



## Regulatory Hurdles Cloud the Outlook

**Est. Vs. Actual for Q2FY25:** Revenue – **INLINE**; EBITDA Margin – **BEAT**; PAT – **BEAT**  
**Changes in Estimates post Q2FY25.**

**FY25E/FY26E:** Revenue: -3.8%/-1.8%; EBITDA Abs.: -3.8%/-1.8%; PAT: -4.2%/-2.0%

### Recommendation Rationale

- The company's US revenue stood at \$237 Mn, reflecting a 3.5% YoY increase, although this was affected by lower Lanreotide sales as the partner's manufacturing plant underwent capacity expansion.
- India's branded prescription segment grew by 4.7%, with seasonal impacts on the acute category, which increased by 4.9% compared to 12% in the previous quarter. Chronic products now comprise 61% of revenue, continuing to outpace IPM growth.
- In South Africa, the business expanded by 28.9% YoY, supported by several recent tenders.
- Gross margins improved by 226bps YoY and 38bps QoQ, primarily due to changes in product mix. The company achieved its highest-ever EBITDA margin of 26.7%, an improvement of 78bps YoY and 111bps QoQ.
- Reported PAT reached Rs 1,305 Cr, marking a 13% YoY increase.

### Sector Outlook: **Positive**

**Outlook & Valuation:** We are reducing our estimates by 4.3% and 2% for FY25 and FY26, respectively, due to lower Lanreotide sales and the delayed launches of Abraxane and Advair owing to regulatory issues. We expect US sales to remain flat in FY27, with GRevlimid contribution potentially halved. **Given these considerations, we are adjusting our target price to Rs 1,700, maintaining a BUY recommendation.**

**Current Valuation:** PE 26x for H1FY27 earnings (Earlier Valuation: PE 28x)

**Current TP:** Rs 1,700/share (Earlier TP: Rs 1,800/share)

**Recommendation:** BUY

**Financial Performance:** Cipla's Q2FY25 results met our expectations, with revenue growing 5.6% YoY. This growth was driven by a 7.6% increase in the SAGA region and a 10% rise in international markets, while India and North America experienced mid-single-digit growth. The company's US revenue stood at \$237 Mn (vs. our expectations of \$238 Mn), though it was affected by lower Lanreotide sales as the partner's manufacturing plant underwent capacity expansion. Sales are expected to rebound in Q4FY25, with Q3FY25 sales projected at around \$220 Mn. Cipla has maintained its market share at 15% in Albuterol and 35% in Lanreotide. The company's India business grew by 4.7% YoY, propelled by branded prescriptions and trade generics. Seasonal impacts on the acute category increased by 4.9% compared to 12% in the previous quarter. Chronic now comprises 61% of revenue, which continues to outpace IPM growth. The private market has expanded its quarterly revenue by 28.9% YoY, leading to better QoQ margins in the SAGA region. Gross margins improved by 226 bps YoY and 38 bps QoQ, primarily due to changes in product mix. The company achieved its highest-ever EBITDA margin of 26.7%, an improvement of 78 bps YoY and 111 bps QoQ. Reported PAT reached Rs 1,305 Cr, marking a 13% YoY increase.

The company's Pithampura facility has received 483 observations, with the final inspection classification yet to be determined. Symbicort and Peptides could be launched from the Goa facility after the final results in H1FY26E. Any delay in the clearances of these two major facilities could postpone the top launches.

### Key Financials (Consolidated)

| (Rs Cr)       | Q2FY25 | QoQ (%) | YoY (%) | Axis Est. | Variance |
|---------------|--------|---------|---------|-----------|----------|
| Net Sales     | 7,051  | 5.3     | 5.6     | 7,030     | 0.3      |
| EBITDA        | 1,886  | 9.9     | 8.8     | 1,783     | 5.8      |
| EBITDA Margin | 26.7%  | 111     | 78      | 25.4%     |          |
| Net Profit    | 1,306  | 11.0    | 13.0    | 1,215     | 7.5      |
| EPS (Rs)      | 16.2   | 11.0    | 13.0    | 15.1      | 7.5      |

Source: Company, Axis Securities Research

(CMP as of 29<sup>th</sup> October 2024)

|                           |             |
|---------------------------|-------------|
| CMP (Rs)                  | 1479        |
| Upside /Downside (%)      | 15%         |
| High/Low (Rs)             | 1,702/1,164 |
| Market cap (Cr)           | 1,28,000    |
| Avg. daily vol. (6m)Shrs. | 20,00,000   |
| No. of shares (Cr)        | 80.6        |

### Shareholding (%)

|              | Mar-24 | Jun-24 | Sep-24 |
|--------------|--------|--------|--------|
| Promoter     | 33.5   | 30.91  | 30.91  |
| FII's        | 25.8   | 27.82  | 28.8   |
| MFs / UTI    | 16.8   | 17.62  | 17.5   |
| Banks / FI's | 0.1    | 0.1    | 0.1    |
| Others       | 24.0   | 23.55  | 22.7   |

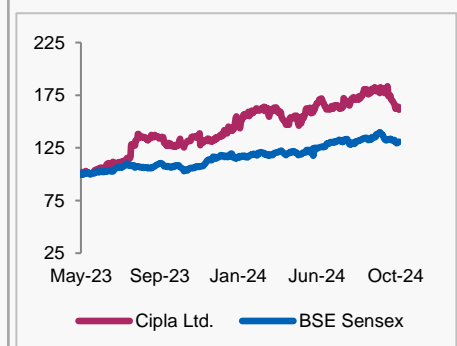
### Financial & Valuations

| Y/E Mar (Rs Cr) | FY24   | FY25E  | FY26E  |
|-----------------|--------|--------|--------|
| Net Sales       | 25,774 | 27,163 | 30,228 |
| EBITDA          | 6,291  | 6,791  | 7,602  |
| Net Profit      | 4,154  | 4,600  | 5,145  |
| EPS (Rs)        | 51.5   | 57.0   | 63.8   |
| PER (x)         | 28.7   | 25.9   | 23.2   |
| P/BV (x)        | 4.5    | 3.9    | 3.4    |
| EV/EBITDA (x)   | 18.9   | 17.2   | 15.1   |
| ROE (%)         | 15.5   | 13.3   | 12.8   |

### Change in Estimates (%)

| Y/E Mar | FY25E | FY26E |
|---------|-------|-------|
| Sales   | -3.8% | -1.8% |
| EBITDA  | -3.8% | -1.8% |
| PAT     | -4.2% | -2.0% |

### Relative performance



Source: AceEquity

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## Company Outlook & Recommendation:

We are reducing our estimates by 4.3% and 2% for FY25 and FY26, respectively, due to lower Lanreotide sales and the delayed launches of Abraxane and Advair owing to regulatory issues. We expect US sales to remain flat in FY27, with the GRevlimid contribution potentially halved. Furthermore, the addition of 1,000 new MRs has increased the total strength to 8,700, which is expected to drive incremental revenue for India's business going forward. **Given these considerations, we are adjusting our target price to Rs 1,700/share, with a BUY recommendation.**

## Key Highlights of Concal

### One India

This segment comprises Branded Prescription (Rx), Trade Generics (Gx), and Consumer Health Business (Chl). Q2FY25 reported approximately 4.7% YoY growth in the overall segment. However, chronic therapies like Respiratory, Cardiac, and Urology continued to outpace market growth. Gx has been impacted by seasonality, resulting in slow growth in the Acute category. The business is expected to return to its growth trajectory in the coming quarters.

### North America

North America has achieved quarterly revenue of \$237 Mn, reflecting a growth of 4% over the previous year, supported by positive traction in its differentiated portfolio. gAlbuterol captured a market share of 19% in this quarter, while gLanreotide (505(b)(2)) reached a market share of 35%. To enhance its business portfolio, Cipla received four new generic drug approvals during the quarter, including one peptide.

### One Africa

The South Africa (SA) prescription business continued to outpace market growth, securing the number one position. It recorded a strong double-digit growth of 22% YoY, led by the South African private market. In the private market, secondary growth was a healthy 8.6%, compared to the market growth of 0.5%.

#### Guidance

Management has guided EBITDA to be in the range of 24.5% to 25.5% for the year, unchanged from previous guidance.

### Others

Cipla has also commenced the commercialization of its China plant, which is expected to start supplies in the current fiscal year. R&D investments for the quarter are at Rs 385 Cr, representing 5.5% of revenue, driven by product filing costs and developmental efforts, which are higher by 2% compared to last year. Additionally, a dividend of Rs 1,000 Cr was paid out during the last quarter.

## Key Risks to Our Estimates and TP

- The USFDA inspection and issuing of WL/OAI or 483 observations may impact the revenue growth
- Entry of new players may increase pricing pressure in the injectable portfolio
- Delay in launching Biosimilars in the market

## Change in Estimates

| (Rs Cr) | New    |        | Old    |        | % Change |       |
|---------|--------|--------|--------|--------|----------|-------|
|         | FY25E  | FY26E  | FY25E  | FY26E  | FY25E    | FY26E |
| Sales   | 27,163 | 30,228 | 28,228 | 30,796 | -3.8%    | -1.8% |
| EBITDA  | 6,791  | 7,602  | 7,057  | 7,745  | -3.8%    | -1.8% |
| PAT     | 4,600  | 5,145  | 4,800  | 5,250  | -4.2%    | -2.0% |

Source: Company, Axis Securities Research

## Results Review

| Particulars (Rs Cr)      | Q2FY24       | Q3FY24       | Q4FY24       | Q1FY25       | Q2FY25       | YoY (%)     | QoQ (%)     |
|--------------------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|
| <b>Net Sales</b>         | <b>6678</b>  | <b>6604</b>  | <b>6163</b>  | <b>6694</b>  | <b>7051</b>  | <b>5.6</b>  | <b>5.3</b>  |
| <b>Growth (%)</b>        | <b>14.6%</b> | <b>13.7%</b> | <b>7.4%</b>  | <b>5.8%</b>  | <b>5.6%</b>  |             |             |
| Total Expenditure        | 4944         | 4856         | 4847         | 4978         | 5165         | 4.5         | 3.8         |
| Gross Profit             | 4365         | 4384         | 4113         | 4501         | 4768         | 9.2         | 5.9         |
| <b>% of sales</b>        | <b>34.6%</b> | <b>33.6%</b> | <b>33.3%</b> | <b>32.8%</b> | <b>32.4%</b> |             |             |
| <b>Gross margins (%)</b> | <b>65.4%</b> | <b>66.4%</b> | <b>66.7%</b> | <b>67.2%</b> | <b>67.6%</b> | <b>226</b>  | <b>38</b>   |
| Employee Expenses        | 1091         | 1068         | 1084         | 1194         | 1208         | 10.7        | 1.1         |
| % of sales               | 16.3%        | 16.2%        | 17.6%        | 17.8%        | 17.1%        |             |             |
| Other Expenses           | 1540         | 1569         | 1713         | 1591         | 1675         | 8.7         | 5.2         |
| % of sales               | 23.1%        | 23.8%        | 27.8%        | 23.8%        | 23.7%        |             |             |
| <b>EBITDA</b>            | <b>1734</b>  | <b>1748</b>  | <b>1316</b>  | <b>1716</b>  | <b>1886</b>  | <b>8.8</b>  | <b>9.9</b>  |
| <b>EBITDAM (%)</b>       | <b>26.0%</b> | <b>26.5%</b> | <b>21.4%</b> | <b>25.6%</b> | <b>26.7%</b> | <b>78</b>   | <b>111</b>  |
| Interest                 | 26           | 30           | 18           | 18           | 15           | 0.0         | 0.0         |
| Depreciation             | 290          | 233          | 288          | 247          | 272          |             |             |
| Other Income             | 176          | 185          | 249          | 160          | 191          | 0.0         | 0.0         |
| Exceptional Items        | 0            | -195         | 0            | 0            | 0            |             |             |
| PBT                      | 1594         | 1474         | 1260         | 1612         | 1789         | 12.2        | 11.0        |
| Tax                      | 438          | 405          | 325          | 435          | 483          |             |             |
| Tax (%)                  | 27.5%        | 27.5%        | 25.8%        | 27.0%        | 27.0%        | <b>0</b>    | <b>0</b>    |
| <b>Reported PAT</b>      | <b>1156</b>  | <b>1069</b>  | <b>935</b>   | <b>1177</b>  | <b>1306</b>  |             |             |
| <b>P/L Associate</b>     | <b>0</b>     | <b>0</b>     | <b>-3</b>    | <b>-1</b>    | <b>-1</b>    |             |             |
| <b>PAT</b>               | <b>1156</b>  | <b>1069</b>  | <b>932</b>   | <b>1176</b>  | <b>1305</b>  | <b>13.0</b> | <b>11.0</b> |

Source: Company, Axis Securities Research

## Geographical Breakup

| Particulars (Rs Cr)               | Q2FY24      | Q3FY24      | Q4FY24      | Q1FY25      | Q2FY25      | YoY (%)    | QoQ (%)     |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|
| <b>Exchange Rate \$/RS</b>        | <b>82.4</b> | <b>83.3</b> | <b>83.0</b> | <b>83.5</b> | <b>83.8</b> | <b>1.7</b> | <b>0.4</b>  |
| <b>US Business (USD Millions)</b> | <b>229</b>  | <b>230</b>  | <b>226</b>  | <b>250</b>  | <b>237</b>  | <b>3.5</b> | <b>-5.2</b> |
| India (Rx + Gx + CHL)             | 2,817       | 2,859       | 2,417       | 2,898       | 2,948       | 2.8        | 19.2        |
| North America                     | 1,887       | 1,916       | 1,875       | 2,087       | 1,986       | -8.7       | -9.2        |
| SAGA                              | 993         | 815         | 761         | 695         | 1,068       | 7.1        | 2.0         |
| South Africa                      | 620         | 603         | 690         | 626         | 799         | -29.2      | -48.5       |
| International Markets             | 734         | 746         | 827         | 849         | 806         | 0.0        | 0.0         |
| API                               | 147         | 108         | 189         | 98          | 160         | 4.7        | 1.7         |
| Others                            | 100         | 99          | 94          | 65          | 82          | 5.2        | -4.8        |

Source: Company, Axis Securities Research

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

| Y/E March              | FY23          | FY24          | FY25E         | FY26E         |
|------------------------|---------------|---------------|---------------|---------------|
| <b>Total Net Sales</b> | <b>22,753</b> | <b>25,774</b> | <b>27,163</b> | <b>30,228</b> |
| <b>Growth (%)</b>      | <b>4.5%</b>   | <b>13.3%</b>  | <b>5.4%</b>   | <b>11.3%</b>  |
| Total Expenditure      | 17,726        | 19,483        | 20,372        | 22,625        |
| Raw Material Consumed  | 8,252         | 8,820         | 9,154         | 10,126        |
| Gross margins %        | 63.7%         | 65.8%         | 66.3%         | 66.5%         |
| Employee Expenses      | 3,830         | 4,310         | 4,482         | 4,988         |
| % of sales             | 16.8%         | 16.7%         | 16.5%         | 16.5%         |
| Other Expenses         | 5,644         | 6,353         | 6,736         | 7,512         |
| % of sales             | 24.8%         | 24.7%         | 24.8%         | 24.9%         |
| <b>EBIDTA</b>          | <b>5,027</b>  | <b>6,291</b>  | <b>6,791</b>  | <b>7,602</b>  |
| <b>EBITDAM (%)</b>     | <b>22.1%</b>  | <b>24.4%</b>  | <b>25.0%</b>  | <b>25.2%</b>  |
| Interest               | 5,027         | 6,291         | 6,791         | 7,602         |
| <b>EBIT</b>            | <b>3,855</b>  | <b>5,240</b>  | <b>5,693</b>  | <b>6,434</b>  |
| <b>EBITM (%)</b>       | <b>16.9%</b>  | <b>20.3%</b>  | <b>21.0%</b>  | <b>21.3%</b>  |
| Depreciation           | 1,172         | 1,051         | 1,098         | 1,168         |
| Other Income           | 475           | 747           | 487           | 502           |
| Associates Share(net)  | -3            | -2            | 0             | 0             |
| Exceptional items, net | -182          | -195          | 0             | 0             |
| <b>PBT</b>             | <b>4,039</b>  | <b>5,702</b>  | <b>6,096</b>  | <b>6,853</b>  |
| Tax Rate (%)           | 29.8%         | 25.0%         | 25.0%         | 25.0%         |
| Tax                    | 1,203         | 1,547         | 1,524         | 1,713         |
| <b>Reported PAT</b>    | <b>2,833</b>  | <b>4,154</b>  | <b>4,600</b>  | <b>5,145</b>  |

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

| Y/E March                  | FY23          | FY24          | FY25E         | FY26E         |
|----------------------------|---------------|---------------|---------------|---------------|
| <b>Total assets</b>        | <b>29,463</b> | <b>32,717</b> | <b>36,529</b> | <b>41,604</b> |
| Net Block                  | 4,584         | 4,642         | 4,244         | 3,776         |
| CWIP                       | 689           | 864           | 864           | 864           |
| Investments                | 3,090         | 4,807         | 5,807         | 6,807         |
| Working. cap. (excl. cash) | 10,600        | 13,320        | 15,371        | 17,902        |
| Cash / Bank balance        | 1,565         | 875           | 3,186         | 4,939         |
| Misc. Assets               | 0             | 0             | 0             | 0             |
| <b>Capital employed</b>    | <b>29,463</b> | <b>32,717</b> | <b>36,557</b> | <b>41,637</b> |
| Equity capital             | 161           | 161           | 161           | 161           |
| Reserves                   | 23,552        | 26,641        | 30,555        | 35,014        |
| Pref. Share Capital        | 0             | 0             | 0             | 0             |
| Minority Interests         | 0             | 0             | 0             | 0             |
| Borrowings                 | 594           | 334           | 334           | 334           |
| Def Tax Liabilities        | 0             | 0             | 0             | 0             |

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

| Y/E March                 | FY23   | FY24   | FY25E  | FY26E  |
|---------------------------|--------|--------|--------|--------|
| PBT                       | 4,039  | 5,702  | 6,363  | 6,994  |
| Add: Depreciation         | 1,172  | 1,051  | 1,098  | 1,168  |
| Add: Interest             | 110    | 90     | 83     | 83     |
| Cash flow from operations | 5,320  | 6,843  | 7,544  | 8,245  |
| Change in working capital | 1,985  | 1,256  | 1,425  | 1,974  |
| Taxes                     | 1,203  | 1,547  | 1,591  | 1,748  |
| Miscellaneous expenses    | 3      | 2      | 0      | 0      |
| Net cash from operations  | 2,129  | 4,039  | 4,528  | 4,522  |
| Capital expenditure       | -1,022 | -1,596 | -700   | -700   |
| Change in Investments     | -895   | -1,717 | -1,000 | -1,000 |
| Net cash from investing   | -1,916 | -3,313 | -1,700 | -1,700 |
| Increase/Decrease in debt | -230   | -260   | 0      | 0      |
| Dividends                 | -404   | -686   | -686   | -686   |
| Proceedings from equity   | 0      | 0      | 0      | 0      |
| Interest                  | -110   | -90    | -83    | -83    |
| Others                    | 166    | -379   | 0      | 0      |
| Net cash from financing   | -576   | -1,415 | -770   | -770   |
| Net Inc./(Dec.) in Cash   | -364   | -690   | 2,059  | 2,053  |
| Opening cash balance      | 1,928  | 1,565  | 875    | 2,934  |
| Closing cash balance      | 1,565  | 875    | 2,934  | 4,986  |

Source: Company, Axis Securities Research

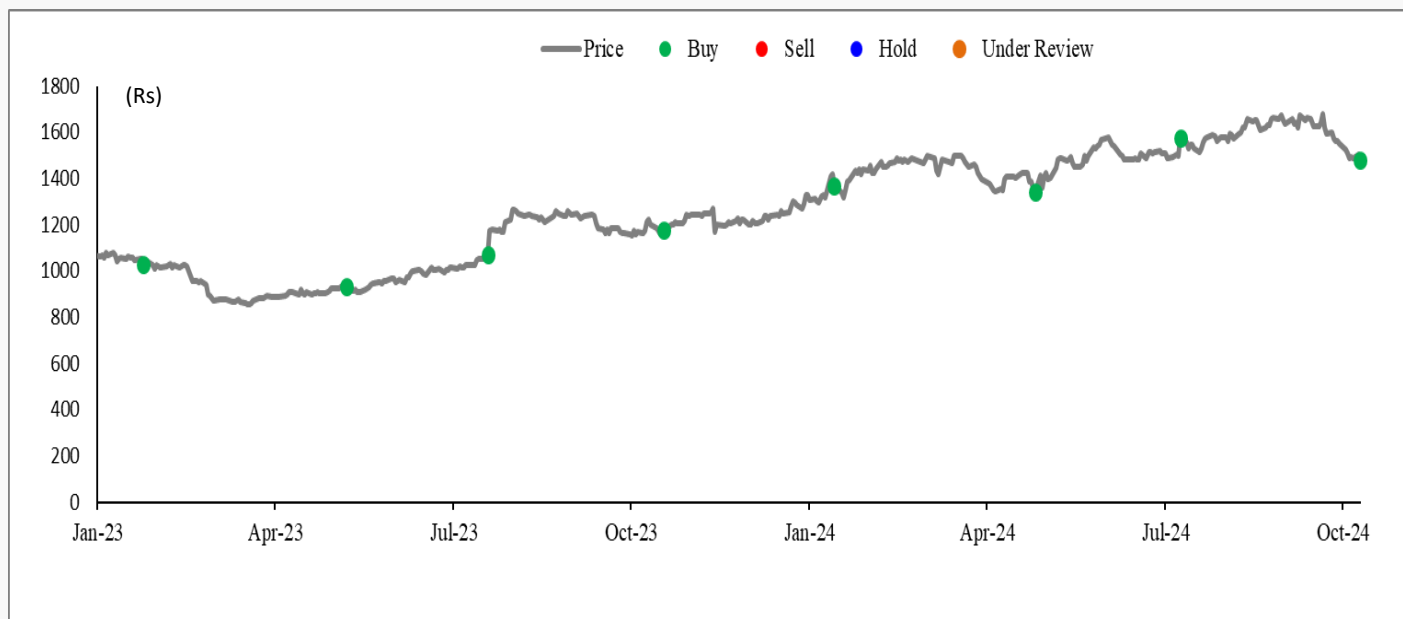
**Ratio Analysis**

(%)

| Y/E March                | FY23        | FY24        | FY25E       | FY26E       |
|--------------------------|-------------|-------------|-------------|-------------|
| <b>Sales growth</b>      | <b>4.5</b>  | <b>13.3</b> | <b>5.4</b>  | <b>11.3</b> |
| <b>OPM</b>               | <b>22.1</b> | <b>24.4</b> | <b>25.0</b> | <b>25.2</b> |
| Oper. profit growth      | 10.4        | 25.1        | 7.9         | 12.0        |
| COGS / Net sales         | 36.3        | 34.2        | 33.7        | 33.5        |
| Overheads/Net sales      | 0.0         | 0.0         | 0.0         | 0.0         |
| Depreciation / G. block  | 12.8        | 10.2        | 10.0        | 10.0        |
| Effective interest rate  | 29.8        | 25.0        | 25.0        | 25.0        |
| Net kg.cap / Net sales   | 40.9        | 0.0         | 0.0         | 0.0         |
| Net sales / Gr block (x) | 2.5         | 2.5         | 2.5         | 2.6         |
| <b>RoCE</b>              | <b>16.3</b> | <b>19.6</b> | <b>18.5</b> | <b>18.3</b> |
| Debt/equity (x)          | 0.0         | 0.0         | 0.0         | 0.0         |
| Effective tax rate       | 29.8        | 25.0        | 25.0        | 25.0        |
| <b>RoE</b>               | <b>11.9</b> | <b>15.5</b> | <b>15.0</b> | <b>14.6</b> |
| Payout ratio (Div/NP)    | 250.1       | 424.9       | 425.2       | 425.2       |
| <b>EPS (Rs.)</b>         | <b>35.1</b> | <b>51.5</b> | <b>57.0</b> | <b>63.8</b> |
| EPS Growth               | 11.2        | 46.6        | 10.7        | 11.8        |
| CEPS (Rs.)               | 49.6        | 64.5        | 70.6        | 78.2        |
| DPS (Rs.)                | 5.0         | 8.5         | 8.5         | 8.5         |

Source: Company, Axis Securities Research

## Cipla Ltd Price Chart and Recommendation History



| Date      | Reco | TP    | Research      |
|-----------|------|-------|---------------|
| 27-Jan-23 | BUY  | 1,300 | Result Update |
| 15-May-23 | BUY  | 1,100 | Result Update |
| 27-Jul-23 | BUY  | 1,150 | Result Update |
| 28-Oct-23 | BUY  | 1,380 | Result Update |
| 29-Jan-24 | BUY  | 1,515 | Result Update |
| 13-May-24 | BUY  | 1,515 | Result Update |
| 29-Jul-24 | BUY  | 1,800 | Result Update |
| 30-Oct-24 | BUY  | 1,700 | Result Update |

Source: Axis Securities Research

**DISCLAIMER:**

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| <b>Ratings</b> | <b>Expected absolute returns over 12 – 18 months</b>   |
|----------------|--|
| BUY            | More than 10%  |
| HOLD           | Between 10% and -10%   |
| SELL           | Less than -10%   |
| NOT RATED      | We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation. |
| UNDER REVIEW   | We will revisit our recommendation, valuation and estimates on the stock following recent events             |
| NO STANCE      | We do not have any forward-looking estimates, valuation or recommendation for the stock                      |

Note: Returns stated in the rating scale are our internal benchmark.