

CMP: ₹ 1530

Target: ₹ 1840(20%)

Target Period: 12 months

BUY

July 29, 2024

## US drives numbers, India muted due to TGx restructuring...

About the stock: Cipla is a global pharma company with over 1,500+ products in 65 therapeutic categories, with over 50 dosage forms.

- For FY24, Indian formulations business accounted for ~42% of revenues and major therapies include respiratory, anti-infectives, gastro-intestinal among others
- For FY24, Cipla derived 29% of the revenues from the US followed by 15% from RoW markets, 9% from South Africa and 2% from APIs.

### Investment Rationale:

- Q1FY25- Decent numbers despite India restructuring; margins strong- Revenues grew ~6% YoY to ₹ 6694 crore on the back of ~15% growth in the US and ~22% growth in South Africa. India growth was little subdued at ~5%. EBITDA grew ~15% YoY to ₹ 1716 crore with 203 bps margin expansion to 25.6% tracking strong GPM performance (up 258 bps to 67.2%). PAT grew ~18% to ₹ 1178 crore. US grew ~15% YoY to ₹ 2087 crore and was driven by volume traction in key assets of Lanreotide injection (hormonal) and Albuterol (respiratory) coupled with gRevlimid sales. The market share of Lanreotide and Albuterol stood at ~20% and ~17% respectively and the company expects to improve the same. India grew ~5% YoY to ₹ 2898 crore, drive by branded prescription growth of 10% (Respiratory, Urology and Cardiac in particular) but pulled down by Trade Generics Business owing to distribution model change. However, growth in Consumer Health portfolio was also tepid at 3% due to high base effect. South Africa grew 22% YoY to ₹ 626 crore (19% in Rands) led by Respiratory, CNS and Anti-Infectives therapies and OTC growth.
- Maintains strong EBITDA - The performance was driven by strong US momentum based on traction from niche products. India growth is expected to normalise in the coming quarters as the delayering exercise in the Trade Generics business is almost over. Going ahead, US launches would be mainly confined to complex areas of peptides and respiratory assets. The USFDA embargo for Goa (delaying gAbraxane) and Pithampur (delaying gAdvair) are some near term concerns but the company is deploying plan B with gAdvair launch planned via US based InvaGen facility. We believe the company is good stead with successful recent launches in the US and a long-drawn India strategy with a blend of branded Rx- Trade Generics- Consumer Health besides South Africa momentum.

### Rating and Target price

- Our target price is ₹ 1840 based on 28x FY26E EPS of ₹ 65.2 plus NPV of ₹ 17 for gRevlimid.

### Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	3 year CAGR (FY23-26E)
Revenues	17132.0	19159.6	21763.3	22753.0	9.9	25774.1	27966.3	31024.8	10.9
EBITDA	3206.0	4252.4	4552.8	5026.9	16.2	6291.1	6863.5	7875.7	16.1
EBITDA margins (%)	18.7	22.2	20.9	22.1		24.4	24.5	25.4	
Adjusted PAT	1546.5	2404.9	2650.2	2929.9	23.7	4263.5	4402.8	5249.2	21.5
Adj. EPS (₹)	19.2	29.9	32.9	36.4		53.0	54.7	65.2	
PE (x)	79.6	51.2	48.9	44.0		29.9	28.0	23.5	
EV to EBITDA (x)	38.6	28.4	26.3	23.8		18.7	16.8	14.3	
RoNW (%)	9.8	13.1	12.7	12.5		16.1	14.8	15.7	
RoCE (%)	12.0	16.3	16.7	17.4		21.3	19.7	20.9	

Source: Company, ICICI Direct Research

# Cipla

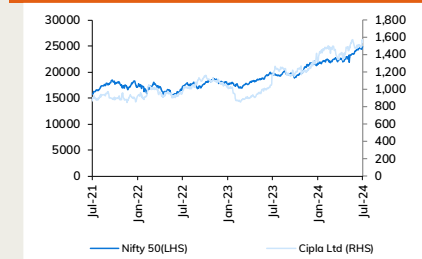
### Particulars

Particular	Amount
Market Capitalisation	₹ 123471 crore
Debt (FY24)	₹ 470 crore
Cash (FY24)	₹ 2676 crore
EV	₹ 121266 crore
52 week H/L (₹)	1519/896
Equity capital	₹ 161.4 crore
Face value	₹ 2

### Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	33.6	33.6	33.6	30.9
FIIs	25.7	25.7	25.8	27.8
DIIIs	23.9	24.1	24.2	24.7
Others	16.8	16.6	16.5	16.6

### Price Chart



### Key risks

- Slower ramp up in new launches especially in the US
- longer than expected timeline for the resolution of USFDA embargo

### Research Analyst

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Exhibit 1: Quarterly Summary

(₹ crore)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ. (%)
Net Sales	5470.7	5485.8	5442.9	5223.9	5317.9	5759.3	5730.0	5666.0	6269.4	6589.2	6505.7	6082.4	6624.9	5.7	8.9
Other Operating Income	33.6	34.0	36.0	36.4	57.3	69.3	80.0	73.4	59.5	88.9	98.2	80.9	69.1	16.1	-14.6
Total Operating Income	5504.4	5519.8	5478.9	5260.3	5375.2	5828.5	5810.0	5739.3	6328.9	6678.2	6603.8	6163.2	6693.9	5.8	8.6
Raw Material Expenses	2068.8	2136.7	2143.4	2146.7	2024.4	2160.2	2004.3	2063.4	2236.8	2313.1	2219.5	2050.1	2192.9	-2.0	7.0
Gross Profit	3435.5	3383.1	3335.5	3113.6	3350.8	3668.4	3805.7	3675.9	4092.1	4365.1	4384.3	4113.1	4501.1	10.0	9.4
Gross Profit Margins	62.4	61.3	60.9	59.2	62.3	62.9	65.5	64.0	64.7	65.4	66.4	66.7	67.2	258 bps	50 bps
Employee Expenses	887.3	877.8	872.4	892.4	955.7	960.8	948.7	964.8	1066.6	1091.1	1068.1	1084.2	1194.2	12.0	10.1
% of revenues	16.1	15.9	15.9	17.0	17.8	16.5	16.3	16.8	16.9	16.3	16.2	17.6	17.8	99 bps	25 bps
Other Expenditure	1202.3	1279.1	1232.1	1471.5	1251.7	1405.8	1449.6	1537.4	1531.6	1540.2	1568.6	1713.0	1591.0	3.9	-7.1
% of revenues	21.8	23.2	22.5	28.0	23.3	24.1	24.9	26.8	24.2	23.1	23.8	27.8	23.8	-43 bps	-403 bps
Total Expenditure	4158.5	4293.6	4247.9	4510.6	4231.8	4526.8	4402.5	4565.6	4835.0	4944.4	4856.3	4847.4	4978.1	3.0	2.7
EBITDA	1345.9	1226.2	1231.0	749.7	1143.4	1301.7	1407.5	1173.7	1493.9	1733.8	1747.5	1315.9	1715.8	14.9	30.4
EBITDA (%)	24.5	22.2	22.5	14.3	21.3	22.3	24.2	20.5	23.6	26.0	26.5	21.4	25.6	203 bps	428 bps
Interest	29.6	38.0	20.7	18.1	17.8	25.6	31.8	34.4	16.4	25.8	30.1	17.6	18.0	9.5	2.0
Depreciation	261.1	253.1	247.5	290.3	254.4	299.4	272.1	346.2	239.2	290.0	233.4	288.3	246.7	3.1	-14.4
Other Income	64.9	60.7	91.3	64.0	103.4	123.0	114.4	134.6	136.3	176.3	184.6	249.3	160.2	17.5	-35.8
PBT	1120.1	995.8	1054.1	505.3	974.6	1099.8	1218.0	927.8	1374.6	1594.2	1668.6	1259.3	1611.4	17.2	28.0
Total Tax	283.7	283.8	295.2	71.1	268.0	302.6	410.0	222.3	378.0	438.4	405.3	324.9	435.1	15.1	33.9
PAT before MI	711.8	712.0	759.0	376.7	706.6	797.2	808.0	523.1	996.6	1155.8	1068.5	934.4	1176.3	18.0	25.9
Minority Interest	-4.8	-2.2	28.3	8.6	19.7	8.5	6.9	-4.1	2.4	24.5	12.5	-7.2	-2.2	-192.0	-69.6
PAT	714.7	711.4	728.6	362.1	684.9	785.8	800.9	525.7	995.7	1130.9	1055.9	939.0	1177.6	18.3	25.4
EPS (₹)	8.9	8.8	9.0	4.5	8.5	9.8	9.9	6.5	12.4	14.0	13.1	11.7	14.6		

Source: Company, ICICI Direct Research

## Q1FY25 Results / Conference call highlights

### US Business-

- Growth in US was driven by launch of generic Lanreotide, traction in Albuterol and some incremental traction from gRevlimid.
- Some products have witnessed price erosion of 5-6% sequentially.
- In Q1FY25, it launched generic Lanreotide in US, which is the biggest peptide launch for Cipla in FY25. Management expects a gradual ramp-up in market share (14,000 vials market) for this product.
- Management aims to launch two more peptide products in H2FY25 and additional one would be launched in FY26.
- US base business run-rate likely to be US\$ 230-240 million.
- Launch timeline of Abraxane is contingent to clearance of Goa plant.
- Advair is expected to be filed from InvaGen site by Q4FY25.
- Goa plant underwent re-inspection in Q1FY25 and got 6 observations. The USFDA is yet to classify the status of this plant. Management expects a revert from the USFDA by Sep'24.
- In US it may acquire a sterile injectable plant or in-license specialty products.

### India Business-

- Branded business grew at 10%, whereas therapies wise respiratory grew 9%, cardiac at 11% and urology grew with 15% on YoY basis.
- Consumer segment grew 3% YoY due to high base. Management expects good growth going forward.
- Management may launch GLP-1 product next year in India.
- Company has added 1,500 MRs in India during this quarter.
- For domestic business the company may acquire brands in therapies for which it does not have a leadership position.

### Other aspects -

- Management has maintained its FY25 EBITDA margin guidance of 24.5-25.5%.
- FY25 R&D % to sales to be in 5-6% range.
- Capex for FY25 will be ~₹ 1500-1800 crore.

## Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Revenues</b>	<b>22,753.0</b>	<b>25,774.1</b>	<b>27,966.3</b>	<b>31,024.8</b>
Growth (%)	4.5	13.3	8.5	10.9
Raw Material Expenses	8,252.3	8,819.6	9,498.1	10,625.6
Gross Profit	14,500.8	16,954.5	18,468.2	20,399.2
Employee Expenses	3,830.1	4,310.0	4,880.6	5,118.3
Other Expenditure	5,643.8	6,353.4	6,724.2	7,405.1
Total Operating Expenditure	17,726.2	19,483.0	21,102.8	23,149.1
<b>EBITDA</b>	<b>5,026.9</b>	<b>6,291.1</b>	<b>6,863.5</b>	<b>7,875.7</b>
Growth (%)	10.4	25.1	9.1	14.7
Depreciation	1,172.1	1,051.0	1,282.4	1,204.1
Interest	109.5	89.9	84.3	70.8
Other Income	475.5	746.6	585.6	651.3
PBT	4,038.3	5,701.9	6,082.4	7,252.1
Total Tax	1,202.9	1,546.6	1,642.3	1,958.1
PAT before MI	2,835.4	4,155.3	4,440.2	5,294.1
Minority Interest	31.0	32.2	33.5	41.0
<b>Adjusted PAT</b>	<b>2,929.9</b>	<b>4,263.5</b>	<b>4,402.8</b>	<b>5,249.2</b>
Growth (%)	10.6	45.5	3.3	19.2
<b>EPS (Adjusted)</b>	<b>36.4</b>	<b>53.0</b>	<b>54.7</b>	<b>65.2</b>
Other income as % of Inv+cc	11%	12%	7%	6%

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	2,918.9	4,121.6	4,402.8	5,249.2
Add: Depreciation	1,172.1	1,051.0	1,282.4	1,204.1
(inc)/Dec in Current Assets	-541.2	-975.9	-934.7	-1,443.0
inc/(Dec) in Current Liabilities	-18.2	271.7	310.0	449.0
Others	-294.0	89.9	84.3	70.8
<b>CF from Operating activities</b>	<b>3,237.6</b>	<b>4,558.2</b>	<b>5,144.7</b>	<b>5,530.0</b>
(Purchase)/Sale of Fixed Assets	-1,108.7	-1,300.0	-1,500.0	-1,000.0
Change In Investment	-938.8	0.0	-1,000.0	-1,000.0
Others	-341.1	-23.6	-25.1	-20.5
<b>CF from Investing activities</b>	<b>-2,388.5</b>	<b>-1,323.6</b>	<b>-2,525.1</b>	<b>-2,020.5</b>
Change in Equity	0.1	0.0	0.0	0.0
Change in Loan	-485.6	-50.0	-50.0	-50.0
Dividend & Dividend tax	-403.5	-1,046.6	-1,100.7	-1,574.8
Others	-69.3	-89.9	-84.3	-70.8
<b>CF from Financing activities</b>	<b>-958.3</b>	<b>-1,186.5</b>	<b>-1,235.0</b>	<b>-1,695.5</b>
Net Cash Flow	-109.2	2,048.1	1,384.6	1,814.0
Cash and Cash equ. at beginnir	658.1	627.6	2,675.7	4,060.3
<b>Cash</b>	<b>548.9</b>	<b>2,675.7</b>	<b>4,060.3</b>	<b>5,874.3</b>
<b>Free Cash Flow</b>	<b>2,128.9</b>	<b>3,258.2</b>	<b>3,644.7</b>	<b>4,530.0</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	161.4	161.4	161.4	161.4
Reserve and Surplus	23,246.4	26,321.3	29,623.3	33,297.8
Total Shareholders funds	23,407.8	26,482.7	29,784.8	33,459.2
Total Debt	520.4	470.4	420.4	370.4
Deferred Tax Liability	163.3	171.4	180.0	189.0
Long Term Provision	102.2	107.3	112.6	118.3
MI & Other Liabilities	756.8	811.5	868.7	934.5
<b>Source of Funds</b>	<b>24,950.4</b>	<b>28,043.3</b>	<b>31,366.5</b>	<b>35,071.4</b>
Gross Block - Fixed Assets	14,594.1	15,794.1	17,194.1	18,094.1
Accumulated Depreciation	8,477.3	9,528.4	10,810.7	12,014.8
Net Block	6,116.8	6,265.8	6,383.4	6,079.3
Capital WIP	1,093.3	1,193.3	1,293.3	1,393.3
Fixed Assets	7,210.1	7,459.1	7,676.7	7,472.6
Investments	3,722.2	3,722.2	4,722.2	5,722.2
Goodwill on Consolidation	2,983.9	2,983.9	2,983.9	2,983.9
Long term Loans & Advance	0.0	0.0	0.0	0.0
Other Non current assets	1,831.9	1,923.5	2,019.7	2,120.7
Inventory	5,156.4	5,510.9	5,855.0	6,579.1
Debtors	4,057.0	4,531.6	4,968.0	5,525.0
Loans and Advances	7.6	8.0	8.4	8.8
Other Current Assets	2,929.6	3,076.0	3,229.8	3,391.3
Cash	627.6	2,675.7	4,060.3	5,874.3
Bank Balance other than ca	936.9	937.0	937.0	937.0
Total Current Assets	12,778.2	15,802.2	18,121.5	21,378.5
Creditors	2,457.1	2,626.0	2,828.0	3,163.7
Provisions	1,286.7	1,351.0	1,418.6	1,489.5
Other current liabilities	769.2	807.6	848.0	890.4
Total Current Liabilities	4,512.9	4,784.6	5,094.6	5,543.6
Net Current Assets	8,265.3	11,017.6	13,027.0	15,834.9
<b>Application of Funds</b>	<b>24,950.3</b>	<b>28,043.3</b>	<b>31,366.5</b>	<b>35,071.4</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Per share data (₹)</b>				
Adjusted EPS	36.4	53.0	54.7	65.2
BV per share	290.7	328.9	370.0	415.6
Cash per Share	7.8	33.2	50.4	73.0
Dividend per share	8.7	13.0	13.7	19.6
<b>Operating Ratios (%)</b>				
Gross Margins	63.7	65.8	66.0	65.8
EBITDA margins	22.1	24.4	24.5	25.4
PAT Margins	12.9	16.5	15.7	16.9
Inventory days	228	228	225	226
Debtor days	65	64	65	65
Creditor days	109	109	109	109
Asset Turnover	0.9	0.9	0.9	0.9
EBITDA convsion rate	64.4	72.5	75.0	70.2
<b>Return Ratios (%)</b>				
RoE	12.5	16.1	14.8	15.7
RoCE	17.4	21.3	19.7	20.9
RoIC	19.1	24.9	25.5	29.4
<b>Valuation Ratios (x)</b>				
P/E	44.0	29.9	28.0	23.5
EV / EBITDA	23.8	18.7	16.8	14.3
EV / Net Sales	5.3	4.6	4.1	3.6
Market Cap / Sales	5.4	4.8	4.4	4.0
Price to Book Value	5.3	4.7	4.1	3.7
<b>Solvency Ratios</b>				
Debt / EBITDA	0.1	0.1	0.1	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.7	2.7	2.8	2.8
<b>Quick Ratio</b>				
Quick Ratio	1.5	1.6	1.6	1.6
Working Capital Cycle	184	184	181	182
Net Debt/Equity	0.0	-0.1	-0.1	-0.2

Source: Company, ICICI Direct Research

## ANALYST CERTIFICATION

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