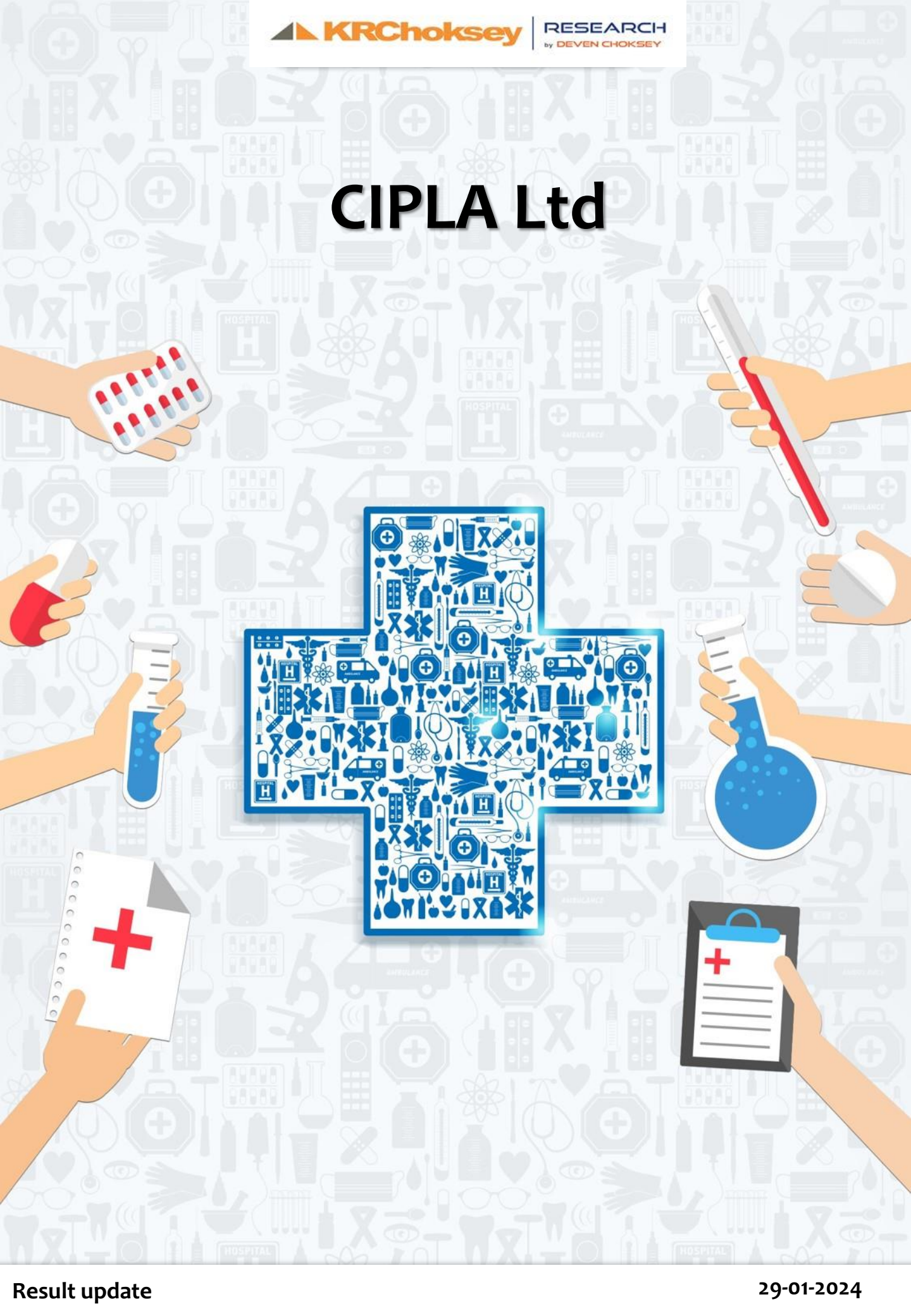


CIPLA Ltd



Cipla Ltd.

Improving products mix in the US, India and SAGA to drive growth

CMP INR 1,370	Target INR 1,592	Potential Upside 16.2%	Market Cap (INR Mn) INR 11,09,955	Recommendation BUY	Sector Pharmaceuticals
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Result Highlights of Q3FY24:

- Cipla clocked in 13.7% Y-o-Y (-1.1% Q-o-Q) rise in revenue (vs. our estimate of Rs. 65,055 Mn, a beat of 2.5%) It was driven by stronger than anticipated growth in North America revenue, which grew at 19.8% Y-o-Y (+1.5% Q-o-Q) to Rs. 19,160 Mn (vs. our estimate of Rs. 17,920 Mn, a beat of 7%), SAGA growing at 19.9% Y-o-Y (-17.9% Q-o-Q) to Rs. 8,150 Mn (vs. our estimate of Rs. 7,820 Mn, a beat of 4%), and India market recording 11.5% Y-o-Y (+1.5% Q-o-Q) growth in revenue to Rs. 28,590 (vs. our estimate of Rs. 28,193 Mn, in line, with a beat of 1%)
- North America's has seen 15th consecutive quarter of a growth on a Y-o-Y basis driven by peptide product like Lanreotide injection (under 505 (b)(2) filing, as an NDA) gaining market share, its existing respiratory assets performing and contribution from Lenalidomide's sales.
- The net income (reported) increased at 31.8% Y-o-Y (-6.6% Q-o-Q) to Rs. 10,559 (vs. our estimate of Rs. 10,521 Mn) while adjusted net income increased at 44.6% Y-o-Y (-1.0% Q-o-Q) to Rs. 11,580 Mn for Q3FY24 (a beat of 10.0%)

MARKET DATA

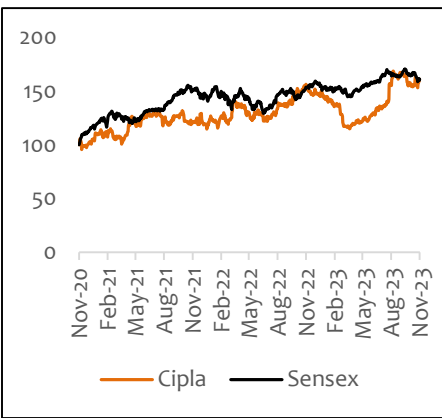
Shares outs (Mn)	807
Equity Cap (INR Mn)	2,48,253
Mkt Cap (INR Mn)	11,09,955
52 Wk H/L (INR)	1,278/852
Volume Avg (3m K)	1,816
Face Value (INR)	2
Bloomberg Code	CIPLA IN

KEY FINANCIALS

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
Revenue	2,17,633	2,27,531	2,60,963	2,82,776	3,00,799
EBITDA	45,528	50,270	63,533	71,584	78,279
PAT	26,989	26,505	42,541	46,803	51,331
EPS (INR)	33.5	32.9	52.8	58.0	63.7
EBITDA Margin	20.9%	22.1%	24.3%	25.3%	26.0%
NPM	12.4%	11.6%	16.3%	16.6%	17.1%
P/E	40.9	41.7	26.0	23.6	21.5

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

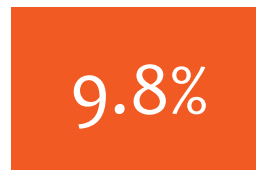
SENSEX	64,080
NIFTY	19,133

Strong growth across segments helped in strong revenue growth in Q3FY24: Cipla clocked in 13.7% Y-o-Y (-1.1% Q-o-Q) rise in revenue (vs. our estimate of Rs. 65,055 Mn) It was driven by stronger than anticipated growth in North America revenue (29% of revenue), which grew at 19.8% Y-o-Y (+1.5% Q-o-Q) to Rs. 19,160 Mn (vs. our estimate of Rs. 17,920 Mn), South Africa and Global Access (SAGA) business growing at 19.9% Y-o-Y (-17.9% Q-o-Q) to Rs. 8,150 Mn (vs. our estimate of Rs. 7,820 Mn), and India market recording 11.5% Y-o-Y (+1.5% Q-o-Q) growth in revenue to Rs. 28,590 (vs. our estimate of Rs. 28,193 Mn) North America's has seen 15th consecutive quarter of growth on a Y-o-Y basis on the back of its peptide product Lanreotide injection (under 505 (b)(2) filing as an NDA), its existing respiratory assets performing and contribution from Lenalidomide sales. The company's market share for Lanreotide injection has increased considerably from 1.9% in Q4FY22 – 20.0% in Q3FY24 in the US. The market share for Lanreotide is expected to grow gradually in the future. Additionally, seasonal trend towards respiratory products also benefited North America revenue in Q3FY24. India business (44% of revenue) growth was driven by improved mix towards chronic sales. The company continues to outperform India Pharma Market (IPM) in respiratory, cardiac, and urology therapy areas. New product launches is also helping the company to drive India growth. Consumer Health now contributes 8.0% of total revenue for 9MFY24 vs. 8.5% it was in 9MFY23. SAGA market (12% of revenue) growth was driven by market beating growth in Rx and OTC segments, leading to increased market share.

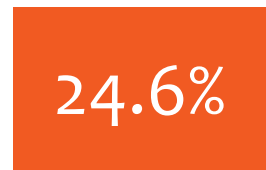
Favorable product mix continues to expand profitability: The company's GPM rose by 89 bps Y-o-Y (+103 bps Q-o-Q) to 66.4% in Q3FY24 in line with the improved products mix. Similarly, the EBITDA margins expanded by 224 bps Y-o-Y (+50 bps Q-o-Q) to 26.5% (vs. our estimate of 24.2%) in Q3FY24. The net income, reported, increased at 31.8% Y-o-Y (-6.6% Q-o-Q) to Rs. 10,559 (vs. our estimate of Rs. 10,521 Mn) while adjusted net income increased at 44.6% Y-o-Y (-1.0% Q-o-Q) to Rs. 11,580 Mn for Q3FY24 (a beat of 10.0%).

SHARE HOLDING PATTERN (%)

Particulars	Sep-23 (%)	Jun-23(%)	Mar-23(%)
Promoters	33.5%	33.5%	33.6%
FIIIs	25.7	25.5%	27.4%
DIIs	24.2	24.3%	22.1%
Others	16.60	16.7%	16.8%
Total	100%	100%	100%



Revenue CAGR between FY23 and FY26E



Adj. PAT CAGR between FY23 and FY26E

Cipla Ltd.

Key Concall Highlights:

- **Revenue growth:** The company continued to clock in solid revenue growth across its flagship segments of India and North America and also improved its operating margins. It was a seasonally strong quarter for the company.
- **Financial highlights and guidance:** The numbers reflect divestment of Quality Chemicals Industries Ltd. (QCIL) in Q3FY24. Growth was witnessed across flagship businesses of India, North America and SAGA while EBITDA margin increased due to favorable products mix, pricing increases taken for its branded and generic products, and easing of cost inflation. Other operating expenses were flat Q-o-Q. R&D investments were at Rs. 4,000 Mn, which stood at 6.1% of sales, up 10% Y-o-Y in Q3FY24 driven by product filing and development efforts. Exceptional expenses include impairments of intangibles assets and winding down cost of Pulmazole that it was developing with Pulmatix Inc. for the US market. While this asset has been impaired fully the company hopes to develop and launch it in India and other markets. ETR is constant at 27.5% for Q3FY24. The company has repaid its long term debt including the ZAR 720 Mn term loan in South Africa. As of Dec 23, cash balance stands at Rs. 75,910 Mn. There was higher depreciation a year ago due to higher impairments then. The depreciation should be flat – declining. Capex is generally in the range of Rs. 10,000 – 15,000 Mn p.a. for the company. Other income includes a one time gain of Rs. 540 Mn associated with exchange gain realized from buy back of shares by a step down subsidiary in Q3FY24.
- **Overall outlook:** For subsequent quarters the priority drivers would be India business, which is expected to be driven by Rx business in chronic therapies and sustaining leadership in Gx market while wellness portfolio will be underway with strengthening its offerings. In North America focus will be on commercial execution of existing portfolio and resolution of the USFDA observations. Product launches through de-risking products and product-partnering and acquisitions will be key focus area as well for North America. South Africa will be focused on private and select tender businesses with greater emphasis on margin expansions. In emerging market and Europe, top priority is to grow top line while margins are maintained at sustainable level. Q4FY24E will be impacted seasonally in India and North America. EBITDA margins on a TTM basis is at a higher end of its guided 23%-24% range. R&D spend is largely towards the US market and can be around 6% of revenue in the near – medium term. Respiratory will continue to be the large part of the revenue.
- **India segment and outlook:** Market beating growth in branded products across chronic therapies such as respiratory, urology, and cardiac helped India market besides Gx and Consumer Health growing. India chronic portfolio grew at 11.1% vs. IPM growth of 9.5% for the same portfolio, in Q3FY24, as per data from IQVIA as of Dec 23. The share of chronic therapy revenue in India business has grown at 115 bps Y-o-Y to 60.3% in Q3FY24. Gx posted consistent growth driven by execution of its order book, traction in new product introduction and deepening of reach. Consumer Health posted growth driven by traction in leading brands and strong brand equity while operating profitability continues to be sustainable despite a slower environment. Big brands to be the major driver in India market. In branded Rx segment, the company has 20 brands with over Rs. 100 Cr of revenue as per IQVIA MAT Dec 23. Foracort, gained 3 ranks Y-o-Y in Q3FY24, which is its leading inhaler brand, is now the biggest brand in IPM as per IQVIA Dec 23. Cipla has the highest number of brands in IPM in with 3 brands in top 25, 6 brands in top 50 and 10 brands in top 100 as per IQVIA Dec 23. Trade Generics has 8 brands with over Rs. 50 Cr of revenue each and growth has been derived from 5 anchor brands which are over Rs. 100 Cr on TTM basis. The company expects the segment will be able to be in line or beat the market in FY25 given WPI linked portfolio (NLEM) price increase will be flat which can push volumes though and for the remaining portfolio the company will exercise combination of price increases as well as drive volume growth.
- **North America market:** The North America market recorded highest ever quarterly sales at USD 230 Mn, up 18.0% Y-o-Y in Q3FY24. It was a 15th consecutive quarter of Y-o-Y growth in North America market. It was driven by volume growth due to seasonality, continuing demand in the base business and Lanreotide injection reaching market share of 20% in Q3FY24, stable Q-o-Q.
- **SAGA market and outlook:** In South Africa (Sub Saharan Africa) and Global Access (SAGA) segment the company has completed sale of its majority stake in QCIL in Q3FY24. Excluding QCIL, SAGA recorded 35.0% Y-o-Y growth in USD revenue backed by growth in both South Africa and Global Access businesses. Growth in secondary market in Rx segment was at a healthy pace of 7% vs. 2% for the market as per QIVIA MAT Nov 23. The company is reaching closer to the market leader. The tender and OTC also grew at healthy pace. In Cipla Global Access the tender business in South Africa posted a Y-o-Y growth supported by execution of the order book. Growth in the key brands has been the driver of growth in OTC business. Cipla Actin, Broncol, and Coryx are nearing in ZAR 100 Mn range in revenue on a TTM basis. The Actor Pharma's acquisition has received the approval from competition commission and integration is likely to be over in Q4FY24. Actor's portfolio has the potential to become next set of big brands.
- **New products investments and regulatory update:** The company was successful in filing two products such as gSymbicort and another generic inhalation asset to complement its respiratory portfolio in the US. The company is anticipating 1 peptide products' approval in Q1FY25, and plans to launch 4 peptide products in FY25. The company is also underway with developing other of its peptides under 505(b)(2) and complex products. Indore and Goa facility are under remediation. De-risking of gAdvair is underway and is expected to be filed in FY25 and gAbraxane is expected to launch faster from Goa facility as Goa can go for re-inspection from Q1FY25 onwards. gAdvair may take 6-9 months before approval (likely by the end of FY25) from filing. Lanreotide market share to continue to grow incrementally hereon. Offtake of Leuprolide injection was higher in Q3FY24 than earlier, post resolution of supply issues and is expected to scale up from Q4FY24 onwards. Albuterol market share is expected to stabilize going forward. gSymbicort filing is a single site filing (Indore site) but second site transfer is also being done and the same site will be added to the filing and will take over 2 years for approval (likely by Q3FY26).

Valuation and view:

The company has posted stronger than anticipated results on an adjusted basis in Q3FY24, it was largely driven by continued strong growth in North America, SAGA and India markets with improved products mix, ease of cost inflation and calibrated price increases taken across branded and generic products. These segments are expected to continue to perform on the back of growth in branded Rx and Gx segments driven by growth in chronic portfolio and deeper penetration in India geography, respectively; continued growth in base business coupled with key product launches in FY25 and beyond in North America; and market beating growth in SAGA market. In North America market, the company has key peptide product under 505(b)(2) filing, ensuring longer marketing exclusivity, such as Lanreotide, which is expected to continue to see its market share rise, gradually. Additionally, the company is awaiting approval of another first generic peptide product launch in Q1FY25 with another 4-5 such products expected to be launched in FY25. Additionally, its key respiratory asset Albuterol is expected to see stable market share going forwards in the US. **Currently, the stock is trading at 41.7x/26.0x/23.6x/21.5x based on its FY23A/FY24EFY25E/FY26E EPS estimates, respectively. We envisage the company to grow its revenue and earnings at 9.8% CAGR over FY23-FY25E, and PAT to grow at 24.6% CAGR over FY23-26E. We introduce FY26E estimates and roll forward our valuation basis to FY26E while applying 25.0x (unchanged) multiple on FY26E EPS of Rs. 63.7 and arrive at a target price of Rs 1,592/share and retain our rating of BUY (upside: 16.2%).**

Cipla Ltd.

Segments Result (INR Mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Total	58,100	57,393	63,280	66,780	65,430
India	25,630	22,383	27,720	28,170	28,590
North America	16,000	16,644	18,220	18,870	19,160
SAGA	6,800	8,609	7,480	9,930	8,150
International Markets*	7,620	8,035	7,790	7,340	7,460
API	1,470	1,148	1,360	1,470	1,080
Others	580	574	710	1,000	990

Segments Result (% YoY)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Total	6.1%	9.1%	17.7%	14.6%	12.6%
India	1.8%	2.5%	11.6%	9.9%	11.5%
North America	42.3%	37.7%	52.0%	31.8%	19.8%
SAGA	-23.8%	-9.7%	-5.1%	14.5%	19.9%
International Markets*	3.3%	9.8%	8.2%	-3.8%	-2.1%
API	-2.0%	-16.2%	0.7%	-3.9%	-26.5%
Others	3.6%	24.8%	39.2%	96.1%	70.7%

Revenue Mix (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Total	100%	100%	100%	100%	100%
India	44%	39%	44%	42%	44%
North America	28%	29%	29%	28%	29%
SAGA	12%	15%	12%	15%	12%
International Markets*	13%	14%	12%	11%	11%
API	3%	2%	2%	2%	2%
Others	1%	1%	1%	1%	2%

Source: Company, KRChoksey Research

* International market includes Emerging markets and Europe

Cipla Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 22	FY 23	FY 24E	FY 25E	FY26E
Revenues	2,17,633	2,27,531	2,60,963	2,82,776	3,00,799
COGS	84,956	82,523	92,339	96,918	1,01,599
Gross profit	1,32,677	1,45,008	1,68,624	1,85,859	1,99,200
Employee cost	35,299	38,301	43,283	48,072	51,136
Other expenses	51,851	56,438	61,807	66,202	69,785
EBITDA	45,528	50,270	63,533	71,584	78,279
EBITDA Margin	20.9%	22.1%	24.3%	25.3%	26.0%
Depreciation & amortization	10,520	11,721	9,917	11,762	12,512
EBIT	35,008	38,549	53,616	59,822	65,767
Interest expense	1,064	1,095	1,019	1,289	1,371
Other income	2,809	4,755	5,892	6,095	6,478
PBT before excep. items	36,754	42,208	58,489	64,628	70,874
Exceptional Items	1,821	-1,824	0	0	0
PBT	34,933	40,384	58,489	64,628	70,874
Tax	9,338	12,029	15,551	17,773	19,490
Share of Profit/(Loss) of Associates/Minority	-427	-26	-396	-53	-53
PAT	25,168	28,329	42,541	46,803	51,331
EPS (INR)	33.5	32.9	52.8	58.0	63.7

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY 22	FY 23	FY 24E	FY 25E	FY26E
Net Cash Generated From Operations	33,259	32,377	35,817	51,863	58,331
Net Cash Flow from/(used in) Investing Activities	(18,719)	(23,885)	(21,345)	(25,197)	(28,551)
Net Cash Flow from Financing Activities	(15,998)	(9,583)	(8,500)	(10,649)	(11,637)
Net Inc/Dec in cash equivalents	(1,458)	(1,092)	5,972	16,016	18,143
Opening Balance	7,904	6,581	6,276	12,248	28,264
Adjustment	331	124	0	0	0
Closing Balance Cash and Cash Equivalents	6,777	5,613	12,248	28,264	46,407

Source: Company, KRChoksey Research

Key Ratio	FY22	FY23	FY24E	FY25E	FY26E
EBITDA Margin (%)	20.9%	22.1%	24.3%	25.3%	26.0%
Tax rate (%)	26.7%	29.8%	26.6%	27.5%	27.5%
Net Profit Margin (%)	11.6%	12.5%	16.3%	16.6%	17.1%
RoE (%)	12.8%	11.2%	15.7%	15.1%	0.0%
RoCE (%)	16.0%	15.9%	19.3%	19.0%	0.0%
Current Ratio (x)	3.0	3.4	3.9	4.5	0.0
EPS (INR)	31.2	35.1	52.8	58.0	63.7

Source: Company, KRChoksey Research

Cipla Ltd.

Exhibit 4: Balance Sheet

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
Non-current assets					
Property, plant and equipment	51,644	45,836	47,924	50,186	52,592
Capital work-in-progress	3,829	6,892	6,892	6,892	6,892
Goodwill (Net)	31,379	29,839	29,839	29,839	29,839
Other intangible assets	13,196	11,260	11,366	11,480	11,601
Intangible assets under development	3,833	4,041	4,041	4,041	4,041
Investments accounted for using equity method	458	909	916	903	890
Financial assets					
Investments	3,712	4,816	4,452	4,824	5,131
Loans	0	0	0	1	1
Other financial assets	4,170	993	1,034	1,120	1,191
Deferred tax assets (Net)	4,488	4,565	5,382	5,832	6,203
Tax assets (Net)	4,836	5,480	5,799	6,284	6,684
Other non-current assets	2,189	7,252	2,625	2,844	3,026
Total non-current assets	1,23,736	1,21,884	1,20,268	1,24,245	1,28,092
Current assets					
Inventories	53,502	51,564	60,716	63,727	66,805
Financial assets					
Investments	21,950	30,899	38,623	48,279	60,349
Trade receivables	34,244	40,570	46,473	50,357	53,567
Cash and cash equivalents	6,777	6,276	12,248	28,264	46,407
Bank balances other than above	12,507	9,370	10,307	11,338	12,471
Loans	36	76	76	76	76
Other financial assets	8,984	20,806	20,806	20,806	20,806
Other current assets + Current Tax Assets	9,107	8,490	17,222	18,662	19,851
Assets classified as held for sale	167	4,699	4,699	4,699	4,699
Total current assets	1,47,275	1,72,750	2,11,170	2,46,208	2,85,031
TOTAL ASSETS	2,71,011	2,94,633	3,31,439	3,70,452	4,13,123
EQUITY AND LIABILITIES					
Equity					
Equity share capital	1,614	1,614	1,614	1,614	1,614
Other equity	2,06,803	2,32,464	2,66,497	3,03,939	3,45,003
Equity attributable to the equity shareholders	2,08,417	2,34,077	2,68,110	3,05,552	3,46,617
Non-controlling interests	2,757	3,058	3,461	3,501	3,541
Total equity	2,11,174	2,37,135	2,71,571	3,09,053	3,50,158
Liabilities					
Non-current liabilities					
Financial liabilities					
Borrowings	4,162	0	0	0	0
Other financial liabilities	2,587	3,225	3,225	3,225	3,225
Provisions	1,002	1,022	1,022	1,022	1,022
Deferred tax liabilities (Net)	2,440	1,633	1,633	1,633	1,633
Other non-current liabilities + Trade payables	515	521	521	521	521
Total non-current liabilities	10,705	6,401	6,401	6,401	6,401
Current liabilities					
Financial liabilities					
Borrowings	4,079	5,943	5,943	5,943	5,943
Trade payables	25,081	24,571	26,057	27,349	28,670
Other financial liabilities	4,442	3,945	4,828	5,067	5,312
Other current liabilities	3,111	2,841	2,841	2,841	2,841
Provisions	12,210	12,867	12,867	12,867	12,867
Current tax liabilities (Net)	210	931	931	931	931
Total current liabilities	49,132	51,098	53,467	54,998	56,564
Total liabilities	59,837	57,498	59,868	61,399	62,965
TOTAL EQUITY AND LIABILITIES	2,71,011	2,94,633	3,31,439	3,70,452	4,13,123

Source: Company, KRChoksey Research

Cipla Ltd.

Cadila Healthcare Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
29-Jan-24	1,370	1,592	BUY
02-Nov-23	1,209	1,405	BUY
28-Jul-23	1,162	1,389	BUY
17-May-23	922	1,167	BUY
07-Nov-22	1,129	1,289	ACCUMULATE
03-Aug-22	1,004	1,080	ACCUMULATE
12-May-22	938	1,020	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Unnati Jadhav (MMS, Finance), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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