

HOLD

TP: Rs 1,560 | ▲ 1%

CIPLA

| Pharmaceuticals

| 14 June 2024

Valuations fully priced in; downgrade to HOLD

- **Strong traction in North America business and consistent performance in One-India; South Africa and Global Access business stabilising**
- **Market share gains in key products, expected key launches and reduced intensity of price erosion to aid further margin improvement**
- **We believe current valuations adequately capture upside potential, hence downgrade to HOLD and revise TP to Rs 1,560 (from Rs 1,576)**

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North America on strong pedestal: CIPLA's robust performance in FY24 was driven by strong performance in North America (+24% YoY to US\$ 906mn) and One-India businesses (10% YoY to Rs 10.9bn). North America's performance was driven by its differentiated portfolio and steady demand for its base business. For Lanreotide, CIPLA achieved a significant 20.8% market share as of Feb'24 as per IQVIA. In Albuterol, CIPLA's market share improved from 12-13% by year-end to 15.5% as of Apr'24, and management expects potential for further gain from here. CIPLA aims to launch four peptide assets in FY25 and is developing several complex ANDA products and 505(b)(2) opportunities to enhance its future portfolio.

One-India consistent performer: CIPLA's branded prescription business continues to outpace market growth, with the improved chronic mix maintaining its second rank in the Indian Pharmaceutical Market (IPM). Growth in respiratory, cardiac, and overall chronic categories surpassed market averages. In trade generics, CIPLA consolidated its leadership position with over 40 new launches in FY24, driven by key therapies such as anti-infectives, pain and gastro. A revised distribution model has enhanced channel consolidation and direct market touchpoints.

Margins to sustain beyond 24% for FY25: The company ended FY24 on strong gross/EBITDA margins of 65.8%/24.4% on the back of a favourable product mix, easing US price erosion, calibrated price actions, and easing cost inflation. Going by its continued momentum and niche launches, management has guided for FY25 EBITDA margin of 24.5-25.5% for FY25, which we believe is achievable.

Valuations fully priced in; downgrade to HOLD: We bake in 11% earnings CAGR for CIPLA on FY24's high base (FY21-24 CAGR of 22%) which seems to be captured in the current valuations. CIPLA rallied ~30% in the last six months and is now trading at FY25E/26E EV/EBITDA of 17x/15x. We continue to apply FY26E EV/EBITDA of 15.5x – 15% premium to the stock's five-year average multiple. Thus, we downgrade the stock to HOLD from BUY given the limited upside potential. Any positive development from the regulatory side and progress on key pipeline products (such as gAdvair, gAbraxane) pose upside risks to our expectations.

Key changes

Target	Rating
▼	▼

Ticker/Price	CIPLA IN/Rs 1,545
Market cap	US\$ 15.2bn
Free float	65%
3M ADV	US\$ 35.1mn
52wk high/low	Rs 1,551/Rs 973
Promoter/FPI/DII	33%/26%/24%

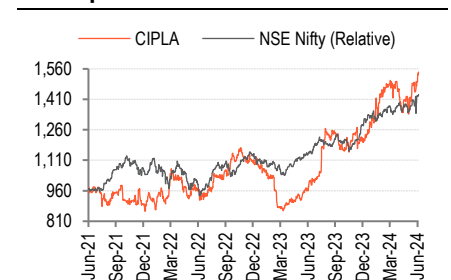
Source: NSE | Price as of 13 Jun 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	257,741	276,772	305,151
EBITDA (Rs mn)	62,911	69,075	77,821
Adj. net profit (Rs mn)	43,164	46,754	52,927
Adj. EPS (Rs)	53.6	58.0	65.7
Consensus EPS (Rs)	53.6	57.4	64.1
Adj. ROAE (%)	17.5	16.4	16.0
Adj. P/E (x)	28.8	26.6	23.5
EV/EBITDA (x)	19.3	17.4	15.1
Adj. EPS growth (%)	44.6	8.3	13.2

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

Stock performance



Source: NSE



Business outlook

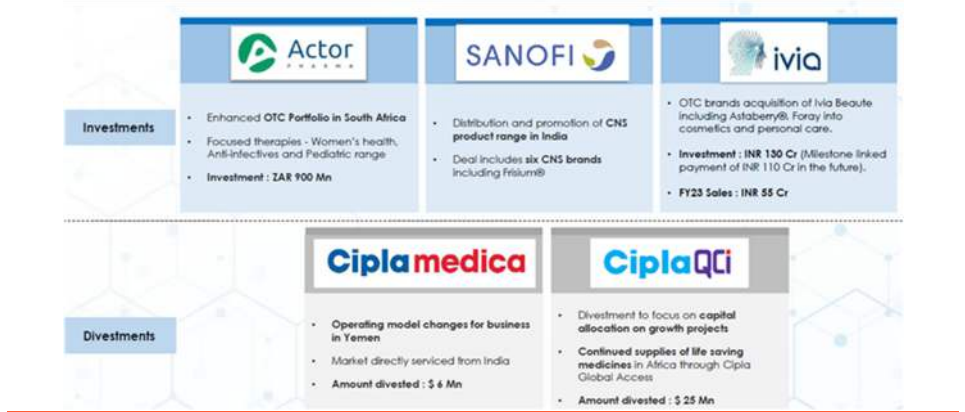
CIPLA's business outlook remains positive, driven by robust performance across its key markets and strategic investments. The company recorded its highest-ever revenue and EBITDA in FY24, marking significant milestones in its flagship businesses across India, North America and South Africa. Key highlights across businesses are as follows:

- **One-India business** achieved revenue of Rs 100bn, with 10% YoY growth. This was driven by strong performances in the Branded Prescription and Trade Generics segments. Chronic Therapies, particularly in respiratory and cardiac areas, showed substantial growth.
- **North America** reported an all-time high annual revenue of US\$ 906mn, with 24% growth YoY. The company aims to enhance its market share in key respiratory products and continue its focus on launching differentiated products.
- **South Africa** attained the top spot in the prescription business, demonstrating strong growth against the market trend. CIPLA recorded 11.2% YoY growth in secondary sales, outperforming market growth of 2.1%.

Strategic initiatives

- **Focus on high-growth markets:** CIPLA aims to grow significantly in key markets such as India, North America and South Africa. The company is enhancing its field force in India and focusing on the commercial execution of its existing portfolio and new launches in North America.
- **Expansion in Biologics and Specialty Pharmaceuticals:** CIPLA is investing in new areas such as biosimilars, CAR-T therapies, and mRNA technologies. The company is setting up an mRNA lab in Germany and advancing its global biosimilar assets, positioning itself for long-term growth in cutting-edge therapeutic areas.
- **Sanofi tie-up to help improve CNS market share and support growth in long term:** The company has partnered with Sanofi to exclusively distribute and promote Sanofi's Central Nervous System (CNS) portfolio in India, including six key brands like the anti-epileptic medication Frisium. CIPLA will leverage its marketing, sales, and distribution network to enhance patient access to high-quality CNS treatments, addressing unmet medical needs. Sanofi retains ownership, import, and manufacturing responsibilities. This collaboration places CIPLA in a position to expand its presence in the CNS market, driving revenue growth and strengthening its market leadership in specialised pharmaceuticals.
- **Capex:** During FY24, CIPLA's capital expenditure was Rs 13bn, with 70% allocated for growth and the rest for maintenance and sustainability. This includes investment in a new plant in China, which has cleared a USFDA audit. The plant will manufacture Budesonide respules for both the local market and the US, with supplies expected to start in the second half of FY25.
- **Capital allocation:** The company has increased its dividend and is actively looking for large growth opportunities through mergers and acquisitions, which indicates a strategic use of capital to drive future growth.

Fig 1 – Growth-oriented portfolio recalibration

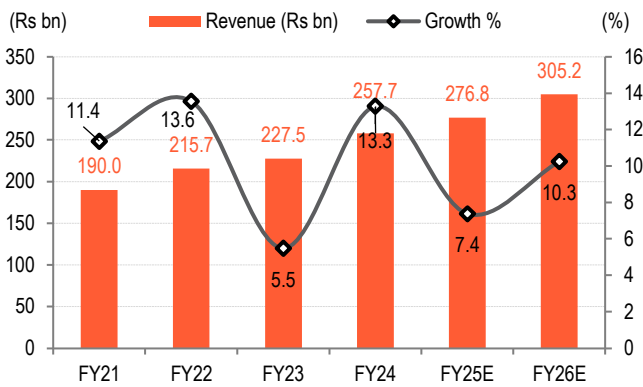


Source: Mankind RHP, BOBCAPS Research

Regulatory status

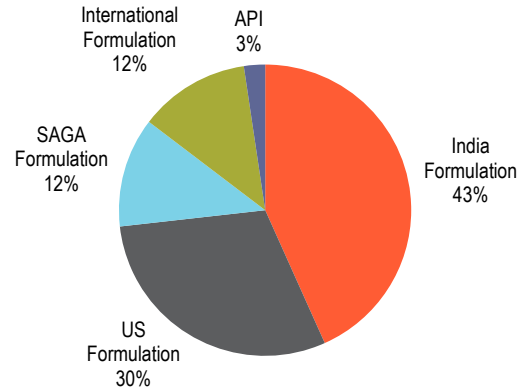
- The resolution of USFDA observations for CIPLA's various facilities is anticipated. At the Goa facility, remediation has been fully implemented, addressing any previous concerns. The Indore plant is currently undergoing remediation efforts. The classification status for the Kurkumbh and Patalganga plants is still awaited, indicating pending evaluations or decisions by the USFDA.

Fig 2 – Revenue



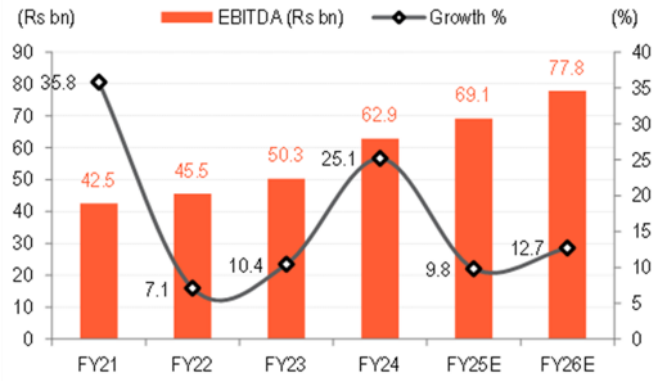
Source: Company, BOBCAPS Research

Fig 3 – Revenue mix (FY24)



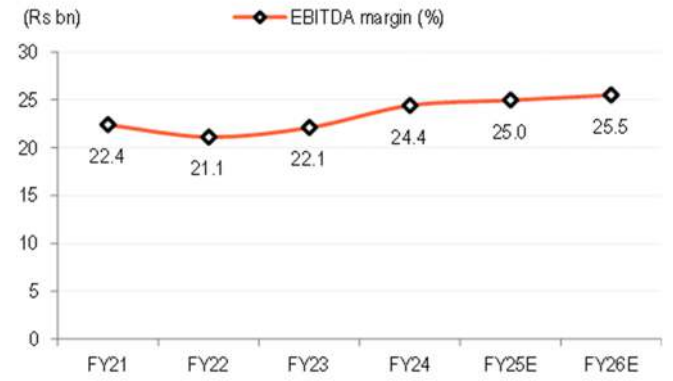
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



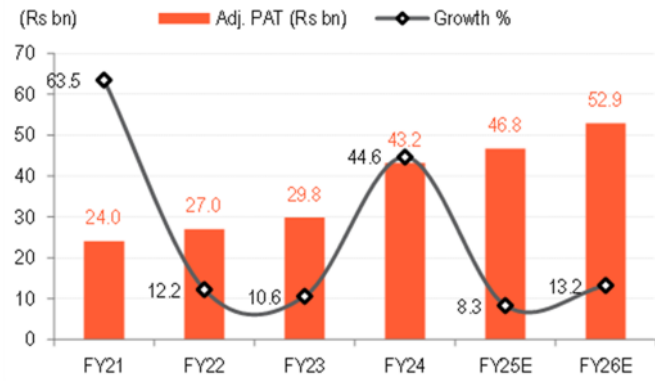
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



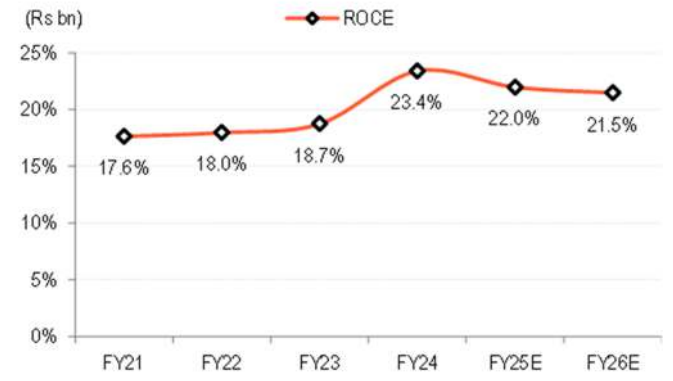
Source: Company, BOBCAPS Research

Fig 6 – Adj. PAT



Source: Company, BOBCAPS Research

Fig 7 – ROCE



Source: Company, BOBCAPS Research

Valuation methodology

We bake in 11% earnings CAGR for CIPLA on FY24's high base (FY21-24 CAGR of 22%) which seems to be captured in the current valuations. CIPLA rallied ~30% in the last six months and is now trading at FY25E/26E EV/EBITDA valuation of 17x/15x. We continue to apply FY26E EV/EBITDA of 15.5x – 15% premium to the stock's five-year average multiple – to arrive at a revised TP of Rs 1,560.

Thus, we downgrade the stock to HOLD from BUY given the limited upside potential. Any positive development from the regulatory side and progress on key pipeline products (such as gAdvair, gAbraxane) could pose upside risk to our expectations.

Fig 8 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	276.8	305.2	255.5	282.9	(2.2)	(2.2)
EBITDA	69.1	77.8	61.7	69.4	(0.5)	(0.4)
EBITDA margin (%)	25.0	25.5	24.2	24.5	41bps	46bps
EPS (Rs)	58.0	65.7	48.2	56.0	3.6	1.5

Source: BOBCAPS Research

Fig 9 – Key assumptions

Revenue (Rs bn)	FY24A	FY25E	FY26E
Revenue	257.7	276.8	305.2
EBITDA	62.9	69.1	77.8
EBITDA margin (%)	24.4	25.0	25.5
EPS (Rs)	53.6	58.0	65.7

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- Regulatory issues: Failure to get clearance on plants due to USFDA observations could affect new launches and revenue growth.
- 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.
- Slowdown in IPM.

Key upside risks to our estimates are:

- Faster resolution of regulatory issues at manufacturing sites.
- Launch of key products.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	3.7	2,420	2,585	BUY
Alembic Pharma	ALPM IN	2.1	883	970	HOLD
Alkem Labs	ALKEM IN	7.4	5,090	4,450	SELL
Aurobindo Pharma	ARBP IN	8.9	1,255	1,200	HOLD
Cipla	CIPLA IN	15.2	1,545	1,560	HOLD
Divi's Labs	DIVI IN	14.8	4,594	3,000	SELL
Dr Reddy's Labs	DRRD IN	12.4	6,096	5,900	HOLD
Eris Lifesciences	ERIS IN	1.7	1,023	1,200	BUY
Glenmark Life Sciences	GLS IN	1.3	858	790	HOLD
Laurus Labs	LAURUS IN	2.9	440	305	SELL
Lupin	LPC IN	8.9	1,605	1,600	HOLD
Sun Pharma	SUNP IN	44.1	1,511	1,530	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 Jun 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	217,635	227,530	257,741	276,772	305,151
EBITDA	45,529	50,269	62,911	69,075	77,821
Depreciation	10,520	11,721	10,510	12,359	13,118
EBIT	35,010	38,548	52,401	56,715	64,703
Net interest inc./(exp.)	(1,064)	(1,095)	(899)	(615)	(513)
Other inc./(exp.)	2,809	4,755	7,466	7,082	7,334
Exceptional items	0	0	0	0	0
EBT	36,755	42,207	58,968	63,181	71,524
Income taxes	9,338	12,029	15,466	16,427	18,596
Extraordinary items	(1,821)	(1,824)	(1,948)	0	0
Min. int./Inc. from assoc.	427	336	338	0	0
Reported net profit	25,169	28,018	41,216	46,754	52,927
Adjustments	(1,821)	(1,824)	(1,948)	0	0
Adjusted net profit	26,990	29,842	43,164	46,754	52,927

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	25,081	24,571	24,740	30,331	33,441
Other current liabilities	8,547	9,375	9,558	13,839	15,258
Provisions	13,212	13,888	17,410	18,696	20,613
Debt funds	10,558	8,031	5,594	4,662	3,885
Other liabilities	0	0	0	0	0
Equity capital	1,614	1,614	1,615	1,615	1,615
Reserves & surplus	207,512	232,589	262,384	305,101	353,992
Shareholders' fund	209,125	234,203	263,998	306,716	355,606
Total liab. and equities	266,523	290,067	321,300	374,243	428,803
Cash and cash eq.	19,285	15,646	8,750	49,140	95,393
Accounts receivables	34,244	40,570	47,707	49,288	54,342
Inventories	53,502	51,564	52,380	64,454	71,063
Other current assets	29,490	43,125	50,373	41,516	45,773
Investments	26,120	37,222	55,628	55,628	55,628
Net fixed assets	51,644	49,908	50,690	53,330	48,212
CWIP	7,662	10,933	11,527	11,527	11,527
Intangible assets	44,575	41,099	44,246	49,359	46,864
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	266,523	290,067	321,300	374,243	428,803

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	21,448	23,805	41,300	66,088	57,085
Capital expenditures	(12,615)	(907)	(13,150)	(15,000)	(8,000)
Change in investments	2,198	(11,102)	(18,406)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(10,418)	(12,009)	(31,556)	(15,000)	(8,000)
Equities issued/Others	1	1	0	0	0
Debt raised/repaid	(4,817)	(2,527)	(2,437)	(932)	(777)
Interest expenses	(1,064)	(1,095)	(899)	(615)	(513)
Dividends paid	(4,034)	(4,036)	(4,037)	(4,037)	(4,037)
Other financing cash flows	4,156	(7,778)	(9,268)	(5,113)	2,495
Cash flow from financing	(5,758)	(15,435)	(16,640)	(10,697)	(2,832)
Chg in cash & cash eq.	5,273	(3,639)	(6,897)	40,390	46,253
Closing cash & cash eq.	19,285	15,646	8,750	49,140	95,393

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	31.2	34.8	51.2	58.0	65.7
Adjusted EPS	33.5	37.0	53.6	58.0	65.7
Dividend per share	5.0	5.0	5.0	5.0	5.0
Book value per share	256.0	286.7	326.3	379.2	439.9

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	5.7	5.4	4.7	4.3	3.8
EV/EBITDA	27.2	24.3	19.3	17.4	15.1
Adjusted P/E	46.1	41.7	28.8	26.6	23.5
P/BV	6.0	5.4	4.7	4.1	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	73.4	70.7	73.2	74.0	74.0
Interest burden (PBT/EBIT)	105.0	109.5	112.5	111.4	110.5
EBIT margin (EBIT/Revenue)	16.1	16.9	20.3	20.5	21.2
Asset turnover (Rev./Avg TA)	25.9	24.6	25.2	23.8	22.7
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.0	1.0	1.0
Adjusted ROAE	13.9	13.6	17.5	16.4	16.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	13.6	4.5	13.3	7.4	10.3
EBITDA	7.1	10.4	25.1	9.8	12.7
Adjusted EPS	12.2	10.6	44.6	8.3	13.2
Profitability & Return ratios (%)					
EBITDA margin	20.9	22.1	24.4	25.0	25.5
EBIT margin	16.1	16.9	20.3	20.5	21.2
Adjusted profit margin	12.4	13.1	16.7	16.9	17.3
Adjusted ROAE	13.9	13.6	17.5	16.4	16.0
ROCE	18.0	18.7	23.4	22.0	21.5
Working capital days (days)					
Receivables	57	65	68	65	65
Inventory	90	83	74	85	85
Payables	42	39	35	40	40
Ratios (x)					
Gross asset turnover	1.3	1.4	1.4	1.4	1.5
Current ratio	2.9	3.2	3.1	3.3	3.8
Net interest coverage ratio	32.9	35.2	58.3	92.2	126.2
Adjusted debt/equity	(0.1)	(0.2)	(0.2)	(0.3)	(0.4)

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

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BUY – Expected return >+15%

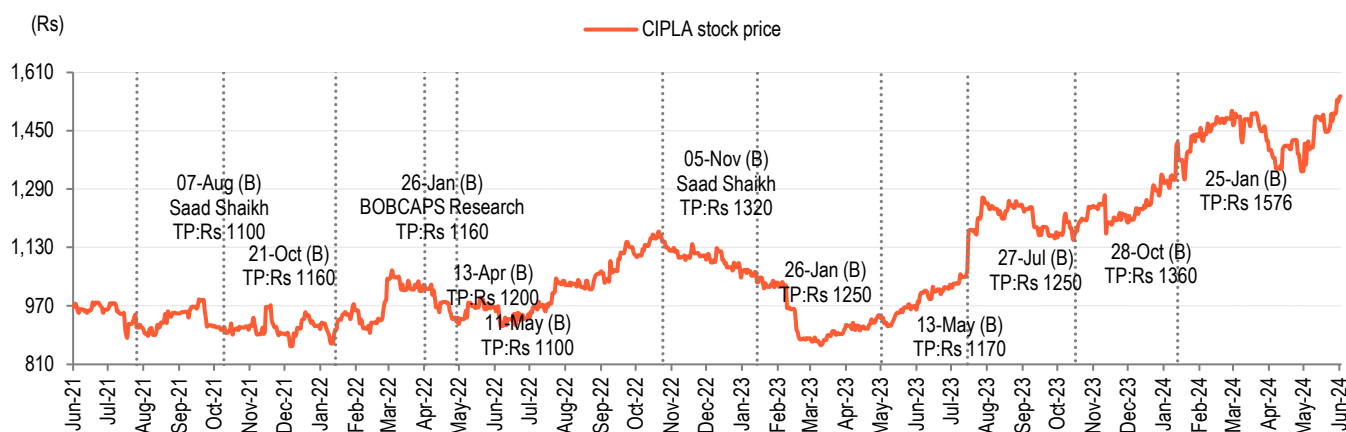
HOLD – Expected return from -6% to +15%

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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