



India

**HOLD** (previously ADD)

Consensus ratings\*: Buy 29 Hold 5 Sell 6

Current price:	Rs1,370
Target price:	Rs1,479
Previous target:	Rs1,291
Up/downside:	8.0%
InCred Research / Consensus:	13.7%
Reuters:	CIPL.NS
Bloomberg:	CIPLA IN
Market cap:	US\$13,304m
	Rs1,105,797m
Average daily turnover:	US\$29.3m
	Rs2437.7m
Current shares o/s:	807.0m
Free float:	66.5%

\*Source: Bloomberg

**Key changes in this note**

- FY24F/25F EPS adjusted by +5%/-6%.
- Rating downgrade from ADD to HOLD.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.0	19.0	32.3
Relative (%)	11.0	6.3	12.7

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

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# Cipla Ltd

## Strong 3Q; likely delay in key launches

- 3QFY24 EBITDA beat was led by strong India, US markets and gross margins.
- Cipla indicated a possible delay in approval/launch of gAbraxane, as it will depend on successful inspection of the Goa plant by the US FDA.
- We adjust FY24F/25F EPS by +5%/-6%, respectively, to bake in the delay in key launches and downgrade Cipla's rating to HOLD (vs. ADD earlier).

**Strong 3QFY24 performance**

Cipla reported a strong 3QFY24 performance with an EBITDA beat of 8%, helped by a 100bp QoQ improvement in gross margin. Revenue growth was also strong across segments, led by India (+12% YoY vs. our estimate of +11% YoY), US at US\$230m (our estimate US\$225m) and South Africa business (+15% YoY in constant currency or CC terms). The US revenue was better than the company's guidance of US\$220-225m/quarter for 2HFY24F. R&D spending was up 40bp QoQ at 6.1% of sales. Reported PAT includes one-off impairment of intangibles worth Rs1.95bn. Other income includes Rs540m forex gains arising on account of Meditab's (subsidiary) share buyback.

**US business – mixed comments on key assets**

Cipla's US market growth was led by strong volume traction in gLanreotide (20% market share, some more room to grow) and gAlbuterol (recouped some lost market share post recall). The company has filed gSymbicort and one more inhalation asset in the US. gSymbicort is currently filed from the Indore plant and will be shortly filed from an alternate site (will take around two years to approve). Due to product complexity, site transfer of Abraxane to a third-party site will require clinical trials and Cipla intends to pursue it from its Goa plant. This plant is due for inspection in 1QFY25 and if cleared, then gAbraxane launch can be expedited vs. the earlier timeline; alternatively, a delay in inspection/non-clearance of the plant may lead to a delay in product launch. We assume a delay in gAbraxane launch & build in an end-4QFY26F launch as our base case. On gAlbuterol, Cipla expects its current market share to sustain. gAdvair filing will be done by mid-FY25F.

**Other takeaways**

a) As a strategy, Cipla will now look at only approved assets to build its specialty business after the setbacks in gPulmazole and gTramadol. b) Plans to launch four peptides in FY25F {two generics and two 505B (2) launches}. The initial peptide launch will be on the generics side and without competition.

**Downgrade rating to HOLD**

We downgrade our rating on Cipla to HOLD (vs. ADD earlier), given the possibility of a delay in key assets and the recent stock run-up which makes the current risk-reward unfavourable. We roll forward our target price to 25x FY26F EPS to Rs1,479 (Rs1,291 earlier). An import alert at the Indore plant is a key downside risk to our estimates. Faster-than-expected approval of gAbraxane is an upside risk.

**Financial Summary**

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	217,633	227,531	259,111	277,682	301,701
Operating EBITDA (Rsm)	44,953	50,270	63,087	66,597	72,066
Net Profit (Rsm)	25,168	28,019	40,857	44,224	47,851
Core EPS (Rs)	32.3	36.3	52.4	54.8	59.3
Core EPS Growth	12.2%	12.3%	44.3%	4.6%	8.2%
FD Core P/E (x)	42.38	37.72	26.15	24.99	23.10
DPS (Rs)	5.0	8.5	5.5	6.0	6.0
Dividend Yield	0.37%	0.62%	0.40%	0.44%	0.44%
EV/EBITDA (x)	24.38	21.77	16.57	15.19	13.54
P/FCFE (x)	18.57	20.80	9.69	14.67	13.92
Net Gearing	(4.1%)	(3.6%)	(21.2%)	(29.5%)	(36.2%)
P/BV (x)	5.30	4.72	4.13	3.60	3.16
ROE	13.3%	13.2%	16.8%	15.4%	14.6%
% Change In Core EPS Estimates			4.08%	(5.89%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	58,285	58,101	57,393	63,289	66,782	66,038	14%	-1%
Consumption of RM	21,602	20,043	20,634	22,368	23,131	22,195	11%	-4%
as % of sales	37.1%	34.5%	36.0%	35.3%	34.6%	33.6%		
Employee costs	9,608	9,487	9,648	10,666	10,911	10,681	13%	-2%
as % of sales	16.5%	16.3%	16.8%	16.9%	16.3%	16.2%		
Other expenditure	14,052	14,496	15,374	15,316	15,402	11,686	-19%	-24%
as % of sales	24.1%	24.9%	26.8%	24.2%	23.1%	17.7%		
EBITDA	13,023	14,076	11,737	14,939	17,338	17,475	24%	1%
Margins (%)	22.3%	24.2%	20.5%	23.6%	26.0%	26.5%		
Depreciation	2,994	2,721	3,462	2,392	2,900	2,334		
Other income	1,230	1,144	1,346	1,363	1,763	1,846		
Interest	256	318	344	164	258	301		
PBT	11,004	12,181	9,278	13,746	15,942	16,686	37%	5%
Total tax	3,026	4,100	2,223	3,780	4,384	4,053		
Tax rate (%)	27.5%	33.7%	24.0%	27.5%	27.5%	24.3%		
PAT before MI	7,978	8,081	7,055	9,966	11,558	12,633	56%	9%
Minority interest (MI)	-89	-71	25	-9	-249	1		
Adj. PAT before extraordinary items	7,889	8,010	7,081	9,957	11,309	12,634	58%	12%
Extraordinary expenses	0	0	-1,824	0	0	-1,948		
Reported PAT	7,889	8,010	5,257	9,957	11,309	10,686	33%	-6%
No. of shares	807.0	807.1	807.2	807.2	807.3	807.6		
EPS	9.8	9.9	8.8	12.3	14.0	15.6		
Core EPS	8.7	9.0	7.5	11.1	12.4	13.9		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Margins (%)								
Gross	63%	66%	64%	65%	65%	66%	1%	2%
EBITDA	22%	24%	20%	24%	26%	26%	9%	2%
Adj.PAT	14%	14%	12%	16%	17%	19%	39%	13%
Effective tax rate	28%	34%	24%	28%	27%	24%	-28%	-12%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals versus estimates

	Actuals	Estimates	Change (%)
Revenue (Rs m)	66,038	65,999	0
EBITDA (Rs m)	17,475	16,240	7.6
Margin (%)	26.5	24.6	186bp
PAT (Rs m)	12,634	10,631	18.8

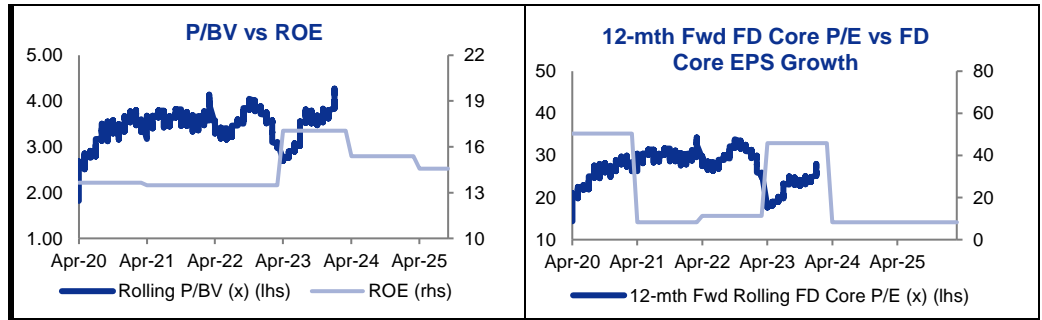
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Change in earnings estimates (Rs m)

	FY24F			FY25F		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	2,57,858	2,59,111	0.5	2,83,654	2,77,682	-2.1
EBITDA	62,192	63,087	1.4	71,289	66,597	-6.6
Margin (%)	24.1	24.3		25.1	24.0	
PAT	40,616	42,805	5.4	46,992	44,224	-5.9
EPS	50.3	53.0	5.3	58.2	54.7	-6.0

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>217,633</b>	<b>227,531</b>	<b>259,111</b>	<b>277,682</b>	<b>301,701</b>
<b>Gross Profit</b>	<b>132,677</b>	<b>145,008</b>	<b>169,069</b>	<b>181,359</b>	<b>196,586</b>
<b>Operating EBITDA</b>	<b>44,953</b>	<b>50,270</b>	<b>63,087</b>	<b>66,597</b>	<b>72,066</b>
Depreciation And Amortisation	(10,520)	(11,721)	(10,127)	(11,500)	(12,500)
<b>Operating EBIT</b>	<b>34,433</b>	<b>38,549</b>	<b>52,961</b>	<b>55,097</b>	<b>59,566</b>
Financial Income/(Expense)	(1,064)	(1,095)	(923)	(900)	(900)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,809	4,755	6,672	7,000	7,500
<b>Profit Before Tax (pre-EI)</b>	<b>36,179</b>	<b>42,208</b>	<b>58,710</b>	<b>61,197</b>	<b>66,166</b>
Exceptional Items	(1,246)	(1,824)	(1,948)		
<b>Pre-tax Profit</b>	<b>34,933</b>	<b>40,384</b>	<b>56,762</b>	<b>61,197</b>	<b>66,166</b>
Taxation	(9,338)	(12,029)	(15,548)	(16,523)	(17,865)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>25,595</b>	<b>28,355</b>	<b>41,214</b>	<b>44,674</b>	<b>48,301</b>
Minority Interests	(427)	(336)	(357)	(450)	(450)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>25,168</b>	<b>28,019</b>	<b>40,857</b>	<b>44,224</b>	<b>47,851</b>
Recurring Net Profit	26,081	29,300	42,272	44,224	47,851
<b>Fully Diluted Recurring Net Profit</b>	<b>26,081</b>	<b>29,300</b>	<b>42,272</b>	<b>44,224</b>	<b>47,851</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>44,953</b>	<b>50,270</b>	<b>63,087</b>	<b>66,597</b>	<b>72,066</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,775)	(5,594)	12,910	(6,960)	(9,053)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(9,919)	(12,299)	(13,957)	(16,973)	(18,315)
Net Interest (Paid)/Received	(1,064)	(1,095)	(923)	(900)	(900)
Tax Paid	(12,240)	(15,958)	(19,706)	(23,073)	(24,915)
<b>Cashflow From Operations</b>	<b>33,259</b>	<b>32,377</b>	<b>62,040</b>	<b>42,664</b>	<b>44,699</b>
Capex	(6,990)	(11,355)	(10,000)	(10,000)	(10,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments		(251)			
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>26,270</b>	<b>20,770</b>	<b>52,040</b>	<b>32,664</b>	<b>34,699</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares		1			
Shares Repurchased					
Dividends Paid	(4,034)	(4,035)	(6,861)	(4,442)	(4,848)
Preferred Dividends					
Other Financing Cashflow	(16,928)	436	1,932	6,896	7,460
<b>Cash Flow From Financing</b>	<b>(20,961)</b>	<b>(3,598)</b>	<b>(4,929)</b>	<b>2,454</b>	<b>2,612</b>
Total Cash Generated	5,308	17,172	47,112	35,118	37,311
<b>Free Cashflow To Equity</b>	<b>59,529</b>	<b>53,147</b>	<b>114,081</b>	<b>75,328</b>	<b>79,398</b>
<b>Free Cashflow To Firm</b>	<b>60,592</b>	<b>54,242</b>	<b>115,004</b>	<b>76,228</b>	<b>80,298</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	19,321	15,722	62,834	97,952	135,263
Total Debtors	34,244	40,570	51,822	55,536	60,340
Inventories	53,502	51,564	57,004	61,090	66,374
Total Other Current Assets	40,041	64,893	38,867	41,652	45,255
<b>Total Current Assets</b>	<b>147,108</b>	<b>172,750</b>	<b>210,527</b>	<b>256,231</b>	<b>307,233</b>
Fixed Assets	56,087	57,398	57,271	55,771	53,271
Total Investments	3,556	5,725	5,725	5,725	5,725
Intangible Assets	48,408	45,140	45,140	45,140	45,140
Total Other Non-Current Assets	15,852	13,620	13,620	13,620	13,620
<b>Total Non-current Assets</b>	<b>123,903</b>	<b>121,883</b>	<b>121,757</b>	<b>120,257</b>	<b>117,757</b>
Short-term Debt	4,816	5,204	5,204	5,204	5,204
Current Portion of Long-Term Debt					
Total Creditors	25,081	24,571	27,483	29,497	32,073
Other Current Liabilities	19,235	21,323	21,986	23,597	25,659
<b>Total Current Liabilities</b>	<b>49,132</b>	<b>51,097</b>	<b>54,672</b>	<b>58,298</b>	<b>62,936</b>
Total Long-term Debt	5,745	2,088	219	1,015	1,875
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,960	4,313	4,313	4,313	4,313
<b>Total Non-current Liabilities</b>	<b>10,705</b>	<b>6,401</b>	<b>4,532</b>	<b>5,327</b>	<b>6,187</b>
Total Provisions					
<b>Total Liabilities</b>	<b>59,837</b>	<b>57,497</b>	<b>59,204</b>	<b>63,625</b>	<b>69,123</b>
Shareholders Equity	208,417	234,078	267,717	307,050	349,603
Minority Interests	2,757	3,058	3,415	3,865	4,315
<b>Total Equity</b>	<b>211,174</b>	<b>237,135</b>	<b>271,132</b>	<b>310,914</b>	<b>353,918</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	14.1%	4.5%	13.9%	7.2%	8.6%
Operating EBITDA Growth	7.7%	11.8%	25.5%	5.6%	8.2%
Operating EBITDA Margin	20.7%	22.1%	24.3%	24.0%	23.9%
Net Cash Per Share (Rs)	10.85	10.45	71.14	113.67	158.84
BVPS (Rs)	258.26	290.06	331.74	380.48	433.21
Gross Interest Cover	32.38	35.19	57.38	61.22	66.18
Effective Tax Rate	26.7%	29.8%	27.4%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	57.61	60.01	65.07	70.56	70.09
Inventory Days	215.23	232.36	220.05	223.75	221.30
Accounts Payables Days	98.28	109.80	105.50	107.96	106.90
ROIC (%)	12.6%	12.7%	18.5%	18.8%	19.7%
ROCE (%)	16.3%	16.5%	20.3%	18.6%	17.6%
Return On Average Assets	10.6%	11.0%	14.0%	12.8%	12.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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