

28 October 2023

India | Equity Research | Q2FY24 results review

## Cipla

Pharma

### Core business growth lifts margin to newer highs

Cipla continues to surprise us positively. Q2FY24 growth was led by core markets of India (up 10% YoY), US (~4% QoQ) and South Africa (15% YoY). Price hikes in key markets and softer RM cost aided 243bps YoY rise in gross margin to 65.4%. Operating leverage further lifted EBITDA margin by 362bps YoY to a record 26%. We expect Cipla's US business to clock 24% CAGR over FY23-25E aided by the launch of gAbraxane, gAdvair, peptide and complex generics. In India, MR addition in branded generics and strong position in trade generics may drive 10% CAGR over FY23-25E. Management has again raised FY24 margin guidance by 50bps to 23-23.5%. We raise our FY24E/25E EPS by 4.9% and 5.6%, respectively. We maintain **BUY** rating on the stock but raise target price to INR 1,365, valuing the company at 23x FY25E earnings.

### Strong beat on all fronts

Revenue grew 14.6% YoY to INR 66.8bn (l-sec: INR 64.9bn) driven by strong traction in US, India and South Africa. Gross margin expanded 243bps YoY (+71bps QoQ) led by improvement in product mix and softening of RM cost. EBITDA margin expanded 362bps YoY to 26% (l-Sec: 22.6%) led by operating leverage and cost optimisation. Adjusted PAT was up 43.4% YoY to INR 11.3bn (l-sec: INR 9.6bn).

### FY24 margin guidance raised by 50bps to 23-23.5%

Revenue from India grew 9.9% YoY to INR 28.2bn. Branded business grew at 11.3% and trade generics in double digit. Consumer business had a muted quarter due to weak season. Strong traction in chronic therapies (60% of India business) and presence in high growth areas of trade generics and consumer health should aid 10% growth in India revenue over FY23-25E. US continues to touch newer highs; revenue was up 3.6% QoQ to USD 229mn, driven by market share gains in Lanreotide and volume growth in base portfolio. gRevlimid sales were flattish QoQ. US business is likely to clock revenue of USD 220-225mn in Q3FY24. Favourable macro environment and attractive product pipeline (70-75% pipeline consists of high-margin differentiated products) may ensure a CAGR of 24% in Cipla's US business over FY23-25E to USD 1.1bn. South Africa (including Global Access) business reverted to growth track and grew 14.5% YoY (-10.1% QoQ) to INR 9.9bn. API and International market revenue declined 3.9%/ 3.8% YoY respectively.

### Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	2,17,633	2,27,531	2,61,540	2,94,271
EBITDA	45,528	50,270	63,081	74,810
EBITDA Margin (%)	20.9	22.1	24.1	25.4
Net Profit	25,168	28,020	39,628	47,672
EPS (Rs)	31.3	34.8	49.2	59.2
EPS % Chg YoY	4.7	11.3	41.4	20.3
P/E (x)	37.6	33.7	23.9	19.8
EV/EBITDA (x)	20.0	17.9	13.7	11.2
RoCE (%)	12.2	11.7	14.4	15.2
RoE (%)	12.7	12.5	15.6	16.3

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### Market Data

Market Cap (INR)	948bn
Market Cap (USD)	11,389mn
Bloomberg Code	CIPLA IN
Reuters Code	CIPL.BO
52-week Range (INR)	1,278 /852
Free Float (%)	66.0
ADTV-3M (mn) (USD)	30.9

Price Performance (%)	3m	6m	12m
Absolute	0.2	29.5	1.5
Relative to Sensex	3.6	23.2	(6.6)

ESG Disclosure	2021	2022	Change
ESG score	64.3	63.6	(0.7)
Environment	44.9	43.2	(1.7)
Social	56.7	56.5	(0.2)
Governance	91.1	91.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, l-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	3.4	3.7
EBITDA	4.3	4.8
EPS	4.9	5.6

### Previous Reports

27-07-2023: [Q1FY24 results review](#)

15-05-2023: [Re-initiating coverage](#)

## Valuations and risks

Cipla's performance has surprised us positively for the last couple of quarters. Outperformance was largely driven by better traction in US business and double digit growth in India in H1FY24. Cipla continues to have a strong pipeline in the US with key launches like gAbraxane, gAdvair, peptide and complex generics lined up in the near term. In India, the company has added MRs and is launching new products across the three segments to drive market-beating growth. Growth across core markets of India, US and South Africa has also improved its EBITDA margin by 300bps in H1 and hence, the management has raised FY24 margin guidance for two consecutive quarters. Margin-accretive launches in US and better traction in India and South Africa may further elevate EBITDA margin to ~25.4% by FY25E.

We increase our revenue estimates by ~3-4% for FY24E/25E to factor in the healthy US business growth. We also raise our EPS estimates by 5-6% over the same period led by improvement in margins and cost efficiencies. Better performance in key geographies of US and India may aid a revenue CAGR of 13.7% over FY23-25E while EBITDA and PAT may grow at 22%/27.6% over FY23-25E. At CMP of INR 1,174, the stock currently trades at valuations of 23.9x FY24E and 19.9x FY25E earnings and EV/EBITDA multiples of 13.8x FY24E and 11.3x FY25E. We retain **BUY** rating on the stock with higher target price of INR 1,365 (from INR 1,300), valuing the company at 23x FY25E EPS of INR 59. **Key risks:** Incremental competition in niche products, delay in facility resolution.

## Q2FY24 concall highlights

### India

- Branded generics business grew faster than market at 11.3% despite weaker acute sales. Chronic share in sales mix increased by 100bps to 60%.
- Trade generics business posted a strong growth aided by better volumes.
- Cipla has 7 brands in trade generics segment with sales of over INR 500mn.
- In H1FY24, it has launched 26 new products in trade generics.
- Sales benefit from acquired brand was offset by discontinuation of a tender business.

### US

- gRevlimid sales were similar to Q1FY24.
- Cipla's market share in Albuterol has improved to 12.9% and in Lanreotide its market share has improved to ~20%.
- It is running clinical trials for three complex products, filings of these are targeted in FY24 and FY25. It has completed the trial of gSymbicort and will be filed in the US in Q3FY24; it also has a para-4 filing which is moving on track.
- The company plans to launch 1 peptide product in FY24 (current market size of USD 300-400mn) and 3-4 more will be launched in FY25.
- Site transfer for gAdvair and gAbraxane is ongoing and is on expected lines. These products are likely to be launched in the US in FY25.
- Cipla has initiated CAPA for Indore; for Goa CAPA has been completed and it will be approaching FDA for a re-inspection.
- 70-75% of current US pipeline includes differentiated products. These products may have EBITDA margins above company-level margins.

- Market share in leuprolide stands at 1%; the company is working on scaling up its market share in this product.

#### **SAGA**

- Private market recorded highest-ever quarterly primary revenue of ~ZAR 1.2bn, up 12% YoY in constant currency.
- Key brands in South Africa like Broncol has touched revenue of ZAR 100mn while Coryx is set to be the next brand to achieve annual revenue of ZAR 100mn.
- Management is working on raising margins in South Africa business to company-level margins.

#### **Guidance**

- Likely to maintain the momentum in revenue growth in H2FY24.
- Management has raised FY24 EBITDA margin guidance to 23-23.5% (earlier guidance of 23%).
- Quarterly run-rate in US will be between USD 220-225mn (earlier USD 210-215mn) for Q3FY24 and may go down a bit in Q4FY24. Revised guidance is on the back of recent improvement in market share in Albuterol and Lanreotide.
- gRevlimid sales in H2FY24 will be identical to H1FY24.

#### **Q2FY24 performance**

- Gross margin improvement was driven by double-digit growth in India and South Africa, price hikes in key markets and lower material cost.
- Sequential improvement in margins is also because of recall cost of albuterol in Q1FY24.
- Sustainable EBITDA margin for Q2FY24 was in the range of 24-25%.
- Depreciation charge includes an impairment charge of INR 530mn for a domestic plant and a US-based acquired product.
- At the end of Q2FY24, it had cash balance of INR 68.1bn and debt of INR 9.6bn (net cash at INR 58.5bn).
- US business margins have improved in the last couple of quarters led by ongoing product shortages.
- Sea freight cost has reduced by 60-70% YoY.
- PLI incentive has increased vs Q1FY24 and is a part of other operating income.

### Exhibit 1: Q2FY24 result review

Y/E Mar (INR mn)	Q2FY24	Q2FY23	YoY(%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY(%)
Net Sales	66,782	58,285	14.6	63,289	5.5	1,30,070	1,12,037	16.1
Gross Profit	43,651	36,684	19.0	40,921	6.7	84,571	70,191	20.5
Gross Margins (%)	65.4	62.9	242.5	64.7	70.6	65.0	62.6	237.0
EBITDA	17,338	13,023	33.1	14,939	16.1	32,277	24,457	32.0
EBITDA Margins (%)	26.0	22.3	361.8	23.6	235.7	24.8	21.8	298.6
Other Income	1,763	1,230	43.4	1,363	29.4	3,126	2,264	38.1
Interest	258	256	1.0	164	57.4	422	434	(2.7)
Depreciation	2,900	2,994	(3.1)	2,392	21.2	5,293	5,538	(4.4)
PBT	15,942	11,004	44.9	13,746	16.0	29,688	20,749	43.1
Tax	4,384	3,026	44.9	3,780	16.0	8,164	5,706	43.1
Tax Rate (%)	27.5	27.5	(0.0)	27.5	(0.1)	27.5	27.5	0.0
PAT	11,558	7,978	44.9	9,966	16.0	21,524	15,043	43.1
Minority Interest	(249)	(89)	181.2	(9)	2,730.7	(258)	(290)	(11.1)
Adjusted Net Income	11,309	7,889	43.4	9,957	13.6	21,266	14,753	44.1
NPM (%)	16.9	13.5	339.9	15.7	120.2	16.3	13.2	318.2

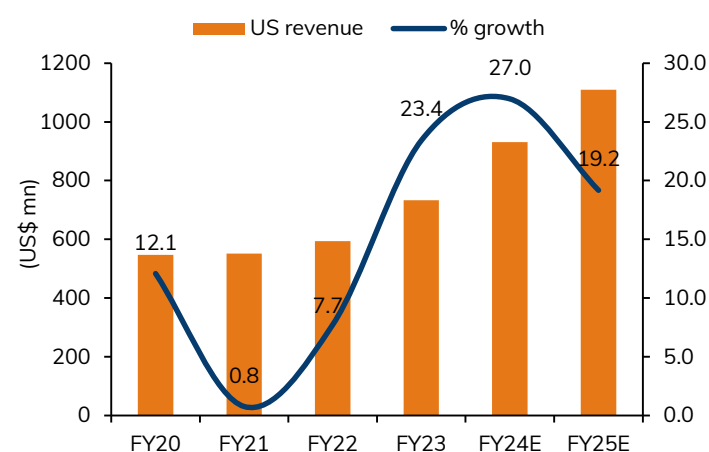
Source: I-Sec research, Company data

### Exhibit 2: Segmental breakup

INR mn	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	% YoY	% QoQ
Domestic business	24,160	25,180	21,830	24,830	25,630	25,630	22,590	27,720	28,170	9.9	1.6
Exports	28,700	27,540	28,940	27,070	30,620	30,420	32,930	33,490	36,140	18.0	7.9
North America	10,550	11,240	12,090	11,990	14,320	16,000	16,770	18,220	18,870	31.8	3.6
SAGA	9,940	8,920	9,530	7,880	8,670	6,800	8,320	7,480	9,930	14.5	32.8
International markets	8,210	7,380	7,320	7,200	7,630	7,620	7,840	7,790	7,340	(3.8)	(5.8)
API	1,720	1,500	1,370	1,350	1,530	1,470	1,330	1,360	1,470	(3.9)	8.1
Others	620	560	460	510	510	580	530	710	1,000	96.1	40.8
<b>Total</b>	<b>55,200</b>	<b>54,780</b>	<b>52,600</b>	<b>53,760</b>	<b>58,290</b>	<b>58,100</b>	<b>57,380</b>	<b>63,280</b>	<b>66,780</b>	<b>14.6</b>	<b>5.5</b>

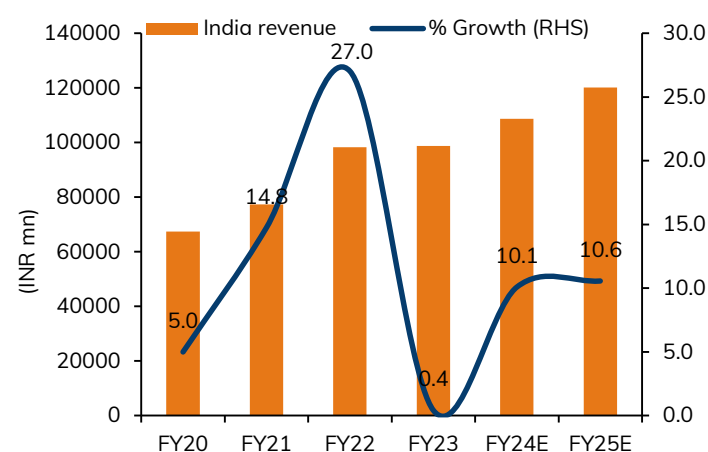
Source: I-Sec research, Company data

### Exhibit 3: Advair and complex launches to aid growth in the US



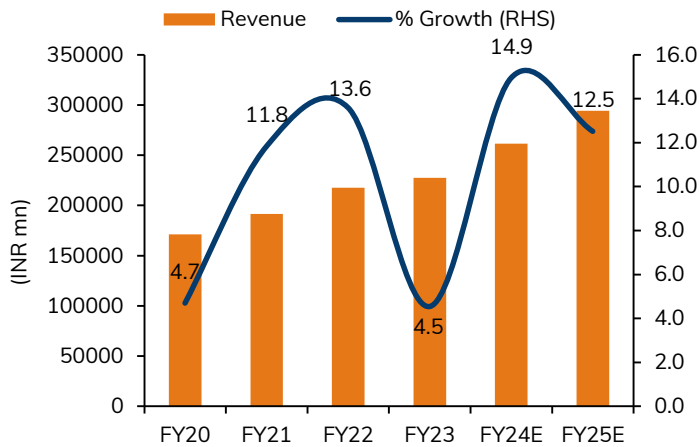
Source: Company data, I-Sec research

### Exhibit 4: India revenue to be driven by healthy volume and price-led growth



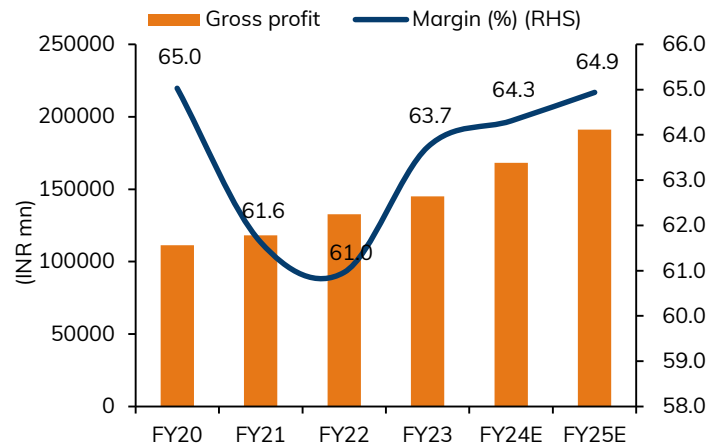
Source: Company data, I-Sec research

**Exhibit 5: Revenue to grow at 13.7% CAGR over FY23-FY25E**



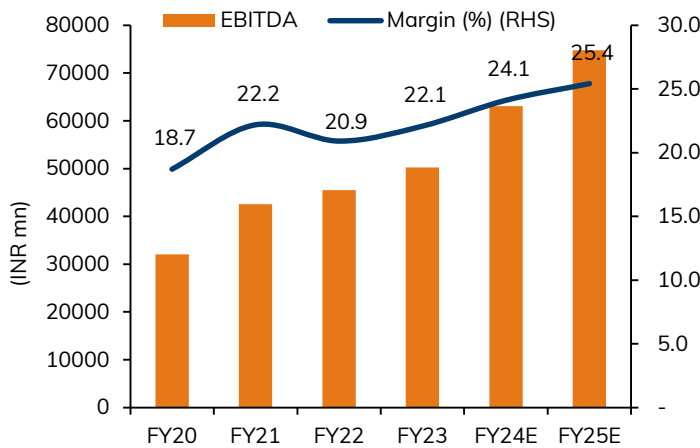
Source: Company data, I-Sec research

**Exhibit 6: Gross margin to get a boost from launches in US and price hikes in India**



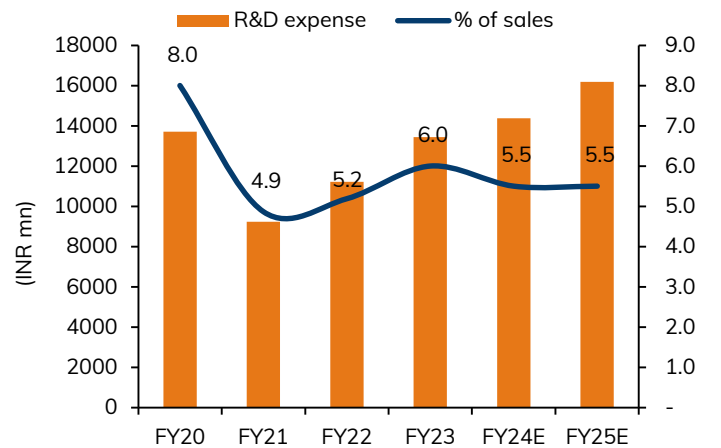
Source: Company data, I-Sec research

**Exhibit 7: EBITDA margin to expand 330bps with controlled costs and healthy domestic growth**



Source: Company data, I-Sec research

**Exhibit 8: R&D to remain at ~6% in FY25E**



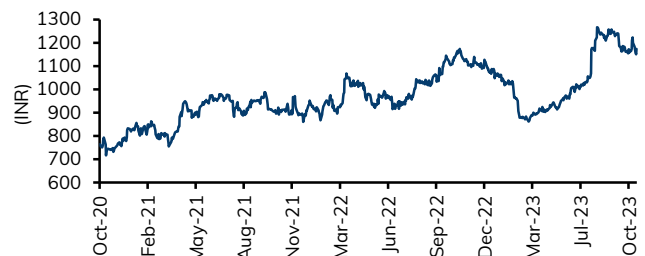
Source: Company data, I-Sec research

**Exhibit 9: Shareholding pattern**

%	Mar'23	Jun'23	Sep'23
Promoters	33.6	33.5	33.5
Institutional investors	49.5	49.8	45.0
MFs and others	15.0	15.4	16.5
Insurance Cos	6.7	6.3	5.3
FIIIs	27.8	28.1	28.2
Others	16.9	16.7	16.5

Source: Bloomberg, I-Sec research

**Exhibit 10: Price chart**



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	2,17,633	2,27,531	2,61,540	2,94,271
<b>Operating Expenses</b>	<b>87,150</b>	<b>94,739</b>	<b>1,05,109</b>	<b>1,16,280</b>
EBITDA	45,528	50,270	63,081	74,810
<b>EBITDA Margin (%)</b>	<b>20.9</b>	<b>22.1</b>	<b>24.1</b>	<b>25.4</b>
Depreciation & Amortization	10,520	11,721	11,055	11,955
EBIT	35,008	38,549	52,026	62,855
Interest expenditure	1,064	1,095	1,095	1,095
Other Non-operating Income	2,809	4,755	4,576	4,918
Recurring PBT	34,933	40,384	55,506	66,678
<b>Profit / (Loss) from Associates</b>	<b>(128)</b>	<b>(26)</b>	<b>(26)</b>	<b>(26)</b>
<b>Less: Taxes</b>	<b>9,338</b>	<b>12,029</b>	<b>15,542</b>	<b>18,670</b>
PAT	25,595	28,356	39,964	48,008
Less: Minority Interest	(299)	(310)	(310)	(310)
Extraordinaries (Net)	(1,334)	(1,281)	-	-
Net Income (Reported)	25,168	28,020	39,628	47,672
<b>Net Income (Adjusted)</b>	<b>25,168</b>	<b>28,020</b>	<b>39,628</b>	<b>47,672</b>

Source Company data, I-Sec research

### Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	1,25,326	1,41,851	1,73,402	2,16,775
of which cash & cash eqv.	19,285	15,646	47,283	75,895
Total Current Liabilities & Provisions	45,053	45,893	47,063	50,329
<b>Net Current Assets</b>	<b>80,273</b>	<b>95,958</b>	<b>1,26,339</b>	<b>1,66,447</b>
Investments	26,120	37,222	37,222	37,222
Net Fixed Assets	51,644	49,908	47,403	48,465
ROU Assets	-	-	-	-
Capital Work-in-Progress	7,662	10,933	10,933	10,933
Total Intangible Assets	44,575	41,099	43,376	42,359
Other assets	2,189	2,582	2,582	2,582
Deferred Tax assests	4,488	4,565	4,565	4,565
<b>Total Assets</b>	<b>2,25,958</b>	<b>2,48,740</b>	<b>2,83,315</b>	<b>3,24,830</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>8,241</b>	<b>5,204</b>	<b>5,204</b>	<b>5,204</b>
<b>Deferred Tax Liability</b>	<b>2,440</b>	<b>1,633</b>	<b>1,633</b>	<b>1,633</b>
provisions	1,002	1,022	1,212	1,364
other Liabilities	3,101	3,746	3,746	3,746
Equity Share Capital	1,614	1,614	1,614	1,614
Reserves & Surplus	2,06,803	2,32,464	2,66,848	3,08,212
<b>Total Net Worth</b>	<b>2,08,417</b>	<b>2,34,078</b>	<b>2,68,462</b>	<b>3,09,826</b>
Minority Interest	2,757	3,058	3,058	3,058
<b>Total Liabilities</b>	<b>2,25,958</b>	<b>2,48,740</b>	<b>2,83,315</b>	<b>3,24,830</b>

Source Company data, I-Sec research

### Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>23,683</b>	<b>27,878</b>	<b>54,418</b>	<b>54,207</b>
Working Capital Changes	12,988	16,518	2,976	12,706
Capital Commitments	10,774	9,780	10,828	12,000
<b>Free Cashflow</b>	<b>12,909</b>	<b>18,098</b>	<b>43,590</b>	<b>42,207</b>
<b>Other investing cashflow</b>	<b>(914)</b>	<b>8,949</b>	-	-
Cashflow from Investing Activities	(9,860)	(18,729)	(10,828)	(12,000)
Issue of Share Capital	1	1	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(7,133)	(3,038)	-	-
Dividend paid	(3,182)	(3,330)	(3,708)	(5,244)
Others	1,764	(6,420)	(8,246)	(8,351)
Cash flow from Financing Activities	(8,551)	(12,788)	(11,954)	(13,595)
<b>Chg. in Cash &amp; Bank balance</b>	<b>5,273</b>	<b>(3,639)</b>	<b>31,636</b>	<b>28,613</b>
Closing cash & balance	19,285	15,646	47,283	75,895

Source Company data, I-Sec research

### Exhibit 14: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	31.3	34.8	49.2	59.2
Adjusted EPS (Diluted)	31.3	34.8	49.2	59.2
Cash EPS	44.3	49.4	62.9	74.1
Dividend per share (DPS)	4.1	4.6	6.5	7.8
Book Value per share (BV)	258.9	290.7	333.4	384.8
Dividend Payout (%)	13.2	13.2	13.2	13.2
<b>Growth (%)</b>				
Net Sales	13.6	4.5	14.9	12.5
EBITDA	7.1	10.4	25.5	18.6
EPS (INR)	4.7	11.3	41.4	20.3
<b>Valuation Ratios (x)</b>				
P/E	37.6	33.7	23.9	19.8
P/CEPS	26.5	23.8	18.7	15.9
P/BV	4.5	4.0	3.5	3.1
EV / EBITDA	20.0	17.9	13.7	11.2
P / Sales	4.3	4.2	3.6	3.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	61.0	63.7	64.3	64.9
EBITDA Margins (%)	20.9	22.1	24.1	25.4
Effective Tax Rate (%)	26.7	29.8	28.0	28.0
Net Profit Margins (%)	11.6	12.3	15.2	16.2
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(0.8)	(0.9)	(1.3)	(1.4)
<b>Profitability Ratios</b>				
RoCE (%)	12.2	11.7	14.4	15.2
RoE (%)	12.7	12.5	15.6	16.3
RoC (%)	15.4	14.9	19.6	22.8
Fixed Asset Turnover (x)	4.3	4.5	5.3	6.1
Inventory Turnover Days	101	89	98	98
Receivables Days	65	70	63	64
Payables Days	47	42	39	38

Source Company data, I-Sec research

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