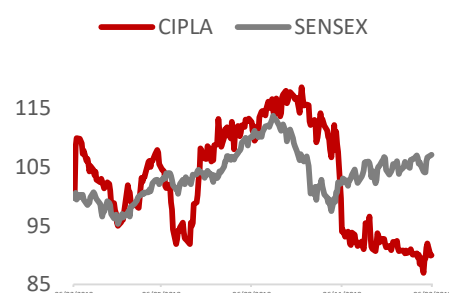



Buy on Dips

Current Price	528
Target Price	622
Upside/Downside	18%
52 Week Range	678/483

Key Share Data

Market Cap (Rs.bn)	430.42
Market Cap (US\$ mn)	6024.70
No of o/s shares (mn)	805.11
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	2175
BSE Code	500087
NSE Code	CIPLA
Bloomberg	CIPLA IN

Price performance


% Shareholding	Dec-18	Sept-18
Promoters	36.74	36.74
FII	25.24	26.10
DII	10.90	13.35
Others	27.12	23.57
Total	100	100

CIPLA Q3FY19 results were below estimates. However, a 31% growth in US business indicating a 18% constant currency growth reflect a scale up due to limited competition launches.

Strong US growth offset by de-growth in India & South Africa

Revenues +3% to Rs 40 bn. The 31% growth in US was offset by 1% de-growth in India and 11% de-growth in South Africa. ROW revenues increased 6% to Rs 3930 mn.

Gross margins declined 130 bps yoy (-130 bps qoq) due to low margin tender business from South Africa and liquidation of inventories.

EBITDA stood at INR 7036 Mn, -14%yoy mainly due to poor performance in key markets of India and South Africa. EBITDA translated into a margin of 17.70%. PBT grew 29% to Rs 4489 mn. PAT de-grew 20% to Rs 3232 mn due to higher taxes.

EPS was at INR 4.1.

Key highlights from the concall:

- Cipla's direct to market (DTM) business in the US has picked up well with limited competition launches leading to an improvement in product mix and profitability.
- In India, Cipla's acute business was impacted due to inventory destocking, with growth higher than industry in chronic.
- Cipla is currently facing multiple headwinds relating to commodity pricing, forex, uncertainties in the global tender business environment and capacity constraints that will impact business over the next few months.
- Cipla has faced certain capacity constraints during the quarter impacting its high margin business. The company expects to resolve the same over the next quarter and restore normalcy thereafter.
- Received EIR for Invagen facility. The company expects to resolve the observations on its Goa plant, which are procedural in nature in due course.
- Expect to file 2 respiratory ANDAs every year with one launch.

Outlook & Valuation

Cipla's robust growth in the US indicates good change in business mix. However, the de-growth in India and South Africa are a cause for concern. The easing of capacity constraints on high margin business, after a quarter or two will help revive revenues and profits. We strongly believe the impact is temporary in nature and will fade out after a couple of quarters. **We recommend investors to BUY on Dips with a target price of Rs 622.**

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	31.2	11.8	9.5
FY17A	146,302.5	6.1	24,758.0	16.9	10,064.0	(26.0)	12.5	42.2	8.0	6.4
FY18A	152,192.5	4.0	28,263.8	18.6	14,105.3	40.2	17.5	30.1	9.9	7.8
FY19E	163,561.9	7.5	30,613.8	18.7	15,708.3	11.4	19.5	27.1	10.0	8.2
FY20E	170,637.4	4.3	31,811.8	18.6	16,525.3	5.2	20.5	25.7	9.7	7.5



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Particulars	Q3FY19	Q2FY19	Q3FY18	yoy %	qoq %	FY18	FY17	Var %
Net Sales	40075.4	40119	39138.2	2%	0%	152192.5	146302.4	4%
Raw Material Consumed	-14626.7	-14121.3	-13784			-54384.2	-53171.2	
Employee Expenses	-7178.7	-7122.1	-6573.4			-26901	-26338.2	
Other Expenses	-11193.3	-11853.4	-10594			-37865.6	-9817.9	
PBDIT	7076.70	7022.20	8186.60	-14%	1%	28263.8	24757.9	14%
OPM (%)	17.7%	17.5%	20.9%			18.6%	16.9%	
Other Income	785.3	1325.7	529.3			3576.5	2286.9	
Interest	-441.9	-443.7	-91.5			-1142.3	-1593.8	
Depreciation *	-2931.3	-2819	-5223.5			-13228.2	-13229.3	
Profit before tax bfr exceptiional	4488.8	5085.2	3400.9			17469.8	12221.7	43%
Exceptional provision	0	0	0			-775.2		
Tax	-1256.8	-1423.9	642.3			-2501.1	-1797.6	
Profit After tax	3232	3661.3	4043.2	-20%	-12%	14193.5	10424.1	36%
Less : Minority Interest	99.60	101.40	-29.40			-60.40	-290.30	
Share of Profit/(Loss)	-9.60	7.80	-8.70			-27.80	-69.90	
Net Profit	3322.00	3770.50	4005.10	-17%	-12%			
Other Comprehensive Income	0.00	0.00	1155.00			0.00	1313.50	
Total Comprehensive Income	3322.00	3770.50	5160.10			14105.30	11377.40	
NPM (%)	8.1%	9.1%	10.3%			9.3%	7.1%	
Equity	1610.5	1610.5	1609.8			1610.2	1608.8	
Number of shares	805.25	805.25	804.9			805.1	804.4	
EPS - Diluted (Rs)	4.13	4.68	4.98			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	137,901.1	146,302.5	152,192.5	163,561.9	170,637.4	Net Profit	13,600.0	10,064.0	14,105.3	15,708.3	16,525.3
Raw materials	(50,898.6)	(53,171.2)	(54,384.2)	(57,525.2)	(58,205.8)	Add: Dep. & Amort.	7,542.2	13,229.3	13,228.2	13,264.8	14,839.8
Employee costs	(24,340.1)	(26,338.2)	(26,901.0)	(28,515.1)	(31,366.6)	Cash profits	21,142.2	23,293.3	27,333.5	28,973.1	31,365.0
Other Expenses	(37,865.6)	(42,035.1)	(42,643.5)	(46,907.9)	(49,253.2)	(Inc)/Dec in					
Cost of sales	(113,104.3)	(121,544.5)	(123,928.7)	(132,948.1)	(138,825.6)	-Sundry debtors	(3,520.2)	(2,067.8)	(5,394.0)	(8,376.3)	(1,605.2)
Operating Profit	24,796.8	24,758.0	28,263.8	30,613.8	31,811.8	-Inventories	(274.3)	3,227.7	(5,594.2)	(1,142.8)	(1,694.4)
Depreciation*	(7,542.2)	(13,229.3)	(13,228.2)	(13,264.8)	(14,839.8)	-Loans/advances	7,383.8	(5,079.9)	(215.9)	(1,203.3)	(1,385.7)
PBIT	17,254.6	11,528.7	15,035.6	17,349.1	16,972.0	-Sundry creditors	(1,014.2)	953.2	5,479.8	(702.8)	242.4
Other income	2,082.1	2,286.9	3,576.5	5,185.9	5,704.5	-Others	(5,394.2)	4,019.4	(3,910.9)	319.3	257.6
Interest	(2,066.3)	(1,593.8)	(1,142.3)	(1,785.3)	(1,409.4)	Change in working capital	(2,819.1)	1,052.6	(9,635.2)	(11,105.8)	(4,185.3)
Profit before tax	17,270.4	12,221.8	17,469.8	20,749.7	21,267.1	CF from Oper. activities	18,323.1	24,345.9	17,698.3	17,867.3	27,179.7
Provision for tax	(3,315.9)	(1,797.6)	(2,501.1)	(4,979.9)	(4,678.8)	CF from Inv. activities	(50,199.5)	(13,253.3)	(12,542.6)	(8,286.7)	(15,500.0)
PAT Bfr Excep Items	13,954.5	10,424.2	14,968.7	15,769.8	16,588.4	CF from Fin. activities	34,947.8	(14,501.0)	(1,737.7)	3,956.6	(1,874.4)
Extraordinary Items	-	-	(775.2)	-	-	Cash generated/(utilised)	3,071.4	(3,408.4)	3,418.0	13,537.2	9,805.4
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	22,260.8
Reported PAT	13,600.0	10,064.0	14,105.3	15,708.3	16,525.3	Cash at end of the year	8,714.0	5,305.6	8,723.6	22,260.8	32,066.2
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	18.7	18.6
Reserves	113,555.4	123,827.6	140,681.7	154,783.2	169,380.3	NPM	9.7	6.8	9.1	9.3	9.4
Net worth	115,162.2	125,436.6	142,291.9	156,393.4	170,990.5	Tax rate	(19.2)	(14.7)	(14.3)	(24.0)	(22.0)
Def. Tax Liab.+Minority Int.	13,258.2	11,951.2	8,557.5	9,009.5	9,490.8	Growth Ratios (%)					
Secured loans	2,218.8	36,453.6	36,621.1	42,121.1	42,121.1	Net Sales	21.5	6.1	4.0	7.5	4.3
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	8.3	3.9
Total debt	52,336.6	41,576.5	41,480.9	46,980.9	46,980.9	PAT	15.2	(26.0)	40.2	11.4	5.2
Other Long term liability	1,014.2	-	-	-	-	Per Share (Rs.)					
CAPITAL EMPLOYED	181,771.2	178,964.3	192,330.3	212,383.9	227,462.2	Net Earnings (EPS)	16.93	12.5	17.5	19.5	20.5
Gross block	80,768.7	98,036.4	114,331.2	126,331.2	141,331.2	Cash Earnings (CPS)	26.3	29.0	34.0	36.0	39.0
Accumulated depreciation	(34,720.2)	(47,949.5)	(61,177.7)	(74,442.5)	(89,282.3)	Dividend	2.8	3.4	4.0	2.0	2.0
Net block	46,048.5	50,086.9	53,153.5	51,888.7	52,048.9	Book Value	143.3	155.9	176.7	194.3	212.4
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	11.9	14.5
Total fixed assets	53,458.6	57,279.2	58,277.0	56,888.7	57,048.9	Valuation Ratios					
Intangible Assets	33,777.6	27,486.3	22,880.3	19,290.5	19,790.5	P/E(x)	31.2	42.2	30.1	27.1	25.7
Goodwill	27,055.7	26,966.7	28,147.4	28,147.4	28,147.4	P/B(x)	3.7	3.4	3.0	2.7	2.5
Other non current assets	2,498.9	2,922.0	1,812.7	1,812.7	1,812.7	EV/EBIDTA(x)	18.9	18.6	16.2	14.7	13.8
Investments	7,586.9	9,747.5	12,598.7	12,598.7	12,598.7	EV/SALES(x)	3.4	3.2	3.0	2.7	2.6
Inventories	38,080.5	34,852.8	40,447.0	41,589.8	43,284.1	Div. Yield(%)	0.5	0.6	0.8	0.4	0.4
Sundry debtors	23,562.7	25,630.5	31,024.5	39,400.8	41,006.0	FCF Yield(%)	(7.5)	2.6	1.2	2.3	2.7
Cash & bank	8,714.0	5,305.6	8,723.6	22,260.8	32,066.2	Return Ratios (%)					
Loans & advances	2,659.5	7,739.4	7,955.3	9,158.6	10,544.3	ROE	11.8	8.0	9.9	10.0	9.7
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	8.2	7.5
Sundry creditors	(14,758.2)	(15,711.4)	(21,191.2)	(20,488.4)	(20,730.8)						
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	87,494.7	101,485.4						
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	212,383.9	227,462.2						

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



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