

Institutional Equities
 India Research

Cadila HC

RESULT REVIEW

 Bloomberg: CDH IN
 Reuters: CADLBO

SELL

Disappointing Performance, Downgrade to SELL

Cadila's revenues increased 16 % YoY to Rs16,041mn as against our expectations of Rs16,743mn. Operating margins were lower by 300bps to 15.9%. Net Profit has shown de-growth of -31%YoY and 8.2%Q-o-Q to Rs. 1029 mn in Q3FY13. We downgrade our earnings and rating to SELL.

Quarter Details: Domestic formulations grew by 21.4 % to Rs 5699mn lower than our estimates of Rs.6100mn due to Biochem, while Exports Formulations grew 13.5% at Rs7825mn as against our estimates of Rs.8323mn. US was above our estimates while Brazil and JVs were disappointing. The Company's EBITDA stood at 15.9% (lower than our expectation of 19.6%) in Q3FY13 and lower than 19% reported in Q3FY12. The Company's net profit stood at Rs. 1029 mn in Q3FY13, as against our estimate of Rs. 1870 mn. (De-growth of -31%YoY and growth of 8.2% Q oQ)

Outlook & Valuation:

We downgrade our revenues for FY13 and FY14 by around 2 % on back of Brazil, Domestic formulations and JV sales. We downgrade EDBITAM from 19.8 % to 18.4 % and from 20.4 % to 19.3 % due to lower gross margins and fixed nature of certain costs. We downgrade our EPS by 22.4 % for FY13E to Rs 27.9 and for FY14E by 15.1 % to Rs 38. We downgrade our price target by 17.6% to Rs 722 based on 19x FY 2014E. We downgrade the stock to SELL.

Key Financials

Y/ E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	36,868	45,727	52,125	63,816	74,583
EBITDA	8,086	9,687	10,331	11,742	14,434
Net Profit	5,096	6,541	6,018	5,708	7,778
EPS(Rs)	24.9	31.9	29.4	27.9	38.0
EPS growth (%)	22.4	28.2	(8.0)	(5.2)	36.3
EBITDA margin (%)	21.9	21.2	19.8	18.4	19.4
PER(x)	31.8	24.8	26.9	28.4	20.8
EV/EBITDA (x)	21.1	17.5	17.2	15.3	12.5
P/S (x)	4.5	3.6	3.1	2.6	2.2
RoCE (x)	24.9	27.3	20.9	21.1	22.1
RoE (%)	35.3	34.8	25.7	21.1	24.5

Source: Karvy Institutional Research, Company

Indian GAAP Consolidated

Recommendation

CMP:	Rs790
Target Price:	Rs722
Downside (%)	-9%

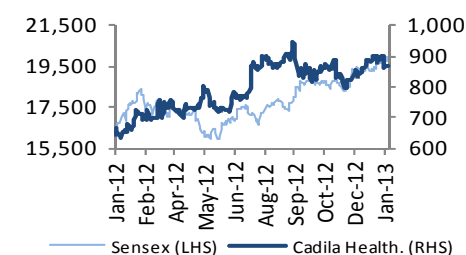
Stock Information

Market Cap. (Rs bn / US\$ mn)	162/3,020
52-week High/Low (Rs)	975/649
3m ADV (Rs mn /US\$ mn)	122/2.3
Beta	0.4
Sensex/ Nifty	19,485/5,904
Share outstanding (mn)	205

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(11.7)	(4.7)	18.5	(12.4)
Rel. to Sensex	(10.5)	(7.8)	7.7	(12.6)

Performance



Source: Bloomberg

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Revenue Analysis

Domestic formulations grew by 21.4 % to Rs 5699mn lower than our estimates of Rs.6100mn, while Exports Formulations grew 13.5% at Rs 7825mn as against our estimates of Rs.8323mn. Revenues from US are at Rs 3920mn, a growth of 14 % (our estimates Rs.3858mn). Brazil was a disappointment with revenue de-growth of -15.9%YoY to Rs 666 mn (our estimates Rs 880). The de-growth in Brazil was on account of Anvisa strike and backlog in the system. However, Europe business grew 25.9%YoY to Rs 1119mn. Zydus Wellness's consumer segment has registered growth of 28% with revenues at Rs.1018mn compared to Rs.796mn in Corresponding Quarter last year.

EBIDTA Margin

The Company's EBITDA stood at 15.9% (lower than our expectation of 19.6%) in Q3FY13 and lower than 19% reported in Q3FY12. Lower EBDITAM was on account of lower gross margins (almost 100bps), higher R & D, other expenses and staff cost. The EBDITAM has a part of forex gain of Rs 199 mn which is on account of hedging and translation gains.

Non-Operating Items

- **Other income** increased to Rs.170.6mn in Q3FY13 as against our estimates of Rs.100mn. Interest has increased substantially to Rs.478.9 mn (inclusive of forex gain of Rs 33 mn) as against our expectation of Rs 300 mn.
- Effective tax rate was 36.11% this Quarter compared to 9.9% year

Net Profit Growth

The Company's net profit stood at Rs. 1029mn in Q3FY13 –much lower than our estimates of Rs. 1870mn.

Cadila HC

Key highlights:

In Q3FY13, Cadila has launched 4 products (launched first time in India). They filed for 18 ANDA in Q3FY13 and 30 ANDAs in 9month period and received approval for 3 products. In Mexico, Company has got 2 product approval this Quarter. It has also launched 3 new products in France and 1 in Spain. Overall till now, Cadila has 55 ANDAs pending with USFDA and expecting to file for 25 ANDAs in FY14. It plans to launch 22 plus products in US in CY 2013 excluding 4 from Neshor which has 3 controlled substances products. Most approvals are expected on the oral side.

Pending GDUFA fees (Rs 100 mn), one time donation fees, 1% lower gross margins due to lack of new products in US, lower margin business of Biochem and JVs facing pricing pressure on existing products, apart from marketing campaigns carried out in Zydus Wellness and Cadila Healthcare all contributed to lower EDBITA margins for the company.

Tax would remain at 25-30 % for FY 13E and FY14E. This has been on account of removal of exemption of Mat for partnership concerns.

Zydus Wellness, subsidiary of Zydus cadila, has registered 28% growth in revenue (Rs.1018mn) and 21% growth in profit in Q3FY13. They expect its turnover to reach Rs 5 bn in FY14 on the back of new products launches.

Brazil should even out next year with a growth of 20 % on back of new launches. Company's revenue mix is 65 % branded and 35% generics. The Generics business proportion is expected to increase over a period of time.

Capex guidance given by management is Rs 6.5 bn for FY 14. Currently, it has Rs.4.55bn in Cash in hand. Capex will be mainly used for capacity expansion and R&D next Year.

Exhibit 1: Quarterly performance

Y/E Mar (Rsmn)	Q3FY12	Q2FY13	Q3FY13	QoQ %	YoY %
Net Sales	13,832	15,459	16,041	3.8	16.0
Cost	11,216	13,170	13,491	2.4	20.3
EBITDA	2,616	2,289	2,550	11.4	(2.5)
EBITDA Margin (%)	18.9	14.8	15.9		
Other Income	182	82	171	109.1	(6.4)
Interest	274	272	512	88.2	86.8
Loss/(Profit) on forex loans	320	133	(33)	(124.8)	
Depreciation	465	432	496	14.8	6.6
Profit before Tax	1,739	1,534	1,746	13.8	0.4
Tax	174	494	630	27.6	263.1
Tax rate (%)	10.0	32.2	36.1		
Profit after Tax	1,565	1,040	1,115	7.3	(28.7)
Minority Interest	(74)	(88)	(86)	(2.4)	17.3
Profit after Minority Interest	1,492	951	1,029	8.2	(31.0)

Source: Company, Karvy Institutional Research

Exhibit 2: Change in Estimates

Rs. mn	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Domestic formulations	23,769	24,364	(2.4)	27,219	27,918	(2.5)	Downgrade to 25 % growth from 28 % plus earlier for FY13 and growth of 14.5 % for FY 14E
Domestic API	544	473	15.0	626	511	22.5	
US	15,176	15,176	0.0	18,128	17,998	0.7	Upgrade on back of 22 new launches
Brazil	2,409	2,749	(12.4)	2,838	3,103	(8.6)	lower base impact of FY13
EU	3,654	3,499	4.4	4,147	4,147	0.0	
RoW	2,875	3,078	(6.6)	3,881	3,694	5.1	
Japan	642	594	8.1	800	776	3.1	
JV Sales	5,109	5,871	(13.0)	5,614	6,291	(10.8)	Downgrade in Bayer and Hospira revenues
Abbott revenues	0			600	600	0.0	
Export API	2,513	2,537	(1.0)	2,638	2,664	(1.0)	
Revenues	63,816	65,373	(2.4)	74,583	75,961	(1.8)	
Material Consumption	21,679	21,738	(0.3)	25,034	24,960	0.3	
Personnel	9,289	9,289	0.0	11,519	11,519	0.0	
Other Expenses	16,860	17,245	(2.2)	19,097	19,350	(1.3)	
R&D Expenses	4,245	4,150	2.3	4,500	4,800	(6.3)	lowered R & D expenses next year
EBITDA	11,742	12,950	(9.3)	14,434	15,332	(5.9)	
EBITDA margin (%)	18	20	(7.1)	19	20	(4.1)	
Other income + Interest Income	510	827	(38.3)	548	967	(43.3)	in line with 9 mth trend
Interest charges	2,232	1,293	72.6	1,878	1,403	33.8	Higher interest outgo factored
Tax	2,556	2,553	0.1	2,728	3,186	(14.4)	Increase in tax from 22% to 25% for FY13 and FY14
Net Profit	5,708	7,353	(22.4)	7,778	9,165	(15.1)	
EPS (Rs.)	28	36	(22.4)	38	45	(15.1)	

Source: Company, Karvy Institutional Research

Exhibit 3: Profit & Loss

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net Sales	36,868	45,727	52,125	63,816	74,583
Raw Material	11,784	14,754	16,793	21,679	25,034
Staff	3,930	5,493	7,512	9,289	11,519
Others Exps	13,068	15,793	17,489	21,105	23,597
Total Expenditure	28,782	36,040	41,794	52,073	60,149
EBITDA	8,086	9,687	10,331	11,742	14,434
EBITDA margin (%)	21.9	21.2	19.8	18.4	19.4
Other income	158	131	531	510	548
Interest	809	780	1,211	2,232	1,878
Gross Profit	7,423	9,119	9,013	10,458	13,103
Depreciation	1,339	1,269	1,579	1,873	2,191
Profit Before Tax	6,084	7,850	7,434	8,585	10,913
Tax	741	1,064	1,130	2,556	2,728
Effective tax rate (%)	12.2	13.5	15.2	29.8	25.0
Net Profit	5,343	6,792	6,304	6,030	8,185
Minority Interest	-247	-251	-286	-322	-407
Profit After Minority Interest	5,096	6,541	6,018	5,708	7,778
Extra ordinaries	-45	569	507	0	0
Reported Net Profit	5,051	7,110	6,525	5,708	7,778

Source: Company, Karvy Institutional Research

Exhibit 4: Balance Sheet

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Equity	682	1024	1024	1024	1024
Minority Interest	392	669	904	1055	1055
Reserves	15603	20691	24712	28443	34115
Net worth	16677	22384	26640	30521	36193
Short-term Loans	6,593	6,580	6,871	9,884	11,677
Long-term Loans	4,312	4,393	13,223	12,697	12,697
Total Loans	10,905	10,973	20,520	22,581	24,373
Forex monetary item	0	0	31	-52	-52
Deferred tax Liability	1,141	1,127	1,185	1,192	1,192
Liabilities	28,723	34,484	48,376	54,242	61,707
Gross Block	25,578	28,320	38,190	45,682	52,432
Depreciation	8,734	9,994	9,711	11,584	13,774
Net Block	16,844	18,326	28,479	34,098	38,658
Capital work-in-progress	2,482	4,310	4,839	3,847	3,597
Investments	207	207	242	570	570
Inventories	7,504	8,119	10,905	12,740	14,810
Debtors	4,668	7,652	8,863	9,948	11,825
Cash	2,507	2,952	4,666	5,145	5,766
Other Current assets	3,070	4,106	5,798	6,343	7,488
Total Current assets	17,749	22,829	30,232	34,176	39,888
Creditors	6,146	8,306	5,455	7,042	8,132
Other current liabilities	2,515	2,882	9,961	11,407	12,874
Total current liabilities	8,661	11,188	15,416	18,449	21,005
Net current assets	9,088	11,641	14,816	15,727	18,882
Total Assets	28,621	34,484	48,376	54,242	61,707

Source: Company, Karvy Institutional Research

Cadila HC
Exhibit 5: Cash Flow Statement

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	6,747	8,418	8,752	9,870	12,243
(Inc.)/Dec in working capital	(402)	(2,108)	(1,461)	(431)	(2,535)
Cash flow from operations	6,345	6,310	7,291	9,438	9,708
Other income	158	131	531	510	548
Depreciation	1,339	1,269	1,579	1,873	2,191
Interest paid (-)	(809)	(780)	(1,211)	(2,232)	(1,878)
Tax paid (-)	(741)	(1,064)	(1,130)	(2,556)	(2,728)
Dividends paid (-)	(1,237)	(1,529)	(1,706)	(1,977)	(2,106)
Extraordinaries	(45)	569	507	0	0
Minority interest	(247)	(251)	(286)	(322)	(407)
Forex	(12)	81	(638)	437	0
Deferred Tax liability	(175)	(14)	58	7	0
Net cash from operations	4,576	4,721	4,995	5,179	5,328
Capital Expenditure (-)	(3,478)	(4,579)	(11,914)	(6,500)	(6,500)
Free Cash Flow	1,098	142	(6,919)	(1,321)	(1,172)
Inc./(Dec.) in short-term borrowing	(1,219)	(13)	291	3,013	1,793
Inc./(dec.) in long-term borrowing	(550)	81	8,830	(526)	0
Inc./(dec.) in borrowings	(1,769)	68	9,121	2,487	1,793
(Inc.)/Dec. in Investments	42	0	(35)	(328)	0
Inc./(Dec.) in Preference Capital	0	0	0	0	0
Equity issue/(Buyback)	440	452	1,086	151	0
Cash from Financial Activities	(1,287)	520	10,172	2,309	1,793
Others	179	(217)	(1,539)	(509)	0
Opening cash	2,517	2,507	2,952	4,666	5,145
Closing cash	2,507	2,952	4,666	5,145	5,766
Change in Cash	(10)	445	1,714	479	621

Source: Company, Karvy Institutional Research

Exhibit 6: Key Ratios

Y/E Mar	FY10	FY11	FY12	FY13E	FY14E
EV/EBDITA	23.8	19.8	19.4	17.2	14.1
ROE (%)	35.3	34.8	25.7	21.1	24.5
ROCE (%)	24.9	27.3	20.9	21.1	22.1
PE(x)	31.8	24.8	26.9	28.4	20.8
P/S(x)	4.5	3.6	3.1	2.6	2.2
P/BV(x)	9.7	7.2	6.1	5.3	4.5

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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