

**HOLD**  
 TP: Rs 1,754 | ▲ 13%

CIPLA

| Pharmaceuticals

| 31 October 2024

### Conditional launch of gAbraxane likely in FY25

- Goa plant receiving VAI likely to speed up gAbraxane launch in FY25E. In its 2QFY25 earnings call CIPLA said this would be delayed to H1FY27. gAbraxane’s launch could increase EBITDA margin to an all-time high of 27%/28% in FY26E/FY27E against 24-25% currently
- With a speedy gAbraxane launch likely, we raise EPS by 3%/10%/10% in FY25E/FY26E/FY27E, and upgrade the stock to HOLD (earlier SELL)

**Unexpected positive regulatory surprise:** The Goa plant which was cGMP (current Good Manufacturing Practices) inspected between 10 and 21 June 2024 by the USFDA has received a VAI (Voluntary Action Indicated). This VAI status comes after a long haul as the plant has had a Warning Letter (WL) since 2020. CIPLA’s Goa plant contributes ~10% of its US sales. Currently, out of nine manufacturing units, only the Pithampur plant has an OAI while the rest are cleared.

**gAbraxane launch likely in FY25E:** gAbraxane’s launch was conditional on the Goa plant’s clearance, which now paves the way for its launch. It was delayed for the past two years and in recent commentary guided for a further delay till H1FY27. We believe the launch can be brought forward to FY25.

**gAbraxane – one-player market:** Currently only one player (Sandoz in partnership with Jiangsu Hengrui) has launched gAbraxane in the US market. CIPLA would be the second player. Since there is only one player in the generic version, we believe this is a good opportunity for CIPLA to launch the product. Since it is a complex oncology product, it would take longer for other players to enter the market.

**gAbraxane launch to result in highest-ever margin:** We believe gAbraxane to be a US\$ 600mn-800mn opportunity which could result in sales of US\$ 20mn in FY25E, US\$ 90mn in FY26E and US\$ 80mn in FY27E from a one-player market for CIPLA. We believe this product could increase EBITDA margin to 27% in FY26 and 28% in FY27 which would be its highest ever.

**Upgrade stock to HOLD:** Due to muted earnings and supply issues in Lanreotide and delays in key launches, we had downgraded the stock to SELL. However, as conditions for the gAbraxane launch have been eased, we bake in gAbraxane numbers into our estimates which result in an EPS upgrade of 3%/10%/10% in FY25/FY26/FY27. Hence, we ascribe a higher P/E of 25x (five-year average of 23x), and roll forward our valuations to Sep’26, with a new TP of Rs 1,754 (from Rs 1,312).

Foram Parekh

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#### Key changes

Target	Rating
▲	▲

Ticker/Price	CIPLA IN/Rs 1,552
Market cap	US\$ 14.9bn
Free float	65%
3M ADV	US\$ 35.6mn
52wk high/low	Rs 1,702/Rs 1,165
Promoter/FPI/DII	33%/26%/24%

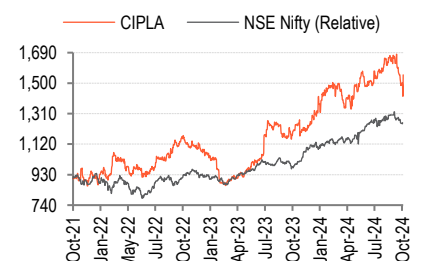
Source: NSE | Price as of 31 Oct 2024

#### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	257,741	268,664	294,972
EBITDA (Rs mn)	62,911	68,356	79,604
Adj. net profit (Rs mn)	43,164	46,223	54,360
Adj. EPS (Rs)	53.6	57.4	67.5
Consensus EPS (Rs)	53.6	57.4	64.1
Adj. ROAE (%)	17.5	16.3	16.5
Adj. P/E (x)	29.0	27.0	23.0
EV/EBITDA (x)	19.4	17.7	14.8
Adj. EPS growth (%)	44.6	7.1	17.6

Source: Company, Bloomberg, BOBCAPS Research

#### Stock performance



Source: NSE



**Fig 1 – CIPLA’s plant status**

Plants	Operations	Lat inspected	Status
Goa	Formulations	Jun'24	VAI
Pithampur	Formulations	Feb'23	OAI
Patalganga	Formulations	Apr'24	EIR
Kurkumbh	Formulations / API	May'24	1 observation
Virgonagar, Bangalore	API	Jul'19	VAI
Bangalore	API	Jan'20	4 Observation
<b>Acquired through Invagen</b>			
Fall River, Massachusetts	Formulations	May'23	NAI
Hauppauge, New York	Formulations	May'18	VAI
Central Islip, New York	Formulations	Sep'23	VAI

Source: Company, BOBCAPS Research

## Valuation

In its 2QFY25 earnings CIPLA reported an in-line set of earnings. However, its outlook looked gloomy with (1) North America sales impact in Q3FY25 due to supply issues with Lanreotide, (2) domestic region sales to grow in the single digit, and (3) delay in the launch of gAbraxane due to the Goa plant receiving six observations. However, with the Goa plant now being cleared with a VAI status, we believe the gAbraxane launch will likely be in FY25.

Currently, gAbraxane is only a one-player market, hence CIPLA could benefit from a near-term launch. Thus, we raise our EPS estimates for FY25 by 3%, FY26 by 10%, and FY27 by 10%. Hence, we upgrade the stock to HOLD from SELL. We ascribe a higher multiple of 25x (vs five-year average P/E of 23x), and roll forward our valuations to Sep'26 with a new TP of Rs 1,754 (from Rs 1,312).

**Fig 2 – CIPLA: Revised estimates**

(Rs mn)	New				Old			Change (%)		
	FY24A	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	257,741	268,664	294,972	317,650	267,084	287,281	307,215	0.59	2.68	3.4
EBITDA	62,911	68,356	79,604	89,008	66,611	73,185	81,430	2.62	8.77	9.3
EBITDA margin (%)	24.4	25.4	27.0	28.0	24.9	25.5	26.5	50bps	151bps	151bps
EPS (Rs)	53.5	57.3	67.4	78.8	55.8	61.5	71.6	2.74	9.63	10.0

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- Faster resolution of regulatory issues at the Pithampur site.
- Launch of key product gAdvair.

Key downside risk

- Delay in the launch of gAbraxane.
- No resolution of supply issue for Lanreotide.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>227,530</b>	<b>257,741</b>	<b>268,664</b>	<b>294,972</b>	<b>317,650</b>
EBITDA	50,269	62,911	68,356	79,604	89,008
Depreciation	11,721	10,510	12,359	13,118	13,646
EBIT	38,548	52,401	55,997	66,486	75,361
Net interest inc./(exp.)	(1,095)	(899)	(615)	(513)	(427)
Other inc./(exp.)	4,755	7,466	7,082	7,486	10,872
Exceptional items	0	0	0	0	0
EBT	42,207	58,968	62,463	73,459	85,806
Income taxes	12,029	15,466	16,240	19,099	22,310
Extraordinary items	(1,824)	(1,948)	0	0	0
Min. int./Inc. from assoc.	336	338	0	0	0
<b>Reported net profit</b>	<b>28,018</b>	<b>41,216</b>	<b>46,223</b>	<b>54,360</b>	<b>63,497</b>
Adjustments	(1,824)	(1,948)	0	0	0
<b>Adjusted net profit</b>	<b>29,842</b>	<b>43,164</b>	<b>46,223</b>	<b>54,360</b>	<b>63,497</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	24,571	24,740	29,443	32,326	34,811
Other current liabilities	9,375	9,558	13,433	14,749	15,882
Provisions	13,888	17,410	18,148	19,925	21,457
Debt funds	8,031	5,594	4,662	3,885	3,237
Other liabilities	0	0	0	0	0
Equity capital	1,614	1,615	1,615	1,615	1,615
Reserves & surplus	232,589	262,384	304,569	354,892	414,352
Shareholders' fund	234,203	263,998	306,184	356,507	415,967
<b>Total liab. and equities</b>	<b>290,067</b>	<b>321,300</b>	<b>371,870</b>	<b>427,391</b>	<b>491,355</b>
Cash and cash eq.	15,646	8,750	51,315	99,692	159,498
Accounts receivables	40,570	47,707	47,844	52,529	56,568
Inventories	51,564	52,380	62,566	68,692	73,973
Other current assets	43,125	50,373	40,300	44,246	47,647
Investments	37,222	55,628	55,628	55,628	55,628
Net fixed assets	49,908	50,690	53,330	48,212	42,566
CWIP	10,933	11,527	11,527	11,527	11,527
Intangible assets	41,099	44,246	49,359	46,864	43,947
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>290,067</b>	<b>321,300</b>	<b>371,870</b>	<b>427,391</b>	<b>491,355</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>23,805</b>	<b>41,300</b>	<b>68,263</b>	<b>59,209</b>	<b>70,000</b>
Capital expenditures	(907)	(13,150)	(15,000)	(8,000)	(8,000)
Change in investments	(11,102)	(18,406)	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(12,009)</b>	<b>(31,556)</b>	<b>(15,000)</b>	<b>(8,000)</b>	<b>(8,000)</b>
Equities issued/Others	1	0	0	0	0
Debt raised/repaid	(2,527)	(2,437)	(932)	(777)	(647)
Interest expenses	(1,095)	(899)	(615)	(513)	(427)
Dividends paid	(4,036)	(4,037)	(4,037)	(4,037)	(4,037)
Other financing cash flows	(7,778)	(9,268)	(5,113)	2,495	2,917
<b>Cash flow from financing</b>	<b>(15,435)</b>	<b>(16,640)</b>	<b>(10,697)</b>	<b>(2,832)</b>	<b>(2,195)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(3,639)</b>	<b>(6,897)</b>	<b>42,566</b>	<b>48,377</b>	<b>59,805</b>
<b>Closing cash &amp; cash eq.</b>	<b>15,646</b>	<b>8,750</b>	<b>51,315</b>	<b>99,692</b>	<b>159,498</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	34.8	51.2	57.4	67.5	78.8
Adjusted EPS	37.0	53.6	57.4	67.5	78.8
Dividend per share	5.0	5.0	5.0	5.0	5.0
Book value per share	286.7	326.3	378.6	441.0	514.7

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.4	4.7	4.5	4.0	3.6
EV/EBITDA	24.4	19.4	17.7	14.8	12.7
Adjusted P/E	41.9	29.0	27.0	23.0	19.7
P/BV	5.4	4.8	4.1	3.5	3.0

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	70.7	73.2	74.0	74.0	74.0
Interest burden (PBT/EBIT)	109.5	112.5	111.5	110.5	113.9
EBIT margin (EBIT/Revenue)	16.9	20.3	20.8	22.5	23.7
Asset turnover (Rev./Avg TA)	24.6	25.2	23.1	22.0	20.4
Leverage (Avg TA/Avg Equity)	1.1	1.0	1.0	1.0	1.0
Adjusted ROAE	13.6	17.5	16.3	16.5	16.5

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	4.5	13.3	4.2	9.8	7.7
EBITDA	10.4	25.1	8.7	16.5	11.8
Adjusted EPS	10.6	44.6	7.1	17.6	16.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	22.1	24.4	25.4	27.0	28.0
EBIT margin	16.9	20.3	20.8	22.5	23.7
Adjusted profit margin	13.1	16.7	17.2	18.4	20.0
Adjusted ROAE	13.6	17.5	16.3	16.5	16.5
ROCE	18.7	23.4	21.7	22.0	22.1
<b>Working capital days (days)</b>					
Receivables	65	68	65	65	65
Inventory	83	74	85	85	85
Payables	39	35	40	40	40
<b>Ratios (x)</b>					
Gross asset turnover	1.4	1.4	1.4	1.5	1.5
Current ratio	3.2	3.1	3.3	4.0	4.7
Net interest coverage ratio	35.2	58.3	91.0	129.7	176.4
Adjusted debt/equity	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)

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

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**BUY** – Expected return >+15%

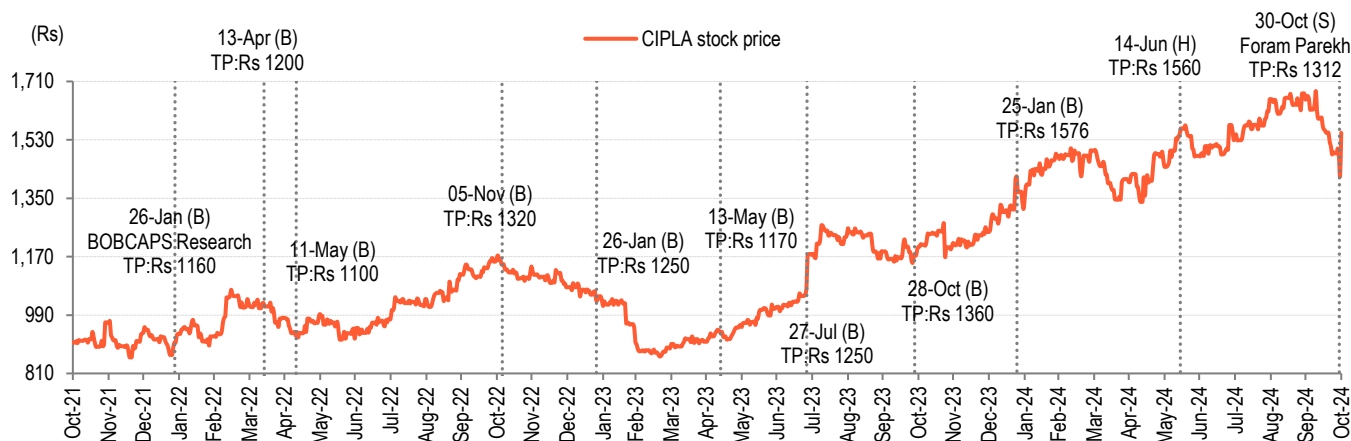
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

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

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

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