

Estimate change 

TP change 

Rating change 

CMP: INR1,370

TP: INR1,600 (+17%)

BUY

Core markets, operating leverage drive earnings growth

North America on a robust growth path

	CIPLA IN
Bloomberg	
Equity Shares (m)	805
M.Cap.(INRb)/(USD\$b)	1105.8 / 13.3
52-Week Range (INR)	1425 / 852
1, 6, 12 Rel. Per (%)	11/21/13
12M Avg Val (INR M)	2173

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	257.2	278.9	305.6
EBITDA	64.0	70.3	76.7
Adj. PAT	42.8	46.6	52.0
EBIT Margin (%)	21.2	21.5	21.6
Cons. Adj. EPS (INR)	53.0	57.7	64.4
EPS Gr. (%)	40.4	8.9	11.6
BV/Sh. (INR)	328.8	380.5	438.9

Ratios

Net D:E	-0.2	-0.2	-0.3
RoE (%)	16.1	15.2	14.7
RoCE (%)	17.0	16.0	15.5
Payout (%)	9.5	10.4	9.3

Valuations

P/E (x)	25.8	23.7	21.3
EV/EBITDA (x)	16.6	14.6	12.9
Div. Yield (%)	0.3	0.4	0.4
FCF Yield (%)	3.5	3.5	3.7
EV/Sales (x)	4.1	3.7	3.2

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	33.4	33.4	33.4
DII	24.3	24.1	21.0
FII	25.9	25.9	28.8
Others	16.4	16.7	16.8

FII Includes depository receipts

- CIPLA beat our earnings estimates in 3QFY24, aided by an outperformance in the domestic formulation (DF)/North America (NA) segments and better operating leverage. These factors were offset to some extent by a muted performance of emerging markets and the API segment. The company is making efforts to minimize the timeline for potential approvals (g-Advair/g-Abraxane) in the NA market.
- We raise our EPS estimates by 12%/9%/7% for FY24/FY25/FY26 to factor in a) peptide-based niche approvals, b) industry-beating growth in core chronic therapies in the DF segment, and c) continued efforts for brand building in consumer healthcare. We value CIPLA at 25x 12M forward earnings and add INR30 (g-Revlimid NPV) to arrive at a TP of INR1,600.
- We remain positive on CIPLA on the back of a) respiratory/peptide asset build-up for the NA market, b) robust brand franchise in DF, and c) scope for inorganic growth given surplus cash of INR75b as of 3Q-end. **Retain BUY.**

Product mix/lower RM costs/opex led to superior margins

- CIPLA's 3QFY24 revenue grew 13.7% YoY to INR66b (our est. INR64.8b). DF sales (43% of sales) grew 11.5% YoY to INR28.6b. NA sales (29% of sales) rose 19.8% YoY to INR19b (USD230m, up 17.9% in CC terms). Growth was led by volume traction in key assets of Lanreotide and Albuterol, coupled with robust demand in the base business. SAGA sales (12% of sales) jumped 19.9% YoY to INR8.2b. API sales (2% of sales) declined 26.5% YoY to INR1.1b. EM sales (11% of sales) declined by 2% YoY to INR7.5b.
- Gross margin expanded 90bp YoY to 66.4% (our est. 65.0%), driven by lower raw material costs.
- EBITDA margin improved 220bp YoY to 26.5% (our est. 24.0%), due to better gross profit and lower employee costs and other expenses (down 20bp/120bp YoY as a % of sales). EBITDA increased by 24.2% YoY to INR17.5b (our est. INR15.5b).
- Adjusting for the impairment charges/forex gains of INR1.4b, PAT grew 49.4% YoY to INR12b (our est. INR9.7b), due to higher other income and lower depreciation.
- During 9MFY24, revenue/EBITDA/PAT rose 15%/26%/44% to INR196b/INR50b/INR33b.

Highlights from the management commentary

- CIPLA would be the sole player to receive approval for a peptide asset, which is expected to be approved by USFDA in the near term.
- The company also plans to launch four peptide assets in FY25. Two assets do not have IP-related issues.
- Given that alternate site filing would require clinical trials to be done again for g-Abraxane, CIPLA will focus on ANDA filed for g-Abraxane from the Goa site. A successful re-inspection would be key for approval.

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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.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance (Consolidated)

(INR b)

Y/E March	FY23				FY24E				FY23	FY24E	Est.	% Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Revenues	53.8	58.3	58.1	57.4	63.3	66.8	66.0	61.1	227.5	257.2	64.8	2.0
YoY Change (%)	-1.4	5.6	6.0	9.1	17.7	14.6	13.7	6.5	4.8	13.0	11.5	
Total Expenditure	42.3	44.4	44.0	45.7	48.3	49.4	48.6	46.8	176.4	193.2	49.2	
EBITDA	11.4	13.9	14.1	11.7	14.9	17.3	17.5	14.3	51.1	64.0	15.5	12.4
YoY Change (%)	-11.7	13.3	14.3	23.6	30.7	24.8	24.2	21.8	8.8	25.2	10.4	
Margins (%)	21.3	23.8	24.2	20.4	23.6	26.0	26.5	23.4	22.5	24.9	24.0	
Depreciation	2.5	3.0	2.7	3.5	2.4	2.5	2.3	2.2	11.7	9.4	2.7	
EBIT	8.9	10.9	11.4	8.3	12.5	14.9	15.1	12.0	39.4	54.6	12.9	
YoY Change (%)	-14.0	12.0	15.4	25.5	41.1	36.4	33.3	45.6	8.0	38.5	13.6	
Margins (%)	16.5	18.7	19.5	14.4	19.8	22.3	22.9	19.7	17.3	21.2	19.9	
Interest	0.2	0.3	0.3	0.3	0.2	0.3	0.3	0.3	1.1	1.0	0.3	
Other Income	1.0	1.0	1.1	1.3	1.4	1.8	1.3	1.2	4.5	5.6	1.2	
Profit before Tax	9.7	11.6	12.2	9.3	13.7	16.4	16.1	13.0	42.8	59.2	13.8	
One-time (expense)/income	0.0	-0.6	0.0	-1.8	0.0	-0.4	-1.4	0.0	-2.5	-1.8	0.0	
PBT after EO expense	9.7	11.0	12.2	7.5	13.7	15.9	14.7	13.0	40.4	57.4	13.8	6.8
Tax	2.7	3.0	4.1	2.2	3.8	4.4	4.1	3.8	12.0	16.0	3.9	
Rate (%)	27.5	26.0	33.7	24.0	27.5	26.8	25.1	29.1	28.1	27.0	27.9	
Minority Interest	0.2	0.1	0.1	0.0	0.0	0.2	0.1	0.1	0.3	0.4	0.2	
Reported PAT	6.9	7.9	8.0	5.3	10.0	11.3	10.6	9.1	28.0	41.0	9.7	8.9
Adj PAT	6.9	8.5	8.0	7.1	10.0	11.7	12.0	9.1	30.5	42.8	9.7	23.4
YoY Change (%)	-12.9	19.8	9.9	16.1	45.1	37.7	49.4	28.9	7.4	40.4	21.1	

E: MOFSL Estimates;

Key performance indicators

Y/E March	FY23				FY24E				FY23	FY24E	Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Domestic formulation	24.8	25.6	25.6	22.6	27.7	28.2	28.6	24.1	98.7	108.6	27.4
YoY Change (%)	-8.4	6.2	1.8	3.5	11.6	9.8	11.5	6.6	0.4	10.0	7.0
North America	12.0	14.6	16.0	16.8	18.2	18.9	19.2	18.3	59.1	74.5	18.2
YoY Change (%)	14.7	38.1	39.1	38.7	52.0	29.5	19.8	9.0	33.9	26.1	13.9
Europe	2.9	3.0	3.0	0.8	3.4	3.4	3.4	3.1	9.7	13.3	3.4
YoY Change (%)	10.0	8.0	0.0	94.2	15.0	16.0	13.0	280.8	10.0	37.0	13.0
South Africa	7.9	8.7	6.8	8.3	7.5	9.9	8.2	8.3	31.7	33.9	8.3
YoY Change (%)	-4.6	-12.0	-22.4	-12.7	-5.1	13.6	19.9	0.0	-13.9	7.0	22.0
Emerging market	7.2	7.6	7.6	7.8	7.8	7.3	7.5	7.4	30.3	30.0	7.5
YoY Change (%)	18.9	-7.7	7.0	7.1	8.2	-3.1	-2.1	-6.1	5.4	-1.1	-1.0
API	1.4	1.7	1.5	1.3	1.4	1.5	1.1	1.4	5.7	5.3	1.6
YoY Change (%)	-39.7	1.7	-10.6	-2.2	0.7	-15.9	-26.5	2.5	-25.3	-7.0	11.0
Cost Break-up											
RM Cost (% of Sales)	37.7	35.6	34.5	36.0	35.3	34.6	33.6	35.1	38.6	39.6	35.0
Staff Cost (% of Sales)	17.8	16.5	16.3	16.8	16.9	16.3	16.2	19.1	16.3	17.7	16.9
R&D Expenses(% of Sales)	5.1	5.7	6.2	6.5	5.5	5.7	6.1	6.8	4.3	6.0	5.8
Other Cost (% of Sales)	18.2	18.4	18.7	20.3	18.7	17.4	17.7	20.6	17.0	19.5	18.3
Gross Margin (%)	62.3	64.4	65.5	64.0	64.7	65.4	66.4	64.9	61.4	60.4	65.0
EBITDA Margin (%)	21.3	23.8	24.2	20.4	23.6	26.0	26.5	23.4	22.5	24.9	24.0
EBIT Margin (%)	16.5	18.7	19.5	14.4	19.8	22.3	22.9	19.7	17.3	21.2	19.9

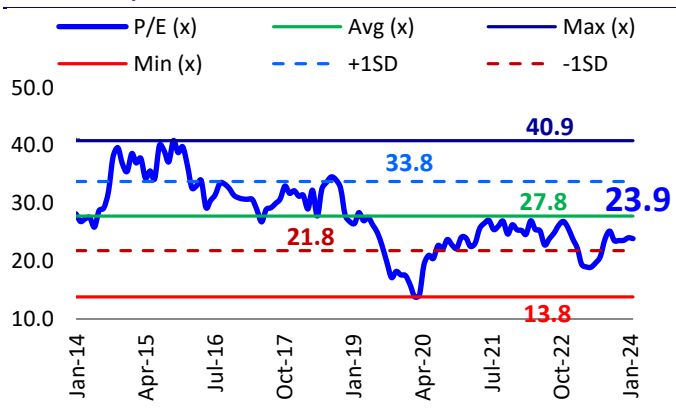
Source: MOFSL, Company



Highlights from the management commentary

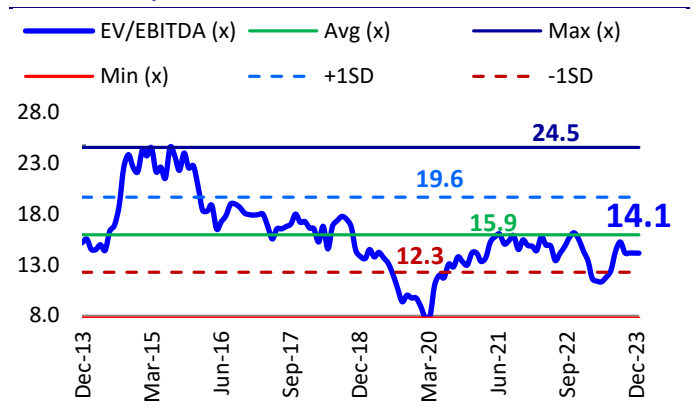
- CIPLA would be using an alternate site for filing g-Advair and expects to file the same by mid-FY25.
- It has guided for EBITDA margin of 23-24% in FY24.
- The price erosion in the US base portfolio has been about 4-6%.
- CIPLA has filed two respiratory products for the US market in 3QFY24, with one being g-Symbicort.
- The company has garnered a market share of 20% in Lanreotide.
- The chronic segment grew 11% YoY vs. 9.5% YoY at the industry level.
- Particularly, respiratory/cardiac/Urology grew 11%/11%/16% YoY vs. industry growth of 5%/9%/12% YoY for the quarter.

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Complex product pipeline to fuel growth in medium term

NA: Work-in-progress to build respiratory/peptide assets

- In 9MFY24, US sales grew 32% YoY (USD681m; up 28.7% in CC terms) to INR56b. This was led by volume traction in Lanreotide and Albuterol and strong seasonality in respiratory products.
- CIPLA plans to launch four peptides in FY25, with one launch expected in 1QFY25.
- The company is making efforts to file Abraxane from its Goa facility as the facility is due for inspection. Successful re-inspection and validation of batches will be key for filing and approval of the product.
- CIPLA will file Advair in FY25 and expects to get approval by the end of FY25. It expects to get approval of g-Symbicort in FY26, which would boost growth in the medium to long term.
- Based on the above factors, we expect the company to deliver a 7% US sales CAGR to USD1b over FY24-26.

DF: New launches/strong brand recall to fuel growth

- In MAT Dec'23, CIPLA outpaced industry growth by 70bp, led by superior execution in Respiratory, Cardiac and Urology therapies.
- In the branded prescription market, CIPLA outperformed the industry in respiratory/cardiac/Urology therapy by 620bp/230bp/380bp in 3QFY24, led by high growth in key products, including Foracort, Duolin, and Budecort, and also an increase in the chronic mix.

- In 9MFY24, CIPLA launched 30 products in trade generics and registered strong growth in this segment. CIPLA is focusing on increasing its market share by deepening its penetration in tier 2 to tier 6 cities and increasing engagement with customers through phygital modes.
- Further, in the Consumer Healthcare business registered moderate sales growth in 9MFY24 due to a weak season, offset by growth in core brands. However, due to strong brand recall, CIPLA expects to sustain EBITDA margin in this segment.
- Accordingly, we expect CIPLA to deliver an 11.7% sales CAGR in DF to INR135b over FY24-26.

SAGA: brand building in private/OTC market to boost revenue growth

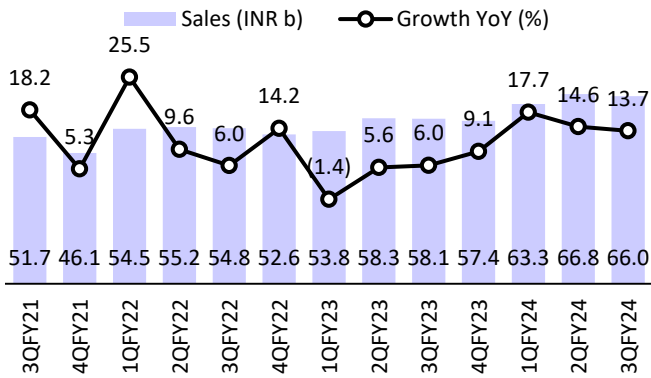
- In 9MFY24, Cipla's SAGA business grew 9% YoY to INR25.6b. Strong traction in private market and positive traction in tender business.
- CIPLA is focusing on building a strong brand franchise in private as well as OTC markets, coupled with new launches. Additionally, integration of Actor Pharma would further boost growth.
- We expect CIPLA to deliver a 6% sales CAGR in SAGA to INR38b over FY24-26.

Maintain BUY

- We raise our EPS estimates by 12%/9%/7% for FY24/FY25/FY26 to factor in a) peptide-based niche approvals, b) industry-beating growth in core chronic therapies in the DF segment, and c) continued efforts for brand building in the consumer healthcare segment. We value CIPLA at 25x 12M forward earnings and add INR30 (g-Revlimid NPV) to arrive at a TP of INR1,600.
- We remain positive on CIPLA on the back of a) respiratory/peptide asset build-up in the NA market, b) robust brand franchise in DF, and c) scope of inorganic growth given surplus cash of INR75b at the end of 3QFY24. Reiterate BUY.

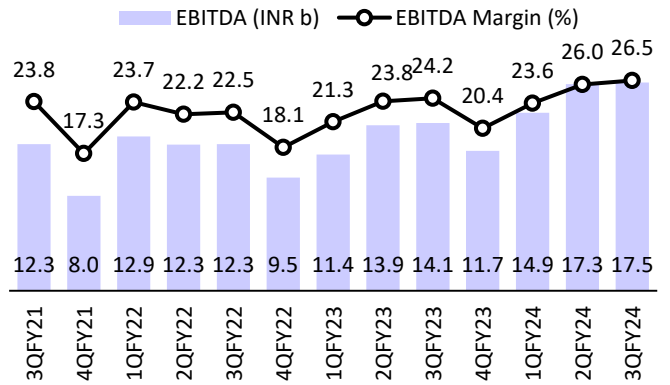
Story in charts

Exhibit 3: Revenue up 13.7% YoY in 3QFY24



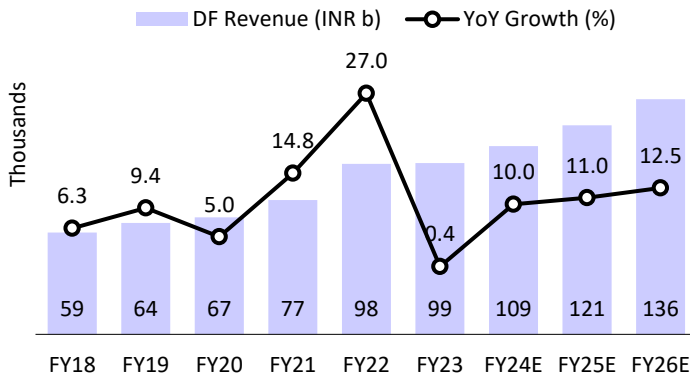
Source: MOFSL, Company

Exhibit 4: EBITDA margin expands ~220bp YoY in 3QFY24



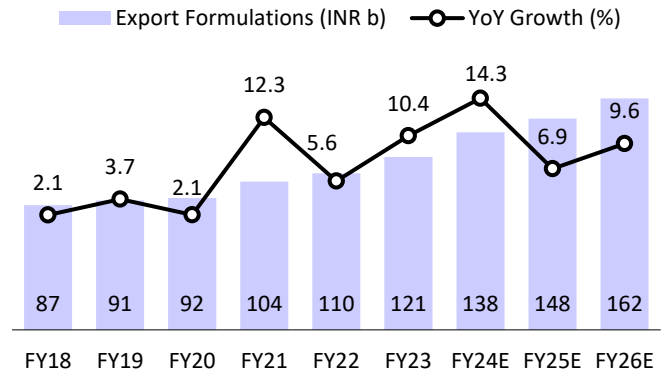
Source: MOFSL, Company

Exhibit 5: Expect 12% DF sales CAGR...



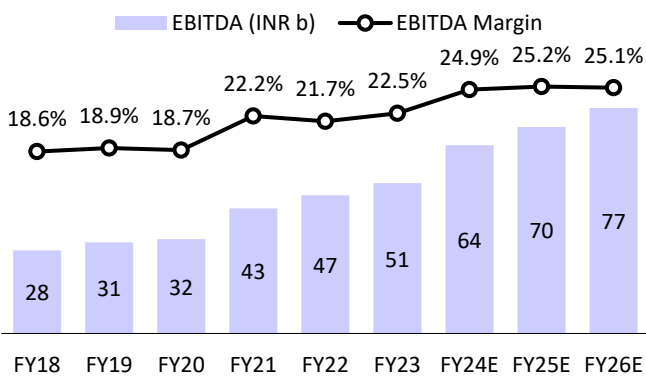
Source: MOFSL, Company

Exhibit 6: ...and 8% export sales CAGR over FY24-26



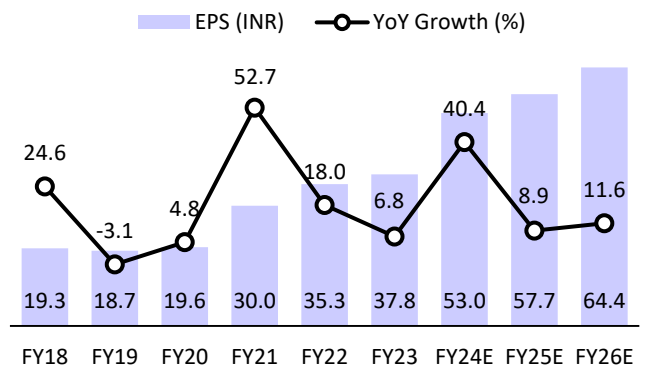
Source: MOFSL, Company

Exhibit 7: EBITDA margin to remain steady over FY24-26



Source: MOFSL, Company

Exhibit 8: Expect 10% earnings CAGR over FY24-26



Source: MOFSL, Company

Financials and valuations

Income Statement								(INRb)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Income	163.6	171.3	191.6	217.1	227.5	257.2	278.9	305.6
Change (%)	7.5	4.7	11.8	13.3	4.8	13.0	8.4	9.6
EBITDA	31.0	32.1	42.5	47.0	51.1	64.0	70.3	76.7
Change (%)	9.6	3.5	32.6	10.6	8.8	25.2	9.7	9.1
Margin (%)	18.9	18.7	22.2	21.7	22.5	24.9	25.2	25.1
Depreciation	11.2	11.4	10.7	10.5	11.7	9.4	10.3	10.7
EBIT	19.8	20.6	31.8	36.5	39.4	54.6	60.0	66.0
Int. and Finance Charges	1.7	2.0	1.6	1.1	1.1	1.0	0.7	0.7
Other Income - Rec.	2.8	3.4	2.7	2.8	4.5	5.6	5.0	5.3
PBT before EO Items	20.9	22.1	32.9	38.2	42.8	59.2	64.3	70.6
One-time (Expense)/Income	-0.1	0.3	0.0	3.3	2.5	1.8	0.0	0.0
PBT but after EO Exp.	20.8	21.8	32.9	34.9	40.4	57.4	64.3	70.6
Tax	5.7	6.3	8.9	9.3	12.0	16.0	18.0	18.9
Tax Rate (%)	27.4	29.0	27.0	26.7	29.8	27.9	28.0	26.8
Minority Interest	-0.4	-0.5	-0.2	0.3	0.3	0.4	-0.3	-0.3
Income from associates	-0.2	-0.5	-0.1	-0.1	0.0	-0.1	0.0	0.0
Reported PAT	15.3	15.5	24.1	25.2	28.0	41.0	46.6	52.0
Adj PAT	15.0	15.8	24.1	28.4	30.5	42.8	46.6	52.0
Change (%)	-3.1	4.8	52.7	18.0	7.4	40.4	8.9	11.6
Margin (%)	9.2	9.2	12.6	13.1	13.4	16.6	16.7	17.0

Balance Sheet								(INRb)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Reserves	152.3	157.6	179.3	201.5	232.5	263.7	305.5	352.6
Net Worth	150.1	157.6	183.3	208.4	234.1	265.4	307.1	354.2
Loans	43.2	28.2	15.4	9.0	5.9	5.9	5.9	5.9
Deferred Liabilities	2.2	1.3	-0.2	-2.0	-2.9	-2.9	-2.9	-2.9
Minority Interst	3.3	2.9	2.6	2.8	3.1	3.1	3.1	3.1
Capital Employed	198.8	190.0	201.0	218.1	240.1	271.4	313.2	360.3
Gross Block	126.4	138.5	147.5	160.1	166.8	172.8	181.0	189.2
Less: Accum. Deprn.	27.4	38.9	49.5	60.1	71.8	81.2	91.5	102.2
Net Fixed Assets	98.9	99.6	97.9	100.1	95.0	91.6	89.5	87.0
Capital WIP	3.3	4.2	5.7	3.8	6.9	5.1	5.1	5.1
Investments	3.0	3.6	3.5	4.2	6.3	6.3	6.3	6.3
Curr. Assets	132.4	126.8	141.2	158.3	177.1	226.8	278.3	332.5
Inventory	39.6	43.8	46.7	53.5	51.6	59.7	64.6	70.8
Account Receivables	41.5	38.9	34.5	34.2	40.6	47.3	52.7	56.2
Cash and Bank Balance	6.2	10.0	14.0	19.3	15.6	47.5	80.8	116.3
Others	45.1	34.1	46.1	51.3	69.3	72.2	80.2	89.2
Curr. Liability & Prov.	38.8	44.2	47.3	48.4	49.9	58.4	66.1	70.6
Account Payables	31.4	34.8	36.5	36.2	37.1	45.5	53.2	57.8
Provisions	7.4	9.5	10.8	12.2	12.9	12.9	12.9	12.9
Net Current Assets	93.7	82.6	93.9	109.9	127.2	168.4	212.2	261.9
Appl. of Funds	198.8	190.0	201.0	218.1	240.1	271.4	313.2	360.3

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	18.7	19.6	30.0	35.3	37.8	53.0	57.7	64.4
Cash EPS	32.5	33.7	43.1	48.2	52.3	64.7	70.5	77.7
BV/Share	186.3	195.5	227.2	258.1	284.2	328.8	380.5	438.9
DPS	3.0	2.5	2.5	3.0	3.0	4.0	5.0	5.0
Payout (%)	18.6	15.6	10.0	11.5	10.3	9.5	10.4	9.3
Valuation (x)								
P/E	73.2	69.8	45.7	38.8	36.3	25.8	23.7	21.3
Cash P/E	42.1	40.6	31.8	28.4	26.2	21.2	19.4	17.6
P/BV	7.4	7.0	6.0	5.3	4.8	4.2	3.6	3.1
EV/Sales	7.0	6.5	5.8	5.0	4.8	4.1	3.7	3.2
EV/EBITDA	36.8	34.9	25.9	23.2	21.4	16.6	14.6	12.9
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.4
FCF per Share	15.9	24.0	33.7	27.9	11.9	47.6	47.9	50.6
Return Ratios (%)								
RoE	10.3	10.2	14.1	14.5	13.3	16.1	15.2	14.7
RoCE	8.4	8.8	12.9	13.7	13.5	17.0	16.0	15.5
RoIC	8.0	8.2	13.3	14.5	13.8	18.6	19.9	21.3
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.3	1.3	1.4	1.4	1.5	3.1	3.5
Debtor (Days)	93	83	66	58	65	67	69	67
Inventory (Days)	88	93	89	90	83	85	85	85
Creditors (Days)	43	49	39	42	39	36	38	38
Working Capital (Days)	138	128	115	105	108	116	115	113
Leverage Ratio (x)								
Current Ratio	3.4	2.9	3.0	3.3	3.5	3.9	4.2	4.7
Debt/Equity	0.2	0.1	0.0	0.0	0.0	-0.2	-0.2	-0.3

Cash Flow Statement

(INRb)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBITDA	31.0	32.1	42.5	47.0	51.1	64.0	70.3	76.7
Interest/Dividends Recd.	2.8	3.4	2.7	2.8	4.5	5.6	5.0	5.3
Direct Taxes Paid	-6.6	-7.3	-10.3	-11.2	-12.9	-16.0	-18.0	-18.9
(Inc)/Dec in WC	-16.6	14.9	-7.4	-10.7	-20.9	-9.3	-10.6	-14.1
CF from Operations	10.6	43.1	27.5	27.9	21.8	44.3	46.7	48.9
others	6.2	-10.5	10.1	8.6	0.0	0.0	0.0	0.0
CF from Oper. incl EO Expense	16.9	32.3	37.6	33.3	19.3	42.5	46.7	48.9
(inc)/dec in FA	-4.1	-13.0	-10.5	-10.8	-9.8	-4.2	-8.2	-8.2
Free Cash Flow	12.8	19.3	27.1	22.5	9.6	38.3	38.5	40.7
(Pur)/Sale of Investments	-2.9	-0.6	0.1	-0.7	-2.2	0.0	0.0	0.0
others	-9.7	14.7	-13.5	-7.3	0.0	0.0	0.0	0.0
CF from Investments	-16.7	1.0	-23.9	-18.7	-11.9	-4.2	-8.2	-8.2
Inc/(Dec) in Debt	2.2	-15.0	-12.8	-6.4	-3.0	0.0	0.0	0.0
Interest Paid	-1.7	-2.0	-1.6	-1.1	-1.1	-1.0	-0.7	-0.7
Dividend Paid	-2.8	-2.4	-2.4	-2.9	-2.9	-3.9	-4.8	-4.8
Others	-1.1	-11.7	3.5	-0.4	-5.5	-3.0	-1.2	-1.2
CF from Fin. Activity	-3.5	-31.1	-13.3	-10.7	-12.5	-7.9	-6.7	-6.7
Inc/Dec of Cash	-3.3	2.2	0.4	3.8	-5.1	30.4	31.8	34.1
Add: Beginning Balance	9.7	6.2	10.0	14.0	19.3	15.6	47.5	80.8
Bank balances	0.0	-1.1	3.6	1.5	1.5	1.5	1.5	1.5
Bank balances and FX impact	-0.2	1.6	3.6	1.5	1.5	1.5	1.5	1.5
Closing balance	6.2	10.0	14.0	19.3	15.6	47.5	80.8	116.3

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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