


Q3FY20 Result update @ Dalal & Broacha
BUY

Current Price	446
Target Price	570
Upside	28%
52 Week Range	390/586

Key Share Data

Market Cap (Rs.bn)	360.22
Market Cap (US\$bn)	5055.72
No of o/s shares (mn)	805.63
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	2315
BSE Code	500087
NSE Code	CIPLA
Bloomberg	CIPLA IN

Price performance


% Shareholding	Dec-19	Sep-19
Promoters	36.68	36.68
FII	20.30	24.20
DII	20.87	17.59
Others	22.15	21.53
Total	100	100

Cipla Q3FY20 earnings were marginally below expectations.

Revenues at Rs 43.7 bn surpassed our estimate of Rs 41.6 bn, the profitability was lower due to 13% increase in raw material costs leading to lower gross margins (62.4%) against normal levels of 64-66%. Q2FY20 had some effect of the Cinacalcet at risk launch realizing better profitability, hence qoq profitability is lower.

Healthy revenue growth across India, US and South Africa

Revenues increased 9% Rs 43.7 bn, due to healthy growth in key markets namely India (41% of sales, +12%), US (22% of sales, +11%) and South Africa (19% of sales, +7%).

The other markets grew at a lower rate namely ROW (7% of sales, -18%), Europe (4% of sales, flat) and API (4% of sales, +7%).

Higher material costs +12.5% yoy includes Rs 520 mn of one off expenses. Adjusted gross margins were at 63.5% (-110 bps yoy/-440 bps qoq). Employee costs +4% yoy to Rs 7.5 bn and Other expenses +9% to Rs 12.2 bn due to higher R & D spend in view of the gAdvair trials.

EBITDA +7% yoy to Rs 7.6 bn. Ebitda margins were at 17.3% (-40 bps yoy/-340 bps qoq). PBT increased 13% Rs 5 bn. With ETR of 30%, PAT degrew 1% yoy Rs 3.3 bn. EPS for the quarter was at Rs 4.35 Vs our estimate of Rs 4.9.

Key Developments

- Cipla has achieved a milestone with the completion of gADVAIR trial. The company awaits the data readout in March'20.
- The OAI to Cipla's Goa plant has observations relating to the cleaning of equipment and sterile processes followed at the plant. The company plans to respond to the USFDA by March.

Outlook & Valuation

Cipla is progressing well across key markets i.e.: India, US and South Africa. We believe Cipla's strategy of focused spend across India Rx, One India for trade generics, South Africa private market and R & D spend will improve profitability going forward.

At CMP, Cipla trades at 17x FY21E EPS of Rs 25.9.

We retain our BUY rating on the stock.

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY17A	146,302	6.1	21,955	15.0	7,261	(46.6)	9.0	49.4	5.8	4.9
FY18A	152,193	4.0	28,264	18.6	14,105	94.3	17.5	25.5	9.9	7.8
FY19A	163,624	7.5	30,973	18.9	14,572	3.3	18.1	24.7	9.7	8.6
FY20E	171,741	5.0	33,890	19.7	17,646	21.1	21.9	20.4	10.6	9.7
FY21E	187,158	9.0	37,184	19.9	20,886	18.4	25.9	17.2	11.3	10.4

**Q3FY20 Result update @ Dalal & Broacha****Key highlights from the concall:****INDIA**

- Cipla +9% Rs 17.7 bn, with 14% growth in prescription business and 7% in trade generics.
- Cipla grew better than market in chronic (13% vs 11%), respiratory (14% vs 12%) and cardiology (14% vs 11%).
- The company has strategized a One India initiative, to switch trade generics to OTC. The company expects to gain through synergies in operations.
- Cipla acquired Vymox from Novartis and in licensed Elores from Venus Remedies.

US

- US business (\$133 mn) grew 25% due to competition in Cinacalcet (gSENSIPAR). Contribution from Cinacalcet normalized. In Q3FY20, US sales may be lower due to erosion in Cinacalcet.
- The company gained market share for the Pregabalin (Market size \$ 5.4 bn – 11 players) and Daptomycin (Market size \$350 mn, 10 players).
- The limited competition products have improved US gross margins by 350 bps yoy in Q3FY20 and 750 bps in 9MFY20.
- GAdvair clinical trials come to an end, with data read out in March'20. Cipla incurred \$ 25 mn for the trial.
- Cipla has via Avenue Therapeutics has filed NDA for IV TRAMADOL.
- The company plans to out license its CNS assets going forward.

SOUTH AFRICA

- South Africa business grew 7% to Rs 8310 mn.
- The South Africa private market +16% yoy to \$55 mn.
- Sub-Sahara region grew 12% yoy and Global access business grew 7%.

FINANCIALS

- The company expects gross margins around 63-63.5% for its base business.
- ETR for the quarter was at 30%.
- ROCE improved from 12.3% in FY19 to 13.9% in TTM December'19.
- The company will avail the reduced tax rate (21%) from FY21.


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Particulars	Q3FY20	Q2FY20	Q1FY20	Q3FY19	yoy %	qoq %	9MFY20	9MFY19	Var %
Net Sales	43710	43958	39890	40075	9%	-1%	127558	119584.3	7%
Raw Material Consumed	-16450	-14612	-11963	-14627			-43025	-42987	
Employee Expenses	-7455	-7616	-7561	-7179			-22633	-21441	
Other Expenses	-12221.9	-12634.2	-11319.3	-11193.3			-36175	-33795	
PBDIT	7583	9095	9098	7077	7%	-17%	25725	21362	20%
OPM (%)	17.3%	20.7%	22.8%	17.7%			20.2%	17.9%	
Other Income	721	1005	784	785			2510	3812	
Interest	-462	-461	-521	-442			-1444	-1237	
Depreciation *	-2779	-2830	-2680	-2931			-8289	-8160	
Profit before tax bfr exceptiional	5064	6810	6681	4489			18503	15777	17%
Exceptional provision	0	0	0	0			0	0	
Tax	-1528	-2006	-1922	-1257			-5456	-4418	
Profit After tax	3536	4804	4759	3232	9%	-26%	13047	11360	15%
Less : Minority Interest	-117	32	310	100			225	257	
Share of Profit/(Loss)	-142	-59	-235	-10			-436	-13	
Net Profit	3277	4777	4834	3322	-1%	-31%	12836	11604	11%
NPM (%)	8.1%	10.9%	11.9%	8.1%			10.2%	9.5%	
Equity	1612.5	1612.2	1611.7	1610.5			1612.5	1610.5	
Number of shares	806.25	806.1	805.85	805.25			806.25	805.25	
EPS - Diluted (Rs)	4.06	5.93	6.00	4.13			15.92	14.41	



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CIPLA - Key Financials											
P&L (Rs mn)	FY17	FY18	FY19	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	146,302	152,193	163,624	171,741	187,158	Net Profit	7,261	14,105	14,572	17,646	20,886
Raw materials	(53,171)	(54,384)	(57,845)	(57,061)	(62,103)	Add: Dep. & Amort.	13,229	13,228	13,263	13,210	13,059
Employee costs	(26,338)	(26,901)	(28,565)	(30,851)	(33,936)	Cash profits	20,491	27,334	27,835	30,856	33,945
Other Expenses	(44,838)	(42,644)	(46,241)	(49,940)	(53,935)	(Inc)/Dec in					
Cost of sales	(124,347)	(123,929)	(132,651)	(137,852)	(149,974)	-Sundry debtors	(2,068)	(5,394)	(10,483)	125	(3,657)
Operating Profit	21,955	28,264	30,973	33,890	37,184	-Inventories	3,228	(5,594)	799	(4,033)	(3,860)
Depreciation*	(13,229)	(13,228)	(13,263)	(13,210)	(13,059)	-Loans/advances	(5,080)	(216)	1,488	(333)	(351)
PBIT	8,726	15,036	17,710	20,680	24,125	-Sundry creditors	953	5,480	(1,711)	2,407	1,934
Other income	2,287	3,577	4,766	5,242	5,766	-Others	4,019	(3,911)	(143)	793	951
Interest	(1,594)	(1,142)	(1,684)	(1,377)	(1,377)	Change in working capital	1,053	(9,635)	(10,051)	(1,041)	(4,982)
Profit before tax	9,419	17,470	20,791	24,545	28,515	CF from Oper. activities	21,543	17,698	17,784	29,815	28,963
Provision for tax	(1,798)	(2,501)	(5,695)	(6,627)	(7,414)	CF from Inv. activities	(13,253)	(12,543)	(19,276)	(15,550)	(8,501)
PAT Bfr Excep Items	7,621	14,969	15,096	17,918	21,101	CF from Fin. activities	(11,698)	(1,738)	(1,044)	(10,342)	(2,180)
Extraordinary Items	-	(775)	-	-	-	Cash generated/(utilised)	(3,408)	3,418	(2,536)	3,922	18,282
Minority Interest/ Share of Pri	(360)	(88)	(524)	(272)	(215)	Cash at start of the year	8,714	5,306	8,724	6,188	10,111
Reported PAT	7,261	14,105	14,572	17,646	20,886	Cash at end of the year	5,306	8,724	6,188	10,111	28,392
Balance Sheet	FY17	FY18	FY19	FY20E	FY21E	Ratios	FY17	FY18	FY19	FY20E	FY21E
Equity capital	1,609	1,610	1,611	1,611	1,611	OPM	15.0	18.6	18.9	19.7	19.9
Reserves	123,828	140,682	148,511	164,229	182,802	NPM	4.9	9.1	8.7	10.0	10.8
Net worth	125,437	142,292	150,123	165,841	184,413	Tax rate	(19.1)	(14.3)	(27.4)	(27.0)	(26.0)
Def. Tax Liab.+Minority Int.	11,951	8,558	7,573	8,037	8,551	Growth Ratios (%)					
Secured loans	36,454	36,621	38,301	30,601	30,601	Net Sales	6.1	4.0	7.5	5.0	9.0
Unsecured loans	5,123	4,860	8,736	8,736	8,736	Operating Profit	(11.5)	28.7	9.6	9.4	9.7
Total debt	41,577	41,481	47,037	39,337	39,337	PAT	(46.6)	94.3	3.3	21.1	18.4
Other non current liab	937	933	833	916	1,008	Per Share (Rs.)					
CAPITAL EMPLOYED	178,964	192,330	205,566	213,215	232,301	Net Earnings (EPS)	9.0	17.5	18.1	21.9	25.9
Gross block	61,608	71,059	75,059	80,059	87,059	Cash Earnings (CPS)	25.5	34.0	34.5	38.3	42.1
Accumulated depreciation	(11,521)	(17,906)	(23,916)	(37,126)	(50,184)	Dividend	3.4	4.0	2.0	2.0	2.0
Net block	50,087	53,154	51,144	42,934	36,875	Book Value	155.9	176.7	186.3	205.8	228.9
Capital WIP	7,192	5,124	3,311	5,000	5,000	Free Cash Flow	10.3	6.4	(1.9)	17.7	25.4
Total fixed assets	57,279	58,277	54,454	47,934	41,875	Valuation Ratios					
Intangible Assets	27,486	22,880	19,082	23,691	25,191	P/E(x)	49.4	25.5	24.7	20.4	17.2
Goodwill	26,967	28,147	28,691	28,691	28,691	P/B(x)	2.9	2.5	2.4	2.2	1.9
Other non current assets	2,922	1,813	1,342	1,342	1,342	EV/EBIDTA(x)	18.0	13.9	12.9	11.5	10.0
Investments	9,748	12,599	26,160	30,411	30,412	EV/SALES(x)	2.7	2.6	2.4	2.3	2.0
Inventories	34,853	40,447	39,648	43,681	47,541	Div. Yield(%)	0.8	0.9	0.4	0.4	0.4
Sundry debtors	25,631	31,025	41,507	41,382	45,039	FCF Yield(%)	2.3	1.4	(0.4)	4.0	5.7
Cash & bank	5,306	8,724	6,188	10,111	28,392	Return Ratios (%)					
Loans & advances	7,739	7,955	6,468	6,801	7,152	ROE	5.8	9.9	9.7	10.6	11.3
Other current assets	6,740	10,044	10,623	12,748	15,298	ROCE	4.9	7.8	8.6	9.7	10.4
Sundry creditors	(15,711)	(21,191)	(19,480)	(21,886)	(23,820)						
Current Liabilities	(9,330)	(6,501)	(6,006)	(7,207)	(8,649)						
Provisions	(5,429)	(7,650)	(8,582)	(10,298)	(12,358)						
Working capital	49,799	62,852	70,367	75,330	98,595						
Deferred Tax Assets	4,764	5,763	5,470	5,816	6,196						
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	178,964	192,330	205,566	213,215	232,301						

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



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	IT, Media, Telecom
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141435	Mid-Caps
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Ms. Nidhi Babaria	Nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141432	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021 Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667
Fax: 91-22-2287 0092 E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com