14.4	11.7	8.7	7.1	5.8	4.7
Dividend yield (%)	1.5	1.5	1.5	1.5	1.5	1.5
EV/Sales	7.2	6.0	5.5	5.6	4.3	3.7
EV/EBITDA	49.0	31.6	25.5	30.7	21.1	18.0
EV / Total Assets	8.4	7.3	6.5	4.4	4.1	3.6
Per Share Data (₹)						
EPS (Basic)	8.0	11.3	18.9	14.5	18.7	21.3
EPS (fully diluted)	8.0	11.3	18.9	14.5	18.7	21.3
Cash EPS	10.0	14.2	21.8	18.2	22.8	26.1
DPS	7.5	7.5	7.5	7.5	7.5	7.5
Book Value	33.6	41.5	55.7	68.0	83.9	102.4
Dupont Analysis						
EBIT margin	11.8	15.5	18.5	14.3	16.8	16.7
Tax retention ratio	88.7	82.1	91.5	92.0	90.0	90.0
Asset turnover (x)	1.3	1.5	1.4	1.1	1.1	1.3
ROIC (Post-tax)	13.8	18.6	23.8	14.2	17.3	19.1
Cost of Debt (Post Tax)	3.2	2.4	2.2	1.2	2.7	3.3
Leverage (x)	0.6	0.4	0.3	0.4	0.3	0.1
Operating ROE	20.1	25.8	30.8	19.1	21.8	20.1
Returns (%)						
ROCE (Pre-tax)	13.8	20.2	22.8	13.4	16.2	17.3
Angel ROIC (Pre-tax)	20.6	31.3	34.4	21.8	28.0	30.5
ROE	25.3	30.1	38.9	23.5	24.6	22.9
Turnover ratios (x)						
Asset Turnover (Gr. Block)	1.8	2.1	2.1	1.8	2.0	1.9
Inventory / Sales (days)	69	61	57	83	82	86
Receivables (days)	57	57	46	67	66	69
Payables (days)	55	46	49	58	59	59
WC (ex-cash) (days)	53	48	49	54	55	55
Solvency ratios (x)						
Net debt to equity	0.5	0.4	0.3	0.5	0.1	(0.0)
Net debt to EBITDA	1.7	1.0	0.7	2.0	0.5	(0.0)
Int. Coverage (EBIT / Int.)	9.3	19.4	31.8	29.3	16.2	22.1

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Disclosure of Interest Statement

Cadila Healthcare

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)