

BUY

TP: Rs 1,100 | ▲ 19%

CIPLA

| Pharmaceuticals

| 11 May 2022

Strong India and US growth marred by lower margins

- Slight miss on Q4 revenue but EBITDA underperformed our estimate by 32% due to lower margins (incl. one-time charge of Rs 2bn)
- FY23 margin guidance at 20-21%; management optimistic on key US launches (Advair, Abraxane) in H2FY23
- We cut FY23-FY24 EBITDA by 8-11% and revise our TP to Rs 1,100 (vs. Rs 1,200); retain BUY

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Domestic and US markets lead growth; API sales soft: Cipla missed our revenue/EBITDA estimates by 2%/32% in Q4FY22. Revenue grew 14% YoY to Rs 52.6bn backed by a strong performance in both the India (+21%) and US (+21%) businesses. Only the API segment recorded a YoY decline (-39%). Regions such as SAGA and international markets reported revenue growth of 12% and 8% respectively.

Core business and respiratory portfolio drive US growth; key launches in H2: In dollar terms, US revenue increased 7% QoQ to US\$ 161mn (+17% YoY) due to robust momentum in the core business, strong traction in the respiratory portfolio and value unlocking in peptides. Management remains confident of its key launches in H2FY23 (Advair, Abraxane).

Reverse seasonality and industry-wide cost pressure weaken margins: Cipla saw gross/EBITDA margin declines of 125bps/300bps YoY to 59.2%/14.3% due to US price erosion as well as higher raw material, logistics and R&D costs. EBITDA margin was affected by a one-time inventory charge of Rs 1.6bn on the Covid portfolio at the gross margin level and Rs 200mn in other expenses. Adjusting for these expenses, the Q4 margin was 18.1%. Management has guided for an FY23 margin of 20-21%.

Retain BUY: With a strong India franchise, rich US pipeline and relatively low risk of price erosion in the US, Cipla is poised to leverage the network reach of its robust core portfolio to launch major generics. We cut our FY23-FY24 EBITDA estimates by 8-11% to factor in rising costs but maintain our FY24E EV/EBITDA multiple at 16x, yielding a new TP of Rs 1,100 (vs. Rs 1,200); retain BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CIPLA IN/Rs 926
Market cap	US\$ 9.6bn
Free float	63%
3M ADV	US\$ 35.6mn
52wk high/low	Rs 1,083/Rs 850
Promoter/FPI/DII	36%/25%/21%

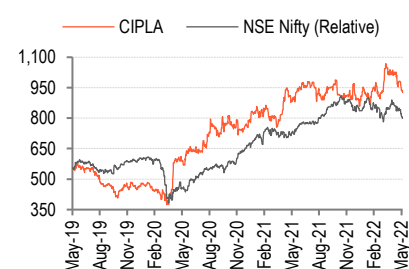
Source: NSE | Price as of 10 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	2,17,634	2,36,302	2,60,702
EBITDA (Rs mn)	45,528	48,508	54,703
Adj. net profit (Rs mn)	26,989	28,121	33,310
Adj. EPS (Rs)	33.5	34.9	41.3
Consensus EPS (Rs)	35.1	41.7	50.9
Adj. ROAE (%)	13.9	12.9	13.6
Adj. P/E (x)	27.6	26.5	22.4
EV/EBITDA (x)	16.2	14.8	12.9
Adj. EPS growth (%)	12.2	4.2	18.5

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Sales	52,603	46,065	14.2	54,789	(4.0)	2,17,633	1,91,596	13.6
EBITDA	7,497	7,962	(5.8)	12,310	(39.1)	45,528	42,523	7.1
Depreciation	2,903	2,852	-	2,475	-	10,520	10,677	-
EBIT	4,594	5,110	(10.1)	9,835	(53.3)	35,008	31,847	-
Interest	181	275	-	207	-	1,064	1,607	-
Other Income	640	601	-	913	-	2,809	2,660	-
PBT	5,053	5,437	(7.1)	10,541	(52.1)	36,754	32,900	11.7
Less: Taxation	711	1,282	-	2,952	-	9,338	8,888	-
Less: Minority Interest	147	21	-	304	-	427	(35)	-
Recurring PAT	4,196	4,134	1.5	7,286	(42.4)	26,989	24,047	12.2
Exceptional items	(575)	0	-	0	-	(1,821)	0	-
Reported PAT	3,621	4,134	(12.4)	7,286	(50.3)	25,168	24,047	4.7
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	59.2	60.4	(125)	60.9	(169)	61.0	61.6	-
EBITDA Margin	14.3	17.3	(303)	22.5	(822)	20.9	22.2	-
Tax / PBT	14.1	23.6	-	28.0	-	25.4	27.0	-
NPM	8.0	9.0	(100)	13.3	(532)	12.4	12.6	-
EPS (Rs)	5.2	5.1	-	9.0	-	33.5	29.8	-

Source: Company, BOBCAPS Research

Fig 2 – Segmental mix

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Formulations	50,770	43,380	17.0	52,720	(3.7)	2,08,020	1,81,150	14.8
India	21,830	18,070	20.8	25,180	(13.3)	98,270	77,360	27.0
North America	12,090	10,020	20.7	11,240	7.6	44,260	40,910	8.2
SAGA	9,530	8,480	12.4	8,920	6.8	36,760	34,470	6.6
International	7,320	6,810	7.5	7,380	(0.8)	28,730	28,410	1.1
APIs	1,370	2,240	(38.8)	1,500	(8.7)	7,610	7,980	(4.6)
Other Op. income	463	440	5.3	569	(18.6)	2,004	2,431	(17.6)
Net Sales	52,603	46,060	14.2	54,789	(4.0)	2,17,634	1,91,561	13.6
USDINR	75	73	3.2	75	0.4	75	74	1.1
US revenue (US\$ mn)	161	137	16.9	150	7.2	594	555	7.1

Source: Company, BOBCAPS Research

Earnings call takeaways

- **India formulations:** Ex-Covid products, Cipla's One India business grew 25% YoY owing to higher sales of certain antibiotics and supplementary products during the pandemic. The company indicated that it saw significant growth in consumer healthcare followed by branded prescriptions and trade generics. We expect mid-teens growth in India formulations in FY23.
- **US generics:** Revenue from US generics grew 7% QoQ to US\$ 160m with the help of generic Albuterol, expansion of Arformoterol prescription share and early progress in the Lanreotide injection. Management has guided for revenue addition of US\$ 300mn-500mn on the back of key launches of limited competition drugs such as Lanreotide (peptide), gAdvair (H2FY23) and gRevlimid by FY25. The company expects 60% contribution from inhalers and injectables by FY26 vs. 33% currently.
- **ROW markets:** Strong momentum in Q4 ROW sales was negated by volatile currency movement against the US dollar in emerging markets. Institutional sales were muted as well.
- **API:** API sales declined by 5% YoY due to a higher base (stockpiling at client site and one-time revenue from a partner product). Cipla currently has five products in the US which are partnered products.
- **Net cash positive:** With gross debt reduced to Rs 8.2bn, Cipla is now a net cash positive company with a cash balance of Rs 49.7bn. Net cash-to-equity is 0.2x.

Valuation methodology

With a strong India franchise, rich US pipeline and relatively low risk of price erosion in the US, Cipla is poised to leverage the network reach of its robust core portfolio to launch major generics. We cut our FY23/FY24 EBITDA estimates by 11%/8% to factor in rising costs but maintain our FY24E EV/EBITDA multiple at 16x, yielding a new TP of Rs 1,100 (vs. Rs 1,200); retain BUY.

Fig 3 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	236.3	260.7	237.8	262.5	(0.6)	(0.7)
EBITDA	48.5	54.7	54.6	59.6	(11.2)	(8.3)
EBITDA Margin (%)	20.5	21.0	23.0	22.7	(243bps)	(174bps)
EPS (Rs)	34.9	41.3	40.4	46.9	(13.7)	(11.9)

Source: BOBCAPS Research

Fig 4 – Key assumptions

(Rs bn)	FY22A	FY23E	FY24E
Domestic Formulation	98.3	110.1	126.6
North America	44.3	46.8	49.5
SAGA	36.8	38.8	41.1
International	28.7	30.5	32.3
API	7.6	8.4	9.2

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EBITDA CAGR FY21-24E (%)	EV/EBITDA (x)		ROE (%)		Target EV/EBITDA (x)
					FY23E	FY24E	FY23E	FY24E	
Cipla	CIPLA IN	BUY	1,100	8.8	14.8	13.1	12.9	13.6	16.0
Aurobindo	ARBP IN	BUY	850	6.1	6.9	5.9	87.3	89.4	7.5
Dr. Reddy's	DRRD IN	HOLD	4,700	10.1	11.1	10.5	17.0	15.4	12.5
Lupin	LPC IN	HOLD	800	6.3	11.7	10.5	11.0	11.9	11.0
Sun Pharma	SUNP IN	BUY	1,100	16.9	15.4	13.8	16.9	16.8	18.5

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	1.8	1,658	2,050	BUY
Alembic Pharma	ALPM IN	1.8	719	770	HOLD
Alkem Labs	ALKEM IN	4.6	2,972	4,000	BUY
Aurobindo Pharma	ARBP IN	4.6	603	850	BUY
Cipla	CIPLA IN	9.6	926	1,100	BUY
Divi's Labs	DIVI IN	14.8	4,296	5,250	BUY
Dr Reddy's Labs	DRRD IN	8.4	3,914	4,700	HOLD
Eris Lifesciences	ERIS IN	1.2	669	970	BUY
Laurus Labs	LAURUS IN	3.7	526	645	HOLD
Lupin	LPC IN	4.2	714	800	HOLD
Sun Pharma	SUNP IN	26.7	862	1,100	BUY

Source: BOBCAPS Research, NSE | Price as of 10 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	1,70,577	1,91,596	2,17,634	2,36,302	2,60,702
EBITDA	31,317	42,525	45,528	48,508	54,703
Depreciation	11,760	10,677	10,520	13,867	14,539
EBIT	19,557	31,848	35,009	34,641	40,163
Net interest inc./(exp.)	(1,972)	(1,607)	(1,064)	(467)	(359)
Other inc./(exp.)	3,442	2,660	2,809	4,086	5,515
Exceptional items	0	0	0	0	0
EBT	21,027	32,901	36,754	38,260	45,319
Income taxes	6,312	8,888	9,338	10,139	12,010
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	28,121	33,310
Adjustments	0	0	(1,821)	0	0
Adjusted net profit	14,710	24,049	26,989	28,121	33,310

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	22,818	20,668	25,081	28,907	31,886
Other current liabilities	10,604	14,709	8,547	14,068	15,518
Provisions	10,815	11,945	13,212	14,362	15,842
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	2,31,599	2,60,875
Shareholders' fund	1,61,827	1,85,675	2,09,125	2,33,212	2,62,488
Total liab. and equities	2,34,224	2,48,372	2,66,523	2,98,670	3,31,982
Cash and cash eq.	10,039	14,012	19,285	35,163	66,583
Accounts receivables	38,910	34,457	34,244	48,178	53,144
Inventories	43,776	46,692	53,502	64,238	70,859
Other current assets	21,715	21,267	29,490	32,825	36,209
Investments	15,953	28,318	26,120	26,120	26,120
Net fixed assets	51,281	49,563	51,644	45,777	39,237
CWIP	8,245	9,689	7,662	7,662	7,662
Intangible assets	44,305	44,375	44,575	38,708	32,168
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	2,98,670	3,31,982

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	33,111	41,404	21,447	24,948	39,148
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)	(467)	(359)
Dividends paid	(2,419)	(4,032)	(4,034)	(4,034)	(4,034)
Other financing cash flows	(10,198)	538	(458)	5,867	6,539
Cash flow from financing	(29,589)	(17,886)	(10,372)	(1,070)	272
Chg in cash & cash eq.	3,850	3,974	5,273	15,878	31,420
Closing cash & cash eq.	10,038	14,013	19,285	35,163	66,583

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	18.3	29.8	31.2	34.9	41.3
Adjusted EPS	18.3	29.8	33.5	34.9	41.3
Dividend per share	3.0	5.0	5.0	5.0	5.0
Book value per share	197.1	227.1	256.0	285.8	322.1

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	4.5	4.0	3.4	3.0	2.7
EV/EBITDA	24.4	17.8	16.2	14.8	12.9
Adjusted P/E	50.7	31.0	27.6	26.5	22.4
P/BV	4.7	4.1	3.6	3.2	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	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	110.4	112.8
EBIT margin (EBIT/Revenue)	11.5	16.6	16.1	14.7	15.4
Asset turnover (Rev./Avg TA)	21.9	24.5	25.9	25.6	25.6
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.0
Adjusted ROAE	9.5	14.1	13.9	12.9	13.6

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	8.7	12.3	13.6	8.6	10.3
EBITDA	29.3	35.8	7.1	6.5	12.8
Adjusted EPS	120.3	63.5	12.2	4.2	18.5
Profitability & Return ratios (%)					
EBITDA margin	18.4	22.2	20.9	20.5	21.0
EBIT margin	11.5	16.6	16.1	14.7	15.4
Adjusted profit margin	8.6	12.6	12.4	11.9	12.8
Adjusted ROAE	9.5	14.1	13.9	12.9	13.6
ROCE	11.8	17.6	18.0	16.8	17.9
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	1.4	1.5
Current ratio	2.6	2.5	2.9	3.1	3.6
Net interest coverage ratio	9.9	19.8	32.9	74.2	111.8
Adjusted debt/equity	0.1	(0.1)	(0.1)	(0.2)	(0.3)

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

Disclaimer

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

BUY – Expected return >+15%

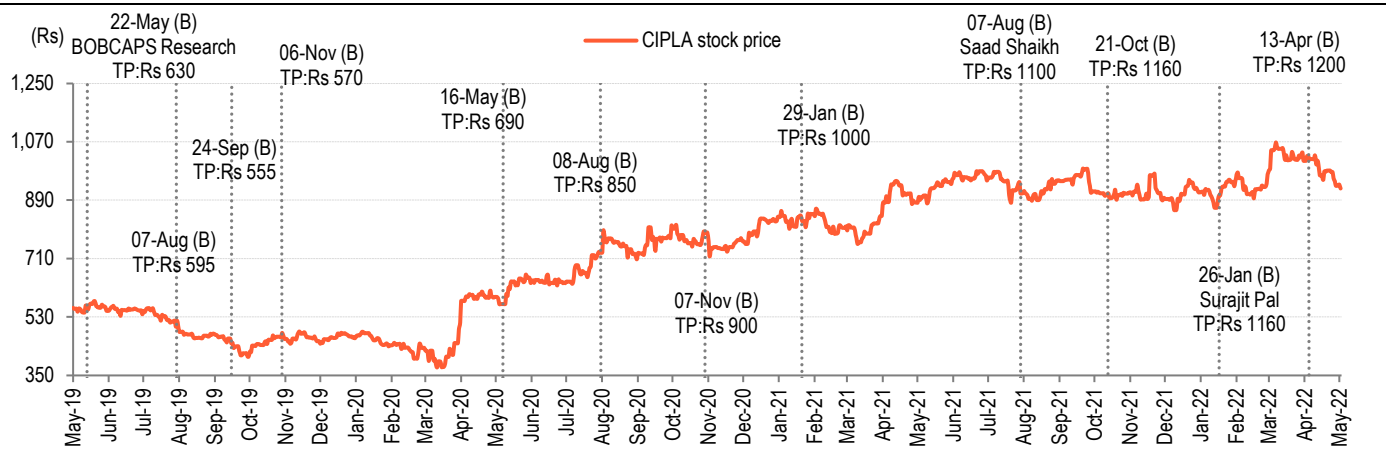
HOLD – Expected return from -6% to +15%

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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