

Cipla Ltd

Sector: Pharmaceuticals

04th December 2024
BUY

Key Changes	Target ▲	Rating ●	Earnings ▲	Target	Rs. 1,695
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Large Cap	CIPLA:IN	80,845	CIPLA	500087	12 Months
				CMP	Rs. 1,534
				Return	+10%

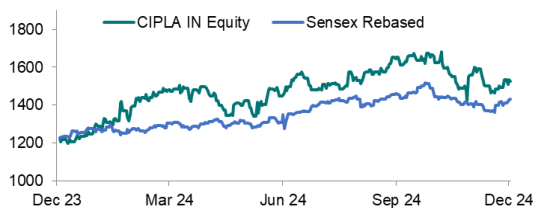
Data as of: 03-12-2024

Company Data	
Market Cap (Rs.cr)	123,947
52 Week High — Low (Rs.)	1,702 - 1,193
Enterprise Value (Rs. cr)	124,679
Outstanding Shares (cr)	80.8
Free Float (%)	69
Dividend Yield (%)	0.8
6m average volume (lacs)	21.2
Beta	0.5
Face value (Rs.)	2

Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	33.5	30.9	30.9
FII's	25.8	27.8	28.8
MFs/Institutions	24.4	25.0	24.2
Public	15.2	15.3	15.2
Others	1.0	1.0	0.9
Total	100.0	100.0	100.0
Promoter Pledge	0	0	0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-9%	4%	25%
Absolute Sensex	-3%	5%	19%
Relative Return	-6%	-1%	6%

*over or under performance to benchmark index



Y.E March (cr)	FY24A	FY25E	FY26E
Sales	25,774	27,829	30,639
Growth (%)	13.3	8.0	10.1
EBITDA	6,291	6,888	7,660
EBITDA Margin (%)	24.4	24.8	25.0
PAT Adjusted	4,316	4,739	5,262
Growth (%)	44.6	9.8	11.0
Adjusted EPS	53.5	58.7	65.2
Growth (%)	44.6	9.8	11.0
P/E	28.0	26.5	23.8
P/B	4.5	4.1	3.6
EV/EBITDA	19.1	18.1	16.3
ROE (%)	17.0	15.5	15.1
D/E	0.0	0.0	0.0

Goa Clearance paves the way for Abraxane

Cipla Ltd is a holding company that operates as a pharmaceutical company. Its strategic business units comprise Active Pharmaceutical Ingredients (APIs), Respiratory, and Cipla Global Access. Geographically, the company operates in India, the US, South Africa and the Rest of the World.

- In Q2FY25, Cipla's consolidated revenue grew 5.6% YoY to Rs. 7,051cr, driven by a 28.9% YoY growth in South Africa to Rs. 799cr and a 19.1% YoY growth in emerging markets and Europe to Rs. 806cr.
- Revenue from Indian operations grew a marginal 4.7% YoY to Rs. 2,948cr, driven by strong chronic therapy sales and 21% YoY growth in consumer health franchise. However, seasonality impacted the Acute category growth, but the business is expected to recover in the coming quarters.
- Cipla's North America business rose 5.2% YoY to Rs. 1,986cr, driven by its differentiated portfolio, but was impacted by lower sales of Lanreotide due to a partner's manufacturing plant expansion, with sales expected to rebound in Q4FY25.
- EBITDA increased 8.8% YoY to Rs. 1,886cr and EBITDA margin expanded 70 bps to 26.7%, primarily driven by a favourable product mix.

Outlook & Valuation

Cipla delivered a robust financial performance in Q2FY25, driven by its diversified business segments, strong growth momentum and improving profitability. The company's focus on resolving regulatory issues, expanding production capacity and pursuing approval in the Chinese market provide a potential upside, while the seasonal demand for respiratory products and a strong chronic therapy sales pipeline offer a stable revenue stream. The recent clearance of the Goa facility paves the way for Abraxane's launch. However, concerns persist about the delayed launch of gAdvail due to the pending US FDA compliance of its Indore plant. Despite these concerns, **we remain positive, and reiterate our BUY rating on the stock with a revised target price of Rs. 1,695, based on 26x FY26E adjusted EPS.**

Quarterly Financials Consol.

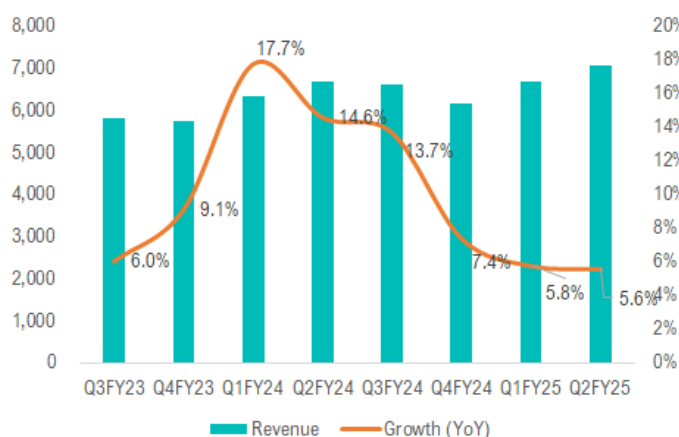
Rs.cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Sales	7,051	6,678	5.6	6,694	5.3	13,745	13,007	5.7
EBITDA	1,886	1,734	8.8	1,716	9.9	3,601	3,228	11.6
Margin (%)	26.7	26.0	70bps	25.6	110bps	26.2	24.8	140bps
EBIT	1,614	1,444	11.8	1,469	9.9	3,083	2,698	14.3
PBT	1,789	1,594	12.2	1,611	11.0	3,400	2,969	14.5
Rep. PAT	1,306	1,156	13.0	1,176	11.0	2,482	2,152	15.3
Adj PAT	1,303	1,131	15.2	1,178	10.6	2,480	2,127	16.6
Adj. EPS (Rs)	16.1	14.0	15.2	14.6	10.7	30.7	26.3	16.7



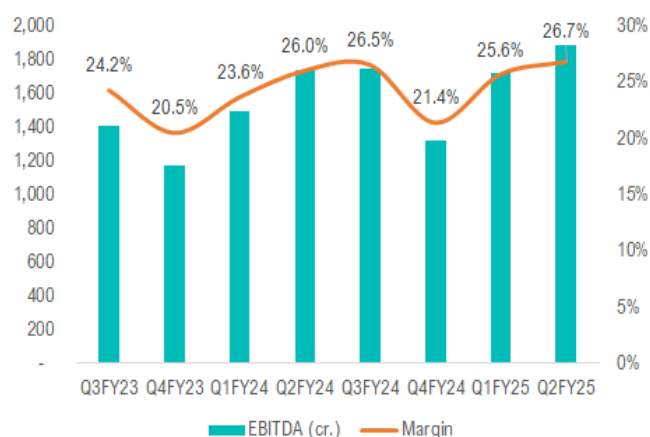
Key concall highlights

- Cipla's Lanreotide franchise achieved a market share of 35% in Q2FY25, but supply constraints are expected to negatively impact Q3FY25 sales, which may drop below \$220 million (vs \$237 million in Q2FY25). However, the company expects its partner to expand production capacity and resolve supply challenges by Q4FY25, paving the way for a recovery in sales.
- Cipla is prioritizing the resolution of regulatory issues, with a recent re-inspection of its Goa facility by the US FDA resulting in six Form 483 observations. The company is awaiting the classification of the inspection. Meanwhile, at its Indore facility, Cipla is focused on remediation and implementing corrective actions (CAPA) to address existing issues.
- The company has maintained its EBITDA guidance at 24.5-25.5% for FY25. It expects a normalized performance in Q3FY25 and Q4FY25, with the last quarter typically witnessing sub-20% margin.
- For its plant in China, the company has already received the US FDA approval for both the facility and the product, including Pulmicort respules. The company plans to pursue approval in the Chinese market in the future as well.
- The management expects an uptick in seasonal triggers for respiratory issues, such as pollen alerts and pollution, which typically begin after Diwali. They are hopeful for a repeat of the patterns seen in the previous years. This season's respiratory issues are driven not only by seasonal triggers but also by pollution and allergens in the air.

Revenue



EBITDA



Segment Revenue

Rs. cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
India (Rx+Gx+CHL)	2,948	2,817	4.7%	2,898	1.7%
North America	1,986	1,887	5.2%	2,087	-4.8%
One Africa	1,068	862	23.9%	695	53.7%
South Africa	799	620	28.9%	626	27.6%
Emerging Markets and Europe	806	677	19.1%	849	-5.1%
APIs	160	147	8.8%	98	63.3%
Others	82	100	-18.0%	65	26.2%
Total Sales	7,051	6,490	8.6%	6,694	5.3%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	28,325	31,128	27,829	30,639	-1.8	-1.6
EBITDA	7,081	7,782	6,888	7,660	-2.7	-1.6
Margins (%)	25.0	25.0	24.8	25.0	-20bps	0bps
Adj. PAT	4,735	5,231	4,739	5,262	0.1	0.6
EPS	58.6	64.8	58.7	65.2	0.1	0.6



Consolidated Financials

Profit & Loss

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Sales	21,763	22,753	25,774	27,829	30,639
% change	13.6	4.5	13.3	8.0	10.1
EBITDA	4,553	5,027	6,291	6,888	7,660
% change	7.1	10.4	25.1	9.5	11.2
Depreciation	1,052	1,172	1,051	1,092	1,164
EBIT	3,501	3,855	5,240	5,795	6,496
Interest	106	110	90	84	80
Other Income	99	293	942	560	549
PBT	3,493	4,038	6,092	6,271	6,964
% change	6.2	15.6	50.8	3.0	11.1
Tax	934	1,203	1,547	1,568	1,741
Tax Rate (%)	26.7	29.8	25.4	25.0	25.0
Reported PAT	2,559	2,835	4,545	4,704	5,223
Adj.*, incl excepts	182	182	(195)	-	-
Adj. PAT	2,699	2,984	4,316	4,739	5,262
% change	12.3	10.5	44.6	9.8	11.0
No. of shares (cr)	80.7	80.7	80.7	80.8	80.8
Adj EPS (Rs)	33.5	37.0	53.5	58.7	65.2
% change	12.3	10.5	44.6	9.8	11.0
DPS (Rs)	5.0	8.5	13.0	13.0	13.0

Cashflow

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	3,611	4,008	5,596	5,796	6,387
Non-cash adj.	-108	-211	-656	-36	11
Other adjustments					
Changes in W.C	-177	-559	-806	-386	-659
C.F. Operation	3,326	3,238	4,134	5,374	5,740
Capital exp.	-681	-1,136	-1,315	-1,474	-1,961
Change in inv.	-1,249	-1,375	-1,894	-2,097	-2,497
Other invest.CF	58	122	221	-145	-165
C.F - Investment	-1,872	-2,388	-2,988	-3,716	-4,624
Issue of equity	0	0	0	-	-
Issue/repay debt	-1,098	-486	-377	-150	-100
Dividends paid	-403	-403	-686	-1,050	-1,050
Other finance.CF	-98	-69	-137	-84	-80
C.F - Finance	-1,600	-958	-1,200	-1,284	-1,230
Chg. in cash	-146	-109	-55	375	-113
Closing Cash	1,928	1,565	875	1,250	1,137

Balance Sheet

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	1,928	1,565	875	1,250	1,137
Accts. Receivable	3,424	4,057	4,771	5,107	5,546
Inventories	5,350	5,156	5,238	5,522	6,129
Other Cur. Assets	4,024	6,497	8,558	10,795	13,432
Investments	417	632	756	790	837
Gross Fixed Assets	5,547	6,388	7,486	8,738	10,424
Net Fixed Assets	5,164	4,991	5,069	5,220	5,610
CWIP	383	689	864	873	1,004
Intangible Assets	4,841	4,514	4,713	4,934	5,210
Def. Tax -Net	-	-	-	-	-
Other Assets	1,120	905	1,286	1,327	1,374
Total Assets	27,101	29,463	32,718	36,523	40,976
Current Liabilities	4,505	4,589	4,999	5,246	5,647
Provisions	100	102	129	131	132
Debt Funds	1,083	843	540	390	290
Other Liabilities	295	215	247	297	271
Equity Capital	161	161	161	161	161
Res. & Surplus	20,680	23,246	26,545	30,234	34,446
Shareholder Funds	20,842	23,408	26,706	30,395	34,608
Minority Interest	-	-	-	-	-
Total Liabilities	27,101	29,463	32,718	36,523	40,976
BVPS	258	290	331	376	429

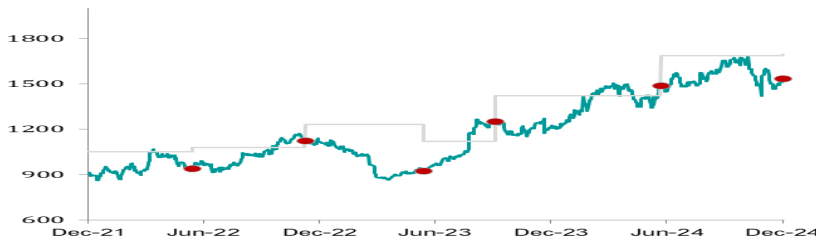
Ratio

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	20.9	22.1	24.4	24.8	25.0
EBIT margin (%)	16.1	16.9	20.3	20.8	21.2
Net profit mgn.(%)	11.6	12.3	17.5	17.0	17.2
ROE (%)	12.3	12.1	17.0	15.5	15.1
ROCE (%)	15.8	15.7	19.2	18.8	18.6
W.C & Liquidity					
Receivables (days)	57.4	65.1	67.6	67.0	66.1
Inventory (days)	229.9	228.1	216.8	212.1	210.4
Payables (days)	107.8	112.1	102.4	103.3	104.2
Current ratio (x)	3.0	3.4	3.7	4.1	4.5
Quick ratio (x)	1.5	1.7	2.0	2.4	2.8
Turnover & Leverage					
Gross asset T.O (x)	3.9	3.8	3.7	3.4	3.2
Total asset T.O (x)	0.8	0.8	0.8	0.8	0.8
Int. covge. ratio (x)	32.9	35.2	58.3	69.3	81.2
Adj. debt/equity (x)	0.1	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	3.7	3.2	4.7	4.5	4.1
EV/EBITDA (x)	17.9	14.4	19.1	18.1	16.3
P/E (x)	30.4	24.4	28.0	26.5	23.8
P/BV (x)	3.9	3.1	4.5	4.1	3.6



Recommendation Summary - last 3 years

Dates	Rating	Target
18.May.21	BUY	1,050
29.Oct.21	BUY	1,050
17.May.22	BUY	1,080
10.Nov.22	HOLD	1,230
17.May.23	BUY	1,120
07.Sep.23	BUY	1,420
24.May.24	BUY	1,685
04.Dec.24	BUY	1,695



Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Definition:

Buy: Acquire at Current Market Price -CMP, with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

Symbols definition:



Upgrade



No Change



Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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