

## Cipla (CIPLA)

₹ 504

### Weak performance due to multiple one-offs...

- Revenues grew 8% YoY to ₹ 3582 crore, (I-direct estimate: ₹ 3670 crore) mainly due to growth in US and South Africa. US sales grew 33% to ₹ 646 crore (I-direct estimate: ₹ 625 crore) due to consolidation of InvaGen. Domestic formulations fell 4% to ₹ 1197 crore (I-direct estimate: ₹ 1346 crore) owing to changed distribution policy and supply side disruptions due to demonetisation
- EBITDA margins improved 882 bps YoY to 14.1% but below I-direct estimate of 16.5% mainly on account of higher-than-expected other expenditure
- Net loss was at ₹ 62 crore due to scores of one-offs. This was below I-direct profit estimate of ₹ 286 crore

### Product launches, front-end shift key for formulation exports growth

Formulation exports constitute ~56% of total revenues. To improve the quality of exports, Cipla has undertaken scores of measures of late. Partnership deals and participation in global tenders were growth drivers in the past for exports. The focus has now shifted to front-end model, especially for the US and a gradual shift from loss making HIV and other tenders to more lucrative respiratory and other opportunities in US and EU. The acquisition of US based InvaGen will strengthen Cipla's transformation from back-end to front-end. Similarly, recent acquisitions in Africa and other geographies is testimony to this transformation. We expect export formulation sales to grow at 11.5% CAGR to ₹ 10128 crore in FY17-19E. Key drivers will be 1) launch of combination inhalers in the developed markets, 2) incremental product launches in the US, 3) increased ARV tender business and 4) InvaGen consolidation.

### Indian formulations growth backed by continuous new launches

With ~5% market share, Cipla is the third largest player in the domestic formulations market. The acute, chronic and sub-chronic revenues for the company are at 48%, 40% and 12%, respectively. Domestic formulations comprise ~38% of total revenues. It commands ~20% market share in the respiratory segment. We expect domestic formulations to grow at ~10% CAGR in FY17-19E to ₹ 6728 crore driven by improved productivity of the newly inducted field force and incremental product launches.

### Product rationalisation to be key; to impact near term margins

In its quest to transform itself from back-end to front-end (albeit late), the company has initiated some structural changes at the cost of margins such as 1) higher R&D cost on the back of incremental product filings across geographies, 2) higher staff cost on the back of hiring at the global level and 3) higher front-end and SG&A expenses. These measures are likely to dent the base EBITDA margins in the near to mid-term.

### Still scope for margin improvement; maintain HOLD

Q4 results were muted on the profitability front due to multiple one-offs. Going ahead, margins are likely to remain low in the near future mainly due to incremental R&D spending even after factoring in respiratory and other launches in developed markets. The scenario is likely to get challenging on the margins and return ratio improvement front in the backdrop of new challenges emerging in the US especially on the pricing front. The India business is also likely to witness disruption due to GST rollout, as per management. Our revised target price is ₹ 470 (from ₹ 575 earlier) based on 18x FY19E EPS of ₹ 26 as the company remains at the inflection point.

#### Rating matrix

Rating	:	Hold
Target	:	₹ 470
Target Period	:	12-15 months
Potential Upside	:	-7%

#### What's Changed?

Target	Changed from ₹ 575 to ₹ 470
EPS FY18E	Changed from ₹ 24.7 to ₹ 19.3
EPS FY19E	Changed from ₹ 31.9 to ₹ 26.1
Rating	Unchanged

#### Quarterly Performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	3,582.0	3,314.5	8.1	3,647.2	-1.8
EBITDA	506.2	176.1	187.4	677.7	-25.3
EBITDA (%)	14.1	5.3	882 bps	18.6	-445 bps
Net Profit	-61.8	-92.8	NA	374.8	PL

#### Key Financials

(₹crore)	FY16	FY17E	FY18E	FY19E
Revenues	13657.5	14574.0	16342.5	18331.9
EBITDA	2480.2	2475.6	2942.2	3493.7
Adjusted PAT	1485.1	1032.6	1547.0	2098.1
Adj. EPS (₹)	18.5	12.9	19.3	26.1

#### Valuation summary

	FY16	FY17E	FY18E	FY19E
PE (x)	27.3	39.2	26.2	19.3
Target PE (x)	25.4	36.5	24.4	18.0
EV to EBITDA (x)	17.9	17.6	14.8	12.2
Price to book (x)	3.4	3.2	2.9	2.6
RoNW (%)	12.5	8.1	11.1	13.4
RoCE (%)	12.0	8.0	11.7	14.9

#### Stock data

Particular	Amount
Market Capitalisation	₹ 47386 crore
Debt (FY16)	₹ 5191 crore
Cash (FY16)	₹ 871 crore
EV	₹ 51706 crore
52 week H/L (₹)	622/457
Equity capital	₹ 161 crore
Face value	₹ 2

#### Price performance (%)

	1M	3M	6M	1Y
Cipla	-6.7	-12.3	-6.1	5.2
Lupin	-9.8	-15.3	-15.8	-16.2
Sun Pharma	-6.1	-10.5	-11.6	-21.9

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### Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	Q3FY17	YoY (%)	QoQ (%)	Comments
Revenue	3,582.0	3,669.6	3,314.5	3,647.2	8.1	-1.8	Strong YoY growth in the US, South Africa partly offset by decline in India, API and RoW
Raw Material Expenses	1,315.5	1,394.4	1,410.9	1,301.1	-6.8	1.1	584 bps YoY gross margins improvement was mainly due to better product mix. Ex one-off in Q4FY16 gross margins improved ~300 bps
Gross Profit	2,266.5	2,275.1	1,903.6	2,346.1	19.1	-3.4	
Gross Margin (%)	63.3	62.0	57.4	64.3	584 bps	-105 bps	
Employee Expenses	638.9	642.2	656.1	633.1	-2.6	0.9	YoY decline due to business model change in Europe and policy change in leave encashment
Other Expenditure	1,121.4	1,027.5	1,071.4	1,035.4	4.7	8.3	YoY increase due to forex loss and increase in R&D spending
Total Operating Expenditure	3,075.8	3,064.1	3,138.4	2,969.6	-2.0	3.6	
EBITDA	506.2	605.5	176.1	677.7	187.4	-25.3	
EBITDA (%)	14.1	16.5	5.3	18.6	882 bps	-445 bps	Beat vis-à-vis I-direct estimates mainly due to one-off inventory charges and higher R&D cost
Interest	33.4	35.1	47.7	59.3	-30.0	-43.7	
Depreciation	632.2	229.2	269.7	257.7	134.4	145.3	Includes one-time net of tax impairment charge of US\$32 million and one-time provision for loss on certain assets for ~₹ 57 crore
Other income	22.8	26.0	59.4	153.5	-61.6	-85.2	
PBT before EO	-136.6	367.1	-81.9	514.1	NA	PL	
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	-136.6	367.1	-81.9	514.1	NA	PL	
Tax	-75.7	73.4	-0.6	128.3	NA	PL	
Tax Rate (%)	NA	20.0	NA	25.0	NA	NA	Negative tax rate because of the write-back of the deferred tax liability against the impairment charges booked earlier. Effective tax rate excluding one-off adjustment for FY17 was 20%
MI & Share of loss/ (gain) asso.	-1.0	7.7	6.1	10.1	PL	PL	
Net Profit	-61.8	286.0	-92.8	374.8	NA	PL	Adjusting for non-cash charges, the PAT was ₹ 209 crore
<b>Key Metrics</b>							
Domestic	1,197.0	1,346.1	1,248.0	1,458.0	-4.1	-17.9	YoY decline mainly due to de-stocking at the channel and lag effect of demonetisation. Adjusting for one-offs, domestic sales grew 10% YoY
US	646.0	624.7	486.0	656.5	32.9	-4.8	YoY growth mainly due to consolidation of InvaGen in the US
EU	180.0	114.9	167.0	109.4	7.8	5.0	
South Africa	468.0	536.1	313.0	510.6	49.5	5.0	YoY growth due to growth in both private market and tenders business. On constant currency basis, sales grew 26% YoY. Beat vis-à-vis I-direct estimates mainly due to higher-than-expected constant currency growth
RoW	813.0	736.7	895.0	729.4	-9.2	1.0	YoY de-growth largely driven by currency volatility, impact of rationalisation and tender-phasing
API	162.0	112.2	179.0	109.4	-9.5	48.1	

Source: Company, ICICIdirect.com Research

### Change in estimates

(₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Revenues	16,897.5	16,342.5	-3.3	19,232.5	18,331.9	-4.7	
EBITDA	3,294.5	2,942.2	-10.7	3,952.6	3,493.7	-11.6	
EBITDA Margin (%)	19.5	18.0	-149 bps	20.6	19.1	-149 bps	Altered mainly due to higher R&D guidance
PAT	1,954.8	1,547.0	-20.9	2,523.7	2,098.1	-16.9	Altered mainly due to higher R&D and change in depreciation assumption
EPS (₹)	24.3	19.3	-20.9	31.4	26.1	-16.9	

Source: Company, ICICIdirect.com Research

### Assumptions

(₹ crore)	Current				Earlier		
	FY16	FY17E	FY18E	FY19E	FY18E	FY19E	
Domestic	5,036.0	5,571.0	6,007.0	6,727.8	6,406.5	7,175.2	Declined mainly due to lower-than-expected sales in Q4FY17 and expected GST impact in H1FY18
Export Formulations	7798.0	8150.9	8934.9	10128.1	9175.1	10661.2	
API	752.0	512.4	538.0	564.9	466.1	489.4	Increased mainly due to higher-than-expected growth in Q4FY17

Source: Company, ICICIdirect.com Research

## Company Analysis

Formed by Dr KA Hamied way back in 1935, Cipla is one of the oldest ventures set up by an Indian in the pre-independence era. With 34 manufacturing facilities spread over seven different locations, Cipla has a gamut of therapeutic offerings ranging from simple anti-infectives to complex oncology products. The product basket includes ~2000+ products encompassing almost all therapies and over 40 dosage forms. The facilities have been approved by various agencies such as the USFDA, WHO-Geneva, MHRA-UK, TGA-Australia, SUKL-Slovak Republic, APVMA-Australia, MCC-South Africa, PIC-Germany, Danish Medical Agency, Anvisa-Brazil, INVIMA Colombia, NDA-Uganda, Department of Health-Canada and MOH-Saudi Arabia, among others. So far, the company has not faced any cGMP issues or import alerts from any regulatory authorities.

Cipla's business model focuses on having marketing partnerships with local companies across the globe. Most partners are large generic players in developed countries. The company has partnership deals with ~22 partners in the US and ~65 in Europe. Cipla has also formed strategic alliances for product development, registration and distribution of its products. For non-regulated markets, the company has maintained long-standing relationships with non-government organisations and institutions globally. However, recent JVs and buying out front-end companies stakes in majority of its markets shows Cipla's clear intension to shifting its partnership model to own front-end model in almost all markets including the US.

Exports constitute around ~59% of total sales. The company exports both APIs and formulations to more than 170 countries including advanced regions such as the US and Europe. Cipla derives 34% of its export revenues from North and Latin America followed by 33% from Africa, 14% from Europe, 13% from Australasia and 6% from the Middle East.

On the product filing front, Cipla has filed ~214 ANDAs with the USFDA cumulatively (FY16). It has 131 approved products so far in the US market. As far as other geographies are concerned, the count is ~1000 DMFs for 100 odd APIs. Similarly, ~30 of Cipla's products are pre-qualified for WHO tenders. The company spends ~8.5% of revenues on R&D.

The company acquired two US-based companies, InvaGen Pharmaceuticals and Exelan Pharmaceuticals. InvaGen Pharma has 40 approved ANDAs, 32 marketed products, and 30 pipeline products for which it expects to get approvals over the next four years. The above pipeline also includes five FTFs, which represent a market size of ~\$8 billion in revenue by 2018. The transaction is valued at US\$550 million and is an all-cash deal. Combined revenues of these two companies in CY14 were ~US\$200 million (~US\$225 million TTM June 2015) with EBITDA margins of ~25%. Its revenue grew at ~20% CAGR over the last three years.

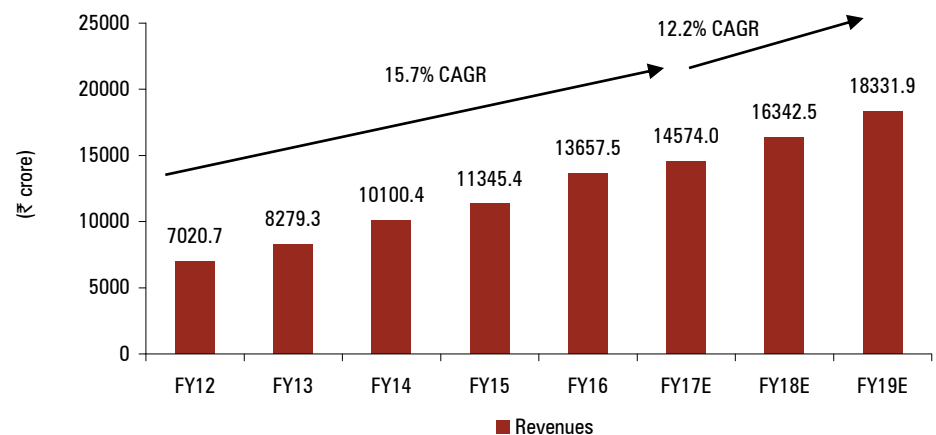
In the domestic market, Cipla remains among the top five players, thanks to a gamut of product offerings, which covers almost all therapies built on a network of ~7500 medical representatives (MRs) covering a doctor base of ~5,00,000. As per the latest AIOCD ranking (MAT January 2017), Cipla ranked third with a market share of ~5%. Breaking it down further, its

ranking in acute therapies stands at 1 with a market share of 4.3%. Similarly, its chronic ranking is 2 with a market share of 6.8%.

Respiratory therapy accounts for ~20% of Cipla's turnover. The company introduced Salbutamol tablets in 1976 and Salbutamol inhaler in 1978 for the first time in India. Since then, Cipla has consistently introduced new products for asthma, chronic obstructive pulmonary disease (COPD) and allergic rhinitis (AR). More recently, the company did the same in other diseases such as pulmonary arterial hypertension (PAH), lung cancer and idiopathic pulmonary fibrosis (IPF).

Overall, we expect revenues to grow at a CAGR of 12% in FY17-19E to ₹ 18332 crore driven by incremental product launches in Europe and other geographies.

**Exhibit 1: Revenues to grow at CAGR of 12% in FY17-19E**



Source: Company, ICICIdirect.com Research

**Exhibit 2: Consolidated revenues break-up**

(₹ crore)	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Domestic	3562.5	4095.6	4825.0	5036.0	5571.0	6007.0	6727.8
Export APIs	486.0	751.0	631.9	752.0	512.4	538.0	564.9
Export Formulations	4037.8	4962.0	5425.6	7798.0	8150.9	8934.9	10128.1
US	623.0	740.0	870.6	2037.9	2619.5	2801.1	3128.6
EU	410.0	578.0	435.3	543.4	545.4	627.2	721.3
South Africa (Cipla Medpro)	610.0	1294.7	1523.6	1562.4	1840.6	2208.7	2650.4
RoW	1927.0	2512.0	2720.6	3396.5	3145.4	3297.9	3627.7

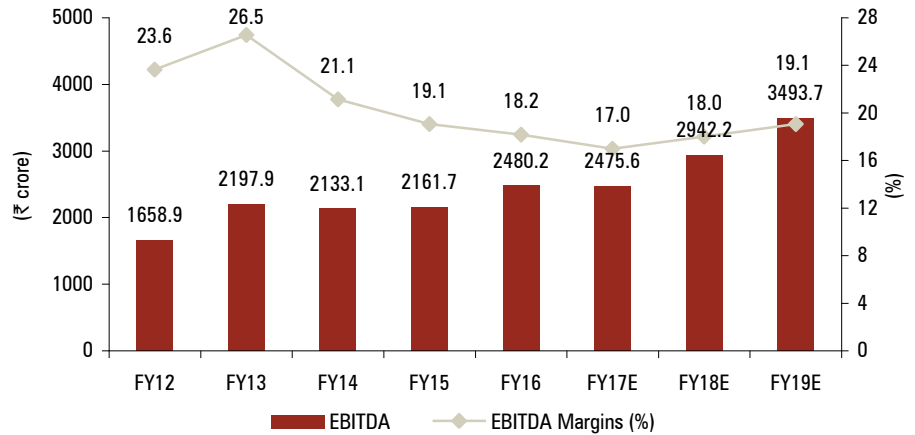
Source: Company, ICICIdirect.com Research

Formulation exports constitute ~56% of total revenues. To improve the quality of exports, Cipla has undertaken scores of measures of late. Partnership deals and participation in global tenders were growth drivers in the past for exports. The focus has now shifted to front-end model especially for the US and a gradual shift from loss making HIV and other tenders to more lucrative respiratory and other opportunities in US and EU. Recent acquisitions in Africa and other geographies is testimony to this transformation. We expect export sales to grow at a CAGR of 11.5% to ₹ 10693 crore in FY17-19E. Key drivers will be 1) launch of combination inhalers in EU markets, 2) incremental product launches by its partners and increase in own product filings in the US 3) reduced focus on the ARV tender business and at the same time increased focus on PEPFAR like tenders and 4) InvaGen consolidation.

With ~5% market share, Cipla is the third largest player in the domestic formulations market. The acute, chronic and sub-chronic revenues for the company are at 48%, 40% and 12%, respectively. Domestic formulations

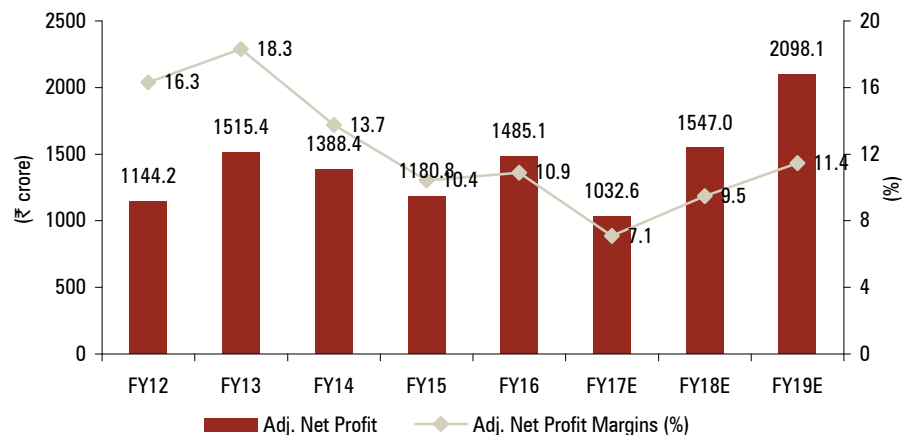
comprise ~38% of total revenues. It commands ~20% market share in the respiratory segment. We expect domestic formulations to grow at ~10% CAGR in FY17-19E to ₹ 6728 crore driven by improved productivity of the newly inducted field force and incremental product launches.

**Exhibit 3: EBITDA to grow at CAGR of 18.8% in FY17-19E**



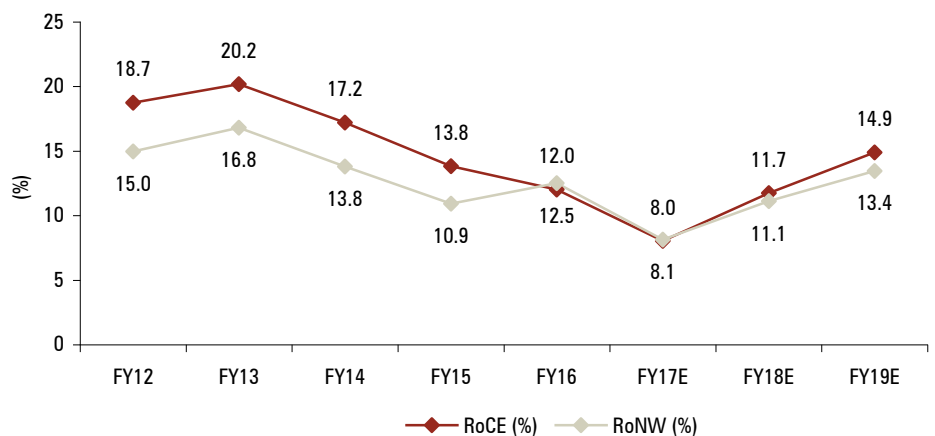
Source: Company, ICICIdirect.com Research

**Exhibit 4: Adjusted net profit to grow at CAGR of 42.5% in FY17-19E**



Source: Company, ICICIdirect.com Research

**Exhibit 5: Trends in return ratios**



Source: Company, ICICIdirect.com Research

**Exhibit 6: Trends in quarterly financials**

(₹ crore)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	YoY (%)	QoQ. (%)
Net Sales	2980.7	3761.0	3379.4	3069.9	3252.9	3499.8	3671.9	3550.0	3487.0	7.2	-1.8
Other Operating Income	112.0	77.5	75.7	81.1	61.7	93.9	79.1	97.2	95.0	54.0	-2.3
Total Operating Income	3092.7	3838.5	3455.1	3151.0	3314.5	3593.7	3751.0	3647.2	3582.0	8.1	-1.8
Raw Material Expenses	1158.8	1243.3	1208.8	1226.9	1410.9	1370.5	1330.1	1301.1	1315.5	-6.8	1.1
Gross Profit	1933.9	2595.2	2246.3	1924.1	1903.6	2223.3	2421.0	2346.1	2266.5	19.1	-3.4
Gross Profit Margins	62.5	67.6	65.0	61.1	57.4	61.9	64.5	64.3	63.3	584 bps	-105 bps
Employee Expenses	514.7	616.2	583.0	578.8	656.1	686.6	675.3	633.1	638.9	-2.6	0.9
% of revenues	16.6	16.1	16.9	18.4	19.8	19.1	18.0	17.4	17.8	-196 bps	48 bps
Other Expenditure	911.5	924.5	877.3	882.3	1071.4	925.7	1065.0	1035.4	1121.4	4.7	8.3
% of revenues	29.5	24.1	25.4	28.0	32.3	25.8	28.4	28.4	31.3	-102 bps	292 bps
Total Expenditure	2585.0	2783.9	2669.1	2687.9	3138.4	2982.8	3070.3	2969.6	3075.8	-2.0	3.6
EBITDA	507.7	1054.5	786.0	463.0	176.1	611.0	680.7	677.7	506.2	187.4	-25.3
EBITDA (%)	16.4	27.5	22.7	14.7	5.3	17.0	18.1	18.6	14.1	882 bps	-445 bps
Interest	43.4	63.9	63.6	31.4	47.7	31.3	35.2	59.3	33.4	-30.0	-43.7
Depreciation	135.7	149.4	158.4	176.7	269.7	160.8	229.2	257.7	632.2	134.4	145.3
Other Income	61.2	50.5	30.8	67.5	59.4	25.2	27.2	153.5	22.8	-61.6	-85.2
PBT	389.8	891.7	594.8	322.4	-81.9	444.0	443.6	514.1	-136.6	66.7	-126.6
Total Tax	103.0	241.8	40.1	50.3	-0.6	70.8	71.9	128.3	-75.7	12951.7	-159.0
PAT before MI	286.8	650.0	554.7	272.1	-81.3	373.2	371.7	385.8	-60.9	-25.2	-115.8
Minority Interest	27.1	0.7	8.8	8.0	6.1	8.0	15.3	10.1	-1.0	-116.3	-109.9
Net Profit	259.7	649.2	545.9	264.1	-87.5	365.2	356.4	375.7	-59.9	-31.6	-115.9
EPS (₹)	3.2	8.1	6.8	3.3	-1.1	4.5	4.4	4.7	-0.7		

Source: Company, ICICIdirect.com Research

**SWOT Analysis**

**Strengths** - Huge product basket, large capacity, relatively clean regulatory record, presence in almost all therapeutic areas, strong balance sheet

**Weakness** - Late in adopting the front-end model in the US. Frequent restructuring and hit on the margins on account of this

**Opportunities** - The US generics space. It is well poised to establish dominance in niche therapies like respiratory, oncology, etc

**Threats** - Increased USFDA scrutiny across the globe regarding cGMP issues, pricing pressure due to client consolidation in the US, pricing probe by the Department of Justice (DoJ) in the US, proposed tightening by the new regime by adapting to the bidding process and imposition of border adjustment tax on imported drugs in the US.



## Conference call highlights

- Cipla has filed 11 ANDAs in Q4FY17, taking the total filings for FY17 to 32 ANDAs. FY17 filings includes Albuterol MDI (Respiratory), nano-paclitaxel (oncology), fenofibrate capsules (CVS), Esomeprazole DR cap and tablets (gastroenterology), etc
- For FY18, the company expects 20-25 filings in US and at least one limited competition product launch every quarter
- The company expects double digit growth in the US in the near term. In domestic and other markets, it expects to beat industry growth
- Sevelamer (nephrology) is expected to be launched in FY18 based on USFDA approval
- The company expects domestic business to get impacted by GST implementation due to de-stocking at the pharmacy/dealer level
- In Q4FY17, the company recorded a one-time net of tax impairment charge of US\$32 million for InvaGen, due to a reflection of the litigation and regulatory developments for certain specific assets
- The USFDA has inspected Cipla's InvaGen plant in March, 2017 without observations
- The domestic business faced lag effect of demonetisation and supply side disruptions during the quarter
- The tender business constitutes 30-35% of the overall South Africa business
- Generic generics business contributes ~20% of the total domestic sales
- The company has launched Seraflo (Inhaler) in the UK through partner Kent and are recording a gradual uptick
- FY17 capex was at ₹ 1100 crore
- For FY18, the R&D spend is likely to be 8-9% of revenues
- The company is repositioning its biotech business to explore new business development opportunities

### Exhibit 7: Major facilities

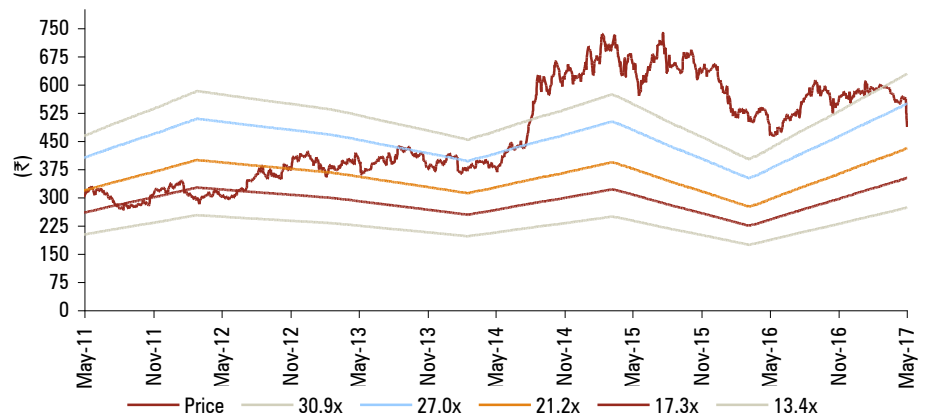
Location	Segment	Regulatory Approvals
Bengaluru – Virgonagar, India	API	USFDA, UKMHRA
Bengaluru– Bommasandra, India	API	USFDA
Patalganga, India	API & Formulations	USFDA, UKMHRA
Kurkumbh, India	Formulations	USFDA, UKMHRA
Goa, India	Formulations	USFDA, UKMHRA
Baddi, India	Formulations	
Indore, India	Formulations	USFDA, UKMHRA
Sikkim, India	Formulations	
Kampala, Uganda	Formulations	
Durban, South Africa	Formulations	
Satara, Maharashtra, India	API	

Source: Company, ICICIdirect.com Research

## Valuation

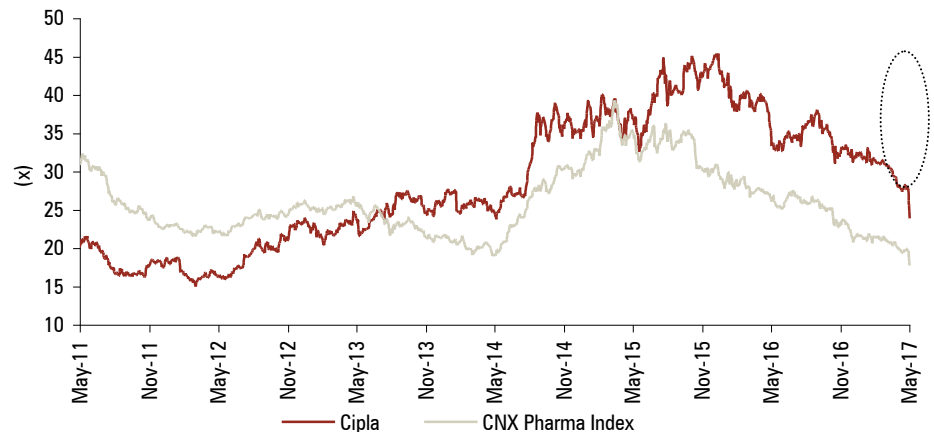
Q4 results were muted on the profitability front due to multiple one-offs. Going ahead, margins are likely to remain low in the near future mainly due to incremental R&D spending even after factoring in respiratory and other launches in developed markets. The scenario is likely to get challenging on the margins and return ratio improvement front in the backdrop of new challenges emerging in the US, especially on the pricing front. The India business is also likely to witness disruption due to GST rollout, as per management. Our revised target price is ₹ 470 (from ₹ 575 earlier) based on 18x FY19E EPS of ₹ 26 as the company remains at the inflection point.

**Exhibit 8: One year forward PE**



Source: Company, ICICIdirect.com Research

**Exhibit 9: One year forward PE of company vs. BSE Healthcare Index**



Source: Company, ICICIdirect.com Research

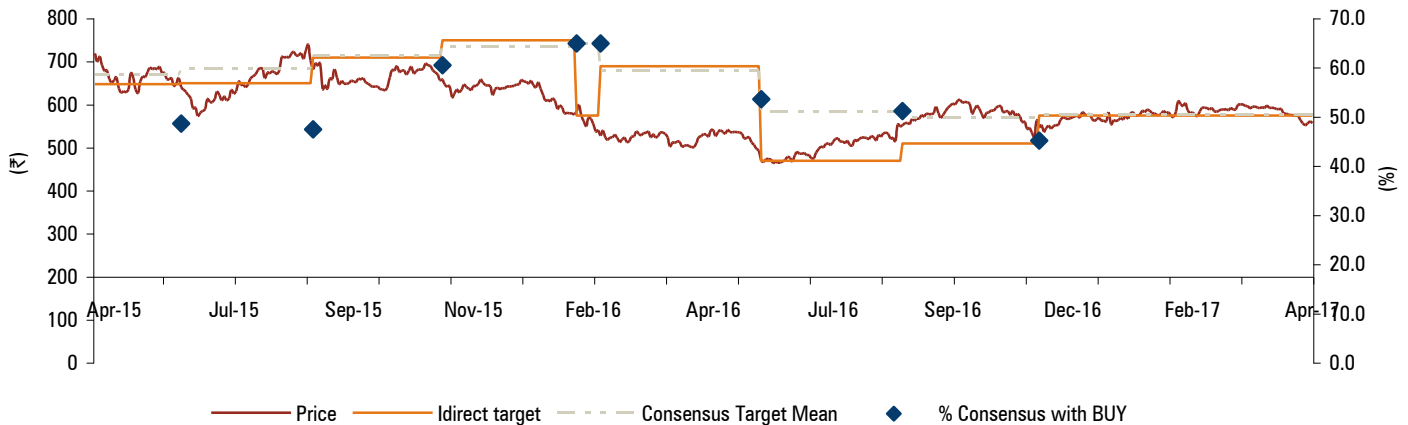
**Exhibit 10: Valuation**

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY16	13657	20.4	18.5	25.8	27.3	17.9	12.5	12.0
FY17E	14574	6.7	12.9	-30.5	39.2	17.6	8.1	8.0
FY18E	16343	12.1	19.3	49.8	26.2	14.8	11.1	11.7
FY19E	18332	12.2	26.1	35.6	19.3	12.2	13.4	14.9

Source: Company, ICICIdirect.com Research



## Recommendation history vs. Consensus



Source: Reuters, Company, ICICIdirect.com Research

## Key events

Date	Event
Feb-13	Buy its South Africa's marketing partner Cipla Medpro for ₹ 2700 crore
Feb-14	Enters into a JV with existing business partners in Morocco – Societe Marocaine De Cooperation Pharmaceutique ("Cooper Pharma") and The Pharmaceutical Institute (PHI). As per the agreement, Cipla (EU) Limited will hold 60% stake in the JV
May-14	Company signs a definitive agreement to invest US\$ 1.5 million in Chase Pharmaceuticals Corporation Inc, US ("Chase") to acquire 14.6% stake
Jun-14	Company signs a definitive agreement for US\$ 14 million with the Company's existing Sri Lankan distributor to acquire of 60% stake in a new company
Jun-14	Company signs a definitive agreement to acquire a 51% stake in a pharmaceuticals manufacturing and distribution business in Yemen (in turn owned by a UAE based parent company).
Jul-14	Company, has acquired 75% stake in Mabpharm Private Limited ("Mabpharm"). Mabpharm has now become 100% subsidiary of the Company.
Oct-14	Company signs a definitive agreement with its existing Iranian distributor to set up a manufacturing facility in Iran. The total contribution from the company over the next three years will include machinery, equipment, technical know-how and is expected to be ~₹ 225 crore for a 75% stake
Oct-14	Cipla Medpro announces collaboration with Teva to exclusively market Teva's product portfolio in South Africa
Nov-14	Cipla announces a distribution agreement with Serum Institute of India for affordable paediatric vaccines in Europe
Dec-14	Cipla Medpro, the third largest pharmaceutical company in South Africa, announces it has been awarded R2 billion share of the South African Government's 2015-17 National ARV tender. The contract is effective from the 1 st of April 2015 and will run for a period of three years.
Feb-15	Cipla (EU) enters into a joint venture (JV) agreement with Company's existing business partners in Morocco - Societe Marocaine De Cooperation Pharmaceutique ("Cooper Pharma") and The Pharmaceutical Institute (PHI).
May-15	Acquires 51% stake in Uganda-based Quality Chemicals (QCL) for US\$30 million (around ₹ 191 crore). The turnover of the company in FY14 was US\$ 4.98 million
Feb-16	Cipla completes acquisitions of InvaGen and Exelan, companies it purchased last September in an all-cash transaction worth US\$550 million
Oct-16	Indore facility receives establishment inspection report (EIR) from USFDA for July/August, 2015 inspection

Source: Company, ICICIdirect.com Research

## Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (%)	Position Change
1	Hamied (Yusuf K)	31-Dec-16	20.7	166.7m	0.0m
2	Life Insurance Corporation of India	31-Dec-16	6.1	49.4m	0.2m
3	Ahmed (Sophie)	31-Dec-16	5.7	46.0m	0.0m
4	ICICI Prudential Asset Management Co. Ltd.	30-Jun-16	5.1	41.1m	6.7m
5	Hamied (Mustafa Khwaja)	31-Dec-16	4.9	39.7m	0.0m
6	Norges Bank Investment Management (NBIM)	31-Dec-16	1.6	12.9m	1.7m
7	First State Investments (Singapore)	30-Nov-16	1.6	12.7m	0.2m
8	HDFC Asset Management Co., Ltd.	30-Sep-16	1.6	12.6m	0.4m
9	Stewart Investors	31-Mar-17	1.6	12.5m	4.2m
10	Hamied (Kamil)	31-Dec-16	1.4	10.9m	0.0m

Source: Reuters, ICICIdirect.com Research

## Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-16
Promoter	37.5	37.5	37.5	37.5	37.5
Others	62.5	62.5	62.5	62.5	62.5

## Recent Activity

Buys			Sells		
Investor name	Value (\$)	Shares	Investor name	Value (\$)	Shares
Stewart Investors	38.6m	4.2m	Fisher Investments	-130.6m	-15.6m
Norges Bank Investment Management (NBIM)	14.1m	1.7m	Reliance Nippon Life Asset Management Limited	-19.4m	-2.3m
First State Investments (Singapore)	2.1m	0.2m	Lyxor Asset Management	-12.0m	-1.3m
Life Insurance Corporation of India	1.4m	0.2m	Birla Sun Life Asset Management Company Ltd.	-6.6m	-0.7m
Northern Trust Global Investments	1.3m	0.2m	Baillie Gifford & Co.	-4.8m	-0.6m

Source: Reuters, ICICIdirect.com Research

## Financial summary

Profit and loss statement					₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Revenues	13,657.5	14,574.0	16,342.5	18,331.9	
Growth (%)	20.4	6.7	12.1	12.2	
Raw Material Expenses	5,118.4	5,317.1	5,862.9	6,416.2	
Gross Profit	8,539.1	9,256.8	10,479.6	11,915.7	
Employee Expenses	2,451.5	2,633.8	2,716.4	3,014.1	
Other Expenditure	3,607.3	4,147.4	4,821.0	5,407.9	
Total Operating Expenditure	11,177.2	12,098.4	13,400.3	14,838.2	
EBITDA	2,480.2	2,475.6	2,942.2	3,493.7	
Growth (%)	14.7	-0.2	18.9	18.7	
Depreciation	541.7	1,279.9	943.2	818.5	
Interest	161.3	159.2	106.0	74.0	
Other Income	208.9	228.7	143.5	161.0	
PBT	1,986.1	1,265.1	2,036.5	2,762.1	
Total Tax	439.6	195.3	448.0	607.7	
PAT before MI	1,546.6	1,069.9	1,588.5	2,154.5	
Minority Interest	61.5	32.4	41.5	56.3	
Adjusted PAT	1,485.1	1,032.6	1,547.0	2,098.1	
Growth (%)	25.8	-30.5	49.8	35.6	
EPS (Adjusted)	18.5	12.9	19.3	26.1	

Source: Company, ICICIdirect.com Research

Cash flow statement					₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Profit/(Loss) after taxation	1,485.1	1,032.6	1,547.0	2,098.1	
Add: Depreciation	541.7	1,279.9	943.2	818.5	
(inc)/Dec in Current Assets	-753.1	71.8	-1,678.7	-1,031.9	
inc/(Dec) in Current Liabilities	439.8	41.7	259.0	330.6	
Others	161.3	159.2	106.0	74.0	
CF from Operating activities	1,874.9	2,585.2	1,176.5	2,289.4	
Change In Investment	-117.1	0.0	117.1	-100.0	
(Purchase)/Sale of Fixed Assets	-4,209.8	-1,109.9	-1,000.0	-800.0	
Others	-102.7	-132.6	-8.5	6.3	
CF from Investing activities	-4,429.6	-1,242.6	-891.3	-893.7	
Change in Equity	0.0	0.0	0.0	0.0	
Change in Loan	3,488.1	-1,078.4	-800.0	-1,000.0	
Dividend & Dividend tax	-194.0	-206.5	-309.4	-419.6	
Others	-396.5	-159.2	-106.0	-74.0	
CF from Financing activities	2,897.6	-1,444.1	-1,215.4	-1,493.6	
Net Cash Flow	342.8	-101.5	-930.2	-97.9	
Cash and Cash equ. at beginning	528.6	871.4	769.9	-160.3	
Cash	871.4	769.9	-160.3	-258.2	
Free Cash Flow	-2,334.9	1,475.3	176.5	1,489.4	

Source: Company, ICICIdirect.com Research

Balance sheet					₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Equity Capital	160.7	160.7	160.7	160.7	
Reserve and Surplus	11,696.7	12,522.8	13,760.4	15,439.0	
Total Shareholders funds	11,857.4	12,683.5	13,921.1	15,599.6	
Total Debt	5,191.4	4,113.0	3,313.0	2,313.0	
Deferred Tax Liability	366.4	391.4	441.4	491.4	
Long Term Provision	144.7	164.7	184.7	204.7	
MI & Other Liabilities	312.4	344.8	386.3	442.7	
Source of Funds	17,872.3	17,697.4	18,246.5	19,051.4	
Gross Block	8,031.5	8,831.5	9,431.5	10,231.5	
Accumulated Depreciation	3,273.6	4,553.5	5,496.6	6,315.2	
Net Block	4,758.0	4,278.0	3,934.9	3,916.4	
Capital WIP	809.3	1,119.2	1,519.2	1,519.2	
Fixed Assets	5,567.3	5,397.3	5,454.1	5,435.6	
Investments	756.9	756.9	639.8	739.8	
Goodwill on Consolidation	5,511.4	5,511.4	5,511.4	5,511.4	
Long term Loans & Advances	590.9	760.9	840.9	920.9	
Other Non current assets	123.7	163.7	203.7	243.7	
Inventory	3,808.0	3,485.0	4,805.0	5,389.9	
Debtors	2,359.3	2,497.4	2,743.0	3,076.9	
Loans and Advances	958.0	1,061.6	1,165.2	1,268.8	
Other Current Assets	264.9	274.4	283.9	293.4	
Cash	871.4	769.9	-160.3	-258.2	
Total Current Assets	8,261.6	8,088.4	8,836.8	9,770.8	
Creditors	1,409.5	1,571.1	1,725.6	1,935.7	
Provisions	506.1	536.1	581.1	642.0	
Other current liabilities	1,023.8	873.8	933.4	993.0	
Total Current Liabilities	2,939.4	2,981.0	3,240.1	3,570.7	
Net Current Assets	5,322.2	5,107.3	5,596.7	6,200.1	
Application of Funds	17,872.3	17,697.4	18,246.5	19,051.4	

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
Adjusted EPS	18.5	12.9	19.3	26.1
BV per share	147.7	158.0	173.4	194.3
Cash per Share	10.9	9.6	-2.0	-3.2
Dividend per share	2.4	2.6	3.9	5.2
Operating Ratios (%)				
Gross Margins	62.5	63.5	64.1	65.0
EBITDA margins	18.2	17.0	18.0	19.1
PAT Margins	10.9	7.1	9.5	11.4
Inventory days	101.8	87.3	107.3	107.3
Debtor days	63.1	62.5	61.3	61.3
Creditor days	37.7	39.3	38.5	38.5
Asset Turnover	0.8	0.8	0.9	1.0
EBITDA convsn rate	75.6	104.4	40.0	65.5
Return Ratios (%)				
RoE	12.5	8.1	11.1	13.4
RoCE	12.0	8.0	11.7	14.9
RoIC	12.3	7.7	12.1	15.5
Valuation Ratios (x)				
P/E	27.3	39.2	26.2	19.3
EV / EBITDA	17.9	17.6	14.8	12.2
EV / Net Sales	3.3	3.0	2.7	2.3
Market Cap / Sales	3.0	2.8	2.5	2.2
Price to Book Value	3.4	3.2	2.9	2.6
Solvency Ratios				
Debt / EBITDA	2.1	1.7	1.1	0.7
Debt / Equity	0.4	0.3	0.2	0.1
Current Ratio	2.5	2.5	2.8	2.8
Quick Ratio	1.2	1.3	1.3	1.3

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E
Ajanta Pharma	AJAPHA	1616	1,880	Buy	14222.9	45.4	58.5	61.7	72.4	35.6	27.6	26.2	22.3	42.9	40.6	33.8	31.7	34.2	32.6	27.0	25.2
Alembic Pharma	ALEMPHA	570	615	Hold	10752.9	38.2	21.4	23.4	30.2	14.9	26.7	24.4	18.9	51.5	26.1	22.3	24.7	44.9	21.4	20.0	21.8
Apollo Hospitals	APOHOS	1205	1,440	Buy	16768.1	26.7	20.9	24.2	35.6	45.1	57.7	49.9	33.8	9.2	7.5	8.4	11.4	10.8	7.9	8.4	11.2
Aurobindo Pharma	AURPHA	526	965	Buy	30791.1	33.9	38.7	39.5	49.1	15.5	13.6	13.3	10.7	23.3	23.6	20.9	22.6	28.1	24.6	20.3	20.5
Biocon	BIOCON	934	1,020	Hold	18680.0	23.1	31.0	25.5	40.8	40.4	30.1	36.6	22.9	9.1	11.4	10.4	15.3	11.4	13.5	10.2	14.5
Cadila Healthcare	CADHEA	427	425	Hold	43683.1	15.0	12.2	16.9	21.5	28.5	34.9	25.2	19.9	26.7	15.2	20.1	23.0	28.6	19.9	22.9	23.8
Cipla	CIPLA	504.1	470	Hold	40557.3	18.5	12.9	19.3	26.1	27.3	39.2	26.2	19.3	12.0	8.0	11.7	14.9	12.5	8.1	11.1	13.4
Divi's Lab	DIVLAB	550	700	Hold	14594.1	41.8	41.1	42.8	47.8	13.2	13.4	12.8	11.5	30.7	26.8	24.4	23.7	25.9	21.6	19.3	18.6
Dr Reddy's Labs	DRREDD	2428	2,610	Hold	40221.1	141.4	68.6	106.1	137.3	17.2	35.4	22.9	17.7	17.3	6.3	10.8	13.7	20.6	9.4	13.0	14.7
Glenmark Pharma	GLEPHA	612	910	Buy	17265.9	32.2	46.9	47.0	49.4	19.0	13.0	13.0	12.4	16.2	20.6	19.5	18.9	21.2	25.9	20.8	18.1
Indoco Remedies	INDREM	192.4	235	Hold	1772.5	9.4	8.7	12.7	15.6	20.5	22.0	15.1	12.3	12.9	9.5	13.9	16.1	14.8	12.4	15.8	16.8
Ipca Laboratories	IPCLAB	489	560	Hold	6172.3	10.0	15.0	24.1	31.1	48.8	32.5	20.3	15.7	5.7	9.8	12.7	14.8	5.5	7.8	11.3	13.0
Jubilant Life	JUBLIF	709.9	810	Buy	11307.4	26.0	36.1	48.8	66.0	27.3	19.7	14.6	10.8	12.0	13.3	15.1	18.4	14.2	16.8	18.7	20.4
Lupin	LUPIN	1140	1,335	Buy	51499.5	50.4	56.6	56.2	66.8	22.6	20.1	20.3	17.1	18.6	17.2	16.7	19.0	20.7	19.1	16.4	16.8
Natco Pharma	NATPHA	889.9	870	Buy	15510.8	8.5	25.3	14.8	18.2	104.9	35.2	60.3	48.9	16.0	33.0	17.6	19.2	11.9	27.2	14.0	15.0
Sun Pharma	SUNPHA	592	765	Buy	141986.5	23.4	30.4	30.1	35.5	25.2	19.4	19.7	16.7	18.6	19.3	17.2	17.9	18.0	19.5	16.6	16.9
Syngene Int.	SYNINT	458	515	Hold	9152.0	11.1	14.3	14.4	18.4	40.5	31.2	31.0	24.3	13.2	16.8	16.0	18.1	21.0	21.9	18.4	19.1
Torrent Pharma	TORPHA	1220	1,475	Buy	20645.3	107.8	57.0	62.1	77.4	11.3	21.4	19.7	15.8	46.7	21.5	23.7	26.4	53.8	23.5	21.4	22.2
Unichem Lab	UNILAB	251.5	285	Hold	2286.2	12.3	12.9	17.4	23.5	20.4	19.5	14.5	10.7	13.8	14.3	16.1	18.8	11.7	11.1	13.3	15.6

Source: Company, ICICIdirect.com Research

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