

Cipla (CIPLA)

Pharmaceuticals | 4QFY24 Result Update

BUY

CMP: Rs1,340 | Target Price (TP): Rs1,594 | Upside: 19%

May 12, 2024

Strong all-round performance

Key Points

- Cipla's 4QFY24 results closely aligned with NBIE estimates overall, with a minor margin shortfall. The growth was primarily driven by industry-leading performance in the domestic market, particularly in key therapy areas, as well as robust traction in both the US and international markets, resulting in margin enhancement.
- The US business reported the highest-ever yearly revenue of US\$970mn (US\$226mn for the quarter) as price erosion stabilized on the back of drug shortages. With strong growth witnessed across major geographies, Cipla has given its EBITDA margin guidance for FY25 in the range of 24.5-25.5%.
- We remain positive about Cipla mainly due to high contribution from the branded business, robust India franchise, healthy US pipeline, decent margins and improving return ratios. We maintain BUY on Cipla with a revised target price (TP) of Rs1,594, valuing it at 23x on FY25E base business EPS of Rs68.8 and NPV of Rs12.4 for the Revlimid opportunity.

Business performance: Domestic revenue grew by 6.4% YoY to Rs24.03bn, driven by robust industry-beating growth in Branded Prescription and double-digit growth in Trade Generics. The consumer Health business declined due to weak seasonality. The US business grew by ~11% YoY to US\$226mn, driven by market share gains in Lanreotide 505(b)(2) (market share ~20%), stability in Revlimid sales, stabilization in pricing pressure in the base portfolio and increased traction for base business. South Africa and Global Access (SAGA) (Ex-QCIL) revenue grew by ~11% YoY to ~Rs7.4bn and Cipla ranked number one Pharma company in the South Africa prescription market. International Markets/API were up by ~10%/38% YoY to Rs8.6bn/Rs1.8bn. EBITDA margin expanded by 90bps to 21.4% on the back of gross margin expansion. Cipla has given EBITDA margin guidance of 24.5-25.5% for FY25. Adjusted net profit grew by 44.4% YoY to Rs9.4bn, mainly driven by a strong operational performance and higher other income.

Outlook: We expect Revenue/EBITDA/APAT to grow at 11%/17%/24.7% CAGR over FY23-FY26E. We project US\$119mn/US\$137mn Revlimid revenue in FY25E/FY26E. EBITDA margin is expected at 25% (for FY25), in line with the improved guidance. We expect strong FCF generation of ~Rs42bn/Rs49bn over FY25E/FY26E. Growth will mainly be driven by continuous market-beating growth in the Domestic market and limited-competition launches in the US.

Valuation: We have largely maintained our earnings estimates for FY25E/FY26E mainly on the back of the improved margin guidance, US sales recovery and strong quarterly performance. We also like the company's approach of trying to establish a direct connection with the stockiest by eliminating CFA (carry and forward agent). We continue to remain positive on 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 Rs1,594, valuing it at 23x on FY25E base business EPS of Rs68.8 and NPV of Rs12.4 for the Revlimid opportunity.

Est Change	Maintain
TP Change	Upward
Rating Change	Maintain

Company Data and Valuation Summary

Reuters:	CIPL.BO
Bloomberg:	CIPLA IN Equity
Mkt Cap (Rsbn/US\$bn):	1,081.5 / 13.0
52 Wk H / L (Rs):	1,519 / 897
ADTV-3M (mn) (Rs/US\$):	2,236.8 / 26.9
Stock performance (%) 1M/6M/1yr:	(5.9) / 8.0 / 41.8
Nifty 50 performance (%) 1M/6M/1yr:	(2.0) / 1.6 / 20.5

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	33.5	33.5	33.5
DII's	24.1	24.3	24.4
FII's	25.7	25.7	25.8
Others	16.7	16.5	16.4
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Net sales	2,27,531	2,57,741	2,81,499	3,09,874
EBITDA	50,270	62,911	70,318	80,567
Net profit	29,300	42,667	48,163	56,833
EPS (Rs)	36.3	52.8	59.7	70.4
EPS growth (%)	10.5	45.6	12.9	18.0
EBITDA margin (%)	22.1	24.4	25.0	26.0
PER (x)	36.9	25.4	22.5	19.0
EV/Sales (x)	4.6	4.0	3.5	3.1
EV/EBITDA (x)	20.7	16.4	14.1	11.8
RoCE (%)	12.6	16.4	16.2	16.5
RoE (%)	13.2	17.0	16.7	17.0

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

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

Exhibit 1: 4QFY24 consolidated performance

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	FY23	FY24
Net Sales	53,752	58,285	58,101	57,393	63,289	66,782	66,038	61,632	2,27,531	2,57,741
YoY Change (%)	-2.3	5.6	6.0	9.1	17.7	14.6	13.7	7.4	4.7	13.3
Gross Profit	33,508	36,683	38,058	36,759	40,921	43,651	43,843	41,131	1,45,008	1,69,545
Margin (%)	62.3	62.9	65.5	64.0	64.7	65.4	66.4	66.7	63.7	65.8
EBITDA	11,434	13,023	14,076	11,737	14,939	17,338	17,475	13,159	50,270	62,911
YoY Change (%)	-15.0	6.2	14.3	56.6	30.7	33.1	24.2	12.1	11.3	25.1
Margin (%)	21.3	22.3	24.2	20.5	23.6	26.0	26.5	21.4	22.1	24.4
Depreciation	2,544	2,994	2,721	3,462	2,392	2,900	2,334	2,883	11,721	10,510
Interest	178	256	318	344	164	258	301	176	1,096	899
Other income	1,034	1,230	1,144	1,346	1,363	1,763	1,870	2,493	4,755	7,466
Extraordinary Items	-	-	-	-1,824	-	-	-1,948	-	-1,824	-1,948
PBT (bei)	9,746	11,003	12,181	9,278	13,746	15,942	16,710	12,593	42,207	58,967
PBT	9,746	11,003	12,181	7,454	13,746	15,942	14,762	12,593	40,383	57,019
Tax	2,680	3,026	4,100	2,223	3,780	4,384	4,053	3,249	12,029	16,968
ETR (%)	27.5	27.5	33.7	29.8	27.5	27.5	27.5	25.8	29.8	29.8
Reported PAT	6,864	7,889	8,010	5,257	9,957	11,309	10,583	9,441	28,019	39,729
Adj. PAT	6,864	7,889	8,010	6,537	9,957	11,309	11,996	9,441	29,300	41,097
YoY Change (%)	-14.6	10.9	9.9	59.3	45.1	43.4	49.8	44.4	12.1	40.3
Adj. EPS	8.5	9.8	9.9	8.1	12.3	14.0	14.9	11.7	36.3	50.9

Source: Company, Nirmal Bang Institutional Equities Research

Conference Call Highlights

Financial Highlights (for FY24)

- The company achieved record-breaking revenue and EBITDA figures in FY24, reaching significant milestones across key markets like India, North America, and South Africa.
- India Business revenue surpassed Rs. 100 billion.
- North America surpassed \$900 million in revenue.
- South Africa secured the top position in the country's prescription market.
- Gross margins improved by 200 basis points to 66%, driven by year-on-year expansion and profitability, supported by a favorable product mix, strategic pricing adjustments across branded and generic segments, and the impact of mitigated cost inflation.

India Business

- India business grew by 6.4% YoY to Rs. 24 billion, fueled by increased traction in branded prescriptions and trade generics, although consumer health faced challenges due to seasonal market slowdown.
- Branded business outperformed the IPM growth by 100 basis points, led by robust growth in respiratory and cardiac therapies.
- Chronic therapies constitute 61% of the portfolio.
- Niche and innovative product offerings like inhaled insulin and plasma myosin expand.
- Trade generics witnessed double-digit growth, reinforcing the company's market leadership position.
- Strengthening execution in key therapy areas and expanding distribution networks in Tier 2 to 6 cities, with over 40 new launches.

- YoY decline in consumer health franchise due to seasonal factors; recent improvements in demand trends and strategic investments expected to drive future growth.
- Restructuring initiatives in trade generics to enhance connections with stockiest.
- Plans to expand field force in India.

EM (Europe and other emerging markets)

- EU and emerging market sales affected by geopolitical and macroeconomic challenges.

US

- The US business achieved an all-time high annual revenue of \$906 million (24% increase from FY23), driven by a differentiated portfolio and sustained demand for core products like Lanreotide, which holds a 20.8% market share, and Albuterol, with a market share in the range of 12-13%.
- Continues to be one of the fastest-growing companies among the top five in the industry.

South Africa

- Secured leadership position in pharmaceutical prescriptions in the South African market.
- Recorded 11.2% YoY growth in secondary sales, compared to market growth of 2.1%.

R&D

- Organic investments primarily focused on the US market.
- Significant filings and launches expected in respiratory, peptides and complex generics segments.
- R&D investments for the quarter is at Rs. 4.5 billion, 7.2% of revenue, driven by product filing and development costs.
- Total R&D expenditure for the year stood at Rs. 15.71 billion.

Organic partnerships

- Actor Pharma fully integrated into R&D to accelerate South Africa OTC portfolio.
- Marketing and distribution partnership with Sanofi to expand CNS portfolio reach in India.
- Acquisition of cosmetic and personal care business of IVF Utrecht Private Limited to strengthen India OTC portfolio.

USFDA updates

- USFDA audited three US facilities with VAI or 0483 observations.
- New facility in China cleared USFDA audit with 0483 observation, expected to start supplying to US by second half of FY25.
- Goa Unit 5 cleared by MARCS-CMS, awaiting approval.
- Patal Ganga facility issued with six observations.
- Khurkum facility audit ended with one observation.

Capex and other highlights

- Capex for the year at Rs. 13.15 billion, with 70% allocated to growth and capacity enhancement.
- Gross debt on balance sheet at INR 559 crore, including lease liabilities and working capital facilities.
- Cash equivalent balance of INR 8,267 crore.
- Planned capex of around Rs. 15 billion to enhance manufacturing capacity and sustainability.
- EBITDA margin guidance of 100 basis points higher than FY24, targeted at 24.5%-25.5%.

Exhibit 2: Actual performance vs NBIE estimates

(Rsmn)	Actual	NBIE estimate	Var. (%)	Cons. Estimate	Var. (%)
Sales	61,632	62,256	(1.0)	64,906	(5.0)
EBITDA	13,159	13,759	(4.4)	15,175	(13.3)
EBITDA margin (%)	21.4	22.1	(75) bps	21.9	(52) bps
PAT	9,441	8,830	6.9	9,822	(3.9)
PAT margin (%)	15.3	14.2	113 bps	15.1	19 bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Revised estimates

(Rsmn)	New estimates		Old estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	2,81,499	3,09,874	2,92,981	3,25,712	(3.9)	(4.9)
EBITDA	70,318	80,567	71,194	80,451	(1.2)	0.1
Margin (%)	25.0	26.0	24.3	24.7	68 bps	130 bps
PAT	48,163	56,833	49,077	57,160	(1.9)	(0.6)
Margin (%)	17.1	18.3	16.8	17.5	36 bps	79 bps
EPS	59.7	70.4	60.8	70.8	(1.9)	(0.6)

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Segment revenue

Segmental Revenue (Rsmn)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ(%)
India	22,590	28,590	24,037	6.4	(15.9)
US (\$ mn)	204	230	226	10.8	(1.7)
South Africa, Sub-Saharan and Cipla Global Access business	8,320	8,150	7,396	(11.1)	(9.3)
International Markets	7,840	7,460	8,629	10.1	15.7
API	1,340	1,080	1,849	38.0	71.2
Others	530	1,000	1,233	132.6	23.3

Source: Nirmal Bang Institutional Equities Research

Valuation and Outlook

Revenue/EBITDA/APAT is expected to grow at 11%/17%/24.7% CAGR over FY23-FY26E. We project US\$119mn/US\$137mn Revlimid revenue in FY25E/FY26E. The US business is expected to grow at ~13% CAGR (10%, ex-Revlimid) over FY23-FY26E while the domestic business is expected to grow at 11.6% CAGR despite a high base. Domestic market growth is expected to be driven by continuous market share gain in key segments and new launches across categories. Also, the company is trying to establish a direct connection with the stockiest by eliminating CFA (carry and forward agent). 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 25%.

Cipla is currently trading at 22.5x/19x PE on FY25E/FY26E and 14.1x/11.8x on FY25E/FY26E EV/EBITDA. ROIC is expected to be 21.6% over FY25E. FCF generation is expected to remain strong at ~Rs42bn/Rs49.3bn over FY25E/FY26E. 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 Rs1,594, valuing it at 23x on FY25E base business EPS of Rs68.8 and NPV of Rs12.40 for the Revlimid opportunity.

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



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

Financial statements

Exhibit 6: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Net sales	2,17,633	2,27,531	2,57,741	2,81,499	3,09,874
% growth	13.6	4.5	13.3	9.2	10.1
Raw material costs	84,956	82,523	88,196	98,525	1,08,456
Staff costs	35,299	38,301	43,100	47,292	49,580
R&D expenses	11,220	13,430	15,710	16,890	18,592
Other expenditure	40,631	43,008	47,824	48,474	52,679
Total expenditure	1,72,106	1,77,261	1,94,830	2,11,181	2,29,307
Gross profit	1,32,677	1,45,008	1,69,545	1,82,974	2,01,418
% growth	12.4	9.3	16.9	7.9	10.1
EBITDA	45,528	50,270	62,911	70,318	80,567
% growth	7.1	10.4	25.1	11.8	14.6
EBITDA margin (%)	20.9	22.1	24.4	25.0	26.0
Other income	2,809	4,755	7,466	7,037	9,296
Interest costs	1,064	1,096	899	534	484
Depreciation	10,520	11,721	10,510	10,845	11,525
Profit before tax & Exceptional Items	36,754	42,208	58,967	65,976	77,854
Exceptional Items	-1,821	-1,824	-1,948	0	0
Profit before tax	34,933	40,384	57,019	65,976	77,854
Tax	9,338	12,029	15,466	17,814	21,020
Effective tax rate (%)	25.4	28.5	26.2	27.0	27.0
Net profit before MI and Associates	25,595	28,355	41,553	48,163	56,833
Share of MI and Associates	427	336	306	0	0
Reported PAT	25,168	28,019	41,247	48,163	56,833
Adjusted PAT	26,502	29,300	42,667	48,163	56,833
EPS (Rs)	32.8	36.3	52.8	59.7	70.4
% growth	10.2	10.5	45.6	12.9	18.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Equity	1,614	1,614	1,615	1,615	1,615
Reserves	2,06,803	2,32,464	2,65,450	3,07,970	3,59,160
Net worth	2,08,417	2,34,078	2,67,064	3,09,584	3,60,775
Minority Interest	2,757	3,058	959	959	959
Net deferred tax liabilities	-2,049	-2,933	-4,025	-4,025	-4,025
Short-term loans	4,079	5,204	3,340	2,840	2,340
Long-term loans	4,162	0	2,254	2,254	2,254
Other Non Current Liabilities	4,103	5,532	2,590	2,774	2,985
Liabilities	2,21,470	2,44,938	2,72,182	3,14,386	3,65,287
Net Block	52,258	50,506	51,826	50,980	49,455
CWIP	3,829	6,892	8,643	8,643	8,643
Intangible Assets and Goodwill	48,408	45,140	47,130	47,130	47,130
Other Non Current Assets	14,752	14,780	19,287	20,045	20,951
Inventories	53,502	51,564	52,380	56,775	61,648
Debtors	34,244	40,570	47,707	52,104	57,356
Cash	19,285	15,646	8,750	35,959	70,725
Other current assets	40,244	64,969	85,578	96,991	1,09,066
Total current assets	1,47,275	1,72,750	1,94,414	2,41,829	2,98,795
Creditors	25,081	24,571	24,740	27,637	30,423
Other current liabilities	19,972	20,559	24,378	26,605	29,264
Total current liabilities	45,053	45,129	49,118	54,242	59,687
Net current assets	1,02,222	1,27,620	1,45,296	1,87,587	2,39,108
Total assets	2,21,470	2,44,938	2,72,182	3,14,386	3,65,287

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	34,933	40,384	57,019	65,976	77,854
Depreciation	10,520	11,721	10,510	10,845	11,525
Net Chg in WC	(1,775)	(4,898)	(7,783)	(5,896)	(7,339)
Taxes	(11,395)	(12,648)	(16,968)	(17,814)	(21,020)
Others	976	(5,992)	(9,680)	(1,226)	(1,627)
CFO	33,259	28,566	33,098	51,887	59,392
Capex	(6,990)	(10,215)	(15,963)	(10,000)	(10,000)
Net Investments made	1,706	(10,667)	(17,477)	(8,000)	(8,000)
Others	(13,435)	(1,547)	(403)	-	-
CFI	(18,719)	(22,429)	(33,844)	(18,000)	(18,000)
Change in Share capital	1	-	-	-	-
Change in Debts	(10,983)	(3,038)	390	(500)	(500)
Div. & Div Tax	(757)	(5,643)	(5,643)	(5,643)	(5,643)
Others	2,472	(1,096)	(899)	(534)	(484)
CFF	(9,268)	(9,776)	(6,151)	(6,677)	(6,627)
Total Cash Generated	5,273	(3,639)	(6,897)	27,210	34,765
Cash Opening Balance	14,012	19,285	15,646	8,750	35,959
Cash Closing Balance	19,285	15,646	8,750	35,959	70,725

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

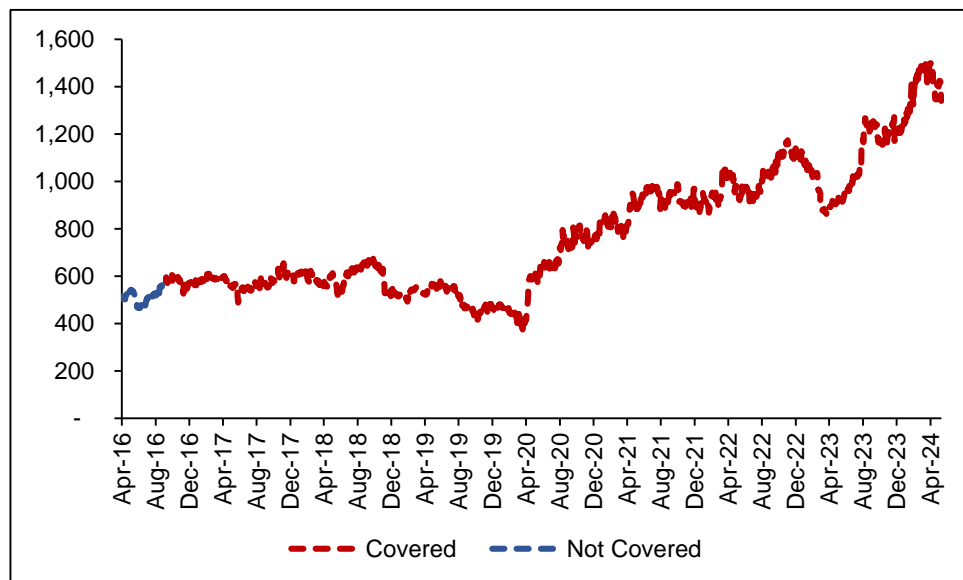
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Profitability & return ratios					
EBITDA margin (%)	20.9	22.1	24.4	25.0	26.0
Net profit margin (%)	12.2	12.9	16.6	17.1	18.3
RoE (%)	13.5	13.2	17.0	16.7	17.0
RoCE (%)	12.5	12.6	16.4	16.2	16.5
ROIC (%)	15.3	15.5	20.4	21.6	24.6
Working capital & liquidity ratios					
Receivables (days)	58	60	63	65	64
Inventory (days)	84	84	74	71	70
Payables (days)	38	40	35	34	34
Current ratio (x)	3.3	3.8	4.0	4.5	5.0
Quick ratio (x)	2.1	2.7	2.9	3.4	4.0
Leverage ratios					
Net Debt/Equity (x)	-0.2	-0.2	-0.2	-0.3	-0.4
Interest Cover (x)	32.9	35.2	58.3	111.3	142.5
Net Debt/EBITDA (x)	-0.7	-0.8	-0.8	-1.2	-1.6
Valuation ratios					
EV/sales (x)	4.8	4.6	4.0	3.5	3.1
EV/EBITDA (x)	23.0	20.7	16.4	14.1	11.8
P/E (x)	40.8	36.9	25.4	22.5	19.0
P/BV (x)	5.2	4.6	4.1	3.5	3.0

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
27 July 2023	Buy	1,069	1,245
29 October 2023	Buy	1,174	1,400
28 January 2024	Buy	1,374	1,532
12 May 2024	Buy	1,340	1,594

Rating Track Graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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