

Estimate change	↑
TP change	↑
Rating change	↔

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 in the Asiamoney Brokers Poll 2021
 for India Research, Sales, Corporate
 Access and Trading team.
 We request your ballot.



Bloomberg	CIPLA IN
Equity Shares (m)	805
M.Cap.(INRb)/(USDb)	762.4 / 10.3
52-Week Range (INR)	997 / 702
1, 6, 12 Rel. Per (%)	-6/4/-14
12M Avg Val (INR M)	5507

Financials & Valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	191.6	215.2	235.4
EBITDA	42.5	47.1	52.0
Adj. PAT	24.1	28.4	32.0
EBIT Margin (%)	16.6	16.7	17.1
Cons. Adj. EPS (INR)	30.0	35.4	39.9
EPS Gr. (%)	52.7	18.1	12.7
BV/Sh. (INR)	227.2	255.4	291.6
Ratios			
Net D:E	0.0	0.0	-0.1
RoE (%)	13.1	13.8	13.6
RoCE (%)	12.9	13.8	14.1
Payout (%)	10.0	10.5	9.1
Valuations			
P/E (x)	31.6	26.7	23.7
EV/EBITDA (x)	17.9	16.2	14.3
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	3.6	0.6	2.9
EV/Sales (x)	4.0	3.6	3.2

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	36.7	36.7	36.7
DII	16.2	17.1	21.3
FII	25.0	23.4	18.7
Others	22.2	22.8	23.4

FII Includes depository receipts

CMP: INR946

TP: INR1,000 (+6%)

Neutral

COVID / Operational efficiency drives earnings

Adding peptide injectables to Respiratory pipeline for US market

- CIPLA delivered better-than-expected 1QFY22 earnings, led by a superior product mix, operational cost efficiency, a healthy off-take of COVID-related products, and one-time income from the API segment. Cipla is poised to outperform the Domestic Formulation (DF) market and is progressing well on building a complex product pipeline for North America (NA).
- We raise our EPS estimate by 6%/4% for FY22E/FY23E, factoring in a) strong traction in prescription/trade generics in the DF segment, b) an extended benefit from cost savings, and c) lower R&D spend. We continue to value Cipla at 24x 12M forward earnings to arrive at Target Price of INR1,000. Cipla continues to enhance its niche pipeline for the US market – by building peptide-based products (in addition to respiratory assets) – as well as gain share in the DF market. Nevertheless, we maintain a Neutral rating on a limited upside from current levels.

Highest ever revenue run-rate in a quarter

- Cipla's 1QFY22 adjusted revenues grew 25.5% YoY to INR54.5b (our est.: INR55.3b). It saw one-time profit share income from its commercial partner in the API segment.
- DF sales grew 69% YoY to INR27b (50% of sales). Adj. for one-time profit share, API revenue grew 22% YoY to INR2.2b (4% of sales). SAGA revenue grew 10% YoY to INR8.4b (15% of sales). North America sales grew 2% YoY to INR10.4b (USD141m; up 5% in CC terms; 19% of sales).
- International market sales declined 13% YoY to INR6b (11% of sales).
- The gross margin (GM) contracted ~130bp YoY to 62.1% due to a change in the product mix.
- The EBITDA margin declined at a lower rate of ~40bp YoY to 23.7% due to lower employee expenses (down 150bp YoY).
- EBITDA grew ~23% YoY to INR12.9b (our est.: INR10.7b).
- The quarter included a one-time impairment charge of INR1.2b on account of a second Complete Response Letter (CRL) from the USFDA regarding Avenue Therapeutics' IV Tramadol.
- Adjusted for the same, PAT grew 38% YoY to INR7.9b (our est.: INR6.2b) on account of better profitability, lower depreciation, and lower interest expense.

Highlights from management commentary

- CIPLA guided for EBITDA margins of 22.5–23% for FY22 (adjusted for COVID-related benefit).
- It has lined up a few complex products to improve the US sales trajectory. However, meaningful improvement is expected only from FY23.
- It has three peptides in the pipeline. CIPLA has an in-licensing strategy to start building peptide-based products. It has filed an NDA and ANDA for two of the three products to date.

- The India Pharma Market (IPM) is expected to grow 10–12% (ex-COVID impact). CIPLA hopes to outperform IPM.
- The share of COVID products in overall sales was in the high single digits for the quarter.

Valuation and view

- We raise our EPS estimate by 6%/4% for FY22/FY23E, reflecting higher business from COVID products, cost savings, growing market share in g-Albuterol Sulfate, and better growth in the API segment.
- We expect a 15% earnings CAGR, led by an 18%/9%/10% sales CAGR in US Generics / DF / South Africa (SAGA) over FY21–23E.
- We value CIPLA at 24x 12M forward earnings to arrive at TP of INR1,000 on a 12M forward earnings basis. We believe the potential upside in earnings owing to (a) a buildup in the complex portfolio and (b) the outperformance of the DF segment (v/s the industry) is adequately factored in at current valuations and provides a limited upside from current levels. Maintain **Neutral**.

Quarterly performance (Consolidated)

Y/E March	FY21								FY22E		FY21	FY22E	Est. % Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	1QE	1QE			
Net Revenues	43,462	50,383	51,687	46,065	54,532	53,044	55,417	52,208	191,596	215,201	55,335	-1.5	
YoY Change (%)	9.0	14.6	18.2	5.3	25.5	5.3	7.2	13.3	11.8	12.3	27.3		
Total Expenditure	32,973	38,617	39,378	38,102	41,585	41,268	43,336	41,883	149,071	168,072	44,655		
EBITDA	10,488	11,766	12,309	7,962	12,947	11,776	12,081	10,325	42,525	47,129	10,680	21.2	
YoY Change (%)	15.9	29.4	62.3	25.7	23.4	0.1	-1.9	29.7	32.6	10.8	1.8		
Margins (%)	24.1	23.4	23.8	17.3	23.7	22.2	21.8	19.8	22.2	21.9	19.3		
Depreciation	2,690	2,651	2,484	2,852	2,611	2,700	2,870	2,993	10,677	11,175	2,880		
EBIT	7,799	9,115	9,825	5,110	10,336	9,076	9,211	7,332	31,849	35,954	7,800		
YoY Change (%)	22.5	45.5	104.5	59.7	32.5	-0.4	-6.2	43.5	54.3	12.9	0.0		
Interest	460	393	479	275	296	270	240	232	1,607	1,037	290		
Other Income	655	535	869	601	649	610	620	641	2,660	2,520	550		
Profit before Tax	7,993	9,257	10,215	5,437	10,689	9,416	9,591	7,741	32,901	37,437	8,060		
One-time (expense)/income	0	0	0	0	-734	0	0	0	0	-734	0		
PBT after EO expense	7,993	9,257	10,215	5,437	9,955	9,416	9,591	7,741	32,901	36,703	8,060	23.5	
Tax	2,278	2,638	2,690	1,282	2,837	2,354	2,302	1,679	8,888	9,172	1,878		
Rate (%)	28.5	28.5	26.3	23.6	26.5	25.0	24.0	21.7	27.0	24.5	23.3		
Minority Interest	-64.8	-35.8	43.6	21.3	-29.2	-40.0	-30.0	-50.8	-36.0	-150.0	5.0		
Reported PAT	5,780	6,654	7,481	4,134	7,147	7,102	7,319	6,113	24,050	27,681	6,177	15.7	
Adj PAT	5,780	6,654	7,481	4,134	7,881	7,102	7,319	6,113	24,050	28,415	6,177	27.6	
YoY Change (%)	20.9	41.2	113.1	50.5	36.4	6.7	-2.2	47.9	52.7	18.1	6.9		

Key performance indicators (Consolidated)

Y/E March INR m	FY21				FY22E			FY21	FY22E	Est. 1QE
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Domestic formulation	16,080	20,900	22,310	18,065	27,100	21,945	22,533	19,520	77,362	91,098
YoY Change (%)	15.9	16.8	21.6	3.2	68.5	5.0	1.0	8.1	14.8	10.0
North America	10,210	10,490	10,370	10,015	10,458	11,026	11,470	12,306	40,912	45,259
YoY Change (%)	-8.8	10.1	9.6	14.4	2.4	5.1	10.6	22.9	5.6	10.6
South Africa	7,630	9,240	9,130	8,475	8,256	9,610	10,134	9,930	34,482	37,930
YoY Change (%)	10.4	24.9	9.9	1.9	8.2	4.0	11.0	17.2	11.7	10.0
Emerging market	6,970	7,210	7,400	6,805	6,054	7,649	8,338	7,376	28,404	29,417
YoY Change (%)	45.1	12.5	44.2	11.1	-13.1	6.1	12.7	8.4	24.5	3.6
API	1,840	1,890	2,010	2,240	2,240	2,155	2,251	2,292	7,980	8,938
YoY Change (%)	1.1	20.4	21.8	-14.7	13.0	14.0	12.0	2.3	6.1	12.0
Cost Break-up										
RM Cost (% of Sales)	36.6	38.6	38.6	39.6	37.9	37.4	37.2	37.9	36.6	38.6
Staff Cost (% of Sales)	17.8	16.3	16.3	17.7	16.3	17.2	16.8	16.9	17.8	16.3
R&D Expenses(% of Sales)	4.6	4.5	4.3	6.0	4.8	5.2	6.4	7.2	4.6	4.5
Other Cost (% of Sales)	16.9	17.2	17.0	19.5	17.2	18.0	17.8	18.2	16.9	17.2
Gross Margins(%)	63.4	61.4	61.4	60.4	62.1	62.6	62.8	62.1	63.4	61.4
EBITDA Margins(%)	24.1	23.4	23.8	17.3	23.7	22.2	21.8	19.8	22.2	21.9
EBIT Margins(%)	17.9	18.1	19.0	11.1	19.0	17.1	16.6	14.0	16.6	14.1

**Conference call highlights**

- Gross margins for COVID-related products were lower than company-level gross margins.
- Cipla's Consumer business in SA is healthy and profitable. However, the India Consumer business is in the incubation phase.
- Adjusted for COVID products, Cipla's DF sales grew 47% YoY in 1QFY22.
- It launched g-Brovana in the US in 1QFY22.
- It is working closely with the USFDA on g-Advair and would respond to the queries this month.
- An antibody cocktail has shown good results overseas and may be useful for unvaccinated / partially vaccinated COVID patients.
- CIPLA does not have a commercial arrangement with Moderna for a COVID vaccine. The agreement is only on importing donated vaccines.
- The Branded Formulations business contributed 70–75% to India sales.
- Capex of INR7–9b is planned for FY22, including some for automation and digitization at current facilities, unless there is greenfield enhancement.

Efforts towards outperforming DF / building niche US pipeline**US: Next phase of growth hinges on limited-competition approvals**

CIPLA's US revenues grew 5% YoY to USD141m in 1QFY22. Growth was largely driven by a further ramp-up in g-Albuterol sales and early traction in g-Brovana. CIPLA has 74 NDAs pending approval in the US currently. Furthermore, it has three peptide products in the US pipeline, two of which it has already filed in FY21. FY23 is expected to be an exciting year for CIPLA, with potential approvals for g-Advair and g-Revlmid. CIPLA would respond to the USFDA's queries on g-Advair this month. However, CIPLA is seeing higher price erosion in the base business in the

interim. As a result, we expect a sales CAGR of 18% to USD765m in the US over FY21–23E.

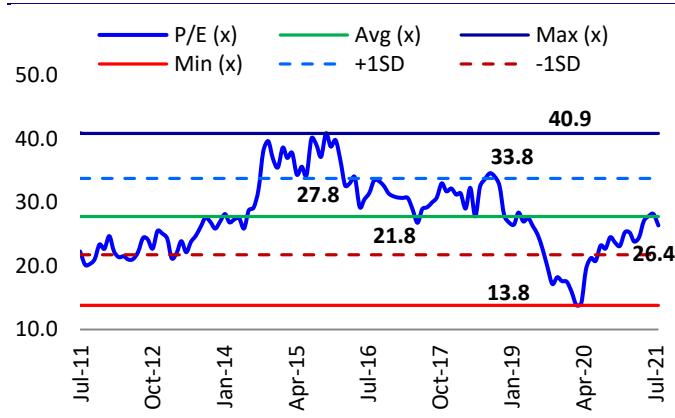
DF: Broad-based growth across categories, complemented by COVID portfolio

CIPLA posted robust growth of 69% YoY to INR27b in India in 1QFY22, led by good business from COVID products – such as Remdesivir, Actemra (Tocilizumab/Roche), Amphotericin B, and Budecort (Inhaled Budesonide) – and the low base of 1QFY21. Ex-COVID products, sales grew 47% YoY in 1QFY22. The Trade Generics segment also posted a strong performance, with lockdowns disrupting doctor-patient connect. The One-India strategy saw tailwinds, with (a) Cofsils, Cipcal, and Omnidex showing strong YoY growth and (b) new brands such as ORS and Cipladine seeing a strong uptick in sales. CIPLA expects to outperform IPM in FY22 (ex-COVID impact), led by its strength in the Respiratory therapy. We expect the benefit from COVID across domestic segments to drive higher growth in DF in FY22, followed by muted growth in FY23. Accordingly, we expect CIPLA to deliver a sales CAGR of 9% to INR91b in DF over FY21–23E.

Expect 15% earnings CAGR over FY21–23, but growth already priced-in

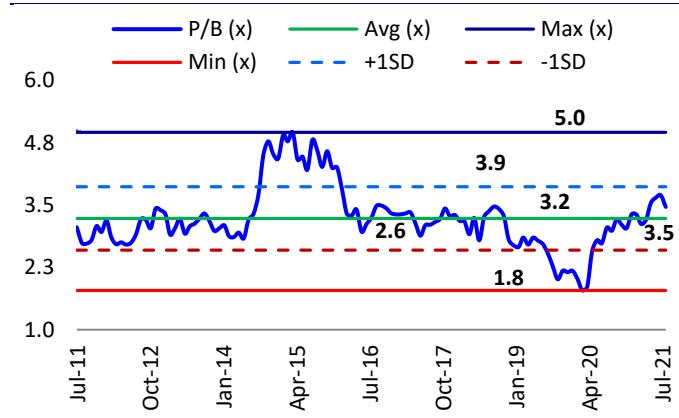
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- We expect a 15% earnings CAGR, led by an 18%/9%/10% sales CAGR in US Generics / DF / SAGA over FY21–23E.
- Cipla continues to enhance its niche pipeline for the US market – by building peptide-based products (in addition to respiratory assets) – as well as gain share in the DF market. Nevertheless, we maintain a Neutral rating on a limited upside from current levels.

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

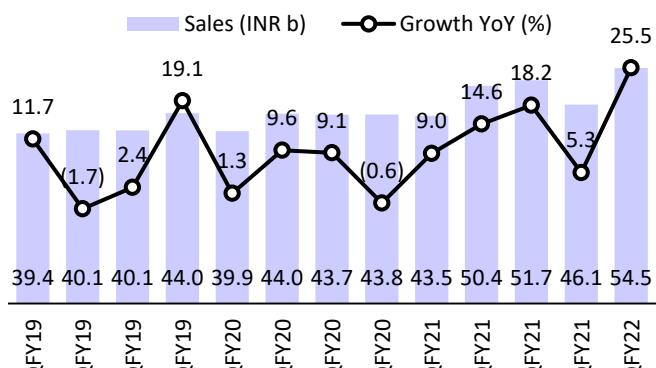
Exhibit 2: P/B chart



Source: MOFSL, Company, Bloomberg

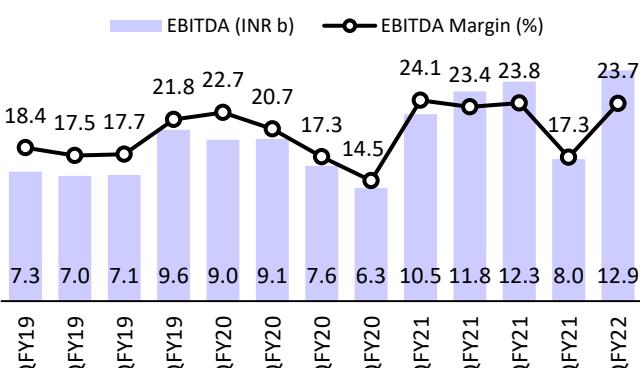
Story in charts

Exhibit 3: Revenues up ~26% in 1QFY22



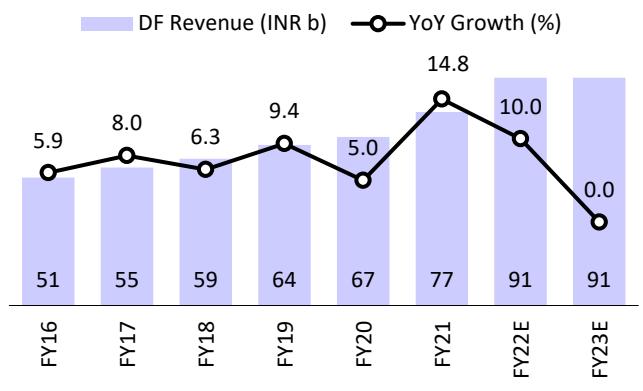
Source: MOFSL, Company

Exhibit 4: EBITDA margin contracts 40bp YoY in 1QFY22



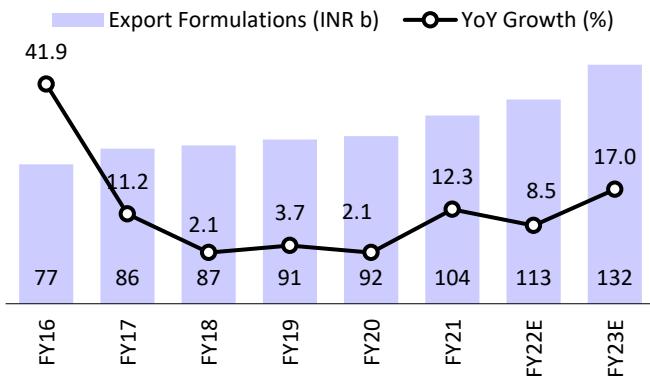
Source: MOFSL, Company

Exhibit 5: Expect DF sales CAGR of 9% over FY21–23...



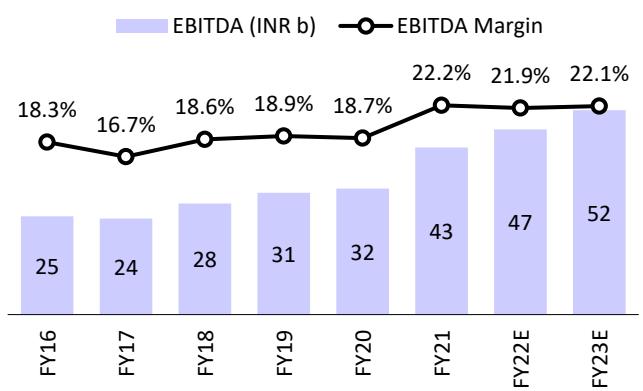
Source: MOFSL, Company

Exhibit 6: ...and CAGR of 13% in export sales over FY21–23



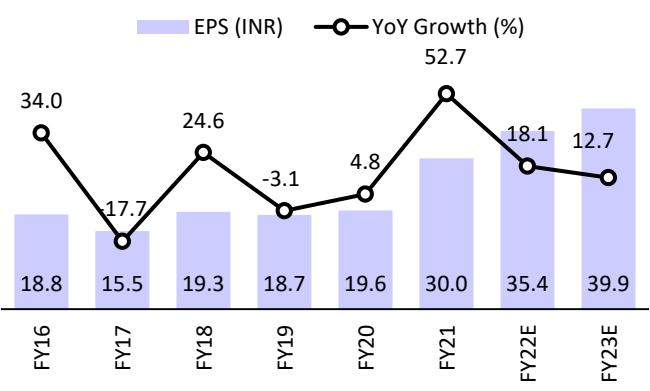
Source: MOFSL, Company

Exhibit 7: EBITDA margin to sustain at current levels



Source: MOFSL, Company

Exhibit 8: Expect 15% earnings CAGR over FY21–23



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	FY15	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Income	113,454	145,980	152,200	163,624	171,320	191,596	215,201	235,379
Change (%)	12.3	6.7	4.3	7.5	4.7	11.8	12.3	9.4
EBITDA	21,617	24,436	28,271	30,973	32,060	42,526	47,129	52,019
Change (%)	1.3	-2.3	15.7	9.6	3.5	32.6	10.8	10.4
Margin (%)	19.1	16.7	18.6	18.9	18.7	22.2	21.9	22.1
Depreciation	5,047	9,229	11,491	11,163	11,423	10,677	11,175	11,860
EBIT	16,570	15,207	16,780	19,810	20,637	31,849	35,954	40,159
Int. and Finance Charges	726	1,594	1,142	1,684	1,974	1,607	1,037	1,021
Other Income - Rec.	1,226	2,287	3,577	2,796	3,442	2,660	2,520	2,590
PBT before EO Items	17,069	15,900	19,214	20,922	22,105	32,902	37,437	41,728
One-time (Expense)/Income	527	0	-2,512	-130	324	0	734	0
PBT but after EO Exp.	16,543	15,900	16,702	20,792	21,782	32,902	36,703	41,728
Tax	4,000	3,094	2,501	5,695	6,312	8,888	9,172	10,015
Tax Rate (%)	24.2	19.5	15.0	27.4	29.0	27.0	25.0	24.0
Minority Interest	482	290	60	(353)	(470)	(164)	(250)	(350)
Income from associates	-253	-70	-28	-171	-475	-128	-100	-50
Reported PAT	11,808	12,446	14,113	15,278	15,465	24,050	27,681	32,013
Adj PAT	11,281	12,446	15,511	15,032	15,752	24,050	28,415	32,013
Change (%)	-18.6	-17.7	24.6	-3.1	4.8	52.7	18.1	12.7
Margin (%)	9.9	8.5	10.2	9.2	9.2	12.6	13.2	13.6

Balance Sheet								(INR m)
Y/E March	FY15	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	1,606	1,609	1,610	1,611	1,613	1,613	1,610	1,610
Preference Share Capital								
Reserves	106,197	123,645	140,682	152,298	157,630	179,264	204,045	233,159
Revaluation Reserves	90	0	0	0	0	0	0	0
Net Worth	107,892	125,254	142,292	150,123	157,630	183,265	205,656	234,770
Loans	17,018	41,126	40,980	43,162	28,164	15,375	10,375	5,375
Deferred Liabilities	2846	5888	3157	2239	1254	-181	-181	-181
Minority Interest	1927	4382	3524	3320	2943	2591	2591	2591
Capital Employed	129,684	176,650	189,953	198,844	189,992	201,050	218,440	242,554
Gross Block	95,935	114,562	120,454	126,353	138,480	147,454	149,996	158,496
Less: Accum. Deprn.	27,178	10,204	16,273	27,436	38,859	49,536	60,711	72,570
Net Fixed Assets	68,757	104,358	104,181	98,916	99,621	97,918	89,285	85,925
Capital WIP	5,349	7,192	5,124	3,311	4,210	5,708	5,124	5,124
Investments	6,398	141	107	2,963	3,593	3,501	3,501	3,501
Curr. Assets	76,201	96,159	117,318	132,429	126,804	141,244	152,659	183,849
Inventory	37,806	34,853	40,447	39,648	43,776	46,692	51,786	59,033
Account Receivables	20,043	24,974	31,025	41,507	38,913	34,457	43,901	50,371
Cash and Bank Balance	5,643	6,242	9,656	6,188	10,039	14,012	7,224	20,665
Others	12,710	30,090	36,190	45,085	34,076	46,083	49,748	53,780
Curr. Liability & Prov.	27,021	31,201	36,776	38,775	44,236	47,322	32,129	35,845
Account Payables	21,215	27,982	30,505	31,408	34,755	36,539	21,346	25,062
Provisions	5,806	3,219	6,271	7,368	9,482	10,783	10,783	10,783
Net Current Assets	49,180	64,959	80,542	93,654	82,568	93,922	120,530	148,004
Appl. of Funds	129,684	176,650	189,953	198,844	189,992	201,050	218,440	242,554

Financials and valuations

Ratios

Y/E March	FY15	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
EPS	14.0	15.5	19.3	18.7	19.6	30.0	35.4	39.9
Cash EPS	20.3	26.9	33.5	32.5	33.7	43.1	49.2	54.5
BV/Share	134.3	155.7	176.7	186.3	195.5	227.2	255.4	291.6
DPS	2.0	2.0	2.0	3.0	2.5	2.5	3.0	3.0
Payout (%)	16.4	15.6	13.4	18.6	15.6	10.0	10.5	9.1
Valuation (x)								
P/E	67.3	61.0	49.0	50.5	48.2	31.6	26.7	23.7
Cash P/E	46.5	35.1	28.2	29.1	28.1	22.0	19.2	17.4
P/BV	7.0	6.1	5.4	5.1	4.8	4.2	3.7	3.2
EV/Sales	6.8	5.5	5.2	4.9	4.5	4.0	3.6	3.2
EV/EBITDA	35.7	32.6	28.0	25.8	24.3	17.9	16.2	14.3
Dividend Yield (%)	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Return Ratios (%)								
RoE	10.5	9.9	10.9	10.0	10.0	13.1	13.8	13.6
RoCE	11.0	7.9	9.4	8.4	8.8	12.9	13.8	14.1
RoIC	11.6	7.5	8.4	8.0	8.2	13.3	14.2	14.7
Working Capital Ratios								
Fixed Asset Turnover (x)	1.7	1.4	1.5	1.6	1.7	1.9	2.3	2.7
Debtor (Days)	64	62	74	93	83	66	74	78
Inventory (Days)	122	87	97	88	93	89	88	92
Working Capital (Days)	144	162	193	209	176	179	203	227
Leverage Ratio (x)								
Current Ratio	2.8	3.1	3.2	3.4	2.9	3.0	4.8	5.1
Debt/Equity	0.1	0.3	0.2	0.2	0.1	0.0	0.0	-0.1

Cash Flow Statement

(INR m)

Y/E March	FY15	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
EBITDA	21,617	24,436	28,271	30,973	32,060	42,526	47,129	52,019
Interest/Dividends Recd.	1,226	2,287	3,577	2,796	3,442	2,660	2,520	2,590
Direct Taxes Paid	-4,244	-6,176	-5,232	-6,613	-7,297	-10,323	-9,172	-10,015
(Inc)/Dec in WC	-5,060	-3,937	-12,169	-16,580	14,937	-7,381	-33,396	-14,033
CF from Operations	13,539	16,609	14,447	10,576	43,142	27,482	7,081	30,561
EO expense	527	0	-2,512	-130	324	0	734	0
CF from Oper. incl EO Expense	11,734	23,818	14,628	16,911	32,296	37,552	6,346	30,561
(inc)/dec in FA	-9,769	-6,487	-9,246	-4,085	-13,027	-10,472	-1,956	-8,500
Free Cash Flow	1,965	17,331	5,381	12,826	19,268	27,080	4,390	22,061
(Pur)/Sale of Investments	688	1,622	35	-2,857	-629	91	0	0
others	-330	-8,237	671	-9,745	14,697	-13,491		
CF from Investments	-9,411	-13,102	-8,540	-16,687	1,041	-23,872	-1,956	-8,500
Issue of Shares								
Inc/(Dec) in Debt	4,409	-10,790	-146	2,183	-14,998	-12,790	-5,000	-5,000
Interest Paid	-726	-1,594	-1,142	-1,684	-1,974	-1,607	-1,037	-1,021
Dividend Paid	-1,940	-1,936	-1,893	-2,841	-2,416	-2,416	-2,899	-2,899
Others	-95	1,062	-673	-1,145	-11,713	3,513	-2,241	300
CF from Fin. Activity	1,647	-13,257	-3,855	-3,487	-31,100	-13,299	-11,178	-8,620
Inc/Dec of Cash	3,971	-2,541	2,233	-3,263	2,236	381	-6,788	13,441
Add: Beginning Balance	1,751	8,714	6,242	9,656	6,188	10,039	14,012	7,224
Bank balances	6	6	983	-17	-1,104	3,593	0	0
Bank balances and FX impact	-79	69	1,181	-205	1,614	3,592	0	0
Closing balance	5,643	6,242	9,656	6,188	10,039	14,012	7,224	20,665

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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