

November 28, 2024

Company Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		ACCUMULATE	
Target Price	1,730		1,615	
Sales (Rs. m)	2,99,148	3,17,566	2,97,488	3,14,101
% Chng.	0.6	1.1		
EBITDA (Rs. m)	73,861	72,910	73,014	71,154
% Chng.	1.2	2.5		
EPS (Rs.)	63.6	63.4	62.8	61.9
% Chng.	1.2	2.6		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	2,57,749	2,70,099	2,99,148	3,17,566
EBITDA (Rs. m)	62,919	66,614	73,861	72,910
Margin (%)	24.4	24.7	24.7	23.0
PAT (Rs. m)	41,224	45,943	51,335	51,221
EPS (Rs.)	51.1	56.9	63.6	63.4
Gr. (%)	47.1	11.4	11.7	(0.2)
DPS (Rs.)	9.3	14.9	16.9	19.9
Yield (%)	0.6	1.0	1.1	1.3
RoE (%)	16.5	16.2	16.2	14.6
RoCE (%)	20.4	19.4	19.5	17.2
EV/Sales (x)	4.7	4.4	3.9	3.6
EV/EBITDA (x)	19.1	17.7	15.7	15.6
PE (x)	29.2	26.2	23.5	23.5
P/BV (x)	4.5	4.0	3.6	3.3

Key Data

CIPL.BO | CIPLA IN

52-W High / Low	Rs.1,702 / Rs.1,188
Sensex / Nifty	79,044 / 23,914
Market Cap	Rs.1,206bn / \$ 14,268m
Shares Outstanding	808m
3M Avg. Daily Value	Rs.3354.64m

Shareholding Pattern (%)

Promoter's	30.91
Foreign	28.80
Domestic Institution	23.95
Public & Others	16.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.7)	0.9	25.2
Relative	0.5	(4.0)	4.8

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Risk reward favorable

We upgrade the stock to 'Buy' from 'Accumulate' with revised TP of Rs1,730/share, valuing at 27x FY27E EPS. Our FY26E and FY27E EPS stand marginally increased by 2-3% as we factor in higher US sales. We believe the recent classification of its Goa facility as VAI by USFDA, has paved the way for gAbraxane launch. Though Q3FY25 will see a dip in US sales, given gLanreotide supply issues, the domestic market will recover. Looking forward, FY26E and FY27E will see several high-value niche launches in the US along with the normalization of gLanreotide supply. Unlike some of its peers, which will see sharp decline in FY27E profitability vs FY26E given higher gRevlimid contribution, we see negligible decline in case of Cipla. Further, Cipla's strong net cash position of \$1bn provides flexibility to pursue strategic M&A opportunities.

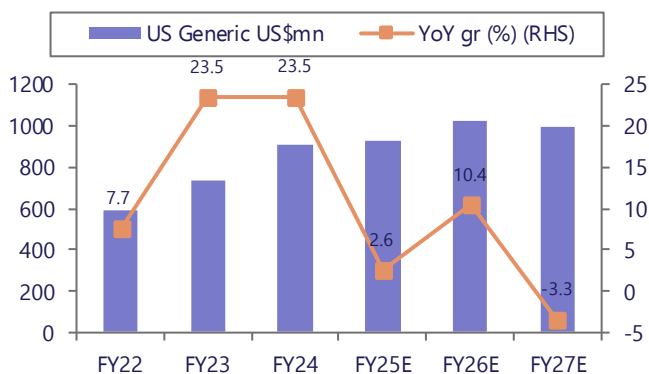
Cipla's stock has corrected in the last few months (12% from its high). At CMP, the stock is trading at 23x FY27E EPS. Timely launch of critical high-value products in the US in FY26E/27E will be key.

- Robust US generic pipeline:** Cipla's US revenue contributes ~30% to total sales and has grown at 14% CAGR in dollar terms over FY21-25E. The company's US growth has been better than its peers during the period given the low base, depth in pipeline and niche launches at regular intervals. Products like Albuterol, Lanreotide and Revlimid have contributed to Cipla's scale-up in the US. These products contribute to 35-40% of US sales. Cipla has a robust US pipeline comprising respiratory, injectable and peptide portfolios, which will continue to drive US sales. Cipla has filed 5 complex assets in the respiratory segment and 12 peptide assets. Some of the niche launches like gAdvair, gAbraxane, gSymbicort and gQvar across these segments, are expected over the next 2-3 years. We have factored in \$1bn of US sales in FY27E.
- Timely launch of gAbraxane and gAdvair will be key:** The recent VAI classification of Cipla's Goa plant by USFDA has paved the way for gAbraxane launch. Market size for gAbraxane is estimated at \$700mn with only one generic player in the market. We believe with limited competition, this can be a meaningful product for the next 2 years. We have factored in \$60mn and \$40mn sales in FY26E and FY27E, respectively, from gAbraxane. Post USFDA compliance issues at its Indore facility, the company has shifted production of gAdvair to Invagen facility in US, where it has set up 2 manufacturing lines and guided for H1FY26 launch. Timely launch of gAbraxane and gAdvair can add \$100-120mn in sales on annual basis. These launches are expected to boost US revenue and help offset any potential decline in gRevlimid sales in FY27E.
- 'One India' business on strong footing:** Cipla's One India business – Prescription (Rx) + Trade Generics (Gx) + Consumer Health – contributes ~42% to overall revenue. The business saw muted growth in H1 due to slower growth in anti-infectives impacted by seasonality and change in distribution model in the Gx segment. With the respiratory uptick starting in Q3FY24 and

revival in the season, growth is expected to improve. The company has also expanded its field force in India. MR count stands at 8,700, with over 1,500 added recently. On the Gx front, after initial challenges due to a distribution model shift, the business is now back on the growth path. Additionally, the Consumer Health segment is seeing strong growth, with brands like Nicotex, Omnigel and Cipladine gaining momentum. Overall, we see 10% revenue CAGR for One India business over FY24-27E.

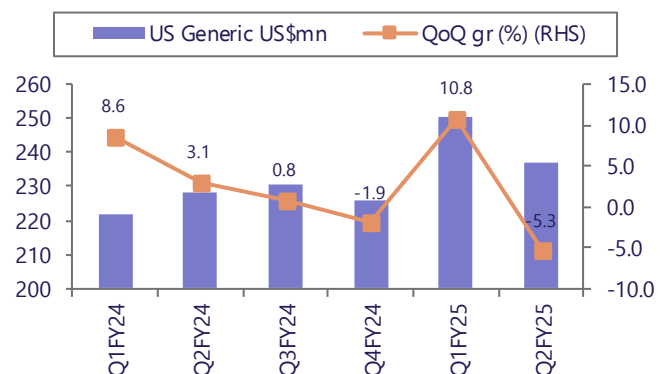
- Continued momentum from South Africa business:** This business is benefiting from growth in key therapies, new launches and tender business while retaining its leadership position in the Rx business. Additionally, the integration of Actor Pharma is expected to boost growth in both OTC and Rx businesses, leading to sustainable growth. Thus, we believe the South Africa business is well positioned to achieve high single digit revenue growth with potential margin expansion.
- Strong BS provides opportunity to pursue M&A:** Cipla's net cash stands at \$1bn (Rs80bn), which provides flexibility to pursue strategic M&A opportunities. Further, we expect Cipla expect to generate Rs75-80bn FCF over FY25E-27E. The management is ready to explore M&A opportunities in India where the company does not have market leadership. In the US, the company intends to explore a differentiated portfolio with stickiness in revenue and some entry barriers. The company will continue to maintain its 30% dividend payout
- Financial snapshot:** Cipla achieved 9% revenue and 18% EBITDA CAGR from FY22-24, driven by the launch of niche products in the US and steady domestic franchise. Despite decline in gRevlimid sales from FY27E, we see limited impact on profitability as it will be compensated by new high-value launches in the US. Overall, we see 8% revenue and 5% EBITDA CAGR over FY25E-27E.

Exhibit 1: New launches & respiratory products to aid growth



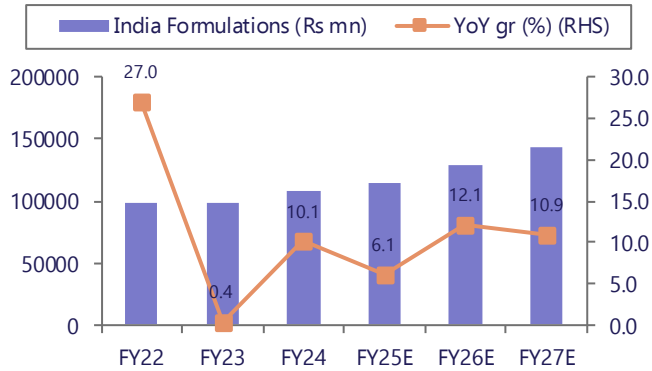
Source: Company, PL

Exhibit 2: Market share increased for key products QoQ



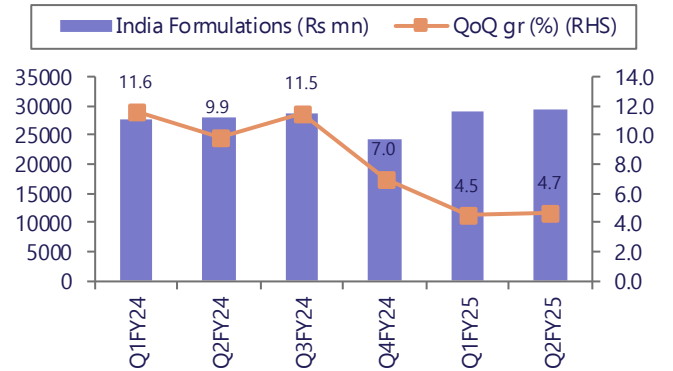
Source: Company, PL

Exhibit 3: Growth backed by Rx + Gx+ Consumer Health biz



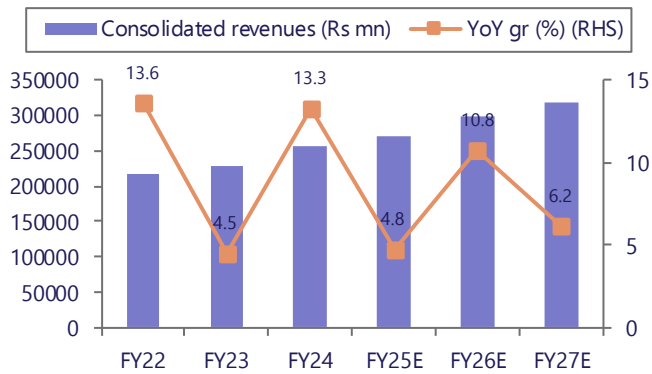
Source: Company, PL

Exhibit 4: Seasonality & distribution model impacted 1HY25



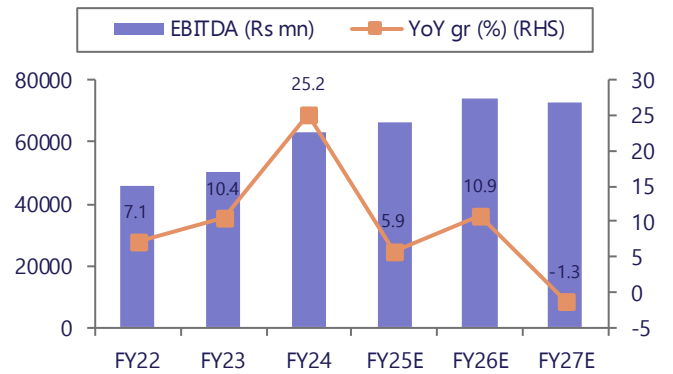
Source: Company, PL

Exhibit 5: Traction from key markets to aid growth



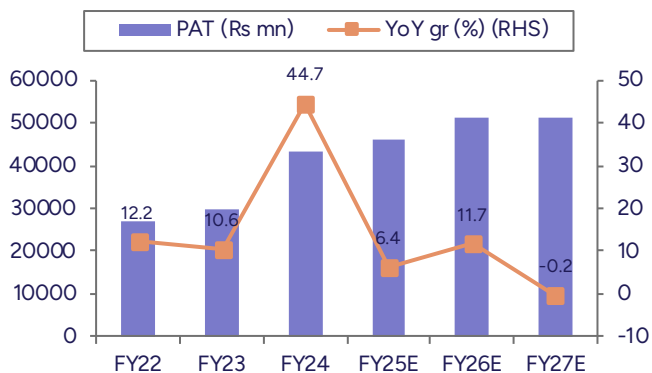
Source: Company, PL

Exhibit 6: Sustainable operating profitability



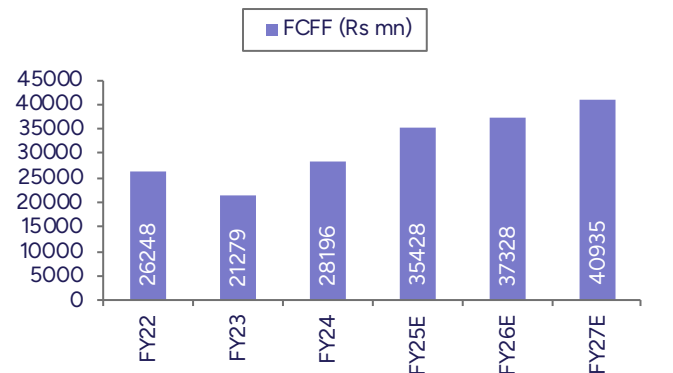
Source: Company, PL

Exhibit 7: PAT to deliver 6% CAGR over FY25-27E

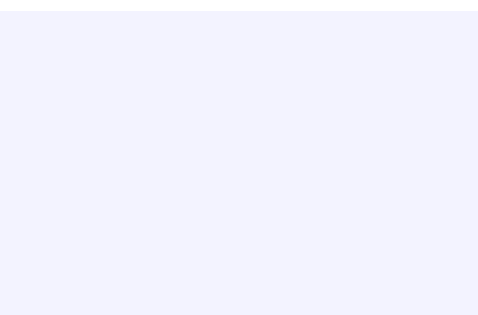


Source: Company, PL

Exhibit 8: Strong FCFF generation over FY25E-27E



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	2,57,749	2,70,099	2,99,148	3,17,566
YoY gr. (%)	13.3	4.8	10.8	6.2
Cost of Goods Sold	98,533	1,02,159	1,15,534	1,26,556
Gross Profit	1,59,216	1,67,940	1,83,614	1,91,010
Margin (%)	61.8	62.2	61.4	60.1
Employee Cost	38,752	43,190	48,124	52,527
Other Expenses	57,545	58,136	61,630	65,572
EBITDA	62,919	66,614	73,861	72,910
YoY gr. (%)	25.2	5.9	10.9	(1.3)
Margin (%)	24.4	24.7	24.7	23.0
Depreciation and Amortization	10,510	10,773	11,527	12,334
EBIT	52,409	55,841	62,333	60,576
Margin (%)	20.3	20.7	20.8	19.1
Net Interest	899	700	600	500
Other Income	7,466	8,000	9,000	10,500
Profit Before Tax	58,975	63,141	70,733	70,576
Margin (%)	22.9	23.4	23.6	22.2
Total Tax	15,466	17,048	19,098	19,056
Effective tax rate (%)	26.2	27.0	27.0	27.0
Profit after tax	43,510	46,093	51,635	51,521
Minority interest	-	-	-	-
Share Profit from Associate	(338)	(150)	(300)	(300)
Adjusted PAT	41,224	45,943	51,335	51,221
YoY gr. (%)	47.1	11.4	11.7	(0.2)
Margin (%)	16.0	17.0	17.2	16.1
Extra Ord. Income / (Exp)	1,948	-	-	-
Reported PAT	43,172	45,943	51,335	51,221
YoY gr. (%)	44.7	6.4	11.7	(0.2)
Margin (%)	16.7	17.0	17.2	16.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	43,172	45,943	51,335	51,221
Equity Shares O/s (m)	807	807	807	807
EPS (Rs)	51.1	56.9	63.6	63.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	1,59,099	1,74,099	1,89,099	2,04,099
Tangibles	1,08,114	1,18,307	1,28,501	1,38,694
Intangibles	50,985	55,792	60,599	65,406
Acc: Dep / Amortization	95,284	1,06,057	1,17,584	1,29,918
Tangibles	54,762	60,954	67,579	74,667
Intangibles	40,521	45,103	50,005	55,250
Net fixed assets	63,816	68,043	71,516	74,182
Tangibles	53,352	57,354	60,922	64,026
Intangibles	10,464	10,689	10,594	10,155
Capital Work In Progress	11,527	11,527	11,527	11,527
Goodwill	31,120	31,120	31,120	31,120
Non-Current Investments	55,628	55,628	55,628	55,628
Net Deferred tax assets	4,025	4,005	3,985	3,965
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	52,380	56,980	63,108	66,993
Trade receivables	47,707	50,320	55,732	59,163
Cash & Bank Balance	8,750	27,890	47,150	68,454
Other Current Assets	50,201	52,711	55,346	58,113
Total Assets	3,21,300	3,54,391	3,91,299	4,25,354
Equity				
Equity Share Capital	1,615	1,615	1,615	1,615
Other Equity	2,65,450	2,97,285	3,32,632	3,65,042
Total Networth	2,67,064	2,98,900	3,34,246	3,66,657
Non-Current Liabilities				
Long Term borrowings	2,254	2,254	2,254	2,254
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,340	1,840	340	0
Trade payables	24,740	27,380	30,325	32,192
Other current liabilities	26,968	27,064	27,160	27,258
Total Equity & Liabilities	3,21,300	3,54,391	3,91,299	4,25,354

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	58,975	63,141	70,733	70,576
Add. Depreciation	10,510	10,773	11,527	12,334
Add. Interest	899	700	600	500
Less Financial Other Income	7,466	8,000	9,000	10,500
Add. Other	(5,001)	(150)	(300)	(300)
Op. profit before WC changes	65,384	74,464	82,561	83,110
Net Changes-WC	(8,061)	(6,988)	(11,134)	(8,120)
Direct tax	(15,975)	(17,048)	(19,098)	(19,056)
Net cash from Op. activities	41,348	50,428	52,328	55,935
Capital expenditures	(16,160)	(15,000)	(15,000)	(15,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(16,160)	(15,000)	(15,000)	(15,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(3,005)	(1,500)	(1,500)	(340)
Dividend paid	(6,862)	(14,108)	(15,989)	(18,810)
Interest paid	(899)	(700)	(600)	(500)
Others	(21,319)	20	20	20
Net cash from Fin. activities	(32,084)	(16,288)	(18,069)	(19,630)
Net change in cash	(6,897)	19,141	19,259	21,305
Free Cash Flow	28,196	35,428	37,328	40,935

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	66,038	61,632	66,939	70,510
YoY gr. (%)	13.7	7.4	5.8	5.6
Raw Material Expenses	22,195	20,501	21,929	22,886
Gross Profit	43,843	41,131	45,011	47,624
Margin (%)	66.4	66.7	67.2	67.5
EBITDA	17,475	13,159	17,158	18,800
YoY gr. (%)	24.2	12.1	14.9	8.4
Margin (%)	26.5	21.4	25.6	26.7
Depreciation / Depletion	2,334	2,883	2,467	2,717
EBIT	15,141	10,275	14,691	16,082
Margin (%)	22.9	16.7	21.9	22.8
Net Interest	301	176	180	154
Other Income	1,846	2,493	1,602	1,906
Profit before Tax	16,686	12,592	16,114	17,835
Margin (%)	25.3	20.4	24.1	25.3
Total Tax	4,053	3,249	4,351	4,830
Effective tax rate (%)	24.3	25.8	27.0	27.1
Profit after Tax	12,633	9,344	11,763	13,004
Minority interest	126	(46)	(14)	(25)
Share Profit from Associates	-	-	-	-
Adjusted PAT	10,559	9,390	11,776	13,029
YoY gr. (%)	31.8	78.6	18.3	15.2
Margin (%)	16.0	15.2	17.6	18.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,559	9,390	11,776	13,029
YoY gr. (%)	31.8	78.6	18.3	15.2
Margin (%)	16.0	15.2	17.6	18.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,559	9,390	11,776	13,029
Avg. Shares O/s (m)	804	804	804	804
EPS (Rs)	15.6	11.7	14.6	16.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	51.1	56.9	63.6	63.4
CEPS	64.1	70.2	77.9	78.7
BVPS	330.8	370.2	414.0	454.1
FCF	34.9	43.9	46.2	50.7
DPS	9.3	14.9	16.9	19.9
Return Ratio(%)				
RoCE	20.4	19.4	19.5	17.2
ROIC	16.8	17.1	18.1	17.0
RoE	16.5	16.2	16.2	14.6
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	107	108	108	108
Valuation(x)				
PER	29.2	26.2	23.5	23.5
P/B	4.5	4.0	3.6	3.3
P/CEPS	23.3	21.2	19.2	19.0
EV/EBITDA	19.1	17.7	15.7	15.6
EV/Sales	4.7	4.4	3.9	3.6
Dividend Yield (%)	0.6	1.0	1.1	1.3

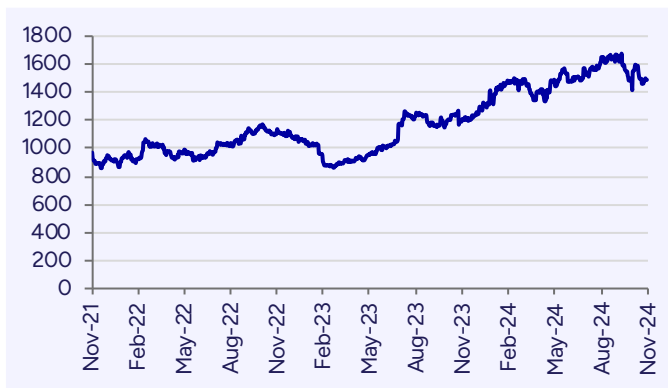
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
India Formulations	1,08,650	1,15,305	1,29,279	1,43,381
Exports	1,40,104	1,45,784	1,60,294	1,64,108
APIs	5,810	5,810	6,275	6,777

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	30-Oct-24	Accumulate	1,615	1,478
2	07-Oct-24	Accumulate	1,680	1,623
3	28-Jul-24	Accumulate	1,680	1,575
4	08-Jul-24	Accumulate	1,405	1,510
5	11-May-24	Accumulate	1,405	1,340
6	08-Apr-24	Accumulate	1,400	1,449
7	26-Jan-24	Accumulate	1,400	1,375
8	08-Jan-24	BUY	1,350	1,287

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	8,000	7,410
2	Aster DM Healthcare	BUY	500	443
3	Aurobindo Pharma	Accumulate	1,475	1,286
4	Cipla	Accumulate	1,615	1,478
5	Divi's Laboratories	Accumulate	6,000	5,950
6	Dr. Reddy's Laboratories	Reduce	1,335	1,272
7	Eris Lifesciences	BUY	1,420	1,292
8	Fortis Healthcare	BUY	710	621
9	HealthCare Global Enterprises	BUY	535	469
10	Indoco Remedies	Accumulate	320	315
11	Ipca Laboratories	Accumulate	1,700	1,537
12	J.B. Chemicals & Pharmaceuticals	BUY	2,250	1,860
13	Jupiter Life Line Hospitals	BUY	1,660	1,482
14	Krishna Institute of Medical Sciences	BUY	675	563
15	Lupin	BUY	2,420	2,105
16	Max Healthcare Institute	BUY	1,200	1,073
17	Narayana Hrudayalaya	BUY	1,420	1,196
18	Sun Pharmaceutical Industries	BUY	2,100	1,903
19	Sunteck Realty	BUY	670	490
20	Torrent Pharmaceuticals	Accumulate	3,600	3,433
21	Zydus Lifesciences	Accumulate	1,050	949

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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