

Cipla

Performance Highlights

Y/E March (₹ cr)	2QFY2015	1QFY2015	% chg qoq	2QFY2014	% chg yoy
Net sales	2,630	2,647	(0.6)	2,483	5.9
Other income	161	113	42.0	123	30.6
Gross profit	1,614	1,622	(0.5)	1,529	5.5
Operating profit	421	469	(10.3)	518	(18.7)
Adj. Net profit	299	295	1.4	358	(16.6)

Source: Company, Angel Research

Cipla's 2QFY2015 results have come in below expectations on all fronts. For the period, the company posted sales of ₹2,630cr (V/s an expected ₹2,889cr), a growth of 5.9% yoy. On the operating front, the gross margin came in at 61.4% (V/s an expected 61.3%), a yoy dip of 21bp. Further, owing to a 30.6% and 12.6% yoy rise in staff cost and other expenditure respectively, the OPM came in at 16.0% (V/s an expected 19.3%), a yoy dip of 484bp. Thus, the Adj. net profit came in at ₹299cr (V/s an expected ₹383cr), a dip of 16.6% yoy. For FY2015, the company has maintained its guidance of a sales growth in mid-teens. **We remain Neutral on the stock.**

Results lower than expectations: Cipla posted sales of ₹2,630cr (V/s an expected ₹2,889cr), a growth of 5.9% yoy. The sales growth was predominately driven by domestic formulations (₹1,251cr), which grew by 20.3% yoy, while exports (₹1,379cr) posted a dip of 4.6% yoy, mainly on back of a 34.0% yoy dip in API exports; formulation exports grew by 0.3% yoy. Export sales have been impacted on back of reduced third party API business, less tender business, integration process of front-ending and ongoing portfolio rationalization. On the operating front, the gross margin came in at 61.4% (V/s an expected 61.3%), a yoy dip of 21bp. Further, owing to a 30.6% and 12.6% yoy rise in staff cost and other expenditure respectively, the OPM came in at 16.0% (V/s an expected 19.3%), posting a yoy dip of 484bp. Thus, the Adj. net profit came in at ₹299cr (V/s an expected ₹383cr), posting a dip of 16.6% yoy.

Outlook and valuation: We expect the company's net sales to post a 15.9% CAGR to ₹13,106cr and EPS to record an 18.0% CAGR to ₹24.1 over FY2014–16E. The growth in the top-line would be driven by domestic formulation sales and exports. **We maintain our Neutral stance on the stock, on back of near term valuations.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015E	FY2016E
Net sales	8,087	9,753	11,233	13,106
% chg	18.1	20.6	15.2	16.7
Adj. Net profit	1,524	1,388	1,555	1,932
% chg	30.0	(8.9)	12.0	24.2
EPS (₹)	19.0	17.3	19.4	24.1
EBITDA margin (%)	24.8	18.3	17.7	19.3
P/E (x)	32.9	36.1	32.2	25.9
RoE (%)	18.3	14.6	14.5	15.7
RoCE (%)	18.3	12.8	12.6	15.1
P/BV (x)	5.6	5.0	4.4	3.8
EV/Sales (x)	6.3	5.2	4.5	3.8
EV/EBITDA (x)	25.2	28.5	25.2	19.4

Source: Company, Angel Research; Note: CMP as of August 13, 2014

NEUTRAL

CMP	₹624
Target Price	-

Investment Period	-
-------------------	---

Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	50,113
Net Debt (₹ cr)	1,073
Beta	0.5
52 Week High / Low	672/367
Avg. Daily Volume	1,98,473
Face Value (₹)	2
BSE Sensex	27,941
Nifty	8,358
Reuters Code	CIPL.BO
Bloomberg Code	CIPLA@IN

Shareholding Pattern (%)	
Promoters	36.8
MF / Banks / Indian Fls	16.1
FII / NRIs / OCBs	27.1
Indian Public / Others	20.0

Abs. (%)	3m	1yr	3yr
Sensex	7.8	38.4	62.5
Cipla	42.1	51.3	117.7

Sarabjit Kour Nangra

+91 22 3935 7600 Ext: 6806

sarabjit@angelbroking.com

Exhibit 1: 2QFY2015 (Consolidated) performance

Y/E March (₹ cr)	2QFY2015	1QFY2015	% chg qoq	2QFY2014	% chg yoy	1HFY2015	1HFY2014	% chg yoy
Net sales	2,630	2,647	(0.6)	2,483	5.9	5,277	4,815	9.6
Other income	160.8	113.2	42.0	123.1	30.6	274.0	372.0	(26.3)
Total income	2,791	2,760	1.1	2,607	7.1	5,551	5,187	7.0
Gross profit	1614	1622	(0.5)	1529	5.5	3236	2942	10.0
Gross margin	61.4	61.3		61.6		61.3	61.1	
Operating profit	421	469	(10.3)	518	(18.7)	891	1027	(13.3)
OPM (%)	16.0	17.7		20.9		16.9	21.3	
Interest	46.9	33.3	40.7	46.1	1.7	80	85.7	(6.4)
Depreciation	122	125	(2.7)	91	33.5	247	176	40.2
PBT	413	424	(2.6)	503	(18.0)	837	1137	(26.4)
Provision for taxation	101	102	(1.2)	136	(25.8)	203	289	(30.0)
PAT before extra-ordinary item	312	322	(3.0)	368	(15.1)	634	848	(25.2)
Share of Profit /(loss) of associate	(13)	(27)		(10)		(40)	(4)	
Extra-ordinary items/(income)	0	0		0		0	0	
PAT after extra-ordinary item	299	295	1.4	358	(16.6)	594	843	(29.6)
Adj. PAT	299	295	1.4	358	(16.6)	594	843	(29.6)
EPS (₹)	3.7	3.7		4.5		7.4	10.5	

Source: Company, Angel Research

Exhibit 2: 2QFY2015 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variance
Net sales	2,630	2,889	(9.0)
Other income	161	113	42.0
Operating profit	421	557	(24.4)
Tax	101	102	(1.2)
Net profit	299	383	(22.0)

Source: Company, Angel Research

Top-line growth below expectation

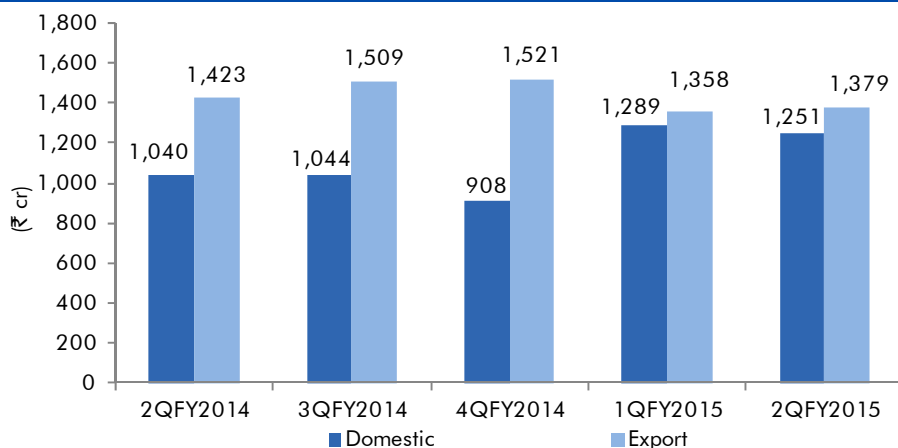
For the quarter, the company posted consolidated sales of ₹2,630cr V/s an expected ₹2,889cr and V/s ₹2,483cr in 2QFY2014 (a yoy growth of 5.9%).

The growth in the top-line came on back of domestic sales posting a growth of 20.3% yoy to ₹1,251cr, outpacing the industry growth of 11.2% yoy (IMS) during the period. Exports on the other hand declined by 4.6% yoy to ₹1,379cr.

Export formulations grew by 0.3% yoy to ₹1,243cr, while API exports dipped to ₹136cr V/s ₹206cr in the corresponding period of last year. Formulations now constitute 94.8% of sales of the company. Export sales have been impacted on back of reduced third party API business, less tender business, integration process of front-ending and ongoing portfolio rationalization.

Overall, exports contributed 52.4% to overall sales (V/s 58.2% in 2QFY2014), while domestic sales contributed the rest.

Exhibit 3: Sales Trend

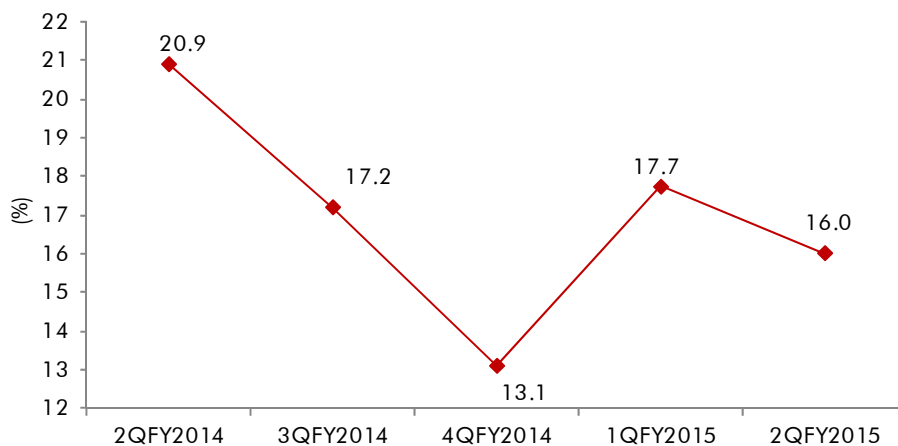


Source: Company

Operating profit margin dips

On the operating front, the EBDITA margin came in at 16.0% V/s an expected 19.3% and V/s 20.9% during the corresponding period of last year. The gross margin came in at 61.4% V/s 61.6% during the corresponding period of last year; still the OPM for the quarter dipped due to a 30.6% yoy rise in employee expenses and 10.9% yoy rise in other expenditure.

Exhibit 4: OPM Trend

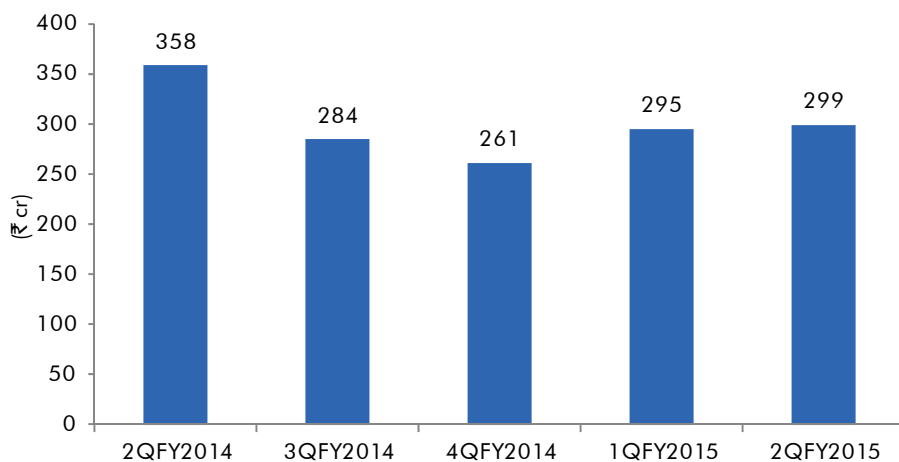


Source: Company

Net profit lower than expectation

While the operating profit dipped by 18.7% yoy, a 30.6% rise in the other income, which rose from ₹123.1cr in 2QFY2014 to ₹160.8cr, aided the Adj. PAT to come in at ₹299cr V/s an expected ₹383cr and V/s ₹358cr in 2QFY2014 (registering a yoy de-growth of 16.6%).

Exhibit 5: Net Profit Trend



Source: Company

Concall takeaways

- The Management reiterated its guidance of sales growth being in mid-teens for FY2015.
- Domestic formulation sales are expected to grow at a higher rate than the industry growth rate. The company currently has 7000-8000 MRs in India.
- The company received approval for gAdair for German and Swedish markets during 2QFY2015. However, the Management has indicated that it will take 12-18 months to materialize the full US\$800mn opportunity in most of the European markets, as approvals will take time.
- During the quarter, Cipla signed an agreement with Salix Pharmaceuticals (Salix) for 'Rifaximin Complexes' patents owned by Cipla under which it has granted Salix exclusive rights over certain patent applications. According to the agreement, Cipla will receive upfront payment, milestone payments and royalties from Salix. Upfront payment has already been received during this quarter.
- Cipla has filed for 11 products in Europe and 7 products in US in 1HFY2015.
- R&D expenditure is expected to move to 5-6% of sales in FY2015.
- Capex for FY2015 would be around ₹500cr.

Recommendation rationale

Export segment to be the growth driver: Cipla exports to more than 180 countries, with growth coming through marketing alliances and distribution tie-ups in various markets. Exports contributed 60% to the total turnover in FY2014, with Africa, US and Latin America constituting more than 60% of total exports. In the US, Cipla has entered into a partnership with more than 22 players and has a strong product pipeline of ANDAs, of which 40 have been launched, out of the 90 approved. Another long term growth driver for the company is the launch of the CFC-free inhalers in the regulated markets. CFC-free inhalers in Europe and US address a potential market size of more than US\$3bn.

With Medpro's acquisition, the company now has a front end in the fast growing African market. Overall, we expect the company's exports to grow at a CAGR of 17.6% during FY2014-16.

Increasing penetration in the domestic market: Cipla is one of the largest players in the domestic formulation market, with a market share of around 5.3%. Domestic formulations contributed 40% to the company's total turnover in FY2014. The company is the market leader in key therapeutic areas such as respiratory care, anti-viral and urological. Cipla's distribution network in India consists of a field force of around 7,000-8,000 employees. The company plans to increase its focus on domestic markets with new therapies such as oncology and neuro-psychiatry in the offing. The company plans to focus on growing its market share and sales by increasing penetration in the Indian market, especially in rural areas and plans to expand its product portfolio by launching biosimilars, particularly relating to the oncology, anti-asthmatic and anti-arthritis categories. Overall we expect the company's domestic formulation business to post a CAGR of 16.0% over FY2014-16.

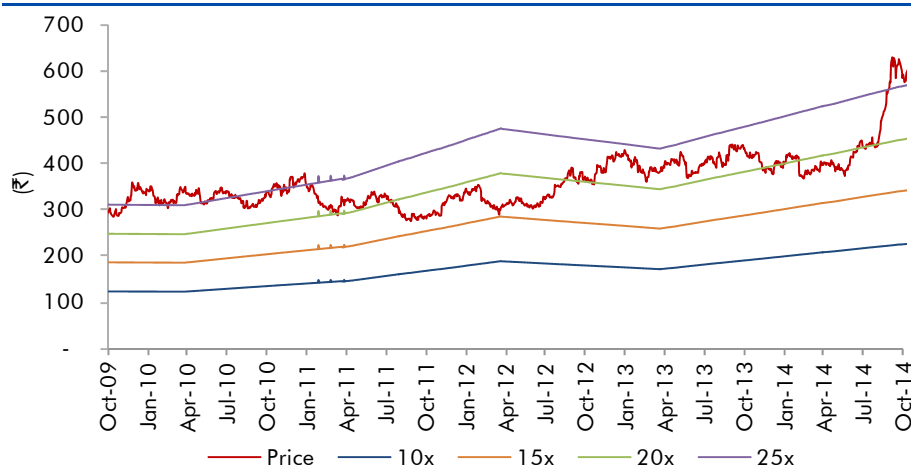
Valuation: We expect the company's net sales to post a 15.9% CAGR to ₹13,106cr and EPS to record an 18.0% CAGR to ₹24.1 over FY2014-16E. The growth in the top-line would be driven by domestic formulation sales and exports. **We maintain our Neutral stance on the stock.**

Exhibit 6: Key assumptions

Key assumptions	FY2015E	FY2016E
Domestic growth (%)	17.0	15.0
Exports growth (%)	17.7	17.6
Growth in employee expenses (%)	25.0	18.0
Operating margins (excl tech. know-how fees) (%)	17.7	19.3

Source: Company, Angel Research

Exhibit 7: One-year forward PE band



Source: Company, Angel Research

Exhibit 8: Recommendation Summary

Company	Reco	CMP	Tgt. price	Upside	FY2016E			FY14-16E	FY2016E	
		(₹)	(₹)	%	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	477	-	-	24.3	3.3	17.2	21.2	31.7	32.6
Aurobindo Pharma	Neutral	1100	-	-	19.5	2.7	13.4	10.9	18.2	27.0
Cadila Healthcare	Neutral	1563	-	-	25.3	3.2	18.9	24.3	19.9	26.5
Cipla	Neutral	624	-	-	25.9	3.7	19.3	18.0	15.1	15.7
Dr Reddy's	Accumulate	3,476	3,723	7.1	18.7	3.1	13.0	21.2	21.8	25.0
Dishman Pharma	Buy	139	221	59.3	6.3	0.9	3.7	27.7	12.9	12.7
GSK Pharma*	Neutral	2,838	-	-	47.8	7.8	37.9	0.4	25.9	25.7
Indoco Remedies	Neutral	302	-	-	21.3	2.6	14.4	50.0	19.8	21.8
Ipca labs	Buy	668	817	22.2	13.9	2.1	10.3	10.7	21.7	23.3
Lupin	Neutral	1,439	-	-	24.1	4.0	14.9	19.3	33.0	25.4
Ranbaxy	Neutral	675	-	-	50.7	2.8	32.0	(5.9)	5.3	10.8
Sanofi India*	Accumulate	3,493	3,700	5.9	28.4	3.1	19.2	6.9	19.2	20.7
Sun Pharma	Neutral	909	-	-	26.0	5.4	17.1	10.7	27.5	27.9

Source: Company, Angel Research; Note: * December year ending

Background

Cipla is a leading pharmaceutical company in India with a strong presence in both, the export and domestic markets. On the exports front, where it follows the partnership model, it has 5,700 product registrations in around 180 countries. Cipla is a market leader in the domestic formulation market with over 5% market share. The company is likely to continue on the growth trajectory owing to its entry into the inhalers market in the EU and potential new long-term manufacturing contracts with Global Innovators.

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013	FY2014	FY2015E	FY2016E
Gross sales	6,385	6,956	8,196	9,902	11,406	13,308
Less: Excise duty	68.4	108.1	108.7	149.3	172.8	201.6
Net sales	6,317	6,848	8,087	9,753	11,233	13,106
Other operating income	7	173	193	348	348	348
Total operating income	6,324	7,021	8,279	10,100	11,580	13,454
% chg	12.4	11.0	17.9	22.0	14.7	16.2
Total expenditure	4,955	5,362	6,081	7,967	9,241	10,575
Net raw materials	2,775	2,739	2,953	3,875	4,381	4,928
Other mfg costs	635	705	641	827	951	1,094
Personnel	566	773	1,036	1,543	1,929	2,276
Other	979	1,145	1,451	1,722	1,981	2,278
EBITDA	1,362	1,486	2,005	1,786	1,991	2,531
% chg	26.9	9.1	35.0	(11.0)	11.5	27.1
(% of Net Sales)	21.6	21.7	24.8	18.3	17.7	19.3
Depreciation & amortisation	273	312	330	373	454	496
EBIT	1,089	1,174	1,675	1,413	1,538	2,035
% chg	20.2	7.8	42.7	(15.6)	8.8	32.3
(% of Net Sales)	17.2	17.1	20.7	14.5	13.7	15.5
Interest & other charges	25	38	34	146	40	35
Other Income	97	176	235	266	266	266
(% of PBT)	8.3	11.9	11.4	14.1	12.6	10.2
Recurring PBT	1,167	1,485	2,069	1,881	2,111	2,613
% chg	(5.2)	27.2	39.3	(9.1)	12.3	23.8
Extraordinary expense/(Inc.)	4.9	36.9	(26.7)	-	-	-
PBT (reported)	1,162	1,448	2,095	1,881	2,111	2,613
Tax	195.4	306.5	544.3	463.4	527.8	653.3
(% of PBT)	16.8	21.2	26.0	24.6	25.0	25.0
PAT (reported)	967	1,141	1,551	1,417	1,583	1,960
Add: Share of earnings of asso.	22	3	(6)	(12)	(12)	(12)
Less: Minority interest (MI)	-	-	-	16	16	16
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	990	1,144	1,545	1,388	1,555	1,932
ADJ. PAT	993	1,173	1,524	1,388	1,555	1,932
% chg	(1.3)	18.1	30.0	(8.9)	12.0	24.2
(% of Net Sales)	15.7	16.7	19.1	14.2	13.8	14.7
Basic EPS (₹)	12.4	14.6	19.0	17.3	19.4	24.1
Fully Diluted EPS (₹)	12.4	14.6	19.0	17.3	19.4	24.1
% chg	(1.3)	18.1	30.0	(8.9)	12.0	24.2

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013	FY2014	FY2015E	FY2016E
SOURCES OF FUNDS						
Equity share capital	161	161	161	161	161	161
Preference Capital	-	-	-	-	-	-
Reserves & surplus	6,506	7,478	8,858	9,890	11,257	13,001
Shareholders funds	6,666	7,639	9,019	10,050	11,418	13,161
Minority interest	-	-	-	50	50	50
Total loans	571.9	29.2	966.9	1,247.9	800.0	700.0
Other long term liabilities		30.0	30.0	32.6	32.6	32.6
Long Term Provisions	0.9	31.2	50.4	77.4	77.4	77.4
Deferred tax liability	213.1	233.2	280.5	309.0	309.0	309.0
Total liabilities	7,452	7,963	10,347	11,767	12,686	14,330
APPLICATION OF FUNDS						
Gross block	4,241	4,626	5,318	6,183	6,783	7,383
Less: acc. depreciation	1,146	1,411	1,708	2,180	2,634	3,129
Net block	3,094	3,215	3,610	4,003	4,150	4,254
Capital work-in-progress	285	371	378	442	442	442
Goodwill	-	-	-	2,493	2,493	2,493
Investments	591	1,269	2,532	709	709	709
Long Term Loans and Adv.	407	378	363	301	347	405
Current assets	4,220	4,116	4,775	5,340	6,455	8,256
Cash	96	90	143	175	502	1,310
Loans & advances	1,162	568	573	596	674	786
Others	2,962	3,458	4,058	4,569	5,279	6,160
Current liabilities	1,145	1,387	1,311	1,634	1,910	2,228
Net current assets	3,075	2,729	3,464	3,706	4,546	6,028
Mis. Exp. not written off	-	-	-	112	-	-
Total assets	7,452	7,963	10,347	11,767	12,686	14,330

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013	FY2014	FY2015E	FY2016E
Profit before tax	1,162	1,448	2,095	1,881	2,111	2,613
Depreciation	273	312	330	373	454	496
(Inc)/Dec in Working Capital	(295)	370	(667)	(149)	(558)	(732)
Direct taxes paid	301	275	518	431	510	832
Cash Flow from Operations	840	1,855	1,241	1,673	1,497	1,545
(Inc.)/Dec.in Fixed Assets	(944)	(472)	(698)	(930)	(600)	(600)
(Inc.)/Dec. in Investments	(344)	(678)	(1,263)	1,824	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(1,289)	(1,150)	(1,961)	894	(600)	(600)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	568	(482)	957	311	(448)	(100)
Dividend Paid (Incl. Tax)	(225)	(187)	(188)	(188)	(188)	(188)
Others	161	(42)	4	19	(16)	(16)
Cash Flow from Financing	503	(711)	773	142	(652)	(304)
Inc./ (Dec.) in Cash	55	(6)	53	2,709	245	641
Opening Cash balances	63	96	90	143	175	502
Closing Cash balances	96	90	143	175	502	1,310

Key Ratio

Y/E March	FY2011	FY2012	FY2013	FY2014	FY2015E	FY2016E
Valuation Ratio (x)						
P/E (on FDEPS)	50.5	42.7	32.9	36.1	32.2	25.9
P/CEPS	39.7	34.4	26.7	28.5	24.9	20.6
P/BV	7.5	6.6	5.6	5.0	4.4	3.8
Dividend yield (%)	0.4	0.3	0.3	0.3	0.3	0.3
EV/Sales	7.9	7.3	6.3	5.2	4.5	3.8
EV/EBITDA	36.8	33.5	25.2	28.5	25.2	19.4
EV / Total Assets	6.7	6.2	4.9	4.3	4.0	3.4
Per Share Data (₹)						
EPS (Basic)	12.4	14.6	19.0	17.3	19.4	24.1
EPS (fully diluted)	12.4	14.6	19.0	17.3	19.4	24.1
Cash EPS	15.7	18.1	23.4	21.9	25.0	30.2
DPS	2.8	2.0	2.0	2.0	2.0	2.0
Book Value	83.0	95.1	112.3	125.2	142.2	163.9
Dupont Analysis						
EBIT margin	17.2	17.1	20.7	14.5	13.7	15.5
Tax retention ratio	83.2	78.8	74.0	75.4	75.0	75.0
Asset turnover (x)	0.9	0.9	0.9	0.9	1.0	1.1
ROIC (Post-tax)	13.5	12.5	14.0	10.1	10.0	12.4
Cost of Debt (Post Tax)	7.2	10.1	5.0	9.9	2.9	3.5
Leverage (x)	0.0	0.0	0.0	0.1	0.0	1.0
Operating ROE	13.7	12.5	14.4	10.1	10.0	21.4
Returns (%)						
ROCE (Pre-tax)	16.1	15.2	18.3	12.8	12.6	15.1
Angel ROIC (Pre-tax)	17.5	16.1	19.3	15.3	17.2	21.0
ROE	15.8	16.4	18.3	14.6	14.5	15.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.8	1.6	1.7	1.8	1.8	1.9
Inventory / Sales (days)	99	104	93	95	90	99
Receivables (days)	88	83	71	60	69	75
Payables (days)	60	57	46	41	44	45
WC cycle (ex-cash) (days)	175	146	131	124	119	119
Solvency ratios (x)						
Net debt to equity	0.1	(0.0)	0.1	0.1	0.0	(0.0)
Net debt to EBITDA	0.3	(0.0)	0.4	0.6	0.1	(0.2)
Interest Coverage (EBIT / Int.)	-	-	-	-	-	-

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Pvt. Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Pvt. Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Pvt. Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
---------------------------	-------------------------------------	---	--------------------