

August 6, 2020

Q1FY21 Result Update

■ Change in Estimates | ■ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	SELL		REDUCE	
Target Price	329		329	
Sales (Rs. m)	1,61,674	1,72,217	1,61,674	1,72,217
% Chng.	-	-	-	-
EBITDA (Rs. m)	34,436	36,682	34,436	36,682
% Chng.	-	-	-	-
EPS (Rs.)	18.3	20.4	18.3	20.4
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,38,121	1,51,800	1,61,674	1,72,217
EBITDA (Rs. m)	23,424	30,360	34,436	36,682
Margin (%)	17.0	20.0	21.3	21.3
PAT (Rs. m)	11,757	15,876	18,734	20,917
EPS (Rs.)	11.5	15.5	18.3	20.4
Gr. (%)	(36.4)	35.0	18.0	11.7
DPS (Rs.)	6.9	3.5	3.5	3.5
Yield (%)	1.8	0.9	0.9	0.9
RoE (%)	11.3	15.3	16.9	16.6
RoCE (%)	9.4	13.1	14.5	14.9
EV/Sales (x)	3.4	3.1	2.9	2.6
EV/EBITDA (x)	19.8	15.5	13.4	12.2
PE (x)	34.5	25.5	21.6	19.4
P/BV (x)	3.9	3.9	3.4	3.0

Key Data

CADI.BO | CDH IN

52-W High / Low	Rs.411 / Rs.202
Sensex / Nifty	37,663 / 11,102
Market Cap	Rs.405bn/ \$ 5,411m
Shares Outstanding	1,024m
3M Avg. Daily Value	Rs.3545.77m

Shareholding Pattern (%)

Promoter's	74.88
Foreign	4.56
Domestic Institution	12.59
Public & Others	7.97
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.1	45.8	77.1
Relative	3.4	59.3	72.6

Surajit Pal

surajitpal@plindia.com | 91-22-66322259

Tausif Shaikh

tausifshaikh@plindia.com | 91-22-66322246

Core biz disappoints as focus shift towards COVID related product. Downgrade to Sell

Quick Pointers:

- India formulation/Consumer healthcare/ US Gx declined 12% YoY/ 12%YoY/ 12%QoQ.
- COVID related products to share more focus in FY21E.

1QFY21 revenue was in-line with our estimate but EBITDA and EBITDAM were beat due to decline of SG&A 17% YoY. We believe its foray into COVID related products has diverted its focus from core business when its top revenue contributors (India, US Gx) have been lacking consistency. With HCQ already no longer preferred for COVID treatment and multiple players in Remdesivir, its ambitious COVID vaccine project might also be disappointing as world class innovators are far ahead in the race. We also believe its investment in specialty products may not be as rewarding as expected by management. Hence we change our rating to SELL (earlier Reduce) but retain our TP of Rs329 based on 18x PE of FY22E.

Disappointment across business: Revenue grew 4% YoY and declined 3% QoQ to Rs36.3bn (PLe: Rs38.8bn). Most of the business segment reported disappointing growth vs. estimates: India formulation/ Consumer Healthcare/ US declining 12% YoY/12% YoY/8% QoQ. EBITDA grew 24% YoY and 3% QoQ to Rs 8.1bn (PLe: Rs7.6bn). EBITDAM was higher than our estimate at 22.4% (PLe: 19.8%) v/s 18.8% YoY and 21.1% QoQ led by reduction in SG&A 17% YoY. PBT grew 41% YoY and 3% QoQ to Rs5.9bn (PLe: Rs5.4bn). PAT grew 39% YoY and 16% QoQ to Rs4.5bn (PLe: Rs4.2bn).

Conference Call and Key Highlights:

- India formulations:** Sales declined by 12% YoY in Q1FY21 due to lockdown related logistic issues and higher (53%) revenue contribution of acute therapy portfolio. With internal restructuring of sales team since FY19, its India formulation growth continues to disappoint in growth in comparison to the peers. CDH also have no plan to add significant addition of MR headcounts in FY21E.
- US Formulations:** Revenue declined by 12% QoQ to US\$215m due to seasonal products. US injectable business was less than US\$15mn in FY20 v/s total US revenue of US\$883m. CDH injectable revenue could be US\$150mn during FY23E. Currently 30 injectables are under development while the current approved injectables are in a process of site transfer from Moraiya to Liva plant. Doxycycline Injectable was successfully transferred to Liva from Moraiya. CDH has In-Licensed 14 assets to be launched in next 3 years.
- Consumer Wellness:** Revenue declined 12% YoY while EBITDA was flat YoY. EBITDA margin for consumer business was 22.7%. Its sales revived in May CY20, while June witnessed double digit growth. Glucon-D, Nycil,

Everyuth Scrub and Peel Off continue to hold number one position. Glucon-D and Nycil hold a market share of 59% and 34.4%.

- **EU and LATAM:** Revenue declined 16% QoQ for EU while LATAM grew 38% QoQ.
- **Biosimilar and Vaccine:** India and EM's revenue for biosimilar and vaccine products was Rs2,779m and Rs500m in FY20 with combined growth of 19% YoY. There are 7 products in the pipeline for EMs, to be launched in FY21E.
- **R&D/CAPEX/Debt:** R&D spend was 7.6% of sales in 1QFY21. CDH would spend 60% of R&D spend in US generics while 40% is to be equally divided between biologics and vaccines. CAPEX in the last few years has been mainly towards the US market. Current net debt stands at Rs52bn after Rs15bn debt reduction during the quarter. Guided for Rs8-10bn debt reduction in FY21E.
- **Regulatory Status:** CDH has completed its remediation for Moraiya facility and is waiting for virtual FDA inspection.

Exhibit 1: 1QFY21 Result Overview (Rs mn): Domestic formulation and US (Gx) disappoints

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	36,399	34,963	4.1	37,521	151,800	138,121	9.9
Raw Material	12,503	12,595	(0.7)	12,597	53,130	49,200	8.0
<i>% of Net Sales</i>	<i>34.3</i>	<i>36.0</i>		<i>33.6</i>	<i>35.0</i>	<i>35.6</i>	
Personnel Cost	6,345	5,898	7.6	6,090	25,806	24,145	6.9
<i>% of Net Sales</i>	<i>17.4</i>	<i>16.9</i>		<i>16.2</i>	<i>17.0</i>	<i>17.5</i>	
Others	9,397	9,883	(4.9)	10,922	42,504	41,352	2.8
<i>% of Net Sales</i>	<i>25.8</i>	<i>28.3</i>		<i>29.1</i>	<i>28.0</i>	<i>29.9</i>	
Total Expenditure	28,245	28,376	(0.5)	29,609	121,440	114,697	5.9
EBITDA	8,154	6,587	23.8	7,912	30,360	23,424	29.6
<i>Margin (%)</i>	<i>22.4</i>	<i>18.8</i>		<i>21.1</i>	<i>20.0</i>	<i>17.0</i>	
Depreciation	1,768	1,716	3.0	1,785	7,355	6,965	5.6
EBIT	6,386	4,871	31.1	6,127	23,005	16,459	39.8
Other Income	225	226	(0.4)	443	1,196	5,540	(78.4)
Interest	677	891	(24.0)	825	4,118	3,418	20.5
PBT	5,934	4,206	41.1	5,745	20,083	18,581	8.1
Extra-Ord. Inc./Exps.	159	155	2.6	741	(11)	3,626	(100.3)
Total Taxes	1,235	791	56.1	1,085	4,217	3,198	31.9
<i>ETR (%)</i>	<i>20.8</i>	<i>18.8</i>		<i>18.9</i>	<i>21.0</i>	<i>17.2</i>	
Reported PAT	4,540	3,260	39.3	3,919	15,876	11,757	35.0

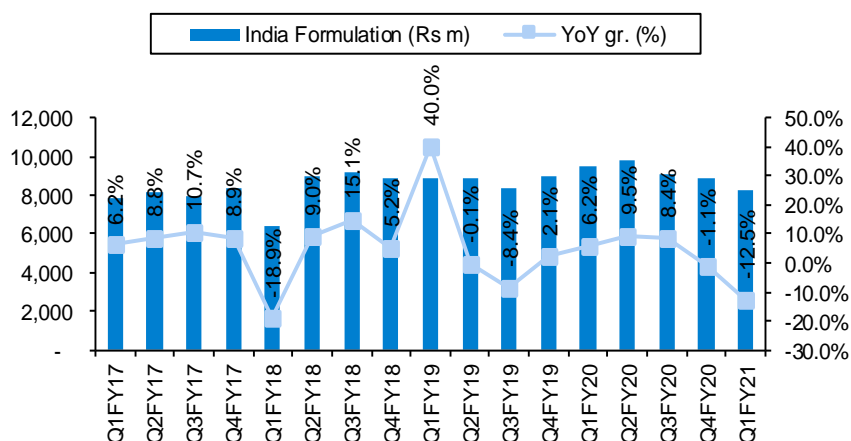
Source: Company, PL

Exhibit 2: Major Sources of Revenues

Major Sources of Revenues	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Domestic	16,169	17,437	(7.3)	16,183	67,302	64,199	4.8
<i>% of Net Sales</i>	<i>44.4</i>	<i>49.9</i>		<i>44.6</i>	<i>44.3</i>	<i>46.5</i>	
Formulation	8,292	9,476	(12.5)	8,922	39,369	37,141	6.0
<i>% of Net Sales</i>	<i>22.8</i>	<i>27.1</i>		<i>24.6</i>	<i>25.9</i>	<i>26.9</i>	
API	1,309	692	89.2	1,163	4,574	4,530	1.0
<i>% of Net Sales</i>	<i>3.6</i>	<i>2.0</i>		<i>3.2</i>	<i>3.0</i>	<i>3.3</i>	
Consumer HC & Others	5,316	6,064	(12.3)	4,899	17,900	17,379	3.0
<i>% of Net Sales</i>	<i>14.6</i>	<i>17.3</i>		<i>13.5</i>	<i>11.8</i>	<i>12.6</i>	
Animal Healthcare	1,252	1,205	3.9	1,199	5,458	5,149	6.0
<i>% of Net Sales</i>	<i>3.4</i>	<i>3.4</i>		<i>3.3</i>	<i>3.6</i>	<i>3.7</i>	
Exports	19,324	16,625	16.2	20,089	83,302	72,783	14.5
<i>% of Net Sales</i>	<i>53.1</i>	<i>47.6</i>		<i>55.4</i>	<i>54.9</i>	<i>52.7</i>	
Formulation	19,096	16,348	16.8	19,906	82,569	72,085	14.5
<i>% of Net Sales</i>	<i>52.5</i>	<i>46.8</i>		<i>54.9</i>	<i>54.4</i>	<i>52.2</i>	
North America	16,232	13,670	18.7	17,607	70,322	61,376	14.6
EU	489	474	3.2	582	2,200	1,957	12.4
LatAM	2,375	2,204	7.8	1,717	10,047	8,753	14.8
Emerging markets	-	-		-	-	-	
Income from JVs	228	277		183	733	698	5.0
<i>% of Net Sales</i>	<i>0.6</i>	<i>0.8</i>		<i>0.5</i>	<i>0.5</i>	<i>0.5</i>	
Other Income	906	901	(0.3)	1,249	1,196	1,139	0.0
Total Sales	36,399	34,963	8.7	37,521	151,800	138,121	19.3

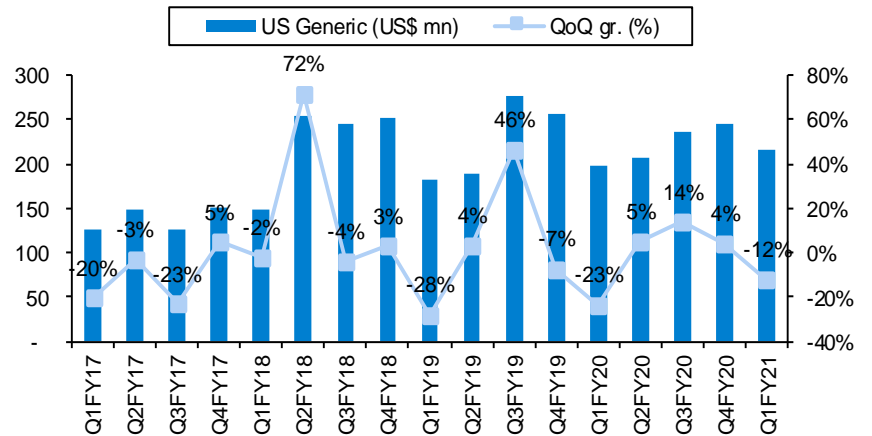
Source: Company, PL

Exhibit 3: India Formulation & YoY Gr (%)



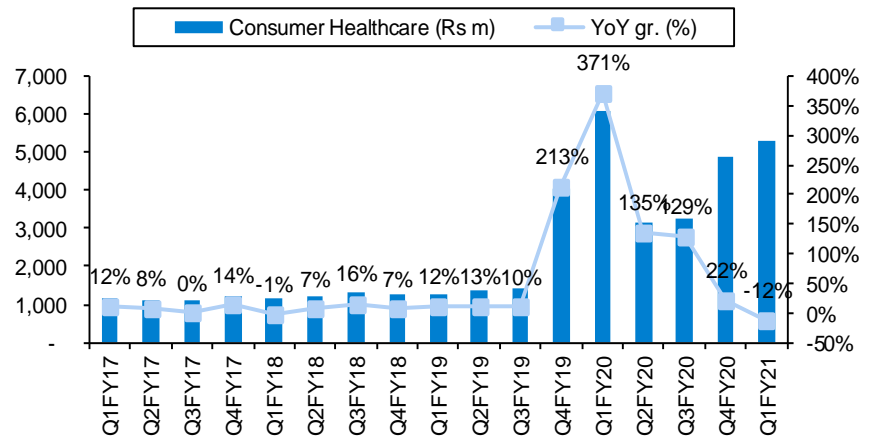
Source: Company, PL

Exhibit 4: US Generic(US\$m) & QoQ Gr (%)



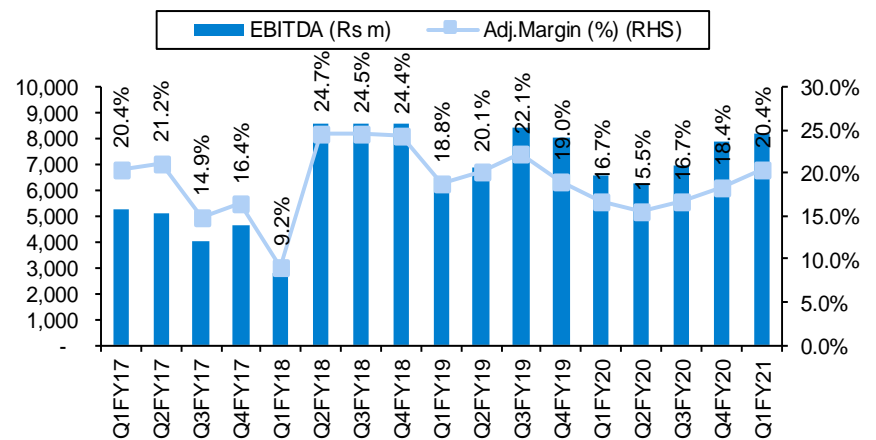
Source: Company, PL

Exhibit 5: Consumer HC (Rs mn) & YoY Gr (%)



Source: Company, PL

Exhibit 6: EBITDA (Rs mn) and Adj.Margin (%)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,38,121	1,51,800	1,61,674	1,72,217
YoY gr. (%)	8.3	9.9	6.5	6.5
Cost of Goods Sold	49,200	53,130	55,777	59,415
Gross Profit	88,921	98,670	1,05,896	1,12,802
Margin (%)	64.4	65.0	65.5	65.5
Employee Cost	24,145	25,806	27,000	28,760
Other Expenses	10,974	11,385	12,126	12,916
EBITDA	23,424	30,360	34,436	36,682
YoY gr. (%)	(8.4)	29.6	13.4	6.5
Margin (%)	17.0	20.0	21.3	21.3
Depreciation and Amortization	6,965	7,355	7,671	7,905
EBIT	16,459	23,005	26,765	28,778
Margin (%)	11.9	15.2	16.6	16.7
Net Interest	3,418	4,118	4,321	3,634
Other Income	5,540	1,196	1,256	1,319
Profit Before Tax	18,581	20,083	23,700	26,462
Margin (%)	13.5	13.2	14.7	15.4
Total Tax	3,198	4,217	4,977	5,557
Effective tax rate (%)	17.2	21.0	21.0	21.0
Profit after tax	15,383	15,865	18,723	20,905
Minority interest	(10)	(11)	(11)	(12)
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,757	15,876	18,734	20,917
YoY gr. (%)	(36.4)	35.0	18.0	11.7
Margin (%)	8.5	10.5	11.6	12.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,757	15,876	18,734	20,917
YoY gr. (%)	(36.4)	35.0	18.0	11.7
Margin (%)	8.5	10.5	11.6	12.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,757	15,876	18,734	20,917
Equity Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	11.5	15.5	18.3	20.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	1,12,950	1,21,950	1,31,950	1,41,950
Tangibles	82,988	88,988	95,988	1,02,988
Intangibles	29,962	32,962	35,962	38,962
Acc: Dep / Amortization	41,379	48,733	56,404	64,309
Tangibles	30,698	36,011	41,126	46,426
Intangibles	10,681	12,722	15,278	17,883
Net fixed assets	68,390	73,217	75,546	77,641
Tangibles	49,109	52,977	54,862	56,563
Intangibles	19,281	20,240	20,684	21,078
Capital Work In Progress	7,415	5,932	4,746	3,796
Goodwill	53,915	51,219	48,658	46,225
Non-Current Investments	8,382	8,154	8,010	7,942
Net Deferred tax assets	6,430	5,627	4,679	3,620
Other Non-Current Assets	3,081	2,927	2,781	2,642
Current Assets				
Investments	2,128	2,128	2,128	2,128
Inventories	27,890	29,944	31,449	33,500
Trade receivables	36,632	40,757	43,408	47,183
Cash & Bank Balance	9,649	6,462	13,840	15,120
Other Current Assets	8,549	8,720	8,894	9,072
Total Assets	2,36,866	2,39,962	2,49,559	2,54,894
Equity				
Equity Share Capital	1,024	1,024	1,024	1,024
Other Equity	1,02,733	1,02,344	1,16,913	1,33,665
Total Network	1,03,757	1,03,368	1,17,937	1,34,689
Non-Current Liabilities				
Long Term borrowings	32,146	32,789	29,510	26,559
Provisions	2,352	2,470	2,593	2,723
Other non current liabilities	17	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	38,265	42,092	42,512	34,010
Trade payables	20,310	22,458	23,033	24,535
Other current liabilities	24,119	20,404	17,019	14,776
Total Equity & Liabilities	2,36,866	2,39,962	2,49,559	2,54,894

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	14,954	20,083	23,700	26,462
Add. Depreciation	6,965	7,355	7,671	7,905
Add. Interest	3,418	4,118	4,321	3,634
Less Financial Other Income	5,540	1,196	1,256	1,319
Add. Other	(8,742)	(2,333)	3,636	3,592
Op. profit before WC changes	16,595	29,223	39,328	41,593
Net Changes-WC	3,685	(7,986)	(7,211)	(6,817)
Direct tax	(2,377)	(4,619)	(5,451)	(6,086)
Net cash from Op. activities	17,903	16,617	26,666	28,689
Capital expenditures	(8,543)	(7,517)	(8,814)	(9,051)
Interest / Dividend Income	22	22	22	22
Others	1,086	201	221	243
Net Cash from Inv. activities	(7,435)	(7,295)	(8,571)	(8,786)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,055)	4,469	(2,858)	(11,453)
Dividend paid	(8,596)	(3,600)	(3,600)	(3,600)
Interest paid	(3,418)	(4,118)	(4,321)	(3,634)
Others	-	-	-	-
Net cash from Fin. activities	(13,069)	(3,249)	(10,779)	(18,688)
Net change in cash	(2,602)	6,074	7,315	1,215
Free Cash Flow	9,360	9,100	17,852	19,638

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	33,666	36,381	37,521	36,399
YoY gr. (%)	13.7	1.7	0.5	4.1
Raw Material Expenses	11,565	12,443	12,597	12,503
Gross Profit	22,101	23,938	24,924	23,896
Margin (%)	65.6	65.8	66.4	65.7
EBITDA	6,256	6,932	7,912	8,154
YoY gr. (%)	(9.0)	(17.5)	(1.1)	23.8
Margin (%)	18.6	19.1	21.1	22.4
Depreciation / Depletion	1,723	1,741	1,785	1,768
EBIT	4,533	5,191	6,127	6,386
Margin (%)	13.5	14.3	16.3	17.5
Net Interest	897	805	825	677
Other Income	269	201	443	225
Profit before Tax	3,905	4,587	5,745	5,934
Margin (%)	11.6	12.6	15.3	16.3
Total Tax	395	927	1,085	1,235
Effective tax rate (%)	10.1	20.2	18.9	20.8
Profit after Tax	3,510	3,660	4,660	4,699
Minority interest	(243)	(95)	216	159
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,072	3,739	3,919	4,540
YoY gr. (%)	(74.3)	(26.8)	(14.8)	39.3
Margin (%)	3.2	10.3	10.4	12.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,072	3,739	3,919	4,540
YoY gr. (%)	(74.3)	(26.8)	(14.8)	39.3
Margin (%)	3.2	10.3	10.4	12.5
Other Comprehensive Income	(1,176)	(147)	(2,205)	94
Total Comprehensive Income	(104)	3,592	1,714	4,634
Avg. Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	1.0	3.7	3.8	4.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	11.5	15.5	18.3	20.4
CEPS	18.3	22.7	25.8	28.1
BVPS	101.3	100.9	115.2	131.5
FCF	9.1	8.9	17.4	19.2
DPS	6.9	3.5	3.5	3.5
Return Ratio(%)				
RoCE	9.4	13.1	14.5	14.9
ROIC	8.4	10.8	12.6	13.0
RoE	11.3	15.3	16.9	16.6
Balance Sheet				
Net Debt : Equity (x)	0.6	0.6	0.5	0.3
Net Working Capital (Days)	117	116	117	119
Valuation(x)				
PER	34.5	25.5	21.6	19.4
P/B	3.9	3.9	3.4	3.0
P/CEPS	21.7	17.5	15.4	14.1
EV/EBITDA	19.8	15.5	13.4	12.2
EV/Sales	3.4	3.1	2.9	2.6
Dividend Yield (%)	1.8	0.9	0.9	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
US Formulations	63,140	62,514	72,467	76,880
Domestic Formulations	37,437	37,141	39,369	42,519
Consumer Healthcare	5,174	17,379	17,900	18,795
Income from JVs	986	698	733	770

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	8-Jul-20	Reduce	329	360
2	22-Jun-20	Reduce	329	362
3	4-May-20	Sell	263	324
4	18-Apr-20	Sell	263	334
5	14-Apr-20	Reduce	247	351
6	5-Feb-20	Hold	247	272
7	3-Jan-20	Hold	220	260
8	13-Nov-19	Hold	220	225
9	3-Oct-19	Accumulate	266	234
10	9-Aug-19	Accumulate	266	232

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	838	802
2	Cadila Healthcare	Reduce	329	360
3	Cipla	Reduce	542	634
4	Dr. Lal PathLabs	Sell	1,006	1,892
5	Dr. Reddy's Laboratories	Hold	4,326	4,306
6	Eris Lifesciences	BUY	576	511
7	Glenmark Pharmaceuticals	Sell	365	419
8	Indoco Remedies	Hold	219	208
9	Ipca Laboratories	BUY	1,839	1,636
10	Jubilant Life Sciences	Sell	414	703
11	Lupin	BUY	1,001	865
12	Sun Pharmaceutical Industries	Reduce	479	532
13	Thyrocare Technologies	Sell	307	677

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Surajit Pal- PGDBA, CFA, M.Com, Mr. Tausif Shaikh- BA, Major in Economics, Financial Management Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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