

Cipla

Performance Highlights

Y/E March (₹ cr)	1QFY2016	4QFY2015	% chg qoq	1QFY2015	% chg yoy
Net sales	3,777	2,981	26.7	2,647	42.7
Other income	125	173	(28.0)	113	10.1
Gross profit	2,353	1,857	26.7	1,622	45.0
Operating profit	963	396	143.4	469	105.2
Adj. Net profit	651	260	150.7	295	121.0

Source: Company, Angel Research

Cipla posted a robust set of numbers for 1QFY2016. It posted sales of ₹3,777cr V/s ₹3,390cr expected and V/s ₹2,647cr in 1QFY2015, a yoy growth of 42.7%. The sales growth came in mainly on back of export formulations, which grew by 78.5% yoy. On the operating front, the gross margin came in at 66.9% V/s 63.4% expected and V/s 61.3% in 1QFY2015, mainly on back of improved sales mix. The OPM consequently came in at 25.5% V/s 19.5% expected and V/s 17.7% in 1QFY2015. Thus, the net profit came in at ₹651cr V/s ₹420cr expected and V/s ₹295cr in 1QFY2015, a yoy growth of 121%. **For FY2016, the company expects a 20% yoy growth. We remain Neutral on stock.**

Results better than expectations on OPM & Net Profit fronts: The company posted sales of ₹3,777cr V/s ₹3,390cr expected and V/s ₹2,647cr in 1QFY2015, a yoy growth of 42.7%. The sales growth came in mainly on back of export formulations, which grew by 78.5% yoy. Overall, domestic formulations (₹1,397cr) posted a growth of 8.4% yoy, while exports (₹2,380cr) posted a yoy growth of 75.3%. The results include one-off revenue from the US market for the generic - Nexium. On the operating front, the gross margin came in at 66.9% V/s 63.4% expected and V/s 61.3% in 1QFY2015, mainly on back of an improved sales mix. The OPM consequently came in at 25.5% V/s 19.5% expected and V/s 17.7% in 1QFY2015. Thus, the net profit front came in at ₹651cr V/s ₹420cr expected and V/s ₹295cr in 1QFY2015, a yoy growth of 121%.

Outlook and valuation: We expect the company's net sales to post a 18.9% CAGR to ₹16,515cr and EPS to record a 20.2% CAGR to ₹28.4 over FY2015–17E. The growth in the top-line would be driven by domestic formulation sales and exports. **We maintain our Neutral stance on the stock, taking into consideration the rich valuations.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	9,753	11,681	14,051	16,515
% chg	20.6	19.8	20.3	17.5
Adj. Net profit	1,388	1,578	2,139	2,280
% chg	(8.9)	13.6	35.6	6.6
EPS (₹)	17.3	19.6	26.6	28.4
EBITDA margin (%)	18.3	17.7	20.4	18.7
P/E (x)	42.8	37.7	27.8	26.1
RoE (%)	14.6	15.1	18.2	16.5
RoCE (%)	12.8	12.9	17.3	16.8
P/BV (x)	5.9	5.5	4.7	4.0
EV/Sales (x)	6.2	5.2	4.2	3.5
EV/EBITDA (x)	33.8	29.2	20.8	18.8

Source: Company, Angel Research; Note: CMP as of August 14, 2015

NEUTRAL

CMP	₹741
Target Price	-

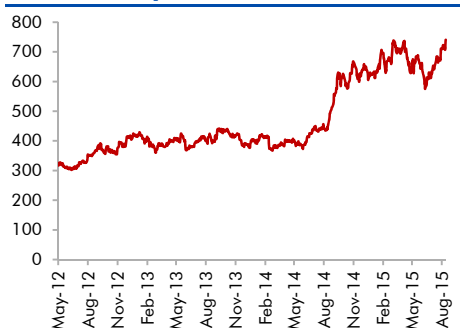
Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	59,470
Net Debt (₹ cr)	498
Beta	1.1
52 Week High / Low	752/442
Avg. Daily Volume	193,753
Face Value (₹)	2
BSE Sensex	28,067
Nifty	8,519
Reuters Code	CIPL.BO
Bloomberg Code	CIPLA@IN

Shareholding Pattern (%)	
Promoters	36.8
MF / Banks / Indian FIs	20.6
FII / NRIs / OCBs	24.1
Indian Public / Others	18.5

Abs. (%)	3m	1yr	3yr
Sensex	3.2	7.5	58.3
Cipla	8.2	65.3	112.2

3-Year Daily Price Chart



Source: Company, Angel Research

Sarabjit Kour Nangra

+91 22 3935 7600 Ext: 6806

sarabjit@angelbroking.com

Exhibit 1: 1QFY2016 (Consolidated) performance

Y/E March (₹ cr)	1QFY2016	4QFY2015	% chg qoq	1QFY2015	% chg yoy	FY2015	FY2014	% chg yoy
Net sales	3,777	2,981	26.7	2,647	42.7	11,679	9,753	19.7
Other income	124.6	173.2	(28.0)	113.2	10.1	580.0	613.0	(5.4)
Total income	3,902	3,154	23.7	2,760	41.3	12,259	10,366	18.3
Gross profit	2525	1857	26.7	1622	45.0	7224	5878	22.9
Gross margin	66.9	61.1		61.3		61.9	60.3	
Operating profit	963	396	143.4	469	105.2	2266	1785	27.0
OPM (%)	25.5	13.3		17.7		19.4	18.3	
Interest	51.4	43.4	18.5	33.3	54.1	176	146.0	20.7
Depreciation	129	136	(5.1)	125	2.7	498	373	33.5
PBT	908	390	132.8	424	114.1	2172	1879	15.6
Provision for taxation	250	103	142.9	102	145.7	547	463	18.2
PAT before extra-ordinary item	657	287	129.2	322	1,04.2	1,254	1,417	(11.5)
Share of Profit /(loss) of asso.	(6)	(27)		27		(53)	(28)	
Extra-ordinary items/(income)	0	0		0		0	0	
PAT after extra-ordinary item	651	260	150.7	295	121.0	1,181	1,388	(15.0)
Adj. PAT	651	260	150.7	295	121.0	1,181	1,388	(15.0)
EPS (₹)	8.1	3.2		3.7		14.7	17.3	

Source: Company, Angel Research

Exhibit 2: 1QFY2016 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variance
Net sales	3,777	3,390	11.4
Other income	125	68	82.0
Operating profit	963	661	45.7
Tax	250	103	143.0
Net profit	651	420	54.9

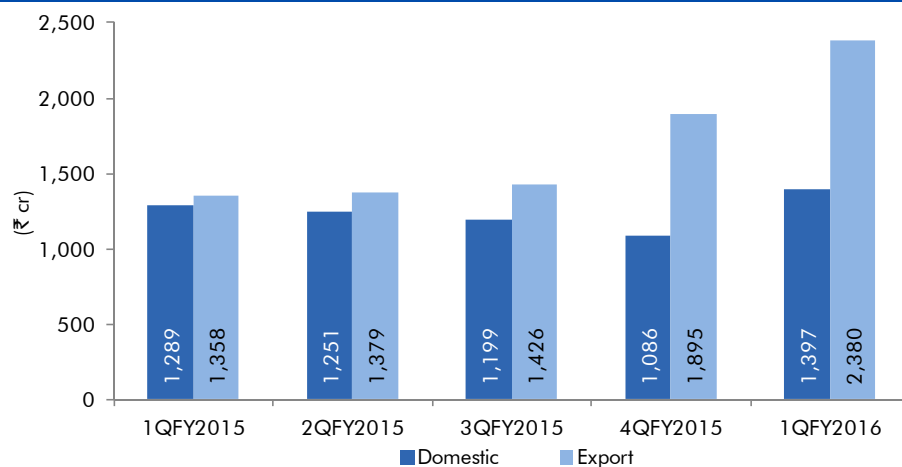
Source: Company, Angel Research

Top-line growth above expectation

The company posted sales of ₹3,777cr V/s ₹3,390cr expected and V/s ₹2,647cr in 1QFY2015, a yoy growth of 42.7%. The sales growth came in mainly on back of export formulations, which grew by 78.5% yoy. Overall, domestic formulations (₹1,397cr) posted a yoy growth of 8.4%, while exports (₹2,380cr) posted a yoy growth of 75.3%. The results include one-off revenue from the US market in the export formulations segment, driven by gNexium supplies to the US market. Cipla supplies the product to its partner Teva. The exclusivity period is to last for one more quarter, as other players have indicated December 2015 as the launch for their generic versions.

Domestic sales grew 8.4% yoy to ₹1,397cr, which is in line with industry growth. The India business contributed 37% to overall sales. Export formulations posted a growth of 78.5% yoy to ₹2,174cr, while API exports dipped to ₹206cr V/s ₹140cr in the corresponding period of last year. Formulations now constitute 94.5% of sales of the company.

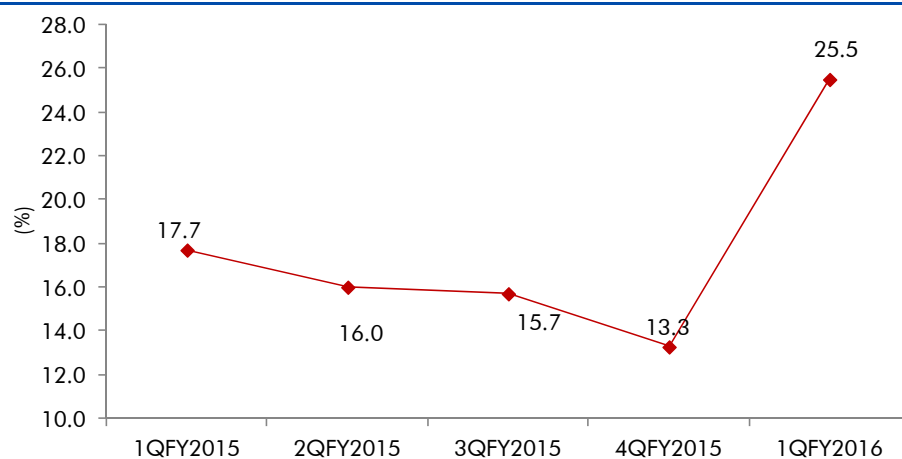
Overall, exports contributed 63.0% to overall sales (V/s 51.3% in 1QFY2015), while domestic sales contributed the rest.

Exhibit 3: Sales Trend


Source: Company

Operating profit margin better than expected

On the operating front, the gross margin came in at 66.9% V/s 63.4% expected and V/s 61.3% in 1QFY2015, mainly on back of an improved sales mix. The OPM consequently came in at 25.5% V/s 19.5% expected and V/s 17.7% in 1QFY2015. The GPM grew on back of an improved sales mix and contribution from Nexium. The share of formulations for the quarter was at 94.5% of sales V/s 94.7% in 1QFY2015.

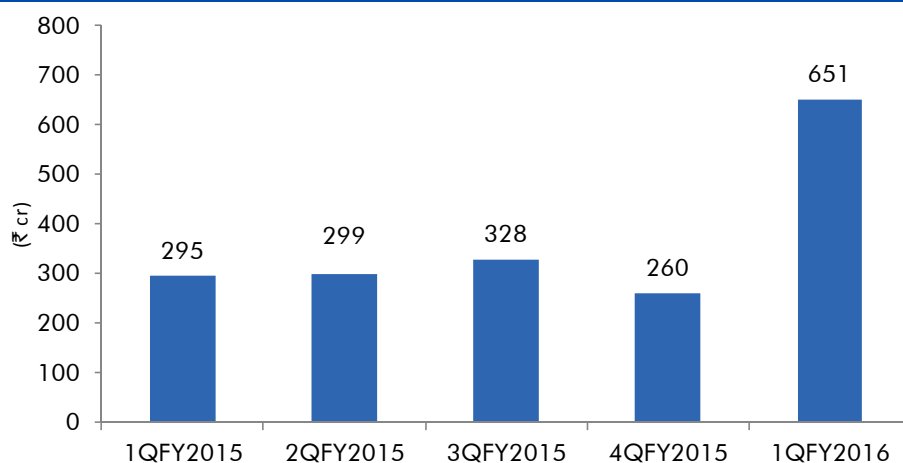
Exhibit 4: OPM Trend


Source: Company

Net profit higher than expectation

The net profit came in at ₹651cr V/s ₹420cr expected and V/s ₹295cr in 1QFY2015, a yoy growth of 121%. Tax as a % of PBT was 27.5% V/s 24.0% in 1QFY2015. Also the other income, at ₹125cr V/s ₹69cr expected, along with better than expected OPM, aided the net profit to come in higher than expected.

Exhibit 5: Net Profit Trend



Source: Company

Concall takeaways

- The Management reiterated its guidance of sales growth of 20% in FY2016.
- In 1QFY2016 there have been 11 filings for Europe and 2 filings for North America, while there have been 184 International (RoW) filings.

Recommendation rationale

Export segment to be the growth driver: Cipla exports to more than 180 countries, with growth coming through marketing alliances and distribution tie-ups in various markets. Exports contributed 53% to the total turnover in FY2015, with Africa, US and Latin America constituting more than ~60% of total exports. In the US, Cipla has a strong product pipeline of 147 ANDAs, out of which, 79 are approved. Another long term growth driver for the company is the launch of the CFC-free inhalers in the regulated markets. CFC-free inhalers in Europe and US address a potential market size of more than US\$3bn.

With Medpro's acquisition, the company now has a front end in the fast growing African market. Overall, we expect the company's exports to grow at a CAGR of 22.5% during FY2015-17E.

Increasing penetration in the domestic market: Cipla is one of the largest players in the domestic formulation market, with a market share of around 5.3%. Domestic formulations contributed 43% to the company's total turnover in FY2015. The company is the market leader in key therapeutic areas such as respiratory care, anti-viral and urological. Cipla's distribution network in India consists of a field force of around 7,000-8,000 employees. The company plans to increase its focus on domestic markets with new therapies such as oncology and neuropsychiatry in the offing. The company plans to focus on growing its market share and sales by increasing penetration in the Indian market, especially in rural areas, and plans to expand its product portfolio by launching biosimilars, particularly relating to the oncology, anti-asthmatic and anti-arthritis categories. Overall we expect the company's domestic formulation business to post a CAGR of 15.0% over FY2015-17E.

Valuation: We expect the company to post an 18.9% CAGR in net sales to ₹16,515cr and EPS to record a 20.2% CAGR to ₹28.4 over FY2015–17E. The growth in the top-line would be driven by domestic formulation sales and exports. **We maintain our Neutral stance on the stock.**

Exhibit 6: Key assumptions

Key assumptions	FY2016E	FY2017E
Domestic growth (%)	15.0	15.0
Exports growth (%)	23.6	19.2
Growth in employee expenses (%)	20.0	22.0
Operating margins (excl tech. know-how fees) (%)	20.4	18.7

Source: Company, Angel Research

Exhibit 7: One-year forward PE band



Source: Company, Angel Research

Exhibit 8: Recommendation Summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside %	PE (x)	FY2017E EV/Sales (x)	FY2017E EV/EBITDA (x)	FY15-17E CAGR in EPS (%)	FY2017E RoCE (%)	FY2017E RoE (%)
Alembic Pharma	Neutral	704	-	-	29.5	4.3	21.2	26.2	31.5	31.8
Aurobindo Pharma	Accumulate	761	824	8.2	18.5	2.9	12.9	14.1	22.5	29.2
Cadila Healthcare	Neutral	1,986	-	-	23.2	3.4	15.9	23.0	24.0	28.5
Cipla	Neutral	741	-	-	26.1	3.5	18.8	21.2	16.9	16.9
Dr Reddy's	Neutral	4,258	-	-	22.5	3.3	14.6	20.7	20.4	21.7
Dishman Pharma	Buy	204	285	40.0	9.4	0.9	4.6	42.8	14.8	14.3
GSK Pharma*	Neutral	3,695	-	-	54.1	9.4	42.4	6.6	33.7	34.3
Indoco Remedies	Neutral	354	-	-	22.8	2.6	14.3	31.4	20.1	21.1
Ipca labs	Neutral	816	-	-	25.5	2.8	14.8	26.1	13.0	14.9
Lupin	Neutral	1,794	-	-	25.2	4.3	16.0	9.7	27.9	23.4
Sanofi India*	Neutral	4,107	-	-	30.7	3.4	20.3	25.1	22.0	22.5
Sun Pharma	Accumulate	899	950	5.7	33.4	6.0	19.4	8.4	15.8	16.6

Source: Company, Angel Research; Note: * December year ending

Company Background

Cipla is a leading pharmaceutical company in India with a strong presence in both, the export and domestic markets. On the exports front, where it follows the partnership model, it has 5,700 product registrations in around 180 countries. Cipla is a market leader in the domestic formulation market with ~5.3% market share. The company is likely to continue on the growth trajectory owing to its entry into the inhalers market in the EU and potential new long-term manufacturing contracts with Global Innovators.

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Gross sales	6,956	8,196	9,902	11,861	14,267	16,769
Less: Excise duty	108.1	108.7	149.3	179.7	216.1	254.1
Net sales	6,848	8,087	9,753	11,681	14,051	16,515
Other operating income	173	193	348	348	348	348
Total operating income	7,021	8,279	10,100	12,029	14,399	16,863
% chg	11.0	17.9	22.0	19.1	19.7	17.1
Total expenditure	5,362	6,081	7,967	9,612	11,188	13,423
Net raw materials	2,739	2,953	3,875	4,556	5,269	6,441
Other mfg costs	705	641	827	993	1,142	1,313
Personnel	773	1,036	1,543	2,083	2,499	3,049
Other	1,145	1,451	1,722	1,981	2,278	2,620
EBITDA	1,486	2,005	1,786	2,069	2,863	3,093
% chg	9.1	35.0	(11.0)	15.9	38.3	8.0
(% of Net Sales)	21.7	24.8	18.3	17.7	20.4	18.7
Depreciation & amort.	312	330	373	457	502	544
EBIT	1,174	1,675	1,413	1,613	2,361	2,549
% chg	7.8	42.7	(15.6)	14.1	46.4	7.9
(% of Net Sales)	17.1	20.7	14.5	13.8	16.8	15.4
Interest & other charges	38	34	146	85	85	85
Other Income	176	235	266	266	266	266
(% of PBT)	11.9	11.4	14.1	12.4	9.2	8.6
Recurring PBT	1,485	2,069	1,881	2,141	2,890	3,077
% chg	27.2	39.3	(9.1)	13.8	35.0	6.5
Extraordinary exp./(Inc.)	36.9	(26.7)	-	-	-	-
PBT (reported)	1,448	2,095	1,881	2,141	2,890	3,077
Tax	306.5	544.3	463.4	535.3	722.4	769.3
(% of PBT)	21.2	26.0	24.6	25.0	25.0	25.0
PAT (reported)	1,141	1,551	1,417	1,606	2,167	2,308
Add: Share of earnings of asso.	3	(6)	(12)	(12)	(12)	(11)
Less: Minority interest (MI)	-	-	16	16	16	17
Prior period items	-	-	-	-	-	1
PAT after MI (reported)	1,144	1,545	1,388	1,578	2,139	2,280
ADJ. PAT	1,173	1,524	1,388	1,578	2,139	2,280
% chg	18.1	30.0	(8.9)	13.6	35.6	6.6
(% of Net Sales)	16.7	19.1	14.2	13.5	15.2	13.8
Basic EPS (₹)	14.6	19.0	17.3	19.6	26.6	28.4
Fully Diluted EPS (₹)	14.6	19.0	17.3	19.6	26.6	28.4
% chg	18.1	30.0	(8.9)	13.6	35.6	6.6

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	161	161	161	161	161	161
Preference Capital	-	-	-	-	-	-
Reserves & surplus	7,478	8,858	9,890	10,629	12,580	14,672
Shareholders funds	7,639	9,019	10,050	10,801	12,740	14,832
Minority interest	-	-	50	180	180	180
Total loans	29.2	966.9	1,247.9	1,701.8	700.0	701.0
Other long term liabilities	30.0	30.0	32.6	32.6	32.6	32.6
Long Term Provisions	31.2	50.4	77.4	168.4	168.4	168.4
Deferred tax liability	233.2	280.5	309.0	284.6	284.6	284.6
Total liabilities	7,963	10,347	11,767	13,169	14,106	16,200
APPLICATION OF FUNDS						
Gross block	4,626	5,318	6,183	6,868	7,468	8,068
Less: acc. depreciation	1,411	1,708	2,180	2,634	3,136	3,679
Net block	3,215	3,610	4,003	4,234	4,332	4,388
Capital work-in-progress	371	378	442	442	442	442
Goodwill	-	-	2,493	2,735	2,735	2,735
Investments	1,269	2,532	709	640	640	640
Long Term Loans and Adv.	378	363	301	419	434	510
Current assets	4,116	4,775	5,340	7,201	7,912	10,292
Cash	90	143	175	564	465	1,539
Loans & advances	568	573	596	701	843	991
Others	3,458	4,058	4,569	5,936	6,604	7,762
Current liabilities	1,387	1,311	1,634	2,501	2,389	2,808
Net current assets	2,729	3,464	3,706	4,700	5,523	7,484
Mis. Exp. not written off	-	-	112	-	-	-
Total assets	7,963	10,347	11,767	13,169	14,106	16,200

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	1,448	2,095	1,881	2,141	2,890	3,077
Depreciation	312	330	373	457	502	544
(Inc)/Dec in Working Capital	370	(667)	(149)	(722)	(938)	(963)
Direct taxes paid	275	518	431	537	888	-
Cash Flow from Operations	1,855	1,241	1,673	1,339	1,566	2,658
(Inc.)/Dec.in Fixed Assets	(472)	(698)	(930)	(684)	(600)	(600)
(Inc.)/Dec. in Investments	(678)	(1,263)	1,824	69	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(1,150)	(1,961)	894	(616)	(600)	(600)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	(482)	957	311	545	(1,002)	1
Dividend Paid (Incl. Tax)	(187)	(188)	(188)	(188)	(188)	(188)
Others	(42)	4	(2,658)	(692)	165	(810)
Cash Flow from Financing	(711)	773	(2,535)	(335)	(1,025)	(997)
Inc./ (Dec.) in Cash	(6)	53	32	389	(59)	1,061
Opening Cash balances	96	90	143	175	564	465
Closing Cash balances	90	143	175	564	465	1,539

Key Ratio

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	50.7	39.0	42.8	37.7	27.8	26.1
P/CEPS	40.8	31.7	33.8	29.2	22.5	21.1
P/BV	7.8	6.6	5.9	5.5	4.7	4.0
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3	0.3
EV/Sales	8.6	7.4	6.2	5.2	4.2	3.5
EV/EBITDA	39.7	29.9	33.8	29.2	20.8	18.8
EV / Total Assets	7.4	5.8	5.1	4.6	4.2	3.6
Per Share Data (₹)						
EPS (Basic)	14.6	19.0	17.3	19.6	26.6	28.4
EPS (fully diluted)	14.6	19.0	17.3	19.6	26.6	28.4
Cash EPS	18.1	23.4	21.9	25.3	32.9	35.2
DPS	2.0	2.0	2.0	2.0	2.0	2.0
Book Value	95.1	112.3	125.2	134.5	158.7	184.7
Dupont Analysis						
EBIT margin	17.1	20.7	14.5	13.8	16.8	15.4
Tax retention ratio	78.8	74.0	75.4	75.0	75.0	75.0
Asset turnover (x)	0.9	0.9	0.9	1.0	1.1	1.2
ROIC (Post-tax)	12.5	14.0	10.1	10.3	13.8	13.8
Cost of Debt (Post Tax)	10.1	5.0	9.9	4.3	5.3	9.1
Leverage (x)	0.0	0.0	0.1	0.0	0.0	1.0
Operating ROE	12.5	14.4	10.1	10.3	13.8	18.5
Returns (%)						
ROCE (Pre-tax)	15.2	18.3	12.8	12.9	17.3	16.8
Angel ROIC (Pre-tax)	16.1	19.3	15.3	17.8	23.7	23.2
ROE	16.4	18.3	14.6	15.1	18.2	16.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.6	1.7	1.8	1.8	2.0	2.2
Inventory / Sales (days)	104	93	95	96	88	98
Receivables (days)	83	71	60	74	68	75
Payables (days)	57	46	41	55	45	44
WC cycle (ex-cash) (days)	146	131	124	116	117	119
Solvency ratios (x)						
Net debt to equity	(0.0)	0.1	0.1	0.1	0.0	(0.1)
Net debt to EBITDA	(0.0)	0.4	0.6	0.5	0.1	(0.3)
Interest Coverage (EBIT/Int.)	-	-	-	-	-	-

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement

1. Analyst ownership of the stock
2. Angel and its Group companies ownership of the stock
3. Angel and its Group companies' Directors ownership of the stock
4. Broking relationship with company covered

Cipla

No
No
No
No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)