

BUY

TP: Rs 1,360 | ▲ 16%

CIPLA

| Pharmaceuticals

| 28 October 2023

Beat on all fronts

- Q2 EBITDA/PAT 14%/15% ahead of consensus underpinned by strong growth in US and India businesses
- Market share gains and gRevlimid contribution yield strong EBITDA margin; guidance at 24% in FY24
- We raise FY24/FY25 EBITDA by 8%/6% and increase our TP to Rs 1,360 (vs. Rs 1,250); maintain BUY

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Strong revenue growth led by US business; guidance raised: Cipla reported revenue growth of 15% YoY to Rs 66.8bn (+6% QoQ) in Q2FY24, beating consensus estimates by 3%. North America business led the way, rising 28% YoY (+3% QoQ) to US\$ 229mn, on account of market share gains in Lanreotide (to 20%), contribution from gRevlimid and stable market share in Albuterol. Improved opportunities in core US business as well as moderating price erosion further aided revenues. Management has upgraded its quarterly US sales guidance to US\$ 220mn-225mn for the rest of the year.

One-India on a firm footing: Revenue from the One-India business increased 10% YoY with growth across the subsegments of prescription, trade generics and consumer health. A slowdown in acute therapies (anti-infectives, respiratory) due to the erratic monsoon was overcome by growth in chronic therapies which saw market share gains and volume traction in branded products.

EBITDA margin swells; FY24 guidance at 24%: Gross margin expanded 240bps YoY to 65.4% on account of a better mix tilted toward chronic therapies in One-India and market share gains in the differentiated portfolio along with moderating price erosion in the US. Improvement in gross margin and lower logistics cost helped the company report 360bps YoY expansion in EBITDA margin to 26% in Q2 (24.8% in H1). EBITDA/PAT for the quarter grew 33%/43% YoY (+16%/+14% QoQ), coming in well ahead of consensus estimates.

Retain BUY: Given the strong revenue growth and margins in H1FY24, we raise our FY24/FY25 EBITDA estimates by 8%/6%. 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 rises to Rs 1,360 (vs. Rs 1,250), based on an unchanged FY25E EV/EBITDA multiple of 15.5x, which is 1SD above the 5Y average. We retain BUY for 16% upside potential.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CIPLA IN/Rs 1,174
Market cap	US\$ 11.5bn
Free float	65%
3M ADV	US\$ 27.4mn
52wk high/low	Rs 1,278/Rs 852
Promoter/FPI/DII	33%/25%/24%

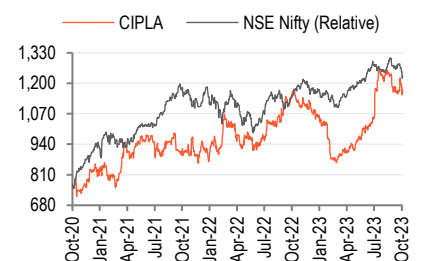
Source: NSE | Price as of 27 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	227,530	254,953	279,218
EBITDA (Rs mn)	50,268	60,828	68,529
Adj. net profit (Rs mn)	29,842	40,171	44,546
Adj. EPS (Rs)	37.0	49.9	55.3
Consensus EPS (Rs)	37.0	46.8	53.5
Adj. ROAE (%)	13.6	16.1	15.5
Adj. P/E (x)	31.7	23.6	21.2
EV/EBITDA (x)	18.3	15.0	13.0
Adj. EPS growth (%)	10.6	34.6	10.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Net Sales	66,782	58,285	14.6	63,289	5.5	130,070	112,037	16.1
EBITDA	17,338	13,023	33.1	14,939	16.1	32,277	24,457	32.0
Depreciation	2,900	2,994	(3.1)	2,392	21.2	5,293	5,538	-
EBIT	14,437	10,030	43.9	12,547	15.1	26,984	18,919	-
Interest	258	256	1.0	164	57.4	422	434	-
Other Income	1,763	1,230	43.4	1,363	29.4	3,126	2,264	-
PBT	15,942	11,004	44.9	13,746	16.0	29,688	20,749	43.1
Less: Taxation	4,384	3,026	-	3,780	16.0	8,164	5,706	-
Less: Minority Interest	249	89	-	9	-	258	290	-
Recurring PAT	11,309	7,889	43.4	9,957	13.6	21,266	14,753	44.1
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	11,309	7,889	43.4	9,957	13.6	21,266	14,753	44.1
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	65.4	62.9	243	64.7	71	65.0	62.6	237
EBITDA Margin	26.0	22.3	362	23.6	236	24.8	21.8	299
Tax / PBT	27.5	27.5	-	27.5	-	27.5	27.5	-
NPM	16.9	13.5	340	15.7	120	16.3	13.2	-
EPS (Rs)	14.0	9.8	-	12.4	-	26.4	18.3	-

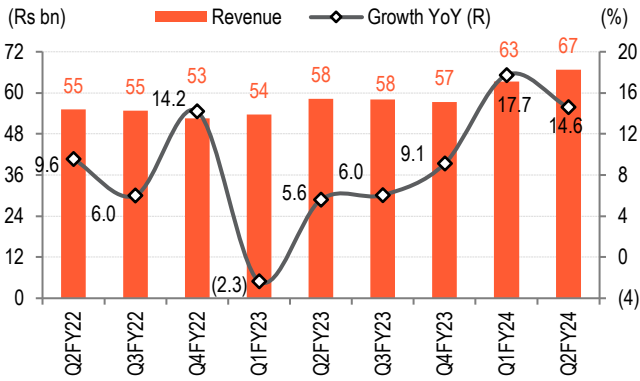
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Formulations	64,310	56,250	14.3	61,210	5.1	125,520	108,150	16.1
India	28,170	25,630	9.9	27,720	1.6	55,890	50,460	10.8
North America	18,870	14,320	31.8	18,220	3.6	37,090	26,310	41.0
SAGA	9,930	8,670	14.5	7,480	32.8	17,410	16,550	5.2
South Africa	6,200	5,980	3.7	5,140	20.6	11,340	11,660	(2.7)
Others/Global Access	3,730	2,690	38.7	2,340	59.4	6,070	4,890	24.1
International	7,340	7,630	(3.8)	7,790	(5.8)	15,130	14,830	2.0
APIs	1,470	1,530	(3.9)	1,360	8.1	2,830	2,880	(1.7)
Other Op. income	1,002	505	98.2	719	39.3	1,720	1,007	70.8
Net Sales	66,782	58,285	14.6	63,289	5.5	130,070	112,037	16.1
USDINR	82	80	3.1	82	0.4	82	79	4.6
US Revenue (US\$ mn)	229	179	27.8	222	3.2	451	335	34.8

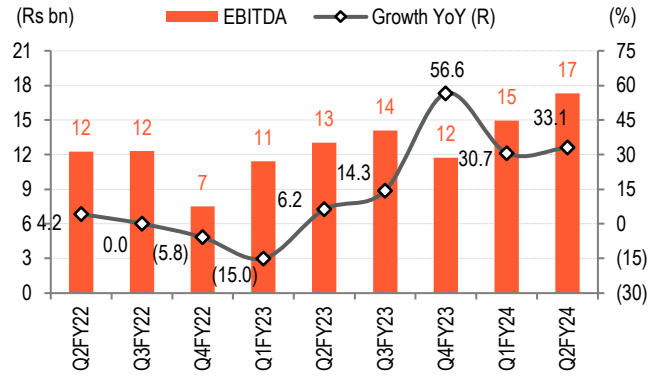
Source: Company, BOBCAPS Research

Fig 3 – Revenue



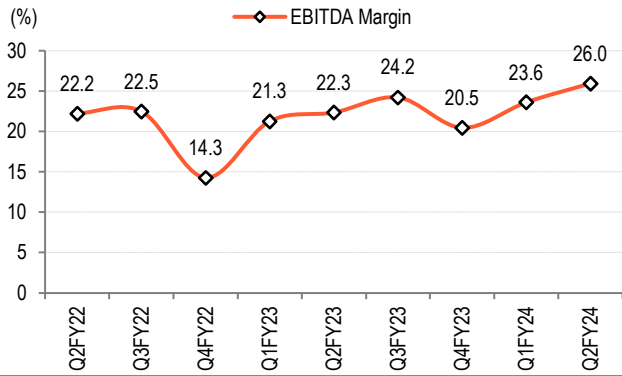
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



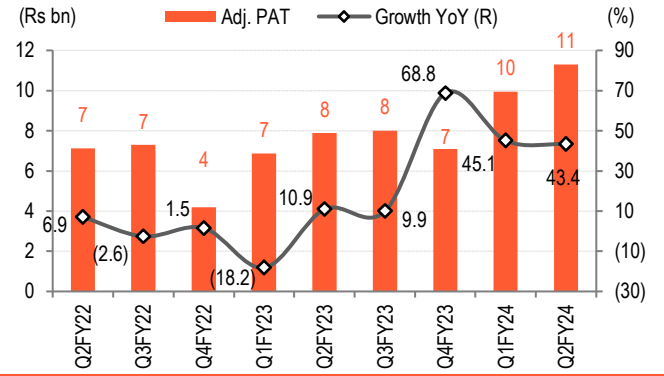
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – Adj. PAT



Source: Company, BOBCAPS Research

Valuation methodology

Given the stellar H1FY24 performance, improving US generic drug environment and management’s stronger margin and US revenue guidance, we raise our FY24/FY25 EBITDA estimates by 8%/6%. We expect a healthy PAT CAGR of 22% over FY23-FY25, baking in new launches, recovery in SAGA (South Africa, Sub-Saharan Africa and Cipla Global Access) and API (active pharma ingredient) business, and continued momentum in One-India as the consumer health division returns to form. Note, we have also introduced our FY26 estimates for Cipla.

Following estimate revision, our TP rises to Rs 1,360 (vs. Rs 1,250), based on an unchanged FY25E EV/EBITDA multiple of 15.5x, which is one standard deviation above the five-year average. We retain BUY for 16% upside potential.

Fig 7 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	255.0	279.2	307.7	251.7	277.5	NA	1.3	0.6	NA
EBITDA	60.8	68.5	77.0	56.6	64.8	NA	7.6	5.7	NA
EBITDA margin (%)	23.9	24.5	25.0	22.5	23.4	NA	139bps	119bps	NA
EPS (Rs)	49.9	55.3	63.8	45.2	55.4	NA	10.2	(0.2)	NA

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY23A	FY24E	FY25E	FY26E
Domestic Formulation	98.7	114.5	131.7	151.4
North America	59.1	67.3	69.7	73.2
SAGA	31.7	32.4	34.6	37.0
International	30.3	32.1	34.0	36.1
API	5.7	6.2	6.9	7.6
Other Operating income	2.1	2.4	2.4	2.5

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 new launches and revenue 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	2.7	1,756	1,860	BUY
Alembic Pharma	ALPM IN	1.8	747	615	HOLD
Alkem Labs	ALKEM IN	5.3	3,675	3,300	SELL
Aurobindo Pharma	ARBP IN	6.1	854	880	HOLD
Cipla	CIPLA IN	11.5	1,174	1,360	BUY
Divi's Labs	DIVI IN	11.0	3,412	3,200	HOLD
Dr Reddy's Labs	DRRD IN	10.9	5,397	4,900	HOLD
Eris Lifesciences	ERIS IN	1.4	840	955	BUY
Glenmark Life Sciences	GLS IN	0.9	626	620	HOLD
Laurus Labs	LAURUS IN	2.3	357	340	HOLD
Lupin	LPC IN	6.3	1,132	800	SELL
Sun Pharma	SUNP IN	32.4	1,111	1,160	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	217,631	227,530	254,953	279,218	307,710
EBITDA	45,525	50,268	60,828	68,529	77,030
Depreciation	10,520	11,721	11,260	11,788	12,316
EBIT	35,006	38,547	49,568	56,741	64,714
Net interest inc./(exp.)	(1,064)	(1,095)	(883)	(736)	(613)
Other inc./(exp.)	2,809	4,755	6,344	5,017	6,363
Exceptional items	0	0	0	0	0
EBT	36,751	42,206	55,028	61,022	70,464
Income taxes	9,338	12,029	14,858	16,476	19,025
Extraordinary items	(1,821)	(1,824)	0	0	0
Min. int./Inc. from assoc.	427	336	0	0	0
Reported net profit	25,165	28,018	40,171	44,546	51,439
Adjustments	(1,821)	(1,824)	0	0	0
Adjusted net profit	26,986	29,842	40,171	44,546	51,439

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	25,081	24,571	27,679	30,335	33,453
Other current liabilities	8,547	9,375	12,628	13,840	15,263
Provisions	13,212	13,888	15,562	17,056	18,809
Debt funds	10,558	8,031	6,693	5,577	4,648
Other liabilities	0	0	0	0	0
Equity capital	1,614	1,614	1,614	1,614	1,614
Reserves & surplus	207,512	232,589	268,724	309,234	356,636
Shareholders' fund	209,125	234,203	270,338	310,848	358,251
Total liab. and equities	266,523	290,067	332,900	377,655	430,422
Cash and cash eq.	19,285	15,646	53,992	90,041	132,627
Accounts receivables	34,244	40,570	44,978	49,294	54,360
Inventories	53,502	51,564	62,277	68,253	75,268
Other current assets	29,490	43,125	37,885	41,520	45,788
Investments	26,120	37,222	37,222	37,222	37,222
Net fixed assets	51,644	49,908	46,647	42,859	38,543
CWIP	7,662	10,933	10,933	10,933	10,933
Intangible assets	44,575	41,099	38,964	37,534	35,681
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	266,523	290,067	332,900	377,655	430,422

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	21,444	23,805	50,470	48,505	54,312
Capital expenditures	(12,615)	(907)	(8,000)	(8,000)	(8,000)
Change in investments	2,198	(11,102)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(10,418)	(12,009)	(8,000)	(8,000)	(8,000)
Equities issued/Others	1	1	0	0	0
Debt raised/repaid	(4,817)	(2,527)	(1,339)	(1,115)	(930)
Interest expenses	(1,064)	(1,095)	(883)	(736)	(613)
Dividends paid	(4,034)	(4,036)	(4,036)	(4,036)	(4,036)
Other financing cash flows	4,160	(7,777)	2,134	1,431	1,853
Cash flow from financing	(5,754)	(15,434)	(4,123)	(4,457)	(3,726)
Chg in cash & cash eq.	5,273	(3,639)	38,346	36,048	42,586
Closing cash & cash eq.	19,285	15,646	53,992	90,041	132,627

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	31.2	34.8	49.9	55.3	63.8
Adjusted EPS	33.5	37.0	49.9	55.3	63.8
Dividend per share	5.0	5.0	5.0	5.0	5.0
Book value per share	256.0	286.7	331.5	381.8	440.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	4.3	4.0	3.6	3.2	2.8
EV/EBITDA	20.7	18.3	15.0	13.0	11.0
Adjusted P/E	35.1	31.7	23.6	21.2	18.4
P/BV	4.6	4.1	3.5	3.1	2.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	73.4	70.7	73.0	73.0	73.0
Interest burden (PBT/EBIT)	105.0	109.5	111.0	107.5	108.9
EBIT margin (EBIT/Revenue)	16.1	16.9	19.4	20.3	21.0
Asset turnover (Rev./Avg TA)	25.9	24.6	24.5	23.5	22.6
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.0	1.0	1.0
Adjusted ROAE	13.9	13.6	16.1	15.5	15.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	13.6	4.5	12.1	9.5	10.2
EBITDA	7.1	10.4	21.0	12.7	12.4
Adjusted EPS	12.2	10.6	34.6	10.9	15.5
Profitability & Return ratios (%)					
EBITDA margin	20.9	22.1	23.9	24.5	25.0
EBIT margin	16.1	16.9	19.4	20.3	21.0
Adjusted profit margin	12.4	13.1	15.8	16.0	16.7
Adjusted ROAE	13.9	13.6	16.1	15.5	15.5
ROCE	18.0	18.7	21.5	20.8	20.9
Working capital days (days)					
Receivables	58	66	65	65	65
Inventory	91	84	90	90	90
Payables	42	40	40	40	40
Ratios (x)					
Gross asset turnover	1.3	1.4	1.5	1.5	1.6
Current ratio	2.9	3.2	3.6	4.1	4.6
Net interest coverage ratio	32.9	35.2	56.1	77.1	105.5
Adjusted debt/equity	(0.1)	(0.2)	(0.3)	(0.4)	(0.4)

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

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BUY – Expected return >+15%

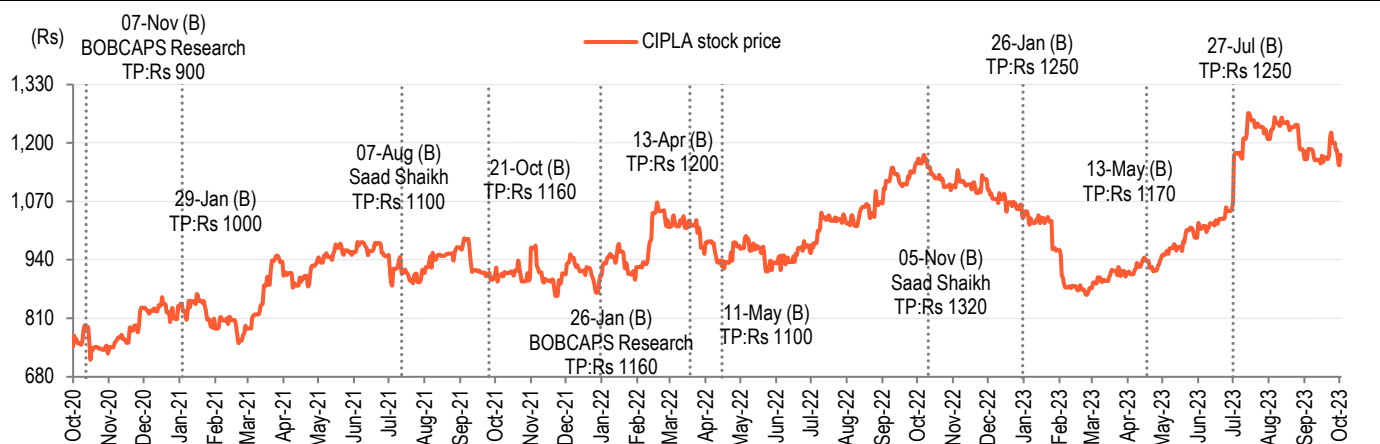
HOLD – Expected return from -6% to +15%

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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