INDIA

BUY

Cipla

Result Update **7 November 2017**

Pharma

Progressive Recovery; maintain Buy

We maintain buy rating for Cipla and revise our TP to Rs700 (earlier Rs610) based on 24x March'19E EPS of Rs29.2. Cipla's Q2FY18 results exceeded our and consensus estimates. Cipla's revenues grew 9% YoY, margin improved 160bps to 19.7% and net profit grew 18% YoY. The acquired Invagen and Exelan in the US are well-integrated with Cipla. The domestic business (40% of reveues) grew 12% YoY and 30%QoQ due to re-stocking by trade after successful implementation of GST. Steady growth in the domestic market, with leadership position in respiratory, oncology and anti-infective segments would drive future growth.

- **Revenues grew 9% YoY:** Cipla's revenue grew 9% YoY to Rs40.82bn from Rs37.51bn. Its domestic sales (40% of revenues) grew 12% YoY due to the re-stocking by trade after GST implementation. The company's South African and Sub- Sahara business (23% of revenues) grew 5% YoY. Its North American business (15% of revenues) declined 7% YoY. The management indicated no pricing pressure in the US. Its emerging markets business (11% of revenues) grew by 11% YoY. Cipla's API business (5% of revenues) grew by 85%YoY. We expect the domestic, South African and API businesses to drive future growth.
- **Margin grew by 160bps YoY:** Cipla's EBIDTA margin grew 160bps to 19.7% from 18.1% due to a decline in personnel cost and other expenses. We expect the company's margins to improve further, with US-based InvaGen and Exelan helping it strengthen its position in the US, the launch of combination inhalers across various global markets, and several comprehensive restructuring initiatives.
- **Net profit grew 18%YoY:** Cipla's net profit for the quarter grew 18% YoY to Rs4.35bn from Rs3.69bn. The company's other income grew 317% from treasury operations. We expect Cipla's profitability to improve further, as it is scaling up its domestic and US businesses, launching new products and initiating several cost-control initiatives in the manufacturing and procurement segment.
- **Recommendation and key risks:** We maintain Buy rating for Cipla and revise our TP to Rs700 (earlier Rs610) based on 24x March'19E EPS of Rs29.2, and with an upside of 15.2% over CMP. We have enhanced our FY18E and FY19E EPS estimates by 9% and 15% respectively. We expect the domestic and South African businesses to drive future growth. Key risks to our assumptions include slow growth in the domestic market and regulatory risks for its manufacturing facilities catering to global markets.

Y/E Mar (Rs mn) (Cons.)	Q2FY18	Q2FY17	YoY Gr%	Q1FY18	QoQ	Q2FY18E	% Var.
Net sales	**40,824**	**37,510**	**8.8**	**35,250**	**15.8**	**38,960**	**4.8**
Raw material cost	15,531	13,301	16.8	11,767	32.0	12,930	20.1
Employee cost	6,608	6,753	(2.1)	6,729	(1.8)	7,080	(6.7)
Other expenses	10641	10650	(0.1)	10290	3.4	11,190	(4.9)
EBIDTA	**8,044**	**6,806**	**18.2**	**6,464**	**24.4**	**7,760**	**3.7**
EBIDTA margin (%)	19.7	18.1	-	18.3	-	19.9	-
Depreciation	3,022	2,292	31.8	2134	41.6	2,300	31.4
Interest	420	352	19.3	279	50.5	290	44.8
Other income	1,133	272	316.5	1514	(25.2)	300	277.7
PBT	5,735	4,434	29.3	5,565	3.1	5,470	4.8
Prov. For tax	1,374	719	NA	1,307	5.1	1,700	(19.2)
Adj. PAT	**4,350**	**3,694**	**17.8**	**4,249**	**2.4**	**3,760**	**15.7**

Source: Company, Centrum Research

Target Price	Rs700	Key Data	
CMP*	Rs608	Bloomberg Code	CIPLA IN
Upside	*15.2%*	Curr Shares O/S (mn)	804.7
Previous Target	Rs610	Diluted Shares O/S(mn)	804.7
Previous Rating	Buy	Mkt Cap (Rsbn/USDbn)	488.9/7.5
Price Performance (%)*		52 Wk H / L (Rs)	663.4/479
		5 Year H / L (Rs)	752.9/354
		Daily Vol. (3M NSE Avg.)	1492106.

	1M	6M	1Yr
CIPLA IN	*3.8*	*10.5*	*11.3*
Nifty	*3.7*	*11.5*	*21.8*

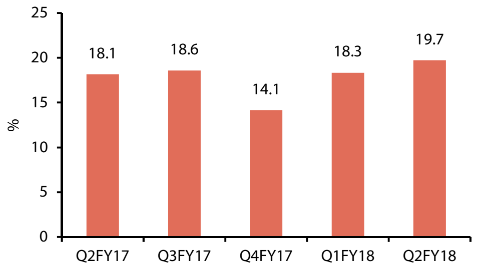
**as on 7 November 2017 Source: Bloomberg, Centrum Research*

Shareholding pattern *(%)*

	Sep-17	June-17	Mar-17	Dec-16
Promoter	*37.3*	*37.3*	*37.5*	*37.5*
FIIs	*22.6*	*22.1*	*20.2*	*19.1*
DIIs	*14.8*	*14.9*	*15.8*	*16.6*
Others	*25.3*	*25.7*	*26.5*	*26.8*

Source: BSE, as on 7 November 2017

Trend in EBIDTA margin (%)



Source: Company, Centrum Research

Earning Revision

Particulars (Rsmn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	1,65,296	1,63,929	0.8	1,87,836	1,85,348	1.3
EBITDA	31,811	30,444	4.5	39,692	37,204	6.7
EBITDA Margin (%)	*19.2*	*18.6*	*60bps*	*21.1*	*20.1*	*100bps*
PAT	17,741	16,327	8.7	23,432	20,319	15.3

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	1,65,296	1,62,269	1.9	1,87,836	1,85,639	1.2
EBITDA	31,811	30,364	4.8	39,692	37,186	6.7
PAT	17,741	16,684	6.3	23,432	21,535	8.8

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
19	7	16	580	700	20.6

**as on 7 November 2017; Source: Bloomberg, Centrum Research Estimates*

Ranjit Kapadia, *ranjit. kapadia@centrum.co.in;* 91 22 4215 9645

Y/E March (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Net profit	YoY (%)	DEPS Rs	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	1,13,454	11.5	21,614	19.1	11,807	(15.0)	14.7	11.3	11.2	37.5	20.7
FY16	1,37,900	21.5	24,793	18.0	13,834	17.2	17.2	12.4	10.1	36.8	22.0
FY17	1,46,302	6.1	24,759	16.9	10,354	(25.2)	12.9	8.6	6.6	42.9	19.0
FY18E	1,65,296	13.0	31,811	19.2	17,741	71.3	22.1	13.3	10.3	25.3	15.1
FY19E	1,87,836	13.6	39,692	21.1	23,432	32.1	29.2	15.5	12.3	19.2	11.9

Source: Company, Centrum Research Estimates

Concall highlights

Domestic business – re-stocking by trade after GST

- The management indicated that the domestic formulation business (40% of revenues) grew by 12% YoY and 30%QoQ due to re-stocking by trade channels after GST implementation. Excluding the impact of GST, the growth was 19%YoY.
- Cipla has launched Prominad (Canagliflozin) and Vysov (Vildagliptin) in the anti-diabetic segment in the domestic market.
- Cipla is the leading player in the anti-asthmatic, anticancer and anti-infective segment in the domestic market and is likely to maintain its leadership position.
- As per the management, Cipla's manufacturing and R & D sites are in compliance with various regulatory agencies.

US business-No pricing pressure

- Cipla has filed 242 ANDAs with US FDA of which 144 are approved, 27 tentatively approved and 71 ANDAs pending approvals.
- The company received approval for generic Sevelamer tablets in the US market. Cipla has filed 5 ANDAs during the quarter.
- The management indicated filing of 20-25 ANDAs during FY18. These products would have a revenue profile of $6-7mn per annum.
- Cipla currently markets 47 products in the US. Ten products are ranked No.1 and it is among the top three companies for 30 products in the US market.
- The management indicated one differentiated product launch per quarter in the US.
- The management indicated no pricing pressure in the US market.

Europe- good performance

- As per the management, Cipla's European business grew 14% YoY and returned to profitability post re-structuring.

Emerging market-good growth

- The management indicated 11%YoY growth in the emerging market.
- As per the management, there is no concentration risk in the emerging market.

S. Africa- leading player

- The management indicated that the S. Africa and Sub-Sahara business (23% of revenues) grew by 5%. Cipla is the third largest generic player in S. Africa with the leadership position in the key therapies.
- Cipla has the most effective sales force in S. Africa.

EBIDTA margin grew 160bpsYoY

- Cipla's EBIDTA margin for Q2FY18 grew by 160bps YoY to 19.7% from 18.1% due to the decline in personnel expenses and other expenses. The company's gross margin declined by 250bps to 62.0% from 64.5%.

Financials

- As per management, the R&D expenses were 6% of revenues in Q21FY18 at Rs2.51bn.
- The management indicated long term debt of $550mn (Rs35.8bn) for Invagen acquisition in the US and $187mn (Rs12.2bn) working capital loan.

Sales composition

Strong growth in India, Europe & API segment

Cipla's revenue for Q2FY18 grew by 9% YoY to Rs40.83bn from Rs37.51bn. The Company had a strong growth of 12%YoY and 30%QoQ in the domestic market (40% of revenues). The management has indicated good growth in H2FY18 due to re-stocking by trade after GST implementation. Cipla's N. America business (15% of revenues) declined by 7% YoY to Rs6.18bn from Rs6.64bn. S. Africa and Sub-Sahara business (23% of revenues) grew by 5% YoY. Sales in emerging markets (11% of revenues) grew by 11% YoY to Rs4.54bn from Rs4.11bn. Exports of APIs (5% of revenues) grew by 85% YoY due to higher sale of ARV products. The details are as follows:

Exhibit 1: Sales composition

Particulars (Rs mn)	Q2FY18	Q2FY17	*YoY Gr%*	Q1FY18	*QoQ%*	Q2FY18E	*% Var.*
India(Rx+Gx)	16,460	14,690	*12.0*	12,710	*29.5*	15,500	*6.2*
N.America	6,180	6,640	*(6.9)*	6,460	*(4.3)*	6,500	*(4.9)*
S. Africa, Sub-Sahara	9,210	8,780	*4.9*	7,500	*22.8*	5,440	*69.3*
Europe	1,510	1,330	*13.5*	1,640	*(7.9)*	1,570	*(3.8)*
Emerging Markets	4,540	4,110	*10.5*	4,630	*(1.9)*	7,910	*(42.6)*
API	*2,130*	*1,150*	*85.2*	*1,300*	*63.8*	1,150	*85.2*
Others	800	810	*(1.2)*	1010	*(20.8)*	890	*(10.1)*
Total	**40,830**	**37,510**	***8.9***	**35,250**	***15.8***	**38,960**	***4.8***

Source: Company, Centrum Research

Performance of major brands

As per AIOCD AWACS-September'17 data, Cipla's revenue grew 4.1% YoY, compared to the industry growth rate of 2.8%. Of its 32 brands, 13 grew faster than the market growth rate of 2.8%. We expect these brands to drive future growth.

Cipla's 32 brands feature among the top 500 domestic brands, contributing ~48% to the company's domestic revenues. Of these brands, 24 were in anti-asthmatic and anti-infective segments, indicating high dependence on these segments. Omnikacin had the highest growth rate of 47%.

The details are shown in the following table:

Exhibit 2: Performance of major brands

Products	Therapeutic	July'17		August'17		September'17	
	Category	Rs mn	Gr. Rate %	Rs mn	Gr. Rate %	Rs mn	Gr. Rate %
Pharma market		**92,795**	***(2.4)***	**1,03,167**	***2.4***	**1,04,196**	***2.8***
Company		**4,099**	***(11.1)***	**4,634**	***(3.2)***	**4,895**	***4.1***
Foracort	Antiasthmatic	186	*3.6*	210	*14.9*	225	*23.6*
Budecort	Antiasthmatic	90	*(33.9)*	126	*(3.3)*	173	*25.1*
Asthalin	Antiasthmatic	102	*(10.1)*	118	*(5.5)*	127	*(4.8)*
Seroflo	Antiasthmatic	118	*(1.9)*	133	*5.2*	133	*4.2*
Duolin	Antiasthmatic	138	*16.3*	148	*8.4*	210	*45.2*
Aerocort	Antiasthmatic	77	*(9.1)*	86	*(2.3)*	89	*2.1*
Azee	Antiinfective	68	*(21.8)*	87	*2.9*	104	*21.8*
Montair-LC	Antiasthmatic	75	*(6.3)*	89	*0.0*	103	*15.9*
Novamox	Antiinfective	52	*(23.6)*	56	*(13.5)*	57	*(20.6)*
Emeset	Antiemetic	58	*(25.5)*	58	*(23.5)*	62	*7.6*
Dytor	Diuretic	70	*(6.5)*	75	*9.6*	70	*2.4*
Advent	Antiinfective	50	*(16.2)*	62	*(23.0)*	71	*(14.0)*
Urimax-D	BPH	68	*5.2*	71	*7.7*	72	*8.8*
Urimax	BPH	62	*(5.5)*	67	*6.7*	72	*10.2*
Amlopes-AT	CVS	44	*(24.7)*	48	*(11.4)*	48	*(9.9)*
Ibugesic plus	NSAIDs	71	*0.8*	66	*(14.6)*	72	*0.8*
Ciplox	Antiinfective	45	*(20.3)*	52	*(10.0)*	56	*(0.5)*
Norflox LB	Antiinfective	35	*(27.8)*	38	*(7.1)*	37	*(2.1)*
Metolar	Antimigraine	41	*(13.3)*	47	*1.1*	45	*0.1*
Acivir	Antiviral	44	*(11.1)*	47	*(2.9)*	49	*0.7*
Imicrit	Antiinfective	25	*(43.5)*	29	*(23.8)*	18	*(52.5)*
Levoflox	Antiinfective	40	*2.8*	45	*6.6*	49	*20.0*
Tazact	Antiinfective	16	*(30.9)*	20	*(8.6)*	20	*(13.9)*
Novamox-CV	Antiinfective	24	*(42.8)*	27	*(37.4)*	28	*(28.4)*
Norflox-TZ	Antiinfective	32	*(25.4)*	33	*(8.9)*	29	*(7.1)*
Cefbact	Antiinfective	31	*(30.7)*	36	*(26.4)*	42	*(8.3)*
Levolin	Antiasthmatic	31	*(10.0)*	41	*(5.0)*	49	*0.1*
Oflox	Antiinfective	47	*3.7*	46	*(3.2)*	46	*(6.0)*
Enclex	anticoagulant	52	*25.9*	55	*24.6*	47	*12.5*
Pansec	antiulcerant	37	*(9.1)*	39	*15.2*	44	*29.3*
Omnikacin	Antiinfective	60	*19.5*	67	*19.1*	75	*46.7*
Merocrit	Antiinfective	33	*(35.2)*	37	*(7.4)*	34	*(12.3)*
Total		**1,922**		**2,159**		**2,356**	

Source: AIOCD AWACS data-July-September'17

Earning Revision

Based on the good Q2FY18 performance, we have revised our FY18E and FY19E EPS upwards by 9% and 15% respectively as follows:

Exhibit 3: Earning Revision

Particulars (Rs mn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	1,65,296	1,63,929	0.8	1,87,836	1,85,348	1.3
EBITDA	31,811	30,444	4.5	39,692	37,204	6.7
EBITDA Margin (%)	*19.2*	*18.6*	*60bps*	*21.1*	*20.1*	*100bps*
PAT	17,741	16,327	8.7	23,432	20,319	15.3

Source: Centrum Research Estimates

Valuations & Key Risks

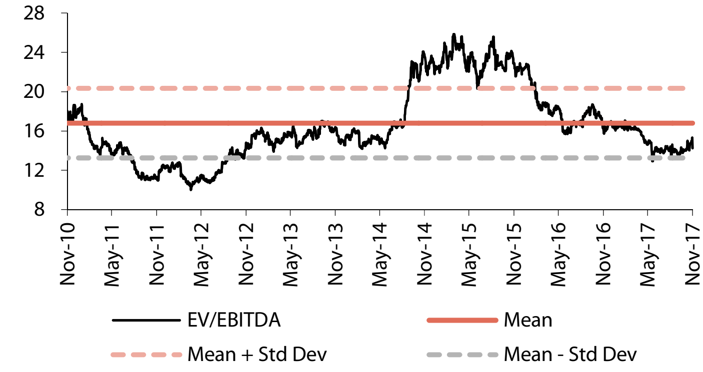
At a CMP of Rs608, Cipla trades at 25.3x FY18E EPS of Rs22.1 and 19.2x FY19E EPS of Rs29.2. We maintain Buy for Cipla, with a revised TP of Rs700 (earlier Rs610) based on 24x March'19 EPS of Rs29.2, with an upside of 15.2% over CMP. The InvaGen and Exelan businesses are well-integrated with the company. The domestic business (40% of revenues) is likely to witness re-stocking by trade on smooth GST implementation. The management expects better growth of domestic business in H2FY18. Rationalisation of its European business and higher API supplies are likely to drive future growth. Key risks to our assumptions include slow growth in the domestic market and regulatory risks for its manufacturing facilities catering to global markets.

Exhibit 4: Sensitivity Analysis

Sensitivity to key variables – FY18E	% change	% impact on EBITDA	% impact on EPS
Sales	*1*	*5.2*	*9.3*
Material cost	*1*	*(1.7)*	*(3.1)*

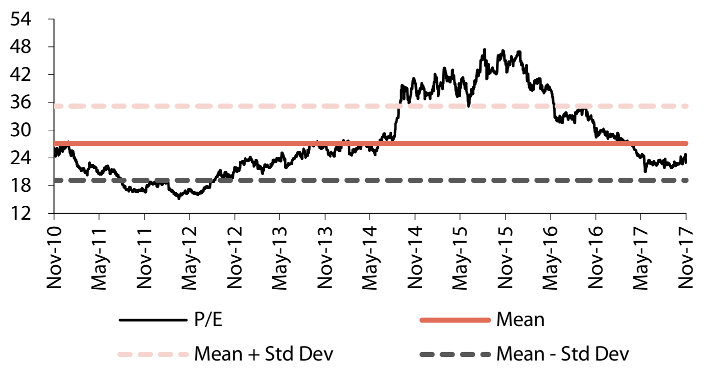
Source: Company, Centrum Research Estimates

Exhibit 5: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 6: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 7: Peer Comparison

Company	Mkt Cap (Rs mn)	*CAGR FY17-FY19E (%)*			*EBITDA Margin (%)*			PE (x)			EV/EBITDA (x)			*RoE (%)*			*Div Yield (%)*		
		Rev.	*EBITDA*	*PAT*	*FY17*	*FY18E*	*FY19E*	FY17	FY18E	FY19E	*FY17*	*FY18E*	*FY19E*	*FY17*	*FY18E*	*FY19E*	*FY17*	*FY18E*	*FY19E*
Cipla	**4,89,136**	***13.3***	***26.6***	***50.4***	***16.9***	***19.2***	***21.1***	**42.9**	**25.3**	**19.2**	**19.0**	**15.1**	**11.9**	***8.6***	***13.3***	***15.5***	***0.4***	***0.5***	***0.6***
Aurobindo	4,57,080	*13.7*	*17.9*	*16.9*	*22.8*	*23.6*	*24.5*	19.0	14.9	12.6	13.5	10.6	8.7	*27.6*	*25.0*	*23.7*	*0.4*	*0.3*	*0.6*
Dr. Reddy's Labs	3,94,272	*7.5*	*15.9*	*23.1*	*17.4*	*18.6*	*20.3*	39.5	26.8	20.9	22.7	16.1	13.6	*10.4*	*12.0*	*14.0*	*0.8*	*1.2*	*1.4*
Lupin	3,88,290	*8.0*	*1.1*	*(2.4)*	*25.7*	*22.5*	*22.5*	26.8	23.2	21.0	16.8	13.9	12.4	*20.7*	*15.2*	*14.7*	*0.6*	*0.9*	*1.0*

Source: Company, Centrum Research Estimates Prices as on 7th November 2017

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 8: Quarterly Financials -consolidated

Particulars (Rs mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
P & L								
Revenues	31,510	33,146	36,500	37,510	36,472	35,820	35,250	40,824
Material cost	12,269	14,109	13,705	13,301	13,012	13,155	11,767	15,531
Personnel expenses	5,788	6,561	6,866	6,753	6,331	6,389	6,729	6,608
Other Expenses	8,823	10,714	9,818	10,650	10,354	11,214	10,290	10,641
Total Expenses	26,880	31,384	30,389	30,704	29,697	30,758	28,786	32,780
EBIDTA	4,630	1,762	6,111	6,806	6,775	5,062	6,464	8,044
Other income	675	594	252	272	1,535	228	1,514	1,133
PBDIT	5,305	2,356	6,363	7,078	8,310	5,290	7,978	9,177
Interest	314	477	315	352	593	334	279	420
Depreciation	1,767	2,697	2,038	2,292	2,577	6,322	2,134	3,022
Profit before tax	3,224	(818)	4,010	4,434	5,140	(1,366)	5,565	5,735
Tax provision	503	(6)	553	719	1,283	(757)	1,307	1,374
Net profit before minority	2,721	(812)	3,457	3,715	3,857	(609)	4,258	4,361
Minority int., share of asso.	115	115	21	21	110	19	9	11
Net profit after minority	2,606	(927)	3,436	3,694	3,747	(628)	4,249	4,350
Growth (%)								
Revenues	*13.9*	*7.2*	*(4.9)*	*8.6*	*15.7*	*8.1*	*(3.4)*	*8.8*
EBIDTA	*(16.4)*	*(65.3)*	*(42.0)*	*(13.4)*	*46.3*	*187.3*	*5.8*	*18.2*
Net profit	*(20.6)*	*(135.7)*	*(47.1)*	*(32.0)*	*43.8*	*(32.3)*	*23.7*	*17.8*
Margin (%)								
EBIDTA	*14.7*	*5.3*	*16.7*	*18.1*	*18.6*	*14.1*	*18.3*	*19.7*
Profit before tax	*10.2*	*-2.5*	*11.0*	*11.8*	*14.1*	*-3.8*	*15.8*	*14.0*
Net margin	*8.6*	*-2.4*	*9.5*	*9.9*	*10.6*	*-1.7*	*12.1*	*10.7*

Source: Centrum Research , Company

Exhibit 9: Key performance indicators

Key performance indicator-	FY15	FY16	FY17	FY18E	FY19E
Sales Growth %	*11.5*	*21.5*	*6.1*	*13.0*	*13.6*
Material cost %	*36.9*	*36.9*	*36.3*	*33.6*	*33.3*

Source: Centrum Research Estimates

Financials -consolidated

Exhibit 10: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	**1,13,454**	**1,37,900**	**1,46,302**	**1,65,296**	**1,87,836**
Material cost	41,897	50,901	53,169	55,584	62,500
% of revenues	*36.9*	*36.9*	*36.3*	*33.6*	*33.3*
Employee cost	19,738	24,340	26,338	31,200	34,480
% of revenues	*17.4*	*17.7*	*18.0*	*18.9*	*18.4*
Other Expenses	30,205	37,866	42,036	46,701	51,164
% of revenues	*26.6*	*27.5*	*28.7*	*28.3*	*27.2*
EBIDTA	**21,614**	**24,793**	**24,759**	**31,811**	**39,692**
EBIDTA margin (%)	*19.1*	*18.0*	*16.9*	*19.2*	*21.1*
Depreciation & Amortisation	5,047	7,541	13,229	11,335	12,055
EBIT	16,567	17,252	11,530	20,476	27,637
Interest Expenses	1,683	2,067	1,594	1,350	1,240
PBT from operations	14,884	15,185	9,936	19,126	26,397
Other income	1,655	2,083	2,287	3,815	3,715
PBT	16,539	17,268	12,223	22,941	30,112
Tax provision	3,997	3,314	1,799	5,000	6,430
Effective tax rate (%)	*24.2*	*19.2*	*14.7*	*21.8*	*21.4*
Net profit	12,542	13,954	10,424	17,941	23,682
Minority interest	(735.00)	(120.00)	(70.00)	(200.00)	(250.00)
Reported net profit	11,807	13,834	10,354	17,741	23,432
Adj. Net profit	**11,807**	**13,834**	**10,354**	**17,741**	**23,432**

Source: Company, Centrum Research Estimates

Exhibit 11: Key Ratios

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Growth Ratios (%)					
Revenues	*11.5*	*21.5*	*6.1*	*13.0*	*13.6*
EBIDTA	*1.3*	*14.7*	*(0.1)*	*28.5*	*24.8*
Adj. Net Profit	*(15.0)*	*17.2*	*(25.2)*	*71.3*	*32.1*
Margin Ratios (%)					
EBIDTA margin	*19.1*	*18.0*	*16.9*	*19.2*	*21.1*
PBT from operations margin	*13.1*	*11.0*	*6.8*	*11.6*	*14.1*
Adj. PAT margin	*10.4*	*10.0*	*7.1*	*10.7*	*12.5*
Return Ratios (%)					
RoCE	*11.2*	*10.1*	*6.6*	*10.3*	*12.3*
RoE	*11.3*	*12.4*	*8.6*	*13.3*	*15.5*
RoIC	*11.2*	*9.9*	*6.1*	*9.4*	*11.5*
Turnover ratios (days)					
Gross Block Turnover (x)	1.7	1.9	1.8	1.8	1.8
Debtors	64	62	62	63	61
Creditors	54	39	39	42	41
Inventory	122	101	87	103	88
Cash Conversion Cycle	132	124	110	125	109
Solvency Ratio					
Debt-Equity	0.2	0.5	0.3	0.3	0.2
Net Debt-Equity	0.0	0.3	0.2	0.2	0.1
Current Ratio	2.8	2.9	2.8	2.7	2.6
Interest Coverage Ratio	0.1	0.1	0.1	0.1	0.0
Gross Debt/EBIDTA	0.8	2.1	1.7	1.3	0.9
Per Share (Rs)					
FDEPS (adjusted)	14.7	17.2	12.9	22.1	29.2
CEPS	21.0	26.6	29.4	36.2	44.2
Book Value	134.4	143.3	155.7	174.8	200.3
Dividend	2.0	2.0	2.0	2.5	3.0
Dividend Payout (%)	*16.4*	*13.1*	*18.7*	*13.5*	*12.3*
Valuations (x) (Avg Mkt Cap)					
PER	37.5	36.8	42.9	25.3	19.2
P/BV	4.1	4.4	3.6	3.2	2.8
EV/EBIDTA	20.7	22.0	19.0	15.1	11.9
Dividend Yield (%)	*0.4*	*0.4*	*0.4*	*0.5*	*0.6*
5-yr Avg AOCF/EV yield(%)	*3.2*	*3.0*	*3.6*	*3.8*	*4.6*

Source: Company, Centrum Research Estimates

Exhibit 12: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Share capital	1,606	1,607	1,609	1,609	1,609
Sh. Application money	123	-	-	-	-
Reserves & surplus	1,06,281	1,13,555	1,23,647	1,38,994	1,59,553
Total shareholders Funds	1,08,010	1,15,161	1,25,256	1,40,603	1,61,162
Total Debt	17,019	52,333	41,521	40,985	36,473
Minority interest	1,805	3,501	4,382	4,880	4,900
Deferred tax Liab.	2,846	8,970	5,888	6,215	6,285
Total Liabilities	**1,29,680**	**1,79,965**	**1,77,047**	**1,92,683**	**2,08,820**
Gross Block	70,031	74,621	86,268	96,390	1,07,240
Less: Acc. Depreciation	28,626	7,994	18,334	29,669	41,724
Net Block	41,405	79,829	77,572	88,469	1,00,124
Capital WIP	5,349	8,101	7,192	7,500	8,000
Net Fixed Assets	**46,754**	**87,930**	**84,764**	**95,969**	**1,08,124**
Investments	6,566	7,576	9,730	5,000	6,100
Inventories	37,806	38,080	34,853	46,800	45,400
Debtors	20,043	23,563	24,974	28,497	31,600
Loans & Advances	10,044	3,741	8,220	7,800	8,100
Cash & Bank Balance	5,641	8,714	6,344	6,210	6,369
Other assets	2,666	13,863	12,457	11,000	13,099
Total Current Assets	**76,200**	**87,961**	**86,848**	**1,00,307**	**1,04,568**
Trade payable	16,900	14,912	15,790	18,800	21,000
Other current Liabilities	4,485	11,090	10,664	12,499	12,300
Provisions	5,806	4,556	4,625	5,393	6,172
Net Current Assets	**49,009**	**57,403**	**55,769**	**63,615**	**65,096**
Total Assets	**1,29,680**	**1,79,965**	**1,77,047**	**1,92,683**	**2,08,820**

Source: Company, Centrum Research Estimates

Exhibit 13: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
CF before WC changes	18,920	22,181	7,635	10,088	22,179
Working Capital Changes	(7,186)	(4,242)	13,229	11,335	12,055
CF from Operations	**11,734**	**17,939**	**20,864**	**21,423**	**34,234**
Adj OCF (OCF-Interest)	13,319	19,454	20,864	21,423	34,234
Change in fixed assets	(6,256)	(10,533)	(10,063)	(22,540)	(24,210)
Adj. FCF (AOCF-Capex)	7,063	8,921	10,801	(1,117)	10,024
CF from Investing	**(9,497)**	**(45,894)**	**(12,217)**	**(17,810)**	**(25,310)**
CF from Financing	**1,648**	**31,027**	**(12,746)**	**(2,929)**	**(7,384)**
Net change in Cash	**3,885**	**3,072**	**(4,099)**	**684**	**1,540**

Source: Company, Centrum Research Estimates

Appendix A

Disclaimer

Centrum Broking Limited ("Centrum") is a full-service, Stock Broking Company and a member of The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE). Our holding company, Centrum Capital Ltd, is an investment banker and an underwriter of securities. As a group Centrum has Investment Banking, Advisory and other business relationships with a significant percentage of the companies covered by our Research Group. Our research professionals provide important inputs into the Group's Investment Banking and other business selection processes.

Recipients of this report should assume that our Group is seeking or may seek or will seek Investment Banking, advisory, project finance or other businesses and may receive commission, brokerage, fees or other compensation from the company or companies that are the subject of this material/report. Our Company and Group companies and their officers, directors and employees, including the analysts and others involved in the preparation or issuance of this material and their dependants, may on the date of this report or from, time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Centrum or its affiliates do not own 1% or more in the equity of this company Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We and our Group may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of Centrum. Centrum or its affiliates do not make a market in the security of the company for which this report or any report was written. Further, Centrum or its affiliates did not make a market in the subject company's securities at the time that the research report was published.

This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients of Centrum. Though disseminated to clients simultaneously, not all clients may receive this report at the same time. Centrum will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. Any such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document.

The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accepted accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by or on behalf of the Company, Centrum, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts.

The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Centrum does not provide tax advice to its clients, and all investors are strongly advised to consult regarding any potential investment. Centrum and its affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk. Certain transactions including those involving futures, options, and other derivatives as well as non-investment-grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.

This report/document has been prepared by Centrum, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. Centrum has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change.

This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of Centrum. This report or any portion hereof may not be printed, sold or distributed without the written consent of Centrum.

The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither Centrum nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe any such restrictions. By accepting this report, you agree to be bound by the fore going limitations. No representation is made that this report is accurate or complete.

The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of Centrum Broking and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection.

This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith.

Centrum and its affiliates have not managed or co-managed a public offering for the subject company in the preceding twelve months. Centrum and affiliates have not received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for service in respect of public offerings, corporate finance, debt restructuring, investment banking or other advisory services in a merger/acquisition or some other sort of specific transaction.

As per the declarations given by them, Mr. Ranjit Kapadia, research analyst and and/or any of his family members do not serve as an officer, director or any way connected to the company/companies mentioned in this report. Further, as declared by him, he has not received any compensation from the above companies in the preceding twelve months. He does not hold any shares by him or through his relatives or in case if holds the shares then will not to do any transactions in the said scrip for 30 days from the date of release such report. Our entire research professionals are our employees and are paid a salary. They do not have any other material conflict of interest of the research analyst or member of which the research analyst knows of has reason to know at the time of publication of the research report or at the time of the public appearance.

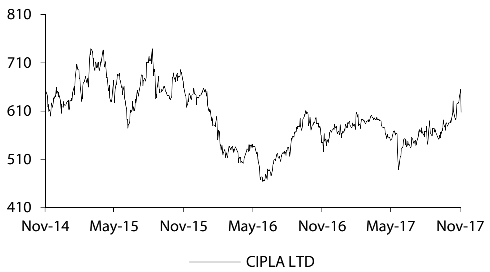
While we would endeavour to update the information herein on a reasonable basis, Centrum, its associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Centrum from doing so.

Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Centrum policies, in circumstances where Centrum is acting in an advisory capacity to this company, or any certain other circumstances.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Centrum Broking Limited or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market.

Cipla price chart



Source: Bloomberg, Centrum Research

Disclosure of Interest Statement		
1	Business activities of Centrum Broking Limited (CBL)	Centrum Broking Limited (hereinafter referred to as "CBL") is a registered member of NSE (Cash, F&O and Currency Derivatives Segments), MCX-SX (Currency Derivatives Segment) and BSE (Cash segment), Depository Participant of CDSL and a SEBI registered Portfolio Manager.
2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
3	Registration status of CBL:	Ranjit Kapadia is registered with SEBI as a Research Analyst (SEBI Registration No.INH000001352)

		Cipla	Aurobindo	Dr. Reddy's Labs	Lupin
4	Whether Research analyst's or relatives' have any financial interest in the subject company and nature of such financial interest	No	No	No	No
5	Whether Research analyst or relatives have actual / beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the document.	No	No	No	No
6	Whether the research analyst or his relatives has any other material conflict of interest	No	No	No	No
7	Whether research analyst has received any compensation from the subject company in the past 12 months and nature of products / services for which such compensation is received	No	No	No	No
8	Whether the Research Analyst has received any compensation or any other benefits from the subject company or third party in connection with the research report	No	No	No	No
9	Whether Research Analysts has served as an officer, director or employee of the subject company	No	No	No	No
10	Whether the Research Analyst has been engaged in market making activity of the subject company.	No	No	No	No

Rating Criteria

Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
Buy	Upside > 20%	Upside > 15%	Upside > 10%
Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
Sell	Downside > 20%	Downside > 15%	Downside > 10%

Member (NSE and BSE)

Regn No.:
CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239
CAPITAL MARKET SEBI REGN. NO.: NSE: INB231454233
DERIVATIVES SEBI REGN. NO.: NSE: INF231454233
(TRADING & CLEARING MEMBER)
CURRENCY DERIVATIVES: MCX-SX INE261454230
CURRENCY DERIVATIVES:NSE (TM & SCM) – NSE 231454233

Depository Participant (DP)
CDSL DP ID: 120 – 12200
SEBI REGD NO. : CDSL : IN-DP-CDSL-661-2012

PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

Website: www.centrum.co.in
Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:
Kavita Ravichandran

(022) 4215 9842; Email ID: Compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)

Registered Office Address	Corporate Office & Correspondence Address
Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	Centrum House 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000