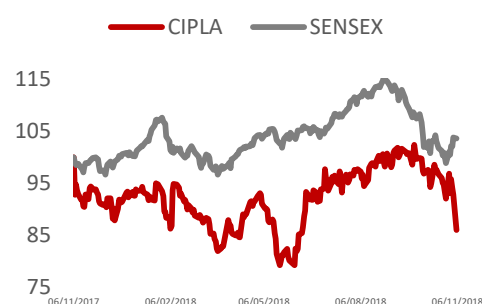



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Buy on Dips

Current Price	532
Target Price	622
Upside/Downside	17%
52 Week Range	678/508

Key Share Data

Market Cap (Rs.bn)	428.23
Market Cap (US\$ mn)	5867.37
No of o/s shares (mn)	805.11
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	2690
BSE Code	500087
NSE Code	CIPLA
Bloomberg	CIPLA IN

Price performance


% Shareholding	Sep-18	Jun-18
Promoters	36.74	36.77
FII	26.10	25.03
DII	13.35	13.63
Others	23.81	24.57
Total	100	100

CIPLA Q2FY19 results were below our estimates.

Strong US growth offset by de-growth in tender business

Revenue was reported at INR 40119 Mn, +2%qoq / -2% yoy and 8.85% below our estimate of INR 44011.7 Mn. The lower revenues were on account of flat growth in India, which comprises 40% of the business. The 23% growth in US revenues (13% on constant currency) was offset by the 18% de-growth in South Africa (22% of revenues).

Gross margins improved 200 bps in view of better product mix.

EBITDA stood at INR 7020 Mn, -3%qoq / -13%yoy mainly due to poor performance in key markets of India and South Africa. EBITDA translated into a margin of 17.50%. Comparatively, margins in Q1FY19 and Q2FY18 stood at 18.44% and 19.70% respectively. PAT was at INR 3770.5 Mn, -18%qoq /-16% yoy. EPS was at INR 4.68.

Key highlights from the concall:

- Cipla is currently facing multiple headwinds relating to commodity pricing, forex, uncertainties in the global tender business environment and capacity constraints that will impact business over the next few months.
- The management has guided for softer tender business due to lower Government spending in view of US sanctions over the next quarter or two. Cipla's tender business comprises 40% of South Africa revenues and 33% of ROW sales.
- Cipla's B2B business in the US (\$100 mn annually) faced severe pricing pressure (-10%) during the quarter. Other than B2B, Cipla's US business continues healthy growth (13%) through limited competition launches leading to an improvement in product mix and profitability.
- Cipla has faced certain capacity constraints during the quarter impacting its high margin business. The company expects to resolve the same over the next quarter and restore normalcy thereafter.

Outlook & Valuation

In view of the recent business developments, we believe FY19 will be flat in terms of earnings growth. However, the traction in private markets in key geographies is expected to continue and grow faster. The easing of capacity constraints on high margin business, after a quarter or two will help revive revenues and profits. We strongly believe the impact is temporary in nature and will fade out after a couple of quarters. We expect the stock price to correct significantly from current levels, and be range bound over the next few months, in view of the business impact. **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 (%)
FY16A	137,901.1	21.5	24,796.8	18.0	13,600.0	15.2	16.9	37.8	11.8	9.5
FY17A	146,302.5	6.1	24,758.0	16.9	10,064.0	(26.0)	12.5	51.1	8.0	6.4
FY18A	152,192.5	4.0	28,263.8	18.6	14,105.3	40.2	17.5	36.5	9.9	7.8
FY19E	160,861.9	5.7	28,885.8	18.0	14,395.1	2.1	17.9	35.8	9.3	7.4
FY20E	168,435.9	4.7	30,380.8	18.0	15,409.1	7.0	19.1	33.4	9.1	6.9



Particulars	Q2FY19	Q1FY19	Q2FY18	yoy %	qoq %	FY18	FY17	Var %
Net Sales	40119	39389.9	40824.1	-2%	2%	152192.5	146302.4	4%
Raw Material Consumed	-14121.3	-14239.2	-15531			-54384.2	-53171.2	
Employee Expenses	-7122.1	-7139.8	-6608.1			-26901	-26338.2	
Other Expenses	-11853.4	-10747.8	-10641			-37865.6	-9817.9	
PBDIT	7022.20	7263.10	8043.90	-13%	-3%	28263.8	24757.9	14%
OPM (%)	17.5%	18.4%	19.7%			18.6%	16.9%	
Other Income	1325.7	1701.1	1133.3			3576.5	2286.9	
Interest	-443.7	-350.9	-420.2			-1142.3	-1593.8	
Depreciation *	-2819	-2410	-3022.2			-13228.2	-13229.3	
Profit before tax bfr exceptional	5085.2	6203.3	5734.8			17469.8	12221.7	43%
Exceptional provision	0	0	0			-775.2		
Tax	-1423.9	-1737.1	-1374.2			-2501.1	-1797.6	
Profit After tax	3661.3	4466.2	4360.6	-16%	-18%	14193.5	10424.1	36%
Less : Minority Interest	101.40	56.40	-123.60			-60.40	-290.30	
Share of Profit/(Loss)	7.80	-10.70	-11.10			-27.80	-69.90	
Net Profit	3770.50	4511.90	4225.90	-11%	-16%			
Other Comprehensive Income	0.00	0.00	-343.30			0.00	1313.50	
Total Comprehensive Income	3770.50	4511.90	3882.60			14105.30	11377.40	
NPM (%)	9.1%	11.3%	10.7%			9.3%	7.1%	
Equity	1610.5	1610.2	1609.8			1610.2	1608.8	
Number of shares	805.25	805.1	804.9			805.1	804.4	
EPS - Diluted (Rs)	4.68	5.60	5.25			17.52	12.51	



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CIPLA - Key Financials											
P&L (Rs mn)	FY16	FY17	FY18	FY19E	FY20E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	137,901.1	146,302.5	152,192.5	160,861.9	168,435.9	Net Profit	13,600.0	10,064.0	14,105.3	14,395.1	15,409.1
Raw materials	(50,898.6)	(53,171.2)	(54,384.2)	(56,553.2)	(57,435.3)	Add: Dep. & Amort.	7,542.2	13,229.3	13,228.2	13,264.8	14,839.8
Employee costs	(24,340.1)	(26,338.2)	(26,901.0)	(28,515.1)	(31,366.6)	Cash profits	21,142.2	23,293.3	27,333.5	27,659.8	30,248.9
Other Expenses	(37,865.6)	(42,035.1)	(42,643.5)	(46,907.9)	(49,253.2)	(Inc)/Dec in					
Cost of sales	(113,104.3)	(121,544.5)	(123,928.7)	(131,976.1)	(138,055.1)	-Sundry debtors	(3,520.2)	(2,067.8)	(5,394.0)	(7,710.6)	(1,728.1)
Operating Profit	24,796.8	24,758.0	28,263.8	28,885.8	30,380.8	-Inventories	(274.3)	3,227.7	(5,594.2)	(440.0)	(1,824.1)
Depreciation*	(7,542.2)	(13,229.3)	(13,228.2)	(13,264.8)	(14,839.8)	-Loans/advances	7,383.8	(5,079.9)	(215.9)	(1,203.3)	(1,385.7)
PBIT	17,254.6	11,528.7	15,035.6	15,621.1	15,541.0	-Sundry creditors	(1,014.2)	953.2	5,479.8	(1,049.0)	314.2
Other income	2,082.1	2,286.9	3,576.5	5,185.9	5,704.5	-Others	(5,394.2)	4,019.4	(3,910.9)	319.3	257.6
Interest	(2,066.3)	(1,593.8)	(1,142.3)	(1,785.3)	(1,409.4)	Change in working capital	(2,819.1)	1,052.6	(9,635.2)	(10,083.5)	(4,366.2)
Profit before tax	17,270.4	12,221.8	17,469.8	19,021.7	19,836.1	CF from Oper. activities	18,323.1	24,345.9	17,698.3	17,576.3	25,882.7
Provision for tax	(3,315.9)	(1,797.6)	(2,501.1)	(4,565.2)	(4,363.9)	CF from Inv. activities	(50,199.5)	(13,253.3)	(12,542.6)	(8,286.7)	(15,500.0)
PAT Bfr Excep Items	13,954.5	10,424.2	14,968.7	14,456.5	15,472.2	CF from Fin. activities	34,947.8	(14,501.0)	(1,737.7)	3,948.3	(1,880.7)
Extraordinary Items	-	-	(775.2)	-	-	Cash generated/(utilised)	3,071.4	(3,408.4)	3,418.0	13,238.0	8,502.0
Minority Interest/ Share of Pr	(354.5)	(360.2)	(88.2)	(61.4)	(63.1)	Cash at start of the year	5,642.6	8,714.0	5,305.6	8,723.6	21,961.6
Reported PAT	13,600.0	10,064.0	14,105.3	14,395.1	15,409.1	Cash at end of the year	8,714.0	5,305.6	8,723.6	21,961.6	30,463.6
Balance Sheet	FY16	FY17	FY18	FY19E	FY20E	Ratios	FY16	FY17	FY18	FY19E	FY20E
Equity capital	1,606.8	1,609.0	1,610.2	1,610.2	1,610.2	OPM	18.0	16.9	18.6	18.0	18.0
Reserves	113,555.4	123,827.6	140,681.7	153,470.0	166,950.9	NPM	9.7	6.8	9.1	8.7	8.8
Net worth	115,162.2	125,436.6	142,291.9	155,080.2	168,561.1	Tax rate	(19.2)	(14.7)	(14.3)	(24.0)	(22.0)
Def. Tax Liab.+Minority Int.	13,258.2	11,951.2	8,557.5	9,001.2	9,476.2	Growth Ratios (%)					
Secured loans	2,218.8	36,453.6	36,621.1	42,121.1	42,121.1	Net Sales	21.5	6.1	4.0	5.7	4.7
Unsecured loans	50,117.8	5,122.9	4,859.8	4,859.8	4,859.8	Operating Profit	14.7	(0.2)	14.2	2.2	5.2
Total debt	52,336.6	41,576.5	41,480.9	46,980.9	46,980.9	PAT	15.2	(26.0)	40.2	2.1	7.0
Other Long term liability	1,014.2	-	-	-	-	Per Share (Rs.)					
CAPITAL EMPLOYED	181,771.2	178,964.3	192,330.3	211,062.3	225,018.2	Net Earnings (EPS)	16.93	12.5	17.5	17.9	19.1
Gross block	80,768.7	98,036.4	114,331.2	126,331.2	141,331.2	Cash Earnings (CPS)	26.3	29.0	34.0	34.4	37.6
Accumulated depreciation	(34,720.2)	(47,949.5)	(61,177.7)	(74,442.5)	(89,282.3)	Dividend	2.8	3.4	4.0	2.0	2.0
Net block	46,048.5	50,086.9	53,153.5	51,888.7	52,048.9	Book Value	143.3	155.9	176.7	192.6	209.4
Capital WIP	7,410.1	7,192.3	5,123.5	5,000.0	5,000.0	Free Cash Flow	(39.7)	13.8	6.4	11.5	12.9
Total fixed assets	53,458.6	57,279.2	58,277.0	56,888.7	57,048.9	Valuation Ratios					
Intangible Assets	33,777.6	27,486.3	22,880.3	19,290.5	19,790.5	P/E(x)	37.8	51.1	36.5	35.8	33.4
Goodwill	27,055.7	26,966.7	28,147.4	28,147.4	28,147.4	P/B(x)	4.5	4.1	3.6	3.3	3.1
Other non current assets	2,498.9	2,922.0	1,812.7	1,812.7	1,812.7	EV/EBIDTA(x)	22.5	22.2	19.4	18.7	17.5
Investments	7,586.9	9,747.5	12,598.7	12,598.7	12,598.7	EV/SALES(x)	4.0	3.8	3.6	3.4	3.2
Inventories	38,080.5	34,852.8	40,447.0	40,887.0	42,711.1	Div. Yield(%)	0.4	0.5	0.6	0.3	0.3
Sundry debtors	23,562.7	25,630.5	31,024.5	38,735.1	40,463.2	FCF Yield(%)	(6.2)	2.2	1.0	1.8	2.0
Cash & bank	8,714.0	5,305.6	8,723.6	21,961.6	30,463.6	Return Ratios (%)					
Loans & advances	2,659.5	7,739.4	7,955.3	9,158.6	10,544.3	ROE	11.8	8.0	9.9	9.3	9.1
Other current assets	10,753.4	6,740.1	10,044.0	12,555.0	15,693.8	ROCE	9.5	6.4	7.8	7.4	6.9
Sundry creditors	(14,758.2)	(15,711.4)	(21,191.2)	(20,142.2)	(20,456.4)						
Current Liabilities	(10,197.1)	(9,329.6)	(6,501.2)	(7,801.4)	(9,361.7)						
Provisions	(4,555.3)	(5,428.9)	(7,650.3)	(9,180.4)	(11,016.4)						
Working capital	54,259.5	49,798.5	62,851.7	86,173.2	99,041.4						
Deferred Tax Assets	3,134.0	4,764.1	5,762.5	6,151.1	6,578.6						
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	181,771.2	178,964.3	192,330.3	211,062.3	225,018.2						

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



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