

BUY

TP: Rs 1,576 | ▲ 15%

CIPLA

| Pharmaceuticals

| 25 January 2024

Healthy revenue growth, strong margins

- Q3 strong with EBITDA beat of 9% over consensus, though impairment charges of Rs 1.9bn limited PAT outperformance vs consensus
- Better pricing and favourable mix aided gross margin (+90bps YoY), while prudent cost control lifted EBITDA margin (+225bps)
- TP revised to Rs 1,576 (vs. Rs 1,360) as we tweak estimates and roll valuations forward to FY26E; maintain BUY

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Strong quarter...: Cipla reported a strong Q3FY24 with topline growth of 14% YoY (marginally above Bloomberg consensus) coupled with EBITDA margin expansion of 225bps to 26.5%. This resulted in PAT growth of 56% YoY before exceptional items and 32% post one-offs.

...led by N. America and recovery in SAGA: The company reported double-digit growth YoY across the Indian, US and SAGA (South Africa, Sub-Saharan Africa and Cipla Global Access) markets but saw declines in its international (-2% YoY) and API (-27%) verticals. Sales of US\$ 230mn to North America (+18% YoY) were supported by volume traction in the key assets of Lanreotide (20% market share) and Albuterol, coupled with robust demand in base business. The One-India business delivered healthy 12% YoY growth as all three segments of prescription, trade generics and consumer health moved up. SAGA saw continued recovery with 20% YoY growth.

Margin tracking well above guidance: At 25.4%, Cipla's 9MFY24 EBITDA margin is running above management's 23-24% guidance for the full year. The Q3 margin of 26.5% was supported by a better product mix, improved pricing environment in the US and prudent cost control. PAT growth was further aided by higher other income as well higher other operating income during the quarter. We note that exceptional items amounting to Rs 1.9bn arose from the impairment of intangible assets due to discontinuation of the development and commercialisation of Pulmazole.

Earnings call highlights: (1) Cipla has submitted revised data to the USFDA for the Indore site. Symbicort is a key Indore filing and a backup site transfer is underway but will take more than two years to secure approval. (2) Abraxane is likely to be launched from the Goa facility.

Maintain BUY: We continue to expect strong margins and a healthy 20% PAT CAGR over FY23-FY26 on the back of new launches in US, recovery in SAGA and API business, and continued momentum in One-India. On rolling valuations over to FY26E, our TP rises to Rs 1,576 (vs. Rs 1,360), based on an unchanged EV/EBITDA multiple of 15.5x, which is 1SD above the 5Y average. We retain BUY for 15% upside.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CIPLA IN/Rs 1,370
Market cap	US\$ 13.4bn
Free float	65%
3M ADV	US\$ 27.0mn
52wk high/low	Rs 1,425/Rs 852
Promoter/FPI/DII	33%/25%/24%

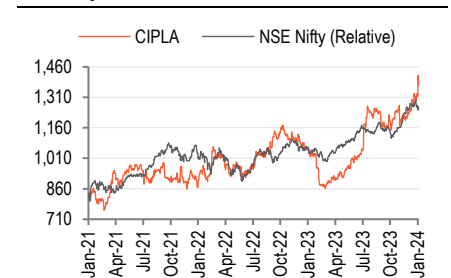
Source: NSE | Price as of 25 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	227,530	255,535	282,858
EBITDA (Rs mn)	50,268	61,731	69,434
Adj. net profit (Rs mn)	29,842	40,803	45,145
Adj. EPS (Rs)	37.0	50.6	56.0
Consensus EPS (Rs)	37.0	49.2	54.6
Adj. ROAE (%)	13.6	16.4	15.8
Adj. P/E (x)	37.0	27.0	24.4
EV/EBITDA (x)	21.5	17.3	15.1
Adj. EPS growth (%)	10.6	36.7	10.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Net Sales	66,038	58,101	13.7	66,782	(1.1)	196,109	170,138	15.3
EBITDA	17,475	14,075	24.2	17,338	0.8	49,752	38,532	29.1
Depreciation	2,334	2,721	(14.2)	2,900	(19.5)	7,627	8,259	-
EBIT	15,141	11,354	33.3	14,437	4.9	42,125	30,273	39.1
Interest	301	318	(5.4)	258	16.7	723	752	-
Other Income	1,846	1,144	61.3	1,763	4.7	4,972	3,408	-
PBT	16,686	12,181	37.0	15,942	4.7	46,375	32,930	40.8
Less: Taxation	4,053	4,100	-	4,384	(7.6)	12,217	9,806	-
Less: Minority Interest	126	71	-	249	-	384	361	-
Recurring PAT	12,507	8,010	56.2	11,309	10.6	33,773	22,763	48.4
Exceptional items	(1,948)	0	-	0	-	(1,948)	0	-
Reported PAT	10,559	8,010	31.8	11,309	(6.6)	31,825	22,763	39.8
Key Ratios (%)								
Gross Margin	66.4	65.5	89bps	65.4	103	65.5	63.6	186bps
EBITDA Margin	26.5	24.2	224bps	26.0	50	25.4	22.6	272bps
Tax / PBT	24.3	33.7	-	27.5	-	26.3	29.8	-
Net Profit Margin	18.9	13.8	515bps	16.9	200	17.2	13.4	-
EPS (Rs)	15.5	9.9	-	14.0	-	41.8	28.2	-

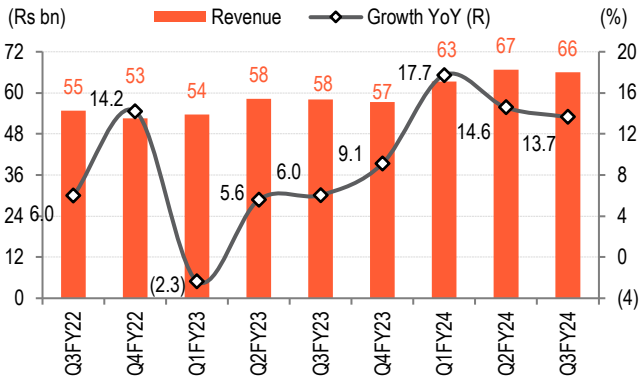
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Formulations	63,360	56,055	13.0	64,310	(1.5)	188,880	164,205	15.0
India	28,590	25,630	11.5	28,170	1.5	84,480	76,090	11.0
North America	19,160	16,005	19.7	18,870	1.5	56,250	42,315	32.9
SAGA	8,150	6,800	19.9	9,930	(17.9)	25,560	23,350	9.5
South Africa	6,030	5,500	9.6	6,200	(2.7)	17,370	17,160	1.2
Others/Global Access	2,120	1,300	63.1	3,730	(43.2)	8,190	6,190	32.3
International	7,460	7,620	(2.1)	7,340	1.6	22,590	22,450	0.6
APIs	1,080	1,470	(26.5)	1,470	(26.5)	3,910	4,350	(10.1)
Other Op. income	1,598	576	177.5	1,002	59.6	3,319	1,583	109.6
Net Sales	66,038	58,101	13.7	66,782	(1.1)	196,109	170,138	15.3

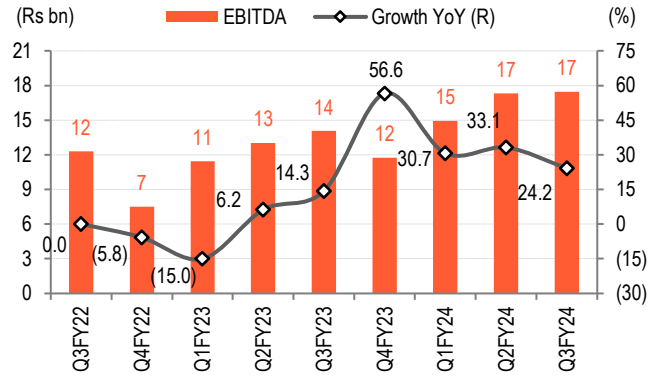
Source: Company, BOBCAPS Research

Fig 3 – Revenue



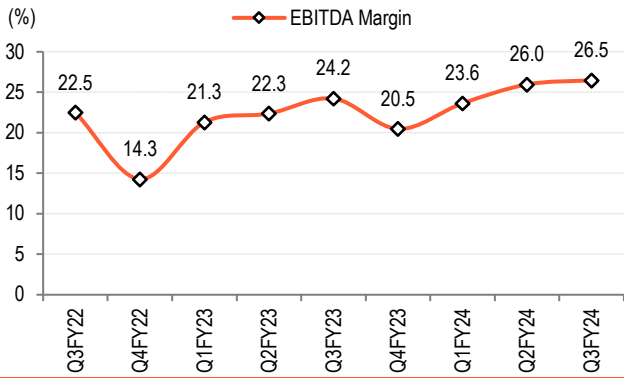
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



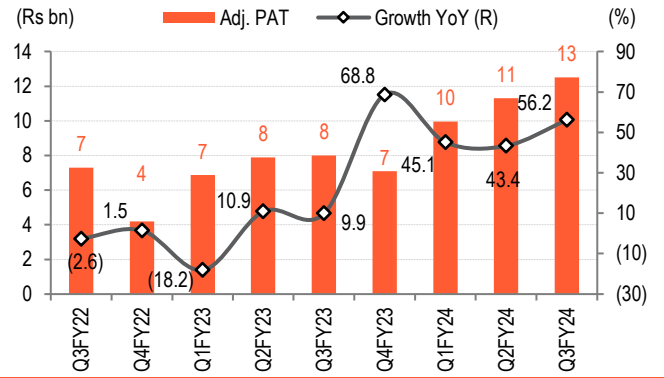
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – Adj. PAT



Source: Company, BOBCAPS Research

Valuation methodology

We raise FY24/FY25/FY26 EPS estimates by 4%/1%/2% post the Q3FY24 results and continue to expect strong margins along with a healthy 20% PAT CAGR for Cipla over FY23-FY26 led by new launches, recovery in SAGA and API business, and continued momentum in One-India. On rolling valuations over to FY26E, our TP rises to Rs 1,576 (vs. Rs 1,360), based on an unchanged EV/EBITDA multiple of 15.5x, which is one standard deviation above the stock’s five-year average. We retain our BUY rating for 15% upside potential.

Fig 7 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	256.9	282.9	311.9	255.0	279.2	307.7	0.8	1.3	1.4
EBITDA	63.1	69.4	78.1	60.8	68.5	77.0	3.7	1.3	1.4
EBITDA margin (%)	24.6	24.5	25.0	23.9	24.5	25.0	69bps	0bps	0bps
EPS (Rs)	51.9	56.1	64.8	49.9	55.3	63.8	3.9	1.4	1.5

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY23	FY24E	FY25E	FY26E
Domestic Formulation	98.7	114.5	131.7	151.4
North America	59.1	70.7	76.4	80.6
SAGA	31.7	32.4	34.6	37.0
International	30.3	30.3	32.1	34.0
API	5.7	5.2	5.7	6.3
Other Operating Revenue	2.1	3.7	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.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	217,631	227,530	255,535	282,858	311,910
EBITDA	45,525	50,268	61,731	69,434	78,095
Depreciation	10,520	11,721	11,260	11,788	12,316
EBIT	35,006	38,547	50,471	57,645	65,779
Net interest inc./(exp.)	(1,064)	(1,095)	(920)	(736)	(613)
Other inc./(exp.)	2,809	4,755	6,344	4,933	6,263
Exceptional items	0	0	0	0	0
EBT	36,751	42,206	55,895	61,842	71,429
Income taxes	9,338	12,029	15,092	16,697	19,286
Extraordinary items	(1,821)	(1,824)	(1,948)	0	0
Min. int./Inc. from assoc.	427	336	0	0	0
Reported net profit	25,165	28,018	38,855	45,145	52,143
Adjustments	(1,821)	(1,824)	(1,948)	0	0
Adjusted net profit	26,986	29,842	40,803	45,145	52,143

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	25,081	24,571	27,742	30,731	33,910
Other current liabilities	8,547	9,375	12,657	14,021	15,471
Provisions	13,212	13,888	15,598	17,278	19,066
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	267,408	308,517	356,624
Shareholders' fund	209,125	234,203	269,022	310,131	358,239
Total liab. and equities	266,523	290,067	331,711	377,739	431,333
Cash and cash eq.	19,285	15,646	52,474	88,046	131,140
Accounts receivables	34,244	40,570	45,080	49,938	55,103
Inventories	53,502	51,564	62,419	69,144	76,297
Other current assets	29,490	43,125	37,971	42,063	46,414
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	331,711	377,739	431,333

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	21,444	23,805	48,988	48,029	54,820
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)	(920)	(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)	(4,160)	(4,457)	(3,726)
Chg in cash & cash eq.	5,273	(3,639)	36,828	35,572	43,094
Closing cash & cash eq.	19,285	15,646	52,474	88,046	131,140

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	31.2	34.8	48.2	56.0	64.7
Adjusted EPS	33.5	37.0	50.6	56.0	64.7
Dividend per share	5.0	5.0	5.0	5.0	5.0
Book value per share	256.0	286.7	329.9	380.9	440.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	5.0	4.7	4.2	3.7	3.2
EV/EBITDA	24.1	21.5	17.3	15.1	12.9
Adjusted P/E	40.9	37.0	27.0	24.4	21.2
P/BV	5.4	4.8	4.2	3.6	3.1

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	110.7	107.3	108.6
EBIT margin (EBIT/Revenue)	16.1	16.9	19.8	20.4	21.1
Asset turnover (Rev./Avg TA)	25.9	24.6	24.7	23.9	23.0
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.0	1.0	1.0
Adjusted ROAE	13.9	13.6	16.4	15.8	15.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	13.6	4.5	12.3	10.7	10.3
EBITDA	7.1	10.4	22.8	12.5	12.5
Adjusted EPS	12.2	10.6	36.7	10.6	15.5
Profitability & Return ratios (%)					
EBITDA margin	20.9	22.1	24.2	24.5	25.0
EBIT margin	16.1	16.9	19.8	20.4	21.1
Adjusted profit margin	12.4	13.1	16.0	16.0	16.7
Adjusted ROAE	13.9	13.6	16.4	15.8	15.7
ROCE	18.0	18.7	21.9	21.2	21.2
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	3.5	4.0	4.5
Net interest coverage ratio	32.9	35.2	54.8	78.3	107.2
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%

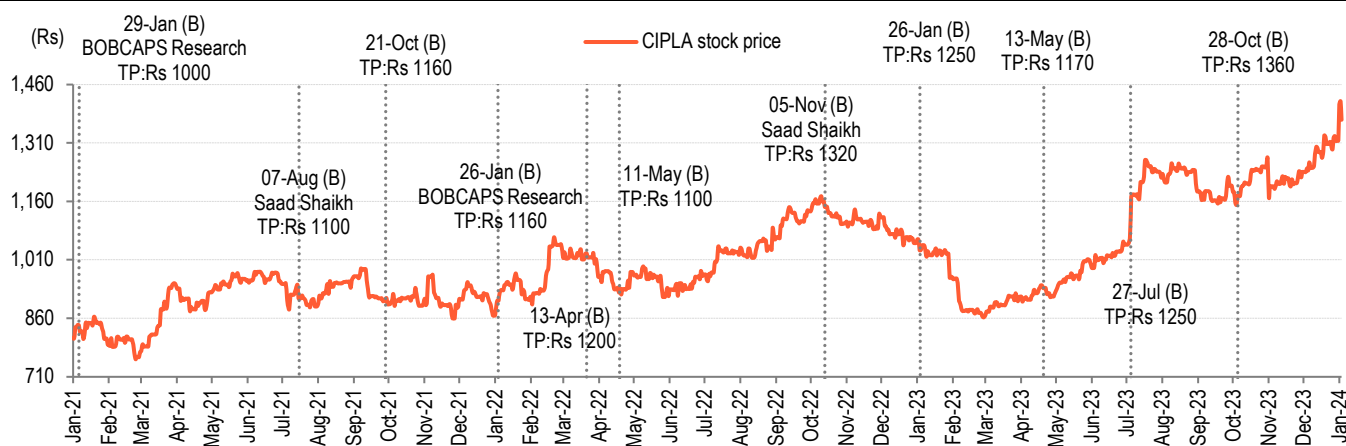
HOLD – Expected return from -6% to +15%

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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