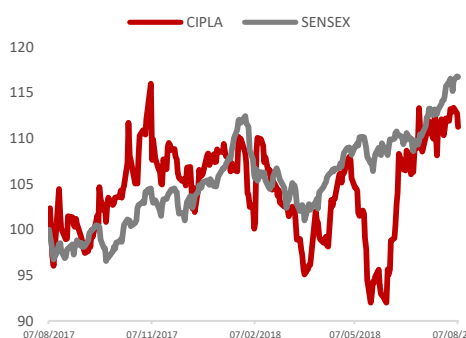



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Buy on Dips

Current Price	633
Target Price	716
Upside/Downside	13%
52 Week Range	663/508

Key Share Data

Market Cap (Rs.bn)	511.31
Market Cap (US\$ mn)	7449.74
No of o/s shares (mn)	805.11
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	2224
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
Total	100	100

CIPLA Q1FY19 results were in line with expectations.

Robust growth in India, South Africa & US, China imports reduce gross margins

Revenues grew 12% yoy (7% qoq) to Rs 39 bn, in line with our estimates of Rs 38.8 bn. Growth was mainly driven by India (+21% Rs 15 bn), South Africa (14% Rs 8.3 bn) and US (+4% Rs 6.7 bn).

Gross margins declined 250 bps yoy (+290 bps qoq) to 61.5%, due to increase in raw material prices imported from China.

EBITDA increased 12% yoy (+30% qoq) to Rs 7.3 bn, Vs our estimate of Rs 7.4 bn. OPM was 10 bps higher yoy (+338 bps qoq) at 18.4%. PBT increased 12% yoy to Rs 6.2 bn. Taxes were higher at 28%, PAT increased 10% to Rs 4.5 bn. EPS for the quarter was at Rs 5.6 Vs our estimate of Rs 5.3.

Key highlights from the concall:

- US business increased 4% to Rs 6.7 bn due to the impact of supply challenges from its Invagen facility (\$5 mn) and rationalization of \$5mn. The supply challenges are done with and normalcy restored in the current quarter.
- The company expects to launch 15 products, higher than its earlier guidance of 10 products in FY19.
- Cipla has recently received approvals for Diclofenac Sodium, Testosterone injection, gVazculep and gAromasin, which are, limited competition products.
- In India growth was 21%. The cardiovascular, respiratory and Urology therapies grew more than market.
- Cipla has entered into agreements with Roche, Eli Lilly for getting patented products into India.
- For Q2FY19, the anti infectives business may face a delay by a month.
- In South Africa, Cipla has performed better than the industry. The company plans to launch Filgrastim from Teva, its first biosimilar in the current quarter.
- Cipla has begun recruitment for the gAdvair trial in the US.

Outlook & Valuation

We are positive on the developments at CIPLA. Cipla continues its growth trajectory with its focus on US, India and South Africa. Cipla's limited competition launches in the US are on track and are expected to improve profitability in the coming quarters.

At Rs 633, Cipla trades at 21x FY20E EPS of Rs 29.6. We recommend investors to BUY on Dips. We raise our target price to Rs 716 per share, indicating an upside of 13%.

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY16A	137,901.0	21.5	24,796.7	18.0	13,599.9	15.2	16.9	37.4	11.8	9.5
FY17A	146,302.4	6.1	24,757.9	16.9	10,063.9	(26.0)	12.5	50.6	8.0	6.4
FY18A	152,192.5	4.0	28,263.8	18.6	14,105.3	40.2	17.5	36.2	9.9	7.8
FY19E	173,858.6	14.2	37,999.5	21.9	20,577.6	45.9	25.6	24.8	12.8	10.6
FY20E	188,645.1	8.5	43,398.2	23.0	23,849.4	15.9	29.6	21.4	13.0	11.1



Particulars	Q1FY19	Q4FY18	Q1FY18	yoy %	qoq %	FY18	FY17	Var %
Net Sales	39389.9	36980	35250.5	12%	7%	152192.5	146302.4	4%
Raw Material Consumed	-14239.2	-13303	-11766.8			-54384.2	-53171.2	
Employee Expenses	-7139.8	-6990.1	-6729.4			-26901	-26338.2	
Other Expenses	-10747.8	-11118	-10289.7			-37865.6	-9817.9	
PBDIT	7263.10	5568.7	6464.60	12%	30%	28263.8	24757.9	14%
OPM (%)	18.4%	15.1%	18.3%			18.6%	16.9%	
Other Income	1701.1	400.1	1513.8			3576.5	2286.9	
Interest	-350.9	-352	-278.6			-1142.3	-1593.8	
Depreciation *	-2410	-2848.2	-2134.3			-13228.2	-13229.3	
Profit before tax bfr exceptional	6203.3	2768.6	5565.5			17469.8	12221.7	43%
Exceptional provision	0	-771.2	0			-775.2		
Tax	-1737.1	-461.5	-1307.7			-2501.1	-1797.6	
Profit After tax	4466.2	1535.9	4257.8	5%	191%	14193.5	10424.1	36%
Less : Minority Interest	56.40	253.60	-161.00			-60.40	-290.30	
Share of Profit/(Loss)	-10.70	0.60	-8.60			-27.80	-69.90	
Net Profit	4511.90	1790.10	4088.20	10%	152%			
Other Comprehensive Income	0.00	0.00	531.40			0.00	1313.50	
Total Comprehensive Income	4511.90	1790.10	4619.60			14105.30	11377.40	
NPM (%)	11.3%	4.2%	12.1%			9.3%	7.1%	
Equity	1610.2	1610.2	1608.8			1610.2	1608.8	
Number of shares	805.1	805.1	804.4			805.1	804.4	
EPS - Diluted (Rs)	5.60	2.22	5.08			17.52	12.51	



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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	137,901.0	146,302.4	152,192.5	173,858.6	188,645.1	Net Profit	13,599.9	10,063.9	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)	Cash profits	21,142.1	23,293.2	27,333.5	36,097.3	41,169.2
Other Expenses	(37,865.6)	(42,035.1)	(42,643.5)	(44,775.7)	(47,014.5)	(Inc)/Dec in					
Cost of sales	(113,104.3)	(121,544.5)	(123,928.7)	(135,859.1)	(145,246.9)	-Sundry debtors	(3,520.2)	(2,067.8)	(5,394.0)	(3,593.1)	(2,872.3)
Operating Profit	24,796.7	24,757.9	28,263.8	37,999.5	43,398.2	-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)
PBIT	17,254.5	11,528.6	15,035.6	22,479.8	26,078.5	-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)
Profit before tax	17,270.3	12,221.7	17,469.8	25,169.5	29,161.6	CF from Oper. activities	18,323.0	24,345.8	17,698.3	28,086.2	34,965.4
Provision for tax	(3,315.9)	(1,797.6)	(2,501.1)	(4,530.5)	(5,249.1)	CF from Inv. activities	(50,199.5)	(13,253.3)	(12,542.6)	(22,308.8)	(32,033.2)
PAT Bfr Excep Items	13,954.4	10,424.1	14,968.7	20,639.0	23,912.5	CF from Fin. activities	34,947.9	(14,500.9)	(1,737.7)	(1,552.3)	(1,863.0)
Extraordinary Items	-	-	(775.2)	-	-	Cash generated/(utilised)	3,071.4	(3,408.4)	3,418.0	4,225.0	1,069.3
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
Reported PAT	13,599.9	10,063.9	14,105.3	20,577.6	23,849.4	Cash at end of the year	8,714.0	5,305.6	8,723.6	12,948.6	14,017.9
Balance Sheet	FY16	FY17	FY18	FY19E	FY20E	Ratios	FY16	FY17	FY18	FY19E	FY20E
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
Net worth	115,162.2	125,436.6	142,291.9	161,262.7	183,183.9	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	Growth Ratios (%)					
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
Total debt	52,336.6	41,576.5	41,480.9	41,480.9	41,480.9	PAT	15.2	(26.0)	40.2	45.9	15.9
Other Long term liability	1,014.2	-	-	-	-						
CAPITAL EMPLOYED	181,771.2	178,964.3	192,330.3	211,744.1	234,158.0	Per Share (Rs.)					
Gross block	80,768.7	98,036.4	114,331.2	129,331.2	144,331.2	Net Earnings (EPS)	16.93	12.5	17.5	25.6	29.6
Accumulated depreciation	(34,720.2)	(47,949.5)	(61,177.7)	(76,697.4)	(94,017.2)	Cash Earnings (CPS)	26.3	29.0	34.0	44.8	51.1
Net block	46,048.5	50,086.9	53,153.5	52,633.8	50,314.0	Dividend	2.8	3.4	4.0	2.0	2.0
Capital WIP	7,410.1	7,192.3	5,123.5	5,000.0	5,000.0	Book Value	143.3	155.9	176.7	200.3	227.5
Total fixed assets	53,458.6	57,279.2	58,277.0	57,633.8	55,314.0	Free Cash Flow	(39.7)	13.8	6.4	7.2	3.6
Intangible Assets	33,777.6	27,486.3	22,880.3	19,290.5	19,790.5	Valuation Ratios					
Goodwill	27,055.7	26,966.7	28,147.4	28,147.4	28,147.4	P/E(x)	37.4	50.6	36.2	24.8	21.4
Other non current assets	2,498.9	2,922.0	1,812.7	1,812.7	1,812.7	P/B(x)	4.4	4.1	3.6	3.2	2.8
Investments	7,586.9	9,747.5	12,598.7	23,620.8	40,154.0	EV/EBIDTA(x)	22.3	22.0	19.2	14.2	12.4
Inventories	38,080.5	34,852.8	40,447.0	43,848.9	47,487.2	EV/SALES(x)	4.0	3.7	3.6	3.1	2.8
Sundry debtors	23,562.7	25,630.5	31,024.5	34,617.6	37,489.9	Div. Yield(%)	0.4	0.5	0.6	0.3	0.3
Cash & bank	8,714.0	5,305.6	8,723.6	12,948.6	14,017.9	FCF Yield(%)	(6.3)	2.2	1.0	1.1	0.6
Loans & advances	2,659.5	7,739.4	7,955.3	9,158.6	10,544.3	Return Ratios (%)					
Other current assets	10,753.4	6,740.1	10,044.0	12,555.0	15,693.8	ROE	11.8	8.0	9.9	12.8	13.0
Sundry creditors	(14,758.2)	(15,711.4)	(21,191.2)	(21,059.0)	(22,493.9)	ROCE	9.5	6.4	7.8	10.6	11.1
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)						
Working capital	54,259.5	49,798.5	62,851.7	75,087.9	82,360.9						
Deferred Tax Assets	3,134.0	4,764.1	5,762.5	6,151.1	6,578.6						
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	181,771.2	178,964.3	192,330.3	211,744.1	234,158.0						

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



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