

# CIPLA LIMITED

Industry **Pharmaceuticals**  
Bloomberg **CIPLA IN**  
BSE CODE **500087**

**Strong execution across geographies & cost saving due to lower marketing activities drove margins.**

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>728</b>
<b>Price Target</b>	<b>795</b>
<b>Potential Upside</b>	<b>9%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

## Stock Info

52wk Range H/L	796/357
Mkt Capital (Rs Cr)	64360
Free float (%)	63%
Avg. Vol 1M (,000)	6833
No. of Shares (Crs)	81
Promoters Pledged %	0%

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## 1QFY21 Result update

- ❑ The overall revenues for CIPLA grew by 9% YoY to Rs. 4346 crs on account of growth across geographies .
- ❑ The overall Domestic business (Rx+Gx+CHL) grew by 19% YoY to Rs. 1608 crs in 1QFY21. The Rx business grew by 9% YoY led by strong traction in chronic therapies offset by subdued acute demand due to closure of clinics & impact of slowdown in the hospital portfolio.
- ❑ The US business adjusted for Cincalcet in base grew by 14% YoY to US\$ 135 mn supported by Albuterol ramp up & increased base business.
- ❑ The South Africa business grew by 17% YoY in the constant currency. The private market & tender business grew by 24% & 6% YoY.
- ❑ The Emerging market and Europe grew by 50% & 9% YoY to Rs. 457 crs & Rs. 240 crs respectively while the API segment declined by 7% YoY to Rs.184 crs.
- ❑ EBITDA margin expanded by 150 bps to 24.1% in 1QFY21 on account of cost optimization efforts & lower on-ground activities.
- ❑ PAT grew by 13.3% YoY to Rs.578 crs on account of strong execution across geographies & reduced cost due to lower marketing activities.

## View and Valuation

CIPLA's overall revenue for 1QFY21 came in-line, growing 9% YoY at Rs.4346 crs. EBITDA margin expanded on account of cost optimization efforts & lower on-ground activities this quarter.

Going forward, we believe to see growth across geographies. The one-India strategy will continue to drive synergies across the three businesses i.e. Rx, Gx & CHL, along with this as the clinics & OPDs starts opening up; the Domestic business will contribute significantly. The growth in the US business will be supported by ramp up of Albuterol & other differentiated products in the pipeline. The other markets like South Africa & Emerging markets are well placed to contribute towards overall growth for the company. With the strong execution on the cost optimization & cost savings on account of lower marketing activities in 1QFY21 driven by Covid led lockdown, we expect to see significant margin & profitability expansion in FY21.

On the regulatory front, the company is working towards resolving the observations by USFDA for the Goa manufacturing plant, and has recently submitted its response. Therefore, we maintain NEUTRAL stance with a target price of Rs.795 at 28x FY22E EPS.

## 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	FY18	FY19	FY20	FY21E	FY22E
Net Sales	15219	16362	17132	18286	19732
EBITDA	2826	3097	3206	3847	3898
EBIT	1504	1771	2031	2725	2721
PAT	1417	1528	1547	2110	2284
EPS (Rs)	18	19	19	26	28.39
EPS growth (%)	21%	8%	1%	36%	8%
ROE (%)	10.0%	10.2%	9.8%	12.0%	11.7%
ROCE (%)	8.4%	9.4%	11.2%	13.8%	12.7%
BV	177	187	196	219	244
P/B (X)	3.1	2.8	2.2	3.3	3.0
P/E (x)	31.0	27.9	22.0	27.8	25.6

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**1QFY21 Results**

<i>Financials</i>	<i>1QFY20</i>	<i>2QFY20</i>	<i>3QFY20</i>	<i>4QFY20</i>	<i>1QFY21</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY19</i>	<i>FY20</i>	<i>YoY %</i>
<i>Net Sales</i>	3,989	4,396	4,371	4,376	4,346	<b>9.0%</b>	<b>-0.7%</b>	16,362	17,132	<b>4.7%</b>
<i>Other Income</i>	78	101	72	93	65	<b>-16.5%</b>	<b>-29.8%</b>	477	344	<b>-27.8%</b>
<i>COGS</i>	1,196	1,461	1,645	1,689	1,589	<b>32.9%</b>	<b>-5.9%</b>	5,784	5,991	<b>3.6%</b>
<i>Gross Margin</i>	70.0%	66.8%	62.4%	61.4%	63.4%	<b>-6.6%</b>	<b>1.1%</b>	64.6%	65.0%	<b>0.4%</b>
<i>Employee Cost</i>	756	762	746	764	772	<b>2.1%</b>	<b>1.1%</b>	2,857	3,027	<b>6.0%</b>
<i>Other Expen.</i>	1,132	1,263	1,222	1,290	936	<b>-17.3%</b>	<b>-27.4%</b>	4,624	4,908	<b>6.1%</b>
<i>EBITDA</i>	905	910	758	634	1,049	<b>15.9%</b>	<b>65.5%</b>	3,097	3,206	<b>3.5%</b>
<i>EBITDA Mar.</i>	22.7%	20.7%	17.3%	14.5%	24.1%	<b>1.5%</b>	<b>6.8%</b>	18.9%	18.7%	<b>-0.2%</b>
<i>Depreciation</i>	268	283	278	346	269	<b>0.4%</b>	<b>-22.2%</b>	1,326	1,175	<b>-11.4%</b>
<i>EBIT</i>	637	627	480	288	780	<b>22%</b>	<b>171.0%</b>	1,771	2,031	<b>14.7%</b>
<i>Interest</i>	52	46	46	53	46	<b>-12%</b>	<b>-13.2%</b>	168	197	<b>17.2%</b>
<i>PBT</i>	663	681	506	328	799	<b>20.6%</b>	<b>143.7%</b>	2,079	2,178	<b>5%</b>
<i>Exceptional</i>	-	-	-	-	-					
<i>Tax</i>	192	201	153	86	228	<b>18.5%</b>	<b>166.1%</b>	570	631	<b>11%</b>
<i>PAT</i>	478	471	351	239	578	<b>20.9%</b>	<b>142.1%</b>	1,528	1,547	<b>1%</b>
<i>PAT Margin</i>	12.0%	10.7%	8.0%	5.5%	13.3%	<b>1.3%</b>	<b>5.3%</b>	9.3%	9.0%	<b>0%</b>

**Growth across businesses in the India i.e. Rx, Gx & CHL**

The overall Domestic business (Rx+Gx+CHL) grew by 19% YoY to Rs. 1608 crs in 1QFY21. The Rx business grew by 9% YoY led by strong traction in chronic therapies offset by subdued acute demand due to closure of clinics & impact of slowdown in the hospital portfolio. The contribution of the Covid portfolio in the India prescription business is marginal this quarter with Remdesivir launch in July 2020.

Key therapeutic areas like Respiratory, Inhalation and Urology outperformed the market while Cardiology reported strong double digit growth.

Trade generics business grew 46% YoY on a base adjusted for CHL transfers. In the CHL segment, growth driven by strong portfolio expansion; Ciphands generated Rs. 30+ crs revenue for the quarter.

**Growth in SAGA regions driven by strong demand across prescription, OTC & tender business**

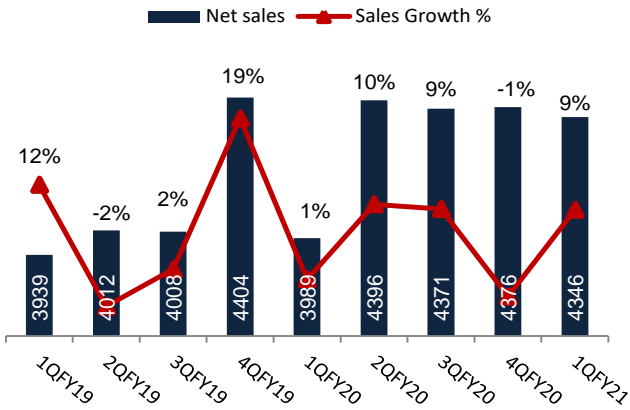
The overall revenues in the SAGA region grew by 17% YoY in constant currency. The South Africa private market grew by 24% YoY while the tender business grew by 6% YoY. The

**Concall Highlights**

- The India business saw significant improvement in the margins driven by cost control & lower ground activities leading to decline of travelling & marketing and promotional spends this quarter.
- On the US specialty side, the company is actively exploring partnerships for the other CNS asset.
- The company currently have a market share of 65% for Proventil HFA (Albuterol) in 4 weeks. All the major retailers are under coverage for Albuterol HFA.
- As per the management, the market for Albuterol is quite stable, the prices are still respectable though scale up might take time but provided the strong cost position & capacity, the company is confident about the execution.
- In the terms of partnered Inhalation asset, the filing for the said product has been done by the partners & some queries has been raised by the USFDA which the partners expect to respond by the end of this year.
- The regulatory authorities in South Africa have expedited the approval process which will turn beneficial for the company in long-run.
- With the strong execution on the cost optimization in 1QFY21, the company expects the operating expenses will be potentially lower after absorbing all the covid-linked escalation by almost Rs.400-500 crs in FY21.
- The R&D spends declined by 36% YoY to Rs. 200 crs (4.6% of sales) largely due to moderation in R&D post completion of the Advair trials. Going forward, R&D as a percentage of sales will not go up significantly.
- On the regulatory front, the company is working towards resolving the observations by USFDA, and has recently submitted its response.

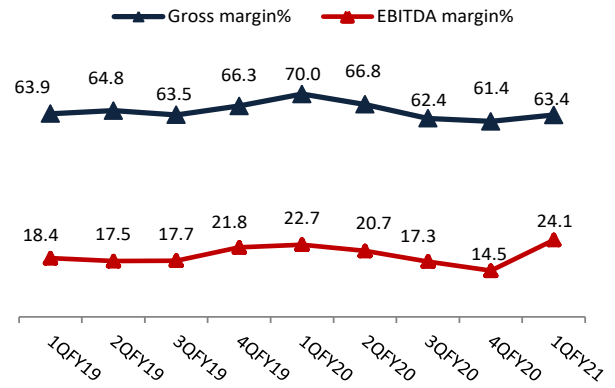
**Exhibit: Sales and Sales Growth**

Sales for the quarter grew by 9% YoY to Rs.4343(vs our estimate of Rs.4383 crs).



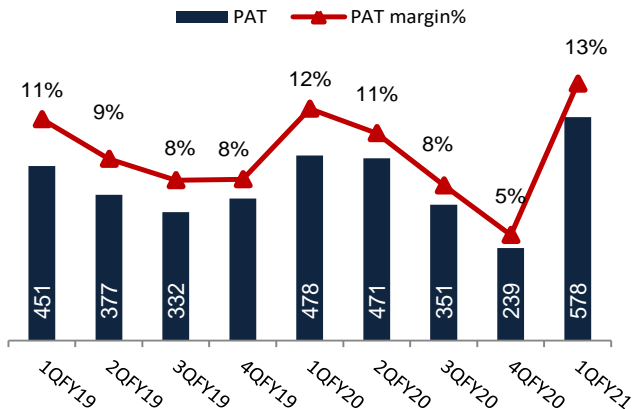
**Exhibit: Gross and EBITDA margin**

EBITDA margin expanded by 145 bps YoY on account of cost optimization efforts & lower on-ground activities.



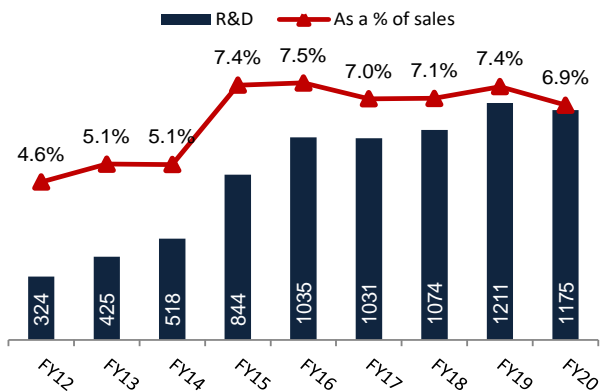
**Exhibit: PAT and PAT margin**

PAT for the quarter grew by 13% YoY due to reduced cost on account of lower marketing activities.



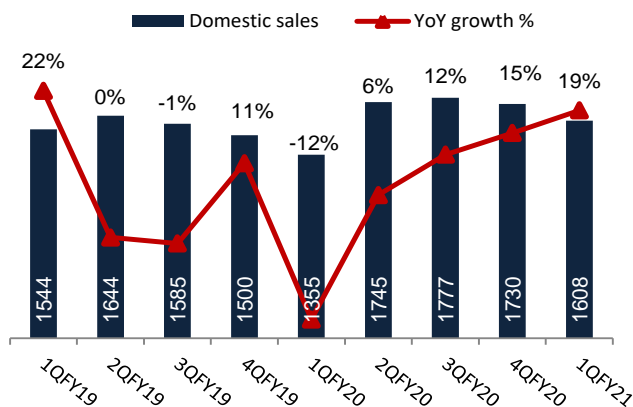
**Exhibit: R&D cost and R&D as a % of sales**

R&D investments for the quarter stands at Rs.200 crs (4.6% sales).



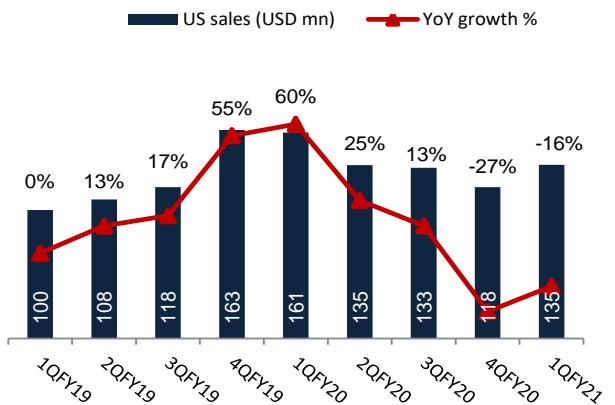
**Exhibit: Domestic Sales and YoY growth**

The overall Domestic business (Rx+Gx+CHL) grew by 19% YoY to Rs. 1608 crs in 1QFY21.



**Exhibit: US sales and YoY growth**

US business adjusted for Cincalcet in base grew by 14% YoY to US\$ 135 mn supported by Albuterol ramp up.



**Operational Details**

Fig in Rs Cr

<b>Geography</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>	<b>3QFY20</b>	<b>4QFY20</b>	<b>1QFY21</b>
<i>India</i>	1544	1644	1585	1500	1355	1745	1777	1730	1608
<i>North America</i>	670	758	849	1143	1119	953	946	856	1021
<i>SAGA</i>	831	754	775	823	691	740	831	825	763
<i>Emerging Mkts</i>	469	472	393	406	279	451	323	415	457
<i>Europe</i>	134	141	189	236	201	190	190	236	240
<i>Global API</i>	200	171	154	174	182	157	165	247	184
<i>Others</i>	91	72	64	122	160	159	140	71	73

<b>Revenue gr. %</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>	<b>3QFY20</b>	<b>4QFY20</b>	<b>1QFY21</b>
<i>India</i>	22%	0%	-1%	11%	-12%	6%	12%	28%	19%
<i>North America</i>	4%	23%	31%	69%	67%	26%	11%	-24%	-9%
<i>SAGA</i>	14%	-18%	-11%	0%	-17%	-2%	7%	19%	10%
<i>Emerging Mkts</i>	1%	4%	6%	3%	-40%	-4%	-18%	49%	64%
<i>Europe</i>	-19%	-7%	11%	74%	50%	35%	1%	17%	19%
<i>Global API</i>	54%	-20%	4%	29%	-9%	-8%	7%	35%	1%
<i>Others</i>	-25%	-10%	-38%	-34%	76%	121%	119%	-56%	-54%

<b>Revenue mix%</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>	<b>3QFY20</b>	<b>4QFY20</b>	<b>1QFY21</b>
<i>India</i>	39%	41%	40%	34%	34%	40%	41%	39%	37%
<i>North America</i>	17%	19%	21%	26%	28%	22%	22%	20%	23%
<i>SAGA</i>	21%	19%	19%	19%	17%	17%	19%	19%	18%
<i>Emerging Mkts</i>	12%	12%	10%	9%	7%	10%	7%	9%	11%
<i>Europe</i>	3%	4%	5%	5%	5%	4%	7%	5%	6%
<i>Global API</i>	5%	4%	4%	4%	5%	4%	4%	6%	4%
<i>Others</i>	2%	2%	2%	3%	4%	4%	3%	2%	2%

**Financial Details**
**Balance Sheet**

Fig in Rs Cr

<b>Y/E March</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Share Capital	161	161	161	161	161	161	161	161
Reserves	10,629	11,356	12,383	14,068	14,851	15,602	17,430	19,431
<b>Networth</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>17,591</b>	<b>19,593</b>
Debt	1,894	5,542	4,551	4,450	4,648	3,111	2,841	2,641
Other Non Current Liab	545	1,264	1,036	785	1,017	843	966	1,020
<b>Total Capital Employed</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>20,433</b>	<b>22,234</b>
Net Fixed Assets (incl CWIP)	7,411	11,430	11,175	10,932	10,285	10,507	10,844	11,067
Non Current Investments	250	175	136	157	428	455	520	520
Other Non Current Assets	466	681	922	958	824	994	1,079	1,108
<b>Non Current Assets</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>12,442</b>	<b>12,695</b>
Inventory	3,781	3,808	3,485	4,045	3,965	4,378	4,672	4,672
Debtors	1,998	2,356	2,563	3,102	4,151	3,891	4,153	4,153
Cash & Bank	564	871	624	966	619	1,004	1,774	3,104
Other Current Assets	1,249	1,806	2,063	2,701	3,690	2,431	2,565	3,171
<b>Current Assets</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>13,165</b>	<b>15,101</b>
Creditors	1,452	1,476	1,571	2,119	1,948	2,282	2,436	2,628
Provisions	382	311	402	627	736	948	1,012	1,092
Other Current Liabilities	655	1,020	933	650	601	716	764	823
<b>Curr Liabilities</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>4,211</b>	<b>4,544</b>
<b>Net Current Assets</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>8,954</b>	<b>10,557</b>
<b>Total Assets</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>25,610</b>	<b>27,798</b>

**Income Statement**

Fig in Rs Cr

<b>Y/E March</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Revenue from Operation	11,345	13,790	14,630	15,219	16,362	17,132	18,286	19,732
Change (%)	12%	22%	6%	4%	8%	5%	7%	8%
<b>EBITDA</b>	<b>2162</b>	<b>2480</b>	<b>2476</b>	<b>2826</b>	<b>3097</b>	<b>3206</b>	<b>3847</b>	<b>3898</b>
Change (%)	1%	15%	0%	14%	10%	4%	20%	1%
Margin (%)	19%	18%	17%	19%	19%	19%	21%	20%
Depr & Amor.	505	754	1323	1323	1326	1175	1122	1177
<b>EBIT</b>	<b>1657</b>	<b>1725</b>	<b>1153</b>	<b>1504</b>	<b>1771</b>	<b>2031</b>	<b>2725</b>	<b>2721</b>
Int. & other fin. Cost	168	207	159	114	168	197	178	164
Other Income	166	208	229	358	477	344	361	572
<b>EBT</b>	<b>1654</b>	<b>1727</b>	<b>1222</b>	<b>1747</b>	<b>2079</b>	<b>2178</b>	<b>2907</b>	<b>3128</b>
Exp Item	0	0	0	78	0	0	0	0
Tax	400	332	180	250	570	631	797	845
Minority Int & P/L share of Ass.	(73)	(12)	(7)	(3)	18	(0)	-	-
Reported PAT	1,254	1,395	1,042	1,419	1,510	1,547	2,110	2,284
<b>Adjusted PAT</b>	<b>1,181</b>	<b>1,383</b>	<b>1,035</b>	<b>1,417</b>	<b>1,528</b>	<b>1,547</b>	<b>2,110</b>	<b>2,284</b>
Change (%)	-15%	17%	-25%	37%	8%	1%	36%	8%
Margin(%)	14%	10%	10%	7%	9%	9%	9%	12%

**Financial Details**
**Key Ratios**

<b>Y/E March</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
ROE	10.9%	12.0%	8.3%	10.0%	10.2%	9.8%	12.0%	11.7%
ROCE	14.9%	14.7%	7.1%	8.4%	9.4%	11.2%	13.8%	12.7%
Asset Turnover	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Debtor Days	64	62	64	74	93	83	83	83
Inv Days	122	101	87	97	88	93	93	93
Payable Days	47	39	39	51	43	49	49	49
Int Coverage	12	10	8	7	13	11	10	15
P/E	48.4	29.7	40.8	31.0	27.9	22.0	27.8	25.6
Price / Book Value	5.3	3.6	3.8	3.1	2.8	2.2	3.3	3.0
EV/EBITDA	26	16	20	17	15	11	15	15
FCF per Share	7	8	16	8	14	26	19	31
Div Yield	0.3%	0.4%	0.3%	0.4%	0.6%	1.7%	0.4%	0.4%

**Cash Flow Statement**

Fig in Rs Cr

<b>Y/E March</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
PBT	1,654	1,727	1,222	1,669	2,079	2,178	2,907	3,128
(inc)/Dec in Working Capital	(719)	(429)	235	(783)	(1,064)	373	(387)	235
Non Cash Op Exp	505	754	1,323	1,323	1,326	1,175	1,122	1,177
Int Paid (+)	168	180	159	114	168	197	178	164
Tax Paid	(392)	(508)	(450)	(722)	(593)	(848)	(797)	(845)
others	(43)	17	(108)	(138)	(226)	(4)	-	-
<b>CF from Op. Activities</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>3,024</b>	<b>3,860</b>
(inc)/Dec in FA & CWIP	(626)	(1,053)	(1,098)	(739)	(504)	(986)	(1,459)	(1,400)
Free Cashflow	548	688	1,284	723	1,187	2,083	1,565	2,460
(Pur)/Sale of Inv	61	(3)	(43)	(37)	(1,068)	1,177	(65)	(483)
others	(376)	(3,467)	(169)	(78)	(97)	(88)	-	-
<b>CF from Inv. Activities</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>	<b>(1,883)</b>
inc/(dec) in NW	0	3	12	0	0	0	-	-
inc/(dec) in Debt	508	3,442	(1,080)	(34)	(60)	(1,684)	(269)	(200)
Int. Paid	(167)	(161)	(159)	(118)	(159)	(164)	(178)	(164)
Div Paid (inc tax)	(188)	(181)	(194)	(189)	(284)	(664)	(282)	(282)
others	12	1	96	(44)	154	(383)	-	-
<b>CF from Fin. Activities</b>	<b>165</b>	<b>3,104</b>	<b>(1,326)</b>	<b>(385)</b>	<b>(349)</b>	<b>(2,949)</b>	<b>(730)</b>	<b>(647)</b>
Inc(Dec) in Cash	397	322	(254)	223	(326)	224	770	1,330
<b>Add: Opening Balance</b>	<b>167</b>	<b>536</b>	<b>864</b>	<b>630</b>	<b>835</b>	<b>519</b>	<b>1,004</b>	<b>1,774</b>
Closing Balance	564	858	610	853	508	742	1,774	3,104

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Analyst's ownership of the stocks mentioned in the Report	NIL
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