

India

HOLD (no change)

Consensus ratings*: Buy 25 Hold 7 Sell 6

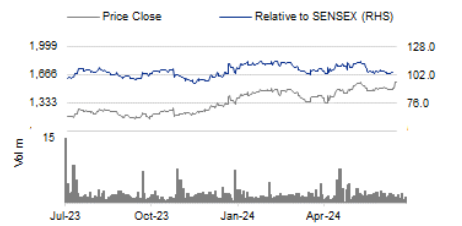
Current price: Rs1,575
 Target price: ▲ Rs1,643
 Previous target: Rs1,479
 Up/downside: 4.3%
 InCred Research / Consensus: 7.9%

Reuters:
 Bloomberg: CIPLA IN
 Market cap: US\$17,515m
 Rs1,271,841m
 Average daily turnover: US\$37.2m
 Rs2698.4m
 Current shares o/s: 807.0m
 Free float: 66.5%

*Source: Bloomberg

Key changes in this note

- Reset our FY25F/26F EPS by +4%/+2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.4	11.8	34.4
Relative (%)	3.3	2.6	9.4

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

Research Analyst(s)



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Cipla Ltd

In-line 1Q – US biz shines, India misses

- Decent 1QFY25 performance. Margins came in at the higher end of the guidance at 25.6%, around 100bp above expectations.
- India business was hit by a change in distribution model for trade generics. US market posted a strong 11% QoQ growth at US\$250m, 10% above estimate.
- FY25F/26F earnings reset by +4%/+2%. Given the moderate earnings growth going ahead, we retain HOLD with a target price of Rs1,643 (Rs1,479 earlier).

Broadly, an in-line set of numbers

Cipla's 1QFY25 operational profits exceeded expectations, with gross margin up 50bp QoQ, driven by a superior product mix (gLanreotide channel filling in the US). The EBITDA margin at 25.6% was 100bp above estimate, reflecting the sales mix & operational efficiency. US revenue grew by 11% QoQ to US\$250m, surpassing the US\$228m estimate, boosted by a 4% market share gain in gAlbuterol, higher sales of gRevlimid and channel filling in gLanreotide. South Africa saw a 19% YoY revenue increase in constant currency or CC terms, driven by the private market. In India, revenue rose by 4.5% YoY, below the 9% estimate, due to distribution model change in the trade generics business. R&D spending increased by 20bp YoY to 5.3% of sales due to product development costs. Reported PAT at Rs11.8bn was 4% above estimate.

US sales should sustain around US\$235-240m through FY25F

Cipla expects to sustain quarterly run-rate of US\$235-240m in the US through the year, as gLanreotide sales to come off in the coming quarters, given the high channel filling in 1QFY25. Nevertheless, we believe this itself is a very strong run-rate. Sales ramp-up in gLanreotide will be gradual, as the manufacturing partner is facing supply problems. Cipla expects to launch two more peptide products in CY24F, and another one in CY25F. It expects to file for gAdvair from Invagen by the end of CY24F while for gAbraxane it will depend on the US Food and Drug Administration's (USFDA) re-inspection of the Goa plant; we currently factor in a 4QFY26F launch for both gAdvair and gAbraxane. In India, the transition to the new distribution model is complete and trade generics business should recover from 2QFY25F.

Retain HOLD rating

We expect the next two years to be relatively moderate for Cipla, with a 9% CAGR led by delay in key launches (gAdvair, gAbraxane). We thus expect the stock to be range-bound in the medium term. Our FY25F/26F earnings estimates stand increased by 4%/2%, respectively, baking in higher margins. Retain HOLD rating on the stock with a higher target price of Rs1,643 (Rs1,479 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	275,057	299,651
Operating EBITDA (Rsm)	44,953	50,270	62,910	69,283	76,571
Net Profit (Rsm)	25,168	28,019	41,343	46,294	51,140
Core EPS (Rs)	32.3	36.3	53.0	57.4	63.4
Core EPS Growth	12.2%	12.3%	45.9%	8.3%	10.5%
FD Core P/E (x)	48.73	43.38	29.72	27.46	24.85
DPS (Rs)	5.0	8.5	5.5	6.0	6.0
Dividend Yield	0.32%	0.54%	0.35%	0.38%	0.38%
EV/EBITDA (x)	28.06	25.06	20.05	17.22	15.07
P/FCFE (x)	21.35	23.92	18.39	8.50	14.93
Net Gearing	(4.1%)	(3.6%)	(1.5%)	(23.6%)	(31.6%)
P/BV (x)	6.10	5.43	4.76	4.12	3.59
ROE	13.3%	13.2%	17.1%	16.1%	15.4%
% Change In Core EPS Estimates				(1.49%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	53,752	58,285	58,101	57,393	63,289	66,782	66,038	61,632	66,939	6%	9%
Consumption of raw materials	20,244	21,602	20,043	20,634	22,368	23,131	22,195	20,501	21,929	-2%	7%
as % of sales	37.7%	37.1%	34.5%	36.0%	35.3%	34.6%	33.6%	33.3%	32.8%		
Employee costs	9,557	9,608	9,487	9,648	10,666	10,911	10,681	10,842	11,942	12%	10%
as % of sales	17.8%	16.5%	16.3%	16.8%	16.9%	16.3%	16.2%	17.6%	17.8%		
Other expenditure	12517	14052	14496	15374	15316	15402	11686	12690	12380	-19%	-2%
as % of sales	23.3%	24.1%	24.9%	26.8%	24.2%	23.1%	17.7%	20.6%	18.5%		
EBITDA	11,434	13,023	14,076	11,737	14,939	17,338	17,475	13,159	17,158	15%	30%
Margins (%)	21.3%	22.3%	24.2%	20.5%	23.6%	26.0%	26.5%	21.4%	25.6%		
Depreciation	2,544	2,994	2,721	3,462	2,392	2,900	2,334	2,883	2,467		
Other income	1,034	1,230	1,144	1,346	1,363	1,763	1,846	2,493	1,602		
Interest	178	256	318	344	164	258	301	176	180		
PBT	9,746	11,004	12,181	9,278	13,746	15,942	16,686	12,593	16,114	17%	28%
Total tax	2,680	3,026	4,100	2,223	3,780	4,384	4,053	3,249	4,351		
Tax rate (%)	27.5%	27.5%	33.7%	24.0%	27.5%	27.5%	24.3%	25.8%	27.0%		
PAT before MI	7,066	7,978	8,081	7,055	9,966	11,558	12,633	9,344	11,763	18%	26%
Minority interest(MI)	-202	-89	-71	25	-9	-249	1	46	14		
Adj. PAT before extraordinary items	6,864	7,889	8,010	7,081	9,957	11,309	12,634	9,390	11,776	18%	25%
Extraordinary expenses	0	0	0	-1,824	0	0	-1,948	0	0		
Reported PAT	6,864	7,889	8,010	5,257	9,957	11,309	10,686	9,390	11,776	18%	25%
No. of shares	806.9	807.0	807.1	807.2	807.2	807.3	807.6	807.6	808.0		
EPS	8.5	9.8	9.9	8.8	12.3	14.0	15.6	11.6	14.6		
Core EPS	7.6	8.7	9.0	7.5	11.1	12.4	13.9	9.3	13.1		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Revenue break-up

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
North America INR	11,990	14,320	16,000	16,770	18,220	18,870	19,160	18,750	20,870	15%	11%
% total revenue	22.3%	24.6%	27.5%	29.2%	28.8%	28.3%	29.3%	30.4%	31.2%		
Global Access & Rest of Africa	2,200	2,690	1,300	750	2,740	3,730	2,120	710	510	-81%	-28%
% total revenue	4.1%	4.6%	2.2%	1.3%	4.3%	5.6%	3.2%	1.2%	0.8%		
South Africa	5,680	5,980	5,500	6,180	5,140	6,200	6,030	6,900	6,260	22%	-9%
% total revenue	10.6%	10.3%	9.5%	10.8%	8.1%	9.3%	9.2%	11.2%	9.4%		
India	24,830	25,630	25,630	22,590	27,720	28,170	28,590	24,170	28,980	5%	20%
% total revenue	46.2%	44.0%	44.1%	39.4%	43.8%	42.2%	43.7%	39.2%	43.3%		
EM & Europe	7,200	7,630	7,620	7,840	7,790	7,340	7,460	8,270	8,490	9%	3%
% total revenue	13.4%	13.1%	13.1%	13.7%	12.3%	11.0%	11.4%	13.4%	12.7%		
API	1,350	1,530	1,470	1,340	1,360	1,470	1,080	1,890	980	-28%	-48%
% total revenue	2.5%	2.6%	2.5%	2.3%	2.1%	2.2%	1.7%	3.1%	1.5%		
Others	502	505	581	1,923	319	1,002	990	940	849	166%	-10%
% total revenue	0.9%	0.9%	1.0%	3.4%	0.5%	1.5%	1.5%	1.5%	1.3%		
Total Revenue	53,752	58,285	58,101	57,393	63,289	66,782	65,430	61,630	66,939	6%	9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Margin profile

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	62%	63%	66%	64%	65%	65%	66%	67%	67%	258	50
EBITDA	21%	22%	24%	20%	24%	26%	26%	21%	26%	203	428
Adj. PAT	13%	14%	14%	12%	16%	17%	19%	15%	18%	186	236
Effective tax rate	27%	28%	34%	24%	28%	27%	24%	26%	27%	-50	120

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

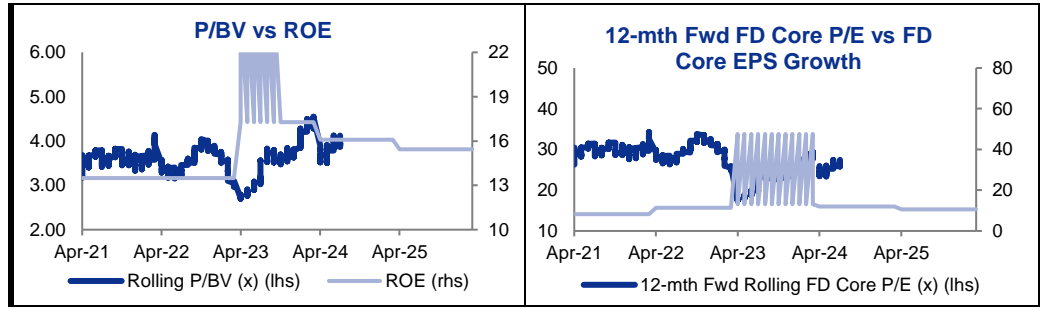
	Actuals	IncRed Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	66,939	67,490	-0.0	67,919	-1.4
EBITDA (Rsm)	17,158	16,581	3.5	16,689	2.8
Margin (%)	25.6	24.6		24.6	
PAT (Rsm)	11,776	11,354	3.7	11,218	5.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Changes in our earnings estimates (Rsm)

	FY25F			FY26F		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	2,73,873	2,75,057	0.4	2,97,669	2,99,651	0.7
EBITDA	67,047	69,283	3.3	75,028	76,571	2.1
Margin (%)	24.5	25.2		25.2	25.6	
PAT	44,553	46,294	3.9	50,013	51,140	2.3
EPS	55.1	57.3	3.9	61.8	63.2	2.3

SOURCE: INCRED RESEARCH, COMPANY REPORTS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	217,633	227,531	257,741	275,057	299,651
Gross Profit	132,677	145,008	169,545	181,247	195,689
Operating EBITDA	44,953	50,270	62,910	69,283	76,571
Depreciation And Amortisation	(10,520)	(11,721)	(10,510)	(11,500)	(12,500)
Operating EBIT	34,433	38,549	52,400	57,783	64,071
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	64,033	70,671
Exceptional Items	(1,246)	(1,824)	(1,948)		
Pre-tax Profit	34,933	40,384	57,019	64,033	70,671
Taxation	(9,338)	(12,029)	(15,466)	(17,289)	(19,081)
Exceptional Income - post-tax					
Profit After Tax	25,595	28,355	41,553	46,744	51,590
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	46,294	51,140
Recurring Net Profit	26,081	29,300	42,762	46,294	51,140
Fully Diluted Recurring Net Profit	26,081	29,300	42,762	46,294	51,140

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	44,953	50,270	62,910	69,283	76,571
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,775)	(5,594)	(8,061)	30,737	(9,460)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(9,919)	(12,299)	(13,510)	(17,739)	(19,531)
Net Interest (Paid)/Received	(1,064)	(1,095)	(899)	(750)	(900)
Tax Paid	(12,240)	(15,958)	(20,077)	(23,989)	(26,131)
Cashflow From Operations	33,259	32,377	41,339	82,282	47,580
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	67,282	37,580
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)	7,723	7,526
Cash Flow From Financing	(20,961)	(3,598)	(6,970)	3,282	2,678
Total Cash Generated	5,308	17,172	20,798	70,563	40,258
Free Cashflow To Equity	59,529	53,147	69,107	149,563	85,160
Free Cashflow To Firm	60,592	54,242	70,006	150,313	86,060

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	79,315	119,573
Total Debtors	34,244	40,570	47,707	55,011	59,930
Inventories	53,502	51,564	52,380	60,513	65,923
Total Other Current Assets	40,041	64,893	85,576	41,259	44,948
Total Current Assets	147,108	172,750	194,414	236,098	290,375
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	28,803	31,336
Other Current Liabilities	19,235	21,323	25,248	23,042	25,069
Total Current Liabilities	49,132	51,097	52,458	54,316	58,874
Total Long-term Debt	5,745	2,088	2,254	3,727	4,653
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	8,170	9,096
Total Provisions					
Total Liabilities	59,837	57,497	59,155	62,486	67,971
Shareholders Equity	208,417	234,078	267,064	308,467	354,309
Minority Interests	2,757	3,058	959	1,409	1,859
Total Equity	211,174	237,135	268,023	309,876	356,168

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	14.1%	4.5%	13.3%	6.7%	8.9%
Operating EBITDA Growth	7.7%	11.8%	25.1%	10.1%	10.5%
Operating EBITDA Margin	20.7%	22.1%	24.4%	25.2%	25.6%
Net Cash Per Share (Rs)	10.85	10.45	4.99	90.60	139.34
BVPS (Rs)	258.26	290.06	330.93	382.24	439.04
Gross Interest Cover	32.38	35.19	58.30	77.04	71.19
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	68.15	70.00
Inventory Days	215.23	232.36	215.09	219.62	221.95
Accounts Payables Days	98.28	109.80	102.04	104.16	105.57
ROIC (%)	12.6%	12.7%	15.0%	18.4%	19.8%
ROCE (%)	16.3%	16.5%	20.3%	19.6%	18.9%
Return On Average Assets	10.6%	11.0%	14.2%	13.5%	13.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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