

**BUY**  
 TP: Rs 1,250 | ▲ 17%

CIPLA

| Pharmaceuticals

| 27 July 2023

**Strong growth coupled with margin expansion**

- Q1 EBITDA/PAT beat estimates by 7%/16% on the back of growth in North America and One India
- EBITDA margin expands 230bps YoY to 23.6%; FY24 guidance raised to 23% from 22%
- TP revised to Rs 1,250 (vs. Rs 1,170) as we raise FY24-FY25 EBITDA forecasts by 6-7%; maintain BUY

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**US and One India businesses shine:** Backed by stellar growth in the US and a healthy uptick in One-India business, Cipla reported an 18% YoY increase in Q1FY24 revenue to Rs 63.3bn (+10% QoQ). US revenue grew 9% QoQ CC to US\$ 222mn as gRevlimid and differentiated products such as Lanreotide gained traction while Albuterol stabilised. Management also attributed the US outperformance to a rebalancing of trade channels, player exits, stabilising price erosion and drug shortages. US revenue is now guided to clock a higher quarterly run-rate of US\$ 210mn-215mn from ~US\$ 195mn earlier.

**Healthy growth in One India; South Africa showing sign of revival:** One India business grew 12% YoY (+23% QoQ) on the back of traction in chronic therapies which neutralised the impact of the NLEM price cap. The new launches and in-licensed products such as Galvus and Scapho, along with various operational measures mitigated the price cap impact. The South Africa private market bounced back from the lows of last year to post double-digit growth (+13% YoY CC) in Q1. Focused therapies in the prescription business saw an uptick while OTC reported 16% YoY growth in local currency.

**FY24 margin guidance raised:** A better product mix and operational efficiency propelled gross/EBITDA margin expansion of 230bps each in Q1 to 64.7%/23.6%, aiding PAT growth of 45% YoY to Rs 9.9bn. EBITDA margin expanded despite a 27% YoY increase in R&D expense to Rs 3.5bn driven by clinical trials on the differentiated portfolio as well as other developmental efforts. Management has raised FY24 margin guidance from 22% to 23%.

**Maintain BUY:** We raise our FY24-FY25 EBITDA estimates by 6-7% to bake in the strong Q1 print and higher guidance. We now expect Cipla to clock a healthy PAT CAGR of 22% over FY23-FY25, factoring in new launches, recovery in SAGA/API, and continued momentum in One India as the consumer health business returns to form. Our TP thus stands revised to Rs 1,250 (vs. Rs 1,170), based on an unchanged FY25E EV/EBITDA multiple of 15x – in line with 5-year average. Retain BUY for 17% upside potential.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	CIPLA IN/Rs 1,069
Market cap	US\$ 10.5bn
Free float	65%
3M ADV	US\$ 20.6mn
52wk high/low	Rs 1,185/Rs 852
Promoter/FPI/DII	33%/25%/24%

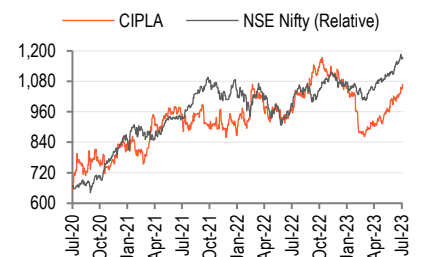
Source: NSE | Price as of 26 Jul 2023

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,27,530	2,51,669	2,77,546
EBITDA (Rs mn)	50,268	56,554	64,819
Adj. net profit (Rs mn)	29,842	36,512	44,712
Adj. EPS (Rs)	37.0	45.3	55.5
Consensus EPS (Rs)	37.0	44.2	51.0
Adj. ROAE (%)	13.6	14.8	15.7
Adj. P/E (x)	28.8	23.6	19.3
EV/EBITDA (x)	16.6	14.6	12.4
Adj. EPS growth (%)	10.6	22.4	22.5

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>Net Sales</b>	<b>63,289</b>	<b>53,752</b>	<b>17.7</b>	<b>57,393</b>	<b>10.3</b>	<b>2,27,531</b>	<b>2,17,633</b>	<b>4.5</b>
<b>EBITDA</b>	<b>14,939</b>	<b>11,434</b>	<b>30.7</b>	<b>11,737</b>	<b>27.3</b>	<b>50,270</b>	<b>45,528</b>	<b>10.4</b>
Depreciation	2,392	2,544	(6.0)	3,462	(30.9)	11,721	10,520	-
<b>EBIT</b>	<b>12,547</b>	<b>8,889</b>	<b>41.1</b>	<b>8,275</b>	<b>51.6</b>	<b>38,549</b>	<b>35,008</b>	<b>10.1</b>
Interest	164	178	(8.0)	344	(52.3)	1,095	1,064	-
Other Income	1,363	1,034	31.8	1,346	1.2	4,755	2,809	-
<b>PBT</b>	<b>13,746</b>	<b>9,746</b>	<b>41.0</b>	<b>9,278</b>	<b>48.2</b>	<b>42,208</b>	<b>36,754</b>	<b>14.8</b>
Less: Taxation	3,780	2,680	-	2,223	70.1	12,029	9,338	-
Less: Minority Interest	9	202	-	(25)	-	336	427	-
<b>Recurring PAT</b>	<b>9,957</b>	<b>6,864</b>	<b>45.1</b>	<b>7,081</b>	<b>40.6</b>	<b>29,843</b>	<b>26,989</b>	<b>10.6</b>
Exceptional items	0	0	-	(1,824)	-	(1,824)	(1,821)	-
<b>Reported PAT</b>	<b>9,957</b>	<b>6,864</b>	<b>45.1</b>	<b>5,257</b>	<b>89.4</b>	<b>28,019</b>	<b>25,168</b>	<b>11.3</b>
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
Gross Margin	64.7	62.3	232	64.0	61	63.7	61.0	277
EBITDA Margin	23.6	21.3	233	20.5	315	22.1	20.9	117
Tax / PBT	27.5	27.5	-	24.0	-	28.5	25.4	-
NPM	15.7	12.8	296	12.3	340	13.1	12.4	-
EPS (Rs)	12.4	8.5	-	8.8	-	37.0	33.5	-

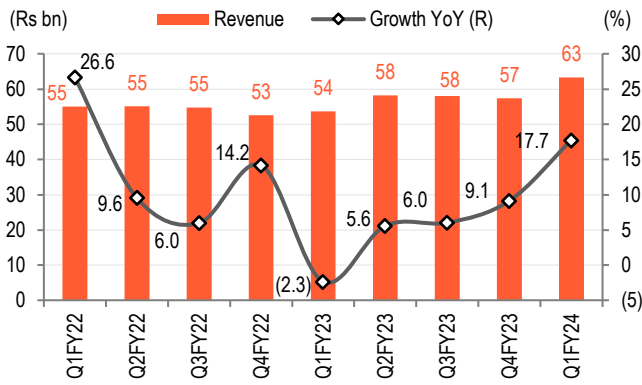
Source: BOBCAPS Research, Company

**Fig 2 – Revenue mix**

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>Formulations</b>	<b>61,210</b>	<b>51,900</b>	<b>17.9</b>	<b>55,525</b>	<b>10.2</b>	<b>2,19,730</b>	<b>2,08,020</b>	<b>5.6</b>
India	27,720	24,830	11.6	22,590	22.7	98,680	98,270	0.4
North America	18,220	11,990	52.0	16,775	8.6	59,090	44,260	33.5
SAGA	7,480	7,880	(5.1)	8,320	(10.1)	31,670	36,760	(13.8)
South Africa	5,140	5,680	(9.5)	6,190	(17.0)	23,350	26,310	(11.3)
Others/Global Access	2,340	2,200	6.4	2,130	9.9	8,320	10,450	(20.4)
International	7,790	7,200	8.2	7,840	(0.6)	30,290	28,730	5.4
<b>APIs</b>	<b>1,360</b>	<b>1,350</b>	<b>0.7</b>	<b>1,340</b>	<b>1.5</b>	<b>5,690</b>	<b>7,610</b>	<b>(25.2)</b>
Other Op. income	719	502	43.2	528	36.2	2,111	2,004	5.4
<b>Net Sales</b>	<b>63,289</b>	<b>53,752</b>	<b>17.7</b>	<b>57,393</b>	<b>10.3</b>	<b>2,27,531</b>	<b>2,17,634</b>	<b>4.5</b>
USDINR	82.1	77.4	6.1	82.2	(0.1)	80.6	75	8.1
US Revenue (US\$ mn)	222	155	43.3	204	8.7	733	594	23.5

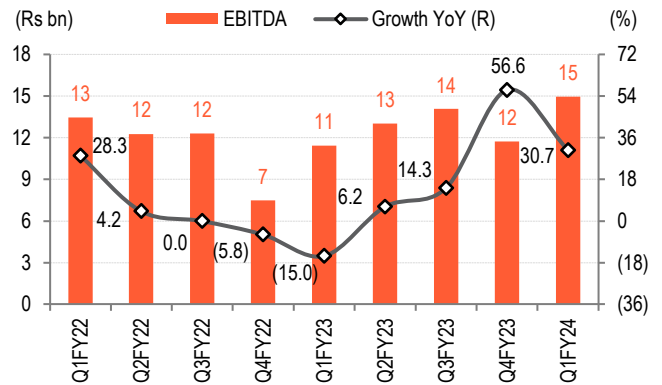
Source: BOBCAPS Research, Company

**Fig 3 – Revenue**



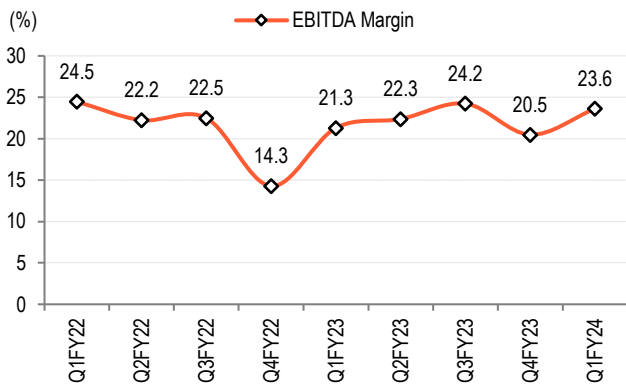
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA**



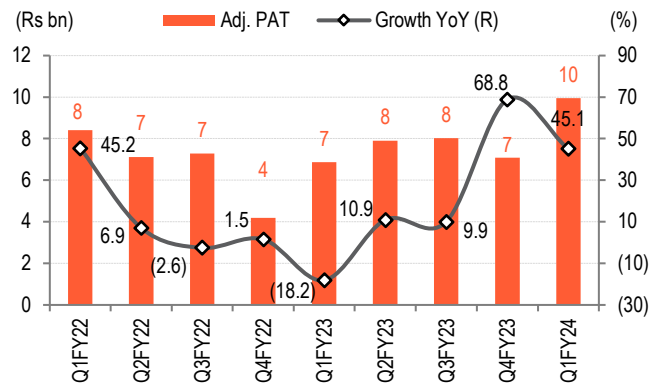
Source: Company, BOBCAPS Research

**Fig 5 – EBITDA margin**



Source: Company, BOBCAPS Research

**Fig 6 – Adj. PAT**



Source: Company, BOBCAPS Research

### Earnings call highlights

- **One India:** Growth in chronic therapies helped Cipla’s One India business post 12% YoY growth in Q1FY24. The company took steps to contain the impact of the NLEM pricing cap and was further aided by new launches. Its branded prescription business was boosted by product introductions, along with in-licensed products Galvus and Scapho (a human IgG1 monoclonal antibody for the treatment of psoriasis).
  - **Trade generics:** Traction in big brands helped the company maintain leadership in trade generics. Launch momentum continued in Q1 with the addition of 23 products in the portfolio.
  - **Consumer health:** The consumer health business witnessed strong double-digit growth with margins moving closer to the mid-teens in Q1, as a result of the company’s brand strength and market penetration.
  
- **North America:** North America clocked stronger revenues of US\$ 222mn in Q1, up 9% QoQ (+43% YoY), on account of lenalidomide and market share gains in lanreotide (18% now). Albuterol market share that had dropped in Q4 has now stabilised.

- **Pipeline progress:** Cipla is targeting the launch of 4-5 peptides over the next two years along with the filing of a couple more. Symbicort is to be filed by end-FY24. Site derisking for gAdvair (fluticasone/salmeterol) is in progress while gAbraxane (nanopaclitaxel) is being de-risked through the CMO site.
- **Regulatory update:** (1) Indore: Cipla is awaiting classification for the Indore facility which was audited in Feb'23 from the USFDA. The company has already initiated corrective actions for observations as per Form 43 received from the agency. (2) Goa: Implementation of CAPA and remediation continues for the Goa facility, where the company hopes to be reinspected in the second half of this financial year.
- **SAGA:** With a four-year CAGR of 8.6% in the South African market, Cipla is now the second-largest player in the prescription market by market share. South Africa's private market grew 13% YoY CC, powered by an uptick in focused therapies in the prescription business as well as high growth of 16% in the OTC portfolio. Strong momentum across new launches has lent the company's portfolio more muscle for growth.
- **Field force addition:** Cipla added 250-300 medical representatives (MR) in Q1 and will complete field force expansion in Q2 after adding 200 more personnel. As of FY23, its field strength totalled 10,000 MRs.
- **Capex:** Cipla plans to spend ~Rs 15bn in capex for FY24 towards maintenance, modernisation and capacity enhancements.

## Valuation methodology

Given the stellar Q1FY24 performance, improving US generic environment and management’s stronger margin and US revenue guidance, we raise our FY24-FY25 EBITDA estimates by 6-7%. We expect a healthy PAT CAGR of 22% over FY23-FY25, baking in new launches, recovery in SAGA/API, and continued momentum in One India as the consumer health business returns to form.

Following estimate revision, our TP stands revised to Rs 1,250 (vs. Rs 1,170), based on an unchanged FY25E EV/EBITDA multiple of 15x – in line with stocks 5-year average. Retain BUY for 17% upside potential.

**Fig 7 – Revised estimates**

(Rs bn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	251.7	277.5	241.0	266.0	4.4	4.4
EBITDA	56.6	64.8	53.5	60.3	5.7	7.4
EBITDA margin (%)	22.5	23.4	22.2	22.7	26bps	66bps
EPS (Rs)	45.3	55.5	42.0	51.0	7.8	8.7

Source: BOBCAPS Research

**Fig 8 – Key assumptions**

Revenue (Rs bn)	FY23A	FY24E	FY25E
Domestic Formulation	98.7	113.5	130.5
North America	59.1	63.9	67.9
SAGA	31.7	33.6	35.8
International	30.3	32.1	34.0
API	5.7	6.2	6.9
Other Operating Income	2.1	2.4	2.4

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- **Poor US execution:** We expect the US market to contribute meaningfully to profitability in the coming years. Any delay in ramp-up of key launches such as Advair Diskus can potentially erode EPS.
- **Regulatory issues:** Failure to get clearance on plants under USFDA observations would affect growth.
- **Reduction in Global Access funding:** A decline in the tender-facing Global Access business due to challenges in the funding environment would pose a risk to our estimates.
- **Drug prices:** Weak drug price hikes in South Africa are another key downside risk.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.3	1,506	1,520	BUY
Alembic Pharma	ALPM IN	1.7	708	615	HOLD
Alkem Labs	ALKEM IN	5.8	4,005	3,000	SELL
Cipla	CIPLA IN	10.5	1,069	1,250	BUY
Divi's Labs	DIVI IN	11.9	3,680	3,200	HOLD
Dr Reddy's Labs	DRRD IN	11.1	5,476	4,900	HOLD
Eris Lifesciences	ERIS IN	1.3	758	800	BUY
Glenmark Life Sciences	GLS IN	1.0	660	620	HOLD
Laurus Labs	LAURUS IN	2.2	341	340	HOLD
Lupin	LPC IN	5.2	941	700	HOLD
Sun Pharma	SUNP IN	32.5	1,112	1,130	BUY

Source: BOBCAPS Research, NSE | Price as of 26 Jul 2023

## Glossary

Glossary of Abbreviations			
ANDA	Abbreviated New Drug Application	mABs	Monoclonal Antibodies
API	Active Pharmaceutical Ingredient	MR	Marketing Representatives
CAPA	Corrective and Preventive Actions	NLEM	National List of Essential Medicines
CDMO	Contract Development and Manufacturing Operations	OTC	Over the Counter
CMO	Contract Manufacturing Organisations	SAGA	South Africa & Global Access

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>1,91,596</b>	<b>2,17,631</b>	<b>2,27,530</b>	<b>2,51,669</b>	<b>2,77,546</b>
EBITDA	42,525	45,525	50,268	56,554	64,819
Depreciation	10,677	10,520	11,721	11,260	11,788
EBIT	31,848	35,006	38,547	45,293	53,030
Net interest inc./(exp.)	(1,607)	(1,064)	(1,095)	(710)	(547)
Other inc./(exp.)	2,660	2,809	4,755	4,758	7,938
Exceptional items	0	0	0	0	0
EBT	32,901	36,751	42,206	49,341	60,422
Income taxes	8,888	9,338	12,029	12,829	15,710
Extraordinary items	0	(1,821)	(1,824)	0	0
Min. int./Inc. from assoc.	(36)	427	336	0	0
<b>Reported net profit</b>	<b>24,049</b>	<b>25,165</b>	<b>28,018</b>	<b>36,512</b>	<b>44,712</b>
Adjustments	0	(1,821)	(1,824)	0	0
<b>Adjusted net profit</b>	<b>24,049</b>	<b>26,986</b>	<b>29,842</b>	<b>36,512</b>	<b>44,712</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	20,668	25,081	24,571	27,320	30,152
Other current liabilities	14,709	8,547	9,375	12,465	13,757
Provisions	11,945	13,212	13,888	15,361	16,953
Debt funds	15,375	10,558	8,031	6,178	4,752
Other liabilities	0	0	0	0	0
Equity capital	1,613	1,614	1,614	1,614	1,614
Reserves & surplus	1,84,062	2,07,512	2,32,589	2,65,065	3,05,741
Shareholders' fund	1,85,675	2,09,125	2,34,203	2,66,679	3,07,356
<b>Total liab. and equities</b>	<b>2,48,372</b>	<b>2,66,523</b>	<b>2,90,067</b>	<b>3,28,003</b>	<b>3,72,969</b>
Cash and cash eq.	14,012	19,285	15,646	50,976	86,314
Accounts receivables	34,457	34,244	40,570	44,395	48,996
Inventories	46,692	53,502	51,564	61,470	67,841
Other current assets	21,267	29,490	43,125	37,395	41,270
Investments	28,318	26,120	37,222	37,222	37,222
Net fixed assets	49,563	51,644	49,908	46,647	42,859
CWIP	9,689	7,662	10,933	10,933	10,933
Intangible assets	44,375	44,575	41,099	38,964	37,534
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>2,48,372</b>	<b>2,66,523</b>	<b>2,90,067</b>	<b>3,28,003</b>	<b>3,72,969</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>41,404</b>	<b>21,444</b>	<b>23,805</b>	<b>47,795</b>	<b>47,915</b>
Capital expenditures	(7,180)	(12,615)	(907)	(8,000)	(8,000)
Change in investments	(12,365)	2,198	(11,102)	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(19,545)</b>	<b>(10,418)</b>	<b>(12,009)</b>	<b>(8,000)</b>	<b>(8,000)</b>
Equities issued/Others	0	1	1	0	0
Debt raised/repaid	(12,785)	(4,817)	(2,527)	(1,853)	(1,426)
Interest expenses	(1,607)	(1,064)	(1,095)	(710)	(547)
Dividends paid	(4,032)	(4,034)	(4,036)	(4,036)	(4,036)
Other financing cash flows	538	4,160	(7,777)	2,134	1,431
<b>Cash flow from financing</b>	<b>(17,886)</b>	<b>(5,754)</b>	<b>(15,434)</b>	<b>(4,465)</b>	<b>(4,577)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>3,974</b>	<b>5,273</b>	<b>(3,639)</b>	<b>35,330</b>	<b>35,338</b>
<b>Closing cash &amp; cash eq.</b>	<b>14,013</b>	<b>19,285</b>	<b>15,646</b>	<b>50,976</b>	<b>86,314</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	29.8	31.2	34.8	45.3	55.5
Adjusted EPS	29.8	33.5	37.0	45.3	55.5
Dividend per share	5.0	5.0	5.0	5.0	5.0
Book value per share	227.1	256.0	286.7	327.0	377.4

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	4.6	3.9	3.7	3.3	2.9
EV/EBITDA	20.6	18.8	16.6	14.6	12.4
Adjusted P/E	35.8	31.9	28.8	23.6	19.3
P/BV	4.7	4.2	3.7	3.3	2.8

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	73.1	73.4	70.7	74.0	74.0
Interest burden (PBT/EBIT)	103.3	105.0	109.5	108.9	113.9
EBIT margin (EBIT/Revenue)	16.6	16.1	16.9	18.0	19.1
Asset turnover (Rev./Avg TA)	24.5	25.9	24.6	24.4	23.7
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.0	1.0
<b>Adjusted ROAE</b>	<b>14.1</b>	<b>13.9</b>	<b>13.6</b>	<b>14.8</b>	<b>15.7</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	12.3	13.6	4.5	10.6	10.3
EBITDA	35.8	7.1	10.4	12.5	14.6
Adjusted EPS	63.5	12.2	10.6	22.4	22.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	22.2	20.9	22.1	22.5	23.4
EBIT margin	16.6	16.1	16.9	18.0	19.1
Adjusted profit margin	12.6	12.4	13.1	14.5	16.1
Adjusted ROAE	14.1	13.9	13.6	14.8	15.7
ROCE	17.6	18.0	18.7	19.4	20.8
<b>Working capital days (days)</b>					
Receivables	66	58	66	65	65
Inventory	90	91	84	90	90
Payables	40	42	40	40	40
<b>Ratios (x)</b>					
Gross asset turnover	1.3	1.3	1.4	1.4	1.5
Current ratio	2.5	2.9	3.2	3.5	4.0
Net interest coverage ratio	19.8	32.9	35.2	63.8	97.0
<b>Adjusted debt/equity</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.4)</b>

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

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 SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**  
 Brand Name: **BOBCAPS**  
 Trade Name: **www.barodaetrade.com**  
 CIN: **U65999MH1996GOI098009**



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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

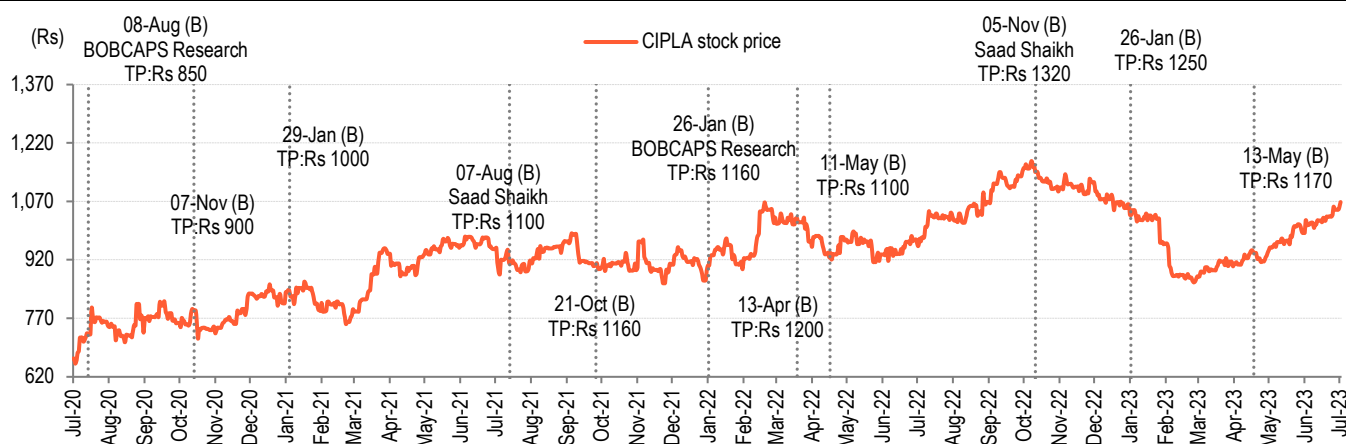
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): CIPLA (CIPLA IN)



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

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