



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

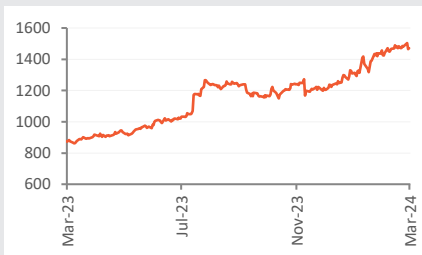
Company details

Market cap:	Rs. 1,21,104 cr
52-week high/low:	Rs. 1,519 / 852
NSE volume: (No of shares)	18.01 lakh
BSE code:	500087
NSE code:	CIPLA
Free float: (No of shares)	53.7 cr

Shareholding (%)

Promoters	33.4
FII	3.8
DII	21.7
Others	41.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.5	25.1	20.3	71.4
Relative to Sensex	-4.4	17.5	-1.7	48.5

Sharekhan Research, Bloomberg

Cipla Ltd

Complex respiratory portfolio growth to drive margins

Pharmaceuticals	Sharekhan code: CIPLA		
Reco/View: Buy	↔	CMP: Rs. 1,500	Price Target: Rs. 1,700 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We reiterate a Buy call with a higher PT due to buoyancy in the US, as price erosion pressures ease, volume growth due to drug shortages and focus on complex products.
- Cipla's growth in the IPM February 2024 stood at 8.1% (IPM growth of 9%) and 9.9% on MAT basis (IPM growth of 6.7% on a MAT basis).
- We expect EBITDA margins to rise to 26% by FY26E driven by higher chronic share in the domestic business, new product launches in the complex generics in the US and completion of acquisition of Actor Pharma in South Africa.
- Stock trades at a P/E of 25x/ 21.2x its FY2025E/FY2026E EPS. Due to continuous healthy traction in both the US and India. We increase our ascribed multiple to 24x on FY26E to arrive at a PT of Rs. 1,700 (earlier PT Rs 1,600).

Cipla's US sales remain buoyant driven by product launches, seasonality, sustaining market leadership in the key assets like Albuterol, Brovana, Lanreotide etc. and easing of price erosion pressure in the base portfolio. Due to seasonality, we expect gRevlimid to contribute to Q4FY24E numbers, resulting in higher US sales. India business has also reported higher traction led by 60% contribution from the chronics portfolio. Cipla is focusing on expanding its big brands bigger and has 20 brands in above Rs 100 crores category as per IQVIA MAT December 2023 data. Foracort, a leading inhaler brand in one of the biggest brands in the IPM valuing at Rs 642 crore now ranks 4th in the top 50 brands of the IPM. Cipla's trade generic segments have 8 brands over Rs 50 crore due to higher productivity from 7500 MRs. It's South Africa business is also expected to perform well due to restructuring towards OTC and private markets as against catering to tender market earlier. Hence, we maintain a Buy on the stock.

US growth momentum to continue – Cipla's US business remains strong and has grown for 15 consecutive quarters primarily due to new product launches in the complex therapy. Cipla's complex drugs like Lanreotide's market share rose to 20% on healthy traction in the respiratory therapy. The company is aiming to launch 5 peptides in FY25E and are working on complex products like gAdvair and gAbroxane as a lever for margins increment. Cipla has various complex products in its portfolio ranging from gRevlimid, Lanreotide, Albuterol, Diclofenac Gel Testosterone Injection Cinacalcet, etc. which has aided in reporting all time high margins. The Goa plant is expected to witness inspection in CY24E after submission of CAPA; clearance of plant would further aid US growth.

India business big brands to become bigger – Cipla's India business grew 9.9% on a MAT basis (IPM growth of 6.7% on MAT) and 8.1% on an MTH basis (IPM growth of 9% on MTH basis) in the month of February. Cipla's IPM growth on MAT basis was driven by a volume growth of 7.9% (IPM volume growth of -0.3%) but on a monthly basis Cipla's volume growth reported -4.6% (IPM volume growth of 0.2% on MTH basis). Cipla's volume growth on MAT basis was driven by leading brands like Foracort which grew by 18% in value terms and 14.9% volume growth to Rs 642 crore, Budecort which grew by 9.4% in value terms and an 11.6% in volume growth to Rs 415 crore and Duolin, which grew by 9.4% in value terms and .5% volume growth to Rs 395 crore. In the branded Rx business, Cipla has 20 brands with revenues over Rs 100 crore as per the IQVIA MAT December 2023 and has the highest number of brands in the IPM in the top 10, top 50 and the top 100 segments as per the December 2023 IQVIA report. We believe Cipla's India business to continue to do well driven by the respiratory portfolio, trade generics and One India portfolio and venturing into chronic portfolio which to aid in margins increment.

Uptrend in margins to continue - Cipla has 43% of the sales driven from the Indian branded generic region and 28% of the sales driven from the North America region, where it caters to complex respiratory products. In India, Cipla's leading brand Foracort has gained ranks to become the top 3 drugs of the IPM and going forward expects to venture into chronic portfolio which would keep margins elevated. In the US region, Cipla is leveraging on complex generic products like gAlbuterol, gLanreotide, gRevlimid and going forward expects to launch 5 peptides in FY25E along with filing of gSymbicort (market size of \$3.3 bn) and other respiratory products. Due to a healthy pipeline of complex products and improvement in market share in the base products, we believe the company's EBITDA margin to inch up to 26.4% in FY26E as against 22% in FY23.

Our Call

View – Maintain Buy with revised PT of Rs. 1,700: Cipla is on a growth trajectory led by 1) Higher traction in key products like Albuterol and Lanreotide, 2) easing of price erosion to 4-6% due to drug shortages, 3) Leading brands in the domestic branded business and 3) OTC and private-led growth in the South Africa region. Healthy product mix resulted in clocking higher margins. Going forward, we believe the company should continue to report higher margins due to meaningful new launches in the US market. The company has submitted its CAPA for the Goa plant which is under WL and the USFDA inspection is expected in mid-CY24E. The stock is trading at a P/E of 25x/21.2x its FY2025E/FY2026E EPS of Rs. 59/Rs. 69.6 per share. As the growth trajectory in the company remains strong due to an - 1) Increase in market share of complex generics products, 2) Chronic-led growth in domestic business, 3) OTC and private market growth in SAGA region, 4) increase EBITDA margin to 26%, we ascribe a multiple of 24x on FY26E EPS to increase PT to Rs 1700 (earlier Rs 1600), thus maintaining a Buy rating on the stock.

Key Risks

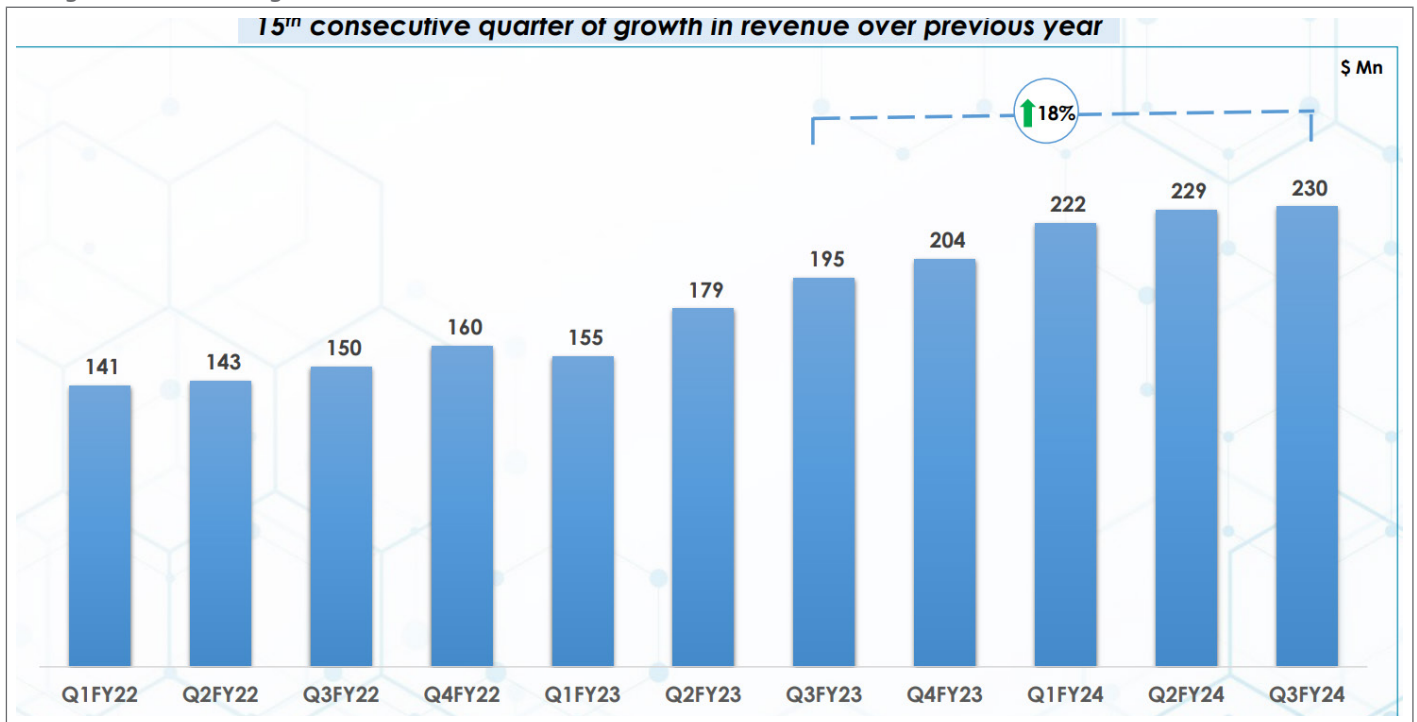
USFDA issues resolution timeline and potential import alert are key risks.

Valuation (Consolidated)	Rs cr				
Particulars	FY22	FY23	FY24E	FY25E	FY26E
Sales	21763	22753	25693	29068	32556
EBITDA M (%)	20.9	22.1	24.5	25.0	26.1
Adjusted PAT	2516	2801	4239	4754	5609
EPS	33.5	37.0	52.6	59.0	69.6
P/E	44.1	39.8	28.0	25.0	21.2
P/BV	5.6	5.0	4.3	3.8	3.3
EV/EBIDTA	25.9	23.5	18.8	16.2	13.9
ROE (%)	12.8	12.6	15.5	15.1	15.5
ROCE (%)	16.0	15.7	19.2	19.0	20.3

Source: Company; Sharekhan estimates

Status on USFDA inspection - Two major facilities in Indore and Goa have received Warning Letter and OAI respectively. The company has responded to queries from the USFDA and is now focusing on remediation. Due to WL in Goa facility, gAdvair launch has delayed to FY2025E. Cipla received USFDA observation for its key product, gAlbuterol, which commands ~13% market share. Cipla's USD sales are at USD733mn, of which we believe gAlbuterol's sales are likely to be at USD16-20mn for FY2023. The impact of USFDA observation on Cipla's earnings are likely to be minimal as Cipla has strengthened its US portfolio, where its key product, Lanreotide, has improved its market share to 20%. As a result of the Warning Letter, the company's new product launches, such as gAdvair, which are expected to have significant sales, has been delayed. gAdvair's sales are expected to delay by further six months from its estimated time to file in H2FY2025E. gAdvair has a significant potential as the market size is worth USD700mn. There are a few players who specialise in the respiratory portfolio and Cipla, despite the delay in the launch, is expected to enjoy FTF for gAdvair. We expect gSymbicort and Peptides could be launch from the Goa facility, while this facility could get re-inspection in mid-CY24E.

Strong trend in the US region

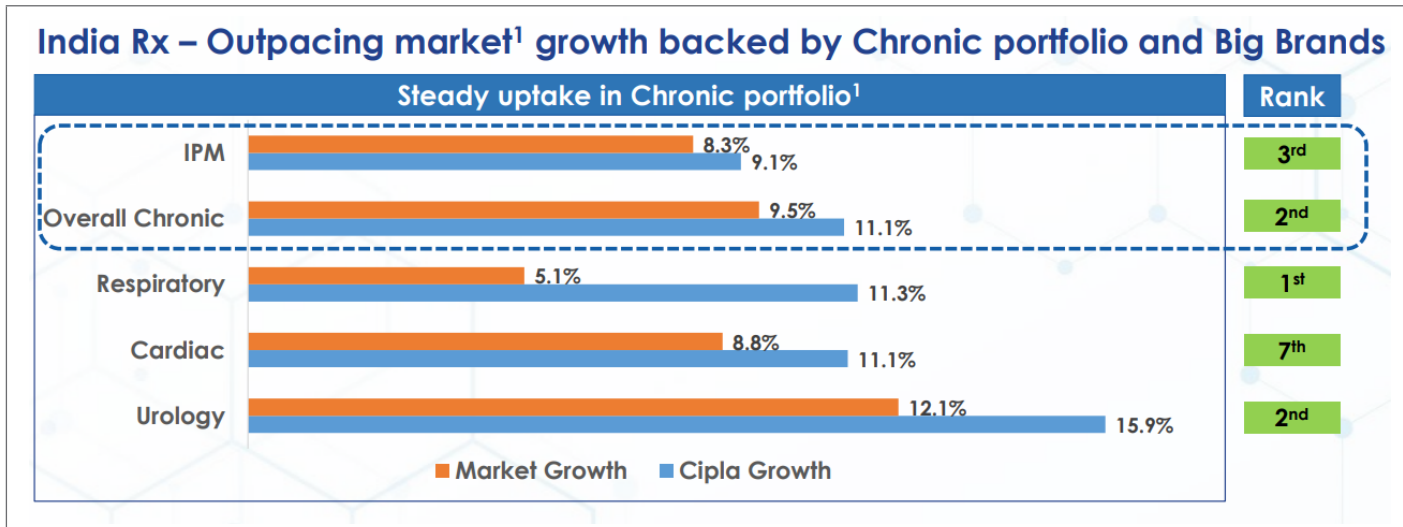


Source: Company

India sales growth to be driven by Chronic portfolio

Cipla's India region growth has always surpassed the IPM by 150 -200 bps. Cipla is focusing on rapidly growing chronic therapies to outperform IPM and improve domestic business margins. It already has a dominant presence in the respiratory segment and aims to further build on its chronic franchise (~60% of India) by identifying white spaces such as obesity, diabetes and CNS. Cipla aims to move from 4th position in the IPM to top 2 position in the IPM. Accordingly, it is evaluating opportunities in oncology, mental health, obesity and wellness therapy. Cipla's respiratory product, Foracort, has recently touched a Rs. 100 crore run-rate per month and has become the No. 1 ranked Rx brand in India. While Cipla is not a top player in CNS, diabetes in India, it aims to grow in these chronic therapies. Due to its focus on the chronic therapies, EBITDA margins in the domestic business are likely to improve.

India business growth continues to outperform IPM

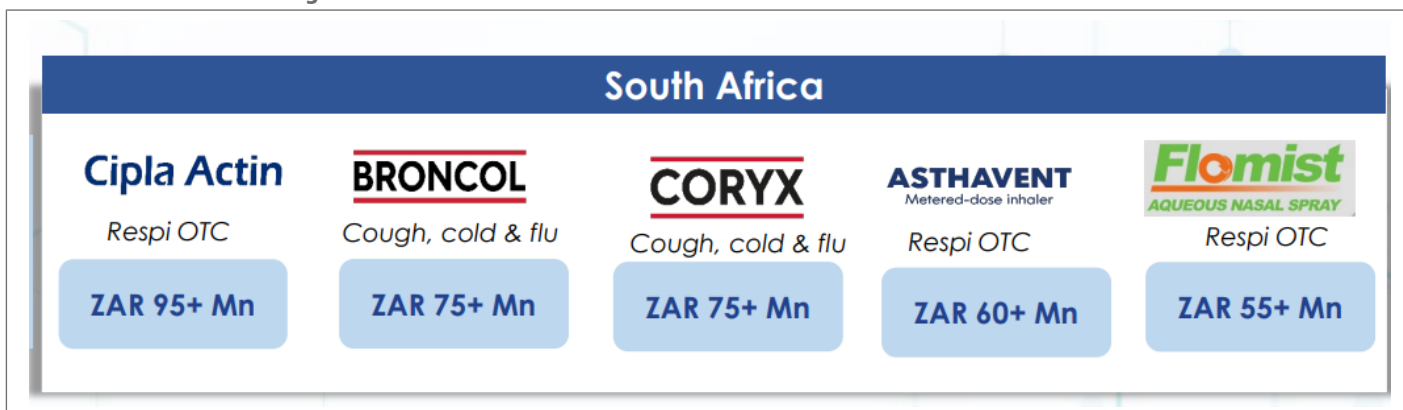


Source: Company

SAGA business growth to be driven by OTC and private market

Cipla’s SAGA business growth was driven by uptick in private and select tender business with greater emphasis on margin expansion. Cipla is ranked No. 2 in the South Africa prescription business and has recently restructured its business to move from tender to the private market business. The company has been outpacing the market consistently for the last few years and is targeting to be number 1 in the prescription business. In SAGA, Cipla completed sales of QCIL during the quarter. Excluding QCIL, SAGA recorded 35% year-on-year growth in USD terms backed by growth in South Africa as well as Cipla Global Access. It’s South Africa prescription business growth in secondary market was at a healthy 7% versus the market growth of 2% as per IQVIA MAT November 2023. Cipla is inching closer to the market leader. Cipla’s tender and OTC business has also witness positive traction post restructuring supported by execution of the strong order book.

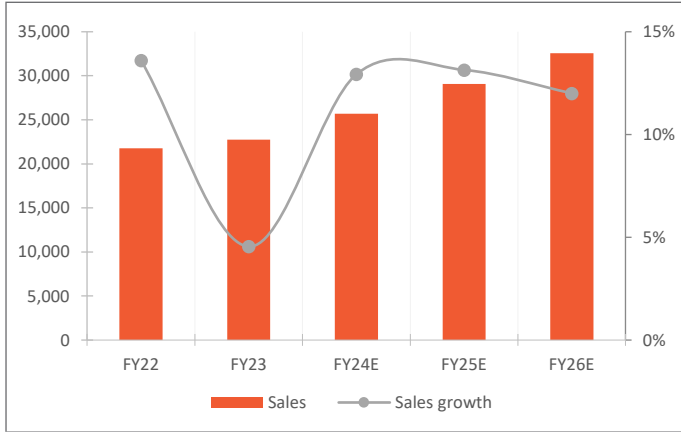
OTC brands sales of SAGA region



Source: Company

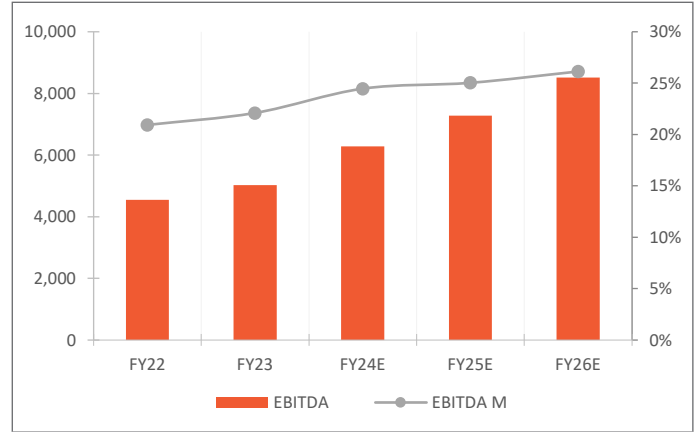
Financials in charts

Sales to continue growing in double digit due to higher US and India sales



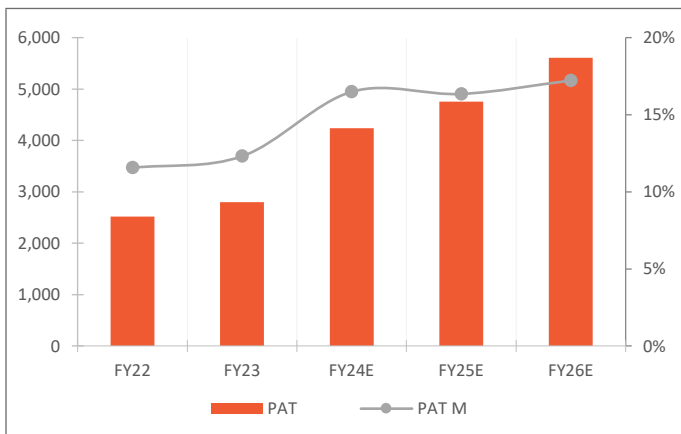
Source: Company, Sharekhan Research

EBITDA Margin to report at an all time high



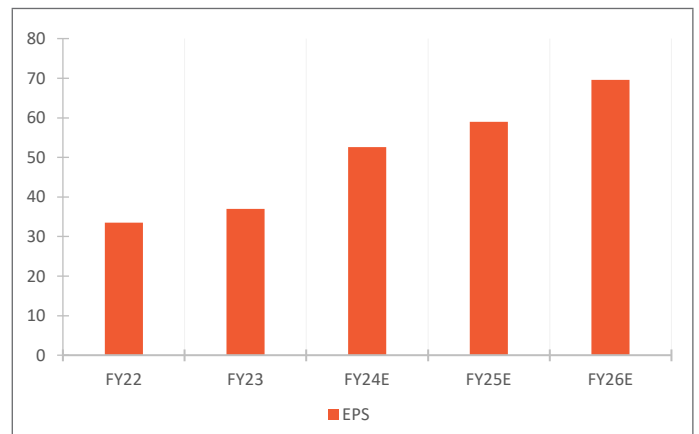
Source: Company, Sharekhan Research

PAT growth driven by healthy operations



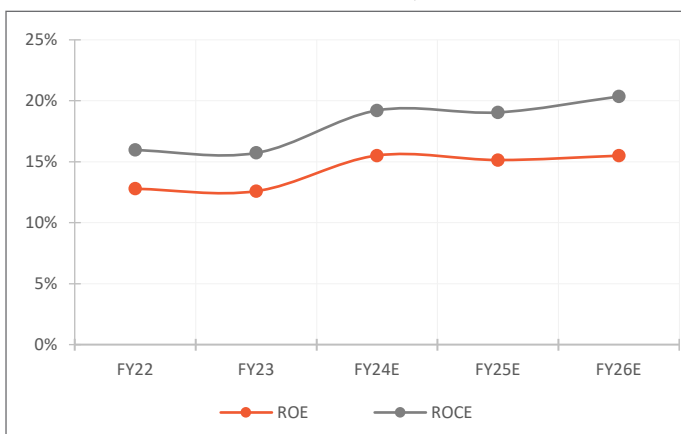
Source: Company, Sharekhan Research

EPS to be reported at an all time high



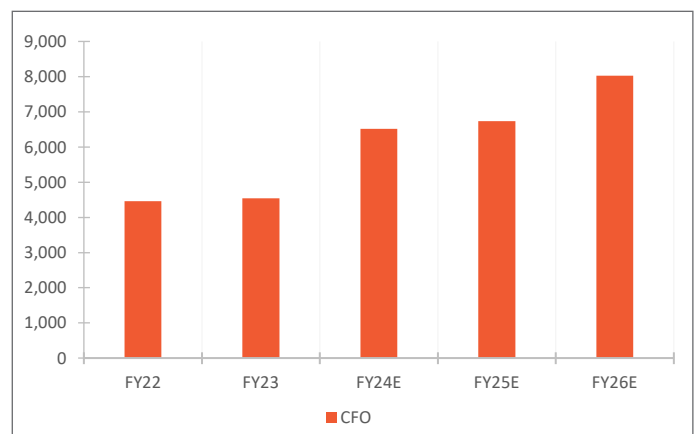
Source: Company, Sharekhan Research

Returns ratio to increase due to healthy operations



Source: Company, Sharekhan Research

CFO expected to report higher



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Input cost easing with companies focusing on complex product launches

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global pharma companies. The confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. The sector is witnessing easing of input costs like raw-material cost, freight cost, and power cost, which aid the sector in expanding margins. The sector is also witnessing the easing of price erosion followed by increasing contributions from product launches. We believe the sector is in a sweet spot, where it is experiencing a healthy product mix and cost rationalisation, which increases operational profit of the companies. The sector is mainly a low-debt sector and increasing operational profit followed by experiencing the advantage of low tax rate due to its operations in the SEZ sector; hence, overall, we have a positive view of the sector.

■ Company Outlook – Long-term outlook is strong

Cipla has seen an increase in the US revenue base to USD222 million a quarter vs. an average base of \$160 million before, driven by differentiated products. The company's differentiated products comprising respiratory and peptide products are performing well in the US. Although some of the concerns are that gAbraxane's and gAdvair's launches are likely to be delayed due to USFDA compliance pending at Indore and Goa plants, but they are being de-risked. At the same time, India's market growth is recovering and is expected to continue to grow on account of a strong set of product launches in branded prescription and trade generics. Re-balanced supply chain in the US coupled with a strong set of existing products such as gRevlimid and Lanreotide should continue to drive profitable growth over FY2023-FY2025E.

■ Valuation – Maintain Buy with revised PT of Rs. 1,700

Cipla is on a growth trajectory led by 1) Higher traction in key products like Albuterol and Lanreotide, 2) easing of price erosion to 4-6% due to drug shortages, 3) Leading brands in the domestic branded business and 3) OTC and private-led growth in the South Africa region. Healthy product mix resulted in clocking higher margins. Going forward, we believe the company should continue to report higher margins due to meaningful new launches in the US market. The company has submitted its CAPA for the Goa plant which is under WL and the USFDA inspection is expected in mid-CY24E. The stock is trading at a P/E of 25x/21.2x its FY2025E/FY2026E EPS of Rs. 59/Rs. 69.6 per share. As the growth trajectory in the company remains strong due to an - 1) Increase in market share of complex generics products, 2) Chronic-led growth in domestic business, 3) OTC and private market growth in SAGA region, 4) increase EBITDA margin to 26%, we ascribe a multiple of 24x on FY26E EPS to increase PT to Rs 1700 (earlier Rs 1600), thus maintaining a Buy rating on the stock.

About company

Cipla is a global pharmaceutical company with a geographically diversified presence and products registered in more than 170 countries. Indian branded formulations account for more than 40% of business and Cipla is among the top three players in the market. In the past, the company believed in the partnership model for international markets. However, in the past three years, the company has been undergoing a strategic shift and has started setting up its own front-end divisions. Cipla is also a well-known global player in inhalers and antiretrovirals. Going forward, the company is planning to launch combination inhalers in larger markets such as the US and EU and is setting up its own front ends to drive growth.

Investment theme

Cipla banks on its branded business in India and South Africa, both of which together contribute ~56% to the business. A solid presence in the chronic segment in domestic markets along with a market leadership position in select chronic therapies such as respiratory, inhalation, and urology bodes well for the company. The recently launched complex and differentiated products have done extremely well in the US. Additionally, the India market would recover its sales growth post the high base effect from COVID-19 wanes away. At the same time, SAGA is recovering with market-beating growth. Although its key launches stand pending due to USFDA facility clearances, they are being de-risked with launches likely over the next two years.

Key Risks

- ◆ Currency fluctuations could have an adverse impact.
- ◆ Delay in key product approvals/faster approvals for competitors.
- ◆ Any regulatory changes in India or South Africa or the US could affect business.

Additional Data

Key management personnel

Dr. Y. K. Hamied	Chairman
Samina Hamied	Executive Vice-Chairperson
Ashish Adukia	Chief Financial Officer
Rajendra Chopra	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management	4.65
2	Blackrock Inc.	3.45
3	Government Pension	2.48
4	Vanguard Group Inc.	2.43
5	Norges Bank	2.30
6	Life Insurance Corp	2.29
7	Government Pension Fund	2.25
8	HDFC AMC	1.83
9	NPS Trust AC	1.60
10	GQG Partners	1.16

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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