ENAM Securities
India Research

CMP: Rs 760
Target Price: Rs 1,027
Potential Upside: 35%
Absolute Rating: BUY

Cadila Healthcare

Relative to sector: Outperformer

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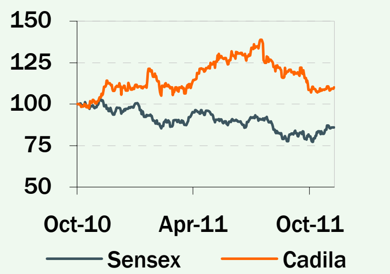
Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 205 mn
Market cap	: Rs 155.6 bn
52 week high/low	: Rs 984 / Rs 703
Avg. daily vol. (6mth)	: 114,600 shares
Bloomberg code	: CDH IB
Reuters code	: CADI.BO

Shareholding (%)		Sep-11	QoQ chg
Promoters	:	74.8	0.0
FIIs	:	6.0	0.3
MFs / UTI	:	6.1	(1.1)
Banks / FIs	:	5.5	0.1
Others	:	7.5	0.7

DOMESTIC SLOWDOWN IMPAIRS GROWTH

Cadila Healthcare (CDH) reported Q2FY12 sales of Rs 12.4 bn (up 11% YoY) and adj. PAT of Rs 1.8 bn (up 3% YoY) – below our estimates, on the back of continued pressure in the domestic formulations business.

Key highlights (Other highlights overleaf)

- **Sales:** Grew 11% YoY to Rs 12.4 bn. Exports rose 15% YoY to Rs 5.5 bn driven by 24% YoY growth in formulations – largely led by 36% growth in the US (of which 26% was organic). Europe grew 5% to Rs 619 mn (down 19% QoQ), which as per the mgmt, was due to sluggishness in the overall mkt. Emerging markets declined 10% YoY owing to political unrest in MENA (esp. Sudan and Algeria). Domestic formulations rose by only 7% YoY to Rs 4.7 bn due to slowdown in overall mkt for acute therapies & inventory correction in few products. Consumer business grew 11% YoY to Rs 1.3 bn (witnessing competition from MNCs & slower mkt growth). JV sales were flat at Rs 750 mn as Hopira grew significantly (led by Docetaxel supply) while Nycomed registered a decline.
- **EBITDA**: Margin was flat at 22.3% vs. 22.6% in Q2FY11.
- **PAT:** Was up by only 3% YoY to Rs 1.8 bn as higher interest cost (up 42% YoY to Rs 255 mn) and depreciation (up 23% YoY to Rs 375 mn) partially offset the 9% rise in EBITDA.

Reduce estimates and TP; Maintain BUY (35% upside CMP)

With multiple growth drivers in place and its constant focus on moving up the value chain, we believe CDH has entered the league of top Indian pharma cos. However, given the pressure on domestic growth in the short to medium term, we reduce our FY12E and FY13E EPS by 6% and 9% to Rs 39 and Rs 47 resp. Accordingly, we cut our **TP to Rs 1,027** (22x FY13E EPS). **Maintain BUY.**

Financial summary

Y/E Mar	Sales (Rs mn)	Adj.PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2010	36,868	5,083	-	24.8	51.4	-	34.7	26.1	-	5.0
2011	46,302	7,500	-	36.6	47.4	-	38.4	31.6	-	7.0
2012E	52,977	8,062	40.0	39.4	7.5	19.3	34.0	32.6	13.9	8.0
2013E	59,121	9,557	48.9	46.7	18.6	16.3	33.0	35.2	11.8	8.0

Source: * Consensus broker estimates, Company, ENAM estimates

Results update

	Quarter ended					12 months ended		
(Rs mn)	Sep-11	Sep-10	% Chg	Jun-11	% Chg	Mar-12E	Mar-11	% Chg
Total Income	12,364	11,167	10.7	12,365	(0.0)	52,977	46,302	14.4
EBITDA	2,757	2,529	9.0	2,932	(6.0)	11,847	10,772	10.0
Other income	110	39	-	63	75.0	262	131	99.8
PBIDT	2,867	2,568	11.7	2,995	(4.3)	12,109	10,903	11.1
Depreciation	375	304	23.3	347	8.1	1,600	1,269	26.1
Interest	255	179	42.1	189	35.1	800	699	14.4
PBT	2,237	2,084	7.3	2,459	(9.0)	9,709	8,934	8.7
Tax	352	262	34.4	235	50.0	1,323	1,184	11.7
Adjustment	75	60	25.5	45	68.2	325	251	29.3
Adjusted PAT	1,810	1,762	2.7	2,180	(17.0)	8,062	7,500	7.5
Extra ordinary (income)/ exp.	783	54	-	(118)	-	665	390	70.4
Reported PAT	1,027	1,708	(39.9)	2,298	(55.3)	7,397	7,110	4.0
No. of shares (mn)	205	205	0.0	205	0.0	205	205	0.0
EBITDA margin (%)	22.3	22.6	(35.3)	23.7	(6.0)	22.4	23.3	(3.9)
PBIDT margin (%)	23.2	23.0	0.8	24.2	(4.3)	22.9	23.5	(2.9)
EPS - annualized (Rs.)	35.3	34.4	2.7	42.5	(17.0)	39.4	36.6	7.5

Source: Company, ENAM Research

Gross sales break-up

(Rs mn)	Sep-11	Sep-10	% Chg	Jun-11	% Chg
Domestic (a)					
- Formulations	4,700	4,409	6.6	4,574	2.8
- API	68	64	6.3	66	3.0
- Consumer & others	1,332	1,202	10.8	1,306	2.0
Sub – Total	6,100	5,675	7.5	5,946	2.6
Exports (b)					
- Formulations & others	4,977	4,002	24.4	4,136	20.3
- API	563	801	(29.8)	680	(17.3)
Sub – Total	5,539	4,803	15.3	4,816	15.0
JVs (c)	750	735	2.0	1,127	(33.5)
Total sales (a+b+c)	12,389	11,213	10.5	11,889	4.2

Source: Company

Overseas formulation sales break-up

(Rs mn)	Sep-11	Sep-10	% Chg	Jun-11	% Chg
Export Formulations & others	4,977	4,002	24.4	4,136	20.3
- US	3,070	2,258	36.0	2,393	28.3
- Europe	619	588	5.4	769	(19.5)
- Japan	120	98	21.8	112	7.0
- LATAM	655	584	12.2	470	39.4
- EM	429	474	(9.6)	392	9.4
- Bremer	84	0	-	0	-

Source: Company

Other highlights

- **Domestic formulations to grow in lower double digits** – CDH is facing a slowdown in the domestic formulations growth (8% YoY growth in 1HFY12) due to: (a) overall sluggishness in acute therapies, and (b) inventory correction in few products in order to check receivables. The mgmt indicated that CDH would be launching 40 products in Q3FY12 and has undertaken a sales force effectiveness exercise. Consequently, mgmt expects 2HFY12 to be better.
- **US biz. to show 20% organic growth** – The mgmt has guided that US biz. would show 20% organic growth in FY12 led by focus on existing products and couple of new launches (launched three products in 1HFY12; expects to launch two more in 2HFY12).
- **Nesher acquisition** – Nesher contributed ~Rs 225 mn in Q2FY12. Also, the mgmt highlighted that the company is not EBITDA negative. CDH expects to launch two products in FY13 and three more in FY14.
- **Zydus Wellness** – Sugar Free franchise grew by only 6-7% during the quarter, as the market growth slowed down. On the positive side, the mgmt highlighted that CDH has been able to gain market share in this segment. Everyuth franchise's growth has been impacted by stiff competition from MNCs. EBITDA margin has been impacted as the production has been shifted to CDH's own manufacturing plant (vs. outsourcing earlier). However, with pick-up in capacity utilization, mgmt expects margins would plough back.
- CDH recorded a **forex loss** of Rs 900 mn in Q2FY12 (vs. Rs 62 mn in Q2FY11), of which Rs 386 mn was on account of forward contracts and Rs 514 mn was on account of long-term borrowings. Of the total, only Rs 68 mn of loss was realized.
- Management indicated that **R&D expenses** would be maintained at 5-6% of sales (6.6% in 1HFY12 and 4.9% in FY11).
- **Gross debt and cash** on books are at Rs 19.9 bn and Rs 6.1 bn resp. The mgmt highlighted that it is maintaining higher cash on books in order to meet expected acquisition.
- **Capex** – Guided for capex of Rs 5 bn for FY12E. Bulk of this, would be on Greenfield projects (on bio-similars and monoclonal vaccines), which are expected to be commissioned by FY13. This also includes Nesher acquisition.
- **Tax rate** – The company reiterated that tax rate for FY12E would be at ~15%.