

October 28, 2023

## Q2FY24 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,350		1,220	
Sales (Rs.m)	2,59,463	2,84,453	2,50,655	2,76,370
% Chng.	3.5	2.9		
EBITDA (Rs.m)	59,629	66,003	56,951	64,243
% Chng.	4.7	2.7		
EPS (Rs.)	47.7	53.2	43.9	50.4
% Chng.	8.7	5.5		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	2,27,529	2,59,463	2,84,453	3,08,801
EBITDA (Rs. m)	50,268	59,629	66,003	72,269
Margin (%)	22.1	23.0	23.2	23.4
PAT (Rs. m)	29,841	38,495	42,919	47,373
EPS (Rs.)	37.0	47.7	53.2	58.7
Gr. (%)	18.5	29.0	11.5	10.4
DPS (Rs.)	8.5	9.3	10.2	11.3
Yield (%)	0.7	0.8	0.9	1.0
RoE (%)	13.5	15.5	15.3	15.0
RoCE (%)	16.7	18.9	18.9	18.7
EV/Sales (x)	4.1	3.6	3.2	2.9
EV/EBITDA (x)	18.7	15.6	13.7	12.2
PE (x)	31.8	24.6	22.1	20.0
P/BV (x)	4.0	3.6	3.2	2.8

### Key Data

[CIPLA.BO](#) | [CIPLA IN](#)

52-W High / Low	Rs.1,278 / Rs.852
Sensex / Nifty	63,783 / 19,047
Market Cap	Rs.948bn/ \$ 11,388m
Shares Outstanding	807m
3M Avg. Daily Value	Rs.2572.43m

### Shareholding Pattern (%)

Promoter's	33.46
Foreign	25.74
Domestic Institution	23.90
Public & Others	16.90
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(0.5)	28.5	0.7
Relative	3.1	22.2	(5.6)

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## Another quarter of higher margins and US sales

### Quick Pointers:

- Ramp-up in Lanreotide and strong product demand in bae biz aid US.
- Guidance on margins and US sales further revised upwards.

**We increase our FY24/FY25E EPS estimates by 9%/6%, as we factor in higher US sales and margins. CIPLA's Q2FY24 EBITDA (Rs17.3bn; 26% OPM) was 10% above our estimates, aided by higher GMs (64.9%) and US sales of US\$229mn. We continue to remain positive on key segments growth including India & US given 1) strong traction in respiratory & other portfolios, 2) potential +10% growth in domestic formulations and 3) sustainability of current US revs, backed by prospective key launches in FY25. We expect 17% EPS CAGR over FY23-26E. Maintain 'Buy' rating with revised TP of Rs1,350 based on 24x Sept 2025E EPS. Any further FDA escalation to Indore unit and erosion in key products in US will be key risk to our call.**

- Higher US revenues aided growth:** CIPLA's Q2FY24 sales increased 14.4% YoY (up 5.5% QoQ) to Rs67bn. Domestic formulation sales grew by 10% YoY led by continued performance across portfolio of One-India business. US sales came in at \$229mn, up 3.1% QoQ, higher than our estimates. SAGA delivered double digit growth of 14.5% YoY, whereas International business and API reported YoY decline of 3.8%/3.5% respectively.
- EBITDA beat aided by higher US sales and GM:** GMs were up by 240bps YoY to 64.9%, we estimate 64%. OPM of 26% was above our estimate led by higher US sales and better product mix. Other expenses increased by 9.6% YoY. R&D expenses stood at Rs3.8bn; 5.7% of sales; up 13% YoY driven by continued clinical trials. Depreciation charges include impairment cost to tune of Rs530mn. PAT of Rs11.3bn (up 43% YoY) was above our estimate.
- Key concall takeaways: Domestic formulation:** Continued to report market beating growth with overall contribution from chronic expanding well. During the quarter branded and trade generic business reported ~11% YoY growth while OTC growth was lower due to seasonality. Currently have 22 brands more than Rs1bn in Rx segment, while seven brands more than Rs500mn in trade generic segment. **US business** reported highest quarterly revenue aided by ramp up in gLanreotide and strong demand in base business. Currently CIPLA enjoys 20% market share in Lanreotide vs 18% in Q1FY24. gAlbuterol mkt share has touched 12.9%, 90 bps improvement sequentially. Currently three complex products are undergoing clinical trials with filings targeted in H2FY24 & FY25. Plan is to launch 1 peptide product in Q4FY24 and 3-4 peptide products in FY25. Mgmt cited likely mkt size of Peptide product in range of \$300-400mn. **(3)** gAdvair site transfer process is still going on; Sales from gRevllimid were largely flat QoQ **(4)** Input costs have eased complemented by decline in freight costs, supporting margins. Further Q1FY24 also had some recall cost related to gAlbuterol **(5)** Overall guided 24% OPM for FY24E vs 23% earlier. US quarterly sustainable sales run-rate of \$220-225mn. Capex of Rs15bn in FY24. Net cash stands at Rs59bn as of Q2FY24 end.

**Exhibit 1: 2QFY24 Result Overview (Rs mn) – EBITDA aided by healthy GMs and US sales**

Y/e March	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
<b>Net Sales</b>	<b>66,781</b>	<b>58,285</b>	<b>14.6</b>	<b>63,289</b>	<b>5.5</b>	<b>1,30,070</b>	<b>1,10,772</b>	<b>17.4</b>
Raw Material	23,131	21,602	7.1	22,368	3.4	45,499	41,846	8.7
<i>% of Net Sales</i>	<i>34.6</i>	<i>37.1</i>		<i>35.3</i>		<i>35.0</i>	<i>37.8</i>	
Personnel Cost	10,911	9,608	13.6	10,666	2.3	21,577	19,166	12.6
<i>% of Net Sales</i>	<i>16.3</i>	<i>16.5</i>		<i>16.9</i>		<i>16.6</i>	<i>17.3</i>	
Others	15,402	14,052	9.6	15,316	0.6	30,718	26,569	15.6
<i>% of Net Sales</i>	<i>23.1</i>	<i>24.1</i>		<i>24.2</i>		<i>23.6</i>	<i>24.0</i>	
Total Expenditure	49,444	45,262	9.2	48,350	2.3	97,794	87,581	11.7
<b>EBITDA</b>	<b>17,337</b>	<b>13,023</b>	<b>33.1</b>	<b>14,939</b>	<b>16.1</b>	<b>32,276</b>	<b>23,191</b>	<b>39.2</b>
<i>Margin (%)</i>	<i>26.0</i>	<i>22.3</i>		<i>23.6</i>		<i>24.8</i>	<i>20.9</i>	
Depreciation	2,900	2,994	(3.1)	2,392	21.2	5,293	5,538	(4.4)
<b>EBIT</b>	<b>14,437</b>	<b>10,030</b>	<b>43.9</b>	<b>12,547</b>	<b>15.1</b>	<b>26,984</b>	<b>17,653</b>	<b>52.9</b>
Other Income	1,763	1,230	43.4	1,363	29.4	3,126	3,530	(11.4)
Interest	258	256	1.0	164	57.4	422	434	(2.7)
<b>PBT</b>	<b>15,942</b>	<b>11,004</b>	<b>44.9</b>	<b>13,746</b>	<b>16.0</b>	<b>29,688</b>	<b>20,749</b>	<b>43.1</b>
Extra-Ord. Inc./Exps.	-	-		-		-	-	
Total Taxes	4,384	3,026	44.9	3,780	16.0	8,164	5,706	43.1
<i>ETR (%)</i>	<i>27.5</i>	<i>27.5</i>		<i>27.5</i>		<i>27.5</i>	<i>27.5</i>	
Minority interest	(249)	(89)		(9)		(258)	(290)	
<b>Reported PAT</b>	<b>11,309</b>	<b>7,889</b>	<b>43.4</b>	<b>9,957</b>	<b>13.6</b>	<b>21,266</b>	<b>14,753</b>	<b>44.1</b>

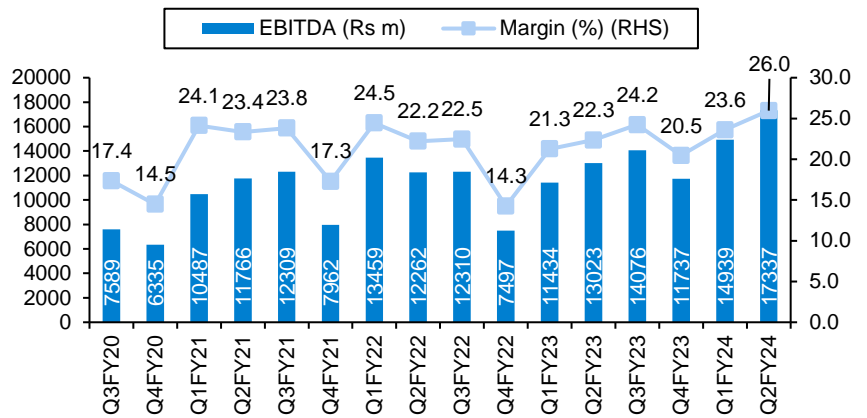
Source: Company, PL

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

Revenue break up (Rs mn)	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Domestic market	28,170	25,630	9.9	27,720	1.6	55,890	50,460	10.8
<i>% of Sales</i>	<i>42.2</i>	<i>44.0</i>		<i>43.8</i>		<i>43.0</i>	<i>45.0</i>	
International market (Exports)	38,610	32,660	18.2	35,560	8.6	74,170	61,590	20.4
<i>% of Sales</i>	<i>57.8</i>	<i>56.0</i>		<i>56.2</i>		<i>57.0</i>	<i>55.0</i>	
North America	18,870	14,320	31.8	18,220	3.6	37,090	26,310	41.0
<i>% of Sales</i>	<i>28.3</i>	<i>24.6</i>		<i>28.8</i>		<i>28.5</i>	<i>23.5</i>	
SAGA	9,930	8,670	14.5	7,480	32.8	17,410	16,550	5.2
<i>% of Sales</i>	<i>14.9</i>	<i>14.9</i>		<i>11.8</i>		<i>13.4</i>	<i>14.8</i>	
International markets	7,340	7,630	(3.8)	7,790	(5.8)	15,130	14,830	2.0
<i>% of Sales</i>	<i>11.0</i>	<i>13.1</i>		<i>12.3</i>		<i>11.6</i>	<i>13.2</i>	
APIs	1,470	1,530	(3.9)	1,360	8.1	2,830	2,880	(1.7)
<i>% of Sales</i>	<i>2.2</i>	<i>2.6</i>		<i>2.1</i>		<i>2.2</i>	<i>2.6</i>	
Others	1,000	510	96.1	710	40.8	1,710	1,020	67.6
<i>% of Sales</i>	<i>1.5</i>	<i>0.9</i>		<i>1.1</i>		<i>1.3</i>	<i>0.9</i>	
<b>Total</b>	<b>66,780</b>	<b>58,290</b>	<b>14.6</b>	<b>63,280</b>	<b>5.5</b>	<b>1,30,060</b>	<b>1,12,050</b>	<b>16.1</b>

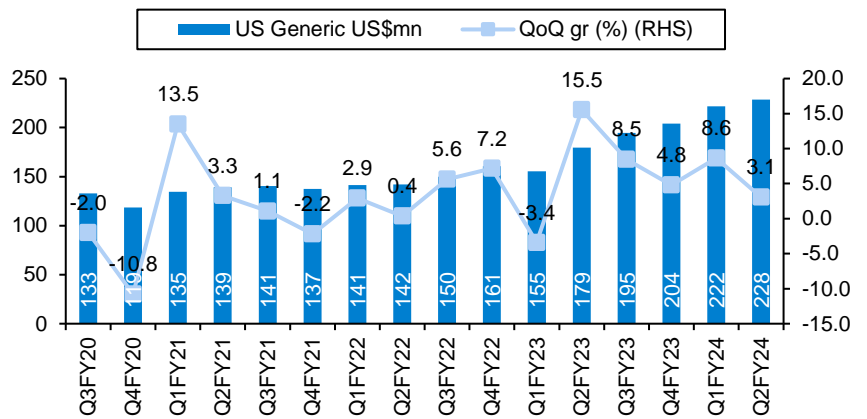
Source: Company, PL

**Exhibit 3: India Formulations (Rx+Gx+CHL): Momentum across segments**



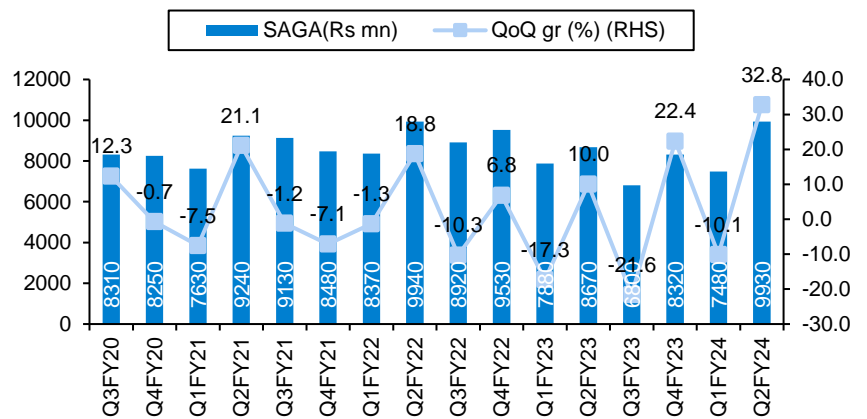
Source: Company, PL

**Exhibit 4: Strong demand + increased “Lanreotide” share aided US growth**



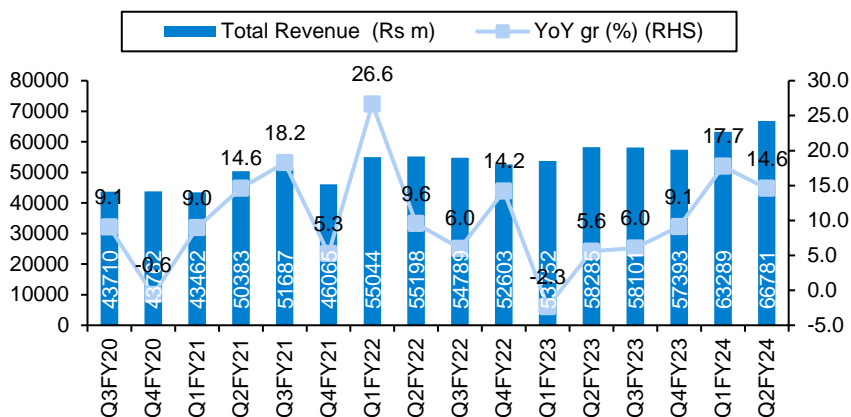
Source: Company, PL

**Exhibit 5: SAGA growth - Private market delivered double digit growth**



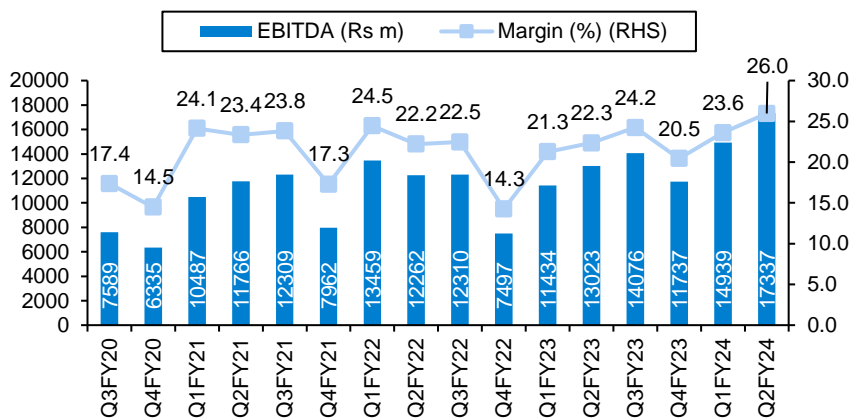
Source: Company, PL

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



Source: Company, PL

**Exhibit 7: Improved product mix and better GMs supported margins YoY**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>2,27,529</b>	<b>2,59,463</b>	<b>2,84,453</b>	<b>3,08,801</b>
YoY gr. (%)	4.5	14.0	9.6	8.6
Cost of Goods Sold	93,619	1,05,555	1,15,919	1,25,197
Gross Profit	1,33,910	1,53,908	1,68,535	1,83,604
Margin (%)	58.9	59.3	59.2	59.5
Employee Cost	34,581	38,922	42,731	46,911
Other Expenses	49,062	55,357	59,801	64,425
<b>EBITDA</b>	<b>50,268</b>	<b>59,629</b>	<b>66,003</b>	<b>72,269</b>
YoY gr. (%)	10.4	18.6	10.7	9.5
Margin (%)	22.1	23.0	23.2	23.4
Depreciation and Amortization	11,721	11,200	11,872	12,584
<b>EBIT</b>	<b>38,547</b>	<b>48,429</b>	<b>54,131</b>	<b>59,685</b>
Margin (%)	16.9	18.7	19.0	19.3
Net Interest	1,095	850	750	460
Other Income	4,755	6,000	6,300	6,600
<b>Profit Before Tax</b>	<b>42,206</b>	<b>53,579</b>	<b>59,681</b>	<b>65,825</b>
Margin (%)	18.5	20.7	21.0	21.3
Total Tax	12,029	14,734	16,412	18,102
Effective tax rate (%)	28.5	27.5	27.5	27.5
<b>Profit after tax</b>	<b>30,177</b>	<b>38,845</b>	<b>43,269</b>	<b>47,723</b>
Minority interest	-	-	-	-
Share Profit from Associate	(336)	(350)	(350)	(350)
<b>Adjusted PAT</b>	<b>29,841</b>	<b>38,495</b>	<b>42,919</b>	<b>47,373</b>
YoY gr. (%)	18.6	29.0	11.5	10.4
Margin (%)	13.1	14.8	15.1	15.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>29,841</b>	<b>38,495</b>	<b>42,919</b>	<b>47,373</b>
YoY gr. (%)	10.6	29.0	11.5	10.4
Margin (%)	13.1	14.8	15.1	15.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	29,841	38,495	42,919	47,373
<b>Equity Shares O/s (m)</b>	<b>807</b>	<b>807</b>	<b>807</b>	<b>807</b>
<b>EPS (Rs)</b>	<b>37.0</b>	<b>47.7</b>	<b>53.2</b>	<b>58.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,45,941</b>	<b>1,60,941</b>	<b>1,75,941</b>	<b>1,90,941</b>
Tangibles	99,173	1,09,366	1,19,559	1,29,752
Intangibles	46,768	51,575	56,382	61,189
<b>Acc: Dep / Amortization</b>	<b>84,773</b>	<b>95,973</b>	<b>1,07,845</b>	<b>1,20,430</b>
Tangibles	48,722	55,159	61,982	69,214
Intangibles	36,052	40,815	45,864	51,215
<b>Net fixed assets</b>	<b>61,168</b>	<b>64,968</b>	<b>68,096</b>	<b>70,512</b>
Tangibles	50,451	54,207	57,577	60,538
Intangibles	10,717	10,760	10,519	9,974
Capital Work In Progress	10,933	10,933	10,933	10,933
Goodwill	29,839	29,839	29,839	29,839
Non-Current Investments	37,222	37,222	37,222	37,222
Net Deferred tax assets	2,933	2,933	2,913	2,893
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	51,564	59,001	66,243	71,913
Trade receivables	40,570	48,338	50,656	54,992
Cash & Bank Balance	15,646	26,647	46,299	69,520
Other Current Assets	43,049	45,202	47,462	49,835
<b>Total Assets</b>	<b>2,90,067</b>	<b>3,22,226</b>	<b>3,56,825</b>	<b>3,94,841</b>
<b>Equity</b>				
Equity Share Capital	1,614	1,614	1,614	1,614
Other Equity	2,32,464	2,62,165	2,95,410	3,32,142
<b>Total Networkth</b>	<b>2,34,078</b>	<b>2,63,779</b>	<b>2,97,024</b>	<b>3,33,757</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	2,088	1,088	1,088	1,088
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	5,943	5,443	3,943	2,443
Trade payables	24,571	28,434	31,173	33,841
Other current liabilities	23,263	23,357	23,451	23,547
<b>Total Equity &amp; Liabilities</b>	<b>2,90,067</b>	<b>3,22,226</b>	<b>3,56,825</b>	<b>3,94,841</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	42,206	53,579	59,681	65,825
Add. Depreciation	11,721	11,200	11,872	12,584
Add. Interest	1,095	850	750	460
Less Financial Other Income	4,755	6,000	6,300	6,600
Add. Other	(3,133)	-	-	-
Op. profit before WC changes	51,889	65,629	72,303	78,869
Net Changes-WC	(5,594)	(13,400)	(8,986)	(9,615)
Direct tax	(13,019)	(14,734)	(16,412)	(18,102)
<b>Net cash from Op. activities</b>	<b>33,276</b>	<b>37,495</b>	<b>46,905</b>	<b>51,152</b>
Capital expenditures	(11,829)	(15,000)	(15,000)	(15,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(11,829)</b>	<b>(15,000)</b>	<b>(15,000)</b>	<b>(15,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(3,519)	(1,500)	(1,500)	(1,500)
Dividend paid	(4,035)	(8,794)	(9,673)	(10,641)
Interest paid	(1,095)	(850)	(750)	(460)
Others	(16,436)	(350)	(330)	(330)
<b>Net cash from Fin. activities</b>	<b>(25,086)</b>	<b>(11,494)</b>	<b>(12,253)</b>	<b>(12,930)</b>
<b>Net change in cash</b>	<b>(3,639)</b>	<b>11,001</b>	<b>19,651</b>	<b>23,222</b>
Free Cash Flow	21,447	22,495	31,905	36,152

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Net Revenue</b>	<b>58,101</b>	<b>57,393</b>	<b>63,289</b>	<b>66,781</b>
YoY gr. (%)	6.0	9.1	17.7	14.6
Raw Material Expenses	20,043	20,634	22,368	23,131
Gross Profit	38,058	36,759	40,921	43,650
Margin (%)	65.5	64.0	64.7	65.4
<b>EBITDA</b>	<b>14,076</b>	<b>11,737</b>	<b>14,939</b>	<b>17,337</b>
YoY gr. (%)	14.3	56.6	30.7	33.1
Margin (%)	24.2	20.5	23.6	26.0
Depreciation / Depletion	2,721	3,462	2,392	2,900
<b>EBIT</b>	<b>11,354</b>	<b>8,275</b>	<b>12,547</b>	<b>14,437</b>
Margin (%)	19.5	14.4	19.8	21.6
Net Interest	318	344	164	258
Other Income	1,144	1,346	1,363	1,763
<b>Profit before Tax</b>	<b>12,181</b>	<b>9,278</b>	<b>13,746</b>	<b>15,942</b>
Margin (%)	21.0	16.2	21.7	23.9
Total Tax	4,100	2,223	3,780	4,384
Effective tax rate (%)	33.7	24.0	27.5	27.5
<b>Profit after Tax</b>	<b>8,081</b>	<b>7,055</b>	<b>9,966</b>	<b>11,558</b>
Minority interest	71	(25)	9	249
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>8,010</b>	<b>5,257</b>	<b>9,957</b>	<b>11,309</b>
YoY gr. (%)	9.9	45.2	45.1	43.4
Margin (%)	13.8	9.2	15.7	16.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>8,010</b>	<b>5,257</b>	<b>9,957</b>	<b>11,309</b>
YoY gr. (%)	9.9	45.2	45.1	43.4
Margin (%)	13.8	9.2	15.7	16.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>8,010</b>	<b>5,257</b>	<b>9,957</b>	<b>11,309</b>
Avg. Shares O/s (m)	804	804	804	804
<b>EPS (Rs)</b>	<b>10.0</b>	<b>8.8</b>	<b>12.4</b>	<b>14.1</b>

Source: Company Data, PL Research

**Key Financial Metrics**

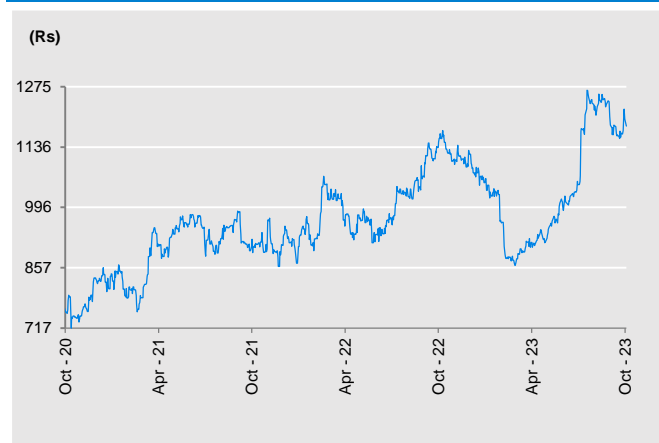
Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	37.0	47.7	53.2	58.7
CEPS	51.5	61.6	67.9	74.3
BVPS	290.0	326.8	368.0	413.5
FCF	26.6	27.9	39.5	44.8
DPS	8.5	9.3	10.2	11.3
<b>Return Ratio(%)</b>				
RoCE	16.7	18.9	18.9	18.7
ROIC	14.0	16.4	17.4	18.3
RoE	13.5	15.5	15.3	15.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	108	111	110	110
<b>Valuation(x)</b>				
PER	31.8	24.6	22.1	20.0
P/B	4.0	3.6	3.2	2.8
P/CEPS	22.8	19.1	17.3	15.8
EV/EBITDA	18.7	15.6	13.7	12.2
EV/Sales	4.1	3.6	3.2	2.9
Dividend Yield (%)	0.7	0.8	0.9	1.0

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY23	FY24E	FY25E	FY26E
India Formulations	98,690	1,10,357	1,23,111	1,37,443
Exports	1,23,159	1,43,426	1,55,208	1,64,732
APIs	5,680	5,680	6,134	6,625

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	BUY	1,220	1,163
2	26-Jul-23	BUY	1,220	1,069
3	06-Jul-23	BUY	1,070	1,021
4	14-May-23	BUY	1,070	937
5	06-Apr-23	BUY	1,070	896
6	01-Mar-23	BUY	1,070	906
7	26-Jan-23	BUY	1,280	1,035
8	06-Jan-23	BUY	1,300	1,088
9	06-Nov-22	BUY	1,300	1,146

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,800	5,060
2	Aster DM Healthcare	BUY	345	327
3	Aurobindo Pharma	Accumulate	900	901
4	Cipla	BUY	1,220	1,163
5	Divi's Laboratories	Reduce	3,000	3,722
6	Dr. Reddy's Laboratories	Reduce	5,150	5,425
7	Eris Lifesciences	BUY	910	900
8	Fortis Healthcare	BUY	365	328
9	Glenmark Pharmaceuticals	Reduce	570	794
10	HealthCare Global Enterprises	BUY	385	361
11	Indoco Remedies	BUY	385	350
12	Ipca Laboratories	Hold	880	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,500	1,500
14	Krishna Institute of Medical Sciences	BUY	2,000	1,918
15	Lupin	Hold	1,010	1,155
16	Max Healthcare Institute	BUY	610	561
17	Narayana Hrudayalaya	BUY	1,110	1,092
18	Sun Pharmaceutical Industries	BUY	1,265	1,127
19	Sunteck Realty	BUY	565	436
20	Torrent Pharmaceuticals	BUY	2,250	1,877
21	Zydus Lifesciences	Accumulate	650	604

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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