

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR1,575 TP: INR1,830 (+16%) BUY

The US and emerging markets drive earnings

Work in progress to address the issues highlighted in Goa 483

Bloomberg	CIPLA IN
Equity Shares (m)	808
M.Cap.(INRb)/(USDb)	1271.8 / 15.2
52-Week Range (INR)	1600 / 1042
1, 6, 12 Rel. Per (%)	2/-1/22
12M Avg Val (INR m)	2554

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	257.7	277.1	303.8
EBITDA	62.9	69.5	77.8
Adj. PAT	42.4	47.4	52.9
EBIT Margin (%)	20.5	21.3	21.9
Cons. Adj. EPS (INR)	52.5	58.7	65.6
EPS Gr. (%)	39.0	11.9	11.7
BV/Sh. (INR)	330.9	381.8	441.3

Ratios

Net D:E	0.0	-0.1	-0.2
RoE (%)	15.9	15.4	14.9
RoCE (%)	17.0	16.5	15.9
Payout (%)	9.4	10.2	9.2

Valuations

P/E (x)	30.2	27.0	24.2
EV/EBITDA (x)	20.2	17.7	15.4
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	0.3	3.5	3.0
EV/Sales (x)	4.9	4.4	3.9

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	30.9	33.4	33.4
DII	24.9	24.4	24.3
FII	27.9	26.0	25.6
Others	16.3	16.3	16.7

FII Includes depository receipts

- Cipla delivered in-line 1QFY25 performance. It continued to track well in the US generics segment, with sales scaling an all-time quarterly high of USD250m. However, the benefit was partly offset by a temporary disruption in the trade generics segment. Cipla continues to outperform the industry in chronic therapies within the branded prescription segment.
- We maintain our earnings estimates for FY25/FY26. We value Cipla at 25x 12M forward earnings to arrive at our TP of INR1,830.
- Cipla is building a niche product pipeline in the peptides/inhaler space within the US generics segment. With a change in its distribution model, the trade generics business is also back on the growth path. The EBITDA trend continues to be better in the consumer health segment. Accordingly, we estimate 12% earnings CAGR over FY24-26. **Reiterate BUY.**

Product mix/lower R&D expenses support margin uptick YoY/QoQ

- Cipla's 1QFY25 revenue grew 5.8% YoY to INR66.9b (our est. INR67.6b). DF sales (43% of sales) grew 4.5% YoY to INR29b. The US sales (31% of sales) grew 14.5% YoY to INR20.9b (USD250m, up 12.6% in CC terms). The EM sales (13% of sales) grew 9% YoY to INR8.5b.
- API sales (1% of sales) declined 28% YoY to INR980m. SAGA sales (10% of sales) declined 7.1% YoY to INR7b.
- Gross margin expanded 260bp YoY to 67.2% (our est. 66.4%) fueled by lower raw material costs.
- EBITDA margin expanded 200bp YoY to 25.6% (our est. 25.7%), due to better gross profit. Employee costs mounted 100bp, while R&D expenses/Other costs decreased 24bp/19bp YoY as a % of sales.
- EBITDA increased 14.9% YoY to INR17.2b (our est. INR17.4b) in 1QFY25.
- PAT grew 18.3% to INR11.8b (our est. INR11.3b).

Highlights from the management commentary

- Cipla maintained its guidance of 24.5%-25.5% EBITDA margin for FY25.
- Management reiterated the US generics quarterly sales run-rate at USD230-245m for the remainder of FY25.
- The company would be filing g-Advair from the Invagen plant before the end of CY24. Management expects 4QFY25 to be a potential approval/launch timeline for this product.
- G-Revlimid traction has been higher on a QoQ basis.
- Cipla indicated that price erosion would be 10% YoY/5% QoQ in the US generics segment.
- It has a surplus cash of INR85b at the end of 1QFY25.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance (Consolidated)

(INR b)

Y/E March	FY24				FY25E				FY24	FY25E	Est. 1QE	% Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Revenues	63.3	66.8	66.0	61.6	66.9	70.3	71.1	68.8	257.7	277.1	67.6	-0.9
YoY Change (%)	17.7	14.6	13.7	7.4	5.8	5.2	7.6	11.7	13.3	7.5	6.8	
Total Expenditure	48.3	49.4	48.6	48.5	49.8	51.7	52.9	53.1	194.8	207.5	50.2	
EBITDA	14.9	17.3	17.5	13.2	17.2	18.5	18.1	15.7	62.9	69.5	17.4	-1.2
YoY Change (%)	30.7	24.8	24.2	12.1	14.9	7.0	3.7	19.5	23.0	10.6	16.2	
Margins (%)	23.6	26.0	26.5	21.4	25.6	26.4	25.5	22.8	24.4	25.1	25.7	
Depreciation	2.4	2.5	2.3	2.9	2.5	2.7	2.7	2.7	10.1	10.5	2.7	
EBIT	12.5	14.9	15.1	10.3	14.7	15.9	15.4	13.0	52.8	59.0	14.7	
YoY Change (%)	41.1	36.4	33.3	24.2	17.1	6.7	1.8	26.8	34.0	11.7	17.3	
Margins (%)	19.8	22.3	22.9	16.7	21.9	22.6	21.7	18.9	20.5	21.3	21.8	
Interest	0.2	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.9	0.4	0.1	
Other Income	1.4	1.8	1.3	1.8	1.6	1.4	1.5	1.4	6.2	5.9	1.1	
Profit before Tax	13.7	16.4	16.1	11.9	16.1	17.2	16.8	14.4	58.2	64.5	15.8	
One-time (expense)/income	0.0	-0.4	-1.4	0.7	0.0	0.0	0.0	0.0	-1.1	0.0	0.0	
PBT after EO expense	13.7	15.9	14.7	12.6	16.1	17.2	16.8	14.4	57.0	64.5	15.8	2.2
Tax	3.8	4.4	4.1	3.2	4.4	4.9	4.8	3.4	15.5	17.4	4.5	
Rate (%)	27.5	26.8	25.1	27.3	27.0	28.5	28.5	23.5	26.6	27.0	28.5	
Minority Interest	0.0	0.2	0.1	0.0	0.0	0.0	0.0	-0.3	0.3	-0.3	-0.1	
Reported PAT	10.0	11.3	10.6	9.4	11.8	12.3	12.0	11.3	41.2	47.4	11.3	3.8
Adj PAT	10.0	11.7	12.0	8.7	11.8	12.3	12.0	11.3	42.4	47.4	11.3	3.8
YoY Change (%)	45.1	37.7	49.4	22.7	18.3	4.8	0.5	29.9	39.0	11.9	13.9	

E: MOFSL Estimates;

Key performance indicators

Y/E March	FY24				FY25E				FY24	FY25E	Est. 1QE
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
INR b											
Domestic formulation	27.7	28.2	28.6	24.2	29.0	31.6	32.4	27.7	108.7	120.6	29.7
YoY Change (%)	11.6	9.8	11.5	7.0	4.5	12.0	13.2	14.6	10.1	11.0	7.0
North America	18.2	18.9	19.2	18.8	20.9	19.8	19.9	20.3	75.0	80.8	19.1
YoY Change (%)	52.0	29.5	19.8	11.8	14.5	4.7	4.0	8.2	26.9	7.8	4.8
South Africa	7.5	9.9	8.2	7.6	7.0	7.4	7.3	7.6	30.6	29.4	7.0
YoY Change (%)	-5.1	13.6	19.9	-8.5	-7.1	-25.0	-10.0	0.2	-3.4	-4.0	-7.0
Emerging market	7.8	7.3	7.5	8.3	8.5	8.7	8.6	9.1	30.9	34.8	8.7
YoY Change (%)	8.2	-3.1	-2.1	5.5	9.0	18.1	15.5	9.7	1.9	12.9	12.0
API	1.4	1.5	1.1	1.9	1.0	1.2	1.2	1.4	5.8	4.8	1.4
YoY Change (%)	0.7	-15.9	-26.5	41.0	-27.9	-20.0	15.0	-27.7	2.3	-18.0	5.0
Cost Break-up											
RM Cost (% of Sales)	35.3	34.6	33.6	33.3	32.8	33.1	33.4	34.3	39.6	38.4	33.6
Staff Cost (% of Sales)	16.9	16.3	16.2	17.6	17.8	16.3	16.3	16.8	17.7	17.0	16.9
R&D Expenses(% of Sales)	5.5	5.7	6.1	7.2	5.3	6.0	6.3	7.6	6.0	4.5	5.8
Other Cost (% of Sales)	18.7	17.4	17.7	20.6	18.5	18.2	18.5	18.4	19.5	17.6	18.0
Gross Margin (%)	64.7	65.4	66.4	66.7	67.2	66.9	66.6	65.7	60.4	61.6	66.4
EBITDA Margin (%)	23.6	26.0	26.5	21.4	25.6	26.4	25.5	22.8	24.4	25.1	25.7
EBIT Margin (%)	19.8	22.3	22.9	16.7	21.9	22.6	21.7	18.9	20.5	21.3	21.8

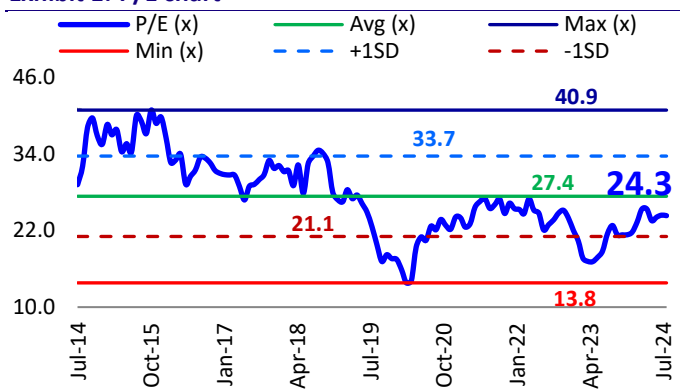
Source: MOFSL, Company



Highlights from the management commentary

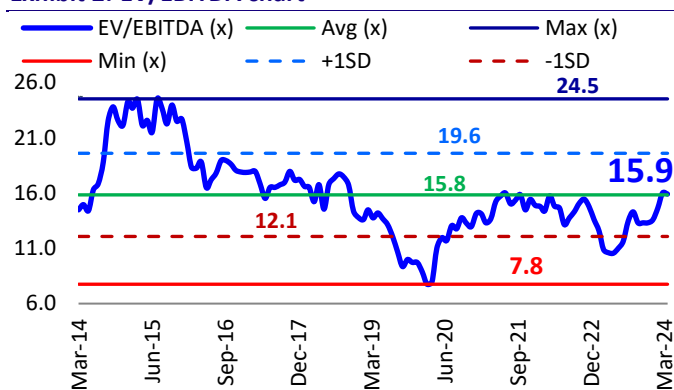
- Management guided 5-6% of sales to be spent on R&D for FY25.
- Cipla worked with external consultants on the observations highlighted by the USFDA on the recent 483 with respect to the Goa site.
- The transition of the India Trade Generics business into a new distribution model is fully completed. This change will enable Cipla to enhance control, increase direct touchpoints with distributors, and deepen the channel connect.
- The chronic therapies such as respiratory, urology, and cardiac witnessed 9%/15%/11% YoY growth for the quarter.
- Gross margin improvement was largely led by a better product mix.

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Strengthening all segments to boost growth

NA: Building niche pipeline/expanding capabilities to sustain the growth momentum

- In 1QFY25, the US sales grew 14.5% YoY (USD250m; up 12.6% in CC terms) to INR20.9b. This was supported by a healthy traction in differentiated portfolio coupled with market share gains in Albuterol and base business.
- Cipla plans to launch new peptide products from 3QFY25 onwards. Further, it plans to file g-Advair from the Invagen facility by the end of CY24, and expects its launch around 1HCY25.
- Cipla is implementing a calibrated strategy to gain traction in 505b2-approved lanreotide as well as g-lanreotide.
- To enhance its capabilities in the US market, the company is looking for in-licensing of niche products and acquiring a sterile/injectable facility.
- Further, it is foraying into the biosimilar space that will contribute to the overall growth in the long term.
- Based on the above factors, we expect the company to deliver an 8.7% US sales CAGR to reach USD1b over FY24-26.

India: Focus on chronic therapies and a revised strategy in trade generics to aid growth

- During 1QFY23-1QFY25, Cipla posted 11% sales CAGR, fueled by a superior execution in Respiratory, Cardiac, and Urology therapies, offset by a decline in the Neuro therapy.
- In the branded specialty in-licensing business, the top brands including Foracort/ Urimax/Dytor delivered strong growth of 18%/17%/19% YoY in 1QFY25. Further, the company has raised the chronic mix to 61.5% in 1QFY25 from 60.4% in 1QFY23, thus driving the growth.
- In 1QFY25, Cipla completed the transition into a new distribution model. This would enable the company increase direct touchpoints, deepen the channel connect, and improve profitability due to de-layering. This transition will drive stronger growth in the coming quarter.
- Further, the consumer healthcare business reported a moderate growth of 3% YoY led by the high base of last year. However, due to a strong brand recall, an improving demand cycle, and inorganic investments, management expects growth in this segment.
- Accordingly, we expect Cipla to deliver an 11.7% sales CAGR in DF to reach INR135b over FY24-26.

SAGA: Focus on brand building across therapies/geographies to drive growth

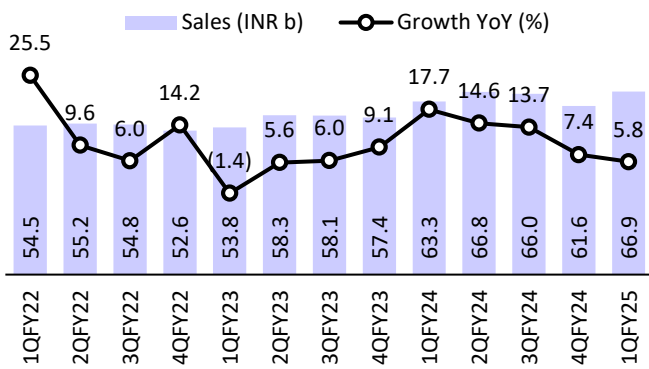
- In 1QFY25, Cipla's SAGA business declined 7.1% YoY to INR7b. However, ex-QCIL, the SAGA business grew 7.8% YoY.
- This was led by a 12%/58% YoY growth in CC terms in SA private market/SA tender markets (USD56m/ USD19m), offset by a 60% YoY decline in SA others market to USD8m. Further, both the prescription and OTC markets have outperformed industry growth by 750bp and 340bp, respectively.
- Overall growth was primarily driven by healthy performance in key therapeutic areas such as respiratory, CNS, and anti-infective. Moreover, Cipla launched eight new products across various therapies during the quarter.
- Cipla is focusing on building a strong brand franchise in private as well as OTC markets, coupled with new launches. Additionally, integration of Actor Pharma would further boost its growth in the OTC market.
- We expect sales growth to remain flat in SAGA business to INR31b over FY24-26.

Reiterate BUY

- We maintain our earnings estimates for FY25/FY26. We value Cipla at 25x 12M forward earnings to arrive at our TP of INR1,830.
- Cipla is building a niche product pipeline in the peptides/inhaler space within the US generics segment. With a change in its distribution model, the trade generics business is also back on the growth path. The EBITDA trend continues to be better in the consumer health segment. Accordingly, we estimate 12% earnings CAGR over FY24-26. **Reiterate BUY.**

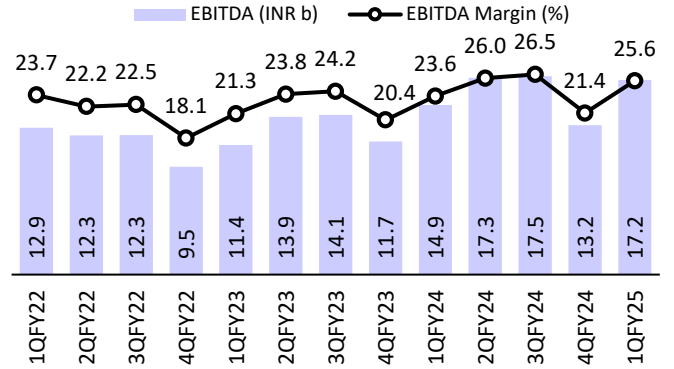
Story in charts

Exhibit 3: Revenue up 5.8% YoY in 1QFY25



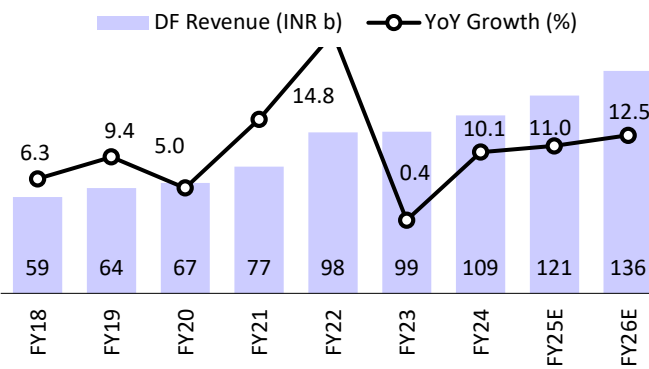
Source: MOFSL, Company

Exhibit 4: EBITDA margin expanded ~200bp YoY in 1QFY25



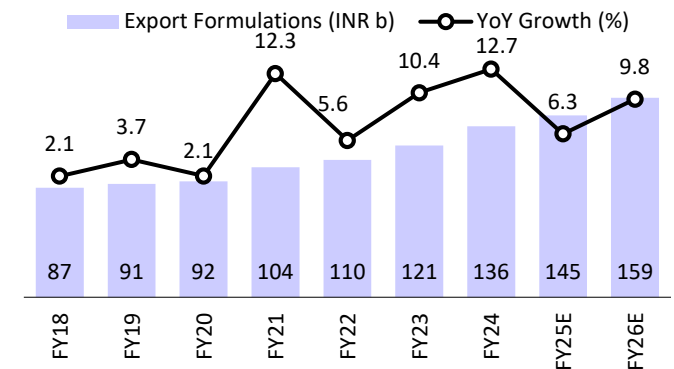
Source: MOFSL, Company

Exhibit 5: Expect 12% DF sales CAGR...



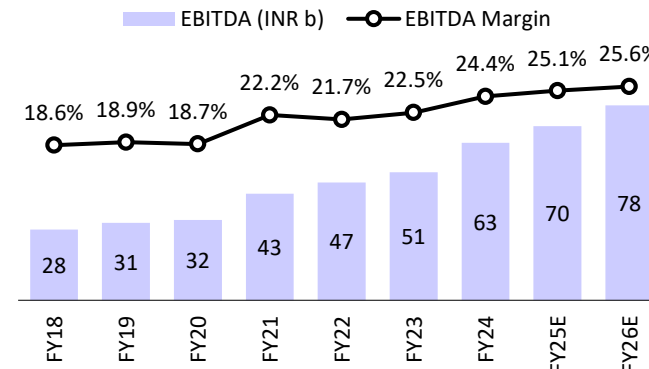
Source: MOFSL, Company

Exhibit 6: ...and 8% export sales CAGR over FY24–26



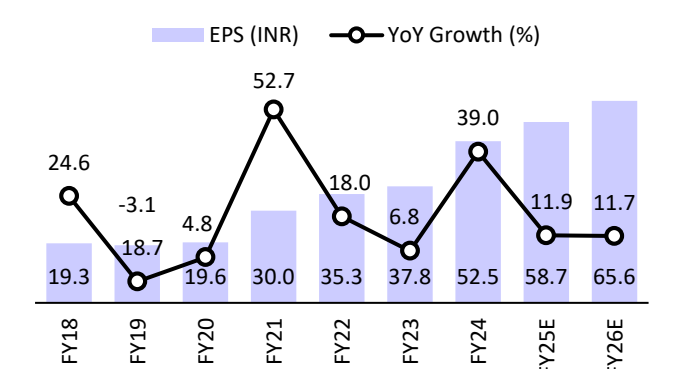
Source: MOFSL, Company

Exhibit 7: EBITDA margin to expand 120bp over FY24–26



Source: MOFSL, Company

Exhibit 8: Expect 12% earnings CAGR over FY24–26



Source: MOFSL, Company

Financials and valuations

Income Statement								(INRb)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Income	163.6	171.3	191.6	217.1	227.5	257.7	277.1	303.8
Change (%)	7.5	4.7	11.8	13.3	4.8	13.3	7.5	9.6
EBITDA	31.0	32.1	42.5	47.0	51.1	62.9	69.5	77.8
Change (%)	9.6	3.5	32.6	10.6	8.8	23.0	10.6	11.8
Margin (%)	18.9	18.7	22.2	21.7	22.5	24.4	25.1	25.6
Depreciation	11.2	11.4	10.7	10.5	11.7	10.1	10.5	11.1
EBIT	19.8	20.6	31.8	36.5	39.4	52.8	59.0	66.6
Int. and Finance Charges	1.7	2.0	1.6	1.1	1.1	0.9	0.4	0.4
Other Income - Rec.	2.8	3.4	2.7	2.8	4.5	6.2	5.9	5.6
PBT before EO Items	20.9	22.1	32.9	38.2	42.8	58.2	64.5	71.9
One-time (Expense)/Income	-0.1	0.3	0.0	3.3	2.5	1.1	0.0	0.0
PBT but after EO Exp.	20.8	21.8	32.9	34.9	40.4	57.0	64.5	71.9
Tax	5.7	6.3	8.9	9.3	12.0	15.5	17.4	19.3
Tax Rate (%)	27.4	29.0	27.0	26.7	29.8	27.1	27.0	26.8
Minority Interest	-0.4	-0.5	-0.2	0.3	0.3	0.3	-0.3	-0.3
Income from associates	-0.2	-0.5	-0.1	-0.1	0.0	0.0	0.0	0.0
Reported PAT	15.3	15.5	24.1	25.2	28.0	41.2	47.4	52.9
Adj PAT	15.0	15.8	24.1	28.4	30.5	42.4	47.4	52.9
Change (%)	-3.1	4.8	52.7	18.0	7.4	39.0	11.9	11.7
Margin (%)	9.2	9.2	12.6	13.1	13.4	16.4	17.1	17.4

Balance Sheet								(INRb)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Reserves	152.3	157.6	179.3	201.5	232.5	265.5	306.5	354.6
Net Worth	150.1	157.6	183.3	208.4	234.1	267.1	308.2	356.2
Loans	43.2	28.2	15.4	9.0	5.9	3.3	3.3	3.3
Deferred Liabilities	2.2	1.3	-0.2	-2.0	-2.9	-4.0	-4.0	-4.0
Minority Interest	3.3	2.9	2.6	2.8	3.1	1.0	1.0	1.0
Capital Employed	198.8	190.0	201.0	218.1	240.1	267.3	308.4	356.5
Gross Block	126.4	138.5	147.5	160.1	166.8	179.7	189.8	198.0
Less: Accum. Deprn.	27.4	38.9	49.5	60.1	71.8	81.9	92.4	103.5
Net Fixed Assets	98.9	99.6	97.9	100.1	95.0	97.8	97.4	94.4
Capital WIP	3.3	4.2	5.7	3.8	6.9	8.6	5.1	5.1
Investments	3.0	3.6	3.5	4.2	6.3	7.6	7.6	7.6
Curr. Assets	132.4	126.8	141.2	158.3	177.1	207.3	264.4	320.4
Inventory	39.6	43.8	46.7	53.5	51.6	52.4	56.5	64.7
Account Receivables	41.5	38.9	34.5	34.2	40.6	47.7	52.4	55.9
Cash and Bank Balance	6.2	10.0	14.0	19.3	15.6	8.7	46.9	79.7
Others	45.1	34.1	46.1	51.3	69.3	98.4	108.7	120.1
Curr. Liability & Prov.	38.8	44.2	47.3	48.4	49.9	54.0	66.0	71.0
Account Payables	31.4	34.8	36.5	36.2	37.1	37.8	49.9	54.9
Provisions	7.4	9.5	10.8	12.2	12.9	16.1	16.1	16.1
Net Current Assets	93.7	82.6	93.9	109.9	127.2	153.3	198.4	249.4
Appl. of Funds	198.8	190.0	201.0	218.1	240.1	267.3	308.4	356.5

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	18.7	19.6	30.0	35.3	37.8	52.5	58.7	65.6
Cash EPS	32.5	33.7	43.1	48.2	52.3	65.0	71.8	79.4
BV/Share	186.3	195.5	227.2	258.1	284.2	330.9	381.8	441.3
DPS	3.0	2.5	2.5	3.0	3.0	4.0	5.0	5.0
Payout (%)	18.6	15.6	10.0	11.5	10.3	9.4	10.2	9.2
Valuation (x)								
P/E	84.7	80.8	53.0	44.9	42.0	30.2	27.0	24.2
Cash P/E	48.8	47.1	36.8	32.9	30.3	24.4	22.1	20.0
P/BV	8.5	8.1	7.0	6.1	5.6	4.8	4.2	3.6
EV/Sales	8.0	7.6	6.7	5.8	5.6	4.9	4.4	3.9
EV/EBITDA	42.4	40.4	30.0	26.9	24.8	20.2	17.7	15.4
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
FCF per Share	15.9	24.0	33.7	27.9	11.9	4.7	55.4	46.8
Return Ratios (%)								
RoE	10.3	10.2	14.1	14.5	13.3	15.9	15.4	14.9
RoCE	8.4	8.8	12.9	13.7	13.5	17.0	16.5	15.9
RoIC	8.0	8.2	13.3	14.5	13.8	17.0	17.5	19.0
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.3	1.3	1.4	1.4	1.5	2.8	3.2
Debtor (Days)	93	83	66	58	65	68	69	67
Inventory (Days)	88	93	89	90	83	74	74	78
Creditors (Days)	43	49	39	42	39	35	37	37
Working Capital (Days)	138	128	115	105	108	107	107	108
Leverage Ratio (x)								
Current Ratio	3.4	2.9	3.0	3.3	3.5	3.8	4.0	4.5
Debt/Equity	0.2	0.1	0.0	0.0	0.0	0.0	-0.1	-0.2

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
(INRb)								
EBITDA	31.0	32.1	42.5	47.0	51.1	62.9	69.5	77.8
Interest/Dividends Recd.	2.8	3.4	2.7	2.8	4.5	6.2	5.9	5.6
Direct Taxes Paid	-6.6	-7.3	-10.3	-11.2	-12.9	-16.6	-17.4	-19.3
(Inc)/Dec in WC	-16.6	14.9	-7.4	-10.7	-20.9	-33.0	-6.9	-18.3
CF from Operations	10.6	43.1	27.5	27.9	21.8	19.5	51.2	45.8
others	6.2	-10.5	10.1	8.6	0.0	0.0	0.0	0.0
CF from Oper. incl EO Expense	16.9	32.3	37.6	33.3	19.3	18.4	51.2	45.8
(inc)/dec in FA	-4.1	-13.0	-10.5	-10.8	-9.8	-14.6	-6.6	-8.2
Free Cash Flow	12.8	19.3	27.1	22.5	9.6	3.8	44.6	37.6
(Pur)/Sale of Investments	-2.9	-0.6	0.1	-0.7	-2.2	-1.2	0.0	0.0
others	-9.7	14.7	-13.5	-7.3	0.0	0.0	0.0	0.0
CF from Investments	-16.7	1.0	-23.9	-18.7	-11.9	-15.8	-6.6	-8.2
Inc/(Dec) in Debt	2.2	-15.0	-12.8	-6.4	-3.0	-2.6	0.0	0.0
Interest Paid	-1.7	-2.0	-1.6	-1.1	-1.1	-0.9	-0.4	-0.4
Dividend Paid	-2.8	-2.4	-2.4	-2.9	-2.9	-3.9	-4.8	-4.8
Others	-1.1	-11.7	3.5	-0.4	-5.5	-2.1	-1.2	0.3
CF from Fin. Activity	-3.5	-31.1	-13.3	-10.7	-12.5	-9.5	-6.4	-4.9
Inc/Dec of Cash	-3.3	2.2	0.4	3.8	-5.1	-6.9	38.2	32.7
Add: Beginning Balance	9.7	6.2	10.0	14.0	19.3	15.6	8.7	46.9
Bank balances	0.0	-1.1	3.6	1.5	1.5	0.0	0.0	0.0
Bank balances and FX impact	-0.2	1.6	3.6	1.5	1.5	0.0	0.0	0.0
Closing balance	6.2	10.0	14.0	19.3	15.6	8.7	46.9	79.7

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NOTES

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UNDER REVIEW	Rating may undergo a change
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