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Cadila Healthcare (Cadila) is one of India's leading vertically integrated pharmaceutical company. It manufactures finished dosage forms, active pharmaceutical ingredients, animal healthcare products and wellness products. US and India are the major markets for Cadila, with the former contributing ~42% to FY16 revenues and the latter contributing ~31% to FY16 revenues.

## Key Developments

### Contribution of the US business to Cadila:

US business contribution to total sales has more than doubled in the last 4-5 years from 18.5% in FY10 to 42% in FY16. The company is present in the generic pharmaceuticals market through its wholly owned subsidiary, Zydus Pharmaceuticals (USA) Inc. US formulations business grew at 34.1% CAGR over FY12-16 led by new launches coupled with price hikes in some of its products.

The company filed 30 more ANDAs (Abbreviated New drug Applications) with the USFDA during FY16, taking the cumulative number of ANDA filings to 269. It received approvals for 10 ANDAs during the year, taking the cumulative number of ANDA approvals to 103.

### Performance of the Indian business:

India, the second largest contributor to the consolidated revenues (31% of total sales), grew at a CAGR of 11.6% over FY12-16. The company has a well-diversified product portfolio with strong presence in key therapy areas of cardiac, anti-infective, GI, gynaec and respiratory. The company continues to add new products to its portfolio and launched more than 40 new products (10 were first-in-India launches) in FY16.

### Strengthening the branded generics portfolio in Emerging markets:

To ensure sustainable growth both in revenues and profits, Cadila is continuously focusing on brand building and strengthening the branded generics portfolio in Emerging markets (EMs). During FY16, it launched 8 new products in different markets of Asia Pacific, Africa & Middle East. This included the launch of "Pegihep" in Myanmar, the first biosimilar launch by the company in EMs.

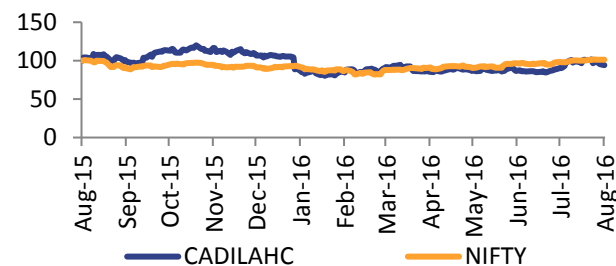
## Market Data

<b>CMP (Rs.)</b>	<b>377</b>
Face Value	1.0
52 week H/L (Rs.)	453
Adj. all time High (Rs.)	295
Decline from 52WH (%)	16.9
Rise from 52WL (%)	27.7
Beta	0.3
Mkt. Cap (Rs.Cr)	38,564
Enterprise Value (Rs. Cr)	39,511

## Fiscal Year Ended

	FY14	FY15	FY16
<b>Total revenue (Rs.cr)</b>	7,224	8,651	9,838
<b>Adj. PAT (Rs.cr)</b>	821	1,161	1,525
<b>Share Capital (Rs.Cr)</b>	102	102	102
<b>EPS (Rs.)</b>	8.0	11.3	14.9
<b>P/E (x)</b>	47.0	33.2	25.3
<b>P/BV (x)</b>	2.2	9.1	7.2
<b>ROE (%)</b>	25.7	30.2	31.8

## One year Price Chart



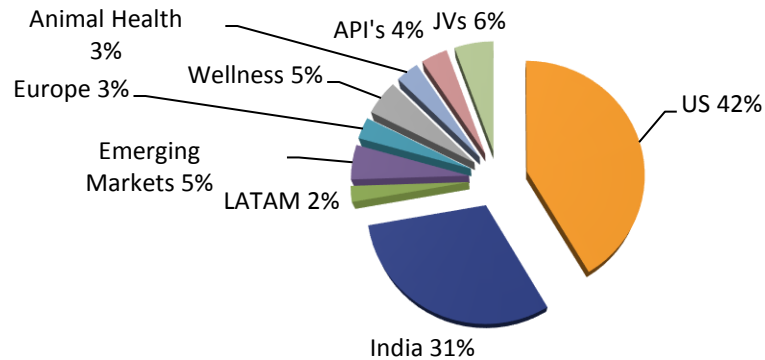
Shareholding	Jun16	Mar16	Diff.
<b>Promoters (%)</b>	74.8	74.8	-
<b>Public (%)</b>	25.2	25.2	-
<b>Others (%)</b>	-	-	-

*Cadila Healthcare (Cadila) is one of India's leading vertically integrated pharmaceutical company.*

### Cadila Healthcare Ltd.: Business overview

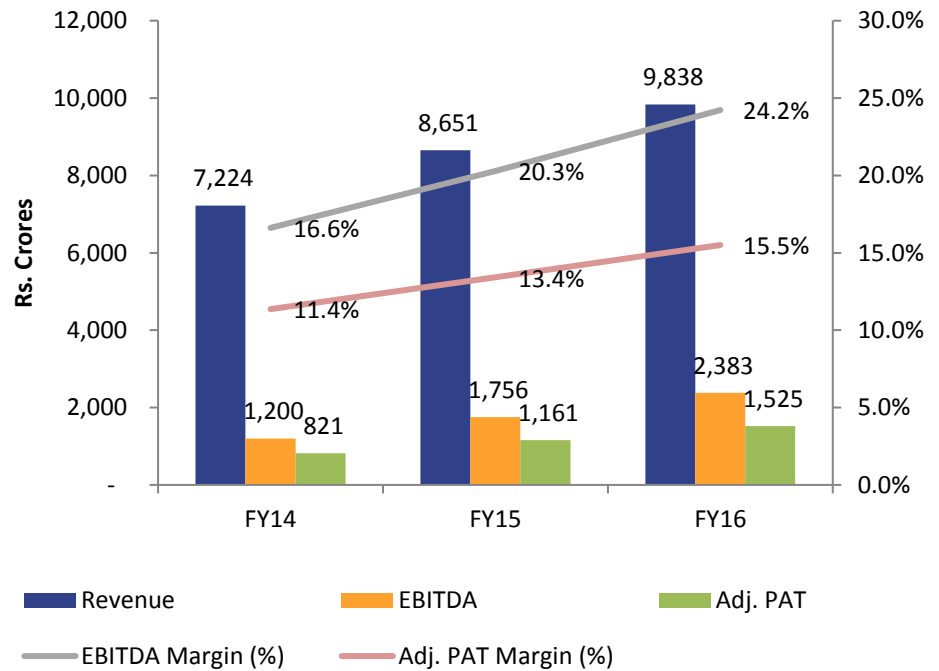
Cadila Healthcare (Cadila) is one of India's leading vertically integrated pharmaceutical company. It manufactures finished dosage forms, active pharmaceutical ingredients, animal healthcare products and wellness products. US and India are the major markets for Cadila, with the former contributing ~42% to FY16 revenues and the latter contributing ~31% to FY16 revenues.

#### Revenue Breakup (FY16)



Source: Company, In-house research

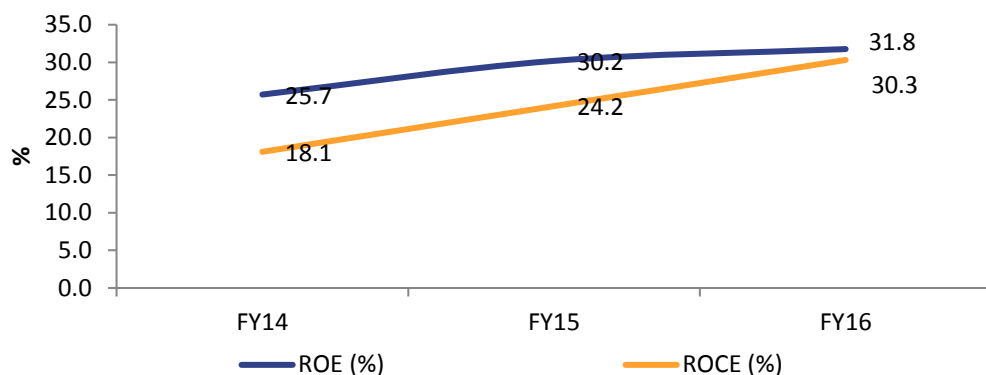
#### Financial snapshot of Cadila



Source: Company, In-house research

Cadila is on the verge of completing the remediation measures as it has already received an Establishment Inspection Report (which indicates closure of the inspection points (483s)) from the USFDA.

### Return Ratios Trend



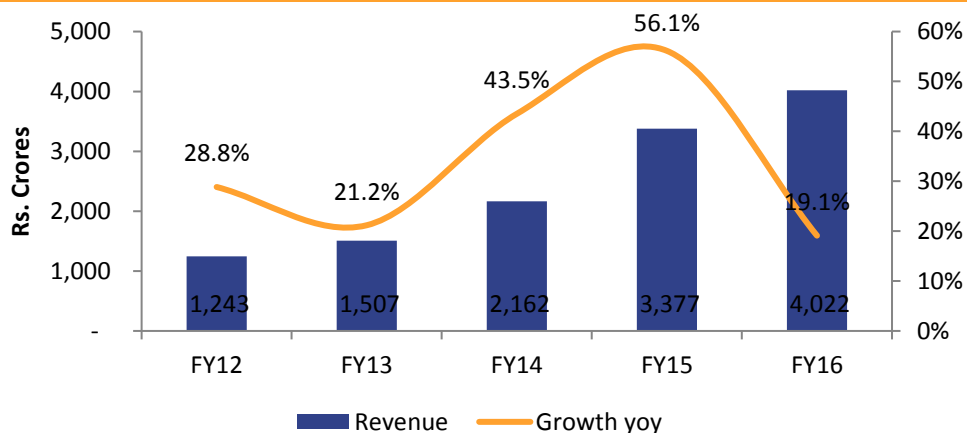
Source: Company, In-house research

### US business: key market for Cadila

US business contribution to total sales has more than doubled in the last 4-5 years from 18.5% in FY10 to 42% in FY16. The company is present in the generic pharmaceuticals market through its wholly owned subsidiary, Zydus Pharmaceuticals (USA) Inc. Interestingly, Zydus Pharma is ranked amongst the top 10 generic companies in the US based on prescriptions. US formulations business grew at 34.1% CAGR over FY12-16 led by price hikes in some of its products coupled with new launches. The company filed 30 more ANDAs with the USFDA during FY16, taking the cumulative number of ANDA filings to 269. It received approvals for 10 ANDAs during the year, taking the cumulative number of ANDA approvals to 103.

Approvals have been getting delayed primarily due to the warning letter issued by USFDA for its Moraiya facility. However, Cadila is on the verge of completing the remediation measures as it has already received an Establishment Inspection Report (which indicates closure of the inspection points (483s)) from the USFDA. The company has already completed site transfers for 12 products including major ones.

### US business grew at a CAGR of 34.1% during FY12-16



Source: Company, In-house research

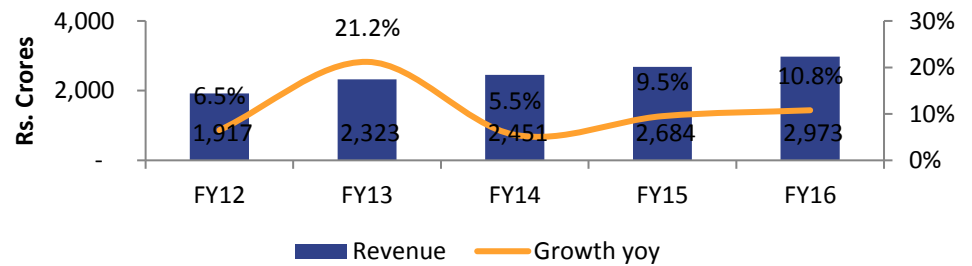
India, the second largest contributor to the consolidated revenues (31% of total sales), grew at a CAGR of 11.6% over FY12-16.

## Domestic business of the company

India, the second largest contributor to the consolidated revenues (31% of total sales), grew at a CAGR of 11.6% over FY12-16. However, during FY14-15, growth got impacted due to the discontinuation of few products & the NLEM impact. In FY16, Indian business grew by 10.8% despite the challenges in the form of lower growth of mature brands, fixed dose combination (FDC) ban and extended NLEM list.

The company is a major player in the key therapy areas of Cardiology, Gynecology & Pain Management. Similarly, it is also one of the prominent players in Gastro Intestinal, Respiratory and Dermatological space. The company continues to add new products to its portfolio and launched more than 40 new products (10 were first-in-India launches) in FY16. This included the launch of Vaxiflu S and Tenglyn (Teneligliptin 20 mg tablets), the most affordable gliptin for diabetics in India. Cadila is the first company in the world, which launched Exemptia in FY15, world's first biosimilar of Adalimumab, the world's largest selling therapy.

### Performance of the Indian business



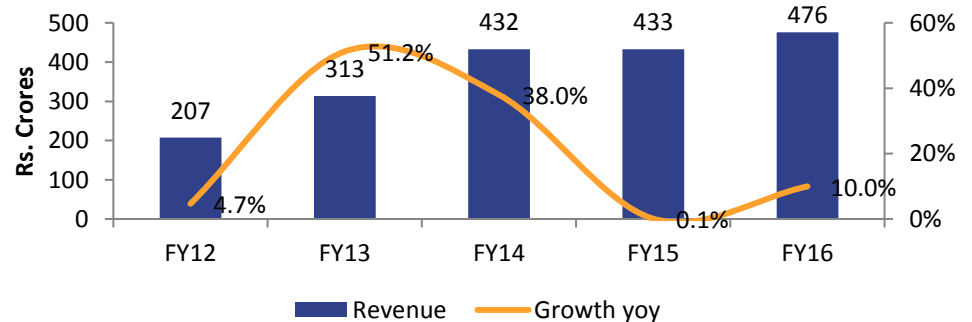
Source: Company, In-house research

## Emerging markets business

Emerging markets contribute 5% to total revenue.

Cadila operates across different markets of Asia Pacific, Africa and Middle East with leadership position in several of these markets. Emerging markets (EMs) contribute 5% to total revenues. During FY16, it has launched 8 new products in different markets of Asia Pacific, Africa and the Middle East. This included the launch of "Pegihep" (Pegylated Interferon alpha 2b) in Myanmar, the first biosimilar launch by the company in the emerging markets.

### EMs business growth trend



Source: Company, In-house research

Latin America (LATAM) and Europe (EU) businesses contribute 5% to overall revenues.

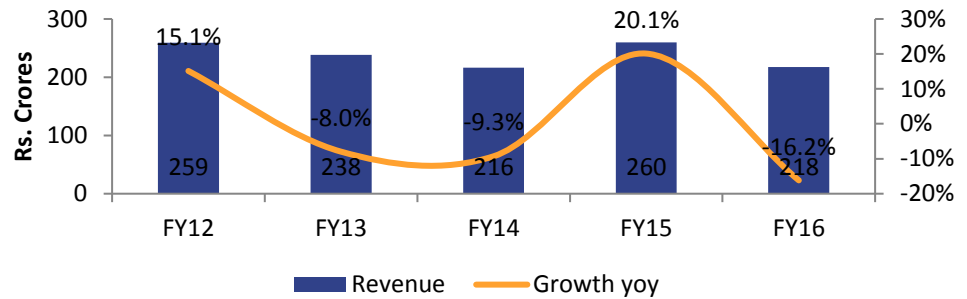
## LATAM and European business's contribution to Cadila

Latin America (LATAM) and Europe (EU) businesses contribute 5% to overall revenues. In these markets, growth has been declining over the past two years.

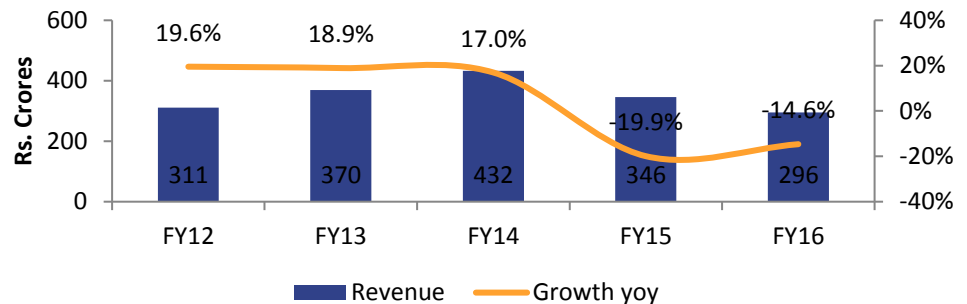
Brazil and Mexico are the major markets in LATAM for Cadila. In FY16, the company launched 4 new products in these markets.

During FY16, Cadila rationalized its product portfolio both in France and Spain by launching the in-house products in these markets. The company launched 3 new products in France (2 from India) and 4 new products in Spain (all from India).

### Latin America business growth trend



### European business grew at a CAGR of (1.2%) over FY12-16



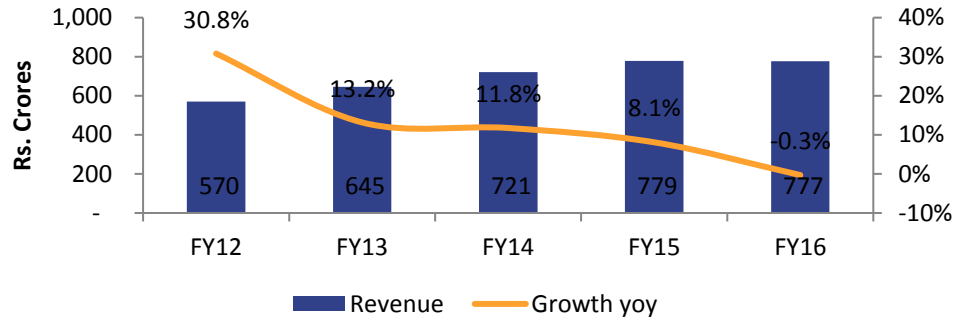
Source: Company, In-house research

## Other businesses of Cadila

The company's other businesses include consumer wellness and animal health. Zydus Wellness Limited, a subsidiary of the company, operates in the consumer wellness space and has three established brands namely Sugar Free (a low calorie sugar substitute), EverYuth, a range of skincare products and Nutralite (a cholesterol free table spread).

In the veterinary business, the company ranks amongst the leading animal health companies in India. Bremer Pharma (German subsidiary) runs the global animal health business & has presence in over 50 markets across the world. The Company launched 8 new products in India in FY 16

**Other businesses growth trend**



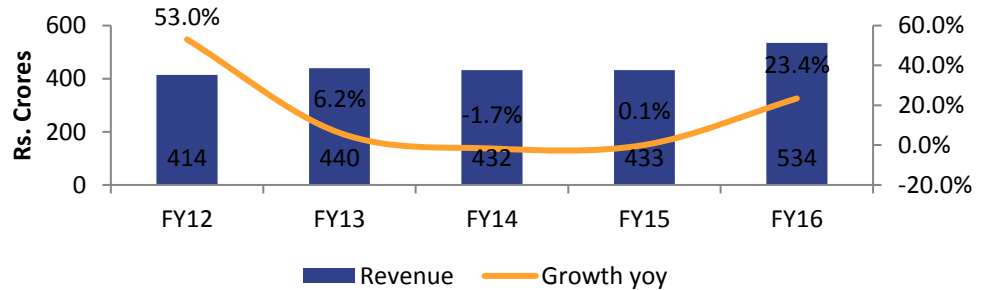
Source: Company, In-house research

**Performance of Cadila's JVs (Joint Ventures) and alliances**

The company's JVs and alliances contribute 6% to total revenues & grew by 6.6% CAGR over FY12-16. The company has tied up with various global pharma players (Takeda, Hospira, and Bayer Schering Pharma) to manufacture a range of generic APIs covering various therapeutic categories and oncology injectable products exclusively for the JV partners. In FY16, the company received approval from the USFDA for 2 ANDAs and 1 NDA which were filed on behalf of partners.

The company's JVs and alliances contribute 6% to total revenues & grew by 6.6% CAGR over FY12-16.

**JVs and alliances grew at a CAGR of 6.6% during FY11-16**

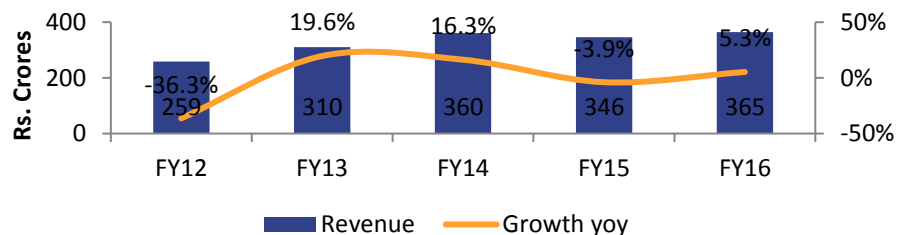


Source: Company, In-house research

**APIs business of the company**

The company's APIs and intermediates' business (4% of total sales) is the foundation for the formulations business of the company globally as it ensures the uninterrupted supply of key input materials in a timely and cost efficient manner. In FY16, the company filed 6 more DMFs with the USFDA, taking the cumulative number of filings to 122.

**APIs business grew at a CAGR of 8.9% during FY12-16**



Source: Company, In-house research

### Balance Sheet (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Share Capital	102	102	102
Reserve and surplus	3,337	4,149	5,250
<b>Net Worth</b>	<b>3,439</b>	<b>4,252</b>	<b>5,352</b>
Minority Interest	144	169	135
Total Debt	2,265	2,334	2,107
Other non-current liabilities	227	191	226
<b>Total Equity &amp; Liabilities</b>	<b>6,075</b>	<b>6,946</b>	<b>7,820</b>
Net Fixed Assets	3,124	3,352	3,819
Capital WIP	892	798	971
Goodwill	-	-	-
Investments	87	154	266
Net current assets	1,462	2,004	2,008
Deferred tax assets (net)	-	-	-
Other non-current assets	511	637	756
<b>Total Assets</b>	<b>6,075</b>	<b>6,946</b>	<b>7,820</b>

### Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY14	FY15	FY16
<b>Net profit/loss before tax&amp; extraordinary items</b>	<b>942</b>	<b>1,446</b>	<b>2,124</b>
Net cashflow from operating activities	1,049	979	2,068
Net cash used in investing activities	(584)	(451)	(978)
Net cash used from financing activities	(529)	(351)	(953)
<b>Net inc/dec in cash and cash equivalents</b>	<b>(64)</b>	<b>178</b>	<b>137</b>

### Financial performance snapshot

Net sales of the company stood at Rs. 9,838 Crores in FY16, a growth of 13.7% as compared to Rs. 8,651 Crores in FY15. The operating expenses of the company increased by 8.1% YoY to Rs. 7,455 Crores from Rs. 6,986 Crores during the year. The company's EBITDA grew by 35.7% YoY to Rs. 2,383 Crores in FY16 from Rs. 1,756 Crores in FY15. EBITDA margin expanded by 393 bps to 24.2% in FY16 from 20.3% in FY15. Adjusted profit increased by 31.4% to Rs. 1,525 Crores in FY16 from Rs. 1,161 Crores in FY15. The Adj. PAT Margin expanded by 208 bps to 15.5% from 13.4% during the above period.

### Profit & Loss Account (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
<b>Net revenue</b>	<b>7,224</b>	<b>8,651</b>	<b>9,838</b>
Expenses	6,024	6,896	7,455
<b>EBITDA</b>	<b>1,200</b>	<b>1,756</b>	<b>2,383</b>
Depreciation	201	287	302
<b>EBIT</b>	<b>999</b>	<b>1,468</b>	<b>2,081</b>
Interest cost	90	68	49
Other Income	51	55	94
<b>Profit Before Tax</b>	<b>959</b>	<b>1,456</b>	<b>2,126</b>
Tax	106	259	571
<b>Profit After Tax</b>	<b>853</b>	<b>1,197</b>	<b>1,555</b>
Minority Interest	33	38	30
P/L from Associates	-	2	-
<b>Adjusted PAT</b>	<b>821</b>	<b>1,161</b>	<b>1,525</b>
E/o expense / (income)	(172)	(104)	(25)
<b>Reported Profit</b>	<b>649</b>	<b>1,057</b>	<b>1,500</b>

### Key Ratios (Consolidated)

	FY14	FY15	FY16
EBITDA Margin (%)	16.6	20.3	24.2
EBIT Margin (%)	13.8	17.0	21.2
NPM (%)	11.4	13.4	15.5
ROCE (%)	18.1	24.2	30.3
ROE (%)	25.7	30.2	31.8
EPS (Rs.)	8.0	11.3	14.9
P/E (x)	47.0	33.2	25.3
BVPS(Rs.)	167.9	41.5	52.3
P/BVPS (x)	2.2	9.1	7.2
EV/EBITDA (x)	7.5	5.1	15.6



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