

SELL

TP: Rs 1,312 | ▼ 11%

CIPLA

| Pharmaceuticals

| 30 October 2024

No meaningful incremental triggers until Goa plant clearance

- Earnings in line with our estimates on all fronts. However, US sales was down and 5% lower than our estimates in rupee terms
- US sales (CC) guided for less than US\$ 220mn due to Lanreotide supply issue in Q3FY25. Market share expected to be below 20%
- gAdvair launch to be delayed further, we downgrade the stock to **SELL**, roll our valuations to Sep'26, with a new TP of Rs 1,312 (from Rs 1,560)

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Earnings in line with estimates: CIPLA reported an in-line set of earnings, with reported sales/EBITDA 1.6%/0.6% above our estimates and PAT -0.2% below our estimates. EBITDA margin was 30bps lower than our estimate of 26.7%.

North America region sales to slow down: CIPLA's US sales in Q2 was 5% lower than our estimate of Rs 19.8bn and in constant currency (CC) terms at US\$ 236mn. Sales was impacted by (1) temporary supply issues in Lanreotide, (2) 10% YoY price erosion pressure in the base portfolio (30% of portfolio) and (3) flat gRevlimid sales on a sequential basis. Lanreotide's supply issues are expected to resume from Q4FY25, thus lowering Q3FY25 sales in CC terms to US\$ 220mn. Subsequently, we have lowered US sales by 4% to Rs 77.9bn for FY25e. CIPLA's key product launch gAdvair is expected to be delayed further as the Goa plant has received six observations from the USFDA inspection recently.

Domestic growth to be lower than industry average: During Q2FY25, domestic sales grew by 5% below Indian Pharma Market (IPM) growth due to lower traction in the Anti-Infective segment, affecting both branded generic prescription and trade generics. We believe that while CIPLA would continue to grow at IPM levels of 8-9%, it would underperform its industry peers – growing at 11-12%.

H2FY25 margins to be lower than H1FY25: CIPLA reported 26.2% EBITDA margin in H1FY25, but management maintained its earlier FY25 guidance of 24.5-25.5%. We believe CIPLA will report lower EBITDA margin in H2FY25 as (1) domestic sales is expected to grow in the single digit, (2) Lanreotide sales is likely to be affected by supply issues in the North America region, and (3) growth in the South Africa region is unlikely to drive margins as they are lower than company-level margins.

Downgrade to SELL; TP cut to Rs 1,312: We downgrade to SELL due to (1) lower US sales, (2) tender base growth in the South Africa region and (3) no clarity on Goa plant clearance affecting the gAdvair launch. Hence, we ascribe a lower P/E of 20x, and roll forward our valuations to Sep'26, with new TP of Rs 1,312 (from Rs 1,560).

Key changes

Target	Rating
▼	▼

Ticker/Price	CIPLA IN/Rs 1,478
Market cap	US\$ 14.2bn
Free float	65%
3M ADV	US\$ 30.5mn
52wk high/low	Rs 1,702/Rs 1,165
Promoter/FPI/DII	33%/26%/24%

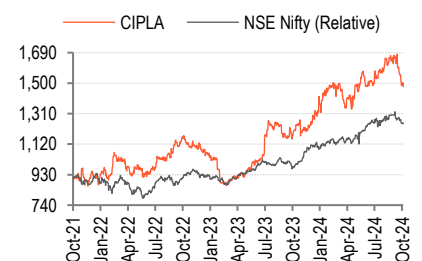
Source: NSE | Price as of 29 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	257,741	267,084	287,281
EBITDA (Rs mn)	62,911	66,611	73,185
Adj. net profit (Rs mn)	43,164	44,931	49,570
Adj. EPS (Rs)	53.6	55.8	61.5
Consensus EPS (Rs)	53.6	57.4	64.1
Adj. ROAE (%)	17.5	15.8	15.2
Adj. P/E (x)	27.6	26.5	24.0
EV/EBITDA (x)	18.4	17.2	15.3
Adj. EPS growth (%)	44.6	4.1	10.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

Business outlook

CIPLA's business outlook turned negative, driven by lower sales in the North America region in Q3FY25 impacted by supply issues in Lanreotide taking US sales to US\$ 220mn in Q3FY25 and market share to below 20% due to supply issues. gAdvair's launch is likely to be dependent on the clearance of the Goa plant by the USFDA.

Key segment highlights

One-India business: The One-India business witnessed slow seasonal growth, especially in the acute category in the Anti-Infective segment. CIPLA expects to outpace market growth on a full-year basis with the revival in the season and the respiratory uptick starting in Q3, and reverting to the earlier growth trajectory.

North America: The Lanreotide supply issue is expected to sustain into Q4FY25. Thus, management has lowered Q3FY25 sales to below US\$ 220mn. However, sales are expected to recover in Q4FY25, with market share expected to climb back to 35%.

One Africa: One Africa comprises South Africa and North Africa, reporting growth of 22%, with South Africa also delivering similar growth in local currency terms. Growth is driven by the complete integration of Actor Pharma driving both OTC and Rx count. Growth in the Africa region is expected to sustain with the inclusion of Actor's portfolio.

South Africa: In the private market, CIPLA ranks number two, with the prescription business maintaining its number one position.

Strategic initiatives

Focus on high-growth markets: CIPLA aims to grow significantly in key markets such as India, South Africa and North America region. The company is enhancing its field force in India, focusing on the commercial execution of its existing portfolio and new launches in North America, and integration of Actor portfolio to drive growth in both OTC and Rx business in Africa.

Participation in GLP products: CIPLA to participate in Semaglutide generic in the Indian market and it is hopeful of being in the first wave of the launch. CIPLA can also in-license to deepen its partnership with large multinational corporations that sell categories of GLP-1 tags.

Capital allocation: The company is looking for growth opportunities in its key markets like India through mergers and acquisitions followed by acquiring differentiated portfolios in the North America region.

Regulatory status

The Goa facility was reinspected recently by the USFDA and received form 483 with six observations.

Valuation methodology

CIPLA reported an in-line set of earnings. However, its outlook looks gloomy with (1) North America sales to be impacted in Q3FY25 due to supply issues with Lanreotide, (2) domestic region sales to grow in the single digit, and (3) gAdvair’s launch to be dependent on the clearance of the Goa unit (which received six fresh observations). CIPLA guided for EBITDA margin being 24.5-25.5% (26.2% in H1FY25).

Thus, we lower our EPS estimates for FY25 by 4% and FY26 by 6%, and introduce FY27 estimates. We downgrade the stock to SELL from HOLD given no new incremental triggers in the stock. Any positive development from the regulatory side and progress on key pipeline products (such as gAdvair, gAbraxane) could pose upside risk to our expectations. We ascribe a lower P/E of 19x, and roll forward our valuations to Sep’26, with a new TP of Rs 1,312 (from Rs 1,560).

Fig 1 – Revised estimates

(Rs mn)	FY24A	Revised		Old		Change (%)	
		FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	257,741	267,084	287,281	276,772	305,151	(3.50)	(5.86)
EBITDA	62,911	66,611	73,185	69,075	77,821	(3.57)	(5.96)
EBITDA margin (%)	24.4	24.9	25.5	25.0	25.5	(2bps)	(3bps)
EPS (Rs)	53.5	55.7	61.5	58.0	65.7	(3.92)	(6.42)

Source: Company, BOBCAPS Research

Fig 2 – Key assumptions

(Rs mn)	FY24	FY25E	FY26E	FY27E
Sales	257,741	267,084	287,281	307,215
EBITDA	62,911	66,611	73,185	81,430
PAT	43,164	44,931	49,570	57,708
EPS (Rs)	53.5	55.7	61.5	71.6

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	227,530	257,741	267,084	287,281	307,215
EBITDA	50,269	62,911	66,611	73,185	81,430
Depreciation	11,721	10,510	12,359	13,118	13,646
EBIT	38,548	52,401	54,252	60,066	67,784
Net interest inc./(exp.)	(1,095)	(899)	(615)	(513)	(427)
Other inc./(exp.)	4,755	7,466	7,082	7,433	10,626
Exceptional items	0	0	0	0	0
EBT	42,207	58,968	60,718	66,986	77,983
Income taxes	12,029	15,466	15,787	17,416	20,276
Extraordinary items	(1,824)	(1,948)	0	0	0
Min. int./Inc. from assoc.	336	338	0	0	0
Reported net profit	28,018	41,216	44,931	49,570	57,708
Adjustments	(1,824)	(1,948)	0	0	0
Adjusted net profit	29,842	43,164	44,931	49,570	57,708

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	24,571	24,740	29,269	31,483	33,667
Other current liabilities	9,375	9,558	13,354	14,364	15,361
Provisions	13,888	17,410	18,041	19,406	20,752
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	303,278	348,811	402,482
Shareholders' fund	234,203	263,998	304,893	350,426	404,097
Total liab. and equities	290,067	321,300	370,219	419,563	477,114
Cash and cash eq.	15,646	8,750	50,552	96,178	151,110
Accounts receivables	40,570	47,707	47,563	51,160	54,710
Inventories	51,564	52,380	62,198	66,901	71,543
Other current assets	43,125	50,373	40,063	43,092	46,082
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
Total assets	290,067	321,300	370,219	419,563	477,114

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	23,805	41,300	67,499	56,458	65,127
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
Cash flow from investing	(12,009)	(31,556)	(15,000)	(8,000)	(8,000)
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
Cash flow from financing	(15,435)	(16,640)	(10,697)	(2,832)	(2,195)
Chg in cash & cash eq.	(3,639)	(6,897)	41,802	45,627	54,932
Closing cash & cash eq.	15,646	8,750	50,552	96,178	151,110

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	34.8	51.2	55.8	61.5	71.6
Adjusted EPS	37.0	53.6	55.8	61.5	71.6
Dividend per share	5.0	5.0	5.0	5.0	5.0
Book value per share	286.7	326.3	377.0	433.4	500.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.1	4.5	4.3	3.9	3.5
EV/EBITDA	23.2	18.4	17.2	15.3	13.2
Adjusted P/E	39.9	27.6	26.5	24.0	20.6
P/BV	5.2	4.5	3.9	3.4	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	111.9	111.5	115.0
EBIT margin (EBIT/Revenue)	16.9	20.3	20.3	20.9	22.1
Asset turnover (Rev./Avg TA)	24.6	25.2	23.1	21.6	20.2
Leverage (Avg TA/Avg Equity)	1.1	1.0	1.0	1.0	1.0
Adjusted ROAE	13.6	17.5	15.8	15.2	15.3

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	4.5	13.3	3.6	7.6	6.9
EBITDA	10.4	25.1	5.9	9.9	11.3
Adjusted EPS	10.6	44.6	4.1	10.3	16.4
Profitability & Return ratios (%)					
EBITDA margin	22.1	24.4	24.9	25.5	26.5
EBIT margin	16.9	20.3	20.3	20.9	22.1
Adjusted profit margin	13.1	16.7	16.8	17.3	18.8
Adjusted ROAE	13.6	17.5	15.8	15.2	15.3
ROCE	18.7	23.4	21.2	20.3	20.6
Working capital days (days)					
Receivables	65	68	65	65	65
Inventory	83	74	85	85	85
Payables	39	35	40	40	40
Ratios (x)					
Gross asset turnover	1.4	1.4	1.4	1.4	1.5
Current ratio	3.2	3.1	3.3	3.9	4.6
Net interest coverage ratio	35.2	58.3	88.2	117.1	158.6
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%

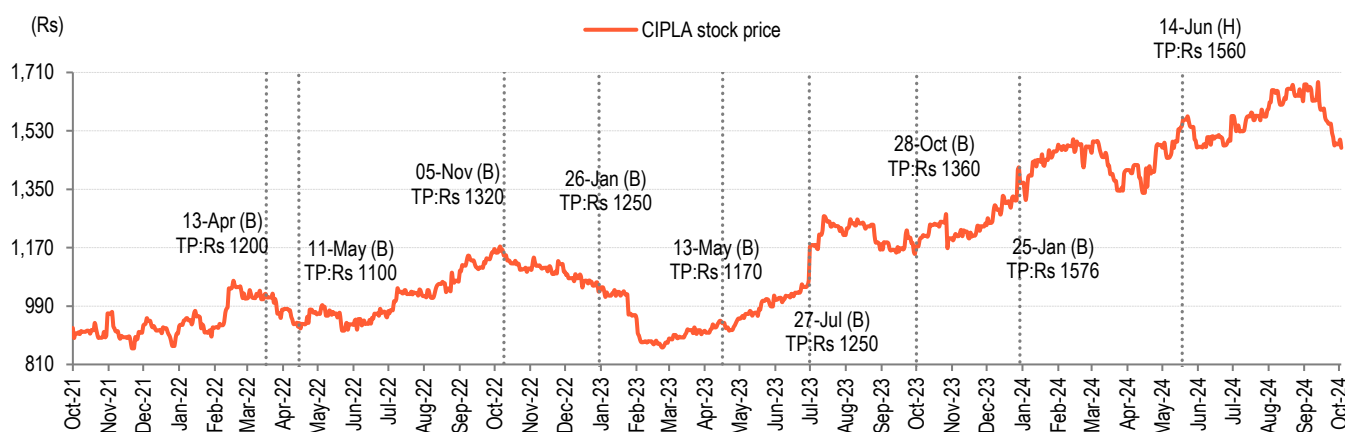
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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