

## Cadila Healthcare

 BSE code: 532231  
 NSE code: CADILAHC

**CMP: Rs 277**
**Target: Rs 381**
**BUY**
**Alok Dalal**

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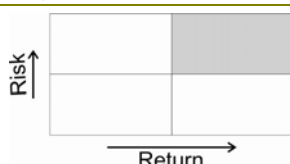
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**Company data**

Particulars	
Market cap (Rs bn / US\$ mn)	34.8/870.0
Outstanding equity shares (mn)	125.6
52-week high/low (Rs)	414/200
6-month average daily volume	13,961

**Financial snapshot**

Particulars	FY08	FY09E	FY10E
Sales (Rs mn)	23,246.3	26,589.5	30,568.0
Growth (%)	27.1	14.4	15.0
Rep net inc (Rs mn)	2,576.2	3,093.6	3,741.0
Growth (%)	10.2	20.1	20.9
FDEPS (Rs)	20.5	24.6	29.8
Growth (%)	10.2	20.1	20.9
P/E (x)	13.5	11.2	9.3
ROE (%)	28.1	28.2	27.9

**Risk-return profile**

**Shareholding pattern**

(%)	Mar-08	Dec-07
Promoters	72.0	72.0
FIIIs	3.0	3.0
Banks & FIs	15.5	15.4
Public	9.5	9.6

**Stock performance**

Returns (%)	CMP	1-mth	3-mth	6-mth
Cadila HC	277	6.4	6.0	(14.4)
Sensex	17,378	11.1	(1.5)	(12.4)
BSE HC	4,249	10.4	17.9	8.1

 Company website [www.zyduscadila.com](http://www.zyduscadila.com)
**In-line results; stronger product mix in favour of formulations**

Cadila Healthcare's (CHL) Q4FY08 sales were in line with our estimates, driven by a strong 30% YoY growth in the formulations segment to Rs 4.3bn. Export formulations grew at 61% YoY, led by key geographies like the US, France and Brazil. After a disappointing 9mFY08 performance in domestic formulations, sales for the quarter witnessed a healthy growth of 16.7% during the quarter to Rs 2.7bn.

Revenue from the Nycomed JV declined by 38% YoY to Rs 193mn owing to the launch of Pantaprazole by generic companies in the US, which eroded volumes. Despite this, the EBITDA margin has improved by 380bps to 20.1% on the strength of a better product mix in favour of formulations. PAT has risen 34% YoY to Rs 520mn, on par with estimates.

We estimate that CHL would witness a revenue CAGR of 14.7% over FY08-FY10 as the contribution from formulations moves up. Valuations at 11.2x FY09E EPS of Rs 24.6 and 9.3x FY10E EPS of Rs 29.8 are very attractive. We maintain Buy with a target of Rs 381.

**Actual vs estimated performance**

(Rs mn)	Actual	Estimated	% Variance
Net sales	5,632.0	5,374.7	4.8
EBITDA	1,134.0	1,064.0	6.6
Rep net income	520.0	521.2	(0.2)
FDEPS (Rs)	4.1	4.1	(0.2)

Source: Company, Religare Research

**Quarterly results**

(Rs mn)	Q4FY08	Q4FY07	Growth (%)	FY08	FY07	Growth (%)
Net sales	5,469	4,211	29.9	22,660	17,855	26.9
OI from operations	163	146	11.6	585	433	35.1
Expenditure	(4,498)	(3,646)	23.4	(18,647)	(14,767)	26.3
Operating profit	1,134	711	59.5	4,598	3,521	30.6
Other income	4	15	(73.3)	9.0	264	(96.6)
Interest	(160)	(52)	207.7	(335)	(223)	50.2
Depreciation	(225)	(200)	12.5	(969)	(823)	17.7
PBT	753	474	58.9	3,303	2,739	20.6
Tax	(201)	(50)	302.0	(613)	(324)	89.2
Rep PAT	520	389	33.7	2,576	2,338	10.2
OPM (%)	20.1	16.3	380bps	19.8	19.3	50bps
EPS (Rs)	4.1	3.1	33.7	20.5	18.6	10.2

Source: Company, Religare Research

## Result highlights

### Formulations sales have risen 30% YoY to Rs 4.3bn

#### Sales growth in line with expectations, driven by formulations

CHL has recorded a sales growth of 30% YoY to Rs 5.5bn, in line with our estimates. Growth was driven by formulations sales which increased 30% YoY to Rs 4.3bn. Key geographies like the US (57% growth) and France (29% growth) performed strongly. Domestic formulations, which had posted a disappointing 9mFY08 growth of 9.3% YoY, picked up pace with a growth of 16.7% during the quarter to Rs 2.7bn. New product introductions and line extensions led the growth in this space. Sales from the Consumer division increased 49% YoY to Rs 592mn for the quarter.

The Nycomed JV has recorded a 38% YoY dip in revenues to Rs 193mn after the US volumes were hit by the launch of Pantaprazole by generic companies. For FY08, the JV recorded a 20% drop in sales to Rs 668mn.

#### Export sales mix

(Rs mn)	Q4FY08	Q4FY07	% Chg	FY08	FY07	% Chg
USA	774	492	57.3	2,568	1,428	79.8
France	323	250	29.2	1,647	1,257	31.1
Brazil	61	47	29.8	1,010	176	473.9
Nycomed	193	312	(38.1)	668	837	(20.2)

Source: Company

### Filed 9 ANDAs for the US market during the quarter

CHL filed 9 ANDAs for the US market during the quarter and now has a total of 78 filings with the USFDA. The company has received 34 approvals and has launched 15 products in the market so far.

#### Business mix for Q4 and FY08

(Rs mn)	Q4FY08	Q4FY07	% Chg	FY08	FY07	% Chg
<b>Domestic revenues</b>	<b>3,430</b>	<b>2,785</b>	23.2	<b>14,887</b>	<b>12,695</b>	17.3
Formulations	2,687	2,302	16.7	11,763	10,602	11.0
Branded	2,534	2,191	15.7	11,098	9,790	13.4
Generic	153	111	37.8	665	812	(18.1)
APIs	151	85	77.6	506	378	33.9
Consumer & Others	592	398	48.7	2,618	1,715	52.7
<b>Exports revenues</b>	<b>2,242</b>	<b>1,690</b>	32.7	<b>8,751</b>	<b>6,052</b>	44.6
Formulations	1,627	1,008	61.4	6,465	3,770	71.5
APIs	615	682	(9.8)	2,286	2,282	0.2
<b>Gross sales</b>	<b>5,672</b>	<b>4,475</b>	26.7	<b>23,638</b>	<b>18,747</b>	26.1

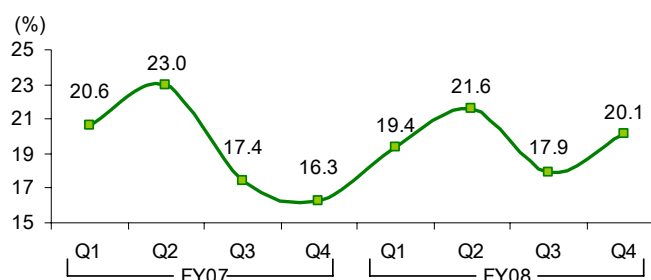
Source: Company

### Improving product mix supports 380bps rise in EBITDA margin

#### Increasing share of formulations drives EBITDA margin

A strong product mix with a rising contribution from formulations has led to a 380bps YoY increase in the EBITDA margin to 20.1% for the quarter. CHL's French subsidiary also posted an operating profit after it turned around in Q3FY08. EBITDA margins have remained strong despite a weak performance from the Nycomed JV. The strong operational performance led to a PAT growth of 34% YoY to Rs 520mn, in line with our estimates.

## Trend in EBITDA margin



Source: Company

## Valuation

**We expect a revenue CAGR of 14.7% over FY08-FY10**

**Key markets to perform strongly over FY08-FY10**

We estimate that CHL would witness a revenue CAGR of 14.7% over FY08-FY10 as the contribution from formulation sales moves up. With a healthy pipeline of 44 ANDAs pending approval, the US is estimated to witness a CAGR of 22% to Rs 3.8bn, while French and Brazil sales will hold firm through new product launches.

We expect a domestic market CAGR of 12% over FY08-FY10 driven by consolidation in existing therapeutics as well as entry into newer areas like neutraceuticals, respiratory ailments and diagnostics. The JV with Hospira, which is likely to commence in H2FY09, also holds promise.

## Revenue break-up over FY08-FY10

(Rs mn)	FY08	FY09E	FY10E	CAGR over FY08-FY10 (%)
Domestic formulations	11,763	13,062	14,629	11.5
API	506	481	481	(2.5)
Consumers & Others	2,618	3,274	3,904	22.1
Total domestic (a)	14,887	16,817	19,014	13.0
<b>Exports</b>				
USA	2,568	3,130	3,800	21.6
France	1,648	2,170	2,642	26.6
Brazil	1,011	1,270	1,543	23.5
Others	1,240	1,686	2,166	32.2
Total formulations (b)	6,467	8,255	10,152	39.1
<b>APIs</b>				
Nycomed	668	401	321	(27.4)
Others	1,615	1,696	1,781	7.2
Total APIs (c)	2,283	2,097	2,101	(2.7)
Total exports (d=b+c)	8,750	10,352	12,253	26.5
Total gross sales (e=d+a)	23,638	27,169	31,267	18.6
Less: excise (f)	(976)	(1,223)	(1,407)	16.4
<b>Net sales (g=e-f)</b>	<b>22,661</b>	<b>25,946</b>	<b>29,860</b>	<b>18.7</b>
Other income from operations (h)	585	643	708	17.8
<b>Total income (i=g+h)</b>	<b>23,246</b>	<b>26,589</b>	<b>30,568</b>	<b>18.7</b>

Source: Company, Religare Research

### Mature R&D pipeline, may provide a positive surprise in 2009

CHL has a promising and mature NCE R&D pipeline. It has a dyslipidemia and an inflammation molecule in Phase II, a diabetes and an obesity molecule in Phase I, and has recently filed an IND for a fifth molecule for dyslipidemia. We believe the market is not factoring in the potential strength of the company's R&D pipeline. CHL could spring a positive surprise by out-licensing one of the molecules from its portfolio.

### Expect consistent growth over the next few years, maintain Buy

We estimate that CHL would witness an earnings CAGR of 20.5% over FY08-FY10. With clarity emerging over losses on Pantaprazole sales and the JV's contribution, we believe the street will start focussing on CHL's sales and profitability ex-Nycomed. Valuations at 11.2x FY09E EPS of Rs 24.6 and 9.3x FY10E EPS of Rs 29.8 are very attractive. We maintain Buy with a target price of Rs 381.

**Formulations business set to witness strong growth over the next two years with increasing profitability - Buy**

#### Recommendation history

Date	Event	Reco price	Tgt price	Reco
03-May-07	Initiating Coverage	323	416	BUY
01-Aug-07	Results Update	351	416	BUY
06-Sep-07	Company Update	320	416	BUY
29-Oct-07	Results Update	301	416	BUY
03-Feb-08	Results Update	257	381	BUY
30-Apr-08	Results Update	277	381	BUY

Source: Religare Research

#### Stock performance



Source: Religare Research

## Consolidated financials

### Profit and Loss statement

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	18,288.0	23,246.3	26,589.5	30,568.0
Growth (%)	23.2	27.1	14.4	15.0
EBITDA	3,521.0	4,597.8	5,477.4	6,419.3
Growth (%)	22.4	30.6	19.1	17.2
Depreciation	823.0	969.0	1,174.9	1,280.4
EBIT	2,698.0	3,628.8	4,302.6	5,138.9
Growth (%)	28.6	34.5	18.6	19.4
Interest	223.0	335.0	406.8	461.8
Other income	264.0	9.0	10.6	12.2
EBT	2,739.0	3,302.8	3,906.4	4,689.4
Income taxes	324.0	612.6	642.8	771.7
Effective tax rate (%)	11.8	18.5	16.5	16.5
Adjusted net income	2,415.0	2,690.2	3,263.6	3,917.6
Growth (%)	47.3	11.4	21.3	20.0
Extra-ordinary items	(77.0)	(45.0)	(45.0)	(51.6)
Min. int / inc. from associates	-	(69.0)	(125.0)	(125.0)
Reported net income	2,338.0	2,576.2	3,093.6	3,741.0
Growth (%)	53.4	10.2	20.1	20.9
Shares outstanding (mn)	125.6	125.6	125.6	125.6
Basic EPS (Rs) (adj)	18.6	20.5	24.6	29.8
FDEPS (Rs) (adj)	18.6	20.5	24.6	29.8
DPS (Rs)	4.0	4.5	5.5	6.0

Source: Company, Religare Research

### Cash flow statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Net income	2,415.0	2,690.2	3,263.6	3,917.6
Depreciation	823.0	969.0	1,174.9	1,280.4
Other adjustments, net	40.0	183.8	192.8	231.5
Changes in working capital	(391.0)	(4,550.6)	1,612.9	(6,027.1)
Cash flow from operations	2,887.0	(707.6)	6,244.2	(597.5)
Capital expenditure	(2,277.0)	(1,245.0)	(1,466.8)	(1,533.9)
Change in investments	453.0	-	-	-
Other investing inc/(exp)	-	-	-	-
Cash flow from investing	(1,824.0)	(1,245.0)	(1,466.8)	(1,533.9)
Free cash flow	1,063.0	(1,952.7)	4,777.4	(2,131.4)
Issue of equity	314.0	-	-	-
Issue/repay debt	103.0	3,000.0	1,200.0	1,000.0
Dividends paid	(664.0)	(741.5)	(906.3)	(988.7)
Other financing cash flow	(264.0)	(69.0)	(125.0)	(125.0)
Cash flow from financing	(511.0)	2,189.5	168.7	(113.7)
Change in cash & cash eq	552.0	236.8	4,946.1	(2,245.1)
Opening cash & cash eq	438.0	990.0	1,226.8	6,172.9
Closing cash & cash eq	990.0	1,226.8	6,172.9	3,927.8

Source: Company, Religare Research

### Balance sheet

(Rs mn)	FY07	FY08E	FY09E	FY10E
Cash and cash eq	990.0	1,226.8	6,172.9	3,927.8
Accounts receivable	2,784.0	4,472.3	4,398.3	6,353.4
Inventories	3,896.0	4,426.5	5,867.2	6,483.7
Others current assets	2,201.0	2,673.3	3,323.7	4,279.5
Current assets	9,871.0	12,799.0	19,762.1	21,044.5
Long-term investments	261.0	261.0	261.0	261.0
Net fixed assets	8,188.0	9,026.0	9,598.9	9,992.9
CWIP	1,224.0	662.0	381.0	240.5
Intangible assets	371.0	371.0	371.0	371.0
Deferred tax assets, net	(1,137.0)	(1,320.8)	(1,513.6)	(1,745.2)
Other assets	-	-	-	-
Total assets	18,778.0	21,798.2	28,860.4	30,164.7
Accounts payable	4,588.0	2,538.0	6,066.6	3,473.0
Others	858.0	1,048.6	1,149.9	1,243.8
Current liabilities	5,446.0	3,586.6	7,216.5	4,716.9
Debt funds	4,535.0	7,535.0	8,735.0	9,735.0
Other liabilities	142.0	187.0	232.0	283.6
Equity capital	628.0	628.0	628.0	628.0
Reserves	8,027.0	9,861.6	12,048.9	14,801.2
Shareholder's funds	8,655.0	10,489.6	12,676.9	15,429.2
Total liabilities	18,778.0	21,798.2	28,860.4	30,164.7
BVPS (Rs)	68.9	83.5	100.9	122.8

Source: Company, Religare Research

### Financial ratios

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	19.3	19.8	20.6	21.0
EBIT margin (%)	14.8	15.6	16.2	16.8
Net profit margin (%)	13.2	11.6	12.3	12.8
FDEPS growth (%)	53.4	10.2	20.1	20.9
Receivables (days)	47.6	57.0	60.9	64.2
Inventory (days)	78.7	81.4	89.0	93.3
Payables (days)	86.4	69.7	74.4	72.1
Current ratio (x)	1.8	3.6	2.7	4.5
Quick ratio (x)	1.1	2.3	1.9	3.1
Interest coverage ratio (x)	11.8	9.0	9.0	9.5
Debt / equity (x)	0.5	0.7	0.7	0.6
ROE (%)	30.9	28.1	28.2	27.9
ROA (%)	13.6	12.5	12.2	12.6
ROCE (%)	20.0	21.3	20.2	20.4
EV/Sales (x)	2.2	1.8	1.5	1.3
EV/EBITDA (x)	11.7	8.9	7.5	6.4
P/E (x)	14.9	13.5	11.2	9.3
P/BV (x)	4.0	3.3	2.7	2.3

Source: Company, Religare Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

\*Market cap over US\$ 1bn \*\*Market cap less than US\$ 1bn

**Religare Securities**

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