Cipla (CIPLA IN)

Rating: BUY | CMP: Rs1,146 | TP: Rs1,300

November 6, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	**BUY**		**BUY**	
Target Price	**1,300**		**1,110**	
Sales (Rs. m)	2,55,943	2,83,221	2,55,839	2,82,914
% Chng.	-	*0.1*		
EBITDA (Rs. m)	60,521	69,001	58,131	65,938
% Chng.	*4.1*	*4.6*		
EPS (Rs.)	47.5	55.1	44.8	51.3
% Chng.	*6.1*	*7.5*		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	2,17,634	2,32,178	2,55,943	2,83,221
EBITDA (Rs. m)	45,528	50,763	60,521	69,001
Margin (%)	*20.9*	*21.9*	*23.6*	*24.4*
PAT (Rs. m)	25,168	30,838	38,315	44,435
EPS (Rs.)	31.2	38.2	47.5	55.1
Gr. (%)	*4.7*	*22.5*	*24.2*	*16.0*
DPS (Rs.)	5.3	6.3	7.6	9.1
Yield (%)	*0.5*	*0.6*	*0.7*	*0.8*
RoE (%)	*12.9*	*14.0*	*15.4*	*15.7*
RoCE (%)	*16.7*	*17.3*	*19.2*	*19.9*
EV/Sales (x)	4.2	3.9	3.4	3.0
EV/EBITDA (x)	20.1	17.7	14.5	12.3
PE (x)	36.7	30.0	24.1	20.8
P/BV (x)	4.4	4.0	3.5	3.1

Key Data	CIPL.BO | CIPLA IN
52-W High / Low	Rs.1,185 / Rs.850
Sensex / Nifty	60,950 / 18,117
Market Cap	Rs.925bn/ $ 11,220m
Shares Outstanding	807m
3M Avg. Daily Value	Rs.1815.95m

Shareholding Pattern (%)

Promoter's	33.61
Foreign	27.69
Domestic Institution	21.73
Public & Others	16.97
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.1	19.7	25.8
Relative	(4.6)	9.3	24.0

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US sales to sustain

Quick Pointers:

- Company maintained its EBITDA margin guidance at 21-22% for FY23.
- Current qtrly US revs of $180mn is new base; gRevlimid will continue similar run-rate in H2FY23.

Cipla's Q2FY23 performance was broad based with strong show in domestic formulation and US sales. We continue to remain positive on CIPLA's growth across key segments including India and US given 1) strong traction in respiratory and other portfolio, 2) Ex-COVID, domestic formulation to potentially grow +10% going forward and 3) sustainability of current US revs, backed by potential key launches. In near term; timely gAdvair launch (H2FY23) will be key trigger. Our FY24/25E EPS stands increased by 6%/8% as we factor in gRevlimid revenues. We expect 18% EPS CAGR over FY22-25E given resilient earnings, improving visibility from US and strong free cash flow generation. Maintain 'Buy' rating with revised TP of Rs1,300/share (Rs 1,110 earlier) based on 25x Sept FY24E EPS.

- **Strong traction in US and India market:** Cipla's Q2FY23 sales increased 6% YoY (up 8% QoQ) to Rs58bn. Domestic formulation sales grew by 6% YoY. Adjusted for COVID, growth was 15% YoY led by momentum in One-India business, increased traction across therapies, trade generics and consumer health business. US sales came in at USD 179mn, up 15.5% QoQ in-line aided by new launches (lenalidomide) and ramp up in peptide assets. E estimate sales from gRevlimid at ~$25mn. International markets declined by 7% YoY to Rs7.6bn given weak currency. API saw decline of 11% YoY to Rs1.5bn.
- **Adj EBIDTA broadly in line:** GMs was up by 60bp QoQ to 62.9%. There were 150bps impact due to COVID led inventory write off. Adjusted for this GM cane in at 64%. Adjusted EBITDA for write off came in at Rs14bn with OPM of 24%; largely in line with our estimate. Other expenses increased by 12% QoQ and 12% YoY. R&D cost came in at Rs3.4bn; 5.7% of sales; up 22% YoY. Depreciation charges came in higher. Resultant PAT came in at Rs7.9bn up 11% YoY vs our estimate of Rs 9bn.
- **Key concall takeaways: (1)** Cipla's US business continued to sustain growth momentum led by new launches. Guided current quarterly run-rate to sustain. gRevlimid quarterly revenues to be similar through H2FY23E. Currently enjoys 16% (16.5% in Q1) market share of total Albuterol market and 38% (33.4%) share of total Brovana market. Continue to see pressure in Albuterol pricing **(2)** The Lanreotide reached at 9.6% market share in Q2 vs 4.6% in Q1 and on target to expand to 15% in H2. **(3) gAdvair**- launch is on track in H2FY23, pricing looks attractive. Expect competition to be limited in the product over the next 2 years **(4) gAbraxane-** Launch timeline delay to H1FY24 given ongoing FDA issues **(5)** Ex-Covid India business reported 15% YoY growth along with strong growth from trade generics and consumer business. Launched 8 new products during Q2. **(6)** Maintained its margin guidance of 21-22% in FY23 **(7)** R&D expenses is likely to be between 5-6% of sales as company has initiated clinical trials on new pipeline **(8) SAGA market**: Private market recovery on track; 28% sequential growth in ZAR terms.

Exhibit 1: 2QFY23 Result Overview (Rs m) – Adjusted for one-off EBITDA was at Rs 14bn

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Net Sales	**58,285**	**55,198**	***5.6***	**53,752**	***8.4***	**112,037**	**110,242**	***1.6***
Raw Material	21,602	21,367	*1.1*	20,244	*6.7*	41,846	42,055	*(0.5)*
% of Net Sales	*37.1*	*38.7*		*37.7*		*37.4*	*38.1*	
Personnel Cost	9,608	8,778	*9.5*	9,557	*0.5*	19,166	17,651	*8.6*
% of Net Sales	*16.5*	*15.9*		*17.8*		*17.1*	*16.0*	
Others	14,052	12,791	*9.9*	12,517	*12.3*	26,569	24,815	*7.1*
% of Net Sales	*24.1*	*23.2*		*23.3*		*23.7*	*22.5*	
Total Expenditure	45,262	42,936	*5.4*	42,318	*7.0*	87,581	84,521	*3.6*
EBITDA	**13,023**	**12,262**	***6.2***	**11,434**	***13.9***	**24,457**	**25,721**	***(4.9)***
Margin (%)	*22.3*	*22.2*		*21.3*		*21.8*	*23.3*	
Depreciation	2,994	2,531	*18.3*	2,544	*17.7*	5,538	5,142	*7.7*
EBIT	**10,030**	**9,731**	***3.1***	**8,889**	***12.8***	**18,919**	**20,579**	***(8.1)***
Other Income	1,230	607	*102.7*	1,034	*18.9*	2,264	1,256	*80.2*
Interest	256	380	*(32.8)*	178	*43.5*	434	676	*(35.8)*
PBT	**11,004**	**9,958**	***10.5***	**9,746**	***12.9***	**20,749**	**21,160**	***(1.9)***
Extra-Ord. Inc./Exps.	-	-		-		-	(1,246)	
Total Taxes	3,026	2,838	*6.6*	2,680	*12.9*	5,706	5,675	*0.5*
ETR (%)	*27.5*	*28.5*		*27.5*		*27.5*	*26.8*	
Minority interest	(89)	(6)		(202)		(290)	23	
Reported PAT	**7,889**	**7,114**	***10.9***	**6,864**	***14.9***	**14,753**	**14,261**	***3.5***

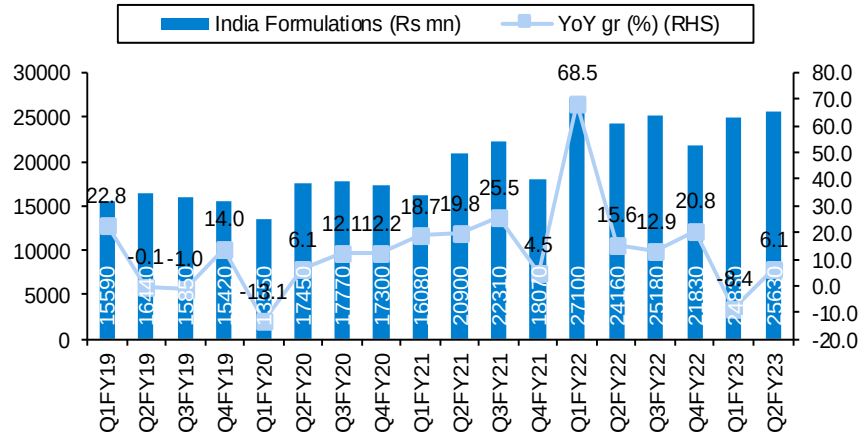
Source: Company, PL

Exhibit 2: Sources of Revenue

Geographic break up of revenues	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Domestic market	**25,630**	**24,160**	***6.1***	**24,830**	***3.2***	**50,460**	**51,260**	***(1.6)***
% of Sales	*44.0*	*43.8*		*46.2*		*45.0*	*46.5*	
Export market	**32,660**	**31,040**	***5.2***	**28,930**	***12.9***	**61,590**	**59,040**	***4.3***
% of Sales	*56.0*	*56.2*		*53.8*		*55.0*	*53.5*	
North America	14,320	10,550	*35.7*	11,990	*19.4*	26,310	20,980	*25.4*
% of Sales	*24.6*	*19.1*		*22.3*		*23.5*	*19.0*	
SAGA	8,670	9,940	*(12.8)*	7,880	*10.0*	16,550	18,310	*(9.6)*
% of Sales	*14.9*	*18.0*		*14.7*		*14.8*	*16.6*	
International Markets	7,630	8,210	(7.1)	7,200	6.0	14,830	14,030	7,630
% of Sales	*13.1*	*14.9*		*13.4*		*13.2*	*12.7*	*13.1*
APIs	1,530	1,720	*(11.0)*	1,350	*13.3*	2,880	4,740	*(39.2)*
% of Sales	*2.6*	*3.1*		*2.5*		*2.6*	*4.3*	
Others	510	620	*(17.7)*	510	-	1,020	980	*4.1*
% of Sales	*0.9*	*1.1*		*0.9*		*0.9*	*0.9*	
Total	**58,290**	**55,200**	*5.6*	**53,760**	*8.4*	**112,050**	**110,300**	***1.6***

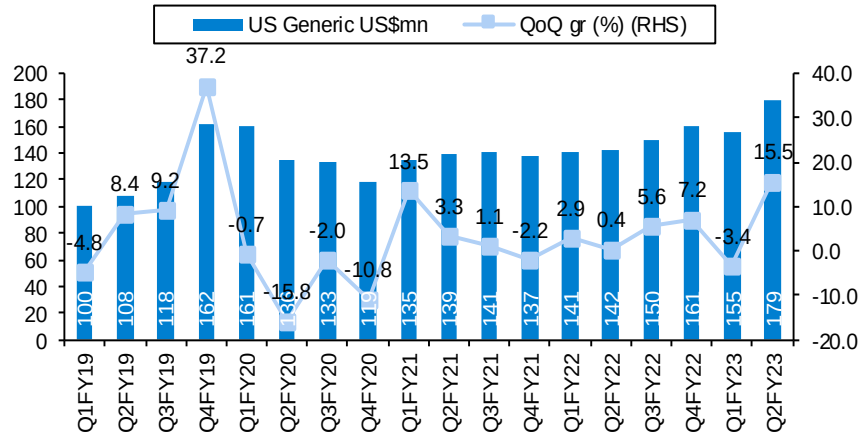
Source: Company, PL

Exhibit 3: India Formulations((Rx+Gx+CHL): stable growth across segments



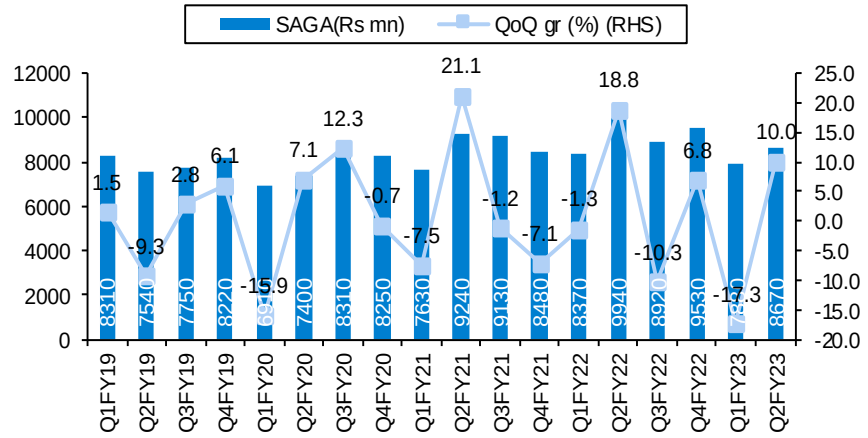
Source: Company, PL

Exhibit 4: US (US$mn) : Respiratory portfolio + new launches driving growth



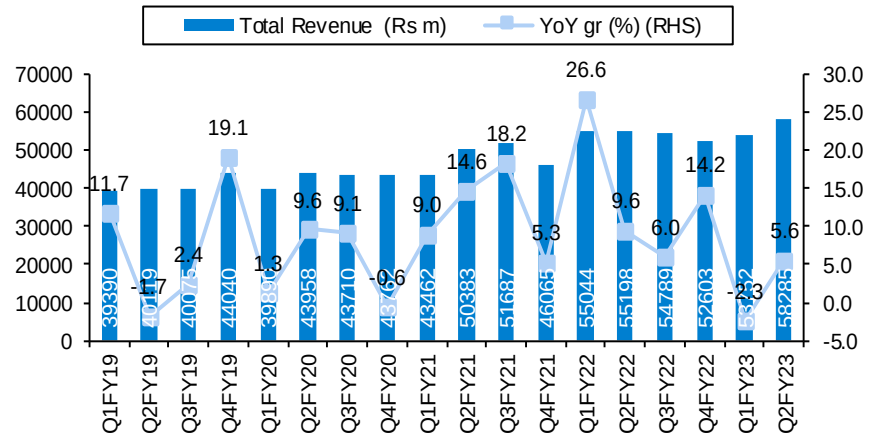
Source: Company, PL

Exhibit 5: Revenue trend from SAGA (Rs in mn)



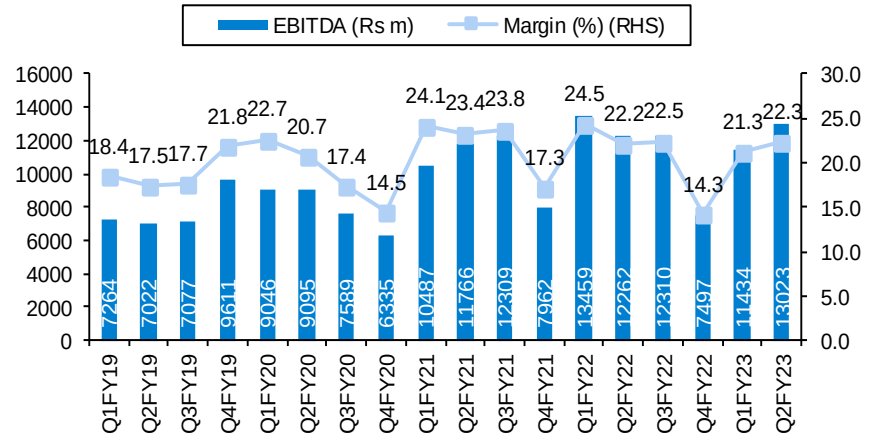
Source: Company, PL

Exhibit 6: Overall Sales Growth driven by US and India formulations business



Source: Company, PL

Exhibit 7: EBITDA, Margin: Adjusted for one-off margin was at 24%



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	**2,17,634**	**2,32,178**	**2,55,943**	**2,83,221**
YoY gr. (%)	*13.6*	*6.7*	*10.2*	*10.7*
Cost of Goods Sold	96,309	99,140	1,05,841	1,16,218
Gross Profit	1,21,325	1,33,038	1,50,102	1,67,004
Margin (%)	*55.7*	*57.3*	*58.6*	*59.0*
Employee Cost	32,194	34,594	36,702	38,813
Other Expenses	43,603	47,681	52,880	59,190
EBITDA	**45,528**	**50,763**	**60,521**	**69,001**
YoY gr. (%)	*7.1*	*11.5*	*19.2*	*14.0*
Margin (%)	*20.9*	*21.9*	*23.6*	*24.4*
Depreciation and Amortization	10,520	11,045	11,598	12,294
EBIT	**35,009**	**39,717**	**48,923**	**56,707**
Margin (%)	*16.1*	*17.1*	*19.1*	*20.0*
Net Interest	1,064	900	800	700
Other Income	2,809	3,700	4,500	5,000
Profit Before Tax	**36,754**	**42,517**	**52,623**	**61,007**
Margin (%)	*16.9*	*18.3*	*20.6*	*21.5*
Total Tax	9,338	11,480	14,208	16,472
Effective tax rate (%)	*25.4*	*27.0*	*27.0*	*27.0*
Profit after tax	**27,416**	**31,038**	**38,415**	**44,535**
Minority interest	-	-	-	-
Share Profit from Associate	(427)	(200)	(100)	(100)
Adjusted PAT	**25,168**	**30,838**	**38,315**	**44,435**
YoY gr. (%)	*4.7*	*22.5*	*24.2*	*16.0*
Margin (%)	*11.6*	*13.3*	*15.0*	*15.7*
Extra Ord. Income / (Exp)	1,821	-	-	-
Reported PAT	**26,989**	**30,838**	**38,315**	**44,435**
YoY gr. (%)	*12.2*	*14.3*	*24.2*	*16.0*
Margin (%)	*12.4*	*13.3*	*15.0*	*15.7*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	26,989	30,838	38,315	44,435
Equity Shares O/s (m)	**807**	**807**	**807**	**807**
EPS (Rs)	**31.2**	**38.2**	**47.5**	**55.1**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	**1,37,892**	**1,49,892**	**1,61,892**	**1,73,892**
Tangibles	93,703	1,01,857	1,10,012	1,18,166
Intangibles	44,189	48,034	51,880	55,725
Acc: Dep / Amortization	**73,052**	**84,098**	**95,696**	**1,07,989**
Tangibles	41,985	48,333	54,999	62,064
Intangibles	31,067	35,764	40,697	45,925
Net fixed assets	**64,839**	**65,794**	**66,196**	**65,903**
Tangibles	51,718	53,524	55,013	56,102
Intangibles	13,122	12,270	11,183	9,801
Capital Work In Progress	7,662	7,662	7,662	7,662
Goodwill	31,379	31,379	31,379	31,379
Non-Current Investments	26,120	26,120	26,120	26,120
Net Deferred tax assets	2,049	2,049	2,049	2,029
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	53,502	57,249	63,109	69,835
Trade receivables	34,244	36,894	40,670	45,005
Cash & Bank Balance	19,285	34,058	53,453	77,155
Other Current Assets	29,287	30,751	32,289	33,903
Total Assets	**2,66,523**	**2,90,111**	**3,21,082**	**3,57,166**
Equity				
Equity Share Capital	1,614	1,614	1,614	1,614
Other Equity	2,06,803	2,31,671	2,62,821	2,98,658
Total Networth	**2,08,417**	**2,33,284**	**2,64,434**	**3,00,272**
Non-Current Liabilities				
Long Term borrowings	5,745	2,745	(255)	(3,255)
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	4,813	4,813	4,813	4,813
Trade payables	25,081	26,716	29,451	32,590
Other current liabilities	21,759	21,844	21,931	22,018
Total Equity & Liabilities	**2,66,523**	**2,90,111**	**3,21,082**	**3,57,166**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	33,945	38,817	48,123	56,007
Add. Depreciation	10,520	11,045	11,598	12,294
Add. Interest	1,064	900	800	700
Less Financial Other Income	2,809	3,700	4,500	5,000
Add. Other	901	-	-	-
Op. profit before WC changes	46,429	50,763	60,521	69,001
Net Changes-WC	(1,775)	(6,140)	(8,353)	(9,449)
Direct tax	(11,395)	(11,480)	(14,208)	(16,472)
Net cash from Op. activities	**33,260**	**33,143**	**37,959**	**43,080**
Capital expenditures	(7,012)	(12,000)	(12,000)	(12,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	**(7,012)**	**(12,000)**	**(12,000)**	**(12,000)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(10,062)	(3,000)	(3,000)	(3,000)
Dividend paid	(4,034)	(5,970)	(7,165)	(8,597)
Interest paid	(1,064)	(900)	(800)	(700)
Others	(5,816)	3,500	4,400	4,920
Net cash from Fin. activities	**(20,976)**	**(6,370)**	**(6,565)**	**(7,377)**
Net change in cash	**5,272**	**14,773**	**19,395**	**23,702**
Free Cash Flow	26,248	21,143	25,959	31,080

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	**54,789**	**52,603**	**53,752**	**58,285**
YoY gr. (%)	*6.0*	*14.2*	*(2.3)*	*5.6*
Raw Material Expenses	21,434	21,467	20,244	21,602
Gross Profit	33,355	31,136	33,508	36,684
Margin (%)	*60.9*	*59.2*	*62.3*	*62.9*
EBITDA	**12,310**	**7,497**	**11,434**	**13,023**
YoY gr. (%)	-	*(5.8)*	*(15.0)*	*6.2*
Margin (%)	*22.5*	*14.3*	*21.3*	*22.3*
Depreciation / Depletion	2,475	2,903	2,544	2,994
EBIT	**9,835**	**4,594**	**8,889**	**10,030**
Margin (%)	*18.0*	*8.7*	*16.5*	*17.2*
Net Interest	207	181	178	256
Other Income	913	640	1,034	1,230
Profit before Tax	**10,541**	**5,053**	**9,746**	**11,004**
Margin (%)	*19.2*	*9.6*	*18.1*	*18.9*
Total Tax	2,952	711	2,680	3,026
Effective tax rate (%)	*28.0*	*14.1*	*27.5*	*27.5*
Profit after Tax	**7,590**	**4,342**	**7,066**	**7,978**
Minority interest	304	147	202	89
Share Profit from Associates	-	-	-	-
Adjusted PAT	**7,286**	**3,621**	**6,864**	**7,889**
YoY gr. (%)	*(2.6)*	*(12.4)*	*(18.2)*	*10.9*
Margin (%)	*13.3*	*6.9*	*12.8*	*13.5*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**7,286**	**3,621**	**6,864**	**7,889**
YoY gr. (%)	*(2.6)*	*(12.4)*	*(18.2)*	*10.9*
Margin (%)	*13.3*	*6.9*	*12.8*	*13.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**7,286**	**3,621**	**6,864**	**7,889**
Avg. Shares O/s (m)	804	804	804	804
EPS (Rs)	**9.1**	**5.2**	**8.5**	**9.8**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	31.2	38.2	47.5	55.1
CEPS	44.2	51.9	61.9	70.3
BVPS	258.3	289.1	327.8	372.2
FCF	32.5	26.2	32.2	38.5
DPS	5.3	6.3	7.6	9.1
Return Ratio(%)				
RoCE	16.7	17.3	19.2	19.9
ROIC	14.2	15.5	18.3	20.3
RoE	12.9	14.0	15.4	15.7
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	105	106	106	106
Valuation(x)				
PER	36.7	30.0	24.1	20.8
P/B	4.4	4.0	3.5	3.1
P/CEPS	25.9	22.1	18.5	16.3
EV/EBITDA	20.1	17.7	14.5	12.3
EV/Sales	4.2	3.9	3.4	3.0
Dividend Yield (%)	0.5	0.6	0.7	0.8

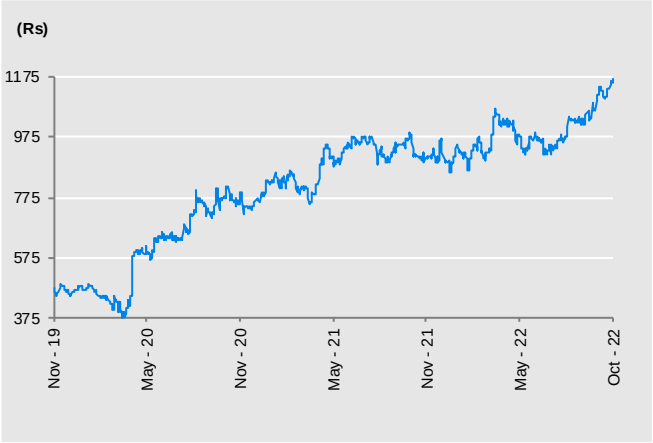
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
India Formulations	98,280	1,02,399	1,14,285	1,28,160
Exports	1,11,729	1,23,278	1,34,530	1,47,220
APIs	7,600	6,500	7,128	7,841

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	1,110	1,131
2	01-Aug-22	BUY	1,110	977
3	07-Jul-22	BUY	1,085	946
4	11-May-22	BUY	1,085	926
5	08-Apr-22	BUY	1,100	1,037
6	26-Jan-22	BUY	1,100	906
7	07-Jan-22	BUY	1,100	915

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	4,391
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,110	1,131
5	Divi's Laboratories	Accumulate	4,140	3,727
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	330	266
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	358	291
11	Indoco Remedies	BUY	430	336
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,467
15	Lupin	Hold	600	721
16	Max Healthcare Institute	BUY	500	465
17	Narayana Hrudayalaya	BUY	810	715
18	Sun Pharmaceutical Industries	BUY	1,175	1,037
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	BUY	425	409

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

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