Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy



# Cipla Ltd

## Meaningful new launches to drive growth

| Pharmaceuticals | Sharekhan code: CIPLA |
|---|---|
| Reco/View: Buy ↔ | CMP: Rs. 1,477 | Price Target: Rs. 1,715 ↓ |

↑ Upgrade ↔ Maintain ↓ Downgrade

| 3R MATRIX | + | = | - |
|---|---|---|---|
| Right Sector (RS) | ✓ | | |
| Right Quality (RQ) | ✓ | | |
| Right Valuation (RV) | ✓ | | |

+ Positive = Neutral – Negative

**What has changed in 3R MATRIX**

| | Old | | New |
|---|---|---|---|
| RS | | ↔ | |
| RQ | | ↔ | |
| RV | | ↔ | |

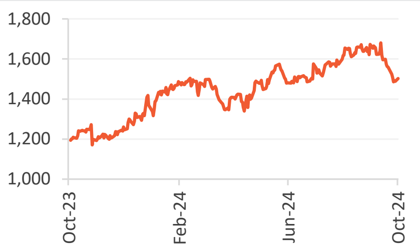
**Company details**

| | |
|---|---|
| Market cap: | Rs. 1,19,370 cr |
| 52-week high/low: | Rs. 1702/1165 |
| NSE volume: (No of shares) | 34.75 lakh |
| BSE code: | 500087 |
| NSE code: | CIPLA |
| Free float: (No of shares) | 55.7 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 30.9 |
| FII | 28.8 |
| DII | 24.0 |
| Others | 16.3 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -2.7 | 1.5 | 12.1 | 32.2 |
| Relative to Sensex | -24.5 | -18.8 | -24.3 | -5.2 |

Sharekhan Research, Bloomberg

**Summary**

- Cipla's revenue reached Rs. 7,051 crore, reflecting a 7% y-o-y increase and a 6% q-o-q rise, meeting our expectations.
- EBITDA stood at Rs. 1,886 crore with 15% y-o-y growth; it slightly missed our estimates by 1% and margins remained steady at 27%.
- Cipla is poised for growth in North America, driven by demand for its generic asthma drug and cancer injectables, along with four new approvals secured during the quarter.
- Cipla has planned meaningful peptide launches in FY2025E and domestic growth from its strong product portfolio. We maintain BUY with a revised PT of Rs. 1,715, as the stock trades at 22x and 19x its estimated FY2026 and FY2027 EPS of Rs. 66.95 and Rs. 77.98.

**Cipla's revenue reached Rs. 7,051 crore, representing a 7% y-o-y and a 6% q-o-q increase, which aligns well with our expectations. The company's EBITDA stood at Rs. 1,886 crore, showing a strong 15% y-o-y, although it was slightly below our estimates by 1%. Margins remained stable at 27%, perfectly matching our projections. As anticipated, Cipla experienced slower profit growth, mainly due to seasonal fluctuations in both the Indian and U.S. markets. However, there is a positive aspect to consider: the reduction in material costs is expected to bolster EBITDA and margins moving forward. Looking ahead, Cipla is strategically positioned for growth in the North American market, driven by increasing demand for its generic asthma medication and cancer injectables. Moreover, the company secured four regulatory approvals during the quarter, further strengthening its growth potential in this region.**

**Key positives**

- Four new drug approvals during the quarter.
- Ranked #2 in the overall South African private market.
- The company successfully implemented the change in distribution model with business coming closer to the channel.

**Management Commentary**

- EBITDA guidance remains steady at 24.5–25.5%.
- No sales guidance is provided for Lanreotide due to the contract with the partner.
- The guidance for gSymbicort, gQvar, and another inhaled partner asset remains unchanged.
- In South Africa, the emphasis is on expanding margins.

**Revision in Estimates** - Earnings estimates for FY2025 and FY2026 have been slightly adjusted, and FY2027 estimates have been introduced based on the company's recent guidance.

**Our Call**

**View – Maintain BUY with a revised PT of Rs. 1,715:** Cipla has posted a good set of earnings driven by 1) Meaningful Revlimid contribution, increased market share in key products like Albuterol and Lanreotide followed by easing of price erosion to 4-6% resulting into the highest-ever quarterly sales run rate of USD250 million, 2) Higher chronic-based growth in the domestic region, and 3) OTC-led growth in the South Africa region. A healthy product mix resulted in a higher EBITDA margin. Going forward, we expect the North American region to maintain its growth momentum, led by 1) meaningful new launches including peptides and complex respiratory drugs, followed by the launch of gSymbicort and two-player market drug gAdvair, 2) An increase in the market share of Albuterol and Leuprolide as no competitors are expected, 3) Increase in the market share of Lanreotide 505b2, 4) Launch of another peptide product in FY2025E and remaining three peptide by FY2026E. We believe a healthy product mix would increase the EBITDA margin to 26% by FY2026E. The stock is trading at an attractive P/E valuation of 22x/19x its FY2026E/FY2027E EPS of Rs. 66.95/Rs. 77.98 per share. Hence, we maintain BUY rating with a revised price target (PT) of Rs. 1,715.

**Key Risks**

1) Currency fluctuations, 2) Delay in key product approvals/faster approvals for competitors' products, and 3) Any regulatory changes in India, South Africa, or the U.S. could affect the business.

**Valuation (Consolidated)** Rs cr

| Particulars | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Sales | 22753 | 25774 | 27836 | 30341 | 33375 |
| EBITDA | 5027 | 6291 | 6959 | 7737 | 8678 |
| EBITDAM (%) | 22% | 24% | 25% | 26% | 26% |
| PAT | 2802 | 4122 | 4454 | 5158 | 6008 |
| NPM (%) | 12% | 16% | 16% | 17% | 18% |
| EPS (Rs.) | 37.00 | 53.50 | 57.81 | 66.95 | 77.98 |
| P/E | 40x | 28x | 26x | 22x | 19x |
| P/BV | 5x | 5x | 4x | 4x | 3x |
| EV/EBITDA | 22x | 20x | 19x | 17x | 15x |
| ROE (%) | 13% | 16% | 16% | 15% | 15% |
| ROCE (%) | 17% | 19% | 19% | 20% | 20% |

Source: Company; Sharekhan estimates

## Q2FY2025 Con Call Highlights

- The mix benefit from tender businesses has had a positive effect on gross margins.
- The company anticipates a normalised performance in the third and fourth quarters, with the fourth quarter typically exhibiting margins below 20%.
- The company secured four new generic drug approvals in the U.S. market, including one peptide.
- The company aims to obtain approval in China in the future.
- Albuterol's market share rose to 19% this quarter, although competition in the market is causing some erosion.
- The company's vintage portfolio of oral solids, which makes up 30% of its offerings, is facing erosion due to competitive pressures.
- The Lanreotide franchise, including 505B2 and ANDA assets, achieved a market share of 35% this quarter, according to IQVIA data from March 2024.
- The company is currently experiencing temporary supply issues with Lanreotide, which are expected to affect sales in the third quarter, but these issues should be resolved by the end of that quarter.
- The company is exploring new areas, such as oligonucleotides and peptides, and is nearly finished with its full portfolio.
- The company is working to enhance the overall capacity of Lanreotide through a capex investment from its partner.
- The company plans to pursue acquisitions in India within the DOM formulation space, followed by potential opportunities in the U.S.
- The company has seen erosion in areas where they hold government supply agreements.
- The launch of the significant inhalation asset, generic Advair, is expected in the first half of FY2026.

**Results** — Rs cr

| Particulars | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) |
|---|---|---|---|---|---|
| **Revenue** | **7,051** | **6,678** | **6%** | **6,694** | **5%** |
| Total Expenditure | 5,165 | 4,944 | 4% | 4,978 | 4% |
| **Operating profit** | **1886** | **1734** | **9%** | **1716** | **10%** |
| Other Income | 191 | 176 | 8% | 160.19 | 19% |
| Interest | 15 | 26 | -40% | 17.95 | -14% |
| Depreciation | 272 | 290 | -6% | 246.68 | 10% |
| **PBT** | **1,789** | **1,594** | **12%** | **1,611** | **11%** |
| Tax | 483 | 438 | 10% | 435.07 | 11% |
| **Adjusted PAT** | **1,306** | **1,156** | **13%** | **1,176** | **11%** |
| EPS (Rs.) | 16.13 | 14.01 | - | 14.58 | - |
| **Margins (%)** | | | **BPS** | | **BPS** |
| OPM | 27% | 26% | 78bps | 26% | 111bps |
| NPM | 19% | 17% | 122bps | 18% | 95bps |
| Tax rate | 27% | 28% | -50bps | 27% | 0bps |

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Input cost easing with companies focusing on complex product launches

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global pharma companies. The confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. The sector is witnessing the easing of input costs like raw-material cost, freight cost, and power cost, which aid the sector in expanding margins. The sector is also witnessing the easing of price erosion followed by increasing contributions from new product launches. We believe the sector is in a sweet spot, where it is experiencing a healthy product mix and cost rationalisation, which increases operational profit of the companies. The sector is mainly a low-debt sector, witnessing increasing operational profit followed by the advantage of a low tax rate due to its operations in the SEZ sector; hence, overall, we have a positive view on the sector.

### ■ Company outlook - Long-term outlook is strong

Cipla has seen an increase in the U.S. revenue base to USD222 million a quarter versus an average base of USD160 million before, driven by differentiated products. The company's differentiated products comprising respiratory and peptide products are performing well in the U.S. Although some of the concerns are that gAbraxane's and gAdvair's launches are likely to be delayed due to USFDA compliance pending at Indore and Goa plants, they are being de-risked. At the same time, India market growth is recovering and expected to continue to grow on account of a strong set of product launches in branded prescription and trade generics. A rebalanced supply chain in the U.S. coupled with a strong set of existing products such as gRevlimid and Lanreotide should continue to drive profitable growth over FY2023-FY2025E.

### ■ Valuation - Maintain BUY with a revised PT of Rs. 1,715

Cipla has posted a good set of earnings driven by 1) Meaningful Revlimid contribution, increased market share in key products like Albuterol and Lanreotide followed by easing of price erosion to 4-6% resulting into the highest-ever quarterly sales run rate of USD250 million, 2) Higher chronic-based growth in the domestic region, and 3) OTC-led growth in the South Africa region. A healthy product mix resulted in a higher EBITDA margin. Going forward, we expect the North American region to maintain its growth momentum, led by 1) meaningful new launches including peptides and complex respiratory drugs, followed by the launch of gSymbicort and two-player market drug gAdvair, 2) An increase in the market share of Albuterol and Leuprolide as no competitors are expected, 3) Increase in the market share of Lanreotide 505b2, 4) Launch of another peptide product in FY2025E and remaining three peptide by FY2026E. We believe a healthy product mix would increase the EBITDA margin to 26% by FY2026E. The stock is trading at an attractive P/E valuation of 22x/19x its FY2026E/FY2027E EPS of Rs. 66.95/Rs. 77.98 per share. Hence, we maintain BUY rating with a revised PT of Rs. 1,715.

## About company

Cipla is a global pharmaceutical company with a geographically diversified presence and products registered in more than 170 countries. Indian branded formulations account for more than 40% of business and Cipla is among the top three players in the market. In the past, the company believed in the partnership model for international markets. However, in the past three years, the company has been undergoing a strategic shift and has started setting up its front-end divisions. Cipla is also a well-known global player in inhalers and antiretrovirals. Going forward, the company plans to launch combination inhalers in larger markets such as the U.S. and EU and is setting up its front ends to drive growth

## Investment theme

Cipla banks on its branded business in India and South Africa, both of which together contribute ~56% to the business. A solid presence in the chronic segment in domestic markets along with a market leadership position in select chronic therapies such as respiratory, inhalation, and urology bodes well for the company. The recently launched complex and differentiated products have done extremely well in the U.S. Additionally, the India market would recover its sales growth post the high base effect from COVID-19 wanes away. At the same time, SAGA is recovering with market-beating growth. Although its key launches stand pending due to USFDA facility clearances, they are being de-risked with launches likely over the next two years.

## Key Risks

- Currency fluctuations could have an adverse impact.
- Any delay in key product approvals/faster approvals for competitors.
- Any regulatory changes in India or South Africa or the U.S. could affect business.

## Additional Data

**Key management personnel**

| | |
|---|---|
| Umang Vohra | MD/CEO |
| Dr. Pradeep Bhaduria | Chief Scientific Officer |
| Ashish Adukia | Chief Financial Officer |

Source: Company

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | HDFC Asset Management Co Ltd. | 5.69 |
| 2 | Blackrock Inc. | 5.1 |
| 3 | Life Insurance Corp of India | 3.12 |
| 4 | SBI Funds Management Ltd. | 2.74 |
| 5 | The Vanguard Group Inc. | 2.69 |
| 6 | Norges Bank | 2.03 |
| 7 | NPS Trust A/c Uti Retirement Solution | 1.4 |
| 8 | ICICI Prudential AMC | 1.11 |
| 9 | UTI Asset Management Co. Ltd. | 1.04 |
| 10 | Kotak Mahindra Asset Management Co. | 1.03 |

Source: Bloomberg

## Understanding the Sharekhan 3R Matrix

| | |
|---|---|
| **Right Sector** | |
| **Positive** | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| **Neutral** | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| **Negative** | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| **Right Quality** | |
| **Positive** | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| **Neutral** | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| **Negative** | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet |
| **Right Valuation** | |
| **Positive** | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| **Neutral** | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| **Negative** | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

Source: Sharekhan Research

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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