

Cadila Healthcare Q2FY22 results were in line with estimates. However, lower gross margins from covid inventory and lower other expenses maintained profitability.

- Sales came in at Rs 36.9 bn, 4% lower than our estimate.
- Sales growth (-2% yoy/-6% qoq).
- Gross margins 65.2% (-120 bps yoy/-250 bps qoq) due to one time Covid related inventory provision in India.
- EBITDA came in at Rs 8610 mn (flat yoy/-7% qoq), 1% above our estimate due to lower other expenses (R & D spend and Wellness due to seasonality).
- EBITDA margins were at 23.4% (+50 bps yoy/-40 bps qoq).
- Adjusted PAT came in at Rs 6021 mn (-1% yoy/ +5% qoq).
- Net Exceptional expenses were at Rs 957 mn, with profit on sale of brands adjusted towards impairment on assets due to closure of manufacturing facilities of its subsidiaries Nesher Pharma, USA and Hercon Pharma USA.
- Further, Profit on discontinued operations (Animal Health) was at Rs 24961 mn.
- Adj EPS at Rs 5.88, 19% higher than our estimate.
- EPS (with profit on discontinued) at Rs 29.33.

Growth by markets and near term monitorables

- By Geography, sales growth driven by India – Human Health (+12% yoy Rs 12 bn), India – Wellness (+12% Rs 3.8 bn) and ROW (+48% Rs 3.5 bn) offset by degrowth in USA (-12% Rs 14.9 bn).
- Inclusion of Zy CovD in Government immunization programs for adults and children will augment growth.
- USFDA clearance to Moraiya plant is key to commercialise its ANDAs.

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	127484	138121	148215	159909	171711
EBITDA	29775	27647	33410	36949	42606
Adjusted net profit	18532	15215	23387	24333	28304
Free cash flow	7999	14104	24933	-15215	4707
EPS (Rs)	18.1	14.8	22.9	23.7	27.6
growth (%)	5%	-18%	54%	3%	17%
P/E (x)	28	34	22	21	18
P/B (x)	5	5	4	3	2
EV/EBITDA (x)	19	21	16	14	12
D/E	0.7	0.7	0.3	0.2	0.2
RoIC (%)	11%	10%	13%	13%	14%
RoE (%)	18%	15%	18%	14%	14%
Dividend yield (%)	1	1	1	1	1

Source: Company

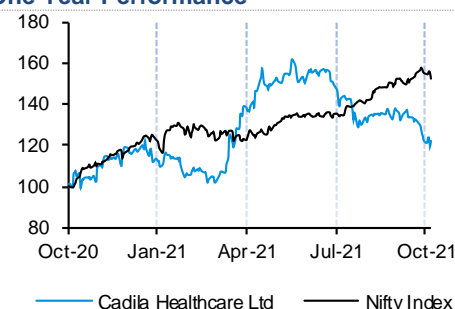
Rating	TP (Rs)	Up/Dn (%)
BUY	608	21

Market data

Current price	Rs	503
Market Cap (Rs.Bn)	(Rs Bn)	6,870
Market Cap (US\$ Mn)	(US\$ Mn)	91,704
Face Value	Rs	1
52 Weeks High/Low	Rs	674/ 404
Average Daily Volume	(000)	2,081
BSE Code		53232
Bloomberg		CDH.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

(%) Shareholding	Sep-21	Jun-21
Promoter	74.88	74.88
Public	25.11	25.11
Total	100	100

Source: Bloomberg

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Conference Call Highlights

A. US

1. US sales -12% yoy Rs 14.51 bn, due to lower volumes and price erosion in the US. CC revenues were at \$202 mn.
2. Lower volumes in ASACOL HD and competition in gLIALDA. Going forward the management expects competition in ASACOL HD in Q4FY22.
3. 3 new launches in Q2FY22, including Enoxaparin sodium injection (in-licensed) as a first generic.
4. The management has built up a franchise of in-licensed complex injectables.
5. In FY23, Cadila expects to launch 50 new products in the US, subject to USFDA clearance to Moraiya plant.
6. Moraiya remediation completed, awaits USFDA inspection.

B. India

1. Human Health
 - a. Q2FY22 sales +12% Rs 12.8 bn. Excluding Covid, sales grew 17% driven by largely volume growth and new launches.
 - b. Gained market share in anti diabetic and cardiovascular.
 - c. Going forward, India business to grow with focus on key brands.
 - d. Invested in digitization of network for widening reach.
 - e. Await Zy CovD clearance for participation in Government immunization program.
2. Wellness
 - a. Q2FY22 sales +12% Rs 3.8 bn.
 - b. Relaunched 'Complan' with double digit growth.
 - c. Everyuth and Nutralite continue double digit growth.

C. ROW

- a. ROW sales at Rs 3.5 bn, +48% yoy.
- b. Growth led by demand in base business.
- c. In view of the sub optimal levels of operation by regulatory authorities, Cadila has delayed new launches in ROW markets.

D. Specialty Pipeline

1. Clinical trials (recruitment) under way for Saroglitazar for Primary Biliary Cholangitis (PBC). The European Medicines Agency (EMA) has assigned an orphan drug status to Saroglitazar for treatment of PBC. The company expects filing by end CY2023.
2. In licensed 15 complex injectable products, to be launched over next 2-3 years.
3. ZY CovD vaccine under trial for 5-12 years.
4. Tie up with Shilpa Medicare for drug substance for Zy CovD.
5. Cadila Healthcare has tied up with a CMO for supplies out of India.

E. Others

- Capex Rs 8-9 bn towards additional capacities and digitisation.

Quarterly Financials

Particulars (Rs mn)	Q2FY22	Q1FY22	Q2FY21	% yoy	% qoq	H1FY22	H1FY21	Var %
Net Sales	36872	39174	37623	-2%	-6%	76046	73116	4%
Other Operating Income	978	1080	577			2058	1483	
Income from operations	37850	40254	38200	-1%	-6%	78104	74599	5%
Other Income	533	316	275			849	500	
Total Income	38383	40570	38475			78953	75099	
Raw materials	13823	13748	13223			27571	25726	
Employee Expenses	6477	6542	6165			13019	12510	
Other Expenses	8940	10634.00	7358			19574	16755	
Total Expenses	29240	30924	26746	9%	-5%	60164	54991	9%
EBITDA excl. other income	8610	9330	11454	-25%	-8%	17940	19608	-9%
EBITDA + other income	9143	9646	11729			18789	20108	
Depreciation	1848	1827	1790			3675	3558	
Finance Costs	301	173	457			474	1134	
PBT	6994	7646	9482	-26%	-9%	14640	15416	-5%
less: Taxes	1000	1415	1106			2415	2341	
PAT	5994	6231	8376			12225	13075	
Profit/loss of associate Company	123	70	114			193	281	
Minority interest	96	553	-384			649	-58	
Adjusted PAT	6021	5748	8874	-32%	5%	13067	13298	-2%
Extraordinary items inc/(exp)	-957	0	-1320			-957	-1320	
PAT after Extraordinary	5064	5748	7554	-33%	-12%	12110	11978	
Equity	1024	1024	1024			1024	1024	
Face Value	1	1	1			1	1	
Adjusted EPS	5.9	5.6	8.7			12.8	13.0	
EPS incl. extra	4.9	5.6	7.4			11.8	11.7	

Gross margins lower due to Covid inventory provision

Other expenses lower due to R & D spend and seasonality in Wellness

Cost Analysis	Q2FY22	Q1FY22	Q1FY22	H1FY22	H1FY21	Var %
RMC	37%	35%	35%	36%	35%	
EMC	18%	17%	16%	17%	17%	
Other exps	24%	27%	20%	26%	23%	

Profitability	Q2FY22	Q1FY22	Q2FY21	bps yoy	bps qoq	H1FY22	H1FY21	Var %
Gross margin	62.5	64.9	64.9	-234	-239	63.7	64.8	-107
EBITDA margin	23.4	23.8	30.4	-709	-47	23.6	26.8	-323
PBT margin	19.0	19.5	25.2	-623	-55	19.3	21.1	-183
PAT margin	16.3	14.7	23.6	-726	166	17.2	18.2	-100

Sales by Geography	Q2FY22	Q1FY22	Q2FY21	% yoy	% qoq	H1FY22	H1FY21	Var %
USA	14980	14510	17090	-12%	3%	64484	63044	2%
India - Human Health	12130	13570	10870	12%	-11%	40457	37141	9%
India - Wellness	3770	5860	3352	12%	-36%	18409	17668	4%
India - Animal Health	0	0	1611			5973	5610	6%
Others	5353	5353	5277	1%	0%	22117	15068	47%

Sales growth from India - Human Health + Wellness and ROW

Valuation & Outlook

Cadila has grown better than industry in India and ROW markets. The US business is impacted due to price erosion and lower volumes on account of the pandemic. New limited competition launches and its NCEs under trial will drive future growth in US.

Cadila has emerged as an innovative player in India for Covid, and in the US for its new chemical entities (NCE) pipeline for the treatment of rare diseases. The company awaits USFDA clearance to its Moraiya plant.

In view of priority review status by USFDA for Saroglitazar and in-licensed supply contracts for complex injectables, we believe Cadila can come back to growth in US by FY23.

In view of the delay in ZyCov D launch in India, absence of third wave so far and price erosion in the US, we have revised our estimates for Sales/EBITDA/PAT for FY22 & FY23 by -9%/-15%/014% and -8%/-8%/-7%.

At Rs 503, Cadila trades at 18x FY23E EPS of Rs 27.6 and 12x EV/EBITDA. We have valued Cadila at 25x P/E and arrived at a target price of Rs 608.

We maintain BUY.

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