

Cadila Healthcare

Performance Highlights

Y/E March (₹ cr)	1QFY2017	4QFY2016	% chg (qoq)	1QFY2016	% chg (yoy)
Net sales	2,216	2376	(6.7)	2267	(2.2)
Other income	86	99	(12.7)	140	(38.4)
Gross profit	1442	1553	(7.1)	1468	(1.8)
Operating profit	453	508	(10.8)	460	(1.5)
Adj. Net profit	356	388	(8.2)	462	(22.9)

Source: Company, Angel Research

For 1QFY2017, the company posted lower than expected results. The company posted sales of ₹2,216cr V/s ₹2,607cr expected and V/s ₹2,267cr in 1QFY2016, a yoy de-growth of 2.2%. On the operating front, the EBITDA margin came in at 20.4% V/s 20.9% expected and V/s 20.3% in 1QFY2016. The dip in the OPM was saved in spite of an underperformance on the sales front as the GPM improved to 65.1% V/s 64.8% in 1QFY2016. The Adj. net profit came in at ₹356cr V/s ₹489cr expected and V/s ₹462cr in 1QFY2016, a yoy de-growth of 22.9%. **We maintain our accumulate rating.**

Results lower than expected: Company posted sales of ₹2,216cr V/s ₹2,607cr expected and V/s ₹2,267cr in 1QFY2016, a yoy de-growth of 2.2%. The dip in sales was owing to the USA business (₹848.3cr) posting a yoy dip of 13.9%. On the operating front, the EBITDA margin came in at 20.4% V/s 20.9% expected and V/s 20.3% in 1QFY2016. The dip in the OPM was saved in spite of an underperformance on the sales front as the GPM improved to 65.1% V/s 64.8% in 1QFY2016. The Adj. net profit came in at ₹356cr V/s ₹489cr expected and V/s ₹462cr in 1QFY2016, a yoy de-growth of 22.9%.

Outlook and valuation: We expect Cadila's net sales to post a 17.8% CAGR to ₹13,148cr and EPS to report a 15.8% CAGR to ₹20.0 over FY2016–18E. **We maintain our accumulate rating on the stock.**

Key financials (Consolidated)

Y E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	8,497	9,469	11,126	13,148
% chg	20.4	11.4	17.5	18.2
Net profit	1,159	1,524	1,752	2,044
% chg	41.5	31.5	14.9	16.7
EPS	11.3	14.9	17.1	20.0
EBITDA margin (%)	18.8	21.2	22.0	22.0
P/E (x)	28.2	21.5	18.7	16.0
RoE (%)	30.1	31.7	28.8	26.6
RoCE (%)	20.2	23.1	24.2	24.3
P/BV (x)	7.7	6.1	4.8	3.8
EV/Sales (x)	4.0	3.5	2.9	2.3
EV/EBITDA (x)	21.1	16.6	13.2	10.7

Source: Company, Angel Research; Note: CMP as of August 11, 2016

ACCUMULATE

CMP	₹372
Target Price	₹400

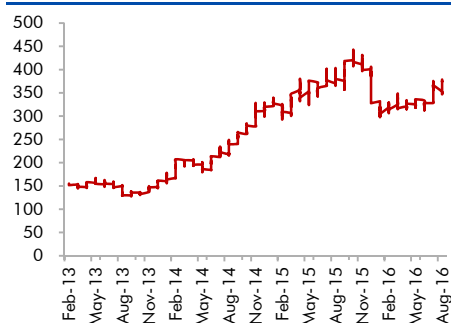
Investment Period	12 Months
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	38,099
Net debt (₹ cr)	1,550
Beta	0.7
52 Week High / Low	454 / 296
Avg. Daily Volume	134,561
Face Value (₹)	1
BSE Sensex	27,860
Nifty	8,592
Reuters Code	CADI.BO
Bloomberg Code	CDH@IN

Shareholding Pattern (%)	
Promoters	74.8
MF / Banks / Indian Fls	9.7
FII / NRIs / OCBs	9.7
Indian Public / Others	5.8

Abs.(%)	3m	1yr	3yr
Sensex	11.1	(0.5)	46.4
Cadila	(0.8)	(6.9)	97.2

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2017 performance (Consolidated)

Y/E March (₹ cr)	1QFY2017	4QFY2016	% chg (qoq)	1QFY2016	% chg (yoy)	FY2016	FY2015	% chg
Net Sales	2,216	2,376	(6.7)	2,267	(2.2)	9,469	8,497	11.4
Other Income	86	99	(12.7)	140	(38.4)	460	210	119.2
Total Income	2,302	2,474	(6.9)	2,407	(4.3)	9,930	8,707	14.0
Gross profit	1442	1553	(7.1)	1468	(1.8)	6192	5106	21.3
Gross margin (%)	65.1	65.4		64.8		65.4	60.1	
Operating profit	453	508	(10.8)	460	(1.5)	2012	1600	25.8
Operating Margin (%)	20.4	21.4		20.3		21.2	18.8	
Financial Cost	14	10	40.0	12	17.6	49	68	(28.5)
Depreciation	84	78	7.7	69	22.0	302	287	5.3
PBT	441	518	(14.9)	519	(15.0)	2122	1455	45.8
Tax	97	126	(23.3)	72	34.7	571	259	120.5
Adj. PAT before Extra-ordinary item	344	392	(12.2)	468	(26.4)	1,551	1,196	29.7
Exceptional loss/(gain)	6	(1)		0		2	(9)	
Minority	18	(3)	(635.3)	8		30	36	
Reported PAT	343	389	(11.7)	460	(25.4)	1523	1,151	32.3
Adj. PAT	356	388	(8.2)	462	(22.9)	1524	1,159	31.5
EPS (₹)	3.5	3.8		4.5		14.9	11.3	

Source: Company, Angel Research

Exhibit 2: 1QFY2017 – Actual vs. Angel estimates

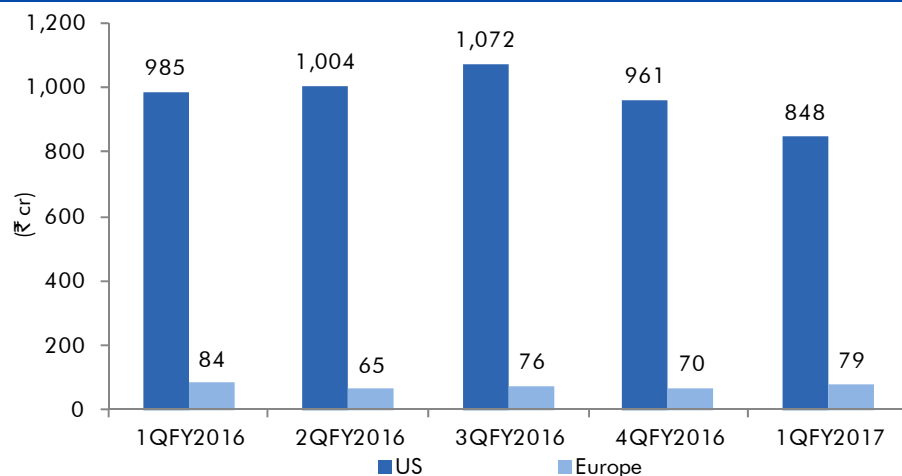
(₹ cr)	Actual	Estimates	Variance
Net Sales	2,216	2,607	(15.0)
Operating profit	453	544	(16.7)
Tax	97	112	(13.7)
Net profit	356	489	(27.2)

Source: Company, Angel Research

Revenue lower than our expectation

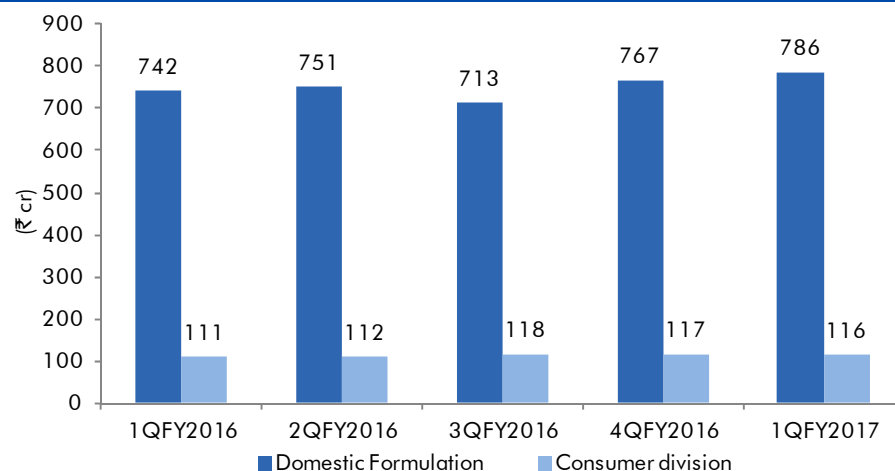
The company posted sales of ₹2,216cr V/s ₹2,607cr expected and V/s ₹2,267cr in 1QFY2016, a yoy de-growth of 2.2%. The dip in sales was due to the USA business (₹848cr), posting a yoy dip of 13.9%. Indian formulations (₹786.2cr) posted a yoy growth of 6.2%. Consumer wellness (₹116.1cr) and Animal healthcare & others (₹109.7cr) posted a growth of 12.2% and 43.8% yoy respectively.

US revenues declined primarily owing to increased generic competition in HCQS. The company launched 2 new products in the US in 1QFY2017 and received 3 product approvals during the quarter. Cumulatively the company has received 106 ANDA approvals till date. Additionally Cadila filed 6 ANDAs in 1QFY2017; cumulatively the company has filed 275 ANDAs in the US market. In India, fixed dose combination ban impacted domestic branded business exhibited 6.2% growth in 1QFY2017. The Management suggested of returning to double digit growth from 2QFY2017.

Exhibit 3: Sales trend in the US and Europe


Source: Company, Angel Research

The growth in the domestic market (~49% of sales) was of 9.0% yoy, mainly led by formulations (₹7,86.2cr) which grew by 6.2% yoy. API (₹97.6cr) on the other hand de-grew by 0.4% yoy.

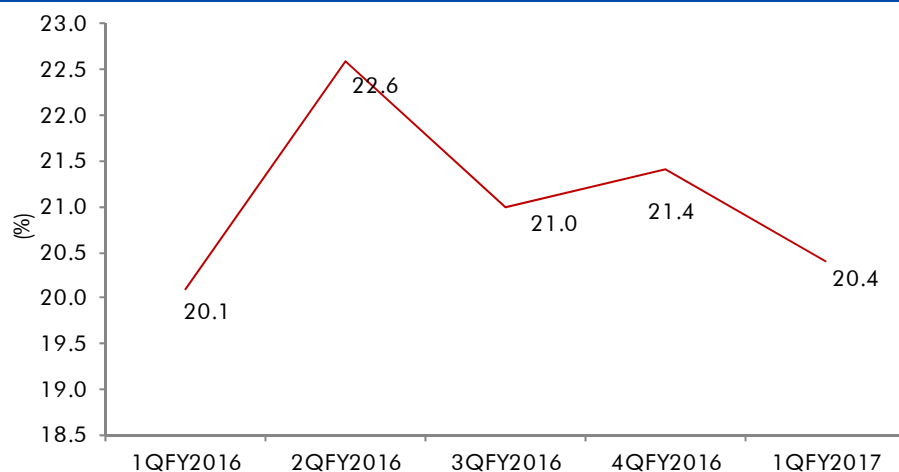
Exhibit 4: Sales trend in Domestic Formulation and Consumer Wellness Divisions


Source: Company, Angel Research

OPM mostly in line with expectation

On the operating front, the EBITDA margin came in at 20.4% V/s 20.9% expected and V/s 20.1% in 1QFY2016. The dip in the OPM was contained as the GPM improved from 65.1% V/s 64.3% in 1QFY2016. R&D expenditure during the quarter came in at 7.3% V/s 7.1% of sales in 1QFY2016.

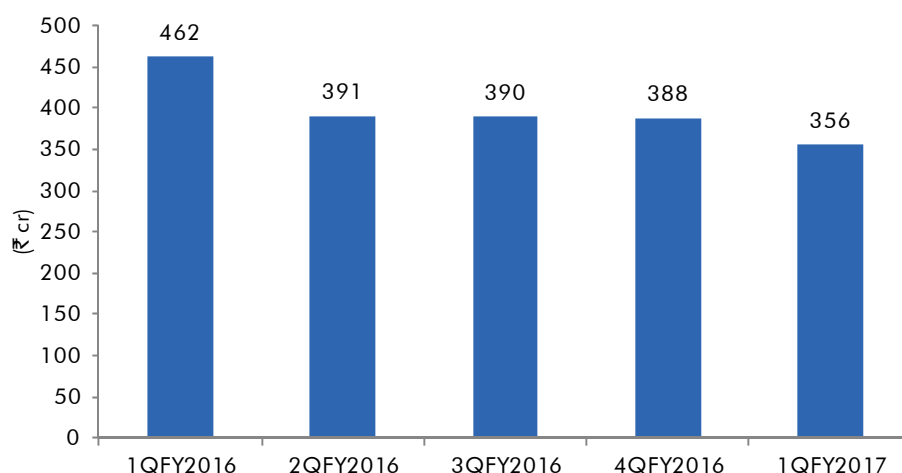
Exhibit 5: OPM trend



Source: Company, Angel Research

Net profit up 0.5% yoy: The Adj. net profit came in at ₹356cr V/s ₹489cr expected and V/s ₹462cr in 1QFY2016, a yoy de-growth of 22.9%.

Exhibit 6: Adjusted Net profit trend



Source: Company, Angel Research

Concall takeaways

- Effective tax rate to remain at 20%-22% levels in FY2017E.
- R&D as a percentage of sales to be at 7-8% in FY2017.
- Management expects growth in domestic market to be in double digits in the remaining quarters.
- Moraiya inspection formally closed; Warning letter resolution intimation to come separately.
- Company expects 35 ANDA filings to be done by FY2017.

Recommendation rationale

Strong domestic portfolio: Cadila is the fifth largest player in the domestic market with sales of about ₹2,973cr in FY2016; 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. The company, on an aggressive front, launched more than 75 new products in FY2014. During FY2009-14, the company reported a ~13% CAGR in its top-line in the domestic formulation business.

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 ~4.7% of sales, registered a growth of 3.2% during FY2016.

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 FY2014, sales were lower; however, FY2016 witnessed a rebound. During FY2016-18E, we expect the domestic segment to grow at a CAGR of 9.6%.

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 FY2016 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 ₹3,393cr on the sales front in FY2016. 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 17.5% over FY2016-18E.

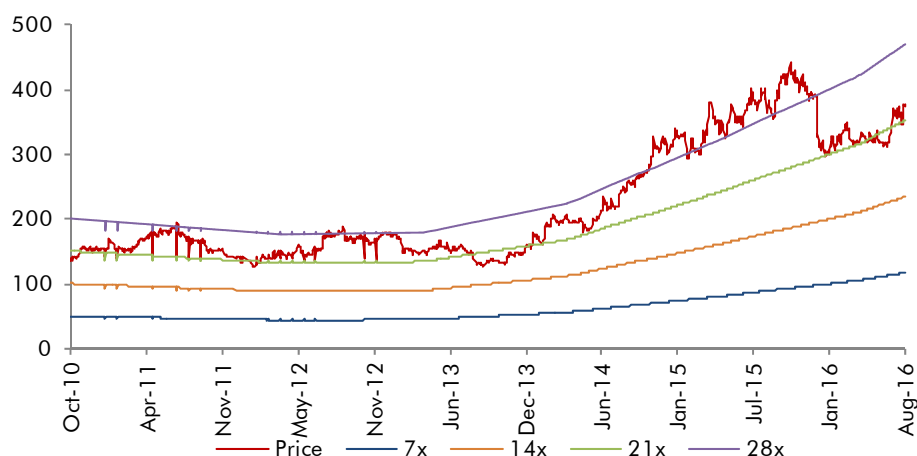
Outlook and valuation

We expect Cadila's net sales to post a 17.8% CAGR to ₹13,148cr and EPS to report a 15.8% CAGR to ₹20.0 over FY2016-18E. **We maintain our accumulate on the stock.**

Exhibit 7: Key Assumptions

Key assumptions	FY2017E	FY2018E
Domestic growth (%)	13.0	15.0
Exports growth (%)	20.0	20.0
Growth in employee expenses (%)	24.1	15.8
Operating margins (excl tech. know-how fees) (%)	22.0	22.0
Capex (₹ cr)	650	650

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	FY2018E			FY16-18E	FY2018E	
		(₹)	(₹)	%	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	639	-	-	21.0	2.8	13.2	(10.8)	27.5	25.3
Aurobindo Pharma	Buy	750	877	16.9	15.9	2.6	11.0	18.1	22.5	26.1
Cadila Healthcare	Accumulate	372	400	7.5	18.6	2.8	12.7	15.8	24.3	26.6
Cipla	Neutral	523	-	-	19.2	2.4	13.3	20.4	13.5	15.2
Dr Reddy's	Neutral	3,013	-	-	19.1	2.8	11.2	6.9	18.1	17.1
Dishman Pharma	Neutral	165	-	-	15.8	1.7	8.0	(1.1)	9.6	10.2
GSK Pharma*	Neutral	3,109	-	-	52.3	6.7	35.8	15.9	35.8	31.8
Indoco Remedies	Sell	318	225	(29.2)	20.4	2.4	13.0	31.5	19.1	19.2
Ipca labs	Buy	523	613	17.2	26.6	1.8	12.0	17.9	11.8	14.9
Lupin	Buy	1,580	1,809	14.5	22.8	3.7	14.0	17.2	24.4	20.9
Sanofi India	Neutral	4,348	-	-	25.7	3.2	18.5	21.2	24.9	28.4
Sun Pharma	Accumulate	809	944	12.6	24.7	5.0	16.0	22.0	33.1	18.9

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

Profit & Loss statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Gross sales	6,285	7,208	8,658	9,660	11,336	13,396
Less: Excise duty	129	148	161	190	210	248
Net sales	6,155	7,060	8,497	9,469	11,126	13,148
Other operating income	203	164	154	368	368	368
Total operating income	6,358	7,224	8,651	9,838	11,494	13,517
% chg	20.8	13.6	19.8	13.7	16.8	17.6
Total expenditure	5,232	6,024	6,896	7,457	8,673	10,250
Net raw materials	2,320	2,714	3,197	3,277	4,005	4,733
Other mfg costs	387	443	534	595	699	826
Personnel	903	1,071	1,209	1,334	1,633	1,929
Other	1,622	1,796	2,107	2,252	2,336	2,761
EBITDA	923	1,036	1,601	2,012	2,453	2,899
% chg	1.4	12.3	54.6	25.6	21.9	18.2
(% of Net Sales)	15.0	14.7	18.8	21.2	22.0	22.0
Dep. & amortisation	183	201	287	302	393	439
EBIT	740	835	1,314	1,710	2,059	2,460
% chg	(1.7)	12.8	57.4	30.1	20.4	19.4
(% of Net Sales)	12.0	11.8	15.5	18.1	18.5	18.7
Interest & other charges	169	90	68	49	84	84
Other income	37	51	55	94	94	94
(% of PBT)	5	5	4	4	4	3
Recurring PBT	811	959	1,456	2,124	2,437	2,838
% chg	2.1	18.3	51.8	45.9	14.8	16.4
Extraordinary exp./(Inc.)	-	17	10	2	-	-
PBT (reported)	811	942	1,445	2,124	2,437	2,838
Tax	119.5	106.0	259.4	571.1	655.6	763.3
(% of PBT)	14.7	11.3	17.9	26.9	26.9	26.9
PAT (reported)	692	836	1,186	1,553	1,782	2,074
Less: Minority int. (MI)	36.4	32.6	35.5	30.0	30.0	30.0
PAT after MI (reported)	655	804	1,151	1,523	1,752	2,044
ADJ. PAT	655	819	1,159	1,524	1,752	2,044
% chg	0.8	25.0	41.5	31.5	14.9	16.7
(% of Net Sales)	10.6	11.4	13.5	16.1	15.7	15.5
Adj. Basic EPS (₹)	6.4	8.0	11.3	14.9	17.1	20.0
Adj. Fully Diluted EPS (₹)	6.4	8.0	11.3	14.9	17.1	20.0
% chg	0.8	25.0	41.5	31.5	14.9	16.7

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity share capital	102	102	102	102	102	102
Reserves & Surplus	2,938	3,337	4,149	5,250	6,714	8,471
Shareholders funds	3,040	3,439	4,252	5,352	6,816	8,574
Minority interest	119	144	169	135	165	195
Total loans	2,681	2,265	2,334	2,107	2,107	2,107
Other Long Term Liabilities	47	55	43	61	45	46
Long Term Provisions	64	76	110	77	78	79
Deferred tax liability	100	96	59	88	121	122
Total liabilities	6,053	6,075	6,966	7,820	9,209	10,998
APPLICATION OF FUNDS						
Gross block	4,104	3,756	4,353	5,296	5,946	6,596
Less: Acc. depreciation	1,358	1,540	1,827	2,130	2,523	2,962
Net block	2,746	2,214	2,526	3,166	3,423	3,634
Capital Work-in-Progress	248	892	892	892	892	892
Goodwill	862	908	733	733	733	733
Investments	21	87	154	266	266	266
Long Term Loans and Adv.	411	495	637	756	663	779
Current assets	3,191	3,391	4,105	4,205	6,245	8,254
Cash	582	549	670	695	1,967	3,259
Loans & advances	279	341	334	335	336	337
Other	2,330	2,501	3,102	3,174	3,942	4,658
Current liabilities	1,426	1,912	2,081	2,196	3,012	3,560
Net Current assets	1,765	1,480	2,024	2,008	3,233	4,694
Mis. Exp. not written off	-	-	-	(1)	-	-
Total assets	6,053	6,075	6,966	7,820	9,209	10,998

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	811	942	1,445	2,124	2,437	2,838
Depreciation	183	201	287	302	393	439
(Inc)/Dec in Working Cap.	(223)	168	(565)	(78)	141	(286)
Less: Other income	37	51	55	94	94	94
Direct taxes paid	119	106	259	571	656	763
Cash Flow from Operations	614	1,154	853	1,683	2,222	2,133
(Inc.)/Dec.in Fixed Assets	(860)	(296)	(597)	(943)	(650)	(650)
(Inc.)/Dec. in Investments	3	(65)	(68)	(112)	-	-
Other income	37	51	55	94	94	94
Cash Flow from Investing	(820)	(310)	(609)	(960)	(556)	(556)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	382	(397)	91	(242)	(16)	2
Dividend Paid (Incl. Tax)	(175)	(216)	(287)	(287)	(287)	(287)
Others	115	(264)	74	(168)	(91)	0
Cash Flow from Financing	322	(877)	(122)	(697)	(394)	(285)
Inc./(Dec.) in Cash	116	(33)	121	25	1,272	1,292
Opening Cash balances	467	582	549	670	695	1,967
Closing Cash balances	582	549	670	695	1,967	3,259

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	58.1	46.5	32.9	25.0	21.7	18.6
P/CEPS	45.4	37.3	26.3	20.8	17.7	15.3
P/BV	12.5	11.1	9.0	7.1	5.6	4.4
Dividend yield (%)	2.0	2.0	2.0	2.0	2.0	2.0
EV/Sales	1.5	1.3	4.6	4.1	3.4	2.8
EV/EBITDA	10.2	8.6	24.5	19.3	15.3	12.5
EV / Total Assets	1.6	1.5	5.6	5.0	4.1	3.3
Per Share Data (₹)						
EPS (Basic)	6.4	8.0	11.3	14.9	17.1	20.0
EPS (fully diluted)	6.4	8.0	11.3	14.9	17.1	20.0
Cash EPS	8.2	10.0	14.2	17.9	21.0	24.3
DPS	7.5	7.5	7.5	7.5	7.5	7.5
Book Value	29.7	33.6	41.5	52.3	66.6	83.8
Dupont Analysis						
EBIT margin	12.0	11.8	15.5	18.1	18.5	18.7
Tax retention ratio	85.3	88.7	82.1	73.1	73.1	73.1
Asset turnover (x)	1.2	1.3	1.5	1.5	1.6	1.8
ROIC (Post-tax)	12.8	13.8	18.6	19.4	21.7	24.7
Cost of Debt (Post Tax)	5.8	3.2	2.4	1.6	2.9	2.9
Leverage (x)	0.7	0.6	0.4	0.3	0.1	0.0
Operating ROE	17.7	20.1	25.8	25.2	24.3	24.7
Returns (%)						
ROCE (Pre-tax)	13.2	13.8	20.2	23.1	24.2	24.3
Angel ROIC (Pre-tax)	19.5	20.6	31.3	33.6	37.0	41.9
ROE	23.3	25.3	30.1	31.7	28.8	26.6
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.8	1.8	2.1	2.0	2.0	2.2
Inventory / Sales (days)	66	69	61	56	71	80
Receivables (days)	54	57	57	45	58	65
Payables (days)	42	55	46	45	53	53
WC (ex-cash) (days)	66	53	48	49	41	36
Solvency ratios (x)						
Net debt to equity	0.7	0.5	0.4	0.3	0.0	(0.1)
Net debt to EBITDA	2.3	1.7	1.0	0.7	0.1	(0.4)
Interest Coverage (EBIT / Int.)	4.4	9.3	19.4	35.2	24.4	29.2

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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)