

Stock Update

Q4 numbers below expectation, maintain Hold

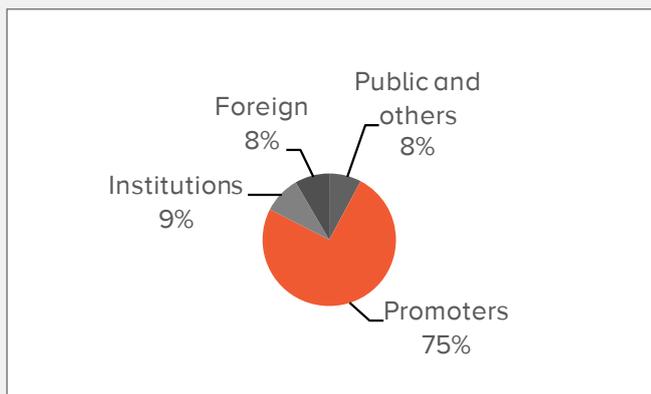
Cadila Healthcare

Reco: Hold | CMP: Rs264

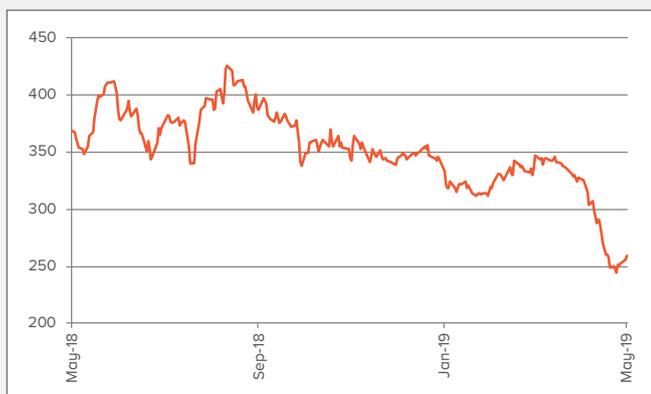
Company details

Price target:	Rs290
Market cap:	Rs27,034 cr
52-week high/low:	Rs432 / 242
NSE volume: (No of shares)	16.0 lakh
BSE code:	532321
NSE code:	CADILAHC
Sharekhan code:	CADILAHC
Free float: (No of shares)	25.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-21.3	-19.0	-24.9	-29.5
Relative to Sensex	-22.7	-27.0	-32.7	-38.4

Key points

- Performance below expectation:** Cadila Healthcare (Cadila) reported 14.8% growth in total operating revenue to Rs. 3,732.8 crore (above estimate due to consolidation of the acquired business of Heinz India Pvt. Ltd. for two months). Operating profit declined by 8% to Rs. 800.4 crore (5% below estimate) and OPM declined by 533.8 BPS to 21.4% (estimated 23.2%). Adjusted profit declined by 19.5% to Rs. 479.2 crore (8.5% below estimates). High interest cost (due to increased debt to fund Heinz acquisition) also impacted profitability.
- Domestic business to drive growth:** U.S. business outlook remains stable because of new product approvals and launches planned for FY2020. Management expects ~35+ approvals and 35-40 launches in the U.S. for FY2020 (excluding approvals and launches from Moraiya facility as it has received Form 483 in March 2019). Moreover, India business is likely to report low double-digit growth from FY2020 despite new product launches and rationalisation of product portfolio. Hence, we expect EM and India businesses to grow in low to mid-teens. Biosimilars, speciality products and vaccines are other growth drivers. Hence, overall, we expect the company to deliver a sales and profit CAGR of modest 11% and 9%, respectively, over FY2019-FY2021. Moreover, margins are expected to remain under pressure as the company witnesses competitive pressure in its niche launches.
- Maintain Hold with a downward revised PT of Rs. 290:** We feel that although Cadila has a big ANDA pipeline and strong control on expenses, its domestic business lacks its peers in terms of growth. Further, concentration on key markets such as U.S. and India is a risk. In addition, regulatory hurdles at Moraiya facility continue to remain an overhang for the near term. We have revised downwards our earnings estimates by 15% each for FY2020E and FY2021E on account of lowered margin guidance and increased interest cost. We maintain our Hold recommendation on the stock with lowered price target (PT) of Rs. 290.

Results						Rs cr
Particulars	Q4FY2019	Q4FY2018	YoY %	Q3FY2019	QoQ%	
Total Operating revenue	3,732.8	3,250.2	14.8	3,577.9	4.3	
Expenditure	2,932.4	2,379.8	23.2	2,738.0	7.1	
Operating profit	800.4	870.4	-8.0	839.9	-4.7	
Other Income	38.4	28.7	33.8	31.0	23.9	
EBITDA	838.8	899.1	-6.7	870.9	-3.7	
Interest	77.3	15.4	401.9	45.5	69.9	
Depreciation	155.6	144.0	8.1	153.7	1.2	
PBT	605.9	739.7	-18.1	671.7	-9.8	
Taxes	126.7	144.2	-12.1	158.6	-20.1	
Adjusted PAT	479.2	595.5	-19.5	513.1	-103.8	
Extra Ordinary item + MI	-19.1	11.2		-2.4		
Reported PAT	460.1	606.7	-24.2	510.7	-9.9	
Reported EPS (Rs.)	4.5	5.9	-24.2	5.0	-9.9	
Margins			BPS		BPS	
OPM %	21.4	26.8	-533.8	23.5	-203.2	
PATM %	12.3	18.7	-634.1	14.3	-194.8	
Tax rate %	20.9	19.5	141.7	23.6	-270.1	

Source: Sharekhan Research

Geographical Sales Break-up						Rs cr
Revenue break up	Q4FY2019	Q4FY2018	YoY %	Q3FY2019	QoQ%	
Formulations - Key markets	2904.9	2719.6	6.8%	3004.1	-3.3%	
U.S.	1795.4	1642.4	9.3%	1934.1	-7.2%	
India	902.3	883.8	2.1%	845.7	6.7%	
Latin America + Emerging Markets	207.2	193.4	7.1%	224.3	-7.6%	
Other businesses and Alliances	714.6	432.9	65.1%	512.0	39.6%	
Europe Formulations	53.5	60.2	-11.1%	59.5	-10.1%	
Consumer wellness	402.1	128.4	213.2%	141.9	183.4%	
Animal Health and Others	125.3	112.8	11.1%	128.1	-2.2%	
APIs	96	90	6.7%	130	-26.2%	
Alliances	37.7	41.5	-9.2%	52.5	-28.2%	
Grand Total	3619.5	3152.5	14.8%	3516.1	2.9%	
OOI	113.3	97.5	16.2%	61.8	83.3%	
Total Operating revenue	3732.8	3250.0	14.9%	3577.9	4.3%	

Source: Sharekhan Research, Company

Valuations					Rs cr
Particulars	FY2018	FY2019	FY2020E	FY2021E	
Net sales	11,954.5	13,165.6	14,368.2	16,519.5	
OPM (%)	23.8	22.6	22.1	22.3	
Adjusted Net profit	1,731.9	1,801.9	1,854.0	2,196.3	
EPS (Rs.)	16.9	17.6	18.1	21.4	
PER (x)	15.6	15.0	14.6	12.3	
EV/EBITDA (x)	11.3	11.9	10.7	9.0	
P/BV (x)	3.1	2.6	2.3	2.0	
Mcap/sales	2.3	2.1	1.9	1.6	
RoCE (%)	15.4	12.3	12.1	13.1	
RoNW (%)	19.8	17.3	15.8	16.3	

Source: Sharekhan Research

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