



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Q2FY21 Result Update@ Dalal & Broacha

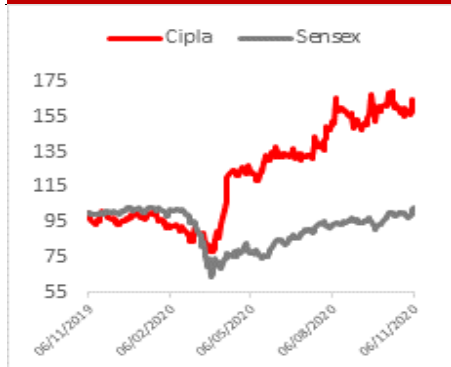
BUY on Dips

Current Price	790
Target Price	881
Upside	12%
52 Week Range	357/829

Key Share Data

Market Cap (Rs.bn)	637
Market Cap (US\$ mn)	8610
No of o/s shares (mn)	806
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	7526
BSE Code	500087
NSE Code	CIPLA
Bloomberg	CIPLA:IN

Price performance



CIPLA Q2FY21 results were in line with estimates. Strong demand drives sales (including Favipiravir and Remdesvir) across markets, with cost savings from pandemic leading earnings growth. Sequential GPM decline due to change in product mix. All non Covid businesses have shown profitability improvement. The US business has achieved company level profitability in H1FY21.

- Sales Rs 49.7 bn +15% yoy/+16% qoq, 8% higher than our estimate of Rs 46 bn.
- EBITDA Rs 11.8 bn +29% yoy/+12% qoq, due to 13% degrowth in other expenses in line with our estimate of Rs 11.9 bn.
- EBITDA margins 23.4% (+270 bps yoy/-70 bps qoq), 210 bps lower than our estimate of 25.5%.
- PAT after minority interest and share of profit +37% yoy to Rs 6533 mn, in line with our estimate of Rs 6561 mn.

Revision of estimates

We have marginally revised our estimates upward in view of the increased profitability of the US business and the traction of Covid19 supplies in India, South Africa and ROW markets.

Valuation

At CMP, Cipla trades at 25x FY22E EPS of Rs 31.5. We have valued Cipla as a weighted average of 28x P/E (50%) and 15x EV/EBITDA (50%), and arrived at a target price of Rs 881.

We maintain BUY on Dips.

% Shareholding	Sep-20	Jun-20
Promoters	36.70	36.68
FII	20.06	18.64
DII	19.34	20.88
Others	23.48	23.40
Total	100	100

Key Financials

Year	Sales	% Growth	EBIDTA	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	45.1	23.7	9.9	7.8
FY19A	1,63,624	7.5	30,973	18.9	14,572	3.3	18.1	43.7	21.9	9.7	8.6
FY20A	1,71,320	4.7	32,060	18.7	14,525	(0.3)	18.0	43.9	20.4	9.2	10.4
FY21E	1,87,345	9.4	42,589	22.7	22,403	54.2	27.8	28.4	15.2	12.6	14.0
FY22E	1,99,130	6.3	47,250	23.7	25,431	13.5	31.5	25.0	13.2	12.7	14.2

**Q2FY21 Result Update@ Dalal & Broacha****KTAs from concall**

1. **Sales growth driven by India** (41% of sales, +20% Rs 20.9 bn), **South Africa** (18% of sales +25% Rs 9.2 bn), **US** (21% of sales, +10% Rs 10.5 bn), **ROW** (9% of sales, +5% Rs 4.7 bn), and **Europe** (5% of sales, +30% Rs 2.5 bn). Covid19 contributes less than 5% to Q2FY21 sales.
2. **India**
 - a. **India sales +20% Rs 20.9 bn, significantly higher than our estimate of Rs 18.5 bn.**
 - b. Rx +14% due to **strong demand from Covid and traction in chronic therapies**. Healthy growth in Trade generics, Consumer healthcare sales at Rs 800 mn in Q2FY21.
 - c. Better than market growth in Respiratory, Inhalation and Urology. Double digit growth in cardiology.
 - d. Strong demand for Remdesvir, and Favipiravir across India.
 - e. Expect growth momentum to continue in Q3, due to Covid19.
3. **US**
 - a. **US sales were at \$141 mn, +5% yoy/ +4% qoq. Yoy growth adjusted for Cinacalcet.**
 - The US business has achieved company level profitability in H1FY21.
 - Largest market share of 84% of TRX for Albuterol.
 - Albuterol a 95 mn units market, with gPROVENTIL 6-7%. Cipla expects gradual market share gains in Albuterol in view of the complexity in manufacturing and supply chain.
 - Traction in demand from Government and hospitals for expanded portfolio.
 - Avenue Therapeutics working with USFDA for CRL on Tramadol.
4. **South Africa**
 - a. Revenues +14% in ZAR, of which Private market +9% and tenders +28%.
 - b. **Strong volume growth in private, OTC and tender business.**
 - c. Growth better than industry in private as well as OTC business.
 - d. Cipla entered into collaboration with Alvotech for commercialisation of 5 biosimilars.
5. **ROW & Europe**
 - a. Strong demand across markets on low base. Market share gains in Europe.
 - b. Commenced Remdesvir supplies in ROW markets.
6. **API** +15% to \$25 mn, with strong demand.


Q2FY21 Result Update@ Dalal & Broacha

Particulars	Q2FY21	Q1FY21	Q2FY20	yoy %	qoq %	H1FY21	H1FY20	Var %
Net Sales	50383	43462	43958	15%	16%	93845	83848	12%
Raw Material Consumed	-19465	-15895	-14612			-35360	-26576	
Employee Expenses	-8209	-7719	-7616			-15928	-15178	
Other Expenses	-10943.1	-9361	-12634			-20304	-23953.5	
PBDIT	11766	10487	9095	29%	12%	22253	18141	23%
OPM (%)	23.4%	24.1%	20.7%			23.7%	21.6%	
Other Income	535	655	1005			1189	1788.9	
Interest	-393	-460	-461			-853	-981.9	
Depreciation *	-2651	-2690	-2830			-5340	-5509.6	
Profit before tax bfr exceptiional	9256.5	7992.1	6810			17248.6	13438.8	28%
Exceptional provision	0	0	0			0	0	
Tax	-2638	-2278	-2006			-4916	-3927.9	
Profit After tax	6619	5714	4804	38%	16%	12333	9511	30%
Less : Minority Interest	-61	-119	32			-179	342	
Share of Profit/(Loss)	-25	-54	-59			-79	-294	
Net Profit	6533	5542	4777	37%	18%	12075	9558	26%
NPM (%)	13.1%	13.1%	10.9%			13.1%	11.3%	
Equity	1612.7	1612.5	1612.2			1612.5	1612.2	
Number of shares	806.35	806.25	806.1			806.25	806.1	
EPS - Diluted (Rs)	8.10	6.87	5.93			14.98	11.86	

We have marginally revised our estimates in view of the increased profitability of the US business and the traction of Covid19 supplies in India, South Africa and ROW markets.

	FY21E (New)	FY21E (Old)	% change	FY22E (New)	FY22E (Old)	% change
Sales	1,87,345	1,88,570	-1%	1,99,130	2,00,492	-1%
EBITDA	42,589	40,434	5%	47,250	45,043	5%
OPM	22.7	21.4		23.7	22.5	
PAT	22,403	21,618	4%	25,431	24,706	3%
EPS	27.8	26.8		31.5	30.6	

We have valued Cipla as a weighted average of 28x P/E (50%) and 15x EV/EBITDA (50%), and arrived at a target price of Rs 881.



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Q2FY21 Result Update@ Dalal & Broacha

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	1,87,345	1,99,130	Net Profit	14,105	14,572	14,525	22,403	25,431
Raw materials	(54,384)	(57,845)	(59,914)	(64,878)	(68,009)	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)	Cash profits	27,334	27,835	26,272	34,586	38,654
Other Expenses	(42,644)	(46,241)	(49,076)	(48,094)	(50,499)	(Inc)/Dec in					
Cost of sales	(1,23,929)	(1,32,651)	(1,39,260)	(1,44,756)	(1,51,880)	-Sundry debtors	(5,394)	(10,483)	2,594	(6,150)	(2,849)
Operating Profit	28,264	30,973	32,060	42,589	47,250	-Inventories	(5,594)	799	(4,128)	(4,145)	(3,030)
Depreciation*	(13,228)	(13,263)	(11,747)	(12,183)	(13,223)	-Loans/advances	(216)	1,488	245	(320)	(337)
PBIT	15,036	17,710	20,313	30,406	34,027	-Sundry creditors	5,480	(1,711)	3,338	977	1,171
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	(6,485)	(1,197)
Profit before tax	17,470	20,791	21,782	32,354	36,336	CF from Oper. activities	17,698	17,784	33,465	28,101	37,456
Provision for tax	(2,501)	(5,695)	(6,312)	(9,221)	(10,356)	CF from Inv. activities	(12,543)	(19,276)	(491)	(17,838)	(11,550)
PAT Bfr Excep Items	14,969	15,096	15,470	23,133	25,981	CF from Fin. activities	(1,738)	(1,044)	(26,547)	(1,204)	(2,760)
Extraordinary Items	(775)	-	-	-	-	Cash generated/(utilised)	3,418	(2,536)	6,427	9,060	23,147
Minority Interest/ Share of Profi	(88)	(524)	(945)	(730)	(550)	Cash at start of the year	5,306	8,724	6,188	12,615	21,675
Reported PAT	14,105	14,572	14,525	22,403	25,431	Cash at end of the year	8,724	6,188	12,615	21,675	44,820
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	22.7	23.7
Reserves	1,40,682	1,48,511	1,56,018	1,76,107	1,98,761	NPM	9.1	8.7	8.3	11.7	12.5
Net worth	1,42,292	1,50,123	1,57,630	1,77,720	2,00,374	Tax rate	(14.3)	(27.4)	(29.0)	(28.5)	(28.5)
Def. Tax Liab.+Minority Int.	8,558	7,573	6,595	7,074	7,604	Growth Ratios (%)					
Secured loans	36,621	38,301	23,693	24,793	24,793	Net Sales	4.0	7.5	4.7	9.4	6.3
Unsecured loans	4,860	8,736	7,241	7,241	7,241	Operating Profit	28.7	9.6	3.5	32.8	10.9
Total debt	41,481	47,037	30,933	32,033	32,033	PAT	94.3	3.3	(0.3)	54.2	13.5
Other non current liab	933	833	675	742	817	Per Share (Rs.)					
CAPITAL EMPLOYED	1,92,330	2,05,566	1,95,158	2,16,826	2,40,011	Net Earnings (EPS)	17.5	18.1	18.0	27.8	31.5
Gross block	71,059	75,059	83,716	93,716	1,01,716	Cash Earnings (CPS)	34.0	34.5	32.6	42.9	47.9
Accumulated depreciation	(17,906)	(23,916)	(35,662)	(47,845)	(61,068)	Dividend	4.0	2.0	2.0	2.0	2.0
Net block	53,154	51,144	48,053	45,870	40,647	Book Value	176.7	186.3	195.5	220.4	248.5
Capital WIP	5,124	3,311	4,210	5,000	5,000	Free Cash Flow	6.4	(1.9)	40.9	12.7	32.1
Total fixed assets	58,277	54,454	52,263	50,870	45,647	Valuation Ratios					
Intangible Assets	22,880	19,082	19,000	20,965	21,465	P/E(x)	45.1	43.7	43.9	28.4	25.0
Goodwill	28,147	28,691	29,340	29,340	29,340	P/B(x)	4.5	4.2	4.0	3.6	3.2
Other non current assets	1,813	1,342	1,916	1,916	1,916	EV/EBIDTA(x)	23.7	21.9	20.4	15.2	13.2
Investments	12,599	26,160	15,953	21,036	24,085	EV/SALES(x)	4.4	4.1	3.8	3.5	3.1
Inventories	40,447	39,648	43,776	47,921	50,951	Div. Yield(%)	0.5	0.3	0.3	0.3	0.3
Sundry debtors	31,025	41,507	38,913	45,063	47,912	FCF Yield(%)	0.8	(0.2)	5.2	1.6	4.1
Cash & bank	8,724	6,188	12,615	21,675	44,820	Return Ratios (%)					
Loans & advances	7,955	6,468	6,223	6,543	6,880	ROE	9.9	9.7	9.2	12.6	12.7
Other current assets	10,044	10,623	8,866	9,310	9,775	ROCE	7.8	8.6	10.4	14.0	14.2
Sundry creditors	(21,191)	(19,480)	(22,818)	(23,795)	(24,967)						
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	85,146	1,09,488						
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	2,16,826	2,40,010						

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



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Q2FY21 Result Update@ Dalal & Broacha

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D& B (CIN_U67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Q2FY21 Result Update@ Dalal & Broacha

Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

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	I.T.
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 617 Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com