

Cipla

Solid quarter, outlook reaffirmed

Cipla's Q1 results were strong (EBITDA/PAT beat of ~85%) driven by good growth across regions and higher than expected cost savings. With strong traction in US (ramp up in Albuterol, niche launches), good growth in India (Rx business outperformed IPM growth for past four quarters, benefits of One-India strategy, Covid portfolio) and reduction in costs (good part of cost savings are likely to sustain owing to digital initiatives) margins are set to structurally improve. We forecast ~400bps of margin expansion over FY20-22e and increase our FY21/22e EPS estimates by 22%/13% to factor lower costs and strong revenue momentum. We increase our TP to Rs805 based on 23x FY22 EPS and Rs30/share for gAdvair opportunity. Maintain Buy.

- All round beat:** Revenues at Rs43.4bn came ahead of expectations driven by strong growth across all regions. Gross margin improvement (down 658bps YoY, +202bps QoQ, gSensipar exclusivity in the base) coupled with sharp decline in lower other expenses (down 684bps YoY, down 794bps QoQ, lower SG&A and promotion spends) led to EBITDA margin of 24.1% (+145bps YoY, +965bps QoQ). Adjusted PAT stood at Rs5.8bn (85% beat).
- India business on strong footing:** India growth (+16% YoY, low base) was driven by strong performance across three verticals - prescription business (+9% YoY, chronic led), trade generics (+46% YoY, adjusted for transfers to CHL) and consumer health (Rs1bn, portfolio expansion). Implementation of One-India strategy will drive further synergies. Cipla is at the forefront with Covid care portfolio (Remdesvir, Favipiravir, Tocilizumab, hand sanitizer), the contribution of which is likely to reflect from Q2 onwards.
- Strong growth momentum in the US driven by complex launches:** US business grew by 14% QoQ to USD135mn led by ramp up in gProventil (6% TRx share in Albuterol), new launches and strong traction in base business. We factor market share ramp up in gProventil (upto 15% by FY22), recent niche launches (DHE nasal spray with CGT exclusivity, Icatibant inj) and new approvals to drive 18% CAGR (adjusted for gSensipar) over FY20-22e.
- Key call takeaways:** a) Albuterol – stable pricing, down ~25% from Jan levels, Cipla has adequate capacity for fair share, clocked 65% share in Proventil brand; b) Other expenses to be lower by Rs4-5bn in FY21, a part of this is likely to sustain owing to digital initiatives; guides for 20% EBITDA in FY21; c) Remdesvir in India - demand outpaces supply, additional players likely to enter which should address the shortages; d) gAdvair – approval timelines of 18-20 months from filing; e) Goa plant – working with FDA; f) Net debt – Zero, Gross debt- USD317mn.

Financial Summary

Year Ending	1Q	1Q	YoY	4Q	QoQ	FY18	FY19	FY20	FY21E	FY22E
March (Rs bn)	FY21	FY20	(%)	FY20	(%)					
Net Sales	43,462	39,890	9.0	43,762	(0.7)	152,200	163,624	171,320	191,814	211,209
EBITDA	10,487	9,046	15.9	6,335	65.5	28,271	30,973	32,060	41,615	47,522
APAT	5,779	4,782	20.9	2,460	135.0	15,489	14,924	14,995	23,112	27,112
Diluted EPS (Rs)	7.2	5.9	20.9	3.1	135.0	19.2	18.5	18.6	28.7	33.6
P/E (x)						36.4	37.8	37.6	24.4	20.8
RoACE (%)						8.9	8.3	8.6	12.1	13.0
RoAE (%)						11.6	10.2	9.7	13.8	14.3

Source: Company, HSIE Research

BUY

CMP (as on 07 Aug 2020)	Rs 729	
Target Price	Rs 805	
NIFTY	11,214	
KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 690	Rs 805
EPS %	FY21E	FY22E
	+22%	+13%

KEY STOCK DATA

Bloomberg code	CIPLA IN
No. of Shares (mn)	806
MCap (Rs bn) / (\$ mn)	588/7,837
6m avg traded value (Rs mn)	4,548
52 Week high / low	Rs 740/354

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.6	64.8	40.9
Relative (%)	2.6	72.4	37.3

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	36.65	36.68
FIs & Local MFs	22.63	22.33
FPIs	17.95	18.64
Public & Others	22.78	22.35
Pledged Shares	0.00	0.00

Source : BSE

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Revenues beat expectations led by strong growth across regions.

R&D spent at 4.5% of sales (~7% of sales in FY20), moderated post gAdvair trials in FY20

Other expenses reduced on account of lower SG&A, promotion and travel spends. Some part of cost savings are likely to sustain owing to digital initiatives

EBITDA margin improved by 145bps YoY (gSensispar in base) and 965bps QoQ

Tax rate expected to be at similar levels of 28.5%

Key Markets:

India was aided by strong growth in Rx (+9% YoY) led by higher growth in chronic and trade generics (+46% YoY, adjusted for CHL transfer in base)

US business improved to USD135mn (vs. USD118mn in Q4) aided by gProventil, new launches and market share gains in older products

South Africa – Private market grew by +24% YoY and tender market grew by 6% YoY in cc terms

Quarterly Financial Snapshot

(INR mn)	1QFY21	1QFY20	% Chg	4QFY20	% Chg
Net Sales	43,462	39,890	9.0	43,762	(0.7)
EBITDA	10,487	9,046	15.9	6,335	65.5
Other income	655	784	-16.5	932	(29.8)
Depreciation	2,690	2,680	0.4	3,458	(22.2)
Interest	460	521	(11.7)	530	(13.2)
PBT	7,992	6,629	20.6	3,279	143.7
Tax	2,278	2,908	-21.7	936	143.5
Reported PAT	5,779	4,782	20.9	2,460	135.0
Extra ordinary income/ (exp.)	0	0		0	
Adjusted PAT	5,779	4,782	20.9	2,460	135.0
EBITDA margins (%)	24.1	22.7	6.4	14.5	66.7
Gross Profit margins (%)	63.4	70.0	-9.4	61.4	3.3
EPS	7.2	5.9	20.9	3.1	135.0

Source: Company, HSIE Research

Margin Analysis

Margin Analysis	1QFY21	1QFY20	YoY (bps)	4QFY20	QoQ (bps)
Material Expenses % Net Sales	36.6	30.0	658	38.6	(202)
Employee Expenses % Net Sales	17.8	19.0	(120)	17.5	31
R&D Expenses % Net Sales	4.5	6.5	(197)	7.1	(257)
Other Expenses % Net Sales	21.5	28.4	(684)	29.5	(794)
EBITDA Margin (%)	24.1	22.7	145	14.5	965
Tax Rate (%)	28.5	29.0	(50)	26.1	240
APAT Margin (%)	13.3	12.0	131	5.6	768

Source: Company, HSIE Research

Segmental Quarterly Performance

(INR mn)	1QFY21	1QFY20	% Chg	4QFY20	% Chg
India	16,080	13,880	15.9	17,300	(7.1)
North America	10,210	11,190	(8.8)	8,560	19.3
South Africa, CGA, Sub-Sahara	7,630	6,910	10.4	8,250	(7.5)
EM	4,570	2,790	63.8	4,150	10.1
Europe	2,400	2,010	19.4	2,320	3.4
API	1,840	1,820	1.1	2,470	(25.5)
Others	730	1,620	(54.9)	712	2.6
Total	43,460	40,220	8.1	43,762	(0.7)

Source: Company, HSIE Research

Change in estimates

	FY21E			FY22E		
	Old	Revised	% chg	Old	Revised	% chg
Net Revenue	185,834	191,814	0.0	202,435	211,209	0.0
EBIDTA	35,286	41,615	0.2	42,568	47,522	0.1
APAT	18,933	23,112	0.2	24,014	27,112	0.1
Diluted EPS (Rs)	23.5	28.7	0.2	29.8	33.6	0.1

Source: HSIE Research

Revise TP to Rs805 (from Rs690 earlier), Maintain Buy

We increase our earnings estimates by 22%/13% for FY21-22 led cost savings and higher revenue estimates for gProventil (stable pricing). We increase our target multiple to 23x (from 22x earlier) to factor improved growth visibility in key markets of India and the US. Our revised TP of Rs805 is based on 23x FY22 EPS and Rs30/share for gAdvair opportunity.

Downside risks: Lower-than-expected growth in India, slower ramp up in gProventil, delay in resolution of Goa plant, higher price erosion in the US.

Financials

Consolidated Income Statement

Year to March (INR mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenues	113,454	136,783	146,300	152,200	163,624	171,650	191,814	211,209
<i>Growth (%)</i>	<i>12</i>	<i>21</i>	<i>7</i>	<i>4</i>	<i>8</i>	<i>5</i>	<i>12</i>	<i>10</i>
Raw material	37,402	41,781	42,727	44,972	42,850	43,768	57,544	63,363
Purchase of finished goods	4,495	9,403	10,445	9,413	14,995	16,146	11,501	9,504
Gross Profit	71,557	85,599	93,129	97,816	105,779	111,735	122,769	138,342
<i>Gross Margins</i>	<i>63.1</i>	<i>62.6</i>	<i>63.7</i>	<i>64.3</i>	<i>64.6</i>	<i>65.1</i>	<i>64.0</i>	<i>65.5</i>
Employee cost	19,737	24,471	26,338	26,901	28,565	30,270	32,939	35,905
Other expenses	30,204	36,118	42,035	42,644	46,241	49,076	48,215	54,914
Growth (%)	22	21	13	2	8	6	2	12
EBITDA	21,617	25,011	24,756	28,271	30,973	32,390	41,615	47,522
<i>Growth (%)</i>	<i>1</i>	<i>16</i>	<i>-1</i>	<i>14</i>	<i>10</i>	<i>5</i>	<i>28</i>	<i>14</i>
<i>Margins (%)</i>	<i>19.1</i>	<i>18.3</i>	<i>16.9</i>	<i>18.6</i>	<i>18.9</i>	<i>18.9</i>	<i>21.7</i>	<i>22.5</i>
Depreciation	5,047	5,417	8,889	9,628	13,263	11,747	11,495	12,155
Other income	1,656	2,089	1,077	1,698	4,766	3,442	3,446	3,618
Interest	1,683	1,613	1,494	1,142	1,684	1,974	1,599	1,206
PBT	16,543	20,070	15,449	19,198	20,791	22,111	31,966	37,779
Tax	4,000	4,396	3,113	3,621	5,695	6,312	9,111	10,767
<i>Effective tax rate (%)</i>	<i>24.2</i>	<i>21.9</i>	<i>20.2</i>	<i>18.9</i>	<i>27.4</i>	<i>28.5</i>	<i>28.5</i>	<i>28.5</i>
PAT	11,808	15,059	11,976	15,489	14,924	15,325	23,112	27,112
Extraordinary items	-	-	-1,915	(1,384)	0	0	0	0
MI/share of Profit/loss in JV	735	615	360	88	172	475	(257)	(100)
Recurring PAT	11,808	15,059	11,976	15,489	14,924	15,325	23,112	27,112

Source: Company, HSIE Research

Consolidated Balance Sheet

Year to March (INR mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity capital	1,606	1,607	1,609	1,610	1,611	1,613	1,613	1,613
Reserves and surplus	106,287	113,555	123,645	140,682	148,511	156,018	176,282	200,547
Shareholders funds	107,892	115,162	125,254	142,292	150,123	157,630	177,895	202,159
Minority Interest	1,927	3,501	4,382	3,524	3,320	2,943	2,943	2,943
Total debt	17,033	52,019	41,127	40,980	43,162	28,164	21,047	16,047
Total Liabilities	126,853	170,682	170,763	186,796	196,605	188,737	201,884	221,149
Net fixed assets	41,265	46,049	50,087	53,154	51,144	48,053	42,558	36,403
Capital work-in-progress	5,809	20,609	16,830	9,813	3,311	4,210	4,210	4,210
Investments	6,398	7,587	9,748	12,599	26,160	15,953	15,953	15,953
Inventories	37,806	38,081	34,853	40,447	39,648	43,776	49,013	53,968
Debtors	20,043	23,563	24,974	31,025	41,507	38,913	43,568	47,973
Cash & bank balance	5,643	8,714	6,242	9,656	6,188	10,039	20,411	37,805
Loans and Advances	6,073	5,007	7,964	9,779	9,924	10,909	12,018	13,266
Other current assets	5,642	10,753	9,599	12,106	10,623	8,890	8,890	8,890
Total current assets	75,206	86,117	83,631	103,013	107,891	112,527	133,899	161,902
Creditors	20,794	24,852	25,189	27,692	25,486	29,978	32,708	35,291
Provisions	5,806	4,555	4,624	7,650	8,582	10,815	10,815	10,815
Net current assets	48,607	56,710	53,819	67,670	73,823	71,735	90,377	115,797
Total net assets	126,853	170,682	170,763	186,796	196,605	188,737	201,884	221,149

Source: Company, HSIE Research

Consolidated Cash Flow

Year to March (INR mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Profit Before Tax	16,543	17,270	12,222	16,695	20,791	21,782	31,966	37,779
Depreciation	3,726	5,047	7,542	13,229	13,228	13,263	11,747	11,495
Cash flow before WC	22,843	26,779	26,019	29,681	33,479	35,437	45,012	50,934
WC changes	(7,186)	(4,294)	2,307	(7,833)	(10,635)	3,730	(8,271)	(8,026)
Taxes paid	(3,923)	(5,077)	(4,503)	(7,220)	(5,932)	(8,483)	(9,111)	(10,767)
Cash flow from operations	11,734	17,408	23,824	14,628	16,911	30,685	27,630	32,141
Capex	(6,462)	(10,769)	(11,360)	(8,162)	(5,271)	(10,000)	(6,000)	(6,000)
Cash flow from investing	(9,411)	(45,226)	(13,127)	(8,540)	(16,687)	1,040	(5,694)	(5,694)
Borrowings (net)	5,078	34,418	(10,803)	(345)	(603)	(16,842)	(7,118)	(5,000)
Interest paid	(1,674)	(1,611)	(1,594)	(1,178)	(1,586)	(1,635)	(1,599)	(1,206)
Dividends paid	(1,879)	(1,795)	(2,251)	(1,893)	(2,841)	(6,642)	(2,847)	(2,847)
Cash flow from financing	1,648	31,041	(13,239)	(3,855)	(3,487)	(29,488)	(11,564)	(9,053)
Net change in cash	3,971	3,222	(2,541)	2,233	(3,262)	2,237	10,372	17,394
Effect of exchange rate	(86)	(99)	63	198	(189)	104	0	0
Beginning cash	1,758	5,458	8,582	6,104	8,535	5,084	10,039	20,411
Closing cash	5,643	8,582	6,103	8,535	5,084	7,424	20,411	37,805
Free cash flow	5,272	6,639	12,464	6,466	11,640	20,685	21,630	26,141

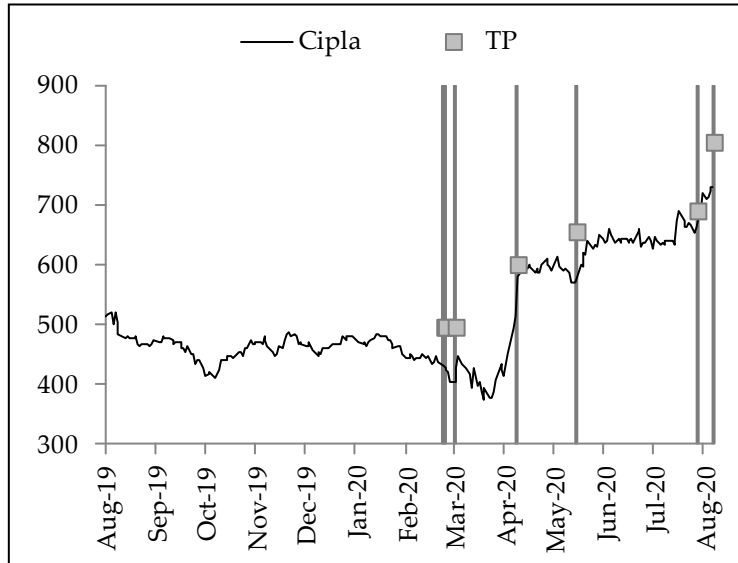
Source: Company, HSIE Research

Key Ratios

Year to March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)								
GPM	63.1	62.6	63.7	64.3	64.6	65.1	64.0	65.5
EBITDA Margin	19.1	18.3	16.9	18.6	18.9	18.9	21.7	22.5
APAT Margin	10.4	11.0	8.2	10.2	9.1	8.9	12.0	12.8
RoE	10.9	13.1	9.6	10.9	9.9	9.5	13.0	13.4
RoIC (or Core RoCE)	10.5	9.6	7.9	8.7	6.9	8.4	12.4	14.4
RoCE	10.6	9.4	7.6	8.6	8.1	8.8	11.7	12.4
EFFICIENCY								
Tax Rate (%)	24.2	21.9	20.2	18.9	27.4	28.5	28.5	28.5
Fixed Asset Turnover (x)	2.7	3.0	2.9	2.9	3.2	3.6	4.5	5.8
Inventory (days)	122	102	87	97	88	93	93	93
Debtors (days)	64	63	62	74	93	83	83	83
Other Current Assets (days)	18	29	24	29	24	19	17	15
Payables (days)	51	39	39	51	43	49	49	49
Other Current Liab & Provns (days)	30	36	32	31	30	35	32	29
Cash Conversion Cycle (days)	135	125	110	121	138	128	128	128
Debt/EBITDA (x)	0.5	1.7	1.4	1.1	1.2	0.6	0.0	-0.5
Net D/E (x)	0.1	0.4	0.3	0.2	0.2	0.1	0.0	-0.1
Interest Coverage (x)	9.8	12.1	10.6	16.3	10.5	10.3	18.8	29.3
PER SHARE DATA (Rs)								
EPS	14.7	18.7	14.9	19.2	18.5	18.6	28.7	33.6
Dividend	2.0	2.0	2.0	2.0	3.0	7.0	3.0	3.0
Book Value	134	143	156	177	186	196	221	251
VALUATION								
P/E (x)	47.6	37.3	47.0	36.4	37.8	37.6	24.4	20.8
P/BV (x)	5.2	4.9	4.5	4.0	3.8	3.6	3.2	2.8
EV/EBITDA (x)	26.5	24.2	24.2	21.0	19.4	18.2	13.6	11.4
EV/Revenues (x)	5.1	4.4	4.1	3.9	3.7	3.4	2.9	2.6
OCF/EV (%)	2.0	2.9	4.0	2.5	2.8	5.3	4.9	5.9
FCF/EV (%)	0.9	1.1	2.1	1.1	1.9	3.6	3.8	4.8
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.4	1.0	0.4	0.4

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
6-Feb-20	448	BUY	510
24-Feb-20	436	BUY	495
26-Feb-20	426	BUY	495
2-Mar-20	402	BUY	495
9-Apr-20	580	BUY	600
16-May-20	570	BUY	655
28-Jul-20	663	BUY	690
10-Aug-20	729	BUY	805

From 2nd March 2020, we have moved to new rating system

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

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