

RESEARCH

CIPLA | TARGET: Rs 1,560 | +1% | HOLD

Valuations fully priced in; downgrade to HOLD

BOB ECONOMICS RESEARCH | DEPOSITS TREND

Higher growth in NRI deposits

BOB ECONOMICS RESEARCH | WPI

Inflation at a 15-month high

Daily macro indicators

Indicator	12-Jun	13-Jun	Chg (%)
US 10Y yield (%)	4.32	4.24	(7bps)
India 10Y yield (%)	7.01	6.99	(2bps)
USD/INR	83.54	83.55	0.0
Brent Crude (US\$/bbl)	82.6	82.8	0.2
Dow	38,712	38,647	(0.2)
Hang Seng	17,938	18,113	1.0
Sensex	76,607	76,811	0.3
India FII (US\$ mn)	11-Jun	12-Jun	Chg (\$ mn)
FII-D	(299.2)	250.3	549.5
FII-E	6.8	81.3	74.5

Source: Bank of Baroda Economics Research

SUMMARY

CIPLA

- 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)

[Click here for the full report.](#)

INDIA ECONOMICS: DEPOSITS TREND

The higher growth in NRI deposits has been in tandem with faster pace of increase in aggregate deposits. Its share in the pie currently stands at 6.2%. The 10-Years CAGR of NRI deposits stood at 7.2% while for aggregate deposits was 10.2%. Within NRI deposits, share of FCNR (B) deposits has picked up considerably. Shares of NRO deposits has also increased. Interest rate differential and an insulated domestic economy from global disturbances may be the reason for the same

[Click here for the full report.](#)



INDIA ECONOMICS: WPI

WPI inflation accelerated to a 15-month high of 2.6% in May'24, following an increase of 1.3% in Apr'24 due to elevated food prices. Food inflation picked up to a 10-month high led by higher prices of vegetables and fruits. Prices of tomato accelerated sharply, and onion and potato prices also remained at elevated levels. Pulses inflation also continued to show significant price pressures. Fuel inflation moderated marginally, despite an increase in global oil prices. An uptick in global metal prices has contributed to an increase in inflation in the manufacturing category.

[Click here](#) for the full report.

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)**

Saad Shaikh

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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%

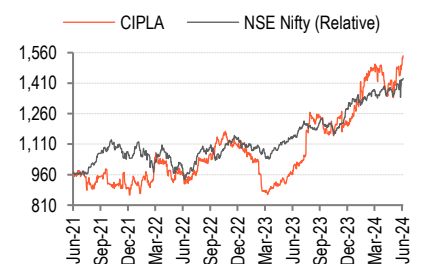
Source: NSE | Price as of 13 Jun 2024

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



DEPOSITS TREND

14 June 2024

Higher growth in NRI deposits

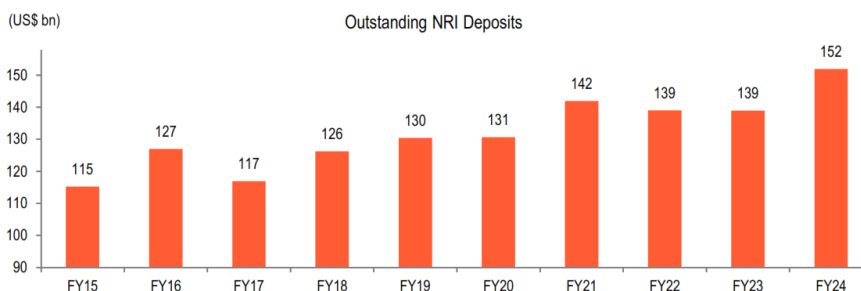
The higher growth in NRI deposits has been in tandem with faster pace of increase in aggregate deposits. Its share in the pie currently stands at 6.2%. The 10-Years CAGR of NRI deposits stood at 7.2% while for aggregate deposits was 10.2%. Within NRI deposits, share of FCNR (B) deposits has picked up considerably. Shares of NRO deposits has also increased. Interest rate differential and an insulated domestic economy from global disturbances may be the reason for the same

Dipanwita Mazumdar
Economist

How have NRI deposits moved?

The movement of NRI deposits is interesting. During Covid period, it has picked up sharply to US\$ 142bn from US\$ 131bn despite a softer interest rate regime globally. Bank deposits probably have been the preferred choice of savings during that uncertain environment where other asset classes exhibited considerable volatility. Apart from this, increase in precautionary savings globally (Gross savings rate to GDP of world rose to 27.1% from 25.8% in the same period, as per World Bank data), has also led to repatriation of savings in terms of bank deposits. However, with normalisation of economic activity, some correction was witnessed in NRI deposits in FY22 and FY23. Again, in FY24 (provisional figures), considerable momentum was visible. A possible explanation could be a more calibrated approach of domestic central bank compared to global central banks, where the rhetoric of interest rates has been far more volatile.

Fig 1: NRI deposits have picked pace



Source: CEIC, Bank of Baroda Research

NRI deposits vis a vis aggregate deposits

NRI deposits in rupee terms have grown at a CAGR of 7.2% in the past 10-Year while aggregate deposits have grown at a much sharper pace of 10.2% during the same period supplemented by higher domestic resources. The rupee had depreciated by 3.2% during this period.



WPI

14 June 2024

Inflation at a 15-month high

WPI inflation accelerated to a 15-month high of 2.6% in May'24, following an increase of 1.3% in Apr'24 due to elevated food prices. Food inflation picked up to a 10-month high led by higher prices of vegetables and fruits. Prices of tomato accelerated sharply, and onion and potato prices also remained at elevated levels. Pulses inflation also continued to show significant price pressures. Fuel inflation moderated marginally, despite an increase in global oil prices. An uptick in global metal prices has contributed to an increase in inflation in the manufacturing category.

Aditi Gupta
Economist

A significant mismatch in global demand and supply of metals has pushed global metal prices higher. While demand from China has so far remained muted, it is likely to pick up as the economy recovers which can push global commodity prices higher. Food inflation is also likely to remain elevated due to severe heatwaves in the country. Progress of monsoon will play a key role in determining the trajectory of food inflation going forward.

Food inflation continues to increase

Headline WPI inflation inched up to 2.6% in May'24 from 1.3% in Apr'24, marginally lower than our estimate of a 2.7% increase. The increase was driven by higher food inflation which accelerated to a 10-month high of 7.2% compared with 5% in Apr'24. Vegetable inflation picked up to 32.4% versus 23.6% in Apr'24. It must be noted that vegetable inflation has continued to grow in double-digits since the last 7-months. Within vegetables, prices of tomato showed a significant uptick and increased by 64.5% in May'24 versus 40.6% in Apr'24.

On the other hand, despite some moderation, inflation in potato and onion remained elevated at 32.4% and 64.1% respectively in May'24. Inflation in the fruits category also accelerated to 7.6%, from 5.8% in Apr'24.

Food grains inflation also picked up to a 15-month of 11.4% in May'24 from 10.2% in Apr'24, led primarily by a spike in pulses inflation.

For pulses, prices increased by 21.9% in May'24 compared with 16.6% in Apr'24. Cereals inflation also ticked marginally higher to 9% versus 8.7% in Apr'24, led by higher prices of wheat.

With severe heatwave conditions persisting in several parts of the country, prices of vegetables and fruits are witnessing an upward momentum even in Jun'24 and are likely to keep inflation elevated in the near-term.



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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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