

ICICI Securities Limited
is the author and
distributor of this report

Q4FY21 result review
and reco change

Pharmaceuticals

Target price: Rs966

Earnings revision

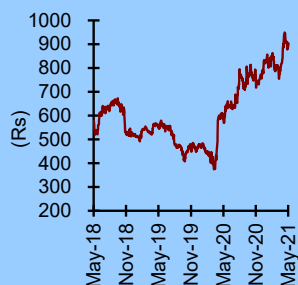
(%)	FY22E	FY23E
Sales	(0.3)	(0.6)
EPS	-	-

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	36.7	36.7	36.7
Institutional investors	39.8	40.1	40.4
MFs and other	16.6	15.6	14.6
FIs/Insurance	2.8	2.1	2.2
FIIIs	20.4	22.4	23.6
Others	23.5	23.2	22.9

Source: BSE India

Price chart



INDIA

Cipla

ADD

Downgrade from *Buy*

Weak Q4; on track to sustain higher margins

Rs904

Cipla reported weak Q4FY21 performance due to shelf stock adjustment of *Albuterol* in US and muted India growth. However, we believe growth and margin would improve in coming quarters led by growth recovery in India and ramp-up in US sales. We expect EBITDA margin of 22-23% will sustain in the future vs level of 17-19% historically. Consolidated revenues grew 5.3% to Rs46.1bn (I-Sec: Rs50.6bn), EBITDA margin was up 80bps to 17.3% and adjusted PAT grew 33.1% to Rs4.1bn (I-Sec: Rs6.3bn). Gross margin was impacted by 200bps due to certain inventory adjustments and shelf stock adjustment of *Albuterol* with entry of new competitor. The company has increased *Remdesivir* supplies by 5x which would help in driving strong growth in coming quarters. Recent rally in stock has capped the upside and hence we downgrade Cipla to **ADD** from *Buy*.

- ▶ **Muted revenue growth:** India business revenue grew 4.5% YoY with 6.0% growth in the branded business led by chronic portfolio. We expect growth to rebound in coming quarters with higher sales of COVID-19 related drugs and recovery in industry growth. COVID-19 related drugs contributed ~4% of total sales in FY21. US revenues stood US\$138mn, down 2.1% QoQ, despite strong traction in generic *Albuterol*. Sales in emerging markets grew at 4.1% and that in South Africa (incl. Global Access) business at 1.8% in US\$ terms but 10% in constant currency terms. Overall, the growth had been weak during the quarter but we don't see any structural issues and growth should recover in coming quarters.
- ▶ **One-off adjustments impacted margins:** EBITDA margin improved just 80bps YoY to 17.3% vs estimate of 22% due to one-time impact of 200bps on gross margin and lower revenue growth. Gross margin was impacted by certain inventory adjustments and shelf stock adjustment of *Albuterol*. 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* can provide upside.
- ▶ **Outlook:** We expect revenue/EBITDA/Adj. PAT to CAGR at 8.2/9.5/12.2% 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 17.0% in FY23E from 9.4% in FY20.
- ▶ **Valuation and risks:** We largely retain our estimates and remain positive on the stock considering increasing proportion of India sales, improving margin profile and strengthening balance sheet. However, recent rally in stock has capped the upside, hence, we downgrade it to **ADD** from *Buy* with target price of Rs966/share based on 25x FY23E earnings and Rs28/share for *Revlimid*. **Key downside risks:** Regulatory hurdles, forex fluctuations and lower growth in India market.

Market Cap	Rs729bn/US\$9.9bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	CIPL.BO/CIPLA IN	Revenue (Rs mn)	171,320	191,590	209,148	224,175
Shares Outstanding (mn)	806.5	Net Income (Rs mn)	15,465	24,043	27,013	30,274
52-week Range (Rs)	949/570	EPS (Rs)	19.6	29.8	33.5	37.5
Free Float (%)	63.3	% Chg YoY	(2.0)	51.8	12.3	12.1
FII (%)	23.6	P/E (x)	46.0	30.3	27.0	24.1
Daily Volume (USD/'000)	71,420	CEPS (Rs)	21.6	31.8	34.6	38.1
Absolute Return 3m (%)	6.5	EV/E (x)	22.6	16.6	14.8	13.1
Absolute Return 12m (%)	58.7	Dividend Yield (%)	0.9	-	0.9	0.9
Sensex Return 3m (%)	(5.3)	RoCE (%)	8.5	12.4	12.8	13.2
Sensex Return 12m (%)	58.3	RoE (%)	10.3	14.1	14.0	14.1

Research Analysts:

Sriraam Rathi

Sriraam.rathi@icicisecurities.com
+91 22 6637 7574

Vinay Bafna

vinay.bafna@icicisecurities.com
+91 22 6637 7339

Q4FY21 result and concall highlights

Net revenues grew 5.3% YoY to Rs46.1bn supported by US.

- **Domestic sales** grew 4.5% YoY to Rs18.1bn in Q4FY21. Branded Rx revenues grew 6.0% with traction in the chronic therapies but weak growth in respiratory portfolio due to seasonality and lower demand for COVID-19 related drugs affected sales. Contribution from COVID-19 related drugs has fallen below 3% for the quarter but company expects strong growth in the coming quarters due to surge in cases. Cipla will soon launch the Roche antibody cocktail which was recently approved by DCGI. Company has transitioned several brands from their trade generics portfolio to consumer health business segment to better align the verticals such as *Cipladine*. Consumer health has seen a robust growth with revenues reaching Rs3.6bn for FY21.
- **US sales** declined 2.1 QoQ to US\$138mn in Q4FY21 despite company witnessing gain in generic *Albuterol* sales. Company has gained ~87% market share in *Proventil* volumes and expanded the franchise share to ~13% of the overall *Albuterol* market.

Cipla is in dialogue with USFDA for *Advair* filing and it does not need to generate any further clinical data and the non-clinical information request will be responded to USFDA in few weeks. Company expects to file for two inhalation products for which clinical trials are ongoing. Company's partnered complex inhalation product will be filed by the partner soon and Cipla expects approval within the next 12-18m.

Company expects to launch wither *Fosrenol* or *Taxol injection* in FY22 and the other in FY23. FY23 will see big launches in US for Cipla.

- **Emerging markets** contributed 9.4% of the total revenues and grew 3.5% YoY to US\$59mn (-10.6% QoQ).
- **Europe** grew 6.3% YoY (flat QoQ) to US\$34mn. Cipla has entered into Spain with its own front end.
- **South Africa (incl. GA)** registered 1.8% YoY revenue growth to US\$116mn. In private market, the company declined 15.4% YoY (grew 13% in cc terms). Cipla is the third largest pharmaceutical company by value and volume in the region.
- **Global API business** declined 9.3% YoY to Rs2.2bn.
- **Biosimilars** – Company has signed multiple high level in-licensing agreements and would launch most of these products in FY23. It has also expanded its partnership for four biosimilars in Aus & NZ.
- **Gross margin** declined 300bps YoY due to lower revenue growth and 200bps impact from one-time stock shelf adjustment of *Albuterol* and other inventory adjustment. However, controlled costs enabled **EBITDA margin** improvement of 80bps YoY (-650bps QoQ). Company has exceeded the guidance of Rs4-5bn yearly cost saving and expects to preserve large part of these savings.
- **R&D costs** for Q4FY21 stood at 6.0%. Cipla expects this expenditure to remain in the similar range.
- **Adjusted PAT** grew 33.1% YoY to Rs4.1bn.

Table 1: Q4FY21 performance*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
Net Sales	46,065	43,762	5.3	51,687	(10.9)
EBITDA	7,962	7,210	10.4	12,309	(35.3)
Other income	601	932	(35.5)	869	(30.8)
PBIDT	8,564	8,142	5.2	13,178	(35.0)
Depreciation	2,852	3,458	(17.5)	2,484	14.8
Interest	275	530	(48.2)	479	(42.7)
Extra ordinary income/ (exp.)	-	(875)		-	
PBT	5,437	3,279	65.8	10,215	(46.8)
Tax	1,282	856	49.8	2,690	(52.3)
Minority Interest	21	(36)	(158.5)	44	(51.1)
Reported PAT	4,134	2,460	68.1	7,481	(44.7)
Adjusted PAT	4,134	3,106	33.1	7,482	(44.7)
EBITDA margins (%)	17.3	16.5	800bps	23.8	(650)bps

Source: Company data, I-Sec research

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

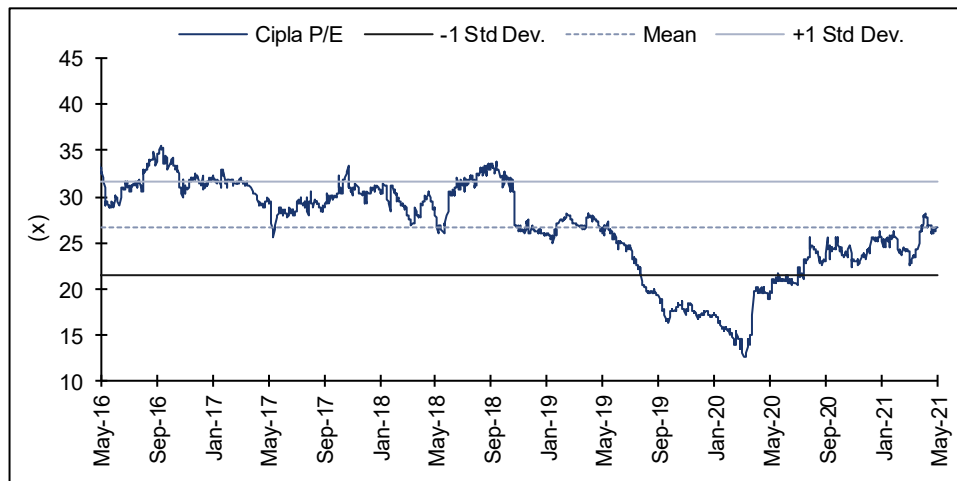
	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
India	18,070	17,300	4.5	22,310	(19.0)
South Africa & Others	8,480	8,250	2.8	9,130	(7.1)
North America	10,020	8,560	17.1	10,370	(3.4)
Europe	2,490	2,320	7.3	2,520	(1.2)
Emerging Markets	4,320	4,150	4.1	4,880	(11.5)
Global APIs	2,240	2,470	(9.3)	2,010	11.4
Others	440	710	(38.0)	460	(4.3)
Total	46,060	43,760	5.3	51,680	(10.9)

Source: Company data, I-Sec research

Valuations

The stock currently trades at fair valuations of 27.0x FY22E and 24.1x FY23E earnings and EV/EBITDA multiples of 14.8x FY22E and 13.1x FY23E. The company has restructured its total business into four verticals namely, One-India, South Africa & EMs, US generics & specialty and Lung leadership. Increased focus of management on India business and in improving return ratios is key positive change in our view. Recent rally in the stock price has capped the upside in our view, hence, we downgrade to **ADD** from *Buy* with a target price of Rs966/share based on 25x FY23E earnings and Rs28/share for *Revlimid*.

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Domestic formulations	67,410	77,360	85,242	91,540
Export formulations	92,420	103,790	112,987	121,209
APIs	7,520	7,980	8,459	8,966
Other op. Income	3,970	2,460	2,460	2,460
Total Gross Sales	171,320	191,590	209,148	224,175
Excise duty	-	-	-	-
Total Net Revenue	171,320	191,590	209,148	224,175
YoY Growth%	4.7	11.8	9.2	7.2
Total Op. Exp.	138,735	149,072	162,613	173,175
EBITDA	32,585	42,518	46,535	51,000
Margins %	19.0	22.2	22.3	22.8
YoY Growth%	5.2	30.5	9.4	9.6
Depreciation	11,747	10,677	11,077	11,622
EBIT	20,838	31,842	35,458	39,378
Other Income	3,442	2,660	2,423	2,527
Interest	1,974	1,607	877	434
EO Items	(525)	0	0	0
PBT	21,782	32,895	37,004	41,471
Tax	6,312	8,888	9,991	11,197
Tax Rate (%)	29.0	27.0	27.0	27.0
Minority Interest	5	(36)	0	0
Reported PAT	15,465	24,043	27,013	30,274
Adj. PAT	15,838	24,049	27,013	30,274
Net Margins (%)	9.2	12.6	12.9	13.5

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	202,024	225,655
Total Equity	157,630	183,265	203,636	227,268
Minority Interest	2,943	2,591	2,591	2,591
Total Debt	28,164	15,375	8,375	3,375
Deferred Liabilities	1,254	(181)	(181)	(181)
Capital Employed	189,992	201,050	214,421	233,053
Current Liabilities	44,236	47,322	50,652	53,863
Total Liabilities	234,228	248,372	265,073	286,916
Net Fixed Assets	107,424	107,128	104,051	102,429
Investments	2,195	1,953	1,953	1,953
Inventory	43,776	46,692	50,933	54,241
Debtors	38,913	34,457	37,613	40,316
Other Current Assets	21,715	21,267	22,760	24,038
Cash and Equivalents	20,204	36,876	47,764	63,939
Total Cur. Assets	124,609	139,291	159,070	182,534
Total Assets	234,228	248,372	265,073	286,916

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	37,004	41,471
Depreciation	11,747	10,677	11,077	11,622
Net Chg in WC	3,730	3,717	(6,164)	(4,595)
Taxes	(8,483)	(10,374)	(9,991)	(11,197)
Others	(65)	(975)	603	516
CFO	28,711	35,945	32,529	37,817
Capex	(10,177)	(8,024)	(8,000)	(10,000)
Net Investments made	12,100	(12,450)	-	-
Others	(882)	(3,398)	-	-
CFI	1,040	(23,872)	(8,000)	(10,000)
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	-	-
CFE	(25,900)	(8,100)	(13,642)	(11,642)
Total Cash Generated	3,851	3,973	10,887	16,175
Cash Opening Balance	6,188	10,039	14,012	24,900
Cash Closing Balance	10,039	14,012	24,900	41,075

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	19.6	29.8	33.5	37.5
YoY Growth%	(2.0)	51.8	12.3	12.1
Cash EPS	21.6	31.8	34.6	38.1
EBITDA (%)	19.0	22.2	22.3	22.8
NPM (%)	9.2	12.6	12.9	13.5
Net Debt to Equity (x)	0.1	(0.1)	(0.2)	(0.3)
P/E (x)	46.0	30.3	27.0	24.1
EV/EBITDA (x)	22.6	16.6	14.8	13.1
P/BV (x)	4.6	4.0	3.6	3.2
EV/Sales (x)	4.3	3.7	3.3	3.0
RoCE (%)	8.5	12.4	12.8	13.2
RoE (%)	10.3	14.1	14.0	14.1
RoC (%)	9.4	14.1	15.6	17.0
Book Value (Rs)	196	227	253	282
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	63	63
Avg Inventory days	110	111	110	111

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)

BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, *Sriiram Rathi, CA; Vinay Bafna, MBA*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is SEBI registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.