

Cadila Healthcare

Performance Highlights

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg (qoq)	4QFY2015	% chg (yoy)
Net sales	2,376	2342	1.4	2247	5.7
Other income	99	112	(12.1)	63	57.3
Gross profit	1553	1542	0.7	1445	7.5
Operating profit	508	492	3.2	455	11.7
Adj. Net profit	388	390	(0.4)	351	10.6

Source: Company, Angel Research

For 4QFY2016, Cadila Healthcare (Cadila) posted a robust performance on the net profit front while sales came in lower than expected. Sales came in at ₹2,376cr (V/s ₹2,400cr expected), growing by 5.7% yoy. On the operating front, the OPM came in at 21.4% V/s 21.1% expected and V/s 20.2% in 4QFY2015. The expansion in the OPM was driven by expansion in the GPM to 65.4% (V/s 64.3% in 4QFY2015) despite increase in staff expenditure and other expenditure by 13.7% yoy 3.8% yoy respectively. R&D expenditure during the quarter came in at 7.6% V/s 8.4% of sales in 4QFY2015. The Adj. net profit came in at ₹388cr V/s ₹373cr expected and V/s ₹351cr in 4QFY2015, ie a yoy growth of 10.6%. **We maintain our Buy on the stock.**

Results better than expected at the net profit level: For 4QFY2016, sales came in at ₹2,342cr (V/s ₹2,400cr expected), growing by 5.7% yoy. On the operating front, the OPM came in at 21.4% V/s 21.1% expected and V/s 20.2% in 4QFY2015. The expansion in the OPM was driven by expansion in the GPM to 65.4% (V/s 64.3% in 4QFY2015) and despite 13.7% yoy growth in the staff expenditure and 3.8% yoy rise in other expenditure. R&D expenditure during the quarter came in at 7.6% V/s 8.4% of sales in 4QFY2015. The Adj. net profit came in at ₹388cr V/s ₹351cr in 4QFY2015, a yoy growth of 10.6%.

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 Buy 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 May 19, 2016

BUY

CMP	₹325
Target Price	₹400

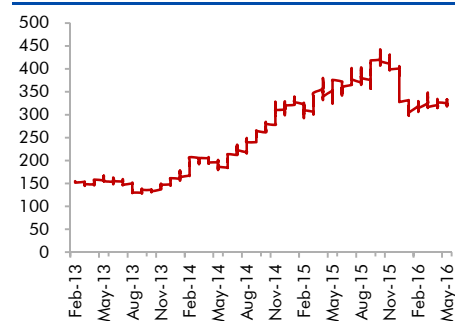
Investment Period	12 Months
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	33,220
Net debt (₹ cr)	1,550
Beta	0.7
52 Week High / Low	454 / 296
Avg. Daily Volume	1,12,106
Face Value (₹)	1
BSE Sensex	25,400
Nifty	7,783
Reuters Code	CADI.BO
Bloomberg Code	CDH@IN

Shareholding Pattern (%)	
Promoters	74.8
MF / Banks / Indian Fls	9.7
FII / NRIs / OCBs	9.6
Indian Public / Others	6.0

Abs.(%)	3m	1yr	3yr
Sensex	7.1	(8.1)	(8.1)
Cadila	(0.8)	(6.3)	(84.4)

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 performance (Consolidated)

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg (qoq)	4QFY2015	% chg (yoy)	FY2016	FY2015	% chg
Net Sales	2,376	2,342	1.4	2,247	5.7	9,469	8,497	11.4
Other Income	99	112	(12.1)	63	57.3	460	210	119.2
Total Income	2,474	2,454	0.8	2,310	7.1	9,930	8,707	14.0
Gross profit	1553	1542	0.7	1445	7.5	6192	5106	21.3
Gross margin (%)	65.4	65.9		64.3		65.4	60.1	
Operating profit	508	492	3.2	455	11.7	2012	1600	25.8
Operating Margin (%)	21.4	21.0		20.2		21.2	18.8	
Financial Cost	10	13	(20.6)	16	(38.6)	49	68	(28.5)
Depreciation	78	77	1.7	76	3.6	302	287	5.3
PBT	518	515	0.7	426	21.8	2122	1455	45.8
Tax	126	115	9.6	71	78.0	571	259	120.5
Adj. PAT before Extra-ordinary item	392	400	(1.8)	355	10.6	1551	1196	29.7
Exceptional loss/(gain)	(1)	0		1		2	(9)	
Minority	(3)	9	(137.0)	5		30	36	
Reported PAT	389	390	(0.2)	350	10.9	1523	1151	32.3
Adj. PAT	388	390	(0.4)	351	10.6	1524	1159	31.5
EPS (₹)	3.8	3.8		3.4		14.9	11.3	

Source: Company, Angel Research

Exhibit 2: 4QFY2016 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variance
Net Sales	2,376	2,400	(1.0)
Operating profit	508	507	0.2
Tax	126	115	9.6
Net profit	388	373	3.9

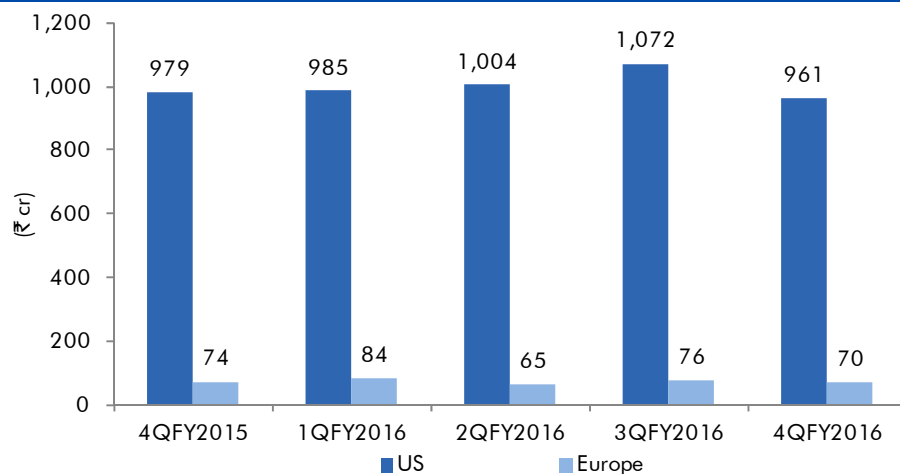
Source: Company, Angel Research

Revenue up 8.4% yoy; marginally lower than our expectation

For 4QFY2016, the company posted sales of ₹2,376cr (V/s ₹2,400cr expected), a growth of 8.4% yoy. Exports (₹1,459.3cr) posted a 2.5% yoy growth during the quarter while domestic markets (₹968.7cr) posted a 10.4% yoy growth.

In exports the key market US (₹961.0cr) posted a yoy de-growth of 1.8%, while Europe (₹70.6cr) posted a dip of 4.6%. Emerging Markets Formulations (₹134.3cr) posted a yoy growth of 21.3%. JVs and alliances (₹145.9cr) posted a dip of 23.8% yoy. In domestic markets, Indian formulations (₹767.4cr) posted a yoy growth of 12.9%.

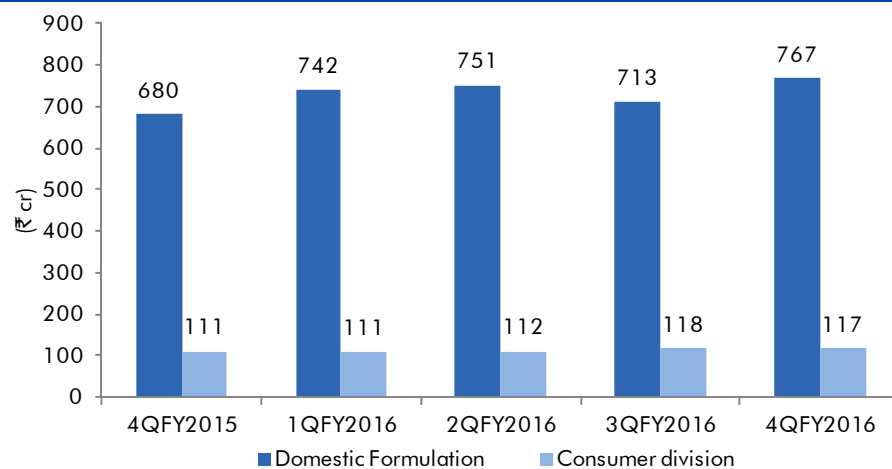
Exhibit 3: Sales trend in the US and Europe



Source: Company, Angel Research

The growth in the domestic market (~40% of sales) was of 10.4% yoy, mainly led by formulations (₹767.4cr) which grew by 12.9% yoy. API (₹92.2cr) on the other hand grew by 6.0% yoy, while Wellness (₹116.9cr) grew by 5.0% yoy. Animal Health and others (₹84.4cr) grew by 2.5% yoy.

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



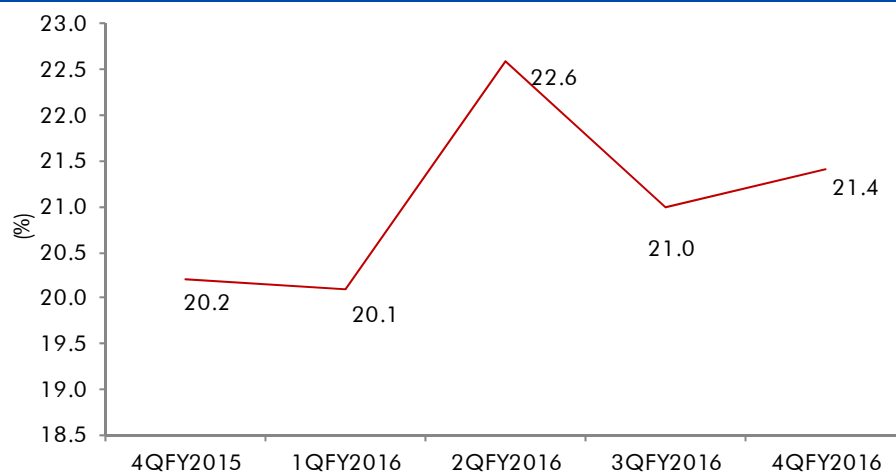
Source: Company, Angel Research

On the CRAMS front, the company generated sales of ₹145.9cr (vs ₹117.8cr in 4QFY2015), reporting a growth of 23.8% yoy.

OPM better than expectation

On the operating front, the OPM came in at 21.4% V/s 21.1% expected and V/s 20.2% in 4QFY2015. The expansion in the OPM was driven by expansion in the GPM to 65.4% (V/s 64.3% in 4QFY2015) and despite a 13.7% yoy growth in staff expenditure and 3.8% rise in other expenditure. R&D expenditure during the quarter came in at 7.6% V/s 8.4% of sales in 4QFY2015.

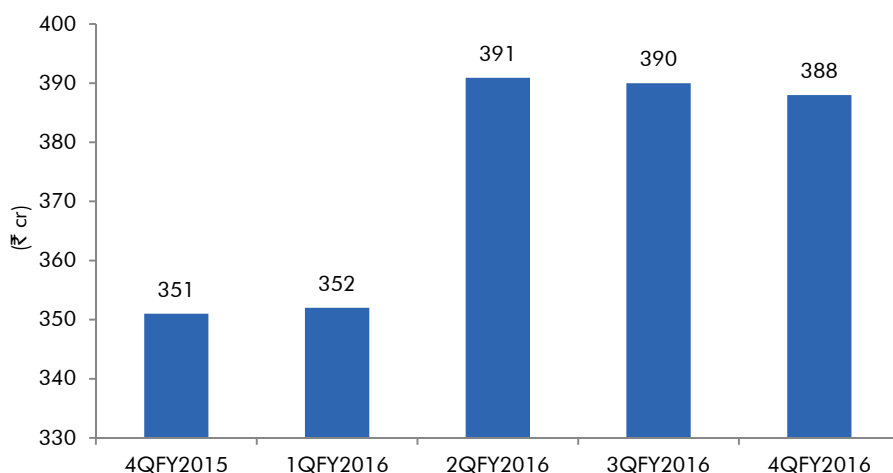
Exhibit 5: OPM trend



Source: Company, Angel Research

Net profit up 12.1% yoy: During the quarter, the company posted other income of ₹99cr V/s ₹63cr in 4QFY2015. This aided the net profit to come in at ₹389cr V/s ₹373cr expected and V/s ₹350cr in 4QFY2015, ie yoy growth of 10.9%. The Adj. net profit came in at ₹388cr V/s ₹351cr in 4QFY2015, a yoy growth of 10.6%.

Exhibit 6: Adjusted Net profit trend



Source: Company, Angel Research

Concall takeaways

- Remediation at Moraiya is to be completed by May 2016. Cadila plans to meet the USFDA over the next two months.
- Tax rate is expected at ~20% in FY2017.
- R&D as a percentage of sales to be at ~6% in FY2017.
- Five product transfers have been carried out from Moraiya to Baddi in 4QFY2016 (taking the total to 12).

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% yoy 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.

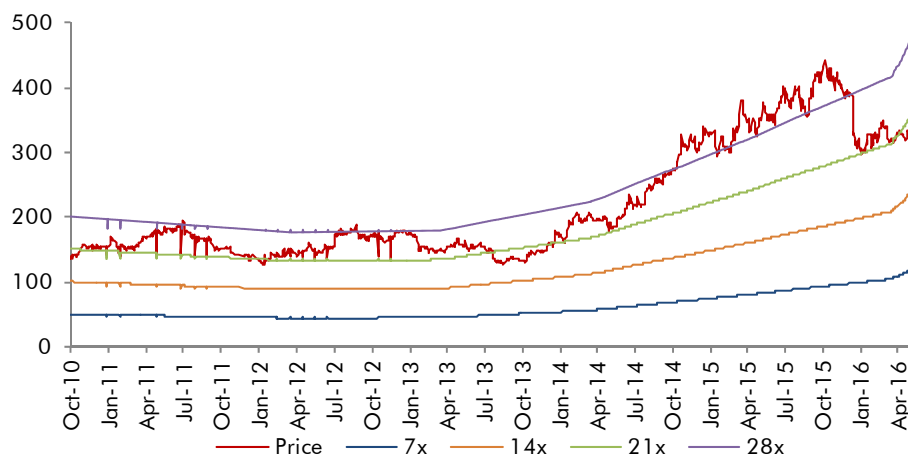
Outlook and valuation

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 Buy rating 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 %	PE (x)	FY2017E		FY15-17E	FY2017E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	556	-	-	19.4	2.7	13.7	11.4	23.5	21.3
Aurobindo Pharma	Accumulate	770	856	11.2	18.0	2.9	12.6	15.6	23.5	30.2
Cadila Healthcare	Buy	325	400	23.3	18.7	2.9	12.6	22.9	24.2	28.8
Cipla	Buy	513	605	18.0	18.6	2.4	13.1	18.3	16.7	16.1
Dr Reddy's	Buy	3,021	3,476	15.0	19.8	2.8	11.8	6.8	19.2	18.7
Dishman Pharma	Neutral	165	-	-	16.5	1.8	8.1	15.9	9.4	11.0
GSK Pharma*	Neutral	3,345	-	-	49.0	8.6	38.7	6.6	33.7	34.3
Indoco Remedies	Neutral	261	-	-	19.2	2.1	11.4	23.0	19.7	19.7
Ipcas labs	Buy	448	750	67.4	16.0	1.7	9.1	17.9	11.8	14.9
Lupin	Neutral	1,656	-	-	24.2	4.2	15.4	13.1	29.6	24.7
Sanofi India	Accumulate	4,292	4,738	10.4	28.0	3.8	22.2	34.2	21.0	25.6
Sun Pharma	Buy	792	950	19.9	29.5	5.2	16.8	8.4	15.8	16.6

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
Depreciation & 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 expense/(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 interest (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 Capital	(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)	50.0	40.0	28.2	21.5	18.7	16.0
P/CEPS	39.0	32.0	22.6	17.9	15.2	13.2
P/BV	10.8	9.5	7.7	6.1	4.8	3.8
Dividend yield (%)	2.3	2.3	2.3	2.3	2.3	2.3
EV/Sales	1.4	1.1	4.0	3.5	2.9	2.3
EV/EBITDA	9.0	7.6	21.1	16.6	13.2	10.7
EV / Total Assets	1.4	1.3	4.9	4.3	3.5	2.8
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. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

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)
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