

Indian shines but US slowdown persists...

About the stock: Cadila is a leading pharma company with a presence across the value chain of innovating, manufacturing, marketing & selling finished dosage human formulations (generics, branded generics & specialty formulations, including biosimilars & vaccines), APIs, animal healthcare & consumer wellness products.

- It has a global presence and sells its products in the US, India, Europe & emerging markets including countries in LatAm, Asia Pacific & Africa
- Cadila is the fourth largest pharma company in India with 14 brands among Top 300 pharma brands in India & nine with ₹ 100 crore+ sales

Q1FY22 Results: Cadila reported steady Q1FY22 results.

- Sales were up 14.5% YoY to ₹ 4025.4 crore
- EBITDA in Q1FY22 was at ₹ 933 crore, up 35% YoY with margins at 23.2%
- Consequent adjusted PAT was at ₹ 564.8 crore (up 71.8% YoY)

What should investors do? Cadila's share price has grown by ~1.6x over the past five years (from ~₹ 352 in July 2016 to ~₹ 586 levels in July 2021).

- We maintain HOLD rating

Target Price and Valuation: We value Cadila at ₹ 583 (base business of ₹ 483 at 22x P/E on FY23E EPS + NPV of ₹ 99.9 for vaccine & gRevlimid opportunity).

Key triggers for future price performance:

- Cadila plans to venture into complex injectable in US. However, it is likely to provide meaningful traction only from FY23-24 onwards.
- US pipeline of 412 filed ANDAs, 317 final approvals is promising but cGMP issues at Moraiya, slowdown in base are main near term headwinds
- India formulations business is likely to stabilise as the company has optically initiated restructuring of business by rationalising slow moving SKUs

Alternate Stock Idea: Apart from Cadila, in our healthcare coverage we like Cipla

- Cipla is a global pharma company with over 1,500+ products in 65 therapeutic categories, with over 50 dosage forms.
- BUY with a target price of ₹ 1205



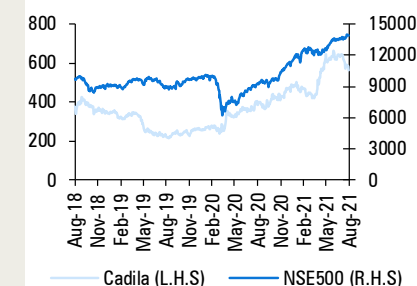
Particulars

| Particular | Amount |
|-----------------------|---------------|
| Market Capitalisation | ₹ 57647 crore |
| Debt (FY21) | ₹ 4639 crore |
| Cash (FY21) | ₹ 888 crore |
| EV | ₹ 61397 crore |
| 52 week H/L | 674/358 |
| Equity capital | ₹ 102 crore |
| Face value | ₹ 1 |

Shareholding pattern

| (in %) | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 74.9 | 74.9 | 74.9 | 74.9 | 74.9 |
| Others | 25.1 | 25.1 | 25.1 | 25.1 | 25.1 |

Price Chart



Recent Event & Key risks

- Sold animal health business to Zenex for ~ ₹ 2921 crore
- **Key Risk:** (i) Resolution of Moraiya warning letter (ii) Traction from Covid portfolio including vaccines

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Key Financial Summary

| Key Financials (₹ crore) | FY19 | FY20 | FY21 | 5 year CAGR (FY16-21) | FY22E | FY23E | 2 year CAGR (FY21-23E) |
|--------------------------|---------|---------|---------|-----------------------|---------|---------|------------------------|
| Revenues | 13165.6 | 14253.1 | 14977.0 | 9.3 | 15713.6 | 16827.5 | 6.0 |
| EBITDA | 2972.8 | 2742.0 | 3215.8 | 6.7 | 3425.1 | 3664.7 | 6.8 |
| EBITDA margins (%) | 22.6 | 19.2 | 21.5 | | 21.8 | 21.8 | |
| Net Profit | 1849.0 | 1430.1 | 2199.5 | 2.3 | 2133.6 | 2247.2 | 1.1 |
| EPS (₹) | 18.1 | 14.0 | 21.5 | | 20.8 | 22.0 | |
| PE (x) | 31.2 | 49.0 | 28.7 | | 13.3 | 25.7 | |
| EV to EBITDA (x) | 21.8 | 23.6 | 19.1 | | 16.9 | 15.6 | |
| RoE (%) | 17.8 | 13.8 | 16.9 | | 12.6 | 12.1 | |
| RoCE (%) | 12.8 | 10.7 | 12.6 | | 13.1 | 12.9 | |

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Steady performance continues

- Revenues (ex-animal business) grew 14.5% YoY to ₹ 4025.4 crore mainly due to 63.3% growth in domestic formulations to ₹ 1356.6crore. Domestic business was driven by strong growth in base business, Covid portfolio and lower base of Q1FY21. However, US sales fell 10.6% YoY to ₹ 1451 crore amid pricing pressure and temporary supply issues. Wellness segment grew 10.3% YoY to ₹ 586.2 crore. EBITDA margins expanded 354 bps YoY to 23.1% mainly due to lower employee cost and 142 bps improvement in gross margins to 65.8%. Subsequently, EBITDA grew 35.2% YoY to ₹ 933 crore. Reported PAT grew 71.8% YoY to ₹ 564.8 crore. Delta vis-à-vis EBITDA was mainly due to lower interest, tax rate and higher other income
- On the US front, the company's plan to venture into complex injectables is likely to provide meaningful traction from FY23-24 onwards. Similarly, addition of biosimilars (like Trastuzumab, Adalimumab, Pegfilgrastim, Bevacizumab, etc.) for Emerging markets (like LatAm, MENA markets and South East Asia) is expected to provide growth impetus, going ahead. The wellness segment performance hinges upon the company's marketing & distribution prowess besides effective product positioning. India formulations business, after recent restructuring, is likely to stabilise. Both wellness, India formulations are likely to deliver steady growth in FY22. Overall, post the significant unlocking of animal health segment, other lingering issues such as Moraiya warning letter resolution, US base business performance in tough times are some important aspects to watch.

Q1FY22 Earnings Conference Call highlights

- **India**
 - Domestic business driven by base business, Covid portfolio and lower base effect of previous year
 - Excluding Remdesivir, growth is +35% in Q1FY22
 - Entered into a supply and commercialisation agreement with TLC, to market Liposomal Amphotericin B, a critical drug to treat Black Fungus or Mucormycosis in India
 - Looking to launch 30-35 products annually
- **Consumer wellness**
 - Five out of seven brands seen double digit growth.
 - Nutralite brand delivered a strong growth both in institutional and retail segments in Q1'22 despite lockdown in key markets.
 - Sugar Free continued the momentum in Q1'22 and delivered a decent YoY growth.
 - Two seasonal brands viz. Nycil and Glucon-D got impacted due to Covid-19 second wave
 - Demand revival seen across channels with receding impact of second wave and gradual opening up of markets
- **US business**
 - Pricing pressure in some products and settling of supply issues in US market resulted in limited one time buy opportunities, which led to sequential de-growth
 - Despite increased competition US generics business volumes continue to grow
 - Four new products launched in Q1FY22

- In July 2021, received final approval for Fulvestrant Injection; first approval of a complex product from Biologics site. Product approved in first review cycle
- Next three to four quarters expect low single digit growth
- Next two to three years transdermals, complex oral solid and injectables to drive growth
- Guided 50+ approvals and 30+ launches annually
- Moraiya facility –CAPA plan already executed and now waiting for inspection. Oral contraceptive transdermal filed from this facility
- Aspirational target to achieve US\$2-3 billion business in the next three to four years
- The company's injectable business is ~US\$ 35 million annually
- Three more mesalamine products expected to launch in FY22
- Asacol HD – QoQ was stable, Q4FY21 already down amid Covid. Post patent expiry expects one or two competitors
- Expects high single erosion in the US for at least next couple of quarters
- **Vaccine update**
 - Submitted the dossier to DCGI for an EUA of ZyCov-D vaccine with an interim Phase III CTs efficacy data for 2 mg
 - Phase III CTs data for 2 mg dose study of ZyCov-D vaccine also confirmed the safety for children in the age group of 12 to 18 years
 - Phase III CTs were carried out over 28000 subjects in more than 50 clinical sites spread across the country and during the peak of 2 wave of Covid-19 reaffirming the vaccine's efficacy against the new mutant strains especially the delta variant
 - Old facility started for stock piling and new facility production will start from this week
 - Has two vaccine plant drug substance plant and drug product plant. Can produce other vaccines in drug product plant. Substance plant can use for recombinant biologics in future
 - Already applied for intradermal for ZyCov-D
- **NCE pipeline**
 - In July, 2021, EMA granted Orphan Drug Designation (ODD) to Saroglitazar Magnesium for PBC indication; ODD status provides an exclusivity for 10 years upon approval
 - Received an approval from CDSCO to initiate phase I CTs in India for a novel, multi dose anti-malarial molecule ZY19489
 - 505(b)(2) and specialty initiatives
 - Response received from the USFDA against pre-NDA meeting for a product in pain management and pre-IND request for a product in neurology space
 - Completed six in-licensing deals in Q1'22; value accretive from FY23. Cumulative in-licensing deals stood at 24, two products have 180 days' exclusivity. Largely manufactured by the companies from which it has taken license
- **EBITDA margins**
 - Efficiency improvement and cost optimisation led to improvement despite cost inflation

- **Biosimilar**

- Most revenues come from India. In India, the company generated ₹ 350 crore annually and expects to reach ₹ 500 crore in near term
- In CY22 expects three to four launches in multiple EMs on licensing basis

- **Other**

- Only Remdesivir exporting for Covid treatment, which is not large contributor

Exhibit 1: Variance Analysis

| | Q1FY22 | Q1FY22E | Q1FY21 | Q4FY21 | YoY (%) | QoQ (%) | Comments |
|-----------------------|--------|---------|--------|--------|---------|---------|---|
| Revenue | 4025.4 | 3683.1 | 3514.7 | 3846.7 | 14.5 | 4.6 | Stellar domestic business growth being partially offset by decline in the US |
| Raw Material Expenses | 1374.8 | 1270.7 | 1250.3 | 1344.0 | 10.0 | 2.3 | |
| Employee Expenses | 654.2 | 626.1 | 634.5 | 620.9 | 3.1 | 5.4 | |
| Other expenditure | 1063.4 | 994.4 | 939.7 | 1026.5 | 13.2 | 3.6 | |
| EBITDA | 933.0 | 791.9 | 690.2 | 855.3 | 35.2 | 9.1 | |
| EBITDA (%) | 23.2 | 21.5 | 19.6 | 22.2 | 354 bps | 94 bps | YoY improvement mainly due to lower employee cost and higher gross margins |
| Interest | 27.3 | 24.6 | 67.7 | 23.3 | -59.7 | 17.2 | |
| Depreciation | 182.7 | 191.8 | 176.8 | 188.6 | 3.3 | -3.1 | |
| Other Income | 31.6 | 25.3 | 22.5 | -40.3 | 40.4 | LP | |
| PBT before EO & Forex | 754.6 | 600.7 | 468.2 | 603.1 | 61.2 | 25.1 | |
| EO | 0.0 | 0.0 | 0.0 | 73.1 | 0.0 | 0.0 | |
| PBT | 754.6 | 600.7 | 468.2 | 530.0 | 61.2 | 42.4 | |
| Tax | 141.5 | 120.1 | 123.5 | -201.6 | 14.6 | LP | |
| Tax rate (%) | 18.8 | 20.0 | 26.4 | -38.0 | -28.9 | LP | |
| Net Profit | 564.8 | 475.9 | 328.8 | 679.0 | 71.8 | -16.8 | |
| Adjusted PAT | 564.8 | 475.9 | 328.8 | 779.9 | 71.8 | -27.6 | Delta vis-à-vis EBITDA was due to lower interest, tax rate and higher other income |
| Key Metrics | | | | | | | |
| India | 1356.6 | 1036.5 | 829.2 | 1023.2 | 63.6 | 32.6 | YoY growth largely driven by strong growth in base business, Covid portfolio and lower base effect of Q1FY21. Ex Remdesivir, growth was more than 35% |
| US | 1451.4 | 1452.2 | 1623.2 | 1508.9 | -10.6 | -3.8 | Decline due to pricing pressure in some products |
| Europe | 59.9 | 61.1 | 48.9 | 62.6 | 22.5 | -4.3 | |
| EMs | 277.0 | 261.3 | 237.5 | 249.9 | 16.6 | 10.8 | Key markets continue to grow in double digit |
| Wellness | 586.2 | 637.9 | 531.6 | 598.4 | 10.3 | -2.0 | YoY increase mainly due to in Nutralite brand, improvement in suger free partially offset by decline in Nycil and Glucon-D due to Covid |
| JVs | 51.0 | 21.7 | 22.8 | 23.6 | 123.7 | 116.1 | |
| APIs | 135.5 | 144.0 | 130.9 | 139.5 | 3.5 | -2.9 | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| (₹ Crore) | FY22E | | | FY23E | | | Comments |
|-------------------|----------|----------|----------|----------|----------|----------|---|
| | Old | New | % Change | Old | New | % Change | |
| Revenue | 16,003.4 | 15,713.6 | -1.8 | 16,933.5 | 16,827.5 | -0.6 | |
| EBITDA | 3,417.1 | 3,425.1 | 0.2 | 3,684.7 | 3,664.7 | -0.5 | |
| EBITDA Margin (%) | 21.4 | 21.8 | 40 bps | 21.8 | 21.8 | -2 bps | |
| Adj. PAT | 2,171.1 | 2,133.6 | -1.7 | 2,530.9 | 2,247.2 | -11.2 | Changed mainly due to change in minority interest |
| EPS (₹) | 21.2 | 20.8 | -1.7 | 24.7 | 22.0 | -11.1 | |

Source: ICICI Direct Research

Exhibit 3: Assumptions

| (₹ crore) | Current | | | Earlier | | | Comments |
|------------------------|---------|---------|---------|---------|---------|---------|--|
| | FY20 | FY21 | FY22E | FY23E | FY22E | FY23E | |
| India | 3,714.1 | 4,042.9 | 4,913.4 | 5,340.2 | 4,593.3 | 5,144.5 | |
| US | 6,251.4 | 6,444.5 | 6,273.8 | 6,592.2 | 6,656.2 | 6,989.0 | |
| Europe | 195.7 | 227.5 | 256.4 | 282.0 | 252.7 | 278.0 | |
| EMs | 875.3 | 1,016.7 | 1,134.1 | 1,247.5 | 1,118.4 | 1,230.2 | |
| Wellness | 1,737.9 | 1,840.9 | 2,000.2 | 2,160.3 | 2,052.0 | 2,216.1 | |
| JVs | 69.8 | 87.1 | 120.4 | 100.5 | 91.1 | 98.4 | Changed mainly due to better-than-expected sales in Q1FY22 |
| APIs | 453.0 | 562.1 | 593.9 | 653.2 | 602.3 | 662.6 | |
| Animal Health & Others | 514.9 | 599.8 | 0.0 | 0.0 | 340.0 | 0.0 | |

Source: ICICI Direct Research

Exhibit 4: Financial Summary

| | Revenues | Growth | EPS | Growth | P/E | EV/EBITDA | RoE | RoCE |
|-------|-----------|--------|------|--------|------|-----------|------|------|
| | (₹ crore) | (%) | (₹) | (%) | (x) | (X) | (%) | (%) |
| FY20 | 14253 | 8.3 | 14.0 | -22.7 | 49.0 | 23.6 | 13.8 | 10.7 |
| FY21 | 14977 | 5.1 | 21.5 | 53.8 | 28.7 | 19.1 | 16.9 | 12.6 |
| FY22E | 15714 | 4.9 | 20.8 | -3.0 | 13.3 | 16.9 | 12.6 | 13.1 |
| FY23E | 16827 | 7.1 | 22.0 | 5.3 | 25.7 | 15.6 | 12.1 | 12.9 |

Source: ICICI Direct Research

Exhibit 5: Revenue Mix

| (₹ crore) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | CAGR (FY16-21) % | CAGR (FY21-23E) % |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|------------------|-------------------|
| India | 2,983 | 3,244 | 3,333 | 3,534 | 3,714 | 4,043 | 4,913 | 5,340 | 6.3 | 14.9 |
| US | 4,022 | 3,709 | 5,835 | 6,280 | 6,251 | 6,445 | 6,274 | 6,592 | 9.9 | 1.1 |
| Europe | 295 | 262 | 240 | 227 | 196 | 228 | 256 | 282 | -5.1 | 11.3 |
| EMs | 690 | 749 | 762 | 831 | 875 | 1,017 | 1,134 | 1,248 | 8.1 | 10.8 |
| Wellness | 432 | 459 | 492 | 808 | 1,738 | 1,841 | 2,000 | 2,160 | 33.6 | 8.3 |
| JVs | 263 | 159 | 159 | 132 | 70 | 87 | 120 | 100 | -19.8 | 7.4 |
| Total APIs | 365 | 380 | 366 | 425 | 453 | 562 | 594 | 653 | 9.0 | 7.8 |

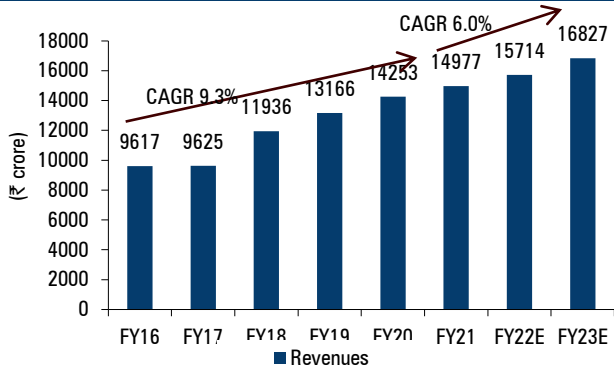
Source: ICICI Direct Research

Exhibit 6: Trends in Quarterly Performance

| (₹ Crore) | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | YoY (%) | QoQ (%) |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|
| Sales | 2893.7 | 2961.2 | 3577.9 | 3732.8 | 3496.3 | 3366.6 | 3638.1 | 3752.1 | 3514.7 | 3820.0 | 3795.6 | 3846.7 | 4025.4 | 14.5 | 4.6 |
| Raw Material Expense | 986.6 | 991.9 | 1352.5 | 1385.7 | 1259.5 | 1156.5 | 1244.3 | 1259.7 | 1250.3 | 1322.3 | 1293.5 | 1344.0 | 1374.8 | 10.0 | 2.3 |
| % of revenue | 34.1 | 33.5 | 37.8 | 37.1 | 36.0 | 34.4 | 34.2 | 33.6 | 35.6 | 34.6 | 34.1 | 34.9 | 34.2 | | |
| Gross Profit | 1907.1 | 1969.3 | 2225.4 | 2347.1 | 2236.8 | 2210.1 | 2393.8 | 2492.4 | 2264.4 | 2497.7 | 2502.1 | 2502.7 | 2650.6 | 17.1 | 5.9 |
| % of revenue | 65.9 | 66.5 | 62.2 | 62.9 | 64.0 | 65.6 | 65.8 | 66.4 | 64.4 | 65.4 | 65.9 | 65.1 | 65.8 | 142 bps | 79 bps |
| Employee Expenses | 526.6 | 521.2 | 524.0 | 552.3 | 589.8 | 596.7 | 619.0 | 609.0 | 634.5 | 616.5 | 628.6 | 620.9 | 654.2 | 3.1 | 5.4 |
| % of revenue | 18.2 | 17.6 | 14.6 | 14.8 | 16.9 | 17.7 | 17.0 | 16.2 | 18.1 | 16.1 | 16.6 | 16.1 | 16.3 | | |
| Other Expenditure | 735.5 | 760.3 | 861.8 | 994.4 | 1015.0 | 987.8 | 1081.6 | 1092.2 | 939.7 | 1017.8 | 1066.6 | 1026.5 | 1063.4 | 13.2 | 3.6 |
| % of revenue | 25.4 | 25.7 | 24.1 | 26.6 | 29.0 | 29.3 | 29.7 | 29.1 | 26.7 | 26.6 | 28.1 | 26.7 | 26.4 | | |
| Total Expenditure | 2248.7 | 2273.4 | 2738.3 | 2932.4 | 2864.3 | 2741.0 | 2944.9 | 2960.9 | 2824.5 | 2956.6 | 2988.7 | 2991.4 | 3092.4 | 9.5 | 3.4 |
| % of revenue | 77.7 | 76.8 | 76.5 | 78.6 | 81.9 | 81.4 | 80.9 | 78.9 | 80.4 | 77.4 | 78.7 | 77.8 | 76.8 | | |
| EBITDA | 645.0 | 687.8 | 839.6 | 800.4 | 632.0 | 625.6 | 693.2 | 791.2 | 690.2 | 863.4 | 806.9 | 855.3 | 933.0 | 35.2 | 9.1 |
| EBITDA Margins (%) | 22.3 | 23.2 | 23.5 | 21.4 | 18.1 | 18.6 | 19.1 | 21.1 | 19.6 | 22.6 | 21.3 | 22.2 | 23.2 | 354 bps | 94 bps |
| Depreciation | 141.8 | 147.5 | 153.7 | 155.6 | 171.6 | 172.3 | 174.1 | 178.5 | 176.8 | 179.0 | 180.4 | 188.6 | 182.7 | 3.3 | -3.1 |
| Interest | 35.0 | 35.7 | 45.5 | 77.3 | 89.1 | 89.7 | 80.5 | 82.5 | 67.7 | 45.7 | 26.8 | 23.3 | 27.3 | -59.7 | 17.2 |
| Other Income | 101.3 | 30.4 | 31.0 | 38.4 | 22.6 | 26.9 | 20.1 | 44.3 | 22.5 | 27.5 | 27.5 | -40.3 | 31.6 | 40.4 | -178.4 |
| Forex & EO | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -268.1 | -1.6 | -52.5 | 0.0 | -132.0 | 0.0 | -73.1 | 0.0 | | |
| PBT | 569.5 | 535.0 | 671.4 | 605.9 | 393.9 | 122.4 | 457.1 | 522.0 | 468.2 | 534.2 | 627.2 | 530.0 | 754.6 | 61.2 | 42.4 |
| Total Tax | 120.3 | 124.7 | 158.6 | 126.7 | 79.1 | 39.5 | 92.7 | 108.5 | 123.5 | 110.6 | 114.7 | -201.6 | 141.5 | 14.6 | -170.2 |
| Tax rate (%) | 21.1 | 23.3 | 23.6 | 20.9 | 20.1 | 32.3 | 20.3 | 20.8 | 26.4 | 20.7 | 18.3 | -38.0 | 18.8 | -762.6 | 5678.9 |
| PAT before MI | 449.2 | 410.3 | 512.8 | 479.2 | 314.8 | 82.9 | 364.4 | 413.5 | 344.7 | 423.6 | 512.5 | 731.6 | 613.1 | 77.9 | -16.2 |
| Minority Interest | 8.8 | 10.7 | 10.9 | 21.6 | 21.5 | -13.2 | -2.5 | 21.8 | 32.6 | -38.4 | 0.8 | 56.4 | 55.3 | 69.6 | -2.0 |
| PAT | 461.0 | 417.5 | 510.4 | 460.1 | 303.8 | 107.2 | 373.9 | 391.9 | 328.8 | 473.4 | 527.2 | 679.0 | 564.8 | 71.8 | -16.8 |
| Adjusted PAT | 461.0 | 417.5 | 510.4 | 460.1 | 303.8 | 317.1 | 375.2 | 433.5 | 328.8 | 578.1 | 527.2 | 779.9 | 564.8 | 71.8 | -27.6 |
| Adjusted EPS (₹) | 4.5 | 4.1 | 5.0 | 4.5 | 3.0 | 3.1 | 3.7 | 4.2 | 3.2 | 5.6 | 5.1 | 7.6 | 5.5 | | |

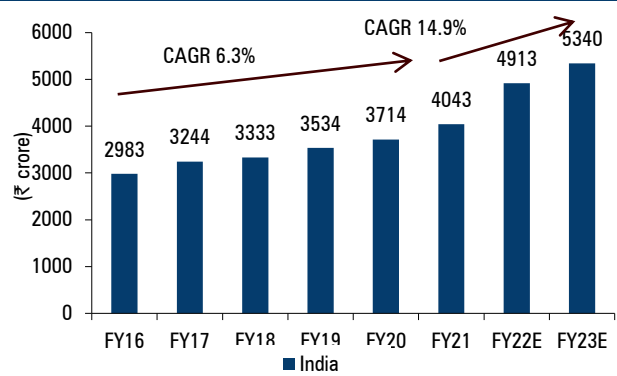
Source: ICICI Direct Research

Exhibit 7: Revenues to grow at CAGR of 6% over FY21-23E



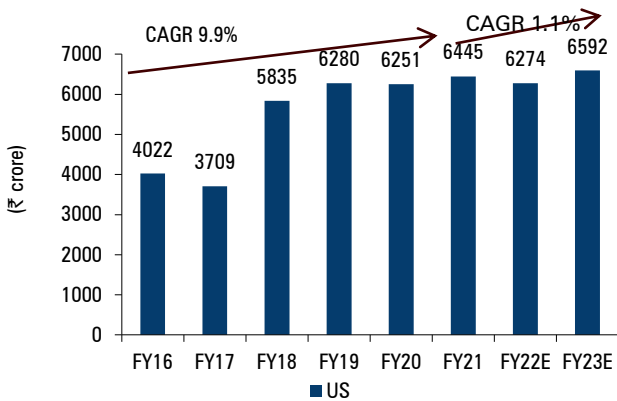
Source: ICICI Direct Research, Company

Exhibit 8: Domestic to grow at ~14.9% CAGR in FY21-23E



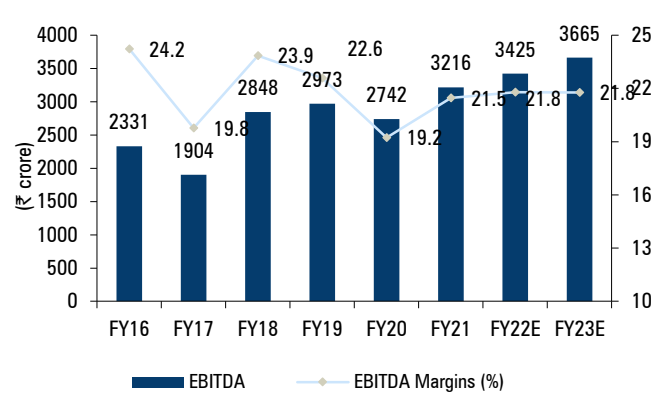
Source: ICICI Direct Research, Company

Exhibit 9: US to grow at CAGR of ~1.1% over FY21-23E



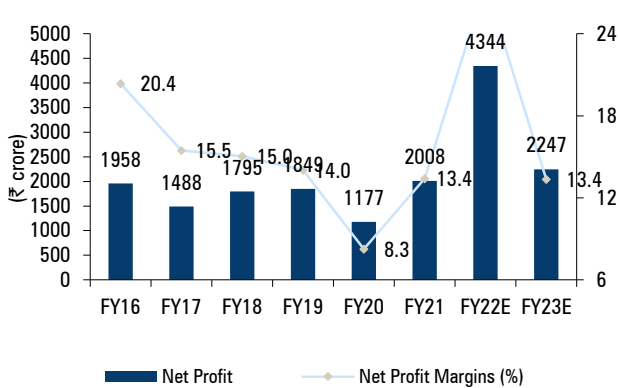
Source: ICICI Direct Research, Company

Exhibit 10: EBITDA & EBITDA margins trend



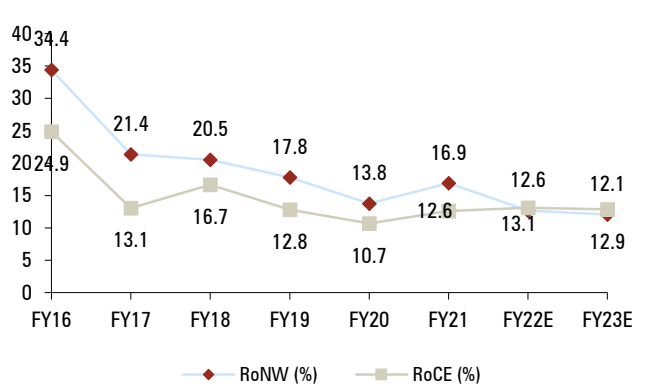
Source: ICICI Direct Research, Company

Exhibit 11: PAT & PAT margins trend



Source: ICICI Direct Research, Company

Exhibit 12: RoE & RoCE trend



Source: ICICI Direct Research, Company

Exhibit 13: ICICI Direct Coverage Universe (Healthcare)

| Company | I-Direct Code | CMP (₹) | TP (₹) | Rating | M Cap (₹ cr) | EPS (₹) | | | | PE(x) | | | | RoCE (%) | | | RoE (%) | | | | |
|--------------------------|---------------|------------|------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | | | | FY20 | FY21 | FY22E | FY23E | FY20 | FY21 | FY22E | FY23E | FY20 | FY21 | FY22E | FY23E | FY20 | FY21 | FY22E | FY23E |
| Ajanta Pharma | AJAPHA | 2254 | 2,695 | Buy | 19504 | 53.4 | 74.0 | 80.8 | 89.8 | 42.2 | 30.5 | 27.9 | 25.1 | 24.7 | 29.0 | 24.9 | 24.0 | 18.1 | 21.8 | 20.2 | 19.2 |
| Alembic Pharma | ALEMPHA | 762 | 885 | Hold | 14982 | 44.4 | 59.9 | 35.2 | 44.3 | 17.2 | 12.7 | 21.7 | 17.2 | 21.0 | 24.2 | 12.7 | 14.8 | 27.1 | 23.0 | 12.3 | 13.8 |
| Apollo Hospitals | APOHOS | 4025 | 3,870 | Buy | 57873 | 22.6 | 7.9 | 55.2 | 81.4 | 178.2 | 512.1 | 72.9 | 49.5 | 10.2 | 6.3 | 13.7 | 18.0 | 9.7 | 2.5 | 15.1 | 18.8 |
| Aurobindo Pharma | AURPHA | 857 | 1,165 | Buy | 50186 | 48.8 | 55.0 | 61.4 | 69.3 | 17.6 | 15.6 | 14.0 | 12.4 | 17.2 | 16.8 | 16.3 | 16.5 | 17.0 | 14.7 | 14.2 | 13.9 |
| Biocon | BIOCON | 373 | 400 | Hold | 44718 | 5.8 | 6.1 | 6.1 | 12.5 | 64.0 | 61.2 | 60.9 | 29.7 | 10.2 | 7.6 | 8.7 | 12.5 | 10.4 | 9.6 | 8.9 | 15.6 |
| Cadila Healthcare | CADHEA | 563 | 583 | Hold | 57637 | 14.0 | 21.5 | 20.8 | 22.0 | 40.3 | 26.2 | 27.0 | 25.6 | 10.7 | 12.6 | 13.1 | 12.9 | 13.8 | 16.9 | 12.6 | 12.1 |
| Cipla | CIPLA | 909 | 1,205 | Buy | 73267 | 19.2 | 29.9 | 35.5 | 41.6 | 47.3 | 30.4 | 25.6 | 21.8 | 12.0 | 16.3 | 17.9 | 18.4 | 9.8 | 13.1 | 14.0 | 14.5 |
| Divi's Lab | DIVLAB | 4911 | 5,815 | Buy | 130378 | 51.9 | 74.7 | 94.7 | 116.3 | 94.7 | 65.7 | 51.9 | 42.2 | 23.9 | 27.6 | 28.8 | 29.2 | 18.8 | 21.3 | 22.5 | 23.0 |
| Dr Reddy's Labs | DRREDD | 4750 | 5,250 | Hold | 79014 | 121.8 | 117.3 | 126.8 | 197.3 | 39.0 | 40.5 | 37.5 | 24.1 | 9.6 | 13.1 | 12.9 | 16.5 | 13.0 | 11.1 | 10.8 | 14.7 |
| Glenmark Pharma | GLEPHA | 578 | 750 | Buy | 16321 | 26.4 | 32.9 | 42.1 | 50.1 | 21.9 | 17.6 | 13.7 | 11.5 | 12.7 | 13.7 | 15.5 | 16.5 | 12.2 | 13.1 | 14.5 | 14.8 |
| Hikal | HIKCHE | 647 | 590 | Hold | 7981 | 8.1 | 10.8 | 16.5 | 19.6 | 79.9 | 59.9 | 39.3 | 33.0 | 12.8 | 15.1 | 17.2 | 18.4 | 12.2 | 14.3 | 18.1 | 17.9 |
| Ipca Laboratories | IPCLAB | 2400 | 2,560 | Buy | 30444 | 47.6 | 89.9 | 88.2 | 102.4 | 50.5 | 26.7 | 27.2 | 23.4 | 17.6 | 27.1 | 22.2 | 21.5 | 16.6 | 24.2 | 19.3 | 18.4 |
| Jubilant Pharmova | JUBLIF | 672 | 850 | Buy | 10703 | 44.6 | 37.4 | 59.9 | 84.9 | 15.1 | 18.0 | 11.2 | 7.9 | 11.7 | 13.7 | 18.2 | 22.4 | 12.7 | 12.6 | 16.9 | 19.5 |
| Lupin | LUPIN | 1050 | 1,160 | Hold | 47660 | -12.7 | 26.9 | 40.0 | 44.6 | NA | 39.1 | 26.2 | 23.6 | 9.7 | 9.0 | 12.6 | 13.2 | -4.6 | 8.8 | 11.8 | 11.9 |
| Narayana Hrudalaya | NARHRU | 511 | 620 | Buy | 10434 | 6.4 | -0.7 | 12.3 | 15.6 | 80.4 | NA | 41.4 | 32.8 | 11.0 | 1.2 | 14.5 | 16.8 | 11.4 | -1.3 | 18.6 | 19.3 |
| Natco Pharma | NATPHA | 1009 | 1,010 | Hold | 18398 | 25.3 | 24.2 | 19.5 | 23.3 | 39.9 | 41.7 | 51.7 | 43.3 | 14.0 | 13.1 | 10.1 | 11.2 | 12.2 | 10.7 | 8.1 | 9.1 |
| Sun Pharma | SUNPHA | 779 | 800 | Hold | 186968 | 16.8 | 30.0 | 25.1 | 28.6 | 46.4 | 25.9 | 31.0 | 27.3 | 10.0 | 14.4 | 15.1 | 15.3 | 8.9 | 15.5 | 12.0 | 12.2 |
| Syngene Int. | SYNINT | 629 | 780 | Buy | 25140 | 10.3 | 10.1 | 11.0 | 15.6 | 61.0 | 62.1 | 57.0 | 40.4 | 14.5 | 11.5 | 13.1 | 16.6 | 16.8 | 13.5 | 13.6 | 16.1 |
| Torrent Pharma | TORPHA | 2899 | 3,250 | Buy | 49056 | 60.6 | 74.0 | 78.5 | 101.5 | 47.9 | 39.2 | 36.9 | 28.5 | 15.4 | 17.7 | 20.8 | 22.2 | 21.2 | 21.4 | 19.4 | 21.1 |
| Shalby | SHALIM | 186 | 130 | Hold | 2229 | 2.6 | 3.9 | 4.9 | 5.5 | 72.6 | 47.3 | 37.8 | 33.5 | 7.2 | 6.5 | 9.0 | 8.5 | 3.5 | 5.1 | 6.0 | 6.5 |
| Aster DM | ASTDM | 160 | 210 | Buy | 8217 | 5.7 | 3.0 | 10.5 | 13.7 | 28.0 | 54.0 | 15.3 | 11.6 | 7.2 | 5.4 | 9.1 | 10.6 | 8.7 | 4.4 | 13.4 | 15.0 |
| Indoco Remedies | INDREM | 450 | 575 | Buy | 3945 | 2.6 | 10.1 | 16.7 | 23.9 | 172.0 | 44.6 | 26.9 | 18.8 | 4.6 | 11.8 | 19.4 | 21.8 | 3.5 | 12.1 | 17.1 | 20.2 |
| Caplin Point | CAPPOI | 840 | 1,135 | Buy | 6756 | 28.4 | 32.0 | 40.8 | 47.4 | 29.6 | 26.2 | 20.6 | 17.7 | 26.5 | 25.4 | 26.1 | 25.6 | 22.7 | 20.4 | 21.1 | 20.0 |
| Granules India | GRANUL | 368 | 430 | Buy | 9741 | 12.4 | 22.2 | 23.6 | 28.7 | 29.6 | 16.6 | 15.6 | 12.8 | 15.2 | 24.0 | 23.4 | 24.2 | 16.7 | 25.3 | 21.5 | 21.0 |
| Laurus Labs | LAULAB | 703 | 785 | Buy | 34493 | 4.8 | 18.3 | 22.6 | 28.0 | 147.8 | 38.4 | 31.1 | 25.1 | 13.0 | 31.7 | 30.6 | 30.6 | 14.4 | 37.9 | 32.9 | 29.8 |
| Advanced Enzymes | ADVENZ | 382 | 480 | Buy | 4272 | 11.6 | 13.1 | 14.6 | 18.4 | 33.0 | 29.2 | 26.2 | 20.8 | 19.6 | 19.4 | 19.2 | 20.9 | 15.4 | 15.1 | 14.5 | 15.6 |

Source: ICICI Direct Research

Financial Summary

| Exhibit 14: Profit and loss statement | | | | |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
| Revenues | 14,253.1 | 14,977.0 | 15,713.6 | 16,827.5 |
| Growth (%) | 8.3 | 5.1 | 4.9 | 7.1 |
| Raw Material Expenses | 4,920.0 | 5,210.1 | 5,411.5 | 5,721.3 |
| Employee Expenses | 2,414.5 | 2,500.5 | 2,542.9 | 2,733.4 |
| Other expenses | 4,176.6 | 4,050.6 | 4,334.1 | 4,708.0 |
| Total Operating Expenditure | 11,511.1 | 11,761.2 | 12,288.5 | 13,162.7 |
| EBITDA | 2,742.0 | 3,215.8 | 3,425.1 | 3,664.7 |
| Growth (%) | -7.8 | 17.3 | 6.5 | 7.0 |
| Depreciation | 696.5 | 724.8 | 768.0 | 840.4 |
| Interest | 341.8 | 163.5 | 64.2 | 64.2 |
| Other Income | 113.9 | 37.2 | 99.8 | 131.0 |
| Less: Exceptional Items | 322.2 | 205.1 | -2,721.0 | 0.0 |
| PBT after Exceptional Items | 1,495.4 | 2,159.6 | 5,413.8 | 2,891.2 |
| Total Tax | 319.8 | 147.2 | 1,015.2 | 578.2 |
| Minority Interest | 27.6 | 51.4 | 74.1 | 74.1 |
| PAT | 1,176.8 | 2,008.4 | 4,344.4 | 2,247.2 |
| Adjusted PAT | 1,430.1 | 2,199.5 | 2,133.6 | 2,247.2 |
| Growth (%) | -22.7 | 53.8 | -3.0 | 5.3 |
| EPS (Adjusted) | 14.0 | 21.5 | 20.8 | 22.0 |

Source: Company, ICICI Direct Research

| Exhibit 15: Cash flow statement | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
| Profit/(Loss) after taxation | 1,193.3 | 1,939.8 | 4,344.4 | 2,247.2 |
| Add: Depreciation | 696.5 | 724.8 | 768.0 | 840.4 |
| Net Increase in Current Assets | 224.9 | -125.0 | -608.9 | -610.2 |
| Net Increase in Current Liabilities | -95.5 | 311.8 | 137.3 | 259.8 |
| Other Operating Activities | 486.2 | 441.6 | 64.2 | 64.2 |
| CF from operating activities | 2,505.4 | 3,293.0 | 4,704.9 | 2,801.3 |
| (Inc)/dec in Fixed Assets | -888.8 | -743.4 | -800.0 | -800.0 |
| Loan & Advances | 0.0 | 0.0 | -49.2 | -53.7 |
| (Inc)/dec in MI | 0.0 | 0.0 | 74.1 | 74.1 |
| Other Investing Activities | -206.8 | -77.3 | -53.1 | -657.9 |
| CF from investing activities | -1,095.6 | -820.7 | -828.2 | -1,437.5 |
| Inc/(dec) in loan funds | -348.9 | -3,342.7 | -3,000.0 | 0.0 |
| Dividend paid & dividend tax | -856.9 | -1.5 | -469.4 | -494.4 |
| Inc/(dec) in forex reserve | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Paid | 111.6 | -191.3 | -64.2 | -64.2 |
| Other Financing Activities | 0.0 | 986.6 | 0.0 | 0.0 |
| CF from financing activities | -1,094.2 | -2,548.9 | -3,533.6 | -558.5 |
| Net Cash flow | 315.6 | -76.6 | 343.1 | 805.3 |
| Opening Cash | 649.3 | 964.9 | 888.3 | 1,231.4 |
| Closing Cash | 964.9 | 888.3 | 1,231.4 | 2,036.7 |
| Free Cash Flow | 1,616.6 | 2,549.6 | 3,904.9 | 2,001.3 |

Source: Company, ICICI Direct Research

| Exhibit 16: Balance Sheet | | | | |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
| Equity Capital | 102.4 | 102.4 | 102.4 | 102.4 |
| Reserve and Surplus | 10,273.3 | 12,889.9 | 16,764.9 | 18,517.7 |
| Total Shareholders funds | 10,375.7 | 12,992.3 | 16,867.3 | 18,620.1 |
| Total Debt | 7,999.3 | 4,638.6 | 1,638.6 | 1,638.6 |
| Deferred Tax Liability | 209.9 | 119.7 | 130.5 | 142.2 |
| Minority Interest | 1,334.7 | 1,937.3 | 2,011.4 | 2,085.5 |
| Other Non Curr.Liab. & LTP | 282.3 | 364.6 | 397.4 | 433.2 |
| Total Liabilities | 20,201.9 | 20,052.5 | 21,045.2 | 22,919.6 |
| Gross Block - Fixed Assets | 11,334.5 | 12,006.6 | 13,006.6 | 14,006.6 |
| Less: Acc Depreciation | 4,495.5 | 5,220.3 | 5,988.3 | 6,828.7 |
| Net Block | 6,839.0 | 6,786.3 | 7,018.3 | 7,177.9 |
| Capital WIP | 741.5 | 783.2 | 583.2 | 383.2 |
| Total Fixed Assets | 7,580.5 | 7,569.5 | 7,601.5 | 7,561.1 |
| Goodwill on Consolidation | 5,391.5 | 5,346.5 | 5,346.5 | 5,346.5 |
| Investment | 765.0 | 830.1 | 830.1 | 1,430.1 |
| Inventory | 2,789.0 | 3,236.2 | 3,087.9 | 3,306.7 |
| Debtors | 3,663.2 | 3,127.3 | 3,770.7 | 4,037.9 |
| Other Current Assets | 1,085.5 | 1,265.3 | 1,379.2 | 1,503.3 |
| Cash | 964.9 | 888.3 | 1,231.4 | 2,036.7 |
| Total Current Assets | 8,502.6 | 8,517.1 | 9,469.1 | 10,884.6 |
| Creditors | 2,031.0 | 2,205.9 | 2,248.6 | 2,408.0 |
| Provisions | 243.2 | 329.9 | 359.6 | 392.0 |
| Other Current Liabilities | 1,210.5 | 1,296.4 | 1,361.2 | 1,429.3 |
| Total Current Liabilities | 3,484.7 | 3,832.2 | 3,969.5 | 4,229.2 |
| Deferred Tax Assets | 852.9 | 1,074.4 | 1,171.1 | 1,276.5 |
| Net Current Assets | 5,017.9 | 4,684.9 | 5,499.7 | 6,655.4 |
| Long term Loans and advances | 594.1 | 547.1 | 596.3 | 650.0 |
| Application of Funds | 20,201.9 | 20,052.5 | 21,045.2 | 22,919.6 |

Source: Company, ICICI Direct Research

| Exhibit 17: Key ratios | | | | |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
| Per share data (₹) | | | | |
| Adjusted EPS | 14.0 | 21.5 | 20.8 | 22.0 |
| BV per share | 101.4 | 126.9 | 164.8 | 181.9 |
| Dividend per share | 4.3 | 3.5 | 4.6 | 4.8 |
| Cash Per Share | 9.4 | 8.7 | 12.0 | 19.9 |
| Operating Ratios (%) | | | | |
| Gross Profit Margins | 65.5 | 65.2 | 65.6 | 66.0 |
| EBITDA margins | 19.2 | 21.5 | 21.8 | 21.8 |
| Net Profit margins | 10.0 | 14.7 | 13.6 | 13.4 |
| Inventory days | 71.4 | 78.9 | 71.7 | 71.7 |
| Debtor days | 93.8 | 76.2 | 87.6 | 87.6 |
| Creditor days | 52.0 | 53.8 | 52.2 | 52.2 |
| Asset Turnover | 1.3 | 1.2 | 1.2 | 1.2 |
| EBITDA Conversion Ratio | 91.4 | 102.4 | 137.4 | 76.4 |
| Return Ratios (%) | | | | |
| RoE | 13.8 | 16.9 | 12.6 | 12.1 |
| RoCE | 10.7 | 12.6 | 13.1 | 12.9 |
| RoIC | 11.1 | 13.6 | 13.9 | 13.8 |
| Valuation Ratios (x) | | | | |
| P/E | 49.0 | 28.7 | 13.3 | 25.7 |
| EV / EBITDA | 23.6 | 19.1 | 16.9 | 15.6 |
| EV / Net Sales | 4.5 | 4.1 | 3.7 | 3.4 |
| Market Cap / Sales | 4.0 | 3.8 | 3.7 | 3.4 |
| Price to Book Value | 5.6 | 4.4 | 3.4 | 3.1 |
| Solvency Ratios | | | | |
| Debt / EBITDA | 2.9 | 1.4 | 0.5 | 0.4 |
| Debt / Equity | 0.8 | 0.4 | 0.1 | 0.1 |
| Current Ratio | 2.2 | 2.0 | 2.1 | 2.1 |

Source: Company, ICICI Direct Research

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