



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
Updated Feb 08, 2022 **31.32**

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

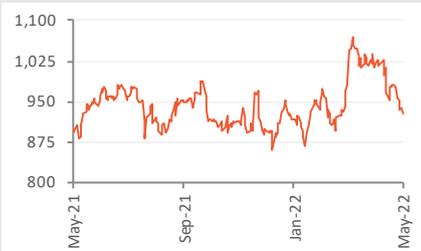
Company details

Market cap:	Rs. 74,731 cr
52-week high/low:	Rs. 1,083 / 850
NSE volume: (No of shares)	26.2 lakh
BSE code:	500087
NSE code:	CIPLA
Free float: (No of shares)	53.5 cr

Shareholding (%)

Promoters	33.6
FII	25.5
DII	21.4
Others	19.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.5	-5.0	1.5	2.9
Relative to Sensex	0.1	2.7	11.4	-7.0

Sharekhan Research, Bloomberg

Pharmaceuticals

Sharekhan code: CIPLA

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 926

Price Target: Rs. 1,150

Summary

- Cipla reported healthy numbers for Q4FY2022, adjusting for one-off expenses of Rs. 200 crore towards inventory charges relating to COVID-19 portfolio. Revenues and PAT grew strongly in double digits
- The outlook for US business is strong backed by growth in the respiratory products and high-value launches being lined up in H2FY23 in the US markets.
- Cipla expects to outperform the Industry growth in the domestic markets, backed by strong growth in the acute as well as chronic therapies, new brands and likely traction in consumer business
- While there are near-term challenges in the form of cost pressures, long-term growth drivers are in place. We maintain our Buy recommendation on the stock with unchanged PT of Rs. 1,150.

Cipla reported healthy numbers for Q4FY2022, adjusting for one-off expenses of Rs. 200 crore towards inventory charges on account of its COVID-19 portfolio which was spread across the gross profits as well as other expenses. Adjusting for this, results were in line on the operating front. The revenues at Rs 5260 crore grew by 14% y-o-y while the PAT, adjusting for one-time expenses was at Rs 619 crore as against Rs 413 crore in Q4FY21. The outlook for the Indian as well as the US business is expected to be strong with high-value launches being lined up in H2FY23 in the US markets. Also, traction in acute as well as chronic therapies would drive up India sales. As cost pressures are likely to stay high, the management expects the FY23E OPMs to be at 21-22% (FY22 OPMs at 20.9%) despite topline traction.

Key positives

- India sales grew strongly by 21% y-o-y, aided by growth across core therapies of acute and Chronic.
- US sales grew by 21% y-o-y due to healthy growth in the gAlbuterol and Aformoterol and a growth in existing products and peptides.

Key negatives

- API segment sales declined 38.7% y-o-y due to higher Q4FY21 base due to stock-up by customers and one-time profit share on an API supply.

Management Commentary

- Cipla's India business is one of the key growth drivers backed by synergies from One-India strategy, growth in existing products and launch of 19 new brands in Q4 and robust outlook for consumer segment.
- Sustained market share in the gAlbuterol, ramp up in Aformoterol and pipeline of substantial high-value new product launches in the US in 2HFY2023, could be key growth drivers for the US business.
- The management expects a healthy traction on the topline front, however due to likely elevated cost pressures The management has guided for OPMs of 21%-22% for FY23 as compared to 21% in FY22.

Revision in estimates – Adjusting for a one-time inventory write off, Q4FY22 was an operationally in line quarter for Cipla. This coupled with the management commentary highlighting the likely cost pressures in the near term we have fine tunes our estimates for FY23E/FY24E.

Our Call

Maintain Buy with unchanged PT of Rs. 1,150: Growth prospects for the India business are strong and the Cipla is expected to outpace industry growth, while US business is also expected to stage an improvement backed by the growth in existing portfolio and high value product launches planned in H2FY23. The South African business also offers a healthy growth outlook. At CMP, the stock is trading at P/E multiple of 24.3x/19.2x its FY23E/FY24E earnings, which is lower than the long-term historical average multiple. Overall, for Cipla, while there are near-term challenges in the form of cost pressures, long-term growth drivers are in place, hence we maintain our 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	FY2020	FY2021	FY2022	FY2023E	FY2024E
Net sales	17132.0	19159.6	21763.3	23390.3	26228.8
Operating Profits	3550.2	4517.9	4833.7	5323.1	6467.8
OPM (%)	18.7	22.2	20.9	21.7	23.8
Reported PAT	1499.5	2388.0	2546.8	3049.3	3878.3
EPS (Rs)	19.2	29.8	34.0	38.1	48.3
PER (x)	48.3	31.1	27.2	24.3	19.2
EV/Ebitda (x)	24.1	17.8	16.2	14.6	11.7
P/BV (x)	4.7	4.1	3.6	3.2	2.7
ROCE (%)	11.6	16.6	17.2	17.4	19.4
RONW (%)	10.1	13.9	14.6	13.8	15.3

Source: Company; Sharekhan estimates

Healthy performance adjusting for one offs: Q4FY22 was a healthy quarter for Cipla, adjusting for one-time expenses of Rs. 200 crore of inventory charges on account of the COVID portfolio, which was included in the gross profits as well as other expenses. Adjusting for this the results were in line on the operating front. Sales at Rs. 5260 crore grew by 14.2% y-o-y backed by a double-digit growth in the both the India as well as US business with the India and US sales growing by 21% each on a y-o-y basis. The adjusted OPM's stood at 18.1% expanding 78 bps y-o-y as against the estimated 19%. The adjusted EBITDA at Rs 950 crore was up 19% y-o-y and was largely in line with the estimates. The tax rate stood lower at 10% for the quarter due to depreciation benefits on certain assets. Adjusted PAT stood at Rs 619.6 cr as against Rs 413.4 crore in Q1FY21 and was better than the estimates. The reported OPM however stood at 14.3% while the reported PAT stood at Rs 362 crore.

India business on a strong platform to grow; Cipla to outperform industry growth: Cipla's India business has clocked a strong growth of 21% y-o-y growth in sales, despite a high base of the corresponding period of the previous year. While the base business grew strongly, driven by sustained volume traction across therapies in the core portfolio including both acute and chronics, while COVID-led portfolio growth moderated as expected. Cipla's 41 brands in the acute and 32 brands in the chronic therapies were among the top performers. 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 management now aims to grow further. (Sales from the one India grew by 21% y-o-y for the quarter). This, coupled with the company's strong position in the chronic segments in which it is amongst the top ranked players could help it post strong growth. Chronic therapies account for 55% of the overall India sales. In the past, the growth in chronic therapies has helped Cipla outpace the industry growth in its prescriptions business. In the IPM as well, chronic therapies such as Respiratory and Cardiology have clocked a healthy growth and this bodes well for Cipla. Cipla has launched around 19 brands across therapies and the sales from the same is expected to ramp up. The company is witnessing an increased traction in the branded prescription business and has outpaced industry growth. Moreover, the recent price hike initiated by National Pharmaceutical pricing Authority (NPPA) of 10.8% effective April 2022 could help companies such as Cipla to mitigate the cost pressures, though partly. The NLEM (National List of essential Medicines) drugs account for ~23% of Cipla's domestic sales and a price hike by the NPPA bodes well with the full impact of the same likely 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.

Ramp-up in US respiratory portfolio, focus on complex products to drive growth: Cipla's US sales for the quarter has reported a strong double digit growth of 21% y-o-y while in USD terms the growth stood at 17% y-o-y to \$160 million. Robust momentum in core formulation business; strong traction in respiratory assets as well as contribution from peptide asset resulted in a strong double digit growth for the US region. Cipla in the recent past received an approval for Arformoterol Tartrate Inhalation Solution, and this strengthened the respiratory franchise further. gAlbuterol continued its growth trajectory in the quarter and commanded a market share of ~20% of the overall market. Given substantial head room available for growth in gAlbuterol, management is eyeing incremental market share gains in gAlubterol. Also 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. The company has launched the product in the US markets and now is working towards ramping up the sales. 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. In addition to Advair, the company has two more assets in the pipeline, which are expected to be commercialised in or beyond FY2023, coupled with the unlocking of the peptide portfolio thus pointing toward strong traction in high-value complex products that would strengthen the company's presence in US markets.

South African business: The South African business, which includes South Africa, sub-Saharan region, and global access, grew by 12.3% y-o-y in rupee terms to Rs. 953 crore. In south Africa business the company has outpaced the industry in the prescription as well as the OTC business and is ranked the 3rd top players in the overall market. The growth was diversified across the base business as well as came in from the new products as well. Going ahead the company expects the consumer business as well as from the other business to fuel the sales growth for the South Africa business.

Emerging markets and Europe (International Markets): The international markets business grew by 7.5% y-o-y to Rs 732 crore. The company maintained its scale supported by a growth across geographies with a steady double-digit growth in the secondary market, while the growth in the B2B segment in the Europe markets remained weak.

R&D: R&D spends at Rs 322 crore were higher by 16% y-o-y due to the initiation of the clinical trial across the respiratory franchise with two assets going in the Clinical stage. Going ahead with the clinical trials underway the management expects the R&D spends to trend in between.

Results (Consolidated)

Particulars	Rs cr				
	Q4FY2022*	Q4FY2021	YoY %	Q3FY2022	QoQ %
Revenues	5260.3	4606.5	14.2	5478.9	-4.0
Expenditure	4310.6	3810.2	13.1	4247.9	1.5
Operating profit	949.7	796.2	19.3	1231.0	-22.8
Other income	64.0	60.1	6.5	91.3	-29.9
EBIDTA	1013.7	856.4	18.4	1322.3	-23.3
Interest	18.1	27.5	-34.1	20.7	-12.5
Depreciation	290.3	285.2	1.8	247.1	17.5
PBT	705.3	543.7	29.7	1054.4	-33.1
Tax	71.1	128.2	-44.5	295.2	-75.9
Adjusted PAT	619.6	413.4	49.9	728.9	-15.0
Margins			bps		bps
Adj OPM (%)	18.1	17.3	77	22.5	-441
Adj. profit margin (%)	11.8	9.0	280	13.3	-153
Tax Rates (%)	10.1	23.6	-1350	28.0	-1791

Source: Company; Sharekhan Research

* Q4 Results adjusted for a one time impact of Rs 200 cr towards inventory write off pertaining to Covid products

Geographical Sales Break-Up – Quarterly

Geography Mix	Rs cr				
	Q4FY2022	Q4FY2021	YoY %	Q3FY2022	QoQ %
India (Rx+Gx)	2183	1807	20.8	2518	-13.3
North America	1209	1002	20.7	1124	7.6
SAGA	953	848	12.4	892	6.8
International Markets	732	681	7.5	738	-0.8
API	137	224	-38.8	150	-8.7
Others	46	44	4.5	56	-17.9
Total	5260.0	4606.0	14.2	5478.0	-4.0

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 – Gaining traction

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 along with market leadership position in select chronic therapies such as respiratory and inhalation bodes well for the company. Moreover, likely traction 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 announced by NPPA to the tune of 10.8% is likely to benefit Cipla as it has 23% 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 likely to outpace the industry's growth. Ramp-up in gAlbuterol, and Arformoterol market shares, and a strong product pipeline including complex generics, could drive US sales higher. Backed by slew of high value launches, Cipla expects growth to pick up in US business in 2HFY2023E. However, the management seem the raw material cost as well as freight cost to be higher expects FY23E OPMs to be in the 21% to 22% range despite of a likely topline traction. Adjusting for one-time expenses, Q4FY22 was an inline quarter operationally. Basis this and the management commentary, we have fine-tuned our estimates for Fy23E/FY24E. At the CMP, the stock is trading at P/E multiple of 24.3x/19.2x its FY23E/FY24E earnings, which is lower than the long-term historical average multiple. Overall for Cipla while there exists near term challenges in the form of cost pressures, but the long term growth drivers are in place. We maintain our 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 (%)		
				FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Cipla	926.0	80.6	82174.0	27.2	24.3	19.2	16.2	14.6	11.7	14.6	13.8	15.3
Lupin	715	45.3	32,490	24.3	20.3	14.5	11.0	8.8	6.1	9.0	9.9	12.4
Torrent Pharma	2579	16.99	43649	34.7	27.1	22.8	18.5	15.2	12.4	20.0	21.7	21.5

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. Dinesh Jain	Interim Global Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Fund Management	4.33
2	Life Insurance Corporation of India	3.6
3	Government Pension Fund	2.59
4	Norges Bank	2.31
5	BlackRock Inc	2.09
6	Vanguard Group Inc	2.06
7	ICICI prudential Asset Management Co	1.63
8	NPS Trust	1.44
9	HDFC Asset Management	1.33
10	UTI Asset Management Co Ltd	1.17

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.