

May 11, 2022

## Q4FY22 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,085		1,100	
Sales (Rs. m)	233,389	256,792	230,314	252,748
% Chng.	1.3	1.6		
EBITDA (Rs. m)	50,121	57,491	52,605	59,097
% Chng.	(4.7)	(2.7)		
EPS (Rs.)	37.8	44.2	40.0	45.3
% Chng.	(5.5)	(2.4)		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	191,596	217,634	233,389	256,792
EBITDA (Rs. m)	42,524	45,528	50,121	57,491
Margin (%)	22.2	20.9	21.5	22.4
PAT (Rs. m)	24,045	25,168	30,509	35,633
EPS (Rs.)	29.8	31.2	37.8	44.2
Gr. (%)	55.5	4.7	21.2	16.8
DPS (Rs.)	4.6	5.3	6.3	7.6
Yield (%)	0.5	0.6	0.7	0.8
RoE (%)	14.1	12.9	13.8	14.4
RoCE (%)	16.5	16.7	17.0	18.1
EV/Sales (x)	3.9	3.4	3.1	2.7
EV/EBITDA (x)	17.7	16.2	14.4	12.2
PE (x)	31.1	29.7	24.5	21.0
P/BV (x)	4.1	3.6	3.2	2.9

### Key Data

CIPL.BO | CIPLA IN

52-W High / Low	Rs.1,083 / Rs.850
Sensex / Nifty	54,365 / 16,240
Market Cap	Rs.747bn/ \$ 9,663m
Shares Outstanding	807m
3M Avg. Daily Value	Rs.3201.41m

### Shareholding Pattern (%)

Promoter's	33.42
Foreign	26.48
Domestic Institution	18.18
Public & Others	21.92
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(8.4)	1.5	2.9
Relative	0.1	12.7	(6.3)

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## Another quarter of strong India and US growth

### Quick Pointers:

- One off charges of Rs2bn related to COVID inventory write off and restructuring in South Africa biz.
- India formulations grew 21% YoY led by robust growth across segments.

**Cipla's Q4FY22 performance was broad based with strong show in domestic formulation and US sales. We continue to remain positive on CIPLA's growth across key segments including India and US given 1) strong traction in respiratory and other portfolio, 2) Ex-COVID, IPM to potentially grow +8-10% going forward with Cipla likely outpacing the market and 3) meaningful delta in US revs expected from FY23, backed by potential key launches. We expect 15% EPS CAGR over FY22-24E from base business (ex Revlimid) given resilient earnings, improving visibility from US and strong free cash flow generation. Our FY23/24E estimates stands reduced by 5%/2%. Maintain 'Buy' rating with TP of Rs1085/share based on 24x FY24E EPS plus Rs20/share for Revlimid.**

- Strong traction in US and India market:** Cipla's Q4FY22 sales increased 14% YoY (-4% QoQ) to Rs52bn; above our estimates of Rs49bn. Domestic formulation sales grew by 21% YoY, led by improved traction across segments, trade generics and consumer health business. US sales came in at USD 161mn, up 7% QoQ (we est 152mn) aided by respiratory portfolio and ramp up in peptide assets. International markets grew at 7.5% YoY to Rs7.3bn. API saw decline of 39% YoY to Rs1.4bn.
- In-line EBIDTA; Rs2bn one-time charges:** GM declined by 171bp QoQ to 58.9%, mainly due to increase in materials/freight costs as well as one-time charges related to COVID inventory write-off of Rs 1.6bn. Moreover, other expenses also increased by 19% QoQ, led by higher overheads in domestic formulation business and Rs400mn one-time charges. Adjusted EBITDA for one off charges came in at Rs9.5bn; largely in line with our estimate. Adj OPM came in at 18.1%; up 70 bps YoY. R&D cost came in at 6.1% of sales at Rs3.2bn, up 16% YoY. Depreciation charges also came in higher which included one-time charges. PAT adj for one offs came in at Rs5.9bn.
- Key concall takeaways:** (1) US sales improvement was aided by strong growth in respiratory portfolio and ramp up in peptide asset –Lanreotide. Cipla currently enjoys 17.2% market share of total Albuterol market and 29.8% share of total Brovana market. Expect double digit market share over next 12 months in Lanreotide (2) Management reiterates US sales delta of \$300-500mn by FY25 with some key launches like Advair, Revlimid and Abraxane by H2FY23. On Advair company has responded to CRL; await FDA response (3) Domestic growth was strong across segments. Adjusted COVID, growth was 15% YoY. (4) Current geopolitical tensions have led to higher procurement expenses. Overall witnessed 50-70 bps impact on GMs due to higher freight and API cost (5) Guided for +21% OPM in FY23 excluding Advair. (6) Higher R&D expenses in Q4 as company has initiated clinical trials on one respiratory asset. Guided for 6-7% of sales as R&D spend in FY23 (7) Balance sheet remained strong with cash position at Rs 41bn in FY22 end compared to Rs 31bn in FY21.

**Exhibit 1: 4QFY22 Result Overview (Rs m) - EBITDA margin impact due to one offs and higher overhead**

Y/e March	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	FY22	FY21	YoY gr. (%)
<b>Net Sales</b>	52,603	46,065	14.2	54,789	217,634	191,596	13.6
Raw Material	21,467	18,224	17.8	21,434	84,956	73,519	15.6
<i>% of Net Sales</i>	<i>40.8</i>	<i>39.6</i>		<i>39.1</i>	<i>39.0</i>	<i>38.4</i>	
Personnel Cost	8,924	8,147	9.5	8,724	35,299	32,518	8.6
<i>% of Net Sales</i>	<i>17.0</i>	<i>17.7</i>		<i>15.9</i>	<i>16.2</i>	<i>17.0</i>	
Others	14,715	11,731	25.4	12,321	51,851	43,034	20.5
<i>% of Net Sales</i>	<i>28.0</i>	<i>25.5</i>		<i>22.5</i>	<i>23.8</i>	<i>22.5</i>	
Total Expenditure	45,106	38,102	18.4	42,479	172,106	149,072	15.5
<b>EBITDA</b>	7,497	7,962	(5.8)	12,310	45,528	42,524	7.1
<i>Margin (%)</i>	<i>14.3</i>	<i>17.3</i>		<i>22.5</i>	<i>20.9</i>	<i>22.2</i>	
Depreciation	2,903	2,852	1.8	2,475	10,520	10,677	(1.5)
<b>EBIT</b>	4,594	5,110	(10.1)	9,835	35,009	31,848	9.9
Other Income	640	601	6.5	913	2,809	2,656	5.8
Interest	181	275	(34.1)	207	1,064	1,607	(33.8)
<b>PBT</b>	5,053	5,437	(7.1)	10,541	36,754	32,897	11.7
Extra-Ord. Inc./Exps.	(575)	-		-	(1,821)	-	
Total Taxes	711	1,282	(44.5)	2,952	9,338	8,888	5.1
<i>ETR (%)</i>	<i>14.1</i>	<i>23.6</i>		<i>28.0</i>	<i>25.4</i>	<i>27.0</i>	
Minority interest	(147)	(21)		(304)	(427)	36	
<b>Reported PAT</b>	3,621	4,134	(12.4)	7,286	25,168	24,045	4.7

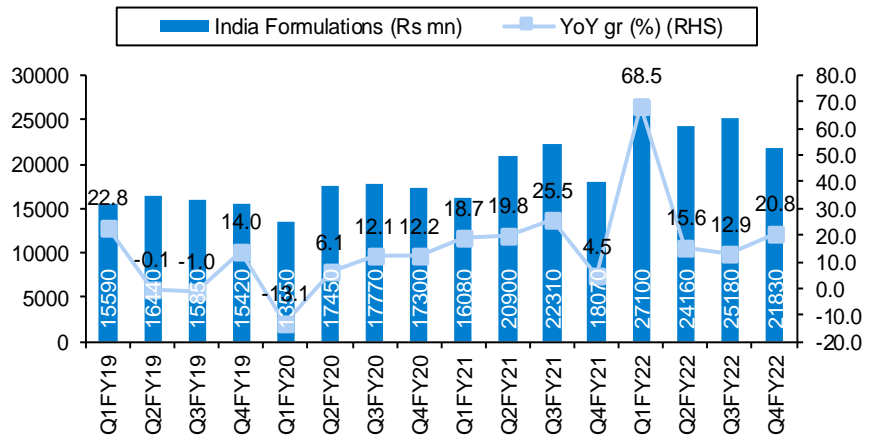
Source: Company, PL

**Exhibit 2: Sources of Revenue**

Geographic break up of revenues	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	FY22	FY21	YoY gr. (%)
<b>Domestic market</b>	21,830	18,070	20.8	25,180	47,010	40,380	16.4
<i>% of Sales</i>	<i>41.5</i>	<i>39.2</i>		<i>46.0</i>	<i>28.3</i>	<i>26.1</i>	
<b>Export market</b>	30,770	27,990	9.9	29,600	119,360	114,230	4.5
<i>% of Sales</i>	<i>58.5</i>	<i>60.8</i>		<i>54.0</i>	<i>71.7</i>	<i>73.9</i>	
North America	12,090	10,020	20.7	11,240	44,260	41,090	7.7
<i>% of Sales</i>	<i>23.0</i>	<i>21.8</i>		<i>20.5</i>	<i>26.6</i>	<i>26.6</i>	
SAGA	9,530	8,480	12.4	8,920	36,760	34,480	6.6
<i>% of Sales</i>	<i>18.1</i>	<i>18.4</i>		<i>16.3</i>	<i>22.1</i>	<i>22.3</i>	
International	7,320	6,810	7.5	7,380	28,730	28,390	1.2
<i>% of Sales</i>	<i>13.9</i>	<i>14.8</i>		<i>13.5</i>	<i>17.3</i>	<i>18.4</i>	
APIs	1,370	2,240	(38.8)	1,500	7,610	7,980	(4.6)
<i>% of Sales</i>	<i>2.6</i>	<i>4.9</i>		<i>2.7</i>	<i>4.6</i>	<i>5.2</i>	
Others	460	440	4.5	560	2,000	2,290	(12.7)
<i>% of Sales</i>	<i>0.9</i>	<i>1.0</i>		<i>1.0</i>	<i>1.2</i>	<i>1.5</i>	
<b>Total</b>	52,600	46,060	14.2	54,780	166,370	154,610	7.6

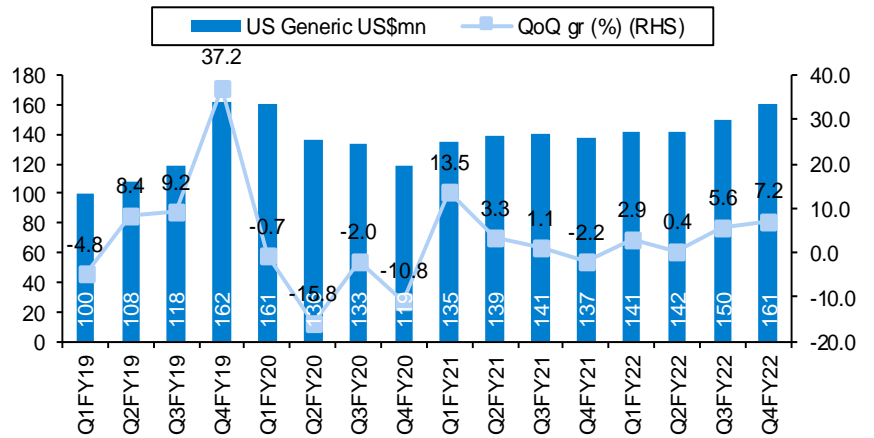
Source: Company, PL

**Exhibit 3: India Formulations((Rx+Gx+CHL):maintained growth across therapies**



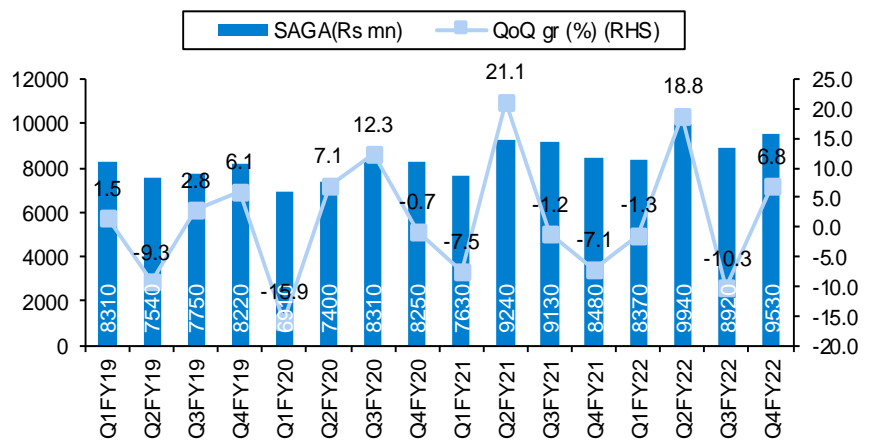
Source: Company, PL

**Exhibit 4: US (US\$m) : Respiratory portfolio driving growth**



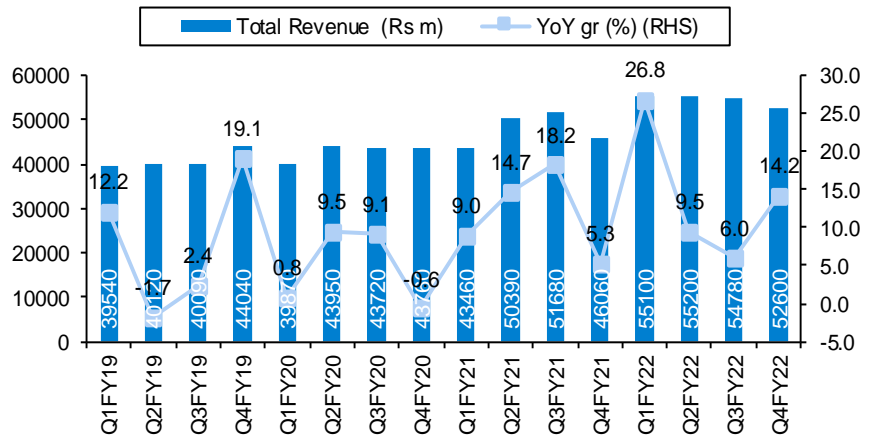
Source: Company, PL

**Exhibit 5: Revenue trend from SAGA (Rs in mn)**



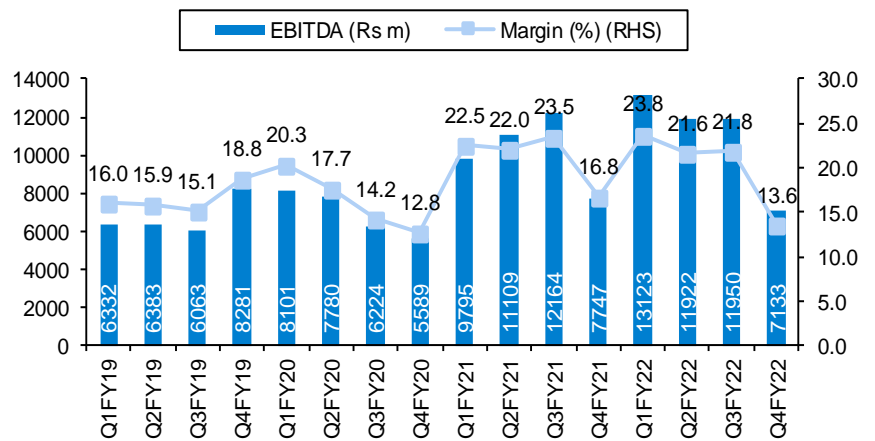
Source: Company, PL

**Exhibit 6: Overall Sales, Growth across markets**



Source: Company, PL

**Exhibit 7: EBITDA, Margin: margins impacted due to higher RM & overheads**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>191,596</b>	<b>217,634</b>	<b>233,389</b>	<b>256,792</b>
YoY gr. (%)	11.8	13.6	7.2	10.0
Cost of Goods Sold	83,161	96,309	100,516	108,586
Gross Profit	108,435	121,325	132,873	148,206
Margin (%)	56.6	55.7	56.9	57.7
Employee Cost	29,961	32,194	34,065	36,509
Other Expenses	35,950	43,603	48,688	54,205
<b>EBITDA</b>	<b>42,524</b>	<b>45,528</b>	<b>50,121</b>	<b>57,491</b>
YoY gr. (%)	32.7	7.1	10.1	14.7
Margin (%)	22.2	20.9	21.5	22.4
Depreciation and Amortization	10,677	10,520	11,045	11,598
<b>EBIT</b>	<b>31,848</b>	<b>35,009</b>	<b>39,075</b>	<b>45,894</b>
Margin (%)	16.6	16.1	16.7	17.9
Net Interest	1,607	1,064	750	750
Other Income	2,656	2,809	3,400	3,600
<b>Profit Before Tax</b>	<b>32,897</b>	<b>36,754</b>	<b>41,725</b>	<b>48,744</b>
Margin (%)	17.2	16.9	17.9	19.0
Total Tax	8,888	9,338	11,266	13,161
Effective tax rate (%)	27.0	25.4	27.0	27.0
<b>Profit after tax</b>	<b>24,009</b>	<b>27,416</b>	<b>30,459</b>	<b>35,583</b>
Minority interest	-	-	-	-
Share Profit from Associate	36	(427)	50	50
<b>Adjusted PAT</b>	<b>24,045</b>	<b>25,168</b>	<b>30,509</b>	<b>35,633</b>
YoY gr. (%)	55.6	4.7	21.2	16.8
Margin (%)	12.5	11.6	13.1	13.9
Extra Ord. Income / (Exp)	-	1,821	-	-
<b>Reported PAT</b>	<b>24,045</b>	<b>26,989</b>	<b>30,509</b>	<b>35,633</b>
YoY gr. (%)	55.6	12.2	13.0	16.8
Margin (%)	12.5	12.4	13.1	13.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	24,045	26,989	30,509	35,633
<b>Equity Shares O/s (m)</b>	<b>807</b>	<b>807</b>	<b>807</b>	<b>807</b>
<b>EPS (Rs)</b>	<b>29.8</b>	<b>31.2</b>	<b>37.8</b>	<b>44.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>127,615</b>	<b>137,892</b>	<b>149,892</b>	<b>161,892</b>
Tangibles	86,720	93,703	101,857	110,012
Intangibles	40,896	44,189	48,034	51,880
<b>Acc: Dep / Amortization</b>	<b>62,533</b>	<b>73,052</b>	<b>84,098</b>	<b>95,696</b>
Tangibles	35,939	41,985	48,333	54,999
Intangibles	26,593	31,067	35,764	40,697
<b>Net fixed assets</b>	<b>65,082</b>	<b>64,839</b>	<b>65,794</b>	<b>66,196</b>
Tangibles	50,780	51,718	53,524	55,013
Intangibles	14,302	13,122	12,270	11,183
Capital Work In Progress	9,689	7,662	7,662	7,662
Goodwill	30,073	31,379	31,379	31,379
Non-Current Investments	27,101	26,120	26,120	26,120
Net Deferred tax assets	182	2,049	2,049	2,049
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	46,692	53,502	57,548	63,319
Trade receivables	34,457	34,244	37,087	40,805
Cash & Bank Balance	14,012	19,285	33,378	50,196
Other Current Assets	20,711	29,287	30,751	32,289
<b>Total Assets</b>	<b>248,372</b>	<b>266,523</b>	<b>289,922</b>	<b>318,170</b>
<b>Equity</b>				
Equity Share Capital	1,614	1,614	1,614	1,614
Other Equity	181,652	206,803	231,342	259,811
<b>Total Networkth</b>	<b>183,266</b>	<b>208,417</b>	<b>232,956</b>	<b>261,424</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	14,208	5,745	2,745	(255)
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,347	4,813	4,813	4,813
Trade payables	20,668	25,081	26,856	29,549
Other current liabilities	24,473	21,759	21,844	21,931
<b>Total Equity &amp; Liabilities</b>	<b>248,372</b>	<b>266,523</b>	<b>289,922</b>	<b>318,170</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	30,241	33,945	38,325	45,144
Add. Depreciation	10,677	10,520	11,045	11,598
Add. Interest	1,607	1,064	750	750
Less Financial Other Income	2,656	2,809	3,400	3,600
Add. Other	(2,457)	901	-	-
Op. profit before WC changes	40,067	46,429	50,121	57,491
Net Changes-WC	3,717	(1,775)	(6,492)	(8,248)
Direct tax	(8,888)	(11,395)	(11,266)	(13,161)
<b>Net cash from Op. activities</b>	<b>34,896</b>	<b>33,260</b>	<b>32,363</b>	<b>36,083</b>
Capital expenditures	(8,189)	(7,012)	(12,000)	(12,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(8,189)</b>	<b>(7,012)</b>	<b>(12,000)</b>	<b>(12,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(10,835)	(10,062)	(3,000)	(3,000)
Dividend paid	-	(4,034)	(5,970)	(7,165)
Interest paid	(1,607)	(1,064)	(750)	(750)
Others	(10,292)	(5,816)	3,450	3,650
<b>Net cash from Fin. activities</b>	<b>(22,734)</b>	<b>(20,976)</b>	<b>(6,270)</b>	<b>(7,265)</b>
<b>Net change in cash</b>	<b>3,973</b>	<b>5,272</b>	<b>14,093</b>	<b>16,818</b>
Free Cash Flow	26,707	26,248	20,363	24,083

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Net Revenue</b>	<b>55,044</b>	<b>55,198</b>	<b>54,789</b>	<b>52,603</b>
YoY gr. (%)	26.6	9.6	6.0	14.2
Raw Material Expenses	20,688	21,367	21,434	21,467
Gross Profit	34,355	33,831	33,355	31,136
Margin (%)	62.4	61.3	60.9	59.2
<b>EBITDA</b>	<b>13,459</b>	<b>12,262</b>	<b>12,310</b>	<b>7,497</b>
YoY gr. (%)	28.3	4.2	-	(5.8)
Margin (%)	24.5	22.2	22.5	14.3
Depreciation / Depletion	2,611	2,531	2,475	2,903
<b>EBIT</b>	<b>10,848</b>	<b>9,731</b>	<b>9,835</b>	<b>4,594</b>
Margin (%)	19.7	17.6	18.0	8.7
Net Interest	296	380	207	181
Other Income	649	607	913	640
<b>Profit before Tax</b>	<b>9,955</b>	<b>9,958</b>	<b>10,541</b>	<b>5,053</b>
Margin (%)	18.1	18.0	19.2	9.6
Total Tax	2,837	2,838	2,952	711
Effective tax rate (%)	28.5	28.5	28.0	14.1
<b>Profit after Tax</b>	<b>7,118</b>	<b>7,120</b>	<b>7,590</b>	<b>4,342</b>
Minority interest	(29)	6	304	147
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>8,393</b>	<b>7,114</b>	<b>7,286</b>	<b>3,621</b>
YoY gr. (%)	45.2	6.9	(2.6)	(12.4)
Margin (%)	15.2	12.9	13.3	6.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>8,393</b>	<b>7,114</b>	<b>7,286</b>	<b>3,621</b>
YoY gr. (%)	45.2	6.9	(2.6)	(12.4)
Margin (%)	15.2	12.9	13.3	6.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>8,393</b>	<b>7,114</b>	<b>7,286</b>	<b>3,621</b>
Avg. Shares O/s (m)	804	804	804	804
<b>EPS (Rs)</b>	<b>10.4</b>	<b>8.8</b>	<b>9.1</b>	<b>5.2</b>

Source: Company Data, PL Research

**Key Financial Metrics**

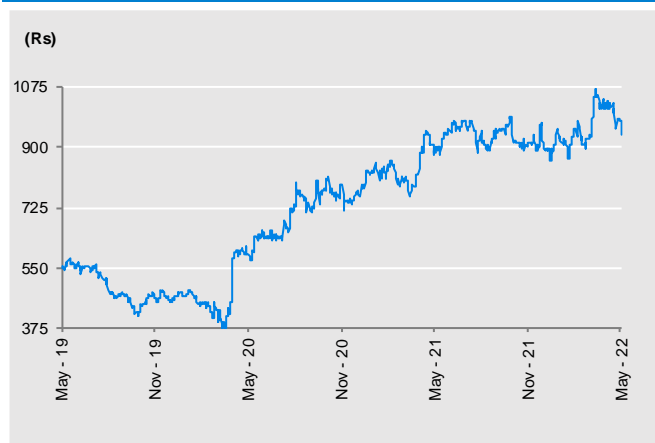
Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	29.8	31.2	37.8	44.2
CEPS	43.0	44.2	51.5	58.5
BVPS	227.2	258.3	288.7	324.0
FCF	33.1	32.5	25.2	29.8
DPS	4.6	5.3	6.3	7.6
<b>Return Ratio(%)</b>				
RoCE	16.5	16.7	17.0	18.1
ROIC	13.6	14.2	15.2	17.1
RoE	14.1	12.9	13.8	14.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.2)
Net Working Capital (Days)	115	105	106	106
<b>Valuation(x)</b>				
PER	31.1	29.7	24.5	21.0
P/B	4.1	3.6	3.2	2.9
P/CEPS	21.5	20.9	18.0	15.8
EV/EBITDA	17.7	16.2	14.4	12.2
EV/Sales	3.9	3.4	3.1	2.7
Dividend Yield (%)	0.5	0.6	0.7	0.8

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY21	FY22	FY23E	FY24E
India Formulations	77,360	98,280	102,399	114,285
Exports	106,252	111,729	122,630	133,561
APIs	7,984	7,600	8,360	8,945

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	BUY	1,100	1,037
2	26-Jan-22	BUY	1,100	906
3	07-Jan-22	BUY	1,100	915

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,772	4,537
2	Aster DM Healthcare	BUY	234	193
3	Aurobindo Pharma	Accumulate	759	699
4	Cipla	BUY	1,100	1,037
5	Divi's Laboratories	Accumulate	4,750	4,448
6	Dr. Reddy's Laboratories	BUY	5,200	4,317
7	Eris Lifesciences	BUY	850	670
8	Fortis Healthcare	BUY	362	271
9	Glenmark Pharmaceuticals	Accumulate	550	477
10	HealthCare Global Enterprises	BUY	316	292
11	Indoco Remedies	Accumulate	460	392
12	Ipca Laboratories	BUY	1,180	1,002
13	Krishna Institute of Medical Sciences	BUY	1,638	1,405
14	Lupin	Accumulate	950	785
15	Max Healthcare Institute	BUY	427	355
16	Narayana Hrudayalaya	BUY	773	733
17	Sun Pharmaceutical Industries	BUY	1,050	931
18	Torrent Pharmaceuticals	BUY	3,560	2,753
19	Zydus Lifesciences	Accumulate	465	369

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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