

Cadila Healthcare

Performance Highlights

Y/E March (` cr)	2QFY2018	1QFY2018	% chg (qoq)	2QFY2017	% chg (yoy)
Net sales	3,155	2,136	47.7	2336	35.0
Other income	102	83	23.0	40	151.5
Gross profit	2054	1014	102.6	1535	33.8
Operating profit	778	216	260.7	499	55.8
Adj. Net profit	503	138	263.7	380	32.5

Source: Company, Angel Research

Cadila Healthcare posted good set of numbers for 2QFY2018. Sales came in at `3,155cr (`2,800cr expected) v/s. `2,336cr in 2QFY2017, a yoy growth of 35.0%, mainly driven by 66.2% growth in sales of US formulations. On operating front, the EBITDA margins came in at 24.7% (21.3% expected) v/s. 21.4% in 2QFY2017, on the back of higher than expected sales. Thus, the PAT came in at `503cr V/s `414cr expected. **We maintain reduce with a price target of `411.**

Results better than expected: Sales came in at `3,155cr (`2,800cr expected) v/s. `2,336cr in 2QFY2017, a yoy growth of 35.0%, mainly driven by 66.2% yoy growth in sales of US formulations to `1644cr. On operating front, the EBITDA margins came in at 24.7% (21.3% expected) v/s. 21.4% in 2QFY2017, on the back of higher than expected sales. Thus, the PAT came in at `503cr v/s `414cr expected. Gross margins came in at 65.1% v/s. 65.7% in 2QFY2017, while R&D expenses were 8.7% of sales in 2QFY2018 v/s. 7.8% of sales in 2QFY2017. Thus, the PAT came in at `503cr (`414cr expected) v/s. `380cr in 2QFY2017.

Outlook and valuation: We expect Cadila's net sales to post 18.4% CAGR to `12,926cr and EPS to register 18.9% CAGR to `20.5 over FY2017–19E. **We maintain reduce rating.**

Key financials (Consolidated)

Y E March (` cr)	FY2016	FY2017	FY2018E	FY2019E
Net sales	9,072	9,220	11,365	12,926
% chg	6.8	1.6	23.3	13.7
Net profit	1,936	1,488	1,886	2,102
% chg	67.0	-23.2	26.7	11.5
EPS	18.9	14.5	18.4	20.5
EBITDA margin (%)	21.7	18.4	20.0	20.0
P/E (x)	23.4	30.5	24.0	21.6
RoE (%)	38.9	23.5	24.3	22.2
RoCE (%)	22.8	13.4	15.6	16.5
P/BV (x)	8.0	6.5	5.3	4.4
EV/Sales (x)	5.1	5.2	4.0	3.4
EV/EBITDA (x)	23.3	28.3	20.0	17.2

Source: Company, Angel Research; Note: CMP as of November 22, 2017

REDUCE

CMP `443

Target Price `411

Investment Period

Stock Info

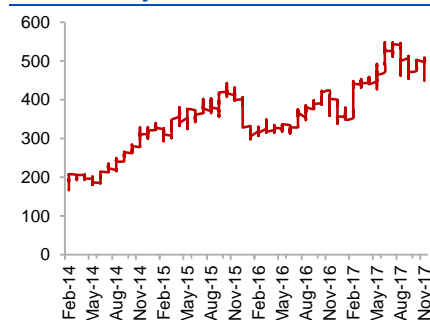
Sector	Pharmaceutical
Market Cap (` cr)	45,321
Net debt (` cr)	3,616
Beta	1.0
52 Week High / Low	558 / 330
Avg. Daily Volume	116,575
Face Value (`)	1
BSE Sensex	33,562
Nifty	10,342
Reuters Code	CADI.BO
Bloomberg Code	CDH@IN

Shareholding Pattern (%)

Promoters	74.8
MF / Banks / Indian Fls	10.0
FII / NRIs / OCBs	10.0
Indian Public / Others	5.2

Abs.(%)	3m	1yr	3yr
Sensex	6.3	29.3	17.8
Cadila	(4.3)	19.3	42.8

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2018 performance (Consolidated)

Y/E March (` cr)	2QFY2018	1QFY2018	% chg (qoq)	2QFY2017	% chg (yoy)	1HFY2018	1HFY2017	% chg
Net Sales	3,155	2,136	47.7	2,336	35.0	5,291	4,553	16.2
Other Income	102	83	23.0	40	151.5	184	126	45.7
Total Income	3,257	2,850	14.2	2,377	37.0	5,475	4,679	17.0
Gross profit	2054	1014	102.6	1535	33.8	3361	2935	14.5
Gross margin (%)	65.1	61.2	6.5	65.7		63.5	64.5	(1.5)
Operating profit	778	216	260.7	499	55.8	994	948	4.8
Operating Margin (%)	24.7	10.1		21.4		18.8	20.8	(9.8)
Financial Cost	41	22	85.4	19	117.1	63	29	119.3
Depreciation	127	122	3.9	86	46.6	249	171	45.7
PBT	712	154	361.3	435	63.9	867	875	(1.0)
Tax	182	30	514.2	65	182.2	242	119	103.2
Adj. PAT before Extra-ordinary item	530	125	325.0	370	43.3	625	756	(17.3)
Exceptional loss/(gain)	9	20		9		16	15	
Minority	13	7	82.6	19		(33)	(37)	(11.8)
Reported PAT	503	138	263.7	380	32.5	642	778	(17.6)
Adj. PAT	503	138	263.7	380	32.5	642	778	(17.6)
EPS (`)	4.9	5.7		3.7		6.3	7.6	

Source: Company, Angel Research

Exhibit 2: 2QFY2018 – Actual vs. Angel estimates

(` cr)	Actual	Estimates	Variance
Net Sales	3,155	2,800	12.7
Operating profit	778	560	38.8
Tax	182	107	70.4
Net profit	503	377	33.4

Source: Company, Angel Research

Revenue higher than our expectation

Sales came in at `3,155cr (`2,800cr expected) v/s. `2,336cr in 2QFY2017, a yoy growth of 35.0%, mainly driven by the USA Formulations sales. Indian formulation sales registered (`894cr) a yoy growth of 9.0%. USA, growth was mainly driven by 180-day exclusive launch of gLialda.

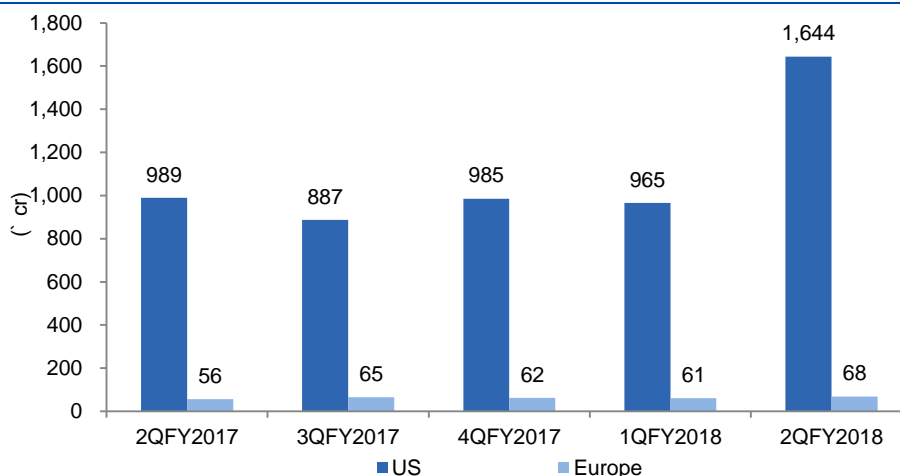
The dip in the domestic business was primarily due to destocking of inventories with the implementation of GST. The sales recorded in key markets were US (`1,644cr, up 66.2% yoy), Indian Formulation (`895cr, a yoy growth of 9.0%), Emerging market Formulation (`131cr, grew 15.9% yoy) and Latin America formulation (`68cr, a yoy growth of 2.8%).

The Alliances (`23.7cr) de-grew by 5.9% yoy, comprising Europe Formulation (`54cr, a yoy dip of 2.3%), Consumer Wellness (`119cr, a yoy growth of 7.1%), Animal Healthcare (`128cr, a yoy growth of 4.2%) and API (`93cr, a yoy growth of 11.7%).

Company filed for 9 ANDAs and received 32 approvals in 2QFY2018. 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.

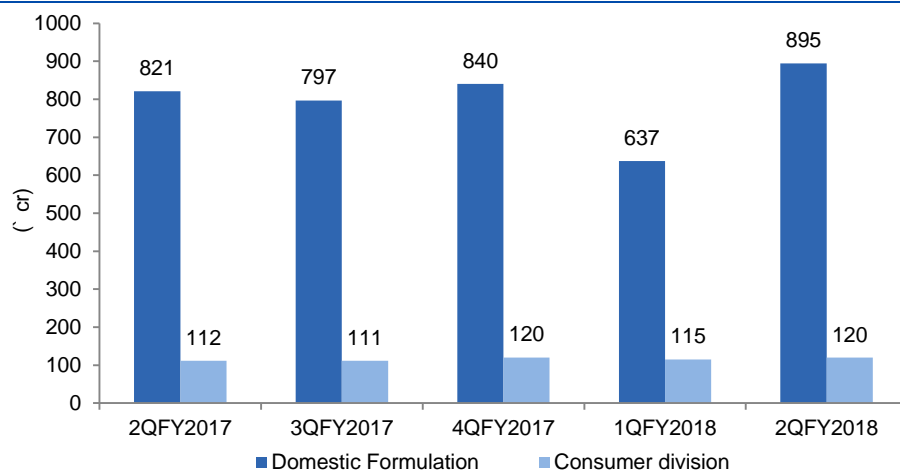
Exhibit 3: Sales trend in the US and Europe



Source: Company, Angel Research

The growth in the domestic market was mainly led by Indian Formulation (₹895cr) registering growth of 9.0% & Animal Health & Others (₹128cr), which grew by 4.2%. API (₹92.9cr), on the other hand, grew by 11.7% yoy.

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

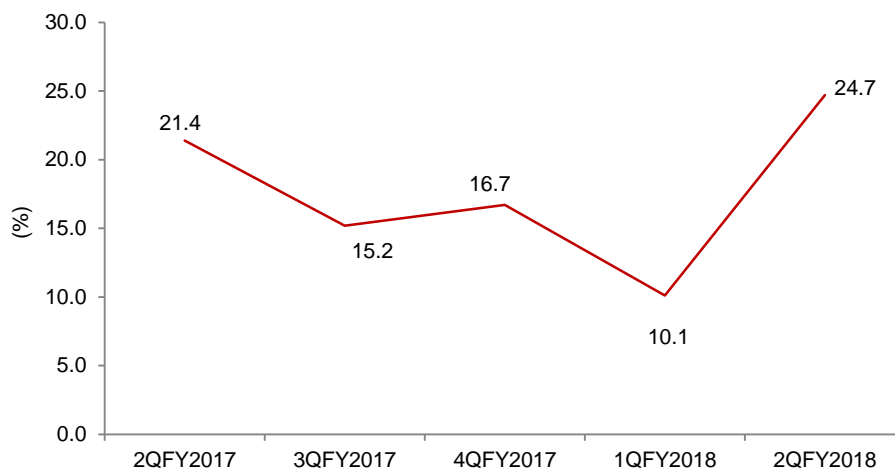


Source: Company, Angel Research

OPM better than expectation

On operating profit front, the EBITDA margins came in at 24.7% (21.3% expected) v/s. 21.4% in 2QFY2017, mainly on the back of higher than expected sales. Thus, the PAT came in at ₹503cr V/s ₹414cr expected. Gross margins came in at 65.1% v/s. 65.7% in 2QFY2017, while R&D expenses were 8.7% of sales in 2QFY2018 v/s. 7.8% of sales in 2QFY2017.

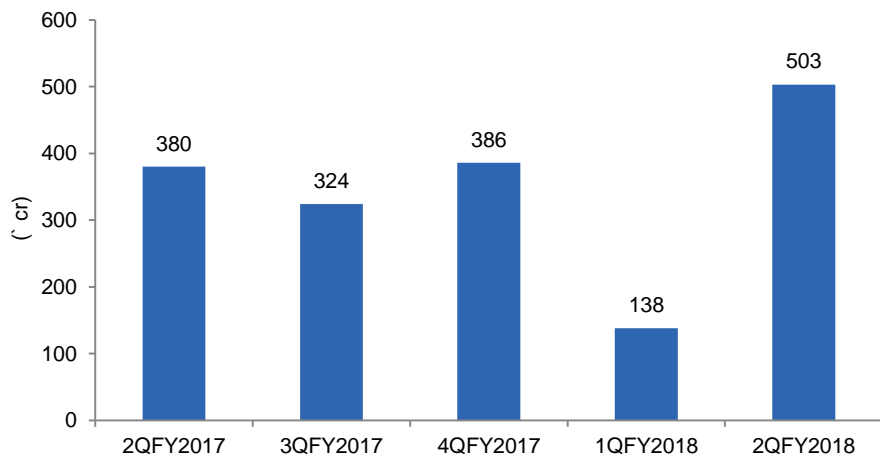
Exhibit 5: OPM trend



Source: Company, Angel Research

Net profit plunges 32.5% yoy: Consequently, the Adj. PAT came in at `503cr (`377cr expected) v/s. `380cr in 2QFY2017, a yoy growth of 32.5%. A 46.6% yoy rise in depreciation and financial expenses, up by 117.1% yoy resulted in the overall growth in net profit lower than growth in the operating profit.

Exhibit 6: Adjusted Net profit trend



Source: Company, Angel Research

Concall takeaways

- Management expects US business to witness price erosion to be 10- 12% in FY2018E and 8- 10% in FY2019E. It has guided for overall US revenue (reported) growth in FY19E, despite high base due to gLialda sales in 180- days exclusivity in FY2018E
- Cadila Healthcare received EIR for Ahmedabad SEZ facility in 2QFY2018, on top of similar EIR in Moraiya and Baddi facilities in 1QFY2018.

- Cadila guided for tax rate of 22- 25% and 18- 20% in FY2018E and FY2019E respectively. The higher tax rate in FY18E is due to strong sales of gLialda in the US, while the lower rate in FY2019 is due to higher exports from Ahmedabad SEZ and lower sales of gLialda.
- Capex of `1,000-1,200cr 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. Sales were lower in FY2017, 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.

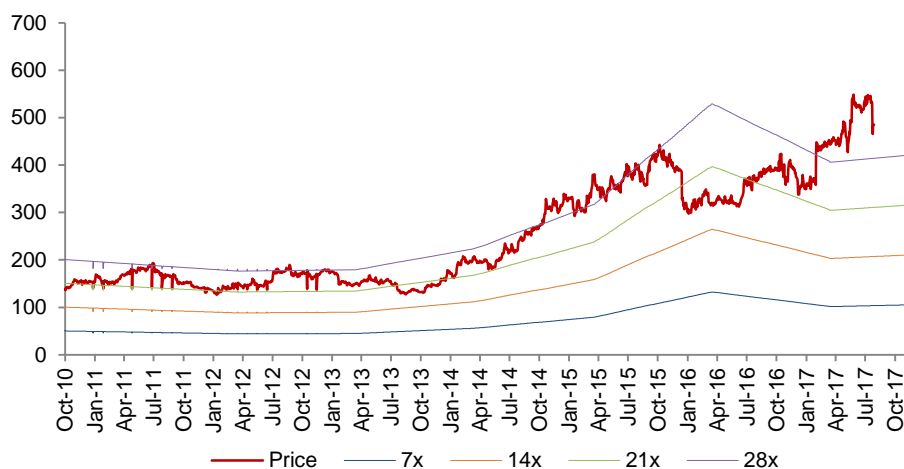
Outlook and valuation

We expect Cadila's net sales to post 18.4% CAGR to `12,926cr and EPS to clock 18.9% CAGR to `20.5 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) (%)	20.0	20.0
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	511	600	17.3	21.4	2.9	13.0	5.7	20.6	18.4
Aurobindo Pharma	Buy	699	823	17.8	13.6	2.5	9.9	14.2	25.3	22.7
Cadila Healthcare	Reduce	443	411	(7.2)	21.6	4.1	17.6	18.9	16.5	22.2
Cipla	Sell	619	462	(25.3)	25.5	3.2	16.2	39.3	10.9	13.1
Dr Reddy's	Reduce	2,361	2,040	(13.6)	23.2	3.1	13.3	18.5	10.3	12.4
Dishman Pharma	Under Review	301	-	-	19.3	2.7	10.1	23.3	4.5	4.4
GSK Pharma	Sell	2,496	2,000	(19.9)	53.9	6.9	39.3	19.3	25.8	23.5
Indoco Remedies	Sell	280	136	(49.0)	23.5	2.1	14.9	16.2	10.1	14.5
Ipca labs	Neutral	535	-	-	21.2	1.9	13.5	24.7	12.4	11.0
Lupin	Buy	828	1,091	31.8	16.7	2.4	9.3	(6.6)	13.7	13.7
Sanofi India*	Neutral	4,434	-	-	27.1	3.8	17.0	12.8	25.8	27.5
Sun Pharma	Buy	535	615	15.0	24.0	3.7	16.3	(17.5)	11.3	14.0

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	11,579	13,170
Less: Excise duty	148	161	190	196	214	244
Net sales	7,060	8,497	9,072	9,220	11,365	12,926
Other operating income	164	154	355	210	210	210
Total operating income	7,224	8,651	9,427	9,430	11,574	13,136
% chg	13.6	19.8	9.0	0.0	22.7	13.5
Total expenditure	6,024	6,896	7,099	7,526	9,086	10,337
Net raw materials	2,714	3,197	3,096	3,445	4,091	4,524
Other mfg costs	443	534	570	579	714	812
Personnel	1,071	1,209	1,262	1,500	1,815	2,196
Other	1,796	2,107	2,172	2,002	2,466	2,805
EBITDA	1,036	1,601	1,973	1,694	2,278	2,589
% chg	12.3	54.6	23.2	-14.2	34.5	13.6
(% of Net Sales)	14.7	18.8	21.7	18.4	20.0	20.0
Dep. & amortisation	201	287	292	375	415	485
EBIT	835	1,314	1,681	1,319	1,863	2,103
% chg	12.8	57.4	27.9	-21.5	41.3	12.9
(% of Net Sales)	11.8	15.5	18.5	14.3	16.4	16.3
Interest & other charges	90	68	53	45	45	45
Other income	51	55	116	129	100	100
(% of PBT)	5	4	6	8	5	4
Recurring PBT	959	1,456	2,099	1,612	2,127	2,368
% chg	18.3	51.8	44.1	-23.2	32.0	11.3
Extraordinary exp./(Inc.)	17	10	2	-	-	0
PBT (reported)	942	1,445	2,099	1,612	2,127	2,368
Tax	106.0	259.4	177.4	128.9	212.7	236.8
(% of PBT)	11.3	17.9	8.5	8.0	10.0	10.0
PAT (reported)	836	1,186	1,921	1,483	1,915	2,131
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	1,886	2,102
ADJ. PAT	819	1,159	1,936	1,488	1,886	2,102
% chg	25.0	41.5	67.0	-23.2	26.7	11.5
(% of Net Sales)	11.4	13.5	21.3	16.1	16.6	16.3
Adj. Basic EPS (₹)	8.0	11.3	18.9	14.5	18.4	20.5
Adj. Fully Diluted EPS (₹)	8.0	11.3	18.9	14.5	18.4	20.5
% chg	25.0	41.5	67.0	(23.2)	26.7	11.5

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	8,456	10,270
Shareholders funds	3,439	4,252	5,699	6,960	8,559	10,374
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	12,081	13,428
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	7,254	8,565
Cash	549	670	639	1,544	1,871	2,488
Loans & advances	341	334	335	336	337	338
Other	2,501	3,102	3,108	4,094	5,046	5,739
Current liabilities	1,912	2,081	2,250	2,829	3,487	3,966
Net Current assets	1,480	2,024	1,831	3,144	3,767	4,599
Mis. Exp. not written off	-	-	-	-	-	-
Total assets	6,075	6,966	7,782	11,875	12,081	13,428

Cash Flow Statement (Consolidated)

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	942	1,445	2,099	1,612	2,127	2,368
Depreciation	201	287	292	375	415	485
(Inc)/Dec in Working Cap.	168	(565)	(37)	(570)	(295)	(215)
Less: Other income	51	55	116	129	100	100
Direct taxes paid	106	259	177	129	213	237
Cash Flow from Operations	1,154	853	2,061	1,160	1,935	2,301
(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	100	100
Cash Flow from Investing	(310)	(609)	(579)	(540)	(900)	(900)
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	327	617
Opening Cash balances	582	549	670	639	1,544	1,871
Closing Cash balances	549	670	639	1,544	1,871	2,488

Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)						
P/E (on FDEPS)	55.3	39.1	23.4	30.5	24.0	21.6
P/CEPS	44.3	31.3	20.3	24.3	19.7	17.5
P/BV	13.2	10.7	8.0	6.5	5.3	4.4
Dividend yield (%)	1.7	1.7	1.7	1.7	1.7	1.7
EV/Sales	6.6	5.5	5.1	5.2	4.0	3.4
EV/EBITDA	45.0	29.0	23.3	28.3	20.0	17.2
EV / Total Assets	7.7	6.7	5.9	4.0	3.8	3.3
Per Share Data (₹)						
EPS (Basic)	8.0	11.3	18.9	14.5	18.4	20.5
EPS (fully diluted)	8.0	11.3	18.9	14.5	18.4	20.5
Cash EPS	10.0	14.2	21.8	18.2	22.5	25.3
DPS	7.5	7.5	7.5	7.5	7.5	7.5
Book Value	33.6	41.5	55.7	68.0	83.6	101.3
Dupont Analysis						
EBIT margin	11.8	15.5	18.5	14.3	16.4	16.3
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	1.2
ROIC (Post-tax)	13.8	18.6	23.8	14.2	16.6	18.2
Cost of Debt (Post Tax)	3.2	2.4	2.2	1.2	1.0	1.5
Leverage (x)	0.6	0.4	0.3	0.4	0.3	0.1
Operating ROE	20.1	25.8	30.8	19.1	21.5	19.3
Returns (%)						
ROCE (Pre-tax)	13.8	20.2	22.8	13.4	15.6	16.5
Angel ROIC (Pre-tax)	20.6	31.3	34.4	21.8	26.9	29.1
ROE	25.3	30.1	38.9	23.5	24.3	22.2
Turnover ratios (x)						
Asset Turnover (Gr. Block)	1.8	2.1	2.1	1.8	1.9	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	56
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	41.4	46.7

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