INVasset Corporate Insights

Cipla

12th March, 2024

INVASSET

India's Best Performing and Most Customer Centric PMS

Cipla Limited, established in 1935, stands as a trailblazer for its commitment to accessible and affordable her in the global pharmaceutical sector, renowned healthcare solutions. With a rich legacy of innovation and integrity, Cipla has earned its place as a leader in developing, manufacturing, and distributing a diverse range of pharmaceutical products. Guided by a steadfast dedication to excellence and fueled by a culture of innovation, Cipla continues to push the boundaries of medical science, delivering transformative treatments and therapies that address critical healthcare needs worldwide. With a legacy spanning nearly nine decades, Cipla looks to the future with confidence and determination, poised to shape the healthcare landscape and make a lasting impact on the well-being of individuals and communities worldwide.

Market Leadership: Cipla stands as the 3rd largest pharmaceutical company in India and holds a dominant position in key therapeutic segments such as respiratory and urology. It ranks 2nd in the chronic disease management sector and continues to maintain a stronghold. Additionally, Cipla holds the 2nd position among Indian pharmaceutical exporters in emerging markets, showcasing its global reach and competitiveness.

Geographical Presence: Cipla's geographical footprint spans across India, North America, South Africa, Sub-Saharan Africa, and various international markets. The company's presence in these regions underscores its commitment to providing quality healthcare solutions to diverse populations worldwide.

Manufacturing Excellence: Driven by 47 state-of-the-art manufacturing facilities across six countries, Cipla ensures the highest standards of quality and efficiency in its production processes. These facilities serve as the backbone of the company's operations, enabling it to meet growing market demands effectively.

Strategic Collaborations and Acquisitions: Cipla's strategic partnerships and acquisitions further strengthen its position in the pharmaceutical landscape. Notable agreements include collaborations with leading industry players for the development and distribution of innovative therapies, as well as acquisitions aimed at expanding its renewable energy portfolio and venturing into biologic products.

Research and Development: Cipla's commitment to innovation is exemplified by its five state-of-the-art research and development facilities located in the US and India. With significant investments in R&D, the company continuously strives to introduce novel treatments and enhance its product offerings. Cipla boasts an impressive portfolio of approved and pending ANDAs and NDAs for the US market, along with a substantial number of granted patents.

Expansion Goals and Focus: Looking ahead, Cipla aims to expand its offerings and access to medicines, particularly in the lung specialty segment. The company remains focused on strengthening its presence in therapeutic areas such as antidiabetics and oncology, leveraging partnerships with global corporations to drive innovation and growth.

Stock Data	
CMP (12-03-2024)	1465.75
52 Week High/Low	1519 / 852
Face Value	2
Market Cap (In Crs)	1,18,529
Enterprise Value (In Crs)	1,18,310
NSE	CIPLA
BSE	500087
Bloomberg	CIPLA:IN
Sector	Pharmaceutical

Shareholding Pattern (in %)		
	DEC 23	SEP 23
Promoter	33.46	33.46
FII	25.73	25.74
DII	24.05	23.90
Public	16.53	16.68

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	2.54	11.70	26.98
CIPLA	1.81	17.51	66.34

Key Ratios	
P/E	30.0
P/S	4.68
P/B	4.78
Debt To Equity	0.04
ROE	12.8%
ROCE	18.0%
Dividend Yield	0.58%

Q3 FY 24 Result Update

Q3 FY24 Result Comparison (In Rs Cr)					
	Q3 FY24	Q2 FY24	Q3 FY23	QOQ	YOY
Sales	6604	6678	5810	-1.11%	13.67%
EBITDA	1737	1910	1522	-9.06%	14.13%
EBIT	1504	1620	1250	-7.16%	20.32%
Net Profit	1068	1155	808	-7.53%	32.18%
EPS	13.08	14.01	9.92	-6.64%	31.85%

Result Highlights

Cipla's financial performance for the third quarter of FY24 saw a slight decrease in sales by 1.11% compared to the previous quarter but marked a significant increase of 13.67% year-on-year. Similarly, EBITDA and EBIT experienced a decline of 9.06% and 7.16% quarter-on-quarter, respectively, while showing substantial growth of 14.13% and 20.32% year-on-year. Despite the marginal decrease in net profit by 7.53% sequentially, the company demonstrated robust growth of 32.18% compared to the same period last year. This translated into an earnings per share (EPS) of 13.08, reflecting a moderate decline of 6.64% compared to the previous quarter but a notable increase of 31.85% year-on-year.

In summary, Cipla's financial results for the third quarter of FY24 exhibited mixed performance metrics. While there was a slight dip in sales, EBITDA, EBIT, and net profit on a quarter-on-quarter basis, the company sustained strong year-on-year growth across these indicators. The significant increase in net profit and EPS compared to the same period last year underscores Cipla's resilience and ability to capitalize on market opportunities despite short-term fluctuations. Moving forward, the company remains focused on leveraging its strengths and optimizing operational efficiency to drive sustainable long-term growth and enhance shareholder value.

Diversification Strategy: Cipla's focus on diversifying its product portfolio beyond generics into specialty medicines and consumer healthcare indicates a strategic shift towards higher-margin segments. The company's exploration of peptide assets and investment in research and development underscores its commitment to innovation and long-term growth. This strategy not only mitigates risks associated with generic competition but also positions Cipla as a key player in therapeutic areas with unmet medical needs, thereby enhancing its competitive advantage and revenue potential.

Market Expansion Initiatives: Cipla's efforts to expand its presence in key markets, particularly the United States and India, are noteworthy. The company's emphasis on building a strong foothold in the U.S. specialty market through both organic and inorganic growth strategies reflects its ambition to capture a larger share of the lucrative healthcare market. Additionally, its focus on scaling up operations in India, coupled with strategic acquisitions in the branded consumer health segment, demonstrates Cipla's commitment to catering to diverse healthcare needs and capitalizing on growth opportunities in emerging markets.

Resilience in Pricing Pressures: Despite facing pricing pressures in the U.S. generics market, particularly in inhalation products, Cipla has demonstrated resilience through effective cost management and product differentiation strategies. The company's ability to navigate challenging market dynamics and maintain a stable pricing environment while sustaining profitability highlights its robust operational capabilities and adaptability to evolving market conditions. Moreover, Cipla's proactive approach to addressing regulatory changes and optimizing its product mix underscores its agility and proactive risk management practices.

Strategic Leadership and Governance: The transition in leadership roles within Cipla, including changes in executive positions and board restructuring, reflects the company's commitment to ensuring continuity and stability amidst organizational transformations. The strategic realignment of responsibilities and succession planning initiatives underscore Cipla's focus on fostering leadership excellence and promoting a culture of accountability and transparency. By nurturing talent internally and fostering a culture of innovation and collaboration, Cipla aims to sustain its market leadership position and drive sustainable long-term growth.

Concall Highlights

Symbicort Filing Strategy: Cipla's strategy regarding the filing of Symbicort, originally an Indore filing, involves meticulous planning to optimize regulatory compliance and market adaptability. The company has taken proactive steps by initiating batch production of Symbicort in the U.S., ensuring readiness for market demand. This strategic approach allows Cipla the flexibility to adjust its filing strategy based on evolving regulatory requirements and market dynamics. By maintaining a dual-site filing option, Cipla demonstrates its commitment to operational efficiency and regulatory compliance while ensuring timely market access for its products.

Cost Control and Operating Leverage: Cipla has demonstrated effective cost control measures, leading to a 50 basis point savings in other expenses, excluding research and development (R&D), as a percentage of revenue. This achievement underscores the company's commitment to operational efficiency and disciplined financial management. The reduction in clinical study costs and the realization of operating leverage benefits have contributed to this positive trend. Moving forward, Cipla remains focused on sustaining these cost control efforts while strategically investing in growth opportunities to drive long-term value creation for its stakeholders.

R&D Expenditure and Revenue Allocation: Cipla aims to maintain its research and development (R&D) expenditure around 6% of revenue, primarily allocated to its U.S. revenue. This strategic allocation reflects the company's focus on innovation and product development to drive future growth. Additionally, Cipla highlights the flexibility to increase R&D investment based on growth opportunities and revenue performance. By prioritizing R&D spending in alignment with revenue growth, Cipla aims to sustain its competitive advantage and enhance its product pipeline to address evolving market needs effectively.

U.S. Pricing Environment Stability: The pricing environment for Cipla's products in the U.S. remains stable, with typical quarterly fluctuations falling within the 4% to 6% range. This stability reflects the company's resilient market position and effective pricing strategies. Despite ongoing pricing pressures, Cipla remains optimistic about its prospects in the U.S. market and continues to monitor pricing dynamics closely. The company's proactive approach to pricing management underscores its commitment to maintaining competitiveness and driving sustainable growth in the U.S. pharmaceutical market.

Gross Margin Expansion Factors: Recent expansion in gross margins is attributed to several factors, including pricing advantages and an improved business mix, particularly in the Chronic segment. Cipla's ability to leverage pricing advantages and optimize its product mix has contributed to enhanced profitability. Looking ahead, the company expects to sustain this growth trajectory by focusing on volume-driven growth and capitalizing on strategic pricing opportunities. Cipla aims to drive long-term value creation while maintaining a competitive edge in the pharmaceutical market.

Peptide Portfolio Expansion: Cipla is strategically expanding its peptide portfolio, with a mix of 505(b)2 and abbreviated new drug application (ANDA) assets. The company expects most intellectual property (IP)-related issues to resolve within the '24 to '25 timeframe, paving the way for commercialization. This strategic expansion reflects Cipla's commitment to innovation and product development in key therapeutic areas. By leveraging its peptide portfolio, Cipla aims to address unmet medical needs and drive growth in its core markets effectively.

Long-term Promoter and Management Vision: The management emphasizes continuity and long-term vision, with a focus on creating an enduring institution. Promoter involvement and management continuity are prioritized to ensure professionalism and sustained growth, regardless of transitions or market dynamics. Cipla's commitment to long-term value creation underscores its dedication to shareholders and stakeholders. Cipla aims to drive sustainable growth and deliver value to its stakeholders over the long term.

Cash Deployment Strategy: Cipla plans to deploy its excess cash with a disciplined approach, focusing on bolt-on acquisitions and brand expansions. The company remains committed to optimizing shareholder value while maintaining prudent financial management practices. Despite the availability of excess cash, Cipla emphasizes the importance of investment returns and risk mitigation in its capital allocation decisions. By prioritizing strategic acquisitions and brand expansions, Cipla aims to capitalize on growth opportunities and drive sustainable long-term value creation for its stakeholders.

U.S. Specialty Strategy Adjustment: Cipla is strategically shifting its focus from acquiring external assets to developing in-house assets for long-term growth in the U.S. specialty market. This strategic adjustment reflects the company's evolving approach to portfolio management and risk mitigation. By focusing on internal asset development, Cipla aims to optimize resource allocation and minimize dependence on external factors. Additionally, the company emphasizes the importance of a controlled growth strategy to ensure sustainable value creation and mitigate potential risks associated with external asset acquisitions.

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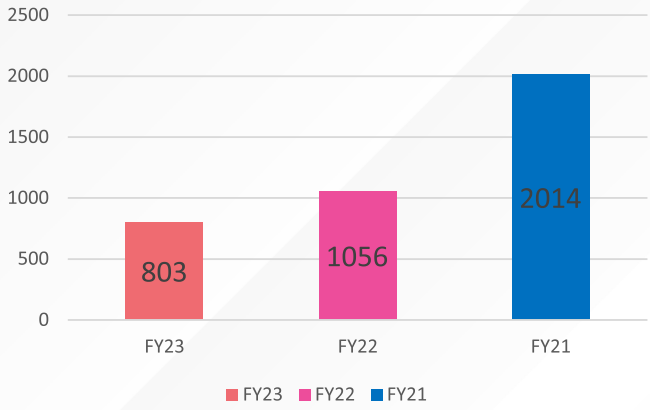


Story Through Charts

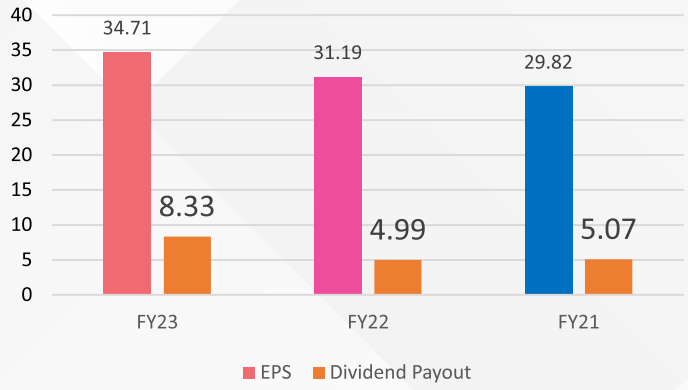
Compounded Growth (In %)



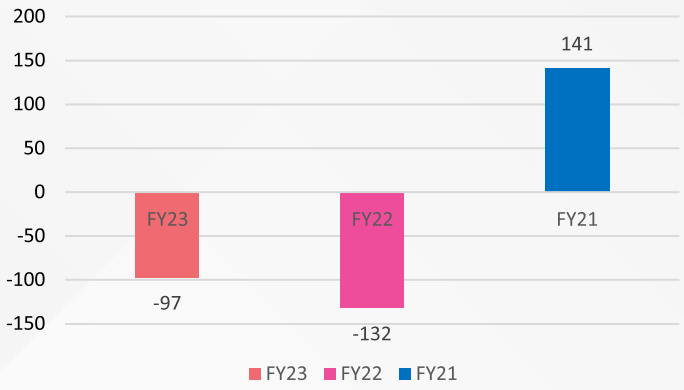
Borrowings(In Cr)



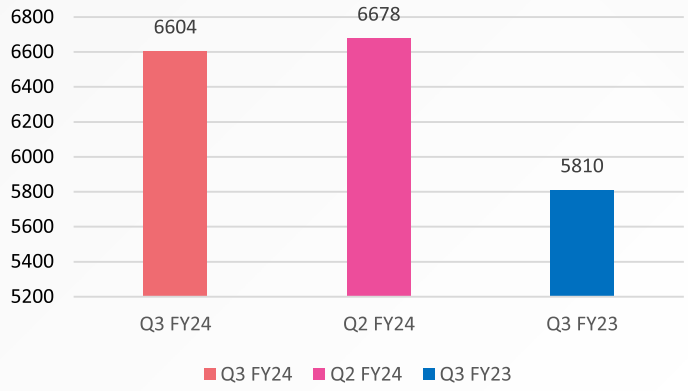
Earnings & Dividend (In Cr)



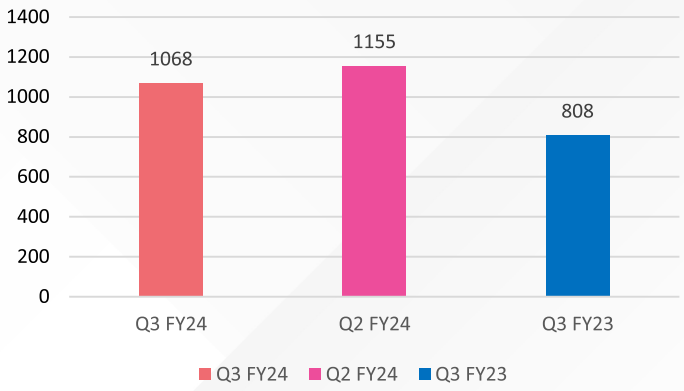
Cash Flows (In Cr)



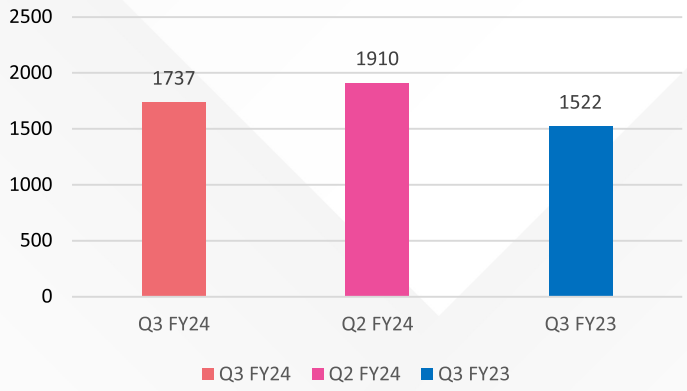
Revenue (In Cr)



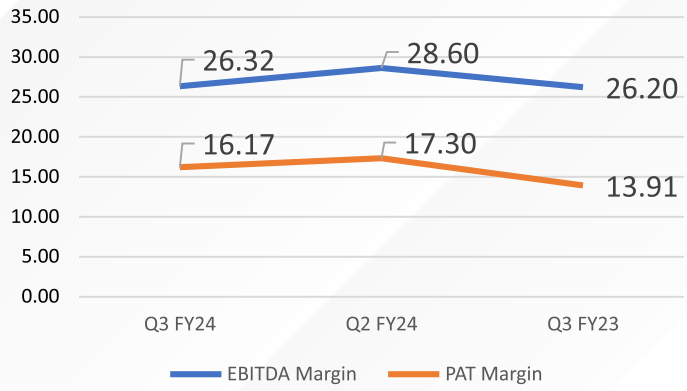
PAT (In Cr)



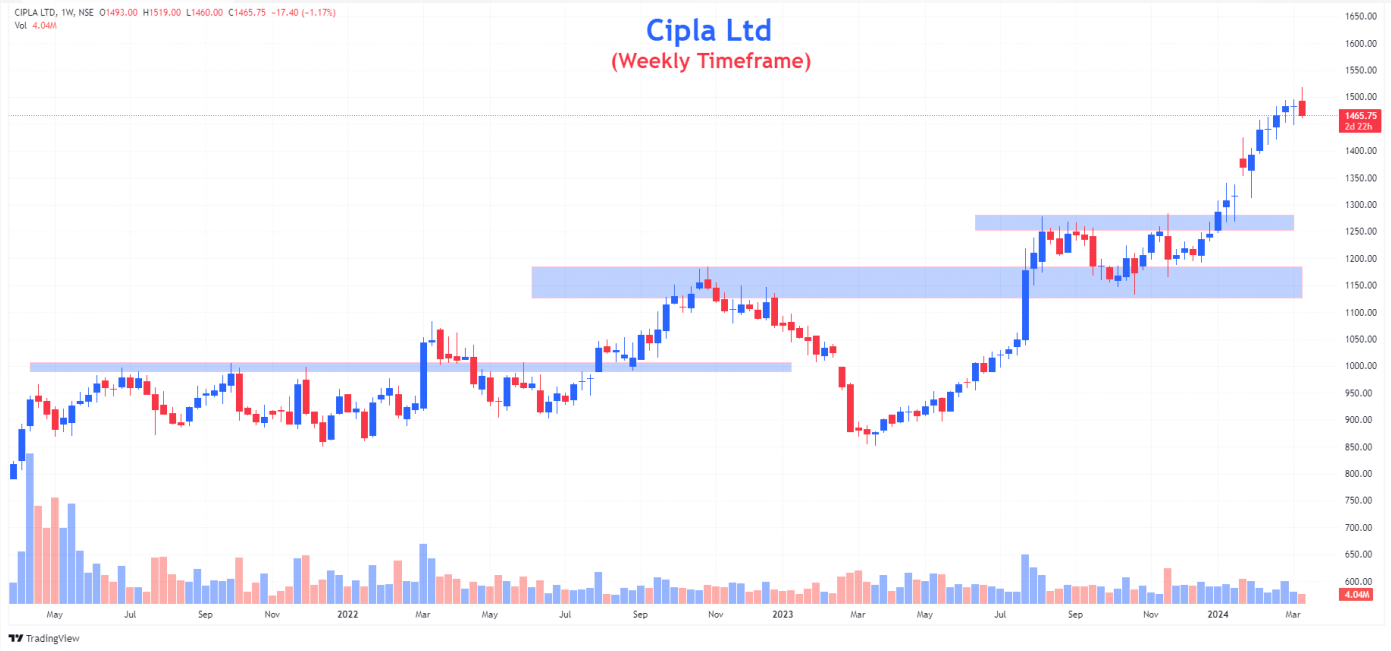
EBITDA (In Cr)



EBITDA & PAT Margin (In %)



Technical Outlook



The weekly chart for Cipla Ltd shows a price increase over time. After a period of fluctuation within a tight range, marked by a blue rectangle, a significant drop occurred, followed by a strong recovery. The recovery surpassed previous highs, culminating in a steady uptrend. Recent weeks display consistent growth, with price bars closing higher, suggesting bullish momentum. The trading volume appears variable, with no clear correlation to price movements. The current price is at a peak, reflecting investor confidence.

The Simple Moving Averages (SMA) and Exponential Moving Averages (EMA) for Cipla Ltd show a higher valuation in shorter time frames, indicating an uptrend. The 5-day EMA is slightly higher than the SMA, suggesting recent prices are higher than the average. The 200-day averages are the lowest, reflecting earlier lower prices.

The Relative Strength Index (RSI) on a daily scale is 54.33, signifying a neutral momentum, while the weekly RSI is 77.44, indicating potential overbought conditions and a strong bullish trend.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	1479.1	1479.7
10	1478.1	1474.5
20	1462.6	1457.5
50	1389.1	1398.2
100	1302.5	1327.5
200	1209.4	1239.5

Pivot Levels : FIBONACCI		
R1 1490.57	Pivot 1483.03	S1 1475.62
R2 1497.98		S2 1468.08
R3 1505.52		S3 1460.67

	Daily	Weekly
Relative Strength Index (RSI)	54.33	77.44

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