Cipla

Result Update

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Inventory write-off impacts 4Q, progress on inhalation assets key driver

Cipla's 4Q missed estimates as company took one-time shelf stock adjustment for Albuterol based on competitors' entry. The impact was 2%, adjusting for which EBITDA margins are in line at 19-20%. While US sales at US$138mn were sequentially flattish, impacted by seasonality, price erosion in the base portfolio, Cipla's profitability in the US is now equivalent to company's level. Management remains confident of gaining further market share in Albuterol (has 87% TRx within Proventil market). Further, management guided that it has strong visibility of product launches in the US in FY22E to sustain growth. As proven in FY21 (savings of Rs5n+), it remains committed on cost savings driven by (1) leveraging digital technology in India branded formulations, (2) calibration of R&D – focussed products in inhalation. Basis this, management guided sustenance of margins at ~22% in the near term. Balance sheet continues to strengthen with net cash in FY21.

Key triggers: COVID and respiratory portfolio in India, market share gains in gAlbuterol, update on respiratory franchise in the US, SAGA tenders, coupled with cost savings via digital initiatives leading to structural improvement in EBITDA margins.

Outlook and Valuation: We believe Cipla is well positioned to deliver strong earnings growth over the medium term with incremental respiratory launches/filings and continued execution in domestic business through its One India strategy. It has displayed impressive execution in scaling up its respiratory franchise in the US (US$130mn sales in FY21) with Proventil achieving a 13% share of the overall Albuterol market. The inhalation pipeline remains a key growth driver for Cipla over the medium term and apart from Advair, we expect progress on other inhalation products including Qvar (filed, FY24 launch) and another partnered inhalation (filed) to provide growth visibility in the US over FY23-24. Besides these, two more inhalation assets (potentially Spiriva or Symbicort) will enter clinical trial shortly, positioning Cipla's respiratory portfolio on a strong footing beyond FY24E. We expect growth momentum to return in FY23E supported by inhalation assets and gRevlimid launch, notwithstanding concerns on muted earnings growth in FY22E arising from (1) moderation of COVID portfolio (~5% of FY21E sales) and (2) increase in promotional costs. At CMP, stock trades at 25x FY23 earnings of Rs36.

Q4FY21 Result (Rs Mn)

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Revenue	46,065	43,762	5.3	51,687	(10.9)
Total Expense	38,102	37,427	1.8	39,378	(3.2)
EBITDA	7,962	6,335	25.7	12,309	(35.3)
Depreciation	2,852	3,458	(17.5)	2,484	14.8
EBIT	5,111	2,877	77.6	9,824	(48.0)
Other Income	601	932	(35.5)	869	(30.8)
Interest	275	530	(48.2)	479	(42.7)
EBT	5,437	3,279	65.8	10,215	(46.8)
Tax	1,282	856	49.8	2,690	(52.3)
RPAT	4,134	2,460	68.1	7,481	(44.7)
APAT	4,134	2,460	68.1	7,481	(44.7)
			(bps)		(bps)
Gross Margin (%)	60.4	61.4	(97)	61.4	(99)
EBITDA Margin (%)	17.3	14.5	281	23.8	(653)
NPM (%)	9.0	5.6	335	14.5	(550)
Tax Rate (%)	23.6	26.1	(252)	26.3	(275)
EBIT Margin (%)	11.1	6.6	452	19.0	(791)

CMP	Rs 904
Target / Upside	Rs 940 / 4%
NIFTY	14,678

Scrip Details

Equity / FV	Rs 1,613mn / Rs 2
Market Cap	Rs 729bn
	USD 10bn
52-week High/Low	Rs 966/ 566
Avg. Volume (no)	6,243,750
Bloom Code	CIPLA IN

Price Performance	1M	3M	12M
Absolute (%)	(4)	7	59
Rel to NIFTY (%)	(4)	13	2

Shareholding Pattern

	Sep'20	Dec'20	Mar'21
Promoters	36.7	36.7	36.7
MF/Banks/FIs	43.3	41.2	40.1
FIIs	20.0	22.1	23.2
Public / Others	0.0	0.0	0.0

Valuation (x)

	FY21E	FY22E	FY23E
P/E	30.3	29.3	25.1
EV/EBITDA	16.6	16.0	13.7
ROE (%)	14.1	12.9	13.5
RoACE (%)	12.0	11.4	12.1

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	191,596	203,919	220,797
EBITDA	42,524	43,250	48,917
PAT	24,049	24,853	28,986
EPS (Rs.)	29.8	30.8	36.0

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Exhibit 1: Revenue Mix

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Domestic Formulations	**18,070**	**17,390**	**3.9**	**22,310**	**(19.0)**	**77,360**	**65,111**	**18.8**
Export Formulations	25,217	23,659	6.6	27,379	(7.9)	105,714	98,237	7.6
North America	10,087	8,603	17.2	10,370	(2.7)	41,325	39,803	3.8
South Africa	8,253	8,173	1.0	9,278	(11.0)	34,950	30,051	16.3
ROW	4126	3871	6.6	4639	(11.0)	18181	15026	21.0
Europe	2,292	2,151	6.6	2,577	(11.0)	9,767	8,348	17.0
Others	458	860	(46.7)	515	(11.0)	1,490	5,009	(70.3)
APIs	2,292	2,581	(11.2)	2,062	11.2	6,812	6,678	2.0
Total	**45,579**	**43,630**	**4.5**	**51,750**	**(11.9)**	**189,885**	**170,026**	**11.7**

Source: DART, Company

Concall Takeaways:

1) **US:** Sales for 4QFY21 were at US$138mn, flattish QoQ despite market share gains in gAlbuterol and institutional sales growth, largely due to seasonality and price erosion. With Albuterol and DHE nasal spray (launched in Q1, has 180-days exclusivity), management indicated that profitability in the US is now equivalent to company's average. The respiratory franchise crossed ~US$130mn sales in FY21. Company has filed 2 partnered peptide injectables in FY21. Cipla has been working on six inhalation products, with launches planned between FY21-25. Of the six, Albuterol (launched), ProAir (approved in 4Q, working on queries), Advair and Spiriva (filed), Symbicort (in clinics). Tramadol IV has received CRL and company is evaluating its options. It is also exploring out-licensing opportunities for CNS assets.

    a. **gAdvair:** File is under active review. While the TAD early 1QFY22, management expects approval to take time (~2 years) given the complexity associated with it. The opportunity remains sizeable at US$800mn.

    b. **Albuterol:** Albuterol market volumes have not witnessed much increase this year, with weekly market volumes at ~1mn compared to ~1.25mn in Apr-20. Cipla has consistently increased its NRx market share (~60% of total volumes) and has now reached market share of 16.5% within new prescriptions. The follow-on impact on TRx has been strong too with Cipla's market share in TRx now at 13.2%. The brands (Lupin and Cipla) now account for 20% market share put together from which we expect them to gain further share. Sandoz is yet to ramp up and could impact some part of the market share gains for Indian generics.

    c. **R&D:** Was Rs9.2bn in FY21, 5% of sales. Management guided spend to increase as the respiratory assets progress on clinical trials. But the spend will be capped at 6-6.5% of sales. Of the total pipeline of 66 pending approvals, Cipla now has 48 filings in oral solids, 7 injectables, 2 ophthalmic and topicals each and 4 in inhalation.

    d. **Market share gains in newly launched products:** In the past 2 quarters, Cipla has launched key products such as Albuterol, Sildenafil, Migranal, Firazyr, etc. Company has gained respectable market share in most of new launches and remains confident of further gains.

2) **India business:** India reported 4% growth YoY in 4Q, 19% YoY in FY21. The branded business grew 6% YoY. As per IQVIA, Cipla is recording strong growth in respiratory, neuro and inhalation therapies outperforming the IPM. Trade generics business is now ~20% of the portfolio. Cipla has achieved success in its consumer portfolio as its reported sales of Rs3.6bn in FY21, 80% YoY (6% of India sales) aided by COVID portfolio.

3) **COVID:** COVID portfolio contributes ~5% of total sales, largely India. The company has expanded its COVID portfolio with oral antiviral drug Molnupiravir in partnership with MSD, antibody cocktail (Casirivimab and Imdevimab) in partnership with Roche and Baricitinib in partnership with Eli Lilly.

4) **SAGA:** The sales grew 10% YoY in local currency terms. For FY21, private business grew 13% and tender business grew by 3%. SAGA division entered a partnership with Alvogen for 4 oncology products which is progressing well.

5) **Financials:** Company has achieved net cash position and the net D/E is now -0.1.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**171,320**	**191,596**	**203,919**	**220,797**
Total Expense	**139,260**	**149,072**	**160,668**	**171,880**
COGS	59,914	73,519	74,524	78,698
Employees Cost	30,270	32,518	34,556	37,425
Other expenses	49,076	43,034	51,588	55,757
EBIDTA	**32,060**	**42,524**	**43,250**	**48,917**
Depreciation	11,747	10,677	11,104	11,548
EBIT	**20,313**	**31,848**	**32,147**	**37,369**
Interest	1,974	1,607	1,293	980
Other Income	3,442	2,660	2,662	2,687
Exc. / E.O. items	0	0	0	0
EBT	**21,782**	**32,901**	**33,515**	**39,076**
Tax	6,312	8,888	8,714	10,160
RPAT	15,465	24,049	24,853	28,986
Minority Interest	(470)	(164)	(180)	(198)
Profit/Loss share of associates	**(475)**	**(128)**	**(128)**	**(128)**
APAT	**15,465**	**24,049**	**24,853**	**28,986**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,613	1,613	1,613	1,613
Minority Interest	2,943	2,591	2,591	2,591
Reserves & Surplus	156,018	181,652	201,655	225,790
Net Worth	**157,630**	**183,265**	**203,268**	**227,403**
Total Debt	28,164	15,375	12,375	9,375
Net Deferred Tax Liability	17,911	18,503	18,407	18,592
Total Capital Employed	**206,648**	**219,734**	**236,641**	**257,961**
Applications of Funds				
Net Block	**63,019**	**60,484**	**59,335**	**58,668**
CWIP	42,056	44,361	45,189	46,082
Investments	6,461	5,793	5,793	5,793
Current Assets, Loans & Advances	**125,090**	**140,882**	**158,773**	**182,188**
Inventories	43,776	46,692	48,184	50,517
Receivables	38,913	34,457	36,199	37,998
Cash and Bank Balances	10,039	14,012	27,230	44,272
Loans and Advances	13,307	13,630	14,419	15,682
Other Current Assets	8,890	9,228	9,879	10,857
Less: Current Liabilities & Provisions	**29,978**	**31,785**	**32,449**	**34,770**
Payables	22,818	20,668	21,868	23,310
Other Current Liabilities	7,160	11,117	10,581	11,460
sub total				
Net Current Assets	95,112	109,097	126,324	147,419
Total Assets	**206,648**	**219,734**	**236,640**	**257,961**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	65.0	61.6	63.5	64.4
EBIDTA Margin	18.7	22.2	21.2	22.2
EBIT Margin	11.9	16.6	15.8	16.9
Tax rate	29.0	27.0	26.0	26.0
Net Profit Margin	9.0	12.6	12.2	13.1
(B) As Percentage of Net Sales (%)				
COGS	35.0	38.4	36.5	35.6
Employee	17.7	17.0	16.9	16.9
Other	28.6	22.5	25.3	25.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.1	0.1	0.0
Interest Coverage	10.3	19.8	24.9	38.1
Inventory days	93	89	86	84
Debtors days	83	66	65	63
Average Cost of Debt	5.5	7.4	9.3	9.0
Payable days	49	39	39	39
Working Capital days	203	208	226	244
FA T/O	2.7	3.2	3.4	3.8
(D) Measures of Investment				
AEPS (Rs)	19.2	29.8	30.8	36.0
CEPS (Rs)	33.8	43.1	44.6	50.3
DPS (Rs)	8.2	6.0	6.0	6.0
Dividend Payout (%)	42.9	20.2	19.5	16.7
BVPS (Rs)	195.5	227.3	252.1	282.1
RoANW (%)	10.1	14.1	12.9	13.5
RoACE (%)	8.3	12.0	11.4	12.1
RoAIC (%)	10.0	15.8	15.5	17.7
(E) Valuation Ratios				
CMP (Rs)	904	904	904	904
P/E	47.1	30.3	29.3	25.1
Mcap (Rs Mn)	728,890	728,890	728,890	728,890
MCap/ Sales	4.3	3.8	3.6	3.3
EV	736,850	707,389	691,172	671,130
EV/Sales	4.3	3.7	3.4	3.0
EV/EBITDA	23.0	16.6	16.0	13.7
P/BV	4.6	4.0	3.6	3.2
Dividend Yield (%)	0.9	0.7	0.7	0.7
(F) Growth Rate (%)				
Revenue	4.7	11.8	6.4	8.3
EBITDA	3.5	32.6	1.7	13.1
EBIT	14.7	56.8	0.9	16.2
PBT	4.8	51.0	1.9	16.6
APAT	1.2	55.5	3.3	16.6
EPS	1.2	55.5	3.3	16.6

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	33,633	39,436	32,664	37,577
CFI	(2,559)	(21,752)	(10,354)	(11,774)
CFF	(27,224)	(13,711)	(9,092)	(8,761)
FCFF	31,075	17,684	22,309	25,803
Opening Cash	6,188	10,039	14,012	27,230
Closing Cash	10,039	14,012	27,230	44,272

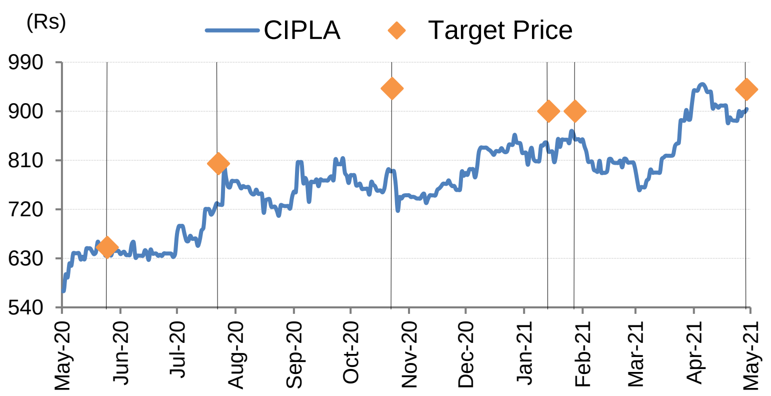
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jun-20	Accumulate	650	640
Aug-20	ACCUMULATE	804	729
Nov-20	BUY	942	790
Jan-21	BUY	900	826
Feb-21	BUY	900	849
May-21	BUY	940	904

*Price as on recommendation date

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