

Institutional Equity Research

Cadila Healthcare

Pharmaceuticals | India

Event Update | Noivember 04, 2019

CMP* (Rs)	241
Upside/ (Downside) (%)	25
Bloomberg Ticker	CDH IN
Market Cap. (Rs bn)	247
Free Float (%)	25
Shares O/S (mn)	1,024

BUY 

Target Price: Rs300

US FDA Issues Warning Letter to Moraiya Facility

The US FDA has issued a warning letter (WL) to Cadila Healthcare’s (CDH) Moraiya (Gujarat) OSD and sterile injectable facility, based on the Corrective & Preventive Action (CAPA) submitted by CDH to the observations made by the regulator. The inspection was conducted between 22nd of April and 3rd of May following, which the US FDA issued 14 observations relating to cleaning validation, OOS and product contamination. As per the company, there were no repeat observations or Data Integrity related observations. Subsequently, the US FDA accorded Moraiya facility as OAI (Official Action Indicated) status in Aug’19. Moraiya is an important facility for CDH, as it contributes ~50% to its US sales and total of 1/3rd of pending pipeline (32 ANDAs). Notably, we have not factored in any new launches from this unit in our valuation model.

Moraiya – Key Facility & Largest Contributor to CDH’s US Sales

The US business contributes ~40% to CDH’s total sales, while Moraiya is an important facility for the Company, as it contributes ~50% to its US sales and accounts for one-third of its ANDA pipeline (32 ANDAs pending for approvals). Notably, CDH also received WL for Moraiya unit in Dec’15, which was successfully resolved in Feb’17, post which the facility faced US FDA inspections few times but with zero observations. It is pertinent to note that CDH has successfully completed US FDA inspection for Baddi (formulations) and API plants (Ankleshwar and Dabhasa) post Form-483 for Moraiya. CDH has been site transferring key injectable to its Liva and Alidac plants due to regulatory issues at Moraiya. Owing to WL, we don’t expect any new approval from the facility (32 ANDAs pending) till the facility gets regulatory clearance. We have already factored WL impact (lack new approvals) into our valuation model in 1QFY20 only. According to the Management, the remediation efforts for Moraiya unit are not likely to have any significant impact on CDH’s product supplies to the US.

Domestic Formulations Biz – Recovery on the Cards

CDH’s domestic formulations business has reported slower growth vs. IPM in last 3 years owing to New Pricing Policy, ban on FDCs, GST roll-out and discontinuation of 2 brands. CDH has been working on rationalisation of product portfolio, restructuring of field force/therapies and reallocation of resources (territories) since 3QFY19, which we believe to have long-term positive impact on its business. CDH is expected to maintain its focus on key therapeutic segments (Gynaecology//Respiratory/NSAID/CVS/GI), while focussing on super specialty therapies (Oncology/Vaccines), going ahead. We envisage CDH’s revenue from domestic formulations business to clock 11% CAGR over FY19-21E led by new launches and volume growth.

Outlook & Valuation

Issue of WL is on expected lines, as the facility has already been accorded with OAI status (observations related to cleaning validation/OOS). While we already factored in the impact of WL into our valuation model in 1QFY20, we expect CDH to deliver muted growth in the US owing to pending regulatory issues, going forward. At CMP, the stock trades at 14.5x and 12.0x of FY20E and FY21E earnings (1-Yr fwd 3-yr historical avg PE @21.8x), which offers attractive risk-reward for the stock. The stock has already been corrected by 24% since the issue of Form-483 for Moraiya.

We maintain our BUY recommendation on the stock with a Target Price of Rs300.

Key Financials (Rs mn)	FY18	FY19E	FY20E	FY21E
Sales	119,049	131,654	141,818	152,246
EBITDA	28,475	29,734	27,957	30,406
Adj. PAT	17,946	18,488	16,951	20,482
EPS (Rs)	17.5	18.1	16.6	20.0
P/E (x)	13.7	13.3	14.5	12.0
EV/Sales (x)	2.4	2.4	2.2	2.0
EV/EBITDA (x)	10.1	10.7	11.0	10.1
ROE (%)	20.5	17.8	14.4	15.3
ROCE (%)	17.1	14.1	12.4	12.4

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	4.1	8.1	-33.0
Relative to Nifty	6.9	9.9	13.5

Shareholding Pattern (%)	Sep-19	Jun-19
Promoter	74.9	74.8
Public	25.1	25.2

1 Year Stock Price Performance



Note: * CMP as on Nov 04, 2019

Research Analyst: Krishnanath.Munde

Contact: (022) 43034629

Email: Krishnanath.Munde@relianceada.com

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Risks to the View

- ▶ Slower than expected ramp-up in domestic and US business
- ▶ Weak sales performance in other geographies.

Profit & Loss Statement

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
Net Sales	119,049	131,654	141,818	152,246
Total Expenditure	90,574	101,920	113,862	121,840
Raw Material	41,220	47,160	51,055	54,306
Staff cost	18,545	21,240	24,553	28,236
Other expenses	22,175	24,100	27,229	28,927
R&D expense	8,634	9,420	11,024	10,371
EBITDA	28,475	29,734	27,957	30,406
Margin	23.9	22.6	19.7	20.0
Depreciation& Amortisation	5,388	5,990	6,626	7,104
Other Income	1,132	2,014	2,169	2,329
EBIT	24,219	25,758	23,500	25,631
Interest	911	1,940	1,728	1,656
PBT	23,308	23,818	21,772	26,304
Tax	5,644	5,300	4,790	5,787
Tax rate	24.2	22.3	22.0	22.0
Minority Interest	(282)	30	32	35
Adj. PAT	17,946	18,488	16,951	20,482
% chg	29.0	3.0	(8.3)	20.8
Extraordinary item{	188	-	-	-
Reported PAT	17,758	18,488	16,951	20,482
EPS (Rs)	17.5	18.1	16.6	20.0

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Balance Sheet

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS				
Equity Share Capital	1,024	1,024	1,024	1,024
Reserves & Surplus	86,421	102,839	116,496	132,999
Shareholders Funds	87,445	103,863	117,520	134,023
Minority Interest	1,910	12,929	12,898	12,863
Deferred tax liability	(6,425)	(7,180)	(7,180)	(7,180)
Total Loans	54,067	78,998	71,998	71,998
Total Liabilities	136,997	188,610	195,236	211,704
APPLICATION OF FUNDS				
Gross Block	79,390	104,040	110,440	116,840
Less: Acc. Depreciation	28,415	35,290	41,916	49,020
Net Block	50,975	68,750	68,524	67,820
Capital Work-in-Progress	15,272	8,372	9,972	11,572
Goodwill on consolidation	13,853	52,890	52,890	52,890
Investments	7,457	6,732	6,827	6,932
Current Assets	79,550	82,688	94,554	108,714
Inventories	23,853	26,880	29,141	33,369
Debtors	32,063	39,508	42,740	47,968
Cash & Bank	13,150	6,500	10,132	10,577
Loans & advances	-	100	108	116
Other current assets	10,484	9,700	12,428	16,679
Current liabilities	34,405	35,043	41,963	40,877
Current liabilities	31,849	31,843	38,854	37,540
Provisions	2,561	3,200	3,108	3,337
Other non-current assets	4,300	4,221	4,437	4,659
Total Assets	136,997	188,610	195,236	211,704

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Cash Flow Statement

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
Profit before tax	23,120	23,821	21,772	26,304
Depreciation	5,405	5,990	6,626	7,104
Interest provided	1,468	1,910	1,728	1,656
Change in Working Capital	(13,964)	5,109	(1,557)	(15,057)
Tax Paid	(6,206)	(6,750)	(4,790)	(5,787)
Others	334	(457)	-	-
Cash Flow from Operations	9,193	28,823	23,780	14,220
(Inc.)/ Dec. in Fixed Assets	(10,493)	(10,570)	(8,000)	(8,000)
Others	756	(46,820)	(95)	(105)
Cash Flow from Investing	(9,737)	(57,390)	(8,095)	(8,105)
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	1,575	23,955	(7,000)	-
Dividend Paid (Incl. Tax)	(10)	(4,314)	(3,293)	(3,980)
Interest provided	(1,049)	(795)	(1,728)	(1,656)
Others	(1)	-	(32)	(35)
Cash Flow from Financing	515	18,846	(12,053)	(5,670)
Inc./(Dec.) in cash and cash equivalents	(29)	(9,721)	3,632	445
Opening cash & cash equi. balances	15,926	13,150	6,500	10,132
Closing cash & cash equivalents balances	15,897	3,429	10,132	10,577
Investment in Liquid MF	(2,747)	3,071	-	-
Cash and cash equivalents	13,150	6,500	10,132	10,577

Key Ratios

Y/E March	FY18	FY19	FY20E	FY21E
Valuation Ratio (x)				
P/E	13.7	13.3	14.5	12.0
P/CEPS	10.6	10.1	10.5	8.9
P/BV	2.8	2.4	2.1	1.8
Dividend yield (%)	1.7	1.5	1.3	1.6
EV/Sales	2.4	2.4	2.2	2.0
EV/EBITDA	10.1	10.7	11.0	10.1
Per Share Data (Rs)				
EPS	17.5	18.1	16.6	20.0
Cash EPS	22.8	23.9	23.0	26.9
DPS	4.2	3.5	3.2	3.9
Book Value (BV)	85.4	101.5	114.8	130.9
Returns (%)				
RoCE	17.1	14.1	12.4	12.4
RoE	20.5	17.8	14.4	15.3
Turnover ratios (x)				
Asset Turnover (Gross Block)	1.5	1.3	1.3	1.3
Asset Turnover (Net Block)	2.3	1.9	2.1	2.2
Inventory (days)	73	75	75	80
Receivables (days)	98	110	110	115
Payables (days)	98	88	100	90

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Rating History

Date	Reco	CMP	TP
12-Aug-19	BUY	232	300
30-May-19	BUY	264	350
07-Feb-19	BUY	323	400
05-Nov-18	BUY	359	450
16-Aug-18	BUY	343	450
28-May-18	BUY	371	490
12-Feb-18	BUY	418	540
16-Nov-17	BUY	442	554

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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