

Cipla (CIPLA IN)

Rating: **ACCUMULATE** | CMP: Rs826 | TP: Rs913

February 1, 2021

Q3FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	913		879	
Sales (Rs. m)	1,96,466	2,00,706	1,95,590	2,00,779
% Chng.	0.4	-		
EBITDA (Rs. m)	44,184	43,896	41,598	43,272
% Chng.	6.2	1.4		
EPS (Rs.)	37.6	39.2	34.1	37.6
% Chng.	10.3	4.2		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,66,949	1,92,907	1,96,466	2,00,706
EBITDA (Rs. m)	27,689	43,595	44,184	43,896
Margin (%)	16.6	22.6	22.5	21.9
PAT (Rs. m)	15,940	26,500	30,306	31,604
EPS (Rs.)	19.8	32.9	37.6	39.2
Gr. (%)	211.8	66.2	14.4	4.3
DPS (Rs.)	7.0	2.0	2.0	2.0
Yield (%)	0.8	0.2	0.2	0.2
RoE (%)	10.4	16.3	18.0	18.7
RoCE (%)	12.5	19.7	20.1	21.5
EV/Sales (x)	4.0	3.5	3.4	3.3
EV/EBITDA (x)	24.3	15.5	15.2	15.3
PE (x)	41.8	25.1	22.0	21.1
P/BV (x)	4.2	4.0	3.9	3.9

Key Data

CIPLA.BO | CIPLA IN

52-W High / Low	Rs.870 / Rs.354
Sensex / Nifty	46,286 / 13,635
Market Cap	Rs.666bn / \$ 9,130m
Shares Outstanding	806m
3M Avg. Daily Value	Rs.10245.52m

Shareholding Pattern (%)

Promoter's	36.70
Foreign	20.06
Domestic Institution	19.76
Public & Others	23.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.2)	21.2	79.4
Relative	2.6	(0.3)	59.7

Surajit Pal

surajitpal@plindia.com | 91-22-66322259

Tausif Shaikh

tausifshaikh@plindia.com | 91-22-66322246

Cost saving benefit continues to drive earnings

Quick Pointers:

- US (Gx) revenue was flat QoQ at US\$141m while India formulations growth of 26% YoY was led by COVID and CHL products.
- Cost saving benefit surpasses Rs4-5bn guidance for FY21E.
- USFDA has given Target Action Date (TAD) of 1QFY22E for gAdvair.

We increase our earnings estimate by 3/10/4% for FY21E/22E/23E as CIPLA surpassed its earlier cost saving of Rs4-5bn for FY21E and believe part of it would continue in FY22E/23E. CIPLA's performance in recent quarter was due to 1) COVID led products in domestic market 2) launch of gAlbuterol in US and 3) savings in marketing related overheads. We believe benefit from COVID products will subside gradually and core India formulations to grow in 8-10% range, while next leg of growth will be led by US markets given that 1) launch of one inhalation product each year, 2) further ramp-up of gAlbuterol 3) launch of gRevlimid in FY23E and 4) approval of Tramadol IV (inj). We maintain 'Accumulate' rating but increase our TP to Rs913 (earlier Rs879) based on 22x (Unchanged) PE of FY23E EPS of Rs39 and Rs51/share (assigning 1x(PE) benefit from Revlimid over FY23-26E using NPV method.

Cost saving benefit continue to lift margin: Revenue grew 22% YoY and 4% QoQ to Rs51.5bn (PL: Rs48.8bn) driven by India formulations growth of 26% YoY while EM and Europe grew by 3% and 2% QoQ. US revenue was flat QoQ at US\$141m. EBITDA grew 96% YoY and 10% QoQ to Rs12.1bn (PL: Rs10.5bn) while EBITDA margin was 23.6% YoY (PL: 21.5%) v/s 14.7% YoY and 22.3% QoQ. PBT grew 102% YoY and 10% QoQ to Rs10.2bn (PL: Rs8.6bn) while PAT grew 114% YoY and 14% QoQ to Rs7.5bn (PL: Rs6.2bn).

Conference call and other key highlights:

- India (Rx+Gx+CHL):** India formulations (including trade generics and OTC) grew 26% YoY while adjusted growth (Ex-COVID and OTC) would have been in mid-single-digit. Consumer products revenue was Rs2.5bn in 9MFY21. Management guided for declining growth in revenues from COVID related products revenue due to additions of lower number of new COVID cases. COVID products have lower gross margin than company level while at EBITDA level they are higher as those being hospital products require limited marketing expense. Ciphands in OTC segment contributes 25-30% of CHL revenues. CIPLA gets only marketing margin for selling Roche Actemra (Tocilizumab) in India.
- North America:** US sales were flat QoQ at US\$141m due to few batches being recalled. Its US business EBITDAM is slightly lower than company level. CIPLA gained market share of 14%+ in overall gAlbuterol and 85% in gProventil. Management guided one limited competition product per quarter and one inhaler product launch each fiscal. CIPLA replied to all the queries related to Goa facility which received WL in Mar-CY20. CIPLA has 2 inhalation assets

that would move into clinical trials shortly with R&D spend for these products significantly lower than gAdvair.

- **gAdvair launch potential in FY23E:** CIPLA filed gAdvair with USFDA in Q1FY21 and has TAD date is Q1FY22E. With a track record of 18-24 months for approval of inhalation products, CIPLA guided launch in Q1FY23E. With given track record of longer lag periods for approval of inhalers, the market dynamics could significantly change and become unfavorable.
- **SAGA and API:** SAGA declined 1% QoQ while API grew 6% QoQ.

Exhibit 1: 3QFY20 Result Overview (Rs m). Cost saving benefit continues to drive EBITDAM

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	9MFY21	9MFY20	YoY gr. (%)
Net Sales	51,542	42,346	21.7	49,726	3.7	1,44,036	1,23,933	16.2
Raw Material	19,935	16,450	21.2	19,465	2.4	55,295	43,025	28.5
<i>% of Net Sales</i>	<i>38.7</i>	<i>38.8</i>		<i>39.1</i>		<i>38.4</i>	<i>34.7</i>	
Personnel Cost	8,444	7,455	13.3	8,209	2.9	24,371	22,633	7.7
<i>% of Net Sales</i>	<i>16.4</i>	<i>17.6</i>		<i>16.5</i>		<i>16.9</i>	<i>18.3</i>	
Others	11,000	12,222	(10.0)	10,943	0.5	31,304	36,175	(13.5)
<i>% of Net Sales</i>	<i>21.3</i>	<i>28.9</i>		<i>22.0</i>		<i>21.7</i>	<i>29.2</i>	
Total Expenditure	39,378	36,127	9.0	38,617	2.0	1,10,970	1,01,833	9.0
EBITDA	12,164	6,219	95.6	11,109	9.5	33,067	22,099	49.6
<i>Margin (%)</i>	<i>23.6</i>	<i>14.7</i>		<i>22.3</i>		<i>23.0</i>	<i>17.8</i>	
Depreciation	2,484	2,779	(10.6)	2,651	(6.3)	7,825	8,289	(5.6)
EBIT	9,679	3,440	181.4	8,458	14.4	25,242	13,811	82.8
Other Income	1,015	2,086	(51.4)	1,192	(14.9)	3,554	6,136	(42.1)
Interest	479	462	3.8	393	21.8	1,333	1,444	(7.7)
PBT	10,215	5,064	101.7	9,257	10.4	27,463	18,503	48.4
Extra-Ord. Inc./Exps.	9	26		25		-	352	
Total Taxes	2,690	1,528	76.0	2,638	2.0	7,605	5,456	39.4
<i>ETR (%)</i>	<i>26.3</i>	<i>30.2</i>		<i>28.5</i>		<i>27.7</i>	<i>29.5</i>	
Reported PAT	7,516	3,510	114.1	6,594	14.0	19,858	12,695	56.4

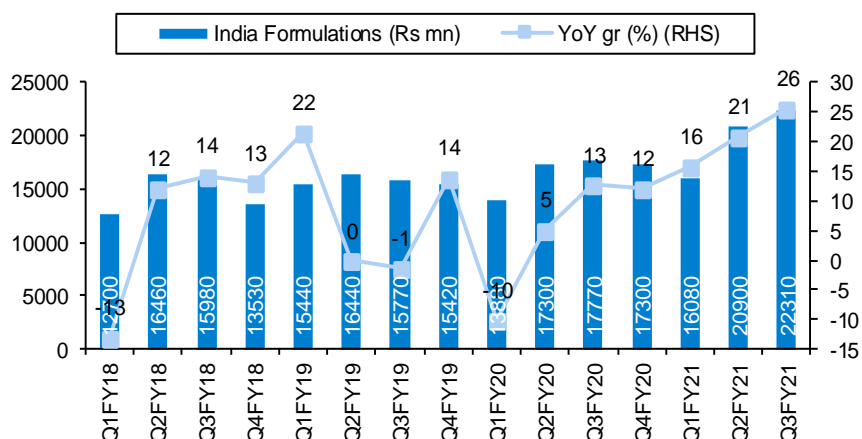
Source: Company, PL

Exhibit 2: Sources of Revenue

Geographic break up of revenues	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr.(%)	H1FY21	H1FY20	YoY gr. (%)
Domestic market	22,310	17,770	25.5	20,900	6.7	59,290	48,950	21.1
<i>% of Sales</i>	<i>43.2</i>	<i>42.0</i>		<i>41.5</i>		<i>40.7</i>	<i>39.2</i>	
International market (Exports)	29,380	24,576	19.5	29,480	(0.3)	86,240	75,918	13.6
<i>% of Sales</i>	<i>56.8</i>	<i>58.0</i>		<i>58.5</i>		<i>59.3</i>	<i>60.8</i>	
North America	10,370	9,460	9.6	10,490	(1.1)	31,070	30,180	2.9
<i>% of Sales</i>	<i>20.1</i>	<i>22.3</i>		<i>20.8</i>		<i>21.3</i>	<i>24.2</i>	
SAGA	9,130	5,940	53.7	9,240	(1.2)	26,000	18,310	42.0
<i>% of Sales</i>	<i>17.7</i>	<i>14.0</i>		<i>18.3</i>		<i>17.9</i>	<i>14.7</i>	
Emerging Markets	4,880	3,230	51.1	4,740	3.0	14,190	10,530	34.8
<i>% of Sales</i>	<i>9.4</i>	<i>7.6</i>		<i>9.4</i>		<i>9.8</i>	<i>8.4</i>	
Europe	2,520	1,900	32.6	2,470	2.0	7,390	5,810	27.2
<i>% of Sales</i>	<i>4.9</i>	<i>4.5</i>		<i>4.9</i>		<i>5.1</i>	<i>4.7</i>	
APIs	2,010	1,650	21.8	1,890	6.3	5,740	5,040	13.9
<i>% of Sales</i>	<i>3.9</i>	<i>3.9</i>		<i>3.8</i>		<i>3.9</i>	<i>4.0</i>	
Others	470	2,396	(80.4)	650	(27.7)	1,850	6,048	(69.4)
<i>% of Sales</i>	<i>0.9</i>	<i>5.7</i>		<i>1.3</i>		<i>1.3</i>	<i>4.8</i>	
Total	51,690	42,346	22.1	50,380	2.6	1,45,530	1,24,868	16.5

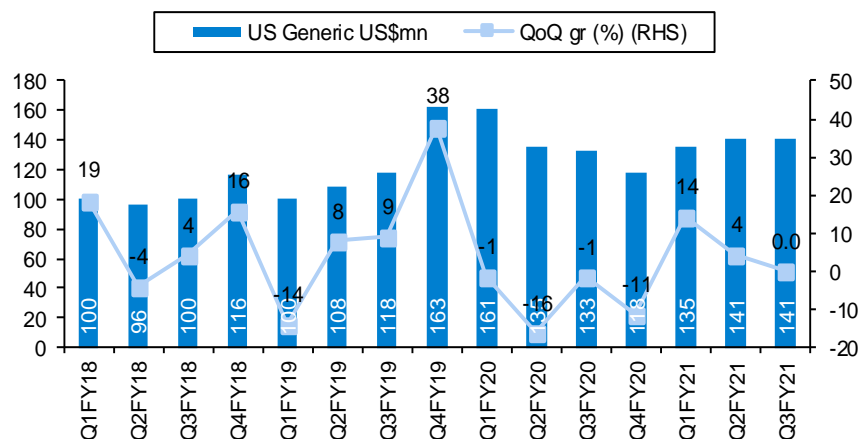
Source: Company, PL

Exhibit 3: India Formulations((Rx+Gx+CHL): Adj growth in mid single-digit

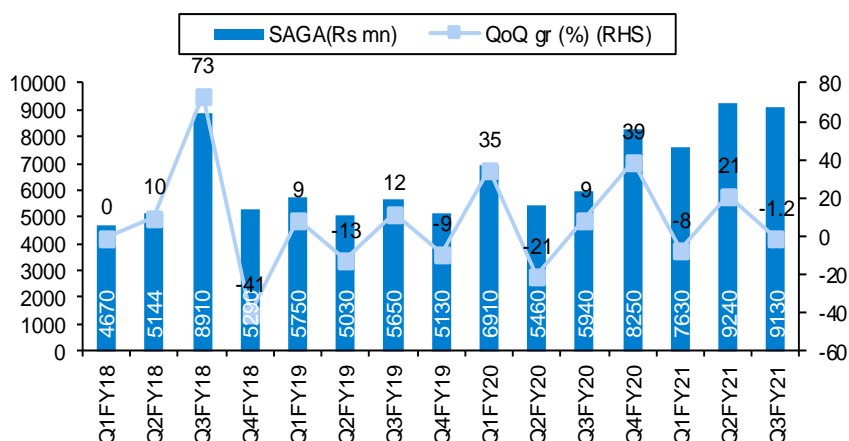


Source: Company, PL

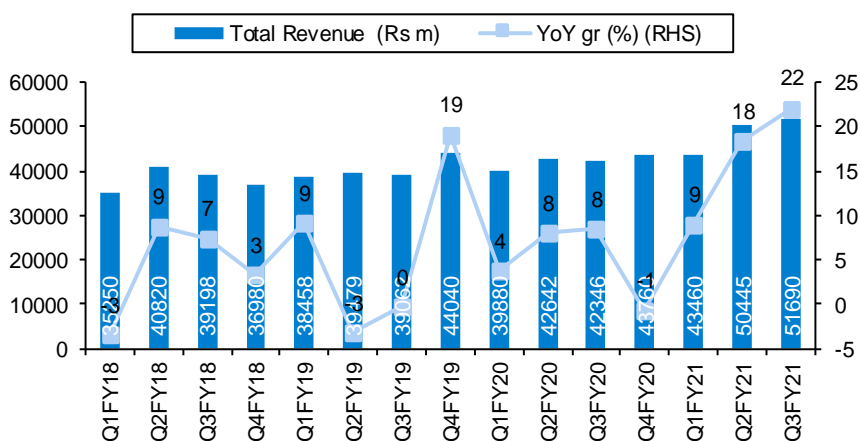
Exhibit 4: US (US\$mn) :Albuterol driving growth



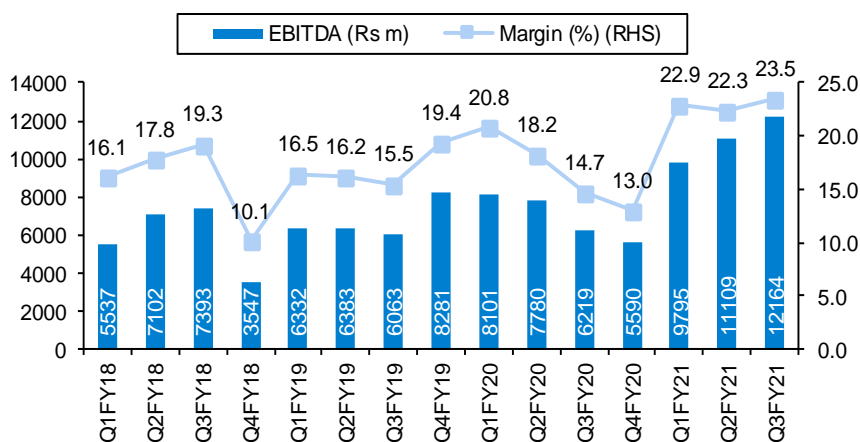
Source: Company, PL

Exhibit 5: SAGA (Rs mn) & QoQ Gr (%)


Source: Company, PL

Exhibit 6: Overall Sales, Growth


Source: Company, PL

Exhibit 7: EBITDA, Margin : Margin expansion led by cost saving program


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,66,949	1,92,907	1,96,466	2,00,706
YoY gr. (%)	11.8	15.5	1.8	2.2
Cost of Goods Sold	59,914	74,110	74,657	78,472
Gross Profit	1,07,034	1,18,797	1,21,809	1,22,234
Margin (%)	64.1	61.6	62.0	60.9
Employee Cost	30,270	32,923	35,305	36,797
Other Expenses	12,061	8,425	14,056	14,847
EBITDA	27,689	43,595	44,184	43,896
YoY gr. (%)	65.6	57.4	1.3	(0.7)
Margin (%)	16.6	22.6	22.5	21.9
Depreciation and Amortization	11,747	10,334	10,494	10,920
EBIT	15,942	33,262	33,690	32,976
Margin (%)	9.5	17.2	17.1	16.4
Net Interest	1,974	1,381	172	123
Other Income	7,813	4,599	5,894	8,831
Profit Before Tax	21,782	36,479	39,412	41,684
Margin (%)	13.0	18.9	20.1	20.8
Total Tax	6,312	9,882	9,656	10,629
Effective tax rate (%)	29.0	27.1	24.5	25.5
Profit after tax	15,470	26,597	29,756	31,054
Minority interest	(470)	97	(550)	(550)
Share Profit from Associate	-	-	-	-
Adjusted PAT	15,940	26,500	30,306	31,604
YoY gr. (%)	212.0	66.2	14.4	4.3
Margin (%)	9.5	13.7	15.4	15.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	15,940	26,500	30,306	31,604
YoY gr. (%)	212.0	66.2	14.4	4.3
Margin (%)	9.5	13.7	15.4	15.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	15,940	26,500	30,306	31,604
Equity Shares O/s (m)	806	806	806	806
EPS (Rs)	19.8	32.9	37.6	39.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	1,17,813	1,26,813	1,35,813	1,45,813
Tangibles	79,536	85,536	91,536	98,536
Intangibles	38,277	41,277	44,277	47,277
Acc: Dep / Amortization	53,551	67,518	82,490	94,055
Tangibles	30,240	36,983	44,206	51,990
Intangibles	23,311	30,535	38,283	42,065
Net fixed assets	64,262	59,295	53,323	51,757
Tangibles	49,296	48,553	47,329	46,546
Intangibles	14,965	10,742	5,994	5,211
Capital Work In Progress	8,245	8,366	8,491	8,277
Goodwill	32,567	32,567	32,567	32,567
Non-Current Investments	5,489	5,682	5,883	5,364
Net Deferred tax assets	(1,254)	815	3,180	4,847
Other Non-Current Assets	6,603	5,977	5,661	4,888
Current Assets				
Investments	10,165	8,132	6,506	5,205
Inventories	43,776	46,509	48,444	49,489
Trade receivables	38,913	47,566	47,367	48,389
Cash & Bank Balance	10,039	13,161	15,353	14,402
Other Current Assets	8,866	9,044	8,139	8,953
Total Assets	2,36,625	2,45,117	2,40,673	2,39,494
Equity				
Equity Share Capital	1,613	1,613	1,613	1,613
Other Equity	1,56,018	1,65,443	1,67,640	1,67,329
Total Network	1,57,630	1,67,056	1,69,253	1,68,942
Non-Current Liabilities				
Long Term borrowings	23,693	23,049	18,439	17,517
Provisions	1,333	1,133	963	818
Other non current liabilities	675	484	321	183
Current Liabilities				
ST Debt / Current of LT Debt	4,472	8,285	7,456	7,829
Trade payables	22,818	23,783	24,222	24,745
Other current liabilities	16,642	13,318	14,095	15,219
Total Equity & Liabilities	2,36,626	2,45,117	2,40,674	2,39,494

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	21,782	36,479	39,412	41,684
Add. Depreciation	11,747	10,334	10,494	10,920
Add. Interest	1,974	1,381	172	123
Less Financial Other Income	7,813	4,599	5,894	8,831
Add. Other	2,425	(7,911)	(13,479)	(17,123)
Op. profit before WC changes	37,927	40,284	36,599	35,604
Net Changes-WC	5,747	(12,955)	1,039	(2,211)
Direct tax	(6,312)	(9,882)	(9,656)	(10,629)
Net cash from Op. activities	37,363	17,447	27,982	22,763
Capital expenditures	(9,465)	(9,121)	(9,125)	(9,786)
Interest / Dividend Income	-	-	-	-
Others	10,836	1,989	1,582	1,530
Net Cash from Inv. activities	1,371	(7,132)	(7,543)	(8,256)
Issue of share cap. / premium	-	-	-	-
Debt changes	(14,998)	3,169	(5,438)	(549)
Dividend paid	(5,650)	(1,609)	(1,609)	(1,609)
Interest paid	(1,974)	(1,381)	(172)	(123)
Others	-	-	-	-
Net cash from Fin. activities	(22,622)	178	(7,219)	(2,281)
Net change in cash	16,112	10,493	13,219	12,226
Free Cash Flow	27,898	8,326	18,857	12,977

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	19.8	32.9	37.6	39.2
CEPS	34.3	45.7	50.6	52.7
BVPS	195.5	207.2	209.9	209.5
FCF	34.6	10.3	23.4	16.1
DPS	7.0	2.0	2.0	2.0
Return Ratio(%)				
RoCE	12.5	19.7	20.1	21.5
ROIC	11.7	17.8	18.4	18.3
RoE	10.4	16.3	18.0	18.7
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.0	0.0
Net Working Capital (Days)	131	133	133	133
Valuation(x)				
PER	41.8	25.1	22.0	21.1
P/B	4.2	4.0	3.9	3.9
P/CEPS	24.1	18.1	16.3	15.7
EV/EBITDA	24.3	15.5	15.2	15.3
EV/Sales	4.0	3.5	3.4	3.3
Dividend Yield (%)	0.8	0.2	0.2	0.2

Source: Company Data, PL Research

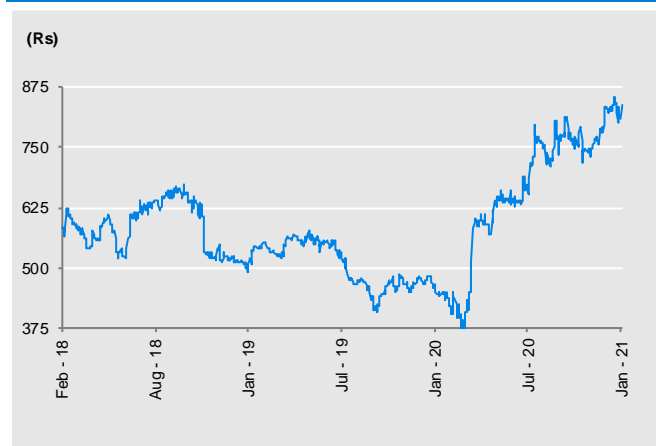
Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	43,016	42,769	49,726	51,542
YoY gr. (%)	0.7	9.8	16.6	21.7
Raw Material Expenses	16,889	15,895	19,465	19,935
Gross Profit	26,127	26,874	30,260	31,607
Margin (%)	60.7	62.8	60.9	61.3
EBITDA	5,590	9,795	11,109	12,164
YoY gr. (%)	(32.5)	20.9	42.8	95.6
Margin (%)	13.0	22.9	22.3	23.6
Depreciation / Depletion	3,458	2,690	2,651	2,484
EBIT	2,132	7,105	8,458	9,679
Margin (%)	5.0	16.6	17.0	18.8
Net Interest	530	460	393	479
Other Income	1,678	1,347	1,192	1,015
Profit before Tax	3,280	7,992	9,257	10,215
Margin (%)	7.6	18.7	18.6	19.8
Total Tax	856	2,278	2,638	2,690
Effective tax rate (%)	26.1	28.5	28.5	26.3
Profit after Tax	2,424	5,714	6,619	7,525
Minority interest	38	54	25	9
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,385	5,661	6,594	7,516
YoY gr. (%)	(35.0)	26.6	39.9	114.1
Margin (%)	5.5	13.2	13.3	14.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,385	5,661	6,594	7,516
YoY gr. (%)	(35.0)	26.6	39.9	114.1
Margin (%)	5.5	13.2	13.3	14.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,385	5,661	6,594	7,516
Avg. Shares O/s (m)	806	806	806	806
EPS (Rs)	3.0	7.0	8.2	9.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-21	Accumulate	879	839
2	14-Dec-20	BUY	887	756
3	09-Nov-20	Hold	836	789
4	13-Oct-20	Reduce	657	787
5	13-Oct-20	Reduce	657	814
6	09-Aug-20	Reduce	657	729
7	08-Jul-20	Reduce	542	634
8	16-May-20	Reduce	542	570
9	18-Apr-20	Reduce	542	598
10	14-Apr-20	Reduce	460	580

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	920	945
2	Cadila Healthcare	Sell	357	485
3	Cipla	Accumulate	879	839
4	Dr. Lal PathLabs	UR	-	2,407
5	Dr. Reddy's Laboratories	BUY	5,975	5,338
6	Eris Lifesciences	BUY	666	621
7	Glenmark Pharmaceuticals	Sell	449	518
8	Indoco Remedies	BUY	352	325
9	Ipca Laboratories	Accumulate	2,413	2,143
10	Jubilant Life Sciences	Accumulate	964	929
11	Lupin	BUY	1,287	1,049
12	Sun Pharmaceutical Industries	Hold	602	570
13	Thyrocare Technologies	UR	-	970

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

ANALYST CERTIFICATION

(Indian Clients)

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