

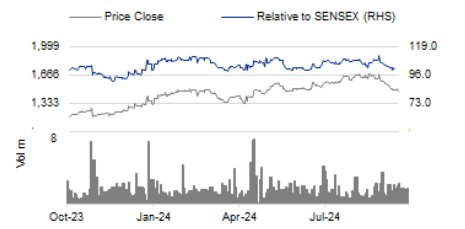
India

HOLD (no change)

Consensus ratings*: Buy 21 Hold 9 Sell 8	
Current price:	Rs1,478
Target price:	Rs1,575
Previous target:	Rs1,643
Up/downside:	6.6%
InCred Research / Consensus:	-4.9%
Reuters:	
Bloomberg:	CIPLA IN
Market cap:	US\$16,433m
	Rs1,193,263m
Average daily turnover:	US\$39.7m
	Rs2879.3m
Current shares o/s:	807.0m
Free float:	66.5%
*Source: Bloomberg	

Key changes in this note

- Lower our target price to Rs1,575 from Rs1,643 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(11.7)	(4.9)	25.8
Relative (%)	(7.3)	(3.6)	0.4

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

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Cipla Ltd

Resolution of plant problem is key

- In-line 2Q results, but the US & India businesses were weaker than expected.
- Lanreotide franchise production problem likely to persist in 3QFY25F, before recovering in 4QFY25F.
- We cut our earnings estimates slightly and retain HOLD rating on the stock. Target price cut to Rs1,575 from Rs1,643 earlier.

2QFY25 performance in line with expectations

Cipla's 2QFY25 performance was in line with estimates. US revenue declined by 5% QoQ to US\$237m (our estimate: US\$245m), although it remained within the guidance range of US\$235-240m, impacted due to temporary supply challenges in the Lanreotide franchise {505(b)(2) and generic} arising due to capacity constraints and high demand. Cipla expects the Lanreotide franchise production problem to persist in 3QFY25F and expects the US business revenue at US\$220m, which should recover sharply in 4QFY25F once these problems are resolved. Cipla currently has around 35% market share in the Lanreotide franchise and 19% in gAlbuterol (MAT Aug 2024), though the Lanreotide franchise may have dipped in the last couple of months. South Africa saw a 22% YoY revenue growth in CC terms (largely sustainable, as per management), driven by the private market. India business was up 5% YoY, below the 7% estimate, led by weak anti-infectives portfolio and slow growth in trade generics business. Gross margin was up 50bp QoQ, driven by a superior product mix, while the EBITDA margin stood at 26.7% (+70bp above estimate).

US business faces temporary challenges

Cipla expects its India business to recover from 3QFY25F (partially, subject to the respiratory season post Diwali festive season), while the US business should be back to the US\$235-240m range from 4QFY25F. As regards key facilities, Cipla is awaiting a revert from the USFDA classification. Cipla's gAbraxane launch is dependent on the Goa plant issue resolution while filing batches for gAdvair is underway and is likely to be filed by the end of CY24F. We currently assume a 4QFY26F launch for both gAdvair and gAbraxane, and together these two products constitute around 5% of our FY26F EPS. gLanreotide might possibly witness competition from 2QFY26F (as Ipsen alluded in its call) and we factor in one more player in our estimates for FY26F.

Other conference-call highlights

1) Price erosion in the US market was 10% YoY and in single digit QoQ. 2) One of the approved products, Calcitonin Salmon Injectable, will be manufactured through the CMO partner's facility. 3) South Africa business should sustain its current run-rate.

Retain HOLD rating with a lower target price of Rs1,575

Cipla has underperformed the BSE Healthcare index over the last couple of months by more than 10%, and we expect near-term pressure to weigh on its stock price. We slightly cut our FY25F/26F EPS estimates and retain HOLD rating on the stock, awaiting a better entry point. Our target price cut to Rs1,575 from Rs1,643 earlier. Upside risks: USFDA clearance to Goa & Indore plants and faster-than-expected product launch. 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	272,850	297,596
Operating EBITDA (Rsm)	44,953	50,270	62,910	68,001	75,393
Net Profit (Rsm)	25,168	28,019	41,343	46,073	50,995
Core EPS (Rs)	32.3	36.3	53.0	57.1	63.2
Core EPS Growth	12.2%	12.3%	45.9%	7.7%	10.7%
FD Core P/E (x)	45.72	40.70	27.88	25.88	23.38
DPS (Rs)	5.0	8.5	5.5	6.0	6.0
Dividend Yield	0.34%	0.58%	0.37%	0.41%	0.41%
EV/EBITDA (x)	26.31	23.50	18.04	16.38	14.27
P/FCFE (x)	20.03	22.44	17.25	22.35	14.42
Net Gearing	(4.1%)	(3.6%)	(19.4%)	(23.6%)	(31.2%)
P/BV (x)	5.72	5.09	4.46	3.86	3.36
ROE	13.3%	13.2%	17.1%	16.0%	15.4%
% Change In Core EPS Estimates				(0.48%)	(0.28%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	58,285	58,101	57,393	63,289	66,782	66,038	61,632	66,939	70,510	6%	5%
Consumption of raw materials	21,602	20,043	20,634	22,368	23,131	22,195	20,501	21,929	22,830	-1%	4%
as % of sales	37.1%	34.5%	36.0%	35.3%	34.6%	33.6%	33.3%	32.8%	32.4%		
Employee costs	9,608	9,487	9,648	10,666	10,911	10,681	10,842	11,942	12,079	11%	1%
as % of sales	16.5%	16.3%	16.8%	16.9%	16.3%	16.2%	17.6%	17.8%	17.1%		
Other expenditure	14,052	14,496	15,374	15,316	15,402	11,686	12,690	12,380	12,895	-16%	4%
as % of sales	24.1%	24.9%	26.8%	24.2%	23.1%	17.7%	20.6%	18.5%	18.3%		
EBITDA	13,023	14,076	11,737	14,939	17,338	17,475	13,159	17,158	18,856	9%	10%
Margins (%)	22.3%	24.2%	20.5%	23.6%	26.0%	26.5%	21.4%	25.6%	26.7%		
Depreciation	2,994	2,721	3,462	2,392	2,900	2,334	2,883	2,467	2,717		
Other income	1,230	1,144	1,346	1,363	1,763	1,846	2,493	1,602	1,906		
Interest	256	318	344	164	258	301	176	180	154		
PBT	11,004	12,181	9,278	13,746	15,942	16,686	12,593	16,114	17,891	12%	11%
Total tax	3,026	4,100	2,223	3,780	4,384	4,053	3,249	4,351	4,830		
Tax rate (%)	27.5%	33.7%	24.0%	27.5%	27.5%	24.3%	25.8%	27.0%	27.0%		
PAT before MI	7,978	8,081	7,055	9,966	11,558	12,633	9,344	11,763	13,060	13%	11%
Minority interest (MI)	-89	-71	25	-9	-249	1	46	14	-35		
Adj. PAT before extraordinary items	7,889	8,010	7,081	9,957	11,309	12,634	9,390	11,776	13,025	15%	11%
Extraordinary expenses	0	0	-1,824	0	0	-1,948	0	0	0		
Reported PAT	7,889	8,010	5,257	9,957	11,309	10,686	9,390	11,776	13,025	15%	11%
No. of shares	807.0	807.1	807.2	807.2	807.3	807.6	807.6	808.0	808.0		
EPS	9.8	9.9	8.8	12.3	14.0	15.6	11.6	14.6	16.1		
Core EPS	8.7	9.0	7.5	11.1	12.4	13.9	9.3	13.1	14.4		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
North America INR	14,320	16,000	16,770	18,220	18,870	19,160	18,750	20,870	19,860	5%	-5%
% total revenue	24.6%	27.5%	29.2%	28.8%	28.3%	29.3%	30.4%	31.2%	28.2%		
Global Access & rest Africa	2,690	1,300	750	1,630	2,420	2,120	710	510	2,690	11%	427%
% total revenue	4.6%	2.2%	1.3%	2.6%	3.6%	3.2%	1.2%	0.8%	3.8%		
South Africa	5,980	5,500	6,180	5,140	6,200	6,030	6,900	6,260	7,990	29%	28%
% total revenue	10.3%	9.5%	10.8%	8.1%	9.3%	9.2%	11.2%	9.4%	11.3%		
India	25,630	25,630	22,590	27,720	28,170	28,590	24,170	28,980	29,480	5%	2%
% total revenue	44.0%	44.1%	39.4%	43.8%	42.2%	43.7%	39.2%	43.3%	41.8%		
EM & Europe	7,630	7,620	7,840	7,790	7,340	7,460	8,270	8,490	8,060	10%	-5%
% total revenue	13.1%	13.1%	13.7%	12.3%	11.0%	11.4%	13.4%	12.7%	11.4%		
API	1,530	1,470	1,340	1,360	1,470	1,080	1,890	980	1,600	9%	63%
% total revenue	2.6%	2.5%	2.3%	2.2%	2.2%	1.7%	3.1%	1.5%	2.3%		
Others	505	581	1,923	1,429	2,312	990	940	849	830	-64%	-2%
% total revenue	0.9%	1.0%	3.4%	2.3%	3.5%	1.5%	1.5%	1.3%	1.2%		
Total Revenue	58,285	58,101	57,393	63,289	66,782	65,430	61,630	66,939	70,510	6%	5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Margin profile

(in %)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	63%	66%	64%	65%	65%	66%	67%	67%	68%	226	38
EBITDA	22%	24%	20%	24%	26%	26%	21%	26%	27%	78	111
Adj.PAT	14%	14%	12%	16%	17%	19%	15%	18%	18%	154	88
Effective tax rate	28%	34%	24%	28%	27%	24%	26%	27%	27%	-50	0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incared Estimates	Change (%)	Bloomberg Estimates	Change (%)
Revenue (Rsm)	70,510	70,705	-0.0	70,682	-0.2
EBITDA (Rsm)	18,856	18,372	2.6	18,316	2.9
Margin (%)	26.7	26.0		25.9	
PAT (Rsm)	13,025	12,808	1.7	12,469	4.5

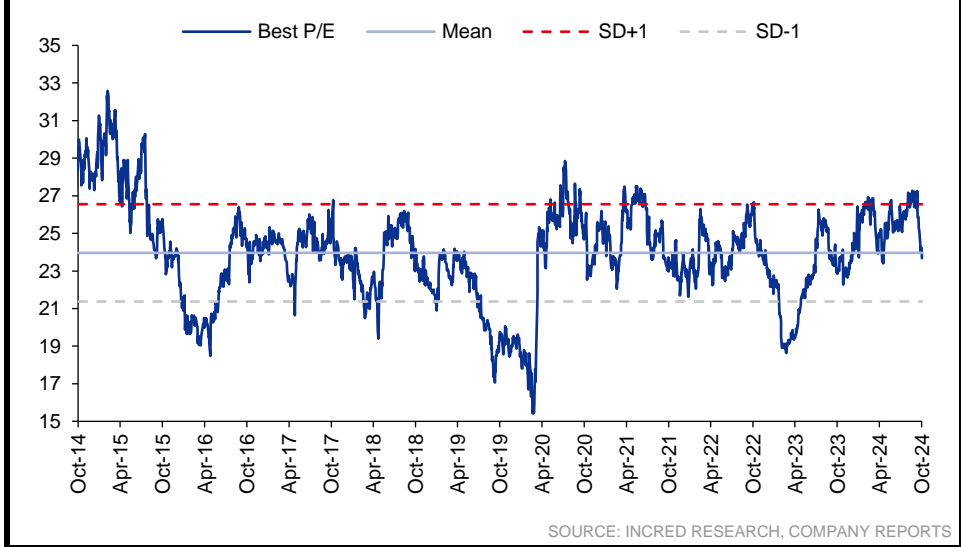
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

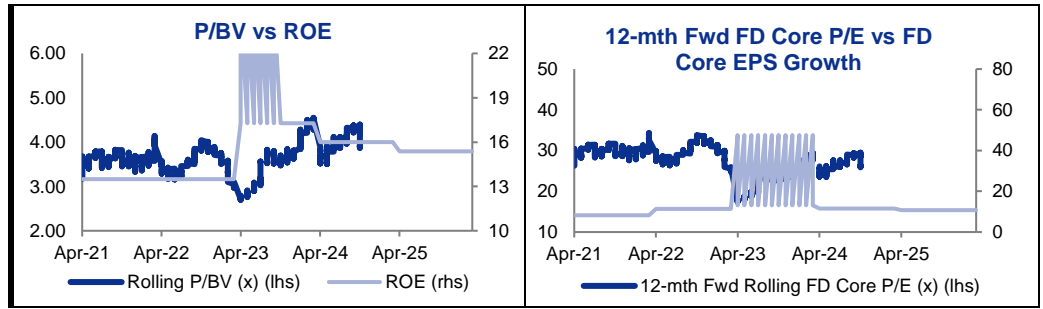
	FY25F			FY26F		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	2,75,057	2,72,850	-0.8	2,99,651	2,97,596	-0.7
EBITDA	69,283	68,001	-1.9	76,571	75,393	-1.5
Margin (%)	25.2	24.9		25.6	25.3	
PAT	46,294	46,073	-0.5	51,140	50,995	-0.3
EPS	57.3	57.0	-0.5	63.2	63.0	-0.3

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Recent price correction led Cipla to trade near its mean level



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	272,850	297,596
Gross Profit	132,677	145,008	169,545	182,057	198,134
Operating EBITDA	44,953	50,270	62,910	68,001	75,393
Depreciation And Amortisation	(10,520)	(11,721)	(10,510)	(11,000)	(12,000)
Operating EBIT	34,433	38,549	52,400	57,001	63,393
Financial Income/(Expense)	(1,064)	(1,095)	(899)	(750)	(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	63,251	69,993
Exceptional Items	(1,246)	(1,824)	(1,948)		
Pre-tax Profit	34,933	40,384	57,019	63,251	69,993
Taxation	(9,338)	(12,029)	(15,466)	(17,078)	(18,898)
Exceptional Income - post-tax					
Profit After Tax	25,595	28,355	41,553	46,173	51,095
Minority Interests	(427)	(336)	(211)	(100)	(100)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	25,168	28,019	41,343	46,073	50,995
Recurring Net Profit	26,081	29,300	42,762	46,073	50,995
Fully Diluted Recurring Net Profit	26,081	29,300	42,762	46,073	50,995

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	44,953	50,270	62,910	68,001	75,393
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,775)	(5,594)	(8,061)	(16,645)	(10,055)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(9,919)	(12,299)	(13,510)	(17,178)	(18,998)
Net Interest (Paid)/Received	(1,064)	(1,095)	(899)	(750)	(900)
Tax Paid	(12,240)	(15,958)	(20,077)	(23,428)	(25,598)
Cashflow From Operations	33,259	32,377	41,339	34,178	46,340
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	19,178	36,340
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	47,961	7,719	7,523
Cash Flow From Financing	(20,961)	(3,598)	41,100	3,277	2,675
Total Cash Generated	5,308	17,172	68,868	22,456	39,016
Free Cashflow To Equity	59,529	53,147	69,107	53,357	82,681
Free Cashflow To Firm	60,592	54,242	70,006	54,107	83,581

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	56,822	79,278	118,293
Total Debtors	34,244	40,570	47,707	54,570	59,519
Inventories	53,502	51,564	52,380	60,027	65,471
Total Other Current Assets	40,041	64,893	37,506	40,928	44,639
Total Current Assets	147,108	172,750	194,414	234,802	287,923
Fixed Assets	56,087	57,398	60,469	64,469	62,469
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	136,764	134,764
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	28,486	30,737
Other Current Liabilities	19,235	21,323	25,248	22,789	24,589
Total Current Liabilities	49,132	51,097	52,458	53,746	57,796
Total Long-term Debt	5,745	2,088	2,254	3,723	4,646
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	8,166	9,089
Total Provisions					
Total Liabilities	59,837	57,497	59,155	61,912	66,885
Shareholders Equity	208,417	234,078	267,064	308,596	354,643
Minority Interests	2,757	3,058	959	1,059	1,159
Total Equity	211,174	237,135	268,023	309,655	355,802

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	14.1%	4.5%	13.3%	5.9%	9.1%
Operating EBITDA Growth	7.7%	11.8%	25.1%	8.1%	10.9%
Operating EBITDA Margin	20.7%	22.1%	24.4%	24.9%	25.3%
Net Cash Per Share (Rs)	10.85	10.45	64.56	90.56	137.77
BVPS (Rs)	258.26	290.06	330.93	382.40	439.46
Gross Interest Cover	32.38	35.19	58.30	76.00	70.44
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	68.41	69.96
Inventory Days	215.23	232.36	215.09	225.95	230.27
Accounts Payables Days	98.28	109.80	102.04	106.99	108.67
ROIC (%)	12.6%	12.7%	18.3%	18.2%	19.5%
ROCE (%)	16.3%	16.5%	20.3%	19.4%	18.7%
Return On Average Assets	10.6%	11.0%	14.2%	13.4%	13.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.