

Some risks play out

29 October 2024

Cipla's (CIPLA IN) Q2FY25 results were broadly in line – Revenue and EBITDA came within 1-2% of our estimates. PAT came in 7% higher than our estimate, helped by higher other income and lower depreciation cost. Revenue for the South Africa business was up 22% YoY (in ZAR), compensating for poor growth performance across most other businesses. Growth warning on significant Lanreotide product and potential delay in *gAbraxane* in the US were key negative takeaways from management commentary. The management has broadly maintained FY25 guidance. We broadly maintain our FY25E-27E core EPS. We lower our TP from INR 1,595 to INR 1,507 – Retain Reduce.

US – Quarters ahead to be softer: The management has guided for a softer run-rate in the US (~USD 220mn or lower versus USD 237mn in Q2) in Q3 and possibly Q4. This is driven by supply issues in Lanreotide in the US. CIPLA hopes to stabilize supply by Q4. Significant product launches – *gAdvair*, *gAbraxane* and two undisclosed peptide products – are likely only in FY26. *gAbraxane* launch is now closely tied with the clearance of the Goa facility by the USFDA, as the alternative contract manufacturing option is turning out to be more time consuming than originally thought.

India business – Lackluster performance continues: The India business grew only 4.7% YoY in Q2. Like in Q1, the management attributed this to the change in distribution system in the trade generics business. Q2 continued to benefit from the marketing deal with Sanofi in the CNS area. Adjusted for both, we believe, the performance continued to be lackluster. The management has guided for improvement in H2.

South Africa – Expect high single-digit growth: The South Africa business grew a robust 22.3% YoY in ZAR terms. We expect the growth to normalize in the coming quarters. We are of the view that the business can deliver sustained high single-digit, low-teen percentage growth.

***gRevlimid*, benign raw material prices help margins:** Despite the lower sales in high-margin Lanreotide in the US, Q2 EBITDA margin came in line and was up 70bps YoY. The management maintained full-year EBITDA margin guidance of 24.5-25.5%, despite the anticipated impact of Lanreotide shortfall in Q3. Lower raw material prices and robust *gRevlimid* sales are helping, in our view.

Retain Reduce; TP lowered to INR 1,507: We broadly maintain our FY25E-27E core EPS. CIPLA trades at 24.5x FY26E core P/E. We lower our TP from INR 1,595 to INR 1,507, which is 30x FY27E core P/E plus cash per share (lower multiple given the risks to estimates) – Retain Reduce. Higher-than-anticipated impact of Lanreotide supply issues and further delay in *gAdvair* and *gAbraxane* are key downside risks. Clearance of the Goa facility and launch of high-value products in the US market, including *gAbraxane*, are the key upside risks.

Key Financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	227,531	257,741	275,379	300,924	309,746
YoY (%)	4.5	13.3	6.8	9.3	2.9
EBITDA (INR mn)	50,270	62,911	69,221	76,249	65,199
EBITDA margin (%)	22.1	24.4	25.1	25.3	21.0
Adj PAT (INR mn)	29,843	43,164	46,907	51,718	43,251
YoY (%)	13.0	44.6	8.7	10.3	(16.4)
Fully DEPS (INR)	36.9	53.4	58.0	63.9	53.4
RoE (%)	14.1	18.2	17.5	17.0	12.5
RoCE (%)	17.4	21.4	21.6	21.2	15.4
P/E (x)	43.4	30.5	27.3	24.5	30.0
EV/EBITDA (x)	23.0	18.4	16.7	15.2	17.7

Note: Pricing as on 29 October 2024; Source: Company, Elara Securities Estimate

Rating: **Reduce**

Target Price: **INR 1,507**

Upside: **2%**

CMP: **INR 1,478**

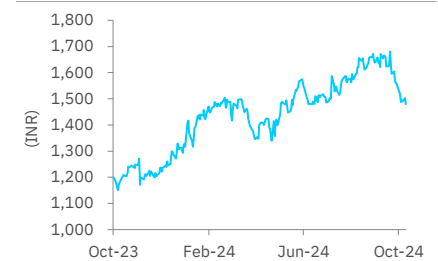
As on 29 October 2024

Key data

Bloomberg	CIPLA IN
Reuters Code	CIPL.NS
Shares outstanding (mn)	808
Market cap (INR bn/USD mn)	1,193/14,192
Enterprise Value (INR bn/USD mn)	1,143/13,594
Avg daily volume 3M (INR mn/USD mn)	2,667/32
52 week high/low	1,702/1,165
Free float (%)	69

Note: as on 29 October 2024; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q3	Q4	Q1	Q2
	FY24	FY24	FY25	FY25
Promoter	33.4	33.4	30.9	30.9
% Pledged	0	0	0	0
FII	25.9	26	28	28.9
DII	24.3	24.4	24.9	24.1
Others	16.4	16.2	16.2	16.1

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(1.5)	8.1	28.5
Cipla	(4.9)	4.9	25.8
NSE Mid-cap	(3.6)	10.7	45.3
NSE Small-cap	(4.4)	6.9	44.0

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	227,531	257,741	275,379	300,924	309,746
EBITDA	50,270	62,911	69,221	76,249	65,199
Add:- Non operating Income	4,755	7,466	6,708	6,708	6,708
OPBIDTA	55,024	70,376	75,929	82,957	71,907
Less :- Depreciation & Amortization	11,721	10,510	10,684	11,031	11,580
EBIT	43,303	59,866	65,245	71,926	60,327
Less:- Interest Expenses	1,095	899	694	694	694
PBT	42,208	58,967	64,551	71,232	59,633
Less :- Taxes	12,029	15,466	17,362	19,233	16,101
Add/Less: - Extra-ordinaries	(1,824)	(1,948)	-	-	-
Add/Less: - Minority Interest	(336)	(338)	(281)	(281)	(281)
Reported PAT	28,019	41,216	46,907	51,718	43,251
Adjusted PAT	29,843	43,164	46,907	51,718	43,251
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholder's Equity	234,078	267,064	303,195	344,131	376,594
Minority Interests	3,058	959	1,240	1,522	1,803
Borrowings	8,031	2,470	3,044	3,457	3,784
Other Non-current Liabilities	5,077	6,697	6,697	6,697	6,697
Total Liabilities	250,243	277,191	314,177	355,806	388,879
Net Fixed Assets	57,398	60,469	62,785	66,704	72,316
Intangibles and Goodwill	45,140	47,130	47,130	47,130	47,130
Investments	5,725	6,422	6,422	6,422	6,422
Cash and Cash Equivalents	46,621	56,822	78,688	106,979	134,555
Net Working Capital	77,040	87,115	99,919	109,339	109,223
Other Non-current Assets	18,319	19,232	19,232	19,232	19,232
Total Assets	250,243	277,191	314,177	355,806	388,879
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non cash items	37,971	49,400	51,577	56,735	48,816
Add/Less : Working Capital Changes	(5,594)	(8,061)	(12,804)	(9,421)	116
Operating Cash Flow	32,377	41,339	38,773	47,314	48,932
Less:- Capex	(11,355)	(10,641)	(13,000)	(14,950)	(17,193)
Free Cash Flow	21,021	30,698	25,773	32,364	31,740
Financing Cash Flow	(15,929)	(18,272)	(3,907)	(4,074)	(4,164)
Investing Cash Flow	258	(2,225)	-	-	-
Net change in Cash	5,351	10,202	21,866	28,290	27,576
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	4.5	13.3	6.8	9.3	2.9
EBITDA Growth	11.8	25.1	10.0	10.2	(14.5)
PAT Growth	8.6	42.4	11.5	11.4	(18.1)
EBITDA Margin	22.1	24.4	25.1	25.3	21.0
Net Margin	13.1	16.7	17.0	17.2	14.0
Return & Liquidity Ratios					
Net Debt/Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
ROE (%)	14.1	18.2	17.5	17.0	12.5
ROCE (%)	17.4	21.4	21.6	21.2	15.4
Per Share data & Valuation Ratios					
Diluted EPS (INR/Share)	36.9	53.4	58.0	63.9	53.4
EPS Growth (%)	8.6	42.4	11.5	11.4	(18.1)
DPS (INR/Share)	8.5	13.0	13.0	13.0	10.0
P/E Ratio (x)	43.4	30.5	27.3	24.5	30.0
EV/EBITDA (x)	23.0	18.4	16.7	15.2	17.7
EV/Sales (x)	5.1	4.5	4.2	3.8	3.7
Price/Book (x)	5.1	4.5	3.9	3.5	3.2
Dividend Yield (%)	0.6	0.9	0.9	0.9	0.7

Note: Pricing as on 29 October 2024; Source: Company, Elara Securities Estimate

Quarterly financials

YE March (INR mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY24	FY23	YoY (%)
Net sales	70,510	66,782	5.6	66,939	5.3	257,741	227,531	13.3
Gross profit	47,680	43,651	9.2	45,011	5.9	169,545	145,008	16.9
Gross margins (%)	67.6	65.4	225.8	67.2	38.1	65.8	63.7	205.0
EBITDA	18,856	17,338	8.8	17,158	9.9	62,911	50,270	25.1
EBITDA margins (%)	26.7	26.0	78.1	25.6	111.0	24.4	22.1	231.5
Other income	1,906	1,763	8.1	1,602	19.0	7,466	4,755	57.0
Interest	154	258	(40.3)	180	(14.2)	899	1,095	(17.9)
Depreciation	2,717	2,900	(6.3)	2,467	10.2	10,510	11,721	(10.3)
PBT	17,891	15,942	12.2	16,114	11.0	58,967	42,208	39.7
Tax	4,830	4,384	10.2	4,351	11.0	15,466	12,029	28.6
Tax rate (%)	27.0	27.5	(50.0)	27.0	(0.1)	26.2	28.5	(227.1)
PAT	13,060	11,558	13.0	11,763	11.0	43,501	30,179	44.1
Minority interest	(35)	(249)	(86.0)	14	(358.5)	(338)	(336)	0.5
PAT	13,025	11,309	15.2	11,776	10.6	43,164	29,843	44.6
Adjusted net income	13,025	11,309	15.2	11,776	10.6	43,164	29,843	44.6
NPM (%)	18.5	16.9	153.8	17.6	88.0	16.7	13.1	363.1

Source: Company, Elara Securities Research

Exhibit 1: Valuations

(INR)	FY23	FY24	FY25E	FY26E	FY27E
Core EPS	32.7	46.6	51.9	57.9	47.4
Core EPS growth (%)	8.6	42.4	11.5	11.4	(18.1)
Cash per share	57.7	70.3	97.3	132.2	166.3
Current core P/E (x)	43.0	30.2	27.1	24.3	29.7
Core ROIC (%)	21.4	26.4	27.4	28.5	22.1

Source: Company, Elara Securities Estimate

Conference call highlights

Financial highlights

- ▶ Revenue from operations reached INR 70.5bn, a 5.6% increase from INR 66.8bn YoY.
- ▶ EBITDA rose to INR 18.9bn from INR 17.3bn last year, reflecting an 8.8% growth, with EBITDA margins at 26.7% for the quarter.
- ▶ The net cash position stood at INR 79.5bn at the end of September 2024, with debt mainly consisting of lease liabilities and working capital needs.
- ▶ R&D investments totaled INR 3.9bn, or 5.5% of sales, marking a 2% increase YoY due to product filings and development initiatives.
- ▶ The gross margin improved this quarter due to a more favorable product mix.
- ▶ Over the past 12 months, the USFDA has audited the company's facilities in InvaGen, Kurkumbh, Patalganga, China, and Goa, all of which received either a VAI or NAI designation, except for Goa, which is still awaiting classification.
- ▶ CIPLA is currently awaiting a response from the USFDA regarding earlier observations related to the Goa facility.
- ▶ The ROIC for the quarter was 30% on an annualized basis.

North America

- ▶ North America reported quarterly revenue of USD 237mn, a 4% YoY increase, driven by strong performance in the differentiated portfolio.
- ▶ In the Albuterol segment, market share was ~19% in Q2, based on IQVIA data for the week ended 20 September 2024. The Lanreotide franchise, which includes 505(b)(2) and ANDA assets, achieved a market share of ~35% in Q2, per IQVIA MAT data for August 2024.

- ▶ A significant decline in Lanreotide market share is anticipated in the upcoming IQVIA MAT data for October 2024.
- ▶ Lanreotide sales in Q3 are expected to be lower than Q2 due to supply issues, which may be resolved by Q4. CIPLA's partner is investing in expanding capabilities for Lanreotide.
- ▶ As a result of reduced Lanreotide sales, US sales for Q3FY25 may fall below USD 220mn.
- ▶ The launch of *gAdvair* is anticipated in H1FY26, with filling batches currently in progress.
- ▶ The launch date for *gAbraxane* depends on the clearance of the Goa facility.
- ▶ CIPLA received four new generic drug approvals in Q2, including one peptide.
- ▶ The Calcitonin Salmon Injectable is a partnered product manufactured by a third-party manufacturer.
- ▶ The timelines for launching Dulera and Symbicort for FY27 remain unchanged.
- ▶ CIPLA has experienced ~10% YoY price erosion in the US, with a quarterly erosion in low single digit, ~3-5%.
- ▶ The vintage portfolio of oral solids contributes ~30% to CIPLA's US revenue, while 70% comes from differentiated products.

India

- ▶ The branded prescription segment started slowly this quarter, largely due to a sluggish market growth of 4.9% in Anti-infectives – one of the company's largest therapy areas – compared with >12% growth last year.
- ▶ In the branded prescription business, CIPLA has 21 brands ranked among the top-300 in the Indian Pharmaceutical Market (IPM).
- ▶ The respiratory business grew by 9%, the cardiac segment by 11%, and urology by 15%.
- ▶ CIPLA's share of the chronic market improved to 61.5%, according to IQVIA MAT data for September 2024.
- ▶ In Q2, CIPLA launched two significant products – Vonoprazan and Cipenmet.
- ▶ The trade generics business experienced seasonal challenges, with slow growth in the acute category. However, it is expected to return to growth in the coming quarters.
- ▶ CIPLA successfully implemented a new distribution model in trade generics, bringing the business closer to the channel.
- ▶ In trade generics, CIPLA has two brands with sales exceeding INR 1 bn and five brands with sales between INR 0.5 bn and INR 1.0 bn.
- ▶ In H1FY25, CIPLA launched nine new products in the trade generics segment.
- ▶ The consumer health franchise showed robust growth of 21% YoY, with key brands *Nicotex*, *Omnigel*, and *Cipladine* maintaining leadership in their segments.
- ▶ Operating profitability for the consumer health business remained stable at 15% in Q2.
- ▶ The field force expanded to 8,700 personnel in Q2.
- ▶ The respiratory segment is anticipated to pick up after Diwali.
- ▶ The management is confident about being among the first entrants of semaglutide in India.

SAGA

- ▶ One Africa business achieved strong double-digit growth of 22% YoY, primarily driven by the South Africa Private Market.
- ▶ In the Private Market, CIPLA's secondary growth was a robust 8.6%, compared with the overall market growth of 0.5%.

- ▶ CIPLA’s overall private market position in South Africa is now ranked #2, with its prescription business maintaining the # 1 position. This growth was fueled by increases in key therapies, new product launches, and significant growth in the OTC portfolio.
- ▶ The company experienced solid performance across major therapy areas, including Respiratory, CNS, and Anti-infectives.
- ▶ In the region, CIPLA has eight brands with MAT sales exceeding ZAR 100mn.

Emerging markets

- ▶ The deep market focus strategy in Emerging Markets and Europe is yielding results, with the business achieving 18% growth in USD terms, driven by increases in both DTM and B2B categories, while maintaining overall margins.
- ▶ The China plant is anticipated to begin supplies only from FY25.
- ▶ In emerging markets, the tender business is smaller, but it has historically grown at a rate of 18% in this region.

Guidance

- ▶ CIPLA is on track to meet its FY25 EBITDA margin guidance of 24.5-25.5%.
- ▶ One India is projected to outpace market growth in branded prescriptions and accelerate its growth in trade generics, while continuing to strengthen growth levers for the wellness portfolio, including increasing new product launches.
- ▶ In North America, prioritizing the de-risking of key products and resolving regulatory issues remain top focus areas for CIPLA.
- ▶ The business in the South Africa region is not expected to decline, with management setting a new quarterly run-rate target of INR 8bn as the baseline.
- ▶ The tender business is anticipated to remain flat or potentially decline in the upcoming quarters.
- ▶ R&D investments will focus on oligonucleotides, biologics, and respiratory products.

Exhibit 2: Rolling P/E trading at its 10 year average of 27.2x



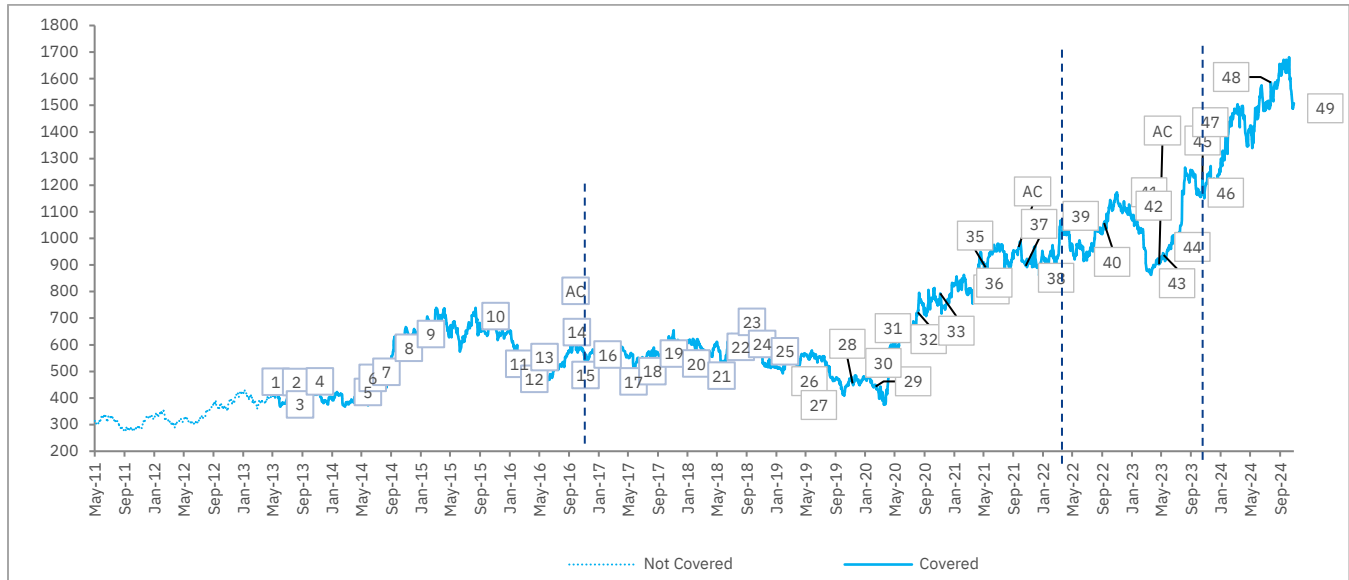
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	277,573	301,625	309,622	275,379	300,924	309,746	(0.8)	(0.2)	0.0
EBITDA	69,340	75,997	65,619	69,221	76,249	65,199	(0.2)	0.3	(0.6)
PAT	45,913	50,596	42,489	46,907	51,718	43,251	2.2	2.2	1.8
EPS (INR)	56.8	62.5	52.5	58.0	63.9	53.4	2.2	2.2	1.8
TP (INR)			1,595			1,507			(6)

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price	Closing Price	
42	25-Jan-2023	Buy	INR 1,310	INR 1,035
43	12-May-2023	Reduce	INR 942	INR 938
44	26-Jul-2023	Accumulate	INR 1,191	INR 1069
45	27-Oct-2023	Accumulate	INR 1,244	INR 1,174
46	17-Nov-2023	Accumulate	INR 1,349	INR 1,249
47	25-Jan-2024	Accumulate	INR 1,499	INR 1,370
48	26-Jul-2024	Reduce	INR 1,595	INR 1,575
49	29-Oct-2024	Reduce	INR 1,507	INR 1,478

AC=Analyst change

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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