

### Robust 3Q, sustenance key

Cipla's 3Q was a beat operationally led by superlative execution in domestic formulations and EU coupled with reduced opex. This led to significantly higher profitability at Rs7.5bn vs our expectation of Rs5bn. Digital and cost efficiency led initiatives drove margins (23.7%, vs our assumption of 20%) in 3Q. Management has surpassed its earlier guidance of cost savings of ~Rs5bn in 9MFY21 driven by (1) leveraging digital technology in India branded formulations, (2) calibration of R&D – focussed products in inhalation. With Cipla having achieved a commanding market share in gProventil, growth is now expected to be driven by market share gains. Management guided that host of complex products in the inhaler space being lined up for launch in FY22E and limited competition product launches are expected to resume in Q1FY22E.

Change in capital allocation (focus on India business -Rx, Tx & OTC convergence), phasing out of R&D investments (calibration in US investments) and focus on deepening penetration in ROW forms core strategy of Cipla. Approval for gProAir (queries should be responded by partner towards end of this year) and a launch of gAdvair are expected to be the key catalysts in near term. We see increasing visibility over the medium-term earnings, given signs of improving execution in India (New India strategy) and strong US build-outs COVID portfolio moderate in the near term.

Across the board transformation from tenderized model to private model in exports market, towards rapid consumerization of important TGx, Rx in India bode well to change the investors' perspective. At CMP, stock trades at 24.8x FY22 and 21.3x FY23E. **Reiterate BUY.**

### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	51,687	43,710	18.2	50,383	2.6
Total Expense	39,378	36,127	9.0	38,617	2.0
EBITDA	12,309	7,583	62.3	11,766	4.6
Depreciation	2,484	2,779	(10.6)	2,651	(6.3)
EBIT	9,824	4,804	104.5	9,115	7.8
Other Income	869	721	20.5	535	62.6
Interest	479	462	3.8	393	21.8
EBT	10,215	5,064	101.7	9,257	10.4
Tax	2,690	1,528	76.0	2,638	2.0
RPAT	7,481	3,510	113.1	6,594	13.5
APAT	7,481	3,510	113.1	6,594	13.5
			(bps)		(bps)
Gross Margin (%)	61.4	62.4	(93)	61.4	7
EBITDA Margin (%)	23.8	17.3	647	23.4	46
NPM (%)	14.5	8.0	644	13.1	139
Tax Rate (%)	26.3	30.2	(385)	28.5	(217)
EBIT Margin (%)	19.0	11.0	802	18.1	92

CMP	Rs 826
Target / Upside	Rs 940 / 14%
NIFTY	13,635

### Scrip Details

Equity / FV	Rs 1,613mn / Rs 2
Market Cap	Rs 666bn
	USD 9bn
52-week High/Low	Rs 865/ 355
Avg. Volume (no)	6,457,150
Bloom Code	CIPLA IN

Price Performance	1M	3M	12M
Absolute (%)	0	9	86
Rel to NIFTY (%)	3	(7)	72

### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	36.7	36.7	36.7
MF/Banks/FIs	16.5	16.7	16.7
FIIIs	18.6	20.0	20.0
Public / Others	28.3	26.7	26.7

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	27.0	24.8	21.3
EV/EBITDA	14.8	13.6	11.4
ROE (%)	14.6	14.0	14.4
RoACE (%)	12.1	11.9	12.3

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	192,515	209,512	228,418
EBITDA	44,551	46,874	52,977
PAT	24,635	26,854	31,234
EPS (Rs.)	30.6	33.3	38.7

**VP - Research: Sapna Jhawar**  
 Tel: +9122 40969724  
 E-mail: sapnaj@dolatcapital.com

**Associate: Zain Gulam Hussain**  
 Tel: +9122 40969725  
 E-mail: zain@dolatcapital.com

**Exhibit 1: Revenue Mix**

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)	FY21E	FY20	YoY (%)
Domestic Formulations	22,163	17,770	24.7	20,900	6.0	59,143	49,540	19.4	71,622	65,111	10.0
Export Formulations	27,317	24,300	12.4	27,600	(1.0)	80,578	73,300	9.9	109,824	96,812	13.4
North America	10,308	9,460	9.0	10,490	(1.7)	30,635	30,180	1.5	45,723	38,378	19.1
South Africa	9,278	8,310	11.6	9,240	0.4	26,216	22,620	15.9	32,591	30,051	8.5
ROW	4639	3230	43.6	4740	(2.1)	14083	10530	33.7	16535	15026	10.0
Europe	2,577	1,900	35.6	2,470	4.3	7,613	5,810	31.0	9,365	8,348	12.2
Others	515	1,400	(63.2)	660	(21.9)	2,031	4,160	(51.2)	5,610	5,009	12.0
APIs	2,062	1,650	24.9	1,890	9.1	5,662	5,040	12.3	7,705	6,678	15.4
<b>Total</b>	<b>51,542</b>	<b>43,720</b>	<b>17.9</b>	<b>50,390</b>	<b>2.3</b>	<b>145,384</b>	<b>127,880</b>	<b>13.7</b>	<b>189,152</b>	<b>168,601</b>	<b>12.2</b>

Source: DART, Company

### Concall Takeaways:

- 1) Cipla's US specialty strategy:** Sales for 3QFY21 at US\$141mn was led by market share gains in gAlbuterol and institutional sales growth. Management guides of an adequate capacity for Albuterol and have cautiously kept higher inventory given the complexity of the product. With Albuterol and DHE nasal spray (launched in Q1, has 180-days exclusivity), management indicated that profitability in the US has improved significantly. Traction in the US has been slow QoQ and was impacted due to one-time product recall. Management reiterated that its focus will be more on institutional based products in the US specialty. The respiratory franchise crossed US\$100mn sales in 9M. Its US business has now become profitable and its EBITDA is near company's level. 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.
- 2) gAdvair:** File is under active review. While the TAD is late 4Q or early 1QFY22. Management expects approval to take time (~2 years) given the complexity associated with it.
- 3) Partnered asset:** Cipla's partner in the US has received queries from the USFDA. The partner is now responding to the same.
- 4) Albuterol:** Total market size is 60-65mn units and 14% Market share in the respiratory category. gProventil holds 86% MS, and has 18% Trx. Despite 7 players (3 AGs, 2 generics and 2 brands) the market remains attractive with steady pricing. Perrigo exited the market merely 9-months post launch of the product due to issues in supply chain. Perrigo's exit has created vacuum of 6-7mn units which can be readily lapped up by Cipla (gProVentil) and Lupin (has gProAir). However, while Lupin in its con-call mentioned that they are ramping up supplies and should be ready by Q4, Cipla on the other side maintained a cautious approach. Management highlighted that because the supply chain is difficult and the device is complex, they would like to keep a minimum amount of inventory ready for any production blip and hence the ramp in Rx share is gradual. Despite having approval for the smallest market size product, Cipla remains confident of the substitutability of the product.
- 5) Compliance:** Cipla has a warning letter on its Goa facility. Management remains committed to resolve and has submitted its final response to the USFDA.

- 6) **India business:** India reported 25% growth YoY in 3Q. Strong traction in Chronic therapies coupled with recovery in hospital portfolio offset the seasonally slow demand of acute products. As per IQVIA, Cipla is recording strong growth in respiratory, neuro and inhalation therapies outperforming the IPM. Besides, Cipla has entered into a partnership with Boehringer Ingelheim for 3 anti-diabetic products which are SGLT2 DDp2 inhibitors. Also, extended partnership with Roche for 3 oncology products (trastuzumab, rituximab and bevacizumab). This in line with management's guidance of driving growth through in-licensing products. While the trade generics business grew 6-7% driven by seasonality, its consumer business is gaining traction and grew 17% QoQ.
- 7) **COVID:** Management indicated that COVID portfolio contributed <5% of sales in 3Q.
- 8) **SAGA:** The sales were flattish in local currency terms. For 9MFY21, private business grew 11% and tender business grew by 8%. SAGA division entered a partnership with Alvogen for 4 oncology products. COVID-19 product launches in India (remdesivir, tocilizumab, and favipiravir) contributed ~5% to Indian Rx sales in 9MFY21. However, we expect sales to moderate with the entry of more competition and the launch of COVID-19 vaccines in the market. After reaping the benefits of cost control, capital reallocation and business restructuring in FY17-19, a further expansion in operating margins will be driven by new US launches, in our view. We look for progress in the execution of initiatives for long-term sustainable growth in India, South Africa and a focus on emerging markets, the US and inhalers.
- 9) **R&D:** Was Rs221cr in 3Q, 4% 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.
- 10) **Financials:** Total debt stood at Rs1.8bn and cash of Rd2.7bn. In 3Q, company repaid US\$137.5mn of Invagen acquisition loan.
- 11) The management expects operating expenses could be lower by >Rs4-5bn in 9MFY21 vs earlier expectations. This shall auger well growth.

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>171,320</b>	<b>192,515</b>	<b>209,512</b>	<b>228,418</b>
<b>Total Expense</b>	<b>139,260</b>	<b>147,964</b>	<b>162,638</b>	<b>175,441</b>
COGS	59,914	67,056	72,021	77,648
Employees Cost	30,270	33,102	36,878	40,234
Other expenses	49,076	47,806	53,739	57,558
<b>EBIDTA</b>	<b>32,060</b>	<b>44,551</b>	<b>46,874</b>	<b>52,977</b>
Depreciation	11,747	11,982	12,727	13,373
<b>EBIT</b>	<b>20,313</b>	<b>32,570</b>	<b>34,147</b>	<b>39,604</b>
Interest	1,974	1,570	1,158	807
Other Income	3,442	3,156	3,173	3,207
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>21,782</b>	<b>34,156</b>	<b>36,162</b>	<b>42,004</b>
Tax	6,312	9,564	9,402	10,921
RPAT	15,465	24,635	26,854	31,234
Minority Interest	(470)	(517)	(569)	(626)
<b>Profit/Loss share of associates</b>	<b>(475)</b>	<b>(475)</b>	<b>(475)</b>	<b>(475)</b>
<b>APAT</b>	<b>15,465</b>	<b>24,635</b>	<b>26,854</b>	<b>31,234</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	1,613	1,613	1,613	1,613
Minority Interest	2,943	2,943	2,943	2,943
Reserves & Surplus	156,018	177,743	201,687	230,011
<b>Net Worth</b>	<b>157,630</b>	<b>179,355</b>	<b>203,299</b>	<b>231,624</b>
Total Debt	28,164	26,164	23,164	20,164
Net Deferred Tax Liability	17,911	16,458	16,643	16,849
<b>Total Capital Employed</b>	<b>206,648</b>	<b>224,920</b>	<b>246,049</b>	<b>271,579</b>

**Applications of Funds**

Net Block	<b>63,019</b>	<b>59,037</b>	<b>53,310</b>	<b>45,937</b>
CWIP	42,056	42,056	42,056	42,056
Investments	6,461	6,461	6,461	6,461
<b>Current Assets, Loans &amp; Advances</b>	<b>125,090</b>	<b>146,949</b>	<b>173,100</b>	<b>208,071</b>
Inventories	43,776	49,351	49,942	52,007
Receivables	38,913	42,494	45,155	48,033
Cash and Bank Balances	10,039	20,589	41,881	70,770
Loans and Advances	13,307	14,278	14,987	16,011
Other Current Assets	8,890	10,072	10,970	11,085
<b>Less: Current Liabilities &amp; Provisions</b>	<b>29,978</b>	<b>29,583</b>	<b>28,878</b>	<b>30,947</b>
Payables	22,818	21,491	20,888	22,495
Other Current Liabilities	7,160	8,092	7,990	8,452
<i>sub total</i>				
Net Current Assets	95,112	117,366	144,222	177,125
<b>Total Assets</b>	<b>206,648</b>	<b>224,920</b>	<b>246,049</b>	<b>271,579</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	65.0	65.2	65.6	66.0
EBIDTA Margin	18.7	23.1	22.4	23.2
EBIT Margin	11.9	16.9	16.3	17.3
Tax rate	29.0	28.0	26.0	26.0
Net Profit Margin	9.0	12.8	12.8	13.7
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	35.0	34.8	34.4	34.0
Employee	17.7	17.2	17.6	17.6
Other	28.6	24.8	25.6	25.2
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.2	0.1	0.1	0.1
Interest Coverage	10.3	20.7	29.5	49.1
Inventory days	93	94	87	83
Debtors days	83	81	79	77
Average Cost of Debt	5.5	5.8	4.7	3.7
Payable days	49	41	36	36
Working Capital days	203	223	251	283
FA T/O	2.7	3.3	3.9	5.0
<b>(D) Measures of Investment</b>				
AEPS (Rs)	19.2	30.6	33.3	38.7
CEPS (Rs)	33.8	45.4	49.1	55.3
DPS (Rs)	8.2	0.0	3.6	3.6
Dividend Payout (%)	42.9	0.0	10.8	9.3
BVPS (Rs)	195.5	222.5	252.2	287.3
RoANW (%)	10.1	14.6	14.0	14.4
RoACE (%)	8.3	12.1	11.9	12.3
RoAIC (%)	10.0	16.2	16.7	19.6
<b>(E) Valuation Ratios</b>				
CMP (Rs)	826	826	826	826
P/E	43.1	27.0	24.8	21.3
Mcap (Rs Mn)	665,882	665,882	665,882	665,882
MCap/ Sales	3.9	3.5	3.2	2.9
EV	673,842	661,292	637,000	605,111
EV/Sales	3.9	3.4	3.0	2.6
EV/EBITDA	21.0	14.8	13.6	11.4
P/BV	4.2	3.7	3.3	2.9
Dividend Yield (%)	1.0	0.0	0.4	0.4
<b>(F) Growth Rate (%)</b>				
Revenue	4.7	12.4	8.8	9.0
EBITDA	3.5	39.0	5.2	13.0
EBIT	14.7	60.3	4.8	16.0
PBT	4.8	56.8	5.9	16.2
APAT	1.2	59.3	9.0	16.3
EPS	1.2	59.3	9.0	16.3

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	33,633	21,656	35,266	41,455
CFI	(2,559)	(7,580)	(7,000)	(6,000)
CFF	(27,224)	(3,527)	(6,974)	(6,565)
FCFF	31,075	14,077	28,266	35,455
Opening Cash	6,188	10,039	20,589	41,881
Closing Cash	10,039	20,589	41,881	70,770

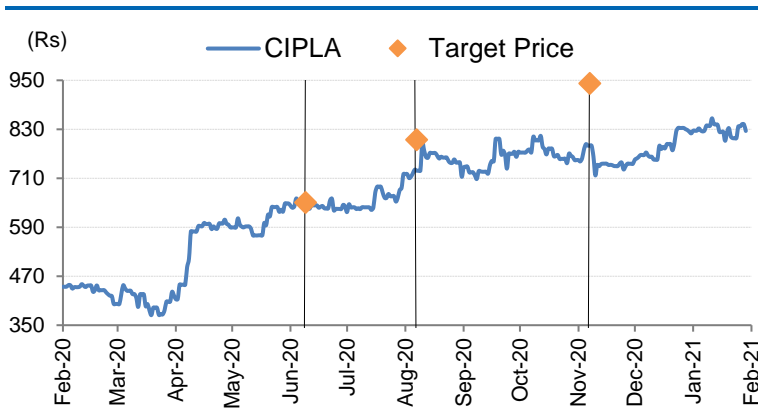
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### 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

\*Price as on recommendation date

### DART Team

**Purvag Shah**      **Managing Director**      [purvag@dolatcapital.com](mailto:purvag@dolatcapital.com)      **+9122 4096 9747**

**Amit Khurana, CFA**      **Head of Equities**      [amit@dolatcapital.com](mailto:amit@dolatcapital.com)      **+9122 4096 9745**

#### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	<a href="mailto:dineshb@dolatcapital.com">dineshb@dolatcapital.com</a>	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	<a href="mailto:kapil@dolatcapital.com">kapil@dolatcapital.com</a>	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	<a href="mailto:yomika@dolatcapital.com">yomika@dolatcapital.com</a>	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	<a href="mailto:jubbins@dolatcapital.com">jubbins@dolatcapital.com</a>	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	<a href="mailto:ashwanik@dolatcapital.com">ashwanik@dolatcapital.com</a>	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	<a href="mailto:lekhan@dolatcapital.com">lekhan@dolatcapital.com</a>	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	<a href="mailto:sridhar@dolatcapital.com">sridhar@dolatcapital.com</a>	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	<a href="mailto:chandrakant@dolatcapital.com">chandrakant@dolatcapital.com</a>	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	<a href="mailto:shirisht@dolatcapital.com">shirisht@dolatcapital.com</a>	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	<a href="mailto:kartikm@dolatcapital.com">kartikm@dolatcapital.com</a>	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	<a href="mailto:dinesh.mehta@dolatcapital.com">dinesh.mehta@dolatcapital.com</a>	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	<a href="mailto:bhavinm@dolatcapital.com">bhavinm@dolatcapital.com</a>	+9122 4096 9705

**Dolat** Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE – INZ000274132, NSE - INZ000274132, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com

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