

**Strong growth across key markets, working towards large launches in US**



**Cipla Q2FY22 revenues were in line with estimates. However, lower gross margins from increased material costs and increased other expenses due to higher R & D spend reduced profitability. Lower contribution of Covid (5% to sales, from 10% earlier) led to sequential de-growth in India. Cipla is working with USFDA on 3 large launches by H2FY23 and on USFDA clearance for its Goa plant.**

- Sales came in at Rs 55.2 bn, +10% yoy/flat qoq, 1%% above our estimate.
- Sales growth driven by India (+16%), South Africa (+8%) and USA (+2%), offset by ROW (-16%) and API (-9%).
- Gross profit Rs 33.8 bn (+7% yoy/-2% qoq). GPM lower at 61.3% (-110 bps qoq/-10 bps yoy) due to 10% increase in material costs.
- EBITDA came in at Rs 12.2 bn +4% yoy/-9% qoq.
- EBITDA margins at 22.2% (-120 bps yoy/-230 bps qoq), in view of increased other expenses (+17%).
- PAT came in at Rs 7 bn (+8% yoy/flat qoq).

### Key Developments

- Increased Research & Development spend
- Cipla is working with the USFDA for its large assets
  - ANDAs on gADVAIR.
  - ANDAs on gREVLIMID
  - ANDAs on gABRAXANE
- USFDA clearance to its Goa plant is key to commercialise its ANDAs.

| Y/E Mar (Rs mn)     | FY19     | FY20     | FY21     | FY22E    | FY23E    |
|---------------------|----------|----------|----------|----------|----------|
| Net sales           | 1,63,624 | 1,71,320 | 1,91,596 | 2,14,247 | 2,32,495 |
| EBITDA              | 30,973   | 32,060   | 42,524   | 52,349   | 58,040   |
| OPM                 | 18.9%    | 18.7%    | 22.2%    | 24.4%    | 25.0%    |
| Adjusted net profit | 14,572   | 14,525   | 23,722   | 31,865   | 35,447   |
| Free cash flow      | 8,344    | 23,909   | 28,914   | 35,322   | 34,267   |
| EPS (Rs)            | 18.1     | 18.0     | 29.4     | 39.5     | 44.0     |
| growth (%)          | 3        | (0)      | 63       | 34       | 11       |
| P/E (x)             | 50       | 50       | 31       | 23       | 21       |
| P/B (x)             | 5        | 5        | 4        | 3        | 3        |
| EV/EBITDA (x)       | 25       | 23       | 17       | 13       | 12       |
| D/E                 | 0.3      | 0.2      | 0.1      | 0.1      | 0.0      |
| RoC (%)             | 8.8      | 9.1      | 15.1     | 20.6     | 22.6     |
| RoE (%)             | 9.7      | 9.2      | 12.9     | 15.0     | 14.5     |
| Dividend yield (%)  | 0.2      | 0.2      | 0.2      | 0.2      | 0.2      |

Source: Company

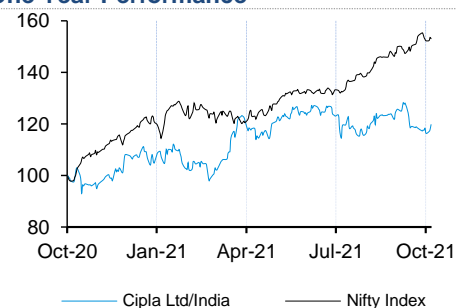
| Rating     | TP (Rs)      | Up/Dn (%) |
|------------|--------------|-----------|
| <b>BUY</b> | <b>1,090</b> | <b>18</b> |

### Market data

|                      |           |               |
|----------------------|-----------|---------------|
| Current price        | Rs        | 923           |
| Market Cap (Rs.Bn)   | (Rs Bn)   | 744           |
| Market Cap (US\$ Mn) | (US\$ Mn) | 9,927         |
| Face Value           | Rs        | 2             |
| 52 Weeks High/Low    | Rs        | 1005 / 706.45 |
| Average Daily Volume | ('000)    | 1460          |
| BSE Code             |           | 500087        |
| Bloomberg            |           | CIPLA.IN      |

Source: Bloomberg

### One Year Performance



Source: Bloomberg

| % Shareholding | Sep-21     | Jun-21     |
|----------------|------------|------------|
| Promoters      | 11.64      | 11.69      |
| Public         | 88.36      | 88.31      |
| <b>Total</b>   | <b>100</b> | <b>100</b> |

Source: Bloomberg

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## Conference Call Highlights

### A. India

- India sales came in at Rs 24.2 bn (+16% yoy/-11% qoq).
  - Strong volume growth in Prescription sales (80% of India).
  - Better than market growth in acute and respiratory nebulisation.
  - Healthy order flow in Trade generics due to robust demand.
  - Consumer health growing on low base. FY21 sales at Rs 3.6 bn.
  - Post Covid, the management is confident of market (IPM +10-12%) beating growth.

### B. US

- US sales came in at Rs 10.4 bn (+2% yoy, flat qoq), offsetting 8-9% price erosion.
  - Market share of Albuterol HFA increased to 18.2% in generics and 14.6% of the total market.
  - Market share of Arformoterol Tartrate inhalation solution at 39% for generics and 24% of the total market.
  - Cipla has 72 ANDAs pending USFDA approval.
  - The company has planned significant launches in FY22.
  - During the quarter, Cipla received USFDA approval for
  - Cipla is working towards USFDA approvals to ADVAIR, REVLIMID and ABRAXANE for launch in H2FY23.

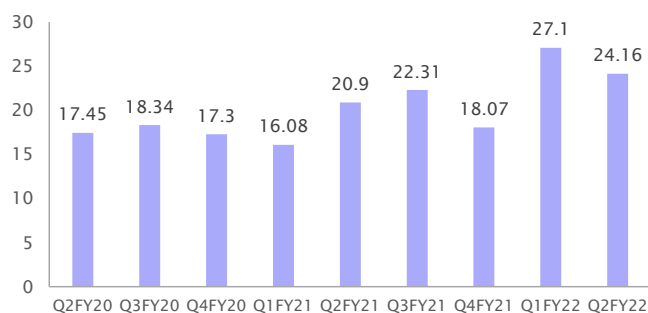
### C. South Africa

- South Africa + SAGA sales came in at Rs 9.9 bn (+8% yoy/+19% qoq).
  - South Africa +25% Rs 7.1 bn, growth in private market. Market share gain in both private market and OTC.
  - SAGA -20% Rs 2.8 bn on high base.

### D. International (ROW+ Europe)

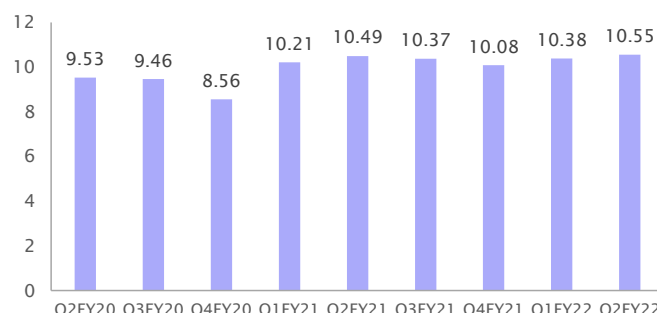
- International markets (ROW+ Europe) +14% Rs 8.2 bn. Supplies to Middle East resumed with strong demand for Covid. Launched Bevacizumab in partnership in Spain.
- API -9% Rs 1.7 bn due to price erosion.
- Capex Rs 7-9 bn towards additional capacities and digitisation.
- Cipla further repaid debt during Q2FY22. Gross debt stands at Rs 11 bn, down from Rs 19.1 bn in Q1FY22.
- Net cash at Rs 24.6 bn from Rs 29.6 bn in June'21.

**Exhibit 1: Scale up in India business (Rs bn)**



Source: Company, SSL

**Exhibit 2: US sales grow despite 8-9% price erosion**



Source: Company, SSL

## Quarterly Financials

| Particulars                              | Q2FY22        | Q1FY22        | Q2FY21        | yoy %        | qoq %        | FY21          | FY20          | Var %        |
|--|---------------|---------------|---------------|--------------|--------------|---------------|---------------|--------------|
| Net Sales                                | 55198         | 55044         | 50383         | 10%          | 0%           | 196510        | 171320        | 15%          |
| Raw Material Consumed                    | (21,367)      | (20,688)      | (19,465)      |              |              | (73,519)      | (59,914)      |              |
| Employee Expenses                        | (8,778)       | (8,873)       | (8,209)       |              |              | (32,518)      | (30,270)      |              |
| Other Expenses                           | (12,791)      | (12,023)      | (10,943)      |              |              | (43,034)      | (49,076)      |              |
| <b>EBDITA</b>                            | <b>12262</b>  | <b>13459</b>  | <b>11766</b>  | <b>4%</b>    | <b>-9%</b>   | <b>47438</b>  | <b>32060</b>  | <b>48%</b>   |
| OPM (%)                                  | 22.2%         | 24.5%         | 23.4%         |              |              | 24.1%         | 18.7%         |              |
| Other Income                             | 607           | 649           | 535           |              |              | 2,660         | 3,442         |              |
| Interest                                 | (380)         | (296)         | (393)         |              |              | (1,607)       | (1,974)       |              |
| Depreciation *                           | (2,531)       | (2,611)       | (2,651)       |              |              | (10,677)      | (11,747)      |              |
| <b>Profit before tax bfr exceptional</b> | <b>9,958</b>  | <b>11,201</b> | <b>9,257</b>  | <b>8%</b>    | <b>-11%</b>  | <b>37,815</b> | <b>21,782</b> | <b>74%</b>   |
| Exceptional provision                    | -             | (1,246)       | -             |              |              | -             | -             |              |
| Tax                                      | (2,838)       | (2,837)       | (2,638)       |              |              | (8,888)       | (6,312)       |              |
| Profit After tax                         | 7,120         | 7,118         | 6,619         | 8%           | 0%           | 28,927        | 15,470        | 87%          |
| Less : Minority Interest                 | (22)          | (48)          | (61)          |              |              | (164)         | (470)         |              |
| Share of Profit/(Loss)                   | (29)          | (19)          | (25)          |              |              | (128)         | (475)         |              |
| <b>Net Profit</b>                        | <b>7,069</b>  | <b>7,051</b>  | <b>6,533</b>  | <b>8%</b>    | <b>0%</b>    | <b>28,636</b> | <b>14,525</b> | <b>97%</b>   |
| Equity                                   | 1,613         | 1,613         | 1,613         |              |              | 1,613         | 1,613         |              |
| Number of shares                         | 807           | 807           | 806           |              |              | 806           | 806           |              |
| <b>EPS - Diluted (Rs)</b>                | <b>8.8</b>    | <b>8.7</b>    | <b>8.1</b>    |              |              | <b>35.5</b>   | <b>18.0</b>   |              |
| <b>Sales by Geography</b>                | <b>Q2FY22</b> | <b>Q1FY22</b> | <b>Q2FY21</b> | <b>yoy %</b> | <b>qoq %</b> | <b>FY21</b>   | <b>FY20</b>   | <b>Var %</b> |
| India                                    | 24160         | 27100         | 20900         | 16%          | -11%         | 77360         | 67410         | 15%          |
| USA                                      | 10550         | 10380         | 10490         | 1%           | 2%           | 41150         | 38740         | 6%           |
| South Africa                             | 9940          | 8370          | 9240          | 8%           | 19%          | 34480         | 30870         | 12%          |
| ROW                                      | 8210          | 5820          | 4740          |              |              | 9880          | 8130          | 22%          |
| API                                      | 1720          | 3020          | 1890          | -9%          | -43%         | 23400         | 14680         | 59%          |
| Others                                   | 620           | 360           | 660           | -6%          | 72%          | 7980          | 7520          | 6%           |
|  |               |               |               |              |              | 2260          | 3970          | -43%         |
| <b>Cost Analysis</b>                     | <b>Q2FY22</b> | <b>Q1FY22</b> | <b>Q2FY21</b> |              |              | <b>FY21</b>   | <b>FY20</b>   |              |
| RMC                                      | -39%          | -38%          | -39%          |              |              | -37%          | -35%          |              |
| Employee                                 | -16%          | -16%          | -16%          |              |              | -17%          | -18%          |              |
| Other expenses                           | -23%          | -22%          | -22%          |              |              | -22%          | -29%          |              |
| <b>Profitability</b>                     | <b>Q2FY22</b> | <b>Q1FY22</b> | <b>Q2FY21</b> |              |              | <b>FY21</b>   | <b>FY20</b>   |              |
| Gross margin                             | 61%           | 62%           | 61%           |              |              | 63%           | 65%           |              |
| EBITDA margin                            | 22%           | 24%           | 23%           |              |              | 24%           | 19%           |              |
| PBT margin                               | 18%           | 20%           | 18%           |              |              | 19%           | 13%           |              |
| PAT margin                               | 13%           | 13%           | 13%           |              |              | 15%           | 8%            |              |

Higher material costs reduce gross margins sequentially

Other expenses and higher R & D spend dampens EBITDA growth

Sales growth from India, South Africa and US

## Valuation & Outlook

At Rs 924, Cipla trades at 21x FY23E EPS of Rs 43 and 14x EV/EBITDA. We have valued Cipla as a weighted average (50:50) of 25x P/E and 15x EV/EBITDA and arrived at a target price of Rs 1090.

Cipla has progressed well as the third largest player in the Indian pharmaceutical market and scaled up in chronic, trade generics and consumer health. Cipla plans to grow in India, US and South Africa. The company is working towards USFDA approval to gADVAIR, gREVLIMID and gABRAXANE and also clearance to its Goa plant.

**We maintain BUY.**

Financials

| P&L (Rs mn)                 | FY19              | FY20              | FY21              | FY22E             | FY23E             | Cash Flow St. (Rs. mn)           | FY19           | FY20          | FY21          | FY22E         | FY23E         |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------------------|----------------|---------------|---------------|---------------|---------------|
| Net Sales                   | 1,63,624          | 1,71,320          | 1,91,596          | 2,14,247          | 2,32,495          | Net Profit                       | 14,572         | 14,525        | 23,722        | 31,865        | 35,447        |
| Raw materials               | (57,845)          | (59,914)          | (73,519)          | (81,056)          | (87,955)          | Add: Dep. & Amort.               | 13,263         | 11,747        | 10,677        | 10,837        | 11,827        |
| Employee costs              | (28,565)          | (30,270)          | (32,518)          | (34,795)          | (37,230)          | <b>Cash profits</b>              | <b>27,835</b>  | <b>26,272</b> | <b>34,398</b> | <b>42,702</b> | <b>47,274</b> |
| Other Expenses              | (46,241)          | (49,076)          | (43,034)          | (46,047)          | (49,270)          | (Inc)/Dec in                     |                |               |               |               |               |
| <b>Cost of sales</b>        | <b>(1,32,651)</b> | <b>(1,39,260)</b> | <b>(1,49,072)</b> | <b>(1,61,898)</b> | <b>(1,74,455)</b> | -Sundry debtors                  | (10,483)       | 2,594         | 4,456         | (3,529)       | (3,233)       |
| <b>Operating Profit</b>     | <b>30,973</b>     | <b>32,060</b>     | <b>42,524</b>     | <b>52,349</b>     | <b>58,040</b>     | -Inventories                     | 799            | (4,128)       | (2,916)       | (5,904)       | (4,476)       |
| Depreciation*               | (13,263)          | (11,747)          | (10,677)          | (10,837)          | (11,827)          | -Loans/advances                  | 1,488          | 245           | 422           | -             | (289)         |
| <b>PBIT</b>                 | <b>17,710</b>     | <b>20,313</b>     | <b>31,848</b>     | <b>41,512</b>     | <b>46,213</b>     | -Sundry creditors                | (1,711)        | 3,338         | (2,150)       | 1,510         | 1,720         |
| Other income                | 4,766             | 3,442             | 2,660             | 2,793             | 2,933             | -Others                          | (143)          | 5,144         | 5,006         | 3,835         | 4,271         |
| Interest                    | (1,684)           | (1,974)           | (1,607)           | (906)             | (906)             | Change in working capital        | (10,051)       | 7,193         | 4,819         | (4,088)       | (2,006)       |
| <b>Profit before tax</b>    | <b>20,791</b>     | <b>21,782</b>     | <b>32,901</b>     | <b>43,398</b>     | <b>48,239</b>     | <b>CF from Oper. activities</b>  | <b>17,784</b>  | <b>33,465</b> | <b>39,217</b> | <b>38,614</b> | <b>45,268</b> |
| Provision for tax           | (5,695)           | (6,312)           | (8,888)           | (11,284)          | (12,542)          | CF from Inv. activities          | (19,276)       | (491)         | (23,486)      | 1,905         | (15,931)      |
| <b>PAT Bfr Excep Items</b>  | <b>15,096</b>     | <b>15,470</b>     | <b>24,013</b>     | <b>32,115</b>     | <b>35,697</b>     | CF from Fin. activities          | (1,044)        | (26,547)      | (12,471)      | (9,760)       | (3,311)       |
| Extraordinary Items         | -                 | -                 | -                 | -                 | -                 | <b>Cash generated/(utilised)</b> | <b>(2,536)</b> | <b>6,427</b>  | <b>3,260</b>  | <b>30,758</b> | <b>26,026</b> |
| Minority Interest/ Share of | (524)             | (945)             | (292)             | (250)             | (250)             | Cash at start of the year        | 8,724          | 6,188         | 12,615        | 15,875        | 46,633        |
| <b>Reported PAT</b>         | <b>14,572</b>     | <b>14,525</b>     | <b>23,722</b>     | <b>31,865</b>     | <b>35,447</b>     | Cash at end of the year          | 6,188          | 12,615        | 15,875        | 46,633        | 72,659        |
| <b>Balance Sheet</b>        | <b>FY19</b>       | <b>FY20</b>       | <b>FY21</b>       | <b>FY22E</b>      | <b>FY23E</b>      | <b>Ratios</b>                    | <b>FY19</b>    | <b>FY20</b>   | <b>FY21</b>   | <b>FY22E</b>  | <b>FY23E</b>  |
| Equity capital              | 1,611             | 1,613             | 1,613             | 1,613             | 1,613             | OPM                              | 18.9           | 18.7          | 22.2          | 24.4          | 25.0          |
| Reserves                    | 1,48,511          | 1,56,018          | 1,81,652          | 2,10,741          | 2,42,856          | NPM                              | 8.7            | 8.3           | 12.2          | 14.7          | 15.1          |
| <b>Net worth</b>            | <b>1,50,123</b>   | <b>1,57,630</b>   | <b>1,83,265</b>   | <b>2,12,354</b>   | <b>2,44,468</b>   | Tax rate                         | (27.4)         | (29.0)        | (27.0)        | (26.0)        | (26.0)        |
| Def. Tax Liab.+Minority Int | 7,573             | 6,595             | 5,557             | 6,041             | 6,577             | <b>Growth Ratios (%)</b>         |                |               |               |               |               |
| Secured loans               | 38,301            | 23,693            | 12,028            | 5,028             | 5,028             | Net Sales                        | 7.5            | 4.7           | 11.8          | 11.8          | 8.5           |
| Unsecured loans             | 8,736             | 7,241             | 6,303             | 6,303             | 6,303             | Operating Profit                 | 9.6            | 3.5           | 32.6          | 23.1          | 10.9          |
| <b>Total debt</b>           | <b>47,037</b>     | <b>30,933</b>     | <b>18,331</b>     | <b>11,331</b>     | <b>11,331</b>     | PAT                              | 3.3            | (0.3)         | 63.3          | 34.3          | 11.2          |
| Other non current liab      | 833               | 675               | 636               | 700               | 770               | <b>Per Share (Rs.)</b>           |                |               |               |               |               |
| <b>CAPITAL EMPLOYED</b>     | <b>2,05,566</b>   | <b>1,95,158</b>   | <b>2,07,153</b>   | <b>2,29,726</b>   | <b>2,62,377</b>   | Net Earnings (EPS)               | 18.1           | 18.0          | 29.4          | 39.5          | 44.0          |
| Gross block                 | 75,059            | 83,716            | 92,520            | 98,520            | 1,07,520          | Cash Earnings (CPS)              | 34.5           | 32.6          | 42.7          | 53.0          | 58.6          |
| Accumulated depreciation    | (23,916)          | (35,662)          | (46,339)          | (57,176)          | (69,003)          | Dividend                         | 2.0            | 2.0           | 2.0           | 2.0           | 2.0           |
| <b>Net block</b>            | <b>51,144</b>     | <b>48,053</b>     | <b>46,181</b>     | <b>41,344</b>     | <b>38,517</b>     | Book Value                       | 186.3          | 195.5         | 227.25        | 263.3         | 303.1         |
| Capital WIP                 | 3,311             | 4,210             | 5,708             | 3,000             | 5,001             | Free Cash Flow                   | (1.9)          | 40.9          | 19.5          | 50.2          | 36.4          |
| <b>Total fixed assets</b>   | <b>54,454</b>     | <b>52,263</b>     | <b>51,890</b>     | <b>44,344</b>     | <b>43,518</b>     | <b>Valuation Ratios</b>          |                |               |               |               |               |
| <b>Intangible Assets</b>    | <b>19,082</b>     | <b>19,000</b>     | <b>19,446</b>     | <b>19,965</b>     | <b>21,465</b>     | P/E(x)                           | 50             | 50            | 31            | 23            | 21            |
| Goodwill                    | 28,691            | 29,340            | 30,073            | 30,073            | 30,073            | P/B(x)                           | 4.9            | 4.6           | 4.0           | 3.4           | 3.0           |
| Other non current assets    | 1,342             | 1,916             | 1,556             | 1,556             | 1,556             | EV/EBIDTA(x)                     | 24.9           | 23.4          | 17.3          | 13.3          | 11.5          |
| Investments                 | 26,160            | 15,953            | 28,318            | 22,602            | 26,032            | EV/SALES(x)                      | 4.7            | 4.4           | 3.8           | 3.2           | 2.9           |
| Inventories                 | 39,648            | 43,776            | 46,692            | 52,596            | 57,072            | Div. Yield(%)                    | 0.2            | 0.2           | 0.2           | 0.2           | 0.2           |
| Sundry debtors              | 41,507            | 38,913            | 34,457            | 37,986            | 41,219            | <b>FCF Yield(%)</b>              | <b>(0.2)</b>   | <b>4.5</b>    | <b>2.2</b>    | <b>5.5</b>    | <b>4.0</b>    |
| Cash & bank                 | 6,188             | 12,615            | 15,875            | 46,633            | 72,659            | <b>Return Ratios (%)</b>         |                |               |               |               |               |
| Loans & advances            | 6,468             | 6,223             | 5,801             | 5,801             | 6,090             | ROE                              | 9.7            | 9.2           | 12.9          | 15.0          | 14.5          |
| Other current assets        | 10,623            | 8,866             | 8,943             | 9,122             | 9,578             | ROCE                             | 8.6            | 10.4          | 15.4          | 18.1          | 17.6          |
| Sundry creditors            | (19,480)          | (22,818)          | (20,668)          | (22,178)          | (23,898)          | ROIC                             | 8.8            | 9.1           | 15.1          | 20.6          | 22.6          |
| Current Liabilities         | (6,006)           | (7,160)           | (11,113)          | (13,335)          | (16,002)          |                                  |                |               |               |               |               |
| Provisions                  | (8,582)           | (10,815)          | (11,945)          | (13,737)          | (15,797)          |                                  |                |               |               |               |               |
| <b>Working capital</b>      | <b>70,367</b>     | <b>69,601</b>     | <b>68,042</b>     | <b>1,02,889</b>   | <b>1,30,921</b>   |                                  |                |               |               |               |               |
| Deferred Tax Assets         | 5,470             | 7,084             | 7,829             | 8,297             | 8,812             |                                  |                |               |               |               |               |
| Miscellaneous exp.          | -                 | -                 | -                 | -                 | -                 |                                  |                |               |               |               |               |
| <b>CAPITAL DEPLOYED</b>     | <b>2,05,566</b>   | <b>1,95,158</b>   | <b>2,07,153</b>   | <b>2,29,726</b>   | <b>2,62,377</b>   |                                  |                |               |               |               |               |

\* Depreciation includes one time impairment charge of Rs 3500 mn due to litigation and regulatory developments of certain Invagen products

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