

Equity Research Report

Cipla Ltd- Riya Gawande

New drug launch drives Growth

About the Company

Cipla Ltd incorporated in the year 1935, is the 3rd largest pharmaceutical Company of India. The Company is in the business of wide range of branded, generic formulations and APIs.

The products are of respiratory, anti-retroviral, urology, cardiology, anti-infective, CNS and others. The company has presence in India, South Africa, US, and other emerging Markets.

It has 47 manufacturing sites around the world produce more than 50 dosage forms and over 1500 products.

The Company has 5 R&D facilities that are in New York (US), Karnataka and Maharashtra in India.

Brief Outlook

Cipla's strong performance is driven by US and Indian markets, with key product launches like gAdvair, gAbraxane, peptides and complex generics up in the near term in US. In India it has added MRs and is focusing on three segments to drive growth. Growth across key markets of India, US and South Africa has also improved its EBITDA. All of this is likely to increase its revenue, PAT, EPS and Valuation.

- **Key Highlights**
- Gross margin was improved by double digit growth in Q2FY24.
- Management has raised EBITDA guidance to 23.5% plus for FY24.
- Sea freight cost reduced by 60-70% YoY.
- In half of FY24 it has launched 26 new products in India.
- It is running clinical trials of 3 Products.

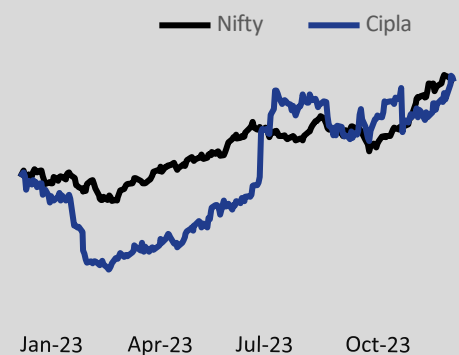
Cipla

Recommendation	XXX
CMP	: INR 1441
Target Price	XXX

Stock Data (as on 18 Feb 2024)

NIFTY	: 21,710.80
52 Weeks H/L (INR)	: 1,464 / 852
Market Cap (INR Crs)	: 1,16,316
O/S Shares (Crs)	: 80.74
Dividend Yield (%)	: 0.66%
NSE Code	: CIPLA

Relative Stock Performance – 1 Y



Absolute Returns (%)

1 Year	: 18.24%
3 Years	: 55.56%
5 Years	: 150.96%

Shareholding Pattern (as of September, 2023)

Promoters	: 33.46%
FII	: 25.74%
DII	: 23.90%
Government	: 0.21%
Public	: 16.28%

Financial Summary

In INR Crs	FY23	FY24E	FY25E
Net Revenue	22753.12	25946.30	28445.30
yoy Growth %	5%	14.03%	9.63%
EBITDA	5026.97	5970.00	6824.00
EBITDA Margins (%)	22.09%	23.01%	23.99%
PAT	2835.49	3849.50	4399.00
yoy Growth %	11%	35.76%	14.27%
ROE	12.82%	15.50%	15.30%
EPS (in INR)	35.1	47.7	54.5
EV/EBITDA	14.31 x	15.00 x	13.10 x

Global Overview

The global economy faced headwinds in FY 22-23 as inflation rose due to energy price hikes and supply chain disruptions caused by wars and Covid-19 related lockdowns.

Key developed economies slowed down, and central banks struggled to maintain inflation despite raising interest rates.

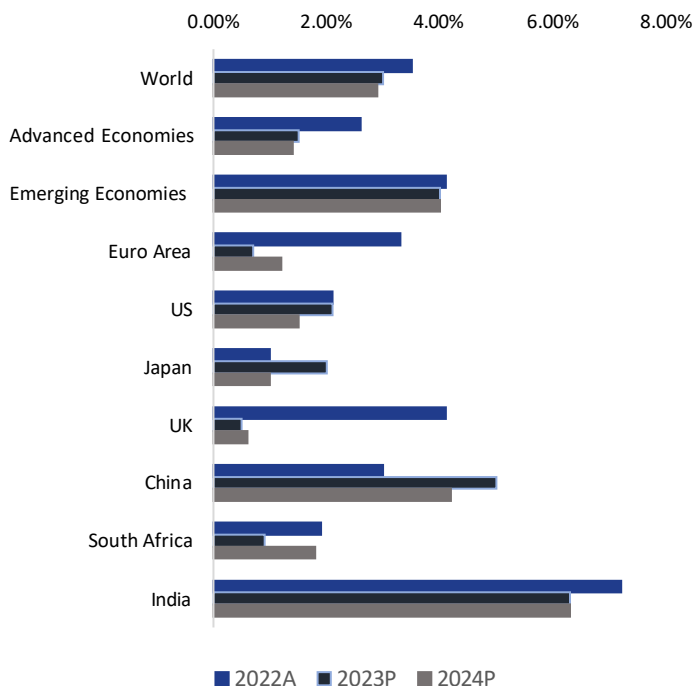
However, there were signs of recovery by the end of the year with India leading the way.

As we moved into FY23-24 the governments continue to implement tight monetary policies to combat inflation and recession.

But the governments is not expected to cut down pharmaceutical budget it will remain high.

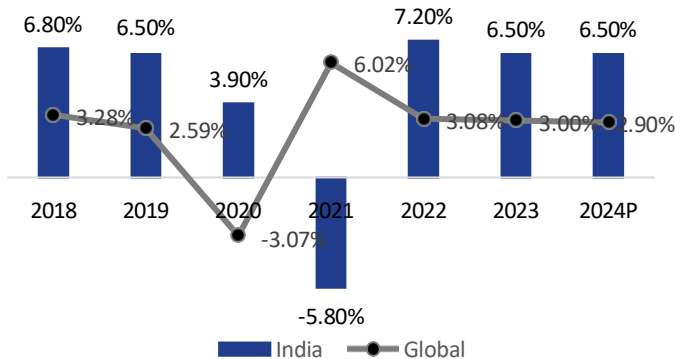
Source: IMF WEO, Company Analysis

Global GDP Predictions (%)



Source: IMF WEO

India vs Global GDP Growth (%)



Indian Economy

Despite facing global challenges like COVID and the Russian-Ukraine crisis, the Indian economy demonstrated resilience.

In FY23, central banks globally implemented coordinated policy rate hikes to tackle inflation, resulting in the US dollar's appreciation and widening Current Account Deficits (CAD) in net-importing economies in 2022.

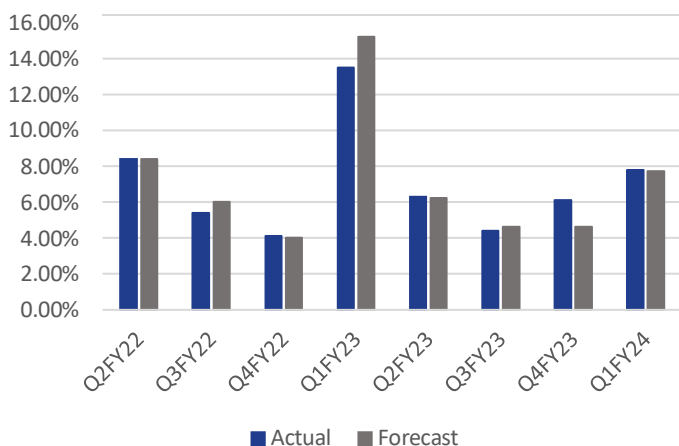
Nevertheless, India is consistently projected to be the fastest-growing major economy, with anticipated growth of 6.5-7.0% in FY23.

The Indian Government's effective domestic policies and commitment to structural reforms have played a pivotal role in sustaining this growth. Furthermore, the country's stabilizing inflation, increased disposable income, and ongoing investments in infrastructure development are expected to contribute to future economic growth. This sustained growth momentum positions India favourably for attracting a significant share of global investments.

So, the economy is expected to grow at 6.5% for FY24.

Source: World Bank, Peer Company Analysis

Quarterly India's GDP (%)



Source: IMF WEO

US Economy

The US is likely a slow start in the upcoming time due to factors such as consumer spending is expected to decline due to weaker pandemic savings and rising household debt.

Business investment growth slowed in Q3 2023. It is expected to intensify in 2024 as the fed resists rate cuts.

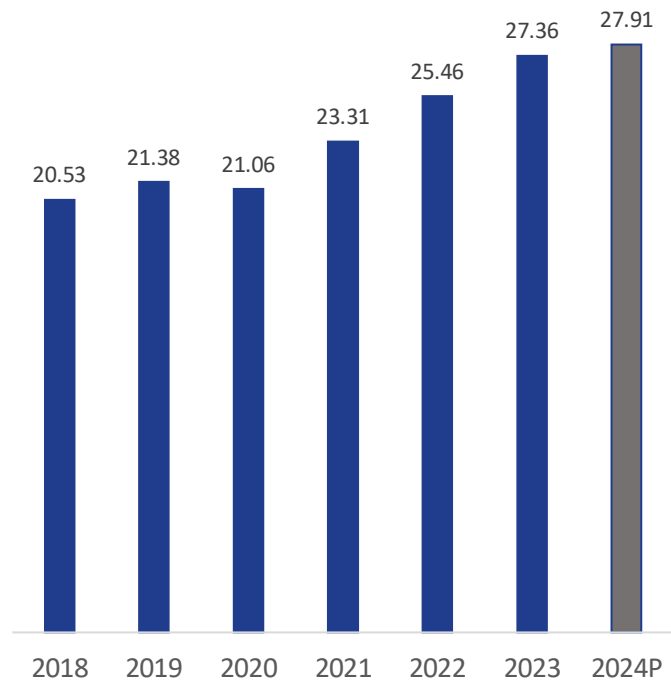
Residential investment may not improve until interest rates fall. Government spending which contributes to growth in 2023, is likely to slow as infrastructure spending stabilizes. At the same time political volatility surrounding fiscal policy could impact future outlays.

Inflation is expected to ease, with falling oil prices. In the coming period inflation is projected to meet Fed's 2% target. Which will lead to interest rate cuts.

By the late 2024 and 2025 are expected to bring lower volatility, normalized inflation and interest rates. And GDP growth to under 2 percent.

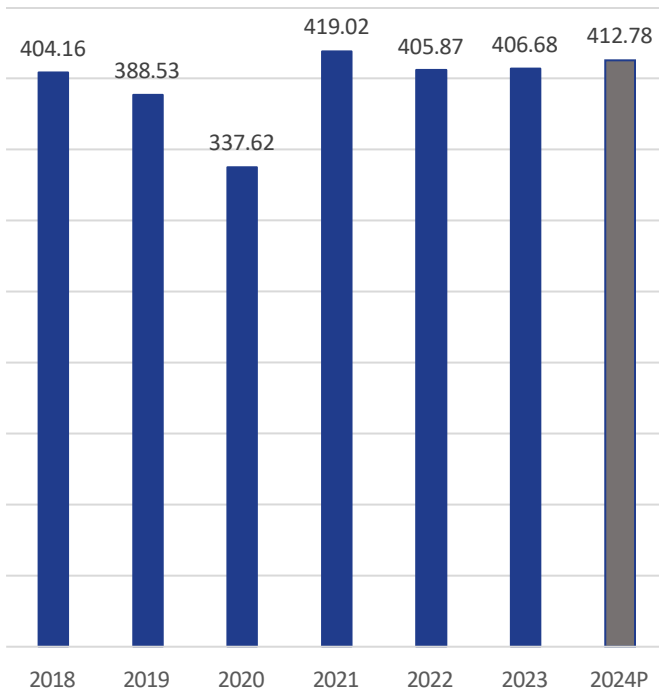
Source: The Conference Board , US

US GDP (in trillion \$)



Source: Trading Economics

South Africa GDP (in billion \$)



Source: Trading Economics

South Africa Economy

Real GDP growth dropped to 2.0% in 2022 from 4.9% in 2021 due to electricity shortage, Russia-Ukraine war.

The economy is projected to grow marginally, by 0.2% in 2023 and 1.5% in 2024, supported by growth in trade, tourism, mining, and manufacturing.

Inflation is projected to ease to 5.9% in 2023 and decline further to 4.5% in 2024 on account of reduced fuel and food prices, subject to evolving global dynamics.

The fiscal deficit is projected to increase marginally, to 6.2% of GDP in 2023 and 6.7% in 2024 due to fiscal consolidation, including higher tax revenue.

The current account deficit is projected to widen to 2.2% of GDP in 2023 and 2.4% in 2024 due to an anticipated drop in commodity prices. Headwinds include continued electricity supply constraints, weak governance in state-owned enterprises, and the global economic downturn

Source: African Development Bank Group

Global Pharma Overview

The global medicine market is expected to reach USD 1.9 trillion by 2027, growing 3-6% yoy.

The growth will be driven by biotechnology particularly in oncology, immunology and cell and gene therapies.

Highest volume growth is expected in Latin America, Asia and Africa, driven by a mix of population growth and expanded access. North America and Europe will see very low growth.

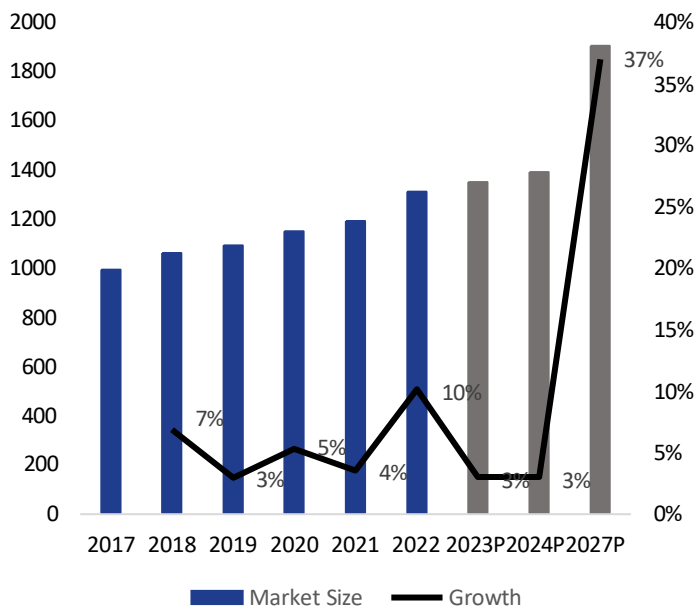
The medicine use (defined in daily doses) grew by 36% over the past decade.

Covid- 19 continues to impact the industry and is expected to expand by \$500 billion till 2027.

Speciality medicines will represent 43% of global spendings by 2027.

The global spending on cancer drugs is expected to reach by \$370 billion.

Global Pharmaceutical Market Size (in billion \$)



Source: Management discussion and analysis

India's Pharmaceutical Industry

India's pharmaceutical market (IPM) has surged from INR 660.53 billion in FY12 to INR 1,859.05 billion in FY22.

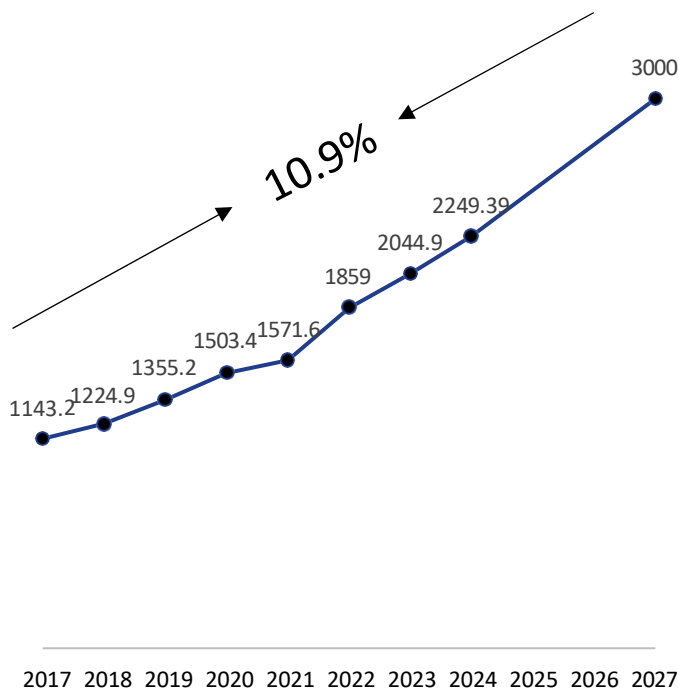
It has rides with 10.9% growth rate yoy. Projections indicate further growth, aiming for INR 3,000-3,100 billion by FY27.

Globally, India ranks third in pharma production by volume and 14th by value. This expansion is fueled by factors such as rising disposable income, heightened healthcare awareness, and increased life expectancy, presently at 70.2 years.

The demographic shift, with an aging population, propels demand for healthcare services and pharmaceuticals. Notably, the chronic segment within the IPM has grown at a remarkable 11.97% CAGR, outpacing the overall IPM growth. Key therapeutic areas like cardiovascular and anti-diabetic treatments are anticipated to sustain a 11%-13% CAGR from FY23 to FY27, contributing to the industry's continued success. Also, the government is now considering the health of the nation on the priority list.

Source: Peer Annual Report

India's Pharmaceutical Market Size (in INR billion)



Source: Peer Annual Report

US Pharmaceutical Industry

The US Pharmaceutical market is growing on an average 6% yoy.

In 2023 the industry is showing certain trends such as the Covid-19 cases, RSV, cold, cough and flu are declining.

Specialty drugs (Drugs which is used in complex diseases and require special treatment) represents 51% of the total sales volume.

The role of pharmacist is growing rapidly, with a shortage in staff supply.

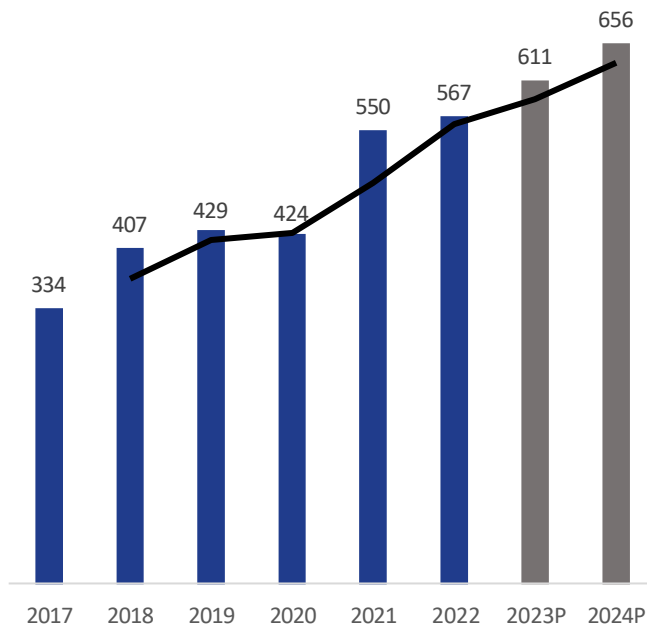
Pharmacies store continue to close, with opening hours of remaining store restricted due to shortage of staff.

Unbranded generics are growing in terms of prescriptions, accounting for 87.2% of prescriptions, but continue to fall in dollar terms, to only 8.5% of revenues.

So far in 2023, there eight new products have been launched, against 11 in the same period last year. Oncology accounts for 38% of launches

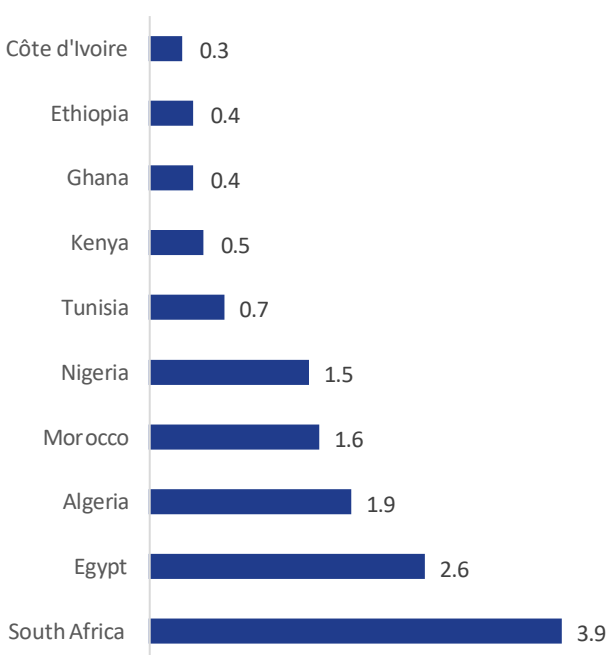
Source: IQVIA.com

US Pharmaceutical Market Size (in billion \$)



Source: IQVIA.com

Market Size of Top 10 African Countries (in billion \$)



Note: Data as per 2021

Source: Goldsteinresearch report

South Africa Pharma Industry

The African pharmaceutical industry has witnessed substantial growth, driven by factors like increased healthcare demand, population expansion, and economic development.

South Africa leads with a market size of USD 3.9 billion in 2021, while countries including Egypt, Algeria, Morocco, Nigeria, and Tunisia also have significant markets.

Generic drugs play a vital role, particularly in North Africa, with a USD 3.0 billion market in 2021. Growth is projected across segments in prescription drugs (6.5%), generics (10%), over the counter medicines (7.1%), and medical devices (12.1%), compound annual growth rates between 2017 and 2030.

Urbanization, healthcare capacity, and a supportive business environment fuel this expansion.

Successful navigation of diverse markets requires addressing supply and distribution challenges, forming partnerships, and focusing on growth pockets, notably in key cities.

Source: Goldsteinresearch report

Concalls analysis – Q1FY24 and Q2FY24



India Business:-

- One India Franchise grew by 10% YoY faster than market growth in branded prescription and the share of chronic therapies in the portfolio improved by 60%.
- Trade Generics consolidated its leadership with 25-30% of the Indian Pharma market
- Focus on growing big brands in branded prescriptions and OTC business in India.

North America Business:-

- Quarterly revenue of \$229 million, representing 28% YoY growth.
- Boosting R&D investments in core business is progressing, with notable advancements in clinical trials for complex pipelines.
- Improvement in US gross margin driven by mix change, a contribution from new launches, and lower procurement cost.
- Uncertainty in US launches and buying patterns may impact margin trajectory.

South Africa Business:-

- Outperforming the market with 12% YoY expansion in Revenue.
- Improvement in South African market share, aiming for the top position in the prescription business with 4- year CAGR of 8.6%.
- Acquisition of Actor Pharma to leverage existing marketing network.

Financial Summary:-

- Solid 18% YoY growth in Q1FY24 of 63.29 Billion and with 15% YoY in Q2FY24 with 66.78 Billion with EBITDA Margins of 23.65 and 26% respectively.
- Total R&D expenditure is 5.5% and 5.7% of revenue in Q1 and Q2 respectively.
- Double digit growth was witnessed across the core markets of India, North America and South Africa.

New Product Updates:-

- A number of peptide launches are expected in the next two years.
- Three products are undergoing clinical trials.
- The company is also planning to launch Generic Advair in about 12 months with no competition expected.
- Cipla is expected to file Symbicort by the end of the year.
- Peptide product launch planned in Q4 FY24, with additional launches planned in FY25.
- US market share in Leuprolide is expected to increase.
- Goa plant capacity increased for the international EMEU market.

Guidance and Outlook:-

- Q3 is expected to be strong, while Q4 may have a reverse seasonality impact.
- The guidance for EBITDA margins has increased from 23% to 24% with an inclination towards upper side.
- Capex is expected to be around 4-5% of the revenue.
- The logistics cost has been improved due to air to sea mix and lower rates.
- The market share in Albuterol is impacted by market shifts, aiming to increase share.
- Uncertainty in US launches and buying patterns may impact margin trajectory.
- OPEX may increase in the upcoming quarters due to derisking in the US market.

Regulatory Updates:-

- The company is awaiting classification for its Indore facility from the US FDA.
- Cipla continues to work on remediation for its Goa facility.

Source: concalls Analysis.

Management Analysis

Board of Directors

S. No	Name	Position	Details
1	Dr. YK Hamied	Non-Executive Chairman	Yusuf Hamied, graduated from the St. Xavier's College, Mumbai, pursued a BA in chemistry in 1959 and later earned a PhD from Christ's College, Cambridge. He is renowned for his contributions to corporate governance, global economics, and pharmaceutical science, he defied major Western pharmaceutical companies by providing generic AIDS drugs for those in impoverished nations. Hamied played a pivotal role in eradicating AIDS in the developing world and advancing the accessibility of life-saving medicines. His influential work includes pioneering multi-drug combination pills, especially for HIV/AIDS, tuberculosis, and asthma, significantly expanding medicine access. Additionally, he has been instrumental in the development of pediatric drug formulations. Hamied, a notable figure in leadership, risk management, and M&A. He has received accolades such as the Padma Bhushan from the Government of India and CNN-IBN Indian Of the Year by CNN IBN.
2	Mr. M.K. Hamied	Non-Executive Vice Chairman	A science graduate from Bombay university. He has experience in Corporate Governance, Global Economics and Business, General management and Leadership, Operations, M&A, Risk Management, Sales, Marketing and Commercial; Pharmaceutical, Science and Technology
3	Ms. Samina Hamied	Executive Vice Chairperson	Samina Hamied, the CEO of Cipla, brings a robust skill set in corporate governance, global economics, management, M&A, risk management, sales, marketing, sustainability, ESG, and financial expertise. With an MSc in International Accounting and Finance from the London School of Economics, she transitioned from Goldman Sachs to Cipla in 2011, progressing to Executive Vice-Chairperson in 2016. Instrumental in Cipla's transformation, she led strategic projects, incubated Cipla Health Limited, and facilitated the company's strategic acquisitions in the US. Recognized as one of the most powerful women in business by Forbes, Business Today, and Fortune India, Samina is a key player in Cipla's global expansion.
4	Mr. Umang Vohra	MD & Global CEO	Mr. Umang Vohra is a professional with a strong background in Corporate Governance, Global Economics, Business, Leadership, Operations, M&A, Risk Management, Sales, Marketing, Commercial, Sustainability, ESG, Financial Expertise, and Tech/Digital, specifically in the Pharmaceutical, Science, and Technology sector.

Management Analysis

Board of Directors

			<p>He holds an engineering degree in Computer Science from MSRIT, Bangalore, and an MBA in Management from TA PAI Management Institute. With a career spanning several years, Mr. Vohra has held key roles at Eicher Ltd., PepsiCo-India, and Dr. Reddy's Laboratories, where he served in various capacities, including CFO and EVP and Head North America Generics and Corporate. His diverse expertise encompasses the intersection of finance, strategy, and leadership, making him a valuable asset in the corporate landscape.</p>
5	Mr. S Radhakrishnan	Non-Executive Director	<p>Mr. S Radhakrishnan, a CA, brings over 37 years of experience in financial, commercial, legal, and allied areas to his role. His expertise spans across many fields. Having served at Cipla for an extensive period, he retired from his position as Whole-Time Director in November 2017 and currently serves as a Non-Executive Director, showcasing his enduring commitment and valuable contribution to the company's success</p>
6	Mr. Ashok Sinha	Independent Director	<p>Mr. Sinha, an Electrical Engineer from IIT Kanpur and an MBA from IIM Bangalore with a specialization in Finance, boasts a distinguished career. With 33 years at Bharat Petroleum Corporation Ltd. (BPCL), he served on its Board for 15 years, first as Director (Finance) for 10 years and subsequently as Chairman and Managing Director for 5 years from August 2005. His accolades include the India Chief Financial Officer Award 2001 for Information and Knowledge Management and an award from TMG for Customer Management, showcasing his significant contributions to the field.</p>
7	Mr. Adil Zainulbhai	Independent Non-Executive Director	<p>Adil Zainulbhai, an IIT Bombay mechanical engineering graduate with a post-graduate degree from Harvard Business School. Currently serving as the chairman of Network 18 Group and the Quality Council of India, he also holds key positions on the boards of Reliance Industries, Larsen & Toubro, and Cipla as an independent director. Zainulbhai's extensive career includes leadership roles at McKinsey & Company, where he served as the chairman of McKinsey India. His affiliations extend to the advisory board for the Indian Institutes of Technology and the presidency of the Harvard Business School alumni association in India. Notably, he received the Best Independent Director Award from the Asian Centre for Corporate Governance & Sustainability.</p>

Management Analysis

Board of Directors

8	Mr. P.R. Ramesh	Independent Director	<p>Mr. P. R. Ramesh, a Commerce graduate from Osmania University and a Fellow Member of the ICAI, boasts over 40 years of professional experience. Retiring as the Director of Deloitte & Touche Assurance & Enterprise Risk Services India in March 2020, he served on the Deloitte Global Board and Deloitte Asia Pacific Board. His diverse expertise spans manufacturing, banking, financial services, technology, media, telecommunications, energy, resources, and consumer business sectors. Notably, Ramesh has actively contributed to various regulatory bodies, including the SEBI Committee on Disclosures and Accounting Standards and the IRDA Standing Committee on Accounting Issues. He's been associated with industry bodies such as CII, FICCI, and the Bombay Chamber of Commerce & Industry, reflecting his significant impact on financial governance and industry standards.</p>
9	Ms. Punita Lal	Independent Non-Executive Director	<p>Punita Lal, with a BA(Hons) in Economics from St Stephen's College, Delhi, and an MBA from the Indian Institute of Management, Kolkata, boasts a rich 30-year career in corporate strategy, marketing, and leadership across Asia. Noteworthy roles include MD & CEO for Nourish Co, a Tata Global Beverages and PepsiCo joint venture, and tenures with Coca Cola in China and PepsiCo in India. Currently a director of Carlsberg A/S and serving on the Boards of DBS Group Holdings Ltd and DBS Bank Ltd, she contributes to various committees, showcasing expertise in corporate governance, global economics, and financial matters. Recognized as one of India's top businesswomen, she received accolades such as Business Today's Top 20 Businesswomen in 2006 and FICCI Women's Organization's Corporate Woman of the Year in 2009. Additionally, her commitment to social responsibility is reflected in her directorship at DBS Foundation Ltd, a not-for-profit supporting CSR initiatives across Asia.</p>
10	Mr. Robert Stewart	Independent Non-Executive Director	<p>Robert Stewart, a seasoned professional in the biopharmaceutical sector, holds a B.S. in Business Management from Fairleigh Dickinson University, New Jersey. Over his impressive 34-year career, he has contributed significantly to renowned companies such as Roche, Abbott, Watson/Actavis/Allergan, Amneal, and currently serves as the Chief Executive Officer at Theramex Ltd, a global specialty pharmaceutical company. Robert's expertise spans various facets of the industry, including manufacturing operations, quality, supply chain, general management, and extensive experience in commercial operations.</p>

Management Analysis

Key Management Personnel (KMP)

S. No	Name	Position	Details
1	Mr. Ashish Adukia	Global Chief Financial Officer	He joined Cipla as the Global Chief Financial Officer at Cipla in August 2022. he was the CFO and part of the leadership team of Grasim Industries, the flagship company of Aditya Birla Group. Apart from his stint at Grasim Industries, Ashish has been associated with Morgan Stanley, Citigroup and PwC. He comes with a deep understanding of capital markets and building, and scaling organizations backed by his strong focus on strategy and transformative excellence
2	Mrs. Geena Malhotra	Global Chief Technology Officer	Geena has been instrumental in driving Cipla's transformation towards becoming a digitally agile company as well as reimagining its operations across the value chain through initiatives like the adoption of Industry 4.0. Under Geena's leadership on the ESG front, Cipla has won several recognitions pertaining to Sustainability and Occupational Health & Safety. The Company ranked as one of the most sustainable healthcare companies in the Dow Jones Sustainability Emerging Markets Index 2021. Cipla was also conferred with the Frost & Sullivan and TERI's Sustainability 4.0 Awards 2021.
3	Dr. Raju Mistry	Global Chief People Officer	Dr. Raju is an accomplished leader and HR veteran with 30 years of global experience across diverse sectors like Chemicals, Pharma, FMCG, IT, Engineering, and Textiles. Prior to Cipla, she has worked with Jubilant Lifesciences Ltd., Aditya Birla Group, Tata Group, Colgate- Palmolive, Siemens, Bayer and Mastech Corporation (Canada). With her guidance, the company has launched flagship programmes to build talent fungibility, encourage mobility and build a pipeline of future managers. This includes the introduction of leadership development modules with global management institutes, such as, Cornell, INSEAD and ISB.
4	Mr. Swapn Malpani	Global Head Supply Chain	He worked with leading Indian and multi-national companies across diverse sectors like pharmaceutical, medical devices, consumer and food industries; like Glenmark, Johnson & Johnson, ThermoFisher, Dr. Reddys and Mars Inc. He is an engineering gold medallist and postgraduate in Supply Chain Management, Swapn brings with him 25 years of global experience and domain expertise in end-to-end Supply Chain Management & Procurement encompassing areas of strategic sourcing & procurement, external manufacturing, demand & supply planning, logistics & distribution, and customer service

Management Analysis

Key Management Personnel (KMP)

5	Mr. Paul Miller	CEO Cipla South Africa	He joined Cipla Medpro in 2013, prior to which he served as the Vice President and Managing Director of Mylan in South Africa and as the Marketing Director of AstraZeneca in China. Paul is currently spearheading the SAGA region, which comprises South Africa, Sub-Saharan Africa, Uganda (Cipla QCIL) and Cipla Global Access. He's driving the company's steady growth momentum in the South African market, considered to be a second home market for Cipla globally.
6	Mr. Achin Gupta	CEO- One India Business	He was associated with Glenmark Pharmaceuticals as EVP Business Head EMEAL. He was a Member of the Core Operating Group, Director on the Board of key European affiliates and a Member of Board at Medicines for Europe. In his earlier roles, He has worked for Abbott EPD and started his career with management consulting firm AT Kearney. In addition to being an accomplished commercial leader, he brings an in depth understanding of cross functional areas including strategy, portfolio, product development, licensing and partnerships.
7	Mr. Arunesh Verma	CEO- North America	Arunesh comes with over two decades of experience in a variety of cross-functional leadership roles in areas like Geography and P&L Head, Sales & Marketing, Portfolio Management, Business Development & Licensing, Launch Management,, etc. He has led diverse teams across India, Mexico, Australia & the US. Prior to joining Cipla, he worked with Torrent Pharma, Sandoz (US, Australia and Mexico) as well as Dr. Reddy's Labs (India & Mexico) and Novartis (India)

Commentary on Management

- The Research has found that the company has strong management with expertise in many areas. Along with that, the directors of the company come from varied backgrounds and include dignified professional.
- Based on the publicly available data, we have not found any political connection with any regional or national political party, except Mr. P.R. Ramesh.
- The company has seen exponential growth under the leadership of current MD and CEO of the company Mr. Umang Vohra since he joined the company in 2015 and has become MD and CEO since September 2016.
- The hiring system of the company is based on the competencies and technical expertise.
- The analysis has not found any conflict of interest between independent directors and the company.

Shareholding Pattern

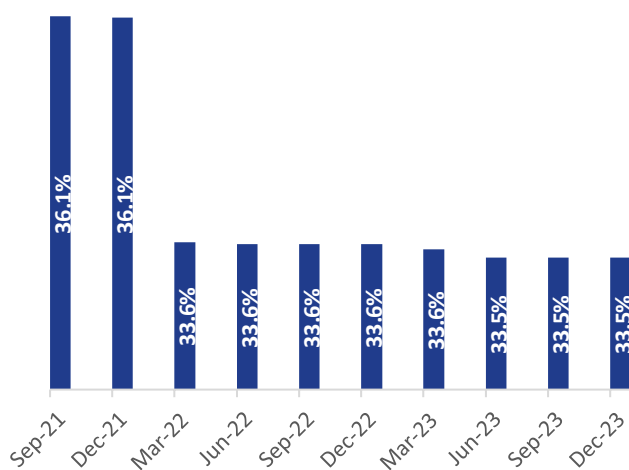
The majority of the stake lies in the hands of the institutions, including both FIIs and DIIs, and with public. Which sums up to a total of 66%. As of December 2023, The Promoters are holding 33.5%, FIIs are holding 25.7%, DIIs are holding 24.1%, Public is holding 16.5%, but the government has only 0.2% stake.

In the period from year 2017 to 2023, the holding of promoter is decreased from 37.5% to 33.5% due to succession planning. Also, the holding of public decreased from 26.5% to 16.5%.

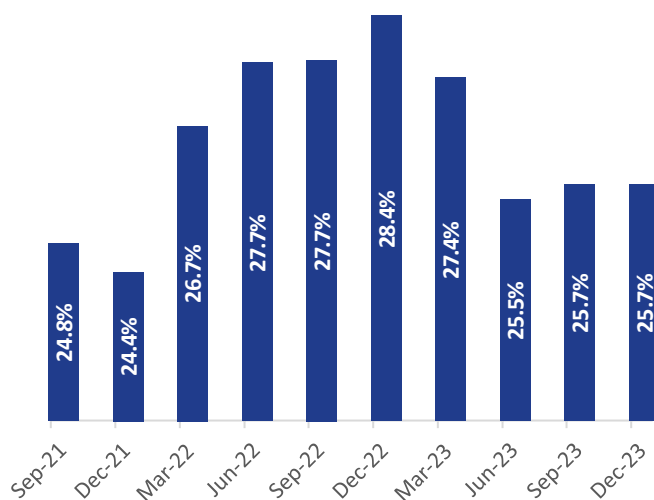
But the holdings of FIIs and DIIs has increased from 20.2% to 25.7% and 15.9% to 23.9% respectively.

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Dec-23
Promoters	37.5%	37.2%	36.7%	36.7%	36.7%	33.6%	33.6%	33.5%
FIIs	20.2%	24.2%	26.6%	18.0%	23.3%	26.7%	27.4%	25.7%
DIIs	15.9%	13.9%	14.2%	22.6%	17.2%	22.0%	21.8%	24.1%
Government	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.2%
Public	26.5%	24.7%	22.5%	22.7%	22.8%	17.7%	17.0%	16.5%

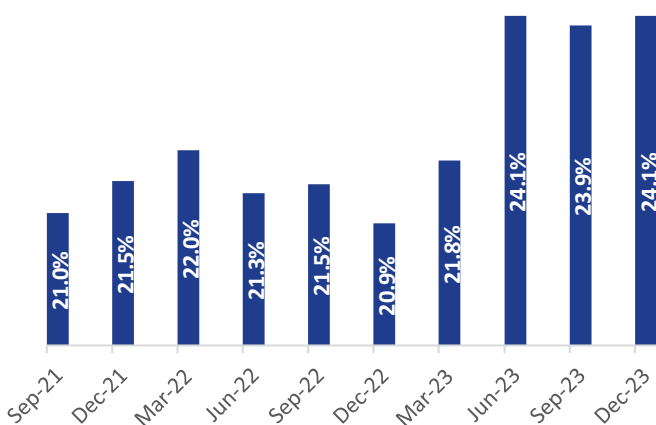
Quarterly Promoters Holding



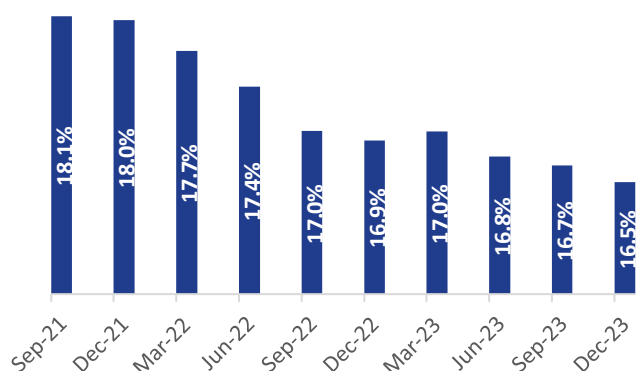
Quarterly FIIs Holding



Quarterly DIIs Holding



Quarterly Public Holding



Shareholding Pattern & Remuneration

Shareholder Name	No. of Folios	% of Total
SBI Mutual Fund		4.49%
Government Pension Fund Global		2.89%
HDFC Mutual Fund		2.64%
LIC		2.14%
NPS Trust		1.79%
GQG Partners Emerging Markets Equity Fund		1.19%
Government of Singapore		1.12%
UTI		1.09%
ICICI Prudential Fund		1.07%

Source: Screenshot from Annual Report

Remuneration

During FY23, the company incurred key managerial remuneration of INR 267.4 Million as against that of 320.1 Million in FY22 (16.46% decrease on a YoY basis). The details are as:-

Name	Designation	Ratio to median remuneration	FY23	FY22	Growth/Decline	Sales Growth YoY%	Net Profit Growth YoY%
Ms. Samina Hamied	Executive Vice-Chairperson MD & Global	172x	9.25	9.11	1.54%	6.82%	13.68%
Mr. Umang Vohra	CEO	244x	17.49	22.9	-23.62%	6.82%	13.68%
Total			26.74	32.01	-16.46%	6.82%	13.68%

The median ratio of key managerial personnel remuneration (KMP) with median employee salary is 206x, whereas the median of peers stood at 279.36x.

We have observed variations in revenue growth of the company and growth in KMP remuneration. The revenue growth found at 6.82% CAGR over the last 5 years and 13.68% CAGR over the last 3 years whereas the KMP remuneration has declined by 4.52% CAGR over the last 5 years and 0.59% CAGR over the last 3 years.

Particulars	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Sales	8%	5%	12%	14%	5%
Net Profit	5%	1%	59%	7%	11%
Growth in KMP remuneration	-13%	-5%	29%	22%	-16%

Source: Company Analysis.

Board Efficiency

Board Members	Board Meeting	ACM ⁽⁵⁾	NRC ⁽⁶⁾	SRC ⁽⁷⁾	CSR ⁽⁸⁾	IRMC ⁽⁹⁾	OAC ⁽¹⁰⁾	Independent Director Meeting	Present at the last AGM
Average Attendance (%)	94.7	94.44	91.67	100	95	95.83	100	84.52	100
Dr. YK Hamied	8(8)	-	-	-	-	-	-	-	YES
Mr. Adil Zainulbhai	8(8)	-	6(6)	4(4)	4(4)	-	-	2(4)	YES
Mr. Ashok Sinha	8(8)	9(9)	-	-	-	4(4)	-	4(4)	YES
Mr. MK Hamied	8(8)	-	-	-	4(4)	-	1(1)	-	YES
Dr. Peter Mugeny ⁽¹⁾	7(8)	-	-	4(4)	-	-	-	3(4)	YES
Ms. Punita Lal	6(8)	-	5(6)	-	3(4)	-	-	4(4)	YES
Mr. Robert Stewart	7(8)	-	5(6)	-	-	4(4)	-	4(4)	YES
Ms. Samina Hamied	8(8)	-	-	-	-	4(4)	1(1)	-	YES
Mr. S Radhakrishnan	8(8)	9(9)	6(6)	4(4)	4(4)	4(4)	1(1)	-	YES
Mr. Umang Vohra	8(8)	-	-	-	4(4)	4(4)	1(1)	-	YES
Mr. P R Ramesh ^(2&3)	8(8)	9(9)	-	1(1)	-	1(2)	-	4(4)	YES
Dr. Mandar Vaidya ⁽⁴⁾	5(6)	3(5)	-	-	-	-	-	2(3)	YES

Notes

1. Resigned as an Independent Director vide letter dated 12th May 2023, effective from 13th May 2023.
2. Appointed as a member of the Investment and Risk Management Committee w.e.f . 29th July 2023.
3. Appointed as chairman and member of SRC w.e.f. 10th May 2022 and subsequently taken an exit from SRC w.e.f. 29th July 2022.
4. Appointed as an Independent Director and member of the Audit Committee w.e.f 29 July 2022.
5. AMC (Audit Management Committee)
6. NRC (Nomination and Remuneration Committee)
7. SRC (Stakeholders Relationship Committee)
8. CSR (Corporate Social Responsibility)
9. IRMC (Investment and Risk Management Committee)
10. OAC (Operations and Administrative Committee)

Source: Company Analysis

Commentary on Board Efficiency

The Board consists of personnel with adequate knowledge and Experience in a variety of fields. Along with that they are also fulfilling their responsibility in a desired manner as can be noted from the above attendance table.

Due to this, the board was able to take critical decision in a number of matter related to the company.

Source: Company Analysis

Financials

Quarterly Results Review

Particulars (Rs Cr)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Net Sales	5810	5739	6329	6678	6604	13.7	-1.1
Growth (%)	6.0%	9.1%	17.7%	14.6%	13.7%		
Total Expenditure	4402	4566	4835	4944	4856	10.3	-1.8
Gross Profit	3806	3676	4092	4365	4384	15.2	0.4
% of Sales	34.5%	35.9%	35.3%	34.6%	33.6%		
Gross Margins (%)	65.5%	64.1%	64.7%	65.4%	66.4%	89	103
Employee Expenses	949	965	1067	1091	1068	12.6	-2.1
% of Sales	16.3%	16.8%	16.9%	16.3%	16.2%		
Other Expenses	1450	1538	1532	1540	1569	8.2	1.8
% of Sales	25.0%	26.8%	24.2%	23.1%	23.8%		
EBITDA	1408	1173	1494	1734	1748	24.1	0.8
EBITDAM (%)	24.2%	20.4%	23.6%	26.0%	26.5%	224	50
Interest	32	34	16	26	30	-5.4	16.7
Depreciation	272	346	239	290	233		
Other Income	114	135	136	176	185	61.3	4.7
Exceptionals Items	0	-182	0	0	-195		
PBT	1218	746	1375	1594	1475	21	-7.6
Tax	410	222	378	438	405		
Tax (%)	33.7%	29.8%	27.5%	27.5%	27.5%	0	0
Reported PAT	808	524	997	1156	1070		
P/L Associate	0	-2	1	0	0		
PAT	808	522	998	1156	1070	32.2	-7.5
Adj. EBITDA	1408	1174	1495	1734	1748	24.1	0.8
Adj. PAT	868	704	998	1156	1224	40.9	5.9

Geographical Breakup

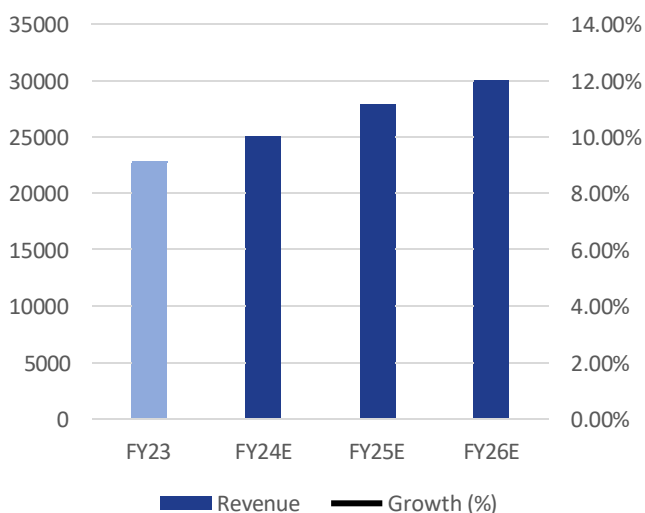
Particulars (Rs Cr)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Exchange Rate \$/RS	82.1	82.2	82.1	82.4	83.3	1.5	1.1
US Business (USD Millions)	195	204	222	229	230	17.9	0.4
India (Rx + Gx + CHL)	2563	2259	2772	2817	2859	1.5	1.5
North America	1600	1677	1822	1887	1916	1.5	1.5
SAGA	680	832	748	993	815	-17.9	-17.9
South Africa	550	619	514	620	603	-2.7	-2.7
International Markets	762	784	779	734	746	1.6	1.6
API	147	134	136	147	108	-26.5	-26.5
Others	58	53	71	100	99	-1	-1

Financials

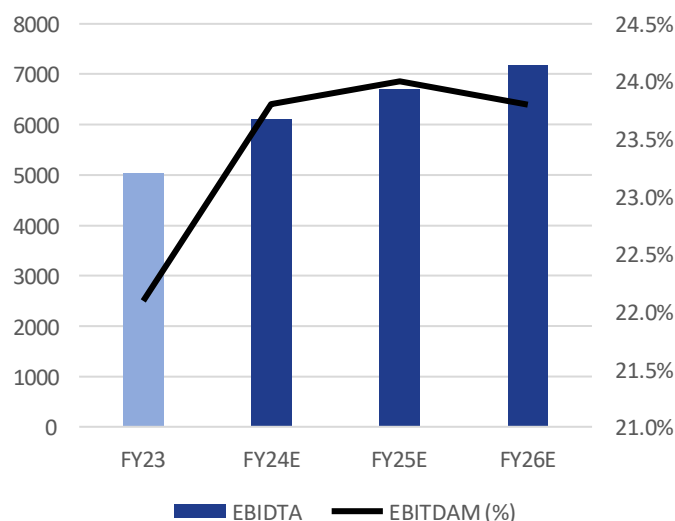
Profit & Loss Estimates

Particulars	FY23	FY24E	FY25E	FY26E
Total Net Sales	22753	25625	27903	30141
Growth (%)	4.50%	12.6%	8.9%	8.0%
Total Expenditure	17726	19526	21206	22968
Raw Material Consumed	8252	8840	9682	10549
Gross margins %	63.7%	65.5%	65.3%	65.0%
Employee Expenses	3830	4279	4604	4973
% of sales	16.8%	16.7%	16.5%	16.5%
Other Expenses	5644	6406	6920	7445
% of sales	24.8%	25.0%	24.8%	24.7%
EBIDTA	5027	6099	6697	7173
EBITDAM (%)	22.1%	23.8%	24.0%	23.8%
Interest	110	110	110	110
EBIT	3855	4889	5367	5724
EBITM (%)	16.9%	19.1%	19.2%	19.0%
Depreciation	1172	1210	1330	1450
Other Income	475	621	594	569
Share of profit/ (loss), net	-3	0	0	0
Exceptional items, net	-182	0	0	0
PBT	4039	5467	5918	6250
Tax Rate (%)	29.8%	25.0%	24.8%	24.8%
Tax	1203	1367	1468	1550
Reported PAT	2833	4100	4450	4700

Revenue & Growth (%)

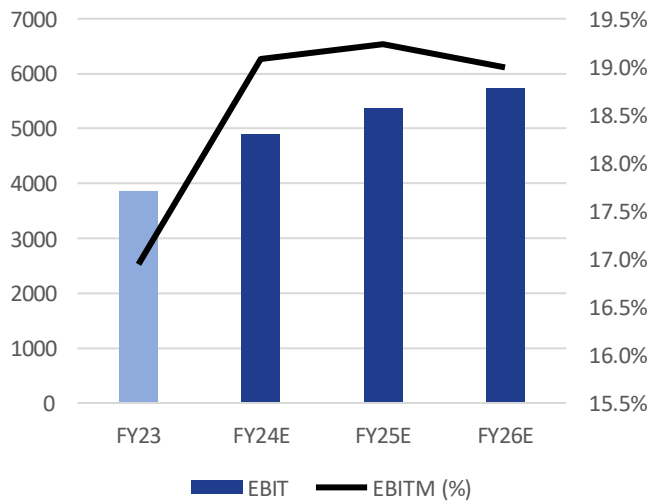


EBITDA & Margins (%)

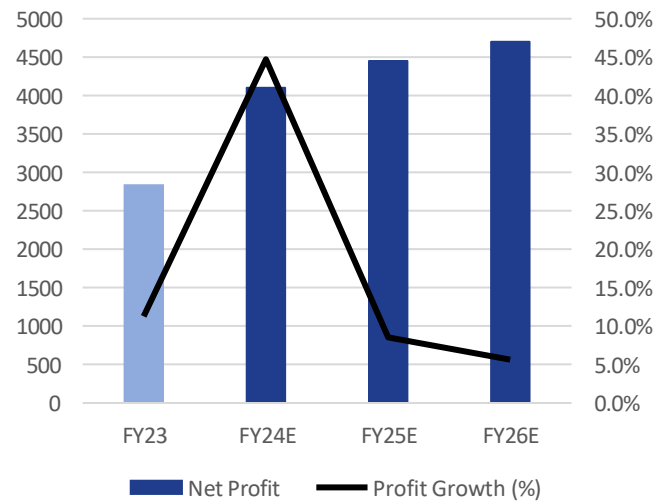


Financials

EBIT & Margins (%)



Net Profit & Growth (%)



Revenue

Cipla's revenue grew by 14.6% YoY and 5.5% QoQ to INR 5739 Cr in the last quarter. The one India business witnessed a revenue growth of 11.5% YoY, driven by a focus on chronic therapies and new launches. The revenue from North America business marked a 31.8% YoY growth. The growth was attributed to increased market share in various products and price stabilization.

Revenue from SAGA (South Africa and Global Access) grew by 19.9% YoY supported by strong performance in both prescription (Rx) and over the counter (OTC) segments.

Products like lanreotide injection helped in increasing revenue by increasing its market share in North America. Also, the company focused on chronic therapies in India to increase the revenue. Now the company is planning to launch new products in the upcoming years to drive growth.

Margins

The company's gross margins expanded by 63.7% last year and it expanded by 243 basis points (bps) year-over-year. The expansion was driven by a favorable product mix, contribution by new product launches, low logistics and procurement costs for key active pharmaceutical ingredients (APIs).

EBITDA for the quarter increased by 33.1% YoY and 16.1% QoQ. The EBITDA margins expanded by 362 bps YoY to 26.0%.

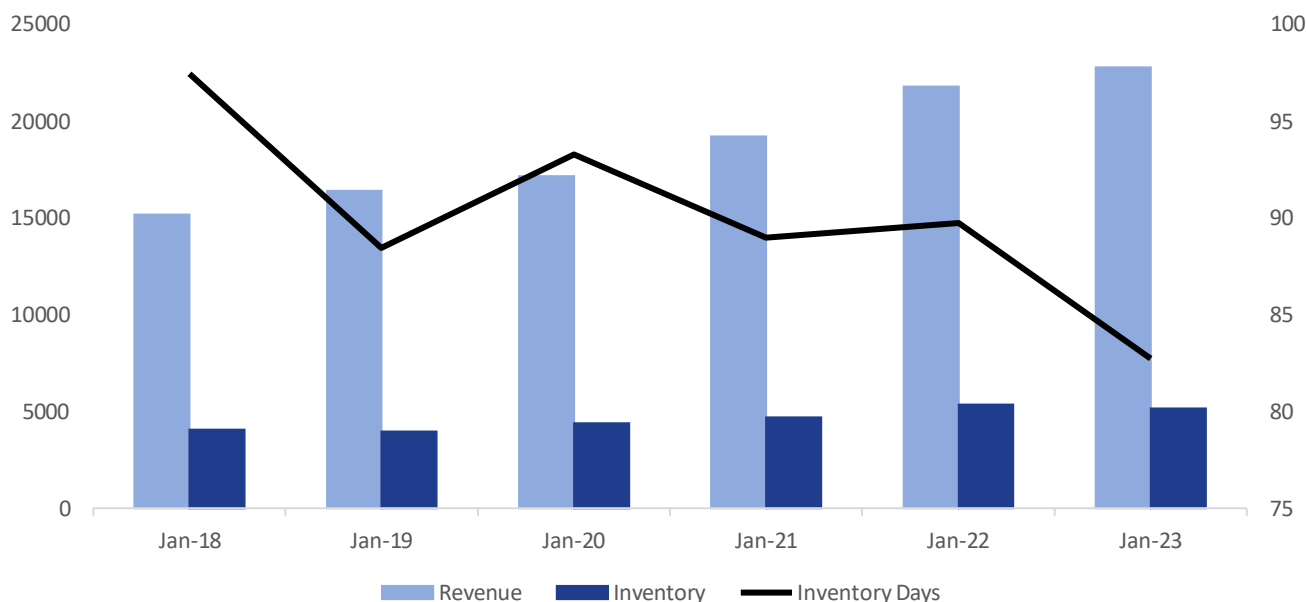
The factors which derived margins expansion includes volume growth and pricing in certain products, higher margin products contributed to margin expansion.

Inventory

From FY18 to FY23 the company's revenue grew by 8.5% CAGR, while the company's inventory days witnessed a 3.2% decline from 97 days to 83 days in the same time period of 5 years. The median inventory of the peers stood at 83 days, which is of Cipla itself, which shows the inventory days is at good position in comparison to its peers.

Financials

Inventory



Debtors

Over the span of five years, the company's debtors experienced a growth rate of 5.5% relative to its revenue, whereas the revenue itself showed a growth of 8.5%.

In the fiscal year 2018, the company's debtors constituted 2% of its total revenue, amounting to INR 3102 Cr, whereas by the fiscal year 2023, this proportion decreased to 1.8% of revenue, equivalent to INR 4057 cr.

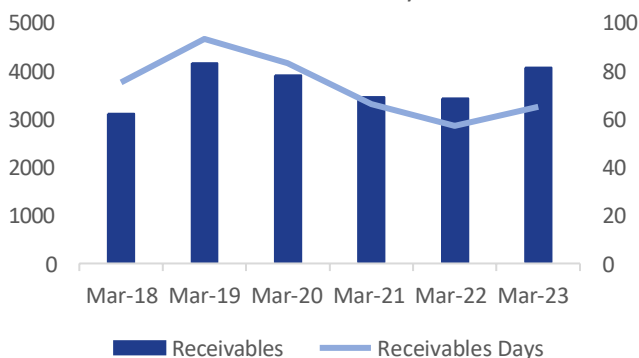
The median debtors day for the company stands at 65 days, which is around at its industry peers median of 66 days, with the highest recorded at 104 days and the lowest at 23 days.

Over the course of time, both the proportion of debtors aged more than and less than 6 months has seen moderate decreases.

Sales vs Receivables Growth (%)



Receivables & Days





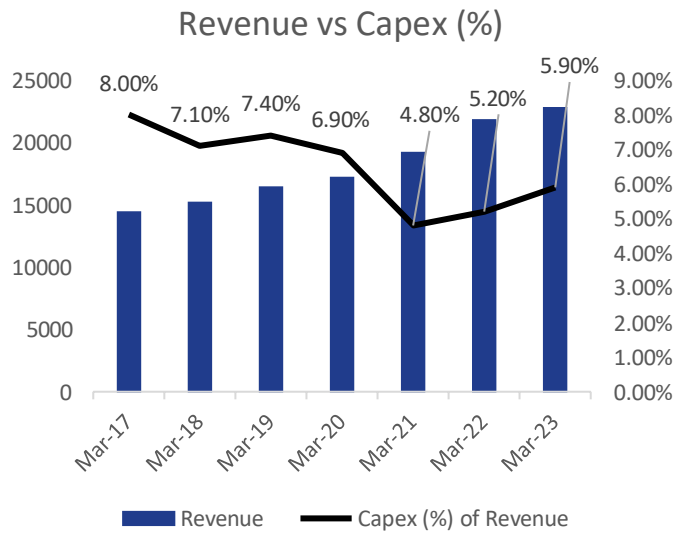
Financials

Capex

In FY23, capex has increased from 5.20% in previous year to 5.90% of revenue. Though it has not reached its historical levels of around 8% of revenue.

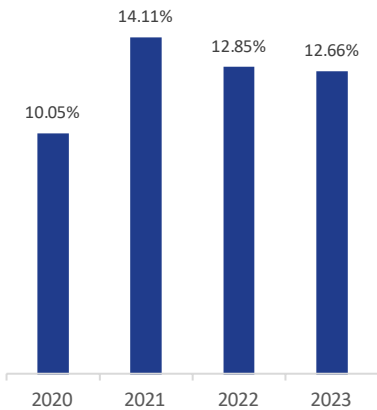
The management has also shared the insights of capex of 5-6% of revenue every year. It should be noted that this capex includes both maintenance capex as well as growth capex.

Source: Concalls Analysis.

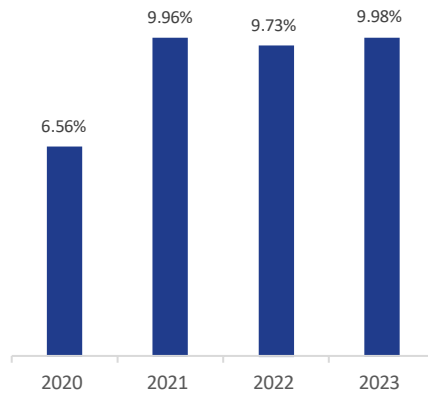


DuPont Analysis

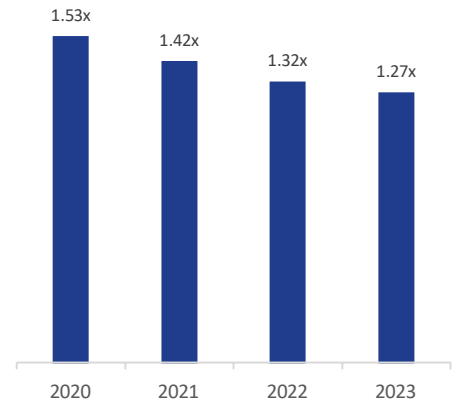
Return on Equity



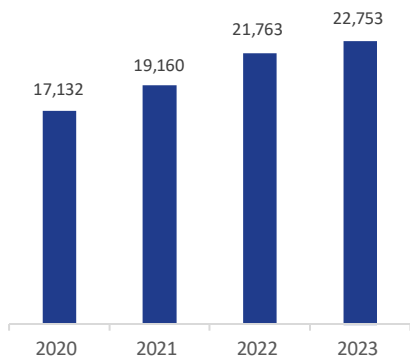
Return on Assets



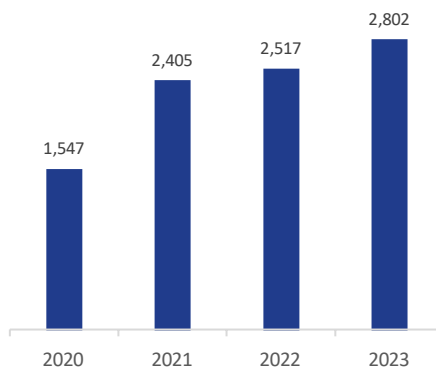
Financial Leverage



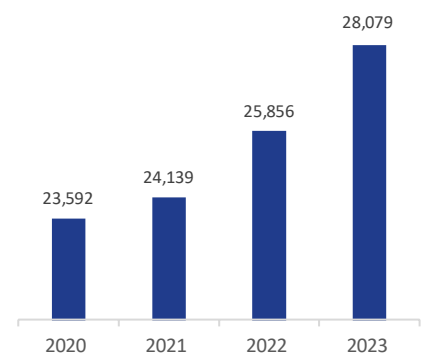
Revenues



Net Profit



Avg. Total Asset



Source: Company Analysis.

DuPont Analysis

Return on Equity (ROE)							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Net Profit	1,006.4	1,410.5	1,527.7	1,546.5	2,404.9	2,516.8	2,801.9
Average Shareholder Equity	12,029.9	13,386.4	14,620.7	15,387.6	17,044.8	19,584.1	22,124.7
Return on Equity (ROE)	8.37%	10.54%	10.45%	10.05%	14.11%	12.85%	12.66%

ROE - Dupont Equation							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Net Profit	1,006.4	1,410.5	1,527.7	1,546.5	2,404.9	2,516.8	2,801.9
Revenue	14,394.3	15,155.7	16,362.4	17,132.0	19,159.6	21,763.3	22,753.1
Net Profit Margin (A)	6.99%	9.31%	9.34%	9.03%	12.55%	11.56%	12.31%
Revenue	14,394.3	15,155.7	16,362.4	17,132.0	19,159.6	21,763.3	22,753.1
Average Total Assets	20,959.2	21,770.9	23,217.4	23,592.4	24,139.0	25,856.2	28,078.6
Asset Turnover Ratio (B)	0.69x	0.70x	0.70x	0.73x	0.79x	0.84x	0.81x
Average Total Assets	20,959.2	21,770.9	23,217.4	23,592.4	24,139.0	25,856.2	28,078.6
Average Shareholder Equity	12,029.9	13,386.4	14,620.7	15,387.6	17,044.8	19,584.1	22,124.7
Equity Multiplier (C)	1.74x	1.63x	1.59x	1.53x	1.42x	1.32x	1.27x
Return on Equity (A*B*C)	8.37%	10.54%	10.45%	10.05%	14.11%	12.85%	12.66%

Return on Assets			
	Mar-17	Mar-18	Mar-19
Net Profit	1,006.4	1,410.5	1,527.7
Average Total Assets	20,959.2	21,770.9	23,217.4
Return on Asset (ROA)	4.80%	6.48%	6.58%

ROA - Dupont Equation							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Net Profit	1,006.4	1,410.5	1,527.7	1,546.5	2,404.9	2,516.8	2,801.9
Revenue	14,394.3	15,155.7	16,362.4	17,132.0	19,159.6	21,763.3	22,753.1
Net Profit Margin (A)	6.99%	9.31%	9.34%	9.03%	12.55%	11.56%	12.31%
Revenue	14,394.3	15,155.7	16,362.4	17,132.0	19,159.6	21,763.3	22,753.1
Average Total Assets	20,959.2	21,770.9	23,217.4	23,592.4	24,139.0	25,856.2	28,078.6
Asset Turnover Ratio (B)	0.69x	0.70x	0.70x	0.73x	0.79x	0.84x	0.81x
Return on Assets (A*B)	4.80%	6.48%	6.58%	6.56%	9.96%	9.73%	9.98%

Commentary

- The ROE of the company has increased significantly from 8.37% in FY17 to 12.66% in FY23. At the same time, the company was able to make net profit margins from 6.99% to 12.31% in the same period.
- The financial leverage has reduced from 1.74x in FY17 to 1.27x in FY23, it resulted in increase in ROE as well as slight increase in Asset efficiency of the company from 0.7x to 0.8x.
- ROA of Cipla has been increased from 4.80% in FY17 to 9.98% in FY23. The reason for the increase is the increment in the net margin of the company.

Altman's Z Score Analysis

Working Capital / Total Assets							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Working Capital	4,508.4	6,136.9	6,489.8	6,601.0	7,146.5	8,897.4	10,294.7
Total Assets	20,868.9	22,672.9	23,761.9	23,422.8	24,855.3	26,857.2	29,300.0
Working Capital / Total Assets (A)	21.60%	27.07%	27.31%	28.18%	28.75%	33.13%	35.14%

Retained Earnings / Total Assets							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Retained Earnings	673.3	897.7	791.3	880.3	1,732.1	2,057.3	1,856.4
Total Assets	20,868.9	22,672.9	23,761.9	23,422.8	24,855.3	26,857.2	29,300.0
Retained Earnings / Total Assets (B)	3.23%	3.96%	3.33%	3.76%	6.97%	7.66%	6.34%

EBIT / Total Assets							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
EBIT	1,173.4	1,503.6	1,771.0	2,031.3	3,184.8	3,500.8	3,854.9
Total Assets	20,868.9	22,672.9	23,761.9	23,422.8	24,855.3	26,857.2	29,300.0
EBIT / Total Assets (C)	5.62%	6.63%	7.45%	8.67%	12.81%	13.03%	13.16%

Market Cap / Long term Liabilities							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Market Cap	47,703.4	43,915.2	42,613.5	34,091.7	65,734.8	82,137.7	72,683.9
Long term Liabilities	4,112.7	4,098.1	4,316.2	2,816.4	2,014.4	1,055.8	803.1
Market Cap / Long term Liabilities (D)	1159.92%	1071.61%	987.29%	1210.46%	3263.23%	7779.81%	9050.19%

Sales / Total Assets							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Sales	14,394.3	15,155.7	16,362.4	17,132.0	19,159.6	21,763.3	22,753.1
Total Assets	20,868.9	22,672.9	23,761.9	23,422.8	24,855.3	26,857.2	29,300.0
Sales / Total Assets (E)	68.97%	66.85%	68.86%	73.14%	77.08%	81.03%	77.66%

Altman's Z Score							
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Final Score	8.1	7.7	7.2	8.7	21.2	48.4	56.0
<i>Financial Stability</i>	<i>Strong</i>	<i>Strong</i>	<i>Strong</i>	<i>Strong</i>	<i>Strong</i>	<i>Strong</i>	<i>Strong</i>

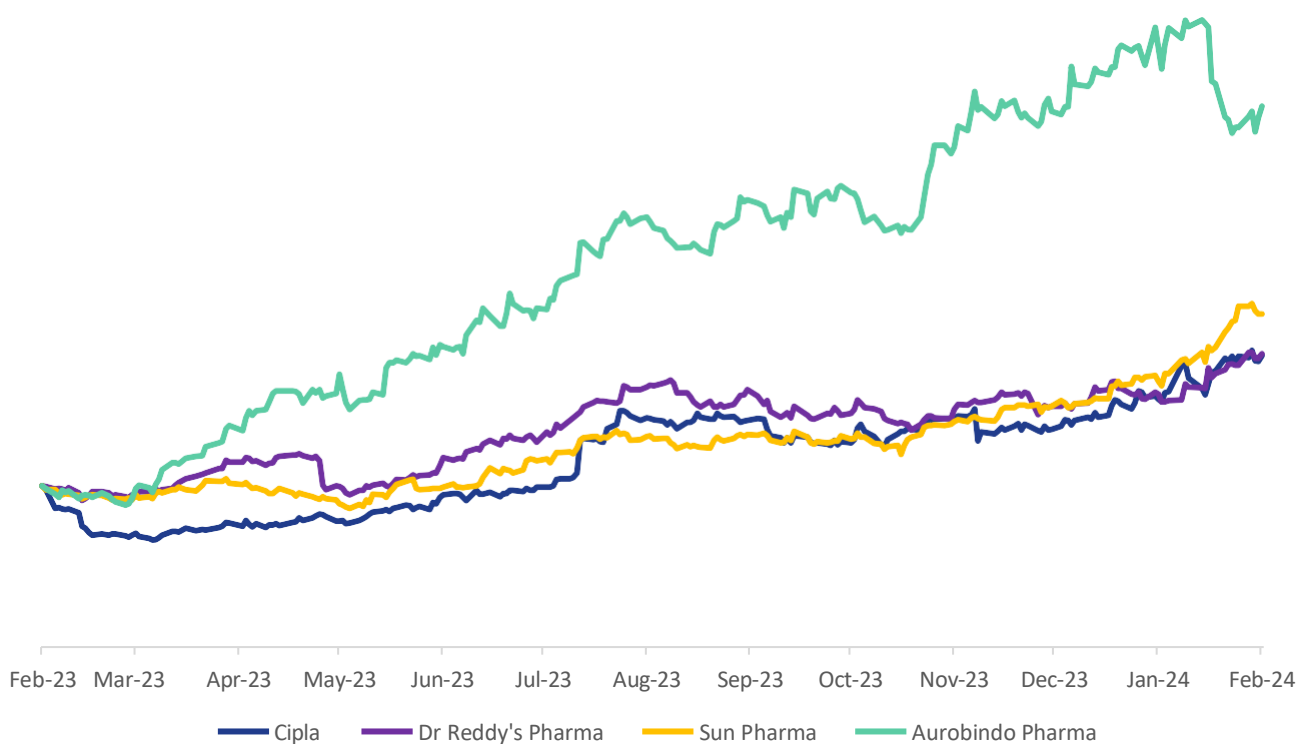
Commentary

According to Altman's Z Score theory a sound company should have a score of more than 3. In the case of Cipla its score has increased from 8.1 in FY17 to 56.0 in FY23. Hence, according to Altman's Z Score Analysis the company is financially strong.

Peer's Comparison

Cipla

Peers Stock Performance- Indexed (1Y)



Source: Yahoo Finance.

S. No.	Name	CMP Rs.	Mar Cap Rs. Cr.	PEG Ratio	P/E Ratio	ROE %	ROCE %	Interest Coverage Ratio	Debt Rs. Cr.
1	Cipla	1440.7	116316.29	1.83	29.46	12.84	18.02	53.18	960.89
2	Dr Reddy's Labs	6317.15	105376	0.52	20.16	21.64	26.73	48.04	1323
3	Sun Pharma.Inds.	1509.95	362287.58	1.47	38.69	16.55	16.44	43.99	6885.87
4	Aurobindo Pharma	1034.2	60597.77	-4.75	21.61	7.47	9.2	16.44	6648.63

Source: Screener.in

