

## Growth across India, US, South Africa & other markets

- Sales Rs 51.7 bn +18% yoy/+3% qoq, 5% higher than our estimate of Rs 49.4 bn.
- EBITDA Rs 12.3 bn +62% yoy/+5% qoq, due to 10% degrowth in other expenses 5% higher than our estimate of Rs 11.7 bn.
- EBITDA margins 23.8% (+650 bps yoy/+40 bps qoq), in line with our estimate of 23.7%.
- PAT after minority interest and share of profit +128% yoy to Rs 7482 mn.
- EPS for the quarter was at Rs 9.3.

## Growth across geographies, early debt repayment

- Sales growth driven by India (43% of sales, +22% Rs 22.3 bn), US (20% of sales, +10% Rs 10.4 bn), South Africa (18% of sales +10% Rs 9.1 bn), ROW (9% of sales, +51% Rs 4.9 bn), and Europe (5% of sales, +33% Rs 2.5 bn). Covid19 contributes less than 5% to Q3FY21 sales.
- Invagen debt \$137 mn repaid 1 year ahead of schedule. Cipla has also repaid Rs 3 bn of working capital loans during the quarter.

## Scheme of arrangement for US and Consumer Health brands

- Cipla has worked out a Scheme of arrangement to demerge the India based US business into a subsidiary. The scheme of arrangement is for better focus on US business, with product development, manufacturing capabilities of sterile injectables, complex dosages for onco injectables, ophthalmology and peptide injectables.
- The scheme of arrangement also proposes the demerger of its consumer health brands to its subsidiary Cipla Health Ltd, to improve focus on consumer health and expansion of brands to scale up the business.
- The scheme of arrangement is for a simplified group structure and market aligned logical group of resources.

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	1,63,624	1,71,320	1,93,443	2,04,970	2,21,069
Adjusted net profit	14,572	14,525	23,105	25,865	32,440
Free cash flow	8,344	23,909	14,619	28,955	40,811
EPS (Rs)	18.1	18.0	28.7	32.1	40.2
growth (%)	3	(0)	59	12	25
P/E (x)	46	46	29	26	21
P/B (x)	4	4	4	3	3
EV/EBITDA (x)	23	21	15	14	11
D/E	0.3	0.2	0.2	0.2	0.1
RoIC (%)	8.8	9.1	13.6	15.4	20.3
RoE (%)	9.7	9.2	12.9	12.8	14.1
Dividend yield (%)	0.2	0.2	0.2	0.2	0.2

Source: Company

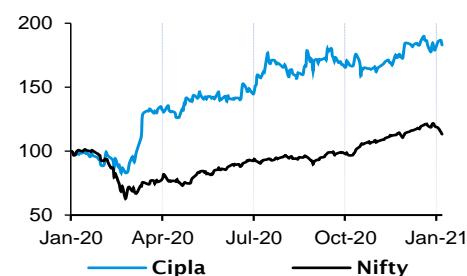
Rating	TP (Rs)	Up/Dn (%)
BUY	914	11

### Market data

<b>Current price</b>	<b>Rs</b>	<b>826</b>
Market Cap (Rs.Bn)	(Rs Bn)	666
Market Cap (US\$ Mn)	(US\$ Mn)	9135
Face Value	Rs	2
52 Weeks High/Low	Rs	870/357
Average Daily Volume	('000)	4620
BSE Code		500087
Bloomberg		CIPLA:IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	36.70	36.70
Public	63.30	63.30
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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## Conference Call Key Takeaways

### Operational Highlights

#### India

- India sales +22% Rs 22.3 bn, significantly higher than our estimate of Rs 19.5 bn.
- Rx +25% due to traction in respiratory and chronic therapies. Healthy 7% growth in Trade generics, Consumer healthcare sales at Rs 850 mn in Q3FY21.
- Better than market growth in Respiratory, Urology and derma.
- Covid19 demand subsides due to lower number of cases.

**India sales record robust sales growth across respiratory, chronic, trade generics and consumer health.**

#### US

- Cipla ranks first with 85% of gProventil market.
- Albuterol a 95 mn units market, with gPROVENTIL 6-7%. Cipla expects gradual market share gains in Albuterol from its existing market share (12-13%) in view of complex supply chain.
- Cipla's respiratory franchise crossed \$100 mn sales during 9MFY21.

**Cipla plans to launch limited competition products from Q1FY22.**

#### South Africa

- Growth better than industry in private (+2%), as well as OTC (+6%) business.
- Cipla entered into agreement with Alvotech for commercialisation of 4 oncology products.

**Better than industry growth in South Africa**

#### ROW & Europe

- Strong demand across markets on low base. Market share gains in Europe.
- API +18% to \$27 mn, with strong demand.

## Quarterly Performance Analysis

### Exhibit 1

Particulars	Q3FY21	Q2FY21	Q3FY20	yoy %	qoq %	9MFY21	9MFY20	Var %
Net Sales	51687	50383	43710	18%	3%	145531	127558	14%
Raw Material Consumed	(19,935)	(19,465)	(16,450)			(55,295)	(43,025)	
Employee Expenses	(8,444)	(8,209)	(7,455)			(24,371)	(22,633)	
Other Expenses	(11,000)	(10,943)	(12,222)			(31,304)	(36,175)	
PBDIT	12309	11766	7583	62%	5%	34562	25725	34%
OPM (%)	23.8%	23.4%	17.3%			23.7%	20.2%	
Other Income	869	535	721			2,059	2,510	
Interest	(479)	(393)	(462)			(1,333)	(1,444)	
Depreciation *	(2,484)	(2,651)	(2,779)			(7,825)	(8,289)	
Profit before tax bfr exceptional	10,215	9,257	5,064			27,463	18,503	48%
Exceptional provision	-	-	-			-	-	
Tax	(2,690)	(2,638)	(1,528)			(7,605)	(5,456)	
Profit After tax	7,525	6,619	3,536	113%	14%	19,858	13,047	52%
Less : Minority Interest	(35)	(61)	(117)			(214)	225	
Share of Profit/(Loss)	(9)	(25)	(142)			(88)	(436)	
Net Profit	7,481	6,533	3,277	128%	15%	19,556	12,836	52%
NPM (%)	14.6%	13.1%	8.1%			13.6%	10.2%	
Equity	1,613	1,613	1,613			1,613	1,613	
Number of shares	806	806	806			806	806	
EPS - Diluted (Rs)	9.3	8.1	4.1			24.3	15.9	

Particulars	Q3FY21	Q2FY21	Q3FY20	yoy %	qoq %
India	22310	20900	18340	22%	7%
USA	10370	10490	9460	10%	-1%
South Africa	9130	9240	8310	10%	-1%
Europe	2520	2470	1900	33%	2%
ROW	4880	4740	3230	51%	3%
API	2010	1890	1650	22%	6%
Others	460	660	820	-44%	-30%

Source: Dalal & Broacha Research, Company

## Valuation & Outlook

At CMP, Cipla trades at 27x FY22E EPS of Rs 30.6. We believe Cipla will benefit from strong demand across key markets namely India, US and South Africa, new respiratory launches and lower R & D spend due to gADVAIR trial completion, in FY21.

We maintain BUY with a target price of Rs 914.

## Financial

P&L (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	1,63,624	1,71,320	1,93,443	2,04,970	2,21,069	Net Profit	14,572	14,525	23,105	25,865	32,440
Raw materials	(57,845)	(59,914)	(73,653)	(76,493)	(80,410)	Add: Dep. & Amort.	13,263	11,747	11,246	12,206	12,806
Employee costs	(28,565)	(30,270)	(31,784)	(33,373)	(35,041)	<b>Cash profits</b>	<b>27,835</b>	<b>26,272</b>	<b>34,351</b>	<b>38,071</b>	<b>45,246</b>
Other Expenses	(46,241)	(49,076)	(44,168)	(46,818)	(49,627)	(Inc)/Dec in					
<b>Cost of sales</b>	<b>(1,32,651)</b>	<b>(1,39,260)</b>	<b>(1,49,604)</b>	<b>(1,56,684)</b>	<b>(1,65,078)</b>	-Sundry debtors	(10,483)	2,594	(7,653)	(3,069)	(3,952)
<b>Operating Profit</b>	<b>30,973</b>	<b>32,060</b>	<b>43,839</b>	<b>48,285</b>	<b>55,990</b>	-Inventories	799	(4,128)	(5,895)	(2,722)	(1,194)
Depreciation*	(13,263)	(11,747)	(11,246)	(12,206)	(12,806)	-Loans/advances	1,488	245	(320)	(337)	(356)
<b>PBIT</b>	<b>17,710</b>	<b>20,313</b>	<b>32,593</b>	<b>36,080</b>	<b>43,185</b>	-Sundry creditors	(1,711)	3,338	1,774	1,164	1,380
Other income	4,766	3,442	2,409	2,530	2,656	-Others	(143)	5,144	3,152	3,848	4,688
Interest	(1,684)	(1,974)	(1,666)	(1,666)	(1,666)	Change in working capital	(10,051)	7,193	(8,942)	(1,115)	566
						<b>CF from Oper. activities</b>	<b>17,784</b>	<b>33,465</b>	<b>25,409</b>	<b>36,955</b>	<b>45,812</b>
<b>Profit before tax</b>	<b>20,791</b>	<b>21,782</b>	<b>33,336</b>	<b>36,944</b>	<b>44,175</b>	<b>CF from Inv. activities</b>	<b>(19,276)</b>	<b>(491)</b>	<b>(17,838)</b>	<b>(11,550)</b>	<b>(5,502)</b>
Provision for tax	(5,695)	(6,312)	(9,501)	(10,529)	(11,486)	<b>CF from Fin. activities</b>	<b>(1,044)</b>	<b>(26,547)</b>	<b>(1,198)</b>	<b>(2,758)</b>	<b>(3,313)</b>
<b>PAT Bfr Excep Items</b>	<b>15,096</b>	<b>15,470</b>	<b>23,835</b>	<b>26,415</b>	<b>32,690</b>	<b>Cash generated/(utilised)</b>	<b>(2,536)</b>	<b>6,427</b>	<b>6,374</b>	<b>22,648</b>	<b>36,996</b>
Extraordinary Items	-	-	-	-	-	Cash at start of the year	8,724	6,188	12,615	18,989	41,637
Minority Interest/ Share of	(524)	(945)	(730)	(550)	(250)	Cash at end of the year	6,188	12,615	18,989	41,637	78,634
<b>Reported PAT</b>	<b>14,572</b>	<b>14,525</b>	<b>23,105</b>	<b>25,865</b>	<b>32,440</b>						
Balance Sheet	FY19	FY20	FY21E	FY22E	FY23E	Ratios	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	1,611	1,613	1,613	1,613	1,613	OPM	18.9	18.7	22.7	23.6	25.3
Reserves	1,48,511	1,56,018	1,76,809	1,99,897	2,29,005	NPM	8.7	8.3	11.8	12.5	14.5
<b>Net worth</b>	<b>1,50,123</b>	<b>1,57,630</b>	<b>1,78,422</b>	<b>2,01,510</b>	<b>2,30,618</b>	Tax rate	(27.4)	(29.0)	(28.5)	(28.5)	(26.0)
Def. Tax Liab.+Minority Int	7,573	6,595	7,079	7,613	8,199	<b>Growth Ratios (%)</b>					
Secured loans	38,301	23,693	24,793	24,793	24,793	Net Sales	7.5	4.7	12.9	6.0	7.9
Unsecured loans	8,736	7,241	7,241	7,241	7,241	Operating Profit	9.6	3.5	36.7	10.1	16.0
<b>Total debt</b>	<b>47,037</b>	<b>30,933</b>	<b>32,033</b>	<b>32,033</b>	<b>32,033</b>	PAT	3.3	(0.3)	59.1	11.9	25.4
Other non current liab	833	675	742	817	898	<b>Per Share (Rs.)</b>					
<b>CAPITAL EMPLOYED</b>	<b>2,05,566</b>	<b>1,95,158</b>	<b>2,17,534</b>	<b>2,41,157</b>	<b>2,70,850</b>	Net Earnings (EPS)	18.1	18.0	28.7	32.1	40.2
Gross block	75,059	83,716	93,716	1,01,716	1,06,716	Cash Earnings (CPS)	34.5	32.6	42.6	47.2	56.1
Accumulated depreciation	(23,916)	(35,662)	(46,908)	(59,114)	(71,920)	Dividend	2.0	2.0	2.0	2.0	2.0
<b>Net block</b>	<b>51,144</b>	<b>48,053</b>	<b>46,807</b>	<b>42,601</b>	<b>34,796</b>	Book Value	186.3	195.5	221.30	249.9	286.0
Capital WIP	3,311	4,210	5,000	5,000	5,000	Free Cash Flow	(1.9)	40.9	9.4	31.5	50.0
<b>Total fixed assets</b>	<b>54,454</b>	<b>52,263</b>	<b>51,807</b>	<b>47,601</b>	<b>39,797</b>						
<b>Intangible Assets</b>	<b>19,082</b>	<b>19,000</b>	<b>20,965</b>	<b>21,465</b>	<b>21,966</b>	<b>Valuation Ratios</b>					
Goodwill	28,691	29,340	29,340	29,340	29,340	P/E(x)	46	46	29	26	21
Other non current assets	1,342	1,916	1,916	1,916	1,916	P/B(x)	4.4	4.2	3.7	3.3	2.9
Investments	26,160	15,953	21,036	24,085	24,085	EV/EBIDTA(x)	22.8	21.3	15.5	13.6	11.0
Inventories	39,648	43,776	49,671	52,393	53,587	EV/SALES(x)	4.3	4.0	3.5	3.2	2.8
Sundry debtors	41,507	38,913	46,566	49,635	53,587	Div. Yield(%)	0.2	0.2	0.2	0.2	0.2
Cash & bank	6,188	12,615	18,989	41,637	78,634	<b>FCF Yield(%)</b>	<b>(0.2)</b>	<b>5.0</b>	<b>1.1</b>	<b>3.8</b>	<b>6.1</b>
Loans & advances	6,468	6,223	6,543	6,880	7,236	<b>Return Ratios (%)</b>					
Other current assets	10,623	8,866	9,310	9,775	10,264	ROE	9.7	9.2	12.9	12.8	14.1
Sundry creditors	(19,480)	(22,818)	(24,593)	(25,756)	(27,136)	ROCE	8.6	10.4	15.0	15.0	15.9
Current Liabilities	(6,006)	(7,160)	(8,592)	(10,310)	(12,372)						
Provisions	(8,582)	(10,815)	(12,978)	(15,573)	(18,688)						
<b>Working capital</b>	<b>70,367</b>	<b>69,601</b>	<b>84,917</b>	<b>1,08,680</b>	<b>1,45,111</b>						
Deferred Tax Assets	5,470	7,084	7,553	8,068	8,635						
Miscellaneous exp.	-	-	-	-	-						
<b>CAPITAL DEPLOYED</b>	<b>2,05,566</b>	<b>1,95,158</b>	<b>2,17,534</b>	<b>2,41,157</b>	<b>2,70,850</b>						

Source: Dalal &amp; Broacha Research, Company

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