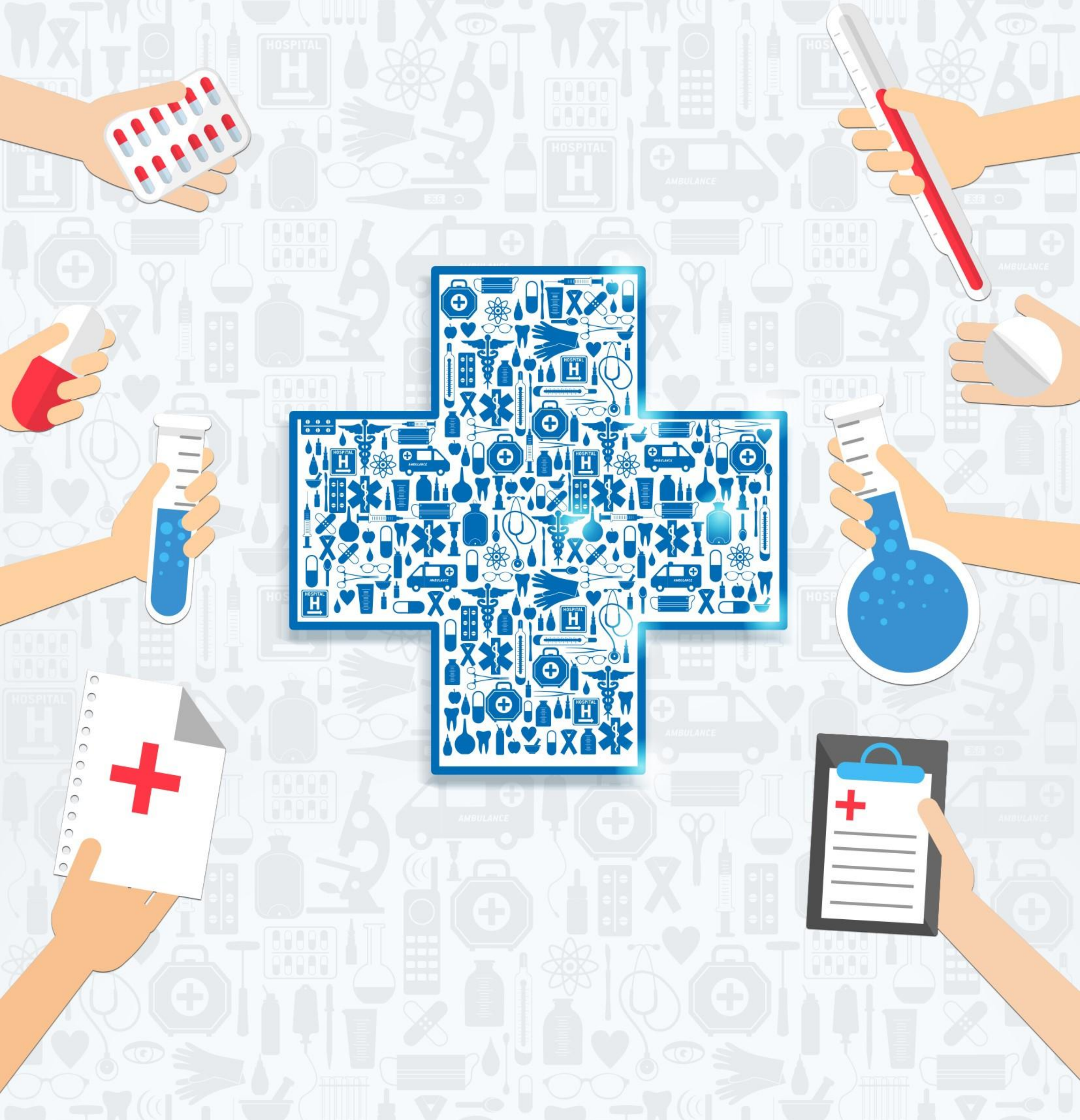
KRChoksey INSTITUTIONAL

Cipla Ltd.



RESULT UPDATE

14th August 2017

Cipla Ltd

Improved operational efficiencies driving margin expansion

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 542	627	15.9%	436,703	BUY	Pharma

Result highlights

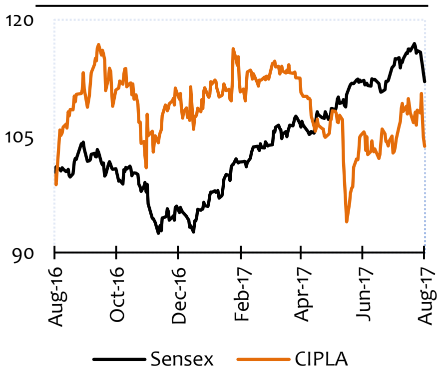
•Cipla reported Net Sales of INR 34,323 Mn which was down by 1.9% y-o-y and 1.5% q-o-q. The decrease in revenues was due to low business in North America and Emerging markets. However, the company has registered healthy growth of 21% and 33% Y-o-Y in South Africa and European market. The India business has performed well in the quarter even after GST rollout with sales at INR 12bn registering growth of 6% Q-o-Q.

•EBIDTA stood at INR 6,464 Mn which grew by 5.81% y-o-y and 27.7% q-o-q. Lower material cost and other expenses led to expansion of margins by 421 bps Q-o-Q and 134 bps Y-o-Y. The company has reported margins of 18.34% in Q1FY18. The company has reported net profit of INR 4,142 Mn against the loss of INR 617 Mn in Q4FY17.PAT Margin for the quarter stood at 11.75% up by 1348 bps q-o-q and 159 bps y-o-y. The decrease in depreciation and interest cost along with higher other income led to rise in margins. Cipla has strengthen its India portfolio by launching products like Prominad and Vysov in the diabetology segment along with growing prescriptions of Azmarda and Bolstran which were launched in the last quarter resulted in increase in Domestic revenues even after GST.Strong growth momentum in South Africa and Australia has led improve the profitability of the firm. Cipla has well managed its portfolio by focusing on Non-US markets resulting in improved profitability of the firm.

MARKET DATA

Shares outs (Mn)	805
EquityCap (INR Mn)	1609
Mkt Cap (INR Mn)	436703
52 Wk H/L (INR)	622/479
Volume Avg (3m K)	1366.9
Face Value (INR)	2
Bloomberg Code	CIPLA IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	31214
NIFTY	9711

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	113,454	136,783	146,302	168,700	187,865
EBITDA	21,618	25,011	24,758	29,250	32,430
APAT	11,808	15,059	10,064	14,807	17,421
AEPS (Rs)	14.7	18.7	12.5	18.4	21.7
P/E (x)	46.0	36.1	42.0	28.5	24.2
EV/EBITDA(x)	25.6	23.4	18.5	15.2	13.6
ROAE (%)	11.3	13.5	8.4	11.2	11.9

Source: Company, KRChoksey Research

Subdued growth in Q1FY18 :

Cipla has delivered mixed results with a degrowth of 1.93% Y-o-Y and 1.57% Q-o-Q due to improved business in the tender markets of South Africa which grew 4% Q-o-Q and 21% Y-o-Y along with the India business which has registered growth of 6% Q-o-Q even after GST implementation. However, the US and the emerging markets have registered a degrowth of 2% and 4% Y-o-Y in INR terms but have registered growth of 2% and 10% Y-o-Y in CER terms respectively.

North America's business grew marginally: The North America's business has witnessed growing trend with sales at USD 100 Mn in Q1FY18 with a growth of 4% Y-o-Y and 2% Q-o-Q on the back of sales of its subsidiaries Invagen and Exelon. In the quarter Invagen recorded sales of USD 54 mn. However, due to rupee appreciation, in INR terms the US business has seen degrowth of 2% Y-o-Y with sales at INR 6460 mn. In the quarter has introduced 4 new products in the market with the total market size of USD 390 mn and the company plans to launch more 10 products over 9 months in FY18.

Business in South Africa boosted the sales: The company recorded sales of INR 488 mn which grew 4% Q-o-Q and 21% Y-o-Y. THE company has a strong presence in private market of South Africa which accounts 2/3rd sales of Cipla's total South Africa's sales. During the quarter the company made partnership with American Cancer Society (ACS) and Clinton Health Access Initiative (CHAI) to expand access to essential cancer treatment medications across various African nations

Domestic business grew despite GST destocking: The domestic business grew on the back of acute therapies. Domestic business has seen a growing trend with sales at INR 12,710 registering Q-o-Q growth of 6% but a decline in growth by 13% on Y-o-Y basis. GST destocking led to loss of sales in June as the channel destocked in anticipation of GST.

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	36.73	36.73	36.73
FIIs	21.81	19.8	18.74
DIIs	14.76	15.53	16.18
Others	26.7	27.95	28.35
Total	100	100	100

13.3%

Revenue CAGR between FY 17 and FY 19E

31.6%

PAT CAGR between FY 17 and FY 19E

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Cipla Ltd.

Strong growth going forward , operational efficiency to continue….

We believe that company will grow strongly FY18 on the back of approvals and launch of one limited competition product every quarter in the market. The company has a basket of total 238 US ANDA out of which 70 are under approval .The company plans to launch Renvela, Sustiva, Truvada, Viread in FY18 which will give a boost to sales. The company has also launched Sereflo (fluticasone and salmeterol) in UK which is used for the treatment of asthma will start contributing to the sales in full fledge from FY19. Cipla has an exhaustive pipeline of inhalers and complex generics which has a huge market size. These opportunities will give an escalated growth trend to the company's revenues and will give a boost to the topline in long run.

Valuations & Views: We believe in Cipla's growth story led by its unique offerings of specialty drugs and inhalers. We expect Cipla to deliver robust growth on the back of its exclusive products and complex generics which are limited competition products. Along with the US, the domestic business and RoW will also grow strongly. Going ahead, we believe the topline to deliver a Y-o-Y growth of 15% with sales at INR 165,171 mn in FY18 and EBITDA at INR 29,250 with margins at 17.3%.

At CMP of INR 542 the stock is trading at PE of 25.4x at FY19 with EPS of INR 21.7 We recommend **"BUY"** rating on the stock and value the stock at 29x FY19E EPS of INR 21.7 with a target price of **INR 627** indicating **15.9**% upside from CMP.

Sales breakup:

INR Crs	Q1FY18	Q4FY17	Q1FY17	QoQ (%)	YoY (%)
Domestic	11,847	12,470	14,490	-5.0	-18.2
Exports	20,680	23,350	21,450	-11.4	-3.6
Total	32,527	35,820	35,940	-9.2	-9.5

Source: Company, KRChoksey Research

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Q1FY18 Result Snapshot

Exhibit 1 Consolidated Result Update (INR Mn)

INR Mn	Q1FY18	Q4FY17	Q1FY17	QoQ (%)	YoY (%)
Net Sales	**34323**	**34870**	**34998**	**-1.6**	**-1.9**
Other operating income	927	950	939	-2.3	-1.2
Total Income	**35251**	**35820**	**35937**	**-1.6**	**-1.9**
Expenditure	28786	30758	29828	-6.4	-3.5
Materials Consumed	11767	13155	13705	-10.6	-14.1
Employee Cost	6729	6389	6866	5.3	-2.0
Other Exp	10290	11214	9257	-8.2	11.2
EBITDA	**6465**	**5062**	**6110**	**27.7**	**5.8**
EBITDA margin (%)	18%	14%	17%	***421bps***	***134bps***
Depreciation	2134	6322	1608	-66.2	32.7
EBIT	**4330**	**-1260**	**4502**	**-443.8**	**-3.8**
Other Income	1514	228	252	564.2	500.7
Interest expenses	279	334	313	-16.6	-11.1
Excep. Items	0	0	0		
PBT	**5566**	**-1366**	**4440**	**-507.5**	**25.3**
Tax	1415	-757	708	-286.9	99.8
Effective tax rate (%)	25.4	55.4	15.9	-54.1	
PAT	**4151**	**-609**	**3732**	**-782.0**	**11.2**
Share of Associates	0	-10	59		
Reported PAT	**4151**	**-619**	**3791**	**-771.0**	**9.5**
Adj PAT	4151	-619	3791	-771.0	9.5
Net Margin (%)	12%	-2%	11%	*1350bps*	*123bps*
AEPS	**5.1**	**-0.8**	**4.9**	**-758.5**	**2.7**

Source: Company, KRChoksey Research

Key Con-call Highlights:

•The company will maintain its R&D spend to 6% to sales in order to grow and fund its ongoing clinical trials.

•Cipla has adopted various cost saving programs which has resulted in improvement in margins. The company plans to continue it going forward.

•Due to GST destocking the inventory levels has been reduced. The company expect that the loss in inventory level will be recovered in coming quarters. Cipla has major portfolio of acute therapies which has led to loss of sales due to GST. The other regions are recovering but the UP and Bihar regions are still seeing problems. The company feels that the sales will recover going ahead.

•The company has guided that the Gross Profit margins will be around 64% - 65%

•The company plans to focus on Non-US markets such as Australia, South Africa etc where the performance has been improved. In Australia the company plans too ramp-up its respiratory portfolio and have also launched a flagship product FSPM.

•Cipla has launched the generic version of Seretide in UK with a brand name" Sereflo" which is a inhaler with a huge market size. But the innovator GSK has still protected its share. So, the ramp up of Sereflo will take longer time to add meaningfully to the sales.

Cipla Ltd.

Exhibit 2: Income Statement

INR Mn	FY15	FY16	FY17	FY18E	FY19E
Revenues	**113,454**	**136,783**	**146,302**	**168,700**	**187,865**
Op. Expenses	91,837	111,772	121,545	139,449	155,435
EBITDA	**21,618**	**25,011**	**24,758**	**29,250**	**32,430**
Other Income	1,656	2,089	2,287	2,516	2,968
Depreciation	5,047	5,417	13,229	7,374	7,974
EBIT	**18,226**	**21,683**	**13,816**	**24,392**	**27,424**
Interest	1,683	1,613	1,594	5,311	4,975
PBT	**16,543**	**20,070**	**12,222**	**19,081**	**22,449**
Tax	4,000	4,396	1,798	3,816	4,490
PAT	**12,543**	**15,674**	**10,424**	**15,265**	**17,959**
Minority	-735	-615	-360	-458	-539
Sh. of Associates	0	0	0	0	0
Ex. ordinary	0	0	0	0	0
Adj Pat	**11,808**	**15,059**	**10,064**	**14,807**	**17,421**

Source: Company, KRChoksey Research

Exhibit 3 : Balance Sheet

INR Mn	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	1,606	1,607	1,609	1,609	1,609
Reserves & Surplus	106,409	113,555	123,645	136,572	152,113
Total Shareholders Fund	**108,015**	**115,162**	**125,254**	**138,181**	**153,722**
Minority Interest	1,805	3,501	4,382	4,840	5,379
Non- current liabilties	**8,435**	**13,547**	**46,815**	**43,815**	**40,815**
Long term Borrowings	3,109	2,219	36,453	33,453	30,453
Deferred tax liabilities	3,317	9,893	8,974	8,974	8,974
Other LT liabilties & prov	2,009	1,435	1,387	1,387	1,387
Current Liabilities	**38,920**	**79,071**	**33,081**	**48,699**	**52,557**
Short-term borrowings	13,925	49,695	4,672	13,965	13,965
Trade payables	15,757	22,137	22,286	25,980	29,384
Other cur liabilities & Prov	9,239	7,239	6,123	8,754	9,208
Total Liabilities	**157,175**	**211,281**	**209,532**	**235,535**	**252,472**
Assets					
Non- current Assets	**81,261**	**122,870**	**121,471**	**118,832**	**123,352**
Fixed assets	48,521	87,236	84,766	81,852	86,207
Goodwill	25,585	27,056	26,784	26,784	26,784
Non-current investments	2,498	1,764	1,374	1,648	1,813
Long-term loans & adv	2,970	4,315	5,626	5,626	5,626
Other non-current assets	1,688	2,499	2,922	2,922	2,922
Current assets	**75,914**	**88,412**	**88,061**	**116,703**	**129,120**
Current investments	3,900	5,823	8,374	9,211	10,132
Trade receivables	20,043	24,932	28,898	34,392	39,355
Inventories	37,806	38,080	34,853	36,705	40,924
Cash & bank balances	5,638	8,582	6,104	25,430	26,310
Short-term loans & adv	7,074	10,863	9,003	10,965	12,399
Other current assets	1,454	133	829	0	0
Total Assets	**157,175**	**211,282**	**209,532**	**235,535**	**252,472**

Source: Company, KRChoksey Research

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Cipla Ltd.

Exhibit 4: Cash flow statement

INR Mn	FY15	FY16	FY17A	FY18E	FY19E
PBT	16543	20070	12222	19081	22449
Depreciation	5047	5417	13229	7374	7974
Interest Exp	1683	1613	1594	5311	4975
Others	-430	158	-1026	0	0
CF before W.cap	**22844**	**27258**	**26019**	**31766**	**35398**
Inc/dec in W.cap	-7186	-4242	2307	-2153	-6758
Op CF after W.cap	**15658**	**23016**	**28326**	**29613**	**28640**
Less Taxes	-3923	-5077	-4503	-3816	-4490
Net CF From Operations	**11735**	**17939**	**23824**	**25796**	**24150**
Inc/(dec) in F.A + CWIP	-6256	-10527	-10776	-4460	-12329
(Pur)/sale of Investments	-3534	-35389	-2519	-1112	-1086
others	379	121	169	0	0
CF from Invst Activities	**-9411**	**-45795**	**-13127**	**-5572**	**-13415**
Loan Raised/(repaid)	3526	32807	-10803	982	-7975
Equity Raised	0	29	120	0	0
Dividend	-1879	-1809	-3845	-1880	-1880
Others	0	0	1290	0	0
CF from Fin Activities	**1648**	**31027**	**-13239**	**-898**	**-9855**
Net inc /(dec) in cash	**3972**	**3171**	**-2541**	**19326**	**880**
Op. bal of cash	1752	5638	8709	6104	25430
Cl. balance of cash	**5638**	**8709**	**6104**	**25430**	**26310**

Source: Company, KRChoksey Research

Exhibit 5: Ratio Analysis

INR Mn	FY15	FY16	FY17A	FY18E	FY19E
EPS	14.7	18.7	12.5	18.4	21.7
CEPS	21.0	25.5	29.0	27.6	31.6
BVPS	134.4	143.3	155.7	171.8	191.1
DPS	2.0	2.0	2.0	2.0	2.0
Payout (%)	13.6	10.7	16.0	10.9	9.2
Valuation (x)					
P/E	46.0	36.1	42.0	29.9	25.4
P/BV	5.0	4.7	3.4	3.2	2.9
EV/EBITDA	25.6	23.4	18.5	15.9	14.2
Dividend Yield (%)	0.3	0.3	0.4	0.4	0.4
Return ratio (%)					
EBIDTA Margin	19.1	18.3	16.9	17.3	17.3
PAT Margin	10.4	11.0	6.9	8.8	9.3
ROAE	11.3	13.5	8.4	11.2	11.9
ROACE	13.3	12.5	6.4	11.5	11.8
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.3	0.2	0.2
Net Debt/Equity	0.1	0.4	0.3	0.2	0.1
Debt/EBITDA	0.8	2.1	1.7	1.6	1.4
Interest Coverage	9.8	12.1	7.2	4.1	4.9
Current ratio	2.9	2.8	2.8	3.1	3.1
Growth Ratios (%)					
Income growth	12.3	20.6	7.0	15.3	11.4
EBITDA growth	1.3	15.7	-1.0	18.1	10.9
PAT growth	-15.0	27.5	-33.2	47.1	17.7
Turnover Ratios					
F.A Turnover x	1.6	1.3	1.3	1.3	1.4
Inventory Days	112	104	93	79	77
Debtors Days	61	61	69	70	73

Source: Company, KRChoksey Research

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Cipla Ltd.

Cipla Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
14-Aug-17	542	627	BUY
09-Feb-16	587	690	BUY
10-Nov-16	528	616	BUY
16-Aug-16	513	616	BUY
27-May-16	468	616	BUY
11-Feb-16	539	646	BUY
06-Nov-15	659	751	ACCUMULATE
14-Oct-15	676	765	ACCUMULATE
17-Aug-15	741	765	HOLD
8-Jul-15	652	704	ACCUMULATE
30-May-15	650	704	ACCUMULATE
9-Apr-15	728	754	HOLD

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than -5%

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