



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result Update@ Dalal & Broacha

Accumulate

Current Price	570
Target Price	590
Upside	4%
52 Week Range	357/632

Cipla Q4FY20 results were below expectations. While revenues were close to estimates, the 300 bps sequential dip in gross margins led to lower earnings. On yoy basis, the 25% degrowth in US revenues was as expected due to higher base of Q4FY19 with 'at risk' launch of gSENSIPAR (Cinacalcet), lowered profitability.

Key Share Data

Market Cap (Rs.bn)	460
Market Cap (US\$bn)	6.04
No of o/s shares (mn)	806.24
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	9646
BSE Code	500087
NSE Code	CIPLA
Bloomberg	CIPLA IN

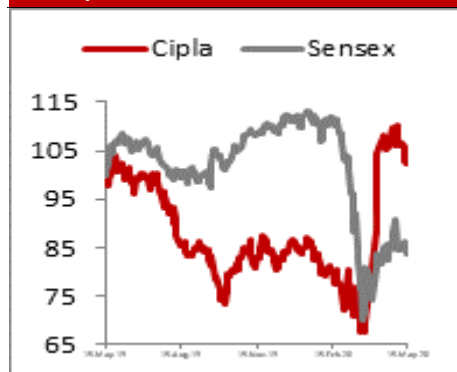
Profitability lower due to high base of Cinacalcet launch

Revenues were flat Rs 43 bn, due to healthy growth in India (40% of sales,+12%) and APIs (6% of sales,+42%). US (20% of sales) degrew (-25%) as expected due to higher base of Q4FY19 in view of at risk launch of gSENSIPAR (Cinacalcet).

South Africa (19% of sales, +7%). ROW (7% of sales, -18%), Europe (4% of sales, flat) and API (4% of sales, +7%).

Adjusting for one offs in Q3FY20, raw material costs increased 8% reducing gross margins 300 bps sequentially. EBITDA declined 300 bps to 14.2% due to supply chain issues and remediation expenses (1% of sales) relating to the Goa plant and lower gross margins. Depreciation was higher due to impairment of some assets. PBT degrew 35% to Rs 3.3 bn. With ETR of 26%, PAT degrew 35% yoy to Rs 2.3 bn. EPS for the quarter was at Rs 2.87.

Price performance



Foray into Respiratory Inhalers in US

Cipla's launch of Albuterol in the US has marked its foray into the US inhalers market. The referral product PROVENTIL from Merck MSD and its authorised generic (Teva) generated sales of \$153 mn for TTM ending February 2020. Cipla's ANDA is the first generic Metered Dose Inhaler (MDI) in the market. The product is used in the treatment of bronchospasm in adults as well as children who are more than 4 years of age.

Outlook & Valuation

We are positive on Cipla on three fronts namely its restored growth in India business, one limited competition launch a quarter in the US and its foray into the US inhalers market. The staggered launch of Albuterol and Covid related uncertainties, ANDA filings of respiratory products will have lower liquidity for Cipla.

At Rs 570, Cipla trades at 19x FY22E EPS of Rs 29. We recommend investors to **ACCUMULATE** with a target price of Rs 590.

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	EV/EBIT	RoE (%)	RoCE (%)
FY18A	1,52,193	4.0	28,264	18.6	14,105	94.3	17.5	32.5	17.4	9.9	7.8
FY19A	1,63,624	7.5	30,973	18.9	14,572	3.3	18.1	31.5	16.1	9.7	8.6
FY20A	1,71,320	4.7	32,060	18.7	14,525	(0.3)	18.0	31.6	14.9	9.2	10.4
FY21E	1,90,576	11.2	39,515	20.7	20,643	42.1	25.6	22.3	11.8	11.7	12.5
FY22E	2,04,919	7.5	44,089	21.5	23,750	15.1	29.5	19.4	10.1	12.1	12.9



KTAs from concall

1. Revenues grew 12% from India sales. India prescription business (80%) grew 12%, with 15% growth in trade generics. Prescription growth was from chronic therapies namely respiratory, cardiac, gastro and pain.
2. In India, Cipla acquired 4 brands from Wanbury, to strengthen its Women's Health portfolio. The company also transferred 4 brands from trade generics to Consumer health, enabling growth.
3. In the US, Cipla has launched Albuterol and Esomeprazole for oral suspension (10 mg). The company expects Albuterol to ramp up soon, and has adequate capacities to get a reasonable share of the market.
4. Cipla plans to launch one limited competition product in the US, every quarter from FY21.
5. Cipla is in the process of out licensing its CNS assets under development. While the deal has been signed for 1 asset, covering cost of development and future costs relating to filing and commercialization.
6. Cipla has completed its Phase III trial for generic ADVAIR and expects to file ANDA soon.
7. Cipla is currently operating at 80-85% of its capacity and expects to reach 100% utilization soon.
8. The ROW markets were muted due to Covid 19 related supply chain issues.
9. Cipla repaid \$275 mn debt during FY20. The company has passed an enabling resolution to raise Rs 3000 crs.



Particulars	Q4FY20	Q3FY20	Q4FY19	yoy %	qoq %	FY20	FY19	Var %
Net Sales	43762	43710	44040	-1%	0%	171320	163624	5%
Raw Material Consumed	-16889	-16450	-14858			-59914	-57845	
Employee Expenses	-7637	-7455	-7125			-30270	-28565	
Other Expenses	-12900.3	-12221.9	-12446.9			-49075.7	-46240.8	
PBDIT	6335	7583	9611	-34%	-16%	32060	30973	4%
OPM (%)	14.5%	17.3%	21.8%			18.7%	18.9%	
Other Income	932	721	954			3442	4766	
Interest	-530	-462	-448			-1974	-1684	
Depreciation *	-3458	-2779	-5103			-11747	-13263	
Profit before tax bfr exceptional	3279	5064	5014			21782	20791	5%
Exceptional provision	0	0	0			0	0	
Tax	-856	-1528	-1278			-6312	-5695	
Profit After tax	2423	3536	3736	-35%	-31%	15470	15096	2%
Less : Minority Interest	-75	-117	95			-470	-353	
Share of Profit/(Loss)	-38	-142	-159			-475	-172	
Net Profit	2310	3277	3672	-37%	-30%	14525	14572	0%
NPM (%)	5.5%	8.1%	8.5%			9.0%	9.2%	
Equity	1612.5	1612.5	1611.4			1612.5	1611.4	
Number of shares	806.25	806.25	805.7			806.25	805.7	
EPS - Diluted (Rs)	2.87	4.06	4.56			18.02	18.09	


CIPLA - Key Financials

P&L (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	1,52,193	1,63,624	1,71,320	1,90,576	2,04,919	Net Profit	14,105	14,572	14,525	20,643	23,750
Raw materials	(54,384)	(57,845)	(59,914)	(66,955)	(71,035)	Add: Dep. & Amort.	13,228	13,263	11,747	12,700	13,680
Employee costs	(26,901)	(28,565)	(30,270)	(32,086)	(34,653)	Cash profits	27,334	27,835	26,272	33,343	37,430
Other Expenses	(42,644)	(46,241)	(49,076)	(52,020)	(55,141)	(Inc)/Dec in					
Cost of sales	(1,23,929)	(1,32,651)	(1,39,260)	(1,51,062)	(1,60,830)	-Sundry debtors	(5,394)	(10,483)	2,594	(6,947)	(3,480)
Operating Profit	28,264	30,973	32,060	39,515	44,089	-Inventories	(5,594)	799	(4,128)	(2,693)	(3,526)
Depreciation*	(13,228)	(13,263)	(11,747)	(12,700)	(13,680)	-Loans/advances	(216)	1,488	245	(320)	(337)
PBIT	15,036	17,710	20,313	26,814	30,409	-Sundry creditors	5,480	(1,711)	3,338	1,946	1,509
Other income	3,577	4,766	3,442	3,614	3,976	-Others	(3,911)	(143)	5,144	3,152	3,848
Interest	(1,142)	(1,684)	(1,974)	(1,547)	(1,547)	Change in working capital	(9,635)	(10,051)	7,193	(4,861)	(1,986)
Profit before tax	17,470	20,791	21,782	28,882	32,838	CF from Oper. activities	17,698	17,784	33,465	28,482	35,444
Provision for tax	(2,501)	(5,695)	(6,312)	(7,509)	(8,538)	CF from Inv. activities	(12,543)	(19,276)	(491)	(14,838)	(10,550)
PAT Bfr Excep Items	14,969	15,096	15,470	21,373	24,300	CF from Fin. activities	(1,738)	(1,044)	(26,547)	(2,338)	(2,797)
Extraordinary Items	(775)	-	-	-	-	Cash generated/(utilised)	3,418	(2,536)	6,427	11,306	22,098
Minority Interest/ Share of Profi	(88)	(524)	(945)	(730)	(550)	Cash at start of the year	5,306	8,724	6,188	12,615	23,921
Reported PAT	14,105	14,572	14,525	20,643	23,750	Cash at end of the year	8,724	6,188	12,615	23,921	46,017
Balance Sheet	FY18	FY19	FY20	FY21E	FY22E	Ratios	FY18	FY19	FY20	FY21E	FY22E
Equity capital	1,610	1,611	1,613	1,613	1,613	OPM	18.6	18.9	18.7	20.7	21.5
Reserves	1,40,682	1,48,511	1,56,018	1,74,346	1,95,320	NPM	9.1	8.7	8.3	10.6	11.4
Net worth	1,42,292	1,50,123	1,57,630	1,75,959	1,96,932	Tax rate	(14.3)	(27.4)	(29.0)	(26.0)	(26.0)
Def. Tax Liab.+Minority Int.	8,558	7,573	6,595	7,039	7,534	Growth Ratios (%)					
Secured loans	36,621	38,301	23,693	23,693	23,693	Net Sales	4.0	7.5	4.7	11.2	7.5
Unsecured loans	4,860	8,736	7,241	7,241	7,241	Operating Profit	28.7	9.6	3.5	23.3	11.6
Total debt	41,481	47,037	30,933	30,933	30,933	PAT	94.3	3.3	(0.3)	42.1	15.1
Other non current liab	933	833	675	742	817	Per Share (Rs.)					
CAPITAL EMPLOYED	1,92,330	2,05,566	1,95,158	2,13,931	2,35,399	Net Earnings (EPS)	17.5	18.1	18.0	25.6	29.5
Gross block	71,059	75,059	83,716	90,716	97,716	Cash Earnings (CPS)	34.0	34.5	32.6	41.4	46.4
Accumulated depreciation	(17,906)	(23,916)	(35,662)	(48,362)	(62,043)	Dividend	4.0	2.0	2.0	2.0	2.0
Net block	53,154	51,144	48,053	42,353	35,673	Book Value	176.7	186.3	195.5	218.2	244.3
Capital WIP	5,124	3,311	4,210	5,000	5,000	Free Cash Flow	6.4	(1.9)	40.9	16.9	30.9
Total fixed assets	58,277	54,454	52,263	47,353	40,673	Valuation Ratios					
Intangible Assets	22,880	19,082	19,000	20,965	21,465	P/E(x)	32.5	31.5	31.6	22.3	19.4
Goodwill	28,147	28,691	29,340	29,340	29,340	P/B(x)	3.2	3.1	2.9	2.6	2.3
Other non current assets	1,813	1,342	1,916	1,916	1,916	EV/EBIDTA(x)	17.4	16.1	14.9	11.8	10.1
Investments	12,599	26,160	15,953	21,036	24,085	EV/SALES(x)	3.2	3.1	2.8	2.4	2.2
Inventories	40,447	39,648	43,776	46,469	49,995	Div. Yield(%)	0.7	0.4	0.4	0.4	0.4
Sundry debtors	31,025	41,507	38,913	45,860	49,340	FCF Yield(%)	1.1	(0.3)	7.2	3.0	5.4
Cash & bank	8,724	6,188	12,615	23,921	46,017	Return Ratios (%)					
Loans & advances	7,955	6,468	6,223	6,543	6,880	ROE	9.9	9.7	9.2	11.7	12.1
Other current assets	10,044	10,623	8,866	9,310	9,775	ROCE	7.8	8.6	10.4	12.5	12.9
Sundry creditors	(21,191)	(19,480)	(22,818)	(24,764)	(26,273)						
Current Liabilities	(6,501)	(6,006)	(7,160)	(8,592)	(10,310)						
Provisions	(7,650)	(8,582)	(10,815)	(12,978)	(15,573)						
Working capital	62,852	70,367	69,601	85,768	1,09,850						
Deferred Tax Assets	5,763	5,470	7,084	7,553	8,068						
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	1,92,330	2,05,566	1,95,158	2,13,931	2,35,399						

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



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