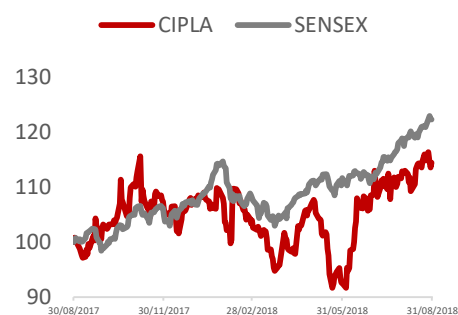



**Buy on Dips**

Current Price	648
<b>Target Price</b>	<b>716</b>
Upside/Downside	10%
52 Week Range	678/508

**Key Share Data**

Market Cap (Rs.bn)	529.38
Market Cap (US\$ mn)	7467.24
No of o/s shares (mn)	805.11
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	3229
BSE Code	500087
NSE Code	CIPLA
Bloomberg	CIPLA IN

**Price performance**

**% Shareholding**

	June-18	Mar-18
Promoters	36.77	37.2
FII	25.03	23.87
DII	13.63	10.07
Others	24.57	28.86
<b>Total</b>	<b>100</b>	<b>100</b>

**Key takeaways from CIPLA's AGM**

1. Cipla will grow through existing products and new launches in India (40% of sales), US (17%) and South Africa (22%).
2. The company expects Indian market to grow at 10-11%, with significantly higher volumes coming with the implementation of Ayushman Bharat.
3. The company plans to launch 15-20 new products in the US, with one limited competition launch every quarter.
4. Cipla's inhaler launch in the US and other markets will be one of the key factors for scale up to the next level.

**Key highlights of a brief word with Mr. Umang Vohra, Global CEO**

5. Price erosion in the US markets seems to have bottomed out.
6. There is an increase in the pricing differential between the patented products.
7. The increase in prices of key starting materials (KSM) is a matter of concern for the entire industry. Cipla is working on indigenization of certain ingredients and cost controls to reduce the impact.
8. The company may acquire some US specialty products, going forward.
9. In India, the company plans for backward integration into respiratory APIs. Respiratory comprises 31% of Cipla's India business.

**Outlook & Valuation**

We are positive on the developments at CIPLA. Muted US growth has reflected in lower than expected earnings even without considering the provision for NPPA demand. The management expects scale up in US business with margin improvement from Q2FY19. Cipla's foray into US trials for key respiratory products will significantly enhance its value going forward.

At Rs 648, Cipla trades at 22x FY20E EPS of Rs 29.6. We are positive on the developments at Cipla and **recommend investors to BUY on Dips with a target price of Rs 716.**

**Key Financials**

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY16A	137,901.1	21.5	24,796.8	18.0	13,600.0	15.2	16.9	38.3	11.8	9.5
FY17A	146,302.5	6.1	24,758.0	16.9	10,064.0	(26.0)	12.5	51.9	8.0	6.4
FY18A	152,192.5	4.0	28,263.8	18.6	14,105.3	40.2	17.5	37.0	9.9	7.8
FY19E	173,858.6	14.2	37,999.5	21.9	20,577.6	45.9	25.6	25.4	12.8	10.6
FY20E	188,645.1	8.5	43,398.2	23.0	23,849.4	15.9	29.6	21.9	13.0	11.1



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CIPLA - Key Financials											
P&L (Rs mn)	FY16	FY17	FY18	FY19E	FY20E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	137,901.1	146,302.5	152,192.5	173,858.6	188,645.1	Net Profit	13,600.0	10,064.0	14,105.3	20,577.6	23,849.4
Raw materials	(50,898.6)	(53,171.2)	(54,384.2)	(61,492.3)	(65,682.2)	Add: Dep. & Amort.	7,542.2	13,229.3	13,228.2	15,519.7	17,319.7
Employee costs	(24,340.1)	(26,338.2)	(26,901.0)	(29,591.1)	(32,550.2)	<b>Cash profits</b>	<b>21,142.2</b>	<b>23,293.3</b>	<b>27,333.5</b>	<b>36,097.3</b>	<b>41,169.2</b>
Other Expenses	(37,865.6)	(42,035.1)	(42,643.5)	(44,775.7)	(47,014.5)	(Inc)/Dec in					
<b>Cost of sales</b>	<b>(113,104.3)</b>	<b>(121,544.5)</b>	<b>(123,928.7)</b>	<b>(135,859.1)</b>	<b>(145,246.9)</b>	-Sundry debtors	(3,520.2)	(2,067.8)	(5,394.0)	(3,593.1)	(2,872.3)
<b>Operating Profit</b>	<b>24,796.8</b>	<b>24,758.0</b>	<b>28,263.8</b>	<b>37,999.5</b>	<b>43,398.2</b>	-Inventories	(274.3)	3,227.7	(5,594.2)	(3,401.9)	(3,638.2)
Depreciation*	(7,542.2)	(13,229.3)	(13,228.2)	(15,519.7)	(17,319.7)	-Loans/advances	7,383.8	(5,079.9)	(215.9)	(1,203.3)	(1,385.7)
<b>PBIT</b>	<b>17,254.6</b>	<b>11,528.7</b>	<b>15,035.6</b>	<b>22,479.8</b>	<b>26,078.5</b>	-Sundry creditors	(1,014.2)	953.2	5,479.8	(132.2)	1,434.9
Other income	2,082.1	2,286.9	3,576.5	3,934.2	4,327.6	-Others	(5,394.2)	4,019.4	(3,910.9)	319.3	257.6
Interest	(2,066.3)	(1,593.8)	(1,142.3)	(1,244.4)	(1,244.4)	Change in working capital	(2,819.1)	1,052.6	(9,635.2)	(8,011.1)	(6,203.8)
<b>Profit before tax</b>	<b>17,270.4</b>	<b>12,221.8</b>	<b>17,469.8</b>	<b>25,169.5</b>	<b>29,161.6</b>	<b>CF from Oper. activities</b>	<b>18,323.1</b>	<b>24,345.9</b>	<b>17,698.3</b>	<b>28,086.2</b>	<b>34,965.4</b>
Provision for tax	(3,315.9)	(1,797.6)	(2,501.1)	(4,530.5)	(5,249.1)	<b>CF from Inv. activities</b>	<b>(50,199.5)</b>	<b>(13,253.3)</b>	<b>(12,542.6)</b>	<b>(22,308.8)</b>	<b>(32,033.2)</b>
<b>PAT Bfr Excep Items</b>	<b>13,954.5</b>	<b>10,424.2</b>	<b>14,968.7</b>	<b>20,639.0</b>	<b>23,912.5</b>	<b>CF from Fin. activities</b>	<b>34,947.8</b>	<b>(14,501.0)</b>	<b>(1,737.7)</b>	<b>(1,552.3)</b>	<b>(1,863.0)</b>
Extraordinary Items	-	-	(775.2)	-	-	<b>Cash generated/(utilised)</b>	<b>3,071.4</b>	<b>(3,408.4)</b>	<b>3,418.0</b>	<b>4,225.0</b>	<b>1,069.3</b>
Minority Interest/ Share of Prt	(354.5)	(360.2)	(88.2)	(61.4)	(63.1)	Cash at start of the year	5,642.6	8,714.0	5,305.6	8,723.6	12,948.6
<b>Reported PAT</b>	<b>13,600.0</b>	<b>10,064.0</b>	<b>14,105.3</b>	<b>20,577.6</b>	<b>23,849.4</b>	Cash at end of the year	8,714.0	5,305.6	8,723.6	12,948.6	14,017.9
<b>Balance Sheet</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>Ratios</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
Equity capital	1,606.8	1,609.0	1,610.2	1,610.2	1,610.2	OPM	18.0	16.9	18.6	21.9	23.0
Reserves	113,555.4	123,827.6	140,681.7	159,652.5	181,573.7	NPM	9.7	6.8	9.1	11.6	12.4
<b>Net worth</b>	<b>115,162.2</b>	<b>125,436.6</b>	<b>142,291.9</b>	<b>161,262.7</b>	<b>183,183.9</b>	Tax rate	(19.2)	(14.7)	(14.3)	(18.0)	(18.0)
Def. Tax Liab.+Minority Int.	13,258.2	11,951.2	8,557.5	9,000.6	9,493.2	<b>Growth Ratios (%)</b>					
Secured loans	2,218.8	36,453.6	36,621.1	36,621.1	36,621.1	Net Sales	21.5	6.1	4.0	14.2	8.5
Unsecured loans	50,117.8	5,122.9	4,859.8	4,859.8	4,859.8	Operating Profit	14.7	(0.2)	14.2	34.4	14.2
<b>Total debt</b>	<b>52,336.6</b>	<b>41,576.5</b>	<b>41,480.9</b>	<b>41,480.9</b>	<b>41,480.9</b>	PAT	15.2	(26.0)	40.2	45.9	15.9
<b>Other Long term liability</b>	<b>1,014.2</b>	-	-	-	-	<b>Per Share (Rs.)</b>					
<b>CAPITAL EMPLOYED</b>	<b>181,771.2</b>	<b>178,964.3</b>	<b>192,330.3</b>	<b>211,744.1</b>	<b>234,158.0</b>	Net Earnings (EPS)	16.93	12.5	17.5	25.6	29.6
Gross block	80,768.7	98,036.4	114,331.2	129,331.2	144,331.2	Cash Earnings (CPS)	26.3	29.0	34.0	44.8	51.1
Accumulated depreciation	(34,720.2)	(47,949.5)	(61,177.7)	(76,697.4)	(94,017.2)	Dividend	2.8	3.4	4.0	2.0	2.0
<b>Net block</b>	<b>46,048.5</b>	<b>50,086.9</b>	<b>53,153.5</b>	<b>52,633.8</b>	<b>50,314.0</b>	Book Value	143.3	155.9	176.7	200.3	227.5
Capital WIP	7,410.1	7,192.3	5,123.5	5,000.0	5,000.0	Free Cash Flow	(39.7)	13.8	6.4	7.2	3.6
<b>Total fixed assets</b>	<b>53,458.6</b>	<b>57,279.2</b>	<b>58,277.0</b>	<b>57,633.8</b>	<b>55,314.0</b>	<b>Valuation Ratios</b>					
<b>Intangible Assets</b>	<b>33,777.6</b>	<b>27,486.3</b>	<b>22,880.3</b>	<b>19,290.5</b>	<b>19,790.5</b>	P/E(x)	<b>38.3</b>	<b>51.9</b>	<b>37.0</b>	<b>25.4</b>	<b>21.9</b>
Goodwill	27,055.7	26,966.7	28,147.4	28,147.4	28,147.4	P/B(x)	4.5	4.2	3.7	3.2	2.9
Other non current assets	2,498.9	2,922.0	1,812.7	1,812.7	1,812.7	EV/EBIDTA(x)	22.8	22.5	19.6	14.5	12.7
Investments	7,586.9	9,747.5	12,598.7	23,620.8	40,154.0	EV/SALES(x)	4.1	3.8	3.6	3.2	2.9
Inventories	38,080.5	34,852.8	40,447.0	43,848.9	47,487.2	Div. Yield(%)	0.4	0.5	0.6	0.3	0.3
Sundry debtors	23,562.7	25,630.5	31,024.5	34,617.6	37,489.9	<b>FCF Yield(%)</b>	<b>(6.1)</b>	<b>2.1</b>	<b>1.0</b>	<b>1.1</b>	<b>0.6</b>
Cash & bank	8,714.0	5,305.6	8,723.6	12,948.6	14,017.9	<b>Return Ratios (%)</b>					
Loans & advances	2,659.5	7,739.4	7,955.3	9,158.6	10,544.3	ROE	11.8	8.0	9.9	12.8	13.0
Other current assets	10,753.4	6,740.1	10,044.0	12,555.0	15,693.8	ROCE	9.5	6.4	7.8	10.6	11.1
Sundry creditors	(14,758.2)	(15,711.4)	(21,191.2)	(21,059.0)	(22,493.9)						
Current Liabilities	(10,197.1)	(9,329.6)	(6,501.2)	(7,801.4)	(9,361.7)						
Provisions	(4,555.3)	(5,428.9)	(7,650.3)	(9,180.4)	(11,016.4)						
<b>Working capital</b>	<b>54,259.5</b>	<b>49,798.5</b>	<b>62,851.7</b>	<b>75,087.9</b>	<b>82,360.9</b>						
Deferred Tax Assets	3,134.0	4,764.1	5,762.5	6,151.1	6,578.6						
Miscellaneous exp.	-	-	-	-	-						
<b>CAPITAL DEPLOYED</b>	<b>181,771.2</b>	<b>178,964.3</b>	<b>192,330.3</b>	<b>211,744.1</b>	<b>234,158.0</b>						

\* Depreciation includes one time impairment charge of Rs 3500 mn due to litigation and regulatory developments of certain Invagen products



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