

BUY

TP: Rs 570 | ▲ 19%

CIPLA

Pharmaceuticals

06 November 2019

All-round beat – India drives 6-11% EPS upgrade; retain BUY

Cipla reported a strong quarter with an EBITDA beat of 30%/11% on our/consensus estimates due to a surprise recovery in India sales (up 29% QoQ), 100bps sequential improvement in core margins, and better growth across EM/EU/US. The beat was despite limited delta from Q1 spillover EM sales. Q2 commentary on normalisation of the trade generics business, plus the 200bps tax reduction are incrementally positive in our view, leading to a 6-11% EPS upgrade for FY20-FY22. Retain BUY with a revised TP of Rs 570 (vs. Rs 555).

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Strong India sales drive EPS upgrade, ROW/US upbeat: India sales rose 29% QoQ, led by a 61% recovery in trade generics. Branded sales grew 13% YoY. India business beat estimates by >Rs 2bn; growth should sustain in coming quarters, ex-acute seasonality. Also, Q2 had limited delta from Q1 spillover EM sales (realised US\$ 5mn vs. US\$ 15mn in Q1), indicating H2 should see good momentum. This coupled with a 200bps drop in ETR from the new tax regime drives our FY21/FY22 EPS raise of 6-11%. Cipla expects gross margins to stay at 66% levels over the next 4-6 quarters. SG&A should rise on specialty field force buildup ahead of Tramadol IV approval and Plazomicin ramp-up by FY22.

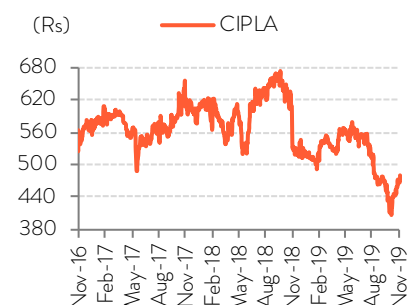
US base stable; gAlbuterol launch moved to H1FY21: US sales were a tad higher than estimates at US\$ 135mn, including gSensipar which has stabilised materially (Cipla retains major 40% share). Ex-Sensipar, we believe base business EBITDA margins have improved ~100bps QoQ/~200bps YoY. Shift in launch of gAlbuterol from Q4FY20 is due to additional test data needed by the FDA.

Call takeaways: (1) Limited competition launches (+US\$ 15mn in value terms) to resume from Q4 in the US. (2) Top 3 products form 30% of US sales. (3) Advair filing on track for FY20-end. (4) Response on Goa 483s submitted to FDA.

Ticker/Price	CIPLA IN/Rs 481
Market cap	US\$ 5.5bn
Shares o/s	806mn
3M ADV	US\$ 19.8mn
52wk high/low	Rs 586/Rs 390
Promoter/FPI/DII	37%/26%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	152,181	163,604	169,751	179,280	192,699
EBITDA (Rs mn)	28,254	30,955	33,166	34,944	38,654
Adj. net profit (Rs mn)	12,340	13,409	16,057	17,667	20,160
Adj. EPS (Rs)	15.3	16.6	19.9	21.9	25.0
Adj. EPS growth (%)	(0.2)	8.7	19.7	10.0	14.1
Adj. ROAE (%)	8.9	9.0	10.1	10.2	10.6
Adj. P/E (x)	31.4	28.9	24.1	21.9	19.2
EV/EBITDA (x)	14.7	13.2	12.2	10.9	9.5

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Q2FY20E	Var (%)
Net Sales	43,957	40,109	9.6	39,889	10.2	39,099	12.4
EBITDA	9,096	7,016	29.6	9,047	0.5	6,924	31.4
Depreciation	2,829	2,819	-	2,680	-	2,680	-
EBIT	6,267	4,197	49.3	6,367	(1.6)	4,244	-
Interest	460	443	-	521	-	400	-
Other Income	1,005	1,325	-	783	-	500	-
PBT	6,812	5,079	34.1	6,629	2.8	4,344	56.8
Less: Taxation	2,005	1,423	-	1,922	-	1,216	-
Less: Minority Interest	90	(109)	-	(75)	-	0	-
Recurring PAT	4,717	3,765	25.3	4,782	(1.4)	3,128	50.8
Exceptional Items	0	0	-	0	-	0	-
Reported PAT	4,717	3,765	25.3	4,782	(1.4)	3,128	50.8
Key Ratios (%)							
Gross Margin	66.8	64.8	-	70.0	-	68.0	-
EBITDA Margin	20.7	17.5	-	22.7	-	17.7	-
Tax / PBT	29.4	28.0	-	29.0	-	28.0	-
NPM	10.7	9.4	-	12.0	-	8.0	-
EPS (Rs)	5.9	4.7	-	5.9	-	3.9	-

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Q2FY20E	Var (%)
Formulations	40,790	37,690	8.2	36,450	11.9	36,518	11.7
India	17,450	16,440	6.1	13,550	28.8	14,963	16.6
US	9,530	7,580	25.7	11,190	(14.8)	9,100	4.7
SAGA	7,400	7,540	(1.9)	6,910	7.1	7,442	(0.6)
South Africa	5,460	5,030	8.5	5,320	2.6	5,852	(6.7)
Others/Global Access	1,940	2,510	(22.7)	1,590	22.0	1,590	22.0
Europe	1,900	1,410	34.8	2,010	(5.5)	1,523	24.8
ROW	4,510	4,720	(4.4)	2,790	61.6	3,490	29.2
APIs	1,570	1,710	(8.2)	1,820	(13.7)	1,881	(16.5)
Other Op. income	1,590	639	148.8	1,600	(0.6)	700	127.1
Net Sales	43,950	40,039	9.8	39,870	10.2	39,099	12.4

Source: Company, BOBCAPS Research

Valuation methodology

We like Cipla for its strong India franchise, rich US pipeline and low risk of price erosion in the US market (due to a benign base and low concentration). Operating leverage in the US business will be a key margin driver in the next two years.

Following the core EBITDA beat in Q2FY20 which was essentially driven by a solid recovery in the India trade generics business along with above-expected ROW and EU growth, we raise FY20-FY22 EPS estimates by 6-11%. We revise our Sep'21 target price to Rs 570 from Rs 555, based on 12x EV/EBITDA (24x implied P/E).

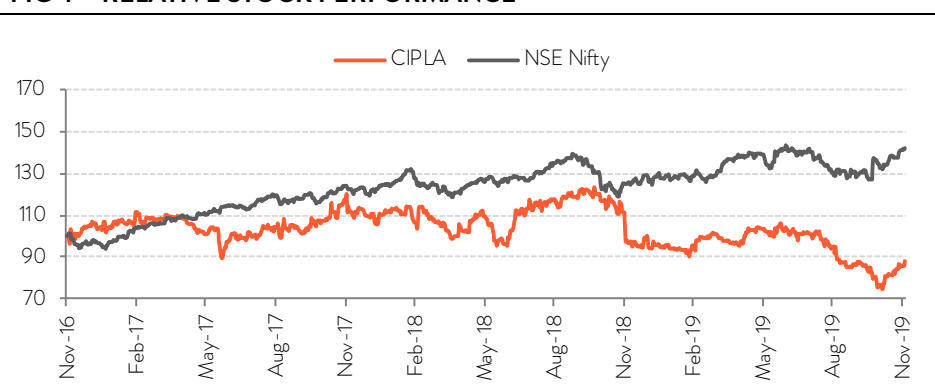
We continue to expect a core EPS CAGR of 15-18% over FY19-FY22. Advair approval represents an upside risk to our EPS estimates. We have valued one-time gSensipar at non-core business multiples. Maintain BUY.

FIG 3 – REVISED ESTIMATES

(Rs bn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Sales	169.8	179.3	192.7	164.3	174.0	187.7	3.3	3.0	2.7
EBITDA	33.2	34.9	38.7	31.1	33.7	37.5	6.6	3.7	3.1
EBITDA margin (%)	19.5	19.5	20.1	18.9	19.4	20.0	59bps	13bps	9bps
EPS (Rs)	20	22	25	18	20	24	10.6	7.7	5.9

Source: Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **US execution critical:** We expect the US market to contribute meaningfully to profitability in the coming years. Any delay in key launches (Proventil HFA, Flonase) can potentially erode 4-5% of FY20E/FY21E EPS.
- **Reduction in Global Access funding:** A decline in the tender-facing Global Access business due to challenges in the funding environment poses a risk to our estimates.
- **Above-expected increase in R&D costs:** Should R&D costs increase beyond the current 7-8% of sales, the savings from other cost optimisation measures would be nullified.
- **Weak drug price hikes in South Africa**

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	152,181	163,604	169,751	179,280	192,699
EBITDA	28,254	30,955	33,166	34,944	38,654
Depreciation	13,228	13,263	12,080	13,046	14,090
EBIT	15,026	17,692	21,086	21,897	24,564
Net interest income/(expenses)	(1,142)	(1,684)	(1,480)	(1,002)	(626)
Other income/(expenses)	984	2,915	3,331	3,643	4,063
Exceptional items	0	0	0	0	0
EBT	14,868	18,924	22,938	24,538	28,001
Income taxes	2,501	5,696	6,881	6,871	7,840
Extraordinary items	1,817	1,850	0	0	0
Min. int./Inc. from associates	27	(181)	0	0	0
Reported net profit	14,157	15,259	16,057	17,667	20,160
Adjustments	1,817	1,850	0	0	0
Adjusted net profit	12,340	13,409	16,057	17,667	20,160

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	21,191	19,480	22,681	23,980	25,803
Other current liabilities	7,904	10,126	9,934	10,503	11,302
Provisions	7,650	8,582	8,897	9,407	10,122
Debt funds	40,980	43,161	30,829	19,268	12,043
Other liabilities	0	0	0	0	0
Equity capital	1,610	1,611	1,611	1,611	1,611
Reserves & surplus	147,378	154,016	167,655	182,906	200,649
Shareholders' fund	148,988	155,627	169,267	184,517	202,261
Total liabilities and equities	226,713	236,976	241,608	247,675	261,531
Cash and cash eq.	9,655	6,188	14,937	19,606	28,148
Accounts receivables	31,020	41,507	34,928	35,010	37,673
Inventories	40,450	39,648	43,093	45,561	49,026
Other current assets	23,697	21,866	23,180	24,507	26,371
Investments	12,586	25,539	25,539	25,539	25,539
Net fixed assets	53,154	51,144	49,996	48,756	47,417
CWIP	9,813	6,762	6,762	6,762	6,762
Intangible assets	46,337	44,322	43,174	41,934	40,595
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	226,712	236,975	241,608	247,675	261,531

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	27,385	28,522	28,136	30,714	34,250
Interest expenses	1,142	1,684	1,480	1,002	626
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(9,765)	(6,412)	5,145	(1,500)	(4,653)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	18,761	23,794	34,762	30,215	30,224
Capital expenditures	(17,369)	(6,228)	(10,932)	(11,807)	(12,751)
Change in investments	(2,856)	(12,953)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(20,225)	(19,181)	(10,932)	(11,807)	(12,751)
Equities issued/Others	1	1	0	0	0
Debt raised/repaid	(146)	2,181	(12,332)	(11,561)	(7,226)
Interest expenses	(1,142)	(1,684)	(1,480)	(1,002)	(626)
Dividends paid	(1,609)	(2,417)	(2,417)	(2,417)	(2,417)
Other financing cash flows	7,775	(6,163)	1,148	1,240	1,339
Cash flow from financing	4,879	(8,082)	(15,081)	(13,740)	(8,930)
Changes in cash and cash eq.	3,415	(3,468)	8,749	4,668	8,542
Closing cash and cash eq.	9,656	6,187	14,937	19,606	28,148

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	17.6	18.9	19.9	21.9	25.0
Adjusted EPS	15.3	16.6	19.9	21.9	25.0
Dividend per share	3.0	3.0	3.0	3.0	3.0
Book value per share	180.8	189.3	206.6	225.5	247.6

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.7	2.5	2.4	2.1	1.9
EV/EBITDA	14.7	13.2	12.2	10.9	9.5
Adjusted P/E	31.4	28.9	24.1	21.9	19.2
P/BV	2.7	2.5	2.3	2.1	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	83.0	70.9	70.0	72.0	72.0
Interest burden (PBT/EBIT)	98.9	107.0	108.8	112.1	114.0
EBIT margin (EBIT/Revenue)	9.9	10.8	12.4	12.2	12.7
Asset turnover (Revenue/Avg TA)	20.8	21.0	21.3	22.2	23.0
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.2	1.1
Adjusted ROAE	8.9	9.0	10.1	10.2	10.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	4.1	7.5	3.8	5.6	7.5
EBITDA	14.9	9.6	7.1	5.4	10.6
Adjusted EPS	(0.2)	8.7	19.7	10.0	14.1
Profitability & Return ratios (%)					
EBITDA margin	18.6	18.9	19.5	19.5	20.1
EBIT margin	9.9	10.8	12.4	12.2	12.7
Adjusted profit margin	8.1	8.2	9.5	9.9	10.5
Adjusted ROAE	8.9	9.0	10.1	10.2	10.6
ROCE	8.7	10.6	12.2	12.6	13.7
Working capital days (days)					
Receivables	77	95	77	73	73
Inventory	100	91	95	95	95
Payables	52	45	50	50	50
Ratios (x)					
Gross asset turnover	1.2	1.2	1.2	1.1	1.1
Current ratio	2.9	2.9	2.8	2.8	3.0
Net interest coverage ratio	13.2	10.5	14.2	21.9	39.2
Adjusted debt/equity	0.1	0.1	0.0	(0.1)	(0.2)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

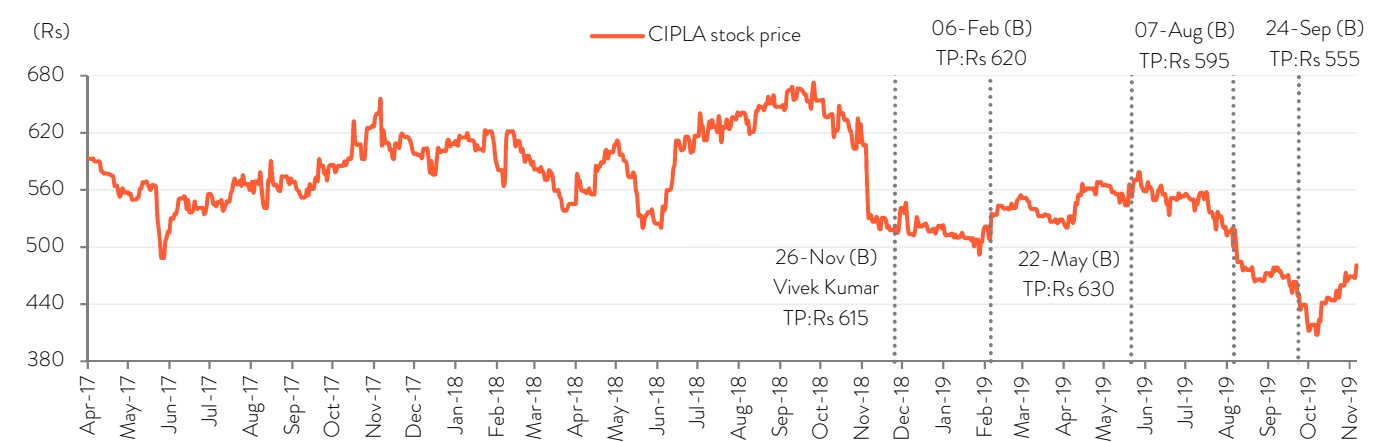
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: CIPLA (CIPLA IN)



B – Buy, A – Add, R – Reduce, S – Sell

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