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

Cipla is one of the largest producers of pMDIs (Pressurized Metered Dose Inhalers) in the world with more than 65 different inhaled devices. It manufactures metered dose inhalers, innovative dry powder inhalers, nasal sprays and nebulizers. Apart from strong presence in respiratory, it also manufactures drugs for anti-infectives, cardiac, gastroenterology, and urology. Cipla derives 54% of its revenue from exports and 39% from domestic business.

Key Developments

Inhalation portfolio:

The respiratory business of Cipla caters to patients suffering from diseases such as Asthma, Chronic Obstructive Pulmonary Disease (COPD), Pulmonary Arterial Hypertension (PAH) and Allergic Rhinitis. The company is among a handful of innovators in the inhalation space globally. The company's overall respiratory business is close to USD 300-350 mn per annum.

Domestic market growth:

Cipla has a strong foothold in respiratory & anti infectives and the two are the key growth drivers in the domestic market. Moreover, prescription business accounts for 81% of domestic business providing revenue stability. During H1FY17, the company reported a growth of 12.4% driven by anti-infectives despite fixed dose combination (FDC) ban and price regulations.

Market position in South Africa:

Cipla has a strong leadership position in the Respiratory, Central Nerve System (CNS) and Oncology segments in South Africa. To further strengthen its position, it entered a sales and distribution agreement with Teva Pharmaceuticals Ltd to market its chronic products. In FY16, South Africa business reported de-growth of 2.6% due to currency fluctuation, although in local currency terms revenue grew by ~25%.

Cipla gains scale in the US generics market through InvaGen acquisition:

In FY16, Cipla acquired US based InvaGen Pharmaceuticals and Exelan Pharmaceuticals Inc. (CY15 revenue of USD225mn revenue) in a transaction valued at USD550mn. Cipla has a strong product pipeline of 214 Abbreviated New Drug Applications (ANDAs), out of which, 131 are approved and 83 ANDAs are pending for approval including complex generics from Invagen portfolio.

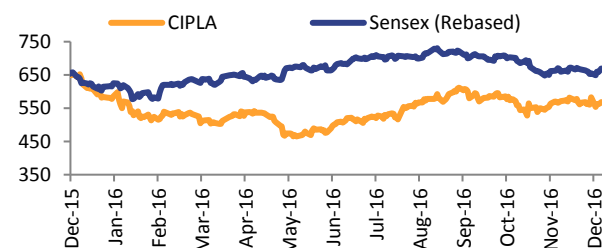
Market Data

CMP (Rs.)	576
Face Value	2.0
52 week H/L (Rs.)	618/458
Adj. all time High (Rs.)	658
Decline from 52WH (%)	6.8
Rise from 52WL (%)	25.7
Beta	1.0
Mkt. Cap (Rs.Cr)	46,264
Enterprise Value(Rs. Cr)	50,000

Fiscal Year Ended

	FY14	FY15	FY16
Total revenue (Rs.cr)	10,173	11,345	13,678
Adj. PAT (Rs.cr)	1,246	1,112	1,379
Share Capital (Rs.Cr)	161	161	161
EPS (Rs.)	15.5	14.7	18.7
P/E (x)	37.1	41.6	33.6
P/BV (x)	4.6	4.2	3.8
ROE (%)	13.0	10.5	11.9

One year Price Chart

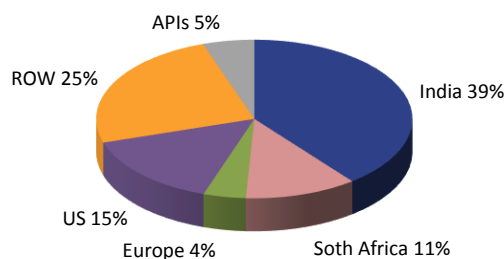


Shareholding	Sep-16	Jun-16	Diff.
Promoters (%)	37.5	37.5	-
Public (%)	62.5	62.5	-
Others (%)	-	-	-

Cipla Ltd: Business Overview

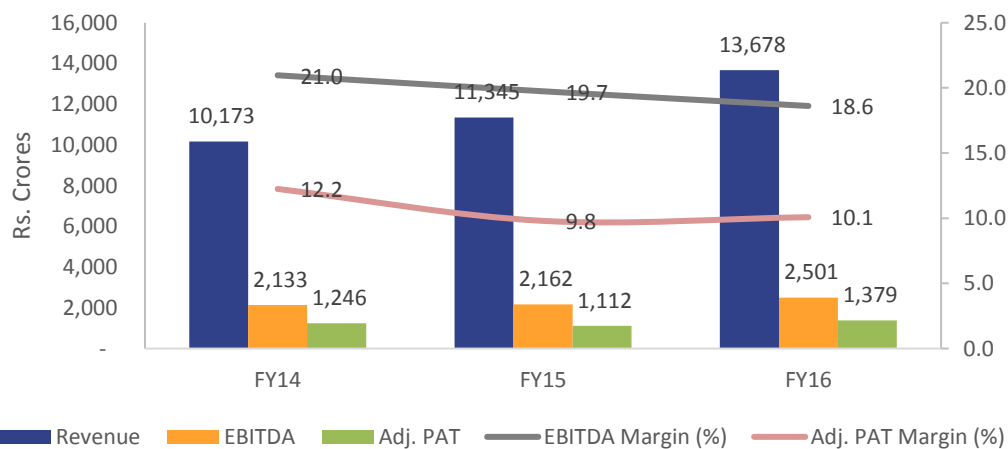
Cipla is one of the largest producers of pMDIs (Pressurized Metered Dose Inhalers) in the world with more than 65 different inhaled products and devices. It manufactures metered dose inhalers, innovative dry powder inhalers, nasal sprays and nebulizers. Apart from strong presence in respiratory, it also manufactures drugs for anti-infectives, cardiac, gastroenterology, and urology. Cipla derives 54% of its revenue from exports and 39% from domestic business. In the domestic market, chronic and acute therapies contribute 53% and 47% respectively to the revenue.

Region wise revenue break-up (FY16)



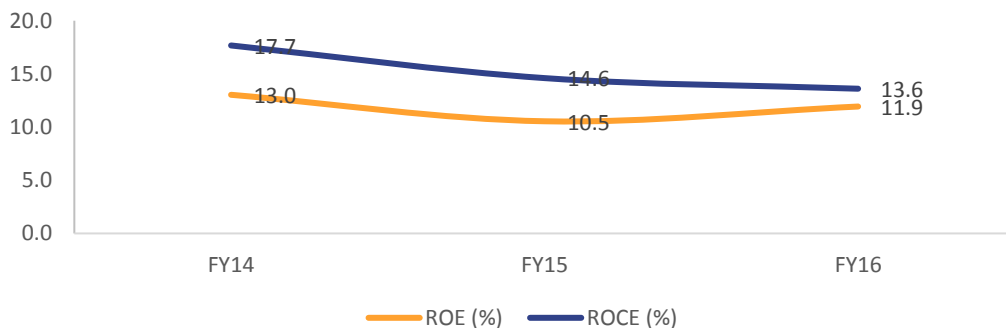
Source: Company, In-house research

Financial snapshot of Cipla



Source: Company, In-house research

Return ratios trend



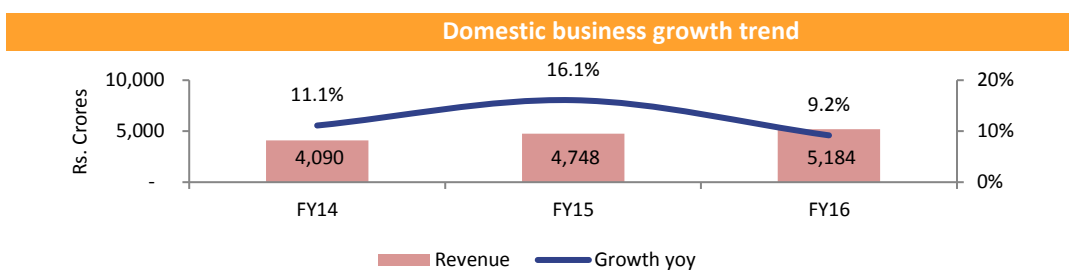
Source: Company, In-house research

Domestic business is the key driver

Cipla is one of the largest players in the domestic formulations market and its Indian business contributed 39% to the overall revenue in FY16. It has 5.3% market share in the branded generics in key therapies such as respiratory and anti-infectives. During FY16, the company posted a growth of 9.2% driven by prescription business (81% of India business). The company grew faster than the market in Anti-infectives, Gastrointestinal and Urology while the respiratory business saw strong uptake with over 20% growth in the COPD portfolio.

It has 23 brands in the top 300 list in the domestic market. Cipla is focusing on building high-value specialty portfolio through a mix of in-licensing and in-house development of products. The company has successfully launched generic drug sofosbuvir meant for the treatment of hepatitis-C in FY16. Further, it continues to build upon its Hepatitis franchise in order to improve its presence in breakthrough therapies for patients with HepCvir + Ledipasvir / Daclatasvir combinations. Besides, the company is working on enhancing the depth of its portfolio in priority therapy areas such as oncology and anti-arthritis to strengthen its leadership position in the domestic market.

During H1FY17, the company reported a healthy growth of 12.4% driven by anti-infectives.



Source: Company, In-house research

Inhalation portfolio

The respiratory business of Cipla caters to patients suffering from diseases such as Asthma, COPD, PAH and Allergic Rhinitis. Cipla is among a handful of innovators in the inhalation space globally. The company's overall respiratory business is close to USD300-350mn p.a.

Late entrant in the largest global generics market

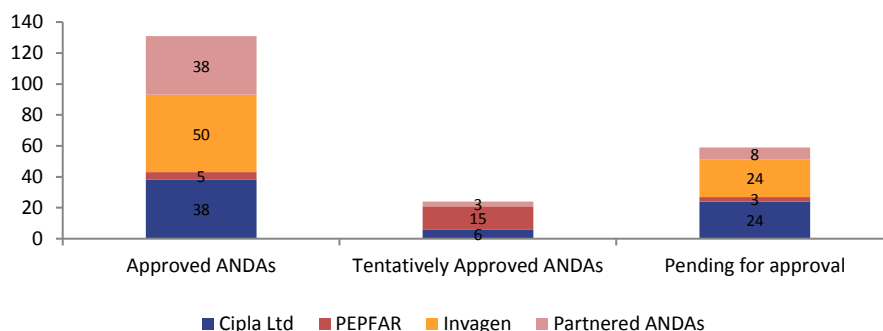
North America contributed 15% to the total revenue in FY16 (8% in FY15) and registered a growth of 117% YoY primarily driven by the company's partnership with Teva for Nexium, successful launch of new products and Invagen acquisition. Currently, Cipla has a strong product pipeline of 214 ANDAs, out of which, 131 are approved and 83 ANDAs are pending for approval. This includes key complex generic filings from InvaGen portfolio.

Cipla gains scale in the US generics market through InvaGen acquisition

In FY16, Cipla acquired US based InvaGen Pharmaceuticals and Exelan Pharmaceuticals Inc. (CY15 revenue of USD225mn revenue) in a transaction valued at USD550mn. Invagen was incorporated in 2003 and is engaged in the business of manufacturing and distribution of generic pharmaceuticals. It focuses on a wide range of therapeutic areas including cardiovascular, anti-infective, CNS, anti-inflammatory, anti-diabetic and anti-depressants.

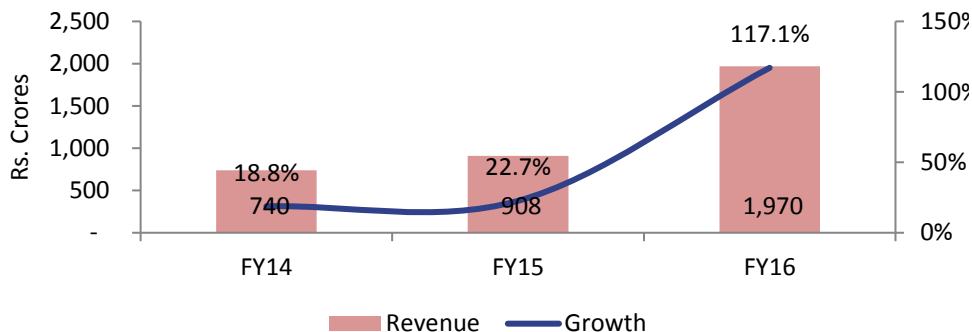
Exelan was incorporated in the year 2011 and is engaged in the business of marketing generic pharmaceuticals to the government and institutional market.

ANDAs pipeline



Source: Company, In-house research

Growth in US sales

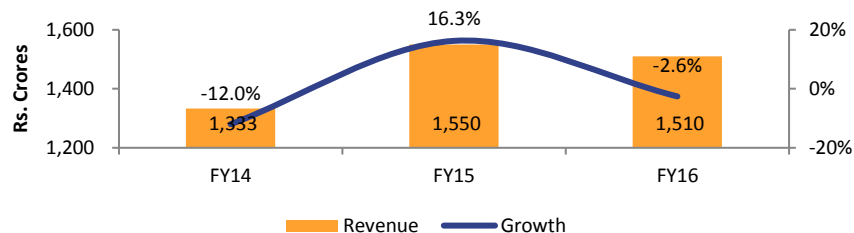


Source: Company, In-house research

Market position in South Africa

Cipla acquired South Africa based Medpro in FY13. Cipla Medpro has a market share of more than 5% and contributes 11.5% to the overall revenues on a consolidated basis in FY16. Cipla's private market business (60% of revenue) has grown at 14% in FY16 with market leadership in the Respiratory, CNS and Oncology segments. Further, Medpro Pharmaceuticals Pvt. Ltd. (a Subsidiary of Cipla Medpro) entered into sales and distribution agreement with Teva Pharmaceuticals Ltd. to focus on oncology, central nervous system, women's health, cardiovascular and other specialty therapies. In FY16, South Africa business reported de-growth of 2.6% due to currency fluctuation, although in local currency terms revenue grew by ~25%.

Performance of South African business over the years



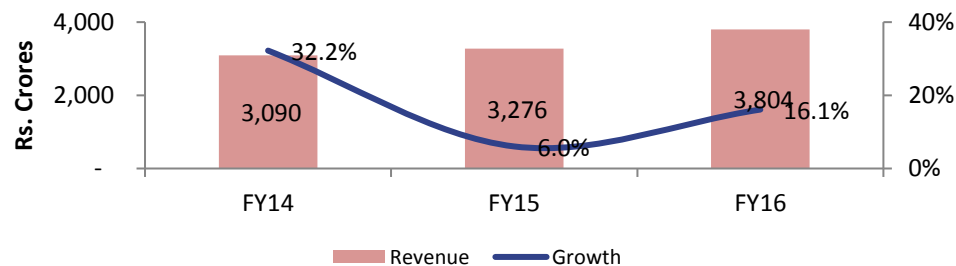
Source: Company, In-house research

Expansion in International (ROW market) Markets

International markets include all export markets excluding North America and South Africa. It has 150 global partners across 100 countries and spans across Middle East, Latin America, Europe, China and Russia. International business contributed 29% to the top line in FY16 and grew by 16.1% YoY. In order to strengthen its front-end presence the company changed its business strategy in select markets and adopted direct- to-market approach.

Europe accounted for 4% of the overall revenues (15% of RoW revenue) and posted 30% growth in FY16 supported by growth in both front-end and B2B segments. The company has further strengthened its respiratory platform with the launch of Fluticasone, Salbutamol respules and Ipratropium MDI (Metered Dose Inhalers) across multiple European markets.

ROW business growth trend



Source: Company, In-house research

APIs: Captive consumption

Cipla manufactures APIs for more than 300 partners globally with major contribution coming from Anti-RetroVirals (ARVs), gastroenterology, respiratory, neurology and oncology segments. The company has a robust portfolio selection process enabling it to build future pipeline of complex products and thus providing early launch capabilities. A substantial portion of the Active Pharmaceutical Ingredients (APIs) manufactured by the company is consumed internally due to new launches. APIs contributed 5% to the total revenue and grew by 7% in FY16.

Increasing R&D spending by Cipla

The company has enhanced its R&D spend in the last two years. It is investing on new applications across multiple technology platforms including implants, microspheres, nanotechnology, preservative free ophthalmic and nasal sprays. Currently, it has more than 200 formulation projects under development which indicates to a strong pipeline.

Balance Sheet (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Share Capital	161	161	161
Reserve and surplus	9,890	10,641	11,697
Net Worth	10,050	10,801	11,857
Minority Interest	50	180	270
Total Debt	1,228	1,702	5,191
Other non-current liabilities	419	486	554
Total Equity & Liabilities	11,747	13,169	17,872
Net Fixed Assets	4,092	4,317	4,826
Capital WIP	354	535	741
Goodwill	2,493	2,558	5,511
Investments	709	640	757
Net current assets	3,687	4,700	5,322
Deferred tax assets (net)	0	0	0
Other non-current assets	413	419	715
Total Assets	11,747	13,169	17,872

Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY14	FY15	FY16
Net profit/loss before tax & extraordinary items	1,880	1,654	2,007
Net cashflow from operating activities	(930)	917	(1,709)
Net cash used in investing activities	1,244	(685)	(1,237)
Net cash used from financing activities	(266)	165	3,264
Net inc/dec in cash and cash equivalents	48	397	317

Financial performance snapshot

Net sales of the company stood at Rs. 13,678 Crores in FY16, a growth of 20.6% as compared to Rs. 11,345 Crores in FY15. The operating expenses of the company increased by 21.7% YoY to Rs. 11,177 Crores from Rs. 9,184 Crores during the year. The company's EBITDA grew by 15.7% YoY to Rs. 2,501 Crores in FY16 from Rs. 2,162 Crores in FY14. EBITDA margin contracted by 113 bps to 18.6% in FY16 from 19.7% in FY15. Adjusted profit increased by 24.0% to Rs. 1,379 Crores in FY16 from Rs. 1,112 Crores in FY15. Adj. PAT Margin expanded by 28 bps to 10.1% from 9.8% during the period under review.

Profit & Loss Account (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Net revenue	10,173	11,345	13,678
Expenses	8,040	9,184	11,177
EBITDA	2,133	2,162	2,501
Depreciation	373	505	542
EBIT	1,760	1,657	1,959
Interest cost	146	168	161
Other Income	123	96	82
Profit Before Tax	1,738	1,585	1,880
Tax	463	400	440
Profit After Tax	1,274	1,185	1,440
Minority Interest	16	48	49
P/L from Associates	(12)	(25)	(12)
Adjusted PAT	1,246	1,112	1,379
E/o expense / (income)	142	69	127
Reported Profit	1,388	1,181	1,506

Key Ratios (Consolidated)

	FY14	FY15	FY16
EBITDA Margin (%)	21.0	19.7	18.6
EBIT Margin (%)	18.5	15.5	14.9
NPM (%)	12.2	9.8	10.1
ROCE (%)	17.7	14.6	13.6
ROE (%)	13.0	10.5	11.9
EPS (Rs.)	15.5	14.7	18.7
P/E (x)	37.1	41.6	33.6
BVPS(Rs.)	125.8	136.8	150.9
P/BVPS (x)	4.6	4.2	3.8
EV/EBITDA (x)	22.1	21.9	20.1



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