

**CMP: INR 977**

**Rating: HOLD**

**Target Price: INR 1,080**

**Stock Info**

BSE	500087
NSE	CIPLA
Bloomberg	CIPLA:IN
Reuters	CIPL.NS
Sector	Pharmaceuticals
Face Value (INR)	2
Equity Capital (INR Cr)	161
Mkt Cap (INR Cr)	78,936
52w H/L (INR)	1,083 / 850
Avg. Yearly Volume (in 000')	2,324

**Shareholding Pattern %**

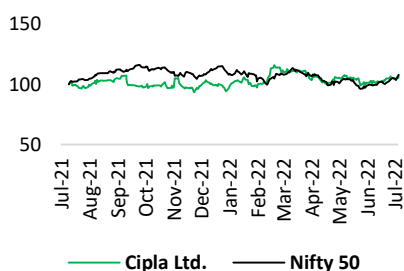
(As on June, 2022)

Promoters	33.61
FII	27.49
DII	13.31
Public & Others	25.59

**Stock Performance (%)**

	YTD	6m	12m
Cipla Ltd.	7.3%	5.5%	8.4%
Nifty 50	-2.4%	-2%	8%

**Cipla Ltd. Vs Nifty**



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Cipla Ltd. is an Indian pharmaceutical major with global presence across America, Europe and Emerging Market regions. It has a strong product portfolio in the respiratory segment. The company has a number of USFDA (United States Food and Drug Administration) compliant plant facilities which supply formulations to the international market.

**Q1FY23 Result Highlights:**

- Revenues from operation decreased by 2.3% YoY/up 2.2% QoQ to INR 5,375.2 Cr. EBITDA decreased by 15.0% YoY/up 52.5% QoQ to INR 1,143 Cr.
- Operating margins compressed by 318 bps YoY/ up 702 bps QoQ to 21.3%.
- Effective Tax Rate stood at 27.5% in Q1FY23 versus 28.5% in Q1FY22 and 15.9% in Q4FY22.
- PAT decreased by 4.0% YoY/up 89.6% QoQ to INR 686.4 Cr. PAT Margins compressed by 21 bps YoY/up 589 bps QoQ to 12.8%.
- The One India business grew by 9% YoY, excluding the Covid portfolio.
- Branded prescription saw momentum across different therapies.
- The company gained healthy market share and rank across the segment.
- There was continued channel engagement and governance within the Trade Generic business.
- It launched 16 new products which includes therapy like anti-diabetic and ophthalmic.
- Within the Consumer Health business, there was robust traction in anchor brands as well as transitioned brands.
- The company leveraged its analysis of sharp consumer insights and strong on-ground execution.
- In the North America, there was steady momentum in core formulation business driven by contribution from respiratory and peptide products.
- In local currency terms, SA Private business declined by 8% YoY. However, business recovery is expected in Q2FY23.
- The International Market revenues increased by 18% in USD terms. There was strong growth in Direct to market (DTM) across geographies. This was somewhat offset by emerging market forex volatility and muted B2B demand in Europe.
- As of 30th June 2022, total debt stood at INR 1,082 Cr. Cash and Cash Balances stood at INR 5,211 Cr at the end of Q1FY23.
- Robust free cash flow generation was driven by prudent working capital management and optimized capital expenditure.

**Outlook & Valuations:** Cipla is a market leader in the respiratory segment. It is further augmenting its respiratory portfolio and introducing complex products within this segment. Further, it is launching new products in the international market which will facilitate growth going forward. Its India franchise remains strong and the company expects to outperform the growth in the Indian Pharmaceutical Markets. Its consumer division is also likely to post strong growth post the acquisition of Endura Mass. Factoring the future growth opportunities, we value the company at a P/E Multiple of 25x its FY24E EPS of INR 43.2 and arrive at a Target Price of INR 1,080 per share. Accordingly, we recommend a Hold rating on the shares of Cipla Ltd.

Quarterly Result

INR, Cr	Q1FY23	Q4FY22	Q1FY22	QoQ	YoY
<b>Revenue from operations</b>	<b>5375.2</b>	<b>5260.3</b>	<b>5504.4</b>	<b>2.2%</b>	<b>-2.3%</b>
Cost of material	1523.1	1211.9	1413.7	25.7%	7.7%
Purchase of Stock-In-Trade	653.4	747.0	1348.0	-12.5%	-51.5%
Change in inventories of finished goods, WIP and stock-in-trade	-152.0	187.7	-692.9	-181.0%	-78.1%
<b>Gross Profit</b>	<b>3350.8</b>	<b>3113.6</b>	<b>3435.5</b>	<b>7.6%</b>	<b>-2.5%</b>
<b>Gross Profit Margin</b>	<b>62.3%</b>	<b>59.2%</b>	<b>62.4%</b>	<b>315</b>	<b>-8</b>
Employee	955.7	892.4	887.3	7.1%	7.7%
Other expenses	1251.7	1471.5	1202.3	-14.9%	4.1%
Total	4231.8	4510.6	4158.5	-6.2%	1.8%
<b>EBITDA</b>	<b>1143.4</b>	<b>749.7</b>	<b>1345.9</b>	<b>52.5%</b>	<b>-15.0%</b>
<b>EBITDA Margin</b>	<b>21.3%</b>	<b>14.3%</b>	<b>24.5%</b>	<b>702</b>	<b>-318</b>
Dep	254.4	290.3	261.1	-12.4%	-2.6%
<b>EBIT</b>	<b>888.9</b>	<b>459.4</b>	<b>1084.8</b>	<b>93.5%</b>	<b>-18.1%</b>
EBIT Margin	16.5%	8.7%	19.7%	780	-317
Finance Cost	17.8	18.1	29.6	-1.6%	-39.8%
EBT	871.1	441.3	1055.2	97.4%	-17.4%
Other Income	103.4	64.0	64.9	61.6%	59.3%
Exceptional	0.0	-57.5	-124.6	-100.0%	-100.0%
PBT	974.6	447.8	995.5	117.6%	-2.1%
Tax	268.0	71.1	283.7	276.9%	-5.5%
PAT	706.6	376.7	711.8	87.6%	-0.7%
Share	-0.4	-6.0	-1.9	-93.0%	-77.7%
PAT after Share	706.1	370.7	709.9	90.5%	-0.5%
Non Controlling Interest	19.7	8.6	-4.8	128.7%	-511.3%
<b>Net Profit</b>	<b>686.4</b>	<b>362.1</b>	<b>714.7</b>	<b>89.6%</b>	<b>-4.0%</b>
<b>Net Profit Margin</b>	<b>12.8%</b>	<b>6.9%</b>	<b>13.0%</b>	<b>589</b>	<b>-21</b>

Source: Company, Aриhant Research

Conference Call Highlights

- There was traction across therapies in the core portfolio in the branded prescription segment, driven by pricing and new introductions.
- Adjusting for the Covid Portfolio, the One India business grew by 9% YoY.
- The company introduced 16 launches (anti-diabetic and ophthalmic products) in the Trade Generics segment.
- In the Consumer Health business, it acquired Endura Mass, which is a well-known nutritional supplement brand.
- Domestic consumer business is expected to achieve yearly revenues of INR 600 plus crores, including Endura Mass.
- The US business grew 10% to USD 155 million. Its market share in Albuterol Arformoterol is at 16.5% and 33.4% respectively.
- Management is optimistic that the current peptide asset will garner mid-teen market share by the year-end.
- It has 5 peptide product, with guidance for 1 asset to be launched by FY23 end, while another 2 peptide assets are expected to be launched by FY24 end. Launch of Advair is expected in early H2FY23.
- SAGA revenues declined by 10% YoY in USD terms. This included USD 53 million from South Africa Private and USD 20 million from South Africa Tender business. During the quarter, the company launched 8 brands.
- The International business grew by 18% YoY to USD 93 million. However, there was some muted B2B demand in Europe.
- API revenues fell by 57% YoY to USD 17 million due to higher Q1FY23 base due to one-time profit share.
- Research & Development (R&D) expenses is expected to increase in the following quarters with guidance for 5.5%-6% of revenues in FY23.
- Management has maintained its operating margin guidance of 22%-23% and expects India business to outperform the Indian Pharmaceutical Market (IPM).

**Financials**

<b>P&amp;L (INR, Cr)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
Revenues	19,157	21,763	23,098	25,522
Raw Material Expenses	7,352	8,496	8,639	9,422
Gross Profit	11,808	13,268	14,459	16,100
Employee Expenses	3,252	3,530	3,963	4329
Other Expenditure	4,303	5,185	5,290	5728
Total Operating Expenditure	14,907	17,211	17,892	19,479
EBITDA	4,253	4,553	5,206	6,043
Depreciation	1,068	1052	1,083	1,163
Interest	161	106	68	29
Other Income	266	281	369	408
Earnings Before Tax	3,290	3,675	4,423	5,260
Total Tax	889	934	1,224	1,457
PAT before MI	2,401	2,741	3,198	3,803
Minority Interest	-16	30	49	44
PAT Adjusted	2,385	2,771	3,247	3,847
EPS	30	33	37	43

<b>Balance Sheet (INR, Cr)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
Equity Capital	161	161	161	161
Reserve and Surplus	18,165	20,680	24,047	27,818
Total Shareholders Fund	18,326	20,841	24,208	27,979
Minority Interest	259	276	249	227
Current Liabilities	4,257	4,505	4,476	4,698
Provisions	116	100	99	102
Debt Funds	1,833	1,083	979	883
Other Liabilities	360	295	462	519
<b>Total Liabilities</b>	<b>25,151</b>	<b>27,100</b>	<b>30,473</b>	<b>34,408</b>
Cash	1,401	1,928	3,040	4,011
Accounts Receivables	3,446	3,424	3,870	4,065
Inventories	4,669	5,350	5,503	5,927
Other Current Assets	3,693	4,024	5,929	8,334
Investments	545	417	433	459
Gross Fixed Assets	6,991	7,535	8,319	9,174
Net Fixed Assets	4,956	5,164	4,675	4,489
CWIP	571	383	576	573
Intangible Assets	4,836	4,841	4,889	4,936
Def. Tax (Net)	314	449	439	497
Other Assets	720	1,120	1,119	1,119
<b>Total Assets</b>	<b>25,151</b>	<b>27,100</b>	<b>30,473</b>	<b>34,408</b>

<b>Cashflow (INR, Cr)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
Net Income + Depreciation	3,452.6	3,823.3	4,330.2	5,009.4
Non cash adjustment	-89.0	-103.0	-161.0	-209.0
Changes in Working Capital	372.0	-177.0	-678.1	-579.0
Cashflow from operations	3,735.6	3,543.3	3,491.1	4,221.4
Cashflow from investments	-2,387.0	-1,672.0	-2,215.0	-2,953.0
Cashflow from Financing	-1,330.0	-1,344.3	-164.0	-297.4
Change in cash	18.6	527.0	1,112.1	971
<b>Closing Cash</b>	<b>1,401</b>	<b>1,928</b>	<b>3,040</b>	<b>4,011</b>

Source: Company, Aриhant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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