

We believe Cadila will grow through India, US and ROW markets. Growth from both Covid treatment & other chronic products in India. In the US, recent ANDA approvals indicate improved mix of launches leading to margin improvement over the next 2-3 years.

- India contribution to grow from 47% to 50% with sales growth 14% CAGR to Rs 94 bn by FY23. We believe Cadila will benefit from affordable pricing for its products in India.**
 - The restricted Emergency Use Authorisation (EUA) to Cadila's Interferon Peg Alpha 2B (VIRAFIN) offers single dose treatment for mild to moderate Covid patients hospitalized in faster reduction in viral load. We believe VIRAFIN will generate Rs 1-3 bn for Cadila annually.
 - Human health to grow 13% CAGR to Rs 53.7 bn driven by Remdesvir (largest allocation at lowest price), anti-infectives and chronic products in cardiovascular, diabetes, gastroenterology, pain management & gynecology.
 - Zydus Wellness to grow 5% CAGR to Rs 20 bn by FY23 with the easing of lockdown.
 - Animal Health to grow 16% CAGR to Rs 8 bn by FY23 on low base and due to increased demand. API to grow 10% CAGR to Rs 6 bn by FY23 in view of better demand. However, there may be lumpiness due to captive consumption.
- We believe ZY-Cov D is a FY22 opportunity and expect approval by June'21.** Post approval, we expect Cadila to supply 57 mn doses in FY22 at Rs 250/dose. We expect vaccine revenues of Rs 14.3 bn in FY22 to taper down to Rs 5.6 bn in FY23 with lower number of Covid19 cases due to India's vaccination drive. However, lot depends on vaccine supplies, curtailment of spread and repeat dosages annually in Government immunization programs.
- US revenues to grow 7% CAGR to Rs 77 bn (\$1054 mn) by FY23.** Growth driven by limited competition launches, refer (Table 1 - Key approvals). We believe revenues from limited competition products will offset 6-7% price erosion in the US. Cadila has also settled with Celgene for Lenalidomide (gREVLIMID) supplies to US, subject to USFDA approval.
- We expect gross margins to increase 300 bps to 68% in FY23, and EBITDA margins to hover at 23% up to FY23E.

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	127484	138121	151342	182942	188960
EBITDA	29775	27647	35027	41806	43555
Adjusted net profit	18532	15215	21793	26826	27900
Free cash flow	7999.00	14104.00	9061.45	5512.46	5895.47
EPS (Rs)	18.1	11.3	20.0	26.2	27.2
growth (%)	1%	-38%	77%	31%	4%
P/E (x)	31	50	28	22	21
P/B (x)	6	6	5	4	3
EV/EBITDA (x)	22	23	18	15	14
D/E	0.7	0.7	0.6	0.5	0.4
RoIC (%)	11%	10%	12%	13%	13%
RoE (%)	18%	15%	17%	17%	15%
Dividend yield (%)	1	1	1	1	1

Source: Company

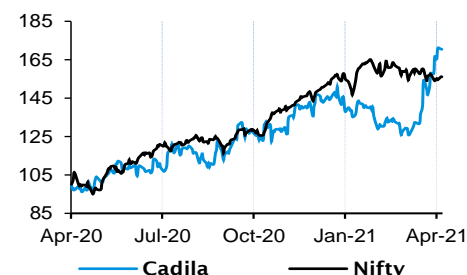
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	627	11

Market data

Current price	Rs	563
Market Cap (Rs.Bn)	(Rs Bn)	576
Market Cap (US \$ Mn)	(US \$ Mn)	7695
Face Value	Rs	1
52 Weeks High/Low	Rs	605/318
Average Daily Volume	('000)	34298
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
Total	100	100

Source: BSE

Charulata Gaidhani

(022) 67141446

charulata.gaidhani@dalal-broacha.com

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 will commence supplies of 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.
- Assuming an average price of Rs 7000 per dose, we believe VIRAFIN will generate Rs 1-3 bn for Cadila annually. We have been conservative in our estimate 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.

3. Recent US approvals

Recent USFDA approvals include several limited competition drugs. We believe Cadila's limited competition launches will offset price erosion in the US.

RLD	Drug	Treatment	Under patent	Innovator	Approval date	Market size (\$ mn)	Dosage Form	Remarks
IMBRUVICA	IBRUTINIB	Blood Cancer	Dec'2026	Pharmacy clics	07 April 2021	800 Capsules		140 mg exclusivity shared with Natco
OPSUMIT	MACITENTAN	Hypertension	Dec'2025	Actelion	07 April 2021	900 Tablets		180 days exclusivity
	Propafenon HCL		Off		23 April 2021	51 Tablets		
	Emtricitabine and Tenofovir							
TRUVADA	Disoproxil Fumarate	Helps to decrease HIV	April' 2021	Gilead	25-03-2021	1300 Tablets		
	Droxidopa	Low blood pressure	Off		19 February 2021	354 Capsules		11 players - Ajanta, Alkem, Aurobindo, Lupin, Sun
		relapsing form of multiple psoriasis	Off					10 players - Alkem, Dr. Reddy's, Hetero, Strides, Sun
GILENYA	Fingolimod		Off		16 October 2020	3000 Capsules		
	Verapamil HCL	Heart rhythm disorders	Off		16 October 2020	40 Injectables		3 players - Aurobindo, Gland

4. Complex injectable filings to change mix

Cadila has 15 injectable filings pending USFDA approval with an addressable market size of \$ 6bn, of which 7 are complex generics, including 2 first to file opportunities. USFDA approval to the injectables will provide an upside to our estimates.

Research Pipeline Ongoing trials

Molecules (NCEs)	Mkt size		Year	Number of patients	Trials
	\$ bn	Treatment			
Saroglitazaar	10	PBC (Primary Biliary Cholangitis)	2029		
				Liver disease	30 mn in US
	27	NASH (Non alcoholic Steatohepatitis) managing hypoxia-inducible factor prolyl hydroxylase inhibitor (HIF-PH inh.). Cancer,			
Desdustat	6	Covid19, CKD	2027	US - 1 mn, 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

We expect revenues to grow 10% CAGR to Rs 191 bn by FY23E, driven by India (+14% Rs 94.7 bn), US (+7% Rs 77 bn) and ROW (+10% Rs 19.8 bn). We expect EBITDA to grow 16% CAGR to Rs 43.5 bn by FY23E, with EBITDA margins at 22.5-23%. PAT to grow 34% CAGR to Rs 27.9 bn by FY23E, with an EPS of Rs 27.2.

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. We have valued Cadila at 23x FY23E EPS of Rs 27.2 and arrived at a **target price of Rs 627**, implying an upside of 10%.

At Rs 569, Cadila trades at 21x FY23E EPS of Rs 27.2. **We recommend ACCUMULATE.**

Financials

P&L (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	127484	138121	151342	182942	188960	Net Profit	18532	15215	21793	26826	27900
Other Operating Income	4172	4410	2300	2415	2536	Add: Dep. & Amort.	5986	6965	7262	8062	8702
Income from Operations	131656	142531	153642	185357	191496	Cash profits	24518	22180	29055	34888	36603
Raw materials	47224	49200	52970	64030	60467	(Inc)/Dec in					
Employee costs	21241	24145	25352	29155	32071	-Sundry debtors	-3027	-1010	-3208	-6493	-1237
Other Expenses	33416	41539	40293	50366	55403	-Inventories	-7445	2876	-4832	-8658	-1649
Cost of sales	101881	114884	118615	143551	147940	-Loans/advances	3348	100	0	0	0
Operating Profit	29775	27647	35027	41806	43555	Other curr. Assets	-3961	-150	-1628	-1872	-2153
Depreciation*	5986	6965	7262	8062	8702	-Sundry creditors	342	1084	1251	4502	-2249
PBIT	23789	20682	27765	33744	34853	-Others	6234	2646	1548	1650	1758
Other income	2011	1139	1253	1378	1516	Change in working capital	-4060	5717	-11868	-15872	-20529
Interest	1935	3418	1701	1417	1417	CF from Oper. activities	20458	27897	17187	19016	16074
Profit before tax	23865	18403	27317	33705	34952	CF from Inv. activities	-57188	-6827	-14758	-17786	-16461
Provision for tax	5303	3198	5979	7415	7689	CF from Fin. activities	29070	-13274	309	360	411
PAT Bfr Excep Items	18562	15205	21338	26290	27262	Cash generated/(utilised)	-7660	7796	2737	1590	24
Extraordinary Items	0	-3636	-1320	0	0	Cash at start of the year	13149	5489	9649	11066	12656
Minority Interest	-499	-278	-75	-100	-125	Cash at end of the year	5489	9649	11066	12656	12680
Share of Profit	469	288	530	636	763						
Reported PAT	18532	15215	21793	26826	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	22.9	23.0
Reserves	102839	102733	123199	150019	177915	NPM	14.5	11.0	14.4	14.7	14.8
Net worth	103863	103757	124223	151043	178939	Tax rate	22.2	17.4	21.9	22.0	22.0
Minority interest	12929	13347	13422	13522	13647	Growth Ratios (%)					
Total debt	72193	70865	70865	70865	70865	Net Sales	7%	8%	10%	21%	3%
Deferred Tax liab	3060	2390	2629	2892	3181	Operating Profit	5%	-7%	27%	19%	4%
Other liab	26	17	19	21	23	PAT	1%	-38%	77%	31%	4%
CAPITAL EMPLOYED	192071	190376	211157	238343	266654	Per Share (Rs.)					
Gross block	77296	85780	90780	100780	108780	Net Earnings (EPS)	18.1	11.3	20.0	26.2	27.2
Accumulated depreciation	26237	31258	38520	46583	55285	Cash Earnings (CPS)	23.9	18.1	27.1	34.1	35.7
Net block	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	147.5	174.7
Total fixed assets	59431	61937	62260	64197	63495	Free Cash Flow	7.8	13.8	8.8	5.4	5.8
Intangible Assets	17688	13868	14868	15868	16868	Valuation Ratios					
Goodwill	52890	53915	59307	65237	71761	P/E(x)	31	50	28	22	21
Other non current assets	2398	1575	1654	1736	1823	P/B(x)	6	6	5	4	3
Investments	4436	5522	6074	6682	7350	EV/EBIDTA(x)	22	23	18	15	14
Other fin assets	11942	11389	11389	11389	11389	EV/SALES(x)	5	5	4	3	3
Inventories	26880	27890	31098	37591	38827	Div. Yield(%)	1	1	1	1	1
Sundry debtors	39508	36632	41464	50121	51770	FCF Yield(%)	1	2	2	1	1
Cash & bank	5489	9649	11066	12656	12680	Return Ratios (%)					
Loans & advances	100	0	0	0	0	ROIC	11%	10%	12%	13%	13%
Other current assets	10705	10855	12483	14356	16509	ROE	18%	15%	17%	17%	15%
Sundry creditors	19226	20310	21561	26063	23814	ROCE	14%	12%	14%	15%	14%
Current Liabilities	20336	21396	22466	23589	24769	ROA	8%	7%	9%	9%	9%
Provisions	3198	4784	5262	5789	6368						
Working capital	36732	31015	42883	58755	79284						
Deferred Tax Assets	1065	1506	1657	1822	2004						
CAPITAL DEPLOYED	192071	190376	211157	238343	266654						

Source: Dalal & Broacha Research, Company

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Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	Head of Research	kunal.bhatia@dalal-broacha.com	022 671 41442	Auto Auto Ancillary FMCG
Mrs.Charulata Gaidhani	Sr. Analyst	charulata.gaidhani@dalal-broacha.com	022 671 41446	Pharma Healthcare
Mr. Mayank Babla	Sr. Analyst	mayank.babla@dalal-broacha.com	022 671 41412	IT Telecom Media
Mr. Avinash Tanawade	Sr. Analyst	avinash.tanawade@dalal-broacha.com	022 671 41449	BFSI
Mr. Akshay Ashok	Analyst	akshay.ashok@dalal-broacha.com	022 671 41486	BFSI
Ms. Timshar Dhamodiwala	Associate	timshar.dhamodiwala@dalal-broacha.com	022 671 41441	IT Telecom Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400021.

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com