

**Animal Health sales proceeds to reduce debt and fund its expansion and research programs majorly through internal accruals. We believe Cadila will grow through India, US and ROW markets. Growth from both Covid treatment & other chronic products in India.**

- In FY20, Cadila Healthcare (Cadila), the animal health business was transferred to Zydus Animal Health Investments (subsidiary) comprising:
  - India plus established markets and
  - US & Europe - currently in development stage hence not generating revenue.
- Cadila entered into a definitive agreement for **sale of its India plus established markets Animal Health business with Multiples Alternate Asset Management led consortium for Rs 29.2 bn.** The consortium includes Canada Pension Plan Investment Board and RARE Enterprises.
- For FY21E Animal Health sales are estimated at Rs 6.2 bn, with an EBITDA of Rs 1.5 bn.
- The deal is valued at 5x sales and 19x EBITDA.
- Post taxes @25%, cash from the deal will be at Rs 21.9 bn.
- Cadila plans to utilize the proceeds:
  - Reduction of Net Debt to Rs 10 bn, from current levels of Rs 20 bn.
  - Investments in India Human Health & Wellness.
  - Investments for Saroglitazar trials for Primary Biliary Cholangitis (PBC) and non alcoholic steatohepatitis (NASH).
  - Research programs for NCEs, Biologics and Animal Health for US & Europe.
  - Scale up of vaccines for the Indian market.
- Cadila has recently launched VIRAFIN in India at Rs 11995 per dose.
- We will revise our estimates post FY21 results.

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	127484	138121	151342	184366	188960
EBITDA	29775	27647	35027	42732	43555
Adjusted net profit	18532	15215	21793	27548	27900
Free cash flow	7999	14104	9061	5512	5895
EPS (Rs)	18.1	11.3	20.0	26.9	27.2
growth (%)	1%	-38%	77%	35%	1%
P/E (x)	36	57	32	24	24
P/B (x)	6	6	5	4	4
EV/EBITDA (x)	24	26	20	17	16
D/E	0.7	0.7	0.6	0.5	0.4
RoIC (%)	11%	10%	12%	14%	13%
RoE (%)	18%	15%	17%	18%	15%
Dividend yield (%)	1	1	1	1	1

Source: Company

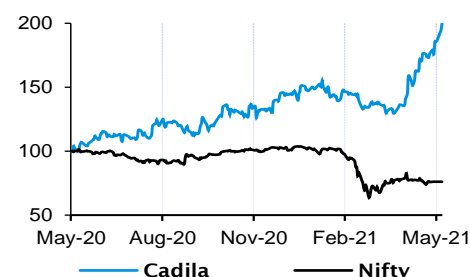
Rating	TP (Rs)	Up/Dn (%)
<b>ACCUMULATE</b>	<b>647</b>	<b>0</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>650</b>
Market Cap (Rs.Bn)	(Rs Bn)	662
Market Cap (US \$ Mn)	(US \$ Mn)	8998
Face Value	Rs	1
52 Weeks High/Low	Rs	674/321
Average Daily Volume	('000)	14632
BSE Code		532321
Bloomberg		CDH:IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	74.88	74.88
FII	5.23	5.24
DII	11.49	11.92
Others	8.4	7.97
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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## Key Highlights

### 1. Covid19 – Virafin & Zy CovD

Pegylated Interferon alpha-2B (PEGIFN) is an existing drug used as a treatment for Hepatitis C. The drug has been refurbished and the new formulation (VIRAFIN) tested as an anti-viral for Covid virus neutralization.

- Single dose intravenous treatment proven faster viral clearance than other anti-viral alternatives and results in negative RT PCR.
- The drug if used in early stages, reduces the level of external oxygen requirements in patients.
- Cadila has a capacity to manufacture 50000 doses in a few days initially, to be scaled up to 1-1.5 lakh doses per month by June'21.
- Currently more than 25 lakh patients are undergoing treatment for Covid19 at hospitals in India. Majority (~80%) of the patients are in the mild to moderate category, ensuring sustained demand for the product in the long run.
- At a price of Rs 11995 per dose, we believe VIRAFIN will generate Rs 1-4 bn for Cadila annually. We have been conservative in our estimate as doctor prescriptions may take time and due to fast progress in medicines catering to Covid.

**The drug has been co-administered with Remdesvir as well as steroids and found effective in faster viral clearance**

### 2. ZY- Cov D

Cadila's ZY- Cov D trials on 28000 subjects are expected to be completed by May, with an application for emergency use authorization by June. Cadila has capacity to manufacture 150 mn doses annually, at an affordable price. We assume a price of Rs 250 per dose for Cadila and expect revenues of Rs 14.3 bn in FY22.

### Research Pipeline Ongoing trials

Molecules (NCEs)	Mkt size \$ bn	Treatment	Year	Number of patients	Trials
Saroglitazaar	10	PBC (Primary Biliary Cholangitis)	2029		
		27 NASH (Non alcoholic Steatohepatitis) managing hypoxia-inducible factor prolyl hydroxylase inhibitor (HIF-PH inh.). Cancer,		Liver disease 30 mn in US	
Desdustat	6	Covid19, CKD	2027	US - cance 1 mn US, 120 mn China	Phase IIb Mexico
Desdustat		dialysis CKD patients	2021		Phase III India
ZRC 3278		Malaria (MMV)			Phase I India
ZYBK2		Rheumatoid Arthritis			Phase I India

Source: Dalal & Broacha Research, Company

## Valuation & Outlook

Cadila Healthcare has been developing niche molecules in anti-virals, cardiovascular & diabetes, vaccines and other therapies for India, ROW and the US. Over the last few years, the company has focused on value addition to its US portfolio and filed for complex generics and injectables. The USFDA has granted Cadila fast track status for the review of Saroglitazaar in the treatment of PBC. We believe the novel molecules in India (Virafin, Zy CovD, Remdesvir) and value added launches in US, will improve overall profitability over the next 2-3 years.

Cadila is emerging as an important player in innovative medicine. At Rs 647, Cadila trades at 24x FY23E EPS of Rs 27.2. We believe the stock will be re-rated in the near term. We will revise our estimates post FY21 results. **We maintain ACCUMULATE.**

## Financials

P&L (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Sales</b>	127484	138121	151342	184366	188960	Net Profit	18532	15215	21793	27548	27900
Other Operating Income	4172	4410	2300	2415	2536	Add: Dep. & Amort.	5986	6965	7262	8062	8702
<b>Income from Operations</b>	131656	142531	153642	186781	191496	<b>Cash profits</b>	24518	22180	29055	35610	36603
Raw materials	47224	49200	52970	64528	60467	(Inc)/Dec in					
Employee costs	21241	24145	25352	29155	32071	-Sundry debtors	-3027	-1010	-3208	-6786	-944
Other Expenses	33416	41539	40293	50366	55403	-Inventories	-7445	2876	-4832	-9048	-1259
<b>Cost of sales</b>	101881	114884	118615	144049	147940	-Loans/advances	3348	100	0	0	0
<b>Operating Profit</b>	29775	27647	35027	42732	43555	Other curr. Assets	-3961	-150	-1628	-1872	-2153
Depreciation*	5986	6965	7262	8062	8702	-Sundry creditors	342	1084	1251	4705	-2452
<b>PBIT</b>	23789	20682	27765	34670	34853	-Others	6234	2646	1548	1650	1758
Other income	2011	1139	1253	1378	1516	Change in working capital	-4060	5717	-11868	-16352	-20049
Interest	1935	3418	1701	1417	1417	<b>CF from Oper. activities</b>	20458	27897	17187	19258	16554
<b>Profit before tax</b>	23865	18403	27317	34630	34952	<b>CF from Inv. activities</b>	-57188	-6827	-14758	-17786	-16461
Provision for tax	5303	3198	5979	7619	7689	<b>CF from Fin. activities</b>	29070	-13274	309	360	411
<b>PAT Bfr Excep Items</b>	18562	15205	21338	27012	27262	<b>Cash generated/(utilised)</b>	-7660	7796	2737	1832	504
Extraordinary Items	0	-3636	-1320	0	0	Cash at start of the year	13149	5489	9649	11066	12898
Minority Interest	-499	-278	-75	-100	-125	Cash at end of the year	5489	9649	11066	12898	13402
Share of Profit	469	288	530	636	763						
<b>Reported PAT</b>	18532	15215	21793	27548	27900						

Balance Sheet	FY19	FY20	FY21E	FY22E	FY23E	Ratios	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	1024	1024	1024	1024	1024	OPM	23.4	20.0	23.1	23.2	23.0
Reserves	102839	102733	123199	150741	178637	NPM	14.5	11.0	14.4	14.9	14.8
<b>Net worth</b>	103863	103757	124223	151765	179661	Tax rate	22.2	17.4	21.9	22.0	22.0
Minority interest	12929	13347	13422	13522	13647	<b>Growth Ratios (%)</b>					
<b>Total debt</b>	72193	70865	70865	70865	70865	Net Sales	7%	8%	10%	22%	2%
Deferred Tax liab	3060	2390	2629	2892	3181	Operating Profit	5%	-7%	27%	22%	2%
Other liab	26	17	19	21	23	PAT	1%	-38%	77%	35%	1%
<b>CAPITAL EMPLOYED</b>	192071	190376	211157	239065	267376	<b>Per Share (Rs.)</b>					
Gross block	77296	85780	90780	100780	108780	Net Earnings (EPS)	18.1	11.3	20.0	26.9	27.2
Accumulated depreciation	26237	31258	38520	46583	55285	Cash Earnings (CPS)	23.9	18.1	27.1	34.8	35.7
<b>Net block</b>	51059	54522	52260	54197	53495	Dividend	3.5	7.0	7.0	5.0	5.0
Capital WIP	8372	7415	10000	10000	10000	Book Value	101.4	101.3	121.3	148.2	175.4
<b>Total fixed assets</b>	59431	61937	62260	64197	63495	Free Cash Flow	7.8	13.8	8.8	5.4	5.8
<b>Intangible Assets</b>	17688	13868	14868	15868	16868	<b>Valuation Ratios</b>					
Goodwill	52890	53915	59307	65237	71761	P/E(x)	36	57	32	24	24
Other non current assets	2398	1575	1654	1736	1823	P/B(x)	6	6	5	4	4
Investments	4436	5522	6074	6682	7350	EV/EBIDTA(x)	24	26	20	17	16
Other fin assets	11942	11389	11389	11389	11389	EV/SALES(x)	6	5	5	4	4
Inventories	26880	27890	31098	37883	38827	Div. Yield(%)	1	1	1	1	1
Sundry debtors	39508	36632	41464	50511	51770	FCF Yield(%)	1	2	1	1	1
Cash & bank	5489	9649	11066	12898	13402	<b>Return Ratios (%)</b>					
Loans & advances	100	0	0	0	0	ROIC	11%	10%	12%	14%	13%
Other current assets	10705	10855	12483	14356	16509	ROE	18%	15%	17%	18%	15%
Sundry creditors	19226	20310	21561	26266	23814	ROCE	14%	12%	14%	16%	14%
Current Liabilities	20336	21396	22466	23589	24769	ROA	8%	7%	9%	10%	9%
Provisions	3198	4784	5262	5789	6368						
<b>Working capital</b>	36732	31015	42883	59235	79284						
Deferred Tax Assets	1065	1506	1657	1822	2004						
<b>CAPITAL DEPLOYED</b>	192071	190376	211157	239065	267376						

Source: Dalal &amp; Broacha Research, Company

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