

26 January 2024

India | Equity Research | Q3FY24 results review

Cipla

Pharma

US pipeline rejuvenates confidence; timely execution crucial

Cipla's outperformance in Q3FY24 was led by better EBITDA margin (up 224bps YoY) and profit (up 45%). US sales of USD 230mn were flat QoQ, though its better performance in India (up 11.5% YoY) and South Africa (15% YoY) boosted revenue growth. Cipla continues to have a robust pipeline of peptide and respiratory assets in the US which may lead to 19% CAGR over FY23-26E. US growth in FY25E is likely to be driven by the launch of four peptide products while the launch of gAbraxane and gAdvair is contingent on obtaining clearances from the USFDA for Goa (re-inspection in Q1FY25) and Pithampur plants. Management has raised FY24 margin guidance by 50bps to 23.5-24% and expects flattish gross margin in FY25. We maintain **BUY** on the stock, but raise target price to INR 1,660, valuing the company at 22x FY26E earnings (including gRevlimid).

Good show across geographies, softer RM boosted margins

Revenue grew 13.7% YoY to INR 66.0bn (I-Sec: INR 66.3bn). India business grew 11.5% YoY to INR 28.6bn while US reported 17.9% YoY jump to USD 230mn. SAGA business reverted to growth and grew 19.9% YoY (-17.9% QoQ) to INR 8.2bn. API/international market revenue declined 26.5%/ 2.1% YoY, respectively. Gross margin expanded 89bps YoY (+103bps QoQ) led by softening of RM cost, new launches and mix improvement. EBITDA grew 24.2% YoY (0.8% QoQ) to INR 17.5bn (I-Sec: INR 16.3bn). EBITDA margin expanded 224bps YoY to 26.5% (I-Sec: 24.6%) led by operating leverage. It recorded an impairment charge of INR 1.95bn pertaining to write-off of Pulmazole intangibles. Adj. PAT was up 44.6% YoY to INR 11.6bn (I-Sec: INR 10.1bn).

Plant clearance critical for pipeline monetisation

US revenue growth of 17.9% YoY (flat QoQ) to USD 230mn was driven by better volumes for Lanreotide, gAlbuterol and other respiratory products. Cipla has filed for gSymbicort in the US from Pithampur plant and expects an approval in FY26. Management hopes USFDA will re-inspect Goa plant by Q1FY25. The company is no longer filing gAbraxane through a third-party site while filing of gAdvair from an alternate site in the US is now targeted in H1FY25. Favourable macro environment and attractive product pipeline (70-75% pipeline consists of high-margin differentiated products) may ensure a CAGR of 19% to USD 1.3bn in Cipla's US business, in our view.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	2,27,531	2,62,273	2,96,566	3,37,892
EBITDA	50,270	65,993	75,932	91,319
EBITDA Margin (%)	22.1	25.2	25.6	27.0
Net Profit	28,020	44,535	49,594	60,832
EPS (INR)	34.8	55.3	61.6	75.6
EPS % Chg YoY	10.5	47.2	15.0	22.7
P/E (x)	37.7	25.6	22.3	18.2
EV/EBITDA (x)	21.0	15.4	13.0	10.4
RoCE (%)	13.3	17.1	16.9	17.8
RoE (%)	12.5	15.8	15.7	16.5

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Market Data

Market Cap (INR)	1,106bn
Market Cap (USD)	13,306mn
Bloomberg Code	CIPLA IN
Reuters Code	CIPL.BO
52-week Range (INR)	1,425 /852
Free Float (%)	66.0
ADTV-3M (mn) (USD)	27.7

Price Performance (%)	3m	6m	12m
Absolute	18.3	29.9	32.3
Relative to Sensex	7.9	23.3	14.9

Earnings Revisions (%)	FY24E	FY25E
Revenue	0.3	0.8
EBITDA	4.6	1.5
EPS	8.9	4.0

Previous Reports

28-10-2023: [Q2FY24 results review](#)

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

India business on a steady growth path

Branded business grew at 10% while chronic therapies grew faster at 13% in Q3FY24. In trade generics, it has launched 30 products in 9MFY24 which have driven strong growth in Q3FY24. Consumer business grew 11% YoY to INR 3.34bn led by traction across five core brands. We expect strong traction in chronic therapies (60.3% of branded sales), better traction in trade generics and consumer wellness to aid 11% CAGR over FY23-26E.

Valuations and risks

Cipla's Q3FY24 performance was impressive backed by robust growth in India and US. Besides, new launches in US and softer RM prices have also aided 89bps/224bps improvement in gross/EBITDA margin. Management now expects its EBITDA margin to remain between 23.5-24% (23-23.5% earlier) for FY24.

US growth in FY25 is likely to be driven by the launch of four peptide assets while launch of gAdvair in H2FY25 will depend on regulatory clearances for its Pithampur plant. However, the management has highlighted that its respiratory pipeline has sufficient assets that can aid growth in US generics business for the next 3-4 years. Addition of MRs has ensured the company grows faster than market growth rate in India and in branded generics the focus is to further cement its dominance in select chronic therapies like respiratory and cardiac. New launches may drive growth in trade generics and wellness businesses. Margin-accretive launches in the US and better traction in India and South Africa may further elevate EBITDA margin to ~27% by FY26E.

We raise our EPS estimates by 9% for FY24E and 4% for FY25E to factor in margin improvement and cost efficiencies. Better performance in key geographies of US and India may aid a revenue CAGR of 12.6% over FY23-26E while EBITDA and PAT may grow at 19.6%/24.5% over the same period. At CMP of INR 1,370, the stock currently trades at valuations of 25.6x FY24E, 22.3x FY25E and 18.2x FY26E earnings and EV/EBITDA multiples of 15.5x FY24E, 13.1x FY25E and 10.5x FY26E. We retain **BUY** rating on the stock with higher target price of INR 1,660 (from INR 1,365) as we roll forward valuation to FY26E; we value the company at 22x FY26E EPS of INR 75 (earlier 23x on FY25E). **Key risks:** Incremental competition in niche products, delay in facility resolution.

Q3FY24 concall highlights

India

- Branded business grew faster than market. Chronic portfolio grew 13% vs market growth of 11%.
- Consumer business grew despite slowdown in overall market. The business is moving towards achieving sustainable margins.
- It launched 30 new brands in 9MFY24 in trade generics segment.
- One India portfolio growth ahead will be boosted by faster growth across branded chronic brands and wellness portfolio.

US

- Market share in lanreotide has remained flat QoQ at 20%.
- It filed gSymbicort and one more respiratory product in Q3FY24.
- gSymbicort is presently filed from Indore plant and will also be filed from an alternate site shortly. Management expects to get an approval from USFDA in next 2 years.

- In FY25, it will launch four peptide assets (mix of 505 b(2) and generics) of which one product (first generic) will be launched in Q1FY25.
- Management has replied to all the pending queries from USFDA for Goa plant and is working closely with USFDA on queries related to Pithampur plant.
- Re-inspection of Goa plant will be due in Q1FY25. Nano-paclitaxel will be ahead of timeline if the site gets cleared in H1FY25.
- Management will re-file gAdvair from alternate site if Indore plant is not cleared by USFDA in mid-FY25.
- Launch of products from partnered site, better pricing and volumes for existing products have helped the company offset the impact of the delay in gAdvair launch in the US.
- gAbraxane will be re-filed from Goa plant, due to manufacturing complexity the company was unable to transfer this product to a third-party site.
- US price erosion currently stands between 4-6%. Management expects price erosion to intensify in the next couple of quarters.
- Respiratory products will continue to be the biggest driver for US revenue and margins.
- Management is reshaping its strategy to foray in specialty segment. It aims to develop products through in-house R&D or acquire assets that are already approved by USFDA (less than USD 50mn assets).
- The company has decent pipeline of respiratory assets that can boost growth in US till FY28.

SAGA

- Adjusting for divestment of QCIL, SAGA business grew at 35% in USD terms.
- Actor Pharma integration is on track to commence in Q4FY24. It has received approval from the Competition Commission of India to close the acquisition.

Guidance

- Targeting to grow faster than market growth in India.
- Management expects gross margin to remain stable in FY25 due to uncertainty related to product pricing for US market.
- EBITDA margin guidance raised by 50bps to 23.5-24% for FY24.
- Capex for FY24 will be between INR 10-15bn.
- R&D spending will be ~6% of sales ahead.
- Q4FY24 will be weak on a sequential basis due to seasonality in India and US.
- Promoters have likely called off their plans to sell their stake in Cipla. Ms Samina Hameid has moved to a non-executive role.

Q3FY24 financials

- Gross margin in the quarter expanded on account of change in product mix, new launches and softer RM prices.
- The company has taken an impairment charge of INR 1.95bn on the entire intangible asset pertaining to Pulmazole. It may still develop and launch this product in India and other emerging markets.
- Cipla has repaid all long-term loans including ZAR 720mn term loan in South Africa. At the end of 9MFY24, gross debt stood at INR 4.49bn and cash balance was INR 75.91bn.

Exhibit 1: Q3FY24 result review

Y/E Mar (INR mn)	Q3FY24	Q3FY23	YoY(%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY(%)
Net Sales	66,038	58,101	13.7	66,782	(1.1)	1,96,109	1,70,138	15.3
Gross Profit	43,843	38,058	15.2	43,651	0.4	1,28,414	1,08,249	18.6
Gross Margins (%)	66.4	65.5	88.7	65.4	102.7	65.5	63.6	185.7
EBITDA	17,475	14,076	24.2	17,338	0.8	49,752	38,532	29.1
EBITDA Margins (%)	26.5	24.2	223.6	26.0	50.1	25.4	22.6	272.2
Other Income	1,846	1,144	61.3	1,763	4.7	4,972	3,408	45.9
Interest	301	318	(5.4)	258	16.7	723	752	(3.8)
Depreciation	2,334	2,721	(14.2)	2,900	(19.5)	7,627	8,259	(7.7)
PBT	16,686	12,181	37.0	15,942	4.7	46,375	32,930	40.8
Tax	4,053	4,100	(1.1)	4,384	(7.6)	12,217	9,806	24.6
Tax Rate (%)	24.3	33.7	(937.2)	27.5	(321.0)	26.3	29.8	(343.4)
PAT	10,685	8,081	32.2	11,558	(7.6)	32,209	23,124	39.3
Minority Interest	(126)	(71)	77.9	(249)	(49.4)	(384)	(361)	6.3
Adjusted Net Income	11,580	8,010	44.6	11,309	2.4	32,846	22,763	44.3
NPM (%)	17.5	13.8	374.9	16.9	60.0	16.7	13.4	337.0

Source: I-Sec research, Company data

Exhibit 2: Segmental breakup

INR mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	% YoY	% QoQ
Domestic business	25,180	21,830	24,830	25,630	25,630	22,590	27,720	28,170	28,590	11.5	1.5
Exports	27,540	28,940	27,070	30,620	30,420	32,930	33,490	36,140	34,770	14.3	(3.8)
North America	11,240	12,090	11,990	14,320	16,000	16,770	18,220	18,870	19,160	19.8	1.5
SAGA	8,920	9,530	7,880	8,670	6,800	8,320	7,480	9,930	8,150	19.9	(17.9)
International markets	7,380	7,320	7,200	7,630	7,620	7,840	7,790	7,340	7,460	(2.1)	1.6
API	1,500	1,370	1,350	1,530	1,470	1,330	1,360	1,470	1,080	(26.5)	(26.5)
Others	560	460	510	510	580	530	710	1,000	990	70.7	(1.0)
Total	54,780	52,600	53,760	58,290	58,100	57,380	63,280	66,780	65,430	12.6	(2.0)

Source: I-Sec research, Company data

Exhibit 3: Key growth drivers of domestic business in Q3FY24

Brands (INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	MAT DEC'23	MAT DEC'22	YoY (%)
Foracort	2,359	1,935	21.9	2,014	17.1	8,343	6,715	-19.5
Duolin	1,455	1,332	9.3	1,102	32.0	4,859	4,188	-13.8
Budecort	1,478	1,276	15.9	1,008	46.6	4,541	3,627	-20.1
Seroflo	820	770	6.5	693	18.3	2,935	2,923	-0.4
Montair-Lc	849	836	1.5	623	36.4	2,842	2,719	-4.3
Asthalin	846	841	0.6	658	28.6	2,832	2,664	-5.9
Dytor	678	585	15.9	656	3.3	2,590	2,219	-14.4
Azee	681	696	-2.2	598	14.0	2,365	2,440	3.2
Ibugesic Plus	599	524	14.4	626	-4.4	2,262	1,822	-19.4
Aerocort	605	592	2.1	508	19.1	2,147	2,025	-5.7

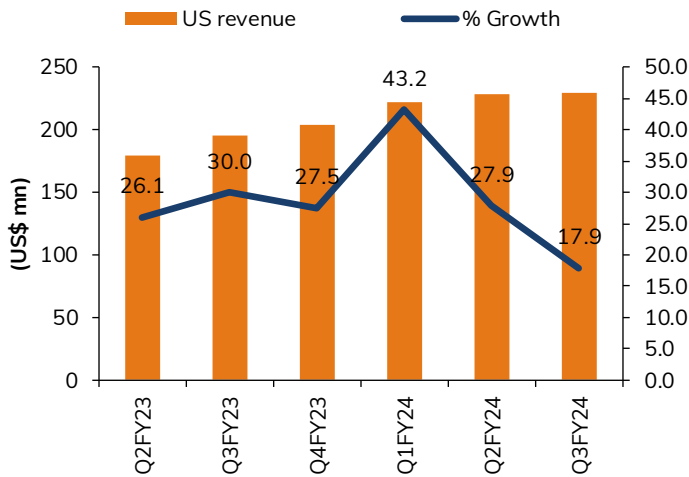
Source: IQVIA

Exhibit 4: Growth profile of key therapies in India

Therapies (INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	MAT DEC'23	MAT DEC'22	YoY (%)
Respiratory	12,676	11,388	11.3	10,022	26.5	42,785	37,545	14.0
Anti-Infectives	4,451	4,203	5.9	4,282	4.0	16,350	15,210	7.5
Cardiac	3,389	3,050	11.1	3,276	3.5	13,000	11,674	11.4
Anti Diabetic	1,662	1,603	3.7	1,566	6.2	6,421	6,491	-1.1
Gastro Intestinal	1,517	1,515	0.1	1,645	-7.8	6,291	6,308	-0.3
Urology	1,422	1,227	15.9	1,384	2.8	5,318	4,781	11.2
Pain / Analgesics	1,190	1,054	13.0	1,179	1.0	4,434	3,846	15.3
Derma	983	918	7.1	982	0.1	3,735	3,307	12.9
Neuro / CNS	989	892	10.9	957	3.3	3,725	3,392	9.8
Ophthal / Otologicals	813	825	-1.4	1,100	-26.1	3,530	3,064	15.2
Others	2,451	2,228	10.0	2,416	1.4	9,458	8,528	10.9

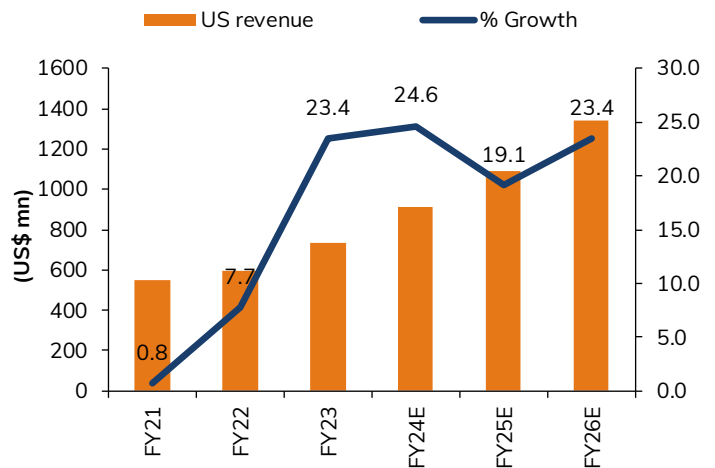
Source: IQVIA

Exhibit 5: US business reached all-time high on the back of volume traction of key assets



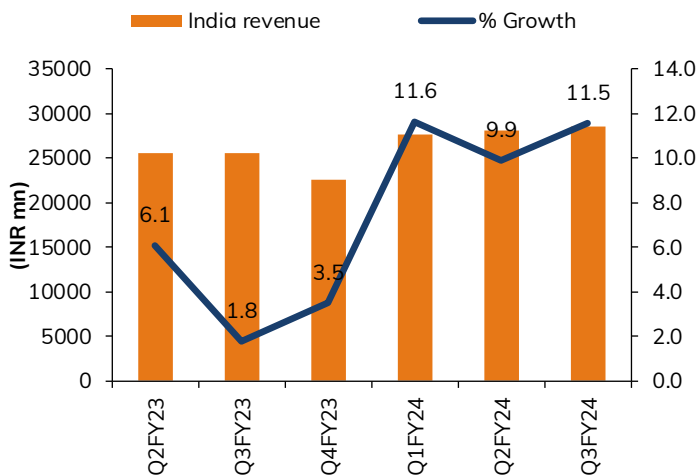
Source: I-Sec research, Company data

Exhibit 6: Advair and complex launches to aid growth in the US



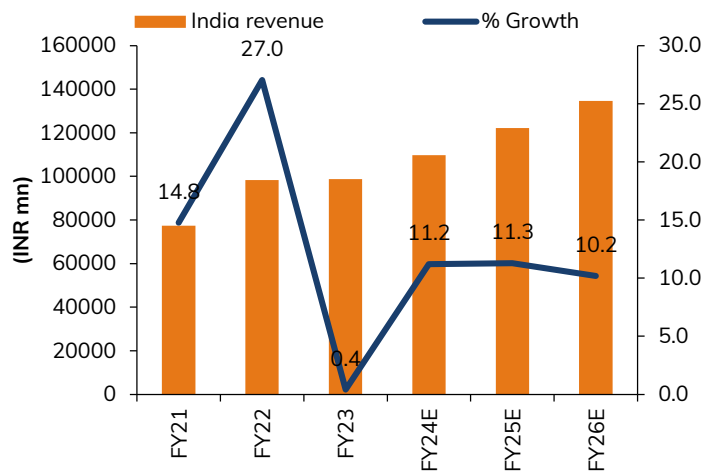
Source: I-Sec research, Company data

Exhibit 7: Domestic business witnessed growth across all 3 verticals



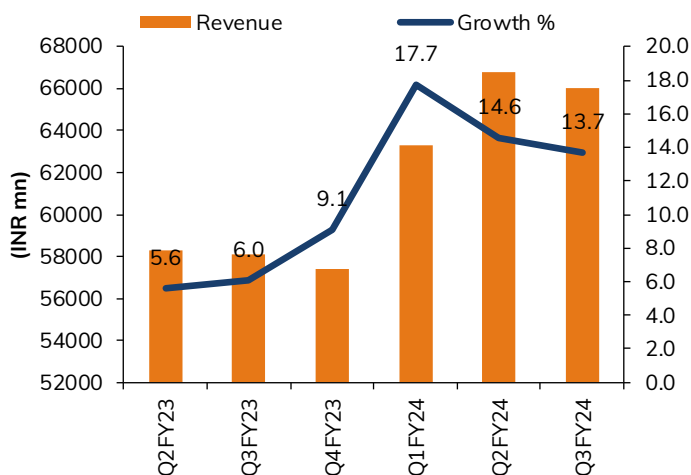
Source: I-Sec research, Company data

Exhibit 8: India revenue to be driven by healthy volume and price-led growth



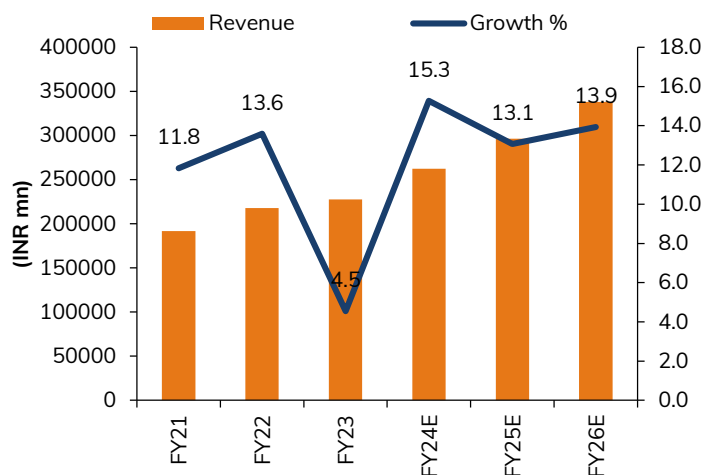
Source: I-Sec research, Company data

Exhibit 9: Strong revenue performance driven by traction in India and key export markets of US & South Africa



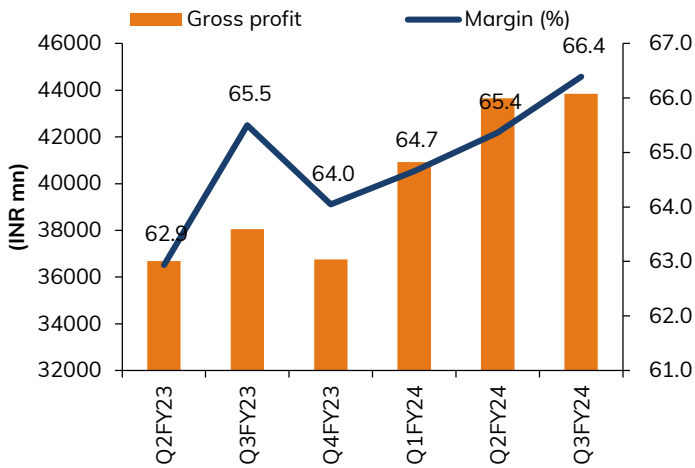
Source: I-Sec research, Company data

Exhibit 10: Revenue to grow at 12.8% CAGR over FY23-FY26E



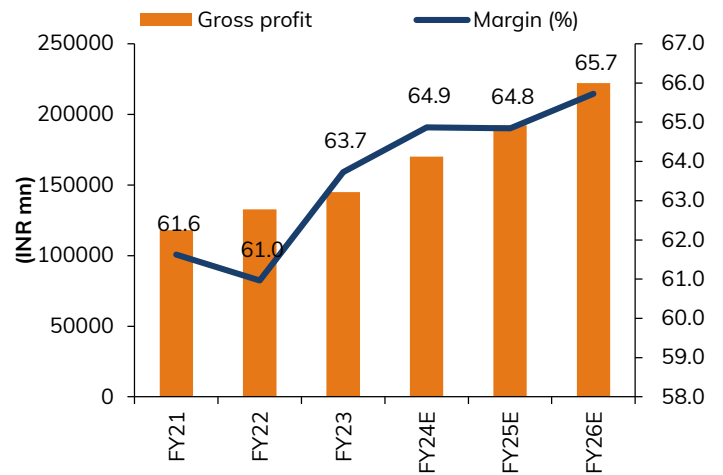
Source: I-Sec research, Company data

Exhibit 11: Softer RM cost, better product mix in India aid gross profit margin



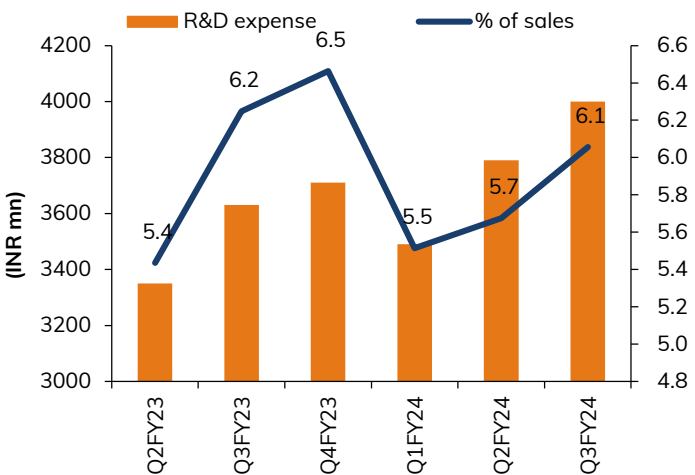
Source: I-Sec research, Company data

Exhibit 12: Gross margin to get a boost from launches in US and price hikes in India



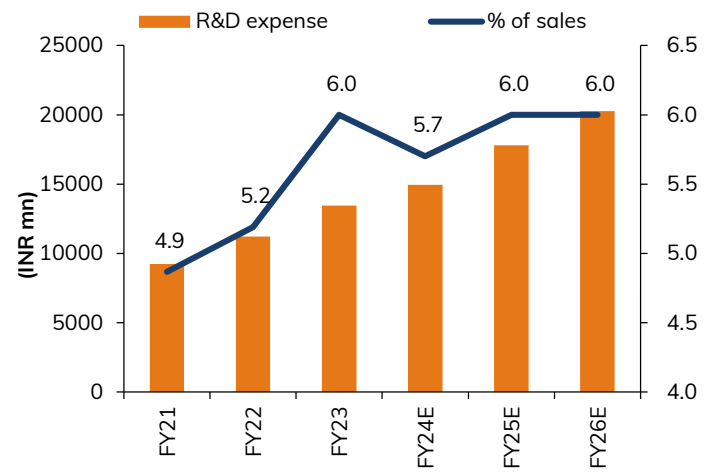
Source: I-Sec research, Company data

Exhibit 13: R&D expense in Q3FY24 stood at 6.1% of sales



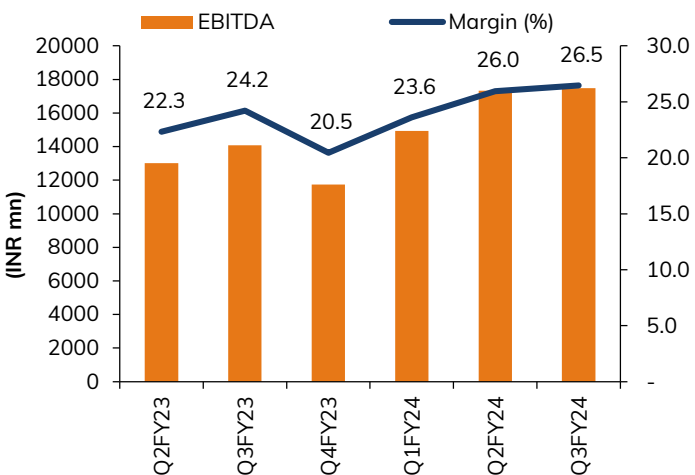
Source: I-Sec research, Company data

Exhibit 14: R&D to remain at ~6% in FY26E



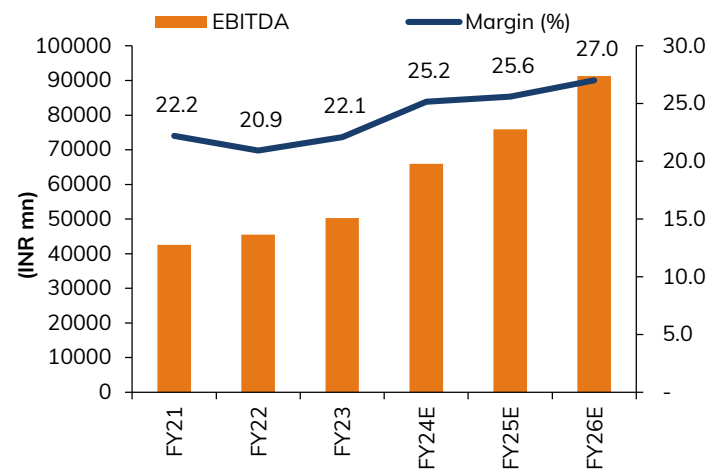
Source: I-Sec research, Company data

Exhibit 15: EBITDA margin expanded 50bp in Q3FY24



Source: I-Sec research, Company data

Exhibit 16: EBITDA margin to expand 330bps with controlled costs and healthy domestic growth

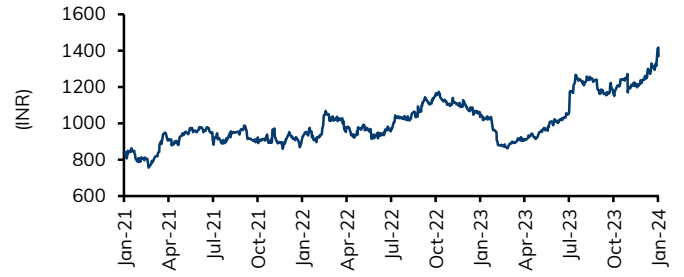


Source: I-Sec research, Company data

Exhibit 17: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	33.5	33.5	33.5
Institutional investors	49.8	45.0	50.0
MFs and others	15.4	16.5	16.7
Insurance Cos	6.3	5.3	5.4
FII's	28.1	28.2	27.9
Others	16.7	16.5	16.5

Source: Bloomberg, I-Sec research

Exhibit 18: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 19: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	2,27,531	2,62,273	2,96,566	3,37,892
Operating Expenses	94,739	1,04,149	1,16,368	1,30,747
EBITDA	50,270	65,993	75,932	91,319
EBITDA Margin (%)	22.1	25.2	25.6	27.0
Depreciation & Amortization	11,721	10,823	11,704	12,585
EBIT	38,549	55,170	64,228	78,734
Interest expenditure	1,095	1,015	1,015	1,015
Other Non-operating Income	4,755	6,217	6,133	7,236
Recurring PBT	40,384	62,320	69,347	84,955
Profit / (Loss) from Associates	(26)	(26)	(26)	(26)
Less: Taxes	12,029	17,450	19,417	23,787
PAT	28,356	44,870	49,930	61,168
Less: Minority Interest	(310)	(310)	(310)	(310)
Extraordinaries (Net)	(1,281)	1,403	-	-
Net Income (Reported)	28,020	44,535	49,594	60,832
Net Income (Adjusted)	28,020	44,535	49,594	60,832

Source Company data, I-Sec research

Exhibit 20: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	1,41,851	1,77,155	2,22,381	2,78,662
of which cash & cash eqv.	15,646	51,763	80,735	1,19,278
Total Current Liabilities & Provisions	45,893	46,817	50,578	55,022
Net Current Assets	95,958	1,30,337	1,71,803	2,23,640
Investments	37,222	37,222	37,222	37,222
Net Fixed Assets	49,908	47,403	48,465	49,021
ROU Assets	-	-	-	-
Capital Work-in-Progress	10,933	10,933	10,933	10,933
Total Intangible Assets	41,099	43,608	42,842	41,701
Other assets	2,582	2,582	2,582	2,582
Deferred Tax assets	4,565	4,565	4,565	4,565
Total Assets	2,48,740	2,87,575	3,30,765	3,83,739
Liabilities				
Borrowings	5,204	5,204	5,204	5,204
Deferred Tax Liability	1,633	1,633	1,633	1,633
provisions	1,022	1,216	1,375	1,566
other Liabilities	3,746	3,746	3,746	3,746
Equity Share Capital	1,614	1,614	1,614	1,614
Reserves & Surplus	2,32,464	2,71,105	3,14,136	3,66,918
Total Net Worth	2,34,078	2,72,719	3,15,750	3,68,532
Minority Interest	3,058	3,058	3,058	3,058
Total Liabilities	2,48,740	2,87,575	3,30,765	3,83,739

Source Company data, I-Sec research

Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	27,878	63,178	54,957	69,521
Working Capital Changes	16,518	2,520	13,763	14,824
Capital Commitments	9,780	10,828	12,000	12,000
Free Cashflow	18,098	52,350	42,957	57,520
Other investing cashflow	8,949	-	-	-
Cashflow from Investing Activities	(18,729)	(10,828)	(12,000)	(12,000)
Issue of Share Capital	1	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(3,038)	-	-	-
Dividend paid	(3,330)	(3,708)	(5,893)	(6,563)
Others	(6,420)	(12,525)	(8,092)	(12,415)
Cash flow from Financing Activities	(12,788)	(16,233)	(13,985)	(18,978)
Chg. in Cash & Bank balance	(3,639)	36,117	28,972	38,543
Closing cash & balance	15,646	51,763	80,735	1,19,278

Source Company data, I-Sec research

Exhibit 22: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	36.3	53.4	61.4	75.4
Adjusted EPS (Diluted)	34.8	55.3	61.6	75.6
Cash EPS	49.4	68.8	76.1	91.2
Dividend per share (DPS)	4.6	7.3	8.2	10.0
Book Value per share (BV)	290.5	338.5	391.9	457.4
Dividend Payout (%)	12.7	13.7	13.3	13.3
Growth (%)				
Net Sales	4.5	15.3	13.1	13.9
EBITDA	10.4	31.3	15.1	20.3
EPS (INR)	10.5	47.2	15.0	22.7
Valuation Ratios (x)				
P/E	37.7	25.6	22.3	18.2
P/CEPS	27.7	19.9	18.0	15.0
P/BV	4.7	4.0	3.5	3.0
EV / EBITDA	21.0	15.4	13.0	10.4
P / Sales	4.8	4.2	3.7	3.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	63.7	64.9	64.8	65.7
EBITDA Margins (%)	22.1	25.2	25.6	27.0
Effective Tax Rate (%)	29.8	28.0	28.0	28.0
Net Profit Margins (%)	12.3	17.0	16.7	18.0
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.2)	(0.3)	(0.4)	(0.4)
Net Debt / EBITDA (x)	(0.9)	(1.3)	(1.5)	(1.7)
Profitability Ratios				
RoCE (%)	13.3	17.1	16.9	17.8
RoE (%)	12.5	15.8	15.7	16.5
RoC (%)	20.0	28.3	30.7	35.2
Fixed Asset Turnover (x)	4.5	5.3	6.1	7.0
Inventory Turnover Days	89	96	98	95
Receivables Days	70	63	65	65
Payables Days	42	38	38	37

Source Company data, I-Sec research

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