

BUY

TP: Rs 1,320 | ▲ 15%

CIPLA

| Pharmaceuticals

| 05 November 2022

Robust US and India sales

- Q2 revenue up 6% YoY as US/India sales offset decline in other markets; growth at 12% YoY ex-Covid sales in base quarter
- Gross margin up 165bps YoY but EBITDA margin flat at 22.3% on higher operating cost
- We raise FY23-FY24 EBITDA 9-12% and revise TP to Rs 1,320 (vs. Rs 1,100) at a higher EV/EBITDA multiple of 17x (vs. 16x); retain BUY

Saad Shaikh

research@bobcaps.in

Strong US growth: Cipla reported Q2FY23 revenue growth of 6% YoY (+8% QoQ) to Rs 58.3bn led by the US and India businesses. US sales grew at a strong 16% QoQ and 26% YoY to US\$ 179mn, backed by sustained expansion of differentiated products, launch of gRevlimid and market share gains in Lanreotide to 9.6% (4.6%/1.9% in Q1FY23/Q4FY22). The company expects to reach 15% market share in Lanreotide by FY23-end.

One-India growth momentum continues: Excluding Covid revenue in the base quarter, domestic sales grew 15% YoY (reported growth at 6% YoY), with strong demand traction across therapies. Cipla launched eight new brands during the quarter in the cardiology, diabetes, urology, gynaecology and respiratory therapies. All its three segments of branded generics, trade generics and consumer health, under the One-India initiative, reported double-digit YoY growth.

Decline in SAGA and international business: SAGA revenue (South Africa, sub-Saharan Africa and Cipla Global Access) declined 13% YoY in Q2 but grew 10% QoQ led by sequential recovery in South Africa private business (double-digit growth). In secondary terms, the private business grew 7.2% vs. market growth of just 2.8%, as per IQVIA MAT Aug'22. Higher Covid product sales in the base quarter, forex volatility and a challenging operating environment resulted in a 7% YoY decline in the international market (+6% QoQ), but the business has grown YoY when adjusted for pandemic-related sales.

Flat margin guidance: Cipla reported H1FY23 gross/EBITDA margins of 62.6%/21.8% and has guided for a full-year EBITDA margin of 21-22% despite the gRevlimid launch. This can be attributed to weak seasonality in Q4.

Retain BUY; TP raised to Rs 1,320: Based on strong US growth and continued India momentum, we raise our FY23-FY24 EBITDA estimates by 9-12% and move to a higher FY24E EV/EBITDA multiple of 17x (16x earlier) – a 15% premium to the stock's 5Y average. Retain BUY with a revised TP of Rs 1,320 (vs. Rs 1,100).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CIPLA IN/Rs 1,146
Market cap	US\$ 11.2bn
Free float	63%
3M ADV	US\$ 20.4mn
52wk high/low	Rs 1,185/Rs 850
Promoter/FPI/DII	36%/25%/21%

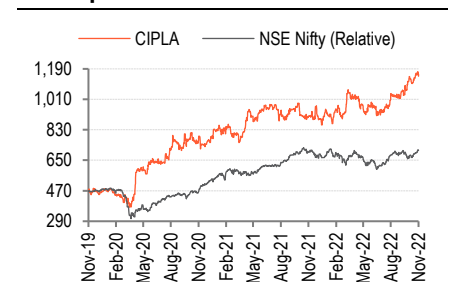
Source: NSE | Price as of 4 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	2,17,634	2,45,618	2,67,276
EBITDA (Rs mn)	45,528	52,874	61,391
Adj. net profit (Rs mn)	26,989	33,049	40,094
Adj. EPS (Rs)	33.5	41.0	49.8
Consensus EPS (Rs)	33.5	39.5	50.9
Adj. ROAE (%)	13.9	15.0	15.8
Adj. P/E (x)	34.2	27.9	23.0
EV/EBITDA (x)	20.1	17.0	14.4
Adj. EPS growth (%)	12.2	22.5	21.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Net Sales	58,285	55,198	5.6	53,752	8.4	1,12,037	1,10,242	1.6
EBITDA	13,023	12,262	6.2	11,434	13.9	24,457	25,721	(4.9)
Depreciation	2,994	2,531	-	2,544	-	5,538	5,142	-
EBIT	10,030	9,731	3.1	8,889	12.8	18,919	20,579	-
Interest	256	380	-	178	-	434	676	-
Other Income	1,230	607	-	1,034	-	2,264	1,256	-
PBT	11,004	9,958	10.5	9,746	12.9	20,749	21,160	(1.9)
Less: Taxation	3,026	2,838	-	2,680	-	5,706	5,675	-
Less: Minority Interest	89	6	-	202	-	290	(23)	-
Recurring PAT	7,889	7,114	10.9	6,864	14.9	14,753	15,507	(4.9)
Exceptional items	0	0	-	0	-	0	(1,246)	-
Reported PAT	7,889	7,114	10.9	6,864	14.9	14,753	14,261	3.5
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	62.9	61.3	165	62.3	60	62.6	61.9	80
EBITDA Margin	22.3	22.2	13	21.3	107	21.8	23.3	(150)
Tax / PBT	27.5	28.5	-	27.5	-	27.5	26.8	-
NPM	13.5	12.9	65	12.8	77	13.2	14.1	-
EPS (Rs)	9.8	8.8	-	8.5	-	18.3	19.2	-

Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Formulations	56,250	52,860	6.4	51,900	8.4	1,08,150	1,04,530	3.5
India	25,630	24,160	6.1	24,830	3.2	50,460	51,260	(1.6)
North America	14,320	10,550	35.7	11,990	19.4	26,310	20,930	25.7
SAGA	8,670	9,940	(12.8)	7,880	10.0	16,550	18,310	(9.6)
South Africa	5,980	7,100	(15.8)	5,680	5.3	11,660	13,440	(13.2)
Others/Global Access	2,690	2,840	(5.3)	2,200	22.3	4,890	4,870	0.4
International	7,630	8,210	(7.1)	7,200	6.0	14,830	14,030	5.7
APIs	1,530	1,720	(11.0)	1,350	13.3	2,880	4,740	(39.2)
Other operating income	505	618	(18.2)	502	0.7	1,007	972	3.7
Net Sales	58,285	55,198	5.6	53,752	8.4	1,12,037	1,10,242	1.6
USDINR	79.9	74.0	8.0	77.4	3.2	78.7	73.9	7.4
US revenue (US\$ mn)	179	143	25.7	155	15.7	335	283	17.1

Source: Company, BOBCAPS Research

Earnings call takeaways

- **India:** Cipla's growth momentum continued in Q2FY23 with sales up 15% YoY (adjusted for Covid-related sales in the base quarter), reflecting strong demand traction across therapies. The company launched eight brands during the quarter in the cardiology, diabetes, urology, gynaecology, and respiratory therapies.
 - **Branded generics:** Branded business and acute therapies were supported by favourable seasonality. The branded prescription business grew in double digits across therapies driven by higher demand.
 - **Trade generics:** The company witnessed strong traction across flagship brands with steady order flow from tier 2-6 cities and rural towns, translating into double-digit growth YoY. It launched 10 products in key therapies within the generics franchise.
 - **Consumer health:** The consumer health business continues to do well (+20% YoY in Q2) and is tracking in line with the Rs 6bn guidance for FY23. The transitioned consumer brands clocked a robust 14% growth during the quarter.
- **North America:** On the back of a differentiated portfolio and launch of gRevlimid, Cipla posted strong 16% QoQ growth to US\$ 179mn.
 - Market share in Albuterol and Arfomoterol was at 16% and 38% respectively. Lanreotide market share improved to 9.6% (from 4.6%/1.9% in Q1FY23/Q4FY22), and management is targeting 15% share by the year-end.
 - The quarterly run-rate of the US business is guided to remain at US\$ 175mn-180mn, with launches likely to offset the fall in gRevlimid sales.
 - Cipla expects the gRevlimid launch and increase in Lanreotide market share to counter the decline in base business due to price erosion.
- **US pipeline:** The company is on track to roll out gAdvair in H2FY23 and gAbraxane in H1FY24. Its peptide injectable filing is also on track with first launch likely in late-H1FY24.
- **SAGA:** The SAGA region declined 13% YoY (+10% QoQ) in Q2. South Africa private business demonstrated recovery on a sequential basis with double-digit growth. In secondary terms, the private business grew 7.2% vs. market growth of 2.8%, as per IQVIA MAT Aug'22.
- **International markets:** Higher Covid product sales in the base quarter, forex volatility and a challenging operating environment resulted in a 7% YoY decline in the international market (+6% QoQ) in Q2, but the business was maintained YoY when adjusted for pandemic-related sales and despite forex volatility.
- **Margins:** The Q2 EBITDA margin was flat YoY at 22.3% (24% excluding impact of Covid inventory charge). Guidance for FY23 is at 21-22%.
- **Goa plant:** Cipla has responded to the Aug-22 USFDA observations issued on its Goa plant and does not expect any material impact on planned launches for FY23.

Valuation methodology

With a strong India franchise, differentiated US pipeline (gAdvair, gAbroxane, peptide injections) and relatively low risk of price erosion in the US, we believe Cipla is poised to leverage its network reach to launch key generics. We raise our FY23-FY24 EBITDA estimates by 9-12% to factor in the company's impressive Q2FY23 performance in the US market (gRevlimid launch, Lanreotide traction), continued growth momentum in One-India and the expected revival in SAGA/international businesses. We further raise our target FY24E EV/EBITDA multiple to 17x (from 16x) – a 15% premium to the stock's five-year average, yielding a higher TP of Rs 1,320 (vs. Rs 1,100); retain BUY.

Fig 3 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	F23E	FY24E
Revenue	245.6	267.3	236.3	260.7	3.9	2.5
EBITDA	52.9	61.4	48.5	54.7	9.0	12.2
EBITDA Margin (%)	21.5	23.0	20.5	21.0	100 bps	199 bps
EPS (Rs.)	41.0	49.8	34.9	41.3	17.5	20.4

Source: BOBCAPS Research

Fig 4 – Key assumptions

Revenue (Rs bn)	FY22A	FY23E	FY24E
Domestic Formulation	98.3	112.0	128.8
North America	44.3	54.2	53.9
SAGA	36.8	38.8	41.1
International	28.7	30.8	32.6
API	7.6	8.0	8.8
Other operating income	1.9	1.9	2.1

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EBITDA CAGR FY23-24E (%)	EV/EBITDA (x)		ROCE (%)		Target EV/EBITDA (x)
					FY22E	FY23E	FY22E	FY23E	
Sun Pharma	SUNP IN	HOLD	1,100	13.4	19.1	17.7	18.3	17.8	18.5
Dr. Reddy's	DRRD	HOLD	4,700	14.6	13.4	12.1	19.7	18.6	12.0
Lupin	LPC	SELL	600	15.9	14.1	10.7	9.3	13.0	10.0
Cipla	CIPLA IN	BUY	1,320	16.1	16.9	14.6	17.6	18.9	17.0

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **Poor US execution:** 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.

- **Regulatory issues:** Failure to get clearance on plants under USFDA observations would affect growth.
- **Drug prices:** Weak drug price hikes in South Africa are another key downside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.0	1,256	1,470	HOLD
Alembic Pharma	ALPM IN	1.6	657	770	HOLD
Alkem Labs	ALKEM IN	4.7	3,254	3,220	HOLD
Aurobindo Pharma	ARBP IN	3.9	554	695	BUY
Cipla	CIPLA IN	11.2	1,146	1,320	BUY
Divi's Labs	DIVI IN	12.1	3,746	4,250	HOLD
Dr Reddy's Labs	DRRD IN	9.1	4,525	4,700	HOLD
Eris Lifesciences	ERIS IN	1.2	722	970	BUY
Glenmark Life Sciences	GLS IN	0.7	440	535	BUY
Laurus Labs	LAURUS IN	3.0	465	540	HOLD
Lupin	LPC IN	3.9	711	600	SELL
Sun Pharma	SUNP IN	30.3	1,040	1,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 4 Nov 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	1,70,577	1,91,596	2,17,634	2,45,618	2,67,276
EBITDA	31,317	42,525	45,528	52,874	61,391
Depreciation	11,760	10,677	10,520	11,061	11,424
EBIT	19,557	31,848	35,009	41,813	49,968
Net interest inc./(exp.)	(1,972)	(1,607)	(1,064)	(934)	(359)
Other inc./(exp.)	3,442	2,660	2,809	4,086	4,942
Exceptional items	0	0	0	0	0
EBT	21,027	32,901	36,754	44,965	54,550
Income taxes	6,312	8,888	9,338	11,916	14,456
Extraordinary items	0	0	(1,821)	0	0
Min. int./Inc. from assoc.	5	(36)	427	0	0
Reported net profit	14,710	24,049	25,168	33,049	40,094
Adjustments	0	0	(1,821)	0	0
Adjusted net profit	14,710	24,049	26,989	33,049	40,094

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	22,818	20,668	25,081	30,051	32,694
Other current liabilities	10,604	14,709	8,547	14,625	15,911
Provisions	10,815	11,945	13,212	14,930	16,243
Debt funds	28,160	15,375	10,558	8,121	6,247
Other liabilities	0	0	0	0	0
Equity capital	1,613	1,613	1,614	1,614	1,614
Reserves & surplus	1,60,215	1,84,062	2,07,512	2,36,527	2,72,587
Shareholders' fund	1,61,827	1,85,675	2,09,125	2,38,140	2,74,201
Total liab. and equities	2,34,224	2,48,372	2,66,523	3,05,867	3,45,296
Cash and cash eq.	10,039	14,012	19,285	28,787	60,641
Accounts receivables	38,910	34,457	34,244	50,085	54,490
Inventories	43,776	46,692	53,502	66,780	72,653
Other current assets	21,715	21,267	29,490	34,124	37,126
Investments	15,953	28,318	26,120	26,120	26,120
Net fixed assets	51,281	49,563	51,644	48,583	45,159
CWIP	8,245	9,689	7,662	7,662	7,662
Intangible assets	44,305	44,375	44,575	43,726	41,445
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,34,224	2,48,372	2,66,523	3,05,867	3,45,296

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	33,111	41,404	21,447	24,058	43,840
Capital expenditures	(9,259)	(7,180)	(8,000)	(8,000)	(8,000)
Change in investments	9,586	(12,365)	2,198	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	327	(19,545)	(5,802)	(8,000)	(8,000)
Equities issued/Others	1	0	1	0	0
Debt raised/repaid	(15,001)	(12,785)	(4,817)	(2,436)	(1,874)
Interest expenses	(1,972)	(1,607)	(1,064)	(934)	(359)
Dividends paid	(2,419)	(4,032)	(4,034)	(4,034)	(4,034)
Other financing cash flows	(10,198)	538	(458)	849	2,281
Cash flow from financing	(29,589)	(17,886)	(10,372)	(6,556)	(3,986)
Chg in cash & cash eq.	3,850	3,974	5,273	9,502	31,854
Closing cash & cash eq.	10,038	14,013	19,285	28,787	60,641

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	18.3	29.8	31.2	41.0	49.8
Adjusted EPS	18.3	29.8	33.5	41.0	49.8
Dividend per share	3.0	5.0	5.0	5.0	5.0
Book value per share	197.1	227.1	256.0	291.9	336.7

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	5.5	4.9	4.2	3.7	3.3
EV/EBITDA	30.1	22.0	20.1	17.0	14.4
Adjusted P/E	62.8	38.4	34.2	27.9	23.0
P/BV	5.8	5.0	4.5	3.9	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	70.0	73.1	73.4	73.5	73.5
Interest burden (PBT/EBIT)	107.5	103.3	105.0	107.5	109.2
EBIT margin (EBIT/Revenue)	11.5	16.6	16.1	17.0	18.7
Asset turnover (Rev./Avg TA)	21.9	24.5	25.9	26.4	25.4
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.0
Adjusted ROAE	9.5	14.1	13.9	15.0	15.8

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	8.7	12.3	13.6	12.9	8.8
EBITDA	29.3	35.8	7.1	16.1	16.1
Adjusted EPS	120.3	63.5	12.2	22.5	21.3
Profitability & Return ratios (%)					
EBITDA margin	18.4	22.2	20.9	21.5	23.0
EBIT margin	11.5	16.6	16.1	17.0	18.7
Adjusted profit margin	8.6	12.6	12.4	13.5	15.0
Adjusted ROAE	9.5	14.1	13.9	15.0	15.8
ROCE	11.8	17.6	18.0	19.7	20.8
Working capital days (days)					
Receivables	85	66	58	75	75
Inventory	96	90	91	100	100
Payables	50	40	42	45	45
Ratios (x)					
Gross asset turnover	1.2	1.3	1.4	1.5	1.5
Current ratio	2.6	2.5	2.9	3.0	3.5
Net interest coverage ratio	9.9	19.8	32.9	44.8	139.1
Adjusted debt/equity	0.1	(0.1)	(0.1)	(0.2)	(0.3)

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

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BUY – Expected return >+15%

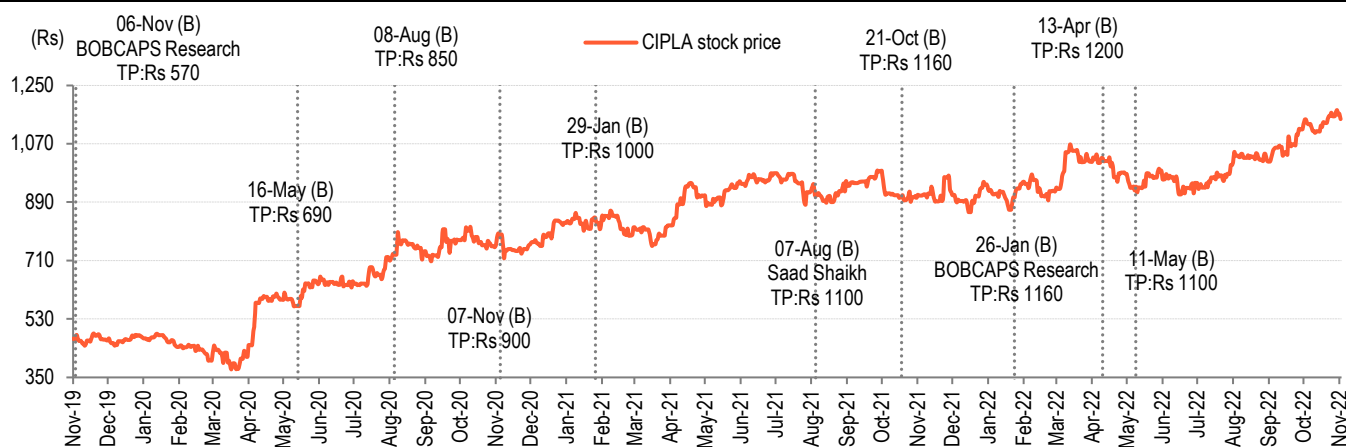
HOLD – Expected return from -6% to +15%

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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