



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 **31.4**  
Updated Oct 08, 2022

High Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 77,808 cr
52-week high/low:	Rs. 1,185 / 888
NSE volume: (No of shares)	58.3 lakh
BSE code:	500087
NSE code:	CIPLA
Free float: (No of shares)	53.6 cr

Shareholding (%)

Promoters	33.6
FII	28.4
DII	21.1
Others	16.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.5	-12.6	-5.8	6.0
Relative to Sensex	-8.6	-11.0	-7.6	1.1

Sharekhan Research, Bloomberg

Pharmaceuticals

Sharekhan code: CIPLA

Reco/View: Hold



CMP: Rs. 964

Price Target: Rs. 1,080



Upgrade



Maintain



Downgrade

Summary

- ♦ We reduce Cipla's PT to Rs. 1,080 (from Rs. 1,158), as we foresee headwinds to margin expansion due to USFDA issuing form 483 for Pithampur's plant as well. However, while we maintain our earnings growth estimates to an 11.7% CAGR during FY2022-FY2025E, we reduce its valuation multiple to factor in the current development.
- ♦ Latest Form 483 observations issued by the USFDA for Indore, Pithampur plant is likely to affect nearly ~5% of the revenue and nearly ~15% of EBITDA on an annual basis. We await more clarity around it from management.
- ♦ Cipla has witnessed slower growth in its India Pharma market's (IPM) sales as well in January 2023, compared with industry's average growth. IPM growth will continue to be a key monitorable going forward.
- ♦ The stock is trading at 20.9x/17.5x its FY2024E/FY2025E estimates; and hence, we maintain our Hold rating on the stock.

Cipla's Pithampur plant, one of the most important plants for Cipla Limited (Cipla), besides Goa plant has received Form 483 with eight observations from the USFDA. The plant is estimated to be contributing ~5% of the revenue and ~15% of EBITDA for FY2023E. The plant manufactures its blockbuster respiratory products such as Albuterol and Arformoterol; and gAdvair, which is soon to be launched, has been filed from the same plant. We maintain our earnings CAGR estimates over FY2022-FY2025E, but we have lowered the valuation multiple to factor in the current negative development and await clarity around it from management.

- ♦ **Pithampur plant with Form 483's 8 observations:** Cipla's gAdvair launch is likely to be held up as the filing for the same is from Indore, Pithampur plant of Cipla, which has received form 483 with eight observations. Additionally, the Pithampur plant manufactures its key respiratory products such as Albuterol, Arformoterol, and Pulmicort. On the other side, gAbroxane's launch is also likely to be delayed as Goa plant, from where it is filed, is under warning letter (WL) as well, since February 20 and has Official Action Indicated (OAI) status on it since August 2022. We believe it will impact revenue and earnings, over the short – medium term. As of now, we maintain our earnings estimates but lower the valuation multiple to factor in the current negative development and await clarity around it from management.
- ♦ **Cipla underperforming Indian Pharma Market (IPM) growth, IPM growth will be a key monitorable:** In January 2023, Cipla reported a 0.4% y-o-y decline in sales vs. 2.3% growth in IPM market for the month. IPM growth will be a key monitorable for Cipla, as domestic formulations contribute 44% to the revenue as of Q3FY2023.

Our Call

The company's Pithampur plant, which produces key respiratory products such as Albuterol and Arformoterol and from where the filings of its key product gAdvair are also being done, has come under the USFDA scanner with Form 483 issued with eight observations. This is expected to delay gAdvair's launch. The company is already facing a delay in the launch of its key oncology product, gAbroxane, as its Goa plant is under the USFDA OAI status since August 2022. At the CMP, the stock trades at 20.9x/17.5x its FY2024E/FY2025E EPS. We now value the company's shares at the reduced 19.6x while applying it on FY2025E EPS of Rs. 55.2. We reduce the price target (PT) to Rs. 1,080 (vs. earlier Rs. 1,158). We maintain our Hold Rating on the stock.

Key Risks

- 1) Lower-than-expected growth in India's market share and specialty segment's revenue growth;
- 2) Currency risk; and
- 3) Delay in the resolution of USFDA observations at its plant.

Valuation (Consolidated)

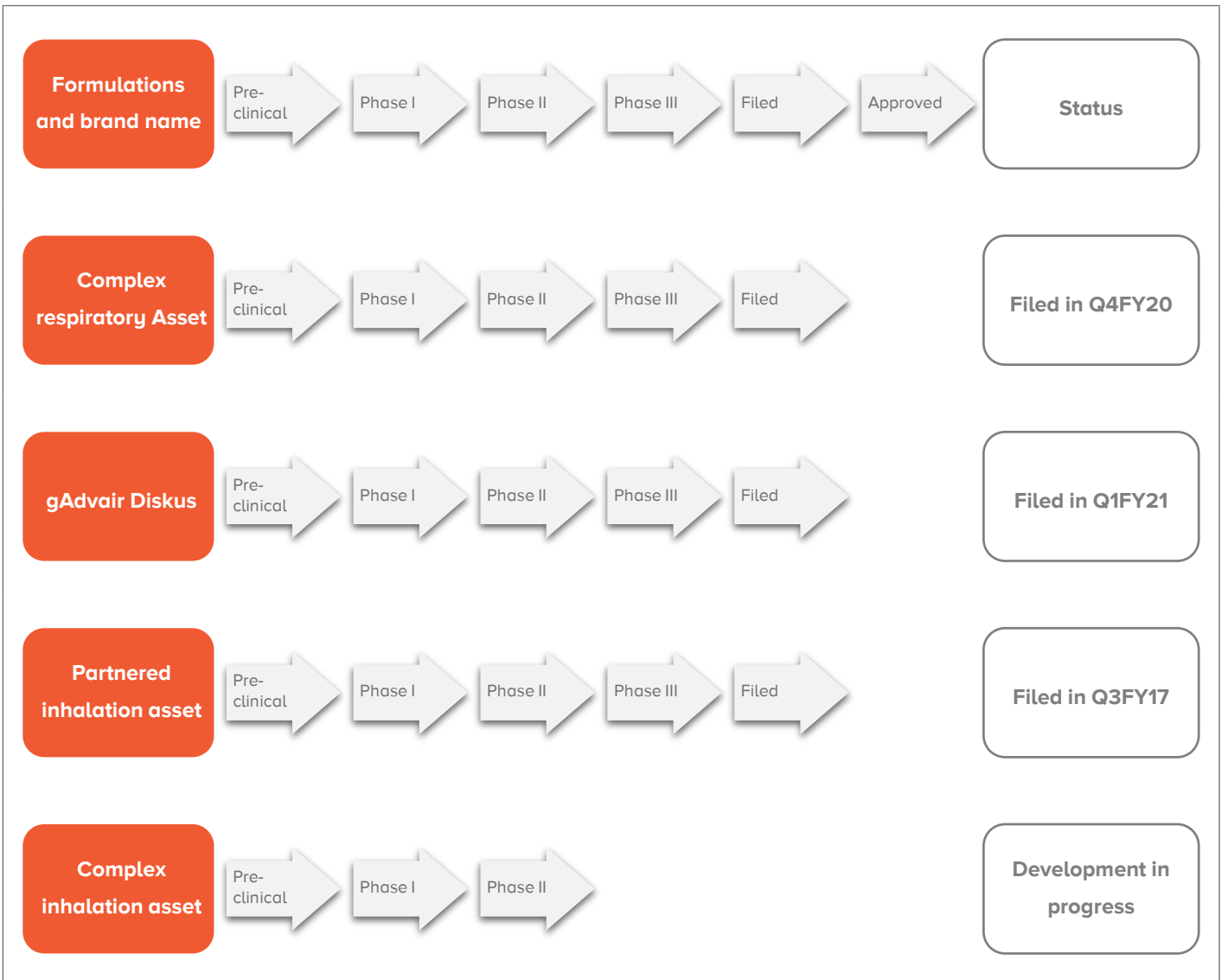
Rs cr

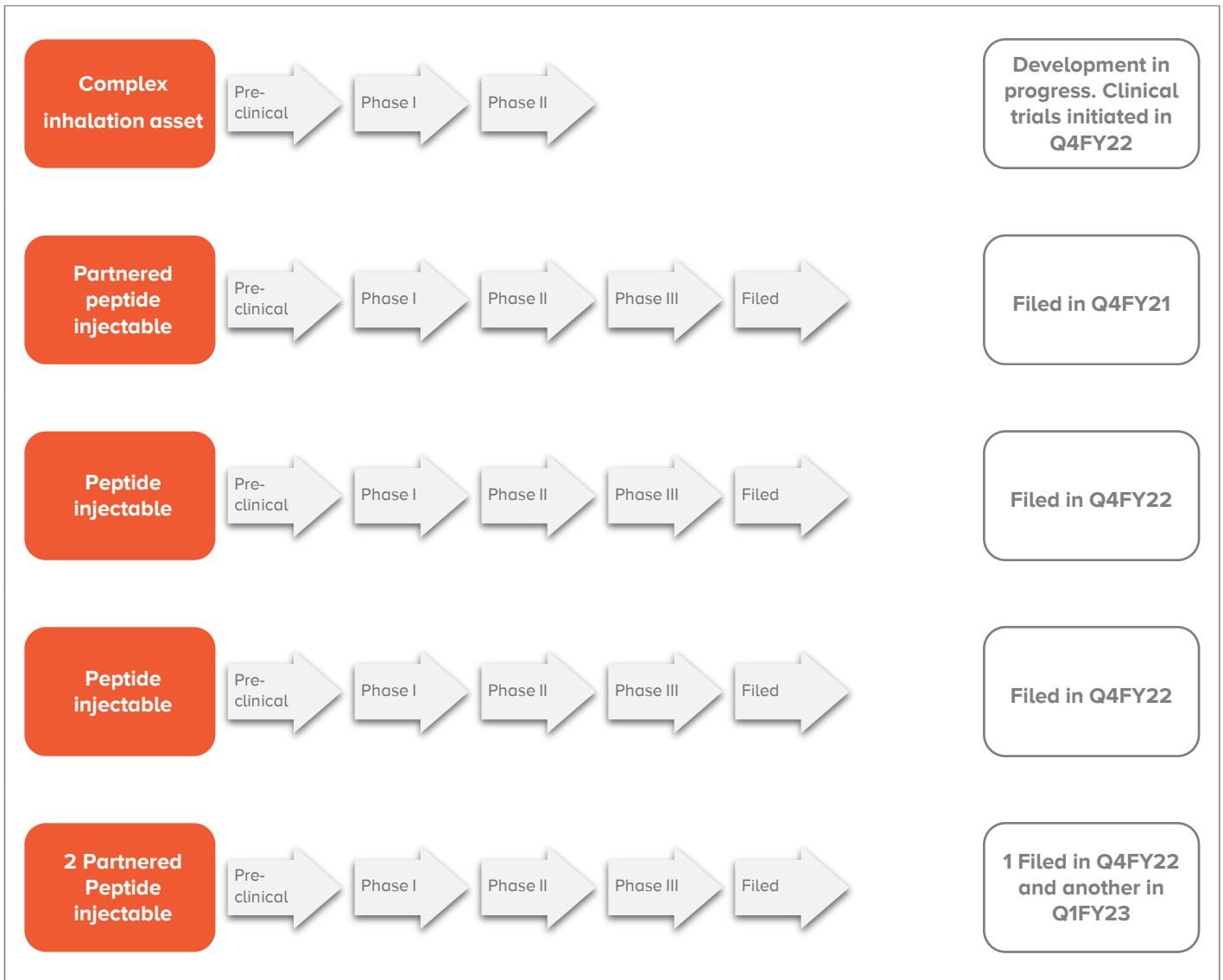
Particulars	FY2021	FY2022	FY2023E	FY2024E	FY2025E
Net sales	19,159.6	21,763.3	22,331.7	25,836.0	29,951.0
EBITDA Margin (%)	22.2%	20.9%	22.4%	22.3%	22.5%
Adj. PAT	2,388.0	2,546.8	2,990.2	3,694.6	4,428.9
Adj. EPS (Rs)	29.8	34.0	37.7	46.2	55.2
PER (x)	32.4	28.4	25.6	20.9	17.5
EV/EBITDA (x)	18.6	16.9	15.4	13.2	11.0
ROCE (%)	16.6	17.2	18.0	18.7	19.7
RONW (%)	13.9	14.6	13.7	14.7	15.2

Source: Company; Sharekhan estimates

- Pithampur plant with Form 483's eight observations:** Cipla's gAdvair launch, which is a limited competition product with a market size of up to USD 700 million p.a., is likely to be held up (which was planned for H2FY2023-H1FY2024 launch earlier) as the filing for the same is from Indore, Pithampur plant of Cipla, which has received form 483 with eight observations. Additionally, the Pithampur plant manufactures key respiratory products such as Albuterol, Arformoterol, and Pulmicort. It is believed that the Pithampur plant is estimated to contribute ~15% to consolidated EBITDA and ~5% to FY2023E revenue. However, we maintain the earnings growth estimate at an 11.7% CAGR during FY2022-FY2025E, as we reduce its valuation multiple to factor in the current development and await clarity around its impact on earnings from management.
- Cipla underperforming IPM growth, will be a key monitorable:** In January 2023, Cipla reported a 0.4% y-o-y decline in sales vs. 2.3% growth in the IPM market for the month. IPM growth will be a key monitorable indicator for Cipla as domestic formulations contributes 44% to revenue as of Q3FY2023.

Product pipeline

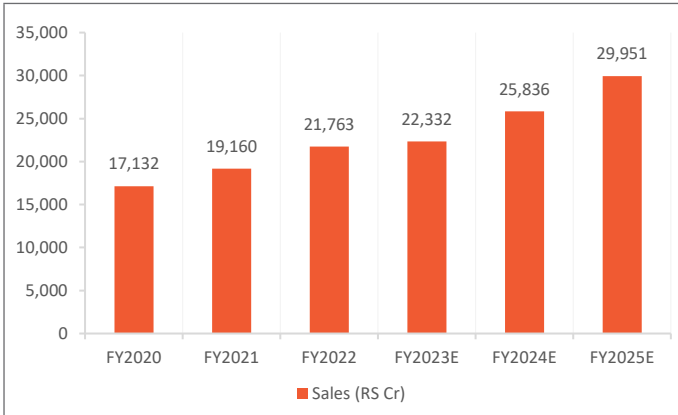




Source: Company, Sharekhan Research

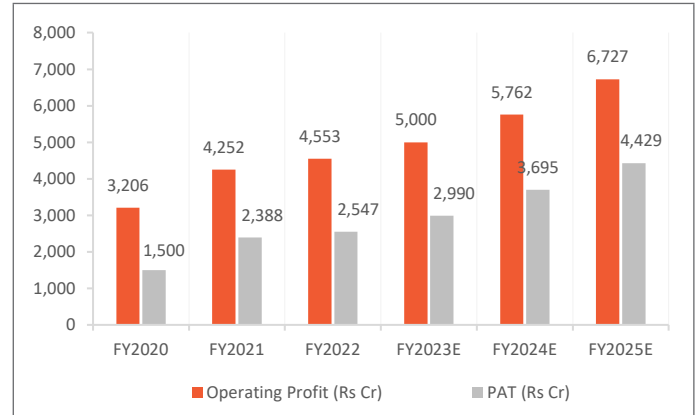
## Financials in charts

### Sales Trends



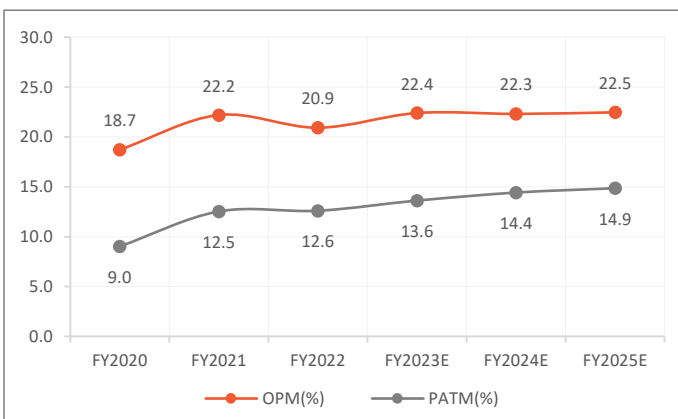
Source: Company, Sharekhan Research

### Operating Profit - PAT Trends



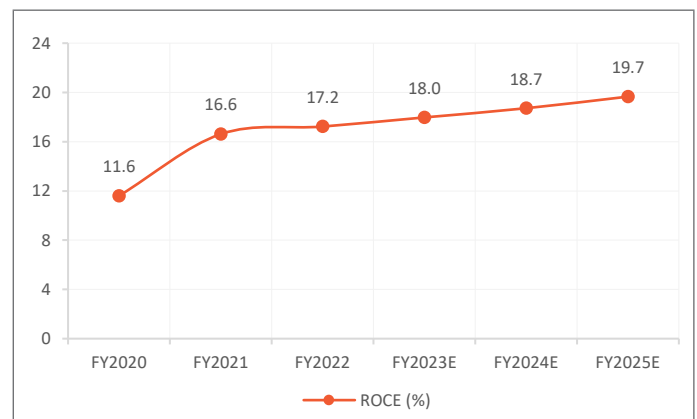
Source: Company, Sharekhan Research

### Margin Trends



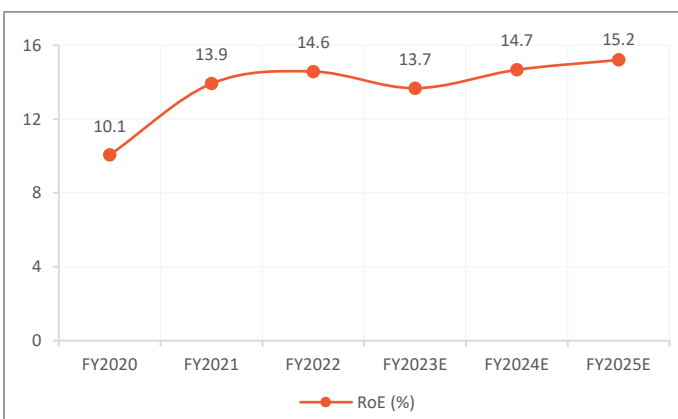
Source: Company, Sharekhan Research

### RoCE Trend (%)



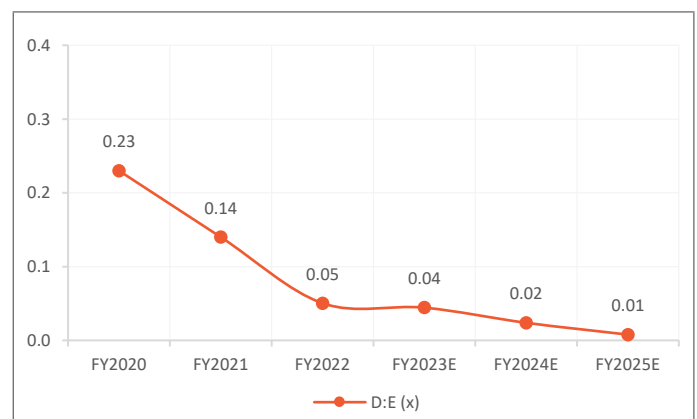
Source: Company, Sharekhan Research

### RoE (%) Trends



Source: Company, Sharekhan Research

### D:E



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Multiple growth engines ahead

The IPM is growing with increased consumer spend and awareness. Additionally, Indian pharmaceutical players with a large market share in IPM and a strong pipeline of specialty products will help it gain market share in the US and, thereby, partially offset any impact of competitive pricing pressure in the U.S. Moreover, other factors such as faster product approvals and resolutions by the USFDA with regards to plant observations and 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, biosimilars, and injectables) and the commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for Indian pharma companies.

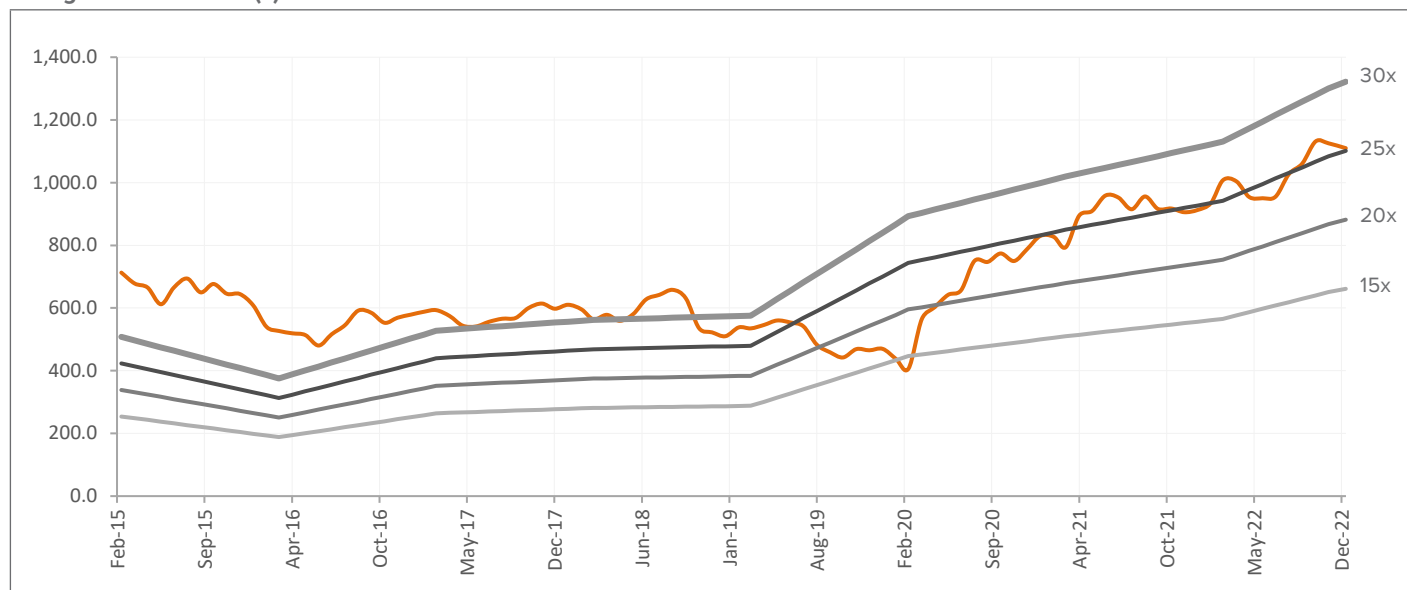
### ■ Company Outlook – Product launch delays in the US pose a concern.

Cipla has seen an increase in the U.S. revenue base to USD175–180 million a quarter vs. an average base of USD155 million before, driven by differentiated product launches. While Albuterol's market share is declining due to competition, gBrovana's market share is flattening. Albuterol's Gx share was 18.2% as of Q2FY2022 vs. 16.0% in Q2FY2023, while gBrovana's Gx share was 39% in Q2FY2022 vs. 38% in Q2FY2023. However, Lanreotide depot injection is gaining market share. Launch of Leuprolide depot injection in November 2022 and gAdvair in H2FY2023 is expected to support the new revenue base to continue to grow – partially offset by erosion in the base business. However, some of the concerns include gAbraxane's launch likely to be delayed due to Official Action Indicated (OAI) at its Goa plant, currently. At the same time, India's market growth is likely to slow down for Cipla due to the seasonally weaker second half of a FY for it. Delayed product launches in the U.S. market and slower market growth in India can impact margin expansion than envisaged before. The company believes once it becomes large enough in the U.S. market, over the next 2-3 years, the growth rate is likely to slow down due to base effect. The company will see a new spurt of growth for the U.S. market from the launch of biosimilars during 2028-2030.

### ■ Valuation – Maintain Hold with a changed PT of Rs. 1,080

The company's Pithampur plant, which produces key respiratory products such as Albuterol and Arformoterol and from where the filings of its key product gAdvair are also being done, has come under the USFDA scanner with Form 483 issued with eight observations. This is expected to delay gAdvair's launch. The company is already facing a delay in the launch of its key oncology product, gAbraxane, as its Goa plant is under the USFDA OAI status since August 2022. At the CMP, the stock trades at 20.9x/17.5x its FY2024E/FY2025E EPS. We now value the company's shares at the reduced 19.6x while applying it on FY2025E EPS of Rs. 55.2. We reduce the price target (PT) to Rs. 1,080 (vs. earlier Rs. 1,158). We maintain our Hold Rating on the stock.

### 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 (%)		
				FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Cipla	964.00	80.7	77,795	25.6	20.9	17.5	15.4	13.2	11.0	13.7	14.7	15.2
Strides Pharma Science	295.50	7.5	2,219	63.9	11.6	8.3	10.0	6.8	5.4	1.8	9.8	12.4
Torrent Pharma	1,481.85	33.8	50,145	40.9	29.9	23.4	19.8	15.9	13.2	19.4	23.4	25.2

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 antiretrovirals. Going forward, the company is planning to launch combination inhalers in larger markets such as the U.S. 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 the business. A solid presence in the chronic segment in domestic markets along with a 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 the Indian business. The One-India Strategy implemented by Cipla has played out well and is expected to result in strong growth momentum, well supported by the 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 U.S. could affect business.

## Additional Data

### Key management personnel

Dr. Y. K. Hamied	Chairman
Ms. Samina Hamied	Executive Vice-Chairperson
Mr. Ashish Adukia	Chief Financial Officer
Mr. Rajendra Chopra	Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management	4.65
2	Blackrock Inc.	3.45
3	Government Pension	2.48
4	Vanguard Group Inc.	2.43
5	Norges Bank	2.30
6	Life Insurance Corp	2.29
7	Government Pension Fund	2.25
8	HDFC AMC	1.83
9	NPS Trust AC	1.60
10	GQG Partners	1.16

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



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