

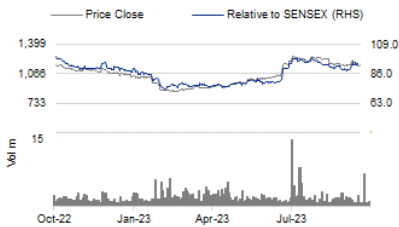
India

**ADD** (previously HOLD)

Consensus ratings\*: Buy 30 Hold 7 Sell 3

Current price:	Rs1,174
Target price: ▲	Rs1,291
Previous target:	Rs1,030
Up/downside:	10.0%
InCred Research / Consensus:	9.1%
Reuters:	
Bloomberg:	CIPLA IN
Market cap:	US\$13,055m Rs948,002m
Average daily turnover:	US\$29.7m Rs2159.6m
Current shares o/s:	807.0m
Free float:	66.5%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.5)	0.2	0.7
Relative (%)	2.7	4.0	(5.3)

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

Analyst(s)



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# Cipla Ltd

## Robust 2Q performance; upgrades guidance

- Cipla posted a strong all-round performance across key geographies (US/India/ South Africa) and margin beat (240bp QoQ) in 2QFY24.
- Raises guidance for the US market (US\$220-225m/qtr from US\$210-215m) and margins (23-24% vs. 23% earlier) – a second raise in the last two quarters.
- We resume coverage on the stock with an ADD rating (HOLD earlier) and a higher target price of Rs1,291.

### Strong 2QFY24 results; US business & margin guidance raised again

Cipla posted strong 2QFY24 results, with around 10% EBITDA beat vs. consensus estimate. The performance was all-round led by robust growth across key businesses; strong organic growth in India (7-8% YoY vs. industry growth of 4%), US market (US\$228m, an all-time high) and South Africa (15% YoY, led by the tender business). While gRevlimid business growth was flat QoQ in the US, Cipla witnessed market share improvement in gAlbuterol and gLanreotide as well as price hikes in a couple of products, which drove the US business growth. Margins improved to 26% (240bp QoQ), with a better chronic mix in India, operating leverage benefits and better pricing in the US. Cipla upgraded its US revenue guidance to US\$220-225m/qtr and its margin guidance to 23-24% - a second raise in the last two quarters.

### Key opportunities intact despite OAI status for Indore plant

Cipla's US pipeline is strong – with one peptide launch likely in 4QFY24F (US\$300-400m market size), and another three-to-four peptide launches in FY25F. In addition, Cipla's confidence in launching gAdvair/gAbroxane in FY25F is high. With sustenance of gRevlimid sales and ramp-up in gLanreotide, gLuprolide and other peptide launches, Cipla's US business should grow in FY25F, despite the high base.

### Steady earnings powered by a strong branded generics franchise

Cipla derives 60% of its revenue from India and South Africa branded markets, which provides consistency and visibility of strong profitability and returns. In India, Cipla ranks first in respiratory and urology therapies, is the largest player in the fast-growing trade generics segment and is strongly ramping up its consumer health segment (topped Rs10bn in revenue in FY23). Recent field force addition (15% addition in the last two years) along with price hikes, we feel, should help deliver an above-average growth in India business. In South Africa, Cipla's focus is on improving profitability by reducing its presence in the tender business and focusing more on the private business (32 launches in FY23).

### Valuation

With high visibility on key launches and a sizeable contribution from branded markets, the risk to Cipla's earnings seems relatively lower. We resume coverage on the stock with an ADD rating (HOLD earlier) and a higher target price of Rs1,291 (Rs1,030 earlier), valuing the base business at 25x FY25F EPS and the gRevlimid opportunity at 10x. An import alert at the Indore plant is a key downside risk to our estimates.

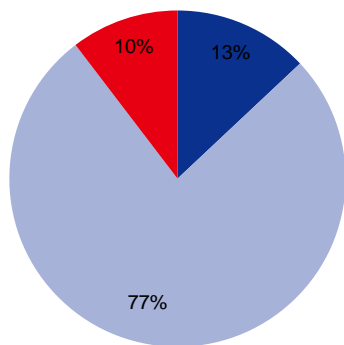
Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	190,807	217,633	227,531	257,858	283,654
Operating EBITDA (Rsm)	41,733	44,953	50,270	62,192	71,289
Net Profit (Rsm)	23,254	25,168	28,019	40,616	46,992
Core EPS (Rs)	28.8	32.3	36.3	50.3	58.2
Core EPS Growth	50.4%	12.2%	12.3%	38.6%	15.7%
FD Core P/E (x)	40.75	36.33	32.34	23.33	20.17
DPS (Rs)	3.0	5.0	8.5	5.5	6.0
Dividend Yield	0.26%	0.43%	0.72%	0.47%	0.51%
EV/EBITDA (x)	22.75	20.87	18.63	14.63	12.31
P/FCFE (x)	14.13	15.92	17.83	14.36	13.21
Net Gearing	0.7%	(4.1%)	(3.6%)	(13.0%)	(21.8%)
P/BV (x)	5.17	4.55	4.05	3.54	3.06
ROE	13.6%	13.3%	13.2%	16.2%	16.3%
% Change In Core EPS Estimates				18.92%	21.42%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## One of the strongest India franchises

**Figure 1: India revenue break-up shows a huge contribution from branded prescription**

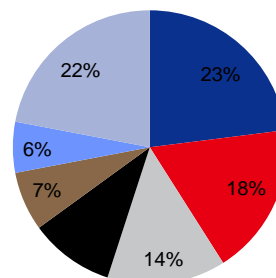
■ Trade generics ■ Branded Prescription ■ Consumer health



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Antiretroviral and gastrointestinal are the leading therapies for Cipla**

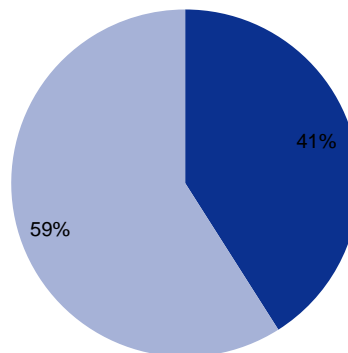
■ Antiretroviral ■ Gastrointestinal ■ Respiratory  
■ CNS ■ Oncology ■ Cardiology  
■ OTHERS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

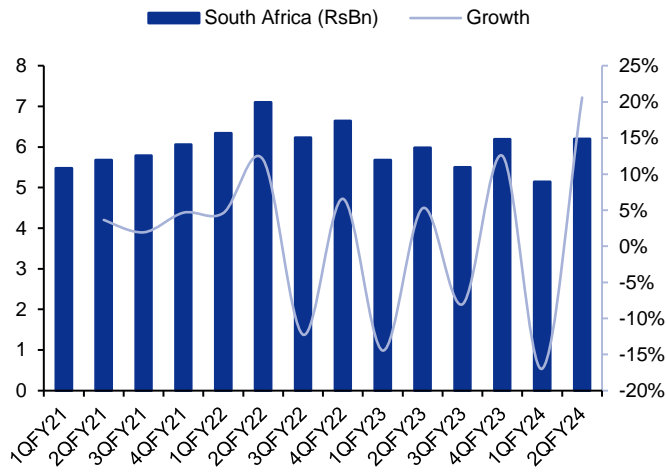
**Figure 3: Acute vs. chronic therapy mix – higher chronic therapy presence has ensured outperformance versus IPM**

■ Acute ■ Chronic



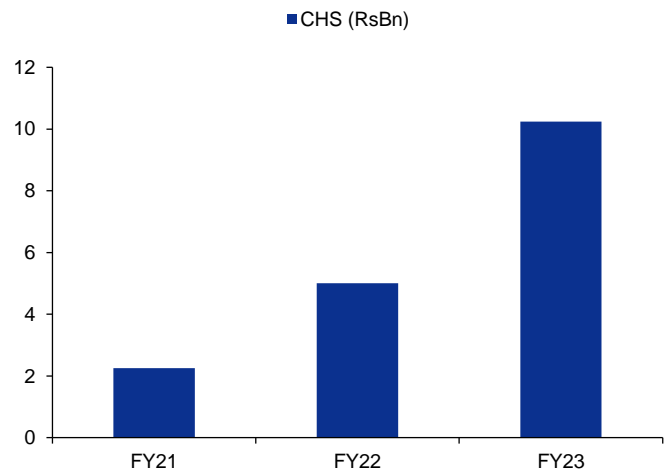
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: India business performance of Cipla over recent quarters – the Covid-19 pandemic base in FY22 impacted growth in FY23**



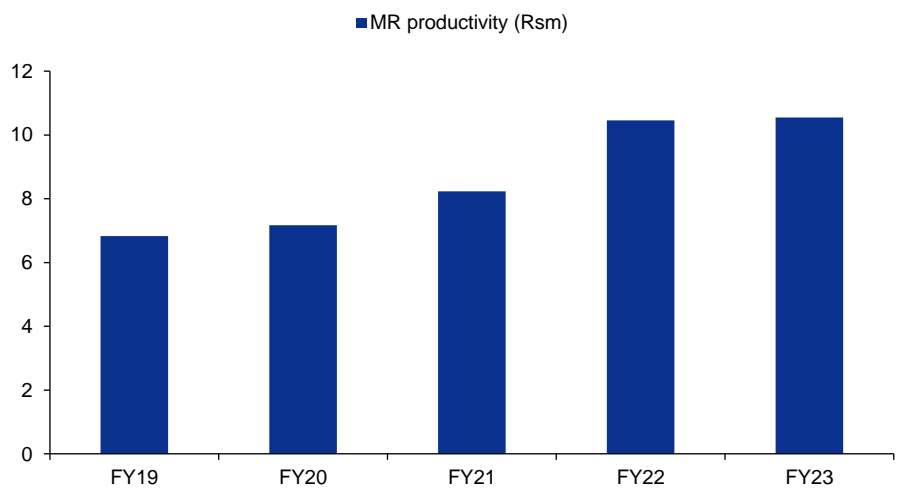
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Consumer healthcare business ramps up well**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

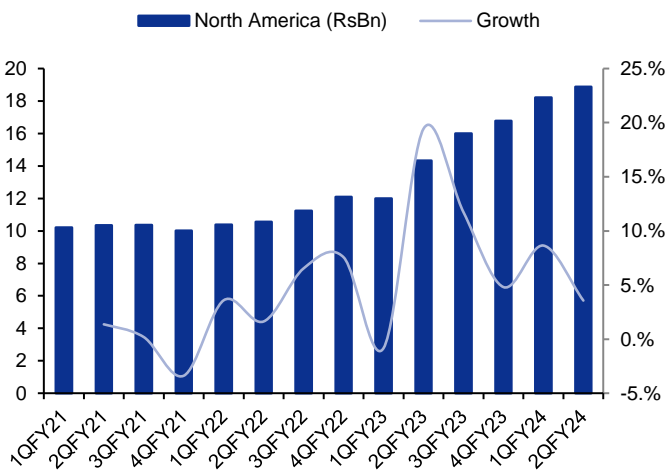
**Figure 6: MR (medical representative) productivity – consistent ramp-up**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

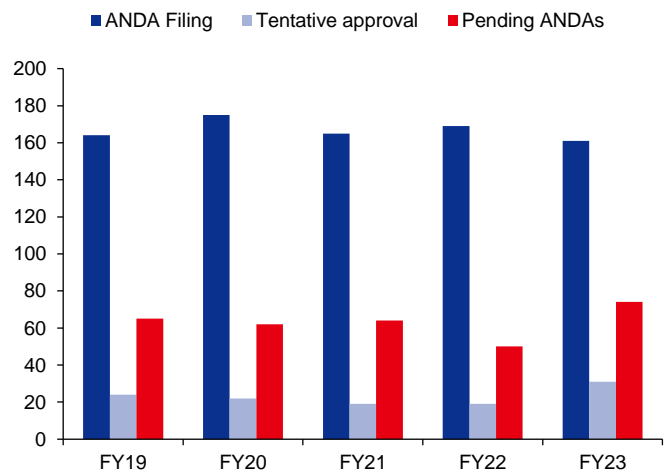
**Product mix improving in the US market**

**Figure 7: Steady ramp-up in the US market, improving mix**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 8: ANDA filings of Cipla over the last five years**



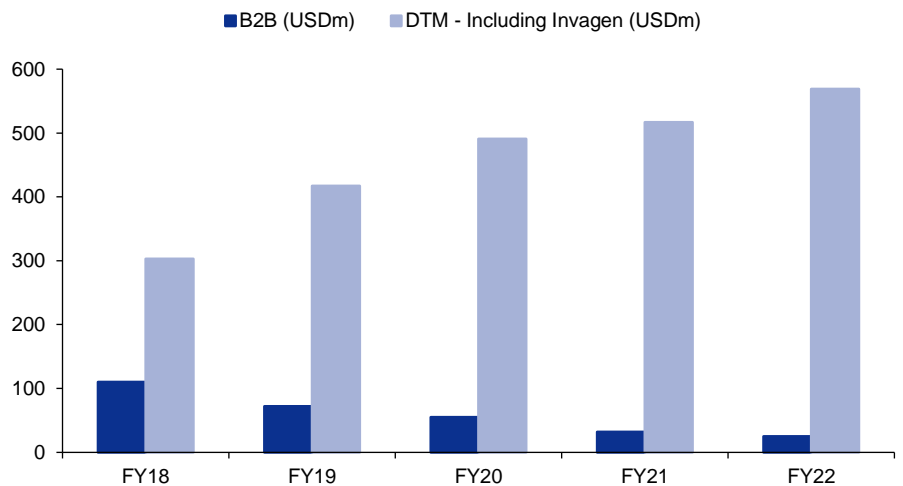
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 9: Key product launches expected in the near future**

Products	Launch Date
gXarelto	4QFY24F
gQVAR	Filing to be done by 4QFY24F.
gSymbicort	Filing to be done by 4QFY24F.
3 peptides	FY24F
gAdvair	1HFY25F
gAbraxane	1HFY25F

SOURCE: INCRED RESEARCH, COMPANY REPORTS

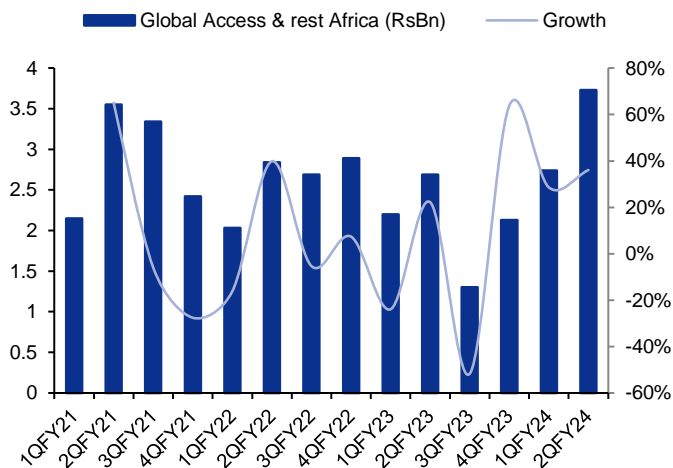
**Figure 10: Cipla moving away from B2B business in the US market**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

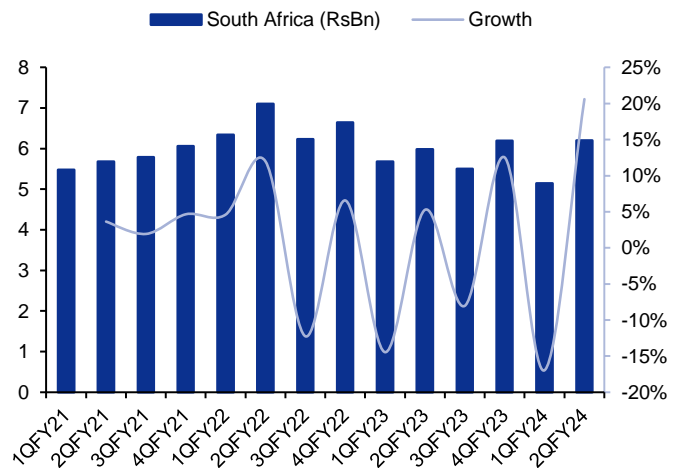
**Focus on African market**

**Figure 11: Defocus on Africa tender business**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

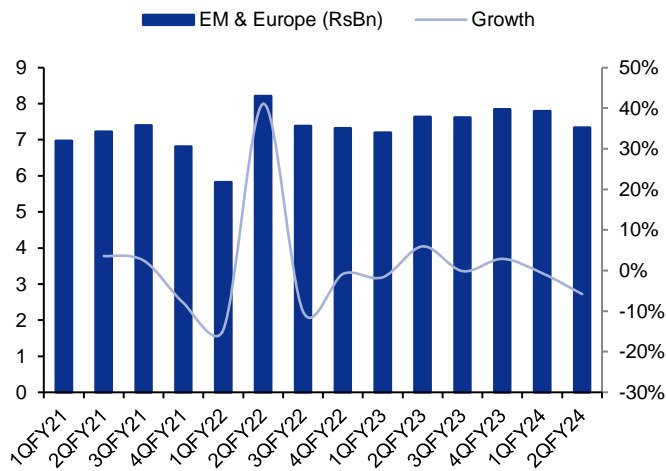
**Figure 12: Cipla's focus is on growing the branded Africa market presence**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

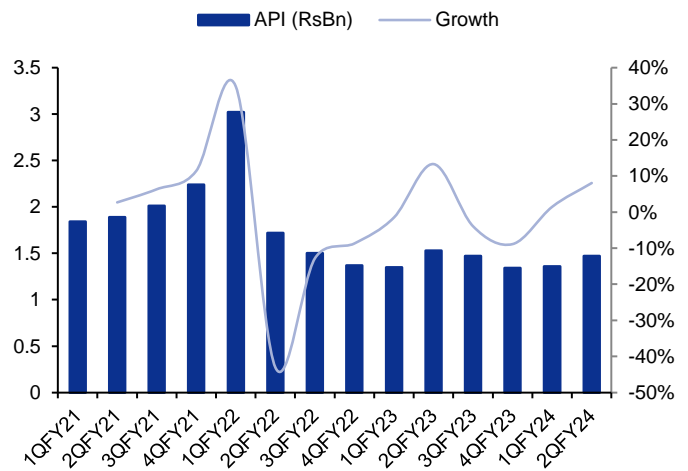
### Steady growth in emerging markets or EMS

Figure 13: Steady performance in EMS and Europe



SOURCE: INCRED RESEARCH, COMPANY REPORTS

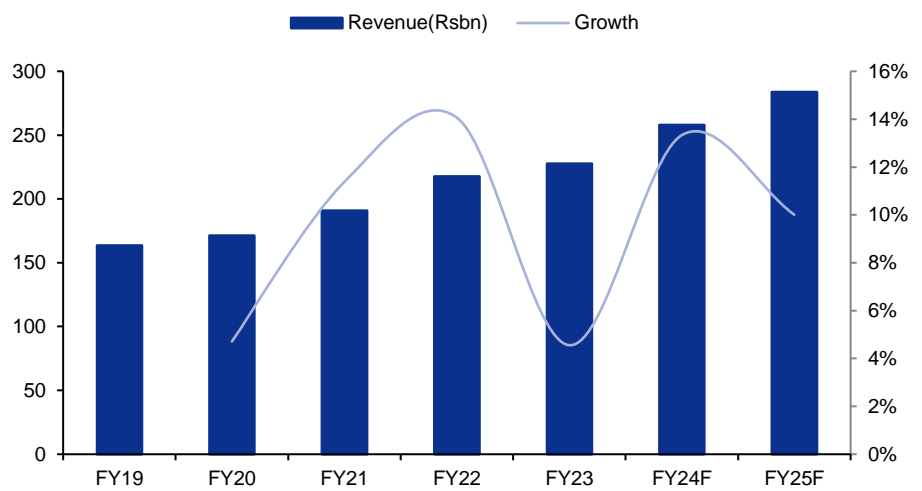
Figure 14: API business is largely for captive consumption



SOURCE: INCRED RESEARCH, COMPANY REPORTS

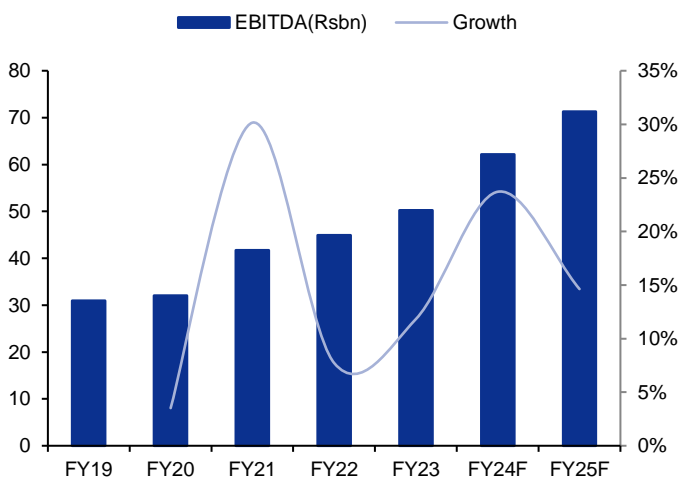
### Financials

Figure 15: A 9% revenue CAGR over FY23-25F is likely



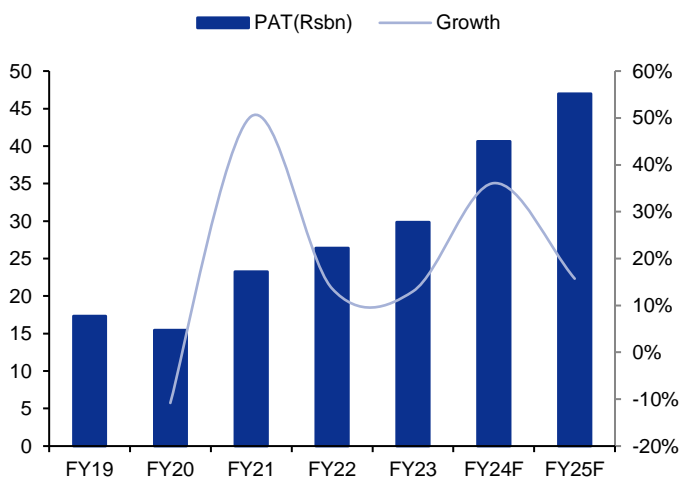
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: 11% EBITDA CAGR, despite rising investments



SOURCE: INCRED RESEARCH, COMPANY REPORTS

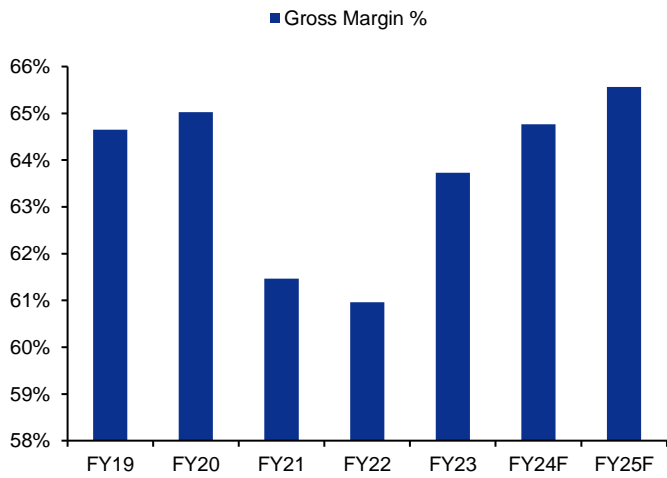
Figure 17: PAT to grow higher, at a 15% CAGR over FY23-25F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

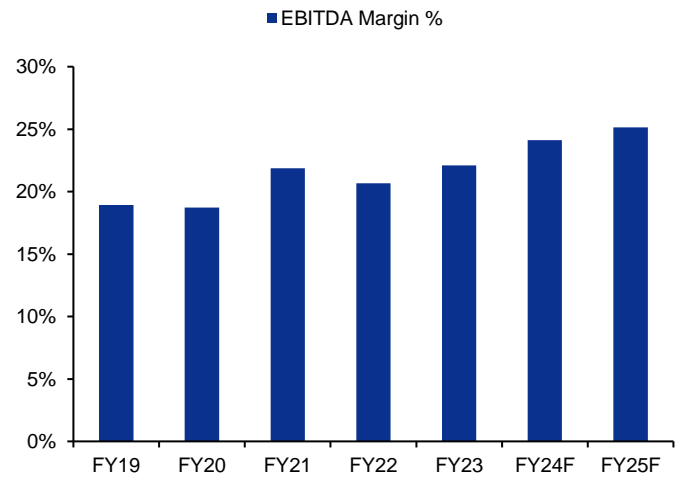
Valuation charts

Figure 18: Gross margin recovers in FY23



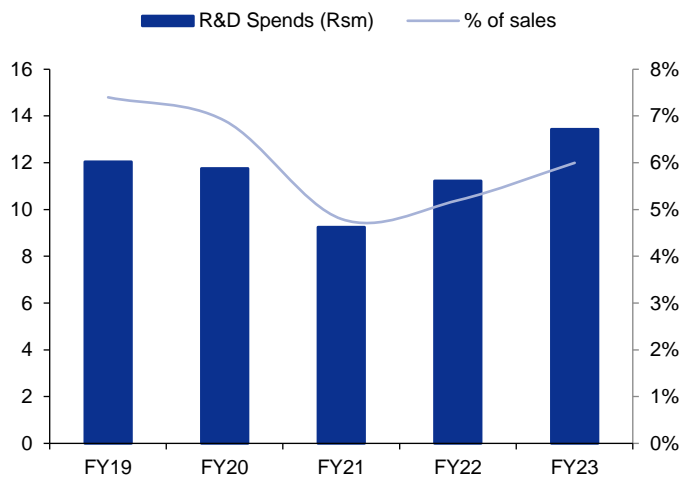
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: EBITDA margin to recover over FY23-FY25F



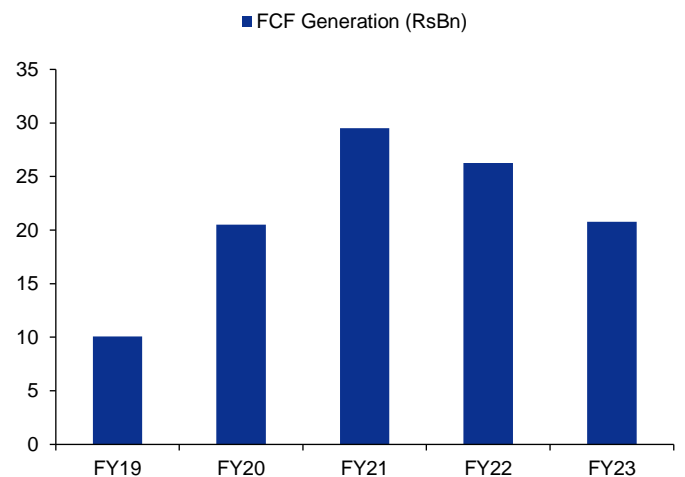
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 20: Tight control over R&D expenses



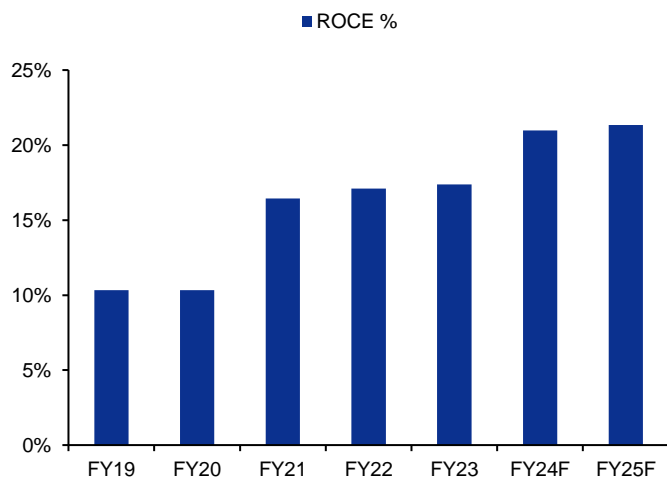
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 21: Strong FCF generation likely to continue



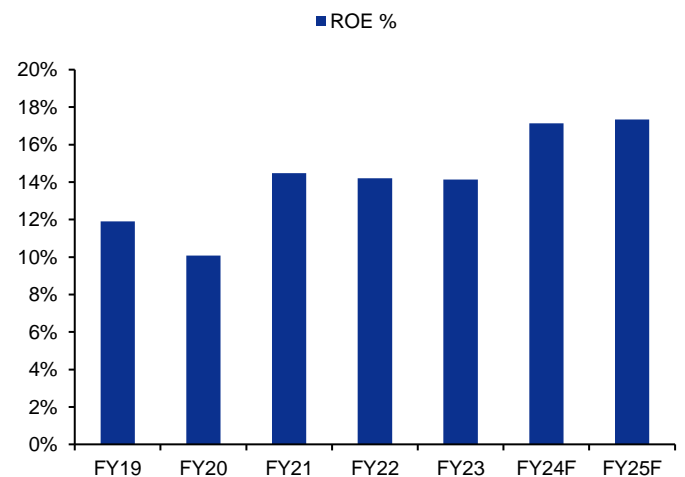
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 22: RoCE trend of Cipla to remain flattish in FY24F



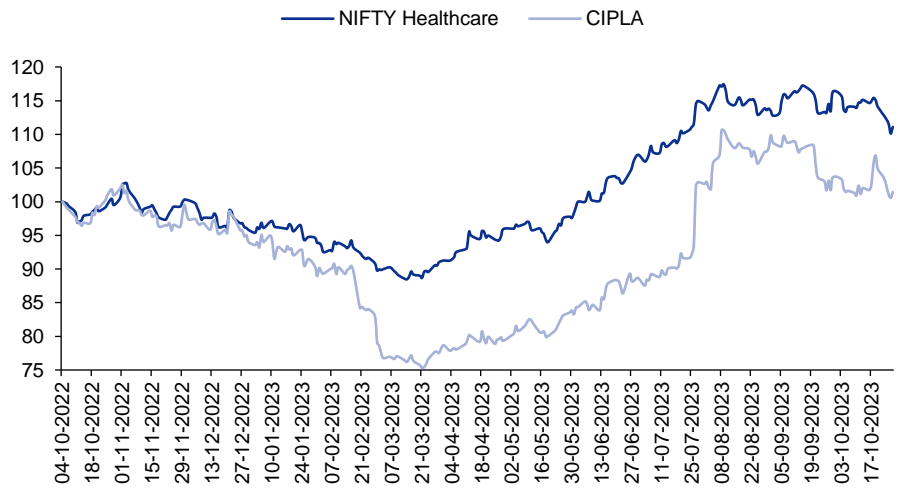
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 23: RoE trend of Cipla to remain flattish for the next one year



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 24: Cipla underperforms the broader index over the last six months



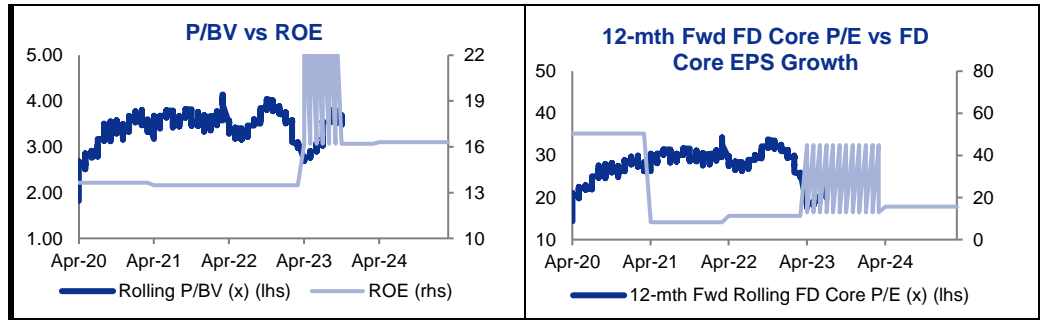
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 25: One-year forward P/E of Cipla – stock trades at a discount of ~10% to its five-year average



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>190,807</b>	<b>217,633</b>	<b>227,531</b>	<b>257,858</b>	<b>283,654</b>
<b>Gross Profit</b>	<b>117,286</b>	<b>132,677</b>	<b>145,008</b>	<b>167,000</b>	<b>185,963</b>
<b>Operating EBITDA</b>	<b>41,733</b>	<b>44,953</b>	<b>50,270</b>	<b>62,192</b>	<b>71,289</b>
Depreciation And Amortisation	(10,677)	(10,520)	(11,721)	(10,893)	(12,300)
<b>Operating EBIT</b>	<b>31,056</b>	<b>34,433</b>	<b>38,549</b>	<b>51,300</b>	<b>58,989</b>
Financial Income/(Expense)	(1,607)	(1,064)	(1,095)	(922)	(900)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,657	2,809	4,755	6,126	6,900
<b>Profit Before Tax (pre-EI)</b>	<b>32,106</b>	<b>36,179</b>	<b>42,208</b>	<b>56,504</b>	<b>64,989</b>
Exceptional Items		(1,246)	(1,824)		
<b>Pre-tax Profit</b>	<b>32,106</b>	<b>34,933</b>	<b>40,384</b>	<b>56,504</b>	<b>64,989</b>
Taxation	(8,888)	(9,338)	(12,029)	(15,405)	(17,547)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>23,218</b>	<b>25,595</b>	<b>28,355</b>	<b>41,099</b>	<b>47,442</b>
Minority Interests	36	(427)	(336)	(483)	(450)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>23,254</b>	<b>25,168</b>	<b>28,019</b>	<b>40,616</b>	<b>46,992</b>
Recurring Net Profit	23,254	26,081	29,300	40,616	46,992
<b>Fully Diluted Recurring Net Profit</b>	<b>23,254</b>	<b>26,081</b>	<b>29,300</b>	<b>40,616</b>	<b>46,992</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>41,733</b>	<b>44,953</b>	<b>50,270</b>	<b>62,192</b>	<b>71,289</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	3,717	(1,775)	(5,594)	(8,799)	(12,925)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(7,898)	(9,919)	(12,299)	(15,887)	(17,997)
Net Interest (Paid)/Received	(1,607)	(1,064)	(1,095)	(922)	(900)
Tax Paid	(9,742)	(12,240)	(15,958)	(21,092)	(23,997)
<b>Cashflow From Operations</b>	<b>37,552</b>	<b>33,259</b>	<b>32,377</b>	<b>37,505</b>	<b>40,367</b>
Capex	(7,969)	(6,990)	(11,355)	(9,000)	(9,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(56)		(251)		
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>29,528</b>	<b>26,270</b>	<b>20,770</b>	<b>28,505</b>	<b>31,367</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	1		1		
Shares Repurchased					
Dividends Paid		(4,034)	(4,035)	(6,861)	(4,442)
Preferred Dividends					
Other Financing Cashflow	(25,555)	(16,928)	436	3,330	6,851
<b>Cash Flow From Financing</b>	<b>(25,554)</b>	<b>(20,961)</b>	<b>(3,598)</b>	<b>(3,531)</b>	<b>2,409</b>
Total Cash Generated	3,973	5,308	17,172	24,975	33,777
<b>Free Cashflow To Equity</b>	<b>67,080</b>	<b>59,529</b>	<b>53,147</b>	<b>66,011</b>	<b>71,735</b>
<b>Free Cashflow To Firm</b>	<b>68,687</b>	<b>60,592</b>	<b>54,242</b>	<b>66,932</b>	<b>72,635</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS



BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	14,012	19,321	15,722	40,697	74,474
Total Debtors	34,457	34,244	40,570	51,572	56,731
Inventories	46,692	53,502	51,564	61,886	68,077
Total Other Current Assets	36,649	40,041	64,893	46,414	51,058
<b>Total Current Assets</b>	<b>131,810</b>	<b>147,108</b>	<b>172,750</b>	<b>200,569</b>	<b>250,339</b>
Fixed Assets	55,271	56,087	57,398	55,505	52,205
Total Investments	2,284	3,556	5,725	5,725	5,725
Intangible Assets	48,356	48,408	45,140	45,140	45,140
Total Other Non-Current Assets	13,798	15,852	13,620	13,620	13,620
<b>Total Non-current Assets</b>	<b>119,709</b>	<b>123,903</b>	<b>121,883</b>	<b>119,991</b>	<b>116,691</b>
Short-term Debt	3,347	4,816	5,204	5,204	5,204
Current Portion of Long-Term Debt					
Total Creditors	20,668	25,081	24,571	20,658	22,245
Other Current Liabilities	21,896	19,235	21,323	19,280	20,762
<b>Total Current Liabilities</b>	<b>45,911</b>	<b>49,132</b>	<b>51,097</b>	<b>45,142</b>	<b>48,210</b>
Total Long-term Debt	12,028	5,745	2,088	214	1,065
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	7,724	4,960	4,313	4,313	4,313
<b>Total Non-current Liabilities</b>	<b>19,752</b>	<b>10,705</b>	<b>6,401</b>	<b>4,527</b>	<b>5,378</b>
Total Provisions					
<b>Total Liabilities</b>	<b>65,663</b>	<b>59,837</b>	<b>57,497</b>	<b>49,668</b>	<b>53,588</b>
Shareholders Equity	183,265	208,417	234,078	267,351	309,451
Minority Interests	2,591	2,757	3,058	3,541	3,991
<b>Total Equity</b>	<b>185,856</b>	<b>211,174</b>	<b>237,135</b>	<b>270,891</b>	<b>313,442</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	11.4%	14.1%	4.5%	13.3%	10.0%
Operating EBITDA Growth	30.2%	7.7%	11.8%	23.7%	14.6%
Operating EBITDA Margin	21.9%	20.7%	22.1%	24.1%	25.1%
Net Cash Per Share (Rs)	(1.69)	10.85	10.45	43.72	84.52
BVPS (Rs)	227.09	258.26	290.06	331.29	383.46
Gross Interest Cover	19.33	32.38	35.19	55.65	65.54
Effective Tax Rate	27.7%	26.7%	29.8%	27.3%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	70.18	57.61	60.01	65.21	69.68
Inventory Days	224.57	215.23	232.36	227.88	242.79
Accounts Payables Days	107.95	98.28	109.80	90.85	80.15
ROIC (%)	12.1%	12.6%	12.7%	16.4%	18.1%
ROCE (%)	15.9%	16.3%	16.5%	19.7%	19.8%
Return On Average Assets	10.0%	10.6%	11.0%	13.6%	14.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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