

RETAIL EQUITY RESEARCH

Cipla Ltd

Pharmaceuticals

BSE CODE: 500087

NSE CODE: CIPLA

Bloomberg CODE: CIPLA:IN SENSEX: 38,024

18th March, 2019**HOLD**

Rating as per Large cap

12months investment period

CMP Rs532 TARGET Rs549 RETURN 3% ↑

Weak operational performance

Cipla is a leading global pharmaceutical company with 1,500 plus products across various therapeutic categories. It has presence in over 80 countries.

- Revenue grew by modest 2% YoY in Q3FY19 as strong 31% YoY growth in US business was offset by weak India formulations revenue.
- India formulation business fell by 1% YoY in Q3FY19 on account of high base due to one-time inventory restocking impact in Q3FY18 coupled with de-stocking in trade channels in this quarter.
- US revenue surged 31% YoY led by seasonality and incremental revenue from new product launches.
- EBITDA margin contracted by 326bps YoY to 17.7% impacted by weak domestic sales and lower gross margin mainly due to price erosion in global access business.
- We expect revenue/adj.PAT to grow at 10%/14% CAGR over FY18-21E led by new launches especially niche products coupled with strong growth in India and Africa business.
- Considering weak operating performance and sustained pressure in the global tender & access business, we maintain 'HOLD' rating on the stock with a revised rolled over TP of Rs 549 based on 20x FY21E EPS.

Domestic business mares overall revenue growth

Cipla reported mere 2% YoY growth in revenue in Q3FY19 as strong 31% YoY growth in North America business (contributing 21% to revenue) was offset by weak India revenue (down 1% YoY), which contributes ~40% of Cipla's revenue. Further, revenue from Cipla SAGA (South Africa, Sub-Saharan Africa and Cipla Global Access) business which is largely tender based, declined by 11% YoY in Q3FY19 impacted by certain one-time low-margin sales both for South Africa and CGA tender business, leading to inventory liquidation. However, South Africa private market continued its strong trajectory growing at 4x the market at 9.1%. Revenue from Europe business grew by 11% YoY in Q3FY19 on the back of expansion in respiratory franchise. Decline in India revenue was primarily due to high base last year on account of one-time inventory restocking impact in Q3FY18 and one-off de-stocking in trade channels (impact of nearly 6 days of lower primary sales). Going ahead, Cipla expects recovery in the domestic business with double digit growth in Q4FY19 despite seasonal weakness led by branded trades, generics and consumer health care business. The company has also started witnessing strong market share improvement across our key therapies due to its consistent focus on prescription, generation and therapy. We expect India business to grow at 11% CAGR over FY18-21E led by strong prescription growth and an improvement in market share.

Key drug launches to drive sales

US business revenues surged 31% YoY in Q3FY19 driven by contribution from new product launches in direct-to-market (DTM) business. Notably, the management maintained its guidance of attaining revenue of \$120 million to \$125 million in Q4FY19. The management also maintained its product launch guidance of ~15 products every year with one limited competition product launch per quarter and one respiratory product annually. It further maintained that it is on track to achieve 20 plus filings in FY19 (already filed 10 in H1FY19). Recently, the company received approval of Medroxyprogesterone, a limited competition asset for the US market. The company enjoys a strong pipeline of launches for the US market including roughly about \$150- \$200 million opportunity. Hence, we factor in 22% revenue CAGR in US business over FY18-21E on the back of consistent ANDA approvals and traction in market shares gains in recently launched drugs.

EBITDA margin to improve to 20.1% by FY21E

EBITDA margin contracted by 326bps YoY to 17.7% impacted by lower gross margins mainly due to price erosion in global access business and certain one-time low-margin sales both for SA and CGA tender business, leading to liquidation of inventories in order to avoid subsequent hit. Further, high R&D spend at 7.5% of the sales also impacted the margin. We expect EBITDA margin to improve to 20.1% by FY21E driven by operating leverage, healthier product mix in the US with niche launches, rationalization of low margin SKUs and cost control measures in India business. Adj.PAT fell by 42% YoY impacted by higher tax expenses and a disappointing operating performance.

Outlook & Valuation.

We expect revenue/Adj. PAT CAGR of 10%/14% over FY18-20E on the back of new product launches especially limited competition (Niche) products coupled with strong growth in India and Africa business. We lower our Adj.PAT estimates for FY19/20E by 26.5%/27% to factor lower than expected domestic formulation performance, weakness in tender business in SAGA and global access business and lower EBITDA margin in 9MFY19. Company's focus to invest meaningfully in specialty business and niche US launches remain key growth drivers. The stock is currently trading at a PE of 19.4x on FY21E EPS, in line with 5-year average of ~20x, providing limited scope for upside for the current levels. Hence, we maintain 'HOLD' rating on the stock with a revised rolled over target price of Rs 549 based on 20x FY21E EPS.

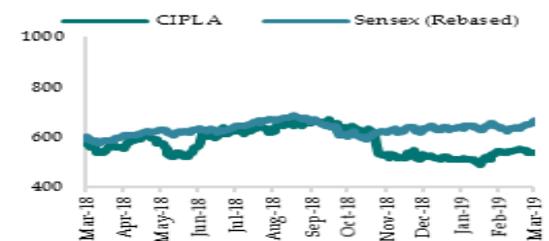
Company Data

Market Cap (cr)	Rs42,811
Enterprise Value (cr)	Rs45,157
Outstanding Shares (cr)	80.5
Free Float	63%
Dividend Yield	0.6%
52 week high	Rs678
52 week low	Rs484
6m average volume (cr)	0.2
Beta	0.6
Face value	Rs2

Shareholding %	Q1FY19	Q2FY19	Q3FY19
Promoters	36.8	36.7	36.7
FII's	24.7	25.6	25.2
MFs/Insti	13.9	13.9	14.5
Public	16.5	16.2	16.3
Others	8.1	7.6	7.3
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	2%	(20%)	(7%)
Absolute Sensex	6%	0%	13%
Relative Return*	(4%)	(20%)	(20%)

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY19E	FY20E	FY21E
Sales	15,938	17,931	20,423
Growth (%)	4.7%	12.5%	13.9%
EBITDA	2,836	3,444	4,095
Margin (%)	17.8	19.2	20.1
PAT Adj	1,375	1,778	2,209
Growth (%)	-7.6%	29.3%	24.3%
Adj.EPS	17.1	22.1	27.4
Growth (%)	-7.6%	29.3%	24.3%
P/E	31.1	24.1	19.4
P/B	2.7	2.5	2.2
EV/EBITDA	15.6	12.6	10.3
RoE (%)	9.1	10.8	12.1
D/E	0.2	0.2	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs cr)	Q3FY19	Q3FY18	YoY Growth %	Q2FY19	QoQ Growth %	9MFY19	9MFY18	Growth %
Revenue	4,008	3,914	2.4	4,012	(0.1)	11,958	11,521	3.8
EBITDA	708	819	(13.6)	702	0.8	2,136	2,270	(5.9)
EBITDA Margin (%)	17.7	20.9	(326bps)	17.5	16bps	17.9	19.7	(183bps)
Depreciation	293	349	(15.9)	282	4.0	816	818	(0.2)
EBIT	415	470	(11.8)	420	(1.4)	1,320	1,452	(9.1)
Interest	44	9	383.0	44	(0.4)	124	79	56.5
Other Income	79	53	48.4	133	(40.8)	381	318	20.0
Exceptional Items	-	174	(100.0)	-	-	-	220	(100.0)
PBT	449	340	32.0	509	(11.7)	1,578	1,470	7.3
Tax	126	(64)	(295.7)	142	(11.7)	442	204	116.6
PAT	323	404	(20.1)	366	(11.7)	1,136	1,266	(10.3)
Minority Interest/P&L of associates	(9.00)	3.81	(336.2)	(10.92)	(17.6)	(24)	34	(171.5)
Reported PAT	332	401	(17.1)	377	(11.9)	1,161	1,232	(5.8)
Adjustment	-	(174)	(100.0)	-	-	-	220	(100.0)
Adj PAT	332	574	(42.1)	377	(11.9)	1,161	1,452	(20.1)
No. of shares (cr)	80.6	80.5	0.1	80.5	0.0	80.6	80.5	0.1
EPS (Rs)	4.1	7.1	(42.2)	4.7	(11.9)	14.4	18.0	(20.1)

Segment Revenue

(Rs cr)	Q3FY19	Q3FY18	YoY Growth %	Q2FY19	QoQ Growth %
India	1585	1,598	(0.8)	1,644	(3.6)
US	849	649	30.8	758	12.0
SAGA	775	870	(10.9)	754	2.8
Emerging Markets	393	371	5.9	472	(16.7)
Europe	189	171	10.5	139	36.0
APIs	154	148	4.1	171	(9.9)
Others	64	106	(39.6)	74	(13.5)
Total sales	4,009	3,913	2.5	4,012	(0.1)

Source: Company, Geojit Research

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	17,288	19,500	15,938	17,931	(7.8)	(8.0)
EBITDA	3,466	4,291	2,836	3,444	(18.2)	(19.7)
Margins (%)	20.1	22.0	17.8	19.2	(226bps)	(280bps)
PAT	1,872	2,434	1,375	1,778	(26.5)	(27.0)
EPS	23.2	30.2	17.1	22.1	(26.5)	(27.0)

Source: Company, Geojit Research

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Sales	14,394	15,219	15,938	17,931	20,423
% change	5.9%	5.7%	4.7%	12.5%	13.9%
EBITDA	2,476	2,826	2,836	3,444	4,095
% change	-0.2%	14.2%	0.3%	21.4%	18.9%
Depreciation	1,323	1,323	1,114	1,131	1,203
EBIT	1,153	1,504	1,721	2,312	2,892
Interest	159	114	164	99	78
Other Income	229	358	408	310	310
PBT	1,222	1,747	1,965	2,524	3,124
% change	-29.2%	42.9%	12.5%	28.5%	23.8%
Tax	180	250	550	707	875
Tax Rate (%)	14.7%	14.3%	28.0%	28.0%	28.0%
MI/PL from associates	36	9	40	40	40
Reported PAT	1,006	1,488	1,375	1,778	2,209
Adj*	-	-	-	-	-
Adj PAT	1,006	1,488	1,375	1,778	2,209
% change	-26.0%	47.9%	-7.6%	29.3%	24.3%
No. of shares (mn)	80.5	80.5	80.5	80.5	80.5
Adj EPS (Rs)	12.5	18.5	17.1	22.1	27.4
% change	-26.1%	47.8%	-7.6%	29.3%	24.3%
DPS (Rs)	2.0	3.0	3.0	3.0	3.0

Cash flow

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Pre-tax profit	1,222	1,669	1,962	2,521	3,121
Depreciation	1,323	1,323	1,114	1,131	1,203
Changes in W.C	231	(783)	(477)	(1,062)	(1,154)
Others	57	(24)	(244)	(212)	(232)
Tax paid	(450)	(722)	(550)	(707)	(875)
C.F.O	2,382	1,463	1,805	1,673	2,063
Capital exp.	(1,136)	(816)	(750)	(750)	(750)
Change in inv.	(41)	(37)	-	-	-
Other invest.CF	(136)	(1)	408	310	310
C.F - investing	(1,313)	(854)	(342)	(440)	(440)
Issue of equity	12	0	-	-	-
Issue/repay debt	(1,080)	(34)	(600)	(600)	(600)
Dividends paid	(227)	(189)	(290)	(290)	(290)
Other finance.CF	(29)	(162)	(164)	(99)	(78)
C.F - Financing	(1,324)	(385)	(1,054)	(988)	(968)
Chg. in cash	(254)	223	409	245	656
Closing cash	624	966	1,375	1,619	2,275

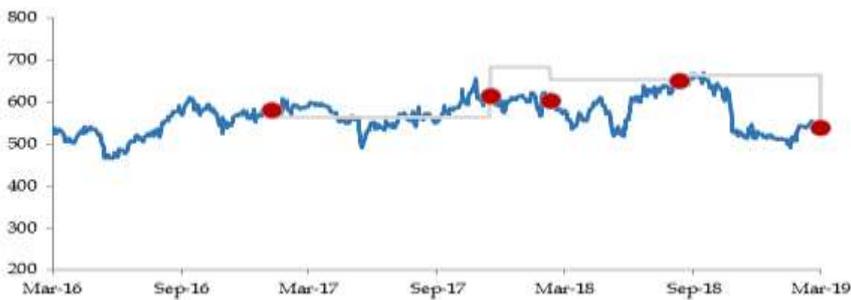
Balance Sheet

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Cash	624	966	1,375	1,619	2,275
Accounts Receivable	2,497	3,102	3,277	3,692	4,212
Inventories	3,485	4,045	4,294	4,766	5,285
Other Cur. Assets	1,362	1,599	1,713	1,879	2,073
Investments	973	1,259	1,259	1,259	1,259
Gross Fixed Assets	8,629	10,229	11,410	12,160	12,910
Net Fixed Assets	6,795	7,135	7,202	6,821	6,368
CWIP	1,683	981	550	550	550
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	(589)	(316)	(192)	119	430
Other Assets	3,365	3,585	3,585	3,585	3,585
Total Assets	20,196	22,357	23,063	24,290	26,036
Current Liabilities	2,981	3,534	3,718	4,020	4,410
Provisions	-	-	-	-	-
Debt Funds	4,113	4,098	3,498	2,898	2,298
Other Liabilities	139	143	143	143	143
Equity Capital	161	161	161	161	161
Reserves and Surplus	12,365	14,068	15,153	16,641	18,561
Shareholder's Fund	12,525	14,229	15,314	16,802	18,722
Minority Interest	438	352	389	426	463
Total Liabilities	20,196	22,357	23,063	24,290	26,036
BVPS (Rs)	161.1	181.1	195.1	214.0	238.3

Ratios

Y.E March	FY17	FY18	FY19E	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	17.2	18.6	17.8	19.2	20.1
EBIT margin (%)	9.6	12.2	13.4	14.6	15.7
Net profit mgn.(%)	7.0	9.8	8.6	9.9	10.8
ROE (%)	8.1	10.8	9.1	10.8	12.1
ROCE (%)	8.1	10.4	11.2	13.3	15.4
W.C & Liquidity					
Receivables (days)	64	77	77	77	77
Inventory (days)	239	271	271	271	271
Payables (days)	48	62	62	62	63
Current ratio (x)	3.0	3.1	3.2	3.2	3.4
Quick ratio (x)	1.8	1.9	2.0	2.1	2.2
Turnover & Levq.					
Gross asset T.O (x)	1.7	1.6	1.4	1.5	1.6
Total asset T.O (x)	0.7	0.7	0.7	0.7	0.8
Adj. debt/equity (x)	0.3	0.3	0.2	0.2	0.1
Valuation ratios					
EV/Sales (x)	3.3	3.1	2.8	2.5	2.1
EV/EBITDA (x)	18.5	16.0	15.6	12.6	10.3
P/E (x)	42.5	28.8	31.1	24.1	19.4
P/BV (x)	3.3	2.9	2.7	2.5	2.2

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
18-Jan-17	HOLD	563
28-Nov-17	BUY	684
21-Feb-18	HOLD	653
28-Aug-18	HOLD	665
18-Mar-2019	HOLD	549

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

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