

Sector: Pharmaceuticals

RESULT REVIEW Q3FY22

Declared On: 25 Jan 2022

Cipla Limited

RECOMMENDATION SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs904	Rs612	Rs1055	17%	BUY	725

*as on 25th Jan, 2022

About the Company:

Established in 1935, Cipla Limited (Cipla) is a global pharmaceutical company with a geographically diversified presence, focused on responsible and sustainable growth through deep and wide portfolio coupled with strong customer relationships across markets of India, South Africa, US and other key regulated and emerging markets. The company is building long-term growth platforms in the regulated generics market and drug discovery research. It is developing a comprehensive portfolio of respiratory products across varied dosage forms (MDI, DPI and nasal sprays) for the regulated markets of the EU and the US. It has presence in over 80 countries with 1500+ products across therapies with 50+ dosage forms through 46 manufacturing facilities around the world using cutting-edge technology. Cipla is the 3rd largest Pharma company in India (IQVIA MAT Mar'19) and also 3rd largest in the private market in South Africa (IQVIA MAT Mar'19). Dr. Yusuf Hamied is the Chairman and Mr. Umang Vohra is the CEO of the company.

Results: Quick Glance

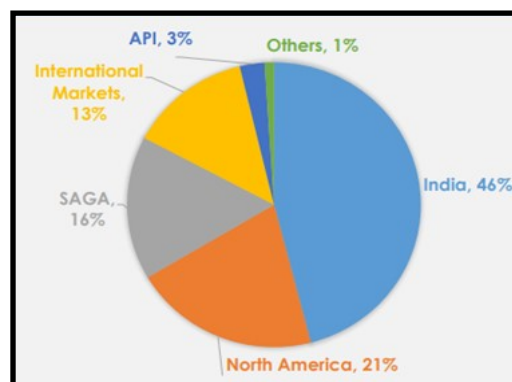
- The consolidated total operating income for the quarter grew by 6.0% to Rs54,789mn as compared to Rs51,680mn in the same quarter last year
- The Ebitda margins dropped to 22.5% as against 23.8% in the same quarter last year
- The profits grew marginally by 0.7% to Rs7569mn as against Rs7516mn in the comparative quarter
- The EPS for the quarter stood at Rs9.03

Other Highlights:

Geographical Performance: The key markets continued to demonstrate strong growth momentum in the quarter

- **India:** The overall business grew by 13% y-o-y led by sustained momentum across core therapies and traction in flagship brands; with a modest contribution from the Covid portfolio (~17% decline on a sequential basis, likely foothold is expected in the coming quarters considering the caseloads amidst the 3rd wave). Trade generics business witnessed strong order inflows from Tier-2, high growth across flagship brands and key therapeutic areas. Consumer health business witnessed robust traction in anchor brands & transitioned brands. The company launched Spirofy- India's first pneumotach based wireless Spirometer for diagnosis of COPD and asthma
- **South Africa:** It continued the market beating growth in South Africa private business; where SAGA de-grew 4% y-o-y in USD terms, while SA private market grew by 16% y-o-y in ZAR terms. Cipla is expanding the portfolio base with 9 launches across men's health, cardio, diabetes, CNS, infectious diseases, pain, cold & flu and vaccines
- **US:** It continued the market beating growth in South Africa private business; where SAGA de-grew 4% y-o-y in USD terms, while SA private market grew by 16% y-o-y in ZAR terms. Cipla is expanding the portfolio base with 9 launches across men's health, cardio, diabetes, CNS, infectious diseases, pain, cold & flu and vaccines
- **Europe:** 2 respiratory products have been filed in these markets
- **Emerging Markets:** The business maintained scale supported by strong DTM across geographies, steady double digit growth in secondary terms during the quarter
- **API:** Reported 27% drop on y-o-y basis; performance was attributed to momentary slowdown in orders from developed markets

Exhibit 1: Revenue Breakup Q3FY22



Source: Company Presentation

Market share across therapies: The Chronic segment continues to rank #2. Respiratory Inhalation and Urology have the numero uno position intact. The Cardiology segment ranks #5 in the market

Cipla Limited

Plant Updates: For the Goa facility it is working with the USFDA to resolve all observations and awaiting a revert on the same

Conference Call Highlights:

- The company has reported healthy performance driven by robust business of branded markets in India and South Africa coupled with continued momentum in the US portfolio
- Despite the raw material cost headwinds, freight costs, offset by increased share of complex launches, the company is well placed to close the year in-line with its internal guidance on the Ebitda front
- The branded generics business is on track to achieve its USD1bn mark via formidable franchise to be built in India. Cipla launched 32 brands in 9MFY22
- Under the trade generics business, Cipla has launched 3 brands in Q3FY22, 10 in 9MFY22. These launches cater to cardio, diabetic, thyroid and derma portfolio. The launch momentum is anticipated to continue even in FY23E
- Going forward, India business is anticipated to see growth in Rx, Gx and consumer business
- The US business clocked revenues of USD150mn attributed to growth witnessed in the respiratory and other portfolio. The company has received an approval for Lanreotide injection 505(b)(2). Cipla anticipates the ramp up to happen over the medium term. Lanreotide would be manufactured at the partners site and the partner is geared up to help Cipla achieve the internal targets on the market share
- As a 3-year target, the US business is expected to add incremental revenues of ~USD300-500mn by FY25E
- The total ANDAs and NDAs as on 31st Dec, 2021 stands at 257, bifurcated as 167 approved, 18 tentatives and 72 under approval radar
- **Advair:** It is under review and Cipla is awaiting a revert from the FDA
- **Abraxane:** in process of furnishing further data to the FDA. The market is assumed to be limited on account of supply constraints faced by both the generic and innovator players; however over a longer horizon, Abraxane is a good bet
- For the Emerging markets, the China manufacturing plant set-up has been completed and initial set of batches have been undertaken
- The board has approved the transfer of (i) India based US business undertaking to Cipla BioTec Ltd- CBL (effective date of transfer completion: 30th June, 2022 or date as per mutual agreements) and (ii) Consumer business undertaking to Cipla Health Ltd- CHL (effective date of transfer completion: 31st March, 2022 or date as per mutual agreements), both of these under the slump sale basis. The consideration proceeds subject to final considerations stands as: CBL at Rs14000mn and CHL at Rs800mn
- **Near term strategies:** From a near to medium term outlook, Cipla remains confident in terms of additional launches in the coming quarters. Focus would continue in chronic and acute therapeutic areas, innovative consumer wellness franchise in India, growing the anti-diabetic and injectables space
- **Financials:**
 - ⇒Gross margins would response to the pipeline of complex launches in the coming quarters
 - ⇒The effective tax rate stands at 28% for the quarter
 - ⇒The total R&D spend stood at Rs2620mn. Cipla's priority projects are on track and the management anticipates an increase in the R&D spend as and when the respiratory assets move towards the clinical trials. R&D as a percentage of sales would be ~7-7.5%
 - ⇒As on 31st Dec, 2021, total debt stood at 720mn rands, working capital position as: USD58mn, South Africa: 137mn rands and Australia: AUD5mn
 - ⇒ROIC expansion at 17-20% levels over the long term (FY25E target)

Financials:

Performance (Q3FY22)									
Q3FY22 Result (Rs mn)	Dec-21	Dec-20	y-o-y	Sept-21	q-o-q	9MFY22	9MFY21	y-o-y	FY22E
Total Revenue	54789	51687	6.0%	55198	(0.7%)	165030	145531	13.4%	214634
EBITDA	12310	12309	0.01%	12262	0.4%	38031	34562	10.0%	48937
Other Income	913	869	5.00%	607	50.5%	2169	2059	5.4%	2747
Interest	207	479	(56.8%)	380	(45.6%)	883	1333	(33.8%)	1110
Depreciation	2475	2484	(0.4%)	2531	(2.2%)	7616	7825	(2.7%)	11048
Exceptional Items	0	0	-	0	-	(1246)	0	-	(1246)
Tax	2952	2690	9.7%	2838	4.0%	8627	7605	13.4%	10672
Net Profit before share of associates	7590	7525	0.9%	7120	6.59%	21828	19858	9.9%	27608
Share of associates	(21)	(9)	-	(29)	-	(68)	(88)	-	(269)
Net Profit	7569	7516	0.7%	7092	6.7%	21760	19770	10.1%	27339

Outlook and Recommendations:

The company has reported better than expected results on the back of strong performance in India and the US markets. Portfolio execution in branded markets of India & South Africa and strong respiratory traction driving the US generic franchise to a multi-quarter high quarter were key drivers. India business growth seems muted due to the high base last year due to Covid related sales. However, as compared to the expectations, the overall business grew led by the sustained momentum across core therapies and traction in the flagship brands. Thereby, the strong growth in the India business can be the rationale for future prospects. For the US growth, Albuterol and Arformoterol inhaler generics are regularly gaining market share, strengthening the company's US contribution. The respiratory portfolio continued to contribute to the traction. FY23 is awaited to meaningful launches by the company, like Abraxane, a meaningful asset on the long-term basis. Where the two key markets of India and US put up a good show, there was some disappointment across the South African, Sub-Saharan and Cipla Global Access business during the quarter. On the margins, they were impacted by higher other expenses and R&D spend; which was however partially offset by the lower staff cost. The higher taxes led to the decline in the overall profits for the quarter. Going forward, the management is pretty confident of meeting its guidance (22% Ebitda margins) for the year. Also, the important step in complex generics through the first 505(b)(2) further strengthens the hold in the US franchise. Overall we feel that the company has been working on its key market growth by capitalizing on the emerging opportunities and gearing up for key launches going forward. We maintain our positive stance on the company and recommend Buy on the stock for target of Rs1055.

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