

March 1, 2023

Event Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,070		1,280	
Sales (Rs. m)	2,46,544	2,71,246	2,51,617	2,79,058
% Chng.	(2.0)	(2.8)		
EBITDA (Rs. m)	54,049	61,550	57,955	66,438
% Chng.	(6.7)	(7.4)		
EPS (Rs.)	41.7	48.4	45.2	52.8
% Chng.	(7.8)	(8.4)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	2,17,634	2,27,681	2,46,544	2,71,246
EBITDA (Rs. m)	45,528	50,207	54,049	61,550
Margin (%)	20.9	22.1	21.9	22.7
PAT (Rs. m)	25,168	30,230	33,655	39,061
EPS (Rs.)	31.2	37.5	41.7	48.4
Gr. (%)	4.7	20.1	11.3	16.1
DPS (Rs.)	5.3	6.3	7.6	9.1
Yield (%)	0.6	0.7	0.8	1.0
RoE (%)	12.9	13.7	13.7	14.2
RoCE (%)	16.7	17.1	16.8	17.8
EV/Sales (x)	3.3	3.1	2.8	2.5
EV/EBITDA (x)	15.9	14.0	12.7	10.9
PE (x)	29.1	24.2	21.7	18.7
P/BV (x)	3.5	3.1	2.8	2.5

Key Data

CIPLA.BO | CIPLA IN

52-W High / Low	Rs.1,185 / Rs.890
Sensex / Nifty	58,962 / 17,304
Market Cap	Rs.732bn/ \$ 8,850m
Shares Outstanding	807m
3M Avg. Daily Value	Rs.1531.11m

Shareholding Pattern (%)

Promoter's	33.61
Foreign	28.39
Domestic Institution	18.94
Public & Others	19.06
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.0)	(12.7)	(2.0)
Relative	(10.1)	(11.9)	(6.5)

Param Desai

paramdesai@plindia.com | 91-22-66322259

Akshaya Shinde

akshayashinde@plindia.com | 91-22-66322490

Regulatory set back; US scale up gets delayed

We cut our FY24E and FY25E EPS estimates by ~8% each, given Cipla's key facilities (Goa and Indore) stuck in FDA issues leading to delay in new launches like gAdvair in US. FDA recently highlighted eight observations in the 483 letters issued to Cipla's Pithampur (Indore) unit. Few observations raised are critical in nature and time consuming to resolve. However, these issues are unlikely to escalate import alert and thereby have limited impact on existing business.

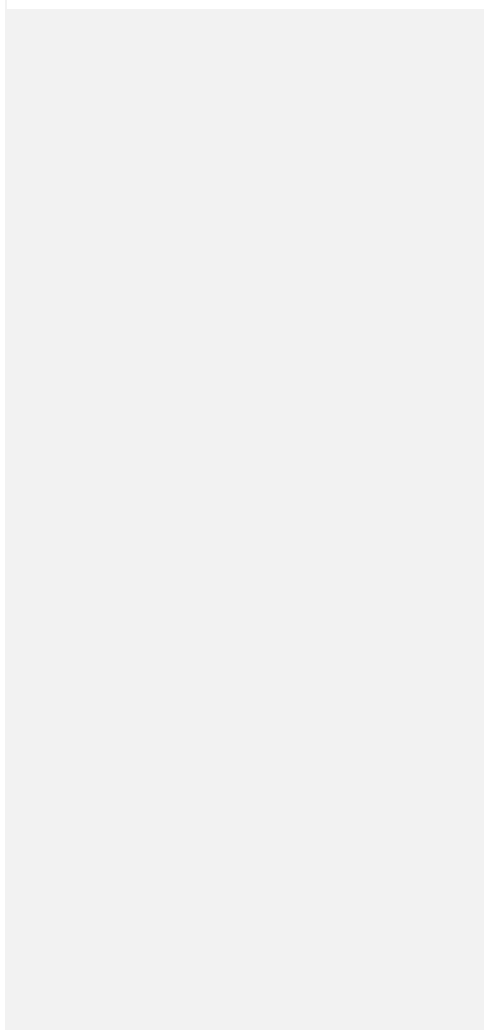
Despite earnings cut, we believe Cipla's risk-reward is favorable at current levels. We expect 14% EPS CAGR over FY23-25E given the recent correction in stock price. At CMP, stock is trading at 18x FY25E EPS. Recommend 'BUY' with revised TP of Rs 1,070/share (1280 earlier), based on 22x FY25E EPS.

- Indore is a critical facility contributing ~5% to total revenues:** Indore is one of the crucial facility for Cipla from which it files respiratory products, mainly inhalers. The facility contributes ~5% to total revenues. Key filings like gAdvair have been made from this facility. Apart from gAdvair, some other niche inhalation filings like gSymbicort, gQvar have been done. Among existing products, gAlbuterol, gBrovana are being supplied from Indore facility. Some of key Peptide injectable are sourced from third party or other facilities. Overall this will also result in increase in remediation cost in near term.
- Few observations critical in nature:** Manufacturing process designed to prevent microbiological contamination are deficient. Firm failed to resolve large part of complaints, which were made related to performance of product. There is no evidence that the QA reviewer verified microbial count on all the plates. Further QU head failed to submit a field alert report under standard operating procedure and also some defective components from vendor were used to manufacturer batches. We anticipate a re-inspection of facility and likely escalation to OAI (official action indication).
- US growth story gets delayed:** Cipla had earlier guided \$900mn-\$1.2bn US sales by FY25E. This has got pushed back by a year, given ongoing plant issues. Our FY24E US sales of \$720mn hinges on healthy market share in gAlbuterol, continued ramp up in gLanreotide and gLeuprolide along with gRevimid sales. We are now factoring gAdvair launch in FY25E. Some of peptide injectable launch may boost US sales; currently not built in our FY24E. Overall, we now factor in \$720mn and \$760mn US sales in FY24E and FY25E.

Exhibit 1: Details of observation

Observations	Key Issues raised by FDA
There is a failure to thoroughly review any unexplained discrepancy and the failure of a batch or any of its components to meet any of its specifications, whether or not the batch has been already distributed.	Despite observing turbidity in batches; no proper root cause and documentation was reported.
Procedures designed to prevent microbiological contamination of drug products purporting to be sterile are not established, written and followed.	There were 8 instances when power failure occurred in the Grade C area that surrounds the Grade A area as follows. A power failure is not considered an intervention and is not carried out during aseptic process simulation studies. Despite the fact that power failures during routine manufacturing require cleaning, it is considered the worst case intervention.
Aseptic processing areas are deficient regarding the system for monitoring environmental conditions.	The report did not evaluate the air flow pattern that appeared to show turbulence. The environmental monitoring of the aseptic filling areas did not ensure that microbial contaminants that could impact critical areas were identified and investigated.
Appropriate controls are not exercised over computers or related systems to assure that changes in master production and control records or other records are instituted only by authorized personnel.	Historical data pertaining to critical process parameters such as alarms is not available for verification. It was observed the Human Machine Interface (HMI) connected to this machine overwrites the data and does not allow for printing or transferring of existing data.
Procedures describing the handling of written and oral complaints related to drug products are deficiently written or followed.	Even with increasing number of complaints, QA Site Head stated that the firm has adequate controls in place and no risk to product quality & patient safety.
Field Alert Report was not submitted within of receipt of information concerning a failure of one or more distributed batches of a drug to meet the specifications established for it in the application.	Quality Unit failed to submit a Field Alert Report, as required under SOP. Some of defective components were used to manufacturer batches and many complaints were received on the same.
Responsibilities and procedures applicable to the quality control unit are not fully followed.	SOP of hard documents required to be retained till product expiry were shredded.
Laboratory records do not include complete data derived from all tests, examinations and assay necessary to assure compliance with established specifications and standards.	There is no evidence that the QA reviewer verified microbial count on all the plates.

Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	2,17,634	2,27,681	2,46,544	2,71,246
YoY gr. (%)	13.6	4.6	8.3	10.0
Cost of Goods Sold	96,309	95,227	1,02,410	1,12,155
Gross Profit	1,21,325	1,32,455	1,44,134	1,59,090
Margin (%)	55.7	58.2	58.5	58.7
Employee Cost	32,194	34,396	36,701	39,100
Other Expenses	43,603	47,852	53,384	58,440
EBITDA	45,528	50,207	54,049	61,550
YoY gr. (%)	7.1	10.3	7.7	13.9
Margin (%)	20.9	22.1	21.9	22.7
Depreciation and Amortization	10,520	11,045	11,598	12,294
EBIT	35,009	39,161	42,451	49,257
Margin (%)	16.1	17.2	17.2	18.2
Net Interest	1,064	1,050	900	800
Other Income	2,809	4,500	5,100	5,600
Profit Before Tax	36,754	42,611	46,651	54,057
Margin (%)	16.9	18.7	18.9	19.9
Total Tax	9,338	11,931	12,596	14,595
Effective tax rate (%)	25.4	28.0	27.0	27.0
Profit after tax	27,416	30,680	34,055	39,461
Minority interest	-	-	-	-
Share Profit from Associate	(427)	(450)	(400)	(400)
Adjusted PAT	25,168	30,230	33,655	39,061
YoY gr. (%)	4.7	20.1	11.3	16.1
Margin (%)	11.6	13.3	13.7	14.4
Extra Ord. Income / (Exp)	1,821	-	-	-
Reported PAT	26,989	30,230	33,655	39,061
YoY gr. (%)	12.2	12.0	11.3	16.1
Margin (%)	12.4	13.3	13.7	14.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	26,989	30,230	33,655	39,061
Equity Shares O/s (m)	807	807	807	807
EPS (Rs)	31.2	37.5	41.7	48.4

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	1,63,892	1,78,892
Tangibles	93,703	1,01,857	1,11,371	1,21,564
Intangibles	44,189	48,034	52,521	57,328
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	68,196	70,903
Tangibles	51,718	53,524	56,372	59,500
Intangibles	13,122	12,270	11,824	11,403
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	56,141	60,792	66,882
Trade receivables	34,244	36,180	39,177	43,102
Cash & Bank Balance	19,285	34,756	48,916	64,992
Other Current Assets	29,287	30,751	32,289	33,903
Total Assets	2,66,523	2,88,986	3,14,734	3,45,147
Equity				
Equity Share Capital	1,614	1,614	1,614	1,614
Other Equity	2,06,803	2,31,063	2,57,554	2,88,018
Total Networkth	2,08,417	2,32,677	2,59,167	2,89,632
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	26,199	28,369	31,212
Other current liabilities	21,759	21,844	21,931	22,018
Total Equity & Liabilities	2,66,523	2,88,986	3,14,734	3,45,147

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	33,945	38,111	41,551	48,457
Add. Depreciation	10,520	11,045	11,598	12,294
Add. Interest	1,064	1,050	900	800
Less Financial Other Income	2,809	4,500	5,100	5,600
Add. Other	901	-	-	-
Op. profit before WC changes	46,429	50,207	54,049	61,550
Net Changes-WC	(1,775)	(4,834)	(6,929)	(8,701)
Direct tax	(11,395)	(11,931)	(12,596)	(14,595)
Net cash from Op. activities	33,260	33,441	34,524	38,254
Capital expenditures	(7,012)	(12,000)	(14,000)	(15,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(7,012)	(12,000)	(14,000)	(15,000)
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)	(1,050)	(900)	(800)
Others	(5,816)	4,050	4,700	5,220
Net cash from Fin. activities	(20,976)	(5,970)	(6,365)	(7,177)
Net change in cash	5,272	15,471	14,159	16,077
Free Cash Flow	26,248	21,441	20,524	23,254

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	52,603	53,752	58,285	58,101
YoY gr. (%)	14.2	(2.3)	5.6	6.0
Raw Material Expenses	21,467	20,244	21,602	20,043
Gross Profit	31,136	33,508	36,684	38,058
Margin (%)	59.2	62.3	62.9	65.5
EBITDA	7,497	11,434	13,023	14,076
YoY gr. (%)	(5.8)	(15.0)	6.2	14.3
Margin (%)	14.3	21.3	22.3	24.2
Depreciation / Depletion	2,903	2,544	2,994	2,721
EBIT	4,594	8,889	10,030	11,354
Margin (%)	8.7	16.5	17.2	19.5
Net Interest	181	178	256	318
Other Income	640	1,034	1,230	1,144
Profit before Tax	5,053	9,746	11,004	12,181
Margin (%)	9.6	18.1	18.9	21.0
Total Tax	711	2,680	3,026	4,100
Effective tax rate (%)	14.1	27.5	27.5	33.7
Profit after Tax	4,342	7,066	7,978	8,081
Minority interest	147	202	89	71
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,621	6,864	7,889	8,010
YoY gr. (%)	(12.4)	(18.2)	10.9	9.9
Margin (%)	6.9	12.8	13.5	13.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,621	6,864	7,889	8,010
YoY gr. (%)	(12.4)	(18.2)	10.9	9.9
Margin (%)	6.9	12.8	13.5	13.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,621	6,864	7,889	8,010
Avg. Shares O/s (m)	804	804	804	804
EPS (Rs)	5.2	8.5	9.8	10.0

Source: Company Data, PL Research

Key Financial Metrics

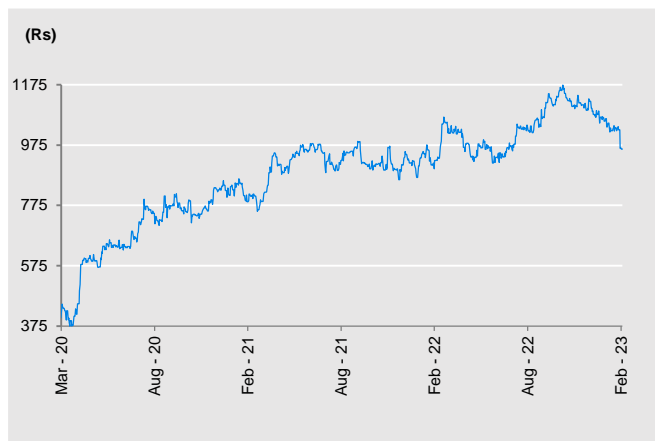
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	31.2	37.5	41.7	48.4
CEPS	44.2	51.2	56.1	63.7
BVPS	258.3	288.4	321.2	359.0
FCF	32.5	26.6	25.4	28.8
DPS	5.3	6.3	7.6	9.1
Return Ratio(%)				
RoCE	16.7	17.1	16.8	17.8
ROIC	14.2	15.4	16.0	17.6
RoE	12.9	13.7	13.7	14.2
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	105	106	106	106
Valuation(x)				
PER	29.1	24.2	21.7	18.7
P/B	3.5	3.1	2.8	2.5
P/CEPS	20.5	17.7	16.2	14.2
EV/EBITDA	15.9	14.0	12.7	10.9
EV/Sales	3.3	3.1	2.8	2.5
Dividend Yield (%)	0.6	0.7	0.8	1.0

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
India Formulations	98,280	1,00,282	1,11,717	1,24,512
Exports	1,11,729	1,20,899	1,28,455	1,39,725
APIs	7,600	6,500	6,372	7,009

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	26-Jan-23	BUY	1,280	1,035
2	06-Jan-23	BUY	1,300	1,088
3	06-Nov-22	BUY	1,300	1,146
4	06-Oct-22	BUY	1,110	1,131
5	01-Aug-22	BUY	1,110	977
6	07-Jul-22	BUY	1,085	946
7	11-May-22	BUY	1,085	926
8	08-Apr-22	BUY	1,100	1,037

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,488
2	Aster DM Healthcare	BUY	265	228
3	Aurobindo Pharma	BUY	565	469
4	Cipla	BUY	1,280	1,035
5	Divi's Laboratories	Hold	2,700	2,884
6	Dr. Reddy's Laboratories	BUY	4,900	4,201
7	Eris Lifesciences	BUY	850	652
8	Fortis Healthcare	BUY	360	272
9	Glenmark Pharmaceuticals	Accumulate	460	423
10	HealthCare Global Enterprises	BUY	375	282
11	Indoco Remedies	BUY	430	363
12	Ipca Laboratories	Hold	865	863
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,965
14	Krishna Institute of Medical Sciences	BUY	1,660	1,469
15	Lupin	Hold	675	737
16	Max Healthcare Institute	BUY	500	436
17	Narayana Hrudayalaya	BUY	965	719
18	Sun Pharmaceutical Industries	BUY	1,175	1,035
19	Torrent Pharmaceuticals	BUY	1,820	1,557
20	Zydus Lifesciences	Accumulate	480	435

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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