

**BSE Code: 500087**
**NSE Code: CIPLA**
**Reuters Code: CIPL.NS**
**Bloomberg Code: CIPLA:IN**

### Ramp up in US sales and robust India business to drive growth ahead

Cipla is a leading global pharmaceutical company with 1,500 plus products across various therapeutic categories. It has presence in over 80 countries.

#### Investment Rationale

↪ **Revenue driven by growth in India and South Africa markets:** Cipla reported 8.8% YoY growth in revenue in Q2FY18 on the back of steady growth in India business and uptick in export formulations, particularly in South Africa and RoW markets. Domestic Formulations business (40% of revenues) registered sales growth of 12% YoY in Q2FY18 despite inventory loss of ten days mainly due to re-stocking post GST implementation. We expect India business to continue its robust growth momentum going ahead and factor a strong 13% CAGR over FY17-20E. Further, the company's South African and Sub-Sahara business (SAGA) (23% of revenues) rose 5% YoY. We expect South Africa (SAGA) business to deliver strong CAGR of 31% over FY17-20E on account of increased sales from private business and new launches.

↪ **Ramp-up in US launches and filings to drive US business:** Cipla's US sales declined 3% YoY to US\$96mn (down 7% YoY in rupee terms) impacted by continued pricing pressure in the US and lack of key drugs launches during the quarter. Further, intense competition in recently-launched gRenvela has resulted in higher price erosion at ~80%. However, we expect US sales to ramp-up in H2FY18 driven by key expected product launches including generic Viread, Nasonex, and Toprol XL and pick up in product filing. We expect US sales to grow at CAGR of 17% over FY17-20E on the back of key product approvals in the US with the good mix of niche, complex & limited-competition products.

↪ **EBITDA margin to improve by 430bps over FY17-20E:** EBITDA margin improved strongly by 156 bps YoY to 19.7% driven by operating leverage and continued control on spends. R&D spend as percentage to sales declined 180 bps YoY to 6.1% in Q2FY18. However, we expect R&D expenses to increase going forward due to clinical trials for respiratory products which will commence soon. Consequently, we build in EBITDA margin of 19% in FY18. However, going forward, we model in EBITDA margin of 21.5% in FY20 on the back of key launches, improvement in market standing in the US supported by InvaGen & Exelan and various cost saving initiatives. Notably, Cipla has guided for 100 bps annual improvement in margins driven by cost savings.

#### Outlook and Valuation:

We believe key product approvals in the US along with the company's target to launch a niche product every quarter over the next two years will give a strong boost to the US business going ahead. Moreover, steady India business and strong growth in SAGA business & RoW markets will drive revenue growth further. Hence, we expect revenue/Adj. PAT CAGR of 13%/39% over FY17-20E. Hence, we recommend 'BUY' rating on the stock with a target price (TP) of Rs 677 based on 20.3x FY20E EPS.

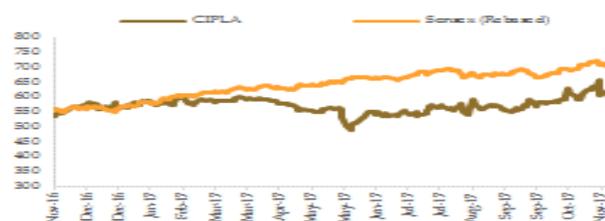
#### Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (Rs.)</b>	616
<b>Target (Rs.)</b>	677
<b>Potential Upside</b>	10%
<b>Duration</b>	Long Term
Face Value (Rs.)	2
52 week H/L (Rs.)	663/479
Decline from 52WH (%)	7.1
Rise from 52WL (%)	28.6
Beta	1.0
Mkt. Cap (Rs.Cr)	49,597

#### Fiscal Year Ended

Y/E	FY17	FY18E	FY19E	FY20E
Revenue (Rs.Cr)	14,394	15,909	18,131	20,676
Adj. profit (Rs.Cr)	1,006	1,679	2,077	2,683
Adj. EPS (Rs.)	12.5	20.9	25.8	33.3
P/E (x)	49.3	29.5	23.9	18.5
P/BV (x)	3.8	3.4	3.0	2.6
ROE (%)	8.1	12.2	13.4	15.2

#### One year Price Chart



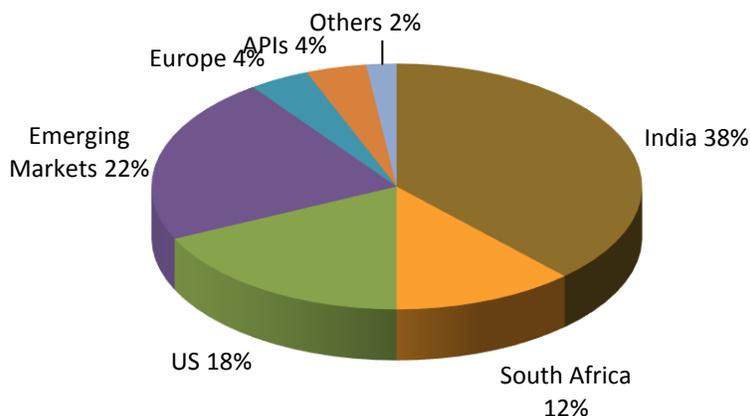
Source: Company, In-house research

Shareholding Pattern	Sep-17	Jun-17	Chg.
Promoters	37.3	37.3	0.0%
FII's	21.1	22.3	5.7%
MFs/Insti	16.1	15.2	-5.6%
Public	18.0	17.7	-1.7%
Others	7.5	7.5	0.0%

## Cipla Ltd: Business overview

Cipla is a leading global pharmaceutical company with 1,500 plus products across various therapeutic categories. It has presence in over 80 countries.

### Revenue Breakup (FY17)



Source: Company, In-house research

### Quarterly financial performance (Consolidated)

(Rs cr)	Q2FY18	Q2FY17	YoY Growth %	Q1FY18	QoQ Growth %
<b>Total Revenue</b>	<b>4,082</b>	<b>3,751</b>	<b>8.8</b>	<b>3,525</b>	<b>15.8</b>
<b>EBITDA</b>	<b>804</b>	<b>681</b>	<b>18.2</b>	<b>646</b>	<b>24.4</b>
EBITDA Margin (%)	19.7	18.1	156 bps	18.3	136
Depreciation	302	229	31.9	213	41.6
<b>EBIT</b>	<b>502</b>	<b>452</b>	<b>11.2</b>	<b>433</b>	<b>16.0</b>
Interest	42	35	19.5	28	50.8
Other Income	113	27	316.2	151	(25.1)
Exceptional Items	-	-	-	-	-
<b>PBT</b>	<b>573</b>	<b>444</b>	<b>29.3</b>	<b>557</b>	<b>3.0</b>
Tax	137	72	91.1	131	5.1
<b>PAT</b>	<b>436</b>	<b>372</b>	<b>17.3</b>	<b>426</b>	<b>2.4</b>
Minority Interest/P&L of Associates	13.47	17.4	(22.4)	16.9	(20.6)
<b>Reported PAT</b>	<b>422.6</b>	<b>354.3</b>	<b>19.3</b>	<b>408.8</b>	<b>3.4</b>
Adjustment	-	-	-	-	-
<b>Adj PAT</b>	<b>422.6</b>	<b>354.3</b>	<b>19.3</b>	<b>408.8</b>	<b>3.4</b>
No. of shares (cr)	160.9	160.8	0.1	160.9	0.0
Adj. EPS (Rs)	10.5	8.8	19.2	10.2	3.3

### Business Performance

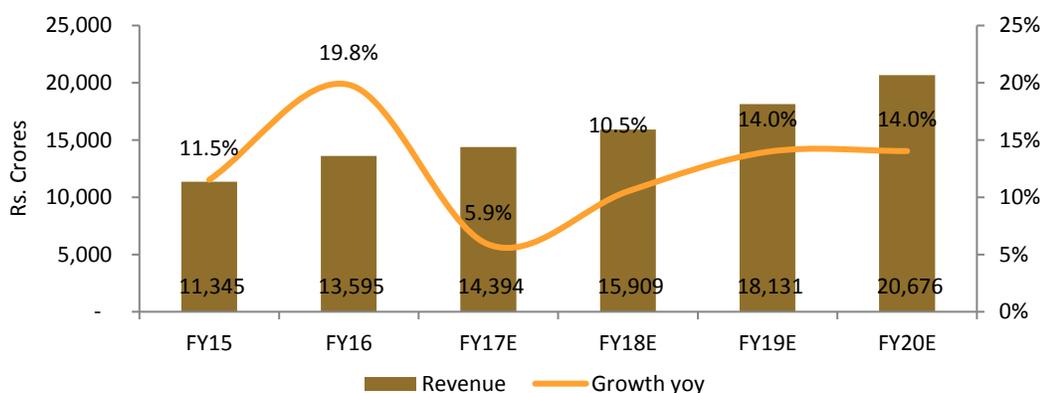
(Rs cr)	Q2FY18	Q2FY17	YoY Growth %	Q1FY18	QoQ Growth %	FY17	FY16	QoQ Growth %
India	1646	1469	12.0	1,271	29.5	5,530	5,022	29.5
US	618	664	(6.9)	646	(4.3)	2,624	2,105	(4.3)
South Africa	921	878	4.9	750	22.8	1,827	1,569	22.8
Emerging Markets	454	411	10.5	463	(1.9)	3,161	3,409	(1.9)
Europe	151	133	13.5	164	(7.9)	543	606	(7.9)
APIs	213	115	85.2	130	63.8	527	738	63.8
Others	80	81	(1.2)	101	(20.8)	418	340	(20.8)
<b>Total sales</b>	<b>4,083</b>	<b>3,751</b>	<b>8.9</b>	<b>3,525</b>	<b>(15.8)</b>	<b>14,630</b>	<b>13,790</b>	<b>(15.8)</b>

Source: Company, In-house research

### Revenue rose ~9% in Q2FY18 owing to growth in India and South Africa markets

Cipla reported 8.8% YoY growth in revenue in Q2FY18 on the back of steady growth in India business and uptick in export formulations, particularly in South Africa and RoW markets. Domestic Formulations business (40% of revenues) registered sales growth of 12% YoY in Q2FY18 despite inventory loss of ten days mainly due to re-stocking post GST implementation. We expect India business to continue its robust growth momentum going ahead and factor a strong 13% CAGR over FY17-20E. Further, the company's South African and Sub-Sahara business (SAGA) (23% of revenues) rose 5% YoY driven by increased sales from private market & tender business and new launches across markets. The company launched 8 new products in South Africa market in H1FY18 with a combined total market value of R490m. We expect South Africa (SAGA) business to deliver strong CAGR of 31% over FY17-20E on account of increased sales from private business and new launches. Its emerging markets business (11% of revenues) reported a growth of 11% YoY while Europe business (4% of revenue) grew at a stellar 14% YoY. Further, Cipla's API business (5% of revenues) surged 85% YoY led by higher ARV sales. We forecast revenue to grow at a CAGR of 12.6% over FY17-20E.

#### Revenue to grow at 13% CAGR over FY17-20E



Source: Company, In-house research

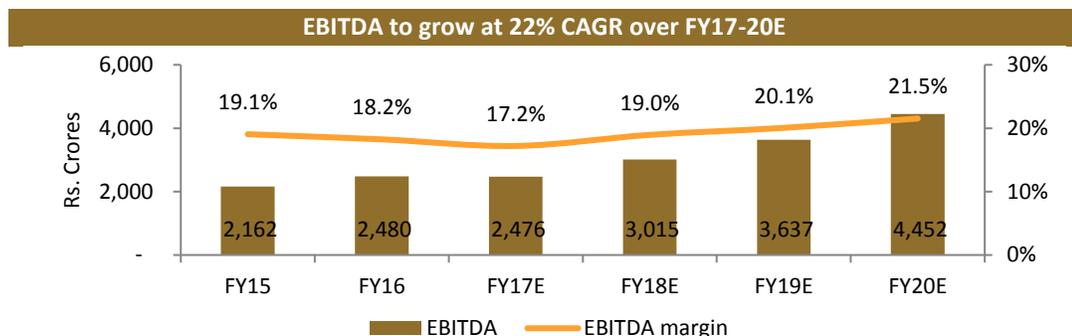
### US launches and filings to drive US business

Cipla's US sales declined 3% YoY to US\$96mn (down 7% YoY in rupee terms) impacted by continued pricing pressure in the US and lack of key drugs launches during the quarter. Further, intense competition in recently-launched gRenvela has resulted in higher price erosion at ~80%. However, we expect US sales to ramp-up in H2FY18 driven by key expected product launches including generic Viread, Nasonex, and Toprol XL and pick up in product filing. We expect US sales to grow at CAGR of 17% over FY17-20E on the back of key product approvals in the US with the good mix of niche, complex & limited-competition products. The company, which has filed five ANDAs in Q2, of which two are likely to be limited competition opportunities, targets to file 25 ANDAs in FY18. Cipla has a total of 98 ANDAs pending for approval including 27 with tentative approvals as of September'17.

### EBITDA margin to expand by 430bps over FY17-20E

EBITDA margin expanded by 156 bps YoY to 19.7% driven by operating leverage and continued cost control measures. R&D spend as percentage to sales declined 180 bps YoY to 6.1% in Q2FY18. However, we expect higher R&D expenses going forward due to clinical trials for respiratory products which will commence soon. Consequently, we build in EBITDA margin of 19% in FY18.

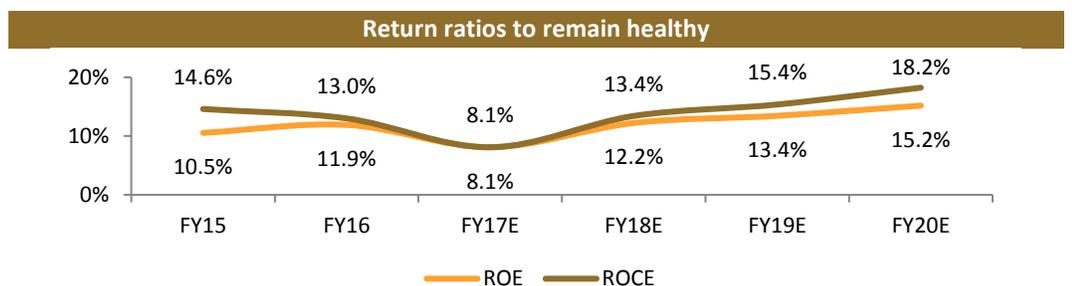
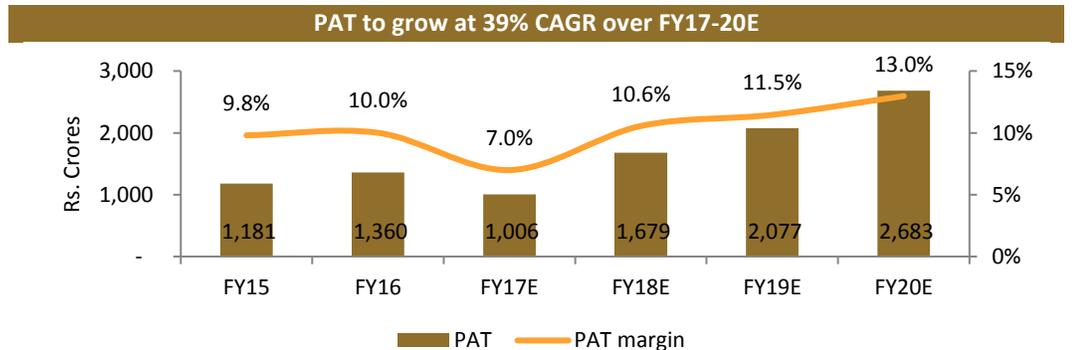
However, going forward, we model in EBITDA margin of 21.5% in FY20 on the back of key launches, improvement in market standing in the US supported by InvaGen & Exelan and various cost saving initiatives. Notably, Cipla has guided for 100 bps annual improvement in margins driven by cost savings. Consequently, Adj. PAT rose by 19% YoY.



Source: Company, In-house research

### Outlook and Valuation

We believe key product approvals in the US coupled with company's plan to launch a niche product every quarter over the next two years will drive US business going ahead. Moreover, steady India business and strong growth in SAGA business & RoW markets will support revenue growth further. Hence, we expect revenue and Adj. PAT to grow at CAGR of 13% and 39% respectively, over FY17-20E. Hence, we recommend 'BUY' rating on the stock with a target price of Rs 677 based on 20.3x FY20E EPS.



Source: Company, In-house research

### Key Risks

- Adverse currency movement in related markets.
- Increased competition in generics business
- Price erosion in major markets
- Changing regulatory environment
- Rising costs and increasing span of price control

### Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
<b>Total operating Income</b>	<b>14,394</b>	<b>15,909</b>	<b>18,131</b>	<b>20,676</b>
Raw Material cost	5,317	5,677	6,423	7,008
Employee cost	2,634	2,815	3,212	3,667
Other operating expenses	3,968	4,403	4,860	5,549
<b>EBITDA</b>	<b>2,476</b>	<b>3,015</b>	<b>3,637</b>	<b>4,452</b>
Depreciation	1,323	1,005	1,004	1,077
EBIT	1,153	2,010	2,633	3,374
Interest cost	159	120	86	52
Other Income	229	344	205	215
<b>Probit before tax</b>	<b>1,222</b>	<b>2,234</b>	<b>2,751</b>	<b>3,537</b>
Tax	180	514	633	814
<b>Profit after tax</b>	<b>1,042</b>	<b>1,720</b>	<b>2,118</b>	<b>2,724</b>
Minority Interests	29	37	37	37
P/L from Associates	(7)	(4)	(4)	(4)
<b>Adjusted PAT</b>	<b>1,006</b>	<b>1,679</b>	<b>2,077</b>	<b>2,683</b>
E/o income / (Expense)	-	-	-	-
<b>Reported PAT</b>	<b>1,006</b>	<b>1,679</b>	<b>2,077</b>	<b>2,683</b>

### Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Paid up capital	161	161	161	161
Reserves and Surplus	12,365	13,850	15,734	18,223
<b>Net worth</b>	<b>12,525</b>	<b>14,011</b>	<b>15,895</b>	<b>18,384</b>
Minority interest	438	475	512	549
Total Debt	4,113	3,513	2,513	1,513
Other non-current liabilities	727	896	896	896
<b>Total Liabilities</b>	<b>17,804</b>	<b>18,894</b>	<b>19,815</b>	<b>21,341</b>
Total fixed assets	8,478	8,273	8,070	7,792
Goodwill	2,678	2,678	2,678	2,678
Investments	973	973	973	973
Net Current assets	4,987	6,283	7,407	9,211
Other non-current assets	687	687	687	687
<b>Total Assets</b>	<b>17,804</b>	<b>18,894</b>	<b>19,815</b>	<b>21,341</b>

### Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
<b>Pre-tax profit</b>	<b>1,222</b>	<b>2,230</b>	<b>2,747</b>	<b>3,533</b>
Depreciation	1,323	1,005	1,004	1,077
Changes in W.C	231	(284)	(728)	(701)
Others	57	(224)	(118)	(163)
Tax paid	(450)	(514)	(633)	(814)
<b>C.F.O</b>	<b>2,382</b>	<b>2,213</b>	<b>2,272</b>	<b>2,933</b>
Capital exp.	(1,136)	(800)	(800)	(800)
Change in inv.	(41)	-	-	-
Other invest.CF	(136)	344	205	215
<b>C.F - investing</b>	<b>(1,313)</b>	<b>(456)</b>	<b>(595)</b>	<b>(585)</b>
Issue of equity	12	-	-	-
Issue/repay debt	(1,080)	(600)	(1,000)	(1,000)
Dividends paid	(194)	(194)	(194)	(194)
Other finance.CF	(44)	(120)	(86)	(52)
<b>C.F - Financing</b>	<b>(1,307)</b>	<b>(914)</b>	<b>(1,280)</b>	<b>(1,245)</b>
Chg. in cash	(237)	843	397	1,102
Closing cash	624	1,468	1,864	2,967

### Key Ratios (Consolidated)

Y/E	FY17	FY18E	FY19E	FY20E
<b>Growth (%)</b>				
Net Sales	5.6	11.3	14.1	14.2
EBITDA	(0.2)	21.8	20.6	22.4
Net profit	(26.0)	66.8	23.7	29.1
<b>Margin (%)</b>				
EBITDA	17.2	19.0	20.1	21.5
NPM	7.0	10.6	11.5	13.0
<b>Return Ratios (%)</b>				
RoE	8.1	12.2	13.4	15.2
RoCE	8.1	13.4	15.4	18.2
<b>Per share data (Rs.)</b>				
EPS	8.1	12.2	13.4	15.2
DPS	2.0	2.0	2.0	2.0
<b>Valuation(x)</b>				
P/E	49.3	29.5	23.9	18.5
EV/EBITDA	21.3	17.0	13.7	10.7
EV/Net Sales	3.8	3.3	2.8	2.3
P/B	3.8	3.4	3.0	2.6
<b>Turnover Ratios (x)</b>				
Net Sales/GFA	1.7	1.6	1.6	1.7
Sales/Total Assets	0.7	0.7	0.8	0.8

#### Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Upside or downside is less than 10%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than equal to -10%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

\* Cipla is a large-cap company.

#### Disclaimer:

The SEBI registration number is INH200000394.

The analyst for this report certifies that all the views expressed in this report accurately reflect his / her personal views about the subject company or companies, and its / their securities. No part of his / her compensation was / is / will be, directly / indirectly related to specific recommendations or views expressed in this report.

This material is for the personal information of the authorized recipient, and no action is solicited on the basis of this. It is not to be construed as an offer to sell, or the solicitation of an offer to buy any security, in any jurisdiction, where such an offer or solicitation would be illegal.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable, though its accuracy or completeness cannot be guaranteed. Neither Wealth India Financial Services Pvt. Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance.

We and our affiliates, officers, directors, and employees worldwide:

1. Do not have any financial interest in the subject company / companies in this report;
2. Do not have any actual / beneficial ownership of one per cent or more in the company / companies mentioned in this document, or in its securities at the end of the month immediately preceding the date of publication of the research report, or the date of public appearance;
3. Do not have any other material conflict of interest at the time of publication of the research report, or at the time of public appearance;
4. Have not received any compensation from the subject company / companies in the past 12 months;
5. Have not managed or co-managed the public offering of securities for the subject company / companies in the past 12 months;
6. Have not received any compensation for investment banking, or merchant banking, or brokerage services from the subject company / companies in the past 12 months;
7. Have not served as an officer, director, or employee of the subject company;
8. Have not been engaged in market making activity for the subject company;

This document is not for public distribution. It has been furnished to you solely for your information, and must not be reproduced or redistributed to any other person.

#### Contact Us:

#### Funds India

Uttam Building, Third Floor |  
No. 38 & 39 | Whites Road |  
Royapettah | Chennai – 600014 |

T: +91 7667 166 166

Email: [contact@fundsindia.com](mailto:contact@fundsindia.com)

## **Dion's Disclosure and Disclaimer**

I, Abhishek Kumar Das, employee of Dion Global Solutions Limited (Dion) is engaged in preparation of this report and hereby certify that all the views expressed in this research report (report) reflect my personal views about any or all of the subject issuer or securities.

### **Disclaimer**

This report has been prepared by Dion and the report & its contents are the exclusive property of the Dion and the client cannot tamper with the report or its contents in any manner and the said report, shall in no case, be further distributed to any third party for commercial use, with or without consideration.

Recipient shall not further distribute the report to a third party for a commercial consideration as this report is being furnished to the recipient solely for the purpose of information.

Dion has taken steps to ensure that facts in this report are based on reliable information but cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this report. It is hereby confirmed that wherever Dion has employed a rating system in this report, the rating system has been clearly defined including the time horizon and benchmarks on which the rating is based.

Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this report is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. Dion has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. This report is not to be relied upon in substitution for the exercise of independent judgment. Opinions or estimates expressed are current opinions as of the original publication date appearing on this report and the information, including the opinions and estimates contained herein, are subject to change without notice. Dion is under no duty to update this report from time to time.

Dion or its associates including employees engaged in preparation of this report and its directors do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of securities, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

The investments or services contained or referred to in this report may not be suitable for all equally and it is recommended that an independent investment advisor be consulted. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to individual circumstances or otherwise constitutes a personal recommendation of Dion.

### **REGULATORY DISCLOSURES:**

Dion is engaged in the business of developing software solutions for the global financial services industry across the entire transaction lifecycle and inter-alia provides research and information services essential for business intelligence to global companies and financial institutions. Dion is listed on BSE Limited (BSE) and is also registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH100002771. Dion's activities were neither suspended nor has it defaulted with requirements under the Listing Agreement and / or SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with the BSE in the last five years. Dion has not been debarred from doing business by BSE / SEBI or any other authority.

In the context of the SEBI Regulations, we affirm that we are a SEBI registered Research Analyst and in the course of our business, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

#### 1. Disclosures regarding Ownership

Dion *confirms that:*

- (i) Dion/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein at the time of publication of this report.
  
- (ii) It/its associates have no actual / beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

*Further, the Research Analyst confirms that:*

- (i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company at the time of publication of this report.
  
- (ii) he, his associates and his relatives have no actual/beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

#### 2. Disclosures regarding Compensation:

During the past 12 months, Dion or its Associates:

- (a) Have not managed or co-managed public offering of securities for the subject company
- (b) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company
- (c) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject.
- (d) Have not received any compensation or other benefits from the subject company or third party in connection with this report

#### 3. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Abhishek Kumar Das employed as Research Analyst by Dion and engaged in the preparation of this report have not served as an officer, director or employee of the subject company

#### 4. Disclosure regarding Market Making activity:

Neither Dion /its Research Analysts have engaged in market making activities for the subject company.

Copyright in this report vests exclusively with Dion.