

Retail Equity Research

Cadila Healthcare Limited

Pharmaceuticals

BSE CODE: 532321 NSE CODE: CADILAHC
Bloomberg CODE: CDH:IN SENSEX: 51,935

BUY

12 Months Investment period Rating as per Large Cap
CMP Rs. 619 TARGET Rs. 730 RETURN 18% ↑
(Closing: 01-06-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Solid result; Outlook remains intact

Cadila Healthcare is India's leading vertically integrated pharmaceutical company. With its presence across the value chain, it manufactures finished dosage forms, active pharmaceutical ingredients, animal healthcare products and wellness products.

- Revenue grew 2.5% YoY, largely driven by strong growth in domestic formulation business (+14.7% YoY) partially offset by decline in US formulations (-14.3% YoY; ~43% of total revenue) in Q4FY21.
- Although gross margins declined 137bps YoY, EBITDA improved 8.1% YoY and EBITDA margin expanded 115bps YoY to 22.2%, aided by lower other expenses and R&D expenses. PAT grew 73.2% YoY in Q4FY21.
- Solid performance in the domestic formulation business and robust product pipeline remains key catalysts. Additionally, cost optimization and higher traction in the US business should drive growth further. We reiterate our BUY rating on the stock with a revised target price of Rs. 730 based on 26x FY23E EPS.

Robust performance in Domestic formulation business

In Q4FY21, consolidated revenue rose 2.5% YoY to Rs. 3,847cr. Domestic formulation business improved 14.7 % YoY to Rs. 1,023cr (~47% of revenue) supported by robust performance in Consumer wellness and Animal health business, up 18.1% YoY to Rs. 1,772cr. Human health business grew ~15% YoY, while Consumer wellness business registered growth of ~22% YoY during the quarter. The growth was partially offset by decline in US formulation business (-14.3% YoY) to Rs. 1,509cr. Additionally, emerging market and API business performed well with 45.5% YoY and 19.9% YoY respectively.

Margins improved on strong operating leverage

Gross margin contracted 137bps YoY to 65.1% impacted by higher cost of sales. However EBITDA margin expanded by 115bps YoY to 22.2%, benefitted by lower other expenses as a % of sales 230bps to 27.0% and further supported by lower R&D expenditure. In line with operational performance, Reported PAT surged 73.2% YoY to Rs. 679cr, supported by lower interest expenses -71.8% YoY in Q4FY21.

Key concall highlights

- Company continued to strengthen its pipeline with current pipeline comprising of 35 approved ANDAs taking cumulative total to 248 with USFDA as of Mar 2021. Company filed total 22 ANDAs with total regulatory ANDAs reached to 412. Notably, Management intends to launch 30 to 35 products in US market in FY22.
- Management is still waiting for resolution for Moaiya facility from USFDA.
- Virafin has been added to portfolio to treat moderate infection in adult COVID-19 patients during the quarter.
- As of FY21, Net debt stood at ~Rs. 3,500cr vs. ~Rs. 7,000cr in FY20 mainly supported by QIP and preferential issue to promoters during the year.
- Company received approval from USFDA to market Fluphenazine Hydrochloride tablets (used for mental ailments) in US market. Company also planning to start trial for COVID-19 vaccine for children age between 5-10 and 12-18 years.

Valuation

Outlook remains promising on the back of upward traction in domestic formulation business and robust new launches in injectable and generic products. Additionally, operating leverage and sharp reduction in debt should support company's outlook in upcoming period. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 730 based on 26x FY23E EPS.

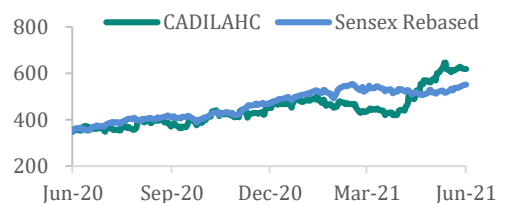
Company Data

Market Cap (cr)	Rs. 63,409
Enterprise Value (cr)	Rs. 67,719
Outstanding Shares (cr)	102.4
Free Float	25.0%
Dividend Yield	0.6%
52 week high	Rs. 674
52 week low	Rs. 347
6m average volume (lacs)	3.3
Beta	1.1
Face value	Rs. 1

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	74.8	74.9	74.9
FII's	4.6	5.2	5.2
MFs/Insti	12.8	11.9	11.5
Public	5.7	5.8	6.2
Others	2.1	2.2	2.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	42.3%	36.6%	77.2%
Absolute Sensex	4.2%	16.3%	55.9%
Relative Return*	38.1%	20.3%	21.2%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	15,102	16,482	17,797
Growth (%)	6.0	9.1	8.0
EBITDA	3,341	3,677	3,970
EBITDA Margin (%)	22.1	22.3	22.3
Adj. PAT	2,339	2,671	2,875
Growth (%)	51.8	14.2	7.6
Adj. EPS	22.8	26.1	28.1
Growth (%)	51.9	14.2	7.6
P/E	19.3	23.7	22.1
P/B	3.5	4.2	3.6
EV/EBITDA	15.0	18.4	16.7
ROE (%)	16.4	17.6	16.4
D/E	0.2	0.2	0.2

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Revenue	3,847	3,752	2.5	3,796	1.3	15,102	14,253	6.0
EBITDA	855	791	8.1	807	6.0	3,341	2,784	20.0
EBITDA margins	22.2	21.1	115bps	21.3	90bps	22.1	19.5	260bps
Depreciation	189	179	5.7	180	4.5	725	697	4.1
EBIT	667	613	8.8	627	6.4	2,616	2,087	25.4
Interest	23	83	(71.8)	27	(13.1)	164	342	(52.2)
Other Income	(40)	44	n.m.	28	n.m.	37	114	(67.3)
Exceptional Items	(73)	(53)	39.2	-	n.m.	(205)	(364)	43.6
PBT	530	522	1.5	627	(15.5)	2,285	1,496	52.8
Tax	(202)	109	n.m.	115	n.m.	147	320	(54.0)
Share of profit from Associate	4	0	n.m.	16	(75.5)	47	29	64.6
Minority Interest	56	22	158.7	1	n.m.	51	28	84.9
Reported PAT	679	392	73.2	527	28.8	2,134	1,177	81.3
Adjustments	73	53	39.2	-	n.m.	205	364	(43.6)
Adj. PAT	752	445	69.2	527	42.7	2,339	1,540	51.8
No. of shares	102.4	102.4	-	102.4	-	102.4	102.4	-
Adj. EPS (Rs.)	7.4	4.3	69.3	5.1	42.6	22.8	15.0	51.9

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	16,681	18,078	16,482	17,797	(1.2)	(1.6)
EBITDA	3,595	3,896	3,677	3,970	2.3	1.9
Margins (%)	21.6	21.6	22.3	22.3	70bps	70bps
Adj. PAT	2,243	2,427	2,671	2,875	19.1	18.4
Adj. EPS	21.9	23.7	26.1	28.1	19.1	18.5

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	13,166	14,253	15,102	16,482	17,797
% change	10.3	8.3	6.0	9.1	8.0
EBITDA	2,973	2,784	3,341	3,677	3,970
% change	10.8	(4.5)	24.4	11.0	8.9
Depreciation	599	697	725	757	853
EBIT	2,375	2,087	2,616	2,920	3,117
Interest	194	342	164	90	69
Other Income	201	114	37	37	38
PBT	2,382	1,496	2,285	2,867	3,085
% change	2.2	(37.2)	52.8	25.5	7.6
Tax	530	320	147	185	199
Tax Rate (%)	22.3	21.4	6.4	6.4	6.4
Reported PAT	1,849	1,177	2,134	2,671	2,875
Adj*	-	364	205	-	-
Adj PAT	1,849	1,540	2,339	2,671	2,875
% change	4.1	(16.7)	51.8	14.2	7.6
No. of shares (cr)	102.4	102.4	102.4	102.4	102.4
Adj EPS (Rs.)	18.1	15.0	22.8	26.1	28.1
% change	4.1	(16.7)	51.9	14.2	7.6
DPS (Rs.)	3.5	3.5	3.5	5.0	5.1
CEPS (Rs.)	23.9	21.8	29.9	33.5	36.4

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	2,447	1,873	2,858	3,428	3,728
Non-cash adj.	1,404	394	312	(92)	44
Changes in W.C	(969)	238	123	(1,083)	(618)
C.F. Operation	2,882	2,505	3,293	2,253	3,154
Capital exp.	(1,046)	(889)	(847)	(932)	(1,121)
Change in inv.	(4,746)	(157)	74	(17)	(13)
Other invest.CF	54	33	51	(0)	0
C.F - Investment	(5,739)	(1,012)	(723)	(949)	(1,135)
Issue of equity	-	-	-	-	-
Issue/repay debt	2,396	(349)	(3,343)	-	-
Dividends paid	(431)	(857)	(2)	(507)	(517)
Other finance.CF	(80)	112	795	(90)	(69)
C.F - Finance	1,885	(1,094)	(2,549)	(598)	(587)
Chg. in cash	(972)	399	22	706	1,433
Closing cash	421	845	665	1,371	2,804

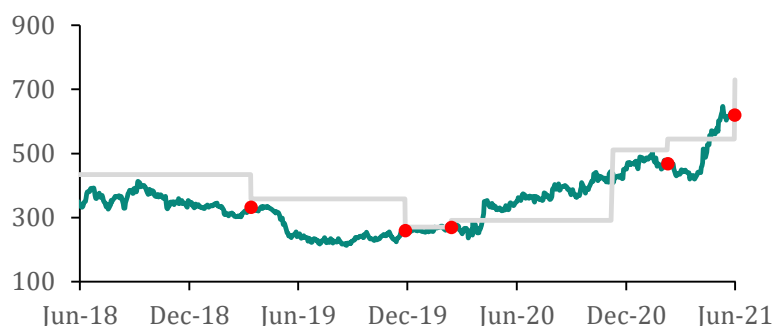
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	421	845	665	1,371	2,804
Accounts Receivable	3,951	3,663	3,127	4,121	4,538
Inventories	2,688	2,789	3,236	3,246	3,560
Other Cur. Assets	1,439	1,418	1,687	1,721	1,754
Investments	444	552	631	582	529
Gross Fixed Assets	4,713	5,602	6,449	7,381	8,502
Net Fixed Assets	5,106	5,452	5,550	5,725	5,993
CWIP	837	742	783	783	783
Intangible Assets	7,058	6,778	6,583	6,649	6,715
Def. Tax (Net)	970	853	1,074	1,348	1,451
Other Assets	570	594	547	552	556
Total Assets	23,483	23,687	23,885	26,098	28,684
Current Liabilities	4,146	4,443	4,790	4,731	4,865
Provisions	184	235	310	325	341
Debt Funds	7,147	7,041	3,680	3,680	3,680
Other Liabilities	328	257	175	205	217
Equity Capital	102	102	102	102	102
Reserves & Surplus	10,284	10,273	12,890	15,053	17,410
Shareholder's Fund	10,386	10,376	12,992	15,156	17,513
Minority Interest	1,293	1,335	1,937	2,000	2,068
Total Liabilities	23,483	23,687	23,885	26,098	28,684
BVPS (Rs.)	101	101	127	148	171

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	22.6	19.5	22.1	22.3	22.3
EBIT margin (%)	18.0	14.6	17.3	17.7	17.5
Net profit mgn.(%)	14.0	8.3	14.1	16.2	16.2
ROE (%)	17.8	11.3	16.4	17.6	16.4
ROCE (%)	12.6	11.1	14.1	14.0	13.4
W.C & Liquidity					
Receivables (days)	109.5	93.8	75.6	91.3	93.1
Inventory (days)	208.0	206.9	226.7	230.4	234.0
Payables (days)	148.8	150.7	154.5	150.9	147.2
Current ratio (x)	1.2	1.1	1.1	1.3	1.6
Quick ratio (x)	0.7	0.6	0.5	0.8	1.0
Turnover & Leverage					
Gross asset T.O (x)	3.0	2.8	2.5	2.4	2.2
Total asset T.O (x)	0.6	0.6	0.6	0.7	0.6
Int. coverage ratio (x)	12.3	6.1	16.0	32.3	45.0
Adj. debt/equity (x)	0.6	0.6	0.2	0.2	0.2
Valuation					
EV/Sales (x)	3.3	2.4	3.3	4.1	3.7
EV/EBITDA (x)	14.5	12.5	15.0	18.4	16.7
P/E (x)	18.9	17.8	19.3	23.7	22.1
P/BV (x)	3.4	2.6	3.5	4.2	3.6

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
28-Sep-17	BUY	506
27-Mar-18	BUY	434
15-Mar-19	HOLD	358
28-Nov-19	HOLD	270
13-Feb-20	HOLD	291
7-Nov-20	BUY	511
9-Feb-21	BUY	545
2-Jun-21	BUY	730

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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