



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score **NEW**

**ESG RISK RATING** 31.32  
Updated Feb 08, 2022

**High Risk**

NEGL	LOW	MED	<b>HIGH</b>	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

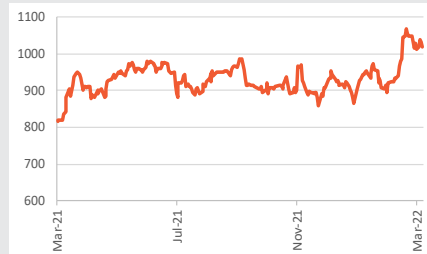
Company details

Market cap:	Rs. 82,174 cr
52-week high/low:	Rs. 1,083 / 805
NSE volume: (No of shares)	25.1 lakh
BSE code:	500087
NSE code:	CIPLA
Free float: (No of shares)	51.7 cr

Shareholding (%)

Promoters	35.9
FII	25.5
DII	21.4
Others	17.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.2	7.9	3.5	25.0
Relative to Sensex	6.4	7.4	4.5	6.7

Sharekhan Research, Bloomberg

Pharmaceuticals

Sharekhan code: CIPLA

Reco/View: Buy



CMP: Rs. 1,019

Price Target: Rs. 1,150



Upgrade



Maintain



Downgrade

Summary

- We re-iterate Buy recommendation on Cipla with an unchanged PT of RS 1150.
- A relentless focus on growing its India business has led to a strong show by Cipla, largely led by growth in the chronics therapies and synergies from One India Strategy. Recent price hike by NPPA, effective April 2022, could help Cipla partially mitigate cost pressures
- Likely market share gains in gAlbuterol and Arformoterol Tartrate Inhalation Solution, and a strong product pipeline including complex products would fuel US sales growth.
- Overall based on the company's cost control measures, savings from one India strategy, and expected improvement in US business, the overall margins are expected to expand 180 bps over FY22E to FY24E, albeit in the near-term elevated input costs and freight cost point at margin pressures.

Cipla Limited's (Cipla's) relentless focus on growing its India business has led to a strong show by the company, largely led by growth in the chronics therapy, which constitute ~55% of India sales. Synergies and savings from the One-India strategy have also played out well and supported growth. With 25% of India sales from NLEM products, a 10.8% price hike announced by the National Pharmaceutical Pricing Authority (NPPA), effective April 2022, could help Cipla partially mitigate cost pressures. Sustained performance in a respiratory franchise coupled with high-value launches lined up in H2FY23 could fuel US sales growth. Cost-control measures and leveraging digital platform could help OPM rise in the long term, though elevated cost pressures could exert pressure in the near term.

- India business to sustain double-digit growth:** Cipla's India business has clocked a strong 29% y-o-y growth for 9MFY22, despite high base and reducing share of Covid drugs. Going ahead, Cipla expects traction in India business to sustain and looks to outperform the Indian Pharmaceutical Market's (IPM's) growth backed by One-India Strategy which has played out well. This, coupled with the company's strong position in chronic segments (which constitute ~55% of India sales), in which Cipla has an 8% market share of the overall chronic market bodes well. Consider a span of last eight quarters, the growth in chronic therapies has helped Cipla outpace industry growth in its prescriptions business. Further the 10.8% price hike initiated by the NPPA effective April 1, 2022, could benefit Cipla as ~25% of the portfolio is under NLEM.
- Ramp-up in US respiratory portfolio, focus on complex products to drive US growth:** strong traction in the respiratory franchise, focus on complex portfolio have fuelled the growth in the US sales. In the US markets Cipla's key products – gAlbuterol, Arformoterol, Brovana have gained meaningful traction with the market share for gAlbuterol increasing almost 6% y-o-y, while that of Brovana has been in excess of 30%. Also Cipla has received an approval from the USFDA for Lanreotide injection, which is complex product and offers sizeable growth opportunities. Additionally, Cipla has a strong product pipeline comprising complex and high-value products like gAdvir for the US with a majority of launches likely in H2FY2023, which could drive the growth.
- Leveraging digital platform, cost control measures to drive margins expansion:** Cipla's margins are expected to expand backed by sustained synergies from the One-India strategy, efforts to better leverage digital platform to increase the doctor connect, cost-control measures such as rationalization of raw material cost, freight and distribution cost and other expenses. Overall based on the company's cost control measures, savings from one India strategy, and expected improvement in US business, the overall margins are expected to expand 180 bps over FY22E to FY24E, albeit in the near-term elevated input costs and freight cost point at margin pressures.

Our Call

**Valuation – India business to be a key growth driver; re-iterate Buy:** Growth prospects for the India business are strong and Cipla is expected to outpace industry growth, while US business is also expected to stage an improvement backed by the growth in respiratory products and high value product launches planned in H2FY23. The South African business also offers a healthy growth outlook. Over the long term cost control measures could drive the OPM expansion, but in the near term, elevated cost pressures could exert margin pressures. At CMP, the stock is trading at a P/E multiple of 27.4x/22.8x/19.9x its FY22E/FY23E/FY24E earnings, which is lower than the long-term historical average multiple. We re-iterate Buy recommendation on the stock with unchanged PT of Rs. 1,150.

Key Risks

1) Currency fluctuations, 2) delay in key product approvals/faster approvals for competitors' products, and 3) any regulatory changes in India, South Africa, or the US could affect business.

Valuation (Consolidated)

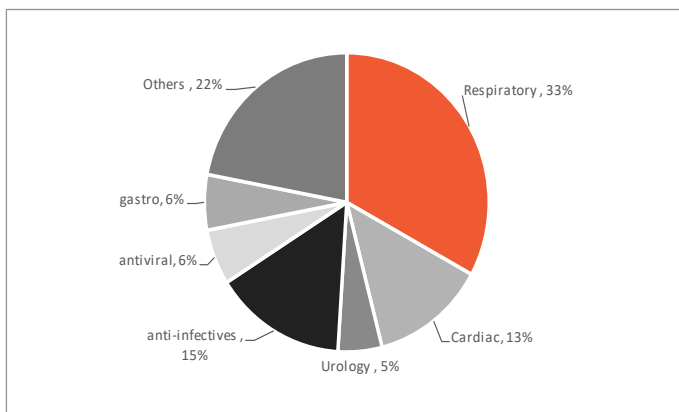
Particulars	Rs cr				
	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Net sales	17132.0	19159.6	21653.5	24289.1	27003.5
Operating Profits	3550.2	4517.9	5157.8	6050.2	6789.5
OPM (%)	18.7	22.2	22.5	23.8	24.3
Reported PAT	1499.5	2388.0	2980.4	3595.0	4120.9
EPS (Rs)	19.2	29.8	37.2	44.8	51.3
PER (x)	53.2	34.3	27.4	22.8	19.9
EV/EBITDA (x)	26.5	19.6	17.0	14.2	12.4
P/BV (x)	5.2	4.5	3.9	3.4	2.9
ROCE (%)	11.6	16.6	18.2	19.4	19.5
RONW (%)	10.1	13.9	14.6	15.8	15.6

Source: Company; Sharekhan estimates

## India business to sustain double-digit growth; Cipla to outpace industry

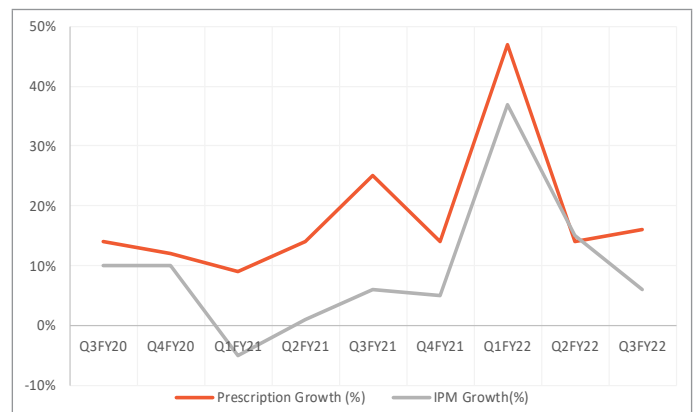
Cipla's India business has clocked a strong growth for 9MFY22 with a 29% y-o-y growth in sales, despite high base in the corresponding period of the previous year. While the base business staged strong growth, driven by sustained volume traction across therapies in core portfolio, COVID-led portfolio growth moderated as expected. Going ahead, Cipla expects traction in India business to sustain and looks to outperform IPM's growth. Cipla's one-India strategy has played out well and the management is now charting plans to boost growth. This, coupled with the company's strong position in the chronic segments of respiratory, urology and cardiac in which it is amongst the top ranked players could help it grow strongly. Chronic therapies account for 55% of the overall India sales and the company has a market share of 8% in this segment. Over the past eight quarters, growth in chronic therapies has helped Cipla outpace the industry growth in its prescriptions business. In the IPM, chronic therapies such as Respiratory and Cardiology have clocked a double-digit growth and this bodes well for Cipla. Cipla has launched around 10 brands in the anti-diabetics and cardiac therapies and these are expected to ramp up. The company is seeing increased traction in the branded prescription business and has outpaced industry growth for the third consecutive quarter. Moreover, the recent 10.8% price hike initiated by the NPPA effective April 2022 could help companies such as Cipla to mitigate cost pressures, though partially. The NLEM (National List of essential Medicines) drugs account for ~25% of Cipla's domestic sales and the price hike bodes well with the full impact of the same likely to be visible in FY23E. Moreover, the company is witnessing healthy order flows in the trade generics business across regions, which would support growth. Cipla's consumer health business is witnessing strong traction and is expected to sustain the growth trajectory driven by anchor brands and transitioned brands.

### India Business – Therapy-wise revenue mix



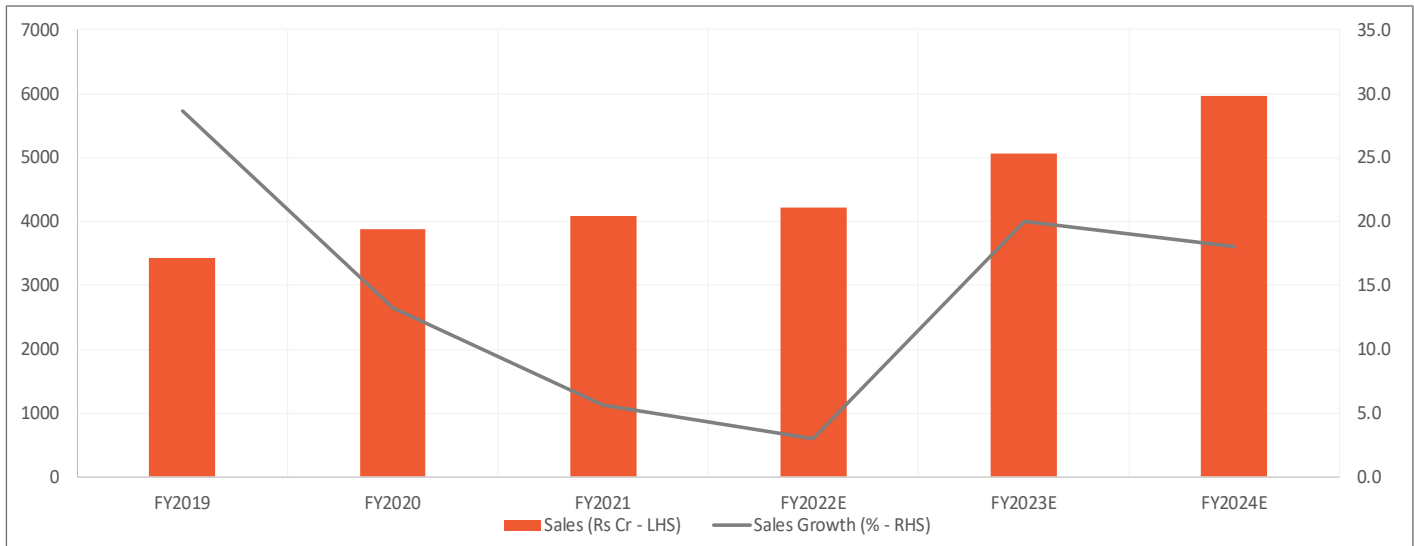
Source: Company, Sharekhan Research

### Prescription business beats IPM growth



Source: Company, Sharekhan Research

### India Business sales - Sales growth

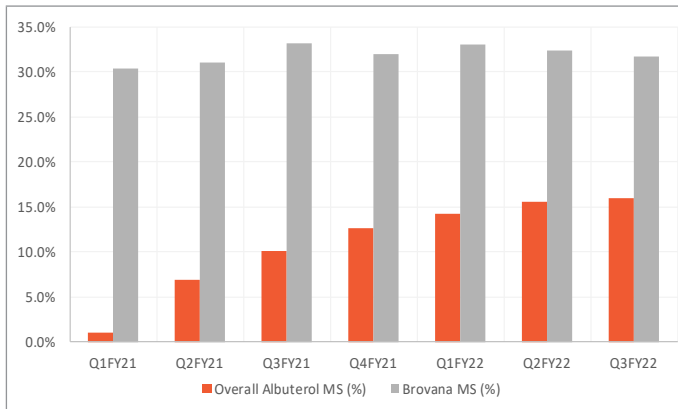


Source: Company, Sharekhan Research

## Ramp-up of US respiratory portfolio, focus on complex products to drive US growth

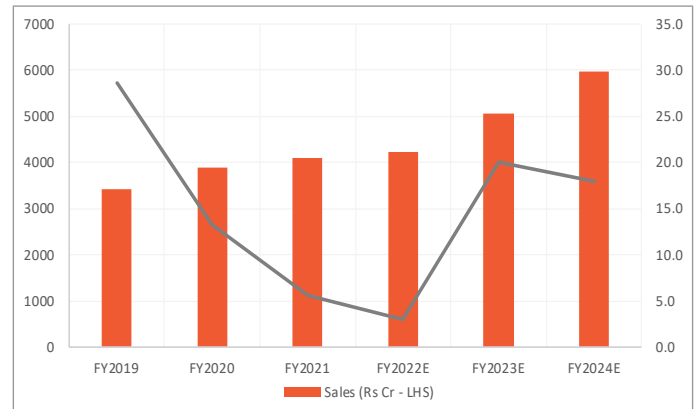
Cipla's US sales have been growing at a healthy momentum supported by growth in core products, strong traction in the respiratory portfolio. Cipla in the recent past received an approval for Arformoterol Tartrate Inhalation Solution, and this has strengthened the respiratory franchise further, while gAlbuterol continued its growth trajectory and commanded a market share of ~15.9% of the overall market, up from ~10% almost a year back. Given substantial head room available for growth in gAlbuterol, management is eyeing incremental market share gains in gAlubterol. Further, Cipla has also management to sustain its markets share for Brovana in the excess of 30-32% consistently for the last seven quarters and this bodes well. In addition, Cipla has received an approval from the USFDA for Lanreotide injection which was under the 505 (b)(2) pathway, a complex product to manufacture and offers sizeable growth opportunities. In addition to this, the company has a strong product pipeline of complex and high-value products to be launched in the US with a majority of them likely in H2FY2023. These include the likes of Advair, the approval for this is expected in FY2023 and reports indicate a market size of ~\$800 million, which points to substantial opportunities. In addition to Advair, the company has two more assets in the pipeline, which are expected to be commercialised in or beyond FY2023, thus pointing toward strong traction in high-value complex products and would strengthen the company's presence in US markets.

Albuterol - Brovana Market shares



Source: Company, Sharekhan Research

US Business sales - Sales growth



Source: Company, Sharekhan Research

## South Africa business to grow at a steady pace

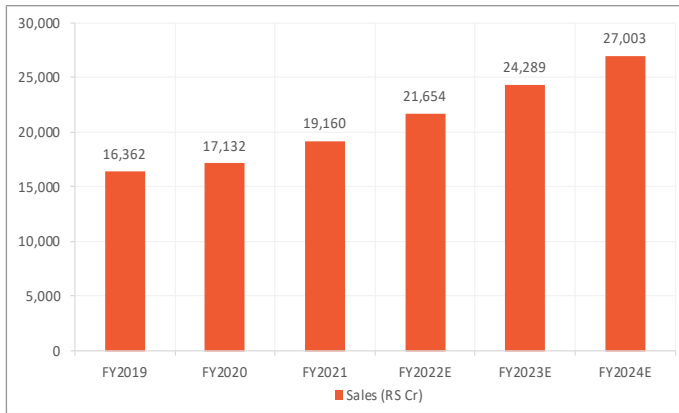
As per industry reports, the South Africa pharma markets size is pegged at \$3.5 billion and is among the larger markets in the region. Cipla's tender business has staged a double-digit growth over the past 2-3 years and the growth momentum is expected to sustain. After strong show of Aspen and Adcock, Cipla has introduced oncology products (biosimilars) in a strategic partnership with Alvogen to tap opportunities in the region. Cipla has already launched 38 products in the ongoing financial year and has achieved a top three positions in South Africa Private and OTC segments. Established presence in the region and bodes well for Cipla from a growth perspective.

## Leveraging digital platform, cost control measures to aid margins expansion

Cipla's operating margins have expanded by 360 bps to 22.2% over FY208 to FY2021, attributable to cost control measures initiated by the company, improvement in the field-force activity. Going ahead the margins are expected to expand backed by sustained synergies from One-India strategy, efforts to better leverage digital platform to increase the doctor connect, cost control measures – focused towards rationalization of raw material cost, freight and distribution cost and other expenses. Also led by pick up in the gAlbuterol, Aformoterol and Brovana, the topline is expected to grow, which in turn would improve the US business' margins. Overall, based on the company's cost control measures, savings from One-India strategy, and expected improvement in the US business, the overall margins are expected to expand 180 bps over FY22E to FY24E.

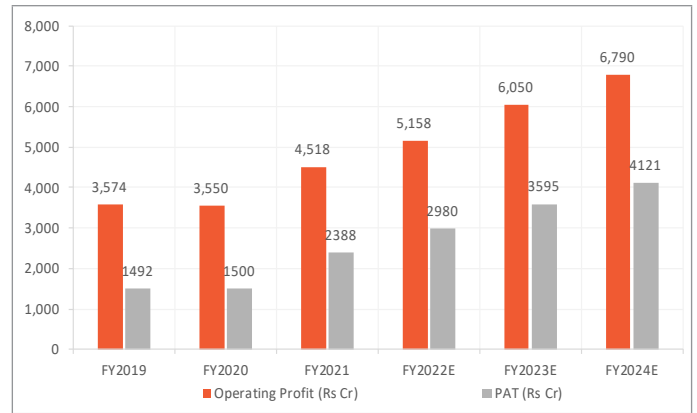
## Financials in charts

### Sales Trends



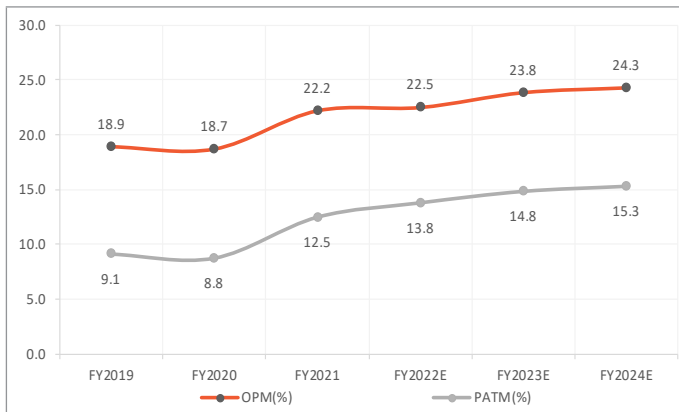
Source: Company, Sharekhan Research

### Operating Profit - PAT Trends



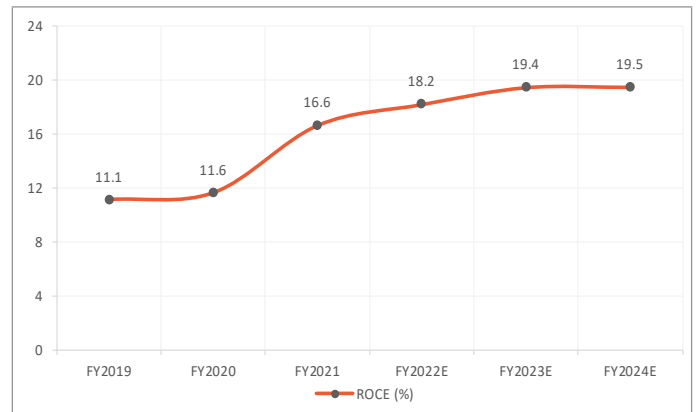
Source: Company, Sharekhan Research

### Margin Trends



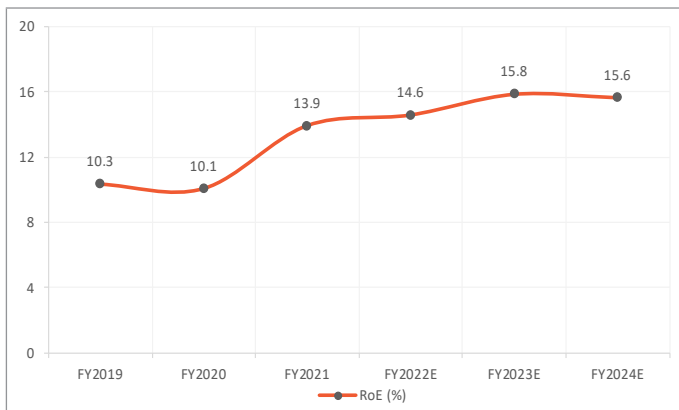
Source: Company, Sharekhan Research

### RoCE Trend (%)



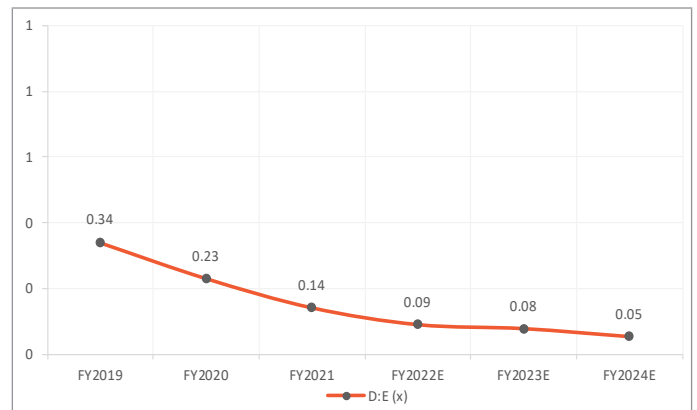
Source: Company, Sharekhan Research

### RoE (%) Trends



Source: Company, Sharekhan Research

### D:E



Source: Company, Sharekhan Research

## Outlook and Valuation

■ **Sector View – Growth momentum to improve:** Indian pharmaceutical companies are better placed to harness opportunities and post healthy growth going ahead. Indian companies are among the most competitive ones globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in the US generics market), rise in product approvals, plant resolutions by the USFDA, strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules and biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this points to a strong growth potential going ahead for pharmaceutical companies.

■ **Company Outlook – Growth on the fast track:** Cipla's domestic business is expected to be a key contributor towards the company's growth, followed by the US business, which is also expected to gain traction. A solid presence in the chronics segment and market leadership position in select chronic therapies such as respiratory and inhalation bodes well for the company. Moreover, likely improvement in the acute therapies segment could also fuel growth for India business. The One-India Strategy implemented by Cipla has played out well and is expected to result in strong growth momentum. Given the recent price hike of 10.8% announced by NPPA to the tune of 10.8% is likely to benefit Cipla as it has 25% of India sales from the products under the NLEM. Backed by a strong product launch pipeline comprising complex generics and high market potential launches, the US business is expected to report healthy growth, with Albuterol, Aformeterol and Brovana ramp-up and likely new approvals being key growth drivers. Moreover, businesses across other geographies are well set to capitalise on the upcoming opportunities and are likely to gain traction. Cost optimisation measures implemented by the company are expected to sustain going ahead as well, leading to an improvement in margin trajectory.

■ **Valuation – Maintain Buy with an unchanged PT of Rs. 1,150:** Cipla expects India business to post strong growth going ahead, backed by growth in core therapies, synergies from One-India Strategy and an expected pick-up in chronic as well as acute therapies, which could drive domestic topline and Cipla is expected to outpace the industry's growth. A ramp-up in gAlbuterol, and Arformoterol market shares, and a strong product pipeline including complex generics could drive US sales higher and bodes well from a growth perspective. Backed by slew of high value launches, Cipla expects growth to pick up in US business in H2FY2023E. Over the long term, cost-control measures could drive up OPM, but in the near term, elevated cost pressures could exert margin pressures. At CMP, the stock is trading at a P/E multiple of 27.4x/22.8x/19.9x its FY22E/FY23E/FY24E earnings, which is lower than the long-term historical average multiple. Ample growth visibility, healthy balance sheet and return ratios are the key positives. We re-iterate Buy recommendation on the stock with unchanged PT of Rs. 1,150.

### One-year forward P/E (x) band



Source: Sharekhan Research

### Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Cipla	1019.0	80.6	82174.0	34.3	27.4	22.8	19.6	17.0	14.2	13.9	14.6	15.8
Lupin	746	45.3	33,906	27.8	25.3	21.2	14.8	11.6	9.3	8.8	9.0	9.9
Torrent Pharma	2796	16.99	47319	38.0	37.7	29.4	21.0	20.0	16.4	23.5	20.0	21.7

Source: Company, Sharekhan estimates

## About company

Cipla is a global pharmaceutical company with a geographically diversified presence and products registered in more than 170 countries. Indian branded formulations account for more than 40% of business and Cipla is among the top three players in the market. In the past, the company believed in the partnership model for international markets. However, in the past three years, the company is undergoing a strategic shift and has started setting up its own front-end divisions. Cipla is also a well-known global player in inhalers and anti-retrovirals. Going forward, the company is planning to launch combination inhalers in larger markets such as the US and EU and is setting up its own front-ends to drive growth.

## Investment theme

Cipla banks on its branded business in India and South Africa, both of which together contribute ~60% of business. A solid presence in the chronics segment in domestic markets along with market leadership position in select chronic therapies such as respiratory, inhalation, and urology bodes well for the company. Moreover, likely improvement in the acute therapy segment would fuel growth for India business. The One-India Strategy implemented by Cipla has played out well and is expected to result in strong growth momentum, well supported by COVID-19 portfolio. Backed by a strong product launch pipeline comprising complex generics, the US business is expected to report healthy growth, with Albuterol being a key growth driver. Moreover, businesses across other geographies are well set to capitalise on the upcoming opportunities and are likely to gain traction. Cost-optimisation measures implemented by the company could lead to margin expansion.

## Key Risks

- ◆ Currency fluctuations could have an adverse impact.
- ◆ Delay in key product approvals/faster approvals for competitors.
- ◆ Any regulatory changes in India or South Africa or the US could affect business.

## Additional Data

### Key management personnel

Dr. Y. K. Hamied	Chairman
Ms. Samina Hamied	Executive Vice-Chairperson
Mr. Umang Vohra	Managing Director and Global Chief Executive Officer
Mr. KedarUpadhye	Global Chief Financial Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Fund Management	3.44
2	GOVERNMENT PENSION FUND - GLOBAL	2.36
3	Life Insurance Corporation of India	2.27
4	Vanguard Group Inc/The	2.12
5	BlackRock Inc	1.98
6	Norges Bank	1.68
7	ICICI prudential Asset Management Co	1.66
8	HDFC Asset Management Co	1.15
9	kotak Mahindra Asset Management Co ltd	0.97
10	Nippon Life India Asset Management Ltd	0.92

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

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