

November 5, 2018

## Q2FY19 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	REDUCE		REDUCE	
Target Price	417		525	
Sales (Rs. m)	156,734	170,361	165,824	179,996
% Chng.			(5.5)	(5.4)
EBITDA (Rs. m)	26,331	30,324	29,848	34,289
% Chng.			(11.8)	(11.6)
EPS (Rs.)	20.0	21.9	25.0	27.6
% Chng.			(20.3)	(20.6)

### Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	142,809	147,509	156,734	170,361
EBITDA (Rs. m)	21,264	27,559	26,331	30,324
Margin (%)	14.9	18.7	16.8	17.8
PAT (Rs. m)	10,134	18,112	16,068	17,641
EPS (Rs.)	12.6	22.5	20.0	21.9
Gr. (%)	(26.2)	78.6	(11.3)	9.8
DPS (Rs.)	2.1	2.0	2.0	2.0
Yield (%)	0.4	0.4	0.4	0.4
RoE (%)	8.4	13.5	10.8	10.7
RoCE (%)	8.3	12.9	12.6	13.2
EV/Sales (x)	3.4	3.2	3.0	2.6
EV/EBITDA (x)	22.5	17.2	17.6	14.9
PE (x)	44.7	25.0	28.2	25.7
P/BV (x)	3.6	3.2	2.9	2.6

### Key Data

[CIPLA.BO](http://CIPLA.BO) | [CIPLA.IN](http://CIPLA.IN)

52-W High / Low	Rs.678 / Rs.507
Sensex / Nifty	34,951 / 10,524
Market Cap	Rs.453bn/ \$ 6,205m
Shares Outstanding	805m
3M Avg. Daily Value	Rs.3306.72m

### Shareholding Pattern (%)

Promoter's	36.74
Foreign	25.62
Domestic Institution	13.83
Public & Others	23.81
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(11.6)	(5.7)	(12.0)
Relative	(13.0)	(5.8)	(15.2)

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## Q2 miss; Guidance revised further down

Cipla's adj Sales, adj. EBITDA and PAT of Rs39.9bn, Rs6.4bn and Rs3.7bn were below our estimates by 8%, 15% and 28% respectively. The company also missed the consensus estimates of sales, EBITDA and PAT by 8%, 24% and 17%. Management however guided for challenging business environment globally post Q2FY19 in comparison to its optimistic guidance post Q1FY19. Aided by forex benefits, Cipla increased adj. gross margin by 120bps QoQ while higher overhead decreased adj. EBITDA margin by 30bps QoQ. Inflation in global commodity prices, higher costs of API from Chinese suppliers and unabated price erosion in US generics are cited by the management for challenging guidance in FY19E as it believes that those issues are likely to continue for few more quarter. R&D expenses was higher at 8% of sales and expects to continue due to clinical trials of complex molecules.

Cipla was expected to outperform consensus estimates driven by seven launches in US and traction of complex generics. There was strong reduction (50% fall YoY) of global tender (ARV/malaria) business as well as 20% fall in South Africa tender business. With challenging geo-political scenarios those affects Cipla's business prospects in key geographies, we reduce estimates of sales by 5-6% and EBITDA margin to 16-18% in FY19E and FY20E. Management however remained optimistic on revenue growth in US and India in FY19E without specific quantification. Cipla trades at 28x FY19E and 26x FY20E PER. We maintain 'Reduce' recommendation and decreased TP to Rs417.

**Key takeaways from Conf call:** a)US generic sales increased by 8% to US\$108m in Q2FY19 due to higher contributions from newly launched products. b)R&D expenditure was Rs100m for preparatory work before clinical trial start for gAdvair in US and guided for higher expenses in FY19E once clinical trial starts. c)US sales grew in Q2FY19 with greater contribution from gReyataz, gVoltaren and gAlbenza. Management guided launch of key generics such as gAloxi (AG), glsuprel, gDacogen, gToprol XL, Budesonide and gDepo-Testosterone to drive business in FY19E and FY20E. d)India formulation to outperform industry growth in FY19E. it improved its rank in CVS segment to 4<sup>th</sup> position.

**Exhibit 1: Q2FY19 Result Overview (Rs mn)**

Y/e March	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	H1FY19	H1FY18	YoY gr. (%)
<b>Net Sales</b>	<b>39,479</b>	<b>39,882</b>	<b>(1.0)</b>	<b>38,458</b>	<b>77,938</b>	<b>74,206</b>	<b>5.0</b>
Raw Material	14,121	15,531	(9.1)	14,239	28,361	27,298	3.9
<i>% of Net Sales</i>	<i>35.8</i>	<i>38.9</i>		<i>37.0</i>	<i>36.4</i>	<i>36.8</i>	
Personnel Cost	7,122	6,608	7.8	7,140	14,262	13,338	6.9
<i>% of Net Sales</i>	<i>18.0</i>	<i>16.6</i>		<i>18.6</i>	<i>18.3</i>	<i>18.0</i>	
Others	11,853	10,641	11.4	10,747	22,601	20,931	8.0
<i>% of Net Sales</i>	<i>30.0</i>	<i>26.7</i>		<i>27.9</i>	<i>29.0</i>	<i>28.2</i>	
Total Expenditure	33,097	32,780	1.0	32,126	65,223	61,566	5.9
<b>EBITDA</b>	<b>6,383</b>	<b>7,102</b>	<b>(10.1)</b>	<b>6,332</b>	<b>12,715</b>	<b>12,640</b>	<b>0.6</b>
<i>Margin (%)</i>	<i>16.2</i>	<i>17.8</i>	<i>(0.3)</i>	<i>16.5</i>	<i>16.3</i>	<i>17.0</i>	
Depreciation	2,819	3,022	(6.7)	2,410	5,229	5,157	1.4
<b>EBIT</b>	<b>3,564</b>	<b>4,080</b>	<b>(12.7)</b>	<b>3,922</b>	<b>7,486</b>	<b>7,483</b>	<b>0.0</b>
Other Income	1,965	2,075	(5.3)	2,633	4,598	4,516	1.8
Interest	444	420	5.6	351	795	699	13.7
<b>PBT</b>	<b>5,085</b>	<b>5,735</b>	<b>(11.3)</b>	<b>6,204</b>	<b>11,289</b>	<b>11,300</b>	<b>(0.1)</b>
Extra-Ord. Inc./Exps.	(109)	135		(46)	(155)	304	
Total Taxes	1,424	1,374	3.6	1,737	3,161	2,682	17.9
<i>ETR (%)</i>	<i>28.0</i>	<i>24.0</i>		<i>28.0</i>	<i>28.0</i>	<i>23.7</i>	
<b>Reported PAT</b>	<b>3,771</b>	<b>4,226</b>	<b>(10.8)</b>	<b>4,513</b>	<b>8,283</b>	<b>8,314</b>	<b>(0.4)</b>

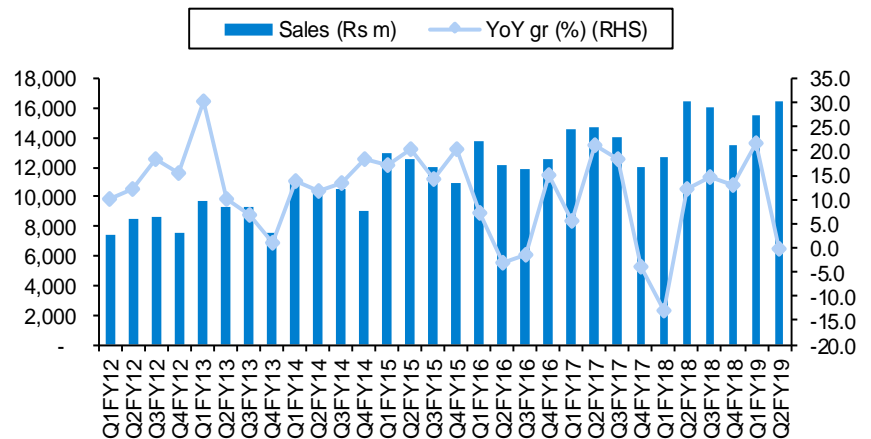
Source: Company, PL

**Exhibit 2: Sources of Revenue**

Geographic break up of revenues	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	H1FY19	H1FY18	YoY gr. (%)
Domestic market	16,440	16,460	(0.1)	15,440	31,880	29,160	9.3
<i>% of Sales</i>	<i>41.9</i>	<i>40.3</i>		<i>39.2</i>	<i>40.5</i>	<i>38.3</i>	
International market (Exports)	22,820	24,360	(6.3)	23,950	46,770	46,910	(0.3)
<i>% of Sales</i>	<i>58.1</i>	<i>59.7</i>		<i>60.8</i>	<i>59.5</i>	<i>61.7</i>	
North America (US & Canada)	7,560	6,180	22.3	6,700	14,260	12,640	12.8
Cipla Medpro (SA)	5,040	5,144	(2.0)	5,750	10,790	9,814	9.9
Emerging Markets (Africa ex SA)	4,690	4,540	3.3	4,690	9,380	9,170	2.3
Europe	1,330	1,510	(11.9)	1,340	2,670	3,160	(15.5)
Others (SAGA)	2,520	4,866	(48.2)	3,470	5,990	8,706	(31.2)
APIs	1,680	2,120	(20.8)	2,000	3,680	3,420	7.6
<i>% of Sales</i>	<i>4.3</i>	<i>5.2</i>		<i>5.1</i>	<i>4.7</i>	<i>4.5</i>	
<b>Total</b>	<b>39,260</b>	<b>40,820</b>	<b>(3.8)</b>	<b>39,390</b>	<b>78,650</b>	<b>76,070</b>	<b>3.4</b>

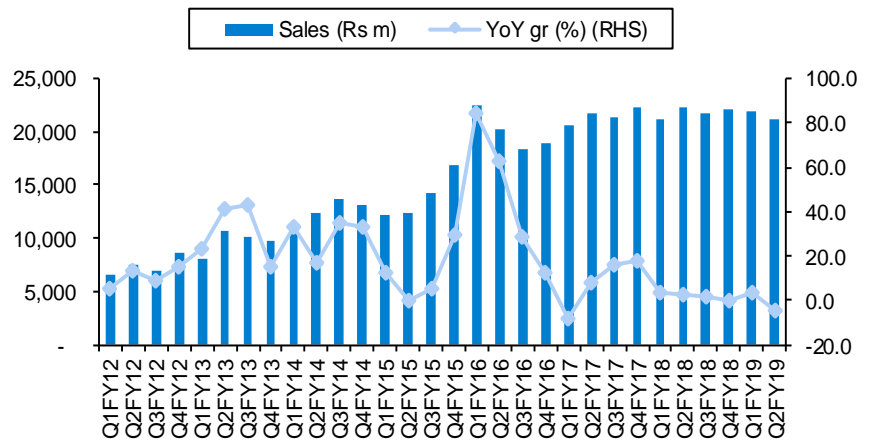
Source: Company, PL

**Exhibit 3: India Formulations, Growth**



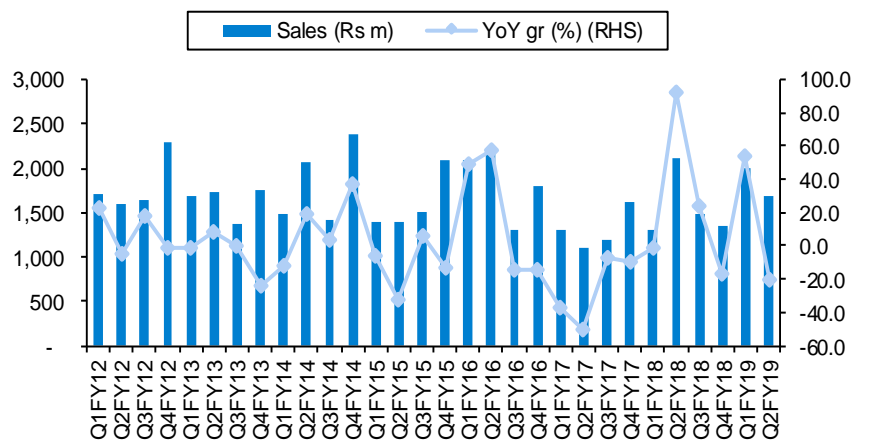
Source: Company, PL

**Exhibit 4: Export Formulations, Growth**



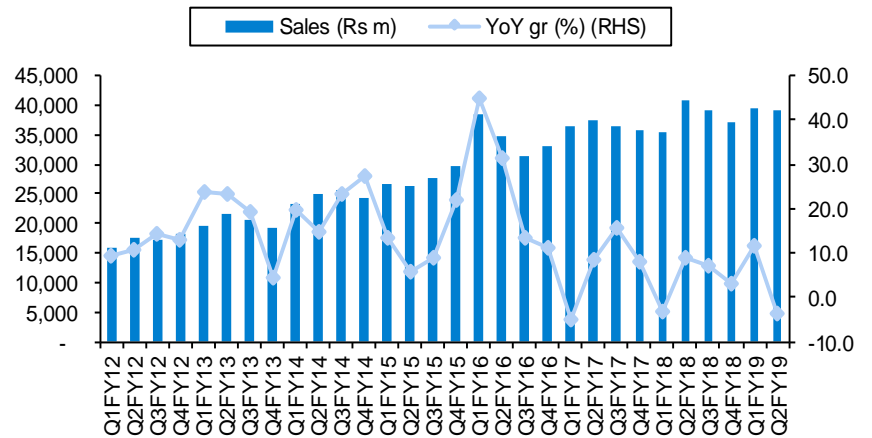
Source: Company, PL

**Exhibit 5: API Sales, Growth**



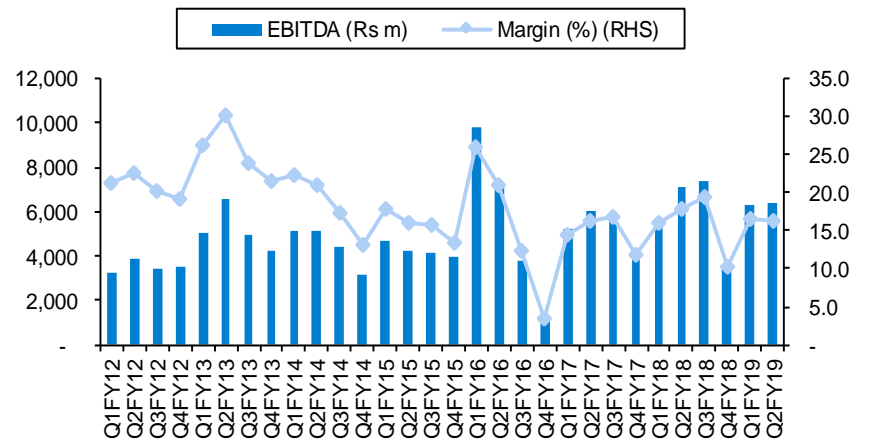
Source: Company, PL

**Exhibit 6: Overall Sales, Growth**



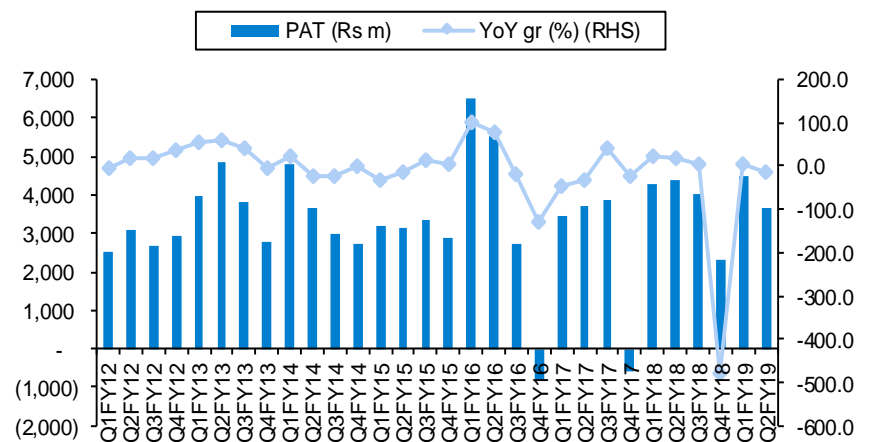
Source: Company, PL

**Exhibit 7: EBITDA, Margin**



Source: Company, PL

**Exhibit 8: Adj. PAT, Growth**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Net Revenues</b>	<b>142,809</b>	<b>147,509</b>	<b>156,734</b>	<b>170,361</b>
YoY gr. (%)	5.8	3.3	6.3	8.7
Cost of Goods Sold	53,171	50,405	54,857	57,071
Gross Profit	89,637	97,104	101,877	113,290
Margin (%)	62.8	65.8	65.0	66.5
Employee Cost	26,338	26,901	28,526	29,302
Other Expenses	10,711	10,283	12,147	13,629
<b>EBITDA</b>	<b>21,264</b>	<b>27,559</b>	<b>26,331</b>	<b>30,324</b>
YoY gr. (%)	(2.6)	29.6	(4.5)	15.2
Margin (%)	14.9	18.7	16.8	17.8
Depreciation and Amortization	13,229	13,228	10,741	12,252
<b>EBIT</b>	<b>8,035</b>	<b>14,331</b>	<b>15,590</b>	<b>18,073</b>
Margin (%)	5.6	9.7	9.9	10.6
Net Interest	1,594	1,142	1,028	925
Other Income	5,781	8,260	7,847	7,455
<b>Profit Before Tax</b>	<b>12,222</b>	<b>21,449</b>	<b>22,410</b>	<b>24,602</b>
Margin (%)	8.6	14.5	14.3	14.4
Total Tax	1,798	2,501	6,275	6,889
Effective tax rate (%)	14.7	11.7	28.0	28.0
<b>Profit after tax</b>	<b>10,424</b>	<b>18,948</b>	<b>16,135</b>	<b>17,714</b>
Minority interest	290	60	66	73
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>10,134</b>	<b>18,112</b>	<b>16,068</b>	<b>17,641</b>
YoY gr. (%)	(26.1)	78.7	(11.3)	9.8
Margin (%)	7.1	12.3	10.3	10.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>10,134</b>	<b>18,112</b>	<b>16,068</b>	<b>17,641</b>
YoY gr. (%)	(26.1)	78.7	(11.3)	9.8
Margin (%)	7.1	12.3	10.3	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,134	18,112	16,068	17,641
<b>Equity Shares O/s (m)</b>	<b>805</b>	<b>805</b>	<b>805</b>	<b>805</b>
<b>EPS (Rs)</b>	<b>12.6</b>	<b>22.5</b>	<b>20.0</b>	<b>21.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>86,579</b>	<b>102,286</b>	<b>111,286</b>	<b>120,286</b>
Tangibles	60,346	69,438	75,438	81,438
Intangibles	26,234	32,849	35,849	38,849
<b>Acc: Dep / Amortization</b>	<b>18,626</b>	<b>30,932</b>	<b>41,673</b>	<b>53,924</b>
Tangibles	10,241	16,274	21,279	27,060
Intangibles	8,385	14,658	20,394	26,864
<b>Net fixed assets</b>	<b>67,953</b>	<b>71,354</b>	<b>69,613</b>	<b>66,362</b>
Tangibles	50,104	53,164	54,158	54,377
Intangibles	17,849	18,191	15,455	11,984
Capital Work In Progress	16,830	9,813	9,813	9,813
Goodwill	26,967	28,147	28,147	28,147
Non-Current Investments	2,889	3,574	3,809	4,144
Net Deferred tax assets	(5,888)	(3,157)	(2,708)	(2,216)
Other Non-Current Assets	6,005	5,699	6,359	7,099
<b>Current Assets</b>				
Investments	8,374	11,022	12,675	14,577
Inventories	34,853	40,447	41,653	44,341
Trade receivables	25,631	31,025	32,206	32,672
Cash & Bank Balance	6,242	9,656	10,929	14,439
Other Current Assets	6,740	10,044	10,848	12,475
<b>Total Assets</b>	<b>210,371</b>	<b>228,606</b>	<b>234,461</b>	<b>243,119</b>
<b>Equity</b>				
Equity Share Capital	1,609	1,610	1,610	1,610
Other Equity	123,828	140,682	154,868	170,626
<b>Total Networkth</b>	<b>125,437</b>	<b>142,292</b>	<b>156,478</b>	<b>172,236</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	36,454	36,621	29,297	23,438
Provisions	1,405	1,379	1,393	1,184
Other non current liabilities	937	933	723	524
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	4,672	4,359	3,487	2,790
Trade payables	15,711	21,191	23,617	26,138
Other current liabilities	13,353	12,772	10,865	8,692
<b>Total Equity &amp; Liabilities</b>	<b>210,371</b>	<b>228,606</b>	<b>234,461</b>	<b>243,120</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	12,222	17,470	22,410	24,602
Add. Depreciation	13,229	13,228	10,741	12,252
Add. Interest	1,594	1,142	1,028	925
Less Financial Other Income	5,781	8,260	7,847	7,455
Add. Other	(1,079)	(2,160)	(273)	(2,557)
Op. profit before WC changes	25,966	29,681	33,906	35,223
Net Changes-WC	2,354	(7,833)	(2,830)	(4,316)
Direct tax	(4,503)	(7,220)	(6,275)	(6,889)
<b>Net cash from Op. activities</b>	<b>23,818</b>	<b>14,628</b>	<b>24,801</b>	<b>24,018</b>
Capital expenditures	(10,982)	(7,395)	(9,000)	(9,000)
Interest / Dividend Income	121	332	-	-
Others	(2,241)	(1,477)	(1,800)	(2,144)
<b>Net Cash from Inv. activities</b>	<b>(13,102)</b>	<b>(8,540)</b>	<b>(10,800)</b>	<b>(11,144)</b>
Issue of share cap. / premium	120	1	-	-
Debt changes	(10,803)	(345)	(8,196)	(6,557)
Dividend paid	(1,936)	(1,893)	(1,883)	(1,883)
Interest paid	(1,594)	(1,178)	(1,028)	(925)
Others	1,019	(242)	-	-
<b>Net cash from Fin. activities</b>	<b>(13,194)</b>	<b>(3,656)</b>	<b>(11,107)</b>	<b>(9,365)</b>
<b>Net change in cash</b>	<b>(2,478)</b>	<b>2,431</b>	<b>2,894</b>	<b>3,510</b>
Free Cash Flow	12,835	7,233	15,801	15,018

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
<b>Net Revenue</b>	<b>38,345</b>	<b>34,958</b>	<b>38,458</b>	<b>39,479</b>
YoY gr. (%)	7.6	0.3	12.0	(1.0)
Raw Material Expenses	13,784	13,303	14,239	14,121
Gross Profit	24,561	21,656	24,219	25,358
Margin (%)	64.1	61.9	63.0	64.2
<b>EBITDA</b>	<b>7,393</b>	<b>3,547</b>	<b>6,332</b>	<b>6,383</b>
YoY gr. (%)	4.1	(52.0)	78.5	0.8
Margin (%)	19.3	10.1	16.5	16.2
Depreciation / Depletion	5,224	2,848	2,410	2,819
<b>EBIT</b>	<b>2,170</b>	<b>699</b>	<b>3,922</b>	<b>3,564</b>
Margin (%)	5.7	2.0	10.2	9.0
Net Interest	92	352	351	444
Other Income	1,323	2,422	2,633	1,965
<b>Profit before Tax</b>	<b>3,401</b>	<b>2,769</b>	<b>6,204</b>	<b>5,085</b>
Margin (%)	8.9	7.9	16.1	12.9
Total Tax	(642)	462	1,737	1,424
Effective tax rate (%)	(18.9)	16.7	28.0	28.0
<b>Profit after Tax</b>	<b>4,043</b>	<b>2,307</b>	<b>4,467</b>	<b>3,661</b>
Minority interest	38	(254)	(46)	(109)
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>4,005</b>	<b>1,786</b>	<b>4,513</b>	<b>3,771</b>
YoY gr. (%)	6.9	(389.1)	10.4	(10.8)
Margin (%)	10.4	5.1	11.7	9.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,005</b>	<b>1,786</b>	<b>4,513</b>	<b>3,771</b>
YoY gr. (%)	6.9	(389.1)	10.4	(10.8)
Margin (%)	10.4	5.1	11.7	9.6
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>4,005</b>	<b>1,786</b>	<b>4,513</b>	<b>3,771</b>
Avg. Shares O/s (m)	805	805	805	805
<b>EPS (Rs)</b>	<b>5.0</b>	<b>2.2</b>	<b>5.6</b>	<b>4.7</b>

Source: Company Data, PL Research

**Key Financial Metrics**

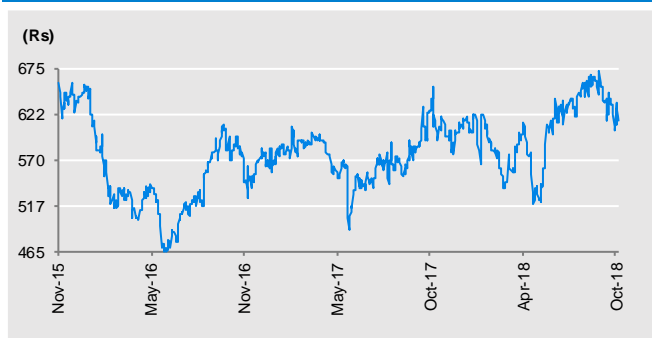
Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Per Share(Rs)</b>				
EPS	12.6	22.5	20.0	21.9
CEPS	29.0	38.9	33.3	37.1
BVPS	155.9	176.7	194.4	213.9
FCF	16.0	9.0	19.6	18.7
DPS	2.1	2.0	2.0	2.0
<b>Return Ratio(%)</b>				
RoCE	8.3	12.9	12.6	13.2
ROIC	10.1	12.1	11.2	12.5
RoE	8.4	13.5	10.8	10.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.2	0.1	0.1	0.0
Net Working Capital (Days)	114	124	117	109
<b>Valuation(x)</b>				
PER	44.7	25.0	28.2	25.7
P/B	3.6	3.2	2.9	2.6
P/CEPS	25.8	34.7	29.6	33.0
EV/EBITDA	22.5	17.2	17.6	14.9
EV/Sales	3.4	3.2	3.0	2.6
Dividend Yield (%)	0.4	0.4	0.4	0.4

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY17	FY18	FY19E	FY20E
India Formulations	56,064	57,886	64,832	71,315
Exports	86,834	84,379	99,287	110,507
APIs	7,011	6,520	7,303	8,033

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Nov-17	Reduce	485	608
2	10-Jan-18	Reduce	485	613
3	7-Feb-18	Reduce	526	566
4	13-Apr-18	Reduce	526	555
5	23-May-18	Reduce	525	524
6	10-Jul-18	Reduce	525	640
7	8-Aug-18	Reduce	525	633
8	5-Oct-18	Reduce	525	638

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	909	757
2	Cadila Healthcare	Accumulate	437	383
3	Cipla	Reduce	525	638
4	Dr. Lal PathLabs	Accumulate	1,009	928
5	Dr. Reddy's Laboratories	Reduce	2,170	2,405
6	Eris Lifesciences	BUY	849	685
7	Glenmark Pharmaceuticals	Reduce	472	602
8	Indoco Remedies	Reduce	184	178
9	Ipca Laboratories	BUY	829	642
10	Jubilant Life Sciences	Accumulate	723	650
11	Lupin	Reduce	713	885
12	Sun Pharmaceutical Industries	Reduce	447	599
13	Thyrocare Technologies	BUY	796	660

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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