

Cipla

13 May, 2023

Reuters: CIPL.NS; Bloomberg: CIPLA IN

Strong US business drives growth

Cipla's 4QFY23 results were in-line with our estimates on both revenue as well as profitability front, although margins came in higher-than-expected. Revenue grew by 9.1% YoY (14% ex-covid) to Rs57.4bn (NBIE Est: Rs57.6bn) mainly on the back of strong growth in the US, which was partially offset by a decline in SAGA and API sales. US revenue grew by 27.5% YoY, mainly driven by Lanreotide 505b2 and Revlimid. On QoQ basis, US revenue grew by 4.6% despite a high base of seasonality benefit. Domestic revenue grew by 3.5% YoY while excluding covid sales, the same grew by 16% YoY. EBITDA margin came in at 20.5%, higher than NBIE estimate of 19.3% mainly on the back of lower other expenditure. Adjusted net profit grew by 59.3% YoY to Rs6.5bn (NBIE Est: Rs6.5bn), mainly driven by a strong operational performance and higher other income, which was partially offset by higher tax rate. The company has already filed Advair, Paclitaxel and other critical products from other own/partner sites and going forward it will file all critical products from dual sites to de-risk approval. Adverse observations at its Indore plant and likely delay in the launch of Advair remain an overhang in the near term. However, we remain positive on Cipla mainly due to high branded business contribution, robust India franchise, healthy US pipeline, decent margins and improving return ratios. We maintain BUY on Cipla with a revised target price (TP) of Rs1,097, valuing it at 22x on FY25E base business earnings of Rs49.40 and NPV of Rs11 for the Revlimid opportunity.

Business update: Despite a high base of seasonality, the US business grew by 4.6% QoQ to US\$204mn, driven by continuous market share gain in Lanreotide 505b2 and ramp-up in Revlimid sales. Lanreotide 505b2 market share stood at 17% and is expected to improve gradually. Domestic revenue grew by 3.5% YoY to Rs22.6bn, but excluding covid opportunities, it grew by 16% YoY, driven by robust growth across branded prescription, trade generics and consumer health segments. South Africa (SAGA) revenue declined by 12.7% YoY to Rs8.3bn, but as per the management, the worst is over and it expects growth FY24 onwards in SAGA regions. International markets grew by 7.1% YoY to Rs7.8bn while API revenue declined by 2.2% YoY to Rs1.3bn. 4QFY23 EBITDA margin stood at 20.5%; YoY margin is not comparable due to high covid inventory write-off in 4QFY22 and QoQ there was a decline in margin due to a seasonally weak quarter. The company has guided for 22% EBITDA margin for FY24; the flat margin guidance is despite a better mix and waning cost inflation mainly due to increased spend towards innovative products and biosimilars.

Outlook: We expect Revenue/EBITDA/APAT to grow at 11.6%/13.8%/21.3% CAGR over FY23-FY25E. We project US\$87mn/US\$119mn Revlimid revenue in FY24E/FY25E with almost company-level margins. EBITDA margin is expected at ~22-23%. We expect strong FCF generation of ~Rs67bn over FY24-FY25E. Growth will mainly be driven by continuous market-beating growth in the domestic market and limited-competition launches in the US.

Valuation: We cut our earnings estimates by 4.9%/2.1% for FY24E/FY25E mainly due to reduced margins amid increased spending on innovation and biosimilars. But, despite the lower estimates, we remain positive on Cipla mainly due to its strong India franchise, robust US pipeline, healthy margins and improving return ratios. We maintain BUY rating on Cipla with a revised TP of Rs1,097, valuing it at 22x on FY25E base business earnings of Rs49.40 and NPV of Rs11 for the Revlimid opportunity.

BUY

Sector: Pharmaceuticals

CMP: Rs935

Target Price: Rs1,097

Upside: 17.3%

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Key Data

Current Shares O/S (mn)	807.2
Mkt Cap (Rsbn/US\$bn)	756.7/9.2
52 Wk H / L (Rs)	1,185/852
Daily Vol. (3M NSE Avg.)	2,427,452

Price Performance (%)

	1 M	6 M	1 Yr
Cipla	2.4	(16.4)	0.3
Nifty Index	2.7	(0.5)	16.0

Source: Bloomberg

[FY22 Annual Report](#)
[4QFY23 Result](#)

Y/E March (Rsmn)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ(%)	FY22	FY23	YoY (%)
Total Revenues	52,603	58,101	57,393	9.1	(1.2)	2,17,273	2,27,531	4.7
Total material costs	21,467	20,043	20,634	(3.9)	2.9	84,956	82,523	(2.9)
Gross Profit	31,136	38,058	36,759	18.1	(3.4)	1,32,317	1,45,008	9.6
Gross margin (%)	59.2	65.5	64.0	486 bps	(145) bps	60.9	63.7	283 bps
Staff costs	8,924	9,487	9,648	8.1	1.7	35,299	38,301	8.5
% of revenue	17.0	16.3	16.8	(15) bps	48 bps	16.2	17.6	138 bps
Other expenses	14,715	14,496	15,374	4.5	6.1	51,851	56,438	8.8
% of revenue	28.0	24.9	26.8	(119) bps	184 bps	23.9	26.0	211 bps
EBITDA	7,497	14,076	11,737	56.6	(16.6)	45,168	50,270	11.3
EBITDA margin (%)	14.3	24.2	20.5	620 bps	(378) bps	20.8	22.1	131 bps
Other income	640	1,144	1,346	110.3	17.6	2,809	4,755	69.3
Interest costs	181	318	344	89.8	8.0	1,064	1,096	3.0
Depreciation	2,903	2,721	3,462	19.3	27.2	10,520	11,721	11.4
PBT before exceptionals	5,053	12,181	9,278	83.6	(23.8)	36,394	42,207	16.0
Exceptional Items	-575	0	-1,824	-	-	-1,821	-1,824	-
PBT	4,478	12,181	7,454	66.4	(38.8)	34,573	40,383	16.8
Tax	711	4,100	2,223	212.5	(45.8)	9,338	12,029	28.8
Tax rate (%)	15.9	33.7	29.8	1394 bps	(384) bps	25.7	28.5	284 bps
Share of Profit and Minority interest	147	71	-25	-	-	427	336	(21.4)
Reported PAT	3,621	8,010	5,257	45.2	(34.4)	24,808	28,019	12.9
Adjusted PAT	4,104	8,010	6,537	59.3	(18.4)	26,137	29,300	12.1
PAT Margin (%)	7.8	13.8	11.4	359 bps	(240) bps	12.0	12.9	85 bps

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Earnings Conference Call Highlights

India

- There was robust growth across branded prescription, trade generics and consumer healthcare over last year; India business grew by 16% YoY adjusted for covid-19. As per IQVIA, industry grew by 8%.
- Chronic contribution stood at 59% of portfolio, 300bps YoY improvement and the chronic market share increased to 8.3%, as of March'23.
- The trade Generics business witnessed strong demand for flagship brands in key therapeutic categories. There was 50+ new launches. In Trade Generics, eight brands are greater than Rs500mn in sales.
- There was no significant impact due to NLEM product inclusion as price cuts would be offset by price hikes undertaken by the company and volume growth in FY24. The impact of price cut is already reflected in 4QFY23 numbers. However, the impact of price hike will be seen 2QFY23 onwards.
- For the Consumer Healthcare business, the company has guided for mid-teen EBITDA margin in FY24. The portfolio is seasonal in nature with stronger growth in 1Q and 2Q due to the onset of summer. The portfolio will gradually improve to company-level margins.
- Over FY22 and FY23, MR strength has increased by 800 people. Focus remains on increasing MR strength in chronic therapies. For FY23, the sales force stood at 10,000 people (7000 MRs and 3000 other officers).
- The company is seeing strong growth in Tier 2 to Tier 6 cities. Tier 1 cities are seeing trends of up-scaling to newer and better products.
- Cipla aims to achieve market-beating growth in the India business.

US

- US business revenue grew by 27% YoY to US\$204mn, driven by expansion in market share of key launches. US\$190-195mn was the run-rate for the base business in 4QFY23.
- Respiratory revenue for US for FY23 was US\$160mn.
- Lanreotide market share stood at 17% and is expected to increase gradually.
- Focus continues on limited-competition launches.
- Three differentiated products are undergoing clinical trials, with filings targeted in FY24.
- The company will file important new respiratory products from dual sites of own/partner to de-risk products.
- Cipla will use the Massachusetts facility to receive approval for respiratory products.
- The Indore plant has been audited and the USFDA classification will be known by mid-May. If the Indore facility is approved, then Advair will be filed from the same facility. The company is trying to de-risk Advair by receiving approval for another in-house facility, which is situated outside India. A new line will be added in the new facility and it will require inspection. Advair filing depends on facility approval. The approval process would take more than 12 months. Localized components would be used to manufacture Advair.
- The Goa facility's CAPA completion is expected by 1QFY24.
- gAbraXane is expected to be launched by FY25-end, which will also be supplied from dual sites., There have not been any generic launches till date. It will be manufactured from a partner site.
- Symbicort will be filed by 4QFY24-end.
- Albuterol market is constantly growing.
- Limited dependency of new launches in the next 2-3 years from Indore and Goa facilities.

SAGA

- Overall SAGA region faced headwinds in early FY23 due to supply challenges, but the business has picked up in the private market with QoQ growth of 5% in ZAR terms.
- The company continues to maintain leadership positions in key therapy areas along with 32 new launches in FY23 to offset margin pressure in SA.
- SA will see growth in FY24 and the focus will be on margins & new launches in the private market to compensate for the slowdown in the tender market.

Margins

- The gross margin improvement was driven by new launches and mix change. 4QFY22 gross margin was impacted by one-time Covid-related inventory provision.
- R&D investment stood at 6.5% of revenue. The company has guided for R&D guidance of 6-6.5%.
- For FY23, adjusted EBITDA margin stood at 23%. For FY24, the company has guided for EBITDA margin of 22% due to higher spending on innovative products and biosimilars.
- The company doesn't expect a spike in remediation cost.

Miscellaneous

- The increase in depreciation was on account of impairment in intangible assets.
- New ventures include digital health, consumer healthcare and US specialty business.
- India continues to be a top priority for capital allocation.
- The company is open to acquisitions.
- In international markets, revenue was impacted by currency volatility; the business reported 8% YoY (ex-covid) growth in INR terms.
- The company has repaid working capital loan of US\$15mn in the US.

Exhibit 1: Actual vs our estimates and Bloomberg consensus estimates

(Rsmn)	Actual	NBIE estimate	Var. (%)	Cons. Estimate	Var. (%)
Sales	57,393	57,594	(0.3)	57,760	(0.6)
EBITDA	11,737	11,121	5.5	12,300	(4.6)
EBITDA margin (%)	20.5	19.3	114 bps	21.9	(142) bps
PAT	6,537	6,485	0.8	7,509	(12.9)
PAT margin (%)	11.4	11.3	13 bps	13.0	(161) bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Key financials

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	1,91,596	2,17,633	2,27,531	2,57,085	2,83,186
EBITDA	42,524	45,528	50,270	57,153	65,133
Net profit	24,049	26,502	29,300	36,383	43,076
EPS (Rs)	29.8	32.8	36.3	45.1	53.4
EPS growth (%)	51.8	10.2	10.5	24.2	18.4
EBITDA margin (%)	22.2	20.9	22.1	22.2	23.0
PER (x)	31.4	28.5	25.8	20.7	17.5
EV/Sales (x)	3.8	3.3	3.1	2.7	2.3
EV/EBITDA (x)	17.2	15.8	14.2	12.1	10.1
RoCE (%)	12.4	12.5	12.6	13.9	14.5
RoE (%)	14.1	13.5	13.2	14.6	15.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Revised Estimates

Rsmn	New estimates		Old estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net sales	2,57,085	2,83,186	2,56,560	2,78,750	0.2	1.6
EBITDA	57,153	65,133	59,009	64,670	(3.1)	0.7
Margin (%)	22.2	23.0	23.0	23.2	(77) bps	(20) bps
PAT	36,383	43,076	38,247	43,962	(4.9)	(2.0)
Margin	14.2	15.2	14.9	15.8	(76) bps	(56) bps
EPS	45.1	53.4	47.4	54.5	(4.9)	(2.1)

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Business Segment Trends

Segmental Revenue (Rsmn)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ(%)
India	21,830	25,630	22,590	3.5	(11.9)
US (\$ mn)	160	195	204	27.5	4.6
South Africa, Sub-Saharan and Cipla Global Access business	9,530	6,800	8,320	(12.7)	22.4
International Markets	7,320	7,620	7,840	7.1	2.9
API	1,370	1,470	1,340	(2.2)	(8.8)
Others	460	580	530	15.2	(8.6)

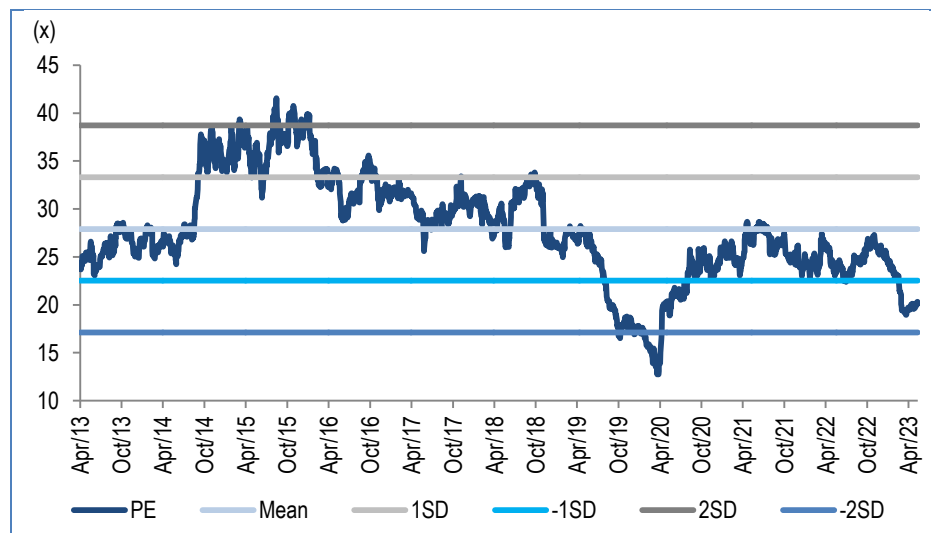
Source: Nirmal Bang Institutional Equities Research

Valuation and Outlook

Revenue/EBITDA/APAT are expected to grow at 11.6%/13.8%/21.3% CAGR over FY23-FY25E. We project US\$87mn/US\$119mn Revlimid revenue in FY24E/FY25E with almost company-level margins. The US business is expected to grow at 8.9% CAGR (5.8%, ex-Revlimid) over FY23-FY25E while despite a high base, the domestic business is expected to grow at 12.4% CAGR. Domestic market growth is expected to be driven by continuous market share gain in key segments and new launches across categories. US sales will be supported by continuous ramp-up of existing key launches such as Revlimid, Albuterol, Brovana, Lanreotide 505(b)(2) and upcoming launches like Advair and Abraxane Injection in FY25. Also, a strong Respiratory and Peptide portfolio continues to drive US sales. EBITDA margin is expected to remain at ~22-23%.

Cipla is currently trading at 20.7x/17.5x PE on FY24E/FY25E and 12.1x/10.1x on FY24E/FY25E EV/EBITDA. ROIC is expected to improve by 474bps to ~23% over FY23-FY25E. FCF generation is expected to remain strong at ~Rs67bn over FY24E-FY25E. Revenue growth will mainly be driven by continuous market-beating growth in the domestic market and limited-competition launches in the US. We are positive about Cipla mainly due to its strong India franchise, robust US pipeline, healthy margins and improving return ratios. We maintain BUY on Cipla with a revised TP of Rs1,097, valuing it at 22x on FY25E base business earnings of Rs49.40 and NPV of Rs11 for the Revlimid opportunity.

Exhibit 5: One-year Rolling Forward P/E Chart



Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 6: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	1,91,596	2,17,633	2,27,531	2,57,085	2,83,186
% growth	11.8	13.6	4.5	13.0	10.2
Raw material costs	73,519	84,956	82,523	93,242	1,01,947
Staff costs	32,518	35,299	38,301	43,704	48,142
R&D expenses	9,240	11,220	13,430	15,425	16,991
Other expenditure	33,794	40,631	43,008	47,561	50,974
Total expenditure	1,49,072	1,72,106	1,77,261	1,99,932	2,18,053
Gross profit	1,18,077	1,32,677	1,45,008	1,63,843	1,81,239
% growth	6.0	12.4	9.3	13.0	10.6
EBITDA	42,524	45,528	50,270	57,153	65,133
% growth	30.5	7.1	10.4	13.7	14.0
EBITDA margin (%)	22.2	20.9	22.1	22.2	23.0
Other income	2,660	2,809	4,755	5,142	7,080
Interest costs	1,607	1,064	1,096	495	445
Depreciation	10,677	10,520	11,721	11,959	12,759
Profit before tax & Exceptional Items	32,901	36,754	42,208	49,840	59,008
Exceptional Items	0	-1,821	-1,824	0	0
Profit before tax	32,901	34,933	40,384	49,840	59,008
Tax	8,888	9,338	12,029	13,457	15,932
Effective tax rate (%)	27.0	25.4	28.5	27.0	27.0
Net profit before MI and Associates	24,013	25,595	28,355	36,383	43,076
Share of MI and Associates	-36	427	336	0	0
Reported PAT	24,049	25,168	28,019	36,383	43,076
Adjusted PAT	24,049	26,502	29,300	36,383	43,076
EPS (Rs)	29.8	32.8	36.3	45.1	53.4
% growth	51.8	10.2	10.5	24.2	18.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Equity	1,613	1,614	1,614	1,614	1,614
Reserves	1,81,652	2,06,803	2,32,464	2,63,204	3,00,637
Net worth	1,83,265	2,08,417	2,34,078	2,64,819	3,02,252
Minority Interest	2,591	2,757	3,058	3,058	3,058
Net deferred tax liabilities	-181	-2,049	-2,933	-2,933	-2,933
Short-term loans	3,347	4,079	5,204	4,704	4,204
Long-term loans	12,028	4,162	0	0	0
Other Non Current Liabilities	4,754	4,103	5,532	5,890	6,244
Liabilities	2,05,804	2,21,470	2,44,938	2,75,537	3,12,824
Net Block	50,780	52,258	50,506	48,547	45,788
CWIP	5,708	3,829	6,892	6,892	6,892
Intangible Assets and Goodwill	48,356	48,408	45,140	45,140	45,140
Other Non Current Assets	11,433	14,752	14,780	15,244	15,655
Inventories	46,692	53,502	51,564	58,159	63,431
Debtors	34,457	34,244	40,570	45,840	50,494
Cash	14,012	19,285	15,646	29,901	53,174
Other current assets	36,934	40,244	64,969	76,784	88,153
Total current assets	1,32,095	1,47,275	1,72,750	2,10,684	2,55,251
Creditors	20,668	25,081	24,571	27,762	30,354
Other current liabilities	21,900	19,972	20,559	23,207	25,547
Total current liabilities	42,568	45,053	45,129	50,969	55,901
Net current assets	89,527	1,02,222	1,27,620	1,59,714	1,99,351
Total assets	2,05,804	2,21,470	2,44,938	2,75,537	3,12,824

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
PBT	32,901	34,933	40,384	49,840	59,008
Depreciation	10,677	10,520	11,721	11,959	12,759
Net Chg in WC	3,717	(1,775)	(4,898)	(8,673)	(7,334)
Taxes	(10,374)	(11,395)	(12,648)	(13,457)	(15,932)
Others	632	976	(5,992)	(777)	(641)
CFO	37,552	33,259	28,566	38,893	47,861
Capex	(8,024)	(6,990)	(10,215)	(10,000)	(10,000)
Net Investments made	(12,450)	1,706	(10,667)	(8,000)	(8,000)
Others	(3,398)	(13,435)	(1,547)	-	-
CFI	(23,872)	(18,719)	(22,429)	(18,000)	(18,000)
Change in Share capital	1	1	-	-	-
Change in Debts	(12,886)	(10,983)	(3,038)	(500)	(500)
Div. & Div Tax	-	(757)	(5,643)	(5,643)	(5,643)
Others	3,178	2,472	(1,096)	(495)	(445)
CFF	(9,707)	(9,268)	(9,776)	(6,638)	(6,588)
Total Cash Generated	3,973	5,273	(3,639)	14,255	23,273
Cash Opening Balance	10,039	14,012	19,285	15,646	29,901
Cash Closing Balance	14,012	19,285	15,646	29,901	53,174

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E
Profitability & return ratios					
EBITDA margin (%)	22.2	20.9	22.1	22.2	23.0
Net profit margin (%)	12.6	12.2	12.9	14.2	15.2
RoE (%)	14.1	13.5	13.2	14.6	15.2
RoCE (%)	12.4	12.5	12.6	13.9	14.5
ROIC (%)	14.3	15.3	15.5	17.7	20.3
Working capital & liquidity ratios					
Receivables (days)	70	58	60	61	62
Inventory (days)	86	84	84	78	78
Payables (days)	41	38	40	37	37
Current ratio (x)	3.1	3.3	3.8	4.1	4.6
Quick ratio (x)	2.0	2.1	2.7	3.0	3.4
Valuation ratios					
EV/sales (x)	3.8	3.3	3.1	2.7	2.3
EV/EBITDA (x)	17.2	15.8	14.2	12.1	10.1
P/E (x)	31.4	28.5	25.8	20.7	17.5
P/BV (x)	4.1	3.6	3.2	2.8	2.5

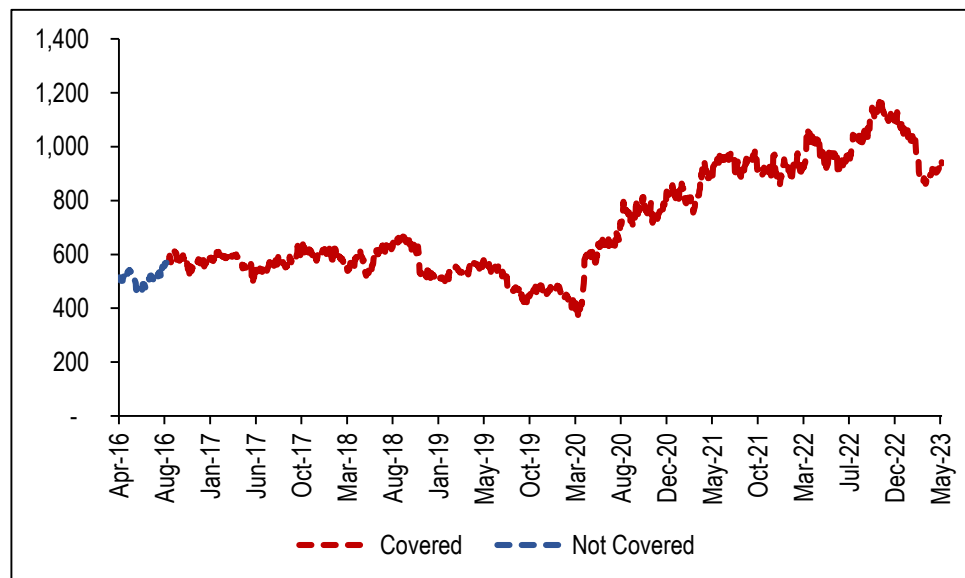
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
9 February 2017	Buy	560	700
6 September 2016	Buy	577	700
10 November 2016	Buy	566	700
26 December 2016	Buy	582	700
9 February 2017	Buy	603	700
26 May 2017	Buy	504	684
8 November 2017	Buy	608	713
8 February 2018	Buy	569	716
23 May 2018	Buy	525	647
9 August 2018	Accumulate	633	647
6 November 2018	Buy	563	657
7 February 2019	Buy	528	657
5 April 2019	Buy	522	695
23 May 2019	Buy	554	653
8 August 2019	Buy	519	636
23 September 2019	Buy	463	632
7 November 2019	Buy	481	632
6 February 2020	Buy	447	632
27 March 2020	Buy	387	523
23 April 2020	Accumulate	587	582
18 May 2020	Accumulate	570	575
10 August 2020	Accumulate	729	773
22 September 2020	Buy	778	933
29 September 2020	Buy	775	933
9 November 2020	Buy	790	951
7 January 2021	Buy	825	1,067
31 January 2021	Buy	826	1,071
16 May 2021	Accumulate	904	977
6 August 2021	Accumulate	945	1,006
26 September 2021	Accumulate	968	1,042
27 October 2021	Buy	907	1,041
23 December 2021	Buy	890	1,101
26 January 2022	Buy	904	1,069
21 February 2022	Buy	908	1,237
11 May 2022	Buy	926	1,138
31 July 2022	Buy	978	1,141
29 September 2022	Buy	1,097	1,268
5 November 2022	Buy	1,146	1,321
26 January 2023	Buy	1,034	1,263
16 March 2023	Buy	883	1,043
13 May 2023	Buy	935	1,097

Coverage was transferred to Mitesh Shah with effect from 29th September 2022

Rating track graph



DISCLOSURES

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