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Research Summary

Cipla Limited



Cipla is an Indian multinational pharmaceutical company. The company was incorporated in the year 1935. The founder is Khwaja Abdul Hamied. Cipla has its headquarter in Mumbai. The company has extended its business worldwide. The presence of this company is marked in Australia, Europe, Kenya, Malaysia, Morocco, Nepal, South Africa , Srilanka, Uganda, United Kingdom & USA.

The company was initially incorporated with the name 'The Chemical, Industrial & Pharmaceutical Laboratories'. However, in the year 1984 on 20th July the company undergoes a name change "Cipla". The products offered include Generics and Branded Generics, Speciality, Consumer Health and Over-The-Counter range. The equity shares are listed on BSE. The mission of this company is to be "a leading global healthcare company which uses technology and innovation to meet the everyday needs of all patients."

Industry Analysis

Cipla is one of the pharmaceutical firms which has marked its presence within the Indian Pharmaceutical Industry. As of 2020 Cipla Limited had a coverage of over 64 percent in the Indian pharmaceutical market. "Cipla target prediction for 28 Fri January 2022 are 974.14, 960.32, 946.5 on the upside, and 868.87, 882.7, 896.52 on the downside" as per <https://munafasutra.com/nse/tomorrow/CIPLA>

Key Financials

| Key Metrics (In INR Cr) | Q2 FY22 | Q2 FY21 |
|-------------------------------|---------|---------|
| Total Revenue from Operations | 5,520 | 5,038 |
| EBITDA | 1,226 | 1,177 |
| PAT | 711 | 665 |

- Quarterly revenue increased by 10% to INR 5,520 crores, YOY
- EBITDA increased by 4% YoY to INR 1,226 crores
- Profit After Tax increased by 7% YOY to INR 711 crores
- Total expenses, which include employee costs and other expenses is 2,157 crores, grew 3% on a sequential basis
- Employee costs for the quarter at Rs. 878 crores, declined by 1% on a sequential basis.
- The effective tax rate for the quarter is 28.5%.

Management Team

- Dr. Y. K. Hamied---Non-Executive Chairman
- Mr. M. K. Hamied---Non-Executive Vice-Chairman
- Ms. Samina Hamied---Executive Vice-Chairperson
- Mr. Umang Vohra---Managing Director & Global Chief Executive Officer

Coming to the quarter, we are pleased to report historically the highest quarterly revenue with a 10% YOY growth. Our continued trigger on cost and operating efficiency while continuing our focus on growth linked investments have helped us deliver robust EBITDA margin ahead of 22% for the quarter. We expect these efficiencies to continue in the coming period as well.

Kedar Upadhye, CFO



Business Segment Analysis

| Business (In INR Cr.) | Q2 FY22 | Q2 FY21 |
|-----------------------|---------|---------|
| India (Rx + Gx + CHL) | 2,416 | 2,090 |
| North America | 1,055 | 1,035 |
| SAGA | 994 | 923 |
| South Africa | 710 | 568 |
| International Markets | 821 | 722 |
| API | 172 | 189 |
| Others | 62 | 81 |

INTERNATIONAL MARKETS (EMERGING MARKETS & EUROPE) & API

1. International markets grew 14% YoY in USD terms.
2. Sales growth was supported by strong customer relationships in API.
3. Bevacizumab Biosimilar launched under partnership in Spain to strengthen our oncology portfolio.

India

1. Overall business grew by 16% YoY in INR terms compared to FY21.
2. The branded prescription business continued strong performance due to sustained volume traction and covid portfolio contribution.
3. Trade generics business shows a robust order flow across regions due to strong demand and continued momentum in flagship brands
4. Consumer health business emphasized on anchor brands & transitioned brands
5. The company has entered into a strategic partnership with Eli Lilly for Diabetic products Humalog® and Trulicity.

Competitors

- Pfizer
- Par Pharmaceutical
- Dr. Reddy's Laboratories
- Biocon
- Abbott India

SAGA - SOUTH AFRICA, SUB-SAHARAN AFRICA AND GLOBAL ACCESS

1. Revenue grew 8% YoY in USD term.
2. In South Africa, business performed well in the CNS, respiratory and anti-infectives therapies.
3. Performance attributed to delays in the order confirmation from select clients in the Sub Saharan Africa and in Global Access.

NORTH AMERICA

1. US generic core formulation sales for the quarter were \$ 142 million.
2. Products like Diclofenac, Sertraline, Escitalopram and Esomeprazole have witnessed steady momentum for the quarter.



Key Developments

Strategic Partnership

Cipla has entered in a joint venture with Kemwell Biopharma for developing manufacturing biosimilars.

Cipla has entered into a strategic partnership with a startup called Clensta for distribution of waterless technology products.

Entered into a partnership with Eli Lilly for the diabetes franchise.

Samhita and Cipla has entered into a strategic partnership to tap a potential pharmacists as a key driver of community healthcare in the country.

Rubicon Research Private Ltd. had acquired Cipla Ltd.'s wholly owned subsidiary Meditab Specialities Ltd.'s oral liquid dosage and nasal product manufacturing facility.

Regulatory Approvals

Cipla received approval from the US health regulator to market Difluprednate Ophthalmic Emulsion which is used in the treatment of inflammation and pain associated with ocular surgery.

The company is a continuous communication with the FDA for the Goa plant

Launching New Product

Cipla has inclined itself in strategic approach for automation and digitization

The company has launched a new sanitation brand called ciphands

Major Stockholders

- Promoters (14.24%)
- Foreign Institutions (24.23%)
- NBanks Mutual Funds (13.09%)
- Others (2.03%)
- General Public (15.89%)
- Financial Institutions (8.33%)
- Foreign Promoter (21.68%)
- GDR (0.52%)

Our international markets reported 14% revenue growth year-on-year in U.S. dollar terms. Our emerging markets business rebounded after resuming Middle Eastern supplies, which demonstrated strong performance in our direct to market businesses and from the contribution from COVID therapy products. We have witnessed incrementing competition in Europe for a select category leading to lower than anticipated performance.

Umang Vohra, MD & CEO



SWOT Analysis

Strength

- The company has a strong portfolio with diversified products include generic, Consumer Health, Speciality and API.
- The company has expanded itself worldwide.
- Cipla has prioritize itself in new drug development.
- Cipla's products are well recognised by regulatory authorities of India, USA, Germany and the UK etc.

Weakness

- Revenue is solely dependent on India.
- Rivalry from other pharmaceutical firms.

Opportunities

- The company is constantly expanding in the domestic and international markets.
- The company is constantly developing new products.

Threat

- Different government policies impacting the business.



Excerpts from the conference call Q&A

Regarding the question on the growth of gross margin across India & South Africa it was answered that the company has improved the gross margin compared to the past. The improvement is initiated by pricing mix and geographical presence. The question was even raised on the flattish growth of the USA. The reason is mainly the price erosion but still the company is the momentum of new launch.

Regarding the question on investment it was answered that the company has made a significant investment to launch new product in the coming four to five years. Some analysts raised their concern on the price erosion of Albuterol. It was answered by Kedar Upadhye that price erosion depends on product by product metrics.

Umang Vohra even emphasized on the CHL, the strategy for the One India. Kedar Upadhye highlighted that Omnigel has grown by 41% in the first half. Cipcal grew at 16%. Cofsils grew at 58%, Nicotex, which is the flagship brand, grew at 13%. He even emphasized that Cipla will have most of its launches in the second and third quarter. The next Earnings Conference Call to be held on 25th January 2022.

Regarding the question on CAPEX it was answered that in the current year the magnitude is of Rs. 800 crores to Rs. 900 crores. Analysts questioned on the margin expectation for the coming quarters. It is anticipated that 1% of R&D increased and some operating efficiencies will be balancing that out. Analysts even questioned on the growth of the respiratory business by 20%. It was answered that there are technical barriers in the respiratory market, but it has successfully entered in the emerging markets are the United States. Analysts even questioned on the ultimate launch plan for Revlimid in the US? Umang Vohra emphasized that they will launch it only when they are allowed to.



Bay Area, San Francisco, CA