

**BSE SENSEX** 46,099  
**S&P CNX** 13,514

# Cipla

Bloomberg	CIPLA IN
Equity Shares (m)	805
M.Cap.(INRb)/(USDb)	609.6 / 8.4
52-Week Range (INR)	829 / 356
1, 6, 12 Rel. Per (%)	-4/-18/54
12M Avg Val (INR M)	4702

#### Financials & Valuations (INR b)

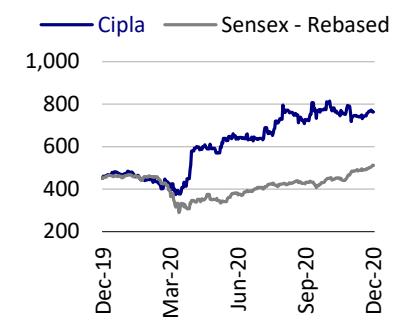
Y/E March	FY20	FY21E	FY22E
Sales	171.3	196.8	214.4
EBITDA	32.1	45.1	47.4
Adj. PAT	15.8	25.2	26.9
EBIT Margin (%)	12.0	17.2	16.7
Cons. Adj. EPS (INR)	19.6	31.3	33.6
EPS Gr. (%)	4.8	59.7	7.1
BV/Sh. (INR)	197.5	226.0	255.9
<b>Ratios</b>			
Net D:E	0.1	0.0	-0.1
RoE (%)	9.9	13.8	13.1
RoCE (%)	8.8	13.0	12.6
Payout (%)	15.6	9.6	10.8
<b>Valuations</b>			
P/E (x)	38.5	24.1	22.5
EV/EBITDA (x)	19.5	13.5	12.6
Div. Yield (%)	0.3	0.3	0.4
FCF Yield (%)	2.9	3.2	3.0
EV/Sales (x)	3.7	3.1	2.8

#### Shareholding pattern (%)

As on	Sep'20	Jun'20	Sep'19
Promoter	36.6	36.7	36.7
DII	19.7	21.3	17.6
FII	20.2	18.7	24.3
Others	23.5	23.4	21.5

FII Includes depository receipts

#### Stock performance (one-year)



**CMP: INR756**

**TP: INR815 (+8%)**

**Neutral**

#### Revlimid litigation settlement improves business visibility

#### Cipla fourth to settle after Natco Pharma/Alvogen/Dr. Reddy's Labs

- CIPLA and Celgene (innovator) have reached an agreement to settle the litigation pertaining to g-Revlimid in the US. As per the settlement, CIPLA can begin selling g-Revlimid in the US sometime after Mar'22.
- Considering other settlements, limited build-up of sales over FY23-26E, and unlimited quantities of g-Revlimid by CIPLA post Jan-26E, there could be a potential NPV addition of INR40 per share from this opportunity. We await clarity on further details of the agreement.
- The extended benefit of operational cost savings in DF, ramp-up in albuterol sulfate sales, and increased business for COVID-19 products, CIPLA is well-placed to deliver 24% earnings CAGR over FY20-23E. We maintain our Neutral rating as the valuation factors potential upside in earnings over the medium term.

#### Details of settlement

- As per the settlement terms, CIPLA will be allowed to sell volume-limited quantities of g-Revlimid in the US beginning some time in FY23.
- Post Jan-26, Celgene has agreed to provide CIPLA with a license to its patent required to manufacture and sell an unlimited quantity of g-Revlimid in the US.

#### Other settlements by innovator on g-Revlimid

- The innovator had settled cases with NTCPH, Alvogen and DRRD on g-Revlimid previously. As per the settlement with NTCPH, it is allowed to sell mid to single-digit volume share of total g-Revlimid sold in the US in the first year of entry. The volume limitation would gradually rise each year until Mar'25, when it is allowed to sell up to one-third of all g-Revlimid sold in the US by volume.
- It had reached a similar agreement with Alvogen on g-Revlimid sales in the US. However, the maximum volume share of g-Revlimid that Alvogen is allowed to sell in the final year of the settlement is restricted to single digits. A similar agreement was reached recently with DRRD too. However, the amount that DRRD is allowed to sell has not been disclosed.
- SUNP, LPC, ARBP, CDH, Mylan, Apotex, and Hetero Drugs are other companies currently in patent challenges with innovator on g-Revlimid.
- g-Revlimid (Lenalidomide) is a used to treat multiple myeloma in adults. The drug is available as orally administered capsules. Patents on g-Revlimid expire on April 27, 2027. g-Revlimid's sales in the US stood at USD7.3b in CY19, up 13% YoY. Its sales in 9MCY20 stood at USD6.1b.

#### Valuation and view

- We expect 24% earnings CAGR, led by 17%/11%/12% sales CAGR in US generics/DF/South Africa Global Access over FY20-23E.
- We value CIPLA at 22x 12M forward earnings to arrive at TP of INR815. We maintain Neutral on limited upside from current levels.

## Financials and valuations

Income Statement <span style="float: right;">(INR m)</span>									
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Income</b>	<b>113,454</b>	<b>136,783</b>	<b>145,980</b>	<b>152,200</b>	<b>163,624</b>	<b>171,320</b>	<b>196,832</b>	<b>214,351</b>	<b>239,248</b>
Change (%)	12.3	20.6	6.7	4.3	7.5	4.7	14.9	8.9	11.6
<b>EBITDA</b>	<b>21,617</b>	<b>25,011</b>	<b>24,436</b>	<b>28,271</b>	<b>30,973</b>	<b>32,060</b>	<b>45,074</b>	<b>47,372</b>	<b>51,917</b>
Change (%)	1.3	15.7	-2.3	15.7	9.6	3.5	40.6	5.1	9.6
Margin (%)	19.1	18.3	16.7	18.6	18.9	18.7	22.9	22.1	21.7
Depreciation	5,047	5,417	9,229	11,491	11,163	11,423	11,177	11,471	12,109
<b>EBIT</b>	<b>16,570</b>	<b>19,594</b>	<b>15,207</b>	<b>16,780</b>	<b>19,810</b>	<b>20,637</b>	<b>33,898</b>	<b>35,900</b>	<b>39,807</b>
Int. and Finance Charges	726	710	1,594	1,142	1,684	1,974	1,571	1,284	1,076
Other Income - Rec.	1,226	1,130	2,287	3,577	2,796	3,442	2,400	2,600	2,850
<b>PBT before EO Items</b>	<b>17,069</b>	<b>20,015</b>	<b>15,900</b>	<b>19,214</b>	<b>20,922</b>	<b>22,105</b>	<b>34,727</b>	<b>37,216</b>	<b>41,581</b>
One-time (Expense)/Income	527	-55	0	-2,512	-130	324	0	0	0
<b>PBT but after EO Exp.</b>	<b>16,543</b>	<b>20,070</b>	<b>15,900</b>	<b>16,702</b>	<b>20,792</b>	<b>21,782</b>	<b>34,727</b>	<b>37,216</b>	<b>41,581</b>
Tax	4,000	4,396	3,094	2,501	5,695	6,312	9,724	10,421	11,643
Tax Rate (%)	24.2	21.9	19.5	15.0	27.4	29.0	28.0	28.0	28.0
Minority Interest	482	494	290	60	(353)	(470)	(300)	(250)	(350)
Income from associates	-253	-120	-70	-28	-171	-475	-150	-100	-50
<b>Reported PAT</b>	<b>11,808</b>	<b>15,059</b>	<b>12,446</b>	<b>14,113</b>	<b>15,278</b>	<b>15,465</b>	<b>25,153</b>	<b>26,946</b>	<b>30,238</b>
<b>Adjusted PAT</b>	<b>11,281</b>	<b>15,114</b>	<b>12,446</b>	<b>15,511</b>	<b>15,032</b>	<b>15,752</b>	<b>25,153</b>	<b>26,946</b>	<b>30,238</b>
Change (%)	-18.6	34.0	-17.7	24.6	-3.1	4.8	59.7	7.1	12.2
Margin (%)	9.9	11.0	8.5	10.2	9.2	9.2	12.8	12.6	12.6
Balance Sheet <span style="float: right;">(INR m)</span>									
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	1,606	1,607	1,609	1,610	1,611	1,613	1,610	1,610	1,610
Reserves	106,197	113,555	123,645	140,682	152,298	157,630	180,367	204,414	231,753
<b>Net Worth</b>	<b>107,892</b>	<b>115,162</b>	<b>125,254</b>	<b>142,292</b>	<b>150,123</b>	<b>159,242</b>	<b>181,977</b>	<b>206,024</b>	<b>233,363</b>
Loans	17,018	51,916	41,126	40,980	43,162	28,164	24,164	19,164	14,164
Deferred Liabilities	2846	8970	5888	3157	2239	1254	1254	1254	1254
Minority Interest	1927	3501	4382	3524	3320	2943	2943	2943	2943
<b>Capital Employed</b>	<b>129,684</b>	<b>179,549</b>	<b>176,650</b>	<b>189,953</b>	<b>198,844</b>	<b>191,604</b>	<b>210,339</b>	<b>229,386</b>	<b>251,725</b>
Gross Block	95,935	111,688	114,562	120,454	126,353	138,480	144,481	149,981	155,481
Less: Accum. Deprn.	27,178	4,806	10,204	16,273	27,436	38,859	50,036	61,507	73,616
<b>Net Fixed Assets</b>	<b>68,757</b>	<b>106,882</b>	<b>104,358</b>	<b>104,181</b>	<b>98,916</b>	<b>99,621</b>	<b>94,445</b>	<b>88,474</b>	<b>81,864</b>
Capital WIP	5,349	7,410	7,192	5,124	3,311	4,210	5,124	5,124	5,124
Investments	6,398	1,764	141	107	2,963	3,593	3,593	3,593	3,593
<b>Curr. Assets</b>	<b>76,201</b>	<b>94,440</b>	<b>96,159</b>	<b>117,318</b>	<b>132,429</b>	<b>128,416</b>	<b>157,114</b>	<b>185,716</b>	<b>219,453</b>
Inventory	37,806	38,081	34,853	40,447	39,648	43,776	54,601	60,910	68,339
Account Receivables	20,043	23,563	24,974	31,025	41,507	38,913	44,090	54,445	60,769
Cash and Bank Balance	5,643	8,714	6,242	9,656	6,188	10,039	21,915	31,180	48,223
Others	12,710	24,082	30,090	36,190	45,085	35,688	36,507	39,181	42,122
<b>Curr. Liability &amp; Prov.</b>	<b>27,021</b>	<b>30,946</b>	<b>31,201</b>	<b>36,776</b>	<b>38,775</b>	<b>44,236</b>	<b>49,936</b>	<b>53,521</b>	<b>58,309</b>
Account Payables	21,215	27,837	27,982	30,505	31,408	34,755	40,454	44,039	48,827
Provisions	5,806	3,109	3,219	6,271	7,368	9,482	9,482	9,482	9,482
<b>Net Current Assets</b>	<b>49,180</b>	<b>63,494</b>	<b>64,959</b>	<b>80,542</b>	<b>93,654</b>	<b>84,180</b>	<b>107,178</b>	<b>132,195</b>	<b>161,144</b>
<b>Appl. of Funds</b>	<b>129,684</b>	<b>179,549</b>	<b>176,650</b>	<b>189,953</b>	<b>198,844</b>	<b>191,604</b>	<b>210,339</b>	<b>229,385</b>	<b>251,724</b>

## Financials and valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>EPS</b>	<b>14.0</b>	<b>18.8</b>	<b>15.5</b>	<b>19.3</b>	<b>18.7</b>	<b>19.6</b>	<b>31.3</b>	<b>33.6</b>	<b>37.7</b>
Cash EPS	20.3	25.6	26.9	33.5	32.5	33.7	45.1	47.7	52.6
BV/Share	134.3	143.3	155.7	176.7	186.3	197.5	226.0	255.9	289.9
DPS	2.0	2.0	2.0	2.0	3.0	2.5	2.5	3.0	3.0
Payout (%)	16.4	12.0	15.6	13.4	18.6	15.6	9.6	10.8	9.6
<b>Valuation (x)</b>									
P/E	53.8	40.2	48.8	39.1	40.4	38.5	24.1	22.5	20.1
Cash P/E	37.2	29.6	28.1	22.5	23.3	22.4	16.8	15.8	14.4
P/BV	5.6	5.3	4.9	4.3	4.1	3.8	3.3	3.0	2.6
EV/Sales	5.5	4.8	4.4	4.2	3.9	3.7	3.1	2.8	2.4
EV/EBITDA	28.7	26.0	26.3	22.6	20.8	19.5	13.5	12.6	11.1
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.4	0.4
<b>Return ratios (%)</b>									
RoE	10.5	13.1	9.9	10.9	10.0	9.9	13.8	13.1	13.0
RoCE	11.0	10.5	7.9	9.4	8.4	8.8	13.0	12.6	12.8
RoIC	11.6	11.2	7.5	8.4	8.0	8.1	13.8	14.0	14.9
<b>Working capital ratios</b>									
Fixed Asset Turnover (x)	1.7	1.6	1.4	1.5	1.6	1.7	2.0	2.3	2.8
Debtor (Days)	64	63	62	74	93	83	82	93	93
Inventory (Days)	122	102	87	97	88	93	101	104	104
Working Capital (Days)	144	169	162	193	209	179	199	224	244
<b>Leverage ratio (x)</b>									
Current Ratio	2.8	3.1	3.1	3.2	3.4	2.9	3.1	3.5	3.8
Debt/Equity	0.1	0.4	0.3	0.2	0.2	0.1	0.0	-0.1	-0.1

### Cash Flow Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	21,617	25,011	24,436	28,271	30,973	32,060	45,074	47,372	51,917
Interest/Dividends Recd.	1,226	1,130	2,287	3,577	2,796	3,442	2,400	2,600	2,850
Direct Taxes Paid	-4,244	1,728	-6,176	-5,232	-6,613	-7,297	-9,724	-10,421	-11,643
(Inc)/Dec in WC	-5,060	-11,242	-3,937	-12,169	-16,580	13,325	-11,122	-15,753	-11,906
<b>CF from Operations</b>	<b>13,539</b>	<b>16,627</b>	<b>16,609</b>	<b>14,447</b>	<b>10,576</b>	<b>41,530</b>	<b>26,629</b>	<b>23,798</b>	<b>31,218</b>
EO expense	527	-55	0	-2,512	-130	324	0	0	0
<b>CF from Oper. incl EO Expense</b>	<b>11,734</b>	<b>17,408</b>	<b>23,818</b>	<b>14,628</b>	<b>16,911</b>	<b>30,684</b>	<b>26,629</b>	<b>23,798</b>	<b>31,218</b>
(inc)/dec in FA	-9,769	-45,603	-6,487	-9,246	-4,085	-13,027	-6,914	-5,500	-5,500
<b>Free Cash Flow</b>	<b>1,965</b>	<b>-28,195</b>	<b>17,331</b>	<b>5,381</b>	<b>12,826</b>	<b>17,656</b>	<b>19,715</b>	<b>18,298</b>	<b>25,718</b>
(Pur)/Sale of Investments	688	4,634	1,622	35	-2,857	-629	0	0	0
<b>others</b>	<b>-330</b>	<b>-4,257</b>	<b>-8,237</b>	<b>671</b>	<b>-9,745</b>	<b>14,697</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>CF from Investments</b>	<b>-9,411</b>	<b>-45,226</b>	<b>-13,102</b>	<b>-8,540</b>	<b>-16,687</b>	<b>1,041</b>	<b>-6,914</b>	<b>-5,500</b>	<b>-5,500</b>
Issue of Shares									
Inc/(Dec) in Debt	4,409	34,898	-10,790	-146	2,183	-14,998	-4,000	-5,000	-5,000
Interest Paid	-726	-710	-1,594	-1,142	-1,684	-1,974	-1,571	-1,284	-1,076
Dividend Paid	-1,940	-1,809	-1,936	-1,893	-2,841	-2,416	-2,416	-2,899	-2,899
Others	-95	-1,338	1,062	-673	-1,145	-10,101	148	150	300
<b>CF from Fin. Activity</b>	<b>1,647</b>	<b>31,041</b>	<b>-13,257</b>	<b>-3,855</b>	<b>-3,487</b>	<b>-29,488</b>	<b>-7,839</b>	<b>-9,033</b>	<b>-8,676</b>
<b>Inc/Dec of Cash</b>	<b>3,971</b>	<b>3,223</b>	<b>-2,541</b>	<b>2,233</b>	<b>-3,263</b>	<b>2,237</b>	<b>11,876</b>	<b>9,265</b>	<b>17,043</b>
Add: Beginning Balance	1,751	5,643	8,714	6,242	9,656	6,188	10,039	21,915	31,180
Ending cash balance	5,722	8,865	6,173	8,475	6,393	8,425	21,915	31,180	48,223
Bank balances and FX impact	-79	-151	69	1,181	-205	1,614			
<b>Closing balance</b>	<b>5,643</b>	<b>8,714</b>	<b>6,242</b>	<b>9,656</b>	<b>6,188</b>	<b>10,039</b>	<b>21,915</b>	<b>31,180</b>	<b>48,223</b>

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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