



India

ADD (previously HOLD)

Consensus ratings*: Buy 21 Hold 8 Sell 9

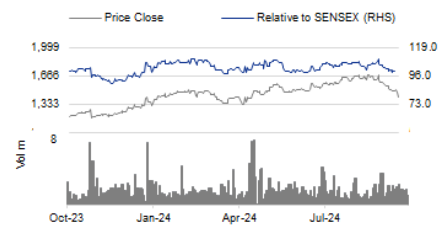
Current price:	Rs1,418
Target price: ▲	Rs1,640
Previous target:	Rs1,575
Up/downside:	15.7%
InCred Research / Consensus:	2.9%

Reuters:	
Bloomberg:	CIPLA IN
Market cap:	US\$15,773m Rs1,145,372m
Average daily turnover:	US\$39.9m Rs2898.2m
Current shares o/s:	807.0m
Free float:	66.5%

*Source: Bloomberg

Key changes in this note

- Upgrade the rating to ADD from HOLD.
- Raise our target price to Rs1,640 from Rs1,575 earlier.
- Raise our FY26F EPS estimate by 4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(14.3)	(7.2)	18.8
Relative (%)	(9.6)	(5.1)	(5.0)

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

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Cipla Ltd

Goa plant classified as VAI

- In a positive surprise, the USFDA has classified its observations at Cipla's Goa facility as VAI, thereby clearing the path for product approvals from this plant.
- gAbraxane is the key product filed. Pending clearance of this plant, we had assumed gAbraxane launch in 4QFY26F, which now shifts to 1QFY26F.
- This leads to an upgrade of 4% on FY26F EPS. Importantly, this removes a key overhang on the stock. Upgrade to ADD. Target price revised to Rs1,640.

Goa plant classified as VAI

In a positive move, Cipla's Goa plant has been classified as Voluntary Action Indicated (VAI) by the US Food and Drug Administration or USFDA. This plant was widely expected to receive an adverse classification, and thus, VAI is a significant positive. This clears the path for approval of gAbraxane and other products from the plant. More importantly, it removes a key overhang on the stock.

Early launch of gAbraxane likely

Our base case assumption was OAI (Official Action Indicated) and we were thus baking in 4QFY26F approval for gAbraxane. VAI status should now lead to much faster approval and we now build in gAbraxane for entire FY26F (vs. 4QFY26F earlier). This leads to a 4% upgrade in our FY26F EPS.

Upgrade the stock's rating to ADD from HOLD

Cipla has underperformed the BSE Healthcare Index by almost 13% in the last three weeks on concerns relating to production problems of the Lanreotide franchise and possible adverse classification of the Goa plant. With one of the two overhangs now gone, and Lanreotide franchise production problem only temporary (should resume full-scale from 4QFY25F, as per the company), we believe the stock can significantly outperform going ahead. We upgrade the stock's rating to ADD (HOLD earlier) and raise our target price to Rs1,625 (from Rs1,575 earlier).

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	217,633	227,531	257,741	272,850	301,260
Operating EBITDA (Rsm)	44,953	50,270	62,910	68,001	78,123
Net Profit (Rsm)	25,168	28,019	41,343	46,073	52,988
Core EPS (Rs)	32.3	36.3	53.0	57.1	65.7
Core EPS Growth	12.2%	12.3%	45.9%	7.7%	15.0%
FD Core P/E (x)	43.88	39.06	26.76	24.84	21.60
DPS (Rs)	5.0	8.5	5.5	6.0	6.0
Dividend Yield	0.35%	0.60%	0.39%	0.42%	0.42%
EV/EBITDA (x)	25.25	22.55	17.28	15.68	13.16
P/FCFE (x)	19.23	21.54	16.56	21.45	13.79
Net Gearing	(4.1%)	(3.6%)	(19.4%)	(23.6%)	(31.1%)
P/BV (x)	5.49	4.89	4.29	3.71	3.21
ROE	13.3%	13.2%	17.1%	16.0%	15.9%
% Change In Core EPS Estimates					3.91%
InCred Research/Consensus EPS (x)					

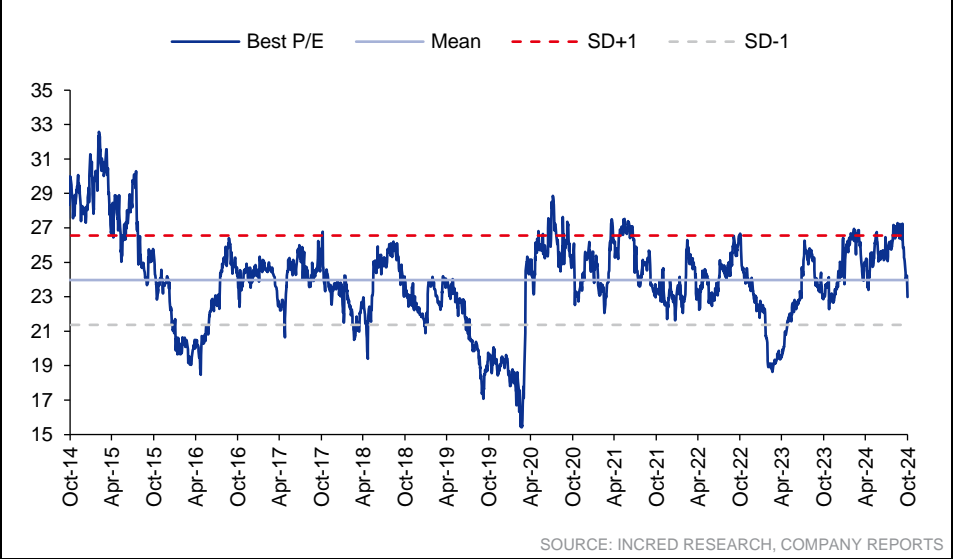
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Our revised earnings estimates

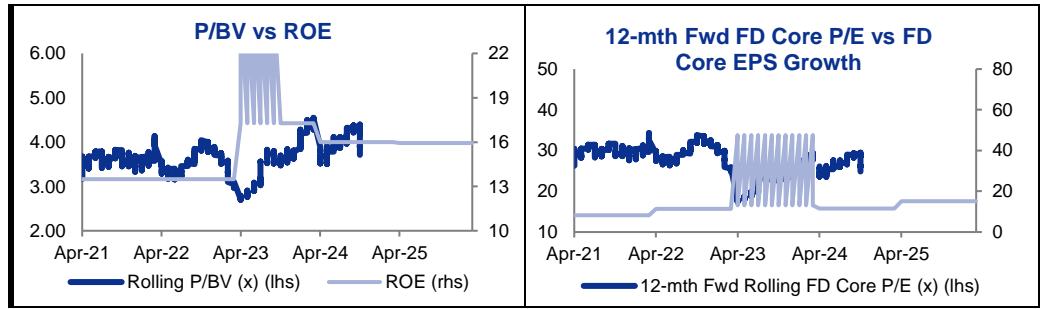
	FY25F			FY26F		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	2,72,850	2,72,850	-	2,97,596	3,01,260	1.2
EBITDA	68,001	68,001	-	75,393	78,123	3.6
Margin (%)	24.9	24.9	-	25.3	25.9	
PAT	46,073	46,073	-	50,995	52,988	3.9
EPS	57.0	57.0	-	63.0	65.5	3.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Recent price correction led Cipla to trade below the mean level and at a significantly reasonable valuation



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	301,260
Gross Profit	132,677	145,008	169,545	182,057	201,065
Operating EBITDA	44,953	50,270	62,910	68,001	78,123
Depreciation And Amortisation	(10,520)	(11,721)	(10,510)	(11,000)	(12,000)
Operating EBIT	34,433	38,549	52,400	57,001	66,123
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	72,723
Exceptional Items	(1,246)	(1,824)	(1,948)		
Pre-tax Profit	34,933	40,384	57,019	63,251	72,723
Taxation	(9,338)	(12,029)	(15,466)	(17,078)	(19,635)
Exceptional Income - post-tax					
Profit After Tax	25,595	28,355	41,553	46,173	53,088
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	52,988
Recurring Net Profit	26,081	29,300	42,762	46,073	52,988
Fully Diluted Recurring Net Profit	26,081	29,300	42,762	46,073	52,988

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	44,953	50,270	62,910	68,001	78,123
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,775)	(5,594)	(8,061)	(16,645)	(11,879)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(9,919)	(12,299)	(13,510)	(17,178)	(19,735)
Net Interest (Paid)/Received	(1,064)	(1,095)	(899)	(750)	(900)
Tax Paid	(12,240)	(15,958)	(20,077)	(23,428)	(26,335)
Cashflow From Operations	33,259	32,377	41,339	34,178	46,508
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	36,508
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	7,563
Cash Flow From Financing	(20,961)	(3,598)	41,100	3,277	2,715
Total Cash Generated	5,308	17,172	68,868	22,456	39,223
Free Cashflow To Equity	59,529	53,147	69,107	53,357	83,017
Free Cashflow To Firm	60,592	54,242	70,006	54,107	83,917

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	118,501
Total Debtors	34,244	40,570	47,707	54,570	60,252
Inventories	53,502	51,564	52,380	60,027	66,277
Total Other Current Assets	40,041	64,893	37,506	40,928	45,189
Total Current Assets	147,108	172,750	194,414	234,802	290,219
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	30,883
Other Current Liabilities	19,235	21,323	25,248	22,789	24,707
Total Current Liabilities	49,132	51,097	52,458	53,746	58,060
Total Long-term Debt	5,745	2,088	2,254	3,723	4,686
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	9,129
Total Provisions					
Total Liabilities	59,837	57,497	59,155	61,912	67,189
Shareholders Equity	208,417	234,078	267,064	308,596	356,636
Minority Interests	2,757	3,058	959	1,059	1,159
Total Equity	211,174	237,135	268,023	309,655	357,795

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	14.1%	4.5%	13.3%	5.9%	10.4%
Operating EBITDA Growth	7.7%	11.8%	25.1%	8.1%	14.9%
Operating EBITDA Margin	20.7%	22.1%	24.4%	24.9%	25.9%
Net Cash Per Share (Rs)	10.85	10.45	64.56	90.56	137.97
BVPS (Rs)	258.26	290.06	330.93	382.40	441.93
Gross Interest Cover	32.38	35.19	58.30	76.00	73.47
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	69.56
Inventory Days	215.23	232.36	215.09	225.95	230.06
Accounts Payables Days	98.28	109.80	102.04	106.99	108.14
ROIC (%)	12.6%	12.7%	18.3%	18.2%	20.2%
ROCE (%)	16.3%	16.5%	20.3%	19.4%	19.4%
Return On Average Assets	10.6%	11.0%	14.2%	13.4%	13.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.

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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.