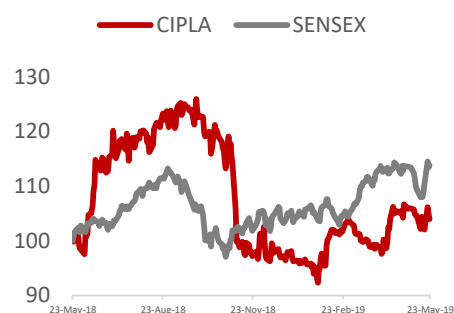


**BUY**

Current Price	564
<b>Target Price</b>	<b>622</b>
Upside/Downside	10%
52 Week Range	678/483

**Key Share Data**

Market Cap (Rs.bn)	450.91
Market Cap (US\$ mn)	6472.09
No of o/s shares (mn)	805.11
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	294
BSE Code	500087
NSE Code	CIPLA
Bloomberg	CIPLA IN

**Price performance****% Shareholding**

	Mar-19	Dec-18
Promoters	36.70	36.74
FII	25.96	25.24
DII	10.27	10.90
Others	27.07	27.12
<b>Total</b>	<b>100</b>	<b>100</b>

Cipla Q4FY19 results exceeded expectations. Growth in US (+41% cc basis) and India (+11%) improved product mix thus increasing profitability.

**EBITDA margins for the quarter were at 21.8%. The traction in margins factor in Cinacalcet US launch and improvement in India margins. Excluding Cinacalcet margins@50-75%, Cipla being the only Indian player the EBITDA margins for the quarter work out to 19-18.5%, with a 50 bps improvement over FY18, as a best case scenario.**

**Profitability grows through at risk Cinacalcet and US launches**

Sales +19% yoy Rs 44 bn. The growth was mainly from US due to traction from limited competition launches and the at risk launch of Cinacalcet in the US, followed by growth in India sales due to increase in prescriptions and low base.

Gross Profit +24% Rs 2918 crs. Gross margins +230 bps yoy/+280 bps qoq 66.5%. Other expenses +12% Rs 12 bn include Rs 500 mn provision for litigation, receivables and plant spends.

EBITDA +73% Rs 9.61 bn, due to cost control. EBITDA margins +680 bps yoy/+420 qoq at 21.8%.

Depreciation Rs 5.1 bn includes impairment of intangible assets of US generics Rs 206.95 crs.

PBT +151% Rs 501 crs. PAT +105% at Rs 367 crs. EPS for the quarter Rs 4.6.

**Outlook & Valuation**

Cipla has significantly grown its base in the US due to traction in limited competition launches, excluding Cinacalcet. The company is now moving towards respiratory filings and launches in the US, which will take it to the next level of growth, subject to success in trials, filings and approvals.

The increased R & D spend and the ongoing trials for respiratory products are expected to put pressure on margins in FY20. At Rs 564, Cipla trades at 24x FY21E EPS of Rs 23.

**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 (%)
FY17A	146,302.5	6.1	21,955.3	15.0	7,261.3	(46.6)	9.0	61.8	5.8	4.9
FY18A	152,192.5	4.0	28,263.8	18.6	14,105.3	94.3	17.5	31.8	9.9	7.8
FY19A	163,624.1	7.5	30,973.1	18.9	14,571.8	3.3	18.1	30.9	9.7	8.6
FY20E	180,481.2	10.3	32,548.8	18.0	16,811.7	15.4	20.9	26.7	10.2	9.0
FY21E	196,596.2	8.9	35,583.0	18.1	18,653.5	11.0	23.2	24.1	10.3	9.2



### Key highlights from the concall:

#### INDIA

- Cipla +11.2% Rs 6.3 bn, through increased prescriptions and better than market performance in respiratory, urology, cardiology and central nervous system (CNS). The said therapies contribute 55% of sales.
- The company expects to grow more than industry (10-12%), through expansion in chronic therapies (60% of India Sales) as well as acute therapies and partnerships.

#### US

- US business (\$165 mn includes at risk phased launch of Cinacalcet (gSENSIPAR). US base business \$125 mn in line with our estimate, +19% yoy/+6% qoq).
- The management expects double digit growth in the US base business through limited competition launches (1 per quarter) in FY20.
- The company filed 4 ANDAs during the quarter.
- Cipla plans to file for 2 respiratory products by end FY20 and launch gAdvair by end FY20. gAdvair has sales of \$1.3 bn in CY2018. The respiratory launches should further improve profitability.

#### SOUTH AFRICA

- The tender business de-grew 42% in Q4FY19 and 15% for FY19 to rebase at \$19mn and \$106 mn respectively. The company's global access business has also rebased to \$145 mn (-29%) for FY19.
- The South Africa private market + 10% \$53 mn and 8% to \$206 mn for FY19. The growth was through the Mirren acquisition.
- Cipla has retained its share for Tenofovir Disoproxil Fumarate + Emitricitabine + Efavirenz (TTE) and Tenofovir Disoproxil Fumarate + Lamivudine + Dolutegravir (TLD) (ARV tenders) and will start supplies from Q2FY20.
- Regulatory USFDA inspections at Kurkumbh and Indore completed with zero observations. The company received EIR for its Goa facility.

#### EUROPE

In Europe Cipla grew 74% yoy to Rs 2.3 bn, due to a ramp up in respiratory products in view of the resolution of supply issues.

#### ROW

Emerging markets (10% of sales) grew 3%, due to challenges in Middle East.

#### API

API business +29% to Rs 1.7 bn in view of strong contribution from top 5 products and ramp up in oncology APIs.



Particulars	Q4FY19	Q3FY19	Q4FY18	yoy %	qoq %	FY19	FY18	Var %
<b>Net Sales</b>	<b>44040</b>	<b>40075</b>	<b>36979.7</b>	19%	10%	<b>163624.1</b>	<b>152192.5</b>	8%
Raw Material Consumed	-14858	-14627	-13302.6			-57844.9	-54384.2	
Employee Expenses	-7124.7	-7178.7	-6990.1			-28565.3	-26901	
Other Expenses	-12447	-11193	-11118.3			-10713.8	-37865.6	
<b>PBDIT</b>	<b>9610.50</b>	<b>7076.70</b>	<b>5568.70</b>	73%	36%	<b>30973.10</b>	<b>28263.8</b>	10%
OPM (%)	21.8%	17.7%	15.1%			18.9%	18.6%	
Other Income	953.6	785.3	400.1			4765.7	3576.5	
Interest	-447.8	-441.9	-352			-1684.3	-1142.3	
Depreciation *	-5102.8	-2931.3	-2848.2			-13263.1	-13228.2	
Profit before tax bfr exceptional	5013.5	4488.8	2768.6			20791.4	17469.8	19%
Exceptional provision	0	0	-771.2			0	-775.2	
Tax	-1277.5	-1256.8	-461.5			-5695.3	-2501.1	
<b>Profit After tax</b>	<b>3736</b>	<b>3232</b>	<b>1535.9</b>	143%	16%	<b>15096.1</b>	<b>14193.5</b>	6%
Less : Minority Interest	<b>95.20</b>	<b>99.60</b>	<b>253.60</b>			<b>-352.60</b>	<b>-60.40</b>	
Share of Profit/(Loss)	<b>-159.20</b>	<b>-9.60</b>	<b>0.60</b>			<b>-171.70</b>	<b>-27.80</b>	
Net Profit	3672.00	3322.00	1790.10	105%	11%	14571.80	14105.30	3%
<b>Other Comprehensive Income</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>			<b>0.00</b>	<b>0.00</b>	
<b>Total Comprehensive Income</b>	<b>3672.00</b>	<b>3322.00</b>	<b>1790.10</b>			<b>14571.80</b>	<b>14105.30</b>	
NPM (%)	8.5%	8.1%	4.2%			9.2%	9.3%	
Equity	1611.4	1610.5	1610.2			1611.4	1610.2	
Number of shares	805.7	805.25	805.1			805.7	805.1	
EPS - Diluted (Rs)	4.56	4.13	2.22			18.09	17.52	



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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	146,302.5	152,192.5	163,624.1	180,481.2	196,596.2	Net Profit	7,261.3	14,105.3	14,571.8	16,811.7	18,653.5
Raw materials	(53,171.2)	(54,384.2)	(57,844.9)	(61,592.9)	(66,039.7)	Add: Dep. & Amort.	13,229.3	13,228.2	13,263.1	12,652.6	13,732.6
Employee costs	(26,338.2)	(26,901.0)	(28,565.3)	(30,850.5)	(33,935.6)	<b>Cash profits</b>	<b>20,490.6</b>	<b>27,333.5</b>	<b>27,834.9</b>	<b>29,464.3</b>	<b>32,386.1</b>
Other Expenses	(44,837.8)	(42,643.5)	(46,240.8)	(55,489.0)	(61,037.9)	(Inc)/Dec in					
<b>Cost of sales</b>	<b>(124,347.2)</b>	<b>(123,928.7)</b>	<b>(132,651.0)</b>	<b>(147,932.4)</b>	<b>(161,013.1)</b>	-Sundry debtors	(2,067.8)	(5,394.0)	(10,482.7)	(1,885.0)	(3,807.1)
<b>Operating Profit</b>	<b>21,955.3</b>	<b>28,263.8</b>	<b>30,973.1</b>	<b>32,548.8</b>	<b>35,583.0</b>	-Inventories	3,227.7	(5,594.2)	798.7	(6,154.6)	(4,018.6)
Depreciation*	(13,229.3)	(13,228.2)	(13,263.1)	(12,652.6)	(13,732.6)	-Loans/advances	(5,079.9)	(215.9)	1,487.5	(332.8)	(351.3)
<b>PBIT</b>	<b>8,726.0</b>	<b>15,035.6</b>	<b>17,710.0</b>	<b>19,896.3</b>	<b>21,850.5</b>	-Sundry creditors	953.2	5,479.8	(1,711.3)	4,144.8	1,705.6
Other income	2,286.9	3,576.5	4,765.7	5,242.3	5,766.5	-Others	4,019.4	(3,910.9)	(143.1)	792.9	951.5
Interest	(1,593.8)	(1,142.3)	(1,684.3)	(1,411.1)	(1,411.1)	Change in working capital	1,052.6	(9,635.2)	(10,050.9)	(3,434.8)	(5,519.9)
<b>Profit before tax</b>	<b>9,419.1</b>	<b>17,469.8</b>	<b>20,791.4</b>	<b>23,727.4</b>	<b>26,205.8</b>	<b>CF from Oper. activities</b>	<b>21,543.2</b>	<b>17,698.3</b>	<b>17,784.0</b>	<b>26,029.4</b>	<b>26,866.3</b>
Provision for tax	(1,797.6)	(2,501.1)	(5,695.3)	(6,643.7)	(7,337.6)	<b>CF from Inv. activities</b>	<b>(13,253.3)</b>	<b>(12,542.6)</b>	<b>(19,275.5)</b>	<b>(21,298.5)</b>	<b>(23,501.0)</b>
<b>PAT Bfr Excep Items</b>	<b>7,621.5</b>	<b>14,968.7</b>	<b>15,096.1</b>	<b>17,083.7</b>	<b>18,868.2</b>	<b>CF from Fin. activities</b>	<b>(11,698.3)</b>	<b>(1,737.7)</b>	<b>(1,044.0)</b>	<b>(2,642.0)</b>	<b>(2,181.0)</b>
Extraordinary Items	-	(775.2)	-	-	-	<b>Cash generated/(utilised)</b>	<b>(3,408.4)</b>	<b>3,418.0</b>	<b>(2,535.5)</b>	<b>2,088.9</b>	<b>1,184.2</b>
Minority Interest/ Share of Prc	(360.2)	(88.2)	(524.3)	(272.1)	(214.7)	Cash at start of the year	8,714.0	5,305.6	8,723.6	6,188.1	8,277.0
<b>Reported PAT</b>	<b>7,261.3</b>	<b>14,105.3</b>	<b>14,571.8</b>	<b>16,811.7</b>	<b>18,653.5</b>	Cash at end of the year	5,305.6	8,723.6	6,188.1	8,277.0	9,459.3
<b>Balance Sheet</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>Ratios</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
Equity capital	1,609.0	1,610.2	1,611.4	1,611.4	1,611.4	OPM	15.0	18.6	18.9	18.0	18.1
Reserves	123,827.6	140,681.7	148,511.4	163,394.9	179,734.7	NPM	4.9	9.1	8.7	9.1	9.2
<b>Net worth</b>	<b>125,436.6</b>	<b>142,291.9</b>	<b>150,122.8</b>	<b>165,006.3</b>	<b>181,346.1</b>	Tax rate	(19.1)	(14.3)	(27.4)	(28.0)	(28.0)
Def. Tax Liab.+Minority Int.	11,951.2	8,557.5	7,572.9	8,037.7	8,549.7	<b>Growth Ratios (%)</b>					
Secured loans	36,453.6	36,621.1	38,300.7	38,300.7	38,300.7	Net Sales	6.1	4.0	7.5	10.3	8.9
Unsecured loans	5,122.9	4,859.8	8,736.1	8,736.1	8,736.1	Operating Profit	(11.5)	28.7	9.6	5.1	9.3
<b>Total debt</b>	<b>41,576.5</b>	<b>41,480.9</b>	<b>47,036.8</b>	<b>47,036.8</b>	<b>47,036.8</b>	PAT	(46.6)	94.3	3.3	15.4	11.0
Other non current liab	936.5	932.5	833.1	916.4	1,008.1	<b>Per Share (Rs.)</b>					
<b>CAPITAL EMPLOYED</b>	<b>178,964.3</b>	<b>192,330.3</b>	<b>205,565.6</b>	<b>220,080.8</b>	<b>236,932.5</b>	Net Earnings (EPS)	9.0	17.5	18.1	20.9	23.2
Gross block	98,036.4	114,331.2	125,584.3	140,584.3	152,584.3	Cash Earnings (CPS)	25.5	34.0	34.5	36.6	40.2
Accumulated depreciation	(47,949.5)	(61,177.7)	(74,440.8)	(87,093.4)	(100,826.0)	Dividend	3.4	4.0	2.0	2.0	2.0
<b>Net block</b>	<b>50,086.9</b>	<b>53,153.5</b>	<b>51,143.5</b>	<b>53,490.9</b>	<b>51,758.3</b>	Book Value	155.9	176.7	186.3	204.8	225.1
Capital WIP	7,192.3	5,123.5	3,310.5	5,000.0	5,000.0	Free Cash Flow	10.3	6.4	(1.9)	5.9	4.2
<b>Total fixed assets</b>	<b>57,279.2</b>	<b>58,277.0</b>	<b>54,454.0</b>	<b>58,490.9</b>	<b>56,758.3</b>	<b>Valuation Ratios</b>					
<b>Intangible Assets</b>	<b>27,486.3</b>	<b>22,880.3</b>	<b>19,081.5</b>	<b>23,690.5</b>	<b>25,191.5</b>	P/E(x)	<b>61.8</b>	<b>31.8</b>	<b>30.9</b>	<b>26.7</b>	<b>24.1</b>
Goodwill	26,966.7	28,147.4	28,691.4	28,691.4	28,691.4	P/B(x)	3.6	3.2	3.0	2.7	2.5
Other non current assets	2,922.0	1,812.7	1,341.7	1,341.7	1,341.7	EV/EBIDTA(x)	22.1	17.1	15.8	15.0	13.7
Investments	9,747.5	12,598.7	26,159.9	26,159.9	36,159.9	EV/SALES(x)	3.3	3.2	3.0	2.7	2.5
Inventories	34,852.8	40,447.0	39,648.3	45,802.9	49,821.5	Div. Yield(%)	0.6	0.7	0.4	0.4	0.4
Sundry debtors	25,630.5	31,024.5	41,507.2	43,392.2	47,199.3	<b>FCF Yield(%)</b>	<b>1.8</b>	<b>1.1</b>	<b>(0.3)</b>	<b>1.1</b>	<b>0.7</b>
Cash & bank	5,305.6	8,723.6	6,188.1	8,277.0	9,459.3	<b>Return Ratios (%)</b>					
Loans & advances	7,739.4	7,955.3	6,467.8	6,800.6	7,151.9	ROE	5.8	9.9	9.7	10.2	10.3
Other current assets	6,740.1	10,044.0	10,623.3	12,748.0	15,297.6	ROCE	4.9	7.8	8.6	9.0	9.2
Sundry creditors	(15,711.4)	(21,191.2)	(19,479.9)	(23,624.7)	(25,330.3)						
Current Liabilities	(9,329.6)	(6,501.2)	(6,006.0)	(7,207.2)	(8,648.6)						
Provisions	(5,428.9)	(7,650.3)	(8,581.7)	(10,298.0)	(12,357.6)						
<b>Working capital</b>	<b>49,798.5</b>	<b>62,851.7</b>	<b>70,367.1</b>	<b>75,890.8</b>	<b>82,593.0</b>						
Deferred Tax Assets	4,764.1	5,762.5	5,470.0	5,815.6	6,195.7						
Miscellaneous exp.	-	-	-	-	-						
<b>CAPITAL DEPLOYED</b>	<b>178,964.3</b>	<b>192,330.3</b>	<b>205,565.6</b>	<b>220,080.8</b>	<b>236,931.5</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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