



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Result update@ Dalal & Broacha

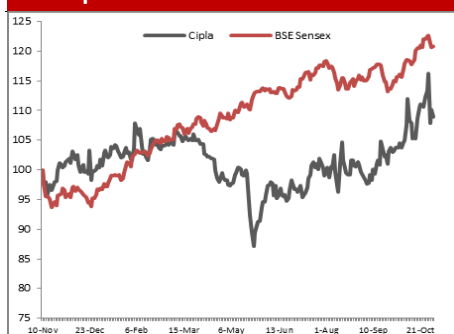
### ACCUMULATE

Current Price	609
<b>Target Price</b>	<b>631</b>
Upside/Downside	4%
52 Week Range	663/479

### Key Share Data

Market Cap (Rs.bn)	489.1
Market Cap (US\$ mn)	7.6
No of o/s shares (mn)	804.9
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	2031
BSE Code	500087
NSE Code	CIPLA
Bloomberg	CIPLA IN

### Price performance



### % Shareholding Sep-17 Jun -17

Promoters	37.3	37.3
FII	22.7	21.4
DII	14.8	14.7
Others	25.3	26.6
<b>Total</b>	<b>100</b>	<b>100</b>

### Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY15A	113,454.4	11.5	21,617.0	19.1	11,807.7	(15.0)	14.7	41.3	10.9	12.7
FY16A	136,782.7	20.6	25,010.6	18.3	15,059.2	27.5	18.7	32.4	13.1	10.8
FY17A	146,302.4	7.0	24,757.9	16.9	10,063.9	(33.2)	12.5	48.6	8.0	6.4
FY18E	163,985.2	12.1	29,367.4	17.9	15,091.7	50.0	18.8	32.4	10.9	9.4
FY19E	185,468.1	13.1	33,556.3	18.1	17,404.6	15.3	21.6	28.1	11.3	10.4

Cipla Q2FY18 results were in line with expectations. While revenues were marginally higher than estimates, the profits were in line.

### Growth across geographies, Operating efficiencies improve margins

Revenues increased 9% to Rs 4082 crs, due to 10% growth in domestic sales and 7% growth in exports. Gross margins declined 250 bps qoq due inventory charge on account of GST, higher number of batches processed for R & D and price impact due to NPPA. EBITDA grew 18% yoy to Rs 804.4 crs. EBITDA margins improved 160 bps to 19.7% on account of cost controls and operational efficiencies. PBT increased 11% to Rs 460 crs. PAT grew 19% to Rs 422.6 crs leading to an EPS of Rs 5.3.

### Key highlights from the concall:

1. Export growth on a constant currency basis was driven by South Africa (17%), Europe (18%), and Emerging markets (15%).
2. In India Cipla performed in line with the industry with better performance in cardiology, urology, respiratory and neurology.
3. US de-grew 3% to \$96 mn. Cipla received approval for Sevelamer from Invagen during the quarter. Going forward, the company expects an improvement in US product mix driven by differentiated launches.
4. In South Africa, Cipla grew 11.3% in private market, more than the industry average.
5. Performance in Emerging markets improved with respiratory launches in new markets and traction from Australia.
6. Revenues from API increased 92% to Rs 2130 mn.
7. R & D expenses were at 6% of sales and will go upto 8% of sales in H2FY18, as the company plans to initiate trials for its respiratory products. Cipla has completed Phase 1B trials of Tizanidine patch in-licensed from MedRx, results of which are under analysis.
8. The company filed 5 ANDAs during the quarter. Cipla has 98 ANDAs pending approval. The company plans to file 20-25 ANDAs during the year.

### Outlook & Valuation

We are positive on the developments at Cipla. The company has grown across businesses and geographies. New product launches across US, South Africa, Europe have helped improve profitability. Cipla's revised strategy to focus on anti retrovirals (ARVs), respiratory and oncology with key markets of India, South Africa, US and Europe has yielded results with more to come. At Rs 608, Cipla trades at 28x FY19E EPS of Rs 21.6. We recommend investors to ACCUMULATE the stock for long term.



Particulars	Q2FY18	Q1FY18	Q2FY17	yoy %	qoq %	FY17	FY16	Var %
<b>Net Sales</b>	<b>39882</b>	<b>34323.2</b>	<b>36718.8</b>	9%	16%	<b>146302.4</b>	<b>136782.7</b>	7%
Raw Material Consumed	-15531	11766.8	13300.6			-53171.2	-51183.8	
Employee Expenses	-6608.1	-6729.4	-6752.8			-26338.2	-24470.6	
Other Expenses	-10641	10289.7	10649.7			-9817.9	-36117.7	
<b>PBDIT</b>	<b>8043.9</b>	<b>6464.6</b>	<b>6807.1</b>	18%	24%	<b>24757.9</b>	<b>25010.6</b>	-1%
OPM (%)	20.2%	18.8%	18.5%			16.9%	18.3%	
Other Income	1133.3	1513.8	272.3			2286.9	2088.9	
Interest	-420.2	-278.6	-351.6			-1593.8	-1613.4	
Depreciation *	-3022.2	-2134.3	-2291.8			-13229.3	-5416.5	
Profit before tax	5734.8	5565.5	4436	29%	3%	12221.7	20069.6	-39%
Tax	-1374.2	-1307.7	-719			-1797.6	-4395.9	
<b>Profit After tax</b>	<b>4360.6</b>	<b>4257.8</b>	<b>3717</b>	17%	2%	<b>10424.1</b>	<b>15673.7</b>	-33%
Less : Minority Interest	<b>-123.60</b>	<b>-161.00</b>	<b>-153.00</b>			<b>-290.30</b>	<b>-494.30</b>	
Share of Profit/(Loss)	<b>-11.10</b>	<b>-8.60</b>	<b>-20.60</b>			<b>-69.90</b>	<b>-120.20</b>	
<b>Other Comprehensive Income</b>	<b>-343.30</b>	<b>531.40</b>	<b>1407.40</b>			<b>1672.70</b>	<b>0.00</b>	
<b>Total Comprehensive Income</b>	<b>3882.60</b>	<b>4619.60</b>	<b>2136.00</b>			<b>11736.60</b>	<b>15059.20</b>	
NPM (%)	10.9%	12.4%	10.1%			7.1%	11.5%	
Equity	1609.8	1608.8	1608.4			1608.8	1606.8	
Number of shares	804.9	804.4	804.2			804.4	803.4	
EPS – Diluted (Rs)	5.25	5.08	4.41			12.51	18.74	



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CIPLA - Key Financials											
P&L (Rs mn)	FY15	FY16	FY17	FY18E	FY19E	Cash Flow St. (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	113,454.4	136,782.7	146,302.4	163,985.2	185,468.1	Net Profit	11,807.7	15,059.2	10,063.9	15,091.7	17,404.6
Raw materials	(44,835.0)	(51,183.8)	(53,171.2)	(55,988.6)	(61,488.2)	Add: Dep. & Amort.	5,047.1	5,416.5	13,229.3	11,806.5	12,921.3
Employee costs	(19,736.7)	(24,470.6)	(26,338.2)	(30,288.9)	(34,832.3)	<b>Cash profits</b>	<b>16,854.8</b>	<b>20,475.7</b>	<b>23,293.2</b>	<b>26,898.2</b>	<b>30,325.9</b>
Other Expenses	(27,265.7)	(36,117.7)	(42,035.1)	(48,340.4)	(55,591.4)	(Inc)/Dec in					
<b>Cost of sales</b>	<b>(91,837.4)</b>	<b>(111,772.1)</b>	<b>(121,544.5)</b>	<b>(134,617.9)</b>	<b>(151,911.9)</b>	-Sundry debtors	(3,653.6)	(3,520.2)	(1,411.5)	(3,513.1)	(3,718.4)
<b>Operating Profit</b>	<b>21,617.0</b>	<b>25,010.6</b>	<b>24,757.9</b>	<b>29,367.4</b>	<b>33,556.3</b>	-Inventories	(8,853.6)	(274.3)	3,227.7	(6,782.5)	(5,434.6)
Depreciation*	(5,047.1)	(5,416.5)	(13,229.3)	(11,806.5)	(12,921.3)	-Loans/advances	(1,073.5)	7,383.8	(2,892.0)	(957.1)	(892.0)
<b>PBIT</b>	<b>16,569.9</b>	<b>19,594.1</b>	<b>11,528.6</b>	<b>17,560.8</b>	<b>20,635.0</b>	-Sundry creditors	5,977.1	(1,014.2)	953.2	(372.1)	1,506.7
Other income	1,655.5	2,088.9	2,286.9	2,515.6	2,767.1	-Others	2,234.4	(5,394.2)	504.5	1,163.9	1,387.3
Interest	(1,682.9)	(1,613.4)	(1,593.8)	(1,389.9)	(1,199.9)	Change in working capital	(5,369.2)	(2,819.1)	381.9	(10,460.9)	(7,150.9)
<b>Profit before tax</b>	<b>16,542.5</b>	<b>20,069.6</b>	<b>12,221.7</b>	<b>18,686.5</b>	<b>22,202.2</b>	<b>CF from Oper. activities</b>	<b>11,485.6</b>	<b>17,656.6</b>	<b>23,675.1</b>	<b>16,437.3</b>	<b>23,175.0</b>
Provision for tax	(4,000.3)	(4,395.9)	(1,797.6)	(3,363.6)	(4,662.5)	<b>CF from Inv. activities</b>	<b>(9,184.2)</b>	<b>(48,073.8)</b>	<b>(13,070.9)</b>	<b>(7,369.3)</b>	<b>(16,636.5)</b>
<b>PAT Bfr Excep Items</b>	<b>12,542.2</b>	<b>15,673.7</b>	<b>10,424.1</b>	<b>15,322.9</b>	<b>17,539.7</b>	<b>CF from Fin. activities</b>	<b>1,583.6</b>	<b>33,488.6</b>	<b>(13,076.3)</b>	<b>(7,279.0)</b>	<b>(6,296.8)</b>
Extraordinary Items	-	-	-	-	-	<b>Cash generated/(utilised)</b>	<b>3,885.0</b>	<b>3,071.4</b>	<b>(2,472.1)</b>	<b>1,789.0</b>	<b>241.6</b>
Minority Interest/ Share of Pr	(734.5)	(614.5)	(360.2)	(231.3)	(135.1)	Cash at start of the year	1,757.6	5,642.6	8,714.0	6,241.9	8,030.9
<b>Reported PAT</b>	<b>11,807.7</b>	<b>15,059.2</b>	<b>10,063.9</b>	<b>15,091.7</b>	<b>17,404.6</b>	Cash at end of the year	5,642.6	8,714.0	6,241.9	8,030.9	8,272.5
<b>Balance Sheet</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>Ratios</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
Equity capital	1,605.9	1,606.8	1,608.8	1,608.8	1,608.8	OPM	19.1	18.3	16.9	17.9	18.1
Reserves	106,409.0	113,555.4	123,645.2	137,130.1	152,927.9	NPM	10.3	10.8	6.8	9.1	9.2
<b>Net worth</b>	<b>108,014.9</b>	<b>115,162.2</b>	<b>125,254.0</b>	<b>138,738.9</b>	<b>154,536.7</b>	Tax rate	(24.2)	(21.9)	(14.7)	(18.0)	(21.0)
Def. Tax Liab.+Minority Int.	5,122.2	13,258.2	11,951.2	12,456.7	13,032.0	<b>Growth Ratios (%)</b>					
Secured loans	3,092.8	2,218.8	36,453.6	31,453.6	26,453.6	Net Sales	11.5	20.6	7.0	12.1	13.1
Unsecured loans	13,924.8	50,117.8	5,122.9	5,122.9	5,122.9	Operating Profit	1.3	15.7	(1.0)	18.6	14.3
<b>Total debt</b>	<b>17,017.6</b>	<b>52,336.6</b>	<b>41,576.5</b>	<b>36,576.5</b>	<b>31,576.5</b>	PAT	(15.0)	27.5	(33.2)	50.0	15.3
<b>Other Long term liability</b>	<b>405.8</b>	<b>1,014.2</b>	<b>936.5</b>	-	-	<b>Per Share (Rs.)</b>					
<b>CAPITAL EMPLOYED</b>	<b>130,560.5</b>	<b>181,771.2</b>	<b>179,718.2</b>	<b>187,772.1</b>	<b>199,145.2</b>	Net Earnings (EPS)	14.7	18.74	12.5	18.8	21.6
Gross block	68,583.6	78,643.0	95,910.7	105,910.7	115,910.7	Cash Earnings (CPS)	21.0	25.5	29.0	33.4	37.7
Accumulated depreciation	(27,178.0)	(32,594.5)	(45,823.8)	(57,630.3)	(70,551.6)	Dividend	2.0	2.8	3.4	4.0	2.0
<b>Net block</b>	<b>41,405.6</b>	<b>46,048.5</b>	<b>50,086.9</b>	<b>48,280.4</b>	<b>45,359.1</b>	Book Value	134.5	143.3	155.7	172.5	192.1
Capital WIP	5,348.8	7,410.1	7,192.3	6,000.0	5,000.0	Free Cash Flow	2.9	(37.9)	13.2	11.3	8.1
<b>Total fixed assets</b>	<b>46,754.4</b>	<b>53,458.6</b>	<b>57,279.2</b>	<b>54,280.4</b>	<b>50,359.1</b>	<b>Valuation Ratios</b>					
<b>Intangible Assets</b>	<b>1,766.4</b>	<b>33,777.6</b>	<b>27,486.3</b>	<b>19,348.8</b>	<b>19,448.8</b>	<b>P/E(x)</b>	<b>41.3</b>	<b>32.4</b>	<b>48.6</b>	<b>32.4</b>	<b>28.1</b>
Goodwill	25,584.6	27,055.7	26,784.3	26,784.3	26,784.3	P/B(x)	4.5	4.2	3.9	3.5	3.2
Other non current assets	1,217.2	2,498.9	2,922.0	2,922.0	2,922.0	EV/EBIDTA(x)	23.1	21.3	21.2	17.6	15.3
Investments	6,397.8	7,586.9	9,747.5	16,446.6	23,983.1	EV/SALES(x)	4.4	3.9	3.6	3.2	2.8
Inventories	37,806.2	38,080.5	34,852.8	41,635.3	47,069.9	Div. Yield(%)	0.3	0.5	0.6	0.7	0.3
Sundry debtors	20,042.5	23,562.7	24,974.2	28,487.3	32,205.7	<b>FCF Yield(%)</b>	<b>0.5</b>	<b>(6.2)</b>	<b>2.2</b>	<b>1.9</b>	<b>1.3</b>
Cash & bank	5,642.6	8,714.0	6,241.9	8,030.9	8,272.5	<b>Return Ratios (%)</b>					
Loans & advances	10,043.3	2,659.5	5,551.5	6,508.6	7,400.5	ROE	10.9	13.1	8.0	10.9	11.3
Other current assets	1,449.2	10,753.4	9,767.2	10,743.9	11,818.3	ROCE	12.7	10.8	6.4	9.4	10.4
Sundry creditors	(15,772.4)	(14,758.2)	(15,711.4)	(15,339.3)	(16,846.1)						
Current Liabilities	(5,036.8)	(10,197.1)	(9,646.5)	(11,093.5)	(12,757.5)						
Provisions	(5,805.6)	(4,555.3)	(4,624.2)	(5,317.8)	(6,115.5)						
<b>Working capital</b>	<b>48,369.0</b>	<b>54,259.5</b>	<b>51,405.5</b>	<b>63,655.4</b>	<b>71,047.9</b>						
Deferred Tax Assets	471.1	3,134.0	4,093.4	4,334.6	4,599.9						
Miscellaneous exp.	-	-	-	-	-						
<b>CAPITAL DEPLOYED</b>	<b>130,560.5</b>	<b>181,771.2</b>	<b>179,718.2</b>	<b>187,772.1</b>	<b>199,145.2</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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