

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.

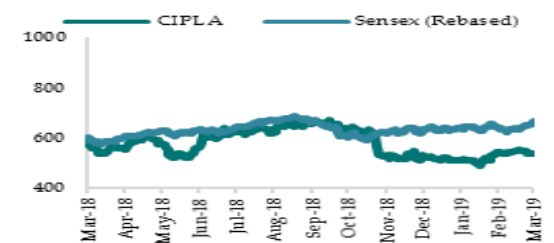
Company Data

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

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

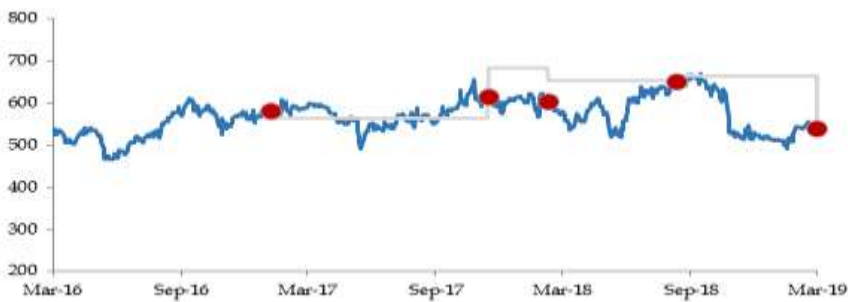
Cash flow

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

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.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral - The analyst has no investment opinion on the stock under review.

Geojit Financial Services Limited has outsourced the preparation of this research report to DION Global Solutions Limited whose relevant disclosures are available hereunder. However, Geojit's research desk have reviewed this report for any untrue statement of material fact or any false or misleading information.

General Disclosures and Disclaimers

CERTIFICATION

I, Abhishek Kumar Das, employee of Dion Global Solutions Limited (Dion) is engaged in preparation of this report and hereby certify that all the views expressed in this research report (report) reflect my personal views about any or all of the subject issuer or securities.

Disclaimer

This report has been prepared by Dion and the report & its contents are the exclusive property of the Dion and the client cannot tamper with the report or its contents in any manner and the said report, shall in no case, be further distributed to any third party for commercial use, with or without consideration.

Geojit Financial Services Limited has outsourced the assignment of preparation of this report to Dion.

Recipient shall not further distribute the report to a third party for a commercial consideration as this report is being furnished to the recipient solely for the purpose of information.

Dion has taken steps to ensure that facts in this report are based on reliable information but cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this report. It is hereby confirmed that wherever Dion has employed a rating system in this report, the rating system has been clearly defined including the time horizon and benchmarks on which the rating is based.

Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this report is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. Dion has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. This report is not to be relied upon in substitution for the exercise of independent judgment. Opinions or estimates expressed are current opinions as of the original publication date appearing on this report and the information, including the opinions and estimates contained herein, are subject to change without notice. Dion is under no duty to update this report from time to time.

Dion or its associates including employees engaged in preparation of this report and its directors do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of securities, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

The investments or services contained or referred to in this report may not be suitable for all equally and it is recommended that an independent investment advisor be consulted. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to individual circumstances or otherwise constitutes a personal recommendation of Dion.

REGULATORY DISCLOSURES:

Dion is engaged in the business of developing software solutions for the global financial services industry across the entire transaction lifecycle and inter-alia provides research and information services essential for business intelligence to global companies and financial institutions. Dion is listed on BSE Limited (BSE) and is also registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH100002771. Dion's activities were neither suspended nor has it defaulted with requirements under the Listing Agreement and / or SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with the BSE in the last five years. Dion has not been debarred from doing business by BSE / SEBI or any other authority.

In the context of the SEBI Regulations, we affirm that we are a SEBI registered Research Analyst and in the course of our business, we issue research reports / research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership

Dion confirms that:

- (i) It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein at the time of publication of this report.
- (ii) It/its associates have no actual / beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

Further, the Research Analyst confirms that:

- (i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company at the time of publication of this report.
- (ii) He, his associates and his relatives have no actual/beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

2. Disclosures regarding Compensation:

During the past 12 months, Dion or its Associates:

(a) Have not managed or co-managed public offering of securities for the subject company (b) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (c) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject (d) Have not received any compensation or other benefits from the subject company or third party in connection with this report.

3. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Abhishek Kumar Das employed as Research Analyst by Dion and engaged in the preparation of this report have not served as an officer, director or employee of the subject company

4. Disclosure regarding Market Making activity:

Neither Dion /its Research Analysts have engaged in market making activities for the subject company.

Copyright in this report vests exclusively with Dion.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padiyattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226