

Cipla Q4FY21 results were below estimates. Sales growth in US (18%) and subdued(+4%) in India as well as other markets lowered overall revenue growth (+5% yoy/-11% qoq). 200 bps impact on gross margins temporary. Profitability to improve with higher contribution from India, ROW, South Africa and niche launches in US.

- Sales came in at Rs 46 bn, +5% yoy/-11% qoq. Sequential degrowth due to lower Covid19 sales and seasonality.
- Sales growth driven by India (+4%), USA (+18%), ROW (+4%) and South Africa (+3%), Europe (+7%).
- Gross margins: 60%, 200 bps impact due to inventory build up, one off charge due to plant shutdown, marginal adjustment due to entry of Sandoz in Albuterol.
- EBITDA came in at Rs 8 bn +26% yoy/-35% qoq.
- EBITDA margins at 17.3% (+280 bps yoy/-560 bps qoq)
- PBT came in at Rs 5.4 bn (+66% yoy/-47% qoq)
- PAT came in at Rs 4 bn (+77% yoy/-45% qoq)
- EPS for the quarter was at Rs 5.1.

Revenue by geographies

- India sales came in at Rs 18 bn (+4% yoy/-19% qoq).
 - Prescription sales (80% of India) +6%.
 - Better than market growth in chronic therapies i.e: respiratory, urology, cardiac and derma.
 - Consumer health growing on low base. FY21 sales at Rs 3.6 bn.
- US sales came in at Rs 10 bn (+18% yoy, flat qoq).
 - Market share of Albuterol (gProventil) increased to 87% (+200 bps), 16.5% in generics and 13.2% of the total market.
 - Growth in institutional business
 - Cipla has filed for 2 peptide injectable filings including 1 NDA.
 - Cipla has 64 ANDAs pending USFDA approval.
 - The company has planned significant launches in FY22.
- South Africa + SAGA sales came in at Rs 8.5 bn (+3% yoy/-7% qoq).
 - South Africa +14% Rs 6 bn, growth in both private as well as tenders. SAGA -17% Rs 2.5 bn.
- ROW +4% Rs 4.3 bn. API -9% Rs 2.2 bn due to captive consumption.
- Europe sales +7% to Rs 2.5 bn. Forayed into Spain during the quarter.

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	1,63,624	1,71,320	1,91,596	2,13,359	2,29,875
EBITDA	30,973	32,060	42,524	52,229	57,332
OPM	18.9%	18.7%	22.2%	24.5%	24.9%
Adjusted net profit	14,572	14,525	23,722	31,066	34,312
Free cash flow	8,344	23,909	28,914	34,795	33,711
EPS (Rs)	18.1	18.0	29.4	38.5	42.5
growth (%)	3	(0)	63	31	10
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	0.1
RoC (%)	8.8	9.1	15.1	20.1	22.0
RoE (%)	9.7	9.2	12.9	14.7	14.1
Dividend yield (%)	0.2	0.2	0.2	0.2	0.2

Source: Company

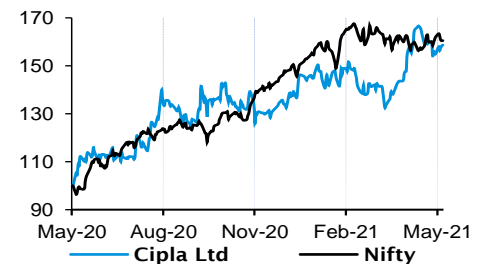
Rating	TP (Rs)	Up/Dn (%)
BUY	1066	18

Market data

Current price	Rs	904
Market Cap (Rs.Bn)	(Rs Bn)	729
Market Cap (US\$ Mn)	(US\$ Mn)	9948
Face Value	Rs	2
52 Weeks High/Low	Rs	966/566
Average Daily Volume	('000)	5563
BSE Code		500087
Bloomberg		CIPLA:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	36.73	36.70
FII	23.26	22.10
DII	17.17	17.95
Others	22.84	23.25
Total	100	100

Source: BSE

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Key Highlights

1. Remdesvir scaled up 5x compared to FY21. Covid sales comprise 5% of FY21 with supplies largely in India.
2. We expect Cipla to benefit from the second Covid wave in view of the following:
 - a. Budecort (Budesonide), amongst Cipla's top 10 products is being used in the treatment of Covid along with Remdesvir.
 - b. Cipla has significant tie ups for Covid related products.
 - i. Roche - Tocilizumab (ACTEMERA)
 - ii. Merck - Molnupiravir
 - iii. Eli Lilly - Baricitinib
 - iv. Roche - Casirivimab and Imdevimab
3. Expect new launches in US in FY22. Larger growth from complex generics in FY23.
4. In the process of replying to USFDA for gAdvair. No pending queries relating to clinical data.
5. The company expects EBITDA margins to improve with higher contribution from India (40% to 44-45% by FY23E) and niche launches in the US.
6. Cash generation increased from Rs 20 bn to Rs 36.7 bn in FY21.
7. Cipla repaid debt of Rs 12.6 bn in FY21. Net debt (-Rs 19.2 bn).

Large basket of Covid treatment products, Budecort (top 10), Remdesvir to grow.

Quarterly Financials

Particulars	Q4FY21	Q3FY21	Q4FY20	yoy %	qoq %	FY21	FY20	Var %
Net Sales	46065	51687	43762	5%	-11%	191620	171320	12%
Raw Material Consumed	(18,224)	(19,935)	(16,889)			(73,519)	(59,914)	
Employee Expenses	(8,147)	(8,444)	(7,637)			(32,518)	(30,270)	
Other Expenses	(11,731)	(11,000)	(12,900)			(43,034)	(49,076)	
EBDITA	7962	12309	6335	26%	-35%	42548	32060	33%
OPM (%)	17.3%	23.8%	14.5%			22.2%	18.7%	
Other Income	601	869	932			2,660	3,442	
Interest	(275)	(479)	(530)			(1,607)	(1,974)	
Depreciation*	(2,852)	(2,484)	(3,458)			(10,677)	(11,747)	
Profit before tax bfr exceptional	5,437	10,215	3,279	66%	-47%	32,925	21,782	51%
Exceptional provision	-	-	-			-	-	
Tax	(1,282)	(2,690)	(856)			(8,888)	(6,312)	
Profit After tax	4,155	7,525	2,423	71%	-45%	24,037	15,470	55%
Less : Minority Interest	(19)	(35)	(75)			(164)	(470)	
Share of Profit/(Loss)	(40)	(9)	(38)			(128)	(475)	
Net Profit	4,096	7,481	2,310	77%	-45%	23,746	14,525	63%
Equity	1,613	1,613	1,613			1,613	1,613	
Number of shares	806	806	806			806	806	
EPS - Diluted (Rs)	5.1	9.3	2.9			29.4	18.0	
Sales by Geography	Q4FY21	Q3FY21	Q4FY20	yoy %	qoq %	FY21	FY20	Var %
India	18070	22310	17300	4%	-19%	77360	67410	15%
USA	10080	10370	8560	18%	-3%	41150	38740	6%
South Africa	8480	9130	8250	3%	-7%	34480	30870	12%
Europe	2490	2520	2320	7%	-1%	9880	8130	22%
ROW	4320	4880	4150	4%	-11%	18510	14680	26%
API	2240	2010	2470	-9%	11%	7980	7520	6%
Others	440	460	710	-38%	-4%	2260	3970	-43%
Cost Analysis	Q4FY21	Q3FY21	Q3FY20			FY21	FY20	
RMC	-40%	-39%	-39%			-38%	-35%	
Employee	-18%	-16%	-17%			-17%	-18%	
Other expenses	-25%	-21%	-29%			-22%	-29%	
Profitability	Q4FY21	Q3FY21	Q3FY20			FY21	FY20	
Gross margin	60%	61%	61%			62%	65%	
EBITDA margin	17%	24%	14%			22%	19%	
PBT margin	12%	20%	7%			17%	13%	
PAT margin	9%	14%	5%			12%	8%	

Gross margins 200 bps impact from plant shutdown, inventory buildup and marginal inventory adjustment for Albuterol.

Debt reduction aids lower interest costs

Source: Dalal & Broacha Research, Company

We have revised our sales estimates for Sales/EBITDA/PAT by 4%/8%/20% for FY22E and 4%/2%/6% for FY23E. The revision factors in higher India sales growth from Budecort, Remdesvir and other partnered products for Covid as well as other chronic products. We have also factored in sales growth from US, South Africa and ROW markets and profitability improvement over FY22 and FY23.

Valuation & Outlook

We believe Cipla will grow in India through prescription, trade generics and consumer health. In the US, we expect 6%/15% growth in FY22/FY23 from ramp up in Albuterol market share and value-added launches.

At Rs 905, Cipla trades at 21x FY23E EPS of Rs 42.5. We have valued Cipla as a weighted average (50:50) of 25x FY23E EPS of Rs 42.5 and 15x EBITDA, and arrived at a target price of Rs 1066, implying an upside of 18%.

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	2,13,359	2,29,875	Net Profit	14,572	14,525	23,722	31,066	34,312
Raw materials	(57,845)	(59,914)	(73,519)	(80,719)	(86,959)	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)	Cash profits	27,835	26,272	34,398	41,903	46,140
Other Expenses	(46,241)	(49,076)	(43,034)	(45,616)	(48,353)	(Inc)/Dec in					
Cost of sales	(1,32,651)	(1,39,260)	(1,49,072)	(1,61,130)	(1,72,543)	-Sundry debtors	(10,483)	2,594	4,456	(3,371)	(2,924)
Operating Profit	30,973	32,060	42,524	52,229	57,332	-Inventories	799	(4,128)	(2,916)	(5,685)	(4,049)
Depreciation*	(13,263)	(11,747)	(10,677)	(10,837)	(11,827)	-Loans/advances	1,488	245	422	-	(289)
PBIT	17,710	20,313	31,848	41,392	45,505	-Sundry creditors	(1,711)	3,338	(2,150)	1,404	1,563
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)	(1,866)	(1,866)	Change in working capital	(10,051)	7,193	4,819	(3,817)	(1,427)
Profit before tax	20,791	21,782	32,901	42,318	46,571	CF from Oper. activities	17,784	33,465	39,217	38,086	44,712
Provision for tax	(5,695)	(6,312)	(8,888)	(11,003)	(12,108)	CF from Inv. activities	(19,276)	(491)	(23,486)	1,905	(15,931)
PAT Bfr Excep Items	15,096	15,470	24,013	31,316	34,462	CF from Fin. activities	(1,044)	(26,547)	(12,471)	2,234	(3,320)
Extraordinary Items	-	-	-	-	-	Cash generated/(utilised)	(2,536)	6,427	3,260	42,225	25,462
Minority Interest/ Share of	(524)	(945)	(292)	(250)	(150)	Cash at start of the year	8,724	6,188	12,615	15,875	58,100
Reported PAT	14,572	14,525	23,722	31,066	34,312	Cash at end of the year	6,188	12,615	15,875	58,100	83,562
Balance Sheet	FY19	FY20	FY21	FY22E	FY23E	Ratios	FY19	FY20	FY21	FY22E	FY23E
Equity capital	1,611	1,613	1,613	1,613	1,613	OPM	18.9	18.7	22.2	24.5	24.9
Reserves	1,48,511	1,56,018	1,81,652	2,09,941	2,40,922	NPM	8.7	8.3	12.2	14.4	14.7
Net worth	1,50,123	1,57,630	1,83,265	2,11,554	2,42,535	Tax rate	(27.4)	(29.0)	(27.0)	(26.0)	(26.0)
Def. Tax Liab.+Minority Int	7,573	6,595	5,557	6,036	6,563	Growth Ratios (%)					
Secured loans	38,301	23,693	12,028	17,028	17,028	Net Sales	7.5	4.7	11.8	11.4	7.7
Unsecured loans	8,736	7,241	6,303	6,303	6,303	Operating Profit	9.6	3.5	32.6	22.8	9.8
Total debt	47,037	30,933	18,331	23,331	23,331	PAT	3.3	(0.3)	63.3	31.0	10.5
Other non current liab	833	675	636	700	770	Per Share (Rs.)					
CAPITAL EMPLOYED	2,05,566	1,95,158	2,07,153	2,40,921	2,72,429	Net Earnings (EPS)	18.1	18.0	29.4	38.5	42.5
Gross block	75,059	83,716	92,520	98,520	1,07,520	Cash Earnings (CPS)	34.5	32.6	42.7	52.0	57.2
Accumulated depreciation	(23,916)	(35,662)	(46,339)	(57,176)	(69,003)	Dividend	2.0	2.0	2.0	2.0	2.0
Net block	51,144	48,053	46,181	41,344	38,517	Book Value	186.3	195.5	227.25	262.3	300.7
Capital WIP	3,311	4,210	5,708	3,000	5,001	Free Cash Flow	(1.9)	40.9	19.5	49.6	35.7
Total fixed assets	54,454	52,263	51,890	44,344	43,518	Valuation Ratios					
Intangible Assets	19,082	19,000	19,446	19,965	21,465	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)	24.8	23.3	17.2	13.3	11.7
Investments	26,160	15,953	28,318	22,602	26,032	EV/SALES(x)	4.7	4.4	3.8	3.3	2.9
Inventories	39,648	43,776	46,692	52,377	56,426	Div. Yield(%)	0.2	0.2	0.2	0.2	0.2
Sundry debtors	41,507	38,913	34,457	37,828	40,752	FCF Yield(%)	(0.2)	4.5	2.2	5.5	3.9
Cash & bank	6,188	12,615	15,875	58,100	83,562	Return Ratios (%)					
Loans & advances	6,468	6,223	5,801	5,801	6,090	ROE	9.7	9.2	12.9	14.7	14.1
Other current assets	10,623	8,866	8,943	9,122	9,578	ROCE	8.6	10.4	15.4	17.2	16.7
Sundry creditors	(19,480)	(22,818)	(20,668)	(22,073)	(23,636)	ROIC	8.8	9.1	15.1	20.1	22.0
Current Liabilities	(6,006)	(7,160)	(11,113)	(13,335)	(16,002)						
Provisions	(8,582)	(10,815)	(11,945)	(13,737)	(15,797)						
Working capital	70,367	69,601	68,042	1,14,084	1,40,974						
Deferred Tax Assets	5,470	7,084	7,829	8,297	8,812						
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	2,05,566	1,95,158	2,07,153	2,40,921	2,72,429						

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

Source: Dalal & Broacha Research, Company

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