

Industry  
Bloomberg  
BSE CODE

Pharmaceuticals  
CIPLA IN  
500087

## Revenues in line, while margin misses estimates.

RATING	ACCUMULATE
CMP	570
Price Target	636
Potential Upside	12%

Rating Change	↔
Estimate Change	↑
Target Change	↔

STOCK INFO	
52wk Range H/L	585/566
Mkt Capital (Rs Cr)	45972
Free float (%)	63%
Avg. Vol 1M (,000)	10930
No. of Shares (Crs)	81
Promoters Pledged %	0%

### RESEARCH ANALYST

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#### 4QFY20 Result update

- The overall revenue was flat at Rs. 4380 crs. India business grew strongly offset by muted performance in US, Emerging market and South Africa.
- India business grew strongly by 12% led by robust growth of 12% and 15% in Rx & Gx business respectively. The consumer health business grew by 36% YoY for FY20 on account of Strong growth brands and ramp-up of products switched from trade generics.
- The US business declined by 27%YoY to US\$ 118 mn as previous year gSensipar was a major contributor; sequentially it de-grew by 11%.
- South Africa grew by 10% YoY in local currency. Sub Saharan Africa was impacted by receivables related challenges and CGA business remained flat. Emerging market revenues were impacted significantly by month end logistics issues.
- EBITDA margin declined sharply by 735bps YoY to 14.5% on account of 200bps impact due to Covid-19 and remediation charges for Goa facility.

#### View and Valuation

The Company's overall revenue for 4QFY20 came in line while margin misses estimates on account of Covid'19 led disruption and remediation charges for the Goa facility. Going forward, we believe the key geographies of the company to contribute significantly. The implementation of one-India strategy is bearing fruits with the revenue growing above our expectations this quarter; we expect this growth momentum to continue with enhanced focus. With the ramp up of Albuterol & limited competition launch, US business is likely to see improved traction. Out-licensing of assets for further development seems to be a significant approach in recovering cost, reducing the future R&D pay-outs while retaining some future upside benefits from successful filing and commercialization. During the year, the loan of US\$ 375 mn was repaid which has strengthened the balance sheet of the company and improved the ROCE.

Going ahead, we are positive about the healthy growth across geographies and improved ROCE based on reduced debt. Therefore, we maintain ACCUMULATE stance with a target price of Rs.636.

#### Key Risks to our rating and target

- Delay in the resolution of Goa manufacturing plant.
- Delay in the ramp up Albuterol.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	14630	15219	16362	17132	18356
EBITDA	2476	2826	3097	3206	3368
EBIT	1153	1504	1771	2031	2246
PAT	1035	1417	1528	1547	1808
EPS (Rs)	15	18	19	19	22.47
EPS growth (%)	-16%	21%	8%	1%	17%
ROE (%)	8.3%	10.0%	10.2%	9.8%	10.5%
ROCE (%)	7.1%	8.4%	9.4%	11.2%	11.6%
BV	156	177	187	196	215
P/B (X)	3.8	3.1	2.8	2.2	2.7
P/E (x)	40.8	31.0	27.9	22.0	25.4

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## 4QFY20 Results

Fig in Rs Cr

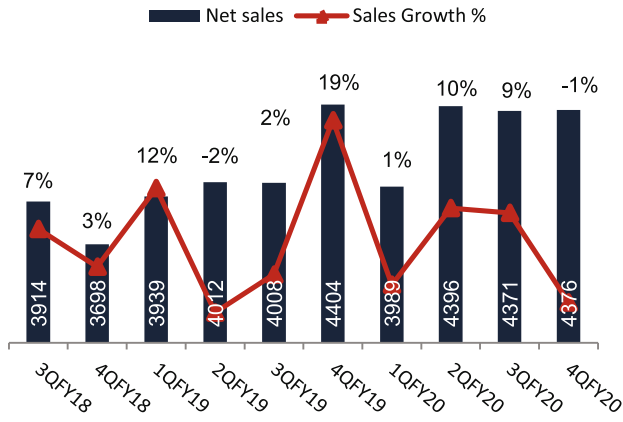
FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %
Net Sales	4,404	3,989	4,396	4,371	4,376	-0.6%	0.1%	16,362	17,132	4.7%
Other Income	95	78	101	72	93	-2.3%	29.2%	477	344	-27.8%
COGS	1,486	1,196	1,461	1,645	1,689	13.7%	2.7%	5,784	5,991	3.6%
Gross Margin	66.3%	70.0%	66.8%	62.4%	61.4%	-4.9%	-1.0%	64.6%	65.0%	0.4%
Employee Cost	712	756	762	746	764	7.2%	2.4%	2,857	3,027	6.0%
Other Expen.	1,245	1,132	1,263	1,222	1,290	3.6%	5.6%	4,624	4,908	6.1%
EBITDA	961	905	910	758	634	-34.1%	-16.5%	3,097	3,206	3.5%
EBITDA Mar.	21.8%	22.7%	20.7%	17.3%	14.5%	-7.3%	-2.9%	18.9%	18.7%	-0.2%
Depreciation	510	268	283	278	346	-32.2%	24.4%	1,326	1,175	-11.4%
EBIT	451	637	627	480	288	-36%	-40.1%	1,771	2,031	14.7%
Interest	45	52	46	46	53	18%	14.8%	168	197	17.2%
PBT	501	663	681	506	328	-34.6%	-35.2%	2,079	2,178	5%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	128	192	201	153	86	-33.0%	-44.0%	570	631	11%
PAT	367	478	471	351	239	-35.0%	-32.0%	1,528	1,547	1%
PAT Margin	8.3%	12.0%	10.7%	8.0%	5.5%	-2.9%	-2.6%	9.3%	9.0%	0%

## Concall Highlights

- Under the strategy of one India – the select brands with high consumerization potential has been successfully transitioned to consumer health business from trade generics.
- The consumer health business grew by 36% YoY for FY20 on account of Strong growth momentum across organic brands and ramp-up of products switched from trade generics.
- India- the Rx business grew by 12% YoY and the Gx business grew by 15% YoY (Adjusted CHL product transfer in base) reviving strongly.
- For the Domestic prescription business- the doctor connection has shifted digitally. The prescription generation of some therapeutic segment like derma & dentist has gone down significantly whereas for some, the prescription generation is quite robust.
- The company has recently launched Albuterol and Esomeprazole for oral suspension with FTF on the 10 mg strength. Albuterol has been launched in a staggered manner; the company will soon ramp up. Also it expects to launch 1 limited competition product each quarter.
- The company has completed phase 3 trials for generic Advair, expects to file in this month and the approval may take 18-24 months; apart from this another complex inhaler has been filed.
- The company is looking optimal launch of Tramadol with lesser capital allocation as 1-2 year is required to build market. Therefore, the company is looking to offset the market building expenditure.
- The company has sub-licensed NCE CNS asset to a partner for further development and actively exploring partnerships for the other CNS asset. This strategic deal has enabled the company to recover cost, significantly reduce the future R&D pay-outs while retaining some future upside benefits from successful filing and commercialization.
- The Emerging market and the India prescription market has been impacted due Covid-19 related logistical challenges with recovery expected in Q1FY21.
- The company expects to see stress on the receivables side from the India institutional business.
- The EBITDA margin has been impacted by 200 bps due to Covid related cut-off and the remediation charges (1% of sales) for the Goa plant.
- From the capacity utilization perspective, post Covid - 85% of capacity is back and rest is expected to be back soon.

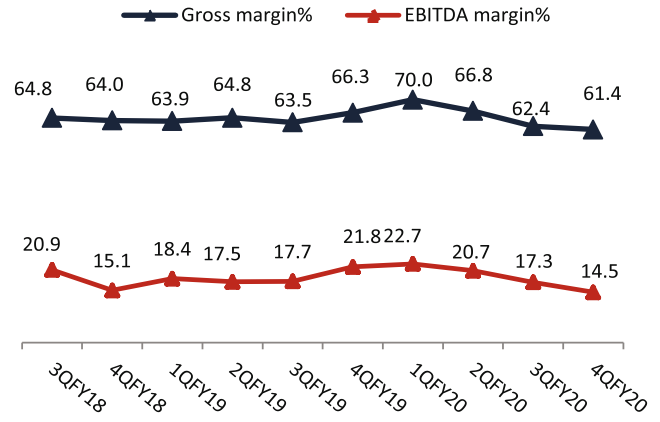
## Exhibit: Sales and Sales Growth

Sales for the quarter stayed flat at Rs.4380 crores (vs our expectation of Rs.4336 crores).



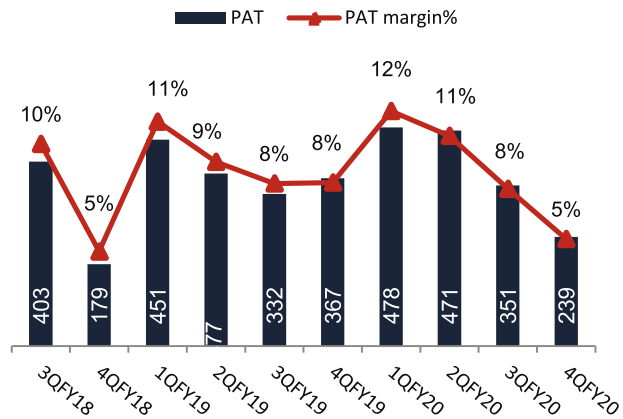
## Exhibit: Gross and EBITDA margin

"EBITDA margin declined by 735bps YoY to 14.5% due to Covid-19 and remediation charges for Goa facility.



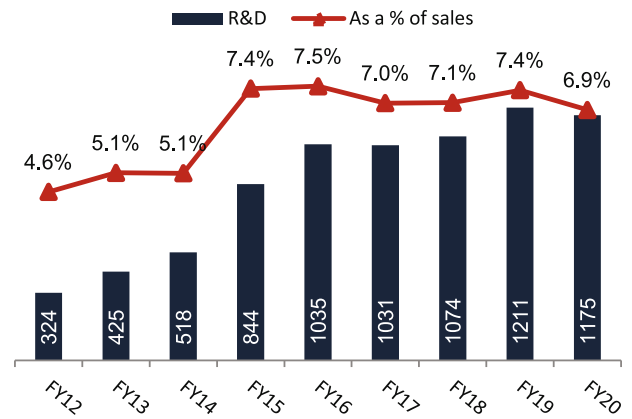
## Exhibit: PAT and PAT margin

PAT for the quarter stayed impacted due Covid related issues & impairment taken and grew by 5% YoY.



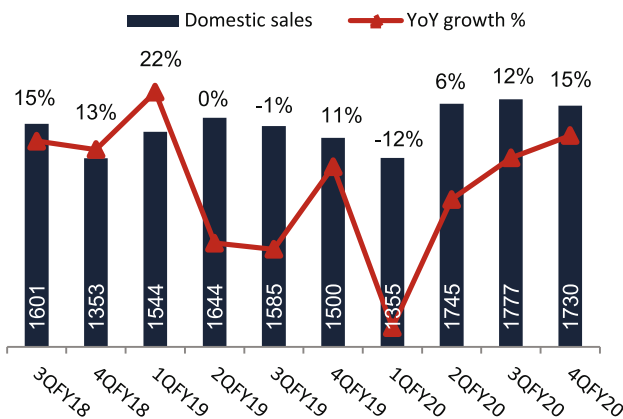
## Exhibit: R&D cost and R&D as a % of sales

R&D investments for the year stands at Rs. 1175 crs, 6.9% of sales vs 7.4% of sales in FY19.



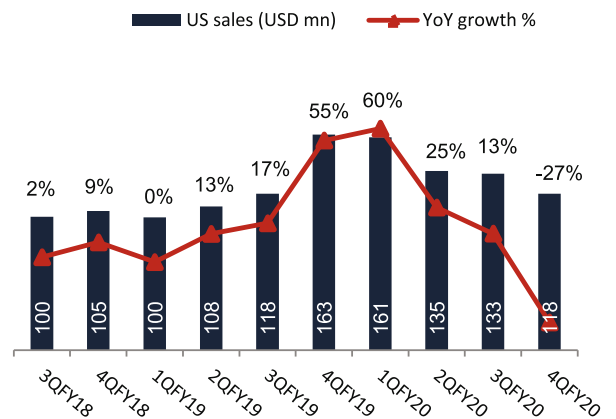
## Exhibit: Domestic Sales and YoY growth

India business grew strongly by 12% led by robust growth of 12% and 15% in Rx & Gx business respectively.



## Exhibit: US sales and YoY growth

The US business declined by 27%YoY to US\$ 118 mn as previous year gSensipar was a major contributor.



## Operational Details

Geography	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
India	1353	1544	1644	1585	1500	1355	1745	1777	1730
North America	675	670	758	849	1143	1119	953	946	856
SAGA	819	831	754	775	823	691	740	831	825
Emerging Mkts	394	469	472	393	406	279	451	323	415
Europe	136	134	141	189	236	201	190	190	236
Global API	135	200	171	154	174	182	157	165	247
Others	186	91	72	64	122	160	159	140	71

Revenue gr. %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
India	13%	22%	0%	-1%	11%	-12%	6%	12%	15%
North America	4%	4%	23%	31%	69%	67%	6%	11%	-25%
SAGA	0%	14%	-18%	-11%	0%	-17%	6%	7%	0%
Emerging Mkts	-3%	1%	4%	6%	3%	-40%	6%	-18%	2%
Europe	-33%	-19%	-7%	11%	74%	50%	6%	1%	0%
Global API	-17%	54%	-20%	4%	29%	-9%	6%	7%	42%
Others	24%	-25%	-10%	-38%	-34%	76%	6%	119%	-42%

Revenue mix%	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
India	37%	39%	41%	40%	34%	34%	40%	41%	39%
North America	18%	17%	19%	21%	26%	28%	22%	22%	20%
SAGA	22%	21%	19%	19%	19%	17%	17%	19%	19%
Emerging Mkts	11%	12%	12%	10%	9%	7%	10%	7%	9%
Europe	4%	3%	4%	5%	5%	5%	4%	7%	5%
Global API	4%	5%	4%	4%	4%	5%	4%	4%	6%
Others	5%	2%	2%	2%	3%	4%	4%	3%	2%

## 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	15,602	17,127
<b>Networth</b>	<b>10,050</b>	<b>10,789</b>	<b>11,516</b>	<b>12,544</b>	<b>14,229</b>	<b>15,012</b>	<b>15,763</b>	<b>17,288</b>
Debt	1,278	1,894	5,542	4,551	4,450	4,648	3,111	2,841
Other Non Current Liab	422	545	1,264	1,036	785	1,017	843	975
<b>Total Capital Employed</b>	<b>11,328</b>	<b>12,684</b>	<b>17,058</b>	<b>17,094</b>	<b>18,680</b>	<b>19,660</b>	<b>18,874</b>	<b>20,130</b>
Net Fixed Assets (incl CWIP)	6,938	7,411	11,430	11,175	10,932	10,285	10,507	10,844
Non Current Investments	397	250	175	136	157	428	455	520
Other Non Current Assets	416	466	681	922	958	824	994	1,080
<b>Non Current Assets</b>	<b>7,752</b>	<b>8,126</b>	<b>12,287</b>	<b>12,232</b>	<b>12,046</b>	<b>11,537</b>	<b>11,956</b>	<b>12,444</b>
Inventory	2,895	3,781	3,808	3,485	4,045	3,965	4,378	4,690
Debtors	1,639	1,998	2,356	2,563	3,102	4,151	3,891	4,169
Cash & Bank	175	564	871	624	966	619	1,004	1,456
Other Current Assets	942	1,249	1,806	2,063	2,701	3,690	2,431	2,571
<b>Current Assets</b>	<b>5,651</b>	<b>7,591</b>	<b>8,841</b>	<b>8,736</b>	<b>10,814</b>	<b>12,425</b>	<b>11,704</b>	<b>12,886</b>
Creditors	980	1,452	1,476	1,571	2,119	1,948	2,282	2,445
Provisions	265	382	311	402	627	736	948	1,016
Other Current Liabilities	409	655	1,020	933	650	601	716	766
<b>Curr Liabilities</b>	<b>1,653</b>	<b>2,489</b>	<b>2,806</b>	<b>2,906</b>	<b>3,396</b>	<b>3,285</b>	<b>3,946</b>	<b>4,227</b>
<b>Net Current Assets</b>	<b>3,998</b>	<b>5,103</b>	<b>6,035</b>	<b>5,829</b>	<b>7,418</b>	<b>9,140</b>	<b>7,758</b>	<b>8,659</b>
<b>Total Assets</b>	<b>13,403</b>	<b>15,718</b>	<b>21,128</b>	<b>21,037</b>	<b>22,861</b>	<b>23,963</b>	<b>23,663</b>	<b>25,332</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
<b>Revenue from Operation</b>	<b>10,100</b>	<b>11,345</b>	<b>13,790</b>	<b>14,630</b>	<b>15,219</b>	<b>16,362</b>	<b>17,132</b>	<b>18,356</b>
Change (%)	22%	12%	22%	6%	4%	8%	5%	7%
<b>EBITDA</b>	<b>2133</b>	<b>2162</b>	<b>2480</b>	<b>2476</b>	<b>2826</b>	<b>3097</b>	<b>3206</b>	<b>3368</b>
Change (%)	-3%	1%	15%	0%	14%	10%	4%	5%
Margin (%)	21%	19%	18%	17%	19%	19%	19%	18%
Depr & Amor.	373	505	754	1323	1323	1326	1175	1122
<b>EBIT</b>	<b>1760</b>	<b>1657</b>	<b>1725</b>	<b>1153</b>	<b>1504</b>	<b>1771</b>	<b>2031</b>	<b>2246</b>
Int. & other fin. Cost	146	168	207	159	114	168	197	136
Other Income	265	166	208	229	358	477	344	366
<b>EBT</b>	<b>1880</b>	<b>1654</b>	<b>1727</b>	<b>1222</b>	<b>1747</b>	<b>2079</b>	<b>2178</b>	<b>2476</b>
Exp Item	0	0	0	0	78	0	0	0
Tax	463	400	332	180	250	570	631	669
Minority Int & P/L share of Ass.	(28)	(73)	(12)	(7)	(3)	18	(0)	-
Reported PAT	1,417	1,254	1,395	1,042	1,419	1,510	1,547	1,808
<b>Adjusted PAT</b>	<b>1,417</b>	<b>1,254</b>	<b>1,395</b>	<b>1,042</b>	<b>1,419</b>	<b>1,510</b>	<b>1,547</b>	<b>1,808</b>
Change (%)	-9%	-11%	11%	-25%	36%	6%	2%	17%
Margin(%)	19%	14%	10%	10%	7%	9%	9%	9%

## 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%	9.8%	10.5%
ROCE	17.0%	14.9%	14.7%	7.1%	8.4%	9.4%	11.2%	11.6%
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	83	83
Inv Days	105	122	101	87	97	88	93	93
Payable Days	35	47	39	39	51	43	49	49
Int Coverage	55	12	10	8	7	13	11	10
P/E	22.1	48.4	29.7	40.8	31.0	27.9	22.0	25.4
Price / Book Value	3.1	5.3	3.6	3.8	3.1	2.8	2.2	2.7
EV/EBITDA	14	26	16	20	17	15	11	14
FCF per Share	12	7	8	16	8	14	26	15
Div Yield	0.5%	0.3%	0.4%	0.3%	0.4%	0.6%	1.7%	0.5%

### 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	2,178	2,476
(inc)/Dec in Working Capital	(562)	(719)	(429)	235	(783)	(1,064)	373	(403)
Non Cash Op Exp	373	505	754	1,323	1,323	1,326	1,175	1,122
Int Paid (+)	146	168	180	159	114	168	197	136
Tax Paid	(308)	(392)	(508)	(450)	(722)	(593)	(848)	(669)
others	34	(43)	17	(108)	(138)	(226)	(4)	-
<b>CF from Op. Activities</b>	<b>1,562</b>	<b>1,173</b>	<b>1,741</b>	<b>2,382</b>	<b>1,463</b>	<b>1,691</b>	<b>3,068</b>	<b>2,663</b>
(inc)/Dec in FA & CWIP	(567)	(626)	(1,053)	(1,098)	(739)	(504)	(986)	(1,459)
Free Cashflow	996	548	688	1,284	723	1,187	2,083	1,205
(Pur)/Sale of Inv	1,803	61	(3)	(43)	(37)	(1,068)	1,177	(65)
others	(2,486)	(376)	(3,467)	(169)	(78)	(97)	(88)	-
<b>CF from Inv. Activities</b>	<b>(1,250)</b>	<b>(941)</b>	<b>(4,523)</b>	<b>(1,310)</b>	<b>(854)</b>	<b>(1,669)</b>	<b>104</b>	<b>(1,524)</b>
inc/(dec) in NW	-	0	3	12	0	0	0	-
inc/(dec) in Debt	43	508	3,442	(1,080)	(34)	(60)	(1,684)	(269)
Int. Paid	(121)	(167)	(161)	(159)	(118)	(159)	(164)	(136)
Div Paid (inc tax)	(188)	(188)	(181)	(194)	(189)	(284)	(664)	(282)
others	-	12	1	96	(44)	154	(383)	-
<b>CF from Fin. Activities</b>	<b>(266)</b>	<b>165</b>	<b>3,104</b>	<b>(1,326)</b>	<b>(385)</b>	<b>(349)</b>	<b>(2,949)</b>	<b>(688)</b>
Inc(Dec) in Cash	47	397	322	(254)	223	(326)	224	452
<b>Add: Opening Balance</b>	<b>128</b>	<b>167</b>	<b>536</b>	<b>864</b>	<b>630</b>	<b>835</b>	<b>519</b>	<b>1,004</b>
Closing Balance	175	564	858	610	853	508	742	1,456



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Analyst's ownership of the stocks mentioned in the Report	NIL
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A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com), [www.bseindia.com](http://www.bseindia.com).

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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

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. DB046/02 || 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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