

August 24, 2021

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	695		695	
Sales (Rs. m)	1,56,757	1,95,593	1,56,757	1,95,593
% Chng.	-	-	-	-
EBITDA (Rs. m)	36,582	46,303	36,582	46,303
% Chng.	-	-	-	-
EPS (Rs.)	22.9	31.6	22.9	31.6
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	1,38,121	1,48,215	1,56,757	1,95,593
EBITDA (Rs. m)	23,424	30,603	36,582	46,303
Margin (%)	17.0	20.6	23.3	23.7
PAT (Rs. m)	15,872	20,854	23,434	32,355
EPS (Rs.)	15.5	20.4	22.9	31.6
Gr. (%)	(14.1)	31.4	12.4	38.1
DPS (Rs.)	6.9	3.5	3.5	3.5
Yield (%)	1.3	0.6	0.6	0.6
RoE (%)	15.3	17.8	16.6	19.3
RoCE (%)	9.4	13.7	17.4	20.8
EV/Sales (x)	4.5	4.0	3.7	2.9
EV/EBITDA (x)	26.4	19.2	15.6	12.1
PE (x)	35.3	26.9	23.9	17.3
P/BV (x)	5.4	4.3	3.7	3.1

Key Data

CADI.BO | CDH IN

52-W High / Low	Rs.674 / Rs.358
Sensex / Nifty	55,556 / 16,496
Market Cap	Rs.560bn / \$ 7,547m
Shares Outstanding	1,024m
3M Avg. Daily Value	Rs.5374.39m

Shareholding Pattern (%)

Promoter's	74.88
Foreign	5.23
Domestic Institution	11.30
Public & Others	8.59
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.1)	27.1	36.5
Relative	(15.2)	13.8	(5.5)

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ZyCoV-D vaccine approved in increasingly competitive domestic market

CDH's vaccine ZyCoV-D received emergency user approval (EUA) from Indian regulator DCGI which is world's first ever 'plasmid DNA' based 3-dose vaccine with needle-free/painless delivery. CDH conducted phase-3 clinical trial of the vaccine on 28,000 volunteers, including 1400 subjects in the age group of 12-17 age group. With favorable and acceptable safety profile, the approval was unique as it allows ZyCoV-D to be administered (first time in India) with adolescent age group (12-17 yrs) along with adult population (18 yrs and above). CDH also applied for 2-dose vaccine which may take another 1-2 months for expert group of DCGI to evaluate its efficacy profile data. Thermo-stability (2-8degree temp. for storage) of the vaccine helps in easing storage and transportation costs. Stock filling of the vaccine and commercial supply across India will commence in Oct'21 with annual manufacturing capacity of 100-120mn doses from newly built vaccine plant.

Valuation and Outlook: Based on our assumptions of 1) full acceptance of 3-dose vaccines by target population, 2) only domestic sales, 3) non-availability of benefits from WHO approvals, 4) strong traction from adolescent age group and 5) 75% Government offerings at Rs215/dose and Rs400/dose in private market, we expect accretion of Rs18.6 (present value) to our TP from ZyCoV-D vaccine with benefits extending till CY26E. However, we have not discounted optional value of the event in our earnings as CDH has yet to finalize a) price per dose, b) productions and distributional reach and c) date for commercial launch. The optional value may further increase with approvals of 2-dose ZyCoV-D and 3-11 yrs age group along with WHO approval and lifting of GOI restriction on vaccination exports as and when those occurs. We maintain 'Buy' and retain TP at Rs695.

Current state of vaccination on target population: As on 22nd August'21, India's 582mn of population is vaccinated with 1st and 2nd dose of anti-Covid vaccines, which is ~42% of target population (12 yrs and above). With major part of urban population among middle income group (MIG) and above are vastly vaccinated, we believe that 70% out of 58% of the target population would most likely prefer free vaccine opportunities, while the rest would go for out of pocket option. The large part of such population belongs to adolescents group with no vaccine availability and CDH has advantage over its peers of being only vaccine approved in this age group. Management expects to have competitive pricing in adult vaccine market, despite having disadvantage of 3-dose vaccine.

Lot of limiting factors in play as well: There is very likely possibility of approval for single dose vaccine of Sputnik-Lite by October-21 end, which may shift preference of govt. and private market in its favor as it will help to expand vaccinated population faster than multiple dosage vaccines. With difficulty in ramping up production yield of 2-dose Sputnik-V, DCGI and GOI would likely favor single dose vaccine. We believe that the single dose vaccine may significantly diminish demand of ZyCoV-D, even if it receives 2-dose vaccine by Oct-21. This poses a meaningful downside risk to our estimates.

Exhibit 1: ZyCoV-D opportunity in India

Particulars (Rs m)	CY21E	CY22E	CY23E	CY24E	CY25E
Total capacity of Doses (in m)	30	100	120	130	135
Revenue from Pvt. Mkt. (25% of cap @Rs400/dose)	2,700	9,000	10,800	11,700	12,150
Revenue from Govt. Mkt (75% of cap @Rs215/dose)	4,354	14,513	17,415	18,866	19,592
Total Revenue	7,054	23,513	28,215	30,566	31,742
Total Operating costs	4,950	16,500	19,800	21,450	22,275
Mfg costs per dosage Rs 90/dosage	2,700	9,000	10,800	11,700	12,150
Distrib. & storage costs Rs 75/dosage	2,250	7,500	9,000	9,750	10,125
Gross profit	4,354	14,513	17,415	18,866	19,592
Operating profit (EBITDA)	2,104	7,013	8,415	9,116	9,467
Op. profit margin	30%	30%	30%	30%	30%
Tax (25%)	526	1,753	2,104	2,279	2,367
NOPLAT (1-t)	1,578	5,259	6,311	6,837	7,100
Present value @ 16%	n/a	4,532	4,687	4,376	3,916
Present Value of Vaccine opportunity	19,089				
Vax Opportunity/share	18.6				

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	1,38,121	1,48,215	1,56,757	1,95,593
YoY gr. (%)	8.3	7.3	5.8	24.8
Cost of Goods Sold	49,200	52,101	52,905	64,408
Gross Profit	88,921	96,114	1,03,852	1,31,186
Margin (%)	64.4	64.8	66.3	67.1
Employee Cost	23,958	24,902	25,617	30,852
Other Expenses	10,974	11,641	11,325	15,901
EBITDA	23,424	30,603	36,582	46,303
YoY gr. (%)	(8.4)	30.6	19.5	26.6
Margin (%)	17.0	20.6	23.3	23.7
Depreciation and Amortization	6,965	7,248	6,743	7,097
EBIT	16,459	23,355	29,839	39,206
Margin (%)	11.9	15.8	19.0	20.0
Net Interest	3,418	1,635	724	239
Other Income	9,950	3,179	899	978
Profit Before Tax	22,991	24,899	30,013	39,945
Margin (%)	16.6	16.8	19.1	20.4
Total Tax	3,198	1,472	5,796	7,589
Effective tax rate (%)	13.9	5.9	19.3	19.0
Profit after tax	19,793	23,427	24,217	32,355
Minority interest	285	522	783	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	15,872	20,854	23,434	32,355
YoY gr. (%)	(14.1)	31.4	12.4	38.1
Margin (%)	11.5	14.1	14.9	16.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	15,872	20,854	23,434	32,355
YoY gr. (%)	(14.1)	31.4	12.4	38.1
Margin (%)	11.5	14.1	14.9	16.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	15,872	20,854	23,434	32,355
Equity Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	15.5	20.4	22.9	31.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	1,13,345	1,19,882	1,29,882	1,39,882
Tangibles	85,780	91,753	98,753	1,05,753
Intangibles	27,565	28,129	31,129	34,129
Acc: Dep / Amortization	44,955	52,019	59,059	66,387
Tangibles	31,258	36,253	41,604	47,098
Intangibles	13,697	15,766	17,456	19,290
Net fixed assets	68,390	67,863	70,823	73,495
Tangibles	54,522	55,500	57,150	58,655
Intangibles	13,868	12,363	13,673	14,839
Capital Work In Progress	7,415	7,832	7,832	7,832
Goodwill	53,915	53,465	53,465	53,465
Non-Current Investments	8,382	8,830	8,830	8,830
Net Deferred tax assets	6,430	9,547	9,547	9,547
Other Non-Current Assets	3,081	2,953	2,953	2,953
Current Assets				
Investments	2,128	1,989	2,586	3,620
Inventories	27,890	32,362	31,351	39,119
Trade receivables	36,632	31,273	34,358	45,549
Cash & Bank Balance	9,649	8,883	9,985	11,998
Other Current Assets	8,549	10,309	10,824	11,366
Total Assets	2,36,866	2,38,847	2,46,189	2,71,505
Equity				
Equity Share Capital	1,024	1,024	1,024	1,024
Other Equity	1,02,733	1,28,899	1,51,249	1,82,520
Total Network	1,03,757	1,29,923	1,52,273	1,83,544
Non-Current Liabilities				
Long Term borrowings	32,146	6,095	4,571	-
Provisions	2,352	3,095	3,250	3,412
Other non current liabilities	17	10	-	-
Current Liabilities				
ST Debt / Current of LT Debt	38,265	30,709	19,961	15,969
Trade payables	20,443	22,059	23,621	28,401
Other current liabilities	23,986	25,845	20,754	18,339
Total Equity & Liabilities	2,36,866	2,38,847	2,46,189	2,71,505

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	14,954	22,848	30,013	39,945
Add. Depreciation	6,965	7,248	6,743	7,097
Add. Interest	3,236	1,604	724	239
Less Financial Other Income	9,950	3,179	899	978
Add. Other	4,543	2,812	(4,843)	(510)
Op. profit before WC changes	29,698	34,512	32,637	46,770
Net Changes-WC	2,638	1,868	(7,479)	(19,137)
Direct tax	(3,021)	(3,450)	(6,376)	(8,348)
Net cash from Op. activities	29,315	32,930	18,783	19,285
Capital expenditures	(8,888)	(8,469)	(6,000)	(6,000)
Interest / Dividend Income	330	508	-	-
Others	(1,565)	736	-	-
Net Cash from Invst. activities	(10,123)	(7,225)	(6,000)	(6,000)
Issue of share cap. / premium	-	9,866	-	-
Debt changes	(3,489)	(33,427)	(12,272)	(8,563)
Dividend paid	(8,550)	(15)	(3,584)	(3,584)
Interest paid	(3,243)	(1,913)	(724)	(239)
Others	-	-	10	244
Net cash from Fin. activities	(15,282)	(25,489)	(16,570)	(12,143)
Net change in cash	3,910	216	(3,787)	1,143
Free Cash Flow	20,427	24,461	12,783	13,285

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	38,200	37,956	36,923	40,254
YoY gr. (%)	13.5	4.3	(1.6)	14.5
Raw Material Expenses	13,223	12,935	12,544	13,748
Gross Profit	24,977	25,021	24,379	26,506
Margin (%)	65.4	65.9	66.0	65.8
EBITDA	8,634	8,069	8,053	9,330
YoY gr. (%)	38.0	16.4	1.8	18.0
Margin (%)	22.6	21.3	21.8	23.2
Depreciation / Depletion	1,790	1,804	1,845	1,827
EBIT	6,844	6,265	6,208	7,503
Margin (%)	17.9	16.5	16.8	18.6
Net Interest	457	268	232	273
Other Income	275	275	(305)	316
Profit before Tax	6,662	6,272	5,671	7,546
Margin (%)	17.4	16.5	15.4	18.7
Total Tax	1,106	1,147	(2,108)	1,415
Effective tax rate (%)	16.6	18.3	(37.2)	18.8
Profit after Tax	5,556	5,125	7,779	6,131
Minority interest	(498)	(147)	526	483
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,734	5,272	6,522	5,648
YoY gr. (%)	341.6	41.0	66.4	28.8
Margin (%)	12.4	13.9	17.7	14.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,734	5,272	6,522	5,648
YoY gr. (%)	341.6	41.0	66.4	28.8
Margin (%)	12.4	13.9	17.7	14.0
Other Comprehensive Income	598	323	60	107
Total Comprehensive Income	5,332	5,595	6,582	5,755
Avg. Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	4.6	5.1	6.4	5.5

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	15.5	20.4	22.9	31.6
CEPS	22.3	27.4	29.5	38.5
BVPS	101.3	126.9	148.7	179.2
FCF	19.9	23.9	12.5	13.0
DPS	6.9	3.5	3.5	3.5
Return Ratio(%)				
RoCE	9.4	13.7	17.4	20.8
ROIC	8.7	13.8	15.1	18.4
RoE	15.3	17.8	16.6	19.3
Balance Sheet				
Net Debt : Equity (x)	0.6	0.2	0.1	-
Net Working Capital (Days)	116	102	98	105
Valuation(x)				
PER	35.3	26.9	23.9	17.3
P/B	5.4	4.3	3.7	3.1
P/CEPS	24.5	19.9	18.6	14.2
EV/EBITDA	26.4	19.2	15.6	12.1
EV/Sales	4.5	4.0	3.7	2.9
Dividend Yield (%)	1.3	0.6	0.6	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
US Formulations	63,140	62,514	72,467	76,880
Domestic Formulations	37,437	37,141	39,369	42,519
Consumer Healthcare	5,174	17,379	17,900	18,795
Income from JVs	986	698	733	770

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Aug-21	BUY	695	558
2	07-Jul-21	Accumulate	696	637
3	28-May-21	Accumulate	696	627
4	07-Apr-21	BUY	517	461
5	08-Feb-21	Accumulate	522	475
6	11-Jan-21	Sell	357	485
7	03-Nov-20	Sell	357	411
8	13-Oct-20	Sell	310	442

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	795	681
2	Cadila Healthcare	BUY	695	558
3	Cipla	Accumulate	980	945
4	Dr. Lal PathLabs	Sell	2,626	3,889
5	Dr. Reddy's Laboratories	Accumulate	5,114	4,843
6	Eris Lifesciences	BUY	909	768
7	Glenmark Pharmaceuticals	Hold	555	569
8	Indoco Remedies	BUY	518	442
9	Ipca Laboratories	Accumulate	2,290	2,171
10	Lupin	Reduce	955	1,050
11	Sun Pharmaceutical Industries	BUY	922	774
12	Thyrocare Technologies	UR	-	1,343

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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