

Key investment thesis:

Competition in gLialda – exaggerated concerns: While Cadila has executed near-perfectly on gLialda opportunity (sole FTF launch in July 2017), the stock has corrected >10% following Teva's tentative approval recently (anticipated launch in Jan 2018). However, we believe further competition in gLialda will be gradual with only Mylan likely to enter in FY19 (favourable Appeals Court verdict in June 2017). Other filers – Osmotica, Amneal and Lupin – are still under litigation and complexity of the product will be an additional entry barrier. We believe contribution from gLialda will be meaningful for Cadila in FY19 (~\$75mn vs. ~\$160mn in FY18E). In the near-term, products such as atenolol (in shortage, Cadila has ramped up share), gRelpax (launched in July 2017, ~31% Rx share), gToprol XL (4QFY18), gPrevacid ODT (4QFY18) and gTamiflu (4Q accounts for >75% of Rx) should partially offset the impact of Teva's entry in gLialda. We factor Cadila's own launch of Asacol HD (currently AG, final approval received in July 2017) in FY19 and expect this to remain limited-competition in the medium-term. Other significant opportunities in FY19/FY20 include gAlbenza, gTracleer, gRapamune (higher doses) and transdermals (7 filings pending approval, 3-4 potential launches in FY19)

Recent approval momentum and facility inspection outcomes mark significant turnaround in execution: Cadila's US business went through a challenging phase in FY12-FY16, with the company's flagship facility at Moraiya receiving 2 Warning Letters during the period and several key filings facing inordinate delays in approvals. However, in the past 12 months, Cadila has turned around its execution record with clean inspections at all key facilities and unlike most peers, Cadila does not have any outstanding GMP issues currently. This period has also witnessed significant pick up in approvals for Cadila, including several difficult-to-make products across dosage forms (refer [page 3](#) for details)

Vaccines, biosimilars and NCEs/specialty – below-the-radar opportunities with significant long-term potential: With significant presence in segments such as animal health and wellness, Cadila is among the most diversified companies in the sector. Cadila has made significant investments and progress in areas such as vaccines, NCEs and biosimilars. Till-date, Cadila has received approvals for 10 vaccines in India (4 launched). Lipaglyn (saroglitazar), which was launched in India in 2013 is currently in phase 2 trials for 3 indications in the US. While the regulated market opportunity is a few years away, Cadila has started launching biosimilars in EMs and we believe this should be an interesting opportunity in the medium-term. Through the recent acquisition of Sentyln, Cadila has forayed into branded/specialty pharma in the pain management segment and management has indicated plans to acquire branded assets in pain, dermatology and oncology

Valuation and stock view: Cadila is in the midst of significantly ramping up its US business (~\$1bn sales in FY19E vs. ~\$550mn in FY17), despite the challenging environment. Cadila is the 4th largest player in the domestic pharma market and the business should be back on track in 2HFY18 post the GST-related disruption in 1HFY18 (5% yoy decline). Strong FCF generation (>Rs. 30bn in FY18-20E) should support inorganic initiatives, especially on the Specialty front in the US. **Maintain BUY with a target price of Rs. 505 (20x FY20 EPS of Rs. 25.2)**

FINANCIAL SUMMARY (CONSOLIDATED)

Year	Sales (Rs. mn)	EBITDA margin %	Adj. PAT (Rs. mn)	Adj. EPS (Rs.)	P/E (x)	EV/EBIT DA (x)	RoE (%)
FY17	94,295	20.2%	14,695	14.4	30.7	25.2	23.2%
FY18E	121,048	22.6%	17,350	16.9	26.0	17.6	22.5%
FY19E	137,109	24.2%	22,255	21.7	20.3	14.5	23.8%
FY20E	153,273	24.8%	25,838	25.2	17.5	12.6	22.9%

KEY ESTIMATES REVISION

	FY18E			FY19E		
	Old	New	Change	Old	New	Change
Revenues	120,969	121,048	0.1%	138,320	137,109	-0.9%
EBITDA	27,399	27,345	-0.2%	32,954	33,215	0.8%
Margin (%)	22.6%	22.6%		23.8%	24.2%	
PAT	17,387	17,350	-0.2%	21,961	22,255	1.3%
EPS (Rs.)	17.0	16.9	-0.2%	21.5	21.7	1.3%

COMPANY UPDATE 29 NOVEMBER 2017

Industry	PHARMA
Key Stock Data	
Bloomberg	CDH IN
Shares o/s	1,024mn
Market Cap	Rs. 452bn
52-wk High-Low	Rs. 560-329
3m ADV	Rs. 570mn
Index	BSE200
Latest shareholding (%)	
Promoters	74.8%
Institutions	17.2%
Public	8.0%

Stock performance (%)

	1m	3m	12m
CDH	-9%	-12%	7%
Sensex	1%	6%	28%

RESEARCH ANALYSTS

DR HARITH AHAMED

harith@sparkcapital.in

+91 44 4344 0052

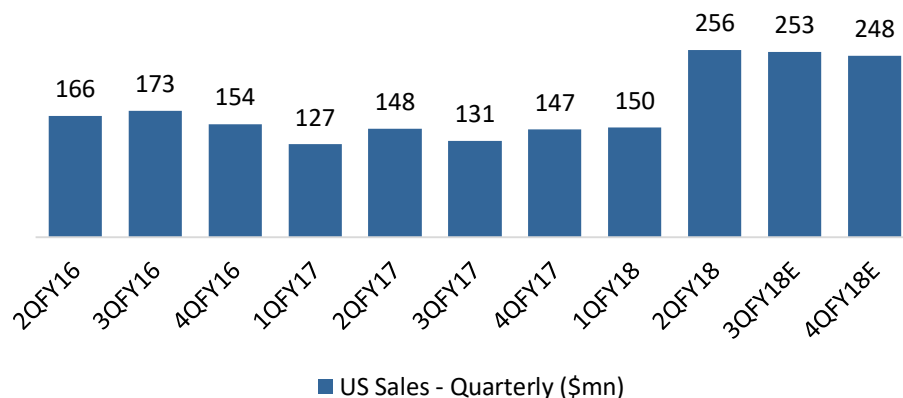
KRISHNA PRAKASH R

krishnaprakash@sparkcapital.in

+91 44 4344 0017

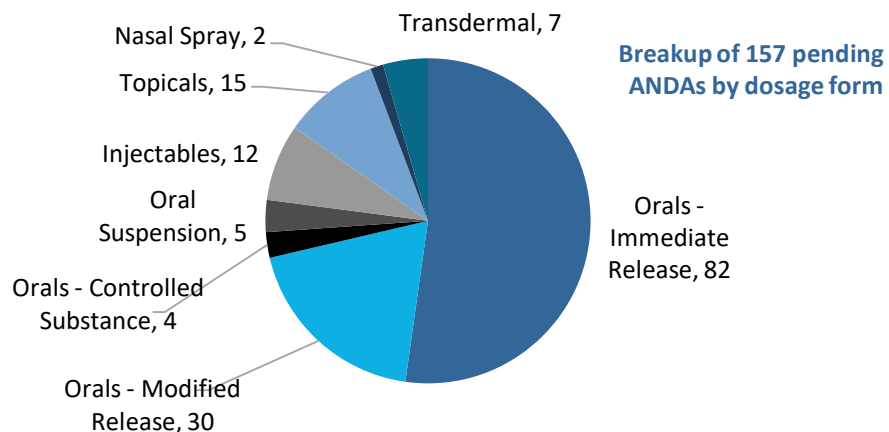
Product complexity and patents will pose entry barriers for competitors in gLialda

In the near-term, gLialda competition should be partially offset by gToprol XL, gPrevacid ODT and gTamiflu



Source: Company data, Spark Capital

Complex dosage forms account for ~50% of pending ANDAs



Source: Company data, Spark Capital

gLialda – we expect further competition to be gradual

Filing date	Filers	Status
Sep-15	Lupin	Litigation in progress
Mar-15	Amneal	Litigation in progress
Apr-12	Mylan	Favorable litigation outcome
Mar-12	Teva	Favorable litigation outcome; tentative approval in Nov 2017; launch in Jan 2018 post Cadila's FTF
Feb-12	Osmotica	Litigation in progress
May-10	Cadila	Approved and launched

Source: USFDA, Spark Capital

Best-in-class FY18/FY19 US pipeline; own launch of Asacol HD (currently AG) expected in FY19

Brand	Active ingredient	Expected launch
Toprol XL	metoprolol succinate ER tab	4QFY18
Prevacid Solutab	lansoprazole DR ODT	4QFY18
Rapamune	sirolimus (higher doses)	1HFY19
Exelon patch	rivastigmine transdermal	1HFY19
Duragesic	fentanyl transdermal	2HFY19
Albenza	albendazole tab	1HFY19
Catapres-TTS	clonidine transdermal	2HFY19
Vivelle DOT	estradiol transdermal	2HFY19
Tracleer	bosentan	FY20
Aloxi	palonosetron HCl inj	1HFY20
Canasa	mesalamine suppository	1HFY20
Flector	diclofenac epolamine patch	FY20
Lidoderm	lidocaine transdermal	FY20/FY21

Source: Company data, Spark Capital

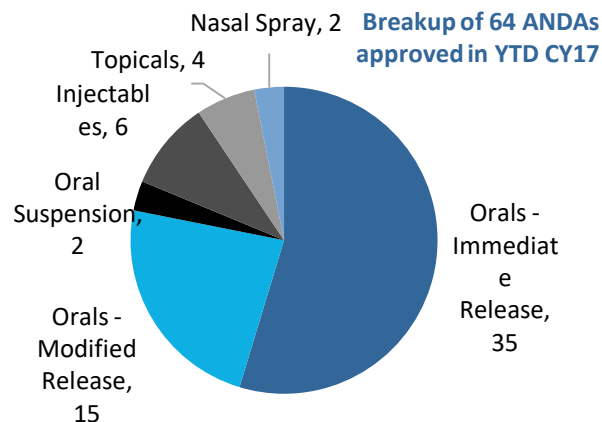
Recent approval momentum and facility inspection outcomes mark significant turnaround in execution

Clean GMP record at all key facilities in the past 12 months

Date of inspection	Facility	Comments
Sep-17	Moraiya	No Form 483 observations
Apr-17	Ahmedabad (Topical)	No Form 483 observations
Mar-17	Baddi	Pre-Approval Inspection (PAI). Form 483 with 3 observations issued. EIR received in June 2017
Feb-17	Moraiya	No Form 483 observations. EIR received in June 2017
Jan-17	Ahmedabad SEZ	EIR received in Aug 2017

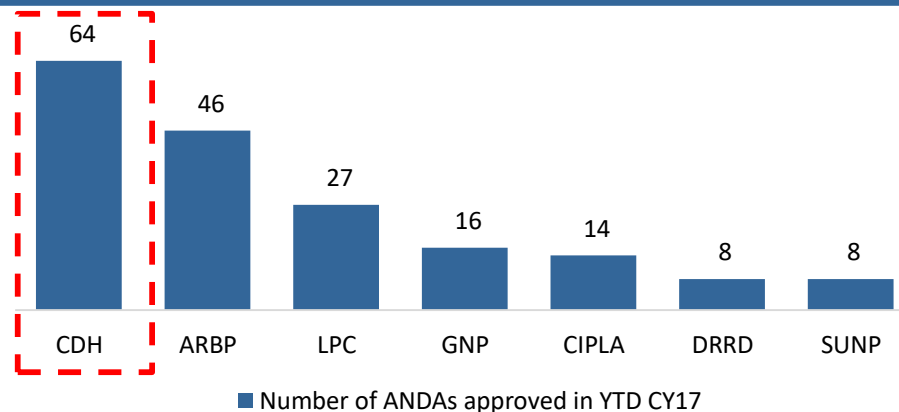
Source: Company data, Spark Capital

Recent approvals include several difficult-to-make products



Source: Company data, Spark Capital

Strong approval momentum – ANDA approvals in YTD CY17



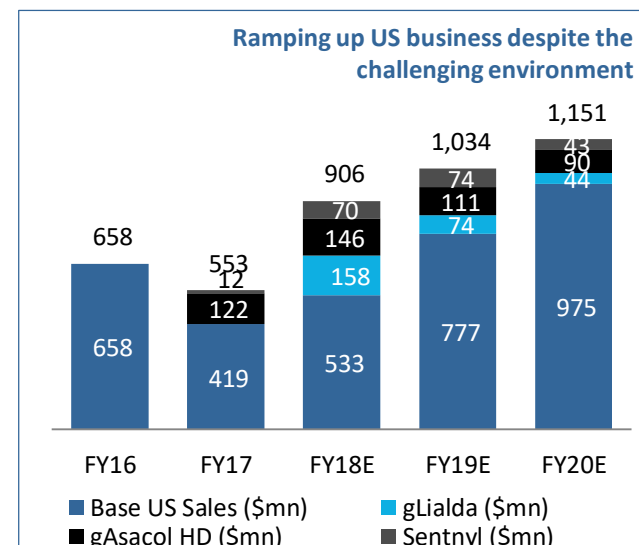
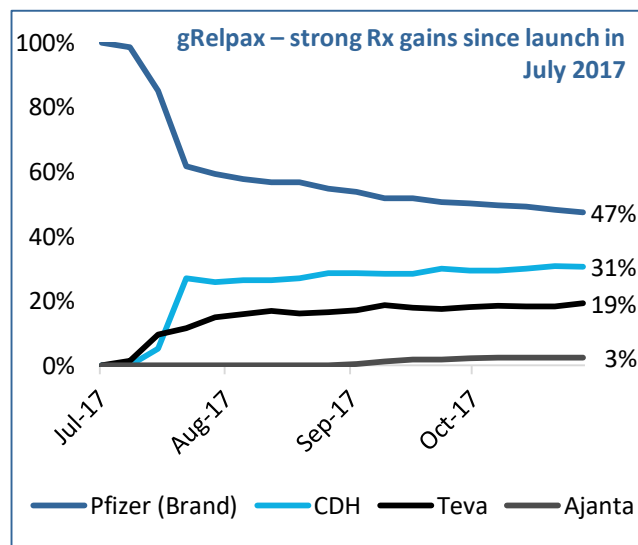
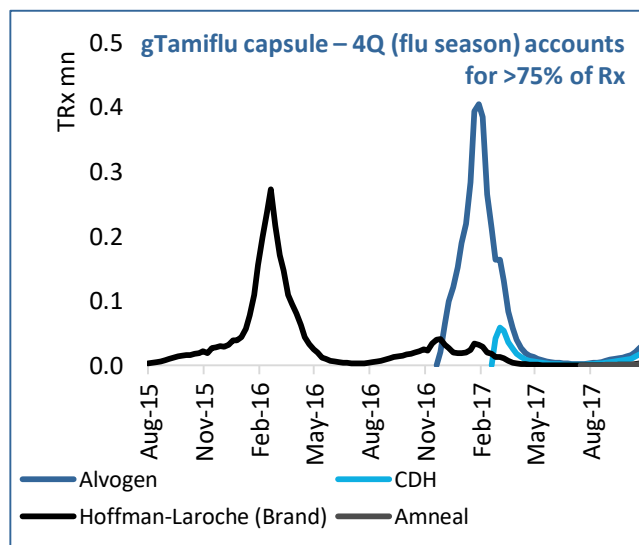
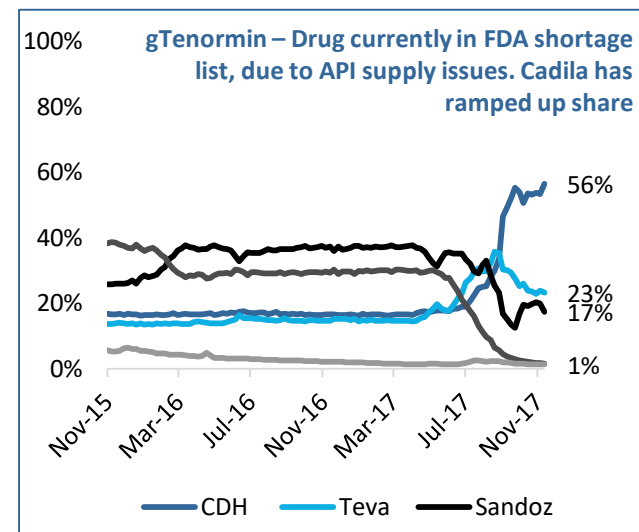
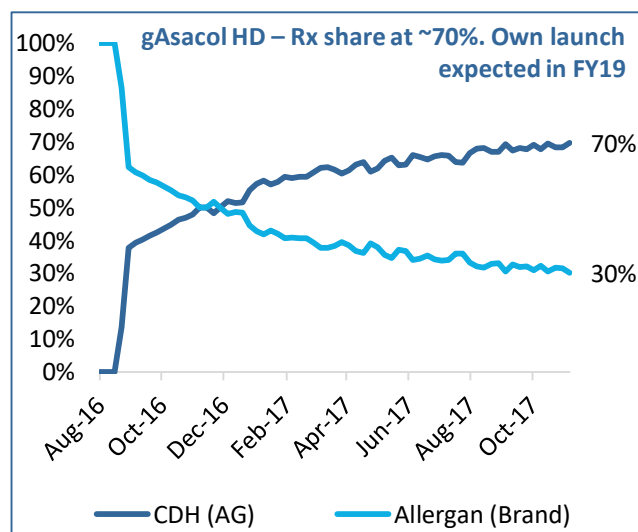
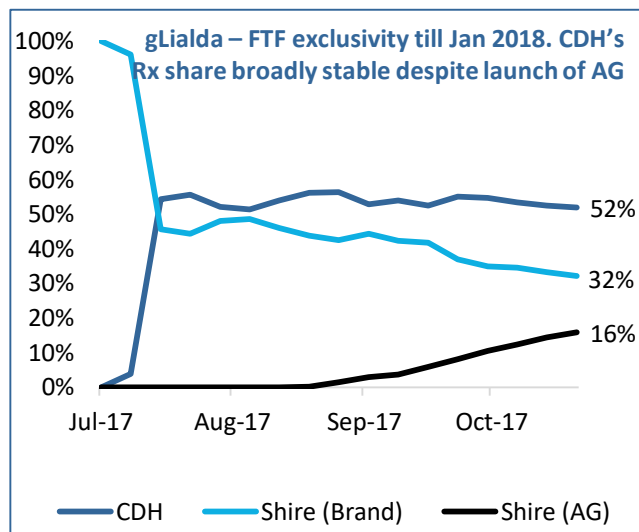
Source: USFDA, Spark Capital

Key recent approvals

Approval date	Brand	Generic name	Comments
Nov-17	Trokendi XR	topiramate cap ER (tentative)	1 st generic approved. Settled for launch in Jan 2023
Nov-17	Edecrin	ethacrynate sodium inj	3 rd generic approved. Approval from Moraiya
Oct-17	Minirin	desmopressin acetate nasal spray	2 nd nasal spray approval; 5 th player to receive approval
Sep-17	Doxy 100	doxycycline hyclate inj	3 rd generic approved
Sep-17	Tamiflu susp	oseltamivir suspension	1 st generic approved; only 2 generics approved
Aug-17	Cellcept	mycophenolate mofetil HCl	4 th generic approved
Aug-17	Astelin	azelastine HCl nasal spray	1 st nasal spray approval for Cadila
Aug-17	Canasa	mesalamine suppository rectal	Rectal delivery form
Jul-17	Asacol HD	mesalamine DR 800mg tab	1 st generic approved; own launch (currently AG) in FY19
Jun-17	Relpax	eletriptan hydrobromide tab	4 th generic approved. Rx share of ~31% currently
Jun-17	Lialda	mesalamine DR 1.2gm	Sole FTF launch
May-17	Entocort EC	budesonide cap	Complex oral formulation of budesonide
Feb-17	Tamiflu cap	oseltamivir tab	2 nd generic approved; 4 generics approved currently

Source: USFDA, Spark Capital

Rx trends in recent US launches



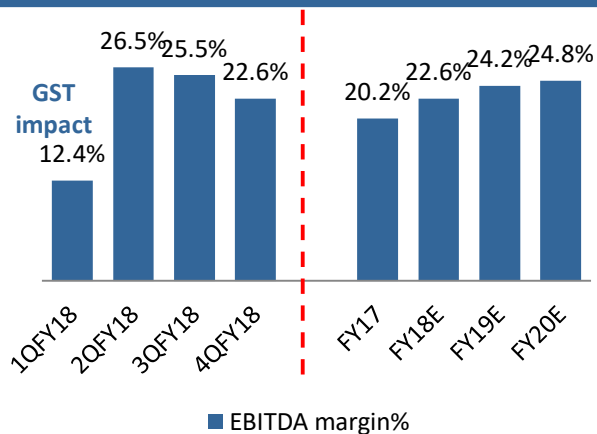
Diversified business model; US and India to remain core markets

Segmental revenue breakup

Rs. Mn	FY16	FY17	FY18E	FY19E	FY20E
India	29,852	32,441	34,676	39,184	44,278
North America	40,215	37,090	58,301	66,681	74,199
Europe	2,950	2,623	2,533	2,786	3,065
Latin America (Brazil)	2,177	2,445	2,519	2,821	3,160
Other EMs	4,689	5,048	5,507	6,334	7,284
Formulations	79,883	79,647	103,536	117,806	131,985
Consumer Products	4,242	4,593	4,888	5,475	6,132
APIs	3,647	3,795	3,618	3,835	4,065
Animal Health & others	3,199	4,530	4,762	5,333	5,973
JVs + alliances	1,647	1,591	1,597	1,757	1,932
Total sales	92,618	94,156	118,401	134,206	150,088

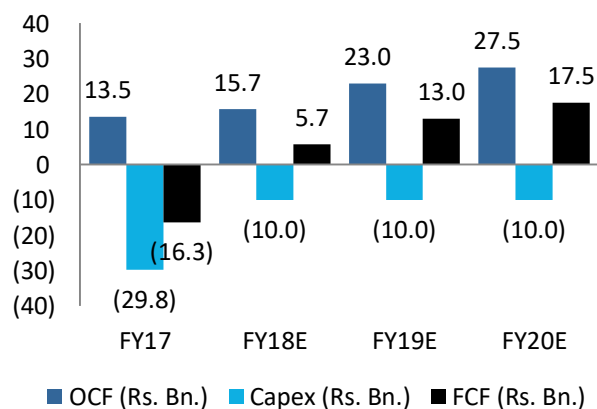
Source: Company data, Spark Capital

US ramp up to support margin in FY20



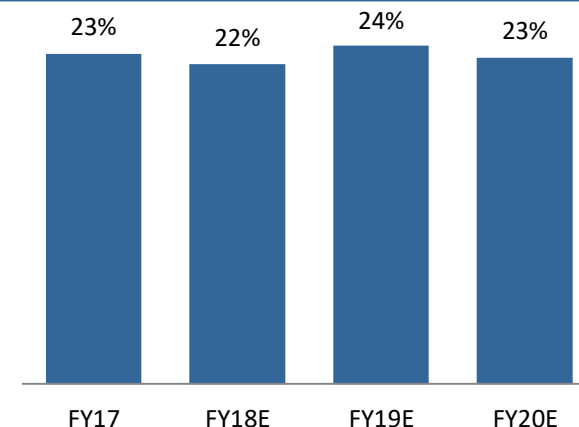
Source: Company data, Spark Capital

Strong FCF generation should support inorganic initiatives, especially on the Specialty front



Source: Company data, Spark Capital

Industry leading RoE



Source: Company data, Spark Capital

Financial Summary

Abridged Financial Statements									
Rs. mn	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Profit & Loss									
Revenue	52,633	63,578	72,240	86,513	94,268	94,295	121,048	137,109	153,273
EBITDA	10,839	11,251	12,001	17,557	23,305	19,036	27,345	33,215	38,059
Depreciation	(1,579)	(1,847)	(2,012)	(2,873)	(2,921)	(3,750)	(5,087)	(5,838)	(6,482)
EBIT	9,260	9,403	9,989	14,684	20,384	15,286	22,258	27,377	31,577
Other income	532	370	507	554	1,156	1,286	985	966	1,002
Interest expenses	(1,050)	(1,262)	(1,181)	(679)	(587)	(635)	(1,039)	(853)	(626)
Exceptional items	(799)	(425)	108	-	59	185	(86)	-	-
PBT	7,942	8,087	9,422	14,559	21,012	16,122	22,118	27,491	31,954
Reported PAT (after minority interest)	6,526	6,535	8,036	11,506	19,339	14,877	17,264	22,255	25,838
Adj. PAT	7,325	6,960	7,928	11,589	18,875	14,695	17,350	22,255	25,838
Adj. EPS (Rs.)	7.2	6.8	7.7	11.3	18.4	14.4	16.9	21.7	25.2
Balance Sheet									
Net Worth	26,763	30,638	35,833	44,205	58,350	71,161	86,596	104,593	125,596
Deferred tax liabilities (net)	1,146	1,005	961	586	(5,185)	(5,170)	(5,594)	(6,969)	(8,566)
Total debt	22,893	29,178	27,004	26,513	24,420	52,072	43,376	34,955	22,520
Other liabilities and provisions	7,973	6,333	6,959	8,258	9,655	12,238	12,850	13,492	14,167
Total Network and liabilities	58,775	67,154	70,757	79,562	87,240	130,301	137,228	146,072	153,717
Gross Fixed assets	44,813	51,118	55,506	59,364	67,181	96,313	106,313	116,313	126,313
Net fixed assets	18,370	21,024	22,249	24,572	28,533	46,057	50,970	57,132	62,650
Capital work-in-progress	4,839	7,356	8,915	7,979	9,508	15,433	15,433	13,433	11,433
Goodwill	10,201	9,232	8,989	8,950	8,946	11,494	11,494	11,494	11,494
Non-current investments	212	212	222	332	2,171	3,857	3,857	4,348	4,348
Cash and bank balances and investments	4,696	6,771	6,132	7,911	8,378	15,926	9,752	8,335	7,501
Loans & advances and other assets	5,798	7,440	8,346	9,486	11,948	13,458	14,804	16,284	17,098
Net working capital	14,659	15,119	15,904	20,332	17,756	24,076	30,918	35,045	39,193
Total assets	58,775	67,154	70,757	79,562	87,240	130,301	137,228	146,072	153,717
Capital Employed	49,656	59,816	62,837	70,718	82,770	123,233	129,972	139,548	148,117
Invested Capital (CE - cash - CWIP)	40,121	45,689	47,790	54,828	64,884	91,874	104,787	117,780	129,182
Net debt	18,197	22,407	20,872	18,602	16,042	36,146	33,624	26,620	15,019
Cash Flows									
Cash flows from Operations (Pre-tax)	6,454	8,629	10,598	13,805	25,395	15,871	21,247	29,844	35,454
Cash flows from Operations (post-tax)	5,019	5,909	8,870	9,936	18,935	13,495	15,718	22,971	27,466
Capex	(12,444)	(7,243)	(4,682)	(5,124)	(9,625)	(29,781)	(10,000)	(10,000)	(10,000)
Free cashflows	(7,425)	(1,334)	4,188	4,812	9,310	(16,286)	5,718	12,971	17,466
Free cashflows (post interest costs)	(9,052)	(2,971)	3,325	4,141	8,868	(16,842)	4,679	12,118	16,840
Cash flows from Investing	(11,903)	(7,595)	(4,222)	(4,647)	(8,635)	(29,103)	(10,000)	(10,000)	(10,000)
Cash flows from Financing	8,598	2,858	(5,287)	(3,511)	(9,348)	23,158	(11,892)	(13,897)	(18,300)
Total cash & liquid investments	4,696	6,771	6,132	7,911	8,378	15,926	9,752	8,335	7,501

Financial Summary

Key financial metrics (Consolidated)									
	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Growth ratios									
Revenue	13.7%	20.8%	13.6%	19.8%	9.0%	0.0%	28.4%	13.3%	11.8%
EBITDA	5.6%	3.8%	6.7%	46.3%	32.7%	-18.3%	43.6%	21.5%	14.6%
Adj PAT	2.3%	-5.0%	13.9%	46.2%	62.9%	-22.1%	18.1%	28.3%	16.1%
Margin ratios									
EBITDA	20.6%	17.7%	16.6%	20.3%	24.7%	20.2%	22.6%	24.2%	24.8%
Adj PAT	13.8%	10.9%	10.9%	13.3%	19.8%	15.4%	14.2%	16.1%	16.7%
Performance ratios									
Pre-tax OCF/EBITDA	59.5%	76.7%	88.3%	78.6%	109.0%	83.4%	77.7%	89.9%	93.2%
OCF/IC (%)	12.5%	12.9%	18.6%	18.1%	29.2%	14.7%	15.0%	19.5%	21.3%
RoE (%)	30.8%	25.2%	24.8%	30.1%	37.9%	23.2%	22.5%	23.8%	22.9%
RoCE (%)	21.1%	15.7%	15.4%	18.9%	25.8%	14.8%	14.3%	17.0%	18.2%
RoCE (Pre-tax)	23.8%	17.9%	17.1%	22.8%	28.1%	16.1%	18.4%	21.0%	22.7%
RoIC (Pre-tax)	28.3%	21.9%	21.4%	28.6%	34.1%	19.5%	22.6%	24.6%	25.6%
Fixed asset turnover (x)	1.4	1.3	1.4	1.5	1.5	1.2	1.2	1.2	1.3
Total asset turnover (x)	1.1	1.0	1.0	1.2	1.1	0.9	0.9	1.0	1.0
Financial stability ratios									
Net Debt to Equity (x)	0.7	0.7	0.6	0.4	0.3	0.5	0.4	0.3	0.1
Net Debt to EBITDA (x)	1.7	2.0	1.7	1.1	0.7	1.9	1.2	0.8	0.4
Interest cover (x)	10.3	8.9	10.2	25.9	39.7	30.0	26.3	39.0	60.8
Inventory and debtor days	144	129	129	134	124	162	162	162	162
Working capital days	105	90	82	87	71	95	95	95	95
Valuation metrics									
Fully Diluted Shares (mn)	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024
Market cap (Rs.mn)								451,573	
P/E (x)	61.7	64.9	57.0	39.0	23.9	30.7	26.0	20.3	17.5
P/OCF(x)	90.0	76.4	50.9	45.4	23.8	33.5	28.7	19.7	16.4
EV (Rs.mn)								480,448	
EV/ EBITDA (x)	44.3	42.7	40.0	27.4	20.6	25.2	17.6	14.5	12.6
EV/ OCF(x)	95.7	81.3	54.2	48.4	25.4	35.6	30.6	20.9	17.5
FCF Yield	-1.6%	-0.3%	0.9%	1.1%	2.1%	-3.6%	1.3%	2.9%	3.9%
Price to BV (x)	16.9	14.7	12.6	10.2	7.7	6.3	5.2	4.3	3.6
Dividend pay-out (%)	24%	117%	115%	107%	17%	22%	21%	18%	18%
Dividend yield (%)	1.7%	1.7%	2.0%	2.7%	0.7%	0.7%	0.8%	0.9%	1.0%

Crystal Ball Gazing

~12% revenue
CAGR in FY18-
22E driven by

With significant presence in segments such as animal health, wellness and APIs, CDH is among the most diversified Indian pharmaceuticals companies. CDH has made significant investments and progress in biosimilars, inhalers, transdermals, topicals, vaccines and NCEs (Lipaglyn to commence phase II trials in the US). Till recently, CDH lagged peers in timely approvals and launches in the US, impacting monetization of its attractive pipeline. However, with the recent resolution of Moraiya WL and pick up in approvals including several complex products, concerns on execution are largely removed

12% CAGR in the US business, 13% CAGR in domestic formulations 10% CAGR in EU and 12% CAGR growth in LatAm

+

EBITDA margin to expand ~170bps in FY18-22E driven by significant new launches in the US

+

Expecting exit multiple of 20x given the visibility on long-term growth drivers

	FY11-FY14	FY14-FY17	FY18-FY22E
Revenues CAGR	16%	9%	12%
EBITDA CAGR	5%	17%	14%
EBITDA margin	19%	22%	24%
EPS CAGR	3%	23%	17%
Total Asset Turnover (x)	1.1	1.0	1.0
Total WC days	90	85	95
Pre-tax OCF/EBITDA (%)	76%	90%	90%
Post Tax OCF as a % of IC	18%	21%	20%
Debt/EBITDA	1.5	1.2	0.4

	FY11-FY14	FY14-FY17	FY18-FY22E
RoE (%)	29%	30%	22%
RoCE (%)	20%	20%	17%
RoIC (%)	27%	27%	25%
Average 1 yr fwd			
PE (x)	18.9	20.2	22.6
EV/EBITDA (x)	13.3	15.9	13.3
Peak 1 yr fwd			
PE (x)	21.8	26.6	27.4
EV/EBITDA (x)	16.2	19.0	20.1

P/E multiple	FY22E EPS (mn)	Price target
20.0x	31.5	630

Entry = Rs. 441 @ 20x
FY19E EPS

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Cumulative Dividends of
Rs. 17

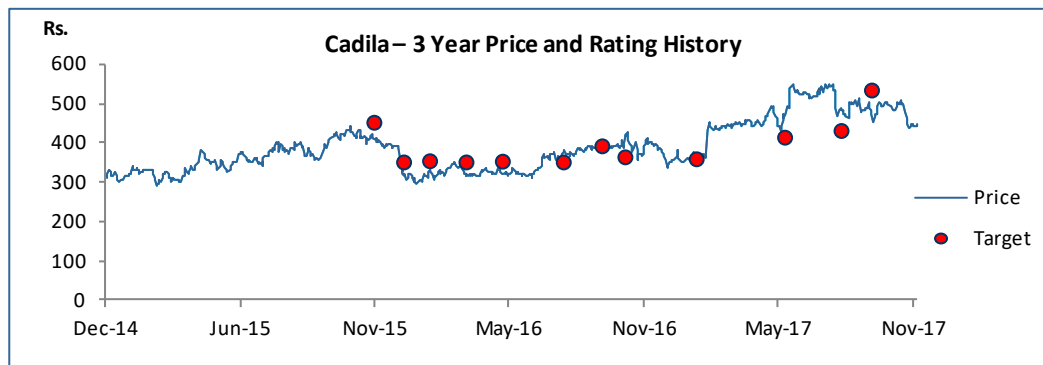
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Earnings CAGR of 17% in
FY18-22E, exit multiple of
20x

=

**TOTAL
RETURN OF
47%**

Spark Recommendation History



Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

Report Date	Price	Target	Reco.
25-Sep-17	489	535	Buy
14-Aug-17	483	432	Sell
31-May-17	472	415	Sell
01-Feb-17	351	360	Reduce
27-Oct-16	388	365	Reduce
27-Sep-16	395	393	Reduce
04-Aug-16	348	352	Add
16-May-16	327	354	Add
28-Mar-16	320	352	Add
08-Feb-16	326	355	Add
04-Jan-16	333	352	Add
24-Nov-15	424	453	Add
10-Nov-14	353	395	Buy
04-Aug-14	273	319	Buy
27-Jun-14	249	285	Buy

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