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Q2FY22 result review  
and earnings revision

## Pharmaceuticals

Target price: Rs1,004

### Earnings revision

(%)	FY22E	FY23E
Sales	1.5	0.6
EPS	1.6	(0.0)

### Target price revision

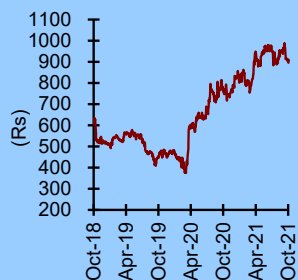
Rs1,004 from Rs1000

### Shareholding pattern

	Mar '21	Jun '21	Sep '21
Promoters	36.7	36.7	36.1
Institutional investors	40.4	41.1	45.8
MFs and other	14.6	13.4	13.2
FIs/Insurance	2.2	2.6	4.2
FIIIs	23.6	25.1	28.4
Others	22.9	22.2	18.1

Source: BSE India

### Price chart



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## Cipla

**ADD**

Maintained

**Rs908**

### Steady quarter; strong respiratory pipeline

Cipla's Q2FY22 result was above our estimates led by strong performance in India. However, we expect India growth to taper down in coming quarters with declining contribution from COVID-19 portfolio and higher base. EBITDA margin declined 120bps YoY to 22.2%, however in line with our estimates. We expect EBITDA margin to stabilize at 22-23% vs earlier levels of 17-19%. Consolidated revenues grew 9.6% to Rs55.2bn and adjusted PAT grew 6.9% to Rs7.1bn. The company has shown strong performance over past 5-6 quarters in India business led by COVID-19 portfolio as well as benefits of one India strategy undertaken in FY20 which would help in sustaining above industry growth. US business would gradually scale-up on back of complex launches. Retain ADD with revised target price of Rs1,004/share.

- **Result review:** Domestic revenue grew 15.6% YoY with increasing volumes across portfolio and recovery in acute segment. COVID-19 portfolio revenues have sharply reduced by 60% QoQ. We expect growth to remain above industry in coming quarters on back of strong product portfolio and improved execution with one India strategy. US revenues stood US\$142mn, remain flat QoQ. Sales in South Africa (incl. Global Access) business grew 7.6% led by the growth in the private market. Tender business suffered from order delays from client owing to COVID-19. API business declined 9.0% YoY. EBITDA margin declined 120bps YoY due to higher S,G&A cost. We expect EBITDA margin to sustain at 22-23% over FY22E-FY23E with improving revenue mix and cost control initiatives. High value launches in US like generic *Advair*, *Abraxane*, *Revlimid* and strong performance in the respiratory portfolio can provide additional upside.
- **Concall Highlights:** 1) Company expects strong growth 2HFY23 onwards led by launches of *Advair*, *Abraxane*, *Revlimid* in the US 2) Guided for Rs8-9bn of FY22 capex 3) *Advair* – working on CRL 4) *Abraxane* – in discussion with USFDA; Goa inspection required for approval 5) Company announced a JV with Kemwell for biosimilar development.
- **Outlook:** We expect revenue/EBITDA/Adj. PAT CAGR of 9.2/10.4/14.2% over FY21-FY23E on high base of FY21 which had ~4% revenue contribution from COVID-19 portfolio and higher cost savings. The company turned net cash in FY21 and FCF generation of >Rs20bn/year over the next two years will further strengthen the balance sheet. We are positive on management's renewed focus on India business, cost control initiatives and focus on RoCE. We expect RoIC to improve to 17.6% in FY23E from 9.4% in FY20.
- **Valuation and risks:** We marginally tweak our estimates to factor in Q2FY22 results. Maintain **ADD** on the stock with revised target price of Rs1,004/share (earlier Rs1,000/share) based on 25x FY23E earnings and Rs32/share for *Revlimid*. **Key downside risks:** Regulatory hurdles, forex fluctuations and lower growth in India market.

Market Cap	Rs732bn/US\$9.7bn	<b>Year to Mar</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
Reuters/Bloomberg	CIPL.BO/CIPLA IN	Revenue (Rs mn)	171,320	191,596	215,966	228,513
Shares Outstanding (mn)	806.6	Net Income (Rs mn)	15,465	24,049	28,401	31,359
52-week Range (Rs)	988/717	EPS (Rs)	19.6	29.8	35.2	38.9
Free Float (%)	63.9	% Chg YoY	(2.0)	51.8	18.1	10.4
FII (%)	28.4	P/E (x)	46.2	30.4	25.8	23.4
Daily Volume (USD/'000)	47,172	CEPS (Rs)	21.6	31.8	36.4	39.5
Absolute Return 3m (%)	(4.0)	EV/E (x)	22.7	16.7	14.4	12.9
Absolute Return 12m (%)	22.1	Dividend Yield (%)	0.9	-	0.9	0.9
Sensex Return 3m (%)	16.4	RoCE (%)	8.5	12.4	13.4	13.6
Sensex Return 12m (%)	54.4	RoE (%)	10.3	14.1	14.6	14.4

**Table 1: Q2FY22 performance***(Rs mn, year ending March 31)*

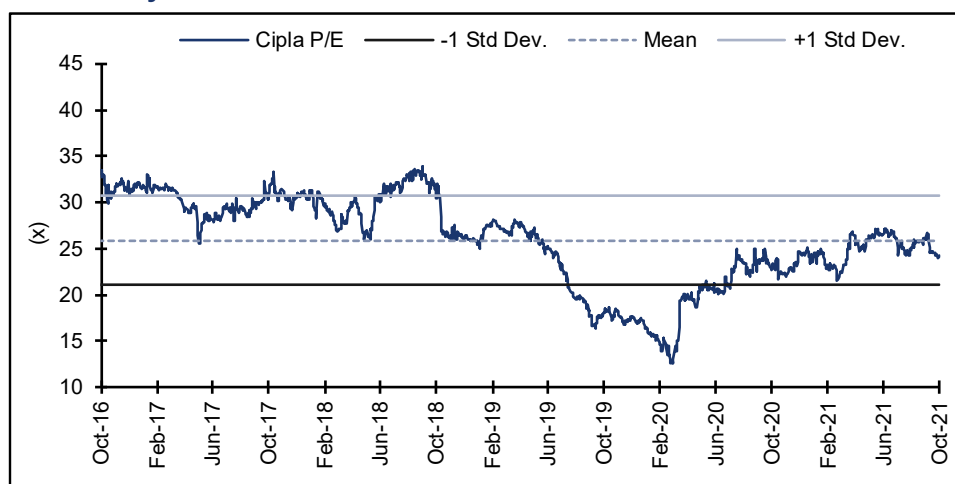
	Q2FY22	Q2FY21	YoY % Chg	Q1FY22	QoQ % Chg
<b>Net Sales</b>	<b>55,198</b>	<b>50,383</b>	<b>9.6</b>	<b>55,044</b>	<b>0.3</b>
EBITDA	12,262	11,766	4.2	13,459	(8.9)
Other income	607	535	13.5	649	(6.6)
<b>PBIDT</b>	<b>12,869</b>	<b>12,300</b>	<b>4.6</b>	<b>14,108</b>	<b>(8.8)</b>
Depreciation	2,531	2,651	(4.5)	2,611	(3.1)
Interest	380	393	(3.4)	296	28.5
Extra ordinary income/ (exp.)	-	-		(1,246)	
<b>PBT</b>	<b>9,958</b>	<b>9,257</b>	<b>7.6</b>	<b>9,955</b>	<b>0.0</b>
Tax	2,838	2,638	7.6	2,837	0.0
Minority Interest	6	(36)	(117.9)	(29)	(121.9)
<b>Reported PAT</b>	<b>7,114</b>	<b>6,654</b>	<b>6.9</b>	<b>7,147</b>	<b>(0.5)</b>
<b>Adjusted PAT</b>	<b>7,114</b>	<b>6,654</b>	<b>6.9</b>	<b>8,038</b>	<b>(11.5)</b>
EBITDA margins (%)	22.2	23.4	(120)bps	24.5	(230)bps

Source: Company data, I-Sec research

**Table 2: Sales breakup***(Rs mn, year ending March 31)*

	Q2FY22	Q2FY21	YoY % Chg	Q1FY22	QoQ % Chg
India	24,160	20,900	15.6	27,100	(10.8)
South Africa & Others	9,940	9,240	7.6	8,370	18.8
North America	10,550	10,490	0.6	10,380	1.6
International Markets (EU+EM)	8,210	7,210	13.9	5,820	41.1
Global APIs	1,720	1,890	(9.0)	3,020	(43.0)
Others	620	660	(6.1)	360	72.2
<b>Total</b>	<b>55,200</b>	<b>50,390</b>	<b>9.5</b>	<b>55,050</b>	<b>0.3</b>

Source: Company data, I-Sec research

**Chart 1: 1-year forward P/E**

Source: Company data, I-Sec research

## Financial summary (consolidated)

Table 3: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Domestic formulations	67,410	77,360	94,351	99,556
Export formulations	92,420	103,790	110,377	117,192
APIs	7,520	7,980	8,778	9,305
Other op. Income	3,970	2,466	2,460	2,460
<b>Total Gross Sales</b>	<b>171,320</b>	<b>191,596</b>	<b>215,966</b>	<b>228,513</b>
Excise duty	-	-	-	-
<b>Total Net Revenue</b>	<b>171,320</b>	<b>191,596</b>	<b>215,966</b>	<b>228,513</b>
YoY Growth%	4.7	11.8	12.7	5.8
<b>Total Op. Exp.</b>	<b>138,735</b>	<b>149,072</b>	<b>167,914</b>	<b>176,641</b>
<b>EBITDA</b>	<b>32,584</b>	<b>42,524</b>	<b>48,053</b>	<b>51,872</b>
Margins %	19.0	22.2	22.3	22.7
YoY Growth%	5.2	30.5	13.0	7.9
Depreciation	11,747	10,677	10,503	11,083
<b>EBIT</b>	<b>20,838</b>	<b>31,848</b>	<b>37,550</b>	<b>40,790</b>
Other Income	3,442	2,660	2,306	2,491
Interest	1,974	1,607	950	470
EO Items	(525)	0	0	0
<b>PBT</b>	<b>21,782</b>	<b>32,901</b>	<b>38,906</b>	<b>42,810</b>
Tax	6,312	8,888	10,505	11,452
Tax Rate (%)	29.0	27.0	27.0	26.8
Minority Interest	5	(36)	0	0
<b>Reported PAT</b>	<b>15,465</b>	<b>24,049</b>	<b>28,401</b>	<b>31,359</b>
<b>Adj. PAT</b>	<b>15,838</b>	<b>24,049</b>	<b>28,401</b>	<b>31,359</b>
Net Margins (%)	9.2	12.6	13.2	13.7

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	1,613	1,613	1,613	1,613
Reserves & Surplus	156,018	181,652	203,412	228,128
<b>Total Equity</b>	<b>157,630</b>	<b>183,265</b>	<b>205,024</b>	<b>229,741</b>
Minority Interest	2,943	2,591	2,591	2,591
<b>Total Debt</b>	<b>28,164</b>	<b>15,375</b>	<b>8,375</b>	<b>3,375</b>
Deferred Liabilities	1,254	(181)	(181)	(181)
<b>Capital Employed</b>	<b>189,992</b>	<b>201,050</b>	<b>215,809</b>	<b>235,526</b>
Current Liabilities	44,236	47,322	52,636	55,153
<b>Total Liabilities</b>	<b>234,228</b>	<b>248,372</b>	<b>268,445</b>	<b>290,679</b>
<b>Net Fixed Assets</b>	<b>107,424</b>	<b>107,128</b>	<b>104,625</b>	<b>103,542</b>
Investments	2,195	1,953	1,953	1,953
Inventory	43,776	46,692	52,594	55,327
Debtors	38,913	34,457	38,840	41,096
Other Current Assets	21,715	21,267	23,340	24,407
Cash and Equivalents	20,204	36,876	47,094	64,354
<b>Total Cur. Assets</b>	<b>124,609</b>	<b>139,291</b>	<b>161,867</b>	<b>185,184</b>
<b>Total Assets</b>	<b>234,228</b>	<b>248,372</b>	<b>268,445</b>	<b>290,679</b>

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for Extraordinary)	21,782	32,901	38,906	42,810
Depreciation	11,747	10,677	10,503	11,083
Net Chg in WC	3,730	3,717	(7,881)	(3,971)
Taxes	(8,483)	(10,374)	(10,505)	(11,452)
Others	(65)	(975)	837	431
<b>CFO</b>	<b>28,711</b>	<b>35,945</b>	<b>31,860</b>	<b>38,902</b>
Capex	(10,177)	(8,024)	(8,000)	(10,000)
Net Investments made	12,100	(12,450)	-	-
Others	(882)	(3,398)	-	-
<b>CFI</b>	<b>1,040</b>	<b>(23,872)</b>	<b>(8,000)</b>	<b>(10,000)</b>
Change in Share capital	1	1	-	-
Change in Debts	(17,382)	(12,886)	(7,000)	(5,000)
Div. & Div Tax	(6,642)	-	(6,642)	(6,642)
Others	(1,878)	4,785	-	-
<b>CFF</b>	<b>(25,900)</b>	<b>(8,100)</b>	<b>(13,642)</b>	<b>(11,642)</b>
<b>Total Cash Generated</b>	<b>3,851</b>	<b>3,973</b>	<b>10,218</b>	<b>17,260</b>
<b>Cash Opening Balance</b>	<b>6,188</b>	<b>10,039</b>	<b>14,012</b>	<b>24,230</b>
<b>Cash Closing Balance</b>	<b>10,039</b>	<b>14,012</b>	<b>24,230</b>	<b>41,490</b>

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	19.6	29.8	35.2	38.9
YoY Growth%	(2.0)	51.8	18.1	10.4
Cash EPS	21.6	31.8	36.4	39.5
EBITDA (%)	19.0	22.2	22.3	22.7
NPM (%)	9.2	12.6	13.2	13.7
Net Debt to Equity (x)	0.1	(0.1)	(0.2)	(0.3)
P/E (x)	46.2	30.4	25.8	23.4
EV/EBITDA (x)	22.7	16.7	14.4	12.9
P/BV (x)	4.6	4.0	3.6	3.2
EV/Sales (x)	4.3	3.7	3.2	2.9
RoCE (%)	8.5	12.4	13.4	13.6
RoE (%)	10.3	14.1	14.6	14.4
RoIC (%)	9.4	14.3	16.5	17.6
Book Value (Rs)	196	227	254	285
DPS (Rs)	7.0	-	7.0	7.0
Dividend Payout (%)	12.0	12.0	12.0	12.0
Div Yield (%)	0.9	-	0.9	0.9
Asset Turnover Ratio	0.7	0.8	0.8	0.8
Avg Collection days	86	70	62	64
Avg Inventory days	110	111	108	112

Source: Company data, I-Sec research

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