

BUY

TP: Rs 1,170 | ▲ 25%

CIPLA

| Pharmaceuticals

| 13 May 2023

Key launches at least a year away

- Q4 EBITDA/PAT grew 57%/45% YoY but missed consensus by 5%/30% on higher R&D spend, field force expansion and other costs
- gAdvair/gAbraxane launches delayed; gAdvair being derisked via an additional manufacturing site
- FY24-FY25 EBITDA cut 11-13% and TP revised to Rs 1,170 (vs. Rs 1,250) on rollover at a lower 15x EV/EBITDA multiple; retain BUY

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Seasonality subdues growth in One India: Cipla reported largely in-line Q4FY23 revenue, but EBITDA/PAT missed consensus by 5%/30% due to higher R&D and depreciation expenses. Revenue grew 9% YoY to Rs 57.4bn supported by the North America business (+39%/+5% YoY/QoQ) which saw continued market share gains and gRevlimid contribution. India business grew just 3% YoY due to high Covid-led sales in the base quarter (+16% YoY ex-Covid sales) and an unfavourable seasonal impact on the consumer health business. SAGA issues have not yet been resolved.

Below-expected margin guidance for FY24: Gross/EBITDA margins expanded 490bps/620bps YoY to 64%/20.5% in Q4, aided by new launches and a change in mix as well as the absence of a Covid inventory charge that was in the base quarter last year. Sequentially, Cipla's EBITDA margin dropped 380bps on account of gross margin compression of 145bps, higher R&D expense as well as other costs. Adj. PAT grew 69% YoY to Rs 7bn but reported PAT grew 45% to Rs 5.3bn after a one-time impairment charge of Rs 1.8bn on account of divestment of certain non-core assets in Africa and the Middle East.

Estimates pared....: Considering continued investments toward differentiated products, clinical trials and field force expansion in India along with delayed launches of gAdvair and gAbraxane, we cut our FY24/FY25 EBITDA margin estimates by 100-150bps to 22%/23% and prune operating profit assumptions by 11%/13%.

...maintain BUY: Alongside estimate revision, we pare our target EV/EBITDA multiple from 17x to 15x and roll valuations forward to FY25E, which yields a lower TP of Rs 1,170 (vs. Rs 1,250). Our multiple is in line with the stock's 5Y average. We expect a still-healthy PAT CAGR of 17% over FY23-FY25, baking in new launches, recovery in SAGA/API, and continued growth momentum in One India as the consumer health business returns to form. Retain BUY for 25% upside potential.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CIPLA IN/Rs 937
Market cap	US\$ 9.2bn
Free float	65%
3M ADV	US\$ 26.2mn
52wk high/low	Rs 1,185/Rs 852
Promoter/FPI/DII	34%/27%/22%

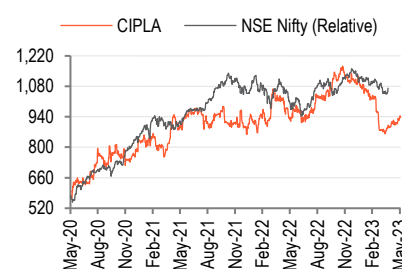
Source: NSE | Price as of 12 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	2,27,530	2,40,961	2,65,956
EBITDA (Rs mn)	50,268	53,517	60,344
Adj. net profit (Rs mn)	29,842	33,919	41,191
Adj. EPS (Rs)	37.0	42.1	51.1
Consensus EPS (Rs)	37.0	45.6	52.7
Adj. ROAE (%)	13.6	13.8	14.7
Adj. P/E (x)	25.3	22.3	18.3
EV/EBITDA (x)	14.5	13.5	11.6
Adj. EPS growth (%)	10.6	13.7	21.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Net Sales	57,393	52,603	9.1	58,101	(1.2)	2,27,531	2,17,633	4.5
EBITDA	11,737	7,497	56.6	14,075	(16.6)	50,270	45,528	10.4
Depreciation	3,462	2,903	19.3	2,721	27.2	11,721	10,520	-
EBIT	8,275	4,594	80.1	11,354	(27.1)	38,549	35,008	-
Interest	344	181	89.8	318	8.0	1,095	1,064	-
Other Income	1,346	640	110.3	1,144	17.6	4,755	2,809	-
PBT	9,278	5,053	83.6	12,181	(23.8)	42,208	36,754	14.8
Less: Taxation	2,223	711	-	4,100	(45.8)	12,029	9,338	-
Less: Minority Interest	(25)	147	-	71	-	336	427	-
Recurring PAT	7,081	4,196	68.8	8,010	(11.6)	29,843	26,989	10.6
Exceptional items	(1,824)	(575)	-	0	-	(1,824)	(1,821)	-
Reported PAT	5,257	3,621	45.2	8,010	(34.4)	28,019	25,168	11.3
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	64.0	59.2	486	65.5	(145)	63.7	61.0	277
EBITDA Margin	20.5	14.3	620	24.2	(377)	22.1	20.9	117
Tax / PBT	24.0	14.1	-	33.7	-	28.5	25.4	-
NPM	12.3	8.0	436	13.8	(145)	13.1	12.4	-
EPS (Rs)	8.8	5.2	-	9.9	-	37.0	33.5	-

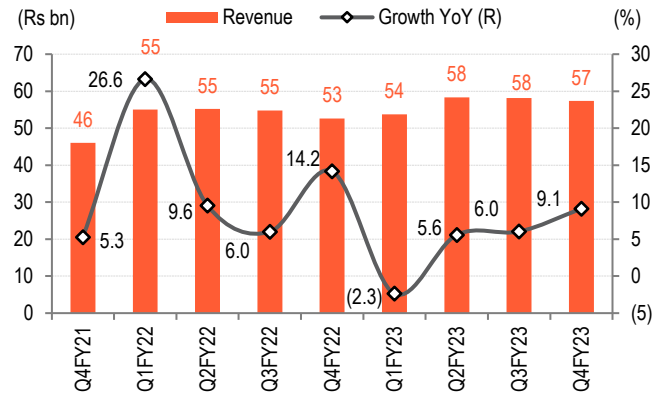
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Formulations	55,525	50,770	9.4	56,055	(0.9)	2,19,730	2,08,020	5.6
India	22,590	21,830	3.5	25,630	(11.9)	98,680	98,270	0.4
North America	16,775	12,090	38.8	16,005	4.8	59,090	44,260	33.5
SAGA	8,320	9,530	(12.7)	6,800	22.4	31,670	36,760	(13.8)
South Africa	6,190	6,640	(6.8)	5,500	12.5	23,350	26,310	(11.3)
Others/Global Access	2,130	2,890	(26.3)	1,300	63.8	8,320	10,450	(20.4)
International	7,840	7,320	7.1	7,620	2.9	30,290	28,730	5.4
APIs	1,340	1,370	(2.2)	1,470	(8.8)	5,690	7,610	(25.2)
Other Op. income	528	463	14.0	576	(8.3)	2,111	2,004	5.4
Net Sales	57,393	52,603	9.1	58,101	(1.2)	2,27,531	2,17,634	4.5
USDINR	82.2	75.6	8.8	82.1	0.2	80.6	75	8.1
US Revenue (US\$ mn)	204	160	27.6	195	4.6	733	594	23.5

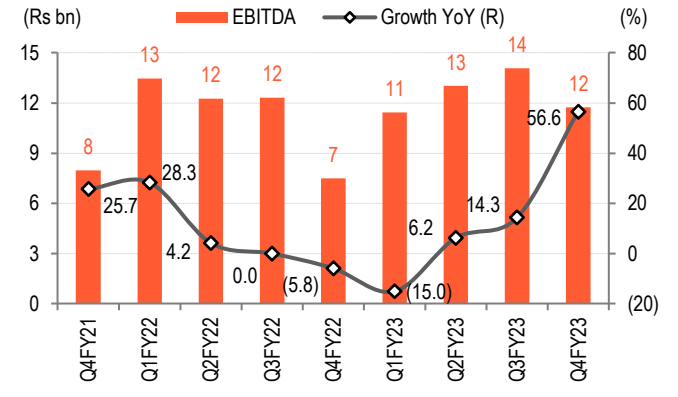
Source: Company, BOBCAPS Research

Fig 3 – Revenue



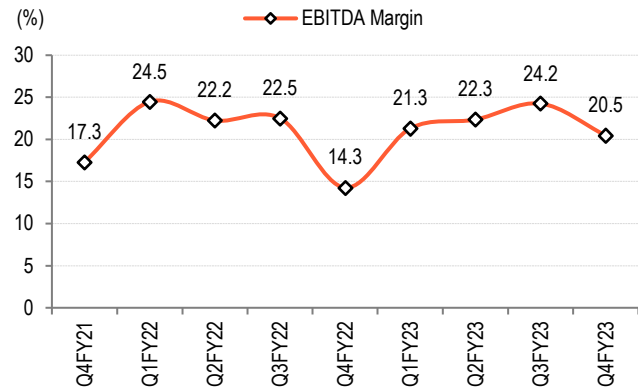
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



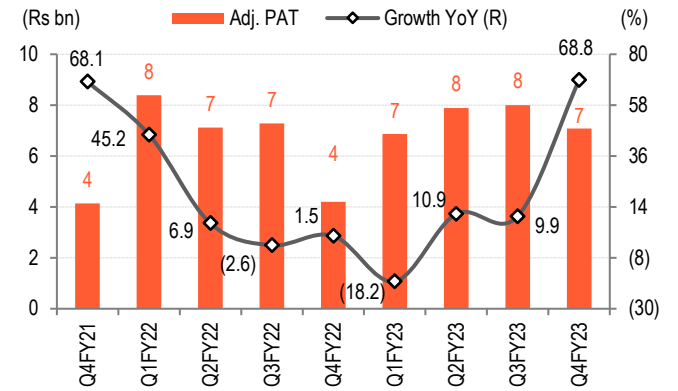
Source: Company, BOBCAPS Research

Fig 5 – EBITDA Margin



Source: Company, BOBCAPS Research

Fig 6 – Adj. PAT



Source: Company, BOBCAPS Research

Earnings call highlights

North America

- North America business grew 5% QoQ (28% YoY) to US\$ 204mn in Q4FY23. Low QoQ growth indicates that gRevlimid contribution is stagnant and the contract with the innovator is at lower volumes. Strong YoY growth can be attributed to gRevlimid sales (not in the base quarter) and market share expansion in key launches.
- Per management, US\$ 195mn-200mn is a sustainable quarterly run-rate for the US business. Despite delays in gAdvair and gAbraxane, Cipla expects to grow as peptide products are performing well.
- If the gAbraxane facility is cleared by the USFDA, launch is imminent else it could be delayed by 12 months. gAdvair is being filed from two sites to derisk the product from a regulatory point, and has no pending questions from the USFDA. Management foresees at least another 12 months to launch.
- Three of Cipla's differentiated products are undergoing clinical trials, with filings targeted in FY24. Filings on complex generics including peptide injectables are on track.
- Management sees no major regulatory risks from the Indore and Goa plants to the pending 43 ANDAs.

India

- India business grew just 3% YoY due to high Covid-led sales in the base quarter (+16% YoY ex-Covid sales) and an unfavourable seasonal impact on the consumer health business.
- Cipla expects recovery in consumer health business and does not anticipate a major NLEM (National List of Essential Medicines) impact due to permitted price increases and continued volume control. Price hike benefits are guided to start coming in from Q1FY24, but the real impact is likely in Q2 and Q3.
- The India field force has been expanded by ~1,000 personnel to a total of 10,000 (7,000 marketing representatives and 3,000 supervisors).

Consumer Health

- The global consumer health business was 8% of revenue in FY23.

SAGA

- The SAGA (South Africa, Sub-Saharan Africa and Cipla Global Access) region remained impacted due to supply challenges.
- Business has picked up in the private market with QoQ growth of 5% (-4% YoY) in ZAR terms. Management expects growth in SAGA next year.

API

- Revenue from APIs (active pharma ingredients) declined 2% YoY (9% QoQ).
- Cipla reported consistent growth in emerging markets but continued to struggle in European markets, though sales are picking up.

Expenses

- R&D investments climbed 15% YoY to Rs 3.7bn in Q4 (6.5% of sales) as the company made continued progress on clinical trials in key pipeline assets.
- Other expenses rose YoY on account of higher promotional expenses.
- Depreciation & amortisation increased sequentially due to impairment in intangible assets.

Valuation methodology

Considering continued investments toward differentiated products, clinical trials and field force expansion in India along with delayed launches of gAdvair and gAbraxane, we cut our FY24/FY25 EBITDA margin estimates by 100-150bps to 22%/23% and prune operating profit assumptions by 11%/13%.

Alongside estimate revision, we pare our target EV/EBITDA multiple from 17x to 15x and roll valuations forward to FY25E, which yields a lower TP of Rs 1,170 (vs. Rs 1,250). Our multiple is in line with the stock's five-year average. We expect a still-healthy PAT CAGR of 17% over FY23-FY25, baking in new launches, recovery in SAGA/API, and continued growth momentum in One India as the consumer health business returns to form. Retain BUY for 25% upside potential.

Fig 7 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	241.0	266.0	260.5	287.8	(7.5)	(7.6)
EBITDA	53.5	60.3	60.3	69.4	(11.2)	(13.1)
EBITDA margin (%)	22.2	22.7	23.1	24.1	(94bps)	(144bps)
EPS (Rs)	42.1	51.1	48.9	59.1	(13.9)	(13.5)

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	53.2	56.3
SAGA	31.7	33.6	35.8
International	30.3	32.1	34.0
API	5.7	6.2	6.9
Other Op. Income	2.1	2.3	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.
- **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.
- **Regulatory issues:** Failure to get clearance on plants under USFDA observations would affect growth.
- **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	1.9	1,263	1,520	BUY
Alembic Pharma	ALPM IN	1.3	562	615	HOLD
Alkem Labs	ALKEM IN	5.0	3,409	3,000	SELL
Aurobindo Pharma	ARBP IN	4.3	609	635	BUY
Cipla	CIPLA IN	9.2	937	1,170	BUY
Divi's Labs	DIVI IN	10.7	3,315	3,200	HOLD
Dr Reddy's Labs	DRRD IN	9.1	4,466	4,900	HOLD
Eris Lifesciences	ERIS IN	1.0	632	810	BUY
Glenmark Life Sciences	GLS IN	0.8	536	600	BUY
Laurus Labs	LAURUS IN	2.0	311	340	HOLD
Lupin	LPC IN	4.3	774	700	HOLD
Sun Pharma	SUNP IN	27.9	956	1,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 12 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	1,91,596	2,17,631	2,27,530	2,40,961	2,65,956
EBITDA	42,525	45,525	50,268	53,517	60,344
Depreciation	10,677	10,520	11,721	11,728	12,256
EBIT	31,848	35,006	38,547	41,788	48,087
Net interest inc./(exp.)	(1,607)	(1,064)	(1,095)	(710)	(547)
Other inc./(exp.)	2,660	2,809	4,755	4,758	8,123
Exceptional items	0	0	0	0	0
EBT	32,901	36,751	42,206	45,836	55,664
Income taxes	8,888	9,338	12,029	11,917	14,473
Extraordinary items	0	(1,821)	(1,824)	0	0
Min. int./Inc. from assoc.	(36)	427	336	0	0
Reported net profit	24,049	25,165	28,018	33,919	41,191
Adjustments	0	(1,821)	(1,824)	0	0
Adjusted net profit	24,049	26,986	29,842	33,919	41,191

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	20,668	25,081	24,571	26,153	28,888
Other current liabilities	14,709	8,547	9,375	11,932	13,180
Provisions	11,945	13,212	13,888	14,704	16,242
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	2,62,471	2,99,627
Shareholders' fund	1,85,675	2,09,125	2,34,203	2,64,086	3,01,241
Total liab. and equities	2,48,372	2,66,523	2,90,067	3,23,053	3,64,303
Cash and cash eq.	14,012	19,285	15,646	53,038	86,008
Accounts receivables	34,457	34,244	40,570	42,498	46,943
Inventories	46,692	53,502	51,564	58,843	64,997
Other current assets	21,267	29,490	43,125	35,796	39,540
Investments	28,318	26,120	37,222	37,222	37,222
Net fixed assets	49,563	51,644	49,908	46,179	41,923
CWIP	9,689	7,662	10,933	10,933	10,933
Intangible assets	44,375	44,575	41,099	38,543	36,738
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,48,372	2,66,523	2,90,067	3,23,053	3,64,303

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	41,404	21,444	23,805	49,435	45,173
Capital expenditures	(7,180)	(12,615)	(8,000)	(8,000)	(8,000)
Change in investments	(12,365)	2,198	(11,102)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(19,545)	(10,418)	(19,102)	(8,000)	(8,000)
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	(684)	2,556	1,805
Cash flow from financing	(17,886)	(5,754)	(8,342)	(4,044)	(4,203)
Chg in cash & cash eq.	3,974	5,273	(3,639)	37,391	32,970
Closing cash & cash eq.	14,013	19,285	15,646	53,038	86,008

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	29.8	31.2	34.8	42.1	51.1
Adjusted EPS	29.8	33.5	37.0	42.1	51.1
Dividend per share	5.0	5.0	5.0	5.0	5.0
Book value per share	227.1	256.0	286.7	323.8	369.8

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	4.0	3.4	3.2	3.0	2.6
EV/EBITDA	18.1	16.5	14.5	13.5	11.6
Adjusted P/E	31.4	28.0	25.3	22.3	18.3
P/BV	4.1	3.7	3.3	2.9	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	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	109.7	115.8
EBIT margin (EBIT/Revenue)	16.6	16.1	16.9	17.3	18.1
Asset turnover (Rev./Avg TA)	24.5	25.9	24.6	23.5	23.1
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.0	1.0
Adjusted ROAE	14.1	13.9	13.6	13.8	14.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	12.3	13.6	4.5	5.9	10.4
EBITDA	35.8	7.1	10.4	6.5	12.8
Adjusted EPS	63.5	12.2	10.6	13.7	21.4
Profitability & Return ratios (%)					
EBITDA margin	22.2	20.9	22.1	22.2	22.7
EBIT margin	16.6	16.1	16.9	17.3	18.1
Adjusted profit margin	12.6	12.4	13.1	14.1	15.5
Adjusted ROAE	14.1	13.9	13.6	13.8	14.7
ROCE	17.6	18.0	18.7	18.2	19.5
Working capital days (days)					
Receivables	66	58	66	65	65
Inventory	90	91	84	90	90
Payables	40	42	40	40	40
Ratios (x)					
Gross asset turnover	1.3	1.3	1.3	1.3	1.4
Current ratio	2.5	2.9	3.2	3.6	4.1
Net interest coverage ratio	19.8	32.9	35.2	58.8	88.0
Adjusted debt/equity	(0.1)	(0.1)	(0.2)	(0.3)	(0.4)

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

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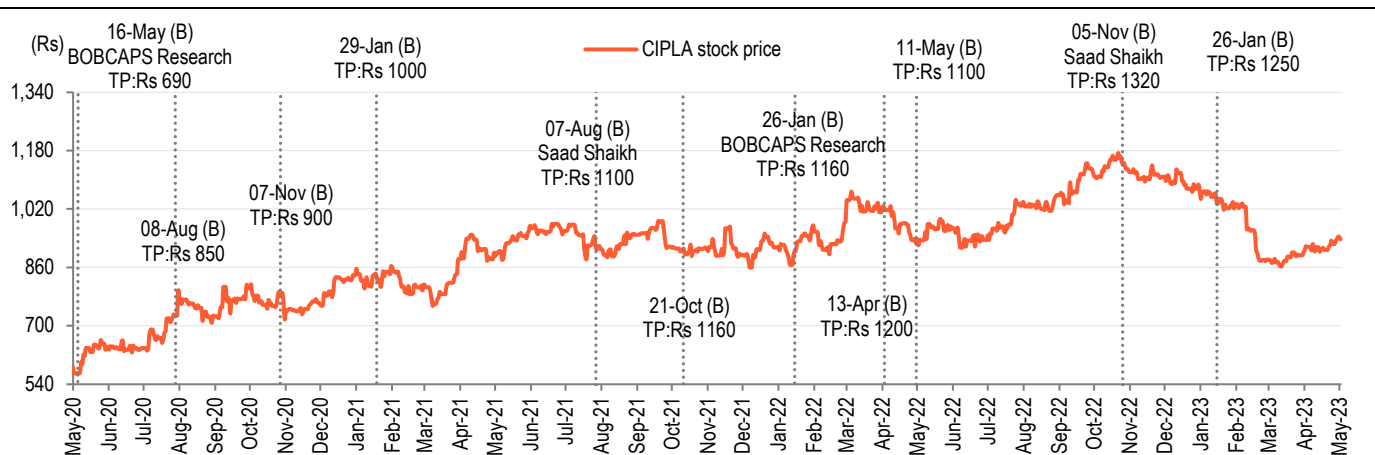
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

- 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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