

Industry
Bloomberg
BSE CODE

Pharmaceuticals
CIPLA IN
500087

Continued momentum across businesses drives revenue growth this quarter.

| RATING | BUY |
|------------------|-----|
| CMP | 447 |
| Price Target | 549 |
| Potential Upside | 23% |
| Rating Change | ↔ |
| Estimate Change | ↔ |
| Target Change | ↔ |

| STOCK INFO | |
|---------------------|---------|
| 52wk Range H/L | 586/399 |
| Mkt Capital (Rs Cr) | 36022 |
| Free float (%) | 63% |
| Avg. Vol 1M (,000) | 2172 |
| No. of Shares (Crs) | 81 |
| Promoters Pledged % | 0% |

3QFY20 Result Update

- The North America business grew by 13% YoY to US\$133 mn on account of retention share in key product categories; sequentially it has remained flat as the contribution from Cinacalcet in value terms has largely normalized with the entry of multiple competitions.
- We saw a strong recovery in the India business this quarter post realignment of distributors in the trade generics business, which has led to a revenue growth of 12% YoY at Rs. 1777 crs. Prescription business grew 14% YoY while the trade generics business recorded growth of 7% over the previous year.
- Overall South Africa market grew by 9% YoY to US\$117 mn. South Africa private business reported 20% growth YoY in ZAR, while the Sub-Saharan Africa business and CGA business grew by 12% and 7% YoY over the last quarter.
- The revenue from the Emerging market declined by 17% YoY to US\$ 45 mn as the order shipment was pushed to 4QFY20. The company expects to see recovery in the next quarter.
- The gross margin this quarter was impacted by 200 bps YoY on account of Cinacalcet price erosion, and adjustments towards overheads due to reduction in finished goods inventory.

View and Valuation

Cipla overall revenue grew by 9% YoY to Rs. 4371 crs (vs our estimate of Rs.4314 crs) on account of growth across businesses, though sequentially has remained flat on account of weak US business and Emerging market. The gross margin this quarter was impacted by 200 bps YoY on account of Cinacalcet price erosion, and adjustments towards overheads due to reduction in finished goods inventory. In the next 3-4 quarters, we don't see significant revenue contribution from the US business with Albuterol launch being shelved to H2FY21. However, we believe this impact will be offset by growth in India, South Africa and other Emerging market. Going forward, the major strategy of company is to invest aggressively in the established branded market franchise of India, focused investment in the South Africa market and calibrating R&D investments in the US generics and specialty segment in order to improve the ROCE in the long run. Therefore, we maintain our BUY stance with a target price of Rs.549.

Key Risks to our rating and target

- 12 483s for Goa manufacturing plant.
- Delay in Albuterol Launch.

Fig in Rs Cr

| KEY FINANCIAL/VALUATIONS | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------------|-------|-------|-------|-------|-------|
| Net Sales | 14630 | 15219 | 16362 | 17044 | 18634 |
| EBITDA | 2476 | 2826 | 3097 | 3353 | 3685 |
| EBIT | 1153 | 1504 | 1771 | 2247 | 2563 |
| PAT | 1035 | 1417 | 1528 | 1705 | 2000 |
| EPS (Rs) | 15 | 18 | 19 | 21 | 24.86 |
| EPS growth (%) | -16% | 21% | 8% | 12% | 17% |
| ROE (%) | 8.3% | 10.0% | 10.2% | 10.4% | 11.0% |
| ROCE (%) | 7.1% | 8.4% | 9.4% | 11.5% | 12.9% |
| BV | 156 | 177 | 187 | 204 | 226 |
| P/B (X) | 3.8 | 3.1 | 2.8 | 2.3 | 2.1 |
| P/E (x) | 40.8 | 31.0 | 27.9 | 22.5 | 19.2 |

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3QFY20 Results

Fig in Rs Cr

| FINANCIALS | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 | YoY% | QoQ% | FY18 | FY19 | YoY % |
|------------------|--------|--------|--------|--------|--------|-------|--------|--------|--------|-------|
| Net Sales | 4,008 | 4,404 | 3,989 | 4,396 | 4,371 | 9.1% | -0.6% | 15,219 | 16,362 | 7.5% |
| Other Income | 79 | 95 | 78 | 101 | 72 | -8.1% | -28.2% | 358 | 477 | 33.3% |
| COGS | 1,463 | 1,486 | 1,196 | 1,461 | 1,645 | 12.5% | 12.6% | 5,438 | 5,784 | 6.4% |
| Gross Margin | 63.5% | 66.3% | 70.0% | 66.8% | 62.4% | -1.1% | -4.4% | 64.3% | 64.6% | 0.4% |
| Employee Cost | 718 | 712 | 756 | 762 | 746 | 3.9% | -2.1% | 2,690 | 2,857 | 6.2% |
| Other Expen. | 1,119 | 1,245 | 1,132 | 1,263 | 1,222 | 9.2% | -3.3% | 4,264 | 4,624 | 8.4% |
| EBITDA | 708 | 961 | 905 | 910 | 758 | 7.2% | -16.6% | 2,826 | 3,097 | 9.6% |
| EBITDA Mar. | 17.7% | 21.8% | 22.7% | 20.7% | 17.3% | -0.3% | -3.3% | 18.6% | 18.9% | 0.4% |
| Depreciation | 293 | 510 | 268 | 283 | 278 | -5.2% | -1.8% | 1,323 | 1,326 | 0.3% |
| EBIT | 415 | 451 | 637 | 627 | 480 | 16% | -23.3% | 1,504 | 1,771 | 17.8% |
| Interest | 44 | 45 | 52 | 46 | 46 | 4% | 0.2% | 114 | 168 | 47.4% |
| PBT | 449 | 501 | 663 | 681 | 506 | 12.8% | -25.6% | 1,747 | 2,079 | 19% |
| Exceptional Item | - | - | - | - | - | - | - | - | - | - |
| Tax | 126 | 128 | 192 | 201 | 153 | 21.6% | -23.8% | 250 | 570 | 128% |
| PAT | 332 | 367 | 478 | 471 | 351 | 5.7% | -25.5% | 1,417 | 1,528 | 8% |
| PAT Margin | 8.3% | 8.3% | 12.0% | 10.7% | 8.0% | -0.3% | -2.7% | 9.3% | 9.3% | 0% |

Concall Highlights

- US business grew by 13% YoY to US\$133mn, India business grew by 12% YoY. India prescription business grew 14% YoY while the trade generics business recorded growth of 7% over the previous year.
- The top 3 products of the US business contribute around 25-30% of the overall US revenues. The US base business stands at US\$120-130 mn.
- The company is progressing well on trials for Advair, the company expects to file the product soon but as the expected review time being 2- 2.5 yrs, the approval is expected in that time frame. Abluterol launch has been shelved to second half of FY21.
- US Specialty: NDA for IV Tramadol NDA submitted in Dec via Avenue Therapeutics.
- India in-licensed portfolio contributes Rs. 250 crs on an annualized basis, majority being for diabetes and cardiology.
- Amongst the key therapies in India, in Respiratory, Cipla grew by 14% vs market growth of 12%, in Cardiology, Cipla grew 14% vs market growth of 11%, in Urology, Cipla grew 12% vs market growth of 14%.
- South Africa private business reported 20% growth YoY, while the Sub-Saharan Africa business and CGA business grew by 12% and 7% YoY over the last quarter.
- The revenue from the Emerging market declined by 17% as the order shipment was pushed to 4QFY20. The company expects to see recovery in the next quarter.
- For the Emerging market, the company is on track to filing Biosimilars. For the Europe market, the market share now stands at 15%.
- Gross margin impacted by 200 bps YoY this quarter on account of Cinacalcet price erosion, and adjustments towards overheads due to reduction in finished goods inventory.
- Regulatory front: Closely working with US FDA to comprehensively address Goa observations.
- The major strategy of company is to invest aggressively in the established branded market franchisee of India, focused investment in the South Africa market and calibrating R&D investments in the US generics and specialty segment in order to improve the ROCE in the long run.
- Major strategies for key geographies going ahead:
 - India business: One India Strategy integrates India prescription, Trade generics and Consumer health businesses under one capital allocation framework. The major focus being strong synergies across portfolio, distribution and consumer focused initiatives.
 - South Africa: continue to strengthen market leadership in the OTC space.
 - Emerging market: The strategy would be to further consolidate its presence in the priority markets. The major focus would on establishing its business in the China market.
 - US Business: Generics R&D investments to be focused towards select value accretive assets.
 - US Specialty: Focused investments towards Institutional business; CNS assets to be out-licensed. The company from FY21 expects to limit spends at 1% of sales and less than 5% of EBITDA for the specialty portfolio.

Exhibit: Sales and Sales Growth

Sales for the quarter grew by 9%YoY at Rs.4371 crores (vs our expectation of Rs.4314 crores)

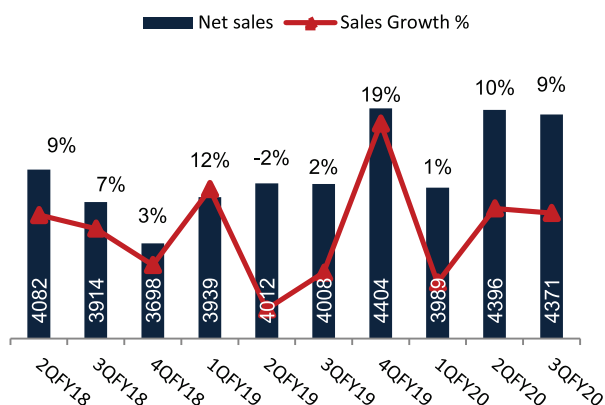


Exhibit: Gross and EBITDA margin

The gross margin and EBITDA margin has declined by 114 bps and 31 bps to 62.4% and 17.3% respectively.

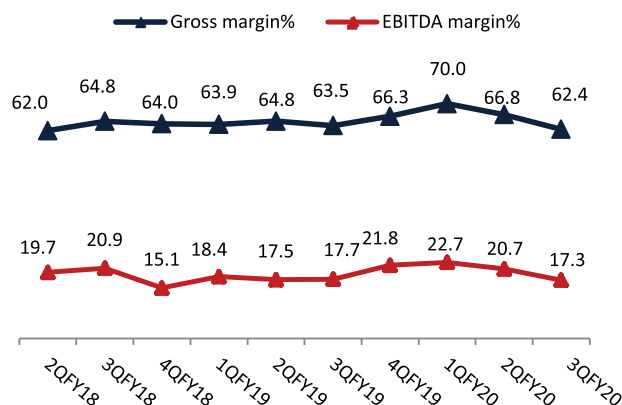


Exhibit: PAT and PAT margin

PAT for the year grew by 8% YoY to Rs. 351 crs.

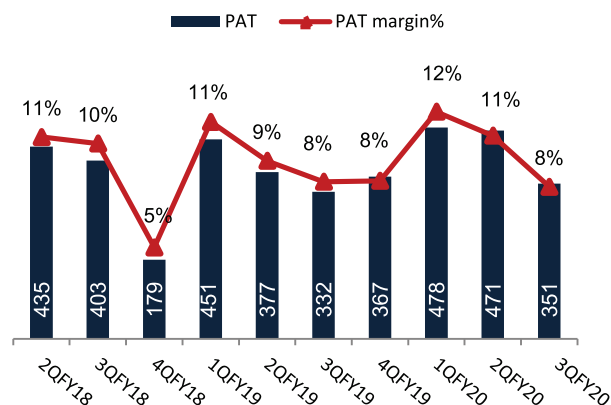


Exhibit: R&D cost and R&D as a % of sales

R&D investments for the quarter stand at Rs. 303 crs (7% of sales).

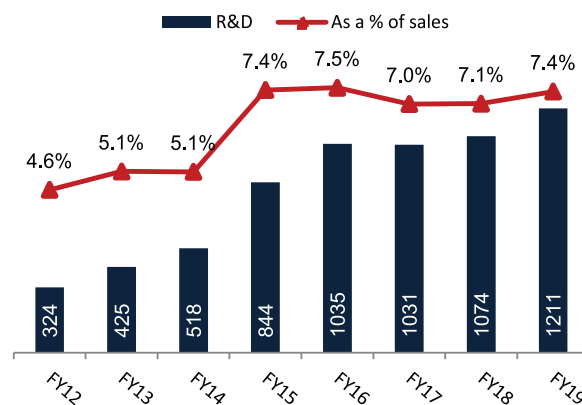


Exhibit: Domestic Sales and YoY growth

Domestic business, both prescription and trade generic businesses grew strongly to deliver 12% YoY growth.

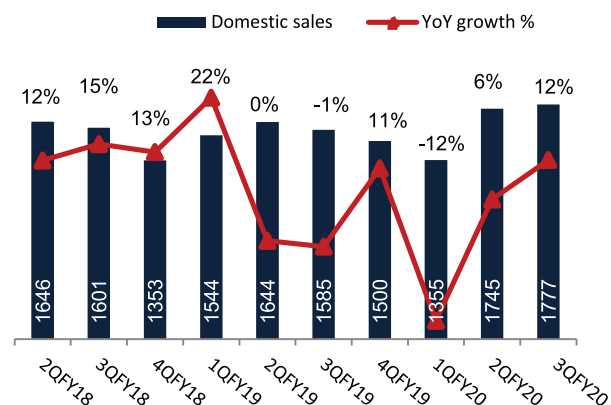
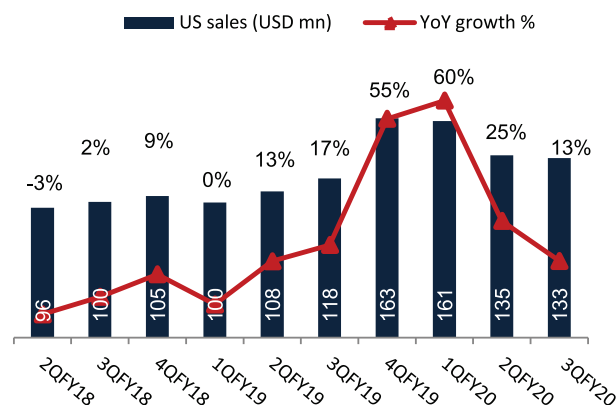


Exhibit: US sales and YoY growth

The US business grew by 13% YoY to US\$133 mn on account of retention of share in key product categories.



Operational Details

| GEOGRAPHY | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| India | 1601 | 1353 | 1544 | 1644 | 1585 | 1500 | 1355 | 1745 | 1777 |
| North America | 650 | 675 | 670 | 758 | 849 | 1143 | 1119 | 953 | 946 |
| SAGA | 870 | 819 | 831 | 754 | 775 | 823 | 691 | 740 | 831 |
| Emerging Mkts | 371 | 394 | 469 | 472 | 393 | 406 | 279 | 451 | 323 |
| Europe | 171 | 136 | 134 | 141 | 189 | 236 | 201 | 190 | 190 |
| Global API | 148 | 135 | 200 | 171 | 154 | 174 | 182 | 157 | 165 |
| Others | 103 | 186 | 91 | 72 | 64 | 122 | 160 | 159 | 140 |

| REVENUE GR. % | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| India | 15% | 13% | 22% | 0% | -1% | 11% | -12% | 6% | 12% |
| North America | -2% | 4% | 4% | 23% | 31% | 69% | 67% | 26% | 11% |
| SAGA | 6% | 0% | 14% | -18% | -11% | 0% | -17% | -2% | 7% |
| Emerging Mkts | -12% | -3% | 1% | 4% | 6% | 3% | -40% | -4% | -18% |
| Europe | 31% | -33% | -19% | -7% | 11% | 74% | 50% | 35% | 1% |
| Global API | 23% | -17% | 54% | -20% | 4% | 29% | -9% | -8% | 7% |
| Others | 6% | 24% | -25% | -10% | -38% | -34% | 76% | 121% | 119% |

| REVENUE MIX% | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| India | 41% | 37% | 39% | 41% | 40% | 34% | 34% | 40% | 41% |
| North America | 17% | 18% | 17% | 19% | 21% | 26% | 28% | 22% | 22% |
| SAGA | 22% | 22% | 21% | 19% | 19% | 19% | 17% | 17% | 19% |
| Emerging Mkts | 9% | 11% | 12% | 12% | 10% | 9% | 7% | 10% | 7% |
| Europe | 4% | 4% | 3% | 4% | 5% | 5% | 5% | 4% | 7% |
| Global API | 4% | 4% | 5% | 4% | 4% | 4% | 5% | 4% | 4% |
| Others | 3% | 5% | 2% | 2% | 2% | 3% | 4% | 4% | 3% |

Financial Details

Balance Sheet

Fig in Rs Cr

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 161 | 161 | 161 | 161 | 161 | 161 | 161 | 161 |
| Reserves | 9,890 | 10,629 | 11,356 | 12,383 | 14,068 | 14,851 | 16,274 | 17,991 |
| Networth | 10,050 | 10,789 | 11,516 | 12,544 | 14,229 | 15,012 | 16,435 | 18,152 |
| Debt | 1,278 | 1,894 | 5,542 | 4,551 | 4,450 | 4,648 | 3,889 | 2,432 |
| Other Non Current Liab | 422 | 545 | 1,264 | 1,036 | 785 | 1,017 | 924 | 979 |
| Total Capital Employed | 11,328 | 12,684 | 17,058 | 17,094 | 18,680 | 19,660 | 20,324 | 20,585 |
| Net Fixed Assets (incl CWIP) | 6,938 | 7,411 | 11,430 | 11,175 | 10,932 | 10,285 | 10,555 | 10,733 |
| Non Current Investments | 397 | 250 | 175 | 136 | 157 | 428 | 441 | 500 |
| Other Non Current Assets | 416 | 466 | 681 | 922 | 958 | 824 | 835 | 862 |
| Non Current Assets | 7,752 | 8,126 | 12,287 | 12,232 | 12,046 | 11,537 | 11,832 | 12,095 |
| Inventory | 2,895 | 3,781 | 3,808 | 3,485 | 4,045 | 3,965 | 4,529 | 4,952 |
| Debtors | 1,639 | 1,998 | 2,356 | 2,563 | 3,102 | 4,151 | 3,969 | 4,339 |
| Cash & Bank | 175 | 564 | 871 | 624 | 966 | 619 | 808 | 757 |
| Other Current Assets | 942 | 1,249 | 1,806 | 2,063 | 2,701 | 3,690 | 3,629 | 3,281 |
| Current Assets | 5,651 | 7,591 | 8,841 | 8,736 | 10,814 | 12,425 | 12,935 | 13,329 |
| Creditors | 980 | 1,452 | 1,476 | 1,571 | 2,119 | 1,948 | 2,148 | 2,348 |
| Provisions | 265 | 382 | 311 | 402 | 627 | 736 | 750 | 838 |
| Other Current Liabilities | 409 | 655 | 1,020 | 933 | 650 | 601 | 623 | 676 |
| Curr Liabilities | 1,653 | 2,489 | 2,806 | 2,906 | 3,396 | 3,285 | 3,521 | 3,862 |
| Net Current Assets | 3,998 | 5,103 | 6,035 | 5,829 | 7,418 | 9,140 | 9,414 | 9,466 |
| Total Assets | 13,403 | 15,718 | 21,128 | 21,037 | 22,861 | 23,963 | 24,769 | 25,426 |

Income Statement

Fig in Rs Cr

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue from Operation | 10,100 | 11,345 | 13,790 | 14,630 | 15,219 | 16,362 | 17,044 | 18,634 |
| Change (%) | 22% | 12% | 22% | 6% | 4% | 8% | 4% | 9% |
| EBITDA | 2133 | 2162 | 2480 | 2476 | 2826 | 3097 | 3353 | 3685 |
| Change (%) | -3% | 1% | 15% | 0% | 14% | 10% | 8% | 10% |
| Margin (%) | 21.1% | 19.1% | 18.0% | 16.9% | 18.6% | 18.9% | 19.7% | 19.8% |
| Depr & Amor. | 373 | 505 | 754 | 1323 | 1323 | 1326 | 1106 | 1122 |
| EBIT | 1760 | 1657 | 1725 | 1153 | 1504 | 1771 | 2247 | 2563 |
| Int. & other fin. Cost | 146 | 168 | 207 | 159 | 114 | 168 | 190 | 112 |
| Other Income | 265 | 166 | 208 | 229 | 358 | 477 | 359 | 366 |
| EBT | 1,880 | 1,654 | 1,727 | 1,222 | 1,747 | 2,079 | 2416 | 2817 |
| Exp Item | - | - | - | - | 78 | - | 0 | 0 |
| Tax | 463 | 400 | 332 | 180 | 250 | 570 | 710 | 817 |
| Minority Int & P/L share of Ass. | 4 | 23 | (12) | (7) | (3) | (52) | (57) | - |
| Reported PAT | 1,417 | 1,254 | 1,395 | 1,042 | 1,419 | 1,510 | 1,706 | 2,000 |
| Adjusted PAT | 1,388 | 1,181 | 1,383 | 1,035 | 1,417 | 1,528 | 1,705 | 2,000 |
| Change (%) | -10% | -15% | 17% | -25% | 37% | 8% | 12% | 17% |
| Margin(%) | 18.7% | 13.7% | 10.4% | 10.0% | 7.1% | 9.3% | 9.3% | 10.0% |

Financial Details

Key Ratios

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------|-------|-------|-------|------|-------|-------|-------|-------|
| ROE | 13.8% | 10.9% | 12.0% | 8.3% | 10.0% | 10.2% | 10.4% | 11.0% |
| ROCE | 17.0% | 14.9% | 14.7% | 7.1% | 8.4% | 9.4% | 11.5% | 12.9% |
| Asset Turnover | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Debtor Days | 59 | 64 | 62 | 64 | 74 | 93 | 85 | 85 |
| Inv Days | 105 | 122 | 101 | 87 | 97 | 88 | 97 | 97 |
| Payable Days | 35 | 47 | 39 | 39 | 51 | 43 | 46 | 46 |
| Int Coverage | 55 | 12 | 10 | 8 | 7 | 13 | 11 | 12 |
| P/E | 22.1 | 48.4 | 29.7 | 40.8 | 31.0 | 27.9 | 22.5 | 19.2 |
| Price / Book Value | 3.1 | 5.3 | 3.6 | 3.8 | 3.1 | 2.8 | 2.3 | 2.1 |
| EV/EBITDA | 14 | 26 | 16 | 20 | 17 | 15 | 12 | 11 |
| FCF per Share | 12 | 7 | 8 | 16 | 8 | 14 | 17 | 17 |
| Div Yield | 0.5% | 0.3% | 0.4% | 0.3% | 0.4% | 0.6% | 0.6% | 0.6% |

Cash Flow Statement

Fig in Rs Cr

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------------------|----------------|--------------|----------------|----------------|--------------|----------------|----------------|----------------|
| PBT | 1,880 | 1,654 | 1,727 | 1,222 | 1,669 | 2,079 | 2,416 | 2,817 |
| (inc)/Dec in Working Capital | (562) | (719) | (429) | 235 | (783) | (1,064) | (317) | (575) |
| Non Cash Op Exp | 373 | 505 | 754 | 1,323 | 1,323 | 1,326 | 1,106 | 1,122 |
| Int Paid (+) | 146 | 168 | 180 | 159 | 114 | 168 | 190 | 112 |
| Tax Paid | (308) | (392) | (508) | (450) | (722) | (593) | (710) | (817) |
| others | 34 | (43) | 17 | (108) | (138) | (226) | (2) | - |
| CF from Op. Activities | 1,562 | 1,173 | 1,741 | 2,382 | 1,463 | 1,691 | 2,684 | 2,659 |
| (inc)/Dec in FA & CWIP | (567) | (626) | (1,053) | (1,098) | (739) | (504) | (1,351) | (1,300) |
| Free Cashflow | 996 | 548 | 688 | 1,284 | 723 | 1,187 | 1,333 | 1,359 |
| (Pur)/Sale of Inv | 1,803 | 61 | (3) | (43) | (37) | (1,068) | 113 | 441 |
| others | (2,486) | (376) | (3,467) | (169) | (78) | (97) | (25) | - |
| CF from Inv. Activities | (1,250) | (941) | (4,523) | (1,310) | (854) | (1,669) | (1,264) | (859) |
| inc/(dec) in NW | - | 0 | 3 | 12 | 0 | 0 | - | - |
| inc/(dec) in Debt | 43 | 508 | 3,442 | (1,080) | (34) | (60) | (759) | (1,457) |
| Int. Paid | (121) | (167) | (161) | (159) | (118) | (159) | (190) | (112) |
| Div Paid (inc tax) | (188) | (188) | (181) | (194) | (189) | (284) | (282) | (282) |
| others | - | 12 | 1 | 96 | (44) | 154 | - | - |
| CF from Fin. Activities | (266) | 165 | 3,104 | (1,326) | (385) | (349) | (1,231) | (1,852) |
| Inc(Dec) in Cash | 47 | 397 | 322 | (254) | 223 | (326) | 189 | (51) |
| Add: Opening Balance | 128 | 167 | 536 | 864 | 630 | 835 | 619 | 808 |
| Closing Balance | 175 | 564 | 858 | 610 | 853 | 508 | 808 | 757 |

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| | |
|---|-----|
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|---|-----|

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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DBO46/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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