

## Zydus Cadila Q2FY21

### Financial Results & Highlights

#### Brief Introduction:

Cadila Healthcare Ltd (Zydus Cadila) is an Indian pharmaceutical company headquartered at Ahmedabad in Gujarat state of western India. The company is one of the leading pharmaceutical companies in India, with INR 119.05 Billion revenue (2018). It is a manufacturer of generic drugs.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	2118	1961	8.01%	1816	16.63%	3934	3244	21.27%
PBT	561	617	-9.08%	478	17.36%	1040	642	61.99%
PAT	473	554	-14.62%	398	18.84%	871	580	50.17%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	3848	3394	13.38%	3662	5.08%	7510	6912	8.65%
PBT	534*	122**	337.70%	593	-9.95%	1128*	516***	118.60%
PAT	473	107	342.06%	454	4.19%	927	411	125.55%

\*Includes an exceptional item of Rs 132 Cr which is for premium on NCDs purchased by Group.

\*\* Includes an exceptional item of Rs 268 Cr which is impairment charge on 'Levorphanol'.

\*\*\* Includes an exceptional item of Rs 305 Cr.

#### Detailed Results:

1. Consolidated revenues were up with 13% YoY growth. Profit has risen over 3 times YoY in Q2 due to exceptional items recognized in both Q2FY21 & Q2FY20.
2. The EBITDA for the quarter was at Rs 863 Cr which was up 36% YoY with EBITDA margins of 22.6%, an improvement of 370 bps YoY.
3. Consolidated PAT excluding exceptional items was up 73% YoY.
4. The company reduced net debt by Rs 2709 Cr in H1, which is a 40% reduction since March 2020. Net Debt as of 30<sup>th</sup> Sep 2020 stands at Rs 4031 Cr.
5. India revenues were at Rs 1583 Cr in Q1 which was up 11% YoY. The Company gained market share in Gynaecology, Pain management, Anti-Infectives, Anti-Diabetic, and Hormones portfolio in Q2 vs last year. Animal Health business saw revenues of Rs 161 Cr in Q2 which is a growth of 20% YoY.
6. US revenues were up 18% YoY to Rs 1709 Cr. The company received approval for 10 new products (incl. 2 tentative approvals) and filed 5 additional ANDAs in Q2.
7. Cadila received final approval for ANDA for Liposomal Doxorubicin injection in Q2.
8. The Phase II clinical trials of Desidustat in the management of COVID 19 are underway in Mexico.
9. The Company has also completed Phase II clinical trials of Pegylated Interferon Alpha-2b in India for management of COVID 19.
10. The Adaptive Phase I/II clinical trials are underway for the Company's lead vaccine candidate ZyCoV-D.

### **Investor Conference Call Highlights**

1. The US generics business grew by 21% YoY driven by volume expansion.
2. The company's emerging markets business grew by 8% YoY and saw sales of Rs 236 Cr. IN constant currency terms, this business grew 12% YoY.
3. The India Consumer Wellness business grew by 9.3% YoY.
4. The company completed QIP for Rs 1000 Cr in Q2 which was oversubscribed 3 times. Proceeds of the issue were used for redemption of nonconvertible debentures leverage to the balance sheet.
5. US formulations business remains the largest contributor to the consolidated revenues with a 45% share in total revenues in Q2.
6. API business saw sales of Rs 160 Cr and growth of 52% YoY.
7. The company is about to complete preclinical development for ZYIL 1, a small molecule NCE positioned for the management of critically ill COVID-19 patients.
8. The company has received regulatory permissions in India to conduct a Phase II clinical trial of adalimumab for COVID-19.
9. The company completed Phase I trials for the Hepatitis E vaccine and has received regulatory permission to conduct preclinical tox studies for one more vaccine during the quarter.
10. The management attributes the growth in India's business in Q2 to the growth in the chronic portfolio.
11. The company is still not completely back in terms of its marketing activities and there can be some increase in marketing going forward. But overall, fixed expenses are back to normal.
12. The company continues to hold a good market share in Lialda due to the complexity of molecules and the sourcing of materials.
13. Pricing in the base business is expected to remain stable at current levels.
14. Other than Saroglitazar, the company hopes to maintain R&D at 7-8% of revenues in FY21.
15. Generic growth in India has been muted in Q2.
16. The animal health business has done well due to the strong brand presence, customer outreach, and the revival of the rural economy in India. The company also saw better margins in this business due to a favourable product mix.
17. The management expects APIs to grow >10% going forward.
18. The company will not receive any export benefits due to the discontinuation of the previous export incentive scheme and it is waiting for the details of the new scheme to gauge how the incentives will come in for it.
19. There are a number of Remdesivir providers in India but Cadila remains the lowest-priced provider in the market. The company is still building for full capacity and aims to produce as much as it can sell.

20. The company's COVID vaccine is expected to come out by April if Phase III trials are completed in time.
21. The management has stated that compared to the Pfizer or any other vaccine, the company COVID vaccine has a few advantages like:
  1. It doesn't use an infectious agent as a platform for delivery so safety is enhanced.
  2. DNA vaccines have a very clear pathway that lies within WHO & USFDA guidelines.
  3. It has a highly scalable platform which makes it easy to build for scale and find third-party manufacturers.
  4. The product is stable at 2-8 degrees Celsius which is very convenient in terms of cold chain logistics and shelf life.
  5. It has an intradermal application which should be a much easier administration.
22. The company has increased its capacity for DNA vaccines by 70%. This whole new capacity can be used to make only 1 vaccine at a time.
23. There hasn't been any shortage in demand for Remdesivir despite the WHO comments as the USFDA has shifted it to first-line treatment now instead of emergency and this drug remains the only line of treatment for moderate to severe patients.
24. The competition for Lialda is low as the majority of the mesalamine franchisees are very difficult to develop and these are very complex products to continuously manufacture.
25. The competition in the Tamiflu space is intense and the company stands ready for large quantities as demand is expected to be high due to COVID-19.
26. The management believes that the company has outperformed the market in all operating segments in H1.
27. The management believes that with the company's strong R&D, it can easily repurpose or bring new introductions whenever needed in the COVID portfolio when demand for it drops in the future.
28. The company has set up an R&D engine that will be churning out first-in-India launches at affordable prices which should ensure adequate momentum for many years to come.
29. The acute portfolio is the one where the company is struggling as the market is slow and the company is not a big player in this space.
30. The management expects to see the current growth momentum for the domestic business to last at least 2 more quarters.
31. The management has stated that the company needs at least 3-3.5 years to become a sizeable influence of \$150-200 million in the injectables space.
32. The company's transdermal approvals are contingent on its Moraiya warning letter getting resolved. The company expects to see 5-6 approvals in this space. Once the approval is done, the company can set up this business in FY22 and see a good scale-up in the next 2.5 years.

33. In the primary biliary cholangitis space, the company expects its drug to hit the markets in 2023 or 2024. This space has a big market size of a few billion dollars and has no approved products.
34. The management has stated that it expects to keep the COVID-19 vaccine affordable as it is very scalable and can be made in high quantities easily.
35. The company aims to file a total of 30-35 NDAs in FY21 and 40-45 NDAs in FY22.

**Analyst's View:**

Zydus Cadila is one of the leading pharmaceutical and wellness product makers in the country. The company has done well to maintain good growth in the US generic business and see a resurgence in the India business, both of which are the biggest revenue generators for the company. The company is expected to benefit greatly from its targeted portfolio of products and services for COVID-19 especially from its COVID-19 vaccine which is touted to be more scalable and have better shelf life than the vaccine announced by Pfizer. It also has massive potential in the injectables business where the company is looking to add a number of its products in the near future. It remains to be seen what the future holds for the pharma industry with the race to COVID-19 vaccine intensifying. The company also has to resolve the Moraiya issue pending which can delay its plans for the expansion in the transdermal space. Nonetheless, given the strong positioning of the company in various pharma and consumer product categories and its ever-increasing specialty product portfolio, Zydus Cadila is an important stock to watch out for in the pharma space.

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