

Cipla (CIPLA)

₹ 533

US drives performance...

- Q3FY19 results were in line on the operational front but net profit was higher than I-direct estimates due to higher other income. Revenues grew 2.4% YoY to ₹ 4007.5 crore (I-direct estimate: ₹ 4081.6 crore). A 31% YoY growth in the US to ₹ 849 crore (I-direct estimate: ₹ 781.2 crore) was largely offset by 1% decline in domestic market to ₹ 1585 crore (I-direct estimate: ₹ 1681.1 crore)
- EBITDA margins contracted 326 bps YoY to 17.7% (I-direct estimate: 17.0%) due to lower gross margins and higher employee cost. EBITDA de-grew 13.6% YoY to ₹ 707.7 crore
- Net profit declined 17.1% YoY to ₹ 332 crore (I-direct estimate: ₹ 290.1 crore) due to lower operational performance

Product launches, front-end shift key for formulation exports growth

Formulation exports constitute ~54% of FY18 revenues. To improve the quality of exports, Cipla has undertaken scores of measures recently. Partnership deals and participation in global tenders were growth drivers in the past for exports. The focus has now shifted to the 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. The acquisition of US based InvaGen will strengthen Cipla's transformation from back-end to front-end. Similarly, recent acquisitions in Africa and other geographies are testimony to this transformation. We expect export formulation sales to grow at 9% CAGR to ₹ 10588 crore in FY18-21E. Key drivers will be a launch of combination inhalers in the developed markets and incremental product launches in the US.

Indian formulations growth backed by continuous new launches

With ~4% 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%, 59% and 5%, respectively. Domestic formulations comprise ~38% of total FY18 revenues. It commands ~20% market share in the respiratory segment. We expect domestic formulations to grow at ~10% CAGR in FY18-21E to ₹ 7888 crore driven by improved productivity of the newly inducted field force and product launches.

Product rationalisation, optical cost management to work for margins

In its quest to transform itself from back-end to front-end (albeit late), the company has initiated some structural changes at the cost of margins such as 1) higher R&D cost on the back of incremental product filings across geographies, 2) higher staff cost on the back of hiring at the global level and 3) higher front-end and SG&A expenses. Most of these measures are now bearing fruit. This has resulted in ~170 bps EBITDA margin expansion vis-à-vis FY17 to 18.6% in FY18.

Tender to private business transformation continues...

The key highlight of the result was strong traction in the US business both on YoY and QoQ terms. The US business has now almost completely transformed into direct to market (DTM) thus giving the company enough flexibility to leverage on its capabilities in a tough market like US. On the Africa front, the company continues to rebase its business model towards private business in the backdrop shrinking tender opportunities. India was muted during the quarter but remains on course of double digit growth in the long run. This transformation across geographies from tenderised model to public model is likely to continue for some time. This may have some implications on margins initially. We ascribe a target price of ₹ 545 based on 20x FY21E EPS.

Rating matrix	
Rating	Hold
Target	₹ 545
Target Period	12-15 months
Potential Upside	2%

What's Changed?	
Target	Changed from ₹ 510 to ₹ 545
EPS FY19E	Changed from ₹ 22.5 to ₹ 17.5
EPS FY20E	Changed from ₹ 28.2 to ₹ 20.4
EPS FY21E	Introducing at ₹ 27.3
Rating	Unchanged

Quarterly Performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	4,007.5	3,913.8	2.4	4,011.9	-0.1
EBITDA	707.7	818.7	-13.6	702.2	0.8
EBITDA (%)	17.7	20.9	-326 bps	17.5	16 bps
Adjusted PAT	332.2	400.5	-17.1	356.8	-6.9

Key Financials				
(₹ crore)	FY18	FY19E	FY20E	FY21E
Revenues	15219.3	15900.8	17417.2	19577.9
EBITDA	2826.4	2830.0	3511.7	4240.9
Adjusted PAT	1476.4	1410.4	1641.9	2194.3
Adj. EPS (₹)	18.3	17.5	20.4	27.3

Valuation summary				
	FY18	FY19E	FY20E	FY21E
PE (x)	30.4	30.4	26.1	19.6
Target PE (x)	29.7	31.1	26.7	20.0
EV to EBITDA (x)	15.9	15.3	12.0	9.5
Price to book (x)	3.0	2.8	2.6	2.3
RoNW (%)	10.4	9.2	9.8	11.9
RoCE (%)	9.6	10.9	12.5	15.1

Stock data	
Particular	Amount
Market Capitalisation	₹ 42930 crore
Debt (FY18)	₹ 3098 crore
Cash (FY18)	₹ 1407 crore
EV	₹ 44621 crore
52 week H/L (₹)	678/484
Equity capital	₹ 161.0 crore
Face value	₹ 2

Price performance (%)				
	1M	3M	6M	1Y
Cipla	-1.3	-10.1	-20.7	-12.3
Lupin	1.1	-1.9	-5.4	-0.7
Sun Pharma	-4.8	-27.8	-29.3	-25.7

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Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	Q2FY19	YoY (%)	QoQ (%)	Comments
Revenue	4,007.5	4,081.6	3,913.8	4,011.9	2.4	-0.1	31% YoY growth in the US was largely off-set by 1% decline in the domestic formulations
Raw Material Expenses	1,462.7	1,489.8	1,378.4	1,412.1	6.1	3.6	
Gross Profit	2,544.9	2,591.8	2,535.4	2,599.8	0.4	-2.1	
Gross Margin (%)	63.5	63.5	64.8	64.8	-128 bps	-130 bps	Gross margins were impacted by 150 bps due to certain one-time low margin tender business sales in South Africa and liquidation of inventories
Employee Expenses	717.9	693.9	657.3	712.2	9.2	0.8	
Other Expenditure	1,119.3	1,204.1	1,059.4	1,185.3	5.7	-5.6	
Total Operating Expenditure	3,299.9	3,387.7	3,095.2	3,309.7	6.6	-0.3	
EBITDA	707.7	693.9	818.7	702.2	-13.6	0.8	
EBITDA (%)	17.7	17.0	20.9	17.5	-326 bps	16 bps	YoY decline due to lower gross margins and negative operational leverage
Interest	44.2	37.2	9.2	44.4	383.0	-0.4	
Depreciation	293.1	281.9	522.4	281.9	-43.9	4.0	
Other income	78.5	40.8	52.9	132.6	48.4	-40.8	
PBT before EO	448.9	415.6	340.1	508.5	32.0	-11.7	
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	448.9	415.6	340.1	508.5	32.0	-11.7	
Tax	125.7	116.4	-64.2	142.4	LP	-11.7	
Tax Rate (%)	28.0	28.0	-18.9	28.0	4688 bps	0 bps	
MI & Share of loss/ (gain) asso.	-10.0	8.3	2.9	10.1	PL	PL	
Adjusted PAT	332.2	290.1	400.5	356.8	-17.1	-6.9	Net profit decline mainly in sync with EBITDA
Key Metrics							
Domestic	1585.0	1681.1	1601.0	1644.0	-1.0	-3.6	Negative YoY growth and miss vis-à-vis I-Direct estimates due to impact of one-time restocking
US	849.0	781.2	650.0	758.0	30.6	12.0	YoY growth mainly due to new product launches. Beat vis-à-vis I-Direct estimates mainly due to higher than expected sales from new launches
EU	189.0	153.9	171.0	141.0	10.5	34.0	YoY Growth and beat I-Direct estimates was due to better than expected expansion in respiratory franchise
South Africa	557.0	508.0	518.4	503.0	7.4	10.7	YoY Growth and beat vis-à-vis I-Direct estimates due to faster than expected growth in private business
RoW	573.0	722.6	722.6	723.0	-20.7	-20.7	Decline and miss-a-vis I-direct estimates mainly due to sharp decline in tender business
API	154.0	162.8	148.0	171.0	4.1	-9.9	

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY19E			FY20E			
	Old	New	% Change	Old	New	% Change	
Revenues	17,040.9	15,900.8	-6.7	19,636.7	17,417.2	-11.3	Trimmed India and exports as the per management guidance and also reduced other operating income in line with 9MFY19 trend
EBITDA	3,355.2	2,830.0	-15.7	4,036.2	3,511.7	-13.0	
EBITDA Margin (%)	19.7	17.8	-190 bps	20.6	20.2	-44 bps	Changed mainly due to lower than expected margins in 9MFY19
PAT	1,811.5	1,410.4	-22.1	2,268.1	1,641.9	-27.6	Changed mainly in sync with EBITDA and lower other income
EPS (₹)	22.5	17.5	-22.1	28.2	20.4	-27.7	

Source: Company, ICICIdirect.com Research

Assumptions

(₹ crore)	Current				Earlier		Comments
	FY17	FY18	FY19E	FY20E	FY19E	FY20E	
Domestic	5,523.0	5,867.0	6,288.4	7,043.0	6,669.4	7,669.8	Changed as per management guidance
Export Formulations	8,145.2	8,237.2	8,567.4	9,305.8	8,937.7	10,274.0	Changed as per management guidance
API	523.0	626.0	680.5	664.4	688.2	757.0	Changed mainly due to lower than expected sales in Q3FY19

Source: Company, ICICIdirect.com Research

Company Analysis

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, INVIMA Colombia, 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 intension to shifting 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 34% of its export revenues from North and Latin America followed by 33% from Africa, 14% from Europe, 13% from Australasia and 6% from the Middle East.

On the product filing front, Cipla has filed ~270 ANDAs with the USFDA cumulatively (FY18). As far as other geographies are concerned, the count is ~1000 DMFs for 100 odd APIs. Similarly, ~30 of Cipla's products are pre-qualified for WHO tenders. The company spends 7-8% of revenues on R&D.

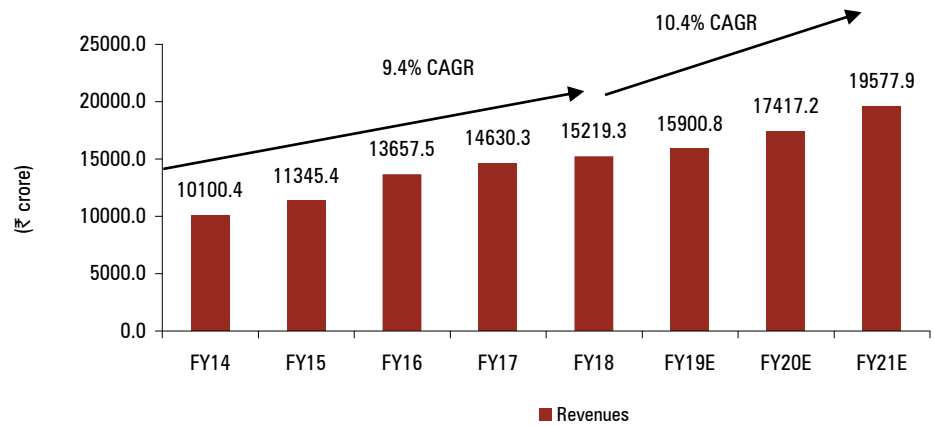
The company acquired two US-based companies, InvaGen Pharmaceuticals and Exelan Pharmaceuticals. InvaGen Pharma has 40 approved ANDAs, 32 marketed products, and 30 pipeline products for which it expects to get approvals over the next four years. The above pipeline also includes five FTFs, which represent 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 the latest AIOCD ranking (MAT March 2018), Cipla ranked third with a market share of ~4%. Breaking it down further, its ranking in acute therapies was at 5 with a market share of 4.7%. Similarly, its chronic ranking is No. 3 with a market share of 5%.

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).

Overall, we expect revenues to grow at a CAGR of 10% in FY18-21E to ₹ 18343 crore driven by strong growth in India, South Africa and limited competition launches in the US.

Exhibit 1: Revenues to grow at CAGR of 10% in FY18-21E



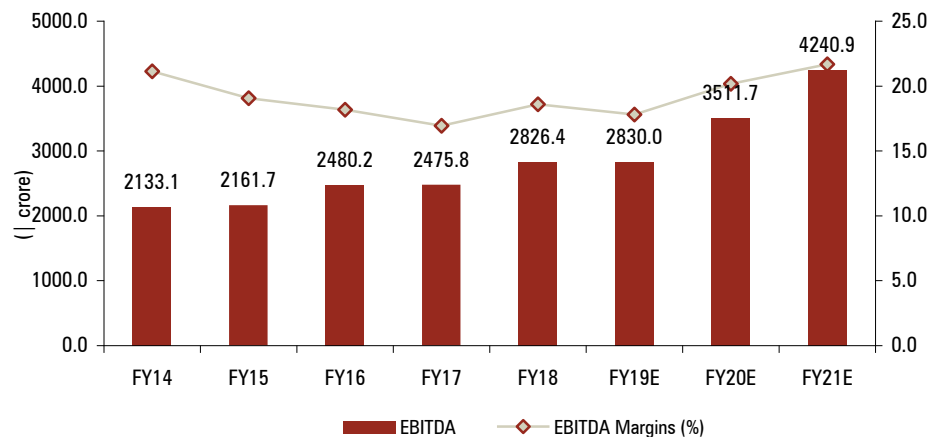
Source: Company, ICICI Direct Research

Exhibit 2: Consolidated revenues break-up

(₹ crore)	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Domestic	4825.0	5036.0	5523.0	5867.0	6288.4	7043.0	7888.1
Export APIs	631.9	752.0	523.0	626.0	680.5	664.4	697.6
Export Formulations	5425.6	7798.0	8145.2	8237.2	8567.4	9305.8	10588.2
US	870.6	2037.9	2625.0	2589.5	3148.8	3691.8	4288.8
EU	435.3	543.4	545.0	623.0	619.5	712.5	819.3
South Africa (Cipla Medpro)	1523.6	1562.4	1828.8	2061.8	2169.5	2239.6	2418.7
RoW	2720.6	3396.5	3146.4	2970.7	2629.6	2662.0	3061.3

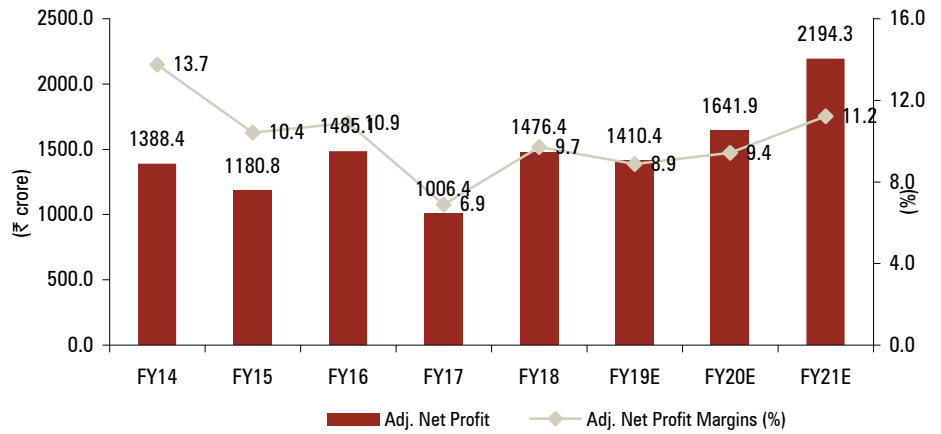
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA to grow at 14.5% CAGR in FY18-21E



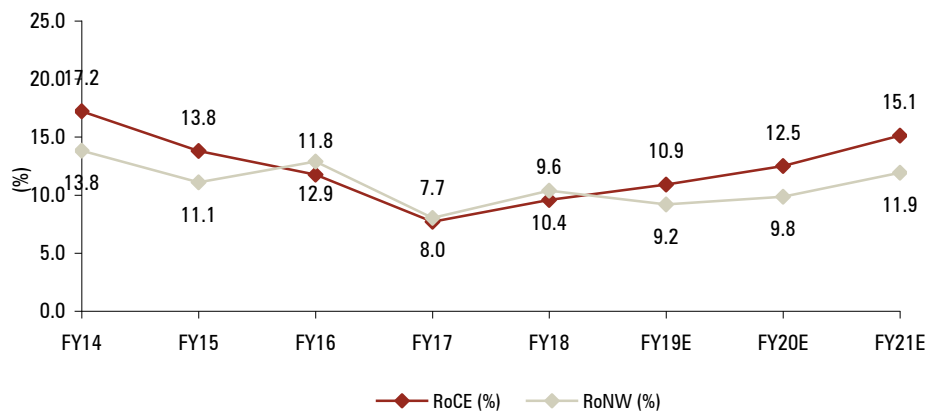
Source: Company, ICICI Direct Research

Exhibit 4: Adjusted net profit to grow at 14.1% CAGR in FY18-21E



Source: Company, ICICI Direct Research

Exhibit 5: Trends in return ratios



Source: Company, ICICI Direct Research

Exhibit 6: Trends in quarterly financials

(₹ crore)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY (%)	QoQ. (%)
Net Sales	3069.9	3252.9	3556.1	3671.9	3550.0	3487.0	3432.3	3988.2	3834.5	3495.8	3845.8	3947.9	3906.2	1.9	-1.1
Other Operating Income	81.1	61.7	93.9	79.1	97.2	95.0	92.7	94.2	79.3	202.2	93.2	64.0	101.3	27.7	58.4
Total Operating Income	3151.0	3314.5	3650.0	3751.0	3647.2	3582.0	3525.1	4082.4	3913.8	3698.0	3939.0	4011.9	4007.5	2.4	-0.1
Raw Material Expenses	1226.9	1410.9	1370.5	1330.1	1301.1	1315.5	1176.7	1553.1	1378.4	1330.3	1423.9	1412.1	1462.7	6.1	3.6
Gross Profit	1924.1	1903.6	2279.6	2421.0	2346.1	2266.5	2348.4	2529.3	2535.4	2367.7	2515.1	2599.8	2544.9	0.4	-2.1
Gross Profit Margins	61.1	57.4	62.5	64.5	64.3	63.3	66.6	62.0	64.8	64.0	63.9	64.8	63.5	-127.9	-129.9
Employee Expenses	578.8	656.1	686.6	675.3	633.1	638.9	672.9	660.8	657.3	699.0	714.0	712.2	717.9	9.2	0.8
% of revenues	18.4	19.8	18.8	18.0	17.4	17.8	19.1	16.2	16.8	18.9	18.1	17.8	17.9	111.8	16.1
Other Expenditure	882.3	1071.4	981.8	1065.0	1035.4	1121.4	1029.0	1064.1	1059.4	1111.8	1074.7	1185.3	1119.3	5.7	-5.6
% of revenues	28.0	32.3	26.9	28.4	28.4	31.3	29.2	26.1	27.1	30.1	27.3	29.5	27.9	86.2	-161.5
Total Expenditure	2687.9	3138.4	3038.8	3070.3	2969.6	3075.8	2878.6	3278.0	3095.2	3141.1	3212.6	3309.7	3299.9	6.6	-0.3
EBITDA	463.0	176.1	611.2	680.7	677.7	506.2	646.5	804.4	818.7	556.9	726.4	702.2	707.7	-13.6	0.8
EBITDA (%)	14.7	5.3	16.7	18.1	18.6	14.1	18.3	19.7	20.9	15.1	18.4	17.5	17.7	-325.9	15.5
Interest	31.4	47.7	31.5	35.2	59.3	33.4	27.9	42.0	9.2	35.2	35.1	44.4	44.2	383.0	-0.4
Depreciation	176.7	269.7	203.8	229.2	257.7	632.2	213.4	302.2	522.4	284.8	241.0	281.9	293.1	-43.9	4.0
Other Income	67.5	59.4	25.2	27.2	153.5	22.8	151.4	113.3	52.9	40.0	170.1	132.6	78.5	48.4	-40.8
PBT	322.4	-81.9	401.1	443.6	514.1	-136.6	556.6	573.5	340.1	276.9	620.4	508.5	448.9	32.0	-11.7
Total Tax	50.3	-0.6	55.3	71.9	128.3	-75.7	130.8	137.4	-64.2	46.2	173.7	142.4	125.7	-295.7	-11.7
PAT before MI	272.1	-81.3	345.8	371.7	385.8	-60.9	425.8	436.1	404.3	153.2	446.7	366.1	323.2	-20.1	-11.7
Minority Interest	8.0	6.1	6.8	15.3	10.1	-1.0	16.1	12.4	2.9	-25.4	5.7	10.1	-10.0	-438.8	-198.2
Net Profit	264.1	-87.5	339.1	356.4	375.7	-59.9	409.7	423.7	401.4	178.6	441.0	356.0	333.2	-17.0	-6.4

Source: Company, ICICI Direct Research

SWOT Analysis

Strengths - Huge product basket, large capacity, relatively clean regulatory record, presence in almost all therapeutic areas, strong balance sheet

Weakness - Late in adopting the front-end model in the US. Frequent restructuring and hit on the margins on account of this

Opportunities - The US generics space. It is well poised to establish dominance in niche therapies like respiratory, oncology, etc

Industry Specific Threats - Increased USFDA scrutiny across the globe regarding cGMP issues, pricing pressure due to client consolidation in the US. Shrinking Africa tender business opportunities

Conference call highlights

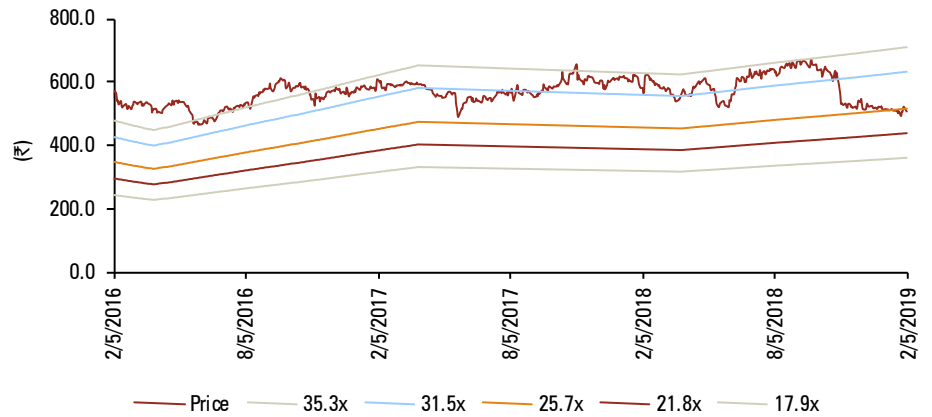
- R&D spend during the quarter was at 7.5% of the sales
- Total ~80% of R&D has been earmarked for the US
- As per management, the company's respiratory trial programme is on track. It expects to file two products next year and have one launch every year starting next year
- The company has signed new deals for biosimilars- Bevacizumab and Trastuzumab (both oncology) for emerging markets
- Long term debt as of December 31, was US\$577 million where working capital loan was US\$77 million
- B2B component in the US business is now reduced to just 10%
- The US business reported positive post R&D EBITDA during the quarter on the back of scaling up of direct to market (DTM) business
- South Africa private market sales registered 9% growth during the quarter as per IQVIA (IMS) MAT Dec'18

Exhibit 7: Major facilities

Location	Segment	Regulatory Approvals
Bengaluru – Virgonagar, India	API	USFDA, UKMHRA
Bengaluru– Bommasandra, India	API	USFDA
Patalganga, India	API & Formulations	USFDA, UKMHRA
Kurkumbh, India	Formulations	USFDA, UKMHRA
Goa, India	Formulations	USFDA, UKMHRA
Baddi, India	Formulations	
Indore, India	Formulations	USFDA, UKMHRA
Sikkim, India	Formulations	
Kampala, Uganda	Formulations	
Durban, South Africa	Formulations	
Satara, Maharashtra, India	API	

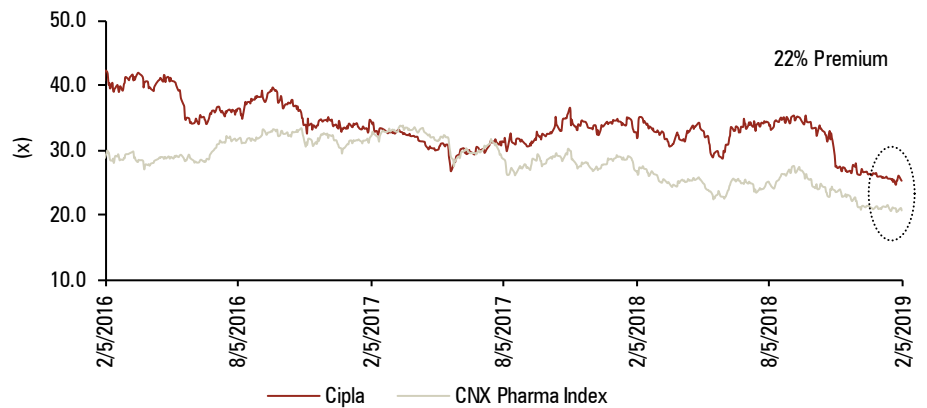
Source: Company, ICICI Direct Research

Exhibit 8: One year forward PE



Source: Company, ICICI Direct Research

Exhibit 9: One year forward PE of company vs. BSE Healthcare Index



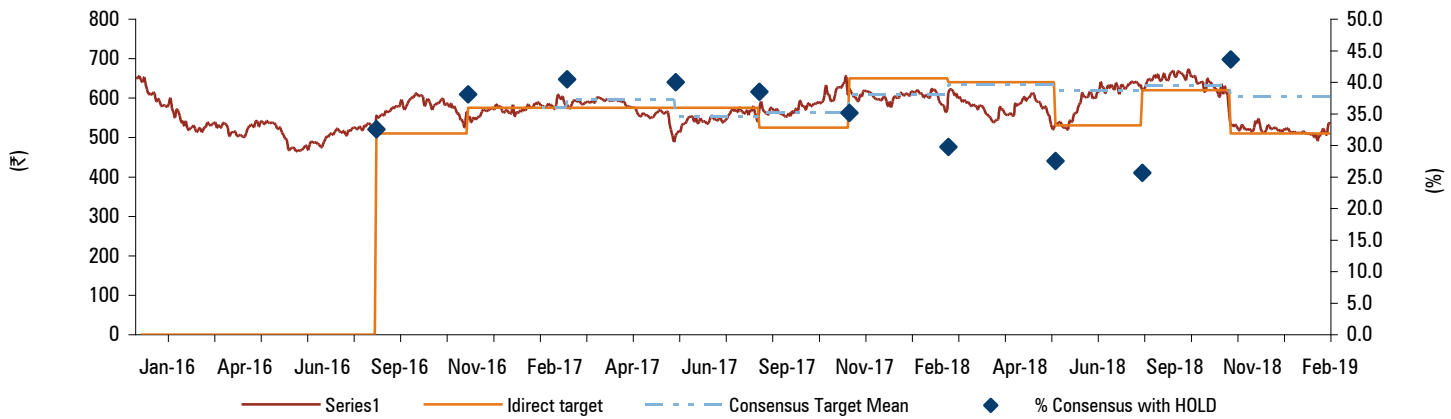
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY18	15219	4.0	18.3	46.7	30.4	15.9	10.4	9.6
FY19E	15901	4.5	17.5	-4.5	30.4	15.3	9.2	10.9
FY20E	17417	9.5	20.4	16.4	26.1	12.0	9.8	12.5
FY21E	19578	12.4	27.3	33.6	19.6	9.5	11.9	15.1

Source: Company, ICICI Direct Research

Recommendation history vs. Consensus



Source: Reuters, Company, ICICI Direct Research

Key events

Date	Event
May-14	Company signs a definitive agreement to invest US\$ 1.5 million in Chase Pharmaceuticals Corporation Inc, US ("Chase") to acquire 14.6% stake
Jun-14	Company signs a definitive agreement for US\$ 14 million with the Company's existing Sri Lankan distributor to acquire 60% stake in a new company
Jun-14	Company signs a definitive agreement to acquire a 51% stake in a pharmaceuticals manufacturing and distribution business in Yemen (in turn owned by a UAE based parent company).
Jul-14	Company, has acquired 75% stake in Mabpharm Private Limited ("Mabpharm"). Mabpharm has now become 100% subsidiary of the Company.
Oct-14	Company signs a definitive agreement with its existing Iranian distributor to set up a manufacturing facility in Iran. The total contribution from the company over the next three years will include machinery, equipment, technical know-how and is expected to be ~₹ 225 crore for a 75% stake
Oct-14	Cipla Medpro announces collaboration with Teva to exclusively market Teva's product portfolio in South Africa
Nov-14	Cipla announces a distribution agreement with Serum Institute of India for affordable paediatric vaccines in Europe
Dec-14	Cipla Medpro, the third largest pharmaceutical company in South Africa, announces it has been awarded R2 billion share of the South African Government's 2015-17 National ARV tender. The contract is effective from the 1st of April 2015 and will run for a period of three years.
Feb-15	Cipla (EU) enters into a joint venture (JV) agreement with Company's existing business partners in Morocco - Societe Marocaine De Cooperation Pharmaceutique ("Cooper Pharma") and The Pharmaceutical Institute (PHI).
May-15	Acquires 51% stake in Uganda-based Quality Chemicals (QCL) for US\$30 million (around ₹ 191 crore). The turnover of the company in FY14 was US\$ 4.98 million
Feb-16	Cipla completes acquisitions of InvaGen and Exelan, companies it purchased last September in an all-cash transaction worth US\$550 million
Oct-16	Indore facility receives establishment inspection report (EIR) from USFDA for July/August, 2015 inspection
Nov-18	InvaGen (a Cipla subsidiary) acquires Avenue Therapeutics for Specialty Hospital Business in the US
Jan-19	Pithampur unit 2 receives form 483 with six observations from USFDA

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (%)	Position Change
1	Hamied (Yusuf K)	30-Sep-18	20.7	166.7m	0.0m
2	Ahmed (Sophie)	30-Sep-18	5.7	46.0m	0.0m
3	Hamied (Mustafa Khwaja)	30-Sep-18	4.3	34.6m	0.0m
4	Stewart Investors	30-Sep-18	4.2	34.2m	-8.6m
5	ICICI Prudential Asset Management Co. Ltd.	30-Sep-18	3.6	29.0m	3.5m
6	HDFC Asset Management Co., Ltd.	30-Sep-18	2.7	21.8m	-0.2m
7	Vaziralli (Samina)	30-Sep-18	2.2	17.9m	0.0m
8	Life Insurance Corporation of India	30-Sep-18	1.9	15.2m	-1.2m
9	Norges Bank Investment Management (NBIM)	30-Sep-18	1.7	13.5m	-1.1m
10	First State Investments (U.K.) Ltd	30-Jun-18	1.6	13.0m	0.0m

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	37.2	37.2	37.2	36.7	36.7
Others	62.8	62.8	62.8	63.3	63.3

Source: Reuters, ICICI Direct Research

Recent Activity

Buys			Sells		
Investor name	Value (\$)	Shares	Investor name	Value (\$)	Shares
ICICI Prudential Asset Management Co. Ltd.	31.5m	3.5m	Stewart Investors	-77.1m	-8.6m
Mirae Asset Global Investments (India) Pvt. Ltd.	12.8m	1.7m	Goldman Sachs Asset Management International	-16.3m	-2.1m
Causeway Capital Management LLC	6.6m	0.7m	Aditya Birla Sun Life AMC Limited	-13.3m	-1.7m
Reliance Nippon Life Asset Management Limited	4.3m	0.6m	Life Insurance Corporation of India	-10.4m	-1.2m
SBI Funds Management Pvt. Ltd.	4.3m	0.5m	Norges Bank Investment Management (NBIM)	-9.9m	-1.1m

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Revenues	15,219.3	15,900.8	17,417.2	19,577.9	
Growth (%)	4.0	4.5	9.5	12.4	
Raw Material Expenses	5,438.4	5,716.9	6,183.1	6,950.2	
Gross Profit	9,780.8	10,183.9	11,234.1	12,627.8	
Employee Expenses	2,690.1	2,873.4	2,932.7	3,100.8	
Other Expenditure	4,264.4	4,480.5	4,789.7	5,286.0	
Total Operating Expenditure	12,392.9	13,070.8	13,905.5	15,337.0	
EBITDA	2,826.4	2,830.0	3,511.7	4,240.9	
Growth (%)	14.2	0.1	24.1	20.8	
Depreciation	1,322.8	1,109.2	1,251.5	1,328.5	
Interest	114.2	161.7	69.9	69.9	
Other Income	357.7	420.6	156.8	293.7	
PBT	1,669.5	1,979.8	2,347.0	3,136.1	
Total Tax	250.1	554.3	657.2	878.1	
PAT before MI	1,419.4	1,425.4	1,689.9	2,258.0	
Minority Interest	6.0	13.9	46.8	62.5	
Adjusted PAT	1,476.4	1,410.4	1,641.9	2,194.3	
Growth (%)	46.7	-4.5	16.4	33.6	
EPS (Adjusted)	18.3	17.5	20.4	27.3	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Profit/(Loss) after taxation	947.4	1,410.4	1,641.9	2,194.3	
Add: Depreciation	1,322.8	1,109.2	1,251.5	1,328.5	
(inc)/Dec in Current Assets	-1,414.1	-557.0	-898.8	-1,135.1	
inc/(Dec) in Current Liabilities	630.9	205.3	308.7	380.8	
Others	-24.2	161.7	69.9	69.9	
CF from Operating activities	1,462.8	2,329.5	2,373.1	2,838.4	
Change In Investment	-36.7	0.0	0.0	0.0	
(Purchase)/Sale of Fixed Assets	-753.7	-450.0	-700.0	-700.0	
Others	54.5	5.2	37.7	53.0	
CF from Investing activities	-735.9	-444.8	-662.3	-647.0	
Change in Equity	0.1	0.0	0.0	0.0	
Change in Loan	-34.5	-1,000.0	-1,700.0	0.0	
Dividend & Dividend tax	-189.3	-282.1	-328.4	-438.8	
Others	-161.9	-161.7	-69.9	-69.9	
CF from Financing activities	-385.5	-1,443.8	-2,098.3	-508.7	
Net Cash Flow	341.4	440.9	-387.4	1,682.7	
Cash and Cash equ. at beginning	624.2	965.6	1,406.6	1,019.1	
Cash	965.6	1,406.6	1,019.1	2,701.8	
Free Cash Flow	709.0	1,879.5	1,673.1	2,138.4	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Equity Capital	161.0	161.0	161.0	161.0	
Reserve and Surplus	14,068.2	15,196.5	16,510.0	18,265.5	
Total Shareholders funds	14,229.2	15,357.5	16,671.0	18,426.5	
Total Debt	4,098.0	3,098.0	1,398.0	1,398.0	
Deferred Tax Liability	503.3	528.5	554.9	582.6	
Long Term Provision	137.9	144.8	152.1	159.7	
MI & Other Liabilities	495.8	516.8	571.2	641.6	
Source of Funds	19,464.2	19,645.6	19,347.1	21,208.4	
Gross Block - Fixed Assets	10,227.5	10,677.5	11,377.5	12,077.5	
Accumulated Depreciation	3,093.1	4,202.3	5,453.8	6,782.3	
Net Block	7,134.4	6,475.2	5,923.7	5,295.2	
Capital WIP	981.3	981.3	981.3	981.3	
Fixed Assets	8,115.7	7,456.6	6,905.0	6,276.5	
Investments	1,259.9	1,259.9	1,259.9	1,259.9	
Goodwill on Consolidation	2,814.7	2,814.7	2,814.7	2,814.7	
Long term Loans & Advances	41.7	43.7	45.9	48.2	
Other Non current assets	916.6	962.4	1,010.5	1,061.0	
Inventory	4,044.7	4,314.7	4,775.8	5,368.3	
Debtors	3,102.5	3,309.5	3,663.2	4,117.7	
Loans and Advances	19.9	20.9	22.0	23.0	
Other Current Assets	1,579.3	1,658.3	1,741.2	1,828.3	
Cash	965.6	1,406.6	1,019.1	2,701.8	
Total Current Assets	9,712.0	10,710.0	11,221.3	14,039.1	
Creditors	2,119.1	2,260.6	2,502.2	2,812.6	
Provisions	627.1	658.5	691.4	726.0	
Other current liabilities	650.1	682.6	716.8	752.6	
Total Current Liabilities	3,396.4	3,601.7	3,910.3	4,291.1	
Net Current Assets	6,315.6	7,108.3	7,311.0	9,748.0	
Application of Funds	19,464.2	19,645.6	19,347.1	21,208.4	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Per share data (₹)					
Adjusted EPS	18.3	17.5	20.4	27.3	
BV per share	176.7	190.8	207.1	228.9	
Cash per Share	12.0	17.5	12.7	33.6	
Dividend per share	3.5	3.5	4.1	5.5	
Operating Ratios (%)					
Gross Margins	64.3	64.0	64.5	64.5	
EBITDA margins	18.6	17.8	20.2	21.7	
PAT Margins	9.7	8.9	9.4	11.2	
Inventory days	97.0	99.0	100.1	100.1	
Debtor days	74.4	76.0	76.8	76.8	
Creditor days	50.8	51.9	52.4	52.4	
Asset Turnover	0.8	0.8	0.9	0.9	
EBITDA convsn rate	51.8	82.3	67.6	66.9	
Return Ratios (%)					
RoE	10.4	9.2	9.8	11.9	
RoCE	9.6	10.9	12.5	15.1	
RoIC	9.2	10.7	13.9	17.7	
Valuation Ratios (x)					
P/E	30.4	30.4	26.1	19.6	
EV / EBITDA	15.9	15.3	12.0	9.5	
EV / Net Sales	2.9	2.7	2.4	2.1	
Market Cap / Sales	2.8	2.7	2.5	2.2	
Price to Book Value	3.0	2.8	2.6	2.3	
Solvency Ratios					
Debt / EBITDA	1.4	1.1	0.4	0.3	
Debt / Equity	0.3	0.2	0.1	0.1	
Current Ratio	2.6	2.6	2.6	2.6	
Quick Ratio	1.4	1.4	1.4	1.4	

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)			RoCE (%)			RoE (%)					
						FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
Ajanta Pharma	AJAPHA	947	1,100	Hold	8331.4	57.4	53.0	43.1	50.5	16.5	17.8	22.0	18.7	41.3	30.0	21.6	21.7	32.3	23.0	16.4	16.8
Alembic Pharma	ALEMPHA	581	620	Hold	10953.7	21.2	21.9	30.4	27.1	27.4	26.5	19.1	21.5	25.3	18.0	19.9	17.2	21.0	18.6	21.4	16.6
Apollo Hospitals	APOHOS	1294	1,440	Buy	17998.6	15.9	8.5	26.6	48.2	81.5	153.0	48.6	26.8	6.1	6.3	9.8	13.7	6.0	3.6	10.4	16.4
Aurobindo Pharma	AURPHA	774	915	Buy	45355.1	38.8	41.6	42.6	53.1	20.0	18.6	18.2	14.6	24.4	20.0	18.0	16.7	24.2	20.7	17.8	18.4
Biocon	BIOCON	653	760	Buy	39168.0	8.5	6.2	12.8	17.3	77.0	105.2	51.1	37.7	9.4	8.1	13.1	15.4	10.5	7.2	12.8	15.0
Cadila Healthcare	CADHEA	331	415	Buy	33896.1	14.5	17.5	16.5	18.9	22.8	18.9	20.0	17.5	13.1	16.7	14.2	13.1	21.4	20.5	16.8	16.8
Cipla	CIPLA	533	545	Hold	42930.0	12.5	18.3	17.5	20.4	42.6	29.1	30.4	26.1	7.7	9.6	10.9	12.5	8.0	10.4	9.2	9.8
Divi's Lab	DIVLAB	1665	1,800	Buy	44192.6	39.9	33.3	53.5	60.5	41.7	50.0	31.1	27.5	25.3	20.0	26.4	25.2	19.8	14.9	20.2	19.3
Dr Reddy's Labs	DRREDD	2807	2,870	Hold	46597.9	78.0	57.0	107.1	128.6	36.0	49.2	26.2	21.8	7.3	6.1	9.5	11.9	10.5	7.2	12.2	13.1
Glenmark Pharma	GLEPHA	643	660	Hold	18151.9	42.2	28.5	32.9	36.8	15.2	22.5	19.6	17.5	19.5	14.6	16.0	15.2	26.5	15.6	14.9	14.5
Indoco Remedies	INDREM	178	195	Hold	1640.3	8.4	4.8	-1.8	7.4	21.3	36.8	-97.6	24.0	8.7	6.5	-0.1	8.3	11.8	6.6	-2.6	9.4
Ipca Laboratories	IPCLAB	755	845	Buy	9536.4	15.4	19.0	32.4	42.3	48.9	39.8	23.3	17.9	8.7	9.1	13.8	17.1	7.9	8.9	13.5	15.4
Jubilant Life	JUBLIF	738	905	Buy	11747.0	36.9	41.3	59.7	73.9	20.0	17.9	12.4	10.0	13.8	14.9	18.8	20.7	16.8	15.7	18.7	19.0
Lupin	LUPIN	823	840	Hold	37234.5	56.7	20.8	19.6	31.3	14.5	39.7	42.0	26.3	16.6	10.4	9.7	11.1	19.0	6.9	6.3	9.2
Narayana Hrudalaya	NARHRU	194	250	Buy	3967.7	4.1	2.5	2.3	6.6	47.0	77.6	83.5	29.4	12.5	6.3	7.1	12.0	8.8	4.9	4.4	11.1
Natco Pharma	NATPHA	685	860	Buy	12655.3	26.3	37.7	41.7	24.9	26.0	18.2	16.4	27.5	33.6	27.4	26.6	14.8	29.5	22.7	21.2	11.6
Sun Pharma	SUNPHA	436	460	Hold	104488.1	29.0	13.0	14.7	21.1	15.0	33.6	29.7	20.6	20.3	9.8	10.2	13.3	19.0	8.2	8.8	11.5
Syngene Int.	SYNINT	602	675	Buy	12038.0	14.4	15.3	16.3	17.5	40.8	38.4	35.9	33.5	16.0	15.9	16.8	16.5	20.3	17.7	16.1	14.8
Torrent Pharma	TORPHA	1826	2,175	Buy	30899.9	55.2	40.1	52.3	64.9	33.1	45.6	34.9	28.2	18.9	11.2	14.2	17.1	21.5	14.7	16.7	17.9

Source: Company, ICICI Direct Research

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