

Cipla

01 March 2023

COMPANY UPDATE

Sector: Pharmaceuticals **Rating:** BUY
CMP: Rs 906 **Target Price:** Rs 1,058

Stock Info

Sensex/Nifty	59,136/17,892
Bloomberg	CIPLA IN
Equity shares	805mn
52-wk High/Low	Rs 1,185/890
Face value	Rs 2
M-Cap	Rs 737bn/USD 9bn

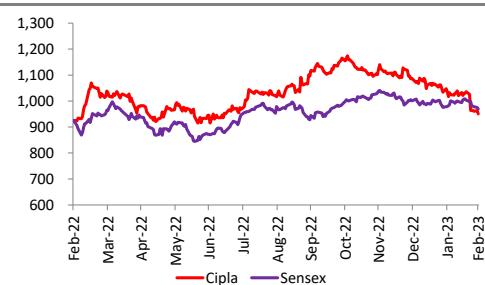
Financial Snapshot (Rs mn)

Y/E March	FY23E	FY24E	FY25E
Sales	2,25,500	2,40,279	2,58,285
Gross profit	1,43,768	1,57,649	1,69,726
Gross Margin %	63.8%	65.6%	65.7%
EBITDA	49,403	58,100	63,535
Margin %	21.9%	24.2%	24.6%
PAT	29,249	36,024	40,546
EPS	36.3	44.8	50.4
DPS(Rs)	5.8	7.2	8.1
ROE(%)	12.5	13.6	13.6
P/E(x)	24.9	20.2	18.0
EV/EBITDA (x)	13.6	11.2	9.8

Shareholding pattern (%)

	Jun-22	Sep-22	Dec-22
Promoter	33.61	33.61	33.61
-Pledged	-	-	-
FII	27.65	27.69	28.38
DII	21.33	21.68	21.09
Others	17.41	17.02	16.92

Stock Performance (1-year)



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Pithampur facility Form 483 observations – Expect OAI status

The US FDA inspected Cipla's (CIPLA) Pithampur, Indore facility from 6th February to 17th February, 2023. The company had received 8 observations for which we have received the Form 483. We hosted a call with Dr. Gurudatta, a regulatory consultant to share his views on the Form 483. The key takeaways being –

- 1) An OAI status / warning letter is the likely outcome which should impact future approvals from the manufacturing facility. OAI status / warning letter is expected as the observations pertain to lack of compliance on procedures for sterility assurance, inadequate investigation on customer complaints and some observations raises suspicion on data integrity (although not established).
- 2) gAdvair is potentially a key approval that is pending from this facility. We expect the approval to be delayed by at least a year. However, despite the delay, we would still expect the opportunity to remain meaningful and relevant. There are potentially other respiratory assets also filed from this facility.
- 3) Site transfer of products may not be an option as the process may take longer than it may take to resolve the compliance issues. We are also not sure if CIPLA has an alternative manufacturing facility that has capability to manufacture DPI devices.
- 4) Remediation activity may take at least 1 year. One of the key observations in the form 483 pertained to customer complaints on products shipped from the Pithampur facility, and failure to conduct investigation and take timely action on Field alert reports. The quantum of customer complaints is disproportionately high. Resolution of the above observation will define the critical path.
- 5) An import alert is unlikely as data integrity issues have not been established.

CIPLA had also recently faced an Official Action Indicated (OAI) status at its Goa facility. We have knocked off contribution from gAdvair (filing from Pithampur facility) and gAbraxane (filing from Goa facility) in FY24E and FY25E, due to which net earnings may be impacted adversely by ~11% in FY25. We have retained our "BUY" rating with revised target price of Rs 1,058 (1,196 earlier), valuing the company at 21x FY25E EPS. The company also has other respiratory filings which may have been filed from the same facility. We believe the other respiratory filings include – gFlovent and generic QVAR. Both these products represent a USD 300 to USD 400mn market size and currently has no generic competition. However, we currently do not have contribution from these respiratory assets built into our estimates.

Exhibit 1: Change in estimates

Particulars (Rs mn)	New estimates			Old estimates			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net sales	2,25,500	2,40,279	2,58,285	2,25,500	2,45,919	2,67,430	0.0	(2.3)	(3.4)
EBITDA	49,403	58,100	63,535	49,403	62,507	70,646	0.0	(7.1)	(10.1)
Margin (%)	21.9	24.2	24.6	21.9	25.4	26.4	0 bps	(124) bps	(182) bps
PAT	29,249	36,024	40,546	29,249	39,250	45,827	0.0	(8.2)	(11.5)
Margin (%)	13.0	15.0	15.7	13.0	16.0	17.1	0 bps	(97) bps	(144) bps
EPS	36.3	44.8	50.4	36.3	48.8	56.9	0.0	(8.3)	(11.4)

Source: Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	1,91,596	2,17,633	2,25,500	2,40,279	2,58,285
YoY gr. (%)	11.8%	13.6%	3.6%	6.6%	7.5%
Cost of Goods Sold	73,519	84,956	81,732	82,630	88,560
Gross Profit	1,18,077	1,32,677	1,43,768	1,57,649	1,69,726
Margin (%)	61.6%	61.0%	63.8%	65.6%	65.7%
Employee Cost	32,518	35,299	38,139	41,572	45,729
Other Expenses	43,034	51,851	56,225	57,978	60,462
EBITDA	42,524	45,528	49,403	58,100	63,535
YoY gr. (%)	32.6%	7.1%	8.5%	17.6%	9.4%
Margin (%)	22.2%	20.9%	21.9%	24.2%	24.6%
Depreciation & Amortization	10,677	10,520	10,980	11,442	12,017
EBIT	31,848	35,008	38,423	46,657	51,518
Margin (%)	16.6%	16.1%	17.0%	19.4%	19.9%
Net Interest	1,607	1,064	1,070	470	472
Other Income	2,660	2,809	4,553	3,569	4,883
Exceptional Items	-	1,821	-	-	-
Profit Before Tax	32,901	34,933	41,906	49,756	55,929
Margin (%)	17.2%	16.1%	18.6%	20.7%	21.7%
Total Tax	8,888	9,338	12,225	13,301	14,951
Effective tax rate (%)	27.0%	26.7%	29.2%	26.7%	26.7%
Minority Interest & Share of					
Loss from Associates	-36	427	432	432	432
Profit after tax	24,049	25,168	29,249	36,024	40,546
EPS	29.9	31.3	36.3	44.8	50.4
YoY gr. (%)	55.5%	4.6%	16.2%	23.2%	12.6%

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	1,613	1,614	1,614	1,614	1,614
Reserves & Surplus (Ex OCI)	1,81,652	2,06,803	2,31,793	2,62,472	2,96,951
Net Worth	1,83,265	2,08,417	2,33,406	2,64,086	2,98,565
Short term debt	3,347	4,079	5,000	5,175	5,553
Long term debt	12,028	4,162	3,746	3,372	3,034
Trade payables	20,668	25,081	22,977	23,229	24,897
Other Provisions	10,783	12,210	12,691	13,523	14,537
Other liabilities	21,427	17,062	22,382	23,240	24,284
Total Liabilities	2,51,519	2,71,011	3,00,203	3,32,624	3,70,870
Net block	97,918	1,00,052	1,01,063	1,01,697	1,01,755
CWIP	5,708	3,829	9,190	11,158	13,275
Other Non-current asset	14,580	19,241	15,840	16,391	16,956
Investments	1,218	614	676	743	818
Cash and Cash Equivalents	14,012	19,285	39,798	61,707	85,838
Debtors	34,457	34,244	40,554	43,212	46,450
Inventories	46,692	53,502	51,908	52,478	56,244
Other current asset	36,934	40,244	41,175	45,238	49,534
Total Assets	2,51,519	2,71,011	3,00,203	3,32,624	3,70,870

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT	32,901	34,933	41,906	49,756	55,929
Depreciation	10,677	10,520	10,980	11,442	12,017
Interest	1,607	1,064	1,070	470	472
Others	-3,346	-1,514	-4,553	-3,569	-4,883
Working capital	-7,695	-7,540	-2,116	-5,350	-7,575
Direct tax	-8,888	-9,338	-12,225	-13,301	-14,951
Net cash from Op. activities	25,256	28,123	35,063	39,449	41,009
Net Capital expenditures	-10,447	-10,171	-17,413	-14,112	-14,266
Others	2,308	-1,734	8,121	3,018	4,318
Net Cash from Invt. activities	-8,138	-11,905	-9,293	-11,095	-9,947
Issue of share cap. / premium	0	1	-	-	-
Debt changes	-12,790	-7,133	505	-200	42
Dividend paid	-	-4,034	-4,680	-5,764	-6,487
Others	-356	221	-1,082	-482	-484
Net cash from Fin. activities	-13,145	-10,946	-5,257	-6,446	-6,930
Net change in cash	3,973	5,273	20,513	21,909	24,132

Source: Company, Systematix Institutional Research

Key Financial Metrics

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Per Share(Rs)					
EPS	29.9	31.3	36.3	44.8	50.4
CEPS	43.2	44.3	50.0	59.0	65.3
BVPS	227.8	259.0	290.1	328.2	371.0
DPS	-	5.0	5.8	7.2	8.1
Return Ratio(%)					
RoCE	16.0	16.2	15.9	17.1	16.8
RoE	13.1	12.1	12.5	13.6	13.6
Balance Sheet					
Net Debt : Equity (x)	-0.1	-0.2	-0.2	-0.3	-0.4
Net Working Capital (Days)	184.0	172.2	186.0	189.5	185.6
Valuation(x)					
PER	30.3	29.0	24.9	20.2	18.0
EV/EBITDA	16.6	15.3	13.6	11.2	9.8
EV/Sales	3.7	3.2	3.0	2.7	2.4

Source: Company, Systematix Institutional Research

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