

### Q1 in line, execution in specialty to drive growth

Cadila reported an in-line 1Q driven by domestic formulations (35% YoY growth –ex Remdesvir) offsetting the subdued US (pricing pressure, supply chain normalization and absence of shortage led opportunities). Revenue grew 14% YoY, controlled spend aided EBITDA margins at 23%. PAT grew 29% YoY at Rs5.8bn. Net debt further reduced to Rs31bn in Q1 vs Rs35bn in FY21. Management guided for improvement of 80-100bps in EBITDA margins on the base of 22-23%; US to remain at ~US\$200-210mn base for next few quarters as complex injectables to start contributing from FY23E onwards.

**Key triggers:** (1) ZyCov-D manufacturing supplies started; expect EUA soon (2) Saroglitzazar received fast track designation from the USFDA and EMA (3) Specialty drugs (injectables, nasal, transdermal, oncology, and complex orals) is 61% of pipeline along with in-licensed partnered portfolio (24 deals), to start accruing from FY23E (4) Aspirational target to achieve US\$250mn sales from complex injectables in next 2-3 years vs. US\$35mn today.

**Key risks:** (1) Profit concentration from complex Mesalamine franchise due for patent expiry (Nov'21), (2) Adverse outcome for Saroglitzazar

### Outlook and valuation

Cadila provides strong growth visibility led by progress in its key markets – US (transition towards innovation, injectables) and domestic business (enhanced focus on specialty and beneficiary of COVID); financial deleveraging; strong RoW / EM growth outlook on the back of biosimilars launches. ZyCov-D could add incremental sales of Rs40bn in FY23E. Besides, if successful, Saroglitzazar peak sales (NAFLD and NASH indications) could be in the range of US\$100-400mn in the US. However, due to lack of clarity on approval and pricing, we value the COVID portfolio as optionality. Maintain Buy with a target price of Rs705 (24x PE valuing the base business and Rs140 as optionality of R&D initiatives)

### Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	40,254	36,399	10.6	36,923	9.0
Total Expense	30,924	28,245	9.5	28,870	7.1
EBITDA	9,330	8,154	14.4	8,053	15.9
Depreciation	1,827	1,768	3.3	1,845	(1.0)
EBIT	7,503	6,386	17.5	6,208	20.9
Other Income	316	225	40.4	(305)	(203.6)
Interest	273	677	(59.7)	232	17.7
EBT	7,770	5,934	30.9	5,208	49.2
Tax	1,415	1,235	14.6	(2,108)	(167.1)
RPAT	5,872	4,540	29.3	6,790	(13.5)
APAT	5,872	4,380	34.1	4,469	31.4
			(bps)		(bps)
Gross Margin (%)	65.8	65.7	20	66.0	(18)
EBITDA Margin (%)	23.2	22.4	78	21.8	137
NPM (%)	14.6	12.5	211	18.4	(380)
Tax Rate (%)	18.2	20.8	(260)	(40.5)	5869
EBIT Margin (%)	18.6	17.5	109	16.8	183

CMP	Rs 564		
Target / Upside	Rs 705 / 25%		
NIFTY	16,282		
<b>Scrip Details</b>			
Equity / FV	Rs 1,024mn / Rs 1		
Market Cap	Rs 577bn		
	USD 7.8bn		
52-week High/Low	Rs 674/ 358		
Avg. Volume (no)	4,762,070		
Bloom Code	CDH IN		
<b>Price Performance</b>			
1M	3M	12M	
Absolute (%)	(13)	(13)	46
Rel to NIFTY (%)	(17)	(25)	4

### Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	74.9	74.9	74.9
MF/Banks/FIs	17.7	17.7	17.9
FII	5.2	5.2	4.7
Public / Others	2.2	2.2	2.6

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	28.6	28.8	25.0
EV/EBITDA	18.1	17.6	15.7
ROE (%)	18.3	15.3	17.5
RoACE (%)	12.8	10.8	12.5

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	151,022	157,332	169,405
EBITDA	33,410	33,392	37,192
PAT	20,204	20,042	23,133
EPS (Rs.)	19.7	19.6	22.6

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**Exhibit 1: Revenue Mix**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Domestic formulations	13,568	8,292	63.6	10,232	32.6	40,429	37,141	8.9
Consumer (Zydus Wellness)	5,862	5,316	10.3	5,984	(2.0)	18,409	17,379	6
Animal Health	0	1,252	(100.0)	1,501	(100.0)	5,998	5,149	16.5
US	14,510	16,232	(10.6)	15,089	(3.8)	64,445	62,514	3.1
Europe	600	489	22.7	626	(4.2)	2,275	1,957	16.2
Emerging Markets incl .LATAM / ROW	2,770	2,375	16.6	2,499	10.8	10,167	8,753	16.2
JV	510	228	123.7	236	116.1	871	698	24.8
APIs	1,360	1,309	3.9	1,395	(2.5)	5,621	4,530	24.1
<b>Total</b>	<b>39,180</b>	<b>35,493</b>	<b>10.4</b>	<b>37,562</b>	<b>4.3</b>	<b>148,215</b>	<b>138,121</b>	<b>7.3</b>

Source: Company, DART

### Con-call takeaways

- **Covid-19 vaccine:** Cadila applied for the Emergency Use Authorization (EUA) for its Covid-19 vaccine, ZyCoV-D, on July 1, 2021. Additionally, it has also submitted data for adolescents. The 2 dose regimen has not shown any adversity vs 3 dose regimen and management remains confident of meeting the domestic requirements with its in-house capacity of 10-15mn doses monthly. For exports, company will be looking to form partnerships and share tech transfer.
- **US:** US revenue de-grew 4% QoQ to US\$197mn (down \$14mn QoQ) on the back of high single digit price erosion, reduction in supply disruptions and absence of one-time buying opportunities. Management has guided for low single digit growth in the US for FY22E. It has guided for 50+ approvals and 30+ launches p.a. However, complex injectables will largely be launched in FY23E driven by in-licensing deals thereby offsetting the competition in gAsacol HD.
- **US pipeline:** Cadila has 417 filings in the US of which 325 are approved. Company has been consistently launching 30+ products since past 3 years and expect the momentum to continue. The injectable portfolio (US\$35mn) is expected to generate revenue of US\$250mn over the next 3 years. Company has also entered into licensing pact in the US for 24 products (largely injectables) from which 2 have exclusive status. Transdermal product approvals are stuck due to WL at Moriyama. Management is hopeful of the USFDA inspection in FY22E.
- **Domestic formulations:** India Formulations reported 65% YoY growth driven by low base and aided by COVID portfolio. Ex-Remdesvir, company recorded 35% YoY growth in Q1. Management continues to remain confident of outpacing IPM driven by ongoing focused marketing initiatives in India formulations driven by 1) new launches (guided for 35+ launches p.a.), 2) Strengthening of existing therapies such as Diabetes, Cardio, Gynae, Respiratory and Oncology, and 3) 12-15 new molecule launches. Over the next 5 years, India should see higher launches in biosimilars, vaccines followed by small molecules.
- **Operating performance:** The company has guided for 80-100bps improvement in margins on the base of 22-23% driven by (1) manpower optimization, (2) improvement in field force productivity post restructuring in India formulations, (3) cost optimization (4) change in product mix with specialty launches – injectables, Saroglitzar, biosimilars, etc. (5) While digital initiatives may not lead to cost savings, it can enhance reach and improve productivity

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>142,531</b>	<b>151,022</b>	<b>157,332</b>	<b>169,405</b>
<b>Total Expense</b>	<b>114,697</b>	<b>117,612</b>	<b>123,940</b>	<b>132,213</b>
COGS	49,200	52,101	54,041	57,441
Employees Cost	23,958	24,902	27,097	30,013
Other expenses	41,539	40,609	42,802	44,759
<b>EBIDTA</b>	<b>27,834</b>	<b>33,410</b>	<b>33,392</b>	<b>37,192</b>
Depreciation	6,965	7,248	7,757	7,953
<b>EBIT</b>	<b>20,869</b>	<b>26,162</b>	<b>25,634</b>	<b>29,239</b>
Interest	3,418	1,635	1,191	922
Other Income	1,139	372	326	365
Exc. / E.O. items	(3,636)	(2,051)	0	0
<b>EBT</b>	<b>14,954</b>	<b>22,848</b>	<b>24,769</b>	<b>28,682</b>
Tax	3,198	1,472	5,202	6,023
RPAT	11,766	21,336	20,042	23,133
Minority Interest	278	514	0	0
<b>Profit/Loss share of associates</b>	<b>288</b>	<b>474</b>	<b>474</b>	<b>474</b>
<b>APAT</b>	<b>15,402</b>	<b>20,204</b>	<b>20,042</b>	<b>23,133</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	1,024	1,024	1,024	1,024
Minority Interest	13,347	19,373	19,373	19,373
Reserves & Surplus	102,733	128,899	130,333	131,910
<b>Net Worth</b>	<b>103,757</b>	<b>129,923</b>	<b>131,357</b>	<b>132,934</b>
Total Debt	70,411	36,804	29,774	26,348
Net Deferred Tax Liability	7,645	9,026	9,325	9,357
<b>Total Capital Employed</b>	<b>195,160</b>	<b>195,126</b>	<b>189,828</b>	<b>188,011</b>

**Applications of Funds**

Net Block	<b>68,390</b>	<b>67,863</b>	<b>63,862</b>	<b>58,608</b>
CWIP	64,846	64,867	66,645	68,412
Investments	3,581	4,786	4,786	4,786
<b>Current Assets, Loans &amp; Advances</b>	<b>100,049</b>	<b>101,331</b>	<b>108,761</b>	<b>111,245</b>
Inventories	27,890	32,362	30,415	30,262
Receivables	36,632	31,273	32,671	33,805
Cash and Bank Balances	9,649	8,883	16,535	17,779
Loans and Advances	12,895	14,171	14,424	14,618
Other Current Assets	10,855	12,653	12,727	12,791
<b>Less: Current Liabilities &amp; Provisions</b>	<b>41,706</b>	<b>43,721</b>	<b>54,226</b>	<b>55,040</b>
Payables	20,310	22,059	22,790	22,625
Other Current Liabilities	21,396	21,662	31,436	32,414
<i>sub total</i>				
Net Current Assets	58,343	57,610	54,535	56,205
<b>Total Assets</b>	<b>195,160</b>	<b>195,126</b>	<b>189,828</b>	<b>188,011</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	65.5	65.5	65.7	66.1
EBIDTA Margin	19.5	22.1	21.2	22.0
EBIT Margin	14.6	17.3	16.3	17.3
Tax rate	21.4	6.4	21.0	21.0
Net Profit Margin	8.3	14.1	12.7	13.7
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	34.5	34.5	34.3	33.9
Employee	16.8	16.5	17.2	17.7
Other	29.1	26.9	27.2	26.4
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.7	0.3	0.2	0.2
Interest Coverage	6.1	16.0	21.5	31.7
Inventory days	71	78	71	65
Debtors days	94	76	76	73
Average Cost of Debt	4.8	3.0	3.6	3.3
Payable days	52	53	53	49
Working Capital days	149	139	127	121
FA T/O	2.1	2.2	2.5	2.9
<b>(D) Measures of Investment</b>				
AEPS (Rs)	15.0	19.7	19.6	22.6
CEPS (Rs)	21.8	26.8	27.1	30.4
DPS (Rs)	8.4	3.5	7.0	7.7
Dividend Payout (%)	55.6	17.7	35.8	34.1
BVPS (Rs)	101.3	126.9	128.3	129.8
RoANW (%)	11.3	18.3	15.3	17.5
RoACE (%)	9.6	12.8	10.8	12.5
RoAIC (%)	11.2	14.1	14.3	17.0
<b>(E) Valuation Ratios</b>				
CMP (Rs)	564	564	564	564
P/E	37.5	28.6	28.8	25.0
Mcap (Rs Mn)	577,280	577,280	577,280	577,280
MCap/ Sales	4.1	3.8	3.7	3.4
EV	635,914	603,212	588,529	583,859
EV/Sales	4.5	4.0	3.7	3.4
EV/EBITDA	22.8	18.1	17.6	15.7
P/BV	5.6	4.4	4.4	4.3
Dividend Yield (%)	1.5	0.6	1.2	1.4
<b>(F) Growth Rate (%)</b>				
Revenue	8.3	6.0	4.2	7.7
EBITDA	(6.4)	20.0	(0.1)	11.4
EBIT	(12.1)	25.4	(2.0)	14.1
PBT	(37.2)	52.8	8.4	15.8
APAT	(16.7)	31.2	(0.8)	15.4
EPS	(16.7)	31.2	(0.8)	15.4

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	24,198	31,810	39,361	30,956
CFI	(5,743)	(8,258)	(4,757)	(3,699)
CFF	(15,299)	(24,318)	(26,952)	(26,013)
FCFF	18,455	23,552	34,605	27,257
Opening Cash	6,493	9,649	8,883	16,535
Closing Cash	9,649	8,883	16,535	17,779

E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-20	Accumulate	497	411
Feb-21	Accumulate	503	475
May-21	Accumulate	700	647

\*Price as on recommendation date

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