

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) Saroglitazar 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 Saroglitazar

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, Saroglitazar 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

Scrip Details

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

Price Performance	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

VP - Research: Sapna Jhawar

Tel: +9122 40969724

E-mail: sapnaj@dolatcapital.com

Associate: Zain Gulam Hussain

Tel: +9122 40969725

E-mail: zain@dolatcapital.com

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
Total	39,180	35,493	10.4	37,562	4.3	148,215	138,121	7.3

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 Moriya. 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, Saroglitazar, 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
Revenue	142,531	151,022	157,332	169,405
Total Expense	114,697	117,612	123,940	132,213
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
EBIDTA	27,834	33,410	33,392	37,192
Depreciation	6,965	7,248	7,757	7,953
EBIT	20,869	26,162	25,634	29,239
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
EBT	14,954	22,848	24,769	28,682
Tax	3,198	1,472	5,202	6,023
RPAT	11,766	21,336	20,042	23,133
Minority Interest	278	514	0	0
Profit/Loss share of associates	288	474	474	474
APAT	15,402	20,204	20,042	23,133

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
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
Net Worth	103,757	129,923	131,357	132,934
Total Debt	70,411	36,804	29,774	26,348
Net Deferred Tax Liability	7,645	9,026	9,325	9,357
Total Capital Employed	195,160	195,126	189,828	188,011

Applications of Funds

Net Block	68,390	67,863	63,862	58,608
CWIP	64,846	64,867	66,645	68,412
Investments	3,581	4,786	4,786	4,786
Current Assets, Loans & Advances	100,049	101,331	108,761	111,245
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
Less: Current Liabilities & Provisions	41,706	43,721	54,226	55,040
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
Total Assets	195,160	195,126	189,828	188,011

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
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) As Percentage of Net Sales (%)				
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
(C) Measure of Financial Status				
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
(D) Measures of Investment				
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
(E) Valuation Ratios				
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
(F) Growth Rate (%)				
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

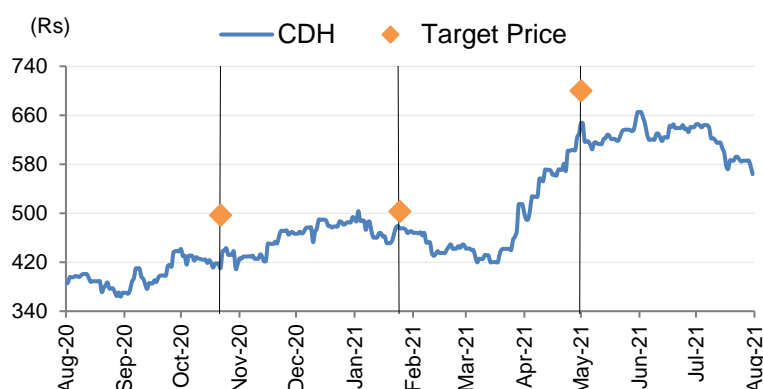
E – Estimates

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

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
--------------------	--------------------------	--------------------------------	------------------------

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
--------------------------	-------------------------	------------------------------	------------------------

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Anjana Jhaveri	VP - FII Sales	anjanaj@dolatcapital.com	+9122 4096 9758
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co - Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: "This Report is considered independent third-party research and was prepared by Dolat Capital Market Private Limited, with headquarters in India. The distribution of this Research is provided pursuant to the exemption under Rule 15a-6(a) (2) and is only intended for an audience of Major U.S. Institutional Investors (MUSIIs) as defined by Rule 15a-6(b)(4). This research is not a product of StoneX Financial Inc. Dolat Capital Market Private Limited has sole control over the contents of this research report. StoneX Financial Inc. does not exercise any control over the contents of, or the views expressed in, any research reports prepared by Dolat Capital Market Private Limited and under Rule 15a-6(a) (3), any U.S. recipient of this research report wishing to affect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through StoneX Financial Inc. Please contact Paul Karrlsson-Willis at +1 (407) 741-5310 or email Paul.Karrlsson-Willis@stonex.com and/or Igor Chernomorskiy at +1 (212)379-5463 or email Igor.Chernomorskiy@stonex.com. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through the Dolat Capital Market Private Limited."



Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Registered office: Unit no PO6-02A - PO6-02D, Tower A, WTC, Block 51, Zone-5, Road 5E, Gift City, Gandhinagar, Gujarat – 382355

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
