

Weak show by US/DF; Outlook remains strong

CIPLA's 2QFY25 Revenue was in-line while EBITDA/PAT beat our estimates. EBITDA margin beat our estimate by 140bp. Overall revenue came at Rs70.5bn (+6% YoY), led by strong growth in SAGA/EM and Europe of 24%/19% YoY while the US and India business delivered growth of 5% YoY each. India sales were Rs29.5bn (+5% YoY) impacted by slower growth in anti-infective market and a seasonal weakness in trade generics due to weak demand in acute category. Interestingly, the CHL segment in India posted a strong growth of 21% YoY driven by robust performance across anchor and transitioned brands. Meanwhile, supply side issues in Lanreotide led to muted performance in US business which grew 4% YoY in CC terms to USD237mn. CIPLA achieved its highest ever EBITDA margin of 26.7% (+144bp YoY) driven by higher GM of 67.6% (+220bp YoY), lower R&D cost at 5.5% (down 20bp YoY as % sales) offset by higher operating costs. Accordingly, EBITDA grew 9% YoY to Rs18.8bn (our est. Rs17.8bn). PAT grew 11% to Rs13bn (our est. Rs12.6bn) led by higher operating profitability, other income (+8% YoY), lower interest expense (down 40% YoY). Going forward, Cipla maintained its guidance for FY25 EBITDA margin to be in the range of 24.5-25.5%. Additionally, it expects Lanreotide sales in 3QFY25E to be lower QoQ due to supply issues. However, it is expected to normalize at the end-3QFY25E or starting 4QFY25E. Accordingly, we decrease our FY25/FY26 earnings estimates by 1%/3% due to a) further delay and uncertainty related to key launches like Abraxane, Advair and b) increase in opex. We roll-forward our estimates to 1HFY27E valuing CIPLA at 26x (v/s 28x earlier) 12M forward earnings and add Rs47 (g-Revlimid NPV) to arrive at a TP of Rs1,670. Maintain ADD.

US: Muted growth due to Lanreotide issue, further delay in key launches

In 2QFY25, US sales grew 4% YoY in CC terms to USD237mn (down 5% QoQ). The growth was primarily led by a) positive traction in differentiated launches; b) market share gain of Albuterol to 19% vs 17% in Q1FY25. However, it was offset by supply issues of Lanreotide. Moreover, the supply-side issue of Lanreotide is further expected to negatively impact 3QFY25E till the maintenance and expansion activities at partner facility gets completed. But the issue is expected to be resolved in 4QFY25E and going forward CIPLA expects Lanreotide market share to improve. However, the overhang and delay in launch of Abraxane continues with uncertainty over timeline as CIPLA awaits clearance of Goa facility by the USFDA. Also, Advair is expected to be launched by 1HFY26. Accordingly, we expect US segment to witness 8% CAGR over FY24-27E to reach over USD1.1bn.

India: Seasonally weak quarter but expect recovery in coming quarters

In 2QFY25, India business grew 5% YoY to Rs29.5bn. The muted growth was primarily due to slower growth in Anti-infective market, seasonal weakness in trade generics with slow growth in acute business. Moreover, Consumer Health posted a strong growth of 21% YoY and maintained 15%+ EBITDA margin trajectory. Management remains optimistic on outperforming the IPM in mid-term backed by Respiratory and Cardiac therapies. Additionally, CIPLA mentioned its plans to participate in the GLP-1 opportunity with generic version of Semaglutide and is also open for in-licensing if opportunity presents. Moreover, the growth is expected to bounce back in India business in coming quarters led by seasonally strength in respiratory. Accordingly, we expect DF sales to witness 11% CAGR over FY24-27E to reach Rs148bn.

Valuation and view

We decrease our FY25/FY26 earnings estimates by 1%/3% due to a) further delay and uncertainty related to key launches like Abraxane, Advair and b) increase in opex. We roll-forward our estimates to 1HFY27E valuing CIPLA at 26x (v/s 28x earlier) 12M forward earnings and add Rs47 (g-Revlimid NPV) to arrive at a TP of Rs1,670. Maintain ADD. We remain positive on CIPLA on the back of a) robust pipeline of peptide/respiratory asset in the NA market, b) strong brand franchise in DF, and c) potential M&A opportunities (net cash of ~Rs8bn). We expect revenue/EBITDA/EPS CAGR of 9%/12%/13% over FY24-27E. Maintain ADD.

Financial and valuation summary

YE Mar (Rs bn)	2QFY25A	2QFY24A	YoY (%)	1QFY25A	QoQ (%)	FY25E	FY26E	FY27E
Revenues	71	67	5.6	67	5.3	275	304	334
EBITDA	19	17	8.8	17	9.9	70	79	88
EBITDA margin (%)	26.7	26.0	3.0	25.6	4.3	25.5	26.1	26.4
Adj. Net profit	13	12	6.9	12	11.4	48	55	62
Adj. EPS (Rs)	16.2	15.2	6.9	14.6	11.4	59.3	67.7	76.3
EPS growth (%)						10.8	14.6	12.7
PE (x)						25.0	21.8	19.3
EV/EBITDA (x)						16.8	14.4	12.6
PBV (x)						4.2	3.7	3.1
RoE (%)						17.4	18.1	17.7
RoCE (%)						17.7	18.3	17.7

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Pharma & Healthcare

29 October, 2024

ADD

Price: Rs1,478

Target Price: Rs1,670

Forecast return: 13%

Institutional Research

Market Data

Bloomberg:	CIPLA IN
52 week H/L:	1,702/1,165
Market cap:	Rs1193.3bn
Shares Outstanding:	807.6mn
Free float:	65.1%
Avg. daily vol. 3mth:	16,50,720

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	Rs1670 from Rs1730

Source: Centrum Broking

Shareholding pattern

	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	30.9	30.9	33.5	33.5
FIIs	28.8	27.8	25.8	25.7
DIIIs	24.2	24.9	24.4	24.3
Public/other	16.1	16.3	16.3	16.5

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs bn)	Centrum Q2FY25	Actual Q2FY25	Variance (%)
Revenue	70.4	70.5	0
EBITDA	17.8	18.8	6
EBITDA margin	25.3%	26.7%	144bp
Adj. PAT	12.5	13.0	4

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Estimate revision

YE Mar (Rs b)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
Revenue	275	281	(2.2)	304	316	(3.7)
EBITDA	70	71	(1.0)	79	81	(2.2)
EBITDA margin	26	25	30bp	26	26	40bp
Adj. PAT	48	48	(1.3)	55	56	(2.7)

Source: Centrum Broking

Cipla versus NIFTY 50

	1m	6m	1 year
CIPLA in equity	(11.7)	4.9	25.8
Nifty Index	(6.5)	8.1	28.5

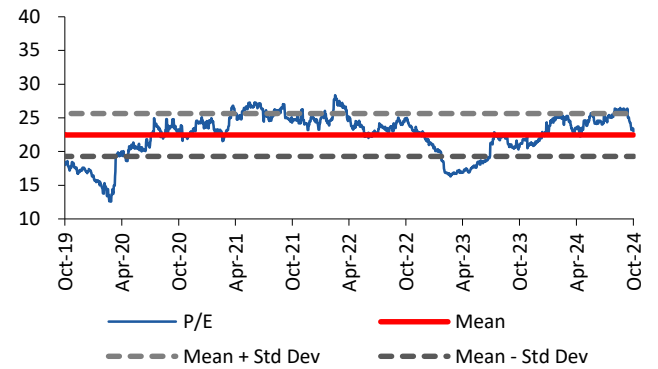
Source: Bloomberg, NSE

Valuations

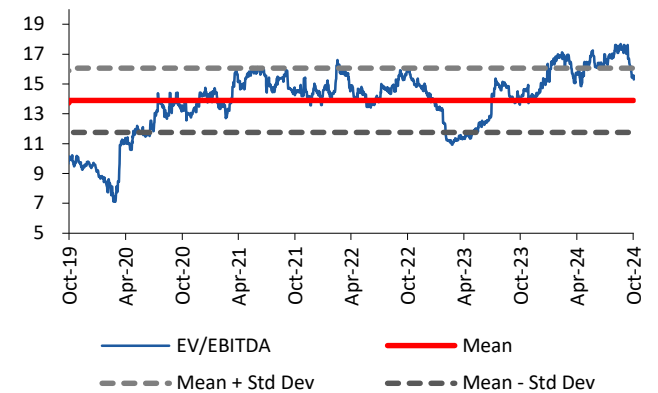
We expect revenue/EBITDA/EPS CAGR of 9%/12%/13% over FY24-27E. We value CIPLA at 26x 12M forward earnings and add Rs47 (g-Revlimid NPV) to arrive at a TP of Rs1,670. Maintan ADD

Valuations	Rs/share
Core biz EPS	61
PE Multiple	26
Derived TP (Core Biz)	1,621
+ NPV of g-Revlimid	47
TP	1,670

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs bn)	CAGR (FY24-27E)			P/E (x)			EV/EBITDA (x)			RoE (%)		
		Sales	EBITDA	EPS	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
SUN PHARMA	4,490	14	18	17	35	31	28	28	25	22	18	17	16
CIPLA LTD	1,193	9	12	13	25	22	19	17	14	13	17	18	18
DR REDDY'S	1,063	16	12	8	4	3	3	13	10	10	18	18	16
TORRENT PHARMA	1,087	14	18	28	54	40	33	28	24	20	28	31	31
JB CHEM & PHARMA	288	15	18	24	40	33	27	27	23	20	23	22	21

Source: Company, Centrum Broking, Bloomberg

Exhibit 1: Quarterly Earnings Update

Y/E March	FY24				FY25		FY24	FY25E	Estimates	
(Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25			Q2FY25E	%var
Net Sales	63,289	66,782	66,038	61,632	66,939	70,510	2,57,741	2,74,963	70,396	0
YoY Change(%)	17.7	14.6	13.7	7.4	5.8	5.6		6.7	5.41	
Gross Margin(%)	64.7	65.4	66.4	66.7	67.2	67.6	65.8	66.5	66.0	160bp
EBITDA	14,939	17,338	17,475	13,159	17,158	18,856	62,911	70,116	17,810	6
EBITDA Margin(%)	23.6	26.0	26.5	21.4	25.6	26.7	24.4	25.5	25.3	140bp
YoY Change(%)	30.7	24.8	24.2	12.1	14.9	8.8		11.5	2.73	
Adjusted PAT	9,957	11,740	11,967	9,390	11,776	13,025	43,055	47,690	12,577	4
Net Margin(%)	15.7	17.6	18.1	15.2	17.6	18.5	16.7	17.3	17.9	
YoY Change(%)	45.1	37.7	49.4	32.6	18.3	10.9		10.8	7.13	

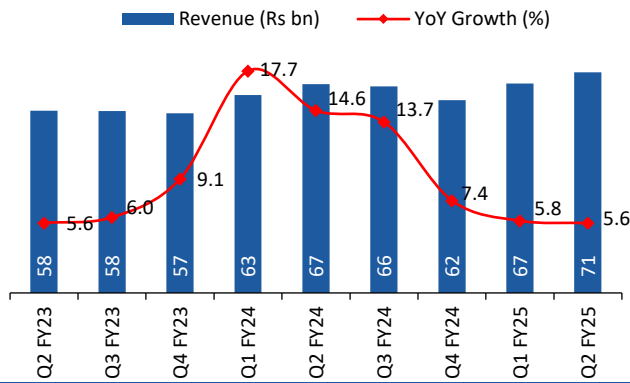
Source: Centrum Broking, Company Data

Exhibit 2: Segment Data

Segment	FY24				FY25		FY24	FY25E
	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25		
Domestic Formulations	27720	28170	28590	24170	28980	29480	108650	118972
YoY Change(%)	12	10	12	7	5	5		10
North America	18220	18870	19160	18750	20870	19860	75010	79710
YoY Change(%)	52	29	20	12	15	5		6
SAGA	6770	8620	8150	7610	6950	10680	30580	32109
YoY Change(%)	-14	-1	20	10	3	24		5
Emerging Markets	7790	6770	7460	8270	8490	8060	30870	34577
YoY Change(%)	8	-11	-2	5	9	19		12
API	1360	1470	1080	1890	980	1600	5810	5810
YoY Change(%)	1	-16	-27	41	-28	9		0

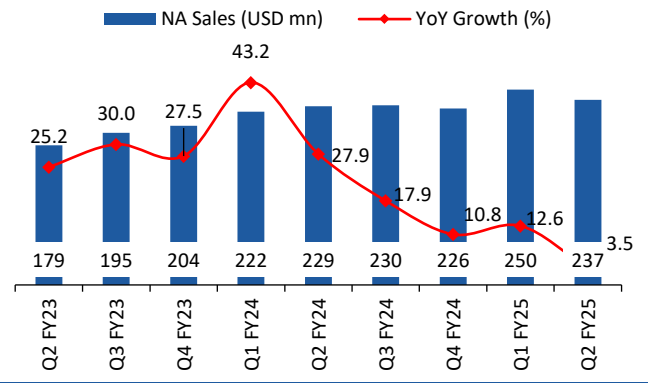
Source: Centrum Broking, Company Data

Exhibit 3: Revenue grew 6% YoY to Rs71bn



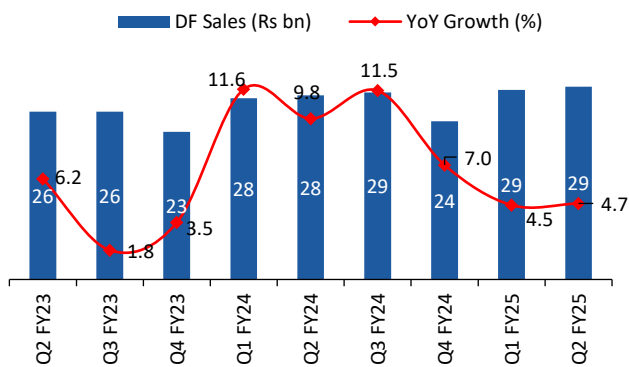
Source: Centrum Broking, Company Data

Exhibit 4: NA Sales grew 4% YoY to USD237mn



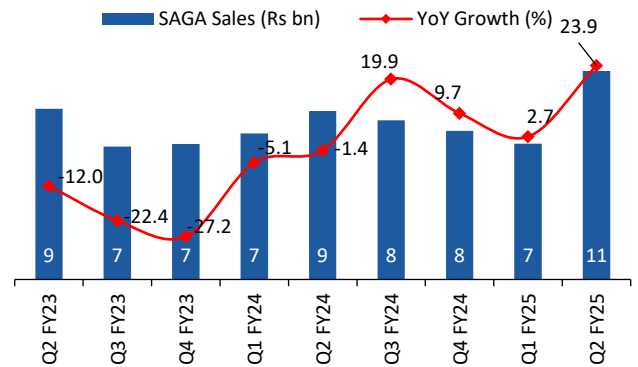
Source: Centrum Broking, Company Data

Exhibit 5: DF Sales grew 5% YoY to Rs29.5bn



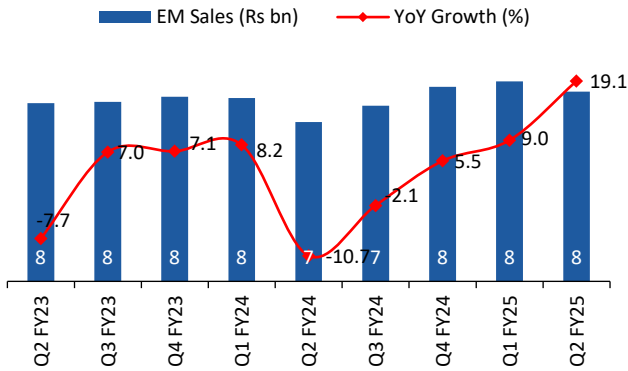
Source: Centrum Broking, Company Data

Exhibit 6: SAGA Sales grew 24% YoY to Rs10.7bn



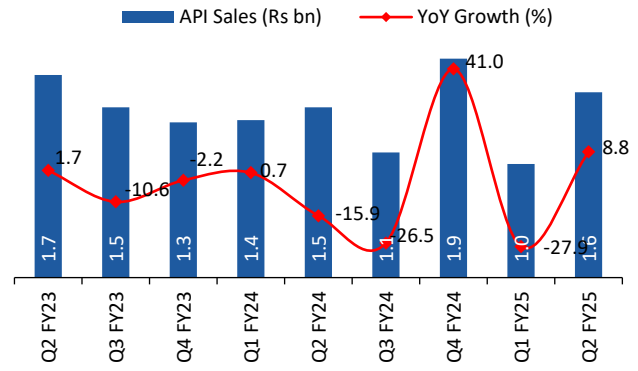
Source: Centrum Broking, Company Data

Exhibit 7: EM Sales grew 19% YoY to Rs8bn



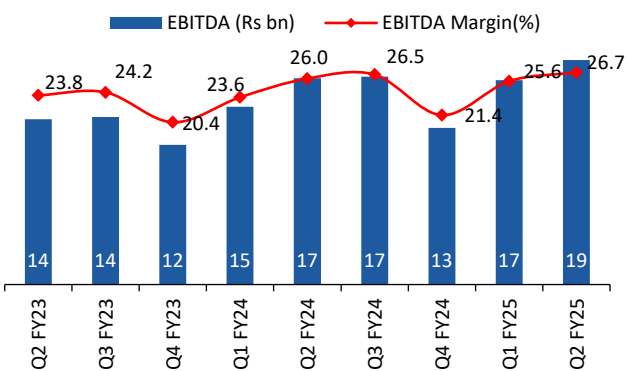
Source: Centrum Broking, Company Data

Exhibit 8: API Sales grew 9% YoY to Rs1.6bn



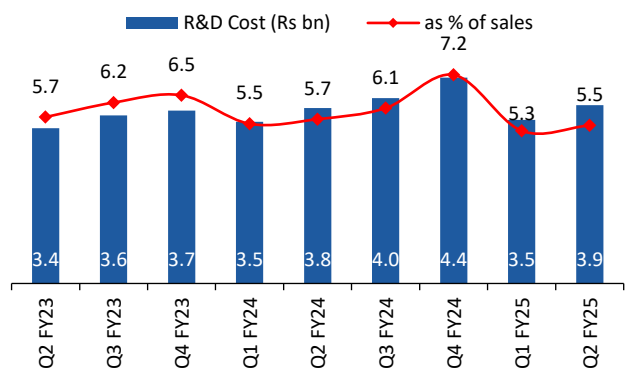
Source: Centrum Broking, Company Data

Exhibit 9: EBITDA margin grew 70bp YoY to 26.7%



Source: Centrum Broking, Company Data

Exhibit 10: R&D Cost was 5.5% of sales at Rs3.9bn



Source: Centrum Broking, Company Data

Exhibit 11: Key conference call takeaways and metrics

Centrum Quarterly Monitor	Q1FY25	Q2FY25	Our Comments
Demand environment	India branded business continues to do well on back of strong growth in Chronic therapy. In US, reached highest ever quarterly sales. Witnessed some price erosion, slight growth in Revlimid.	Seasonal weakness in India due to slower growth in Anti-infective, trade generics. Consumer Health showed strong growth. Faced supply issues for Lanreotide.	Expect CIPLA to outperform IPM led by robust growth in chronic segments. Also, US segment will continue to do well on the back of robust pipeline.
Outlook and guidance	Cipla maintained the margin guidance and plans to launch 2 peptides by year end	Cipla maintained the margin guidance of 24.5%-25.5% for FY25. Expects Lanreotide supply issue to get resolved in Q4FY25.	Expect EBITDA margins to expand 200bp over FY24-27E on back of strong performance in branded generics segment and new product launches.
New product launch updates	Launched generic version of Lanreotide injection, completed transition to new trade generics distribution model	Received 4 new generic approvals including one peptide. Launched Vonoprazan and Cipenmet in India.	We continue to monitor the future launches of CIPLA. Some key drugs in pipeline expected to face delays due to regulatory issue.
Regulatory actions	USFDA issued 'VAI' for Patalganga and Kurkumbh facilities	Awaiting USFDA complete response with indication for Goa plant.	We await further clarification on USFDA conclusions on Goa plant which is an important event with regard to Abraxane launch.
On margins	Gross margin expanded to 67.5% (+260bp) and EBITDA margin expanded by 200bp to 25.6%	Gross margin expanded to 67.6% (+220bp) and EBITDA margin expanded by 70bp to 26.7%	Expansion in gross margin was mainly due to change in product mix, EBITDA margins were the highest ever for CIPLA

Source: Centrum Broking

Operational Highlights – 2QFY25

- **R&D cost** stood at Rs3.8bn at 5.5% of sales
- **India business:** Revenue grew 5% YoY to Rs29.5b impacted by slower growth in Anti-infective, seasonal weakness in acute category leading to lower trade generics growth.
- **Consumer Health:** Posted strong growth of 21% YoY on account of strong performance of both anchor and transitioned brands. Sustained EBITDA margin of 15%+.
- **North America:** Revenue grew 4% YoY to USD237mn driven by continued traction in differentiated portfolio. US business witnessed sequential decline due to supply side challenges for Lanreotide.
- **Lanreotide supply-side challenges:** CIPLA faced challenges for Lanreotide supply during the quarter. The issues was related to maintenance and expansion of capacity undertaken at partner's facilities. The issue is expected persist and impact sales in Q3FY25 also. CIPLA expects the supply to get back to normalcy in Q4FY25.
- **Market share:** Albuterol market share improved to 19% vs 17% last quarter (as of Sep'24, IQVIA) and Lanreotide franchise including 505(b)(2) reached 35% as per IQVIA MAT Aug'24.
- **SAGA:** Grew 22% YoY in CC terms driven by South Africa private market and by growth in key therapies, new launches and OTC products. South Africa business now ranks 2nd in the overall private market with prescription business maintained No1 position.
- **EM & EU:** Delivered growth of 18% YoY in USD terms driven by uptick in DTM and B2B categories.
- **New product launches:**
 - **US:** 4 new drug approvals received during the quarter including one peptide
 - **India branded:** Launched Vonoprazan and Cipenmet during the quarter
 - **India trade generics:** Launched 9 new products in H1FY25
- **Financial position as of 1HFY25:** Overall debt stood at Rs4.6bn with Cash balance of Rs8.4bn.

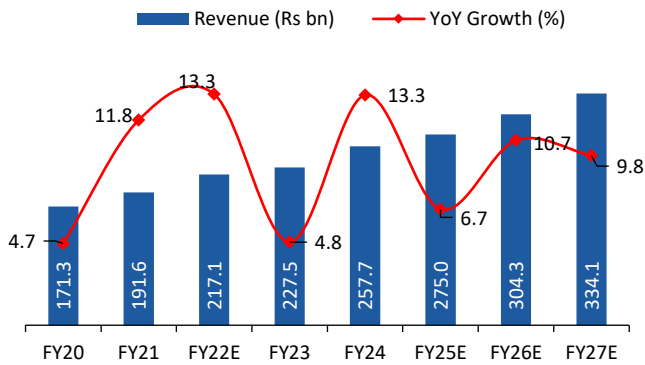
Concall Highlights

- **Guidance:** Cipla maintained its guidance for FY25 EBITDA margin to be in the range of 24.5-25.5%
- **Lanreotide:** It expects Lanreotide sales in 3Q to be lower than 2Q due to supply issues in Lanreotide. However, it is expected to normalize at the end-3QFY25
- **Advair:** Currently undergoing filing batches and expects to launch in 1HFY26. Don't expect impact on competition post patent removal for Advair.
- **Abraxane** continues to be dependent on clearance in Goa facility and timeline will be impacted till regulatory issues are cleared. The launch will take a longer time if gone through CMO route compared to waiting for Goa site clearance.
- **USFDA regulatory update:** Goa facility was issued six observations. Additionally, it is still waiting for the classification of the inspection at Indore.
- **Albuterol:** Seeing some price erosion due to competition
- Cipla continues to focus on remediation and implementation of the CAPA
- Peptide product will be sourced through a CMO.
- **US business**
 - Witnessed overall on entire portfolio level price erosion of 10% YoY/3-5% QoQ
 - US sales expected to decline sequentially due to Lanreotide supply-side issue.
 - ~70% of US portfolio is differentiated
- **Albuterol:** Cipla has witnessed competition-led price erosion

- **Field force:** MR strength in India is 8700 at the end-2QFY25. It plans to add more MRs.
- **GLP-1 opportunity:** Cipla plans to participate in generic version of Semaglutide. It will look for in-licensing for the same.
- **R&D:** Over the next few years, R&D will be in oligonucleotide, respiratory assets, bio-assets in phase-1
- Cipla's market share in Lanreotide is expected to increase over the next few years
- Expects 5-10% YoY growth in South Africa
- Strategy for Africa business is on growing deep in top cities rather than expanding to more countries.
- Expect trade generics to recover and exhibit normal growth in coming quarters.
- Management guided for 30% dividend payout ratio.

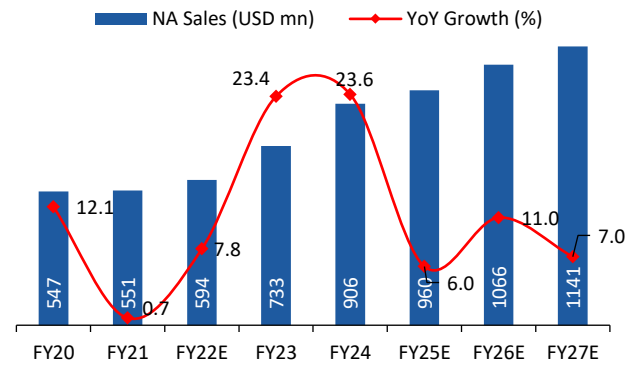
Story in charts

Exhibit 12: Revenues to exhibit 9% CAGR over FY24-27E



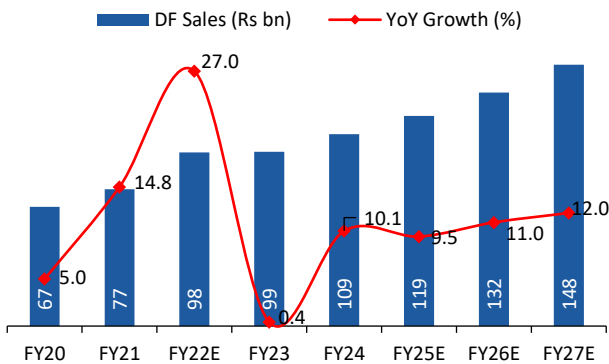
Source: Company Data, Centrum Broking

Exhibit 13: NA to exhibit 8% CAGR over FY24-27E



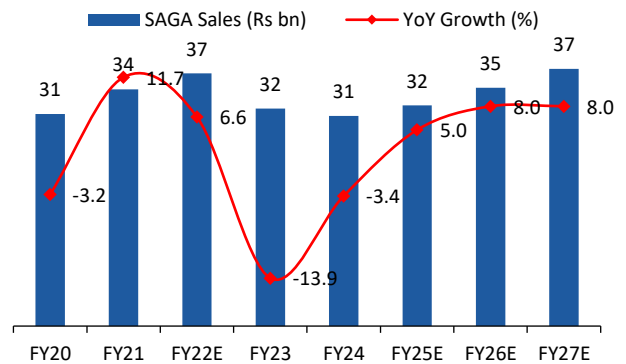
Source: Company Data, Centrum Broking

Exhibit 14: DF to exhibit 11% CAGR over FY24-27E



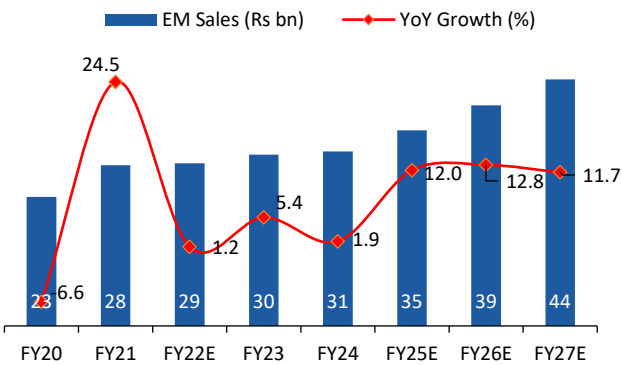
Source: Company Data, Centrum Broking

Exhibit 15: SAGA to exhibit 7% CAGR over FY24-27E



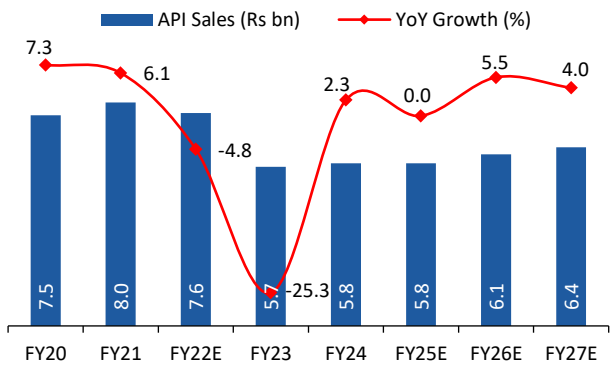
Source: Company Data, Centrum Broking

Exhibit 16: EM to exhibit 12% CAGR over FY24-27E



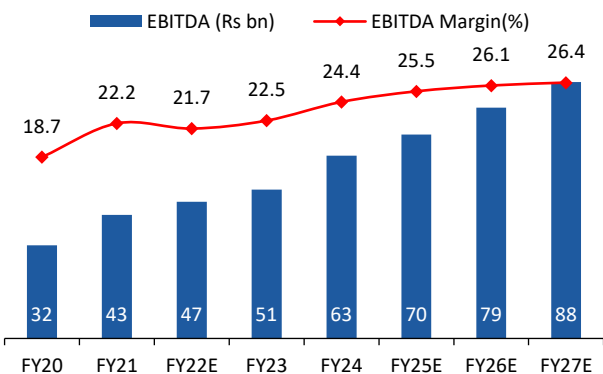
Source: Centrum Broking, Company Data

Exhibit 17: API to exhibit 3% CAGR over FY24-27E



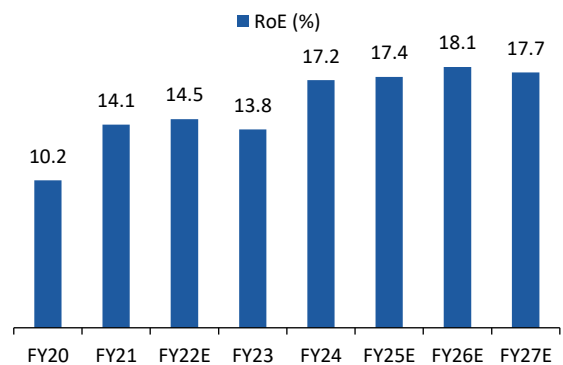
Source: Centrum Broking, Company Data

Exhibit 18: EBITDA to exhibit 12% CAGR over FY24-27E



Source: Centrum Broking, Company Data

Exhibit 19: RoE to be moderate around 17% by FY27E



Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs bn)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenues	228	258	275	304	334
Operating Expense	82	88	92	101	110
Employee cost	38	43	46	51	55
Others	56	64	67	73	81
EBITDA	51	63	70	79	88
Depreciation & Amortisation	12	10	11	12	7
EBIT	39	53	59	68	81
Interest expenses	1	1	1	1	0
Other income	0	0	0	0	0
PBT	43	59	66	75	86
Taxes	12	15	18	20	24
Effective tax rate (%)	28.1	26.3	27.0	27.0	28.5
PAT	31	43	48	55	61
Minority/Associates	0	0	0	0	0
Recurring PAT	30	43	48	55	62
Extraordinary items	(2)	(2)	0	0	0
Reported PAT	28	41	48	55	62

Ratios					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Growth (%)					
Revenue	4.8	13.3	6.7	10.7	9.8
EBITDA	8.8	23.0	11.5	13.3	11.1
Adj. EPS	7.0	41.3	10.8	14.6	12.7
Margins (%)					
Gross	64.1	65.8	66.5	66.8	67.2
EBITDA	22.5	24.4	25.5	26.1	26.4
EBIT	17.3	20.5	21.4	22.3	24.3
Adjusted PAT	12.3	16.0	17.3	18.0	18.4
Returns (%)					
ROE	13.8	17.2	17.4	18.1	17.7
ROCE	13.5	17.2	17.7	18.3	17.7
ROIC	13.8	17.0	17.4	19.1	21.1
Turnover (days)					
Gross block turnover ratio (x)	1.4	1.4	1.4	1.5	1.6
Debtors	60	63	66	65	64
Inventory	235	215	224	230	231
Creditors	164	155	190	218	215
Net working capital	204	216	217	250	289
Solvency (x)					
Net debt-equity	0.0	0.0	0.0	(0.1)	(0.2)
Interest coverage ratio	46.7	70.0	131.2	148.6	240.1
Net debt/EBITDA	(0.2)	(0.1)	(0.2)	(0.5)	(0.9)
Per share (Rs)					
Adjusted EPS	37.9	53.5	59.3	67.7	76.3
BVPS	290.7	331.7	348.9	401.1	471.6
CEPS	52.4	66.0	73.1	82.4	85.1
DPS	8.5	12.9	13.0	13.0	13.0
Dividend payout (%)	29.3	30.5	26.4	23.1	20.4
Valuation (x)					
P/E	39.0	27.6	25.0	21.8	19.3
P/BV	5.1	4.5	4.2	3.7	3.1
EV/EBITDA	23.1	18.8	16.8	14.4	12.6
Dividend yield (%)	0.6	0.9	0.9	0.9	0.9

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs bn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity share capital	2	2	2	2	2
Reserves & surplus	232	265	279	321	378
Shareholders fund	234	267	281	323	380
Minority Interest	3	1	1	1	1
Total debt	6	3	3	3	3
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	(3)	(4)	(4)	(4)	(4)
Total liabilities	240	267	281	323	380
Gross block	167	180	198	206	215
Less: acc. Depreciation	(72)	(82)	(93)	(105)	(112)
Net block	95	98	105	102	103
Capital WIP	7	9	5	5	5
Net fixed assets	102	106	110	107	108
Non Current Assets	5	0	0	0	0
Investments	6	8	8	8	8
Inventories	52	52	61	67	72
Sundry debtors	41	48	52	56	61
Cash & Cash Equivalents	16	9	17	45	81
Loans & advances	0	0	0	0	0
Other current assets	69	98	108	120	132
Trade payables	37	38	58	63	67
Other current liab.	0	0	0	0	0
Provisions	13	16	16	16	16
Net current assets	127	153	163	209	264
Total assets	240	267	281	323	380

Cashflow					
YE Mar (Rs bn)	FY23A	FY24A	FY25E	FY26E	FY27E
Profit Before Tax	42	59	66	75	86
Depreciation & Amortisation	12	11	11	12	7
Net Interest	0	1	1	1	0
Net Change – WC	(6)	(8)	(11)	(17)	(20)
Direct taxes	(13)	(16)	(18)	(20)	(24)
Net cash from operations	32	41	49	50	49
Capital expenditure	(12)	(13)	(15)	(8)	(8)
Acquisitions, net	0	0	0	0	0
Investments	(9)	(14)	0	0	0
Others	(3)	(2)	0	0	0
Net cash from investing	(24)	(30)	(15)	(8)	(8)
FCF	8	11	34	42	41
Issue of share capital	0	0	(21)	0	0
Increase/(decrease) in debt	(5)	(4)	0	0	0
Dividend paid	(4)	(7)	(13)	(13)	(5)
Interest paid	(1)	(1)	(1)	(1)	0
Others	0	(1)	0	0	0
Net cash from financing	(10)	(12)	(35)	(14)	(5)
Net change in Cash	(1)	(1)	(1)	29	36

Source: Company, Centrum Broking

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Vijaya Diagnostic Centre



Source: Bloomberg

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