

Cipla Ltd.



Cipla Ltd.

Muted performance due to drop in India business revenue

CMP INR 922	Target INR 1,167	Potential Upside 26.5%	Market Cap (INR Mn) INR 7,44,200	Recommendation BUY	Sector Pharmaceuticals
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Result Highlights of Q4FY23:

- The consolidated revenue for the quarter grew by 9.1% YoY to INR 57,393 Mn (-1.3% QoQ) driven by good traction in the US markets. For FY23, the revenues stood at INR 2,27,531 Mn (+4.5% YoY).
- EBITDA for the quarter stood at INR 11,737 Mn, contracted by 16.6% on QoQ (+21% YoY). The EBITDA margins declined by -378 bps on QoQ at 20.5% (+202bps YoY). The quarterly margins reduced due to the high inflationary environment and rise in R&D spend. However, the company reported highest ever EBITDA of INR 50270 Mn in FY23. The EBITDA margins for FY23 stood at 22.1%.
- PAT for the quarter declined by 18.5% YoY and 35.4% QoQ to INR 5215 Mn. The PAT margins stood at 9.1% (-307 bps YoY, -482 bps QoQ). EPS for the quarter stood at INR 6.47 as against INR 8.80 in FY22 and INR 10.02 in Q4FY22.

MARKET DATA

Shares outs (Mn)	807
Equity Cap (INR Mn)	2,35,550
Mkt Cap (INR Mn)	7,44,200
52 Wk H/L (INR)	1185/852
Volume Avg (3m K)	1,545
Face Value (INR)	2
Bloomberg Code	CIPLA

KEY FINANCIALS

INR Millions	FY21	FY22	FY23	FY24E	FY25E
Revenue	191,596	217,633	227,531	246,546	268,530
EBITDA	42,524	45,528	50,270	54,738	60,962
PAT	24,049	26,989	26,505	33,815	37,622
EPS (INR)	29.8	33.5	32.9	41.9	46.7
EBITDA Margin	22.2%	20.9%	22.1%	22.2%	22.7%
NPM	12.6%	12.4%	11.6%	13.7%	14.0%

Source: Company, KRChoksey Research

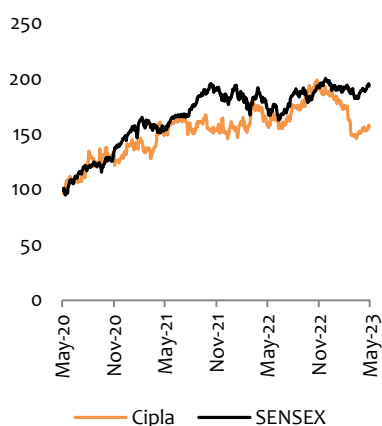
Muted performance in India business offset by growth in US market:

The company reported a decline in revenue by 1.3% QoQ (+9.1% YoY) to INR 57,393 Mn in Q4FY23. The drop in revenue was mainly attributable to the decline in India business revenue by 12.8% QoQ (+2.5% YOY) to INR 22,383 Mn (39% of revenue). Although on Ex-COVID basis, the Indian business grew at a healthy rate of 16% owing to increase in demand in flu season, with India business, the company witnessed a robust growth across branded prescription, trade generics and consumer health in FY23. The North America business reported a highest ever quarterly revenue of INR 16,644 Mn (+37.7% YoY, 4% QoQ), supported by robust performance of differentiated product portfolio including gain in market share. The North America contributed 29% to the revenue. The peptide's pipeline strengthen the existing product portfolio. Cipla's major product in US, i.e., Lanreotide now has a share of 17%. SAGA declined by 9.7% YoY to INR 8609 Mn but sequentially grew by 26.6%. The SAGA region faced headwinds earlier this year due to supply challenges, however the business has recovered gradually. SAGA contributed 15% to the revenue. In South Africa, Cipla grew at a three-year CAGR of 8.9%, faster than the market, which is growing at 4.4%. The EM's revenue rose by 9.8% YoY and 5.4% QoQ to INR 8035 Mn (14% of Revenue). The API declined to INR 1148 Mn (-16.2% YoY and -21.9% QoQ).

New product launches to drive growth:

During the fiscal year FY23, the company launched 50+ new products in India in the trade generics market. Moreover, in Cipla health segment, the company acquired Endura Mass which is a renowned nutritional supplement and has a niche positioning in the healthcare market. The management expects the consumer healthcare segment to deliver low double-digit profitability growth in FY24. In SAGA as well, the company launched 32 brands across multiple therapies. This new launches are most likely to minimise impact of drop in the tender business volume and margin pressure that were witnessed in last few quarters.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	61,932
NIFTY	18,287

SHARE HOLDING PATTERN (%)

Particulars	Mar-23(%)	Sep-22 (%)	June-22 (%)
Promoters	33.55%	33.6%	33.4%
FIIIs	27.42%	27.7%	27.5%
DIIIs	21.83%	21.7%	21.2%
Others	17.20%	17.0%	17.9%
Total	100%	100%	100%

8.6%

Revenue CAGR between FY23 and FY25E

15.2%

PAT CAGR between FY23 and FY25E

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Key Concall Highlights:

1. The management mostly anticipates investing in areas like Respiratory and Peptides within the next three years. The company plans to expand into new category of weight supplement i.e. Endura Mass soon. The management expects the Albuterol market to constantly grow.
2. To increase their share of chronic therapies in India, they recently signed a perpetual license agreement with Novartis for Galvus and its combination brands
3. The management is focusing on Tier 2–6 cities through their products in the areas of respiratory and anti- infective, which will improve its market penetration and boost retail presence.
4. The current MR strength is 7000 and the company plans to increase the field force by at least 1000 people between FY23 and FY24.
5. The company expects sales in the range of USD 190-195 Mn for the US markets.
6. The management expects that the USFDA will disclose the status of gAdvail by the end of May. In the event of a negative outcome, the company has already prepared alternative arrangements outside of India. Clinical trials for its three distinctive products are being conducted. The deadline for filings is in FY24.
7. Cipla is filing 3 differentiated products in FY24 including the filing of complex injectables. It expects to file G-Symbicort in Q4FY24.
8. Remediation efforts are ongoing in their Goa facility and the management expects completion by end of Q1FY24.
9. The management has guided that the R&D expense to remain at 6.5% in FY24 and guided EBITDA margin to be ~22% for FY24.

Valuation and view: The company clocked in the highest ever revenue of INR 2,27,531 Mn in FY23. We continue to stay positive on Cipla's on account of increased focus on domestic market and US generics. It has a strong product launch pipeline for the US, India Emerging Markets, which is expected to boost the revenues as well the profitability of the company. **We have revised our target price to INR 1167/share (Earlier 1289), gives an upside potential of 26.5% from its CMP of INR 922/share, we revised our rating from ACCUMULATE to BUY rating on the shares of Cipla.**

Segments Result (INR Mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Total	52,600	53,760	58,290	58,100	57,393
India	21,830	24,830	25,630	25,630	22,383
North America	12,090	11,990	14,320	16,000	16,644
SAGA	9,530	7,880	8,670	6,800	8,609
SA	6,640	7,880	5,980	5,500	6,190
International Markets / EMs	7,320	7,200	7,630	7,620	8,035
API	1,370	1,350	1,530	1,470	1,148
Others	460	510	510	580	574

Segments Result (% YoY)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Total	14.2%	-2.3%	5.6%	6.1%	9.1%
India	20.8%	-8.4%	6.1%	1.8%	2.5%
North America	20.7%	15.5%	35.1%	42.3%	37.7%
SAGA	12.4%	-5.9%	-12.8%	-23.8%	-9.7%
SA	9.6%	24.3%	-15.8%	-11.7%	-6.8%
International Markets / EMs	7.5%	23.7%	-7.1%	3.3%	9.8%
API	-38.8%	-55.3%	-11.0%	-2.0%	-16.2%
Others	4.5%	41.7%	-10.5%	3.6%	24.8%

Revenue Mix (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Total	100%	100%	100%	100%	100%
India	42%	46%	44%	44%	39%
North America	23%	22%	25%	28%	29%
SAGA	18%	15%	15%	12%	15%
SA	13%	15%	10%	9%	11%
International Markets / EMs	14%	13%	13%	13%	14%
API	3%	3%	3%	3%	2%
Others	1%	1%	1%	1%	1%

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 21	FY 22	FY 23	FY 24E	FY 25E
Revenues	191,596	217,633	227,531	246,546	268,530
COGS	73,519	84,956	82,523	90,736	97,483
Gross profit	118,077	132,677	145,008	155,811	171,046
Employee cost	32,518	35,299	38,301	41,598	45,307
Other expenses	43,034	51,851	56,438	59,475	64,777
EBITDA	42,524	45,528	50,270	54,738	60,962
EBITDA Margin	22.2%	20.9%	22.1%	22.2%	22.7%
Depreciation & amortization	10,677	10,520	11,721	12,474	13,587
EBIT	31,848	35,008	38,549	42,263	47,375
Interest expense	1,607	1,064	1,095	1,476	1,608
Other income	2,660	2,809	4,755	5,547	5,784
PBT before excep. items	32,901	36,754	42,208	46,335	51,552
Exceptional Items	0	1,821	-1,824	0	0
PBT	32,901	34,933	40,384	46,335	51,552
Tax	8,888	9,338	12,029	12,510	13,919
Share of Profit/(Loss) of Associates/Minority	36	-427	-26	-9	-10
PAT	24,049	25,168	28,329	33,815	37,622
EPS (INR)	29.8	33.5	32.9	41.9	46.7

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY21	FY22	FY23	FY24E	FY 25E
Net Cash Generated From Operations	37,552	33,259	32,377	35,327	44,031
Net Cash Flow from/(used in) Investing Activities	(23,872)	(18,719)	(23,885)	(20,378)	(24,488)
Net Cash Flow from Financing Activities	(13,299)	(15,998)	(9,583)	(8,239)	(9,132)
Net Inc/Dec in cash equivalents	381	(1,458)	(1,092)	6,710	10,411
Opening Balance	7,424	7,904	6,581	5,613	12,323
Adjustment	128	331	124	0	0
Closing Balance Cash and Cash Equivalents	7,933	6,777	5,613	12,323	22,734

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY21	FY22	FY23	FY24E	FY 25E
EBITDA Margin (%)	22.2%	20.9%	22.1%	22.2%	22.7%
Tax rate (%)	27.0%	26.7%	29.8%	27.0%	27.0%
Net Profit Margin (%)	12.6%	11.6%	12.5%	13.7%	14.0%
RoE (%)	12.9%	12.8%	11.2%	12.8%	12.8%
RoCE (%)	15.8%	16.0%	15.9%	15.6%	15.8%
Current Ratio (x)	2.88	3.00	3.38	3.90	4.30
EPS (INR)	29.8	31.2	35.1	41.9	46.7

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY21	FY22	FY23	FY24E	FY25E
Non-current assets					
Property, plant and equipment	46,181	51,644	45,836	45,836	45,836
Capital work-in-progress	9,090	3,829	6,892	6,892	6,892
Goodwill (Net)	30,073	31,379	29,839	29,839	29,839
Other intangible assets	14,302	13,196	11,260	11,113	10,953
Intangible assets under development	3,981	3,833	4,041	4,041	4,041
Investments accounted for using equity method	2,284	458	909	900	890
Financial assets					
Investments	3,171	3,712	4,816	4,206	4,581
Loans	530	0	0	0	0
Other financial assets	429	4,170	993	977	1,064
Deferred tax assets (Net)	4,682	4,488	4,565	5,085	5,538
Tax assets (Net)	3,147	4,836	5,480	5,479	5,967
Other non-current assets	1,556	2,189	7,252	2,480	2,701
Total non-current assets	119,424	123,736	121,884	116,846	118,301
Current assets					
Inventories	46,692	53,502	51,564	59,662	64,099
Financial assets					
Investments	22,864	21,950	30,899	38,623	48,279
Trade receivables	34,457	34,244	40,570	43,906	47,820
Cash and cash equivalents	7,933	6,777	6,276	12,323	22,734
Bank balances other than above	6,079	12,507	9,370	10,307	11,338
Loans	26	36	76	76	76
Other financial assets	4,817	8,984	20,806	20,806	20,806
Other current assets + Current Tax Assets	8,943	9,107	8,490	16,271	17,722
Assets classified as held for sale	285	167	4,699	4,699	4,699
Total current assets	132,095	147,275	172,750	206,672	237,572
TOTAL ASSETS	251,519	271,011	294,633	323,518	355,873
EQUITY AND LIABILITIES					
Equity					
Equity share capital	1,613	1,614	1,614	1,614	1,614
Other equity	181,652	206,803	232,464	259,516	289,614
Equity attributable to the equity shareholders	183,265	208,417	234,077	261,129	291,227
Non-controlling interests	2,591	2,757	3,058	3,058	3,058
Total equity	185,856	211,174	237,135	264,187	294,285
Liabilities					
Non-current liabilities					
Financial liabilities					
Borrowings	12,028	4,162	0	0	0
Other financial liabilities	2,956	2,587	3,225	3,225	3,225
Provisions	1,162	1,002	1,022	1,022	1,022
Deferred tax liabilities (Net)	2,966	2,440	1,633	1,633	1,633
Other non-current liabilities + Trade payables	636	515	521	521	521
Total non-current liabilities	19,748	10,705	6,401	6,401	6,401
Current liabilities					
Financial liabilities					
Borrowings	3,347	4,079	5,943	5,943	5,943
Trade payables	20,668	25,081	24,571	25,605	27,509
Other financial liabilities	7,340	4,442	3,945	4,744	5,097
Other current liabilities	3,596	3,111	2,841	2,841	2,841
Provisions	10,783	12,210	12,867	12,867	12,867
Current tax liabilities (Net)	181	210	931	931	931
Total current liabilities	45,916	49,132	51,098	52,931	55,188
Total liabilities	65,663	59,837	57,498	59,331	61,588
TOTAL EQUITY AND LIABILITIES	251,519	271,011	294,633	323,518	355,873

Source: Company, KRChoksey Research

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Cipla Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
17-May-23	922	1,167	BUY	Buy	More than 15%
07-Nov-22	1,129	1,289	ACCUMULATE		
03-Aug-22	1,004	1,080	ACCUMULATE	Accumulate	5% – 15%
12-May-22	938	1,020	ACCUMULATE	Hold	0 – 5%
27-Jan-22	928	998	ACCUMULATE	Reduce	-5% – 0
27-Oct-21	915	998	ACCUMULATE		
06-Aug-21	912	998	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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