

BUY

TP: Rs 1,100 | ▲ 21%

CIPLA

| Pharmaceuticals

| 07 August 2021

Strong quarter

- Q1 revenue/EBITDA grew 27%/28% YoY, beating consensus estimates by 7%/19%
- India (+69% YoY) and API (+64% YoY) led the way due to domestic Covid contribution and one-time API supply
- We raise FY22/FY23 EPS by 9% each and roll over to a new Jun'22 TP of Rs 1,100 (vs. Rs 1,000); reiterate BUY

Saad Shaikh

researchreport@bobcaps.in

Strong quarter led by India, SA and API: Cipla's robust Q1FY22 performance was led by India sales (+69% YoY) due to contribution of Covid products (+47% sans this portfolio). Covid-led sales share of domestic business was in the high single digits. All three segments of India business (prescription, trade generics and consumer) saw healthy demand traction. API business grew 64% YoY due to one-off sales while SAGA grew 10% YoY due to strong pandemic-led demand in the sub-Saharan region and market-beating growth in the South Africa business.

US growth to accelerate from FY23 onwards: US business grew 2% QoQ to US\$ 141mn in Q1. With key new launches planned in the near term, we expect growth momentum in the US market to kick in from FY23 onwards. Significant US launches include gAdvair, gRevlimid, and gAbraxane.

EBITDA margin intact; gross margin declines: Increased revenue share of the lower-margin Covid portfolio affected Cipla's gross margin, which declined 100bps YoY to 62.4%. Lower employee cost (-164bps YoY) and stable R&D spend (4.8% of sales) supported EBITDA margin at 24.5% (+30bps YoY). Management expects FY22 EBITDA margin at ~22.5%.

Raise estimates and target: Cipla is currently trading at 13x one-year forward EV/EBITDA and 23x P/E. We raise FY22/FY23 EPS by 9% each and roll forward to a new Jun'22 TP of Rs 1,100 (vs. Rs 1,000), valuing the stock at 17x EV/EBITDA (earlier 16x), which is in line with the five-year average and implies a P/E of 28x. We expect 14% EPS growth over FY21-FY24, supported by continued traction in the domestic business, key new launches in the US and margins holding at current levels.

Reiterate BUY: We like Cipla for its strong India franchise, rich US pipeline and leadership in complex respiratory products. Operating leverage in the US business would be a key margin driver in the next two years. We believe Cipla's future investments will have a sharper focus on opportunities in high-value/complex assets but not at the expense of current margins. BUY.

Key changes

Target	Rating
▲	◀ ▶

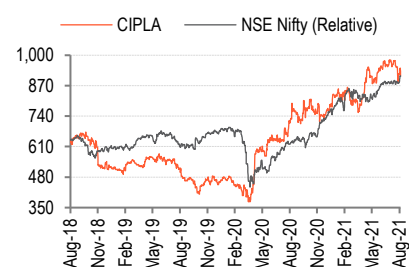
Ticker/Price	CIPLA IN/Rs 911
Market cap	US\$ 9.9bn
Free float	63%
3M ADV	US\$ 47.6mn
52wk high/low	Rs 997/Rs 704
Promoter/FPI/DII	37%/25%/16%

Source: NSE | Price as of 6 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	1,91,595	2,16,263	2,35,667
EBITDA (Rs mn)	42,524	47,567	50,362
Adj. net profit (Rs mn)	24,048	27,604	29,733
Adj. EPS (Rs)	29.8	34.3	36.9
Consensus EPS (Rs)	29.8	34.6	41.3
Adj. ROAE (%)	14.1	14.2	13.5
Adj. P/E (x)	30.5	26.6	24.7
EV/EBITDA (x)	17.5	15.3	14.0
Adj. EPS growth (%)	55.6	14.8	7.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Earnings call takeaways

- Capex for FY22 is expected to be Rs 7bn-9bn on a normalised basis.
- R&D spend for the year has been guided at up to 7% of revenue.
- Q1FY22 had an exceptional charge of Rs 1.2bn owing to impairment of investment in Avenue Therapeutics.

Fig 1 – Quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Sales	55,044	43,462	26.6	46,065	19.5
EBITDA	13,459	10,487	28.3	7,962	69.0
Depreciation	2,611	2,690	-	2,852	-
EBIT	10,848	7,798	39.1	5,110	112.3
Interest	296	460	-	275	-
Other Income	649	655	-	601	-
PBT	11,201	7,992	40.2	5,437	106.0
Less: Taxation	2,837	2,278	-	1,282	-
Less: Minority Interest	(29)	(65)	-	21	-
Recurring PAT	8,393	5,779	45.2	4,134	103.0
Exceptional items	(1,246)	0	-	0	-
Reported PAT	7,147	5,779	23.7	4,134	72.9
Key Ratios (%)			(bps)		(bps)
Gross Margin	62.4	63.4	(101)	60.4	198
EBITDA Margin	24.5	24.1	32	17.3	717
Tax / PBT	25.3	28.5	-	23.6	-
NPM	15.2	13.3	195	9.0	627
EPS (Rs)	10.4	7.2	-	5.1	-

Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Formulations	51,670	40,890	26.4	43,380	19.1
India	27,100	16,080	68.5	18,070	50.0
North America	10,380	10,210	1.7	10,020	3.6
SAGA	8,370	7,630	9.7	8,480	(1.3)
South Africa	6,340	5,480	15.7	6,060	4.6
Others/Global Access	2,030	2,150	(5.6)	2,420	(16.1)
International	5,820	6,970	(16.5)	6,810	(14.5)
APIs	3,020	1,840	64.1	2,240	34.8
Other Op. income	360	730	(50.7)	440	(18.2)
Net Sales	55,040	43,460	26.6	46,060	19.5
USDINR	74	76	(2.8)	73	1.1
US revenue (US\$ mn)	141	135	4.6	137	2.4

Source: Company, BOBCAPS Research

Valuation methodology

We increase our FY22-FY23 EPS estimates for Cipla by 9% each following the Q1FY22 beat and expect a core EPS CAGR of 14% over FY21-FY24. Advair approval represents an upside risk to our earnings estimates. We retain BUY and raise our target price to Rs 1,100 (from Rs 1,000) as we roll over to Jun'23 valuations and increase our target EV/EBITDA multiple to 17x (from 16x), which is in line with the stock's five-year average and implies a P/E of 28x.

We see scope for further stock rerating on the back of (1) margin upside potential accruing from higher operating leverage as the company's 'One India' strategy gains momentum and cost optimisation remains in focus, (2) key near-term US launches that carry significant potential, and (3) ROIC levels of >20% likely continuing over the next three years.

Fig 3 – Revised estimates

(Rs mn)	New			Old		Change (%)	
	FY22E	FY23E	FY24E	FY22E	FY23E	FY22E	FY23E
Sales	216.3	235.7	259.2	206.7	223.7	4.6	5.4
EBITDA	47.6	50.4	56.9	45.8	48.1	3.8	4.6
EBITDA Margin (%)	22.0	21.4	22.0	22.2	21.5	(17bps)	(15bps)
EPS (Rs)	34	37	44	31	34	9.1	8.5

Source: BOBCAPS Research

Fig 4 – Key assumptions

(Rs mn)	FY21	FY22E	FY23E	FY24E
Domestic Formulation	77,360	92,832	1,03,972	1,19,568
Export Formulation	1,03,636	1,12,078	1,19,313	1,26,144
North America	40,810	44,476	47,610	50,332
SAGA	34,496	36,382	38,333	40,514
International	28,330	31,219	33,369	35,297
API	7,976	8,773	9,651	10,616
Others	913	1,282	1,398	1,538

Source: Company, BOBCAPS Research

Key risks

- **US execution critical:** We expect the US market to contribute meaningfully to profitability in the coming years. Any delay in ramp-up of key launches such as Advair Diskus can potentially erode EPS.
- **Reduction in Global Access funding:** A decline in the tender-facing Global Access business due to challenges in the funding environment would pose a risk to our estimates.
- **Weak drug price hikes in South Africa** are another key downside risk.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	1,71,320	1,91,595	2,16,263	2,35,667	2,59,233
EBITDA	32,060	42,524	47,567	50,362	56,938
Depreciation	11,760	10,677	13,195	13,867	14,772
EBIT	20,300	31,847	34,371	36,494	42,167
Net interest inc./(exp.)	(1,972)	(1,607)	(625)	(390)	(244)
Other inc./(exp.)	3,442	2,660	3,810	4,349	6,768
Exceptional items	0	0	0	0	0
EBT	21,770	32,900	37,557	40,453	48,690
Income taxes	6,312	8,888	9,952	10,720	12,903
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	5	(36)	0	0	0
Reported net profit	15,453	24,048	27,604	29,733	35,787
Adjustments	0	0	0	0	0
Adjusted net profit	15,453	24,048	27,604	29,733	35,787

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	22,818	20,668	29,447	32,100	35,324
Other current liabilities	10,604	14,709	12,898	14,060	15,472
Provisions	10,815	11,945	13,523	14,741	16,221
Debt funds	28,160	15,375	9,609	6,006	3,754
Other liabilities	0	0	0	0	0
Equity capital	1,613	1,613	1,613	1,613	1,613
Reserves & surplus	1,60,215	1,84,062	2,07,634	2,33,335	2,65,090
Shareholders' fund	1,61,827	1,85,675	2,09,247	2,34,948	2,66,703
Total liab. and equities	2,34,224	2,48,372	2,74,724	3,01,855	3,37,474
Cash and cash eq.	10,039	14,012	20,010	46,878	70,409
Accounts receivables	38,910	34,457	44,171	48,151	52,986
Inventories	43,776	46,692	58,895	64,201	70,648
Other current assets	21,715	21,267	30,095	32,807	36,101
Investments	15,953	28,318	28,318	28,318	28,318
Net fixed assets	51,281	49,563	44,367	38,500	37,255
CWIP	8,245	9,689	9,689	9,689	9,689
Intangible assets	44,305	44,375	39,180	33,312	32,068
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,34,224	2,48,372	2,74,724	3,01,855	3,37,474

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	33,854	41,404	19,224	37,027	42,342
Capital expenditures	(9,259)	(7,180)	(8,000)	(8,000)	(13,527)
Change in investments	9,586	(12,365)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	327	(19,545)	(8,000)	(8,000)	(13,527)
Equities issued/Others	1	0	0	0	0
Debt raised/repaid	(15,001)	(12,785)	(5,766)	(3,603)	(2,252)
Interest expenses	(1,972)	(1,607)	(625)	(390)	(244)
Dividends paid	(2,419)	(4,032)	(4,032)	(4,032)	(4,032)
Other financing cash flows	(10,941)	539	5,195	5,867	1,244
Cash flow from financing	(30,332)	(17,885)	(5,227)	(2,159)	(5,284)
Chg in cash & cash eq.	3,850	3,974	5,997	26,869	23,531
Closing cash & cash eq.	10,038	14,013	20,010	46,878	70,409

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	19.2	29.8	34.3	36.9	44.4
Adjusted EPS	19.2	29.8	34.3	36.9	44.4
Dividend per share	3.0	5.0	5.0	5.0	5.0
Book value per share	197.1	227.1	256.3	288.2	327.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	4.4	3.9	3.4	3.0	2.6
EV/EBITDA	23.5	17.5	15.3	14.0	12.0
Adjusted P/E	47.5	30.5	26.6	24.7	20.5
P/BV	4.6	4.0	3.6	3.2	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	71.0	73.1	73.5	73.5	73.5
Interest burden (PBT/EBIT)	107.2	103.3	109.3	110.8	115.5
EBIT margin (EBIT/Revenue)	11.8	16.6	15.9	15.5	16.3
Asset turnover (Rev./Avg TA)	22.0	24.5	25.8	25.6	25.3
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.0	1.0
Adjusted ROAE	9.9	14.1	14.2	13.5	14.4

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	9.2	11.8	12.9	9.0	10.0
EBITDA	32.3	32.6	11.9	5.9	13.1
Adjusted EPS	131.4	55.6	14.8	7.7	20.4
Profitability & Return ratios (%)					
EBITDA margin	18.7	22.2	22.0	21.4	22.0
EBIT margin	11.8	16.6	15.9	15.5	16.3
Adjusted profit margin	9.0	12.6	12.8	12.6	13.8
Adjusted ROAE	9.9	14.1	14.2	13.5	14.4
ROCE	12.2	17.6	18.2	17.8	19.1
Working capital days (days)					
Receivables	85	66	75	75	75
Inventory	96	90	100	100	100
Payables	50	40	50	50	50
Ratios (x)					
Gross asset turnover	1.2	1.3	1.3	1.4	1.4
Current ratio	2.6	2.5	2.7	3.2	3.4
Net interest coverage ratio	10.3	19.8	55.0	93.5	172.8
Adjusted debt/equity	0.1	(0.1)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

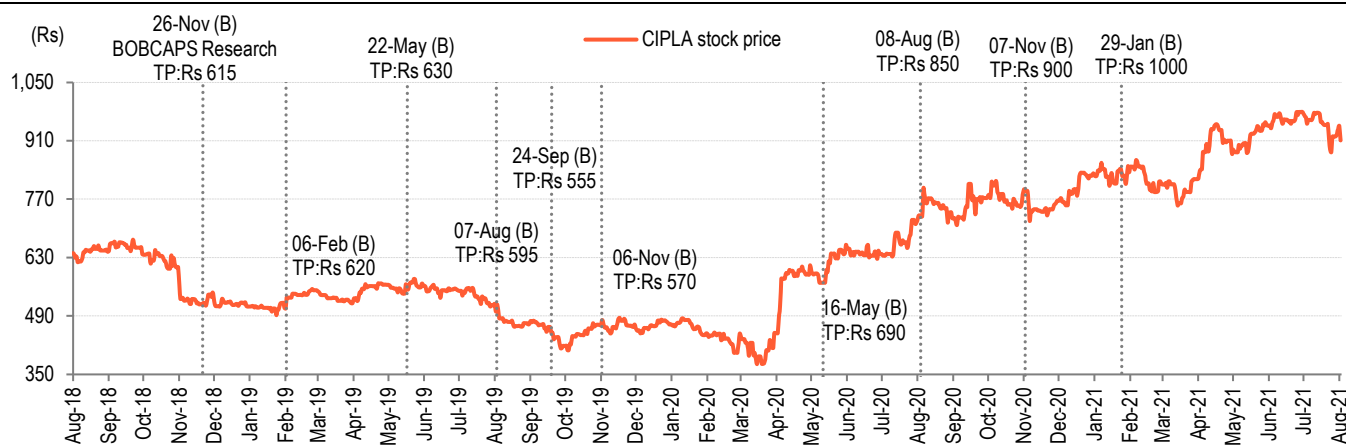
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): CIPLA (CIPLA IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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