

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	CIPLA IN
Equity Shares (m)	805
M.Cap.(INRb)/(USD\$)	754.6 / 9.2
52-Week Range (INR)	1185 / 852
1, 6, 12 Rel. Per (%)	-1/-16/-14
12M Avg Val (INR M)	1799

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	227.5	248.3	272.2
EBITDA	51.1	55.4	62.1
Adj. PAT	30.5	33.7	38.5
EBIT Margin (%)	17.3	17.9	18.4
Cons. Adj. EPS (INR)	37.8	41.7	47.7
EPS Gr. (%)	7.4	10.5	14.2
BV/Sh. (INR)	284.2	319.7	361.4

Ratios

Net D:E	0.0	-0.1	-0.2
RoE (%)	13.3	13.1	13.2
RoCE (%)	13.5	13.8	13.8
Payout (%)	10.3	11.5	12.6

Valuations

P/E (x)	24.8	22.4	19.6
EV/EBITDA (x)	14.5	13.1	11.4
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	1.3	3.1	3.2
EV/Sales (x)	3.3	2.9	2.6

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	33.4	33.4	33.4
DII	22.0	21.0	21.9
FII	27.7	28.8	27.1
Others	16.9	16.8	17.6

FII Includes depository receipts

CMP: INR935 TP: INR970 (+4%) Neutral

Regulatory issues lead to re-strategizing on niche products

Work-in-progress for filing potential products from alternate sites

- Cipla reported lower-than-expected performance in 4QFY23, led by higher operational cost. It achieved the highest ever annual earnings in FY23, driven by strong traction in North America (NA) sales. Cipla grew better-than-industry in domestic formulation (DF) market by ~500bp YoY in FY23.
- We cut our earnings estimates for FY24/FY25 by 7%/4% factoring in: a) delays in approval for g-Advair/g-Abraxane, b) costs related to additional field force in DF segment, remediation measures and adding alternate sites for critical products in the US generics segment. We value Cipla at 21x 12M forward earnings and add NPV of INR30 related to g-Revlimid to arrive at our TP of INR970.
- We expect 12.3% earnings CAGR over FY23-25, led by 9%/11% sales CAGR in DF/NA segments and marginal improvement in profitability. Considering a delay in potential launches in NA, regulatory risk at Indore and limited upside from current levels, **we maintain our Neutral rating on the stock.**

Product mix and operating leverage drive YoY margin improvement

- Cipla's 4QFY23 revenue grew 9% YoY to INR57.4b (our est. INR57.6b). DF sales (39% of sales) rose marginally by 3.5% YoY (16% YoY growth on ex-Covid basis). NA sales jumped 39% YoY to INR16.8b (USD204m; up 27.5% YoY in CC terms; 29% of sales) due to strong traction in the differentiated portfolio including market share gains from products. EM sales grew 7% YoY to INR7.8b (14% of sales). SAGA sales declined 13% YoY to INR8.6b (15% of sales). API sales too declined 2.2% YoY to INR1.3b during the quarter.
- Gross margin (GM) expanded 180bp YoY to 64% (our est. 66%) led by superior product mix in 4QFY23.
- EBITDA margin improved 240bp YoY to 20.4% (our est. 23%) led by better GMs and lower employee expense/other expense (-20/-80bp YoY as a % of sales). It was partly offset by higher R&D spend (+40bp YoY as a % of sales).
- EBITDA increased 24% YoY to INR12b (our est. INR13b) in 4QFY23.
- Adj. PAT grew at a lower rate of 16% to INR7.1b (our est. INR8.4b) due to higher depreciation and tax rate for the quarter.
- During FY23, Cipla's sales/EBITDA/PAT grew 5%/9%/7% to INR228b/INR51b/INR30.5b.

Highlights from the management commentary

- Management guided for 22% EBITDA margin in FY24.
- It expects the USFDA inspection classification from **mid-May'23 at Indore.**
- Additionally, Cipla has started work on de-risking plan for **g-Advair** by constructing a manufacturing line at an alternate in-house site. This may require inspection at alternate site for ANDA approval from the USFDA.
- Cipla has also de-risked **g-Abraxane (Nano-Paclitaxel)** to alternate site. Cipla is under process to make exhibit batches at an alternate site. The commercial benefit is expected in FY25.
- The chronic share in DF was 59% for FY23, up 300bp YoY as a % of DF sales.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance (Consolidated)

(INR b)

Y/E March	FY22				FY23				FY22	FY23	Est. 4QE	% Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Revenues	54.5	55.2	54.8	52.6	53.8	58.3	58.1	57.4	217.1	227.5	57.6	-0.4
YoY Change (%)	25.5	9.6	6.0	14.2	-1.4	5.6	6.0	9.1	13.3	4.8	9.5	
Total Expenditure	41.6	42.9	42.5	43.1	42.3	44.4	44.0	45.7	170.1	176.4	44.4	
EBITDA	12.9	12.3	12.3	9.5	11.4	13.9	14.1	11.7	47.0	51.1	13.2	-11.1
YoY Change (%)	23.4	4.2	0.0	19.3	-11.7	13.3	14.3	23.6	10.6	8.8	39.0	
Margins (%)	23.7	22.2	22.5	18.1	21.3	23.8	24.2	20.4	21.7	22.5	22.9	
Depreciation	2.6	2.5	2.5	2.9	2.5	3.0	2.7	3.5	10.5	11.7	2.6	
EBIT	10.3	9.7	9.8	6.6	8.9	10.9	11.4	8.3	36.5	39.4	10.6	
YoY Change (%)	32.5	6.8	0.1	29.0	-14.0	12.0	15.4	25.5	14.6	8.0	60.9	
Margins (%)	19.0	17.6	18.0	12.5	16.5	18.7	19.5	14.4	16.8	17.3	18.4	
Interest	0.3	0.4	0.2	0.2	0.2	0.3	0.3	0.3	1.1	1.1	0.3	
Other Income	0.6	0.6	0.9	0.6	1.0	1.0	1.1	1.3	2.8	4.5	1.0	
Profit before Tax	10.7	10.0	10.5	7.1	9.7	11.6	12.2	9.3	38.2	42.8	11.3	
One-time (expense)/income	-0.7	0.0	0.0	-2.6	0.0	-0.6	0.0	-1.8	-3.3	-2.5	0.0	
PBT after EO expense	10.0	10.0	10.5	4.5	9.7	11.0	12.2	7.5	34.9	40.4	11.3	-34.3
Tax	2.8	2.8	3.0	0.7	2.7	3.0	4.1	2.2	9.3	12.0	2.8	
Rate (%)	26.5	28.5	28.0	10.1	27.5	26.0	33.7	24.0	24.4	28.1	24.4	
Minority Interest	0.0	0.0	0.3	0.1	0.2	0.1	0.1	0.0	0.4	0.3	0.1	
Reported PAT	7.1	7.1	7.3	3.6	6.9	7.9	8.0	5.3	25.2	28.0	8.4	-37.7
Adj PAT	7.9	7.1	7.3	6.1	6.9	8.5	8.0	7.1	28.4	30.5	8.4	-16.1
YoY Change (%)	36.4	6.9	-2.6	47.6	-12.9	19.8	9.9	16.1	18.0	7.4	38.3	

Source: MOFSL, Company

Key performance indicators

Y/E March	FY22				FY23				FY22	FY23	Est. 4QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Domestic formulation	27.1	24.2	25.2	21.8	24.7	25.6	25.6	22.6	98.3	98.7	23.3
YoY Change (%)	68.5	15.6	12.9	20.8	-8.8	6.2	1.8	3.5	27.0	0.4	6.6
North America	10.5	10.6	11.5	12.1	11.8	14.6	16.0	16.8	44.1	59.1	17.0
YoY Change (%)	2.4	1.9	11.0	20.7	13.1	38.1	39.1	38.7	7.9	33.9	40.6
Europe	2.7	2.8	3.0	0.4	2.9	3.0	3.0	0.8	8.8	9.7	3.0
YoY Change (%)	11.0	11.0	18.0	-83.2	10.0	8.0	0.0	94.2	-10.9	10.0	620.1
South Africa	8.3	9.9	8.8	9.5	8.1	8.7	6.8	8.3	36.8	31.7	6.5
YoY Change (%)	8.2	7.7	9.0	12.4	-2.3	-12.0	-22.4	-12.7	6.6	-13.9	-31.3
Emerging market	6.1	8.2	7.1	7.3	7.0	7.6	7.6	7.8	28.7	30.3	7.6
YoY Change (%)	-13.1	13.7	-3.7	7.6	15.4	-7.7	7.0	7.1	1.2	5.4	4.4
API	2.2	1.7	1.6	1.4	1.6	1.7	1.5	1.3	7.6	5.7	1.9
YoY Change (%)	21.7	-9.0	0.0	-38.8	-28.0	1.7	-10.6	-2.2	-4.8	-25.3	35.5
Cost Break-up											
RM Cost (% of Sales)	37.9	38.7	39.1	37.8	37.7	35.6	34.5	36.0	38.6	38.6	34.4
Staff Cost (% of Sales)	16.3	15.9	15.9	17.0	17.8	16.5	16.3	16.8	16.3	16.3	16.3
R&D Expenses(% of Sales)	4.8	5.0	5.6	6.1	5.1	5.7	6.2	6.5	4.5	4.3	6.5
Other Cost (% of Sales)	17.2	18.2	17.8	21.1	18.2	18.4	18.7	20.3	17.2	17.0	19.9
Gross Margin (%)	62.1	61.3	60.9	62.2	62.3	64.4	65.5	64.0	61.4	61.4	65.6
EBITDA Margin (%)	23.7	22.2	22.5	18.1	21.3	23.8	24.2	20.4	21.7	22.5	22.9
EBIT Margin (%)	19.0	17.6	18.0	12.5	16.5	18.7	19.5	14.4	16.8	17.3	18.4

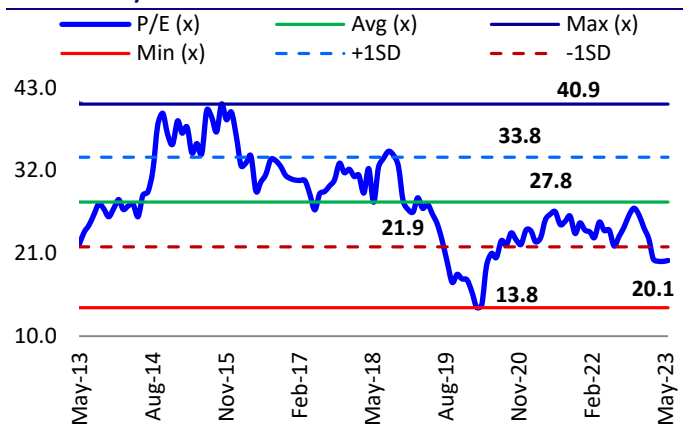
Source: MOFSL, Company



Highlights from the management commentary

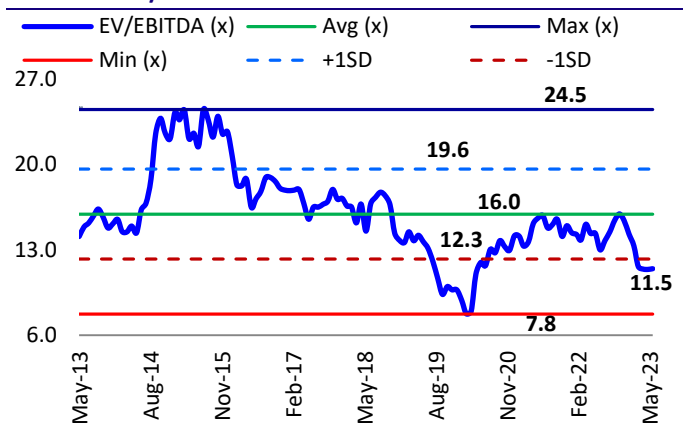
- Cipla expects growth in the US market led by market share gains in existing products. The base business' quarterly sales run-rate is expected to be USD190-195m.
- Management guided for R&D to be at 6.0-6.5% as a % of sales.
- Cipla expects consumer healthcare to post low double-digit profitability in FY24.
- It expects g-Symbicort to be filed by 4QFY24.

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Steps up effort for limited competition product pipeline

NA: Highest ever annual sales; potential launches delayed by regulatory issues

- In FY23, the US sales grew 34% YoY (USD733m; up 23.4% in CC terms) to INR59b. This was led by niche launches (g-lenalidomide) and better traction in existing products (market share rose to 17% in g-Lanreotide at end-FY23).
- Having said this, there are certain products (g-Advair/g-Abraxane) that are being delayed due to product-specific review/compliance issues at Goa plant. While Cipla has started de-risking the potential products to alternate site, they would have certain gestation period before gaining commercial benefits.
- Apart from this, Cipla is filing three differentiated products in FY24 including filing complex peptide injectables. Further, it expects to file g-Symbicort in 4QFY24.
- Based on the above factors, we expect the company to deliver 8.5% US sales CAGR to USD863m over FY23–25.

DF: New product launches/MR additions/expanding market share to drive growth

- In FY23, Cipla's domestic sales stood flat YoY at INR99b. Adj. for the high base of Covid in FY22, the YoY growth would have been 13% for FY23.
- It has exhibited continued momentum in the core portfolio (respiratory, cardiac, and anti-anti-infective) driven by new launches.
- In the prescription segment, Cipla has delivered YoY growth of 11%/16%/9% YoY v/s industry growth of 7%/12%/7% in FY23.
- Besides, the increased share of chronic therapies would aid sustainability to the DF segment growth.
- With the launches of 50+ products in trade generics and additions of 1,000 MRs, Cipla intends to increase the penetration in the tier-2 and below markets.
- Besides, in the Consumer Healthcare business, the increased traction is likely to improve profitability of this segment in FY24.
- We expect Cipla to deliver 11% sales CAGR in DF to INR122b over FY23–25.

SAGA: New product launches/traction in SA private market – key to growth

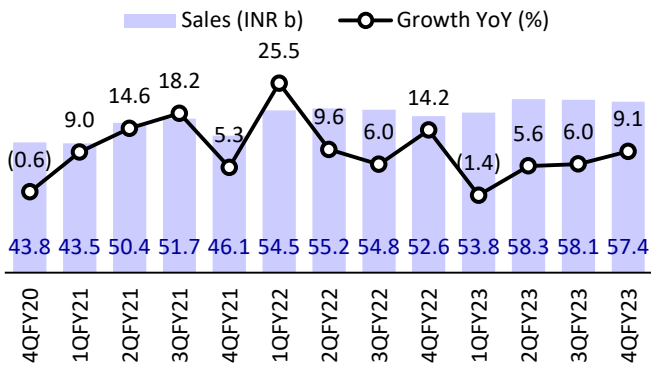
- In FY23, Cipla's SAGA business declined 14% YoY to INR32b. This was due to intense competition in the tender business.
- However, it continues to grow in the private market with revenue share improving to 57% in FY23 from 54% in FY22.
- We expect Cipla to deliver 5.5% sales CAGR in SAGA to INR35b over FY23–25.

Maintain Neutral

- We cut our earnings estimates for FY24/FY25 by 7%/4% factoring in: a) delays in approval for g-Advair/g-Abraxane, b) costs related to additional field force in DF segment, remediation measures and adding alternate sites for critical products in the US generics segment. We value Cipla at 21x 12M forward earnings and add NPV of INR30 related to g-Revlimid to arrive at our TP of INR970.
- We expect 12.3% earnings CAGR over FY23-25, led by 9%/11% sales CAGR in DF/NA segments and marginal improvement in profitability. Considering a delay in potential launches in NA, regulatory risk at Indore and limited upside from current levels, **we maintain our Neutral rating on the stock.**

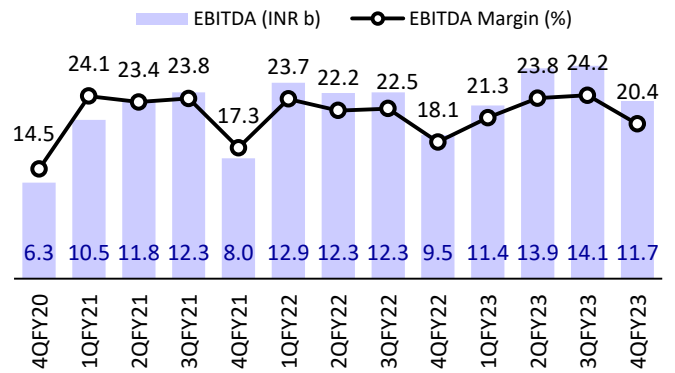
Story in charts

Exhibit 3: Revenue up 9% YoY in 4QFY23



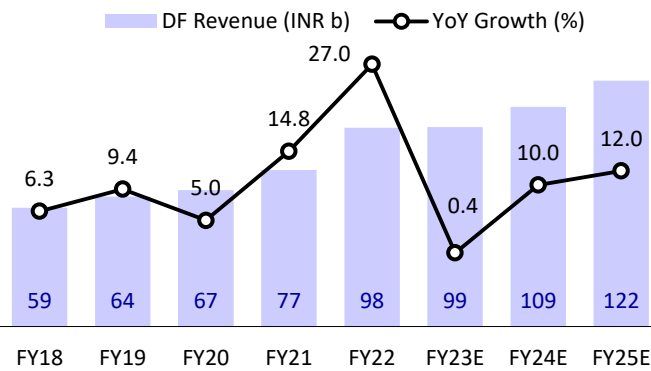
Source: MOFSL, Company

Exhibit 4: EBITDA margin expands ~240bp YoY in 4QFY23



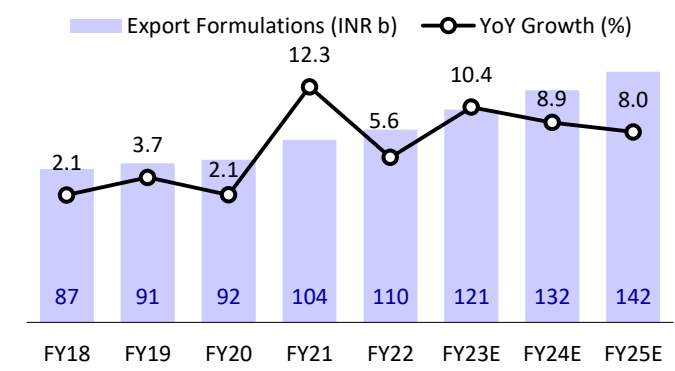
Source: MOFSL, Company

Exhibit 5: Expect 11% DF sales CAGR over FY23–25...



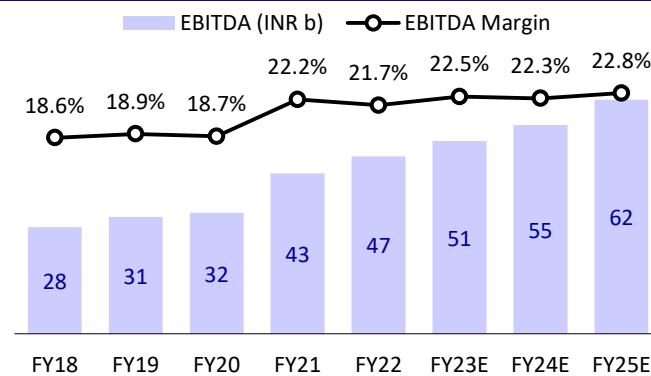
Source: MOFSL, Company

Exhibit 6: ...and 8% export sales CAGR over FY23–25



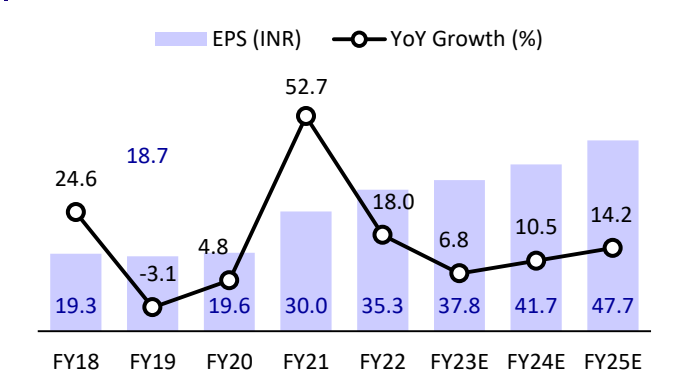
Source: MOFSL, Company

Exhibit 7: Expect EBITDA margin to be stable over FY23-25



Source: MOFSL, Company

Exhibit 8: Expect 12% earnings CAGR over FY23–25



Source: MOFSL, Company

Financials and valuations

Income Statement									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Income	1,45,980	1,52,200	1,63,624	1,71,320	1,91,596	2,17,121	2,27,531	2,48,291	2,72,234
Change (%)	6.7	4.3	7.5	4.7	11.8	13.3	4.8	9.1	9.6
Total Expenditure	1,21,544	1,23,929	1,32,651	1,39,260	1,49,070	1,70,106	1,76,387	1,92,922	2,10,164
EBITDA	24,436	28,271	30,973	32,060	42,526	47,016	51,144	55,369	62,069
Change (%)	-2.3	15.7	9.6	3.5	32.6	10.6	8.8	8.3	12.1
Margin (%)	16.7	18.6	18.9	18.7	22.2	21.7	22.5	22.3	22.8
Depreciation	9,229	11,491	11,163	11,423	10,677	10,520	11,721	11,038	11,857
EBIT	15,207	16,780	19,810	20,637	31,849	36,496	39,423	44,331	50,213
Int. and Finance Charges	1,594	1,142	1,684	1,974	1,607	1,064	1,095	1,010	832
Other Income - Rec.	2,287	3,577	2,796	3,442	2,660	2,809	4,514	4,200	4,000
PBT before EO Items	15,900	19,214	20,922	22,105	32,902	38,242	42,842	47,521	53,381
One-time (Expense)/Income	0	-2,512	-130	324	0	3,309	2,458	0	0
PBT but after EO Exp.	15,900	16,702	20,792	21,782	32,902	34,933	40,384	47,521	53,381
Tax	3,094	2,501	5,695	6,312	8,888	9,338	12,028	13,401	15,213
Tax Rate (%)	19.5	15.0	27.4	29.0	27.0	26.7	29.8	28.2	28.5
Minority Interest	290	60	(353)	(470)	(164)	299	310	380	(348)
Income from associates	-70	-28	-171	-475	-128	-128	-26	-60	-48
Reported PAT	12,446	14,113	15,278	15,465	24,050	25,168	28,020	33,680	38,467
Adj PAT	12,446	15,511	15,032	15,752	24,050	28,382	30,478	33,680	38,467
Change (%)	-17.7	24.6	-3.1	4.8	52.7	18.0	7.4	10.5	14.2
Margin (%)	8.5	10.2	9.2	9.2	12.6	13.1	13.4	13.6	14.1

Balance Sheet									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1,609	1,610	1,611	1,613	1,613	1,614	1,614	1,614	1,614
Reserves	1,23,645	1,40,682	1,52,298	1,57,630	1,79,264	2,01,532	2,32,464	2,56,463	2,90,086
Net Worth	1,25,254	1,42,292	1,50,123	1,57,630	1,83,265	2,08,417	2,34,078	2,58,077	2,91,700
Loans	41,126	40,980	43,162	28,164	15,375	8,975	5,943	5,943	5,943
Deferred Liabilities	5888	3157	2239	1254	-181	-2049	-2932	-2932	-2932
Minority Interest	4382	3524	3320	2943	2591	2757	3058	3058	3058
Capital Employed	1,76,650	1,89,953	1,98,844	1,89,992	2,01,050	2,18,100	2,40,144	2,64,147	2,97,769
Gross Block	1,14,562	1,20,454	1,26,353	1,38,480	1,47,454	1,60,107	1,66,824	1,72,780	1,80,980
Less: Accum. Deprn.	10,204	16,273	27,436	38,859	49,536	60,056	71,777	82,814	94,671
Net Fixed Assets	1,04,358	1,04,181	98,916	99,621	97,918	1,00,052	95,048	89,966	86,309
Capital WIP	7,192	5,124	3,311	4,210	5,708	3,829	6,892	5,124	5,124
Investments	141	107	2,963	3,593	3,501	4,171	6,324	6,324	6,324
Curr. Assets	96,159	1,17,318	1,32,429	1,26,804	1,41,244	1,58,304	1,77,106	2,09,368	2,49,085
Inventory	34,853	40,447	39,648	43,776	46,692	53,502	51,564	60,951	65,940
Account Receivables	24,974	31,025	41,507	38,913	34,457	34,244	40,570	41,961	50,091
Cash and Bank Balance	6,242	9,656	6,188	10,039	14,012	19,285	15,646	32,428	50,998
Others	30,090	36,190	45,085	34,076	46,083	51,273	69,325	74,028	82,055
Curr. Liability & Prov.	31,201	36,776	38,775	44,236	47,322	48,423	49,923	46,634	49,072
Account Payables	27,982	30,505	31,408	34,755	36,539	36,213	37,055	33,766	36,204
Provisions	3,219	6,271	7,368	9,482	10,783	12,210	12,868	12,868	12,868
Net Current Assets	64,959	80,542	93,654	82,568	93,922	1,09,882	1,27,183	1,62,734	2,00,013
Appl. of Funds	1,76,650	1,89,953	1,98,844	1,89,992	2,01,050	2,18,100	2,40,144	2,64,147	2,97,769

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	15.5	19.3	18.7	19.6	30.0	35.3	37.8	41.7	47.7
Cash EPS	26.9	33.5	32.5	33.7	43.1	48.2	52.3	55.4	62.3
BV/Share	155.7	176.7	186.3	195.5	227.2	258.1	284.2	319.7	361.4
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	10.3	11.5	12.6
Valuation (x)									
P/E	60.3	48.4	49.9	47.7	31.2	26.5	24.8	22.4	19.6
Cash P/E	34.7	27.9	28.8	27.7	21.7	19.4	17.9	16.9	15.0
P/BV	6.0	5.3	5.0	4.8	4.1	3.6	3.3	2.9	2.6
EV/Sales	5.4	5.1	4.8	4.5	3.9	3.4	3.3	2.9	2.6
EV/EBITDA	32.2	27.7	25.5	24.0	17.7	15.8	14.5	13.1	11.4
Dividend Yield (%)	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.5
Return Ratios (%)									
RoE	10.4	11.6	10.3	10.2	14.1	14.5	13.3	13.1	13.2
RoCE	7.9	9.4	8.4	8.8	12.9	13.7	13.5	13.8	13.8
RoIC	7.5	8.4	8.0	8.2	13.3	14.5	13.8	14.8	15.8
Working Capital Ratios									
Fixed Asset Turnover (x)	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.5	3.1
Debtor (Days)	62	74	93	83	66	58	65	62	67
Inventory (Days)	87	97	88	93	89	90	83	90	88
Working Capital (Days)	162	193	209	176	179	183	202	236	265
Leverage Ratio (x)									
Current Ratio	3.1	3.2	3.4	2.9	3.0	3.3	3.5	4.5	5.1
Debt/Equity	0.3	0.2	0.2	0.1	0.0	0.0	0.0	-0.1	-0.2

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EBITDA	24,436	28,271	30,973	32,060	42,526	47,016	51,144	55,369	62,069
Interest/Dividends Recd.	2,287	3,577	2,796	3,442	2,660	2,809	4,514	4,200	4,000
Direct Taxes Paid	-6,176	-5,232	-6,613	-7,297	-10,323	-11,206	-12,912	-13,401	-15,213
(Inc)/Dec in WC	-3,937	-12,169	-16,580	14,937	-7,381	-10,687	-20,940	-18,769	-18,709
CF from Operations	16,609	14,447	10,576	43,142	27,482	27,932	21,806	27,399	32,147
EO expense	0	-2,512	-130	324	0	3,309	2,458	0	0
CF from Oper. incl EO Expense	23,818	14,628	16,911	32,296	37,552	33,259	19,348	27,399	32,147
(inc)/dec in FA	-6,487	-9,246	-4,085	-13,027	-10,472	-10,774	-9,780	-4,188	-8,200
Free Cash Flow	17,331	5,381	12,826	19,268	27,080	22,485	9,569	23,212	23,947
(Pur)/Sale of Investments	1,622	35	-2,857	-629	91	-669	-2,153	0	0
CF from Investments	-13,102	-8,540	-16,687	1,041	-23,872	-18,719	-11,933	-4,188	-8,200
Issue of Shares									
Inc/(Dec) in Debt	-10,790	-146	2,183	-14,998	-12,790	-6,400	-3,032	0	0
Interest Paid	-1,594	-1,142	-1,684	-1,974	-1,607	-1,064	-1,095	-1,010	-832
Dividend Paid	-1,936	-1,893	-2,841	-2,416	-2,416	-2,899	-2,899	-3,870	-4,844
Others	1,062	-673	-1,145	-11,713	3,513	-364	-5,486	-3,009	-1,160
CF from Fin. Activity	-13,257	-3,855	-3,487	-31,100	-13,299	-10,727	-12,512	-7,889	-6,836
Inc/Dec of Cash	-2,541	2,233	-3,263	2,236	381	3,813	-5,096	15,323	17,111
Add: Beginning Balance	8,714	6,242	9,656	6,188	10,039	14,012	19,285	15,646	32,428
Ending cash balance	6,173	8,475	6,393	8,424	10,420	17,826	14,189	30,969	49,539
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	15,647	32,428	50,998

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NOTES

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UNDER REVIEW	Rating may undergo a change
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