



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

## Q1FY21 Result Update@ Dalal & Broacha

### BUY on Dips

Current Price	729
<b>Target Price</b>	<b>830</b>
Upside	14%
52 Week Range	357/740

### Key Share Data

Market Cap (Rs.bn)	587
Market Cap (US\$ mn)	7835
No of o/s shares (mn)	806
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	7539
BSE Code	500087
NSE Code	CIPLA
Bloomberg	CIPLA:IN

### Price performance



% Shareholding	Jun-20	Mar-20
Promoters	36.68	36.68
FII	18.64	20.32
DII	20.88	20.44
Others	23.40	22.16
<b>Total</b>	<b>100</b>	<b>100</b>

**CIPLA Q1FY21 results better than estimates. Strong demand drives sales across markets, with cost savings from pandemic leading earnings growth.**

- Sales Rs 42.7 bn +10% yoy/-1% qoq, 4% higher than our estimate of Rs 41.2 bn.
- EBITDA Rs 10.5 bn +15% yoy/+65% qoq, due to 17% degrowth in other expenses.
- EBITDA margins 24.5% (+130 bps yoy/+960 bps qoq), 400 bps higher than our estimate of 20.1%.
- PAT after minority interest and share of profit +15% yoy to Rs 5779 mn.

Sales growth driven by India (37% of sales, +19% Rs 16 bn), ROW (10% of sales, +64% Rs 4.6 bn), South Africa (18% of sales +10% Rs 7.4 bn) and Europe (6% of sales, +19% Rs 2.4 bn). US sales were at \$134 mn, on high base as Q1FY20 included CINACALCET launch. Sequentially, US sales grew 14%.

### Change in costs

Other expenses 21.5% of sales Vs 28.5% in FY20. The company expects lower costs to continue going forward.

### Revision of estimates

We have marginally revised our estimates in view of improved profitability from better product mix and lower expenses due to the pandemic and R & D spends. With the launch of Albuterol and more respiratory launches in the US, Cipla has forayed to the next level of growth.

### Valuation and Outlook

At CMP, Cipla trades at 25x FY22E EPS of Rs 30.6. We believe Cipla will benefit from strong demand across markets, cost savings due to the pandemic and lower R & D spend due to gADVAIR trial completion, in FY21. We have valued Cipla as a weighted average of P/E (20%) multiple of 26x FY22E EPS of Rs 30.6 and 15x EV/EBITDA (80%), and arrived at a target price of Rs 830.

**We maintain BUY on Dips with a target price of Rs 830.**

### Key Financials

Year	Sales	% Growth	EBITDA	OPM (%)	PAT	% Grow	EPS	PE (x)	EV/EBIT	RoE (%)	RoCE (%)
FY18A	1,52,193	4.0	28,264	18.6	14,105	94.3	17.5	41.2	21.7	9.9	7.8
FY19A	1,63,624	7.5	30,973	18.9	14,572	3.3	18.1	39.9	20.1	9.7	8.6
FY20A	1,71,320	4.7	32,060	18.7	14,525	(0.3)	18.0	40.0	18.7	9.2	10.4
FY21E	1,88,570	10.1	40,434	21.4	21,618	48.8	26.8	26.9	14.7	12.2	13.1
FY22E	2,00,492	6.3	45,043	22.5	24,706	14.3	30.6	23.5	12.7	12.4	13.3



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### KTAs from concall

1. Sales growth driven by India (37% of sales, +19% Rs 16 bn), ROW (10% of sales, +64% Rs 4.6 bn), South Africa (18% of sales +10% Rs 7.4 bn) and Europe (6% of sales, +19% Rs 2.4 bn).

#### India

- a. India sales +19% Rs 16 bn, significantly higher than our estimate of Rs 13.9 bn.
- b. Rx +9% due to strong traction in chronic therapies despite lock down challenges. Trade generics +46%, Consumer healthcare sales at Rs 1000 mn in Q1FY21.
- c. Better than market growth in Respiratory, Inhalation and Urology.
- d. Performed better than the market in CNS, Ophthalmology and Dermatology.
- e. Commenced supplies of Remdesvir, strong demand across India.
- f. Expect growth momentum to continue in Q2 and Q3, due to Covid19 as well as monsoon.

#### USA

US sales were at \$134 mn, on high base as Q1FY20 included CINACALCET launch. Sequentially, US sales grew 14%.

- Launch of Albuterol, gained significant market share
- Launched nasal spray 180 days excl
- Icatibant Injectable Pre-Filled Syringe
- Settled with Amgen for Cinacalcet, with no liability towards the launch.\*

#### South Africa

- a. Revenues +17% in ZAR, of which Private market +24% and tenders +6%.
- b. Strong volume growth in private, OTC and tender business.
- c. Growth better than industry in private as well as OTC business.
- d. Launched antiviral combination TLD (Tenofovir, Lamivudine and Dolutegravir) in South Africa, expect scale up in coming quarters.

**ROW & Europe.** Strong demand across markets on low base. Market share gains in Europe.

6. API +11% to \$24 mn, adjusted for one time order in Q1FY20.


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Particulars	Q1FY21	Q4FY20	Q1FY20	yoy %	qoq %	FY20	FY19	Var %
<b>Net Sales</b>	<b>43462</b>	<b>43762</b>	<b>39890</b>	9%	-1%	<b>171320</b>	<b>163624</b>	5%
Raw Material Consumed	-15895	-16889	-11963			-59914	-57845	
Employee Expenses	-7719	-7637	-7561			-30270	-28565	
Other Expenses	-9360.9	-12900	11319.3			-49075.7	-46240.8	
<b>PBDIT</b>	<b>10487</b>	<b>6335</b>	<b>9098</b>	15%	66%	<b>32060</b>	<b>30973</b>	4%
OPM (%)	24.1%	14.5%	22.8%			18.7%	18.9%	
Other Income	655	932	784			3442	4766	
Interest	-460	-530	-521			-1974	-1684	
Depreciation *	-2690	-3458	-2680			-11747	-13263	
Profit before tax bfr exceptioniional	7992.1	3279	6681			21782	20791	5%
Exceptional provision	0	0	0			0	0	
Tax	-2278	-856	-1922			-6312	-5695	
<b>Profit After tax</b>	<b>5714</b>	<b>2423</b>	<b>4759</b>	20%	136%	<b>15470</b>	<b>15096</b>	2%
Less : Minority Interest	-119	-75	310			-470	-353	
Share of Profit/(Loss)	-54	-38	-235			-475	-172	
<b>Net Profit</b>	<b>5542</b>	<b>2310</b>	<b>4834</b>	15%	140%	<b>14525</b>	<b>14572</b>	0%
NPM (%)	13.1%	5.5%	11.9%			9.0%	9.2%	
Equity	1612.5	1612.5	1611.7			1612.5	1611.4	
Number of shares	806.25	806.25	805.85			806.25	805.7	
EPS - Diluted (Rs)	6.87	2.87	6.00			18.02	18.09	

**Revision of estimates: We have marginally revised our estimates in view of the strong demand across markets and profitability improvement due to change in product mix.**

	FY21E (New)	FY21E (Old)	% change	FY22E (New)	FY22E (Old)	% change
<b>Sales</b>	1,88,570	1,90,576	-1%	2,00,492	2,04,919	-2%
<b>EBITDA</b>	40,434	39,515	2%	45,043	44,083	2%
<b>OPM</b>	21.4	20.7		22.5	21.5	
<b>PAT</b>	21,618	20,643	5%	24,706	23,750	4%



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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	1,88,570	2,00,492	Net Profit	14,105	14,572	14,525	21,618	24,706
Raw materials	(54,384)	(57,845)	(59,914)	(65,313)	(68,485)	Add: Dep. & Amort.	13,228	13,263	11,747	12,183	13,223
Employee costs	(26,901)	(28,565)	(30,270)	(31,784)	(33,373)	<b>Cash profits</b>	<b>27,334</b>	<b>27,835</b>	<b>26,272</b>	<b>33,801</b>	<b>37,929</b>
Other Expenses	(42,644)	(46,241)	(49,076)	(51,039)	(53,591)	(Inc)/Dec in					
<b>Cost of sales</b>	<b>(1,23,929)</b>	<b>(1,32,651)</b>	<b>(1,39,260)</b>	<b>(1,48,135)</b>	<b>(1,55,449)</b>	-Sundry debtors	(5,394)	(10,483)	2,594	(6,452)	(2,883)
<b>Operating Profit</b>	<b>28,264</b>	<b>30,973</b>	<b>32,060</b>	<b>40,434</b>	<b>45,043</b>	-Inventories	(5,594)	799	(4,128)	(4,466)	(3,066)
Depreciation*	(13,228)	(13,263)	(11,747)	(12,183)	(13,223)	-Loans/advances	(216)	1,488	245	(320)	(337)
<b>PBIT</b>	<b>15,036</b>	<b>17,710</b>	<b>20,313</b>	<b>28,251</b>	<b>31,820</b>	-Sundry creditors	5,480	(1,711)	3,338	1,533	1,202
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)	(1,666)	(1,666)	Change in working capital	(9,635)	(10,051)	7,193	(6,553)	(1,236)
<b>Profit before tax</b>	<b>17,470</b>	<b>20,791</b>	<b>21,782</b>	<b>30,200</b>	<b>34,130</b>	<b>CF from Oper. activities</b>	<b>17,698</b>	<b>17,784</b>	<b>33,465</b>	<b>27,248</b>	<b>36,693</b>
Provision for tax	(2,501)	(5,695)	(6,312)	(7,852)	(8,874)	<b>CF from Inv. activities</b>	<b>(12,543)</b>	<b>(19,276)</b>	<b>(491)</b>	<b>(17,838)</b>	<b>(11,550)</b>
<b>PAT Bfr Excep Items</b>	<b>14,969</b>	<b>15,096</b>	<b>15,470</b>	<b>22,348</b>	<b>25,256</b>	<b>CF from Fin. activities</b>	<b>(1,738)</b>	<b>(1,044)</b>	<b>(26,547)</b>	<b>(1,231)</b>	<b>(2,790)</b>
Extraordinary Items	(775)	-	-	-	-	<b>Cash generated/(utilised)</b>	<b>3,418</b>	<b>(2,536)</b>	<b>6,427</b>	<b>8,180</b>	<b>22,354</b>
Minority Interest/ Share of Profi	(88)	(524)	(945)	(730)	(550)	Cash at start of the year	5,306	8,724	6,188	12,615	20,795
<b>Reported PAT</b>	<b>14,105</b>	<b>14,572</b>	<b>14,525</b>	<b>21,618</b>	<b>24,706</b>	Cash at end of the year	8,724	6,188	12,615	20,795	43,147
<b>Balance Sheet</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>Ratios</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Equity capital	1,610	1,611	1,613	1,613	1,613	OPM	18.6	18.9	18.7	21.4	22.5
Reserves	1,40,682	1,48,511	1,56,018	1,75,322	1,97,251	NPM	9.1	8.7	8.3	11.2	12.1
<b>Net worth</b>	<b>1,42,292</b>	<b>1,50,123</b>	<b>1,57,630</b>	<b>1,76,934</b>	<b>1,98,864</b>	Tax rate	(14.3)	(27.4)	(29.0)	(26.0)	(26.0)
Def. Tax Liab.+Minority Int.	8,558	7,573	6,595	7,046	7,547	<b>Growth Ratios (%)</b>					
Secured loans	36,621	38,301	23,693	24,793	24,793	Net Sales	4.0	7.5	4.7	10.1	6.3
Unsecured loans	4,860	8,736	7,241	7,241	7,241	Operating Profit	28.7	9.6	3.5	26.1	11.4
<b>Total debt</b>	<b>41,481</b>	<b>47,037</b>	<b>30,933</b>	<b>32,033</b>	<b>32,033</b>	PAT	94.3	3.3	(0.3)	48.8	14.3
Other non current liab	933	833	675	742	817	<b>Per Share (Rs.)</b>					
<b>CAPITAL EMPLOYED</b>	<b>1,92,330</b>	<b>2,05,566</b>	<b>1,95,158</b>	<b>2,16,014</b>	<b>2,38,444</b>	Net Earnings (EPS)	17.5	18.1	18.0	26.8	30.6
Gross block	71,059	75,059	83,716	93,716	1,01,716	Cash Earnings (CPS)	34.0	34.5	32.6	41.9	47.0
Accumulated depreciation	(17,906)	(23,916)	(35,662)	(47,845)	(61,068)	Dividend	4.0	2.0	2.0	2.0	2.0
<b>Net block</b>	<b>53,154</b>	<b>51,144</b>	<b>48,053</b>	<b>45,870</b>	<b>40,647</b>	Book Value	176.7	186.3	195.5	219.5	246.7
Capital WIP	5,124	3,311	4,210	5,000	5,000	Free Cash Flow	6.4	(1.9)	40.9	11.7	31.2
<b>Total fixed assets</b>	<b>58,277</b>	<b>54,454</b>	<b>52,263</b>	<b>50,870</b>	<b>45,647</b>	<b>Valuation Ratios</b>					
<b>Intangible Assets</b>	<b>22,880</b>	<b>19,082</b>	<b>19,000</b>	<b>20,965</b>	<b>21,465</b>	P/E(x)	<b>41.2</b>	<b>39.9</b>	<b>40.0</b>	<b>26.9</b>	<b>23.5</b>
Goodwill	28,147	28,691	29,340	29,340	29,340	P/B(x)	4.1	3.9	3.7	3.3	2.9
Other non current assets	1,813	1,342	1,916	1,916	1,916	EV/EBIDTA(x)	21.7	20.1	18.7	14.7	12.7
Investments	12,599	26,160	15,953	21,036	24,085	EV/SALES(x)	4.0	3.8	3.5	3.1	2.8
Inventories	40,447	39,648	43,776	48,242	51,308	Div. Yield(%)	0.6	0.3	0.3	0.3	0.3
Sundry debtors	31,025	41,507	38,913	45,365	48,248	<b>FCF Yield(%)</b>	<b>0.9</b>	<b>(0.3)</b>	<b>5.7</b>	<b>1.6</b>	<b>4.3</b>
Cash & bank	8,724	6,188	12,615	20,795	43,147	<b>Return Ratios (%)</b>					
Loans & advances	7,955	6,468	6,223	6,543	6,880	ROE	9.9	9.7	9.2	12.2	12.4
Other current assets	10,044	10,623	8,866	9,310	9,775	ROCE	7.8	8.6	10.4	13.1	13.3
Sundry creditors	(21,191)	(19,480)	(22,818)	(24,351)	(25,553)						
Current Liabilities	(6,501)	(6,006)	(7,160)	(8,592)	(10,310)						
Provisions	(7,650)	(8,582)	(10,815)	(12,978)	(15,573)						
<b>Working capital</b>	<b>62,852</b>	<b>70,367</b>	<b>69,601</b>	<b>84,333</b>	<b>1,07,921</b>						
Deferred Tax Assets	5,763	5,470	7,084	7,553	8,068						
Miscellaneous exp.	-	-	-	-	-						
<b>CAPITAL DEPLOYED</b>	<b>1,92,330</b>	<b>2,05,566</b>	<b>1,95,158</b>	<b>2,16,014</b>	<b>2,38,443</b>						

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



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