

Q2FY25 Cipla Ltd



Cipla Ltd.

New launches and strong market expansion will drive top-line growth

CMP INR 1,585*	Target INR 1,680	Potential Upside 6.0%	Market Cap (INR Mn) INR 1,278,288	Recommendation ACCUMULATE	Sector Pharmaceuticals
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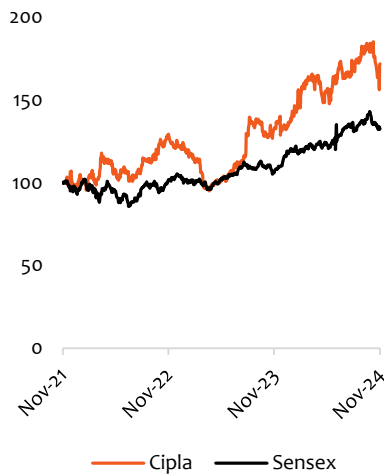
Result Highlights of Q2FY25:

- Cipla's revenue was largely in-line with our estimates (-2.0%), EBITDA was in-line (+0.2%) and Adj. PAT beat our estimates (+3.4%) due to lower-than-expected finance costs and higher-than-expected other income.
- We increase our FY26E EPS estimates to INR 62.2 (previously: INR 60.6) reflecting our conviction that the top-line will continue to grow particularly in high-growth regions like South Africa and emerging markets, rebound in respiratory products in domestic business and launch of generic Advair by H1FY26E.
- Currently, the stock is trading at a PE multiple of 25.7x/25.1x, based on FY25E/FY26E EPS, respectively. We maintain a PE multiple of 27.0x to FY26E EPS and arrive at a target price of INR 1,680/share (previously: INR 1,633) and maintain our "ACCUMULATE" rating.

MARKET DATA

Shares outs (Mn)	807
Mkt Cap (INR Mn)	1,278,288
52 Wk H/L (INR)	1,702/1,164
Volume Avg (3m K)	1,608
Face Value (INR)	2
Bloomberg Code	CIPLA IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	78,782
NIFTY	23,995

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	227,531	257,741	276,216	306,184	363,232
EBITDA	50,270	62,911	72,400	75,109	89,103
Adj PAT	26,195	39,267	49,008	50,278	60,459
Adj EPS (INR)	32.4	48.6	60.7	62.2	74.8
EBITDA Margin	22.1%	24.4%	26.2%	24.5%	24.5%
NPM	11.5%	15.2%	17.7%	16.4%	16.6%

Source: Company, KR Choksey Research

Top-line boosted by One Africa and strong emerging market performance

- For Q2FY25, the revenue increased by 5.6% YoY (5.3% QoQ) to INR 70,510 Mn, due to strong double-digit growth in the One Africa segment, Emerging markets, and Europe segment.
- One Africa business which includes South Africa (15.1% of total revenue) grew by 23.9% YoY (+53.7% QoQ) to INR 10,680 Mn, driven by robust growth in South Africa, expansion in both the Direct-to-Market (DTM) and Business-to-Business (B2B) categories in North Africa, and opportunistic tender wins, including vaccine tenders.
- The India segment (41.8% of total revenue) grew by 4.7% YoY (+1.7% QoQ) to INR 29,480 Mn as it witnessed slower seasonal growth but still contributed to overall revenue growth.
- North America (28.2% of total revenue) grew by 5.2% YoY (-4.8% QoQ) to INR 19,860 Mn supported by the positive performance of the differentiated portfolio, particularly the Albuterol and Lanreotide.
- Emerging markets and Europe (11.4% of total revenue) grew by 19.1% YoY (-5.1% QoQ) to INR 8,060 Mn.

Enhanced product mix drives gross margin and EBITDA growth

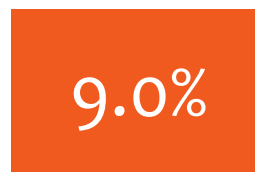
- Gross margin increased 226 bps YoY (+38 bps QoQ) to 67.6% resulting from a better mix of products, including a higher contribution from high-margin segments, such as chronic therapies in India and differentiated products in North America.
- EBITDA increased by 8.8% YoY (9.9% QoQ) to INR 18,856 Mn. EBITDA margin expanded 111 bps YoY (+78 bps QoQ) to 26.7%, primarily attributable to gross margin improvement and the company's efforts to focus on margin expansion in key markets like South Africa and Emerging markets.

SHARE HOLDING PATTERN (%)

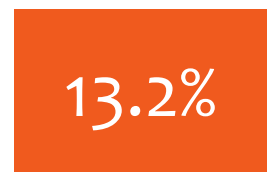
Particulars	Sept-24(%)	Jun-24(%)	Mar-24(%)
Promoters	30.9	30.9	33.5
FIIIs	28.8	27.8	25.8
DIIIs	24.2	24.7	24.1
Others	16.1	16.6	16.6
Total	100.0	100.0	100.0

*Based on the Today's closing

Note: All the market data is as of Today's closing



Revenue CAGR between FY24 and FY26E



Adj. PAT CAGR between FY24 and FY26E

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Key Concall Highlights:

- R&D investments for the quarter stood at **INR 3,850 Mn or 5.5% of the revenue**. Large-scale clinical trials contribute significantly to R&D expenses, particularly when products reach phase 3 studies.
- **Albuterol's market share** increased to **19.0% in Q2FY25** (17.0% in Q1FY25). There is **competition in the Albuterol market**, leading to **price erosion**.
- The **Lanreotide** franchise, reached a **market share of 35.0%** during Q2FY25 as per IQVIA March '24.
- The company's vintage portfolio of **oral solids**, which accounts for **30.0% of their portfolio**, is subject to **price erosion** due to competition.
- Cipla expects a **strong recovery in the Lanreotide** franchise beginning in **Q4FY25E**, driven by an anticipated **resolution of supply issues and increased production capacity**.
- Cipla remains on track to **file for generic Advair** towards the end of **CY24E**. The company anticipates **launching** this key **respiratory asset in the H1FY26E**, after pending regulatory approvals and facility inspections.
- The **India** business saw **mid-single-digit growth** in **Q2FY25**, with the primary reason for slower growth being **changes in seasonal patterns**, especially **impacting the acute category**, including **anti-infectives**.
- However, Cipla expects the **typical seasonal triggers for respiratory products**, such as pollen alerts and **increased pollution levels, to kick in after Diwali**. These factors, combined with a general anticipation of a more typical respiratory season, underpin the company's confidence in a **Q3FY25E rebound**.
- The company is actively **pursuing margin expansion in its South Africa and Emerging Markets Unit (EMU)** operations. The company seeks to balance top-line growth with profitability in these markets, **focusing on a mix of organic growth, strategic pricing, and cost optimization measures**.

Valuation and view

In Q2FY25, Cipla saw decent revenue growth driven by significant performance across its One Africa, Emerging Markets, and European segments whereas India and North America had mid-single digit growth. The One Africa business, including South Africa and North Africa, showed strong expansion through direct and B2B market gains, alongside successful tender wins in the vaccine space. The company's gross margin improved due to a more profitable mix, particularly from high-margin chronic therapies in India and its differentiated portfolio in North America.

We increase our FY26E EPS estimates to INR 62.2 (previously: INR 60.6) showing our confidence that top-line will continue to grow particularly in high-growth regions like South Africa and emerging markets, rebound in respiratory products in domestic business and launch of generic Advair by H1FY26E. We expect the revenue to grow at 9.0% CAGR and Adj. PAT to grow at 13.2% CAGR for FY24-FY26E. Currently, the stock is trading at a PE multiple of 25.7x/25.1x, based on FY25E/FY26E EPS, respectively. We maintain PE multiple of 27.0x to FY26E EPS and arrive at a target price of INR 1,680/share (previously: INR 1,633) and maintain our "ACCUMULATE" rating on the stock which will have an upside potential of 6.0%.

Revenue segments

Segments Result (INR Mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total	64,900	65,430	61,630	66,940	70,500
India	28,170	28,590	24,170	28,980	29,480
North America	18,870	19,160	18,750	20,870	19,860
SAGA	8,620	8,150	7,610	6,950	10,680
International Markets*	6,770	7,460	8,270	8,490	8,060
API	1,470	1,080	1,890	980	1,600
Others	1,000	990	940	670	820

Segments Result (% YoY)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total	11.3%	12.6%	10.1%	7.0%	8.6%
India	9.9%	11.5%	7.0%	4.5%	4.7%
North America	31.8%	19.8%	11.8%	14.5%	5.2%
SAGA	-0.6%	19.9%	9.7%	2.7%	23.9%
International Markets*	-11.3%	-2.1%	5.5%	9.0%	19.1%
API	-3.9%	-26.5%	42.1%	-27.9%	8.8%
Others	96.1%	70.7%	77.4%	-5.6%	-18.0%

Revenue Mix (%)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total	100%	100%	100%	100%	100%
India	43%	44%	39%	43%	42%
North America	29%	29%	30%	31%	28%
SAGA	13%	12%	12%	10%	15%
International Markets*	10%	11%	13%	13%	11%
API	2%	2%	3%	1%	2%
Others	2%	2%	2%	1%	1%

Source: Company, KR Choksey Research

* International market includes Emerging markets and Europe

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Result Snapshot

Particulars (Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenue from Operations	70,510	66,939	66,782	5.3%	5.6%
Total Expenditure	51,654	49,781	49,444	3.8%	4.5%
Cost of Raw Materials	14,740	12,409	14,727	18.8%	0.1%
Purchase of Stock	8,146	11,000	8,902	-25.9%	-8.5%
Changes in Inventories	-56	-1,480	-498	NA	NA
Employee Cost	12,079	11,942	10,911	1.1%	10.7%
Other Expenses	16,745	15,910	15,402	5.2%	8.7%
EBITDA	18,856	17,158	17,338	9.9%	8.8%
EBITDA Margins (%)	26.7%	25.6%	26.0%	78 Bps	111 Bps
Depreciation	2,717	2,467	2,900	10.2%	-6.3%
EBIT	16,139	14,691	14,437	9.9%	11.8%
Other Income	1,906	1,602	1,763	19.0%	8.1%
Interest Expense	154	180	258	-14.2%	-40.3%
PBT before Exceptional	17,891	16,114	15,942	11.0%	12.2%
Exceptional Items	0	0	0	NA	NA
PBT	17,891	16,114	15,942	11.0%	12.2%
Tax	4,830	4,351	4,384	11.0%	10.2%
Share of Associates	-10	-8	-5	NA	NA
Minority Interest	25	-22	245	NA	NA
PAT	13,025	11,776	11,309	10.6%	15.2%
PAT Margin (%)	18.5%	17.6%	16.9%	154 Bps	88 Bps
EPS	16.1	14.6	14.0	10.6%	15.1%
Adj. PAT	13,025	11,776	11,309	10.6%	15.2%
Adj. PAT Margin (%)	18.5%	17.6%	16.9%	154 Bps	88 Bps
Adj. EPS	16.1	14.6	14.0	10.6%	15.2%

Source: Company, KRChoksey Research

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Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	227,531	257,741	276,216	306,184	363,232
COGS	82,523	88,196	89,689	104,471	123,936
Gross profit	145,008	169,545	186,527	201,712	239,296
Employee cost	38,301	43,100	48,515	53,888	63,929
Other expenses	56,438	63,534	65,611	72,715	86,264
EBITDA	50,270	62,911	72,400	75,109	89,103
Depreciation	11,721	10,510	11,766	13,655	15,109
EBIT	38,549	52,400	60,634	61,454	73,994
Finance Costs	1,095	899	637	669	793
Other Income	4,755	7,466	7,259	8,277	9,819
PBT	40,384	57,019	67,257	69,063	83,020
Tax	12,029	15,466	18,159	18,647	22,415
PAT	28,019	41,216	49,008	50,278	60,459
EPS (INR)	34.7	51.0	60.7	62.2	74.8
Adj. PAT	26,195	39,267	49,008	50,278	60,459
Adj. EPS (INR)	32.4	48.6	60.7	62.2	74.8

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
FFFO	32,377	41,339	49,180	61,573	54,086
CFFI	(23,885)	(29,880)	(28,415)	(34,163)	(41,829)
CFFF	(9,583)	(12,004)	(10,438)	(10,724)	(12,885)
Net Inc/Dec in cash	(1,092)	(546)	10,326	16,686	(628)
Opening Cash	6,581	5,613	5,123	15,450	32,136
Adjustment	124	56	0	0	0
Closing Cash	5,613	5,123	15,450	32,136	31,508

Exhibit 4: Key Ratio

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	22.1%	24.4%	26.2%	24.5%	24.5%
Tax rate (%)	29.8%	27.1%	27.0%	27.0%	27.0%
Net Profit Margin (%)	12.3%	16.0%	17.7%	16.4%	16.6%
RoE (%)	11.0%	14.7%	15.9%	14.5%	15.3%
RoCE (%)	15.9%	19.3%	19.5%	17.5%	18.5%
Current Ratio (x)	3.4	3.7	4.4	4.7	4.9
P/E(x)	48.1	32.1	25.7	25.1	20.8

Source: Company, KRChoksey Research

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	1,614	1,615	1,615	1,615	1,615
Other Equity	235,521	266,409	305,668	345,989	394,456
Total Equity	237,135	268,023	307,282	347,604	396,071
Non-Current Liabilities					
Other financial liabilities	3,225	2,932	2,932	2,932	2,932
Deferred tax liabilities (Net)	1,633	1,853	1,853	1,853	1,853
Other Non-Current Liabilities	1,543	1,912	1,912	1,912	1,912
Total Non-Current Liabilities	6,401	6,697	6,697	6,697	6,697
Current Liabilities					
Borrowings	5,943	3,340	3,340	3,340	3,340
Trade Payables	24,571	24,740	26,478	30,842	36,589
Other current liabilities	20,584	24,378	24,146	24,919	25,937
Total Current Liabilities	51,098	52,458	53,964	59,101	65,865
Total Liabilities	57,498	59,155	60,661	65,798	72,563
Non-Current Assets					
Property Plants and Equipments	45,836	46,419	50,563	55,155	61,694
Goodwill (Net)	29,839	31,120	31,120	31,120	31,120
Other Non-current assets	46,209	55,224	47,000	49,300	53,618
Total Non-Current Assets	121,884	132,764	128,683	135,576	146,431
Current Assets					
Inventories	51,564	52,380	61,431	68,693	81,492
Trade Receivables	40,570	47,707	52,973	50,332	59,709
Cash and Bank	15,646	8,750	18,033	34,978	34,634
Other current assets	64,969	85,578	106,824	123,823	146,366
Total Current Assets	172,750	194,414	239,261	277,826	322,202
Total Assets	294,633	327,178	367,944	413,402	468,633

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Date	CMP (INR)	TP (INR)	Recommendation
04-Nov-24	1,585	1,680	ACCUMULATE
02-Aug-24	1,529	1,633	ACCUMULATE
13-May-24	1,415	1,633	BUY
29-Jan-24	1,370	1,592	BUY
02-Nov-23	1,209	1,405	BUY
28-Jul-23	1,162	1,389	BUY
17-May-23	922	1,167	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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KRChoksey Shares and Securities Pvt. Ltd.

CIN-U67120MH1997PTC108958

Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

Phone: 91-22-66535000

Compliance Officer: Varsha Shinde

Email: varsha.shinde@krchoksey.com