

BSE SENSEX 58,962
S&P CNX 17,304

Cipla

Bloomberg	CIPLA IN
Equity Shares (m)	805
M.Cap.(INRb)/(USDb)	731.3 / 8.8
52-Week Range (INR)	1185 / 890
1, 6, 12 Rel. Per (%)	-12/-10/-5
12M Avg Val (INR M)	1925

Financials & Valuations (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	227.7	247.3	268.3
EBITDA	52.6	59.1	64.7
Adj. PAT	32.6	36.3	40.2
EBITDA Margin (%)	18.3	19.4	19.6
Cons. Adj. EPS (INR)	40.5	45.1	49.9
EPS Gr. (%)	14.5	11.5	10.5
BV/Sh. (INR)	287.5	327.8	371.7

Ratios

Net D:E	-0.1	-0.2	-0.2
RoE (%)	14.1	13.8	13.4
RoCE (%)	14.4	14.7	14.0
Payout (%)	9.3	10.7	12.1

Valuations

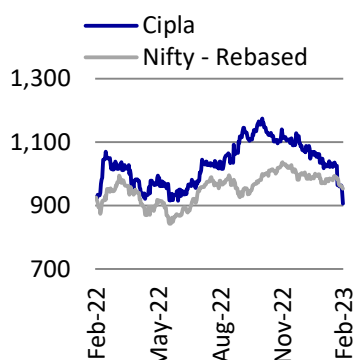
P/E (x)	22.4	20.1	18.1
EV/EBITDA (x)	13.4	11.5	10.2
Div. Yield (%)	0.3	0.4	0.6
FCF Yield (%)	3.0	4.1	4.0
EV/Sales (x)	3.1	2.8	2.4

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	33.4	33.4	35.9
DII	21.0	21.6	21.4
FII	28.8	28.1	24.8
Others	16.8	16.9	17.9

FII Includes depository receipts

Stock performance (one-year)



CMP: INR906

TP: INR990 (+9%)

Neutral

Regulatory risks on the rise

Observations at Pithampur may take 9-10M to resolve

- The USFDA issued form 483 to Cipla for its Pithampur site and we assessed that the observations are primarily related to inadequate root cause analysis, handling of market complaints, upgrading of software and GMP records.
- We expect CIPLA to implement strong corrective and preventive actions (CAPA) to resolve the issues.
- We cut our earnings estimate by 3% for FY24 to factor in the delay in g-Advair approval, due to observations in form 483. The Official action indicated (OAI) at Goa and the recent form 483 at Indore increase the overall regulatory risks from US generics business perspective. Accordingly, we reduce the PE multiple to 21x from 23x. We value Cipla on an SoTP basis (21x 12M forward earnings and INR40 as NPV for g-Revlimid) to arrive at a price target of INR990.
- Considering a) moderate earnings growth and b) valuation providing limited upside potential, we reiterate our Neutral rating on the stock.

Highlights of Form 483

- The USFDA inspected Cipla's Pithampur site between 6 Feb and 17 Feb'23 and issued form 483 with eight observations.
- One of the observations indicated that the definitive root cause was not identified with respect to media fill batch and commercial batches were released.
- Another observation highlighted was inadequate root cause analysis related to power failure in Grade C area.
- Further, the inspectors also highlighted that the company is yet to implement any corrective action to resolve the increasing number of market complaints since CY20.
- Appropriate controls have not been exercised to assure that changes in the records are instituted by authorized personnel.
- The USFDA also emphasised on retaining original GMP records and highlighted that complete data is not being derived from tests/examinations.

Work-in-progress at Goa; enhanced effort for Pithampur 483 as well

- It was only in Sept'19 that Cipla received its first adverse outcome (OAI) from the USFDA inspection at the Goa site. The site was re-inspected in Aug'22 and its classification was maintained as OAI.
- Considering the observations at the Pithampur site and indications from regulatory experts, we expect 9-10M to resolve the highlighted issues.
- These sites are critical for niche approvals in injectables/respiratory products. Resolution of market complaints is critical for the base business as well.

Valuation and View

- We reduce our EPS estimate by 3% for FY24 to factor in the a) postponement of g-Advair approval. We also reduce our valuation multiple to 21x from 23x to account for increasing regulatory risks.

Tushar Manudhane - Research Analyst (Tushar.Manudhane@MotilalOswal.com)

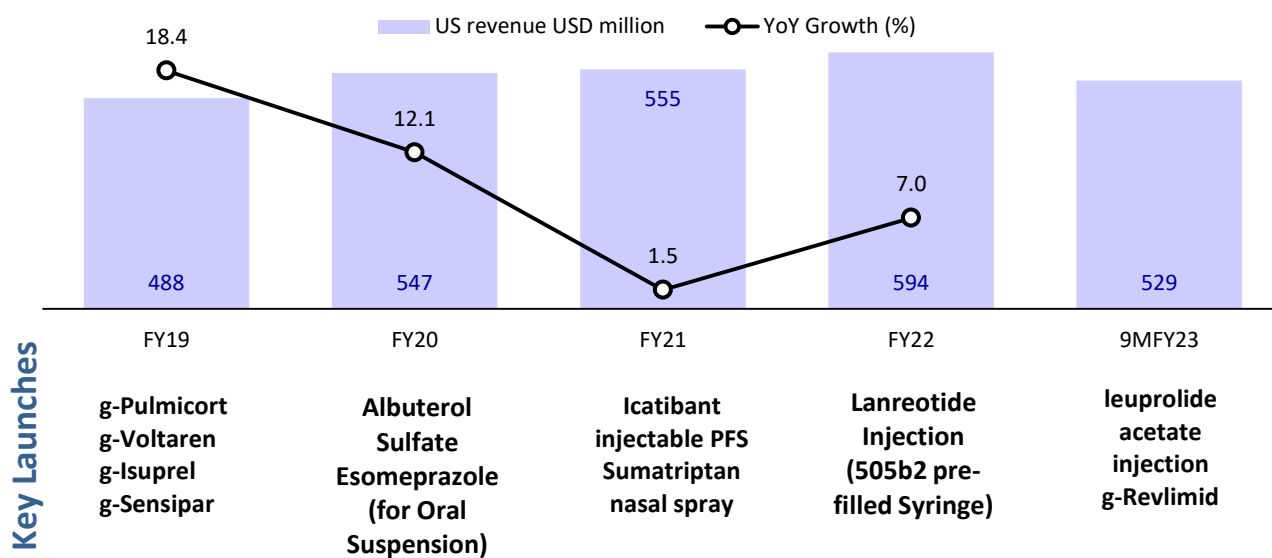
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- We expect 11% earnings CAGR over FY23-25, led by gradual ramp-up in injectables (g-Leuprolide), better traction in g-Revlimid, and industry outperformance in India chronic segment/consumer healthcare.
- We value Cipla on an SoTP basis (21x 12M forward earnings and INR40 as NPV for g-Revlimid) to arrive at a price target of INR990 and reiterate our Neutral stance on the stock.

Exhibit 1: US revenue has clocked a CAGR of 6.8% over FY19-22; 22% YoY in 9MFY23



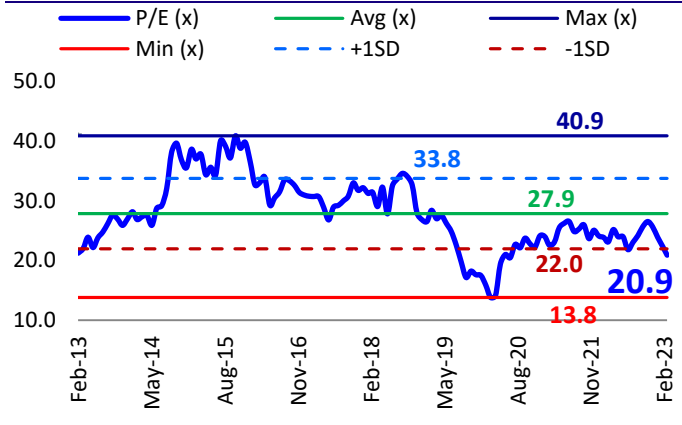
Source: MOFSL, Company

Exhibit 2: USFDA inspection snapshot at Pithampur, Goa, Invagen sites

Site	Inspection End Date	Classification / Remarks
Pithampur, India	Feb-23	Form 483 issued with 8 observations
	May-19	NAI
	Apr-18	VAI
	Aug-15	VAI
	Aug-22	OAI
Goa, India	Sep-19	OAI
	Jan-19	VAI
	Sep-18	VAI
	Jun-17	NAI
	Aug-16	VAI
	Apr-15	VAI
	Dec-19	VAI
Hauppauge, US	May-18	VAI
	Mar-17	VAI
	Apr-16	NAI
	May-15	VAI
	Mar-15	VAI
Central Islip, US	Dec-18	VAI
	May-17	VAI

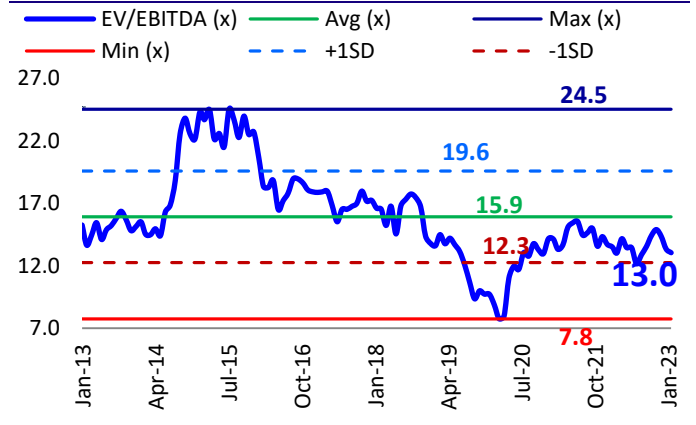
Source: MOFSL, USFDA

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

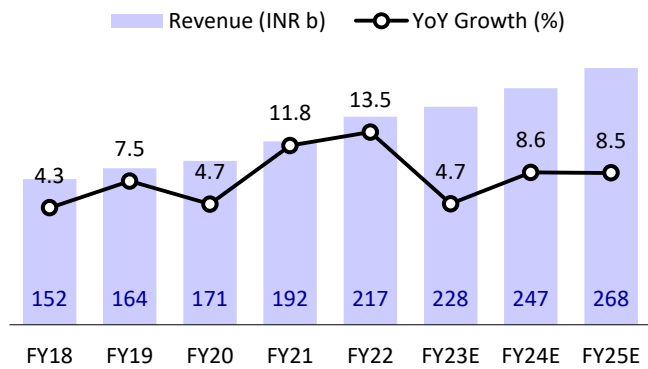
Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

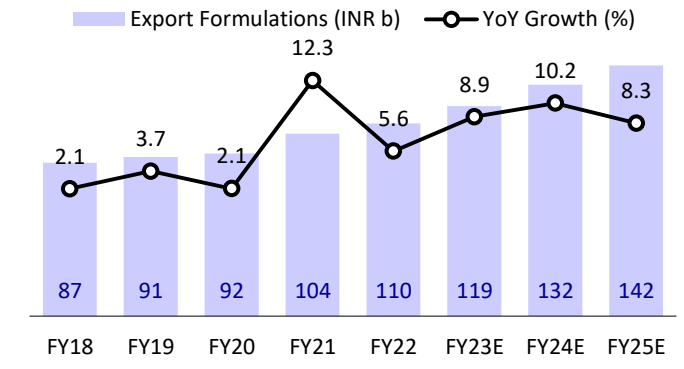
Story in charts

Exhibit 5: Expect sales CAGR of ~9% over FY23–25



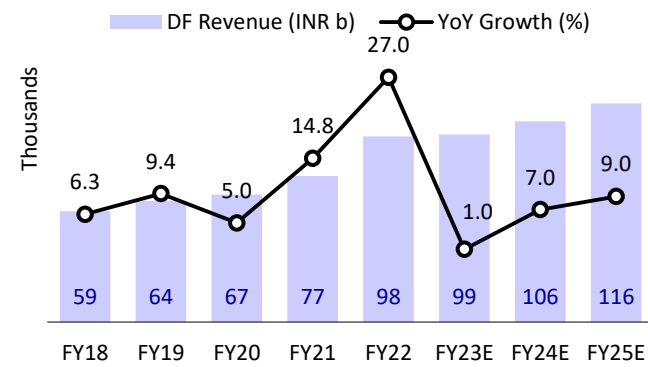
Source: Company, MOFSL

Exhibit 6: Expect export sales CAGR of 9% over FY23–25



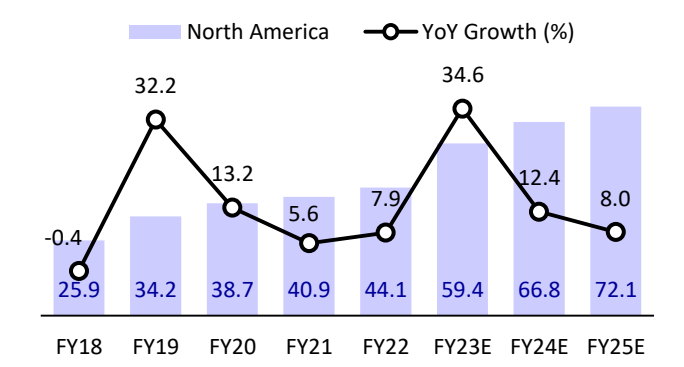
Source: Company, MOFSL

Exhibit 7: Expect DF sales to register a CAGR of 8% over FY23–25



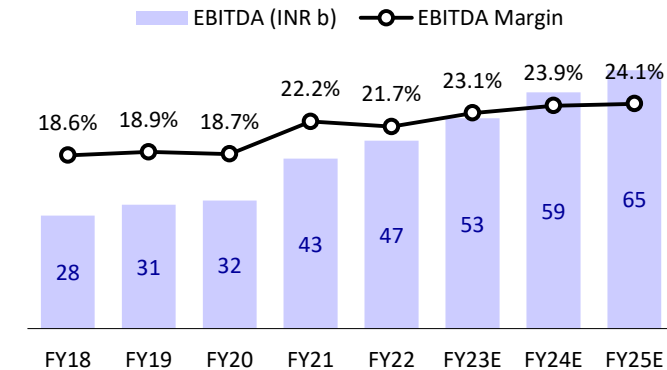
Source: Company, MOFSL

Exhibit 8: Expect NA sales CAGR of 10% over FY23–25



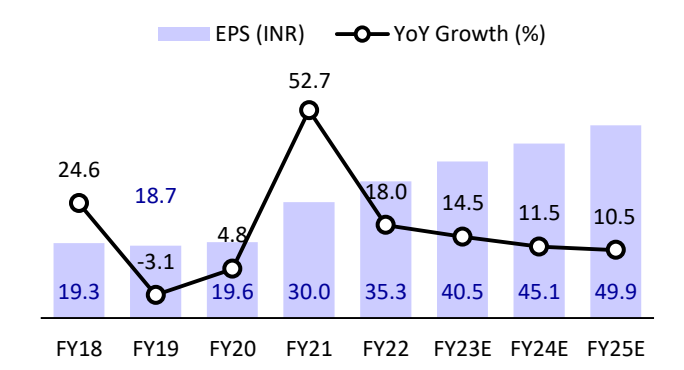
Source: Company, MOFSL

Exhibit 9: EBITDA margin to increase 100bp over FY23–25



Source: Company, MOFSL

Exhibit 10: Expect EPS CAGR of 11% over FY23–25



Source: Company, MOFSL

Financials and valuations

Income Statement										(INR Mn)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	
Net Income	1,45,980	1,52,200	1,63,624	1,71,320	1,91,596	2,17,121	2,27,743	2,47,268	2,68,308	
Change (%)	6.7	4.3	7.5	4.7	11.8	13.3	4.9	8.6	8.5	
Total Expenditure	1,21,544	1,23,929	1,32,651	1,39,260	1,49,070	1,70,106	1,75,135	1,88,171	2,03,646	
EBITDA	24,436	28,271	30,973	32,060	42,526	47,016	52,609	59,097	64,662	
Change (%)	-2.3	15.7	9.6	3.5	32.6	10.6	11.9	12.3	9.4	
Margin (%)	16.7	18.6	18.9	18.7	22.2	21.7	23.1	23.9	24.1	
Depreciation	9,229	11,491	11,163	11,423	10,677	10,520	10,854	11,099	12,008	
EBIT	15,207	16,780	19,810	20,637	31,849	36,496	41,754	47,998	52,655	
Int. and Finance Charges	1,594	1,142	1,684	1,974	1,607	1,064	1,046	777	717	
Other Income - Rec.	2,287	3,577	2,796	3,442	2,660	2,809	4,200	4,000	3,800	
PBT before EO Items	15,900	19,214	20,922	22,105	32,902	38,242	44,909	51,221	55,738	
One-time (Expense)/Income	0	-2,512	-130	324	0	3,309	634	0	0	
PBT but after EO Exp.	15,900	16,702	20,792	21,782	32,902	34,933	44,275	51,221	55,738	
Tax	3,094	2,501	5,695	6,312	8,888	9,338	12,574	14,444	15,885	
Tax Rate (%)	19.5	15.0	27.4	29.0	27.0	26.7	28.4	28.2	28.5	
Minority Interest	290	60	(353)	(470)	(164)	299	450	380	(348)	
Income from associates	-70	-28	-171	-475	-128	-128	-50	-60	-48	
Reported PAT	12,446	14,113	15,278	15,465	24,050	25,168	31,200	36,337	40,152	
Adj PAT	12,446	15,511	15,032	15,752	24,050	28,382	32,585	36,337	40,152	
Change (%)	-17.7	24.6	-3.1	4.8	52.7	18.0	14.8	11.5	10.5	
Margin (%)	8.5	10.2	9.2	9.2	12.6	13.1	14.3	14.7	15.0	

Balance Sheet										(INR Mn)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	
Equity Share Capital	1,609	1,610	1,611	1,613	1,613	1,614	1,610	1,610	1,610	
Reserves	1,23,645	1,40,682	1,52,298	1,57,630	1,79,264	2,01,532	2,29,833	2,62,300	2,97,609	
Net Worth	1,25,254	1,42,292	1,50,123	1,57,630	1,83,265	2,08,417	2,31,444	2,63,910	2,99,219	
Loans	41,126	40,980	43,162	28,164	15,375	8,975	5,975	5,975	5,975	
Deferred Liabilities	5888	3157	2239	1254	-181	-2049	-2049	-2049	-2049	
Minority Interst	4382	3524	3320	2943	2591	2757	2757	2757	2757	
Capital Employed	1,76,650	1,89,953	1,98,844	1,89,992	2,01,050	2,18,100	2,38,126	2,70,594	3,05,902	
Gross Block	1,14,562	1,20,454	1,26,353	1,38,480	1,47,454	1,60,107	1,66,048	1,72,048	1,80,248	
Less: Accum. Deprn.	10,204	16,273	27,436	38,859	49,536	60,056	70,910	82,009	94,016	
Net Fixed Assets	1,04,358	1,04,181	98,916	99,621	97,918	1,00,052	95,138	90,039	86,232	
Capital WIP	7,192	5,124	3,311	4,210	5,708	3,829	5,124	5,124	5,124	
Investments	141	107	2,963	3,593	3,501	4,171	4,171	4,171	4,171	
Curr. Assets	96,159	1,17,318	1,32,429	1,26,804	1,41,244	1,58,304	1,77,083	2,16,563	2,57,557	
Inventory	34,853	40,447	39,648	43,776	46,692	53,502	53,360	61,204	64,990	
Account Receivables	24,974	31,025	41,507	38,913	34,457	34,244	39,627	41,788	49,369	
Cash and Bank Balance	6,242	9,656	6,188	10,039	14,012	19,285	28,815	53,441	77,197	
Others	30,090	36,190	45,085	34,076	46,083	51,273	55,280	60,130	66,002	
Curr. Liability & Prov.	31,201	36,776	38,775	44,236	47,322	48,423	43,388	45,302	47,181	
Account Payables	27,982	30,505	31,408	34,755	36,539	36,213	31,178	33,092	34,971	
Provisions	3,219	6,271	7,368	9,482	10,783	12,210	12,210	12,210	12,210	
Net Current Assets	64,959	80,542	93,654	82,568	93,922	1,09,882	1,33,695	1,71,260	2,10,377	
Appl. of Funds	1,76,650	1,89,953	1,98,844	1,89,992	2,01,050	2,18,100	2,38,126	2,70,594	3,05,902	

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
EPS	15.5	19.3	18.7	19.6	30.0	35.3	40.5	45.1	49.9
Cash EPS	26.9	33.5	32.5	33.7	43.1	48.2	54.0	58.9	64.8
BV/Share	155.7	176.7	186.3	195.5	227.2	258.1	287.5	327.8	371.7
DPS	2.0	2.0	3.0	2.5	2.5	3.0	3.0	4.0	5.0
Payout (%)	15.6	13.4	18.6	15.6	10.0	11.5	9.3	10.7	12.1
Valuation (x)									
P/E	58.4	46.8	48.3	46.1	30.2	25.6	22.4	20.1	18.1
Cash P/E	33.6	27.0	27.8	26.9	21.0	18.8	16.8	15.4	14.0
P/BV	5.8	5.1	4.9	4.6	4.0	3.5	3.1	2.8	2.4
EV/Sales	5.2	5.0	4.7	4.4	3.8	3.3	3.1	2.8	2.4
EV/EBITDA	31.2	26.9	24.7	23.3	17.2	15.3	13.4	11.5	10.2
Dividend Yield (%)	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.6
Return Ratios (%)									
RoE	10.4	11.6	10.3	10.2	14.1	14.5	14.1	13.8	13.4
RoCE	7.9	9.4	8.4	8.8	12.9	13.7	14.4	14.7	14.0
RoIC	7.5	8.4	8.0	8.2	13.3	14.5	15.3	16.9	17.6
Working Capital Ratios									
Fixed Asset Turnover (x)	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.5	3.0
Debtor (Days)	62	74	93	83	66	58	64	62	67
Inventory (Days)	87	97	88	93	89	90	86	90	88
Working Capital (Days)	162	193	209	176	179	183	212	250	283
Leverage Ratio (x)									
Current Ratio	3.1	3.2	3.4	2.9	3.0	3.3	4.1	4.8	5.5
Debt/Equity	0.3	0.2	0.2	0.1	0.0	0.0	-0.1	-0.2	-0.2

Cash Flow Statement

(INR Mn)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
EBITDA	24,436	28,271	30,973	32,060	42,526	47,016	52,609	59,097	64,662
Interest/Dividends Recd.	2,287	3,577	2,796	3,442	2,660	2,809	4,200	4,000	3,800
Direct Taxes Paid	-6,176	-5,232	-6,613	-7,297	-10,323	-11,206	-12,574	-14,444	-15,885
(Inc)/Dec in WC	-3,937	-12,169	-16,580	14,937	-7,381	-10,687	-14,283	-12,939	-15,360
CF from Operations	16,609	14,447	10,576	43,142	27,482	27,932	29,951	35,713	37,217
EO expense	0	-2,512	-130	324	0	3,309	634	0	0
CF from Oper. incl EO Expense	23,818	14,628	16,911	32,296	37,552	33,259	29,317	35,713	37,217
(inc)/dec in FA	-6,487	-9,246	-4,085	-13,027	-10,472	-10,774	-7,235	-6,000	-8,200
Free Cash Flow	17,331	5,381	12,826	19,268	27,080	22,485	22,082	29,713	29,017
(Pur)/Sale of Investments	1,622	35	-2,857	-629	91	-669	0	0	0
CF from Investments	-13,102	-8,540	-16,687	1,041	-23,872	-18,719	-7,235	-6,000	-8,200
Issue of Shares									
Inc/(Dec) in Debt	-10,790	-146	2,183	-14,998	-12,790	-6,400	-3,000	0	0
Interest Paid	-1,594	-1,142	-1,684	-1,974	-1,607	-1,064	-1,046	-777	-717
Dividend Paid	-1,936	-1,893	-2,841	-2,416	-2,416	-2,899	-2,899	-3,870	-4,844
CF from Fin. Activity	-13,257	-3,855	-3,487	-31,100	-13,299	-10,727	-14,011	-6,546	-6,720
Inc/Dec of Cash	-2,541	2,233	-3,263	2,236	381	3,813	8,071	23,167	22,297
Add: Beginning Balance	8,714	6,242	9,656	6,188	10,039	14,012	19,285	28,815	53,441
Ending cash balance	6,173	8,475	6,393	8,424	10,420	17,826	27,356	51,982	75,738
Bank balances and FX impact	69	1,181	-205	1,614	3,592	1,459	1,459	1,459	1,459
Closing balance	6,242	9,656	6,188	10,039	14,012	19,285	28,815	53,441	77,197

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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