

India

ADD (no change)

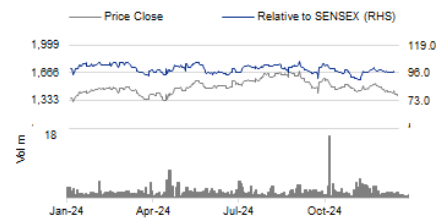
Consensus ratings*: Buy 23 Hold 8 Sell 7

Current price:	Rs1,396
Target price:	Rs1,640
Previous target:	Rs1,640
Up/downside:	17.5%
InCred Research / Consensus:	0.6%
Reuters:	CIPL.NS
Bloomberg:	CIPLA IN
Market cap:	US\$13,059m Rs1,127,510m
Average daily turnover:	US\$35.4m Rs3056.9m
Current shares o/s:	807.0m
Free float:	66.5%

*Source: Bloomberg

Key changes in this note

- FY25F EPS increased by 7%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.3)	(6.2)	1.9
Relative (%)	(3.2)	(0.5)	(4.4)

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

Research Analyst(s)



Praful BOHRA
T (91) 22 4161 1552
E praful.bohra@incredresearch.com
Yogesh SONI
T (91) 22 4161 1566
E yogesh.soni@incredresearch.com

Cipla Ltd

Healthy performance

- 3Q results are above expectations; US & India businesses surprise positively.
- Lanreotide production problems to be fully resolved in 1QFY26F. gAdvair/gAbraxane to be launched in 2QFY26F/4QFY26F, respectively.
- We have increased our earnings estimates for FY25F. Maintain ADD rating on the stock with an unchanged target price of Rs1,640.

3QFY25 performance above expectations

Cipla's 3QFY25 performance was above our/Bloomberg consensus estimates with margin/PAT beat of +200bp/+25%, respectively. US revenue at US\$226m (above our estimate of US\$220m) declined by 4% QoQ due to temporary supply challenges in the Lanreotide franchise {505(b)(2) and generic} arising due to capacity constraints and high demand. Lanreotide production problems will be resolved by Mar 2025F, with full-fledged contribution from 1QFY26F. Cipla currently has a 21% market share in gAlbuterol vs. 19% QoQ. South Africa saw a 9.5% YoY revenue growth in constant currency or CC terms driven by new launches, OTC portfolio and an uptick in key therapies. India business grew at 10% YoY, much above our estimate of 6.5% led by growth across segments. The gross margin was up 40bp QoQ while the EBITDA margin stood at 28.1%. Due to superior margin in 9MFY25 (26.9%), it will be above the guided range of 24.5-25.5% FY25F.

US business to gradually improve and remain steady

The US business should witness a gradual recovery from 1QFY26F, with the Lanreotide franchise's supplies resuming. With the USFDA's clearance to the Goa plant, the path for gAbraxane approval is cleared and it is likely to be launched by 4QFY26F (due to validation batches). Also, the gAdvair launch is expected to take place in 2QFY26F while three peptide launches are expected in the next 15 months. As gRevlimid is expected to witness stiff competition post expiry of the settlement (from Jan 2026F), we understand these new launches, along with the ramp-up of existing products, will help to fill the void and the US business to register growth in FY26F as well.

Other conference-call highlights

- 1) The EBITDA margin of 28% is not sustainable. 2) R&D expenses in FY26F are likely to moderate; however, the guidance has been maintained at 5-6%. 3) ETR to be 27-28% for FY25F. 4) Cipla expects to be present in the first wave of Semaglutide launch in India. 5) The company has less than US\$1m in supplies to PEPFAR, with the margin being significantly low.

Maintain ADD rating with an unchanged target price of Rs1,640

Our FY25F EPS estimates stand upgraded by 7% whereas there is no change in FY26F estimates. We retain our ADD rating on Cipla with an unchanged target price of Rs1,640. Downside risk: Delay in the US Food and Drug Administration or USFDA's clearance to the Indore plant.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	217,633	227,531	257,741	275,831	302,093
Operating EBITDA (Rsm)	44,953	50,270	62,910	72,042	78,911
Net Profit (Rsm)	25,168	28,019	41,343	49,789	53,563
Core EPS (Rs)	32.3	36.3	53.0	61.7	66.4
Core EPS Growth	12.2%	12.3%	45.9%	16.4%	7.6%
FD Core P/E (x)	43.20	38.45	26.35	22.63	21.03
DPS (Rs)	5.0	8.5	5.5	6.0	6.0
Dividend Yield	0.36%	0.61%	0.39%	0.43%	0.43%
EV/EBITDA (x)	24.85	22.19	16.99	14.53	12.76
P/FCFE (x)	18.93	21.20	16.30	20.85	12.93
Net Gearing	(4.1%)	(3.6%)	(19.4%)	(23.7%)	(31.6%)
P/BV (x)	5.41	4.81	4.22	3.61	3.12
ROE	13.3%	13.2%	17.1%	17.2%	15.9%
% Change In Core EPS Estimates				8.07%	1.09%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	58,101	57,393	63,289	66,782	66,038	61,632	66,939	70,510	70,730	7%	0%
Consumption of raw materials	20,043	20,634	22,368	23,131	22,195	20,501	21,929	22,830	22,641	2%	-1%
as % of sales	34.5%	36.0%	35.3%	34.6%	33.6%	33.3%	32.8%	32.4%	32.0%		
Employee costs	9,487	9,648	10,666	10,911	10,681	10,842	11,942	12,079	11,976	12%	-1%
as % of sales	16.3%	16.8%	16.9%	16.3%	16.2%	17.6%	17.8%	17.1%	16.9%		
Other expenditure	14,496	15,374	15,316	15,402	11,686	12,690	12,380	12,895	12,624	8%	-2%
as % of sales	24.9%	26.8%	24.2%	23.1%	17.7%	20.6%	18.5%	18.3%	17.8%		
EBITDA	14,076	11,737	14,939	17,338	17,475	13,159	17,158	18,856	19,889	14%	5%
Margins (%)	24.2%	20.5%	23.6%	26.0%	26.5%	21.4%	25.6%	26.7%	28.1%		
Depreciation	2,721	3,462	2,392	2,900	2,334	2,883	2,467	2,717	2,798		
Other income	1,144	1,346	1,363	1,763	1,846	2,493	1,602	1,906	2,216	20%	16%
Interest	318	344	164	258	301	176	180	154	146		
PBT	12,181	9,278	13,746	15,942	16,686	12,593	16,114	17,891	19,161	15%	7%
Total tax	4,100	2,223	3,780	4,384	4,053	3,249	4,351	4,830	3,324		
Tax rate (%)	33.7%	24.0%	27.5%	27.5%	24.3%	25.8%	27.0%	27.0%	17.3%		
PAT before MI	8,081	7,055	9,966	11,558	12,633	9,344	11,763	13,060	15,837	25%	21%
Minority interest (MI)	-71	25	-9	-249	1	46	14	-35	-132		
Adj. PAT before extraordinary items	8,010	7,081	9,957	11,309	12,634	9,390	11,776	13,025	15,705	24%	21%
Extraordinary expenses	0	-1,824	0	0	-1,948	0	0	0	0		
Reported PAT	8,010	5,257	9,957	11,309	10,686	9,390	11,776	13,025	15,705	47%	21%
No. of shares	807.1	807.2	807.2	807.3	807.6	807.6	808.0	808.0	808.0		
EPS	9.9	8.8	12.3	14.0	15.6	11.6	14.6	16.1	19.4		
Core EPS	9.0	7.5	11.1	12.4	13.9	9.3	13.1	14.4	17.2		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Revenue break-up

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
North America INR	16,000	16,770	18,220	18,870	19,160	18,750	20,870	19,860	19,060	-1%	-4%
% total revenue	27.5%	29.2%	28.8%	28.3%	29.3%	30.4%	31.2%	28.2%	26.9%		
Global access & rest of Africa	1,300	750	1,630	2,420	2,120	710	510	2,690	2,060	-3%	-23%
% total revenue	2.2%	1.3%	2.6%	3.6%	3.2%	1.2%	0.8%	3.8%	2.9%		
South Africa	5,500	6,180	5,140	6,200	6,030	6,900	6,260	7,990	7,690	28%	-4%
% total revenue	9.5%	10.8%	8.1%	9.3%	9.2%	11.2%	9.4%	11.3%	10.9%		
India	25,630	22,590	27,720	28,170	28,590	24,170	28,980	29,480	31,460	10%	7%
% total revenue	44.1%	39.4%	43.8%	42.2%	43.7%	39.2%	43.3%	41.8%	44.5%		
EM & Europe	7,620	7,840	7,790	7,340	7,460	8,270	8,490	8,060	8,240	10%	2%
% total revenue	13.1%	13.7%	12.3%	11.0%	11.4%	13.4%	12.7%	11.4%	11.6%		
API	1,470	1,340	1,360	1,470	1,080	1,890	980	1,600	1,260	17%	-21%
% total revenue	2.5%	2.3%	2.1%	2.2%	1.7%	3.1%	1.5%	2.3%	1.8%		
Others	581	1,923	1,429	2,312	990	940	849	830	960	-3%	16%
% total revenue	1.0%	3.4%	2.3%	3.5%	1.5%	1.5%	1.3%	1.2%	1.4%		
Total revenue	58,101	57,393	63,289	66,782	65,430	61,630	66,939	70,510	70,730	8%	0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Margin profile

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	66%	64%	65%	65%	66%	67%	67%	68%	68%	160	37
EBITDA	24%	20%	24%	26%	26%	21%	26%	27%	28%	166	138
Adj. PAT	14%	12%	16%	17%	19%	15%	18%	18%	22%	307	373
Effective tax rate	34%	24%	28%	27%	24%	26%	27%	27%	17%	-694	-965

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incared Estimates	Change (%)	Bloomberg Estimates	Change (%)
Revenue (Rs m)	70,730	69,819	0.0	69,672	1.5
EBITDA (Rs m)	19,889	18,104	9.9	17,772	11.9
Margin (%)	28.1	25.9		25.5	
PAT (Rs m)	15,705	12,444	26.2	12,078	30.0

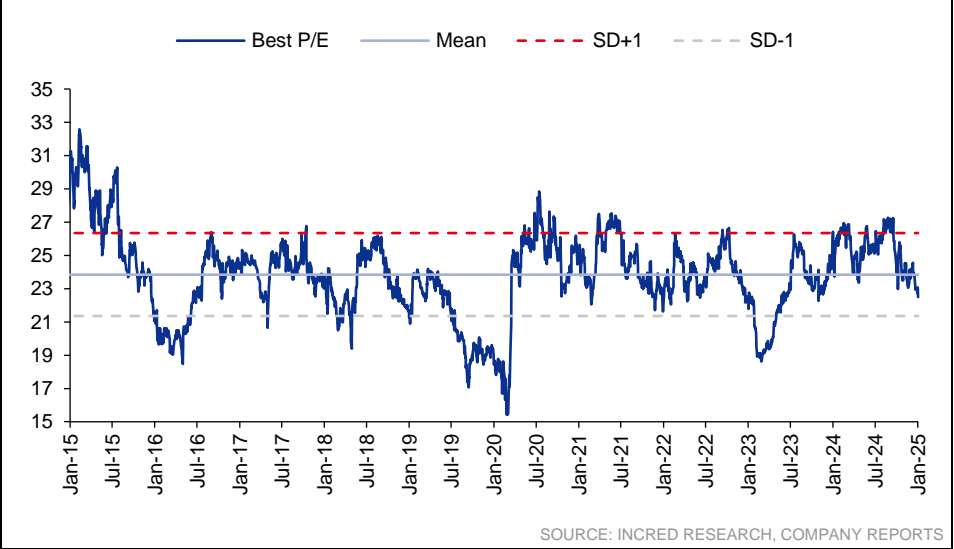
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

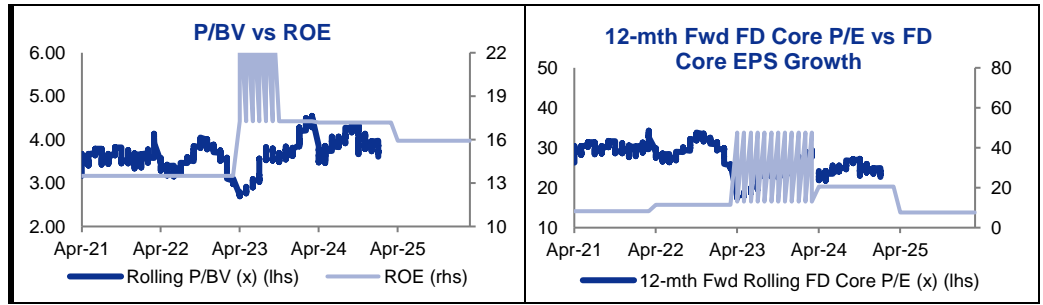
	FY25F			FY26F		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	2,73,952	2,75,831	0.7	3,02,472	3,02,093	-0.1
EBITDA	68,657	72,042	4.9	78,844	78,911	0.1
Margin (%)	25.1	26.1		26.1	26.1	
PAT	46,552	49,789	7.0	53,514	53,563	0.1
EPS	57.6	61.6	7.0	66.2	66.2	0.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: After the recent price correction, Cipla trades below its mean 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	275,831	302,093
Gross Profit	132,677	145,008	169,545	186,540	203,981
Operating EBITDA	44,953	50,270	62,910	72,042	78,911
Depreciation And Amortisation	(10,520)	(11,721)	(10,510)	(10,800)	(12,000)
Operating EBIT	34,433	38,549	52,400	61,242	66,911
Financial Income/(Expense)	(1,064)	(1,095)	(899)	(650)	(900)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,809	4,755	7,466	7,750	7,500
Profit Before Tax (pre-EI)	36,179	42,208	58,967	68,342	73,511
Exceptional Items	(1,246)	(1,824)	(1,948)		
Pre-tax Profit	34,933	40,384	57,019	68,342	73,511
Taxation	(9,338)	(12,029)	(15,466)	(18,452)	(19,848)
Exceptional Income - post-tax					
Profit After Tax	25,595	28,355	41,553	49,889	53,663
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	49,789	53,563
Recurring Net Profit	26,081	29,300	42,762	49,789	53,563
Fully Diluted Recurring Net Profit	26,081	29,300	42,762	49,789	53,563

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	44,953	50,270	62,910	72,042	78,911
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,775)	(5,594)	(8,061)	(18,971)	(10,406)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(9,919)	(12,299)	(13,510)	(18,552)	(19,948)
Net Interest (Paid)/Received	(1,064)	(1,095)	(899)	(650)	(900)
Tax Paid	(12,240)	(15,958)	(20,077)	(25,652)	(26,548)
Cashflow From Operations	33,259	32,377	41,339	34,519	48,557
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	19,519	38,557
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	8,643	7,574
Cash Flow From Financing	(20,961)	(3,598)	41,100	4,201	2,727
Total Cash Generated	5,308	17,172	68,868	23,720	41,284
Free Cashflow To Equity	59,529	53,147	69,107	54,038	87,114
Free Cashflow To Firm	60,592	54,242	70,006	54,688	88,014

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	80,543	121,826
Total Debtors	34,244	40,570	47,707	55,166	60,419
Inventories	53,502	51,564	52,380	60,683	66,460
Total Other Current Assets	40,041	64,893	37,506	41,375	45,314
Total Current Assets	147,108	172,750	194,414	237,766	294,019
Fixed Assets	56,087	57,398	60,469	64,669	62,669
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	136,964	134,964
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	28,138	30,673
Other Current Liabilities	19,235	21,323	25,248	22,511	24,539
Total Current Liabilities	49,132	51,097	52,458	53,119	57,682
Total Long-term Debt	5,745	2,088	2,254	3,797	4,772
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	8,240	9,215
Total Provisions					
Total Liabilities	59,837	57,497	59,155	61,359	66,897
Shareholders Equity	208,417	234,078	267,064	312,312	360,927
Minority Interests	2,757	3,058	959	1,059	1,159
Total Equity	211,174	237,135	268,023	313,371	362,086

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	14.1%	4.5%	13.3%	7.0%	9.5%
Operating EBITDA Growth	7.7%	11.8%	25.1%	14.5%	9.5%
Operating EBITDA Margin	20.7%	22.1%	24.4%	26.1%	26.1%
Net Cash Per Share (Rs)	10.85	10.45	64.56	92.04	141.99
BVPS (Rs)	258.26	290.06	330.93	387.00	447.25
Gross Interest Cover	32.38	35.19	58.30	94.22	74.35
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	68.06	69.83
Inventory Days	215.23	232.36	215.09	231.09	236.50
Accounts Payables Days	98.28	109.80	102.04	108.08	109.40
ROIC (%)	12.6%	12.7%	18.3%	19.3%	20.4%
ROCE (%)	16.3%	16.5%	20.3%	20.7%	19.4%
Return On Average Assets	10.6%	11.0%	14.2%	14.4%	13.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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InCred Research Services Private Limited

Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

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.