

20th JUNE 2024

CIPLA Ltd. – BUY

CMP : Rs.1,550.0
Target Price : Rs.2,000.0
Upside : 30%+
Stop Loss : Rs.1,400.0 (Closing basis)

Investment Thesis

- Cipla is the 3rd largest pharmaceutical company in the highly lucrative Indian domestic prescription (Rx) market, giving it significant scale and reach advantages. It holds the #1 rank in the fast-growing Respiratory therapy segment, driven by its flagship brand Foracort which is now among the top 3 brands in the Indian Pharma Market (IPM).
- Cipla has a strong presence in other major therapy areas like Urology (ranked #1) and Anti-infectives (Top 5), providing a well-diversified portfolio.
- The company has over 20 brands, reflecting its brand equity and market positioning across multiple therapeutic segments. Its flagship consumer brands like Nicotex and Cofsils enjoy leadership positions in their respective categories.
- Cipla has made growth-oriented strategic acquisitions of 'Actor' for enhanced OTC portfolio in South Africa, Sanofi for distribution and promotion of CNS product range in India and Ivia for cosmetics and personal care, which would help increase its revenue and profitability.
- The company is exploring new growth avenues like Cell & Gene therapy, Oligonucleotides, mRNAs, and Stem cells, reflecting its focus on innovation-led growth Strategy.
- Cipla's EBITDA margin guidance by management is of 24.5%-25.5% for FY25, reflecting an improving profitability trajectory, supported by its focus on complex generics, cost optimization, and operating leverage.

Financials

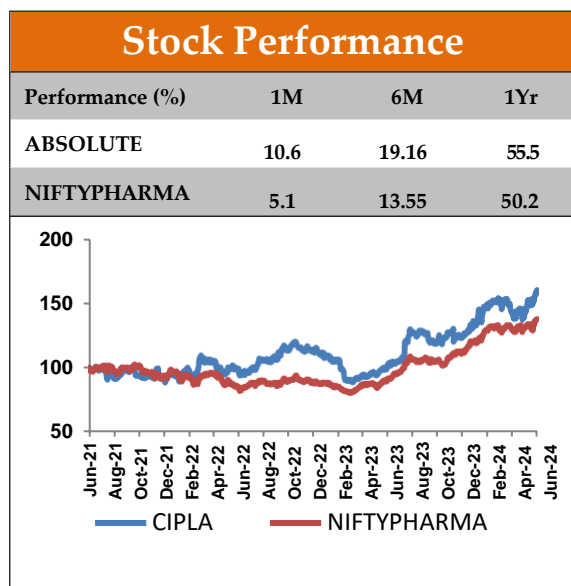
- Cipla's revenue has shown a consistent growth trajectory, increasing from Rs. 21,763 crore in FY22 to Rs. 25,774 crore in FY24 and further estimated at Rs. 36,805 crore in FY26E.

Consl. (Rs.Cr)	FY22	FY23	FY24	FY25E	FY26E
Revenue	21,763	22,753	25,774	30,671	36,805
EBITDA	4,553	5,027	6,291	7,549	9,437
EBITDA Margin (%)	21%	22%	24%	25%	26%
PAT	2,547	2,833	4,154	4,777	5,733
EPS (Rs.)	31.19	34.71	51.05	58.7	72.2
P/E (x)	50.2	45.1	30.7	31.8	27.7
RoE (%)	12.2%	12.1%	15.6%	16.3%	17.8%

Stock Data	
Market Cap (Rs. Cr)	1,24,637
Market Cap (\$ Bn)	15.10
Shares O/S (in Cr)	80.7
Avg. Volume (3 month)	63,48,024
52-Week Range (Rs.)	1,582 / 985

Shareholding Pattern	
Promoters	33.46%
FII's	25.82%
Institutions	24.36%
Others (incl. body corporate)	16.36%

Key Ratios	
Div Yield	0.54%
TTM PE	29.2x
ROE	17.0%
TTM EPS (Rs.)	51.0/-



- The EBITDA has also been growing steadily, from Rs. 4,553 crore in FY22 to an estimated Rs. 9,437 crore in FY26E. This suggests that the company has been able to effectively manage its operating costs and maintain profitability.
- The EBITDA margin, which represents the company's operating efficiency, has shown a consistent improvement, increasing from 21% in FY22 to an estimated 26% in FY26E.
- The PAT, has also been growing steadily, from Rs. 2,547 crore in FY22 to an estimated Rs. 5,733 crore in FY26E.
- The P/E ratio, has been declining from 50.2x in FY22 to an estimated 27.7x in FY26E. This could suggest that the company's shares may be undervalued compared to its earnings growth potential.

Key Business Highlights

- Cipla has implemented various operational efficiency initiatives, including a change in distribution model to consolidate channels and increase direct touchpoints for improved trade visibility and positioning closer to the market.
- The company has a strong field force of over 7,500 medical representatives detailing to healthcare professionals across the country, ensuring widespread reach and brand promotion.
- Cipla's API (Active Pharmaceutical Ingredient) business has produced over 200 generic and complex APIs, catering to 62 countries worldwide, making it a preferred partner for many large generic pharmaceutical companies.
- The API business has a robust pipeline of over 75+ APIs across regulated markets in various stages of development, providing potential revenue streams and vertical integration benefits.

Valuation

While the stock is trading at TTM P/E of 29.7x with an EPS of Rs.51.0 which is considered to be undervalued when compared to the Industry average of 33.1x. Revenue is expected to grow led by its robust pipeline of its API business and through its strategic partnerships and opportunities in complex ANDA products, which are currently under development and will be key to the future portfolio.

We expect it to trade around 27.7 P/E with an FY26 EPS of Rs.72.2.

We are assigning a BUY rating for with a Target Price of Rs. 2,000, translating into an upside of 30%.

Risk & Concern

- The pharmaceutical industry is heavily reliant on continuous innovation and new product development, which involves significant investments in R&D. Failures or delays in the development of new products or the inability to successfully commercialize new offerings could hamper Cipla's growth prospects and profitability.
- Cipla's operations are dependent on a reliable supply chain for raw materials and active pharmaceutical ingredients (APIs). Disruptions in the supply chain, including shortages or quality issues with APIs or other raw materials, could impact production and lead to delays or increased costs.
- Pricing pressures and changes in government policies, particularly in key markets like the US and India, could impact the company's pricing power and margins.

Graphs & Charts

Figure 1: Net Sales Trend

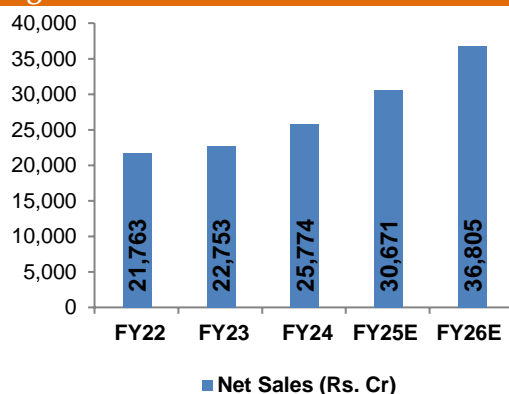


Figure 2: EBITDA & EBITDA Margin Trend

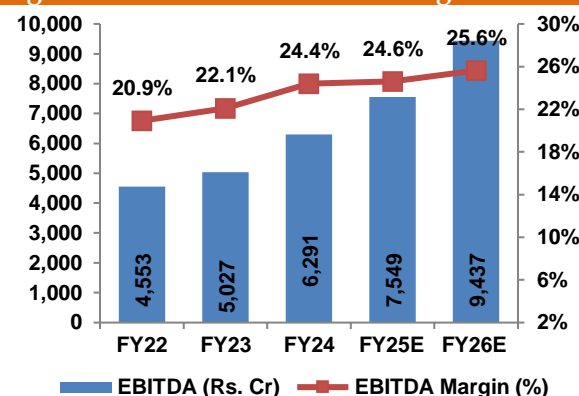


Figure 3: PAT Trend

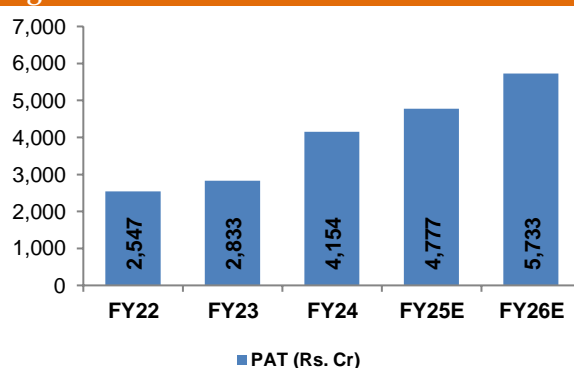
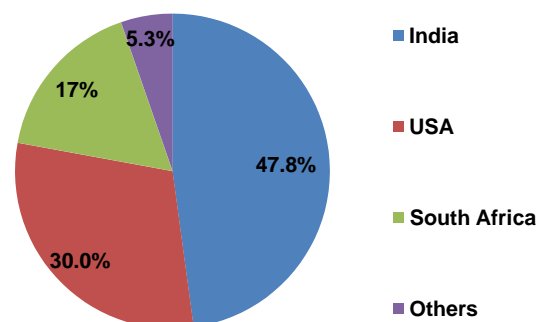


Figure 4: Asset Breakup (FY24)



Name

Designation

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