

July 26, 2023

Q1FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,220		1,070	
Sales (Rs. m)	2,50,655	2,76,370	2,48,344	2,73,272
% Chng.	0.9	1.1		
EBITDA (Rs. m)	56,951	64,244	54,743	62,143
% Chng.	4.0	3.4		
EPS (Rs.)	43.9	50.4	41.6	48.2
% Chng.	5.5	4.6		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	2,17,634	2,27,529	2,50,655	2,76,370
EBITDA (Rs. m)	45,528	50,268	56,951	64,244
Margin (%)	20.9	22.1	22.7	23.2
PAT (Rs. m)	25,168	29,841	35,425	40,700
EPS (Rs.)	31.2	37.0	43.9	50.4
Gr. (%)	4.7	18.5	18.7	14.9
DPS (Rs.)	5.3	8.5	9.3	10.2
Yield (%)	0.5	0.8	0.9	1.0
RoE (%)	12.9	13.5	14.3	14.7
RoCE (%)	16.7	16.7	17.7	18.3
EV/Sales (x)	3.9	3.8	3.3	3.0
EV/EBITDA (x)	18.7	17.0	14.7	12.7
PE (x)	34.3	28.9	24.3	21.2
P/BV (x)	4.1	3.7	3.3	3.0

Key Data

CIPLA.BO | CIPLA IN

52-W High / Low	Rs.1,185 / Rs.852
Sensex / Nifty	66,707 / 19,778
Market Cap	Rs.863bn/ \$ 10,519m
Shares Outstanding	807m
3M Avg. Daily Value	Rs.1750.87m

Shareholding Pattern (%)

Promoter's	33.47
Foreign	25.49
Domestic Institution	24.34
Public & Others	16.70
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.9	2.0	9.7
Relative	0.6	(9.3)	(8.2)

Param Desai

paramdesai@plindia.com | 91-22-66322259

Strong quarter; margins and US sales guidance revised upward

Quick Pointers:

- Ramp-up in Lanreotide and market share gains in other products aided US.
- Margin guidance increased to 23% vs earlier 22% for FY24.

CIPLA's Q1FY24 EBITDA (Rs15bn; 23.6% OPM) was 13% above our estimates, aided by higher GMs (64.3%) and US sales of US\$222mn. We continue to remain positive on growth across key segments including India and US given 1) strong traction in respiratory and other portfolio, 2) potential growth of +10% in domestic formulations and 3) sustainability of current US revs, backed by prospective key launches over FY25. Our FY24E and FY25E EPS stands increased by ~5% as we factor in higher US sales and margins. We expect 17% EPS CAGR over FY23-25E. Maintain 'Buy' rating with revised TP of Rs1,220 based on 24x (22x earlier) FY25E EPS. Any further FDA escalation to Indore unit and erosion in key products in US will be key risk to our call.

- Healthy revenue growth across key markets:** CIPLA's Q1FY24 sales increased 18% YoY (up 1% QoQ) to Rs63.3bn. Domestic formulation sales grew by 11.5% YoY led by momentum across portfolio of One-India business. US sales came in at \$222mn, up 9% QoQ, above our estimates. International markets grew by 8% YoY, while SAGA continued to report 5% decline. API saw growth of 1% YoY.
- Strong EBITDA beat aided by higher US sales and GMs:** GMs were up by 70bp YoY to 64.3%, we est 63%. OPM of 23.6% was above our estimate led by higher US sales and better product mix. Other expenses increased by 22% YoY. R&D cost came at Rs3.5bn; 5.7% of sales; up 27% YoY. Tax came in at 27.5%, while depreciation charges were lower. PAT of Rs10bn (up 45% YoY) was above our estimate of Rs8bn.
- Key concall takeaways: (1) US business** reported highest quarterly revenue aided by ramp up in gLanreotide and expansion in market share of key launches. Currently CIPLA enjoys +18% market share in Lanreotide vs 17% in Q4FY23. Mgmt cited that QoQ growth in US sales was aided by base business while gRevlimid was largely flat QoQ. Guided quarterly run-rate of \$205mn-210mn vs \$190-195mn earlier. Expects four-five peptides launch over next 18 months **(2)** Mgmt cited that large number of US generic companies are amalgamating and thereby seeing rebalancing of supply chain. This has resulted in price stabilization **(3)** On gAdvair company has initiated site transfer to its own facility and reiterated FY25 launch, while gAbraxane is derisked to CMO facility. gAlbuterol has seen decrease in market share, however it has now stabilized. Classification on Indore facility is still pending. **(4) Domestic formulation** - continued to report market beating growth with overall contribution from chronic expanding well. During Q1, added 250 additional MRs with another 150-200 net addition likely in Q2. CIPLA consumer biz achieved mid teen margins in Q1, while trade generic segment reported 8% YoY growth **(6)** Overall guided 23% OPM for FY24E vs 22% earlier. Capex of Rs15bn in FY24. Net cash stands at Rs61bn as of Q1FY24 end.

Exhibit 1: 1QFY24 Result Overview (Rs m) – EBITDA aided by healthy GMs and US sales

Y/e March	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Net Sales	63,289	53,752	17.7	57,393	10.3	250,655	227,529	10.2
Raw Material	22,368	20,244	10.5	20,634	8.4	101,671	93,623	8.6
<i>% of Net Sales</i>	<i>35.3</i>	<i>37.7</i>		<i>36.0</i>		<i>40.6</i>	<i>41.1</i>	
Personnel Cost	10,666	9,557	11.6	9,648	10.5	37,967	34,583	9.8
<i>% of Net Sales</i>	<i>16.9</i>	<i>17.8</i>		<i>16.8</i>		<i>15.1</i>	<i>15.2</i>	
Others	15,316	12,517	22.4	15,374	(0.4)	54,066	49,055	10.2
<i>% of Net Sales</i>	<i>24.2</i>	<i>23.3</i>		<i>26.8</i>		<i>21.6</i>	<i>21.6</i>	
Total Expenditure	48,350	42,318	14.3	45,656	5.9	193,704	177,262	9.3
EBITDA	14,939	11,434	30.7	11,737	27.3	56,951	50,268	13.3
<i>Margin (%)</i>	<i>23.6</i>	<i>21.3</i>		<i>20.5</i>		<i>22.7</i>	<i>22.1</i>	
Depreciation	2,392	2,544	(6.0)	3,462	(30.9)	11,956	11,721	2.0
EBIT	12,547	8,889	41.1	8,275	51.6	44,995	38,547	16.7
Other Income	1,363	1,034	31.8	1,346	1.2	5,200	4,755	9.4
Interest	164	178	(8.0)	344	(52.3)	850	1,095	(22.4)
PBT	13,746	9,746	41.0	9,278	48.2	49,345	42,206	16.9
Extra-Ord. Inc./Exps.	-	-		(1,824)				
Total Taxes	3,780	2,680	41.1	2,223	70.1	13,570	12,029	12.8
<i>ETR (%)</i>	<i>27.5</i>	<i>27.5</i>		<i>24.0</i>		<i>27.5</i>	<i>28.5</i>	
Minority interest	(9)	(202)		25		(350)	(336)	
Reported PAT	9,957	6,864	45.1	5,256	89.4	35,425	29,841	18.7

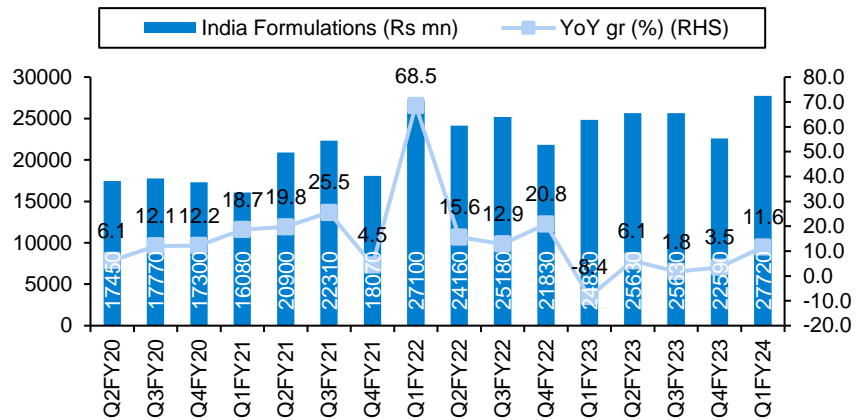
Source: Company, PL

Exhibit 2: Sources of Revenue - strong revenue growth across key markets

Geographic break up of revenues	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Domestic market	27,720	24,830	11.6	22,590	22.7	110,020	98,690	11.5
<i>% of Sales</i>	<i>43.8</i>	<i>46.2</i>		<i>39.4</i>		<i>43.9</i>	<i>43.4</i>	
Export market	35,560	28,930	22.9	34,800	2.2	140,635	128,839	9.2
<i>% of Sales</i>	<i>56.2</i>	<i>53.8</i>		<i>60.6</i>		<i>56.1</i>	<i>56.6</i>	
North America	18,220	11,990	52.0	16,770	8.6	65,631	59,089	11.1
<i>% of Sales</i>	<i>28.8</i>	<i>22.3</i>		<i>29.2</i>		<i>26.2</i>	<i>26.0</i>	
SAGA	7,480	7,880	(5.1)	8,320	(10.1)	33,425	31,660	5.6
<i>% of Sales</i>	<i>11.8</i>	<i>14.7</i>		<i>14.5</i>		<i>13.3</i>	<i>13.9</i>	
International Markets	7,790	7,200	8.2	7,840	(0.6)	33,308	30,280	10.0
<i>% of Sales</i>	<i>12.3</i>	<i>13.4</i>		<i>13.7</i>		<i>13.3</i>	<i>13.3</i>	
APIs	1,360	1,350	0.7	1,340	1.5	6,021	5,680	6.0
<i>% of Sales</i>	<i>2.1</i>	<i>2.5</i>		<i>2.3</i>		<i>2.4</i>	<i>2.5</i>	
Others	710	510	39.2	530	34.0	2,250	2,130	5.6
<i>% of Sales</i>	<i>1.1</i>	<i>0.9</i>		<i>0.9</i>		<i>0.9</i>	<i>0.9</i>	
Total	63,280	53,760	17.7	57,390	10.3	250,655	227,529	10.2

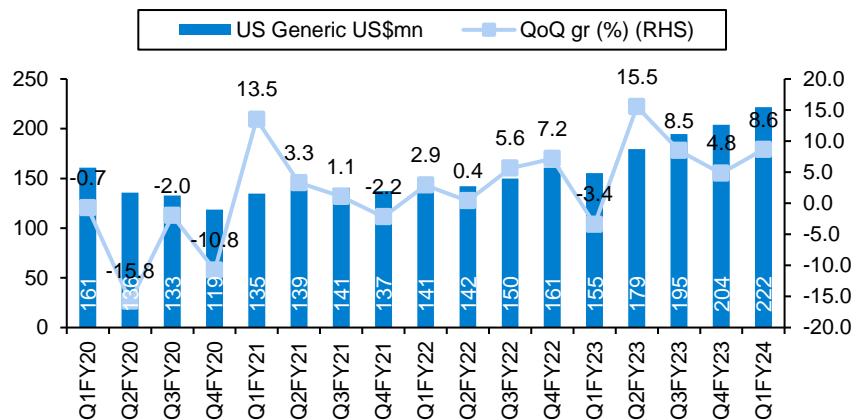
Source: Company, PL

Exhibit 3: India Formulations (Rx+Gx+CHL): Strong growth across segments



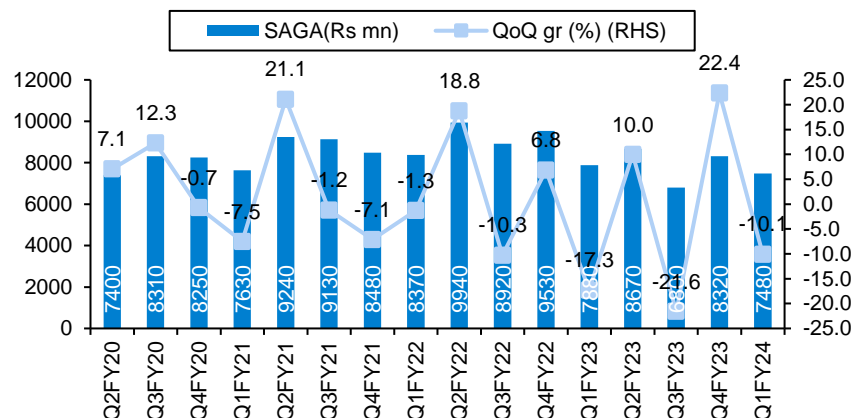
Source: Company, PL

Exhibit 4: Price stabilization + ramp-up in “Lanreotide” aided US growth



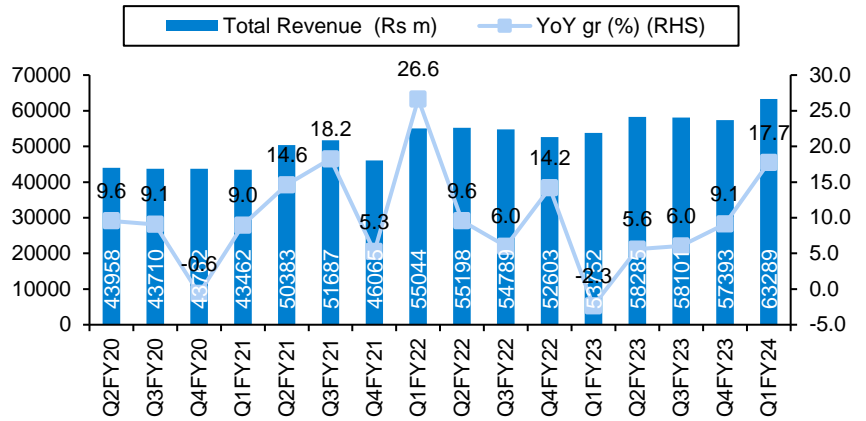
Source: Company, PL

Exhibit 5: Supply challenges and lower tender impacts SAGA growth YoY



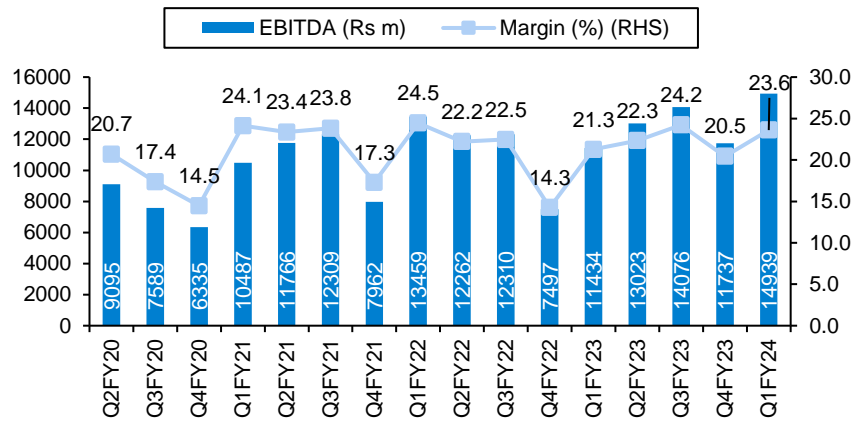
Source: Company, PL

Exhibit 6: Overall growth driven by US and India formulations business



Source: Company, PL

Exhibit 7: EBITDA margins YoY aided by better GMs and product mix



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	2,17,634	2,27,529	2,50,655	2,76,370
YoY gr. (%)	13.6	4.5	10.2	10.3
Cost of Goods Sold	96,309	93,623	1,01,671	1,11,699
Gross Profit	1,21,325	1,33,906	1,48,984	1,64,671
Margin (%)	55.7	58.9	59.4	59.6
Employee Cost	32,194	34,583	37,967	41,681
Other Expenses	43,603	49,055	54,066	58,747
EBITDA	45,528	50,268	56,951	64,244
YoY gr. (%)	7.1	10.4	13.3	12.8
Margin (%)	20.9	22.1	22.7	23.2
Depreciation and Amortization	10,520	11,721	11,956	12,673
EBIT	35,009	38,547	44,995	51,571
Margin (%)	16.1	16.9	18.0	18.7
Net Interest	1,064	1,095	850	750
Other Income	2,809	4,755	5,200	5,800
Profit Before Tax	36,754	42,206	49,345	56,621
Margin (%)	16.9	18.5	19.7	20.5
Total Tax	9,338	12,029	13,570	15,571
Effective tax rate (%)	25.4	28.5	27.5	27.5
Profit after tax	27,416	30,177	35,775	41,050
Minority interest	-	-	-	-
Share Profit from Associate	(427)	(336)	(350)	(350)
Adjusted PAT	25,168	29,841	35,425	40,700
YoY gr. (%)	4.7	18.6	18.7	14.9
Margin (%)	11.6	13.1	14.1	14.7
Extra Ord. Income / (Exp)	1,821	-	-	-
Reported PAT	26,989	29,841	35,425	40,700
YoY gr. (%)	12.2	10.6	18.7	14.9
Margin (%)	12.4	13.1	14.1	14.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	26,989	29,841	35,425	40,700
Equity Shares O/s (m)	807	807	807	807
EPS (Rs)	31.2	37.0	43.9	50.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	1,37,892	1,45,941	1,60,941	1,75,941
Tangibles	93,703	99,173	1,09,366	1,19,559
Intangibles	44,189	46,768	51,575	56,382
Acc: Dep / Amortization	73,052	84,773	96,729	1,09,402
Tangibles	41,985	48,722	55,593	62,876
Intangibles	31,067	36,052	41,136	46,525
Net fixed assets	64,839	61,168	64,212	66,540
Tangibles	51,718	50,451	53,773	56,683
Intangibles	13,122	10,717	10,439	9,857
Capital Work In Progress	7,662	10,933	10,933	10,933
Goodwill	31,379	29,839	29,839	29,839
Non-Current Investments	26,120	37,222	37,222	37,222
Net Deferred tax assets	2,049	2,933	2,933	2,913
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	53,502	51,564	58,372	64,360
Trade receivables	34,244	40,570	42,577	46,945
Cash & Bank Balance	19,285	15,646	31,132	48,789
Other Current Assets	29,454	43,049	45,202	47,462
Total Assets	2,66,523	2,90,067	3,19,565	3,52,165
Equity				
Equity Share Capital	1,614	1,614	1,614	1,614
Other Equity	2,06,803	2,32,464	2,59,095	2,90,122
Total Networkth	2,08,417	2,34,078	2,60,709	2,91,736
Non-Current Liabilities				
Long Term borrowings	5,745	2,088	1,088	1,088
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	4,813	5,943	5,443	3,943
Trade payables	25,081	24,571	28,842	31,801
Other current liabilities	21,759	23,263	23,357	23,451
Total Equity & Liabilities	2,66,523	2,90,067	3,19,565	3,52,165

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	33,945	42,206	49,345	56,621
Add. Depreciation	10,520	11,721	11,956	12,673
Add. Interest	1,064	1,095	850	750
Less Financial Other Income	2,809	4,755	5,200	5,800
Add. Other	901	(3,133)	-	-
Op. profit before WC changes	46,429	51,889	62,151	70,044
Net Changes-WC	(1,775)	(5,594)	(6,601)	(9,563)
Direct tax	(11,395)	(13,019)	(13,570)	(15,571)
Net cash from Op. activities	33,260	33,276	41,980	44,910
Capital expenditures	(7,012)	(11,829)	(15,000)	(15,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(7,012)	(11,829)	(15,000)	(15,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(10,062)	(3,519)	(1,500)	(1,500)
Dividend paid	(4,034)	(4,035)	(8,794)	(9,673)
Interest paid	(1,064)	(1,095)	(850)	(750)
Others	(5,816)	(16,436)	(350)	(330)
Net cash from Fin. activities	(20,976)	(25,086)	(11,494)	(12,253)
Net change in cash	5,272	(3,639)	15,486	17,657
Free Cash Flow	26,248	21,447	26,980	29,910

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	58,285	58,101	57,393	63,289
YoY gr. (%)	5.6	6.0	9.1	17.7
Raw Material Expenses	21,602	20,043	20,634	22,368
Gross Profit	36,684	38,058	36,759	40,921
Margin (%)	62.9	65.5	64.0	64.7
EBITDA	13,023	14,076	11,737	14,939
YoY gr. (%)	6.2	14.3	56.6	30.7
Margin (%)	22.3	24.2	20.5	23.6
Depreciation / Depletion	2,994	2,721	3,462	2,392
EBIT	10,030	11,354	8,275	12,547
Margin (%)	17.2	19.5	14.4	19.8
Net Interest	256	318	344	164
Other Income	1,230	1,144	1,346	1,363
Profit before Tax	11,004	12,181	9,278	13,746
Margin (%)	18.9	21.0	16.2	21.7
Total Tax	3,026	4,100	2,223	3,780
Effective tax rate (%)	27.5	33.7	24.0	27.5
Profit after Tax	7,978	8,081	7,055	9,966
Minority interest	89	71	(25)	9
Share Profit from Associates	-	-	-	-
Adjusted PAT	7,889	8,010	5,257	9,957
YoY gr. (%)	10.9	9.9	45.2	45.1
Margin (%)	13.5	13.8	9.2	15.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,889	8,010	5,257	9,957
YoY gr. (%)	10.9	9.9	45.2	45.1
Margin (%)	13.5	13.8	9.2	15.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,889	8,010	5,257	9,957
Avg. Shares O/s (m)	804	804	804	804
EPS (Rs)	9.8	10.0	8.8	12.4

Source: Company Data, PL Research

Key Financial Metrics

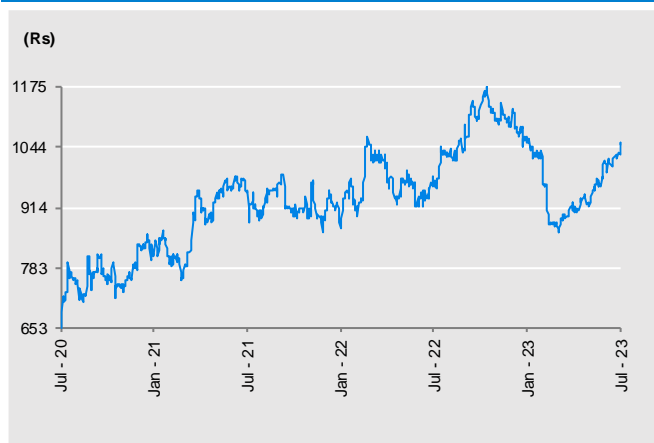
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	31.2	37.0	43.9	50.4
CEPS	44.2	51.5	58.7	66.1
BVPS	258.3	290.0	323.0	361.4
FCF	32.5	26.6	33.4	37.1
DPS	5.3	8.5	9.3	10.2
Return Ratio(%)				
RoCE	16.7	16.7	17.7	18.3
ROIC	14.2	14.0	15.6	17.0
RoE	12.9	13.5	14.3	14.7
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.1)
Net Working Capital (Days)	105	108	105	105
Valuation(x)				
PER	34.3	28.9	24.3	21.2
P/B	4.1	3.7	3.3	3.0
P/CEPS	24.2	20.8	18.2	16.2
EV/EBITDA	18.7	17.0	14.7	12.7
EV/Sales	3.9	3.8	3.3	3.0
Dividend Yield (%)	0.5	0.8	0.9	1.0

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
India Formulations	98,280	98,690	1,10,020	1,22,737
Exports	1,11,729	1,23,159	1,34,614	1,47,130
APIs	7,600	5,680	6,021	6,502

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	1,070	1,021
2	14-May-23	BUY	1,070	937
3	06-Apr-23	BUY	1,070	896
4	01-Mar-23	BUY	1,070	906
5	26-Jan-23	BUY	1,280	1,035
6	06-Jan-23	BUY	1,300	1,088
7	06-Nov-22	BUY	1,300	1,146
8	06-Oct-22	BUY	1,110	1,131
9	01-Aug-22	BUY	1,110	977

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,300	5,283
2	Aster DM Healthcare	BUY	335	311
3	Aurobindo Pharma	BUY	660	761
4	Cipla	BUY	1,070	1,021
5	Divi's Laboratories	Hold	2,700	3,737
6	Dr. Reddy's Laboratories	Reduce	4,500	5,232
7	Eris Lifesciences	BUY	780	706
8	Fortis Healthcare	BUY	365	322
9	Glenmark Pharmaceuticals	Reduce	570	668
10	HealthCare Global Enterprises	BUY	375	326
11	Indoco Remedies	BUY	380	324
12	Ipca Laboratories	Hold	750	760
13	J.B. Chemicals & Pharmaceuticals	BUY	2,450	2,314
14	Krishna Institute of Medical Sciences	BUY	1,660	1,782
15	Lupin	Hold	730	905
16	Max Healthcare Institute	BUY	565	614
17	Narayana Hrudayalaya	BUY	1,100	1,013
18	Sun Pharmaceutical Industries	BUY	1,140	1,043
19	Torrent Pharmaceuticals	BUY	1,900	1,899
20	Zydus Lifesciences	Accumulate	520	588

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

ANALYST CERTIFICATION

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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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