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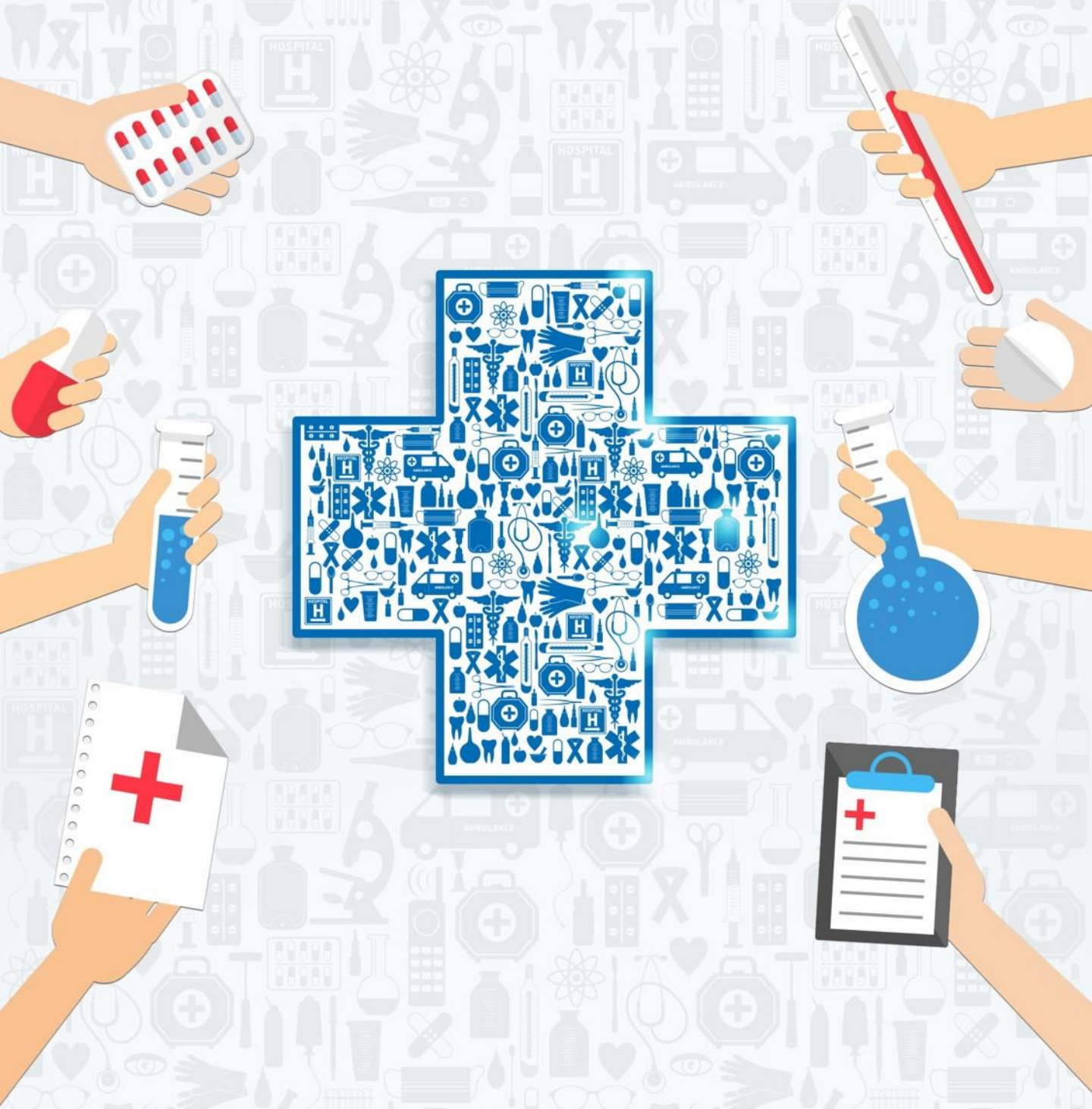
Cadila Healthcare Ltd



EVENT NOTE

23rd Aug 2021

Cadila Healthcare Ltd.

Cadila Health receives EUA for ZyCOV-D

Event highlights

- Zydus Cadila has received the Emergency Use Authorization (EUA) from the Drug Controller General of India (DCGI) for ZyCOV – D vaccine. It is believed to be the first Plasmid DNA vaccine for COVID – 19 in the world.
- It is a three-dose vaccine, which will be administered with the gap of 28 days from each other, thrice, to the individual. The pricing for the vaccine (which is likely to be announced sooner) will be per dose basis, and not on the treatment basis.
- It is the first COVID-19 vaccine for adolescents in the age group of 12-18, besides for adult population.
- ZyCOV-D is a needle free vaccine, which will be administered, using the PharmaJet (a needle free applicator), which enables painless intradermal vaccine delivery.
- For the Plasmid DNA vaccines, making a gene construct coding for the antigen instead of inactivating or attenuating the pathogen, or instead of making a recombinant protein, is vastly easier, more rapid, and avoids potential risks of working with live pathogens. The ease and speed of making the constructs also means that these vaccines are considered potential best solution for targeting epidemic or emerging diseases, where rapidly designing, constructing, and manufacturing the vaccine are crucial. (Source: NCBI)
- The company plans to manufacture 100-120 mn doses of ZyCOV – D vaccine, annually.

Conference call highlights:

- Phase III clinical trials of the ZyCOV – D vaccines were conducted in over 28,000 volunteers including 1,400 subjects in the age group of 12-18. ZyCOV – D, after EAU approval, becomes the first approved Plasmid DNA COVID 19 vaccine in the world, for the age group of 12-18, in India.
- None of the trial subjects reported any adverse impact of the vaccine during the trials. In the interim data, no moderate COVID 19 cases were observed among the trial subjects, post administration of the third dose, indicating 100% efficacy in moderate cases, after the first dose and none of the serious cases or deaths were observed after the administration of the second dose. The results of the phase I and parts of the Phase I and II clinical trials have been published in the e-clinical medical journal of Lancet.
- The company plans to get an approval for the two-dose vaccine regimen as well.
- The ZyCOV D vaccine can be stored at 2-8 degrees Celsius and has shown stability at 25 degrees Celsius for the three months and hence can be transported smoothly without any challenges.
- Stock piling of the ZyCOV D vaccine has begun, and supply will start from middle or end of September 21.
- Pricing and quantity contracting with the government will take place in a week or so. The government's existing pattern of procuring 75% of the production and keeping remaining for private usage may apply to ZyCOV D as well.
- The ZyCOV-D vaccine, although will be largely used for adolescents, the share of it will also be made available for adults to choose from.
- From October 21, 1 Cr doses / month will be supplied. The vaccine opportunity will be the significant portion of revenue and profitability over a period from Q3FY21. The likely sales from ZyCOV-D is expected to be INR 200 – 350 cr, per month, scaling up to INR 500 Cr., per month.
- Even if the competitor vaccine with single dose get approved, it may not be available for large supplies, and hence ZyCOV-D vaccine will be able to have market despite entry of competition.
- Pricing for the private portion will be economical while the current price remains undecided.
- The company is working on upgrading the vaccine for new variants, and hence can become the sizable and consistent opportunity for the company over medium term.

Valuation and outlook:

The approval of ZyCOV D (first such Plasmid DNA) vaccine for adolescents in India, is expected to augment the company's India revenue to at least INR 54.10 billion (if government and private contract and pricing goes through optimally as expected) from INR 45.69 billion estimated earlier for FY22 (vs. INR 40.43 billion in FY21). We thereby believe **Cadila Healthcare's topline and net income will grow at a revised CAGR of 10.2% / 8.0%, respectively, (vs. 7.6% / 5.4% CAGR, respectively) over FY21/FY23. Besides the vaccine opportunity, new launches in the US and India and expected recovery in consumer wellness division will be the continued drivers. Currently, the shares of Cadila HealthCare is trading at an attractive P/E of 22.1x/20.5x on FY22E/23E earnings. However, the valuation attractiveness gets offset partially by weakness in the US markets. Hence, we continue to apply valuation PE multiple of 25x on revised FY23E EPS of INR 26.7 (vs. earlier INR 25.4/share) and increase our target price to INR 666/share (previously INR 634/share), which gives an upside potential of 21.8% over the CMP of INR 547. Accordingly, we upgrade our rating on the shares of Cadila Healthcare to "BUY".**

ANALYST
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Cadila Healthcare Ltd.

Rating Legend (Expected over a 12-month period)	
Our Rating	**Upside**
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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