

Institutional Equity Research

Cipla

Pharmaceuticals | India

3QFY18 Result Update | February 08, 2018

CMP* (Rs)	616
Upside/ (Downside) (%)	9.6
Bloomberg Ticker	CIPLA IN
Market Cap. (Rs bn)	496
Free Float (%)	63
Shares O/S (mn)	805

HOLD 

Target Price: Rs675

Valuation Continues to Remain Pricey; Maintain HOLD

Cipla's revenue rose by 7.3% YoY to Rs39.1bn in 3QFY18 vs. our estimates of Rs41.6bn. While its US business declined by 1.8% YoY to US\$100mn, domestic business grew by 14.5% YoY (+22% YoY adjusted for GST-related accounting). Its South African business grew by 6.1% YoY to Rs8.7bn, while Emerging Market sales dipped by 11.7% YoY to Rs3.7bn. In-line with our estimates, EBITDA rose by 20.8% YoY led by lower operating expenses. Gross margin rose by 281bps QoQ due to better product-mix. EBITDA margin improved by 234bps YoY to 20.9%. We believe Cipla's valuation continues to remain expensive. **Rolling over our estimates to FY20E, we maintain our HOLD recommendation on the stock with a revised Target Price of Rs675 (from Rs620 earlier).**

Conference Call – Key Highlights

- ▶ **India Biz (41% of Sales):** Adjusted for GST-related accounting, Cipla's domestic business grew by 22% YoY. The Management expects moderate growth in next quarter due to inventory build-up at channel level. Strong growth in domestic business can be attributed to above-industry growth in key therapies i.e. CVS (12% YoY vs. IPM 7%), Anti-infective (14% YoY vs. 11%), Respiratory (14% YoY vs. 12%) and Derma (18% YoY vs. 17%).
- ▶ **US Biz (17% of Sales):** US business declined by 1.8% YoY to US\$100mn due to limited impact of new launches. However, Cipla maintained market share of gDacogen and gPulmicort at >15% level. It filed 2 products in 3QFY18 (10 filings as of 9MFY18) and expects to file >10 products in 4QFY18 (filed 32 products in FY17). Cumulatively, 94 ANDAs are pending for approvals including 27 tentative approvals. gProventil (mkt. size: US\$200mn) is likely to be launched in FY19E. Stating that gAdvair is still 15-18 months away from filing, the Management highlighted that the older products in the US do not see any price pressure. Looking ahead, the Management expects the US business growth to scale-up over next few quarters with launch of one limited-competition product per quarter in the US (currently breakeven at EBITDA level) and cost control initiatives, which would further push margin expansion.
- ▶ **Key Guidance:** The Management pegs R&D spend at 9% of sales in FY19E primarily for the US, while gross margin is expected to witness little moderation.

Outlook & Valuation

Looking ahead, we envisage Cipla's US business to witness a strong growth on the back of ramp-up in existing products, low base, new launches and aggressive filings (filed 32 ANDAs in FY17; plans to file 20+ ANDAs in FY18; 94 ANDAs pending for approval), while India business is expected to witness a healthy growth. At CMP, stock trades at PE multiples of 21.6x and 18.3x of FY19E and FY20E EPS, respectively, which appear to be expensive. **Rolling over our estimates to FY20E, we maintain our HOLD recommendation on the stock with a revised Target Price of Rs675 (from Rs620 earlier).**

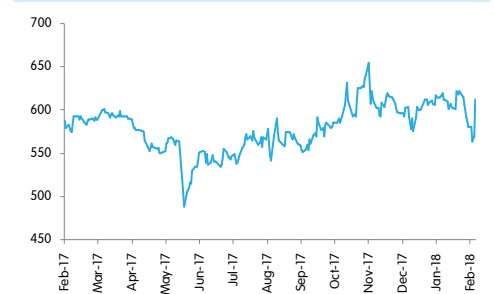
Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
Sales	146,302	159,019	179,187	201,456
EBITDA	24,758	31,804	36,733	42,306
Adj. PAT	8,399	17,109	22,895	27,148
EPS (Rs)	10.4	21.3	28.5	33.7
P/E (x)	59.0	29.0	21.6	18.3
EV/Sales (x)	3.6	3.3	2.8	2.4
EV/EBITDA (x)	21.1	16.3	13.8	11.6
ROE (%)	6.8	12.3	14.3	14.6
ROCE (%)	8.0	12.0	15.4	16.3

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	0.3	(0.8)	1.2
Relative to Nifty	0.7	(3.5)	(19.9)

Shareholding Pattern (%)	Dec'17	Sept'17
Promoter	37.2	37.3
Public	62.8	62.7

1 Year Stock Price Performance



Note: * CMP as on Feb. 08, 2018

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Risks to the View

- ▶ **Downside Risks:** Any substantial delay in getting product approvals from the US FDA and adverse currency movement.
- ▶ **Upside Risks:** Lower-than-expected erosion in the US prices; higher-than-expected growth in domestic and US business; substantial growth in European and South African business; and favourable currency movement.

Exhibit 1: Result Summary

(Rs mn)	3QFY18	3QFY17	YoY, %	2QFY18	QoQ, %
Net Sales	39,138	36,472	7.3	40,824	(4.1)
Cost of Revenues	13,790	13,011	6.0	15,531	(11.2)
Gross Profit	25,348	23,461	8.0	25,293	0.2
% of net sales	64.8%	64.3%	44bps	62.0%	281bps
Employee expenses	6,573	6,331	3.8	6,608	(0.5)
Other Expenses	10,588	10,354	2.3	10,641	(0.5)
Total operating expenses	30,952	29,696	4.2	32,780	(5.6)
EBITDA	8,187	6,776	20.8	8,044	1.8
EBITDA margin (%)	20.9%	18.6%	234bps	19.7%	121bps
Depreciation	5,224	2,577	102.7	3,022	72.8
EBIT	2,963	4,199	(29.4)	5,022	(41.0)
Other Income	529	1,535	(65.5)	1,133	(53.3)
Interest	92	593	(84.6)	420	(78.2)
PBT	3,401	5,141	(33.8)	5,735	(40.7)
Total tax	(642)	1,283	(150.1)	1,374	(146.7)
Tax Rate (%)	-18.9%	25.0%	-4384bps	24.0%	
Minority Interest	(9)	(9)	(1.1)	(11)	(21.6)
Adj PAT	4,034	3,849	4.8	4,350	(7.2)
Adj. EPS (Rs)	5.0	4.8	4.8	5.4	(7.2)

Source: Company RSec Research

Exhibit 2: Segment-wise sales performance

(Rs mn)	3QFY18	3QFY17	YoY, %	2QFY18	QoQ, %
India (Rx + Gx)	16,010	13,980	14.5	16,460	(2.7)
South Africa	8,700	8,200	6.1	9,210	(5.5)
US	6,500	6,620	(1.8)	6,180	5.2
Europe	1,710	1,310	30.5	1,510	13.2
Emerging Markets	3,710	4,200	(11.7)	4,540	(18.3)
API	1,480	1,200	23.3	2,120	(30.2)
RoW	1,030	970	6.2	800	28.8
Total	39,140	36,480	7.3	40,820	(4.1)

Source: Company RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Net Sales	146,302	159,019	179,187	201,456
Total Expenditure	121,545	127,215	142,454	159,151
Raw material	53,171	55,657	62,715	69,502
Personnel	26,338	27,033	30,462	34,248
Others	31,345	31,804	33,150	38,277
R&D Expense	10,690	12,722	16,127	17,124
EBITDA	24,758	31,804	36,733	42,306
EBITDA margin	16.9	20.0	20.5	21.0
Depreciation	13,229	13,035	8,750	8,886
EBIT	11,529	18,769	27,983	33,419
Other Income	2,287	3,600	3,780	3,969
Interest & other Charges	1,594	1,152	1,124	1,068
PBT	12,222	21,218	30,640	36,321
Tax	1,798	4,031	7,660	9,080
Tax rate	14.7	19.0	25.0	25.0
MI & Share in profit of Associates	(70)	(77)	(85)	(93)
Adj. PAT	8,399	17,109	22,895	27,148
Extraordinary item (EI)	(1,955)	-	-	-
Reported PAT	10,354	17,109	22,895	27,148
Adj EPS (Rs)	10.4	21.3	28.5	33.7

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Balance Sheet

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS				
Equity Share Capital	1,609	1,609	1,609	1,609
Reserves & Surplus	124,131	139,308	160,267	185,478
Shareholders Funds	124,131	139,308	160,267	185,478
Minority Interest	4,382	4,459	4,544	4,637
Total Loans	41,126	41,126	39,126	37,126
Other long-term financial liabilities	1,388	1,319	1,253	1,190
Total Liabilities	171,027	186,212	205,189	228,431
APPLICATION OF FUNDS				
Gross Block	95,906	104,276	112,181	120,086
Less: Acc. Depreciation	18,333	31,368	40,118	49,004
Net Block	77,573	72,909	72,064	71,082
Capital Work-in-Progress	7,192	7,822	8,417	9,012
Goodwill on Consolidation	26,784	26,784	26,784	26,784
Investments	9,748	10,722	11,794	12,974
Current Assets	80,082	94,158	115,795	141,533
Cash	6,242	7,665	18,332	31,958
Loans & Advances	490	533	600	675
Other	73,349	85,960	96,862	108,900
Current liabilities	29,814	26,180	30,251	34,188
Net Current Assets	50,268	67,977	85,544	107,345
Net Deferred Tax	(5,888)	(5,888)	(5,888)	(5,888)
Other non-current assets	5,350	5,885	6,474	7,121
Total Assets	171,027	186,212	205,189	228,431

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Cash Flow Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Profit before tax	12,222	21,218	30,640	36,321
Depreciation	13,229	13,035	8,750	8,886
Interest provided	1,594	1,152	1,124	1,068
Change in Working Capital	2,307	(16,356)	(6,965)	(8,238)
Tax Paid	(4,503)	(4,031)	(7,660)	(9,080)
Others	(1,025)	(608)	(673)	(741)
Cash Flow from Operations	23,825	14,408	25,215	28,216
(Inc.)/ Dec. in Fixed Assets	(11,360)	(9,000)	(8,500)	(8,500)
(Inc.)/ Dec. in Investments	(433)	(975)	(1,072)	(1,179)
Others	(133)	-	-	-
Cash Flow from Investing	(13,127)	(9,975)	(9,572)	(9,679)
Issue of Equity	120	-	-	-
Inc./(Dec.) in loans	(10,803)	-	(2,000)	(2,000)
Dividend Paid (Incl. Tax)	(2,269)	(1,936)	(1,936)	(1,936)
Interest provided	(1,594)	(1,152)	(1,124)	(1,068)
Cash Flow from Financing	(13,170)	(3,011)	(4,975)	(4,911)
Inc./(Dec.) in Cash	(2,472)	1,423	10,667	13,626
Opening Cash balances	8,714	6,242	7,665	18,332
Closing Cash balances	6,242	7,665	18,332	31,958

Key Ratio

Y/E March	FY17	FY18E	FY19E	FY20E
Valuation Ratio (x)				
P/E	59.0	29.0	21.6	18.3
P/BV	4.0	3.6	3.1	2.7
Dividend yield (%)	0.3	0.3	0.3	0.3
EV/Sales	3.6	3.3	2.8	2.4
EV/EBITDA	21.1	16.3	13.8	11.6
EV / Total Assets	3.1	2.8	2.5	2.1
Per Share Data (Rs)				
EPS	10.4	21.3	28.5	33.7
DPS	2.0	2.0	2.0	2.0
Book Value	154.3	173.2	199.2	230.6
Returns (%)				
RoCE	8.0	12.0	15.4	16.3
RoE	6.8	12.3	14.3	14.6
Turnover ratios (x)				
Asset Turnover (Gross Block)	1.5	1.5	1.6	1.7
Inventory / Sales (days)	87	100	100	100
Receivables (days)	62	62	62	62
Inventory (days)	87	100	100	100
Payable days	63	63	63	63

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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