

BUY

TP: Rs 1,000 | ▲ 21%

CIPLA

Pharmaceuticals

29 January 2021

All-round beat; India delivers key surprise

Cipla reported a Q3 sales/EBITDA beat of 8%/14% steered by (1) India (Rx up 25% YoY), EU & ROW sales, and (2) cost control (-10% YoY, flat QoQ). EBITDA contribution from the Covid portfolio has normalised QoQ to <4%. Margins were strong at 23.8% (22% ex-Albuterol). Cost optimisation and ROI improvement remain priorities. Albuterol ramp-up, Advair approval (TAD Jun'22) and a strong India franchise are key stock catalysts in the medium term. We raise FY21-FY23 EPS by ~10% each and roll to a new Mar'22 TP of Rs 1,000 (vs. Rs 900).

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Strong beat led by India, EU, ROW; US in line: India sales grew 26% YoY (Rx up 25%) aided by traction in the respiratory and acute portfolios; trade generics grew 7%. OTC products continued to gain pace (~5% of India sales). US sales were in line at US\$ 141mn led by Albuterol (~US\$ 15mn). Cipla disclosed that the US respiratory franchise clocked sales of US\$ 100mn+ in 9M (24% of US mix). Cipla believes it can increase its share across Albuterol brands from ~12% and expects meaningful launches in the next 12-18 months. EU/ROW sales grew 33%/51% YoY on robust demand, SAGA grew 10% and API 22% on a low base.

Ticker/Price	CIPLA IN/Rs 826
Market cap	US\$ 9.1bn
Shares o/s	806mn
3M ADV	US\$ 69.2mn
52wk high/low	Rs 865/Rs 355
Promoter/FPI/DII	37%/26%/13%

Source: NSE

Margin beat; cost savings tracking ahead of FY21 target: EBITDA margin beat estimates at 23.8% supported by (1) lower SGA (-4% YoY), and (2) lower R&D-to-sales of 4.3% (-28% YoY). We believe R&D could rise to 6% of sales by Q1FY22 due to Advair trials. Cipla is tracking far ahead of its targeted FY21 cost savings of Rs 4bn-5bn and expects a majority of these savings to continue for the next two years at least, with a goal to sustain 23-24% EBITDA margins.

STOCK PERFORMANCE



Earnings call takeaways: (1) US quarterly sales targeted to reach US\$ 250mn in next five years, incl. Revlimid, Abraxane and Advair. (2) gAdvair under active review; TAD in Jun'22. (3) Can defend Albuterol share given cost edge. (4) US margins close to company level in 9M. (5) Net cash at Rs 9.4bn (Rs 4.2bn in Q2).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	163,621	171,243	192,962	206,712	223,685
EBITDA (Rs mn)	30,973	32,574	44,032	45,820	48,135
Adj. net profit (Rs mn)	13,426	15,858	24,463	25,286	27,381
Adj. EPS (Rs)	16.7	19.7	30.4	31.4	34.0
Adj. EPS growth (%)	8.8	18.1	54.3	3.4	8.3
Adj. ROAE (%)	9.0	10.0	13.8	12.7	12.3
Adj. P/E (x)	49.6	42.0	27.2	26.3	24.3
EV/EBITDA (x)	22.2	21.0	15.3	14.3	13.3

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Q3FY21E	Var (%)	9MFY21	9MFY20	YoY (%)
Net Sales	51,687	43,709	18.3	50,383	2.6	47,879	8.0	1,45,531	1,27,555	14.1
EBITDA	12,309	8,084	52.3	11,765	4.6	10,846	13.5	34,564	26,227	31.8
Depreciation	2,484	2,778	-	2,651	-	2,800	-	7,824	8,287	-
EBIT	9,825	5,306	85.2	9,114	7.8	8,046	-	26,740	17,940	-
Interest	479	461	-	393	-	461	-	1,333	1,442	-
Other Income	869	721	-	535	-	721	-	2,058	2,509	-
PBT	10,215	5,566	83.5	9,256	10.4	8,306	23.0	27,465	19,007	44.5
Less: Taxation	2,690	1,528	-	2,638	-	1,528	-	7,605	5,455	-
Less: Minority Interest	44	26	-	(35)	-	26	-	(55)	41	-
Recurring PAT	7,481	4,012	86.5	6,653	12.5	6,752	10.8	19,916	13,511	47.4
Exceptional Items	0	(502)	-	0	-	0	-	0	(502)	-
Reported PAT	7,481	3,510	113.1	6,653	12.5	6,752	10.8	19,916	13,009	53.1
Key Ratios (%)										
Gross Margin	61.4	63.5	-	61.4	-	63.5	-	62.0	66.7	-
EBITDA Margin	23.8	18.5	-	23.4	-	22.7	-	23.8	20.6	-
Tax / PBT	26.3	27.5	-	28.5	-	18.4	-	27.7	28.7	-
NPM	14.5	9.2	-	13.2	-	14.1	-	13.7	10.6	-
EPS (Rs)	9.3	5.0	-	8.3	-	8.4	-	24.7	16.8	-

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Q3FY21E	Var (%)	9MFY21	9MFY20	YoY (%)
Formulations	49,210	40,670	21.0	47,840	2.9	45,444	8.3	1,37,940	1,17,910	17.0
India	22,310	17,770	25.5	20,900	6.7	19,693	13.3	59,290	48,770	21.6
US	10,370	9,460	9.6	10,490	(1.1)	10,360	0.1	31,070	30,180	2.9
SAGA	9,130	8,310	9.9	9,240	(1.2)	9,141	(0.1)	26,000	22,620	14.9
South Africa	5,790	5,940	(2.5)	5,690	1.8	5,657	2.3	16,960	16,720	1.4
Others/Global Access	3,340	2,370	40.9	3,550	(5.9)	3,484	(4.1)	9,040	5,900	53.2
Europe	2,520	1,900	32.6	2,470	2.0	2,128	18.4	7,390	5,810	27.2
ROW	4,880	3,230	51.1	4,740	3.0	4,122	18.4	14,190	10,530	34.8
API	2,010	1,650	21.8	1,890	6.3	1,782	12.8	5,740	5,040	13.9
Other Op. income	467	1,400	(66.6)	653	(28.4)	653	(28.4)	1,851	4,605	(59.8)
Net Sales	51,687	43,720	18.2	50,383	2.6	47,879	8.0	1,45,531	1,27,555	14.1
INR/US\$	74	71	3	74	0.0	74	-	74	70	5
US in \$ terms	141	133	6	143	(1.1)	141	-	420	429	(2)

Source: Company, BOBCAPS Research

Valuation methodology

We like Cipla for its strong India franchise, rich US pipeline and low risk of price erosion in the US market (top 3 products form 25% of US sales). Operating leverage in the US business would be a key margin driver in the next two years. We believe Cipla’s future investments will have a sharper focus on opportunities in high-value/complex assets, but not at the expense of current margins.

We increase our FY21-FY23 EPS estimates by ~10% each following the Q3 beat and continue to expect a core EPS CAGR of 15-18% over FY20-FY23. Advair approval represents an upside risk to our EPS estimates. We retain BUY and raise our target price to Rs 1,000 (from Rs 900) as we roll over to Mar’23 valuations. Our TP is based on an unchanged 16x EV/EBITDA multiple (implied P/E of 29x), which is at the midpoint of the eight-year historical band (11-21x) and 15% higher than frontline stocks (Sun Pharma, Lupin, Dr Reddy’s) due to Cipla’s higher branded product share in EBITDA (>70%).

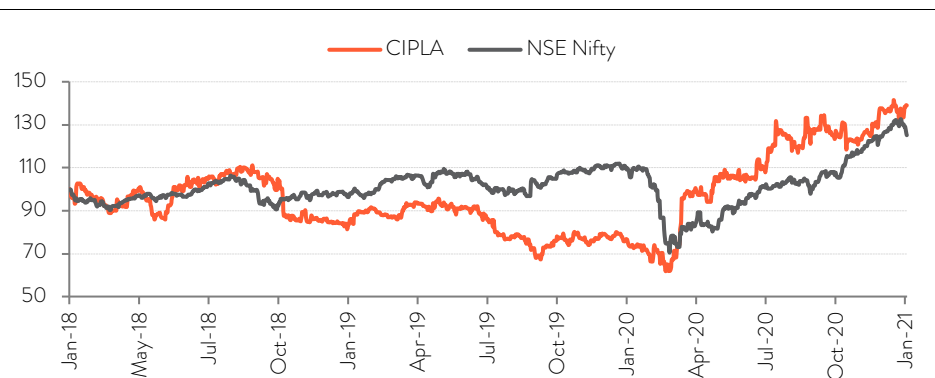
We see scope for further stock rerating on the back of (1) margin upside potential accruing from higher operating leverage as the company’s ‘One India’ strategy gains momentum and cost optimisation remains in focus, and (2) ROIC closing in on peak levels of 20% in the next two years. The global generic environment, especially in the US, remains supportive.

FIG 3 – REVISED ESTIMATES

(Rs bn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Sales	193.0	206.7	223.7	186.1	198.5	213.8	3.7	4.2	4.6
EBITDA	44.0	45.8	48.1	40.8	42.9	44.8	7.9	6.7	7.4
EBITDA margin (%)	22.8	22.2	21.5	21.9	21.6	21.0	88bps	53bps	56bps
EPS (Rs)	30	31	34	27	28.8	31	10.6	9.0	10.1

Source: Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **US execution critical:** We expect the US market to contribute meaningfully to profitability in the coming years. Any delay in ramp-up of key launches such as Proventil HFA and Flonase can potentially erode 4-5% of FY21 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.
- **Weak drug price hikes in South Africa**

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	163,621	171,243	192,962	206,712	223,685
EBITDA	30,973	32,574	44,032	45,820	48,135
Depreciation	13,263	11,760	12,893	13,924	15,038
EBIT	17,710	20,814	31,139	31,896	33,097
Net interest income/(expenses)	(1,684)	(1,972)	(1,144)	(715)	(447)
Other income/(expenses)	2,915	3,331	3,517	3,457	4,858
Exceptional items	0	0	0	0	0
EBT	18,941	22,173	33,512	34,639	37,509
Income taxes	5,696	6,310	9,048	9,352	10,127
Extraordinary items	1,850	0	0	0	0
Min. int./Inc. from associates	(181)	5	0	0	0
Reported net profit	15,277	15,858	24,463	25,286	27,381
Adjustments	1,850	0	0	0	0
Adjusted net profit	13,426	15,858	24,463	25,286	27,381

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	19,480	25,013	25,744	27,832	30,153
Other current liabilities	10,126	9,960	11,276	12,191	13,207
Provisions	8,582	8,919	10,098	10,917	11,827
Debt funds	43,161	28,160	17,600	11,000	6,875
Other liabilities	0	0	0	0	0
Equity capital	1,611	1,613	1,613	1,613	1,613
Reserves & surplus	154,016	167,461	189,505	212,373	237,335
Shareholders' fund	155,627	169,073	191,118	213,985	238,948
Total liabilities and equities	236,976	241,125	255,837	275,925	301,010
Cash and cash eq.	6,188	9,630	12,876	28,444	45,569
Accounts receivables	41,507	38,910	41,191	41,748	45,229
Inventories	39,648	43,204	51,489	55,665	60,306
Other current assets	21,866	23,239	26,311	28,445	30,816
Investments	25,539	25,539	25,539	25,539	25,539
Net fixed assets	51,144	48,053	46,967	45,794	44,527
CWIP	6,762	8,245	8,245	8,245	8,245
Intangible assets	44,322	44,305	43,219	42,046	40,779
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	236,975	241,125	255,837	275,925	301,010

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	28,540	27,618	37,356	39,210	42,419
Interest expenses	1,684	1,972	1,144	715	447
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(6,412)	3,373	(10,411)	(3,045)	(6,247)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	23,812	32,963	28,089	36,880	36,620
Capital expenditures	(6,228)	(10,932)	(11,807)	(12,751)	(13,771)
Change in investments	(12,953)	0	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(19,181)	(10,932)	(11,807)	(12,751)	(13,771)
Equities issued/Others	1	1	0	0	0
Debt raised/repaid	2,181	(15,001)	(10,560)	(6,600)	(4,125)
Interest expenses	(1,684)	(1,972)	(1,144)	(715)	(447)
Dividends paid	(2,417)	(2,419)	(2,419)	(2,419)	(2,419)
Other financing cash flows	(6,181)	801	1,086	1,173	1,267
Cash flow from financing	(8,099)	(18,590)	(13,037)	(8,561)	(5,724)
Changes in cash and cash eq.	(3,468)	3,441	3,246	15,568	17,125
Closing cash and cash eq.	6,187	9,629	12,876	28,444	45,569

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.0	19.7	30.4	31.4	34.0
Adjusted EPS	16.7	19.7	30.4	31.4	34.0
Dividend per share	3.0	3.0	3.0	3.0	3.0
Book value per share	188.9	205.6	232.9	261.3	292.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	4.2	4.0	3.5	3.2	2.9
EV/EBITDA	22.2	21.0	15.3	14.3	13.3
Adjusted P/E	49.6	42.0	27.2	26.3	24.3
P/BV	4.4	4.0	3.5	3.2	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	70.9	71.5	73.0	73.0	73.0
Interest burden (PBT/EBIT)	107.0	106.5	107.6	108.6	113.3
EBIT margin (EBIT/Revenue)	10.8	12.2	16.1	15.4	14.8
Asset turnover (Revenue/Avg TA)	21.0	21.6	23.8	23.8	23.8
Leverage (Avg TA/Avg Equity)	1.3	1.2	1.1	1.1	1.1
Adjusted ROAE	9.0	10.0	13.8	12.7	12.3

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	7.5	4.7	12.7	7.1	8.2
EBITDA	9.6	5.2	35.2	4.1	5.1
Adjusted EPS	8.8	18.1	54.3	3.4	8.3
Profitability & Return ratios (%)					
EBITDA margin	18.9	19.0	22.8	22.2	21.5
EBIT margin	10.8	12.2	16.1	15.4	14.8
Adjusted profit margin	8.2	9.3	12.7	12.2	12.2
Adjusted ROAE	9.0	10.0	13.8	12.7	12.3
ROCE	10.6	12.2	17.1	16.3	16.1
Working capital days (days)					
Receivables	95	86	80	75	75
Inventory	91	95	100	100	100
Payables	45	55	50	50	50
Ratios (x)					
Gross asset turnover	1.2	1.2	1.2	1.2	1.2
Current ratio	2.9	2.6	2.8	3.0	3.3
Net interest coverage ratio	10.5	10.6	27.2	44.6	74.1
Adjusted debt/equity	0.1	0.0	(0.1)	(0.2)	(0.3)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

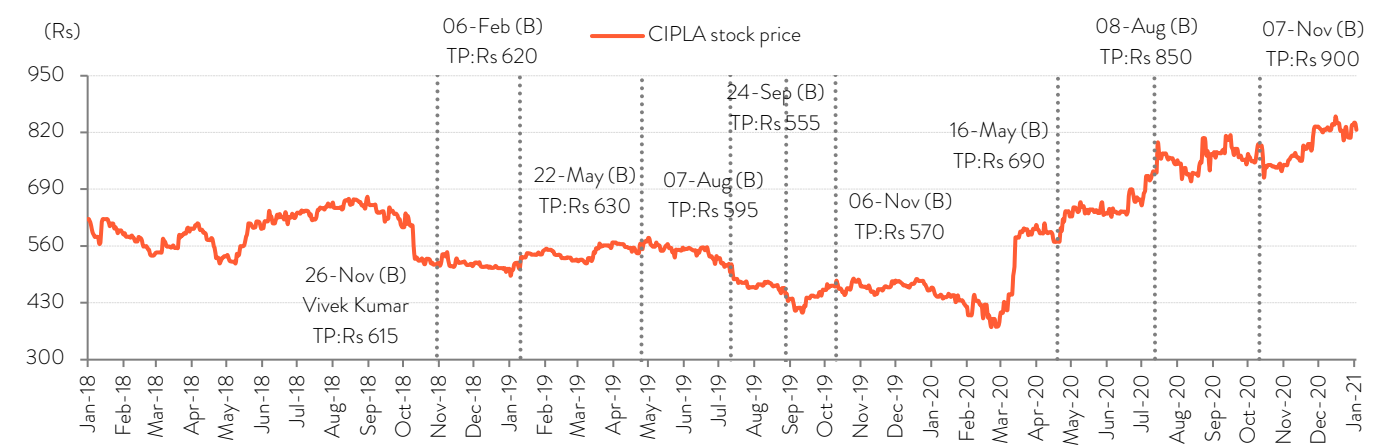
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): CIPLA (CIPLA IN)



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

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