

Estimate change	↑
TP change	↑
Rating change	↔

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Bloomberg	CIPLA IN
Equity Shares (m)	805
M.Cap.(INRb)/(USDb)	862.7 / 10.5
52-Week Range (INR)	1185 / 852
1, 6, 12 Rel. Per (%)	-1/-7/-8
12M Avg Val (INR M)	1813

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	227.5	250.1	274.0
EBITDA	51.1	56.9	64.4
Adj. PAT	30.5	35.6	40.4
EBIT Margin (%)	17.3	18.5	19.2
Cons. Adj. EPS (INR)	37.8	44.1	50.1
EPS Gr. (%)	6.8	16.8	13.5
BV/Sh. (INR)	284.2	322.1	366.2

Ratios

Net D:E	0.0	-0.1	-0.2
RoE (%)	13.3	13.7	13.7
RoCE (%)	13.5	14.4	14.3
Payout (%)	10.3	10.9	12.0

Valuations

P/E (x)	28.3	24.3	21.4
EV/EBITDA (x)	16.6	14.6	12.6
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	1.1	2.9	3.0
EV/Sales (x)	3.7	3.3	3.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	33.4	33.4	33.4
DII	24.3	22.0	21.2
FII	25.6	27.7	28.1
Others	16.7	16.9	17.3

FII Includes depository receipts

CMP: INR1,069 TP: INR1,130 (+6%) Neutral

Strong revival in outlook for the North America segment

EBITDA and PAT at all-time high levels on quarterly basis

- Cipla delivered better-than-expected 1QFY24 performance, led by superior executions in North America (NA) and domestic formulation (DF) segments. Cipla is on track to build a complex product pipeline in the peptide space, and reduce compliance risk by incorporating alternate manufacturing sites.
- We raise our earnings estimates by 6% each for FY24/FY25 to factor in: a) reduced competition in the US generics segment, b) better visibility for niche launches in NA, and c) better operating leverage. We value Cipla at 22x 12M forward earnings and add NPV of INR30 related to g-Revlimid to arrive at our TP of INR1,130.
- There has been a healthy revival in outlook for NA markets in addition to better-than-industry performance in the branded generics segment (DF/South Africa). However, we reiterate our **Neutral** rating on limited upside from current levels.

Product mix-led YoY improvement in profitability

- Cipla's 1QFY24 revenue rose 17.7% YoY to INR63.3b (our est. INR60b). DF sales (44% of sales) grew 11.6% YoY to INR28b. The US sales (29% of sales) jumped 52% YoY to INR18.2b (USD222m, up 43% YoY in CC) due to strong traction in the differentiated portfolio including market share expansion in products. EM sales (12% of sales) grew 8% YoY to INR7.8b. SAGA sales (12% of sales) declined 5% YoY to INR7.5b during the quarter.
- Gross margin expanded 230bp YoY to 64.7% (our est. 64.0%) led by lower raw material costs and superior product mix in 1QFY24.
- EBITDA margin expanded at a similar rate of 230bp YoY to 23.6% (our est. 21.9%), due to improved gross margin. Lower employee costs (down 90bp YoY as a % of sales) were offset by rise in other expenses/R&D (+40/+50bp YoY as a % of sales) in 1QFY24.
- EBITDA increased 30.7% YoY to INR14.9b (our est. INR13.2b).
- Adj. PAT jumped 45% YoY to INR10b (our est. INR8b) driven by lower depreciation expenses being offset by an increase in tax rate for the quarter.

Highlights from the management commentary

- For FY24, Cipla raised its EBITDA margin guidance to 23% from 22% earlier. Further, management raised its NA base business quarterly run-rate guidance to USD210-215m from USD195m earlier.
- Cipla indicated an encouraging outlook in NA business driven by reduced competition and subsequently lesser extent of price erosion. Further, certain revisions in buying programs have also aided growth in the NA segment.
- Management indicated that 4-5 peptides would be launched and a couple of products would be filed in the next 18M for the NA market.
- Cipla indicated that it filed a new amendment with respect to g-Advair.

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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	FY23				FY24E				FY23	FY24E	Est. 1QE	% Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Revenues	53.8	58.3	58.1	57.4	63.3	63.8	63.2	59.7	227.5	250.1	60.1	5.3
YoY Change (%)	-1.4	5.6	6.0	9.1	17.7	18.7	8.4	2.8	4.8	9.9	11.9	
Total Expenditure	42.3	44.4	44.0	45.7	48.3	49.0	49.0	46.8	176.4	193.2	47.0	
EBITDA	11.4	13.9	14.1	11.7	14.9	14.9	14.2	12.9	51.1	56.9	13.2	13.5
YoY Change (%)	-11.7	13.3	14.3	23.6	30.7	7.0	0.6	10.1	8.8	11.2	15.2	
Margins (%)	21.3	23.8	24.2	20.4	23.6	23.3	22.4	21.6	22.5	22.8	21.9	
Depreciation	2.5	3.0	2.7	3.5	2.4	2.6	2.7	3.1	11.7	10.7	2.9	
EBIT	8.9	10.9	11.4	8.3	12.5	12.3	11.5	9.8	39.4	46.2	10.3	
YoY Change (%)	-14.0	12.0	15.4	25.5	41.1	13.0	1.3	18.9	8.0	17.2	16.1	
Margins (%)	16.5	18.7	19.5	14.4	19.8	19.3	18.2	16.5	17.3	18.5	17.2	
Interest	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	1.1	0.7	0.3	
Other Income	1.0	1.0	1.1	1.3	1.4	1.1	1.2	1.1	4.5	4.7	1.2	
Profit before Tax	9.7	11.6	12.2	9.3	13.7	13.2	12.5	10.7	42.8	50.2	11.2	
One-time (expense)/income	0.0	-0.6	0.0	-1.8	0.0	0.0	0.0	0.0	-2.5	0.0	0.0	
PBT after EO expense	9.7	11.0	12.2	7.5	13.7	13.2	12.5	10.7	40.4	50.2	11.2	22.6
Tax	2.7	3.0	4.1	2.2	3.8	3.8	3.5	3.1	12.0	14.2	3.1	
Rate (%)	27.5	26.0	33.7	24.0	27.5	28.5	27.9	29.1	28.1	28.2	28.0	
Minority Interest	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.4	0.3	0.4	0.1	
Reported PAT	6.9	7.9	8.0	5.3	10.0	9.5	9.0	7.2	28.0	35.6	8.0	25.0
Adj PAT	6.9	8.5	8.0	7.1	10.0	9.5	9.0	7.2	30.5	35.6	8.0	25.0
YoY Change (%)	-12.9	19.8	9.9	16.1	45.1	10.9	12.5	1.4	7.4	16.8	16.0	

E: MOFSL Estimates;

Key performance indicators

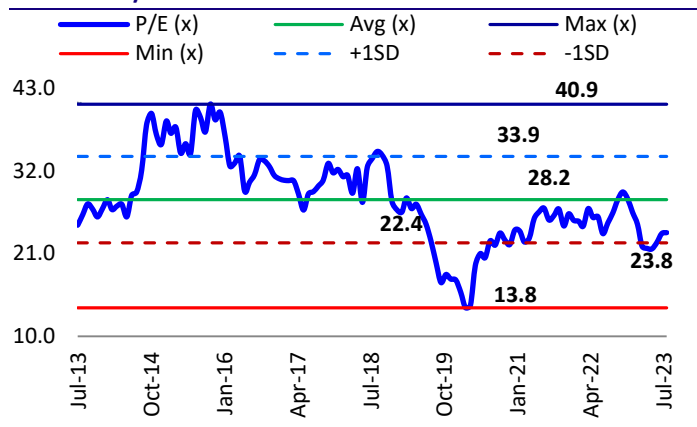
Y/E March	FY23				FY24E				FY23	FY24E	Est. 1QE
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
INR b											
Domestic formulation	24.8	25.6	25.6	22.6	27.7	26.9	26.9	24.0	98.7	105.6	25.7
YoY Change (%)	-8.4	6.2	1.8	3.5	11.6	5.0	5.0	6.4	0.4	7.0	4.0
North America	12.0	14.6	16.0	16.8	18.2	18.2	18.4	19.1	59.1	73.9	15.9
YoY Change (%)	14.7	38.1	39.1	38.7	52.0	25.1	14.9	13.9	33.9	25.1	34.8
Europe	2.9	3.0	3.0	0.8	3.4	3.4	3.4	1.6	9.7	11.8	3.4
YoY Change (%)	10.0	8.0	0.0	94.2	15.0	16.0	13.0	102.1	10.0	22.0	15.0
South Africa	7.9	8.7	6.8	8.3	7.5	8.0	7.4	7.5	31.7	30.4	8.5
YoY Change (%)	-4.6	-12.0	-22.4	-12.7	-5.1	-9.0	9.0	-9.3	-13.9	-4.0	5.0
Emerging market	7.2	7.6	7.6	7.8	7.8	8.2	8.1	7.2	30.3	31.4	7.8
YoY Change (%)	18.9	-7.7	7.0	7.1	8.2	8.7	6.9	-8.1	5.4	3.6	12.1
API	1.4	1.7	1.5	1.3	1.4	1.8	1.6	1.8	5.7	6.5	1.6
YoY Change (%)	-39.7	1.7	-10.6	-2.2	0.7	1.0	11.0	32.5	-25.3	15.0	0.0
Cost Break-up											
RM Cost (% of Sales)	37.7	35.6	34.5	36.0	35.3	35.9	35.6	35.9	38.6	39.6	35.9
Staff Cost (% of Sales)	17.8	16.5	16.3	16.8	16.9	16.3	16.8	18.4	16.3	17.7	16.8
R&D Expenses(% of Sales)	5.1	5.7	6.2	6.5	5.5	6.3	6.4	7.3	4.3	6.0	6.0
Other Cost (% of Sales)	18.2	18.4	18.7	20.3	18.7	18.2	18.8	19.9	17.0	19.5	18.8
Gross Margin (%)	62.3	64.4	65.5	64.0	64.7	64.1	64.4	64.1	61.4	60.4	64.1
EBITDA Margin (%)	21.3	23.8	24.2	20.4	23.6	23.3	22.4	21.6	22.5	22.8	21.9
EBIT Margin (%)	16.5	18.7	19.5	14.4	19.8	19.3	18.2	16.5	17.3	18.5	17.2

Source: MOFSL, Company



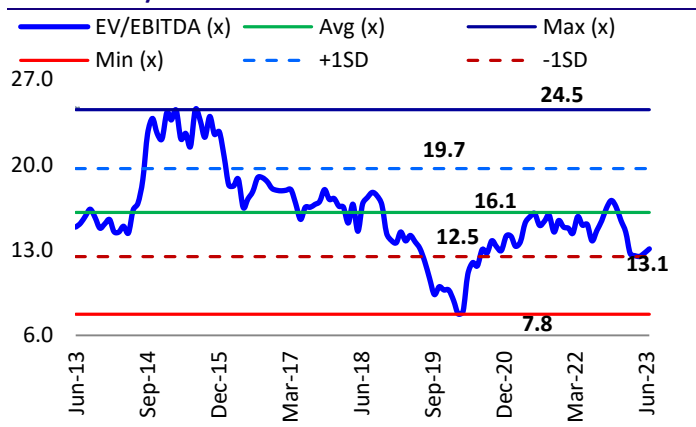
- Highlights from the management commentary**
- Cipla has de-risked the Abraxane opportunity by adding an alternate site in its ANDA application.
 - With certain price revision in g-Leuprolide, Cipla expects a market share gain going forward.
 - For India business, Cipla added 250-300 MRs in 1QFY24 and plans to add 250 in 2QFY24.
 - g-Revlimid sales has been stable on a QoQ basis.
 - Cipla guided for a capex of INR1.0-1.5b for FY24.

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Revival in the US and outperforming the industry in DF/SA are the key growth levers

NA: Reduced pricing pressure/market share gains to drive growth prospects

- In 1QFY24, the US sales grew 52% YoY (USD222m; up 43% in CC terms) to INR18b. This was led by market share gains of g-Revlimid, Lanreotide (18% share as of 1QFY24) and healthy off-take of products in the base portfolio.
- Cipla has three differentiated products under clinical trial targeted to be filed in FY24/FY25.
- It plans to file more complex peptide products in FY24 as it aspires to improve the footprint in high-value complex assets.
- Based on the above factors, we expect the company to deliver 15.3% US sales CAGR to USD974m over FY23–25.

DF: better positioned than peers due to One-India strategy

- In MAT Jun'23, Cipla outpaced industry growth by 350bp led by superior execution in key therapies.
- In branded prescription market, the core portfolio (respiratory/cardiac) of Cipla has outperformed IPM by 280bp/70bp, led by pricing, new launches and high growth in key products including Foracort, Duolin, Budecort, and Aerocort.
- With launches of 23 products in trade generics and additions of MRs, the company intends to maintain its market leadership and increase the penetration in the tier-2 and below markets.

- Further, in the Consumer Healthcare business, Cipla expects to increase revenue and profitability through strong brand recall.
- We expect Cipla to deliver 9.5% sales CAGR in DF to INR118b over FY23–25.

SAGA: Focus on SA private market/OTC market to improve profitability

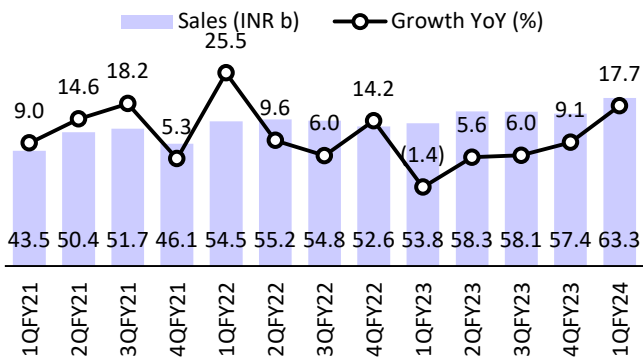
- In 1QFY24, Cipla's SAGA business declined 5% YoY to INR7.5b. This was due to intense competition in the tender business.
- However, it continues to grow in the private market/OTC market from the lows of last year with new launches and strong traction in existing brands.
- We expect Cipla to deliver stable sales in SAGA to INR32b over FY23–25.

Maintain Neutral

- We raise our earnings estimates by 6% each for FY24/FY25 to factor in: a) reduced competition in the US generics segment, b) better visibility for niche launches in NA, and c) better operating leverage. We value Cipla at 22x 12M forward earnings and add NPV of INR30 related to g-Revlimid to arrive at our TP of INR1,130.
- There has been a healthy revival in outlook for NA markets in addition to better-than-industry performance in the branded generics segment (DF/South Africa). However, we reiterate our **Neutral** rating on limited upside from current levels.

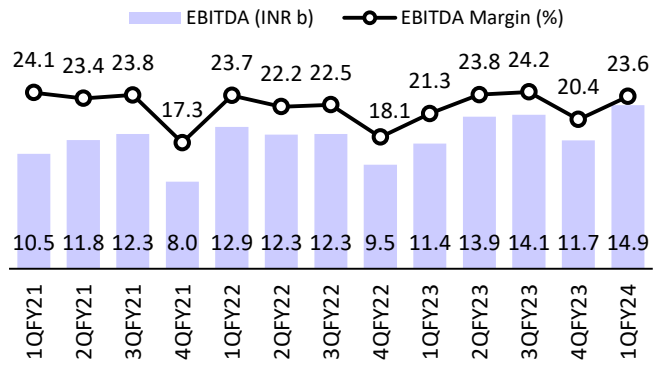
Story in charts

Exhibit 3: Revenue up 18% YoY in 1QFY24



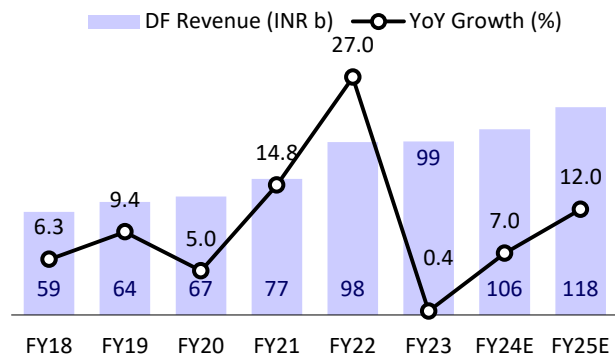
Source: MOFSL, Company

Exhibit 4: EBITDA margin expands ~230bp YoY in 1QFY24



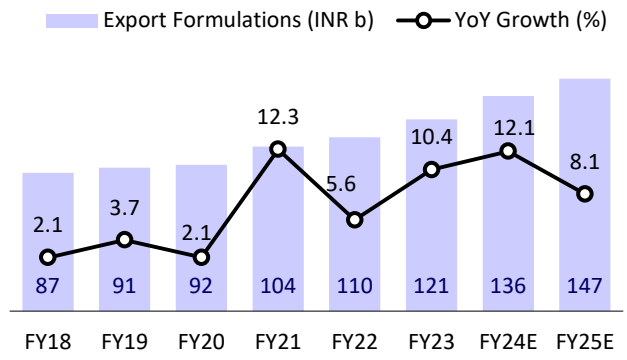
Source: MOFSL, Company

Exhibit 5: Expect 9% DF sales CAGR...



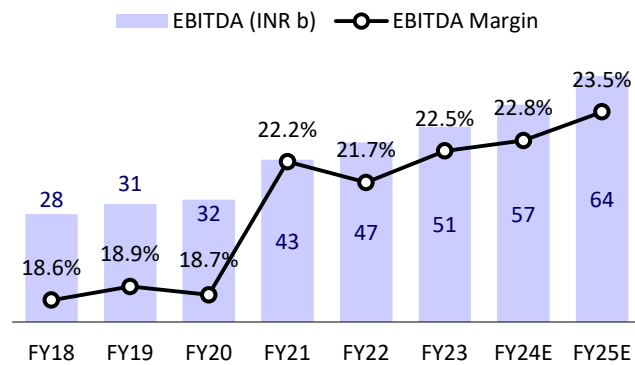
Source: MOFSL, Company

Exhibit 6: ...and 10% export sales CAGR over FY23-25



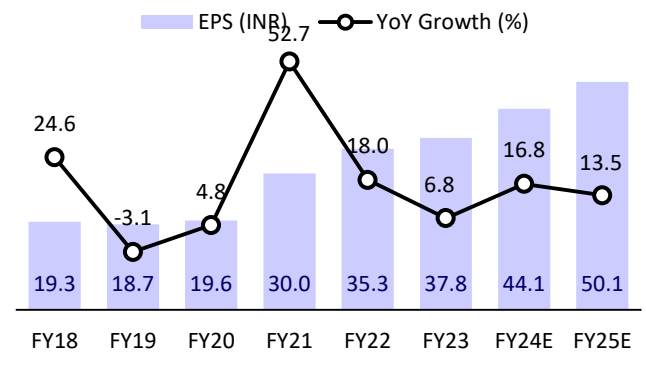
Source: MOFSL, Company

Exhibit 7: EBITDA margin to expand 100bp over FY23-25E



Source: MOFSL, Company

Exhibit 8: Expect 15% earnings CAGR over FY23-25



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR b)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Income	146.0	152.2	163.6	171.3	191.6	217.1	227.5	250.1	274.0
Change (%)	6.7	4.3	7.5	4.7	11.8	13.3	4.8	9.9	9.6
EBITDA	24.4	28.3	31.0	32.1	42.5	47.0	51.1	56.9	64.4
Change (%)	-2.3	15.7	9.6	3.5	32.6	10.6	8.8	11.2	13.2
Margin (%)	16.7	18.6	18.9	18.7	22.2	21.7	22.5	22.8	23.5
Depreciation	9.2	11.5	11.2	11.4	10.7	10.5	11.7	10.7	11.9
EBIT	15.2	16.8	19.8	20.6	31.8	36.5	39.4	46.2	52.5
Int. and Finance Charges	1.6	1.1	1.7	2.0	1.6	1.1	1.1	0.7	0.8
Other Income - Rec.	2.3	3.6	2.8	3.4	2.7	2.8	4.5	4.7	4.4
PBT before EO Items	15.9	19.2	20.9	22.1	32.9	38.2	42.8	50.2	56.1
One-time (Expense)/Income	0.0	-2.5	-0.1	0.3	0.0	3.3	2.5	0.0	0.0
PBT but after EO Exp.	15.9	16.7	20.8	21.8	32.9	34.9	40.4	50.2	56.1
Tax	3.1	2.5	5.7	6.3	8.9	9.3	12.0	14.2	16.0
Tax Rate (%)	19.5	15.0	27.4	29.0	27.0	26.7	29.8	28.2	28.5
Minority Interest	0.3	0.1	-0.4	-0.5	-0.2	0.3	0.3	0.4	-0.3
Income from associates	-0.1	0.0	-0.2	-0.5	-0.1	-0.1	0.0	-0.1	0.0
Reported PAT	12.4	14.1	15.3	15.5	24.1	25.2	28.0	35.6	40.4
Adj PAT	12.4	15.5	15.0	15.8	24.1	28.4	30.5	35.6	40.4
Change (%)	-17.7	24.6	-3.1	4.8	52.7	18.0	7.4	16.8	13.5
Margin (%)	8.5	10.2	9.2	9.2	12.6	13.1	13.4	14.2	14.7

Balance Sheet								(INR b)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Reserves	123.6	140.7	152.3	157.6	179.3	201.5	232.5	258.4	294.0
Net Worth	125.3	142.3	150.1	157.6	183.3	208.4	234.1	260.0	295.6
Loans	41.1	41.0	43.2	28.2	15.4	9.0	5.9	5.9	5.9
Deferred Liabilities	5.9	3.2	2.2	1.3	-0.2	-2.0	-2.9	-2.9	-2.9
Minority Interest	4.4	3.5	3.3	2.9	2.6	2.8	3.1	3.1	3.1
Capital Employed	176.7	190.0	198.8	190.0	201.0	218.1	240.1	266.1	301.6
Gross Block	114.6	120.5	126.4	138.5	147.5	160.1	166.8	172.8	181.0
Less: Accum. Deprn.	10.2	16.3	27.4	38.9	49.5	60.1	71.8	82.4	94.3
Net Fixed Assets	104.4	104.2	98.9	99.6	97.9	100.1	95.0	90.3	86.7
Capital WIP	7.2	5.1	3.3	4.2	5.7	3.8	6.9	5.1	5.1
Investments	0.1	0.1	3.0	3.6	3.5	4.2	6.3	6.3	6.3
Curr. Assets	96.2	117.3	132.4	126.8	141.2	158.3	177.1	210.5	252.2
Inventory	34.9	40.4	39.6	43.8	46.7	53.5	51.6	60.1	65.1
Account Receivables	25.0	31.0	41.5	38.9	34.5	34.2	40.6	42.3	50.4
Cash and Bank Balance	6.2	9.7	6.2	10.0	14.0	19.3	15.6	34.1	54.6
Others	30.1	36.2	45.1	34.1	46.1	51.3	69.3	74.0	82.1
Curr. Liability & Prov.	31.2	36.8	38.8	44.2	47.3	48.4	49.9	46.2	48.7
Account Payables	28.0	30.5	31.4	34.8	36.5	36.2	37.1	33.4	35.8
Provisions	3.2	6.3	7.4	9.5	10.8	12.2	12.9	12.9	12.9
Net Current Assets	65.0	80.5	93.7	82.6	93.9	109.9	127.2	164.3	203.5
Appl. of Funds	176.6	190.0	198.8	190.0	201.0	218.1	240.1	266.1	301.6

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	15.5	19.3	18.7	19.6	30.0	35.3	37.8	44.1	50.1
Cash EPS	26.9	33.5	32.5	33.7	43.1	48.2	52.3	57.3	64.8
BV/Share	155.7	176.7	186.3	195.5	227.2	258.1	284.2	322.1	366.2
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	10.9	12.0
Valuation (x)									
P/E	69.0	55.4	57.2	54.5	35.7	30.3	28.3	24.3	21.4
Cash P/E	39.7	31.9	32.9	31.7	24.8	22.2	20.5	18.7	16.5
P/BV	6.9	6.1	5.7	5.5	4.7	4.1	3.8	3.3	2.9
EV/Sales	6.1	5.9	5.5	5.1	4.5	3.9	3.7	3.3	3.0
EV/EBITDA	36.7	31.6	29.0	27.4	20.3	18.1	16.6	14.6	12.6
Dividend Yield (%)	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.4	0.5
FCF per Share	21.5	6.7	15.9	24.0	33.7	27.9	11.9	30.6	32.1
Return Ratios (%)									
RoE	10.4	11.6	10.3	10.2	14.1	14.5	13.3	13.7	13.7
RoCE	7.9	9.4	8.4	8.8	12.9	13.7	13.5	14.4	14.3
RoIC	7.5	8.4	8.0	8.2	13.3	14.5	13.8	15.4	16.5
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	88	87
Working Capital (Days)	162	193	209	176	179	183	202	237	268
Leverage Ratio (x)									
Current Ratio	3.1	3.2	3.4	2.9	3.0	3.3	3.5	4.6	5.2
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
(INR b)									
EBITDA	24.4	28.3	31.0	32.1	42.5	47.0	51.1	56.9	64.4
Interest/Dividends Recd.	2.3	3.6	2.8	3.4	2.7	2.8	4.5	4.7	4.4
Direct Taxes Paid	-6.2	-5.2	-6.6	-7.3	-10.3	-11.2	-12.9	-14.2	-16.0
(Inc)/Dec in WC	-3.9	-12.2	-16.6	14.9	-7.4	-10.7	-20.9	-18.6	-18.8
CF from Operations	16.6	14.4	10.6	43.1	27.5	27.9	21.8	28.8	34.1
others	7.2	-2.3	6.2	-10.5	10.1	8.6	0.0	0.0	0.0
CF from Oper. incl EO Expense	23.8	14.6	16.9	32.3	37.6	33.3	19.3	28.8	34.1
(inc)/dec in FA	-6.5	-9.2	-4.1	-13.0	-10.5	-10.8	-9.8	-4.2	-8.2
Free Cash Flow	17.3	5.4	12.8	19.3	27.1	22.5	9.6	24.6	25.9
(Pur)/Sale of Investments	1.6	0.0	-2.9	-0.6	0.1	-0.7	-2.2	0.0	0.0
others	-8.2	0.7	-9.7	14.7	-13.5	-7.3	0.0	0.0	0.0
CF from Investments	-13.1	-8.5	-16.7	1.0	-23.9	-18.7	-11.9	-4.2	-8.2
Inc/(Dec) in Debt	-10.8	-0.1	2.2	-15.0	-12.8	-6.4	-3.0	0.0	0.0
Interest Paid	-1.6	-1.1	-1.7	-2.0	-1.6	-1.1	-1.1	-0.7	-0.8
Dividend Paid	-1.9	-1.9	-2.8	-2.4	-2.4	-2.9	-2.9	-3.9	-4.8
Others	1.1	-0.7	-1.1	-11.7	3.5	-0.4	-5.5	-3.0	-1.2
CF from Fin. Activity	-13.3	-3.9	-3.5	-31.1	-13.3	-10.7	-12.5	-7.6	-6.8
Inc/Dec of Cash	-2.5	2.2	-3.3	2.2	0.4	3.8	-5.1	17.0	19.0
Add: Beginning Balance	8.7	6.2	9.7	6.2	10.0	14.0	19.3	15.6	34.1
Bank balances	0.0	1.0	0.0	-1.1	3.6	1.5	1.5	1.5	1.5
Bank balances and FX impact	0.1	1.2	-0.2	1.6	3.6	1.5	1.5	1.5	1.5
Closing balance	6.2	9.7	6.2	10.0	14.0	19.3	15.6	34.1	54.6

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NOTES

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