

Mid term challenges but future launches bode well ...

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

- For Q2FY25, Indian formulations business accounted for ~42% of revenues and major therapies include respiratory, anti-infectives, gastro-intestinal among others
- For Q2FY25, Cipla derived 28% of the revenues from the US followed by 13% from RoW markets, 15% from Africa and 2% from APIs.

Investment Rationale:

- Q2FY25- Mixed numbers with subdued revenues but better margins- Revenues grew ~6% YoY to ₹ 7051 crore on the back of ~29% growth in South Africa and 19% growth in Emerging markets and Europe. Growth in core geographies of India and the US was growth was little subdued at ~5%. EBITDA grew ~9% YoY to ₹ 1886 crore with 78 bps margin expansion to 26.7% tracking strong GPM performance (up 226 bps to 67.6%). PAT grew ~13% to ₹ 1306 crore. US grew ~5% YoY to ₹ 1986 crore and this lower trendline growth was attributable to supply constraints for Lanreotide injection (hormonal) at one of the vendors besides ~10% price erosion in the base business (especially oral solids). The market share of Lanreotide (before supply constraints) in the month of August was ~35%. Similarly for Albuterol (respiratory) the market share stood at ~19% (as of September 20). India grew ~5% YoY to ₹ 2948 crore, driven by branded prescription growth of 16% in Urology, ~12% in Cardiac and ~9% in respiratory but pulled down by Anti-infectives (high base) and Trade Generics (seasonality). However, growth in Consumer Health portfolio stood at a healthy 21%. South Africa grew 29% YoY to ₹ 799 crore led by Respiratory, CNS and Anti-Infectives therapies and OTC growth. Emerging markets and Europe grew 19% YoY to ₹ 806 crore with uptick in both DTM and B2B categories
- Resolution of key US launches critical for momentum- The US performance was impacted mainly because of supply related issues for Lanreotide and as per management the same will persist in Q3 as well which may drive US sales to be lower than Q2. But the situation is likely to improve in Q4. Going ahead, other key US launches such as gApixaban (in the backdrop of Goa observations) and gAdvair (from the US plant) would be keenly followed and so will be some respiratory launches gSymbicort, gQvar and gDulera (by FY7). India growth is expected to normalise in the coming quarters. 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. The FY25 EBITDA guidance remains at 24.5-25.5%.
- Our target price is ₹ 1685 based on 26x FY26E EPS of ₹ 64.1 plus NPV of ₹ 17 for gRevlimid.

Cipla

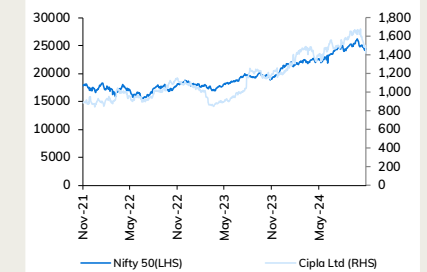
Particulars

Particular	Amount
Market Capitalisation	₹ 114433 crore
Debt (FY24)	₹ 247 crore
Cash (FY24)	₹ 640 crore
EV	₹ 114040 crore
52 week H/L (₹)	1702/1165
Equity capital	₹ 161.4 crore
Face value	₹ 2

Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	33.6	33.6	30.9	30.9
FIIs	25.7	25.8	27.8	28.8
DIIIs	24.1	24.2	24.7	24.0
Others	16.6	16.5	16.6	16.3

Price Chart



Key risks

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

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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	27336.6	30263.0	10.0
EBITDA	3206.0	4252.4	4552.8	5026.9	16.2	6291.1	6867.9	7682.0	15.2
EBITDA margins (%)	18.7	22.2	20.9	22.1		24.4	25.1	25.4	
Adjusted PAT	1546.5	2404.9	2650.2	2929.9	23.7	4263.5	4513.1	5158.5	20.8
Adj. EPS (₹)	19.2	29.9	32.9	36.4		53.0	56.1	64.1	
PE (x)	73.8	47.5	45.4	40.7		27.7	25.3	22.1	
EV to EBITDA (x)	35.8	26.3	24.3	22.0		17.3	15.9	13.7	
RoNW (%)	9.8	13.1	12.7	12.5		16.0	15.9	16.1	
RoCE (%)	12.0	16.3	16.7	17.4		21.6	21.4	21.7	

Exhibit 1: Quarterly Summary

(₹ crore)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ. (%)
Net Sales	5485.8	5442.9	5223.9	5317.9	5759.3	5730.0	5666.0	6269.4	6589.2	6505.7	6082.4	6624.9	6961.2	5.6	5.1
Other Operating Income	34.0	36.0	36.4	57.3	69.3	80.0	73.4	59.5	88.9	98.2	80.9	69.1	89.8	1.0	30.0
Total Operating Income	5519.8	5478.9	5260.3	5375.2	5828.5	5810.0	5739.3	6328.9	6678.2	6603.8	6163.2	6693.9	7051.0	5.6	5.3
Raw Material Expenses	2136.7	2143.4	2146.7	2024.4	2160.2	2004.3	2063.4	2236.8	2313.1	2219.5	2050.1	2192.9	2283.0	-1.3	4.1
Gross Profit	3383.1	3335.5	3113.6	3350.8	3668.4	3805.7	3675.9	4092.1	4365.1	4384.3	4113.1	4501.1	4768.0	9.2	5.9
Gross Profit Margins	61.3	60.9	59.2	62.3	62.9	65.5	64.0	64.7	65.4	66.4	66.7	67.2	67.6	226 bps	38 bps
Employee Expenses	877.8	872.4	892.4	955.7	960.8	948.7	964.8	1066.6	1091.1	1068.1	1084.2	1194.2	1207.9	10.7	1.1
% of revenues	15.9	15.9	17.0	17.8	16.5	16.3	16.8	16.9	16.3	16.2	17.6	17.8	17.1	79 bps	-71 bps
Other Expenditure	1279.1	1232.1	1471.5	1251.7	1405.8	1449.6	1537.4	1531.6	1540.2	1568.6	1713.0	1591.0	1674.5	8.7	5.2
% of revenues	23.2	22.5	28.0	23.3	24.1	24.9	26.8	24.2	23.1	23.8	27.8	23.8	23.7	69 bps	-2 bps
Total Expenditure	4293.6	4247.9	4510.6	4231.8	4526.8	4402.5	4565.6	4835.0	4944.4	4856.3	4847.4	4978.1	5165.4	4.5	3.8
EBITDA	1226.2	1231.0	749.7	1143.4	1301.7	1407.5	1173.7	1493.9	1733.8	1747.5	1315.9	1715.8	1885.6	8.8	9.9
EBITDA (%)	22.2	22.5	14.3	21.3	22.3	24.2	20.5	23.6	26.0	26.5	21.4	25.6	26.7	78 bps	111 bps
Interest	38.0	20.7	18.1	17.8	25.6	31.8	34.4	16.4	25.8	30.1	17.6	18.0	15.4	-40.3	-14.2
Depreciation	253.1	247.5	290.3	254.4	299.4	272.1	346.2	239.2	290.0	233.4	288.3	246.7	271.7	-6.3	10.2
Other Income	60.7	91.3	64.0	103.4	123.0	114.4	134.6	136.3	176.3	184.6	249.3	160.2	190.6	8.1	19.0
PBT	995.8	1054.1	505.3	974.6	1099.8	1218.0	927.8	1374.6	1594.2	1668.6	1259.3	1611.4	1789.1	12.2	11.0
Total Tax	283.8	295.2	71.1	268.0	302.6	410.0	222.3	378.0	438.4	405.3	324.9	435.1	483.0	10.2	11.0
PAT before MI	712.0	759.0	376.7	706.6	797.2	808.0	523.1	996.6	1155.8	1068.5	934.4	1176.3	1306.0	13.0	11.0
Minority Interest	-2.2	28.3	8.6	19.7	8.5	6.9	-4.1	2.4	24.5	12.5	-7.2	-2.2	2.5	-89.9	-213.8
PAT	711.4	728.6	362.1	684.9	785.8	800.9	525.7	995.7	1130.9	1055.9	939.0	1177.6	1303.1	15.2	10.7
EPS (₹)	8.8	9.0	4.5	8.5	9.8	9.9	6.5	12.4	14.0	13.1	11.7	14.6	16.2		

Source: Company, ICICI Direct Research

Q2FY25 Results / Conference call highlights

- One India business especially acute anti-infective segment (across branded prescription and trade generic businesses) was impacted by seasonal factors and slowed growth in Q2FY25.
- The Management expects stronger growth in Q3FY25 due to seasonal trends in respiratory and chronic segments.
- The company may launch Semaglutide in the first wave by in-licensing the product from MNCs after the patent expiry of the drug in 2025.
- Cipla's branded prescription business exceeded market growth rates, and added three new brands to its ₹100+ crore revenue list.
- The management maintained its EBITDA margin guidance for FY25 at 24.5-25.5%, with Q4FY25 expected to reflect seasonal lower activity levels.
- The market share of Lanreotide reached 35% (for the month of August), but supply constraints are expected to impact Q3FY25 and the US sales may drop below US \$220 million. The Production capacity is expected to expand and resolve the supply challenges by Q4.
- ~30% of Cipla's US portfolio is prone to price erosion, rest is all differentiated products portfolio.
- Management is planning to expedite launches and resolve ongoing supply challenges focused on commercial execution in the U.S.
- In South Africa, Cipla plans to continue margin expansion, while in EMEU, the company will focus on penetration in core markets.
- Growth in South Africa was partly driven by opportunistic tender wins, which may vary by quarter depending on available opportunities.
- The management expects a growth of 5-10% in South Africa for FY25.
- Cipla's R&D focus is currently on oligonucleotides, peptides, and advanced respiratory assets, with key launches anticipated in FY27, particularly for gSymbicort, gDulera and gQvar.
- The FDA conducted a reinspection at Cipla's Goa facility, which remains under review. This facility is central to Cipla's gAbraxane launch strategy, anticipated in H1 FY26 once the under-review status is cleared.
- Under review classification of the Goa plant by the USFDA will impact the launch of gAbraxane and if they take the CMO route for the drug, it may take over a year for the launch.
- The employee expenses were on a higher end, on account of addition of 1500 MRs for chronic therapies in India.

Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Revenues	22,753.0	25,774.1	27,336.6	30,263.0
Growth (%)	4.5	13.3	6.1	10.7
Raw Material Expenses	8,252.3	8,819.6	9,097.0	10,365.4
Gross Profit	14,500.8	16,954.5	18,239.6	19,897.7
Employee Expenses	3,830.1	4,310.0	4,780.6	4,993.9
Other Expenditure	5,643.8	6,353.4	6,591.0	7,221.7
Total Operating Expenditure	17,726.2	19,483.0	20,468.7	22,581.0
EBITDA	5,026.9	6,291.1	6,867.9	7,682.0
Growth (%)	10.4	25.1	9.2	11.9
Depreciation	1,172.1	1,051.0	1,215.8	1,211.2
Interest	109.5	89.9	64.2	37.1
Other Income	475.5	746.6	622.6	693.3
PBT	4,038.3	5,701.9	6,210.6	7,127.0
Total Tax	1,202.9	1,546.6	1,676.9	1,924.3
PAT before MI	2,835.4	4,155.3	4,533.7	5,202.7
Minority Interest	31.0	32.2	16.7	40.3
Adjusted PAT	2,929.9	4,263.5	4,513.1	5,158.5
Growth (%)	10.6	45.5	5.9	14.3
EPS (Adjusted)	36.4	53.0	56.1	64.1
Other income as % of Inv+cash	11%	12%	11%	7%

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	4,299.2	4,513.1	5,158.5
Add: Depreciation	1,172.1	1,051.0	1,215.8	1,211.2
(inc)/Dec in Current Assets	-541.2	-968.8	-1,955.2	-872.1
inc/(Dec) in Current Liabilities	-18.2	162.7	304.0	542.2
Others	-294.0	-410.3	64.1	37.1
CF from Operating activities	3,237.6	4,133.9	4,141.9	6,076.9
(Purchase)/Sale of Fixed Assets	-1,108.7	-1,315.1	-1,757.8	-1,000.0
Change In Investment	-938.8	-1,474.0	455.5	-1,000.0
Others	-341.1	-198.9	213.2	-4.7
CF from Investing activities	-2,388.5	-2,988.0	-1,089.1	-2,004.7
Change in Equity	0.1	0.0	0.0	0.0
Change in Loan	-485.6	-377.5	-84.8	-60.2
Dividend & Dividend tax	-403.5	-686.2	-1,128.3	-1,547.6
Others	-69.3	-136.8	-64.2	-37.1
CF from Financing activities	-958.3	-1,200.4	-1,277.2	-1,644.9
Net Cash Flow	-109.2	-54.6	157.7	2,427.4
Cash and Cash equ. at beginning	658.1	561.3	640.0	797.8
Cash	548.9	506.8	797.8	3,225.2
Free Cash Flow	2,128.9	2,818.8	2,384.2	5,076.9

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	161.4	161.5	161.5	161.5
Reserve and Surplus	23,246.4	26,545.0	28,200.6	31,811.7
Total Shareholders funds	23,407.8	26,706.4	28,362.1	31,973.2
Total Debt	520.4	247.0	162.2	102.0
Deferred Tax Liability	163.3	185.3	192.7	202.4
Long Term Provision	102.2	129.3	142.8	150.0
MI & Other Liabilities	756.8	451.1	492.6	552.9
Source of Funds	24,950.4	27,719.1	29,352.5	32,980.4
Gross Block - Fixed Assets	14,594.1	15,909.9	17,434.1	18,334.1
Accumulated Depreciation	8,477.3	9,528.4	10,744.1	11,955.3
Net Block	6,116.8	6,381.6	6,689.9	6,378.8
Capital WIP	1,093.3	1,152.7	1,386.3	1,486.3
Fixed Assets	7,210.1	7,534.3	8,076.2	7,865.1
Investments	3,722.2	5,562.8	5,107.4	6,107.4
Goodwill on Consolidation	2,983.9	3,112.0	3,251.0	3,251.0
Long term Loans & Advances	0.0	0.0	0.0	0.0
Other Non current assets	1,831.9	1,923.2	1,633.6	1,715.3
Inventory	5,156.4	5,238.0	5,572.9	6,418.0
Debtors	4,057.0	4,770.7	5,587.6	5,389.3
Loans and Advances	7.6	0.2	0.2	0.2
Other Current Assets	2,929.6	3,701.6	4,505.0	4,730.3
Cash	627.6	640.1	797.8	3,225.2
Bank Balance other than cash	936.9	234.9	123.6	123.6
Total Current Assets	12,778.2	14,350.5	16,463.4	19,762.9
Creditors	2,457.1	2,474.0	2,675.3	3,086.2
Provisions	1,286.7	1,611.8	1,496.4	1,571.2
Other current liabilities	769.2	913.0	1,131.0	1,187.6
Total Current Liabilities	4,512.9	4,998.8	5,302.8	5,845.0
Net Current Assets	8,265.3	9,351.8	11,160.7	13,917.9
Application of Funds	24,950.3	27,719.1	29,352.5	32,980.3

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Adjusted EPS	36.4	53.0	56.1	64.1
BV per share	290.7	331.7	352.3	397.1
Cash per Share	7.8	8.0	9.9	40.1
Dividend per share	8.7	13.0	14.0	19.2
Operating Ratios (%)				
Gross Margins	63.7	65.8	66.7	65.7
EBITDA margins	22.1	24.4	25.1	25.4
PAT Margins	12.9	16.5	16.5	17.0
Inventory days	228	217	224	226
Debtor days	65	68	75	65
Creditor days	109	102	107	109
Asset Turnover	0.9	0.9	0.9	0.9
EBITDA convsion rate	64.4	65.7	60.3	79.1
Return Ratios (%)				
RoE	12.5	16.0	15.9	16.1
RoCE	17.4	21.6	21.4	21.7
RoIC	19.1	24.8	24.7	28.2
Valuation Ratios (x)				
P/E	40.7	27.7	25.3	22.1
EV / EBITDA	22.0	17.3	15.9	13.7
EV / Net Sales	4.9	4.2	4.0	3.5
Market Cap / Sales	5.0	4.4	4.2	3.8
Price to Book Value	4.9	4.3	4.0	3.6
Solvency Ratios				
Debt / EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.7	2.7	3.0	2.8
Quick Ratio	1.5	1.7	1.9	1.7
Working Capital Cycle	184	182	191	182
Net Debt/Equity	0.0	0.0	0.0	-0.1

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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