

Stock Update

Cadila Healthcare Ltd.

December 29, 2021





Cadila Healthcare Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 458.1	Buy in the Rs 458-463 band & add more on dips at Rs 410	Rs 513	Rs 551	2 quarters

HDFC Scrip Code	CADHEAEQNR
BSE Code	532321
NSE Code	CADILAHC
Bloomberg	CDH IN
CMP Dec 28, 2021	458
Equity Capital (Rs cr)	102.4
Face Value (Rs)	1
Equity Share O/S (cr)	102.4
Market Cap (Rs cr)	46898
Book Value (Rs)	127
Avg. 52 Wk Volumes	3935218
52 Week High	673.7
52 Week Low	408.4

Share holding Pattern % (Sep, 2021)	
Promoters	74.9
Institutions	15.4
Non Institutions	9.7
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Cadila Healthcare is one of the leading pharmaceutical companies having presence across domestic and international business. It has a well-diversified portfolio with presence mainly in the US markets, emerging markets, domestic formulations and consumer wellness business (Zydus Wellness). Company is the fourth largest formulations player with 4.2% market share in Indian Pharmaceutical market (IPM). Cadila has registered strong growth in the domestic formulation business while US business has seen decline in H1FY22. The company expects meaningful growth in US revenue from H2FY23 on the back of complex launches and Moraiya facility contribution.

Management has guided for > US\$ 250 mn sales each for injectables and vaccines segment in the next 3 years. Company has received Emergency Use Authorisation (EUA) for ZyCoV-D and plans to manufacture around 1cr doses per month. Due to continued emergence of new variants such as Omicron, the company's vaccine sales are expected to gain momentum in the medium term. In Nov-2021, the company received an order from the Indian government for supply of 10 mn doses of ZyCoV-D at Rs 358 per dose including Rs 93 for the needle-free applicator. Company has agreed to provide manufacturing license and transfer Plasmid DNA vaccine technology to Enzychem Lifesciences, Republic of Korea. Cadila continues to grow in high-teens (ex-Covid) led by new launches, volume growth, and market share gains in key therapeutic areas in the domestic formulation segment.

On Oct-19, 2020, we had initiated coverage on Cadila Healthcare at Rs 430.5 for base case target of Rs 457 and bull case target of Rs 497. On Jan 28, 2021, we had issued stock update note at Rs 464 with target price of Rs 543. After that the stock hit high of Rs 673 in Jun-2021. Cadila has corrected around 30% from its peak. This provides an attractive entry point with favourable risk reward. Healthy ANDA filing and launch momentum, injectables business, innovative pipeline, and in-licensing deals, strong domestic business outlook and vaccine business ramp up are some of the key positives.

Valuation & Recommendation:

Launch of injectables and niche low competition launches are the future building blocks for the US business. Cadila's material capital allocation in transdermals, vaccines, NCEs and biosimilars would lead to healthy earnings growth over the next 2-3 years. Domestic formulations and consumer wellness businesses should grow in high single digits and low-mid-teens, respectively over FY21-24E. We estimate 6% revenue CAGR led by strong in domestic formulation, consumer wellness and EM business. We have estimated margin in the 21-23% range over this period. We expect adjusted PAT to register 9% PAT CAGR on the back of steady margin and lower interest expenses over FY21-24E (due to high base in FY21). US business is expected to remain almost flat over the same period. Investors can buy the stock at LTP and add further on dips to Rs 410 (16x Dec-2023E EPS) for base case fair value of Rs 513 (20x Dec-2023E EPS) and bull case fair value of Rs 551 (21.5x Dec-2023E EPS) over the next two quarters.



Financial Summary

Particulars (Rs cr)	Q2 FY22	Q2 FY21	YoY (%)	Q1 FY22	QoQ (%)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Revenues	3785	3659	3.4	4026	-6.0	13,166	14,253	15,102	15,445	16,396	18,111
EBITDA	861	814	5.8	933	-7.7	2984	2783	3341	3435	3526	4062
Depreciation	185	175	5.8	183	1.1	599	697	725	729	683	721
Other Income	53	28	92.7	32	65.6	135	114	37	172	192	168
Interest Cost	30	45	-33.6	27	9.9	194	342	164	110	96	75
Tax	100	100	-0.2	141	-29.2	530	320	151	548	588	626
APAT	597	473	26.2	587	1.7	1793	1540	2339	2205	2292	2734
EPS (Rs)						17.5	15.0	22.8	21.5	22.4	26.7
RoE (%)						18.7	14.8	20.0	15.7	14.7	15.4
P/E (x)						26.2	30.5	20.1	21.3	20.4	17.2
EV/EBITDA (x)						18.6	19.8	15.7	14.0	13.4	11.3

(Source: Company, HDFC sec)

Q2 FY22 result update

Revenue for the quarter grew 3.4% YoY at Rs 3785cr. EBITDA margin improved 50bps YoY at 22.7%. Margin improved due to lower other expenses. Cadila reported net profit of Rs 3002.3cr which included one off gain of Rs 2681cr due to sale of animal health business. Company had one off exceptional loss of 95.7cr in the quarter as well. Adjusted net profit came in at Rs 597cr.

Gross Margin (GM) declined 190 bps YoY (240bps QoQ) to 63.5% in Q2FY22 vs. 65.8% in Q1FY22 vs. 65.4% in Q2FY21. Net profit from continued operations grew 7% YoY (-13.8% QoQ) to Rs 506cr.

India business which includes human formulations and consumer wellness business (43% of consolidated revenue) during the quarter, witnessed healthy growth of 12% on a YoY basis and registered sales of Rs 1591cr during the quarter. US business grew 3% QoQ however declined 12% YoY at Rs 1498cr. Emerging Markets (EM) revenue registered strong 48% YoY and 26% QoQ growth at Rs 349cr.

Human health formulations business grew 12% while consumer wellness business grew by 13% during the quarter. Excluding the institutional sales of COVID products, human health formulations business increased 17%.

It has significantly strengthened its balance sheet; net debt has fallen to Rs 400cr (vs. Rs 1000cr QoQ; vs. Rs 3500cr as on Mar-21). Research & Development (R&D) expenses stood at Rs 224cr or 5.9% of revenue. Company filed 13 ANDAs in H1FY22 and received final approval for 9 products in H1FY22.



During the quarter, the company received approval for the world's first Plasmid DNA vaccine for COVID-19, ZyCoV-D. Company also received approval from the DCGI to conduct Phase III trials for the two dose regimen of the vaccine.

H1FY22 result highlights

Consolidated revenue grew 4% YoY in the H1FY22, supported by growth in the domestic and emerging markets while US revenue witnessed degrowth. US business (~43% of revenue) degrew by 11% in the first half of FY22 due to continued intense pricing pressure and lack of new key launches. The delayed regulatory re-inspection and closure of US FDA warning letter at the group's plant in Moraiya (Gujarat) restricted new product launches in the US market. The resolution of pending regulatory issues at the Moraiya plant and pick-up in new product launches resulting in strong revenue growth in the US market would remain the key monitorables. Company launched 7 new products in the US market.

Domestic formulations segment (27% of revenue) is expected to witness healthy growth in FY22, given the revival in demand and lower base of previous fiscal. In August 2021, India's drug regulator granted emergency use approval for Cadila's Covid-19 vaccine, ZyCoV-D. The Covid-19 vaccine sales could provide upside to the overall domestic market sales and would remain the key monitorable. Operating margin stood at 22% in FY21 and is expected to remain healthy at 21-22% over the medium term, supported by cost control measures and ability to pass on majority of input cost increase to customers.

Concall Highlights

- The company launched three new products including complex injectable namely Enoxaparin sodium injection, an in-licensed product, which is the second in-licensed complex injectable product.
- The company has been progressing well on its zero-based budgeting approach of cost savings for Human Health formulations business in India and is likely to yield margin expansion in the range of 80-100bps from CY22.
- Excluding the impact of inventory provision taken up by the company for COVID-19 products, the company's EBITDA margin increased to 23.8% vs. 22.7%.
- Net debt stood at Rs 400cr as of Q2FY22 compared to Rs 3500cr as of Q4FY21, resulting in the net debt to EBITDA ratio coming down to 0.1x as of Q2FY22 from 1.1x as of Q4FY21.
- In Sep-2021, the company entered into an agreement with Shilpa Medicare for production and supply of ZyCOV-D vaccine from its manufacturing facility.



- Company guides for flat sales in the US markets in Q3FY22 and likely fall in Q4FY22 due to increased competitive pressures in the US. Cadila intends to launch launch around 50 products in the US in CY22.
- Vaccines are expected to become US\$ 250mn business by FY25/FY26 vs. US\$ 10-15mn.

Established market position

Zydus Cadila group is one of the top five players in the domestic formulations market. It is amongst the leading companies in the high-growth lifestyle segments such as gastrointestinal, cardiology, respiratory and gynaecology. The group has strengthened its marketing team over the past couple of years, giving more thrust on market strategies such as growth in the categories, integration of channel partners, supply chain and procurement to improve revenue and cost synergies. This led to better growth momentum in FY21 and is expected to sustain over the medium term, backed by its established brands, large and therapeutic-focused field force, in-licensing agreements, and product launches. It has established presence in rest of the world markets of Brazil, Mexico and South Africa. The company also has healthy pipeline of complex molecules and bio-similars in the domestic and emerging markets, and will be the growth drivers over the medium term. The COVID-19 vaccine sales would provide additional upside in domestic market growth and would be key monitorable.

Growing presence in the regulated generics markets

The group's business prospects are supported by its growing presence in regulated generics markets such as the US. The group has 333 approvals and has filed 425 abbreviated new drug application (ANDAs), as on Sep-2021. Healthy pace of filings and approvals in the US, also reflected in the strong ANDA pipeline of over 90 as of Sep-2021, will strengthen the US business. With formulation revenue of Rs 6,445 crore in FY21, the group is one of the top five players in the US generic market. The warning letter on the Moraiya plant and delayed regulatory re-inspection and resolution has constrained the growth to an extent last fiscal. The resolution of pending regulatory issues at Moraiya plant and pick-up in new product launches thereby resulting in strong revenue growth in the US market would remain a key monitorable.

Cadila's cumulative US sales to R&D expenditure/acquisition costs is the second highest among Indian companies having sizeable presence in US, after Aurobindo. This shows its capability to extract maximum sales out of these expenses.

Healthy product pipeline ensures revenue visibility

Company's domestic business outperformed on the back of volume growth and new launches. Desidustat is expected to be launched by Q1FY23. CUTX-101, an orphan drug for Menkes disease, is expected to be launched next fiscal. The company has recently launched two



in-licensed complex injectables including Enoxaparin Sodium (addressable market size of US\$ 513mn). Tofacitinib extended release tablet has an addressable market size of US\$ 2bn (180-days exclusivity for the 22 mg strength).

Cadila has announced that its anti-malarial compound ZY19489 (MMV253), currently in development together with Medicines for Malaria Venture (MMV), a leading product development partnership (PDP) in antimalarial drug research, has received Orphan Drug Designation from the US FDA. Orphan drug designation provides eligibility for certain development incentives, including tax credits for qualified clinical testing, prescription drug user fee exemptions and seven-year marketing exclusivity upon FDA approval. ZY-19489 is a novel anti-malarial compound active against all current clinical strains of *P. falciparum* and *P. vivax*, including drug resistant strains. The Orphan Drug Designation provides up to seven years of marketing exclusivity in the US.

In Nov-21, Cadila Healthcare witnessed fast growth in Cardiac and Gastro segments, while in MAT (Moving Annual Total) Nov 21, anti-infectives stands as the fastest. Cadila raised prices of drugs by ~5% in Nov-21. It currently suffers from volume degrowth due to the high base last year due to Covid medication. In MAT Nov-21, Cadila registered 11.9% growth in value terms.

Cadila Healthcare entered into an agreement with Enzychem Lifesciences for manufacturing license and technology transfer for the Plasmid DNA Vaccine

Cadila Healthcare has entered into a manufacturing license and technology transfer agreement for its Plasmid DNA based Covid-19 (ZyCoV-D) vaccine with Enzychem Lifesciences of Republic of Korea. Company will provide manufacturing license and transfer the Plasmid DNA vaccine technology to Enzychem. This partnership will lead to an estimated manufacturing of 80 million or more doses of the Plasmid DNA vaccine in 2022. Under the agreement, Enzychem will manufacture and commercialise the vaccine within its territory under a Zydu trademark and Cadila will receive the license fees and royalty payments for the same.

ZyCoV-D is the first DNA plasmid vaccine in the world for human use, developed indigenously by Cadila against the Covid-19 virus. The vaccine is administered intradermally using the PharmaJet needle free applicator, which ensures painless intradermal vaccine delivery.

Cadila Healthcare received Emergency Use Authorization (EUA) for Zycov-D

In Aug-2021, Cadila Healthcare said that it has received Emergency Use Authorization (EUA) for Zycov-D from DCGI. ZyCoV-D is a three dose vaccine which will be administered first on day zero, day 28th and then on the 56th day. With this approval, India now has its first COVID-19 vaccine for the adolescents in the 12-18 age group, besides the adult population. ZyCoV-D is a needle-free vaccine administered using the PharmaJet a needle free applicator, which ensures painless intradermal vaccine delivery.



This is for the first time that a technologically advanced vaccine has been successfully developed on the Plasmid DNA platform for human use. The platform because of its rapid plug and play technology can be easily adapted to deal with mutations in the virus, such as those already occurring. The company plans to manufacture 10-12 crore doses of ZyCoV-D annually.

ZyCoV-D is an intradermal vaccine, which will be administered in three doses. It will be applied using the PharmaJet needle free system, Tropis, which can also lead to a significant reduction in any kind of side effects. Zydus Cadila received an order to supply 1cr doses of ZyCoV-D to the Government of India at Rs 265 per dose and the needle-free applicator being offered at Rs 93 per dose, ex. GST. Company plans to manufacture 10-12cr doses of the ZyCoV-D annually from new facility.

Zydus Cadila developed oral pill Desidustat to treat anaemia in kidney patients

Zydus Cadila has announced that it has submitted the New Drug Application (NDA) to the Drug Controller General of India (DCGI) for Desidustat, an oral small molecule hypoxia-inducible factor prolyl hydroxylase (HIF-PH) inhibitor for the treatment of anaemia in patients with Chronic Kidney Disease (CKD).

Desidustat has the potential to provide an oral, safer alternative to currently available injectable erythropoietin-stimulating agents (ESAs), by additionally reducing hepcidin, reducing inflammation, and better iron mobilisation.

Chronic Kidney Disease is a serious progressive medical condition which is a global unmet healthcare need involving gradual loss of functioning of kidneys eventually leading to kidney failure. It has been reported that 114 million people in India, 132 million people in China, 38 million people in the US, 21 million patients in Japan and 41 million people in Western Europe are estimated to be living with Chronic Kidney Disease.

Key Concerns

Exposure to risks related to unfavourable regulatory changes and Delay in resolution of the US FDA issues at Moraiya plant

Zydus Cadila group remains exposed to regulatory risks, both in domestic and international markets, particularly the US. For instance, in Oct-2019, warning letter was issued for the Moraiya plant. Though the company has prior experience of remediation of warning letter as in FY17, timely remediation of the outstanding warning letter will be critical for the future US growth momentum. The ongoing litigation by the anti-trust division of US Department of Justice on industry generic players regarding price-collusion allegations remains a monitorable. Further, any price-control measures of the Indian government in the branded segment may weaken the domestic formulation growth.



Exposure to intense competition, volatility in foreign exchange rates and stretch in the working capital cycle

Company faces intense competition in regulated markets, where innovator companies engage in aggressive defence tactics by launching authorised generics. Generics players in regulated markets are affected by severe price erosions given the commoditised nature of products, along with intense competition and considerable government pressure to lower prices.

Elevated pricing pressure in the US

Elevated price erosion in the US generic business could hurt overall profitability, though pricing pressure has moderated and is currently in low single digit.

Competition in gAsacol

Expected competition in gAsacol HD (Mesalamine) (~20% of EBITDA pre R&D expenses) could impact FY23E earnings growth, unless compensated by other products/businesses. Asacol, which probably accounts for ~US\$ 150mn in topline and Rs 8 per share in earnings, could result in a meaningful downside risk, given the patent expires in Nov-21.

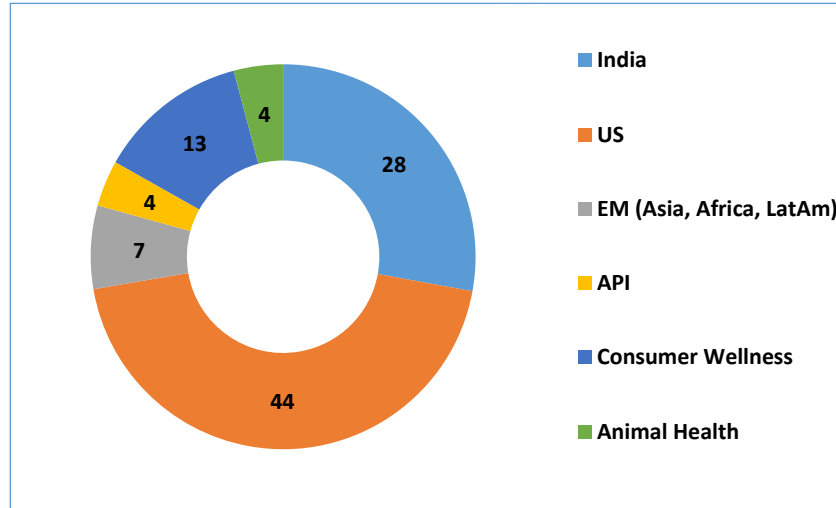
Peer Comparison

Company	Mcap (Rs cr)	Revenue				EBITDA Margin				PAT				RoE			
		FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Cadila Healthcare	46898	14253	15102	15445	16396	19.5	22.1	22.2	21.5	1540	2339	2205	2292	14.8	20.0	15.7	14.7
Ipca Labs	26457	4649	5420	5935	6718	19.5	28.5	25.9	26.7	606	1140	1103	1282	18.0	27.4	21.2	20.5
Alkem Laboratories	41651	8344	8865	10603	11784	17.7	22.8	20.2	20.3	1127	1585	1662	1851	19.4	24.0	21.5	20.0

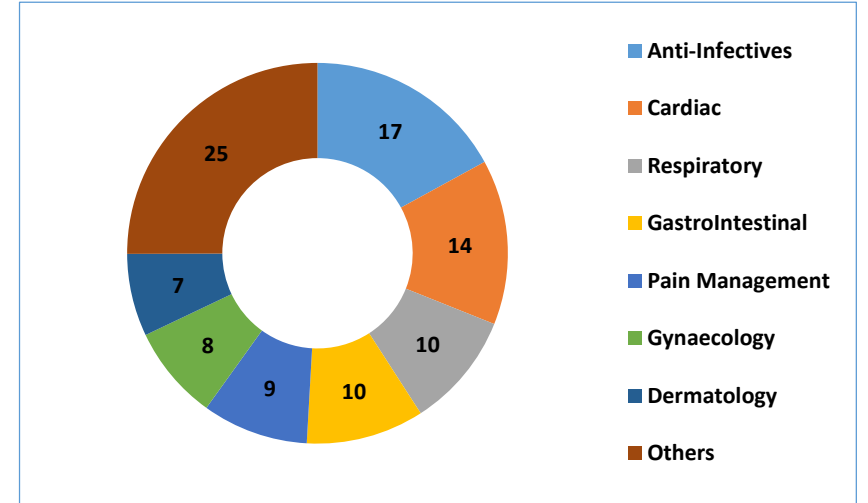
Company	EV/EBITDA				P/E			
	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Cadila Healthcare	19.8	15.7	14.0	13.4	30.5	20.1	21.3	20.4
Ipca Labs	29.4	17.3	17.8	15.0	44.0	23.5	24.0	20.8
Alkem Laboratories	29.0	21.2	19.7	17.2	36.6	26.0	24.8	22.3



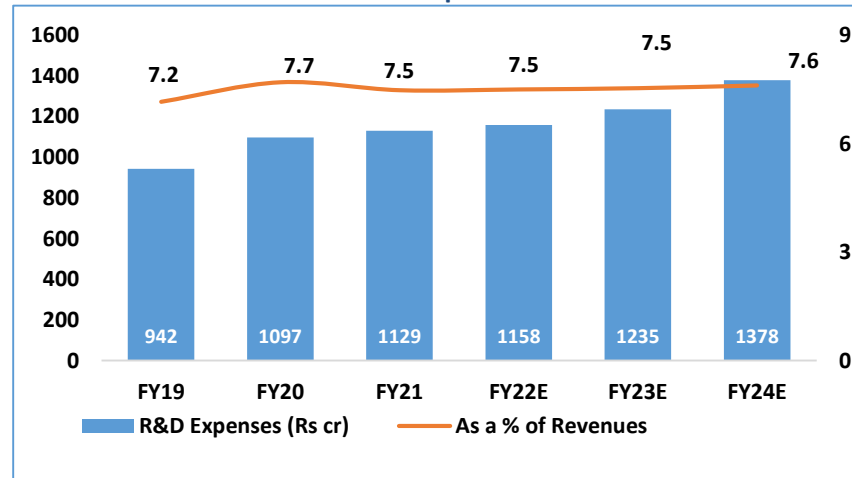
Revenue Mix (%)



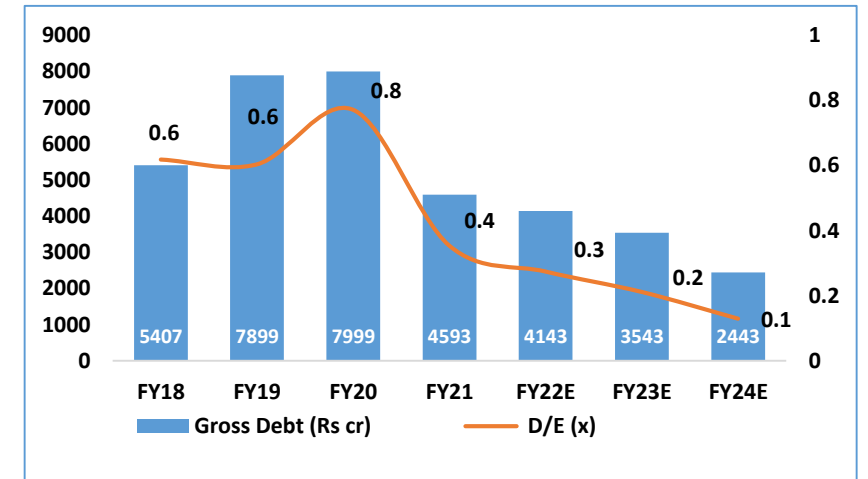
Domestic Revenue Split (%)



R&D expenses



Gross Debt Trend



(Source: Company, HDFC sec)



Financials (Consolidated)

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	14253	15102	15445	16396	18111
Growth (%)	8.3	6.0	2.3	6.2	10.5
Operating Expenses	11470	11761	12010	12870	14049
EBITDA	2783	3341	3435	3526	4062
Growth (%)	-7	20.1	2.8	2.6	15.2
EBITDA Margin (%)	19.5	22.1	22.2	21.5	22.4
Depreciation	697	725	729	683	721
EBIT	2086	2616	2706	2843	3341
Other Income	114	37	172	192	168
Interest expenses	342	164	110	96	75
PBT	1858	2490	2768	2939	3434
Tax	320	151	548	588	626
Recurring PAT	1540	2339	2205	2292	2734
Growth (%)	-14.1	51.9	-5.7	3.9	19.3
Extraordinary items	364	-132	2518	-	-
MI/share of profit/loss in JV	29	47	43	38	35
Reported PAT	1177	2111	4628	2292	2734
EPS	15	22.8	21.5	22.4	26.7

Balance Sheet

As at March	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	102.4	102.4	102.4	102.4	102.4
Reserves	10273	12890	15014	16635	18652
Shareholders' Funds	10375	12992	15116	16737	18754
Minority Interest	1335	1937	2025	2123	2232
Total debt	7999	4593	4143	3543	2443
Total Liabilities	19967	19697	21459	22577	23604
APPLICATION OF FUNDS					
Net Block	12231	12133	9880	10097	10275
CWIP	742	783	783	783	783
Investments	621	631	674	712	747
Inventories	2789	3236	2877	3063	3374
Debtors	3663	3127	3597	3829	4218
Cash & Equivalents	1178	1087	5058	5641	5993
Loans & Advances	1447	1622	1649	1678	1708
Other Current Assets	1017	1265	1265	1265	1265
Current Liabilities	3720	4188	4325	4491	4760
Provisions	508	728	743	760	777
Net Current Assets	6374	6150	10122	10985	11798
Total Application of Funds	19967	19697	21459	22577	23604

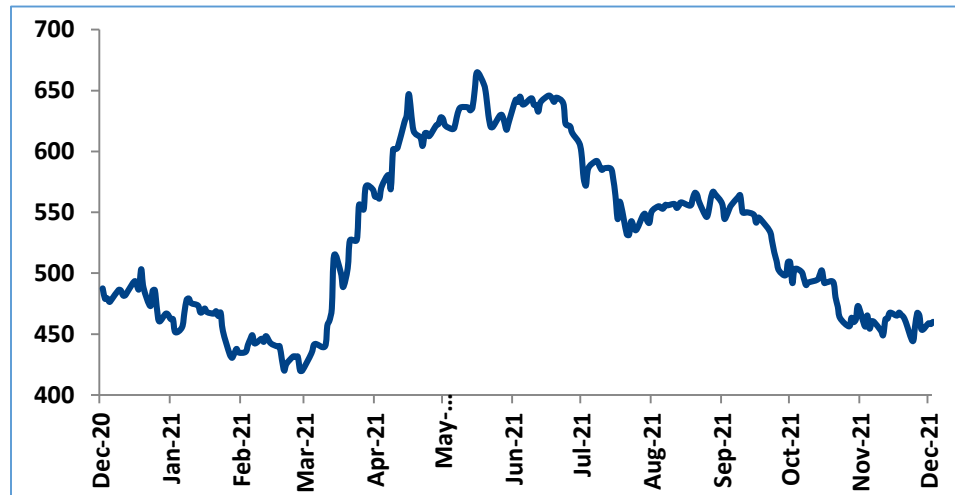


Cadila Healthcare Ltd.

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	1495	2285	2767	2985	3435
Depreciation	697	725	729	683	721
W/C changes+Others	1042	628	-2	-280	-462
Taxes Paid	-303	-345	-641	-588	-626
Operating Cash Flow (a)	2931	3293	2888	2704	2975
Capex	-889	-847	-900	-900	-900
Acqn of Subsidiaries/JVs	-124	126	3092	192	168
Investing Cash Flow (b)	-1013	-722	2192	-708	-732
Borrowings	-347	-2356	-450	-600	-1100
Interests paid	-324	-191	-109	-96	-75
Dividends paid	-857	-2	-358	-717	-717
Financing Cash Flow (c)	-1528	-2549	-918	-1413	-1891
Net change in Cash	391	23	3971	583	352

One Year Price Chart



Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
Profitability (%)					
Gross Margin	65.5	66.1	64.2	64.1	64.8
EBITDA Margin	19.5	21.9	22.2	21.5	22.4
EBIT Margin	14.6	17.3	17.5	17.3	18.4
APAT Margin	10.8	15.3	14.3	14	15.1
RoE	14.8	20	15.7	14.7	15.4
RoCE	9.5	13.4	12.6	13.7	15.9
Solvency Ratio					
Net Debt/EBITDA (x)	2.5	1	-0.3	-0.6	-0.9
Net D/E	0.7	0.3	-0.1	-0.1	-0.2
PER SHARE DATA					
EPS	15	22.8	21.5	22.4	26.7
BV	101.3	126.9	147.6	163.5	183.1
Dividend	7	-	3.5	7	7
Turnover Ratios (days)					
Debtor days	94	76	85	85	85
Inventory days	71	78	68	68	68
Creditors days	52	53	55	55	55
VALUATION					
P/E	30.5	20.1	21.3	20.4	17.2
P/BV	4.5	3.6	3.1	2.8	2.5
EV/EBITDA	19.8	15.7	14	13.4	11.3
EV / Revenues	3.1	2.9	2.8	2.7	2.4
Dividend Payout (%)	46.7	0	16.3	31.3	26.2

Source: Company, HDFC sec Research



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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