

Cipla

Performance Highlights

Y/E March (₹ cr)	1QFY2017	4QFY2016	% chg qoq	1QFY2016	% chg yoy
Net sales	3,500	3,207	9.1	3,761	(6.9)
Other income	119	115	3.9	128	(6.9)
Gross profit	2,129	1,791	18.9	2,518	(15.4)
Operating profit	517	159	225.0	977	(47.0)
Adj. Net profit	365	81	351.6	649	(43.7)

Source: Company, Angel Research

Cipla posted lower than expected numbers for 1QFY2017. Sales came in at ₹3,500cr V/s ₹3,743cr expected and V/s ₹3,761cr in 1QFY2016, a dip of 6.9% yoy. Domestic sales (₹1,449cr) rose 5% yoy, while exports (₹2,051cr) dipped by 14.0% yoy. On the operating front, the EBITDA margin came in at 14.8% V/s 18.6% expected, V/s 26.0% in 1QFY2016, and V/s Adj. OPM of 15.8% in 4QFY2016. Thus, the Adj. net profit came in at ₹365cr V/s ₹435cr expected and V/s ₹649cr in 1QFY2016, a yoy de-growth of 43.7%. **We maintain our Neutral rating on the stock.**

Results much lower than our expectations: The company posted lower than expected numbers for 1QFY2017. Sales came in at ₹3,500cr V/s ₹3,743cr expected and V/s ₹3,761cr in 1QFY2016, a dip of 6.9% yoy. Domestic sales (₹1,449cr) rose 5% yoy, while exports (₹2,051cr) dipped by 14.0% yoy. On the operating front, the EBITDA margin came in at 14.8% V/s 18.6% expected, V/s 26.0% in 1QFY2016, and V/s Adj. OPM of 15.8% in 4QFY2016. Thus, the Adj. net profit came in at ₹365cr V/s ₹435cr expected and V/s ₹649cr in 1QFY2016, a yoy de-growth of 43.7%.

Outlook and valuation: We expect the company to post a 16.3% CAGR in net sales to ₹18,089cr and EPS to record a 20.4% CAGR to ₹27.2 over FY2016–18E. **We reiterate our Neutral stance on the stock owing to the company's poor return ratios.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	11,681	13,372	15,378	18,089
% chg	19.8	14.5	15.0	17.6
Adj. Net profit	1,578	1,506	1,736	2,185
% chg	13.6	(4.5)	15.3	25.9
EPS (₹)	19.6	18.8	21.6	27.2
EBITDA margin (%)	17.7	16.4	17.4	18.4
P/E (x)	23.8	24.9	21.6	17.2
RoE (%)	15.1	13.3	13.7	15.2
RoCE (%)	12.9	10.7	11.1	13.5
P/BV (x)	3.5	3.2	2.8	2.4
EV/Sales (x)	3.3	3.1	2.7	2.2
EV/EBITDA (x)	18.6	18.8	15.3	12.0

Source: Company, Angel Research; Note: CMP as of August 12, 2016

NEUTRAL

CMP	₹517
Target Price	-

Investment Period	-
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Stock Info

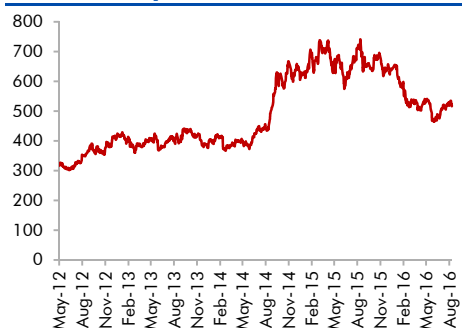
Sector	Pharmaceutical
Market Cap (₹ cr)	41,519
Net Debt (₹ cr)	563
Beta	0.7
52 Week High / Low	748/458
Avg. Daily Volume	164,865
Face Value (₹)	2
BSE Sensex	28,152
Nifty	8,672
Reuters Code	CIPL.BO
Bloomberg Code	CIPLA@IN

Shareholding Pattern (%)

Promoters	36.8
MF / Banks / Indian Fls	20.9
FII / NRIs / OCBs	23.1
Indian Public / Others	19.2

Abs. (%)	3m	1yr	3yr
Sensex	8.8	(0.0)	48.3
Cipla	13.7	(30.8)	(17.5)

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2017 (Consolidated) performance

Y/E March (₹ cr)	1QFY2017	4QFY2016	% chg QoQ	1QFY2016	% chg yoy	FY2016	FY2015	% chg yoy
Net sales	3,500	3,207	9.1	3,761	(6.9)	13,372	10,882	22.9
Other income	119.1	114.6	3.9	127.9	(6.9)	514.7	628.6	(18.1)
Total income	3,619	3,321	9.0	3,889	(6.9)	13,887	11,511	20.6
Gross profit	2129	1791	18.9	2518	(15.4)	8254	6728	22.7
Gross margin	60.8	55.8		66.9		61.7	61.8	
Operating profit	517	159	225.0	977	(47.0)	2195	1699	29.2
OPM (%)	14.8	5.0		26.0		16.4	15.6	
Interest	31.3	36.8	(14.7)	63.9	(50.9)	161	168	(4.0)
Depreciation	161	141	13.7	149	7.6	542	505	7.3
PBT	444	96	364.8	892	(50.2)	2007	1654	21.3
Provision for taxation	71	-4	(1,915.6)	242	(70.7)	440	400	9.9
PAT before extra-ordinary item	374	99	275.4	650	(42.5)	1567	1254	25.0
Share of Profit /(loss) of asso.	(8)	(13)		(1)		(61)	(73)	
Extra-ordinary items/(income)	0	0		0		0	0	
PAT after extra-ordinary item	365	81	351.6	649	(43.7)	1506	1181	27.5
Adj. PAT	365	81	351.6	649	(43.7)	1506	1181	27.5
EPS (₹)	4.5	1.0		8.1		18.8	14.7	

Source: Company, Angel Research

Exhibit 2: 1QFY2017 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variance
Net sales	3,500	3,743	(6.5)
Other income	119	115	3.6
Operating profit	517	695	(25.5)
Tax	71	174	(59.4)
Net profit	365	435	(16.1)

Source: Company, Angel Research

Top-line growth lower than expectation

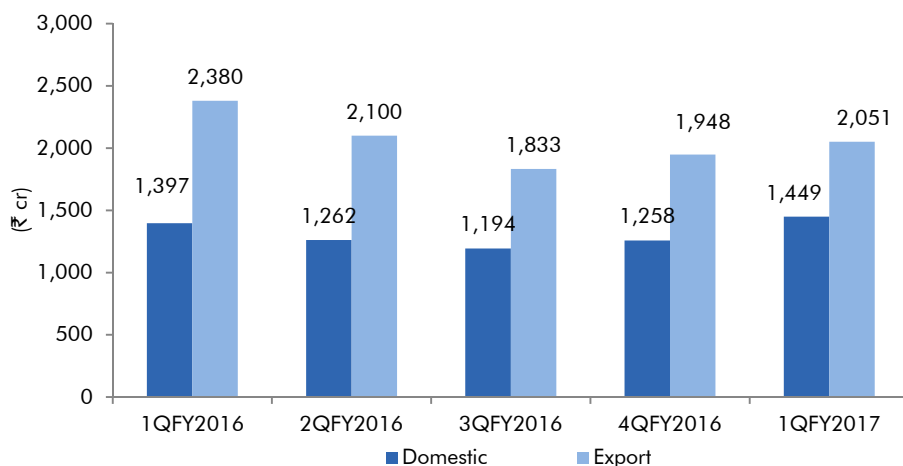
Sales during the quarter came in at ₹3,500cr Vs ₹3,743cr expected and Vs ₹3,761cr in 1QFY2016, a dip of 6.9% yoy. Domestic formulations (₹1,449cr) posted a yoy growth of 5.0% while exports (₹2,051cr) posted a yoy de-growth of 14.0%. Domestic formulation sales took an impact of ~2% due to regulatory issues.

USA (US\$98mn) posted a yoy de-growth of 25.8% excluding Nexium and Invagen sales; the base business posted a yoy growth of 30%+. The company was the third fastest-growing generics player in the US in 1QFY2017 and has 8 of its 38 products ranked #1 in their respective segments. The company expects the US portfolio to deliver robust growth on the back of its strong launch pipeline (~15 launches expected in the rest of FY2017) and enhanced focus on R&D.

South Africa (ZAR905mn) registered a growth of ~22% over the last year. The company has a market share of ~5.3% in the private market and is the 3rd largest generics player in South Africa with leadership in Respiratory, CNS, and Oncology segments where it commands a ~25-30% market share. Also, the company posted a 10% yoy growth in tender sales Vs last year.

Emerging market sales (US\$113mn) posted an overall de-growth of ~11% yoy in 1QFY2017. Direct to market (DTM) sales declined ~13% yoy owing to forex volatility and complexity reduction initiatives while there has been a resurgence in partnership-led markets (B2B) with 15% yoy growth.

Exhibit 3: Sales Trend

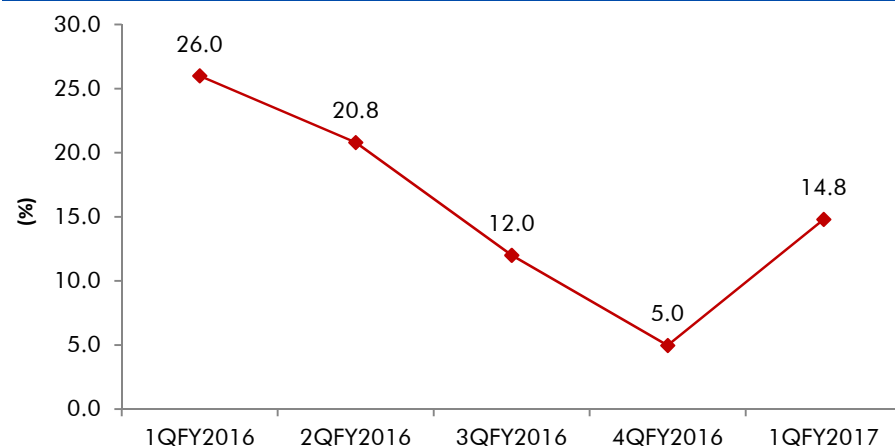


Source: Company

Operating profit margin much lower than expected

On the operating front, the EBITDA margin came in at 14.8% V/s 18.6% expected, V/s 26.0% in 1QFY2016 and V/s Adj. OPM of 15.8% in 4QFY2016. R&D as % of sales for the quarter stood at 6.6%; it is expected to be at ~8.0% in FY2017 as against ~6.5% in FY2016.

Exhibit 4: OPM Trend

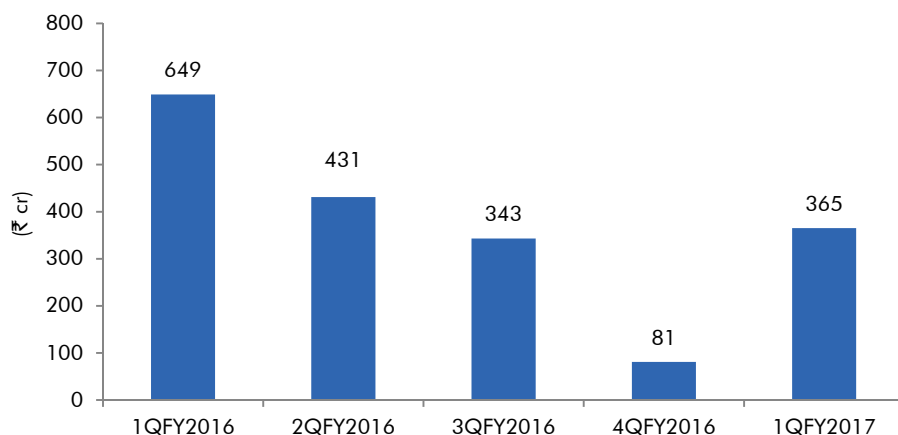


Source: Company

Net profit lower than expectation

The Adj. net profit came in at ₹365cr V/s ₹435cr expected and V/s ₹649cr in 1QFY2016, a yoy de-growth of 43.7%.

Exhibit 5: Net Profit Trend



Source: Company

Concall takeaways

- R&D as % of sales for the quarter stood at 6.6%; it is expected to be at ~8% in FY2017 as against ~6.5% in FY2016.
- In USA, the company expects to file 15 ANDAs in FY2017.
- DPCO and Fixed Dosage Combinations ban in domestic market expected to impact by ~2-3% for FY2017.

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 FY2016, with Africa, US and Latin America constituting more than ~60% of total exports. In the US, Cipla has a strong product pipeline of 168 ANDAs, out of which, 90 are 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.

During the quarter, the company strengthened its foothold in the US through the acquisition of InvaGen Pharma and Exelan Pharma. The companies added a pipeline of ~70 ANDAs of which 40 are approved (32 marketed) and 30 awaiting approval. The company is likely to add over USD250mn in FY2017. The deal is expected to conclude by December 2015. It will also provide manufacturing capabilities in the US. Overall, we expect the company’s exports to grow at a CAGR of 19.1% during FY2016-18E.

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 FY2016. 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 14.0% over FY2016-18E.

Valuation: We expect the company to post a 16.3% CAGR in net sales to ₹18,089cr and EPS to record a 21.7% CAGR to ₹27.8 over FY2016-18E. 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	FY2017E	FY2018E
Domestic growth (%)	13.0	15.0
Exports growth (%)	19.1	19.2
Growth in employee expenses (%)	15.0	15.0
Operating margins (excl tech. know-how fees) (%)	17.4	18.4

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 %	FY2018E			FY16-18E	FY2018E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	647	-	-	21.3	2.8	13.3	(10.8)	27.5	25.3
Aurobindo Pharma	Buy	747	877	17.4	15.8	2.6	11.0	18.1	22.5	26.1
Cadila Healthcare	Accumulate	369	400	8.4	18.5	2.8	12.6	15.8	24.3	26.6
Cipla	Neutral	517	-	-	19.0	2.4	13.1	20.4	13.5	15.2
Dr Reddy's	Neutral	3,005	-	-	19.0	2.8	11.2	6.9	18.1	17.1
Dishman Pharma	Neutral	167	-	-	16.0	1.8	8.0	(1.1)	9.6	10.2
GSK Pharma*	Neutral	3,102	-	-	52.2	6.7	35.8	15.9	35.8	31.8
Indoco Remedies	Sell	311	225	(27.7)	19.9	2.3	12.7	31.5	19.1	19.2
Ipca labs	Buy	532	613	15.2	27.0	1.9	12.2	36.5	8.8	9.4
Lupin	Accumulate	1,579	1,809	14.6	22.8	3.7	14.0	17.2	24.4	20.9
Sanofi India	Neutral	4,347	-	-	25.7	3.2	18.5	21.2	24.9	28.4
Sun Pharma	Buy	802	944	17.7	24.4	4.9	15.9	22.0	33.1	18.9

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

Company 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 ~5.3% 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)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Gross sales	8,196	9,902	11,861	13,587	15,615	18,368
Less: Excise duty	108.7	149.3	179.7	215.0	236.6	278.3
Net sales	8,087	9,753	11,681	13,372	15,378	18,089
Other operating income	193	348	348	306	306	306
Total operating income	8,279	10,100	12,029	13,678	15,684	18,395
% chg	17.9	22.0	19.1	13.7	14.7	17.3
Total expenditure	6,081	7,967	9,612	11,177	12,704	14,760
Net raw materials	2,953	3,875	4,556	5,118	5,736	6,747
Other mfg costs	641	827	993	1,142	1,313	1,510
Personnel	1,036	1,543	2,083	2,447	2,814	3,236
Other	1,451	1,722	1,981	2,470	2,841	3,267
EBITDA	2,005	1,786	2,069	2,195	2,675	3,329
% chg	35.0	(11.0)	15.9	6.1	21.8	24.5
(% of Net Sales)	24.8	18.3	17.7	16.4	17.4	18.4
Depreciation & amort.	330	373	457	542	676	732
EBIT	1,675	1,413	1,613	1,654	1,999	2,597
% chg	42.7	(15.6)	14.1	2.5	20.9	30.0
(% of Net Sales)	20.7	14.5	13.8	12.4	13.0	14.4
Interest & other charges	34	146	85	161	161	161
Other Income	235	266	266	209	209	209
(% of PBT)	11.4	14.1	12.4	10.4	8.9	7.1
Recurring PBT	2,069	1,881	2,141	2,007	2,352	2,951
% chg	39.3	(9.1)	13.8	(6.3)	17.2	25.5
Extraordinary exp./ (Inc.)	(26.7)	-	-	-	-	-
PBT (reported)	2,095	1,881	2,141	2,007	2,352	2,951
Tax	544.3	463.4	535.3	439.6	588.0	737.7
(% of PBT)	26.0	24.6	25.0	21.9	25.0	25.0
PAT (reported)	1,551	1,417	1,606	1,567	1,764	2,213
Add: Share of earnings of asso.	(6)	(12)	(12)	(12)	(11)	(10)
Less: Minority interest (MI)	-	16	16	49	17	18
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	1,545	1,388	1,578	1,506	1,736	2,185
ADJ. PAT	1,524	1,388	1,578	1,506	1,736	2,185
% chg	30.0	(8.9)	13.6	(4.5)	15.3	25.9
(% of Net Sales)	19.1	14.2	13.5	11.3	11.3	12.1
Basic EPS (₹)	19.0	17.3	19.6	18.8	21.6	27.2
Fully Diluted EPS (₹)	19.0	17.3	19.6	18.8	21.6	27.2
% chg	30.0	(8.9)	13.6	(4.5)	15.3	25.9

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity share capital	161	161	161	161	161	161
Preference Capital	-	-	-	-	-	-
Reserves & surplus	8,858	9,890	10,629	11,697	13,245	15,241
Shareholders funds	9,019	10,050	10,801	11,857	13,405	15,402
Minority interest	-	50	180	270	270	270
Total loans	966.9	1,247.9	1,701.8	5,191.4	4,000.0	4,000.0
Other long term liabilities	30.0	32.6	32.6	32.6	32.6	32.6
Long Term Provisions	50.4	77.4	168.4	154.9	154.9	154.9
Deferred tax liability	280.5	309.0	284.6	366.4	366.4	366.4
Total liabilities	10,347	11,767	13,169	17,872	18,229	20,226
APPLICATION OF FUNDS						
Gross block	5,318	6,183	6,868	8,100	8,800	9,500
Less: acc. depreciation	1,708	2,180	2,634	3,176	3,852	4,584
Net block	3,610	4,003	4,234	4,924	4,948	4,916
Capital work-in-progress	378	442	442	442	442	442
Goodwill	-	2,493	2,735	5,713	5,713	5,713
Investments	2,532	709	640	757	757	757
Long Term Loans and Adv.	363	301	419	715	475	559
Current assets	4,775	5,340	7,201	8,262	8,508	10,914
Cash	143	175	564	871	358	1,327
Loans & advances	573	596	701	958	923	1,085
Others	4,058	4,569	5,936	6,432	7,228	8,502
Current liabilities	1,311	1,634	2,501	2,939	2,614	3,075
Net current assets	3,464	3,706	4,700	5,322	5,894	7,839
Mis. Exp. not written off	-	112	-	-	-	-
Total assets	10,347	11,767	13,169	17,872	18,229	20,226

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	2,095	1,881	2,141	2,007	2,352	2,951
Depreciation	330	373	457	542	676	732
(Inc)/Dec in Working Capital	(667)	(149)	(722)	(611)	(846)	(1,060)
Direct taxes paid	518	431	537	632	-	-
Cash Flow from Operations	1,241	1,673	1,339	1,306	2,182	2,623
(Inc.)/Dec.in Fixed Assets	(698)	(930)	(684)	(1,232)	(700)	(700)
(Inc.)/Dec. in Investments	(1,263)	1,824	69	(117)	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(1,961)	894	(616)	(1,349)	(700)	(700)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	957	311	545	3,476	(1,191)	-
Dividend Paid (Incl. Tax)	(188)	(188)	(188)	(188)	(188)	(188)
Others	4	(2,658)	(692)	(2,938)	410	(766)
Cash Flow from Financing	773	(2,535)	(335)	350	(969)	(954)
Inc./ (Dec.) in Cash	53	32	389	307	513	969
Opening Cash balances	90	143	175	564	871	358
Closing Cash balances	143	175	564	871	358	1,327

Key Ratio

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	24.6	27.0	23.8	24.9	21.6	17.2
P/CEPS	20.0	21.3	18.5	18.3	15.6	12.9
P/BV	4.2	3.7	3.5	3.2	2.8	2.4
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4	0.4
EV/Sales	4.7	3.9	3.3	3.1	2.7	2.2
EV/EBITDA	19.0	21.5	18.6	18.8	15.3	12.0
EV / Total Assets	3.7	3.3	2.9	2.3	2.2	2.0
Per Share Data (₹)						
EPS (Basic)	19.0	17.3	19.6	18.8	21.6	27.2
EPS (fully diluted)	19.0	17.3	19.6	18.8	21.6	27.2
Cash EPS	23.4	21.9	25.3	25.5	30.0	36.3
DPS	2.0	2.0	2.0	2.0	2.0	2.0
Book Value	112.3	125.2	134.5	147.7	166.9	191.8
Dupont Analysis						
EBIT margin	20.7	14.5	13.8	12.4	13.0	14.4
Tax retention ratio	74.0	75.4	75.0	78.1	75.0	75.0
Asset turnover (x)	0.9	0.9	1.0	0.9	0.9	1.0
ROIC (Post-tax)	14.0	10.1	10.3	8.9	8.8	10.8
Cost of Debt (Post Tax)	5.0	9.9	4.3	3.7	2.6	3.0
Leverage (x)	0.0	0.1	0.0	0.0	1.0	2.0
Operating ROE	14.4	10.1	10.3	8.9	14.9	26.3
Returns (%)						
ROCE (Pre-tax)	18.3	12.8	12.9	10.7	11.1	13.5
Angel ROIC (Pre-tax)	19.3	15.3	17.8	16.3	17.7	21.2
ROE	18.3	14.6	15.1	13.3	13.7	15.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.7	1.8	1.8	1.8	1.9	2.0
Inventory / Sales (days)	93	95	96	101	87	95
Receivables (days)	71	60	74	58	67	73
Payables (days)	46	41	55	74	43	44
WC cycle (ex-cash) (days)	131	124	116	115	116	120
Solvency ratios (x)						
Net debt to equity	0.1	0.1	0.1	0.4	0.3	0.2
Net debt to EBITDA	0.4	0.6	0.5	2.0	1.4	0.8
Interest Coverage (EBIT/Int.)	-	-	-	-	-	-

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	Cipla
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)