Cipla Ltd (CIPLA)

ICICI direct Research

CMP: ₹ 503	Target: ₹ 520 (3%)	Target Period: 12 months	HOLD

August 9, 2019

One-off dent in domestic revenues impacts Q1…

Revenues grew 1.3% YoY to ₹ 3989 crore (I-direct estimate: ₹ 4330 crore) mainly due to 67% YoY growth in the US to ₹ 1119 crore (I-direct estimate: ₹ 984.7 crore). Domestic revenues de-grew 12.2% YoY to ₹ 1355 crore (I-direct estimate: ₹ 1729.3 crore) mainly due to realignment of distributors in the trade generics and deferral of dispatches in branded formulations. EBITDA margins improved 424 bps YoY to 22.7% (I-direct estimate: 21.0%) due to strong gross margins performance (70.0% vs. 63.9% in Q1FY19). EBITDA grew 24.5% YoY to ₹ 904.6 crore (I-direct estimate: ₹ 909.3 crore). Net profit grew 8.2% YoY to ₹ 476.2 crore (I-direct estimate: ₹ 484.1 crore), in line with operational performance.

Product launches, front-end shift key for formulation exports

Formulation exports constitute ~55% of F19 revenues. The company is focusing on front-end model, especially for the US, along with a gradual shift from loss making HIV and other tenders to more lucrative respiratory and other opportunities in the US and EU. We expect export formulation sales to grow at 9% CAGR to ₹ 10686 crore in FY19-21E. Key drivers will be a launch of inhalers and other products in the developed markets.

Indian formulations growth backed by 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 36%, 60% and 4%, respectively. Domestic formulations comprise ~38% of total FY19 revenues. It commands ~20% market share in the respiratory segment. We expect domestic formulations to grow at 12% CAGR in FY19-21E to ₹ 7869 crore driven by improved productivity of the newly inducted field force and product launches.

Valuation & Outlook

Q1 results were largely impacted by the realignment of distributors in domestic trade generics and deferral of dispatches in branded domestic formulations. US market growth was driven by gSensipar. The management has maintained its guidance of launching one limited product every quarter in the US. On the Africa front, the company continues to rebase its business model towards private business in the backdrop shrinking tender opportunities. Despite distribution related issues, the management remains upbeat on India growth prospects mainly on the back of promotional (Rx) traction. Across the board transformation from tenderised model to private model in the exports market and from trade generics (Tx) to promotional (Rx) in India is likely to continue for some time. This may have some implications on the quarterly performance. We ascribe a target price of ₹ 520 based on 20x FY21E EPS ₹ 25.9.

Cipla

Particulars

Particular	Amount
Market Capitalisation	₹ 40560 crore
Debt (FY19)	₹ 4316 crore
Cash (FY19)	₹ 619 crore
EV	₹ 44258 crore
52 week H/L (₹)	678/476
Equity capital	₹ 161.0 crore
Face value	₹ 2

Key Highlights

- Q1 results largely impacted by realignment of distributors in domestic trade generics and deferral of dispatches in branded domestic formulations
- Transformation across geographies from tenderised model to public model is likely to continue for some time. This may have some implications on margins in near term
- Maintain HOLD

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Mitesh Shah
mitesh.sha@icicisecurities.com

Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹crore)	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E) %
Revenues	15219.3	16362.4	16861.1	18444.3	6.2
EBITDA	2826.4	3097.3	3328.7	3786.6	10.6
EBITDA margins (%)	18.6	18.9	19.7	20.5	
Adjusted PAT	1476.4	1496.1	1719.4	2087.8	18.1
Adj. EPS (₹)	18.3	18.6	21.4	25.9	
PE (x)	28.7	27.1	23.6	19.4	
EV to EBITDA (x)	15.0	13.6	12.1	10.2	
RoNW (%)	10.4	10.0	10.5	11.5	
RoCE (%)	9.6	10.9	12.4	13.7	

Source: ICICI Direct Research; Company

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	Q4FY19	YoY (%)	QoQ (%)	Comments
Revenue	3,989.0	4,330.1	3,939.0	4,404.0	1.3	-9.4	Muted growth and miss vis-a-vis I-direct estimates due to lower-than-expected domestic sales led by trade generic issues and deferral of dispatches in branded business
Raw Material Expenses	1,196.3	1,493.9	1,423.9	1,485.8	-16.0	-19.5	
Gross Profit	2,792.7	2,836.2	2,515.1	2,918.2	11.0	-4.3	A 616 bps YoY improvement in gross margins to 70% mainly due to gSensipar sales in US and improvement in product mix
Gross Margin (%)	70.0	65.5	63.9	66.3	616 bps	375 bps	
Employee Expenses	756.1	736.1	714.0	712.5	5.9	6.1	
Other Expenditure	1,131.9	1,190.8	1,074.7	1,244.7	5.3	-9.1	Included accrual of about ₹ 40 crore, which was delayed collections from a customer
Total Operating Expenditure	3,084.4	3,420.7	3,212.6	3,442.9	-4.0	-10.4	
EBITDA	904.6	909.3	726.4	961.0	24.5	-5.9	YoY growth and beat on I-direct estimates mainly due to launch of gSensipar
EBITDA (%)	22.7	21.0	18.4	21.8	424 bps	86 bps	
Interest	52.1	44.5	35.1	44.8	48.5	16.4	
Depreciation	268.0	304.4	241.0	510.3	11.2	-47.5	
Other income	78.4	96.7	170.1	95.4	-53.9	-17.8	
PBT before EO	662.9	657.1	620.4	501.3	6.9	32.2	
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	662.9	657.1	620.4	501.3	6.9	32.2	
Tax	192.2	184.0	173.7	127.8	10.7	50.5	
Tax Rate (%)	29.0	28.0	28.0	25.5	100 bps	352 bps	
MI & Share of loss/ (gain)	-31.0	-12.1	5.7	-9.5	PL	NA	
Adjusted PAT	476.2	484.1	439.9	367.2	8.2	29.7	Delta vis-à-vis EBITDA mainly due to higher depreciation
Key Metrics							
Domestic	1355.0	1729.3	1544.0	1500.0	-12.2	-9.7	Trade generic business impacted by ₹ 200 crore due to change of distributors and branded formulation business impacted due to deferral of dispatches
US	1119.0	984.7	670.0	1143.0	67.0	-2.1	YoY growth and beat vis-a-vis I-direct estimates on the back of better-than-expected gSensipar revenues
EU	201.0	154.1	134.0	236.0	50.0	-14.8	YoY growth and beat vis-à-vis I-direct estimates due to improvement in market shares in key products
South Africa	532.0	517.5	575.0	513.0	-7.5	3.7	YoY decline due to softness in South Africa tender business
RoW	440.0	652.5	725.0	716.0	-39.3	-38.5	YoY decline mainly due to postponement of certain dispatches (~US$14 million)
API	182.0	170.0	200.0	174.0	-9.0	4.6	

Source: ICICI Direct Research

Exhibit 2: Change in Estimates

	FY20E			FY21E			
(₹ Crore)	**Old**	**New**	**% Change**	**Old**	**New**	**% Change**	
Revenues	17,787.3	16,861.1	-5.2	19731.87	18,444.3	-6.5	Trimmed domestic revenues as per management guidance and lower-than-expected revenues in Q1FY20
EBITDA	3,646.0	3,328.7	-8.7	4149.784	3,786.6	-8.8	Changed mainly in sync with revenues
EBITDA Margin (%)	20.5	19.7	-76 bps	21.0	20.5	-50 bps	
PAT	1,990.5	1,719.4	-13.6	2334.106	2,087.8	-10.6	Chnaged mainly in sync with operational perfromance and impact of Ind-AS 116
EPS (₹)	24.7	21.4	-13.6	28.9915	25.9	-10.6	

Source: ICICI Direct Research

Exhibit 3: Change in Estimates

			Current		Earlier		Comments
(₹ crore)	**FY18**	**FY19**	**FY20E**	**FY21E**	**FY20E**	**FY21E**	
Domestic	5,867.0	6,273.0	6,073.0	6,801.8	7,025.8	7,868.9	Trimmed as per management guidance and lower-than-expected revenues in Q1FY20
Export Formulations	8,237.2	9,005.0	9,451.4	10,271.0	9,588.9	10,656.1	
API	626.0	699.0	696.7	731.5	684.7	718.9	

Source: ICICI Direct Research

Conference Call Highlights

- As per the management, the distributors realignment in the domestic formulation is mainly in the trade generics business (₹ 200 crore), which had a 5% impact on overall domestic formulations
- The Rx (promoted) domestic formulations got impacted by cut-off sales (₹ 60-70 crore), which the management believes can be recovered in subsequent quarters. Adjusting for this, Rx sales grew in single digits
- US base business growth was flat on a sequential basis
- The company did not launch any complex product in the US in Q1
- The management has maintained R&D spend guidance at 7-8%
- As per management, the South Africa growth is likely to normalise in Q2
- The management maintains focus on two specialty areas in the US- 1) Inhaler delivery and 2) Institutional business
- MR count in India was at 6500

Exhibit 4: Trends in quarterly financials

(₹ crore)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	YoY (%)	QoQ. (%)
Net Sales	3556.1	3671.9	3550.0	3487.0	3432.3	3988.2	3834.5	3495.8	3845.8	3947.9	3906.2	4271.0	3894.5	1.3	-8.8
Other Operating Incom	93.9	79.1	97.2	95.0	92.7	94.2	79.3	202.2	93.2	64.0	101.3	133.0	94.6	1.5	-28.9
Total Operating Income	3650.0	3751.0	3647.2	3582.0	3525.1	4082.4	3913.8	3698.0	3939.0	4011.9	4007.5	4404.0	3989.0	1.3	-9.4
Raw Material Expense	1370.5	1330.1	1301.1	1315.5	1176.7	1553.1	1378.4	1330.3	1423.9	1412.1	1462.7	1485.8	1196.3	-16.0	-19.5
Gross Profit	2279.6	2421.0	2346.1	2266.5	2348.4	2529.3	2535.4	2367.7	2515.1	2599.8	2544.9	2918.2	2792.7	11.0	-4.3
Gross Profit Margins	62.5	64.5	64.3	63.3	66.6	62.0	64.8	64.0	63.9	64.8	63.5	66.3	70.0	615.9	374.7
Employee Expenses	686.6	675.3	633.1	638.9	672.9	660.8	657.3	699.0	714.0	712.2	717.9	712.5	756.1	5.9	6.1
% of revenues	18.8	18.0	17.4	17.8	19.1	16.2	16.8	18.9	18.1	17.8	17.9	16.2	19.0	82.9	277.7
Other Expenditure	981.8	1065.0	1035.4	1121.4	1029.0	1064.1	1059.4	1111.8	1074.7	1185.3	1119.3	1244.7	1131.9	5.3	-9.1
% of revenues	26.9	28.4	28.4	31.3	29.2	26.1	27.1	30.1	27.3	29.5	27.9	28.3	28.4	109.2	11.3
Total Expenditure	3038.8	3070.3	2969.6	3075.8	2878.6	3278.0	3095.2	3141.1	3212.6	3309.7	3299.9	3442.9	3084.4	-4.0	-10.4
EBITDA	611.2	680.7	677.7	506.2	646.5	804.4	818.7	556.9	726.4	702.2	707.7	961.0	904.6	24.5	-5.9
EBITDA (%)	16.7	18.1	18.6	14.1	18.3	19.7	20.9	15.1	18.4	17.5	17.7	21.8	22.7	423.8	85.6
Interest	31.5	35.2	59.3	33.4	27.9	42.0	9.2	35.2	35.1	44.4	44.2	44.8	52.1	48.5	16.4
Depreciation	203.8	229.2	257.7	632.2	213.4	302.2	522.4	284.8	241.0	281.9	293.1	510.3	268.0	11.2	-47.5
Other Income	25.2	27.2	153.5	22.8	151.4	113.3	52.9	40.0	170.1	132.6	78.5	95.4	78.4	-53.9	-17.8
PBT	401.1	443.6	514.1	-136.6	556.6	573.5	340.1	276.9	620.4	508.5	448.9	501.3	662.9	6.9	32.2
Total Tax	55.3	71.9	128.3	-75.7	130.8	137.4	-64.2	46.2	173.7	142.4	125.7	127.8	192.2	10.7	50.5
PAT before MI	345.8	371.7	385.8	-60.9	425.8	436.1	404.3	153.2	446.7	366.1	323.2	373.6	470.7	5.4	26.0
Minority Interest	6.8	15.3	10.1	-1.0	16.1	12.4	2.9	-25.4	5.7	10.1	-10.0	-9.5	-31.0	-647.4	226.1
Net Profit	339.1	356.4	375.7	-59.9	409.7	423.7	401.4	178.6	441.0	356.0	333.2	383.1	501.7	13.8	30.9
EPS (₹)	4.2	4.4	4.7	-0.7	5.1	5.3	5.0	2.2	5.5	4.4	4.1	4.8	6.2		

Source: ICICI Direct Research; Company

Company Background

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, INVIMAColombia, 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 shift 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 21% of its export revenues from US followed by 13% from South Africa and 17% from RoW markets.

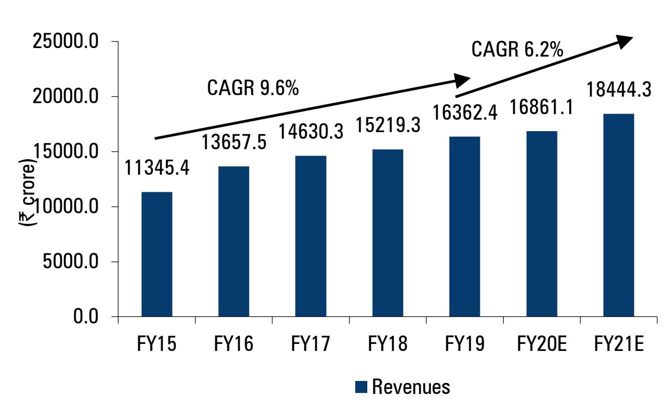
On the product filing front, Cipla has filed 253 ANDAs with the USFDA cumulatively (FY19). The company spends 7-8% of revenues on R&D.

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 MAT March 2019 AIOCD ranking, Cipla ranked third with a market share of 4.73%. Breaking it down further, its ranking in chronic therapies was at second.

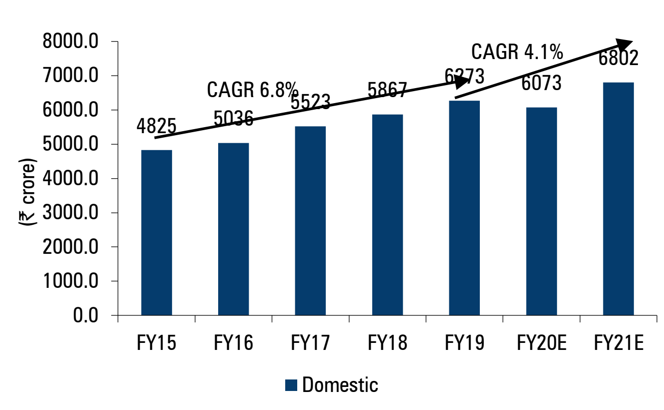
Respiratory therapy accounts for ~20% of Cipla's turnover. The company introduced Salbutamol tablets in 1976 and Salbutamol inhaler in 1978 for the first time in India. Since then, Cipla has consistently introduced new products for asthma, chronic obstructive pulmonary disease (COPD) and allergic rhinitis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

Exhibit 5: Revenues to grow at CAGR of 6% over FY19-21E



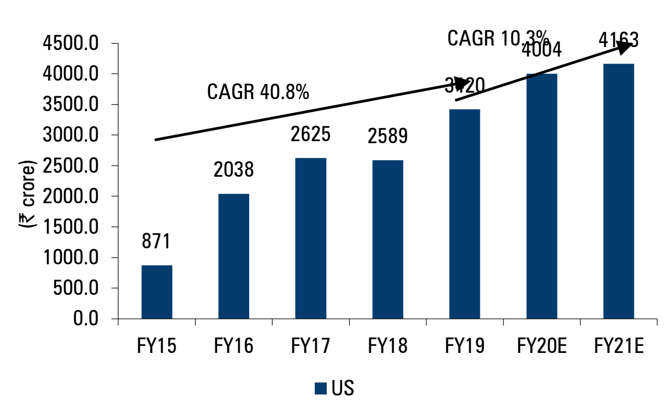
Source: ICICI Direct Research, Company

Exhibit 6: Domestic to grow at CAGR of 4% over FY19-21E



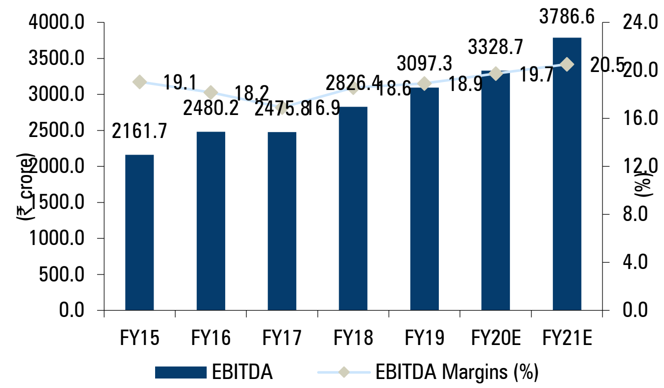
Source: ICICI Direct Research, Company

Exhibit 7: US to grow at CAGR of 10% over FY19-21E



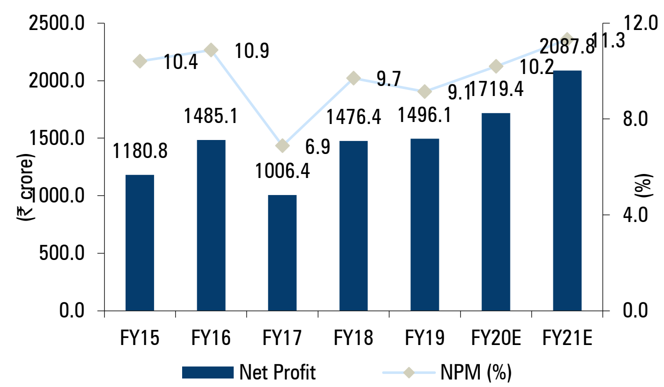
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA & margins trend



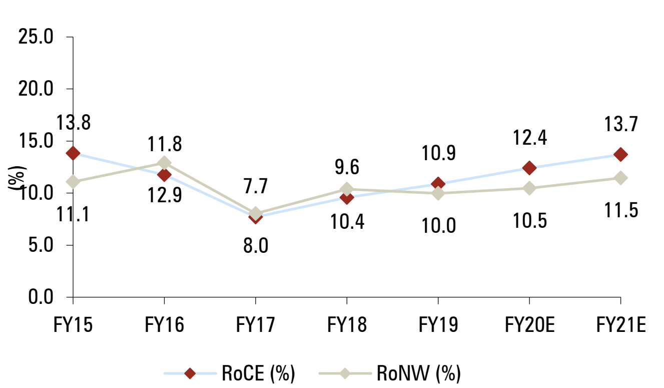
Source: ICICI Direct Research, Company

Exhibit 9: Net profit & margins trend



Source: ICICI Direct Research, Company

Exhibit 10: RoE & RoCE trend



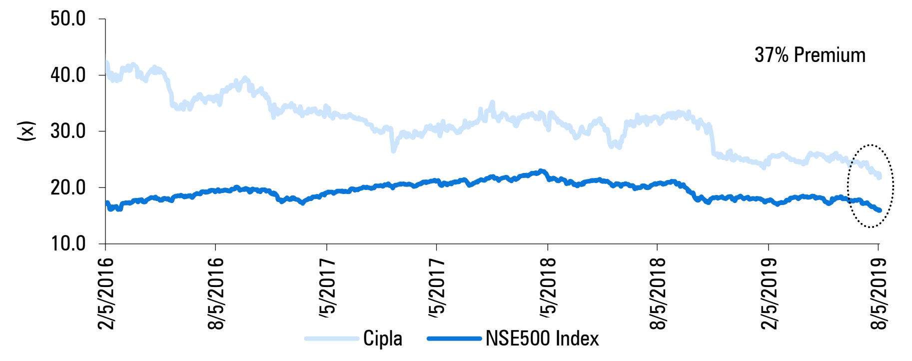
Source: ICICI Direct Research, Company

Exhibit 11: Consolidated revenue break-up

(₹ crore)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	CAGR FY19-21E %
Domestic	4825.0	5036.0	5523.0	5867.0	6273.0	6073.0	6801.8	4.1
Export Formulations	5425.6	7798.0	8145.2	8237.2	9005.0	9451.4	10271.0	6.8
US	870.6	2037.9	2625.0	2589.5	3420.0	4004.2	4162.9	10.3
EU	435.3	543.4	545.0	623.0	700.0	851.9	979.7	18.3
South Africa (Cipla Medpro)	1523.6	1562.4	1828.8	2061.8	2148.0	2230.8	2409.3	5.9
RoW	2720.6	3396.5	3146.4	2970.7	2737.0	2364.5	2719.1	-0.3
APIs	631.9	752.0	523.0	626.0	699.0	696.7	731.5	2.3

Source: ICICI Direct Research, Company

Exhibit 12: One-year Forward PE of Company vs. NSE500 Index



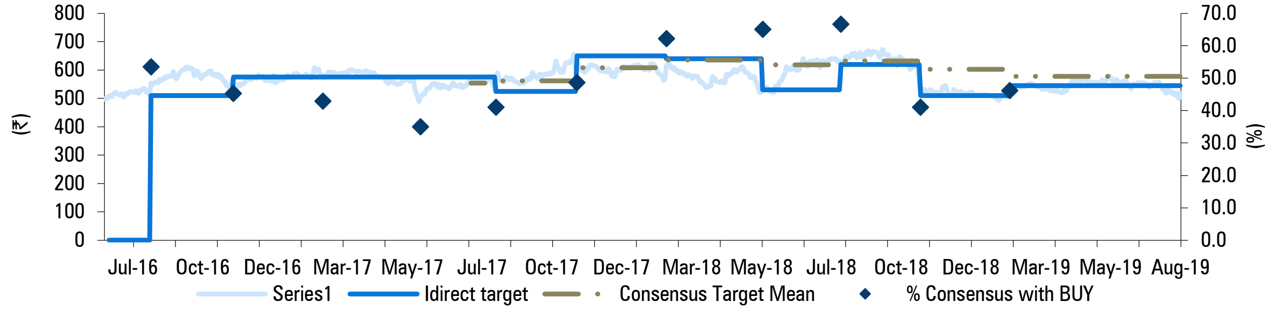
Source: ICICI Direct Research, Bloomberg

Exhibit 13: Financial Summary

	Revenues	Growth	EPS	Growth	P/E	V/EBITDA	RoNW	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(X)	(%)	(%)
FY18	15219	4.0	18.3	46.7	28.7	15.0	10.4	9.6
FY19	16362	7.5	18.6	1.3	27.1	13.6	10.0	10.9
FY20E	16861	3.0	21.4	14.9	23.6	12.1	10.5	12.4
FY21E	18444	9.4	25.9	21.4	19.4	10.2	11.5	13.7

Source: ICICI Direct Research, Company

Exhibit 14: Recommendation history vs. Consensus



Source: ICICI Direct Research; Reuters

Exhibit 15: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (%)	Change
1	Hamied (Yusuf K)	31-Mar-19	20.3	164.0m	-2.8m
2	Stewart Investors	31-May-19	5.7	46.1m	-0.7m
3	Ahmed (Sophie)	31-Mar-19	5.7	46.0m	0.0m
4	Hamied (Mustafa Khwaja)	31-Mar-19	4.3	34.6m	0.0m
5	ICICI Prudential Asset Management Co. Ltd.	31-Mar-19	3.4	27.5m	-1.9m
6	Life Insurance Corporation of India	31-Mar-19	3.1	25.0m	6.9m
7	HDFC Asset Management Co., Ltd.	31-May-19	2.5	20.4m	0.0m
8	Vaziralli (Samina)	31-Mar-19	2.2	17.9m	0.0m
9	First State Investments (Singapore)	31-Mar-19	1.8	14.6m	13.1m
10	Reliance Nippon Life Asset Management Limited	30-Jun-19	1.8	14.3m	-0.6m

Source: ICICI Direct Research, Reuters

Exhibit 16: Recent Activity

Buys			Sells		
Investor name	**Value ($)**	**Shares**	**Investor name**	**Value ($)**	**Shares**
First State Investments (Singapore)	99.9m	13.1m	Hamied (Yusuf K)	-21.2m	-2.8m
Life Insurance Corporation of India	52.8m	6.9m	ICICI Prudential Asset Management Co. Ltd.	-14.4m	-1.9m
MN Rajkumar L.L.P.	41.1m	5.4m	Mirae Asset Global Investments (Hong Kong) Limited	-11.6m	-1.4m
RWC Asset Advisors (US) LLC	17.5m	2.3m	Mirae Asset Global Investments (India) Pvt. Ltd.	-8.2m	-1.0m
Caisse de Depot et Placement du Quebec	12.9m	1.7m	Stewart Investors	-5.8m	-0.7m

Source: ICICI Direct Research, Reuters

Exhibit 17: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	37.2	36.7	36.7	36.8	36.7
Others	62.8	63.3	63.3	63.2	63.3

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 18: Profit & Loss (₹ crore)

(Year-end March)	FY18	FY19	FY20E	FY21E
Revenues	**15,219.3**	**16,362.4**	**16,861.1**	**18,444.3**
Growth (%)	4.0	7.5	3.0	9.4
Raw Material Expenses	5,438.4	5,784.5	5,551.6	6,271.0
Gross Profit	9,780.8	10,577.9	11,309.5	12,173.2
Employee Expenses	2,690.1	2,856.5	3,073.1	3,314.5
Other Expenditure	4,264.4	4,624.1	4,907.7	5,072.2
Total Operating Expenditure	12,392.9	13,265.1	13,532.4	14,657.7
EBITDA	**2,826.4**	**3,097.3**	**3,328.7**	**3,786.6**
Growth (%)	14.2	9.6	7.5	13.8
Depreciation	1,322.8	1,326.3	1,072.0	1,119.5
Interest	114.2	168.4	135.7	111.4
Other Income	357.7	476.6	271.5	368.9
PBT	1,669.5	2,079.1	2,392.5	2,924.6
Total Tax	250.1	569.5	693.8	848.1
PAT before MI	1,419.4	1,509.6	1,698.7	2,076.5
Minority Interest	6.0	-3.7	-62.3	-52.9
Adjusted PAT	**1,476.4**	**1,496.1**	**1,719.4**	**2,087.8**
Growth (%)	46.7	1.3	14.9	21.4
EPS (Adjusted)	**18.3**	**18.6**	**21.4**	**25.9**

Source: ICICI Direct Research; Company

Exhibit 19: Cash Flow Statement (₹ crore)

(Year-end March)	FY18	FY19	FY20E	FY21E
Profit/(Loss) after taxation	947.4	1,485.9	1,719.4	2,087.8
Add: Depreciation	1,322.8	1,326.3	1,072.0	1,119.5
(inc)/Dec in Current Assets	-1,414.1	-911.0	-433.1	-929.7
inc/(Dec) in Current Liabilities	630.9	-152.5	152.0	273.7
Others	-24.2	-57.5	135.7	111.4
CF from Operating activities	**1,462.8**	**1,691.1**	**2,646.0**	**2,662.6**
Change In Investment	-36.7	-1,068.4	0.0	0.0
(Purchase)/Sale of Fixed Assets	-753.7	-682.9	-500.0	-500.0
Others	54.5	62.1	-52.7	-42.8
CF from Investing activities	**-735.9**	**-1,689.2**	**-552.7**	**-542.8**
Change in Equity	0.1	0.1	0.0	0.0
Change in Loan	-34.5	-60.3	-1,700.0	0.0
Dividend & Dividend tax	-189.3	-284.1	-299.3	-311.5
Others	-161.9	-4.5	-135.7	-111.4
CF from Financing activities	**-385.5**	**-348.7**	**-2,135.0**	**-422.9**
Net Cash Flow	341.4	-346.8	-41.7	1,696.8
Cash and Cash equ. at beginning	624.2	965.6	618.8	577.1
Cash	**965.6**	**618.8**	**577.1**	**2,273.9**
Free Cash Flow	**709.0**	**1,008.2**	**2,146.0**	**2,162.6**

Source: ICICI Direct Research; Company

Exhibit 20: Balance Sheet (₹ crore)

(Year-end March)	FY18	FY19	FY20E	FY21E
Equity Capital	161.0	161.1	161.1	161.1
Reserve and Surplus	14,068.2	14,851.1	16,271.2	18,047.4
Total Shareholders funds	14,229.2	15,012.3	16,432.3	18,208.6
Total Debt	4,098.0	4,316.2	2,616.2	2,616.2
Deferred Tax Liability	503.3	425.3	446.6	468.9
Long Term Provision	137.9	121.4	127.5	133.9
MI & Other Liabilities	495.8	802.7	763.9	735.7
Source of Funds	**19,464.2**	**20,678.0**	**20,386.6**	**22,163.3**
Gross Block - Fixed Assets	10,227.5	10,795.9	11,295.9	11,795.9
Accumulated Depreciation	3,093.1	4,118.6	5,190.6	6,310.0
Net Block	7,134.4	6,677.4	6,105.4	5,485.9
Capital WIP	981.3	676.2	676.2	676.2
Fixed Assets	8,115.7	7,353.6	6,781.6	6,162.1
Investments	1,259.9	2,616.0	2,616.0	2,616.0
Goodwill on Consolidation	2,814.7	2,869.1	2,869.1	2,869.1
Long term Loans & Advance	41.7	0.0	0.0	0.0
Other Non current assets	916.6	825.8	867.1	910.4
Inventory	4,044.7	3,964.8	4,138.2	4,552.3
Debtors	3,102.5	4,150.7	4,332.2	4,765.7
Loans and Advances	19.9	6.3	6.6	6.9
Other Current Assets	1,579.3	1,558.2	1,636.1	1,717.9
Cash	965.6	618.8	577.1	2,273.9
Total Current Assets	9,712.0	10,298.8	10,690.2	13,316.7
Creditors	2,119.1	1,948.0	2,033.2	2,236.6
Provisions	627.1	736.8	773.6	812.3
Other current libilities	650.1	600.6	630.6	662.2
Total Current Liabilities	3,396.4	3,285.4	3,437.4	3,711.1
Net Current Assets	6,315.6	7,013.5	7,252.8	9,605.6
Application of Funds	**19,464.2**	**20,678.0**	**20,386.6**	**22,163.3**

Source: ICICI Direct Research; Company

Exhibit 21: Key Ratios (₹ crore)

(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Adjusted EPS	18.3	18.6	21.4	25.9
BV per share	176.7	186.5	204.1	226.2
Cash per Share	12.0	7.7	7.2	28.2
Dividend per share	3.5	3.5	3.7	3.9
Operating Ratios (%)				
Gross Margins	64.3	64.6	67.1	66.0
EBITDA margins	18.6	18.9	19.7	20.5
PAT Margins	9.7	9.1	10.2	11.3
Inventory days	97.0	88.4	89.6	90.1
Debtor days	74.4	92.6	93.8	94.3
Creditor days	50.8	43.5	44.0	44.3
Asset Turnover	0.8	0.8	0.8	0.8
EBITDA convsion rate	51.8	54.6	79.5	70.3
Return Ratios (%)				
RoE	10.4	10.0	10.5	11.5
RoCE	9.6	10.9	12.4	13.7
RoIC	9.2	10.3	13.3	15.6
Valuation Ratios (x)				
P/E	28.7	27.1	23.6	19.4
EV / EBITDA	15.0	13.6	12.1	10.2
EV / Net Sales	2.8	2.6	2.4	2.1
Market Cap / Sales	2.7	2.5	2.4	2.2
Price to Book Value	2.8	2.7	2.5	2.2
Solvency Ratios				
Debt / EBITDA	1.4	1.4	0.8	0.7
Debt / Equity	0.3	0.3	0.2	0.1
Current Ratio	2.6	2.9	2.9	3.0
Quick Ratio	1.4	1.7	1.7	1.7

Source: ICICI Direct Research; Company

Exhibit 22: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹) FY18	FY19	FY20E	FY21E	PE(x) FY18	FY19	FY20E	FY21E	RoCE (%) FY18	FY19	FY20E	FY21E	RoE (%) FY18	FY19	Y20E	Y21E
Ajanta Pharm	AJAPHA	955	1,010	Hold	8333	53.0	43.5	47.5	60.2	18.0	21.9	20.1	15.9	30.0	21.8	20.8	22.4	23.0	17.1	16.4	18.0
Alembic Phar	ALEMPHA	537	560	Hold	10128	21.9	31.4	29.9	24.7	24.5	17.1	18.0	21.8	18.0	19.6	17.5	15.8	18.6	21.7	17.1	14.2
Apollo Hospit	APOHOS	1316	1,450	Buy	18305	8.5	17.7	35.3	48.1	155.6	74.4	37.2	27.4	6.3	8.8	12.1	15.7	3.6	7.4	13.2	15.7
Aurobindo Pha	AURPHA	578	735	Buy	33881	41.6	42.1	49.1	61.2	13.9	13.7	11.8	9.5	20.0	15.9	14.3	16.3	20.7	17.7	17.3	18.0
Biocon	BIOCON	227	330	Buy	27192	3.1	6.2	8.2	9.1	73.0	36.5	27.7	24.9	8.1	10.9	13.4	16.1	7.2	12.2	13.4	15.2
Cadila Healthc	CADHEA	229	272	Hold	23408	17.5	18.1	16.3	18.7	13.0	12.7	14.1	12.2	16.7	13.0	11.4	12.3	20.5	17.8	14.2	14.5
Cipla	CIPLA	503	520	Hold	40560	18.3	18.6	21.4	25.9	27.4	27.1	23.6	19.4	9.6	10.9	12.4	13.7	10.4	10.0	10.5	11.5
Divi's Lab	DIVLAB	1644	1,760	Hold	43642	33.3	51.0	56.2	67.8	49.4	32.3	29.3	24.2	20.0	25.5	23.0	24.4	14.9	19.4	17.8	18.8
Dr Reddy's La	DRREDD	2561	2,770	Hold	42521	57.0	114.8	163.4	157.7	44.9	22.3	15.7	16.2	6.1	11.1	16.1	15.6	7.2	13.6	16.6	14.2
Glenmark Pha	GLEPHA	418	565	Hold	11789	28.5	26.9	34.2	40.3	14.6	15.5	12.2	10.4	14.6	14.5	15.3	16.1	15.6	13.5	14.8	15.0
Hikal	HIKCHE	147	205	Buy	2022	6.3	8.4	10.1	13.6	23.5	17.6	14.5	10.8	12.2	14.3	14.8	17.2	11.5	13.6	14.5	16.5
Ipca Laborato	IPCLAB	937	1,130	Buy	11837	19.0	35.1	45.6	56.4	49.4	26.7	20.6	16.6	9.1	15.4	21.3	20.5	8.9	14.2	18.2	17.1
Jubilant Life	JUBLIF	432	710	Buy	6875	41.3	52.1	54.1	64.9	10.5	8.3	8.0	6.6	14.9	14.4	15.9	17.1	15.7	16.9	15.8	16.5
Lupin	LUPIN	758	755	Hold	34301	20.8	16.5	25.4	37.7	36.5	45.8	29.9	20.1	10.4	9.4	10.3	13.2	6.9	5.4	7.8	10.6
Narayana Hru	NARHRU	212	250	Buy	4336	2.5	2.3	6.2	9.0	84.8	93.6	34.0	23.5	6.3	7.6	11.9	14.7	4.9	4.3	10.5	13.3
Natco Pharm	NATPHA	542	595	Hold	9852	37.7	34.9	37.1	26.7	14.4	15.5	14.6	20.3	27.4	21.3	19.8	13.4	22.7	18.5	16.5	10.9
Sun Pharma	SUNPHA	419	460	Hold	100626	13.0	15.9	17.9	23.4	32.3	26.5	23.4	17.9	9.8	10.4	10.5	12.8	8.2	9.2	8.4	11.2
Syngene Int.	SYNINT	307	358	Hold	12274	7.6	8.3	9.9	10.3	40.6	37.4	31.3	30.0	15.1	14.8	14.5	13.8	17.7	16.8	16.8	15.0
Torrent Pharm	TORPHA	1698	1,750	Buy	28728	40.1	48.9	51.3	72.9	42.4	34.7	33.1	23.3	11.2	14.2	15.4	19.2	14.7	17.5	16.1	19.6

Source: ICICI Direct Research, Bloomberg

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, Siddhant Khandekar, Inter CA, Mitesh Shah, MS (Finance), CFA (ICFAI), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities 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 ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. 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.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed 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, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.