

India

HOLD (no change)

Consensus ratings*: Buy 25 Hold 7 Sell 6

Current price:	Rs1,359
Target price:	Rs1,479
Previous target:	Rs1,479
Up/downside:	8.8%
InCred Research / Consensus:	0.8%
Reuters:	CIPL.NS
Bloomberg:	CIPLA IN
Market cap:	US\$13,137m
	Rs1,097,088m
Average daily turnover:	US\$27.4m
	Rs2290.7m
Current shares o/s:	807.0m
Free float:	66.5%

*Source: Bloomberg

Key changes in this note

- No major changes for FY25F.
- Raise EBITDA and PAT by 4%/5% for FY26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.3)	(5.6)	44.7
Relative (%)	(2.9)	(6.7)	23.8

Major shareholders	% held
Promoters	33.5
SBI MF	4.7
HDFC MF	3.6

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Cipla Ltd

In-line 4Q; strong margin guidance

- Decent 4QFY24 results. Management's guidance of 24.5-25.5% margin in FY25F is 100-150bp above our/consensus estimates.
- Management commentary hints at a possible launch of key products (gAbraxane/gAdvair) in FY26F – we are already factoring in this.
- FY25F/26F earnings reset by +1%/+4%, respectively. With a moderate FY25F, we expect Cipla to stay rangebound. Retain HOLD rating with a TP of Rs1,479.

4QFY24 was a marginal miss

Cipla's 4QFY24 operational profits were in line with our estimates but 4-5% below the consensus estimate. Gross margin was steady (+30bp QoQ). Revenue growth was healthy in the US market at US\$226m (our estimate: US\$225m; +12% YoY) and South Africa (+26% YoY in constant currency terms), although it lagged expectations in India (+7% YoY, our estimate: +10% YoY) due to seasonally soft demand in the consumer health portfolio. On the branded side, respiratory & cardiac products outperformed the industry with a 10% YoY growth. Cipla has changed its distribution model for trade generics business, which can impact 1QFY25F sales of this segment, although they should recover subsequently. R&D spending was up 110bp QoQ at 7.2% of sales due to product filing & development costs. Reported PAT at Rs9.4bn beat estimates (+8% above our/consensus estimates).

Margin guidance is a positive surprise

FY25F margin guidance of 24.5-25.5% comes as a positive surprise and is 100-150bp above expectations. With two key plants under the US FDA radar and likely field force addition in India, we had expected a decline in margins. In respect of Goa plant, management expects a possible reinspection sometime in Jul/Aug 2024F, going by historical timeline of a two-year gap. If the Goa plant is cleared, then gAbraxane launch can be in early FY26F (assuming a six-month lag); gAdvair launch is also likely in FY26F – we build in these launches from 2Q/3QFY25F onwards in our model. Cipla has filed for five respiratory assets, including gSymbicort and gQvar, and is likely to file for another two assets in the next 12-15 months. As regards peptides, the company has filed for 12 assets so far, and will file for another 8 in the next one-to-two years.

Other highlights

a) Market share stood at 20.8% in Lanreotide and 15%+ in Albuterol (Apr 2024 IQVIA). b) The new facility in China will start supplies to the US from 2HFY25F. c) R&D spending to be around 6-7% of sales.

Retain HOLD rating with a target price of Rs1,479

We expect FY25F to be a moderate year for Cipla, with key launches pushed back to FY26F, and expect the stock to be range-bound in the medium term. Our FY25F/26F earnings are reset by +1%/+4%, respectively, factoring in higher margins. Retain HOLD rating on the stock with an unchanged target price of Rs1,479. Upside risks: Clearance of Goa/Indore plants and faster-than-expected product launch and vice versa on the downside.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	217,633	227,531	257,741	273,873	297,669
Operating EBITDA (Rsm)	44,953	50,270	62,910	67,047	75,028
Net Profit (Rsm)	25,168	28,019	41,343	44,553	50,013
Core EPS (Rs)	32.3	36.3	53.0	55.2	62.0
Core EPS Growth	12.2%	12.3%	45.9%	4.2%	12.3%
FD Core P/E (x)	42.04	37.43	25.64	24.61	21.93
DPS (Rs)	5.0	8.5	5.5	6.0	6.0
Dividend Yield	0.37%	0.63%	0.40%	0.44%	0.44%
EV/EBITDA (x)	24.18	21.59	17.28	15.20	13.08
P/FCFE (x)	18.42	20.63	15.87	7.38	13.25
Net Gearing	(4.1%)	(3.6%)	(1.5%)	(23.5%)	(31.3%)
P/BV (x)	5.26	4.68	4.11	3.58	3.12
ROE	13.3%	13.2%	17.1%	15.5%	15.2%
% Change In Core EPS Estimates				0.74%	4.52%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	52,603	53,752	58,285	58,101	57,393	63,289	66,782	66,038	61,632	7%	-7%
Consumption of raw materials	21,466	20,244	21,602	20,043	20,634	22,368	23,131	22,195	20,501	-1%	-8%
as % of sales	40.8%	37.7%	37.1%	34.5%	36.0%	35.3%	34.6%	33.6%	33.3%		
Employee costs	8,924	9,557	9,608	9,487	9,648	10,666	10,911	10,681	10,842	12%	2%
as % of sales	17.0%	17.8%	16.5%	16.3%	16.8%	16.9%	16.3%	16.2%	17.6%		
Other expenditure	15,290	12,517	14,052	14,496	15,374	15,316	15,402	11,686	12,690	-17%	9%
as % of sales	29.1%	23.3%	24.1%	24.9%	26.8%	24.2%	23.1%	17.7%	20.6%		
EBITDA	6,923	11,434	13,023	14,076	11,737	14,939	17,338	17,475	13,159	12%	-25%
Margins (%)	13.2%	21.3%	22.3%	24.2%	20.5%	23.6%	26.0%	26.5%	21.4%		
Depreciation	2,903	2,544	2,994	2,721	3,462	2,392	2,900	2,334	2,883		
Other income	640	1,034	1,230	1,144	1,346	1,363	1,763	1,846	2,493		
Interest	181	178	256	318	344	164	258	301	176		
PBT	4,479	9,746	11,004	12,181	9,278	13,746	15,942	16,686	12,593	36%	-25%
Total Tax	711	2,680	3,026	4,100	2,223	3,780	4,384	4,053	3,249		
Tax Rate (%)	15.9%	27.5%	27.5%	33.7%	24.0%	27.5%	27.5%	24.3%	25.8%		
PAT before MI	3,768	7,066	7,978	8,081	7,055	9,966	11,558	12,633	9,344	32%	-26%
Minority interest (MI)	-146	-202	-89	-71	25	-9	-249	1	46		
Adj. PAT before extraordinary items	3,622	6,864	7,889	8,010	7,081	9,957	11,309	12,634	9,390	33%	-26%
Extraordinary expenses	0	0	0	0	-1,824	0	0	-1,948	0		
Reported PAT	3,622	6,864	7,889	8,010	5,257	9,957	11,309	10,686	9,390	79%	-12%
No. of shares	806.8	806.9	807.0	807.1	807.2	807.2	807.3	807.6	807.6		
EPS	4.5	8.5	9.8	9.9	8.8	12.3	14.0	15.6	11.6		
Core EPS	3.8	7.6	8.7	9.0	7.5	11.1	12.4	13.9	9.3		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Revenue break-up

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
North America INR	12,090	11,990	14,320	16,000	16,770	18,220	18,870	19,160	18,750	12%	-2%
% total revenue	23.0%	22.3%	24.6%	27.5%	29.2%	28.8%	28.3%	29.3%	30.4%		
Global access & rest of Africa	2,890	2,200	2,690	1,300	750	2,740	3,730	2,120	710	-5%	-67%
% total revenue	5.5%	4.1%	4.6%	2.2%	1.3%	4.3%	5.6%	3.2%	1.2%		
South Africa	6,640	5,680	5,980	5,500	6,180	5,140	6,200	6,030	6,900	12%	14%
% total revenue	12.6%	10.6%	10.3%	9.5%	10.8%	8.1%	9.3%	9.2%	11.2%		
India	21,830	24,830	25,630	25,630	22,590	27,720	28,170	28,590	24,170	7%	-15%
% total revenue	41.5%	46.2%	44.0%	44.1%	39.4%	43.8%	42.2%	43.7%	39.2%		
EM & Europe	7,320	7,200	7,630	7,620	7,840	7,790	7,340	7,460	8,270	5%	11%
% total revenue	13.9%	13.4%	13.1%	13.1%	13.7%	12.3%	11.0%	11.4%	13.4%		
API	1,370	1,350	1,530	1,470	1,340	1,360	1,470	1,080	1,890	41%	75%
% total revenue	2.6%	2.5%	2.6%	2.5%	2.3%	2.1%	2.2%	1.7%	3.1%		
Others	463	502	505	581	1,923	319	1,002	990	940	-51%	-5%
% total revenue	0.9%	0.9%	0.9%	1.0%	3.4%	0.5%	1.5%	1.5%	1.5%		
Total Revenue	52,603	53,752	58,285	58,101	57,393	63,289	66,782	65,430	61,630	7%	-6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Margin profile

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	59%	62%	63%	66%	64%	65%	65%	66%	67%	269	35
EBITDA	13%	21%	22%	24%	20%	24%	26%	26%	21%	90	-511
Adj. PAT	7%	13%	14%	14%	12%	16%	17%	19%	15%	290	-390
Effective tax rate	16%	27%	28%	34%	24%	28%	27%	24%	26%	184	151

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Estimates	Change (%)	Bloomberg Estimates	Change (%)
Revenue (Rsm)	61,632	62,304	-0	62,343	-1.1
EBITDA (Rsm)	13,159	13,225	-0.5	13,704	-4.0
Margin (%)	21.4	21.2		22.0	
PAT (Rsm)	9,390	8,685	8.1	8,679	8.2

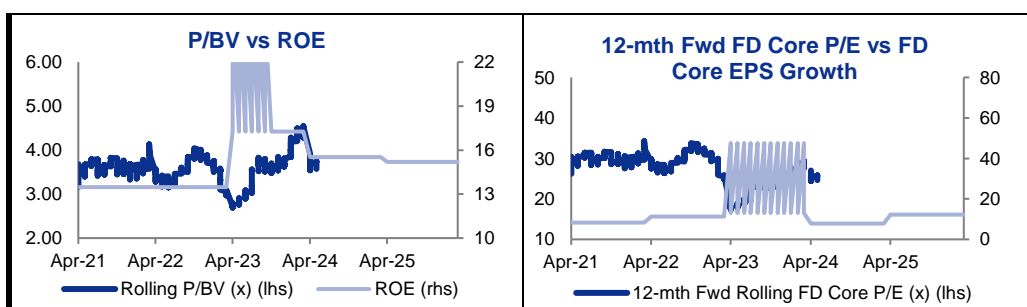
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Changes in our earnings estimates (Rsm)

	FY25F			FY26F		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	2,77,682	2,73,873	-1.4	3,01,701	2,97,669	-1.3
EBITDA	66,597	67,047	0.7	72,066	75,028	4.1
Margin (%)	24.0	24.5		23.9	25.2	
PAT	44,224	44,553	0.7	47,851	50,013	4.5
EPS	54.8	55.1	0.6	59.3	61.8	4.3

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	217,633	227,531	257,741	273,873	297,669
Gross Profit	132,677	145,008	169,545	178,940	194,026
Operating EBITDA	44,953	50,270	62,910	67,047	75,028
Depreciation And Amortisation	(10,520)	(11,721)	(10,510)	(11,500)	(12,500)
Operating EBIT	34,433	38,549	52,400	55,547	62,528
Financial Income/(Expense)	(1,064)	(1,095)	(899)	(900)	(900)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,809	4,755	7,466	7,000	7,500
Profit Before Tax (pre-EI)	36,179	42,208	58,967	61,647	69,128
Exceptional Items	(1,246)	(1,824)	(1,948)		
Pre-tax Profit	34,933	40,384	57,019	61,647	69,128
Taxation	(9,338)	(12,029)	(15,466)	(16,645)	(18,664)
Exceptional Income - post-tax					
Profit After Tax	25,595	28,355	41,553	45,003	50,463
Minority Interests	(427)	(336)	(211)	(450)	(450)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	25,168	28,019	41,343	44,553	50,013
Recurring Net Profit	26,081	29,300	42,762	44,553	50,013
Fully Diluted Recurring Net Profit	26,081	29,300	42,762	44,553	50,013

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	44,953	50,270	62,910	67,047	75,028
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,775)	(5,594)	(8,061)	31,816	(9,524)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(9,919)	(12,299)	(13,510)	(17,095)	(19,114)
Net Interest (Paid)/Received	(1,064)	(1,095)	(899)	(900)	(900)
Tax Paid	(12,240)	(15,958)	(20,077)	(23,195)	(25,714)
Cashflow From Operations	33,259	32,377	41,339	81,769	46,389
Capex	(6,990)	(11,355)	(13,151)	(15,000)	(10,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments		(251)	(420)		
Other Investing Cashflow					
Cash Flow From Investing	26,270	20,770	27,768	66,769	36,389
Debt Raised/(repaid)					
Proceeds From Issue Of Shares		1			
Shares Repurchased					
Dividends Paid	(4,034)	(4,035)	(6,862)	(4,442)	(4,848)
Preferred Dividends					
Other Financing Cashflow	(16,928)	436	(109)	7,538	7,503
Cash Flow From Financing	(20,961)	(3,598)	(6,970)	3,097	2,656
Total Cash Generated	5,308	17,172	20,798	69,866	39,044
Free Cashflow To Equity	59,529	53,147	69,107	148,538	82,777
Free Cashflow To Firm	60,592	54,242	70,006	149,438	83,677

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	19,321	15,722	8,752	78,618	117,662
Total Debtors	34,244	40,570	47,707	54,775	59,534
Inventories	53,502	51,564	52,380	60,252	65,487
Total Other Current Assets	40,041	64,893	85,576	41,081	44,650
Total Current Assets	147,108	172,750	194,414	234,726	287,334
Fixed Assets	56,087	57,398	60,469	63,969	61,469
Total Investments	3,556	5,725	6,422	6,422	6,422
Intangible Assets	48,408	45,140	47,130	47,130	47,130
Total Other Non-Current Assets	15,852	13,620	18,743	18,743	18,743
Total Non-current Assets	123,903	121,883	132,764	136,264	133,764
Short-term Debt	4,816	5,204	2,470	2,470	2,470
Current Portion of Long-Term Debt					
Total Creditors	25,081	24,571	24,740	29,028	31,272
Other Current Liabilities	19,235	21,323	25,248	23,222	25,017
Total Current Liabilities	49,132	51,097	52,458	54,720	58,759
Total Long-term Debt	5,745	2,088	2,254	3,692	4,596
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,960	4,313	4,443	4,443	4,443
Total Non-current Liabilities	10,705	6,401	6,697	8,135	9,039
Total Provisions					
Total Liabilities	59,837	57,497	59,155	62,855	67,798
Shareholders Equity	208,417	234,078	267,064	306,725	351,441
Minority Interests	2,757	3,058	959	1,409	1,859
Total Equity	211,174	237,135	268,023	308,134	353,300

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	14.1%	4.5%	13.3%	6.3%	8.7%
Operating EBITDA Growth	7.7%	11.8%	25.1%	6.6%	11.9%
Operating EBITDA Margin	20.7%	22.1%	24.4%	24.5%	25.2%
Net Cash Per Share (Rs)	10.85	10.45	4.99	89.78	137.05
BVPS (Rs)	258.26	290.06	330.93	380.08	435.49
Gross Interest Cover	32.38	35.19	58.30	61.72	69.48
Effective Tax Rate	26.7%	29.8%	27.1%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	57.61	60.01	62.51	68.29	70.08
Inventory Days	215.23	232.36	215.09	216.52	221.41
Accounts Payables Days	98.28	109.80	102.04	103.36	106.18
ROIC (%)	12.6%	12.7%	15.0%	17.8%	19.4%
ROCE (%)	16.3%	16.5%	20.3%	18.9%	18.5%
Return On Average Assets	10.6%	11.0%	14.2%	13.1%	12.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
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