

Cipla Ltd.



Cipla Ltd.

Large market leadership coupled with high growth product launches auger well

CMP INR 928	Target INR 998	Potential Upside 7.5%	Market Cap (INR Mn) INR 7,483,90	Recommendation ACCUMULATE	Sector Pharmaceuticals
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Result Highlights of Q3FY22

- Cipla reported relatively slower growth (relative to Q3FY20 and Q3FY21) in revenue in Q3FY22 at 6.0% YoY (-0.8% QoQ) to INR 54.78 bn in Q3FY22 (vs. estimate of INR 55.22 bn). Gross Profit Margins (GPMs) fell by 55 bps YoY/41 bps QoQ to 60.9% in Q3FY22. This was due to rise in cost of raw materials and provisions related to COVID 19 products.
- EBITDA grew at a flat pace YoY (+0.4% QoQ) to INR 12.31 bn (vs. estimate of INR 11.62 bn) while EBITDA margins reduced by 135 bps YoY (+25 bps QoQ) to 22.5% in Q3FY22 due to increase in operating costs YoY while it reduced QoQ.
- Net profit margin (NPM) contracted by 118 bps YoY (+41 bps QoQ) to 13.3%. The company reported 2.6% YoY (+2.4% QoQ) decline in net profit to INR 7.29 bn (vs. estimate of INR 7.06 bn).

MARKET DATA

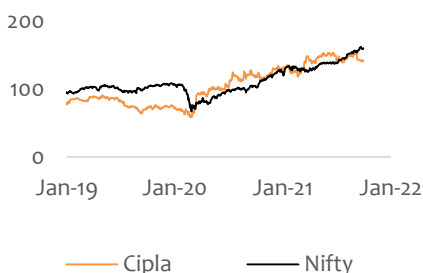
Shares outs (Mn)	807
Equity Cap (INR Mn)	185,856
Mkt Cap (INR Mn)	7,483,90
52 Wk H/L (INR)	1,005/738
Volume Avg (3m K)	2,321
Face Value (INR)	2
Bloomberg Code	CIPLA IN

KEY FINANCIALS

INR Mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,63,624	1,71,320	1,91,596	2,13,821	2,33,828	2,57,550
EBITDA	30,973	32,060	42,524	47,770	54,949	62,327
PAT	15,279	15,465	24,049	28,930	34,184	39,031
EPS (INR)	19.0	19.2	29.8	35.9	42.4	48.4
EBITDA Margin	18.9%	18.7%	22.2%	22.3%	23.5%	24.2%
NPM	9.3%	9.0%	12.6%	13.5%	14.6%	15.2%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	57,277
NIFTY	17,110

SHARE HOLDING PATTERN (%)

Particulars	Dec-21 (%)	Sep-21 (%)	Jun-21 (%)
Promoters	35.9%	35.9%	36.7%
FIIIs	24.3%	24.7%	24.8%
DIIIs	21.4%	20.9%	16.2%
Others	18.4%	18.5%	22.3%
Total	100%	100%	100%

10.4%

Revenue CAGR between FY21 and FY24E

17.5%

PAT CAGR between FY21 and FY24E

Relatively slower growth in revenue in Q3FY22: The company reported a slower revenue growth of 6.0% YoY (-0.8% QoQ) to INR 54.78 bn in Q3FY22 (relative to growths in Q3FY21 and Q3FY20). The revenue growth was driven by 12.9% YoY (+4.2% QoQ) rise in India revenue (46.0% of revenue), 8.8% YoY (+6.0% QoQ) rise in North America revenue (21.0% of revenue) and a 12.0% YoY (-1.8% QoQ) rise in other revenue (1.0% of revenue); partially offset by 2.3% YoY/10.3% QoQ decline in South Africa and Global Access (SAGA) revenue, 0.4% YoY/10.1% QoQ decline in Emerging Market's (international) revenue (13.0% of revenue), and a 25.4% YoY/12.8% QoQ decline in API revenue (3.0% of revenue). India business was benefited by traction across therapies in core portfolio and modest contribution from COVID 19 products. COVID 19 products revenue declined 10% YoY/17% QoQ. Trade generics witnessed strong demand across regions which led to growth in flagship brands and key therapeutic areas in India and SA. Consumer health business (8% of total revenue for 9MFY22) experienced growth in anchor brands and traditional brands such as Omnigel, Cheston, nicotex and cofsils in India. The company continued to be ranked 2nd in overall chronic segment of the IPM with 7.9% market share, ranked 1st in respiratory and urology therapies with 22.6% and 14.4% market shares, respectively and ranked 5th in cardiac segment with 5.3% market share as per IQVIA MAT as of Dec 21. The US segment revenue grew driven by strong growth in core formulations business. Respiratory portfolio witnessed 36% (excluding B2B business) YoY growth in the US markets for week ending Dec 21, 2021, as per IQVIA. Cipla's TRx market share stood at 15.9% in overall Albuterol market in the US and at 26.8% for Arformoterol (Brovana) (Source: IQVIA, week ending Dec 21, 2021).

Profits declined due to increased costs: Gross Profits Margin (GPM) declined by 55 bps YoY/41 bps QoQ to 60.9% in Q3FY22. This was due to rise in cost of raw materials and inventory provisions related to COVID 19 products. EBITDA grew at a flat pace YoY (+0.4% QoQ) to INR 12.31 bn while EBITDA margins reduced by 135 bps YoY (+25 bps QoQ) to 22.5% in Q3FY22 due to increase in operating costs YoY while decline was seen in it, QoQ. Net profit margin (NPM) contracted by 118 bps YoY (+41 bps QoQ) to 13.3%. Consequently, it reported 2.6% YoY (+2.4% QoQ) decline in net profit to INR 7.286 bn.

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Key Concall Highlights: (i) The company has been experiencing strong growth in branded products in India and South Africa (SA). SA has been maintaining strong growth track due to steady product launches (ii) The company has been able to clock in EBITDA margin of 22.5% for Q3FY22, tracking closer to its overall FY22 guidance. (iii) Increased raw materials and freight costs were the major headwinds for GPMs while it was partially offset by improved products mix in favor of complex and chronic products, cost controls and operating efficiencies. (iv) The US revenue was USD 150 mn, one of the highest in the recent quarters driven by strong traction in the respiratory and Lanreotide injection (v) The company expects to see some traction due to third wave of COVID cases for India market (vi) API order flow has weakened temporarily and is expected to witness growth in the quarters ahead (vii) The company expects better GPMs in line with improved products mix in the quarters ahead (viii) Branded prescription segment to reach to USD 1 bn in India as it will add high growth therapies such as anti-diabetic and injectables in coming quarters (ix) Respiratory revenue in the US grew at 36% YoY as of Q3FY22 and is expected to reach higher levels in the coming quarters driven by ramp up in Albuterol, Arformoterol, and newly launched Lanreotide injection (x) It will be focused on expanding peptide portfolio of products to strengthen complex generics pipeline (x) The R&D expenses will be up-to 7-7.5% of revenue (xi) The US revenue is expected to reach USD 300-500 mn by FY25E (xii) It launched 32 brands in India including 10 across cardiology and diabetes in 9MFY22 and expects to continue to launch more products in India in FY23.

Valuation and view: The company has had a slower revenue growth in Q3FY22, YoY, across segments, except in the US and India (66% of the total revenue). The company has been gaining market shares in the US from recently launched key respiratory products such as Albuterol and Arformoterol. This coupled with newly launched limited competition and large market product like Lanreotide injection are expected to help it to offset the impact of price erosions in the US. The company continues to sustain its leadership position in India Pharma market and intends to add high growth therapies such as diabetes and injectables to its offerings to drive performance further. Also, in the US it continues to gain market share in newly launched generic products and expects the traction to continue in FY23E as well. We introduce FY24 projections for Cipla and expect its revenue and net income to grow at 10.4% and 17.5%, respectively, over FY21-FY24E. **Cipla's shares are currently trading at a forward P/E of 25.9x/21.9x/19.2x on FY22E/23E/24E earnings. We apply a reduced P/E multiple of 20.62x (earlier 24.5x) on FY24E EPS of INR 48.4 and arrive at the same target price (TP) of INR 998 per share; an upside potential of 7.5% from its CMP of INR 928. Accordingly, we maintain our "ACCUMULATE" rating on the shares of Cipla.**

Segments Result (INR Mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Total	51,690	46,060	55,050	55,200	54,780
India	22,310	18,070	27,100	24,160	25,180
North America	10,330	10,020	10,380	10,600	11,240
SAGA	9,130	8,480	8,370	9,940	8,920
SA	5,780	6,060	6,340	7,100	6,230
International Markets / EMS	7,410	6,810	5,820	8,210	7,380
API	2,010	2,240	3,020	1,720	1,500
Others	500	440	360	570	560

Segments Result (% YoY)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Total	18.2%	5.3%	26.7%	9.5%	6.0%
India	21.6%	4.5%	68.5%	15.6%	12.9%
North America	9.2%	17.1%	1.7%	2.4%	8.8%
SAGA	9.9%	2.8%	9.7%	7.7%	-2.3%
SA	-2.7%	13.9%	15.7%	25.0%	7.8%
International Markets / EMS	129.4%	64.1%	-16.5%	13.7%	-0.4%
API	21.8%	-9.3%	64.1%	-9.0%	-25.4%
Others	-39.0%	-38.0%	-50.7%	-29.6%	12.0%

Revenue Mix (%)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Total	100%	100%	100%	100%	100%
India	43.2%	39.2%	49.2%	43.8%	46.0%
North America	20.0%	21.8%	18.9%	19.2%	20.5%
SAGA	17.7%	18.4%	15.2%	18.0%	16.3%
SA	11.2%	13.2%	11.5%	12.9%	11.4%
International Markets / EMS	14.3%	14.8%	10.6%	14.9%	13.5%
API	3.9%	4.9%	5.5%	3.1%	2.7%
Others	1.0%	1.0%	0.7%	1.0%	1.0%

Source: Company, KRChoksey Research

* Emerging markets represent International revenue including Emerging Markets and Europe ** Europe is no longer reported separately.

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KEY FINANCIALS

INR Mn	FY19	FY20	FY 21	FY 22E	FY 23E	FY 24E
Revenues	1,63,624	1,71,320	1,91,596	2,13,821	2,33,828	2,57,550
COGS	57,845	59,914	73,519	83,209	89,322	97,869
Gross profit	1,05,779	1,11,406	1,18,077	1,30,612	1,44,505	1,59,681
Employee cost	28,565	30,270	32,518	34,025	36,243	38,633
Other expenses	46,241	49,076	43,034	48,817	53,313	58,721
EBITDA	30,973	32,060	42,524	47,770	54,949	62,327
EBITDA Margin	18.9%	18.7%	22.2%	22.3%	23.5%	24.2%
Depreciation & amortization	13,263	11,747	10,677	11,246	12,298	13,546
EBIT	17,710	20,313	31,848	36,524	42,651	48,781
Interest expense	1,684	1,974	1,607	1,100	502	502
Other income	4,766	3,442	2,660	2,993	3,274	3,606
PBT before exceptional items	20,791	21,782	32,901	38,418	45,423	51,885
Exceptional Items	0	0	0	0	0	0
PBT	20,791	21,782	32,901	38,418	45,423	51,885
Tax	5,694	6,312	8,888	9,604	11,356	12,971
Share of Profit/(Loss) of Associates/Minority	181	(5)	36	117	117	117
PAT	15,279	15,465	24,049	28,930	34,184	39,031
EPS (INR)	19.0	19.2	29.8	35.9	42.4	48.4

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	16,911	30,685	37,552	26,746	39,939	44,480
Net Cash Flow from/(used in) Investing Activities	(16,687)	1,040	(23,872)	(10,776)	(8,774)	(9,799)
Net Cash Flow from Financing Activities	(3,487)	(29,488)	(13,299)	(11,125)	(13,185)	(8,180)
Net Inc/Dec in cash equivalents	(3,262)	2,237	381	4,845	17,979	26,501
Opening Balance	8,535	5,084	7,424	7,933	12,778	30,757
Adjustment	(189)	104	128	0	0	0
Closing Balance Cash and Cash Equivalents	5,084	7,424	7,933	12,778	30,757	57,258

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin (%)	18.9%	18.7%	22.2%	22.3%	23.5%	24.2%
Tax rate (%)	27.4%	29.0%	27.0%	25.0%	25.0%	25.0%
Net Profit Margin (%)	9.3%	9.0%	12.6%	13.5%	14.6%	15.2%
RoE (%)	10.0%	9.6%	12.9%	13.8%	14.5%	14.6%
RoCE (%)	9.0%	10.8%	15.8%	16.6%	17.7%	17.9%
Current Ratio (x)	3.29	2.66	2.88	2.90	3.63	4.10
EPS (INR)	19.0	19.2	19.2	35.9	42.4	48.4

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Non-current assets						
Property, plant and equipment	51,144	48,053	46,181	48,267	48,267	48,267
Capital work-in-progress	3,311	4,210	9,090	9,090	9,090	9,090
Goodwill (Net)	28,691	29,340	30,073	30,073	30,073	30,073
Other intangible assets	15,630	14,965	14,302	9,471	4,187	-1,633
Intangible assets under development	3,451	4,035	3,981	3,981	3,981	3,981
Investments accounted for using equity method	2,345	2,350	2,284	2,549	2,787	3,070
Financial assets						
Investments	1,939	2,195	3,171	3,538	3,869	4,262
Loans	494	524	530	591	647	712
Other financial assets	932	420	429	847	926	1,020
Deferred tax assets (Net)	2,014	2,398	4,682	5,225	5,714	6,293
Tax assets (Net)	3,456	4,686	3,147	3,512	3,841	4,230
Other non-current assets	1,960	6,387	1,556	1,736	1,899	2,091
Total non-current assets	1,15,367	1,19,564	1,19,424	1,18,879	1,15,279	1,11,456
Current assets						
Inventories	39,648	43,776	46,692	52,846	56,728	62,157
Financial assets						
Investments	21,258	10,165	22,864	22,864	22,864	22,864
Trade receivables	41,507	38,913	34,457	38,454	42,052	46,318
Cash and cash equivalents	5,084	7,424	7,933	12,778	30,757	57,258
Bank balances other than above	1,105	2,615	6,079	6,079	6,079	6,079
Loans	63	56	26	26	26	26
Other financial assets	4,979	5,223	4,817	8,076	8,831	9,727
Other current assets + Current Tax Assets	10,603	8,866	8,943	14,111	15,432	16,997
Assets classified as held for sale	20	23	285	285	285	285
Total current assets	1,24,266	1,17,062	1,32,095	1,55,518	1,83,054	2,21,711
TOTAL ASSETS	2,39,633	2,36,626	2,51,519	2,74,397	2,98,333	3,33,168
EQUITY AND LIABILITIES						
Equity						
Equity share capital	1,611	1,613	1,613	1,613	1,613	1,613
Other equity	1,48,511	1,56,018	1,81,652	2,04,763	2,32,071	2,63,250
Equity attributable to the equity shareholders	1,50,123	1,57,630	1,83,265	2,06,376	2,33,684	2,64,863
Non-controlling interests	3,320	2,943	2,591	2,571	2,552	2,533
Total equity	1,53,443	1,60,573	1,85,856	2,08,947	2,36,236	2,67,396
Liabilities						
Non-current liabilities						
Financial liabilities						
Borrowings	38,301	23,693	12,028	4,015	4,015	4,015
Other financial liabilities	3,875	2,769	2,956	2,956	2,956	2,956
Provisions	1,214	1,333	1,162	1,162	1,162	1,162
Deferred tax liabilities (Net)	4,253	3,652	2,966	2,966	2,966	2,966
Other non-current liabilities + Trade payables	833	675	636	636	636	636
Total non-current liabilities	48,476	32,121	19,748	11,735	11,735	11,735
Current liabilities						
Financial liabilities						
Borrowings	4,862	4,472	3,347	6,980	1,000	1,000
Trade payables	19,480	22,818	20,668	23,392	25,111	27,514
Other financial liabilities	3,984	5,304	7,340	8,307	8,918	9,771
Other current liabilities	1,434	1,763	3,596	4,070	4,369	4,787
Provisions	7,368	9,482	10,783	10,783	10,783	10,783
Current tax liabilities (Net)	587	93	181	181	181	181
Total current liabilities	37,715	43,931	45,916	53,714	50,362	54,036
Total liabilities	86,191	76,053	65,663	65,449	62,097	65,771
TOTAL EQUITY AND LIABILITIES	2,39,633	2,36,626	2,51,519	2,74,397	2,98,333	3,33,168

Cipla Ltd.

Cipla Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
28-Jan-22	928	998	ACCUMULATE	Buy	More than 15%
27-Oct-21	915	998	ACCUMULATE		
06-Aug-21	912	998	ACCUMULATE	Accumulate	5% – 15%
17-May-21	883	998	ACCUMULATE	Hold	0 – 5%
11-Aug-20	779	894	BUY		
18-May-20	600	700	BUY	Reduce	-5% – 0
13-Apr-20	593	683	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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