

# Cadila Healthcare

**BUY**  
Maintained  
**Rs561**

## High growth continues

Reason for report: Q4FY10 results review

**Cadila's Q4FY10 consolidated recurring net profit leapt 84% YoY to Rs1.2bn, in line with our estimates. Total revenues were up 17% YoY to Rs8.5bn, propelled by 42% YoY rise each in US exports and Consumer Products. EBITDA margin improved 175bps to 22.4%. FY10 revenues and recurring PAT clocked-in an impressive 26% YoY and 53% YoY growth respectively, which is among the best in the sector. With past investments in the US & EU markets beginning to bear fruit, management is confident about achieving the US\$1-bn revenue target in FY11 (set in FY07). The recent 1:2 bonus issue has buoyed investor sentiment. We expect Cadila to register strong ~25% EPS CAGR during FY10-12E.**

- ▶ **Strong growth continues.** Led by strong exports, Q4FY10 revenues rose 17% YoY to Rs8.5bn. The US formulation revenues continued to shine, with 42% YoY growth to Rs1.9bn. EBITDA margin expanded 175bps to 22.4%. Interest cost was lower at RS158mn, down 64% YoY. Consequently, recurring net profit spiked 84% YoY to Rs1.2bn. FY10 revenues were up 26% to Rs36.9bn, powered by 69% surge in the US dosage-form exports, 31% in EU and 37% in the consumer products segment. EBITDA margin & NPM expanded 124bps & 244bps to 21.9% & 13.8% respectively.
- ▶ **Step-up in baseline profitability.** Cadila has started reaping benefits of its investments in key overseas markets. This has resulted in baseline PAT of ~Rs1.3bn, which the company believes will sustain, and grow. Future growth is likely to be boosted by US generics, RoW, acquired businesses and domestic market. In FY07 management had guided for an ambitious FY11 revenue target of US\$1bn, which it is confident of achieving, implying 26% CAGR.
- ▶ **Reiterate BUY.** Despite a strong 43% YoY EPS CAGR over FY08-10, Cadila is well-placed to post EPS CAGR of ~25% during FY10-12E. Potential upside from drug discovery and continued strong base business growth despite lack of any big products could lead to further re-rating. The recent bonus issue of 1:2 is the icing on the cake. Based on this, combined with stock price almost touching our earlier estimates of Rs583/share, we raise our fair value to Rs713/share on 18x P/E (versus 17x earlier) on FY12E EPS (ex Zydus Wellness) + current market value (Rs53/share) of its 70% equity stake in Zydus Wellness. Reiterate BUY.

## Pharmaceuticals

Target Price Rs713

### Shareholding pattern

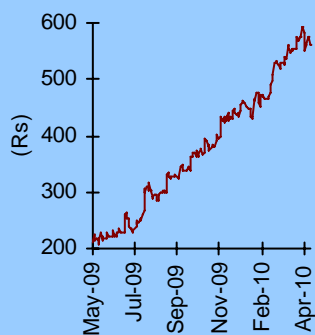
(%)	Sep '09	Dec '09	Mar '10
Promoters	74.8	74.8	74.8
Institutional investors	17.5	17.5	17.3
MFs and UTI	8.0	8.0	7.7
Insurance Cos.	6.4	5.9	5.8
FIs	3.1	3.6	3.8
Others	7.7	7.7	7.9

Source: NSE

### Target price revision

Rs713 from Rs583

### Price chart



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Market Cap	Rs115bn/US\$2.6bn	Year to Mar	2009	2010P	2011E	2012E
Reuters/Bloomberg	CADI.BO/CDH IN	Revenue (Rs mn)	29,275	36,869	45,763	54,569
Shares Outstanding (mn)	136.5	Net Income (Rs mn)	3,157	5,103	6,545	8,032
52-week Range (Rs.)	592/207	EPS (Rs)	15.4	24.9	32.0	39.2
Free Float (%)	25.2	% Chg YoY	26.3	61.7	28.3	22.7
FII (%)	3.8	P/E(x)	36.4	22.5	17.6	14.3
Daily Volume (US\$'000)	1,317	CEPS (Rs)	20.9	31.5	39.2	47.3
Absolute Return 3m (%)	18.0	EV/E(x)	20.6	15.2	12.1	9.9
Absolute Return 12m (%)	168.4	Dividend Yield	0.7	0.9	2.0	2.5
Sensex Return 3m (%)	7.0	RoCE (%)	17.3	20.9	23.7	25.5
Sensex Return 12m (%)	44.2	RoE (%)	27.5	35.7	36.4	35.9

### Other key observations:

- Cadila expects to achieve US generics revenues of US\$175mn in FY11 versus US\$150mn in FY10, implying growth rate of 17% (I-Sec:30%), which appears conservative
- Emerging markets' FY11 revenue growth guidance of 25% YoY compared with 9% YoY decline in FY10, which was largely due to shifting of production to its Goa plant from Moraiya, resulting in lower dispatches
- The Nycomed and Hospira JVs generated combined PAT of Rs717mn, which is 14% of the company's total PAT; combined NPM stood at an impressive 45%. We expect strong scale-up in Hospira JV revenues to Rs1.25-1.3bn (Cadila share of 50%) in FY11E, implying 50-55% YoY growth
- Increased field force by 600 people to ~4,000 in order to expand customer coverage and boost revenues. Company targets achieving 15% YoY revenue growth in the domestic branded dosage-form business
- Net debt declined Rs1.5bn to Rs8.4bn due to repayments, given free cash generation. The company plans capex of Rs2.5-3bn
- Cadila expects income-tax rate to be <15% vis-à-vis 12% and 18% in the past two years, given rising share of revenues from the tax-free zone (Sikkim)

**Table 1: Q4FY10 results review***(Rs mn)*

	Q4FY10	Q4FY09	% chg (YoY)	FY10	FY09	% chg (YoY)
<b>Gross sales</b>	<b>8,260</b>	<b>7,103</b>	<b>16.3</b>	<b>36,142</b>	<b>29,171</b>	<b>23.9</b>
Excise duty	101	77	30.9	401	547	(26.8)
<b>Net Sales</b>	<b>8,159</b>	<b>7,026</b>	<b>16.1</b>	<b>35,742</b>	<b>28,624</b>	<b>24.9</b>
Other Operating Income	307	209	47.1	1,127	651	73.1
<b>Total operating income</b>	<b>8,466</b>	<b>7,234</b>	<b>17.0</b>	<b>36,869</b>	<b>29,275</b>	<b>25.9</b>
Raw Materials	2,906	2,421	20.0	11,784	9,566	23.2
Personnel Cost	1,082	750	44.3	4,406	3,521	25.1
Other Expenses	2,584	2,572	0.5	12,592	10,130	24.3
<b>Total Expenses</b>	<b>6,572</b>	<b>5,743</b>	<b>14.4</b>	<b>28,782</b>	<b>23,217</b>	<b>24.0</b>
<b>EBITDA</b>	<b>1,894</b>	<b>1,492</b>	<b>27.0</b>	<b>8,087</b>	<b>6,058</b>	<b>33.5</b>
Interest	158	440	(64.2)	809	921	(12.1)
Depreciation	398	314	26.7	1,339	1,118	19.7
Other Income	51	43	18.2	159	54	196.3
<b>Recurring pre-tax income</b>	<b>1,389</b>	<b>781</b>	<b>77.9</b>	<b>6,098</b>	<b>4,073</b>	<b>49.7</b>
Extraordinary income/(expense)	(11)	(94)	(88.1)	(59)	(375)	(84.4)
Taxation	68	158	(57.2)	741	666	11.2
Adjustment on consolidation	(123)	51	(341.5)	(247)	(1)	NM
<b>Reported Net Income</b>	<b>1,188</b>	<b>580</b>	<b>104.8</b>	<b>5,051</b>	<b>3,031</b>	<b>66.6</b>
<b>Recurring Net Income</b>	<b>1,198</b>	<b>652</b>	<b>83.8</b>	<b>5,103</b>	<b>3,338</b>	<b>52.9</b>
<b>Ratios (%)</b>			<b>bps</b>			<b>bps</b>
EBITDA margins	22.37	20.62	175	21.93	20.69	124
Net profit margins	14.15	9.01	514	13.84	11.40	244

Source: I-Sec Research

**Table 2: Revenue mix***(Rs mn)*

	Q4FY10	Q4FY09	% chg (YoY)	FY10	FY09	% chg (YoY)
<b>Domestic</b>	<b>4,162</b>	<b>3,696</b>	<b>12.6</b>	<b>18,724</b>	<b>16,435</b>	<b>13.9</b>
<b>Formulations</b>	<b>3,164</b>	<b>2,918</b>	<b>8.4</b>	<b>14,458</b>	<b>12,889</b>	<b>12.2</b>
Branded Formulations	2,967	2,731	8.6	13,625	12,146	12.2
Generic Formulations	197	187	5.6	833	743	12.2
<b>API</b>	<b>71</b>	<b>70</b>	<b>1.4</b>	<b>318</b>	<b>426</b>	<b>(25.4)</b>
<b>Consumer &amp; Others</b>	<b>927</b>	<b>708</b>	<b>30.9</b>	<b>3,948</b>	<b>3,120</b>	<b>26.5</b>
Consumer Products	634	445	42.5	2,675	1,947	37.4
Animal Health & Others	293	263	11.4	1,273	1,173	8.5
<b>Exports</b>	<b>4,097</b>	<b>3,402</b>	<b>20.4</b>	<b>17,418</b>	<b>12,736</b>	<b>36.8</b>
<b>Formulations</b>	<b>3,332</b>	<b>2,619</b>	<b>27.2</b>	<b>14,018</b>	<b>9,676</b>	<b>44.9</b>
North America (US)	1,854	1,302	42.4	6,715	3,984	68.6
Europe	537	384	39.9	2,740	2,094	30.9
Latin America	423	331	27.9	1,818	1,628	11.6
Japan	72	87	(17.6)	316	219	43.9
Emerging Markets	230	515	(55.3)	1,590	1,750	(9.1)
Zydus Hospira (50%)	216	0	NM	839	0	NM
<b>API</b>	<b>765</b>	<b>783</b>	<b>(2.3)</b>	<b>3,400</b>	<b>3,060</b>	<b>11.1</b>
Zydus Nycomed (50%)	183	319	(42.6)	758	999	(24.1)
Others	582	464	25.4	2,642	2,061	28.2
<b>Total</b>	<b>8,259</b>	<b>7,098</b>	<b>16.4</b>	<b>36,142</b>	<b>29,171</b>	<b>23.9</b>

Source: I-Sec Research

## Financial Summary (Consolidated as per Indian GAAP)

Table 3: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY09	FY10P	FY11E	FY12E
<b>Operating Income (Sales)</b>	<b>29,275</b>	<b>36,869</b>	<b>45,763</b>	<b>54,569</b>
of which Exports	11,527	17,418	23,204	28,784
of which Domestic	17,748	19,451	22,558	25,785
<b>Operating Expenses</b>	<b>23,217</b>	<b>28,782</b>	<b>35,729</b>	<b>42,475</b>
<b>EBITDA</b>	<b>6,058</b>	<b>8,087</b>	<b>10,033</b>	<b>12,094</b>
% margins	18.9	19.5	19.6	19.9
Depreciation & Amortisation	1,118	1,339	1,488	1,651
Gross Interest	1,106	809	808	677
Other Income	17	159	148	150
<b>Recurring PBT</b>	<b>3,851</b>	<b>6,098</b>	<b>7,885</b>	<b>9,916</b>
Extraordinaries (Net)	(153)	(59)	0	0
Less: Taxes	666	741	1,340	1,884
- Current tax	412	610	1,025	1,289
- Deferred tax	84	131	315	595
<b>Net Income (Reported)</b>	<b>3,031</b>	<b>5,051</b>	<b>6,545</b>	<b>8,032</b>
<b>Recurring Net Income</b>	<b>3,157</b>	<b>5,103</b>	<b>6,545</b>	<b>8,032</b>

Source: Company data, I-Sec Research

Table 4: Balance sheet

(Rs mn, year ending Mar 31)

	FY09	FY10P	FY11E	FY12E
<b>Assets</b>				
Total Current Assets	15,611	18,883	22,601	27,560
of which cash & cash eqv.	2,517	3,646	3,155	3,478
Total Current Liabilities & Provisions	6,915	8,437	10,670	12,917
<b>Net Current Assets</b>	<b>8,696</b>	<b>10,445</b>	<b>11,932</b>	<b>14,643</b>
<b>Investments</b>				
of which	<b>249</b>	<b>249</b>	<b>249</b>	<b>249</b>
Other Marketable	249	249	249	249
<b>Net Fixed Assets</b>	<b>12,885</b>	<b>13,746</b>	<b>14,795</b>	<b>15,844</b>
of which				
Capital Work-in-Progress	1,889	1,547	1,786	1,981
<b>Goodwill</b>	<b>4,740</b>	<b>4,740</b>	<b>4,740</b>	<b>4,740</b>
<b>Total Assets</b>	<b>26,570</b>	<b>29,180</b>	<b>31,716</b>	<b>35,476</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>12,674</b>	<b>11,524</b>	<b>10,024</b>	<b>8,024</b>
<b>Deferred Tax Liability</b>	<b>1,316</b>	<b>1,447</b>	<b>1,920</b>	<b>2,515</b>
Minority Interest	228	0	0	0
Equity Share Capital	682	1,024	1,024	1,024
Face Value per share (Rs)	5	5	5	5
Reserves & Surplus*	11,670	15,186	18,748	23,913
<b>Net Worth</b>	<b>12,352</b>	<b>16,210</b>	<b>19,772</b>	<b>24,937</b>
<b>Total Liabilities</b>	<b>26,570</b>	<b>29,180</b>	<b>31,716</b>	<b>35,476</b>

Source: Company data, I-Sec Research

Table 7: Quarterly trend

(Rs mn, year ending Mar 31)

	Jun-09	Sep-09	Dec-09	Mar-10
Net sales	8,803	9,126	9,654	8,159
% growth (YoY)	28.4	23.7	31.1	16.1
EBITDA	2037	2057	2099	1894
Margin (%)	20.5	18.9	19.1	19.4
Other income	42	41	25	51
Extraordinaries (Net)	(23)	(51)	27	(11)
<b>Net profit</b>	<b>1,268</b>	<b>1,364</b>	<b>1,274</b>	<b>1,198</b>

Source: Company data, I-Sec Research

Table 5: Cashflow statement

(Rs mn, year ending Mar 31)

	FY09	FY10P	FY11E	FY12E
<b>Operating Cash flow</b>	<b>3,855</b>	<b>6,193</b>	<b>8,200</b>	<b>10,128</b>
Working Capital Changes	(933)	(620)	(1,960)	(2,388)
Capital Commitments	(4,235)	(2,200)	(2,500)	(2,700)
<b>Free Cash Flow</b>	<b>(1,313)</b>	<b>3,372</b>	<b>3,741</b>	<b>5,040</b>
<b>Cash flow from Investing Activities</b>	<b>17</b>	<b>159</b>	<b>148</b>	<b>150</b>
Issue of Share Capital	54	342	0	0
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	4,297	(1,150)	(1,500)	(2,000)
Dividend paid	(796)	(1,024)	(2,355)	(2,866)
<b>Extraordinary Items</b>	<b>241</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,591</b>	<b>1,129</b>	<b>34</b>	<b>323</b>

Source: Company data, I-Sec Research

Table 6: Key ratios

(Year ending Mar 31)

	FY09	FY10P	FY11E	FY12E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	15.4	24.9	32.0	39.2
Diluted Recurring EPS	15.4	24.9	32.0	39.2
Recurring Cash EPS	20.9	31.5	39.2	47.3
Dividend per share (DPS)	3.9	5.0	11.5	14.0
Book Value per share (BV)	60.3	79.2	96.6	121.8
<b>Growth Ratios (%)</b>				
Operating Income	26.1	25.9	24.1	19.2
EBITDA	32.7	33.5	24.1	20.5
Recurring Net Income	26.3	61.7	28.3	22.7
Diluted Recurring EPS	26.3	61.7	28.3	22.7
Diluted Recurring CEPS	23.2	50.7	24.7	20.5
<b>Valuation Ratios (x)</b>				
P/E	36.4	22.5	17.6	14.3
P/CEPS	26.9	17.8	14.3	11.9
P/BV	9.3	7.1	5.8	4.6
EV / EBITDA	20.6	15.2	12.1	9.9
EV / Operating Income	4.3	3.4	2.7	2.2
EV / Operating FCF	42.8	22.0	19.5	15.4
<b>Operating Ratio</b>				
Raw Material/Sales (%)	33.4	33.0	32.0	31.8
SG&A/Sales (%)	40.5	39.8	40.3	39.8
Other Income / PBT (%)	0.4	2.6	1.9	1.5
Effective Tax Rate (%)	18.0	12.3	17.0	19.0
NWC / Total Assets (%)	23.3	23.3	27.7	31.5
Inventory Turnover (days)	194.8	176.8	165.0	172.4
Receivables (days)	52.6	56.0	57.3	59.3
Payables (days)	169.7	184.0	191.8	199.6
D/E Ratio	113.3	80.0	60.4	42.3
<b>Return/Profitability Ratio (%)</b>				
Recurring Net Income Margins	10.8	13.8	14.3	14.7
RoCE	17.3	20.9	23.7	25.5
RoNW	27.5	35.7	36.4	35.9
Dividend Payout Ratio	25.2	20.1	36.0	35.7
Dividend Yield	0.7	0.9	2.0	2.5
<b>EBITDA Margins</b>	<b>18.9</b>	<b>19.5</b>	<b>19.6</b>	<b>19.9</b>

Source: Company data, I-Sec Research

*I-Sec investment ratings (all ratings relative to Sensex over next 12 months)*

**BUY:** +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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