

Cipla

Performance Highlights

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg qoq	4QFY2015	% chg yoy
Net sales	3,207	3,027	5.9	2,981	7.6
Other income	115	159	(27.7)	173	(33.8)
Gross profit	142	1,783	(92.0)	1,822	(92.2)
Operating profit	159	364	(56.3)	396	(59.8)
Adj. Net profit	81	343	(76.4)	260	(68.9)

Source: Company, Angel Research

Cipla's results for 4QFY2016 have come much below our expectations. Sales came in at ₹3,207cr V/s ₹3,274cr expected, a yoy growth of 7.6%. The sales growth was driven by domestic formulations (₹1,258cr), as expected, which grew 15.9% yoy, while exports posted a yoy growth of 7.4%. On the operating front, the EBDITA came in at 5.0% V/s 13.3% in 4QFY2015 and against 13.8% expected. The reported EBDITA margins include a lot of one-offs, adjusting for which the OPM was at 15.8%. The net profit thus came in at ₹81cr V/s ₹399cr expected and V/s ₹260cr in 4QFY2015, a yoy de-growth of 68.9%. **We remain Neutral on the stock.**

Results much lower than expectations: Sales for the quarter came in at ₹3,207cr V/s ₹3,274cr expected, a yoy growth of 7.6%. The sales growth was driven by domestic formulations (₹1,258cr), as expected, which grew 15.9% yoy, while exports posted a yoy growth of 7.4%. Exports of formulations increased 3.2% to ₹1,744cr during 4QFY2016, while exports of APIs were flat at ₹204cr during 4QFY2016. On the operating front, the EBDITA came in at 5.0% V/s 13.3% in 4QFY2015 and against 13.8% expected. The decline was mainly owing to a dip in gross profit margins, which came in at 55.8% V/s 61.1% in 4QFY2015. The reported EBDITA margins include a lot of one-offs, adjusting for which, the OPM was 15.8%. The net profit thus came in at ₹81cr V/s ₹399cr expected and V/s ₹260cr in 4QFY2015, a yoy dip of 68.9%.

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 recommend 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 June 7, 2016

NEUTRAL

CMP	₹469
Target Price	-

Investment Period	-
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Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	37,662
Net Debt (₹ cr)	563
Beta	0.8
52 Week High / Low	748/458
Avg. Daily Volume	156,993
Face Value (₹)	2
BSE Sensex	27,010
Nifty	8,266
Reuters Code	CIPL.BO
Bloomberg Code	CIPLA@IN

Shareholding Pattern (%)

Promoters	36.8
MF / Banks / Indian Fls	19.0
FII / NRIs / OCBs	25.1
Indian Public / Others	19.1

Abs. (%)	3m	1yr	3yr
Sensex	9.6	0.9	39.0
Cipla	(13.0)	(24.8)	25.8

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 (Consolidated) performance

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg QoQ	4QFY2015	% chg yoy	FY2016	FY2015	% chg yoy
Net sales	3,207	3,027	5.9	2,981	7.6	13,372	10,882	22.9
Other income	114.6	158.6	(27.7)	173.2	(33.8)	514.7	628.6	(18.1)
Total income	3,321	3,186	4.3	3,154	5.3	13,887	11,511	20.6
Gross profit	142	1783	(92.0)	1822	(92.2)	8254	6728	22.7
Gross margin	4.4	58.9		61.1		61.7	61.8	
Operating profit	159	364	(56.3)	396	(59.8)	2195	1699	29.2
OPM (%)	5.0	12.0		13.3		16.4	15.6	
Interest	36.8	23.0	60.2	43.4	(15.2)	161	168	(4.0)
Depreciation	141	137	2.9	136	4.2	542	505	7.3
PBT	96	363	(73.6)	390	(75.5)	2007	1654	21.3
Provision for taxation	-4	12	(132.6)	103	(103.8)	440	400	9.9
PAT before extra-ordinary item	99	351	(71.6)	287	(65.3)	1567	1254	25.0
Share of Profit /(loss) of asso.	(13)	(10)		27		(61)	(73)	
Extra-ordinary items/(income)	0	0		0		0	0	
PAT after extra-ordinary item	81	343	(76.4)	260	(68.9)	1506	1181	27.5
Adj. PAT	81	343	(76.4)	260	(68.9)	1506	1181	27.5
EPS (₹)	1.0	4.3		3.2		18.8	14.7	

Source: Company, Angel Research

Exhibit 2: 4QFY2016 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variance
Net sales	3,207	3,274	(2.1)
Other income	115	106	8.0
Operating profit	159	451	(64.7)
Tax	(4)	12	-
Net profit	81	399	(79.8)

Source: Company, Angel Research

Top-line growth tad lower than expectation

For 4QFY2016, Cipla posted a yoy growth of 7.6% in sales of ₹3,207cr (V/s ₹3,274cr expected). The sales growth was as expected driven by domestic formulations (₹1,258cr), which posted a yoy growth of 15.9%, while exports posted a yoy growth of 7.4%. Exports of formulations increased 3.2% to ₹1,744cr during 4QFY2016, while exports of APIs were flat at ₹204cr during 4QFY2016.

For FY2016, domestic sales grew 9.0% yoy to ₹5,184cr (40% of overall sales), with the branded segment posting a 13.0% yoy growth and accounting for 81% of the overall domestic formulation sales. In the Indian market, the company is ranked third, with a market share of 5.3%.

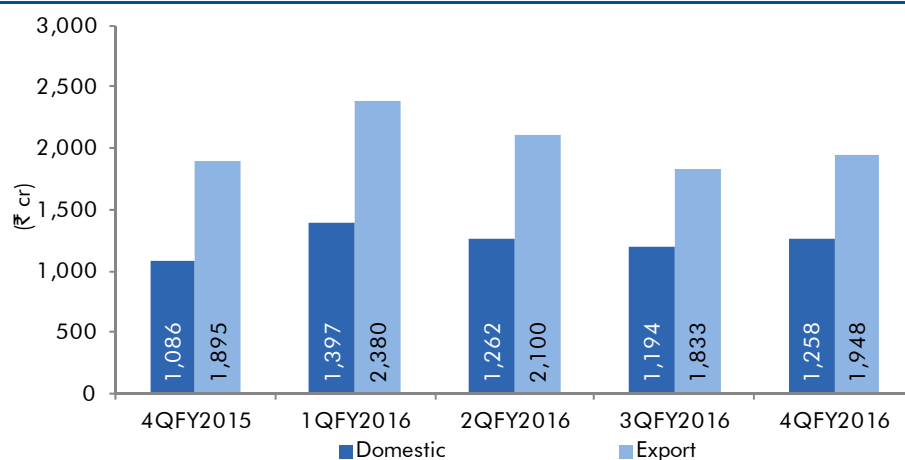
Exports at ₹8,261cr posted a yoy growth of 36.4%. USA (US\$321mn), which was 15% of sales (including the acquisition), posted a yoy growth of 117%. The company completed the acquisition of InvaGen Pharmaceuticals Inc., while Exelan Pharmaceuticals Inc's integration of operations is under way. In terms of filings, the company has filed 168 ANDAs with around 90 approved and 78 tentatively approved/pending approval.

South Africa's (ZAR3,272mn) contribution at ~11.5% of overall sales in FY2016, registered a growth of ~25% over last year. The company has a market share of ~5% in the private market and is the 3rd largest generics player in South Africa. Also, the company posted a 60% yoy growth in tender sales vs last year.

International business' (US\$523mn) posted an overall sales growth of ~14% in FY2016 over last year and contributed by ~25% to overall sales. It posted a robust growth of ~25% in front-end markets vs last year, despite a war situation in Yemen and currency devaluation in several emerging markets. It has a market leadership in Uganda, Sri Lanka, Yemen, and North Africa. There has been a resurgence in partnership-led markets (B2B) with 8% yoy growth vs last year.

The Europe business contributed ~4% to overall sales. There was a growth of 30% in FY2016 sales vs last year, driven by strong performance across B2B and DTM segments. It launched Fluticasone Salmeterol, Mometasone, Fluticasone, Ipratropium Salbutamol respules and Ipratropium MDI across multiple markets in FY2016. The company witnessed new launches in 4QFY2016 for Fluticasone Salmeterol (Netherlands), Mometasone (Austria, Portugal), Fluticasone (Germany, Hungary, and Spain), Ipratropium Salbutamol respules (Belgium). It received an approval for Salmeterol Fluticasone in Italy in 4QFY2016.

Exhibit 3: Sales Trend

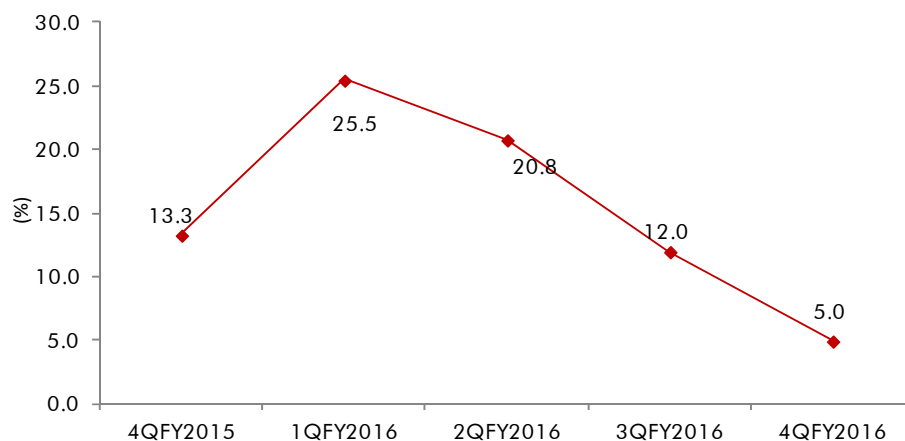


Source: Company

Operating profit margin much lower than expected

On the operating front, the EBDITA came in at 5.0% V/s 13.3% in 4QFY2015 and against 13.8% expected, mainly owing to a dip in gross profit margins, which came in at 55.8% V/s 61.1% in 4QFY2015. The reported EBDITA margins include a lot of one-offs, adjusting for which the OPM was 15.8%.

Exhibit 4: OPM Trend

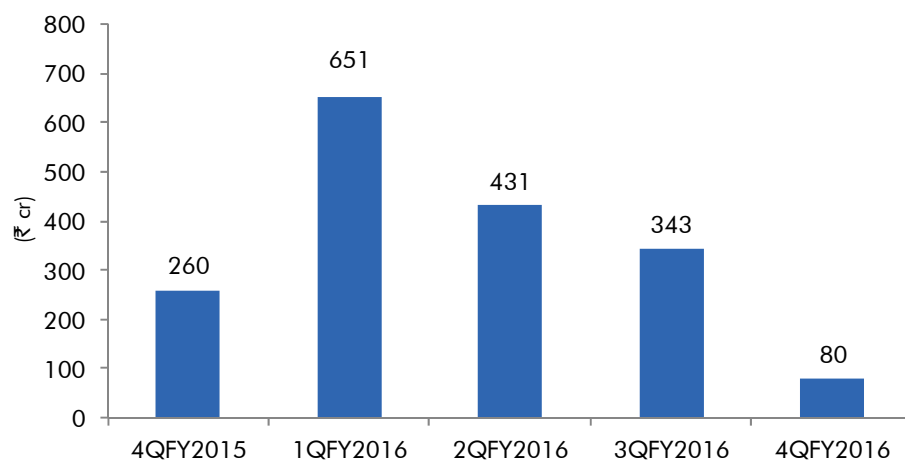


Source: Company

Net profit lower than expectation

On back of much lower than expected OPM, the net profit came in at ₹81cr V/s ₹399cr expected and V/s ₹260cr in 4QFY2015, a yoy de-growth of 68.9%. Also, the other income during the quarter was ₹115cr V/s ₹173cr in 4QFY2015, a yoy dip of 33.8%.

Exhibit 5: Net Profit Trend



Source: Company

Concall takeaways

- R&D as % of sales is expected to be ~8% in FY2017, as against ~6.5% in FY2016.
- In USA, the company expects to file 20-25 ANDAs in FY2017.
- Impact of DPCO and Fixed Dosage Combinations ban on domestic market expected to be ~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 %	PE (x)	FY2017E		FY15-17E	FY2017E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	557	-	-	29.8	3.0	18.2	11.4	22.0	20.1
Aurobindo Pharma	Accumulate	773	768	10.8	20.1	3.1	14.5	11.4	21.4	27.7
Cadila Healthcare	Buy	320	400	25.0	18.7	2.9	13.2	22.9	24.2	28.8
Cipla	Neutral	469	-	-	21.6	2.7	15.3	4.9	11.1	13.7
Dr Reddy's	Accumulate	3,158	3,476	10.1	20.7	3.0	12.3	6.8	19.2	18.7
Dishman Pharma	Neutral	152	-	-	15.2	1.6	7.7	15.9	9.4	11.0
GSK Pharma	Neutral	3,515	-	-	58.4	8.1	43.0	0.0	33.0	29.9
Indoco Remedies	Neutral	282	-	-	20.7	2.2	12.4	23.0	19.7	19.7
Ipca labs	Buy	431	750	74.0	15.4	1.6	8.8	17.9	11.8	14.9
Lupin	Buy	1,435	1,809	26.1	24.7	4.1	15.6	13.1	29.6	24.7
Sanofi India*	Accumulate	4,300	4,738	10.2	28.0	3.9	22.3	34.2	21.0	25.6
Sun Pharma	Buy	739	950	28.6	26.4	5.4	17.9	10.5	17.7	18.7

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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Disclosure of Interest Statement

Disclosure of Interest Statement	Cipla
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 (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)