

Cipla (CIPLA)

₹ 568

GST impacts Q1; one-offs support profit...

- Revenues de-grew 3% YoY to ₹ 3525 crore, (I-direct estimate: ₹ 3518 crore) mainly due to de-growth in domestic formulations. Domestic formulations declined 13% to ₹ 1271 crore due to de-stocking at the channel level on account of GST transition. US sales remained flat YoY at ₹ 646 crore (I-direct estimate: ₹ 634 crore)
- EBITDA margins improved 159 bps YoY to 18.3%, and came in above I-direct estimate of 15.5% mainly on account of higher-than-expected gross margins. EBITDA grew 6% YoY to ₹ 647 crore (I-direct estimate: ₹ 545 crore)
- PAT grew 21% to ₹ 409 crore (I-direct estimate: ₹ 233 crore) mainly due to higher other income (sale of South African animal business) and better operational performance

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

Formulation exports constitute ~56% of total FY17 revenues. To improve the quality of exports, Cipla has undertaken scores of measures recently. 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 12% CAGR to ₹ 10154 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 47%, 41% and 12%, respectively. Domestic formulations comprise ~38% of total FY17 revenues. It commands ~20% market share in the respiratory segment. We expect domestic formulations to grow at ~11% CAGR in FY17-19E to ₹ 6932 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

Strong performances in South Africa and EU somewhat mitigated dent in domestic formulations in Q1. 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. Our revised target price is ₹ 525 (from ₹ 470 earlier) based on 20x FY19E EPS of ₹ 26.2 as the company remains at the inflection point.

Rating matrix

Rating	:	Hold
Target	:	₹ 525
Target Period	:	12-15 months
Potential Upside	:	-8%

What's Changed?

Target	Changed from ₹ 470 to ₹ 524
EPS FY18E	Changed from ₹ 19.3 to ₹ 21.3
EPS FY19E	Changed from ₹ 26.1 to ₹ 26.2
Rating	Unchanged

Quarterly Performance

	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	3,525.1	3,650.0	-3.4	3,582.0	-1.6
EBITDA	646.5	611.2	5.8	506.2	27.7
EBITDA (%)	18.3	16.7	159 bps	14.1	421 bps
Net Profit	408.8	339.1	20.6	-61.8	LP

Key Financials

(₹crore)	FY16	FY17	FY18E	FY19E
Revenues	13657.5	14630.3	15894.8	18592.7
EBITDA	2480.2	2475.8	2954.9	3590.1
Adjusted PAT	1485.1	1006.4	1711.7	2100.3
Adj. EPS (₹)	18.5	12.5	21.3	26.2

Valuation summary

	FY16	FY17	FY18E	FY19E
PE (x)	30.7	45.3	26.7	21.7
Target PE (x)	28.3	41.8	24.6	20.0
EV to EBITDA (x)	19.9	19.5	16.3	13.2
Price to book (x)	4.0	3.6	3.3	2.9
RoNW (%)	12.9	8.0	12.3	13.5
RoCE (%)	11.8	7.7	12.5	14.2

Stock data

Particular	Amount
Market Capitalisation	₹ 45722 crore
Debt (FY17)	₹ 4113 crore
Cash (FY17)	₹ 624 crore
EV	₹ 49210 crore
52 week H/L (₹)	622/479
Equity capital	₹ 161 crore
Face value	₹ 2

Price performance (%)

	1M	3M	6M	1Y
Cipla	0.4	-1.7	-4.9	6.1
Lupin	-18.1	-25.3	-35.8	-39.1
Sun Pharma	-18.3	-28.3	-29.7	-43.6

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Variance analysis

	Q1FY18	Q1FY18E	Q1FY17	Q4FY17	YoY (%)	QoQ (%)	Comments
Revenue	3,525.1	3,517.8	3,650.0	3,582.0	-3.4	-1.6	Growth was impacted due lost of 20 to 25 days of sales in domestic formulations due to destocking by the channel in anticipation of GST
Raw Material Expenses	1,176.7	1,336.8	1,370.5	1,315.5	-14.1	-10.6	417 bps YoY gross margins improvement was mainly due to cost containment measures, favorable geography and better product mix.
Gross Profit	2,348.4	2,181.1	2,279.6	2,266.5	3.0	3.6	
Gross Margin (%)	66.6	62.0	62.5	63.3	417 bps	334 bps	
Employee Expenses	672.9	668.4	686.6	638.9	-2.0	5.3	
Other Expenditure	1,029.0	967.4	981.8	1,121.4	4.8	-8.2	
Total Operating Expenditure	2,878.6	2,972.6	3,038.8	3,075.8	-5.3	-6.4	
EBITDA	646.5	545.3	611.2	506.2	5.8	27.7	
EBITDA (%)	18.3	15.5	16.7	14.1	159 bps	421 bps	Beat vis-à-vis I-direct estimates mainly due to higher than expected gross margins and lower R&D spend
Interest	27.9	33.1	31.5	33.4	-11.5	-16.6	
Depreciation	213.4	235.8	203.8	632.2	4.7	-66.2	
Other income	151.4	30.9	25.2	22.8	501.0	564.2	Included ₹ 118 crore of one-time profit on sale of animal health business in South Africa
PBT before EO	556.6	307.2	401.1	-136.6	38.8	LP	
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	556.6	307.2	401.1	-136.6	38.8	LP	
Tax	130.8	67.6	55.3	-75.7	136.6	LP	
Tax Rate (%)	NA	NA	NA	55.4	NA	NA	
MI & Share of loss/ (gain) asso.	16.1	6.3	6.8	-1.0	138.2	LP	
Net Profit	408.8	233.4	339.1	-61.8	20.6	LP	Adjusting for one time profit, the APAT was largely impacted due to higher taxation
Key Metrics							
Domestic	1,271.0	1,159.2	1,459.0	1,197.0	-12.9	6.2	Growth was impacted due lost of 20 to 25 days of sales in domestic formulations due to destocking by the channel in anticipation of GST
US	646.0	633.8	657.0	646.0	-1.7	-1.9	Muted growth was largely due to price erosion in the base business
EU	158.0	161.0	118.0	180.0	33.9	-10.6	YoY growth driven by strong performance across key markets
South Africa	488.0	451.4	403.0	468.0	21.1	-3.6	YoY growth due to growth in both private market and tenders business. On constant currency basis, sales grew 10% YoY. Beat vis-à-vis I-direct estimates mainly due to higher-than-expected constant currency growth
RoW	731.0	773.2	759.0	813.0	-3.7	-4.9	YoY de-growth largely driven by currency volatility, impact of rationalisation and tender-phasing
API	130.0	137.6	131.0	162.0	-0.8	-19.8	

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Revenues	16,342.5	15,894.8	-2.7	18,331.9	18,592.7	1.4	
EBITDA	2,942.2	2,954.9	0.4	3,493.7	3,590.1	2.8	
EBITDA Margin (%)	18.0	18.6	59 bps	19.1	19.3	21 bps	
PAT	1,547.0	1,711.7	10.6	2,098.1	2,100.3	0.1	
EPS (₹)	19.3	21.3	10.5	26.1	26.2	0.2	Changed mainly due to one-off other income registered in Q1FY18

Source: Company, ICICIdirect.com Research

Assumptions

(₹ crore)	Current				Earlier	
	FY16	FY17	FY18E	FY19E	FY18E	FY19E
Domestic	5,036.0	5,581.0	5,829.0	6,931.8	6,007.0	6,727.8
Export Formulations	7798.0	8129.9	8826.6	10154.3	8934.9	10128.1
API	752.0	512.4	530.5	557.0	538.0	564.9

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 intention 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 ~246 ANDAs with the USFDA cumulatively (FY17). 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.

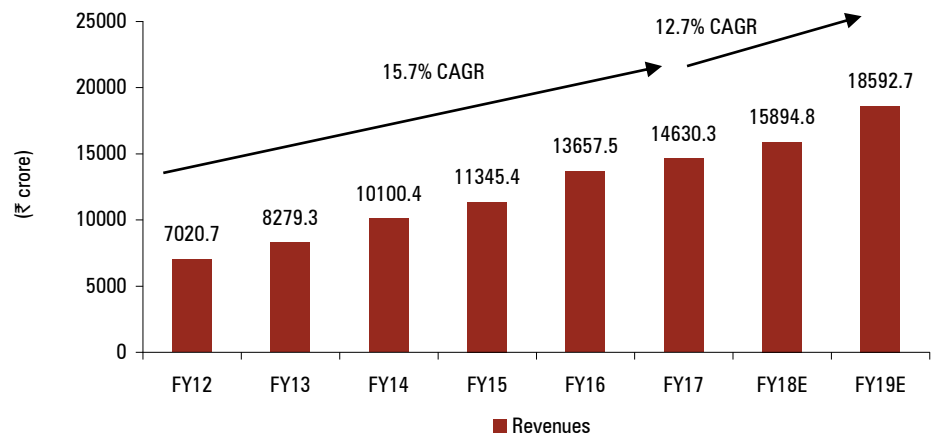
The company acquired two US-based companies, InvaGen Pharmaceuticals and Exelan Pharmaceuticals. InvaGen Pharma has 40 approved ANDAs, 32 marketed products, and 30 pipeline products for which it expects to get approvals over the next four years. The above pipeline also includes five FTFs, which represent 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 July 2017), Cipla ranked third with a market share of ~5%. Breaking it down further, its ranking in acute therapies stands at 5 with a market share of 4.7%. Similarly, its chronic ranking is 3 with a market share of 5%.

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 13% in FY17-19E to ₹ 18593 crore driven by incremental product launches in Europe and other geographies.

Exhibit 1: Revenues to grow at CAGR of 13% in FY17-19E



Source: Company, ICICIdirect.com Research

Exhibit 2: Consolidated revenues break-up

(₹ crore)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Domestic	3562.5	4095.6	4825.0	5036.0	5581.0	5829.0	6931.8
Export APIs	486.0	751.0	631.9	752.0	512.4	530.5	557.0
Export Formulations	4037.8	4962.0	5425.6	7798.0	8129.9	8826.6	10154.3
US	623.0	740.0	870.6	2037.9	2619.5	2727.9	3161.5
EU	410.0	578.0	435.3	543.4	523.4	629.8	755.8
South Africa (Cipla Medpro)	610.0	1294.7	1523.6	1562.4	1840.6	2213.1	2655.7
RoW	1927.0	2512.0	2720.6	3396.5	3146.4	3255.7	3581.3

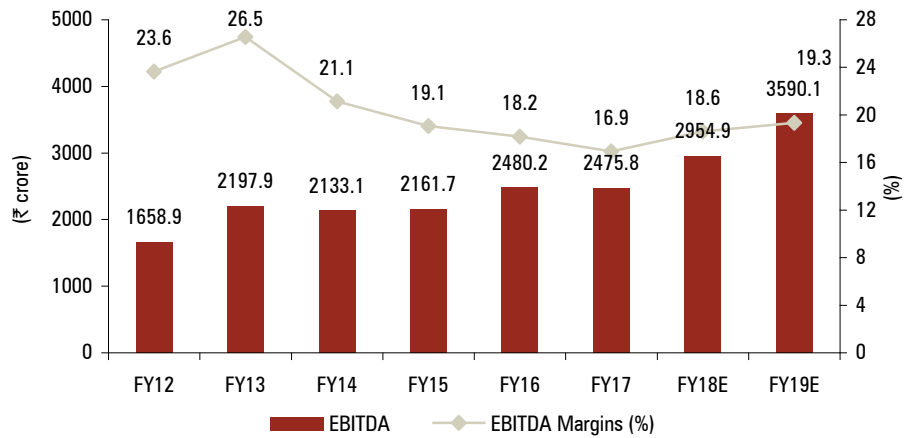
Source: Company, ICICIdirect.com Research

Formulation exports constitute ~56% of total FY17 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 11.8% to ₹ 10154 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 47%, 41% and 12%, respectively. Domestic formulations comprise ~38% of total FY17 revenues. It commands ~20% market share in the respiratory segment. We expect domestic formulations to grow at ~11% CAGR in FY17-19E to ₹ 6932 crore driven by improved

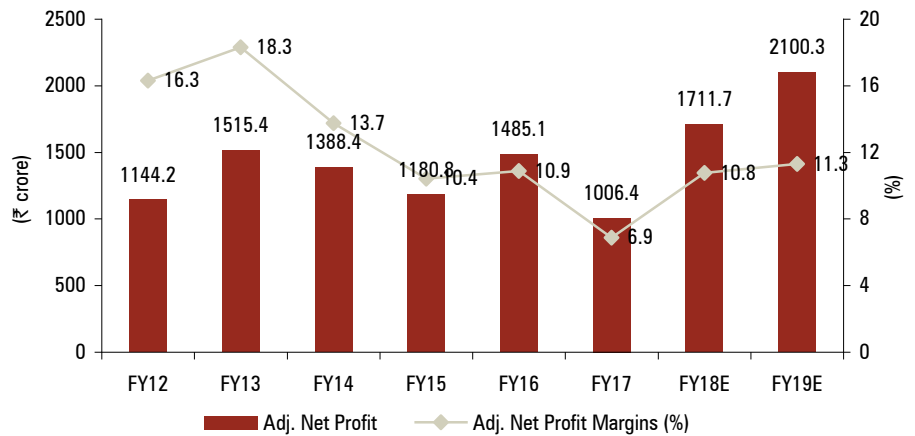
productivity of the newly inducted field force and incremental product launches.

Exhibit 3: EBITDA to grow at CAGR of 20.4% in FY17-19E



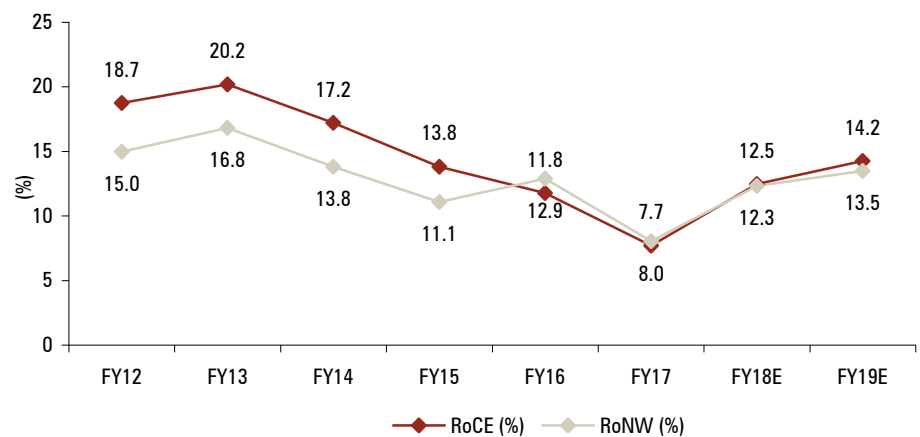
Source: Company, ICICIdirect.com Research

Exhibit 4: Adjusted net profit to grow at CAGR of 44.6% 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)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	YoY (%)	QoQ. (%)
Net Sales	3761.0	3379.4	3069.9	3252.9	3556.1	3671.9	3550.0	3487.0	3432.3	-3.5	-1.6
Other Operating Income	77.5	75.7	81.1	61.7	93.9	79.1	97.2	95.0	92.7	-1.3	-2.3
Total Operating Income	3838.5	3455.1	3151.0	3314.5	3650.0	3751.0	3647.2	3582.0	3525.1	-3.4	-1.6
Raw Material Expenses	1243.3	1208.8	1226.9	1410.9	1370.5	1330.1	1301.1	1315.5	1176.7	-14.1	-10.6
Gross Profit	2595.2	2246.3	1924.1	1903.6	2279.6	2421.0	2346.1	2266.5	2348.4	3.0	3.6
Gross Profit Margins	67.6	65.0	61.1	57.4	62.5	64.5	64.3	63.3	66.6	417 bps	334 bps
Employee Expenses	616.2	583.0	578.8	656.1	686.6	675.3	633.1	638.9	672.9	-2.0	5.3
% of revenues	16.1	16.9	18.4	19.8	18.8	18.0	17.4	17.8	19.1	28 bps	125 bps
Other Expenditure	924.5	877.3	882.3	1071.4	981.8	1065.0	1035.4	1121.4	1029.0	4.8	-8.2
% of revenues	24.1	25.4	28.0	32.3	26.9	28.4	28.4	31.3	29.2	229 bps	-212 bps
Total Expenditure	2783.9	2669.1	2687.9	3138.4	3038.8	3070.3	2969.6	3075.8	2878.6	-5.3	-6.4
EBITDA	1054.5	786.0	463.0	176.1	611.2	680.7	677.7	506.2	646.5	5.8	27.7
EBITDA (%)	27.5	22.7	14.7	5.3	16.7	18.1	18.6	14.1	18.3	159 bps	421 bps
Interest	63.9	63.6	31.4	47.7	31.5	35.2	59.3	33.4	27.9	-11.5	-16.6
Depreciation	149.4	158.4	176.7	269.7	203.8	229.2	257.7	632.2	213.4	4.7	-66.2
Other Income	50.5	30.8	67.5	59.4	25.2	27.2	153.5	22.8	151.4	501.0	564.2
PBT	891.7	594.8	322.4	-81.9	401.1	443.6	514.1	-136.6	556.6	38.8	-507.5
Total Tax	241.8	40.1	50.3	-0.6	55.3	71.9	128.3	-75.7	130.8	136.6	-272.7
PAT before MI	650.0	554.7	272.1	-81.3	345.8	371.7	385.8	-60.9	425.8	23.1	-799.6
Minority Interest	0.7	8.8	8.0	6.1	6.8	15.3	10.1	-1.0	16.1	138.2	-1710.0
Net Profit	649.2	545.9	264.1	-87.5	339.1	356.4	375.7	-59.9	409.7	20.8	-784.4
EPS (₹)	8.1	6.8	3.3	-1.1	4.2	4.4	4.7	-0.7	5.1		

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

Industry Specific Threats - Increased USFDA scrutiny across the globe regarding cGMP issues, pricing pressure due to client consolidation in the US.

Conference call highlights

- Cipla has filed three ANDAs in Q1FY18, taking total pending ANDAs to 96 (including 26 tentative approvals). For FY18, the company expects 25 filings in US and at least one differentiated product launches every quarter. Overall, the company expects to launch 10 products in FY18
- The management believes that the current situation in US related to base price erosion is similar to 2005-07 situation in the US and it could last further for an year and half
- On the domestic front, the company has launched gProminad (anti-diabetic) and gVysov (anti-diabetic). The revenues were impacted to the tune of ₹ 45 crore on account of GST transition and related charges
- Cipla has launched the only generic Advair in Australia and as per the management, the market size is ~US\$ 55 million
- Cipla's long-term debt remains at \$550 million, which was mainly used to fund the InvaGen acquisition and working cap loan of ~\$92 million
- The management will also look into first patient study for the Tizanidine patch (in-licensed from MedRx). The company is also evaluating opportunities in the orphan areas in both neurology and respiratory
- Capex run-rate for FY18 is at ₹ 200 crore per quarter
- For FY18, the R&D spend is unlikely to be higher than 8-9% of revenues
- The tender business constituted 1/3 rd of the overall South Africa business
- Selvamar (nephrology) is expected to be launched in FY18 based on USFDA approval

Exhibit 7: Major facilities

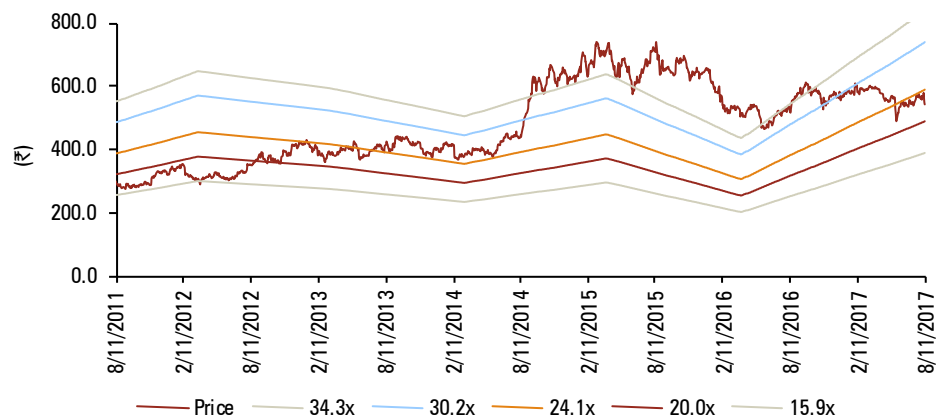
Location	Segment	Regulatory Approvals
Bengaluru – Virgonagar, India	API	USFDA, UKMHRA
Bengaluru– Bommasandra, India	API	USFDA
Patalganga, India	API & Formulations	USFDA, UKMHRA
Kurkumbh, India	Formulations	USFDA, UKMHRA
Goa, India	Formulations	USFDA, UKMHRA
Baddi, India	Formulations	
Indore, India	Formulations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

Source: Company, ICICIdirect.com Research

Valuation

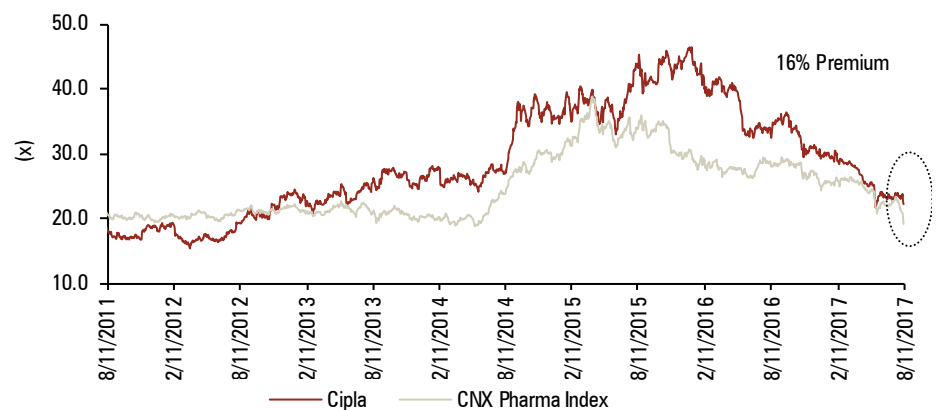
Strong performances in South Africa and EU somewhat mitigated dent in domestic formulations in Q1. Going ahead, margins are likely to remain low in the near future mainly due to incremental R&D spending even after factoring in respiratory and other launches in developed markets. The scenario is likely 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. Our revised target price is ₹ 525 (from ₹ 470 earlier) based on 20x FY19E EPS of ₹ 26.2 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



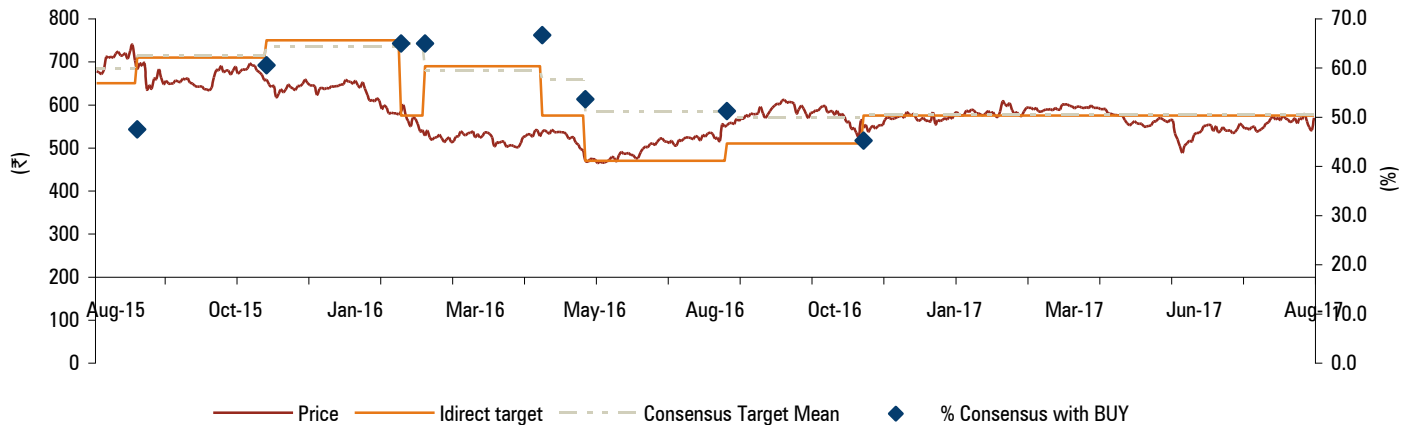
Source: Company, ICICIdirect.com Research

Exhibit 10: Valuation

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY16	13657	20.4	18.5	25.8	30.7	19.9	12.9	11.8
FY17	14630	7.1	12.5	-32.2	45.3	19.5	8.0	7.7
FY18E	15895	8.6	21.3	70.1	26.7	16.3	12.3	12.5
FY19E	18593	17.0	26.2	22.7	21.7	13.2	13.5	14.2

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)	30-Jun-17	20.7	166.7m	0.0m
2	Ahmed (Sophie)	30-Jun-17	5.7	46.0m	0.0m
3	Life Insurance Corporation of India	30-Jun-17	5.4	43.6m	-1.7m
4	ICICI Prudential Asset Management Co. Ltd.	30-Jun-17	4.7	37.9m	-3.3m
5	Stewart Investors	30-Jun-17	4.1	33.3m	22.1m
6	Hamied (M K)	7-Jun-17	3.9	31.6m	31.6m
7	Hamied (Mustafa Khwaja)	30-Jun-17	3.9	31.6m	-8.1m
8	Vaziralli (Samina)	30-Jun-17	2.2	17.9m	8.1m
9	HDFC Asset Management Co., Ltd.	30-Jun-17	2.0	15.8m	2.1m
10	Norges Bank Investment Management (NBIM)	30-Jun-17	1.8	14.2m	1.2m

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	37.5	37.5	37.5	37.5	37.3
Others	62.5	62.5	62.5	62.5	62.7

Recent Activity

Buys			Sells		
Investor name	Value (\$)	Shares	Investor name	Value (\$)	Shares
Hamied (M K)	272.1m	31.6m	Hamied (Mustafa Khwaja)	-69.2m	-8.1m
Stewart Investors	190.3m	22.1m	ICICI Prudential Asset Management Co. Ltd.	-28.3m	-3.3m
Vaziralli (Samina)	69.2m	8.1m	APG Asset Management	-22.2m	-2.4m
HDFC Asset Management Co., Ltd.	17.8m	2.1m	Life Insurance Corporation of India	-14.6m	-1.7m
Norges Bank Investment Management (NBIM)	10.4m	1.2m	Lyxor Asset Management	-9.8m	-1.2m

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Revenues	13,657.5	14,630.3	15,894.8	18,592.7
Growth (%)	20.4	7.1	8.6	17.0
Raw Material Expenses	5,118.4	5,317.1	5,547.7	6,460.4
Gross Profit	8,539.1	9,313.2	10,347.1	12,132.3
Employee Expenses	2,451.5	2,633.8	2,714.2	3,057.3
Other Expenditure	3,607.3	4,203.5	4,678.0	5,484.8
Total Operating Expenditure	11,177.2	12,154.4	12,939.9	15,002.5
EBITDA	2,480.2	2,475.8	2,954.9	3,590.1
Growth (%)	14.7	-0.2	19.4	21.5
Depreciation	541.7	1,322.9	853.7	884.4
Interest	161.3	159.4	115.9	96.4
Other Income	208.9	228.7	296.2	189.2
PBT	1,986.1	1,222.2	2,281.5	2,798.5
Total Tax	439.6	179.8	501.6	615.7
PAT before MI	1,546.6	1,042.5	1,779.9	2,182.9
Minority Interest	61.5	31.2	67.3	82.5
Adjusted PAT	1,485.1	1,006.4	1,711.7	2,100.3
Growth (%)	25.8	-32.2	70.1	22.7
EPS (Adjusted)	18.5	12.5	21.3	26.2

Source: Company, ICICIdirect.com Research

Cash flow statement ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Profit/(Loss) after taxation	1,219.3	1,006.4	1,711.7	2,100.3
Add: Depreciation	754.2	1,322.9	853.7	884.4
(inc)/Dec in Current Assets	11.7	43.0	-1,413.1	-1,277.4
inc/(Dec) in Current Liabilities	-441.1	44.8	163.5	341.7
Others	196.6	159.4	115.9	96.4
CF from Operating activities	1,740.8	2,576.5	1,431.7	2,145.4
Change In Investment	-3,485.2	0.0	-217.8	0.0
(Purchase)/Sale of Fixed Assets	-1,052.7	-759.8	-800.0	-800.0
Others	0.2	-588.3	65.5	80.6
CF from Investing activities	-4,537.7	-1,348.1	-952.3	-719.4
Change in Equity	2.9	0.0	0.0	0.0
Change in Loan	3,441.8	-1,089.3	-200.1	-700.0
Dividend & Dividend tax	-179.5	-226.9	-342.3	-420.0
Others	-161.1	-159.4	-115.9	-96.4
CF from Financing activities	3,104.1	-1,475.6	-658.3	-1,216.4
Net Cash Flow	307.1	-247.2	-178.9	209.7
Cash and Cash equ. at beginning	564.3	871.4	624.2	445.3
Cash	871.4	624.2	445.3	654.9
Free Cash Flow	688.1	1,816.7	631.7	1,345.4

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Equity Capital	160.7	160.7	160.7	160.7
Reserve and Surplus	11,355.5	12,364.5	13,733.9	15,414.2
Total Shareholders funds	11,516.2	12,525.2	13,894.6	15,574.9
Total Debt	5,201.9	4,112.7	3,912.6	3,212.6
Deferred Tax Liability	897.0	588.8	618.2	649.1
Long Term Provision	144.7	140.5	147.5	154.9
MI & Other Liabilities	493.6	576.9	651.2	741.0
Source of Funds	18,253.5	17,944.1	19,224.1	20,332.5
Gross Block - Fixed Assets	7,462.1	8,626.9	9,026.9	9,826.9
Accumulated Depreciation	799.3	1,833.3	2,687.0	3,571.5
Net Block	6,662.8	6,793.6	6,339.9	6,255.4
Capital WIP	2,060.9	1,683.0	2,083.0	2,083.0
Fixed Assets	8,723.6	8,476.6	8,422.8	8,338.4
Investments	756.9	756.9	974.8	974.8
Goodwill on Consolidation	2,705.6	2,678.4	2,678.4	2,678.4
Long term Loans & Advances	41.8	39.5	41.5	43.5
Other Non current assets	562.7	864.8	908.0	953.4
Inventory	3,808.1	3,485.3	4,671.3	5,440.1
Debtors	2,356.3	2,497.4	2,656.4	3,093.5
Loans and Advances	10.9	9.5	10.0	10.5
Other Current Assets	1,212.3	1,352.2	1,419.9	1,490.8
Cash	871.4	624.2	445.3	654.9
Total Current Assets	8,258.9	7,968.7	9,202.9	10,689.9
Creditors	1,475.8	1,571.1	1,671.1	1,946.2
Provisions	310.9	321.9	338.0	354.9
Other current liabilities	1,009.3	947.7	995.1	1,044.9
Total Current Liabilities	2,796.0	2,840.8	3,004.3	3,345.9
Net Current Assets	5,462.9	5,127.9	6,198.6	7,344.0
Application of Funds	18,253.5	17,944.1	19,224.1	20,332.5

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
Adjusted EPS	18.5	12.5	21.3	26.2
BV per share	143.4	156.0	173.1	194.0
Cash per Share	10.9	7.8	5.5	8.2
Dividend per share	2.3	2.8	4.3	5.2
Operating Ratios (%)				
Gross Margins	62.5	63.7	65.1	65.3
EBITDA margins	18.2	16.9	18.6	19.3
PAT Margins	10.9	6.9	10.8	11.3
Inventory days	101.8	87.0	107.3	106.8
Debtor days	63.0	62.3	61.0	60.7
Creditor days	39.4	39.2	38.4	38.2
Asset Turnover	0.7	0.8	0.8	0.9
EBITDA convsn rate	70.2	104.1	48.5	59.8
Return Ratios (%)				
RoE	12.9	8.0	12.3	13.5
RoCE	11.8	7.7	12.5	14.2
RoIC	13.2	7.8	13.2	16.1
Valuation Ratios (x)				
P/E	30.7	45.3	26.7	21.7
EV / EBITDA	19.9	19.5	16.3	13.2
EV / Net Sales	3.6	3.3	3.0	2.5
Market Cap / Sales	3.3	3.1	2.9	2.5
Price to Book Value	4.0	3.6	3.3	2.9
Solvency Ratios				
Debt / EBITDA	2.1	1.7	1.3	0.9
Debt / Equity	0.5	0.3	0.3	0.2
Current Ratio	2.6	2.6	2.9	3.0
Quick Ratio	1.3	1.4	1.4	1.4

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	1238	1,420	Buy	10897.3	110.0	56.6	57.1	71.0	11.3	21.9	21.7	17.5	46.2	41.8	33.1	32.4	37.3	33.2	26.5	26.0
Alembic Pharma	ALEMPHA	520	570	Hold	9802.8	38.2	21.2	19.1	28.6	13.6	24.5	27.2	18.2	52.2	25.3	18.7	23.9	45.1	21.0	16.5	20.8
Apollo Hospitals	APOHOS	1186	1,400	Buy	16496.8	13.2	12.8	16.4	33.3	89.8	92.4	72.4	35.6	6.6	6.0	6.7	10.8	5.3	4.9	5.9	10.9
Aurobindo Pharma	AURPHA	713	745	Hold	41764.6	33.9	38.8	46.8	41.4	21.0	18.4	15.2	17.2	23.1	24.4	25.5	19.6	27.2	24.2	22.9	17.1
Biocon	BIOCON	348	380	Hold	20877.0	7.7	11.0	7.8	13.5	45.1	31.7	44.8	25.8	9.3	11.9	10.1	15.9	11.5	13.6	9.0	13.9
Cadila Healthcare	CADHEA	487	440	Hold	49805.1	15.0	14.5	19.3	22.0	32.5	33.5	25.2	22.2	24.9	13.1	17.2	19.2	34.4	21.4	23.4	22.2
Cipla	CIPLA	568	525	Hold	45705.4	18.5	12.5	21.3	26.2	30.7	45.3	26.6	21.7	11.8	7.7	12.5	14.2	12.9	8.0	12.3	13.5
Divi's Lab	DIVLAB	635	665	Hold	16861.2	41.5	39.3	34.6	41.5	15.3	16.1	18.4	15.3	30.5	25.0	20.3	21.5	25.7	19.5	15.4	16.4
Dr Reddy's Labs	DRREDD	1999	2,400	Hold	33134.6	141.4	70.6	72.4	126.2	14.1	28.3	27.6	15.8	15.3	6.1	6.8	11.9	19.2	9.5	9.0	13.9
Glenmark Pharma	GLEPHA	628	730	Hold	17727.2	32.2	46.0	38.7	40.6	19.5	13.7	16.3	15.5	16.2	18.9	15.9	15.5	21.2	25.5	17.9	15.9
Indoco Remedies	INDREM	193.7	180	Hold	1785.0	9.4	8.4	4.9	12.1	20.6	23.2	39.8	16.0	12.9	8.4	5.5	12.0	14.8	12.0	6.6	14.5
Ipca Laboratories	IPCLAB	417	525	Hold	5255.7	7.4	15.4	12.2	25.5	56.4	27.0	34.1	16.3	4.5	8.7	6.9	12.4	4.1	7.9	6.0	11.3
Jubilant Life	JUBLIF	678	845	Buy	10799.3	26.0	36.1	44.3	59.1	26.1	18.8	15.3	11.5	12.0	13.3	14.8	17.6	14.2	16.8	17.3	19.0
Lupin	LUPIN	962	1,070	Hold	43449.1	50.4	56.6	41.4	53.4	19.1	17.0	23.3	18.0	17.8	16.6	12.4	15.5	20.3	18.9	12.4	14.2
Natco Pharma	NATPHA	739	955	Hold	12881.3	9.0	27.0	25.5	16.0	81.7	27.4	28.9	46.1	16.0	33.0	27.6	16.2	12.2	28.8	22.6	12.8
Sun Pharma	SUNPHA	470	445	Hold	112764.6	23.4	29.0	14.8	20.3	20.0	16.2	31.7	23.1	18.6	19.8	9.8	12.4	18.0	19.0	9.2	11.4
Syngene Int.	SYNINT	451	490	Hold	9020.0	11.1	14.3	14.3	17.4	43.6	33.6	33.6	27.7	14.1	16.8	16.2	17.8	21.6	20.3	17.2	17.4
Torrent Pharma	TORPHA	1220	1,250	Hold	20644.4	110.9	55.2	48.3	65.8	11.0	22.1	25.3	18.5	46.5	18.9	17.6	20.7	53.7	21.5	16.5	19.2
Unichem Lab	UNILAB	240.8	235	Hold	2188.9	12.3	12.0	12.2	19.4	19.5	20.1	19.7	12.4	13.8	11.8	10.7	15.7	11.7	10.2	9.5	13.5

Source: Company, ICICIdirect.com Research

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