

BSE SENSEX 78,674 S&P CNX 23,869

CMP: INR1,479 TP: INR1,700 (15%) Buy

Cipla

Bloomberg	CIPLA IN
Equity Shares (m)	807
M.Cap.(INRb)/(USD\$b)	1194.4 / 14.3
52-Week Range (INR)	1582 / 989
1, 6, 12 Rel. Per (%)	-4/7/17
12M Avg Val (INR M)	2458

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	257.7	278.3	305.0
EBITDA	62.9	70.4	78.1
Adjusted PAT	42.4	47.6	53.1
EBIT Margin (%)	20.5	21.5	21.9
Cons. Adj EPS (INR)	52.5	58.9	65.8
EPS Gr. (%)	39.0	12.3	11.7
BV/Sh. (INR)	330.9	382.0	441.8

Ratios

Net D-E	0.0	-0.1	-0.2
RoE (%)	15.9	15.4	14.9
RoCE (%)	17.0	16.5	16.0
Payout (%)	9.4	10.2	9.1

Valuation

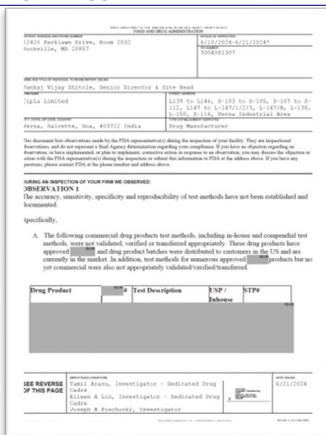
P/E (x)	28.2	25.1	22.5
EV/EBITDA (x)	18.8	16.3	14.3
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	0.3	3.7	3.2
EV/Sales (x)	4.6	4.1	3.7

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	33.4	33.4	33.4
DII	24.4	24.3	22.0
FII	26.0	25.9	27.7
Others	16.3	16.4	16.9

FII Includes depository receipts

Goa Form 483



Classification of Goa inspection remains key

Comprehensive measures required to resolve regulatory issues

- We assessed Form 483 issued by USFDA after inspection at Cipla's Goa site.
- Form 483 highlights issues largely related to testing methods, monitoring environmental conditions, cleaning/disinfections and root cause analysis.
- Considering the observations, we await classification of the inspection to incorporate potential business from key products like g-Abraxane.
- Nonetheless, Cipla remains on track to file complex products in respiratory, peptides and differentiated product category.
- We estimate a 12% earnings CAGR backed by 12%/7% sales CAGRs in DF/US generics and a 120bp margin expansion over FY24-26.
- Considering a healthy pipeline of niche products and superior execution in the branded generics segment, we value Cipla on SOTP basis (24x 12M forward earnings and NPV of INR30 for g-Revlimid) to arrive at our TP of INR1,700. We maintain BUY rating on the stock.

Goa Form 483 snapshot

- USFDA issued Form 483 with six observations after inspection during 10-21st Jun'24. The first observation is related to test methods, including in-house and compendial, being not validated, verified or transferred appropriately. These testing methods refer to commercial as well as approved but not commercialized products. This observation was extended to certain APIs as well. Our interaction with an industry expert indicates that it will take three to six months to resolve this issue.
- Another observation is related to deficiencies regarding system for monitoring environmental conditions. Specifically, the issue is related to viable surface monitoring.
- Another observation is pertaining to cleaning and disinfecting room and equipment to produce aseptic conditions. One of the aspects highlighted under this observation is repeated from Form 483 issued in Aug'22. There is an observation related to inadequate root cause analysis as well.
- Form 483 also points out observations pertaining to appropriate controls on computer systems and responsibilities/procedures related to quality control.

Two out of 11 sites catering US generics facing regulatory hurdles

- To date, USFDA conducted 59 inspections at the sites of Cipla and Invagen. Notably, the Goa site has received two OAI classifications till date.
- The regulatory history of Cipla had been sound until Sep'19, when it received the first adverse outcome (OAI) from USFDA for the Goa site. Subsequently, a warning letter was also issued for the site. It was re-inspected in Aug'22 and the classification was maintained as OAI.
- Cipla has also received a warning letter for its Pithampur site in Nov'23.
- While these sites are critical for niche approvals in injectables/respiratory aspects, Cipla is trying to reduce the regulatory risk by filing for potential products through alternate sites.
- Recently, Cipla received VAI classification for the Patalganga site, which was inspected in Jun'24.

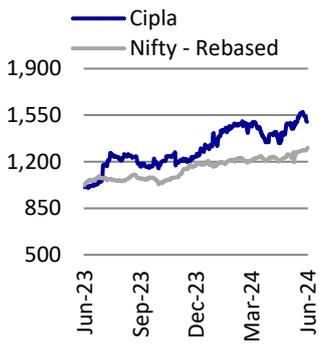
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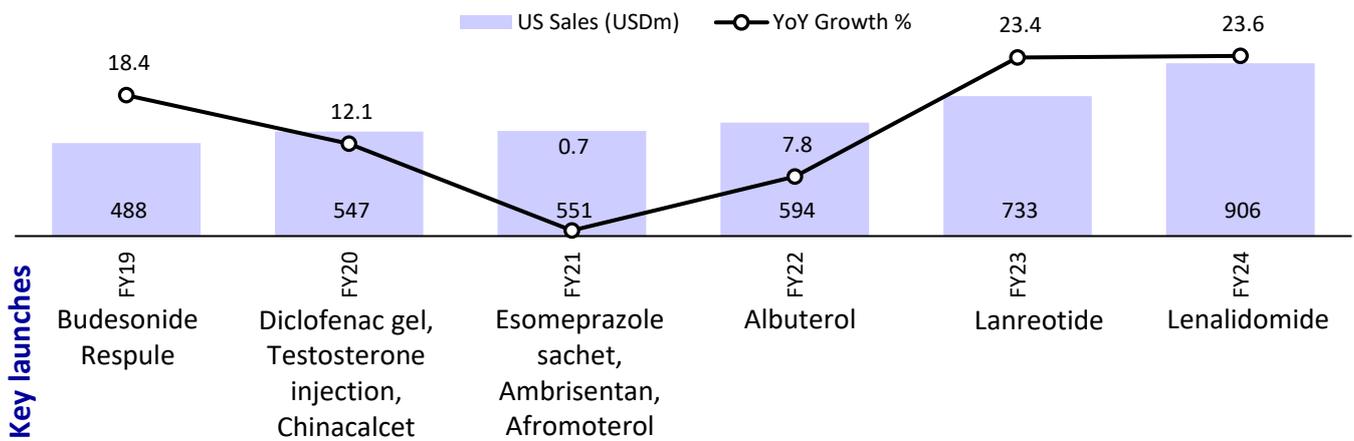
Stock's performance (one-year)



Valuation and view: Work in progress for better prospects in key markets; maintain BUY

- We expect the US business to clock a 7% CAGR as Cipla is focusing on complex products, including two 505b2 assets, 12 peptide/complex generics, and five respiratory products. Further, it has 16 assets under the filing stage over the next 12-24 months to drive growth in the long term.
- We expect a 12% earnings CAGR over FY24-26, led by a gradual ramp-up in niche launches including g-Leuprolide/g-Lanreotide/g-Revlimid, new approvals, industry outperformance in India chronic segment/consumer healthcare.
- We value CIPLA on SOTP basis (24x12m forward earnings and a NPV of INR30 for g-Revlimid) to arrive at our TP of INR1,700. Maintain BUY.

Exhibit 1: US revenue has seen 13% CAGR over FY19-24



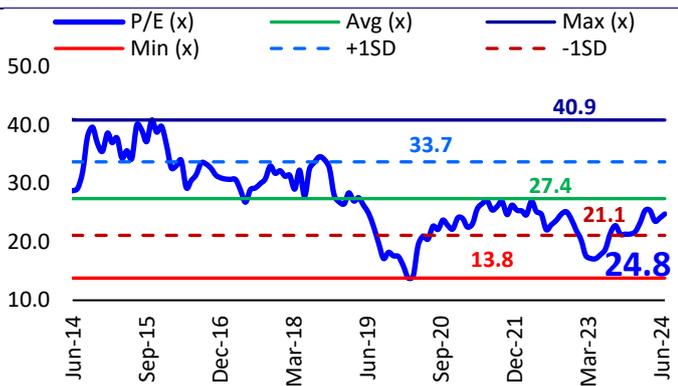
Source: MOFSL, Company

Exhibit 2: USFDA inspection history snapshot

Site	Inspection End date	Classification/Remarks
Goa	Jun'24	Form 483 with 6 observations
Goa	Aug'22	OAI
Goa	Sept'19	OAI
Goa	Jan'19	VAI
Pithampur	Nov'23	Warning letter
Pithampur	May'19	NAI
Central Islip	Oct'23	VAI
Hauppauge	Oct'23	NAI
Qidong	Mar'24	Form 483 with 0 observations
Raigad	Nov'19	VAI
Bengaluru	Jan'20	VAI

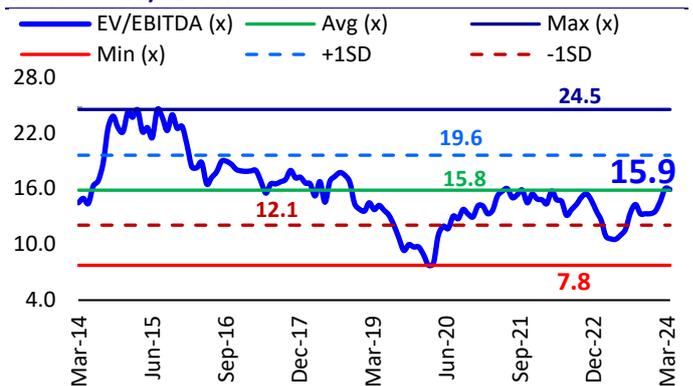
Source: MOSL, Company, USFDA

Exhibit 3: PE Chart



Source: MOSL, Bloomberg

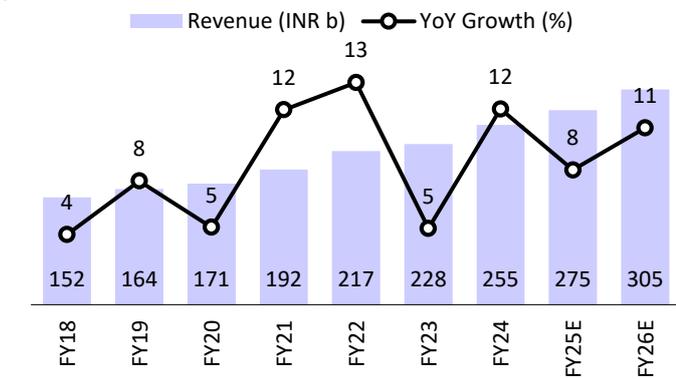
Exhibit 4: EV/EBITDA Chart



Source: MOSL, Bloomberg

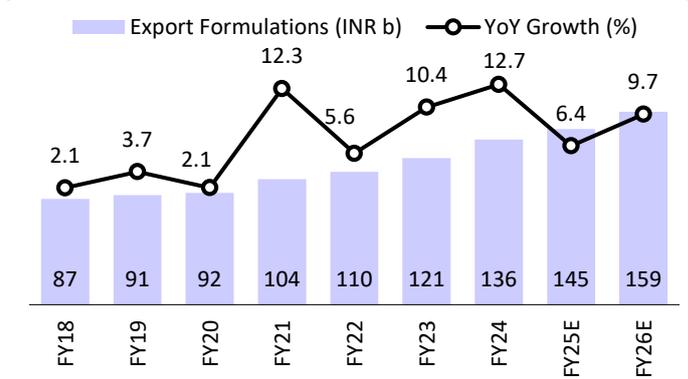
Story in charts

Exhibit 5: Total sales to see 9% CAGR over FY24-26



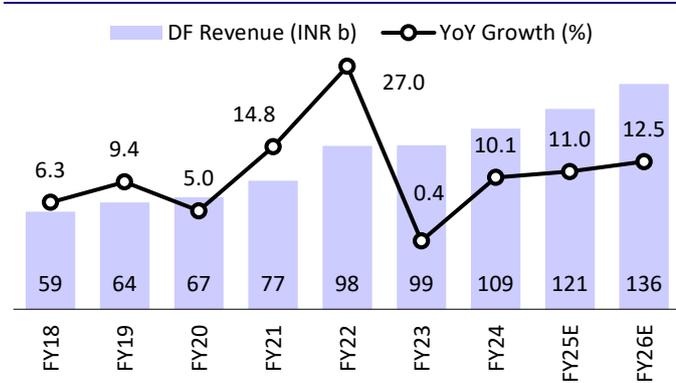
Source: Company, MOFSL

Exhibit 6: Exports sales to post 8% CAGR over FY24-26



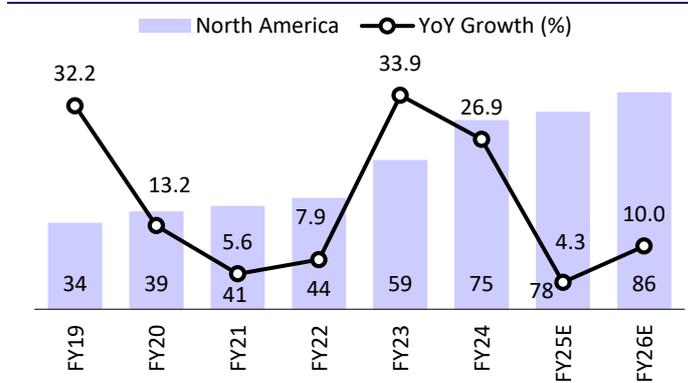
Source: Company, MOFSL

Exhibit 7: DF sales to record 12% CAGR over FY24-26



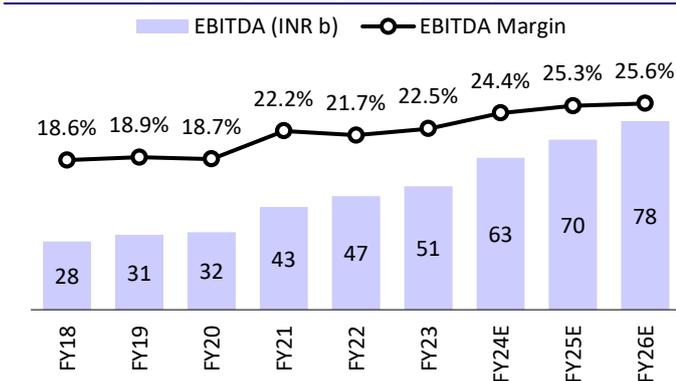
Source: Company, MOFSL

Exhibit 8: US sales to clock 7% CAGR over FY24-26



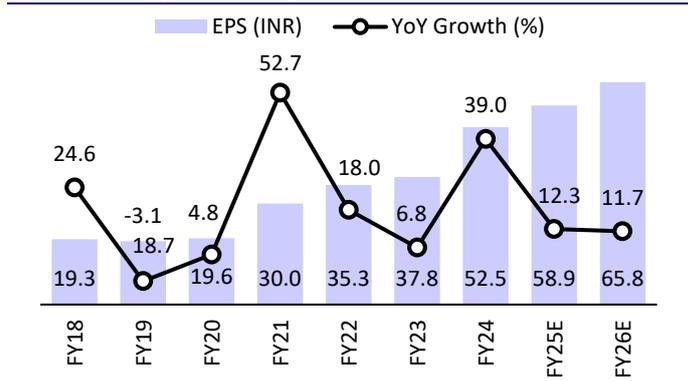
Source: Company, MOFSL

Exhibit 9: Expect margin to expand by 120bp in FY24-26



Source: Company, MOFSL

Exhibit 10: Expect earnings to clock 12% CAGR over FY24-26



Source: Company, MOFSL

Financials and valuations

Income Statement								(INRb)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Income	163.6	171.3	191.6	217.1	227.5	257.7	278.3	305.0
Change (%)	7.5	4.7	11.8	13.3	4.8	13.3	8.0	9.6
EBITDA	31.0	32.1	42.5	47.0	51.1	62.9	70.4	78.1
Change (%)	9.6	3.5	32.6	10.6	8.8	23.0	11.9	10.9
Margin (%)	18.9	18.7	22.2	21.7	22.5	24.4	25.3	25.6
Depreciation	11.2	11.4	10.7	10.5	11.7	10.1	10.5	11.1
EBIT	19.8	20.6	31.8	36.5	39.4	52.8	59.9	66.9
Int. and Finance Charges	1.7	2.0	1.6	1.1	1.1	0.9	0.4	0.4
Other Income - Rec.	2.8	3.4	2.7	2.8	4.5	6.2	5.3	5.6
PBT before EO Items	20.9	22.1	32.9	38.2	42.8	58.2	64.8	72.2
One-time (Expense)/Income	-0.1	0.3	0.0	3.3	2.5	1.1	0.0	0.0
PBT but after EO Exp.	20.8	21.8	32.9	34.9	40.4	57.0	64.8	72.2
Tax	5.7	6.3	8.9	9.3	12.0	15.5	17.5	19.3
Tax Rate (%)	27.4	29.0	27.0	26.7	29.8	27.1	27.0	26.8
Minority Interest	-0.4	-0.5	-0.2	0.3	0.3	0.3	-0.3	-0.3
Income from associates	-0.2	-0.5	-0.1	-0.1	0.0	0.0	0.0	0.0
Reported PAT	15.3	15.5	24.1	25.2	28.0	41.2	47.6	53.1
Adj PAT	15.0	15.8	24.1	28.4	30.5	42.4	47.6	53.1
Change (%)	-3.1	4.8	52.7	18.0	7.4	39.0	12.3	11.7
Margin (%)	9.2	9.2	12.6	13.1	13.4	16.4	17.1	17.4

Balance Sheet								(INRb)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	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	265.5	306.7	355.0
Net Worth	150.1	157.6	183.3	208.4	234.1	267.1	308.3	356.6
Loans	43.2	28.2	15.4	9.0	5.9	3.3	3.3	3.3
Deferred Liabilities	2.2	1.3	-0.2	-2.0	-2.9	-4.0	-4.0	-4.0
Minority Interst	3.3	2.9	2.6	2.8	3.1	1.0	1.0	1.0
Capital Employed	198.8	190.0	201.0	218.1	240.1	267.3	308.6	356.9
Gross Block	126.4	138.5	147.5	160.1	166.8	179.7	189.8	198.0
Less: Accum. Deprn.	27.4	38.9	49.5	60.1	71.8	81.9	92.4	103.5
Net Fixed Assets	98.9	99.6	97.9	100.1	95.0	97.8	97.4	94.4
Capital WIP	3.3	4.2	5.7	3.8	6.9	8.6	5.1	5.1
Investments	3.0	3.6	3.5	4.2	6.3	7.6	7.6	7.6
Curr. Assets	132.4	126.8	141.2	158.3	177.1	207.3	265.6	320.9
Inventory	39.6	43.8	46.7	53.5	51.6	52.4	57.7	64.9
Account Receivables	41.5	38.9	34.5	34.2	40.6	47.7	52.6	56.1
Cash and Bank Balance	6.2	10.0	14.0	19.3	15.6	8.7	46.6	79.8
Others	45.1	34.1	46.1	51.3	69.3	98.4	108.7	120.1
Curr. Liability & Prov.	38.8	44.2	47.3	48.4	49.9	54.0	67.0	71.2
Account Payables	31.4	34.8	36.5	36.2	37.1	37.8	50.9	55.0
Provisions	7.4	9.5	10.8	12.2	12.9	16.1	16.1	16.1
Net Current Assets	93.7	82.6	93.9	109.9	127.2	153.3	198.6	249.8
Appl. of Funds	198.8	190.0	201.0	218.1	240.1	267.3	308.6	356.9

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	18.7	19.6	30.0	35.3	37.8	52.5	58.9	65.8
Cash EPS	32.5	33.7	43.1	48.2	52.3	65.0	72.0	79.6
BV/Share	186.3	195.5	227.2	258.1	284.2	330.9	382.0	441.8
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	9.4	10.2	9.1
Valuation (x)								
P/E	79.1	75.4	49.4	41.9	39.2	28.2	25.1	22.5
Cash P/E	45.5	43.9	34.4	30.7	28.3	22.8	20.6	18.6
P/BV	7.9	7.6	6.5	5.7	5.2	4.5	3.9	3.3
EV/Sales	7.5	7.1	6.2	5.4	5.2	4.6	4.1	3.7
EV/EBITDA	39.6	37.7	28.0	25.1	23.1	18.8	16.3	14.3
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
FCF per Share	15.9	24.0	33.7	27.9	11.9	4.7	55.0	47.3
Return Ratios (%)								
RoE	10.3	10.2	14.1	14.5	13.3	15.9	15.4	14.9
RoCE	8.4	8.8	12.9	13.7	13.5	17.0	16.5	16.0
RoIC	8.0	8.2	13.3	14.5	13.8	17.0	17.8	19.1
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.3	1.3	1.4	1.4	1.5	2.9	3.2
Debtor (Days)	93	83	66	58	65	68	69	67
Inventory (Days)	88	93	89	90	83	74	76	78
Creditors (Days)	43	49	39	42	39	35	37	37
Working Capital (Days)	138	128	115	105	108	107	107	108
Leverage Ratio (x)								
Current Ratio	3.4	2.9	3.0	3.3	3.5	3.8	4.0	4.5
Debt/Equity	0.2	0.1	0.0	0.0	0.0	0.0	-0.1	-0.2

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
(INRb)								
EBITDA	31.0	32.1	42.5	47.0	51.1	62.9	70.4	78.1
Interest/Dividends Recd.	2.8	3.4	2.7	2.8	4.5	6.2	5.3	5.6
Direct Taxes Paid	-6.6	-7.3	-10.3	-11.2	-12.9	-16.6	-17.5	-19.3
(Inc)/Dec in WC	-16.6	14.9	-7.4	-10.7	-20.9	-33.0	-7.4	-18.1
CF from Operations	10.6	43.1	27.5	27.9	21.8	19.5	50.9	46.3
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	18.4	50.9	46.3
(inc)/dec in FA	-4.1	-13.0	-10.5	-10.8	-9.8	-14.6	-6.6	-8.2
Free Cash Flow	12.8	19.3	27.1	22.5	9.6	3.8	44.3	38.1
(Pur)/Sale of Investments	-2.9	-0.6	0.1	-0.7	-2.2	-1.2	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	-15.8	-6.6	-8.2
Inc/(Dec) in Debt	2.2	-15.0	-12.8	-6.4	-3.0	-2.6	0.0	0.0
Interest Paid	-1.7	-2.0	-1.6	-1.1	-1.1	-0.9	-0.4	-0.4
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	-2.1	-1.2	0.3
CF from Fin. Activity	-3.5	-31.1	-13.3	-10.7	-12.5	-9.5	-6.4	-4.9
Inc/Dec of Cash	-3.3	2.2	0.4	3.8	-5.1	-6.9	37.9	33.2
Add: Beginning Balance	9.7	6.2	10.0	14.0	19.3	15.6	8.7	46.6
Bank balances	0.0	-1.1	3.6	1.5	1.5	0.0	0.0	0.0
Bank balances and FX impact	-0.2	1.6	3.6	1.5	1.5	0.0	0.0	0.0
Closing balance	6.2	10.0	14.0	19.3	15.6	8.7	46.6	79.8

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NOTES

Explanation of Investment Rating	
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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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