



India

HOLD (previously ADD)

Consensus ratings*: Buy 26 Hold 8 Sell 6

Current price: Rs1,540
 Target price: ▼ Rs1,590
 Previous target: Rs1,700
 Up/downside: 3.2%
 InCred Research / Consensus: -5.6%

Reuters: CIPL.NS
 Bloomberg: CIPLA IN
 Market cap: US\$14,025m
 Rs1,244,040m
 Average daily turnover: US\$26.8m
 Rs2381.2m
 Current shares o/s: 807.0m
 Free float: 66.5%
 *Source: Bloomberg

Key changes in this note

- Cut FY26F/27F EPS by 4%/6%, respectively.
- Downgrade our rating to HOLD (from ADD).
- Reduce our target price to Rs1,590 (from Rs1,700).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.4	(1.2)	8.8
Relative (%)	(2.6)	(5.0)	2.3

Major shareholders	% held
Promoters	33.5
SBI MF	4.7
HDFC MF	3.6

Downgrade to HOLD rating with a lower target price of Rs1,590

Our FY26F/27F EPS stands lowered by 4%/6%, respectively. Downside/upside risks: Delay in the USFDA approval or launch timeline, lower-than-expected margin and vice-versa.

Cipla Ltd**Tough times ahead**

- Cipla's 2QFY26 results were broadly in line. US biz performance was below estimate, with a QoQ growth of 3%. India biz growth was 6.7% vs. 6% estimate.
- We expect near-term headwinds in the form of delayed launch (gAdvair), margin pressure, and strategic uncertainty. We change our stance to cautious.
- We have cut our FY26F/27F EPS by 4%/6%, respectively. Downgrade our rating on the stock to HOLD (from ADD) with a lower target price of Rs1,590.

Broadly in-line 2Q performance

Cipla's 2QFY26 growth was above our/Bloomberg consensus estimates by 2%, with margin at 25% being in line with estimates. The US revenue at US\$233m (below our estimate of US\$235m) grew by 3% QoQ, mainly driven by gAlbuterol and faster uptick in the Lanreotide franchise {505(b)(2) and generic} market share (now at 22%), partially offset by price erosion in gRevlimid. gAlbuterol's market share has improved QoQ, from 19.5% to 22%. One Africa saw a moderate 5% YoY revenue growth in US dollar terms driven by new launches, tender business and advancement in key therapies. India business grew by 6.7% YoY, above our estimate of 6%. Trade generics and a few therapies (urology, cardiac, anti-diabetes and dermatology) in branded generics recorded strong double-digit growth. The gross margin declined by 170bp/50bp QoQ/YoY while the EBITDA margin declined by 60bp QoQ due to higher R&D expenses. For FY26F, Cipla has revised lower its margin guidance of 23.5-24.5% to 22.75-24% because of higher R&D spending by 50bp (our earlier estimate was in the range of 6-6.5%).

Challenging transition phase

We expect the company's accelerated R&D investments to compress FY26F margin by ~60bp to 23.5% (vs. 24.1% earlier). Further, the **gRevlimid cliff** in FY27F is likely to exert additional pressure on both gross and EBITDA margins. The **delay in gAdvair launch** to 4QFY26F (from early 2HFY26F) and a potential shortfall of ~US\$50m in achieving the FY27F US\$1bn US revenue target led us to **trim FY26F/27F revenue estimates by 2%/3%**, implying a growth of 6.2%/7.4%, respectively. Moreover, the **ongoing leadership transition** introduces an element of strategic uncertainty in the medium term. With execution risks rising and profitability set to moderate, we turn cautious and maintain a **'wait-and-watch' stance**. We downgrade our rating on **Cipla** from **ADD** to **HOLD**, as near-term headwinds weigh on our earlier optimism.

Other conference-call highlights

1) Currently, Cipla is the only partner of Eli Lilly for Tirzepatide in India. 2) Tirzepatide will be a material opportunity in Tier-2 and 3 towns. 3) Already recruited and trained the field force for Tirzepatide and it will not be the same for gSemaglutide.

Downgrade to HOLD rating with a lower target price of Rs1,590

Our FY26F/27F EPS stands lowered by 4%/6%, respectively. Downside/upside risks: Delay in the USFDA approval or launch timeline, lower-than-expected margin and vice-versa.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	227,531	257,741	275,476	292,679	314,428
Operating EBITDA (Rsm)	50,270	62,910	71,279	68,865	72,304
Net Profit (Rsm)	28,019	41,343	52,725	47,776	49,273
Core EPS (Rs)	36.3	53.0	65.3	59.2	61.1
Core EPS Growth	12.3%	45.9%	23.3%	(9.4%)	3.1%
FD Core P/E (x)	42.42	29.06	23.57	26.01	25.22
DPS (Rs)	8.5	5.5	6.0	6.0	6.5
Dividend Yield	0.55%	0.36%	0.39%	0.39%	0.42%
EV/EBITDA (x)	24.50	18.84	16.24	16.60	14.96
P/FCFE (x)	23.39	17.98	14.91	35.17	9.48
Net Gearing	(3.6%)	(19.4%)	(25.6%)	(26.5%)	(39.0%)
P/BV (x)	5.31	4.65	3.98	3.50	3.11
ROE	13.2%	17.1%	18.2%	14.3%	13.1%
% Change In Core EPS Estimates				(3.68%)	(5.92%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Research Analyst(s)**Yogesh SONI**

T (91) 22 4161 1566

E yogesh.soni@incredresearch.com

Figure 1: Financial summary

(Rs m)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	Y-o-Y (%)	Q-o-Q (%)
Revenue	66,782	66,038	61,632	66,939	70,510	70,730	67,297	69,575	75,894	8%	9%
Consumption of raw materials	23,131	22,195	20,501	21,929	22,830	22,641	21,890	21,707	24,976	9%	15%
as % of sales	34.6%	33.6%	33.3%	32.8%	32.4%	32.0%	32.5%	31.2%	32.9%		
Employee costs	10,911	10,681	10,842	11,942	12,079	11,976	12,331	13,123	13,148	9%	0%
as % of sales	16.3%	16.2%	17.6%	17.8%	17.1%	16.9%	18.3%	18.9%	17.3%		
Other expenditure	15402	11686	12690	12380	12895	12624	13440	12643	13433	4%	6%
as % of sales	23.1%	17.7%	20.6%	18.5%	18.3%	17.8%	20.0%	18.2%	17.7%		
EBITDA	17,338	17,475	13,159	17,158	18,856	19,889	15,376	17,781	18,948	0%	7%
Margins (%)	26.0%	26.5%	21.4%	25.6%	26.7%	28.1%	22.8%	25.6%	25.0%		
Depreciation	2,900	2,334	2,883	2,467	2,717	2,798	3,087	2,527	2,970		
Other income	1,763	1,846	2,493	1,602	1,906	2,216	2,895	2,586	2,690	41%	4%
Interest	258	301	176	180	154	146	140	141	132		
PBT	15,942	16,686	12,593	16,114	17,891	19,161	15,043	17,699	18,535	4%	5%
Total tax	4,384	4,053	3,249	4,351	4,830	3,324	2,793	4,779	5,005		
Tax rate (%)	27.5%	24.3%	25.8%	27.0%	27.0%	17.3%	18.6%	27.0%	27.0%		
PAT before MI	11,558	12,633	9,344	11,763	13,060	15,837	12,250	12,921	13,531	4%	5%
Minority interest (MI)	-249	1	46	14	-35	-132	-32	56	-19		
Adj. PAT before extraordinary items	11,309	12,634	9,390	11,776	13,025	15,705	12,218	12,976	13,512	4%	4%
Extraordinary expenses	0	-1,948	0	0	0	0	0	0	0		
Reported PAT	11,309	10,686	9,390	11,776	13,025	15,705	12,218	12,976	13,512	4%	4%
No. of shares	807.3	807.6	807.6	808.0	808.0	808.0	808.0	807.8	807.8		
EPS	14.0	15.6	11.6	14.6	16.1	19.4	15.1	16.1	16.7		
Core EPS	12.4	13.9	9.3	13.1	14.4	17.2	12.2	13.7	14.3		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	65%	66%	67%	67%	68%	68%	67%	69%	67%	-53	-171
EBITDA	26%	26%	21%	26%	27%	28%	23%	26%	25%	-178	-59
Adj. PAT	17%	19%	15%	18%	18%	22%	18%	19%	18%	-67	-85
Effective tax rate	27%	24%	26%	27%	27%	17%	19%	27%	27%	0	0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	Y-o-Y (%)	Q-o-Q (%)
North America - INR	18,870	19,160	18,750	20,870	19,860	19,060	19,190	19,330	20,390	3%	5%
% total revenue	28.3%	29.3%	30.4%	31.2%	28.2%	26.9%	28.5%	27.8%	26.9%		
Global Access & Rest of Africa	2,420	2,120	710	510	2,690	2,060	2,810	1,760	2,770	3%	57%
% total revenue	3.6%	3.2%	1.2%	0.8%	3.8%	2.9%	4.2%	2.5%	3.7%		
South Africa	6,200	6,030	6,900	6,260	7,990	7,690	7,380	6,950	9,010	13%	30%
% total revenue	9.3%	9.2%	11.2%	9.4%	11.3%	10.9%	11.0%	10.0%	11.9%		
India	28,170	28,590	24,170	28,980	29,480	31,460	26,220	30,700	31,460	7%	2%
% total revenue	42.2%	43.7%	39.2%	43.3%	41.8%	44.5%	39.0%	44.1%	41.5%		
EM & Europe	7,340	7,460	8,270	8,490	8,060	8,240	8,950	8,610	9,670	20%	12%
% total revenue	11.0%	11.4%	13.4%	12.7%	11.4%	11.6%	13.3%	12.4%	12.7%		
API	1,470	1,080	1,890	980	1,600	1,260	1,820	1,020	1,480	-8%	45%
% total revenue	2.2%	1.7%	3.1%	1.5%	2.3%	1.8%	2.7%	1.5%	2.0%		
Others	2,312	990	940	849	830	960	920	1,210	1,110	34%	-8%
% total revenue	3.5%	1.5%	1.5%	1.3%	1.2%	1.4%	1.4%	1.7%	1.5%		
Total revenue	66,782	65,430	61,630	66,939	70,510	70,730	67,290	69,580	75,890	8%	9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus Bloomberg estimates

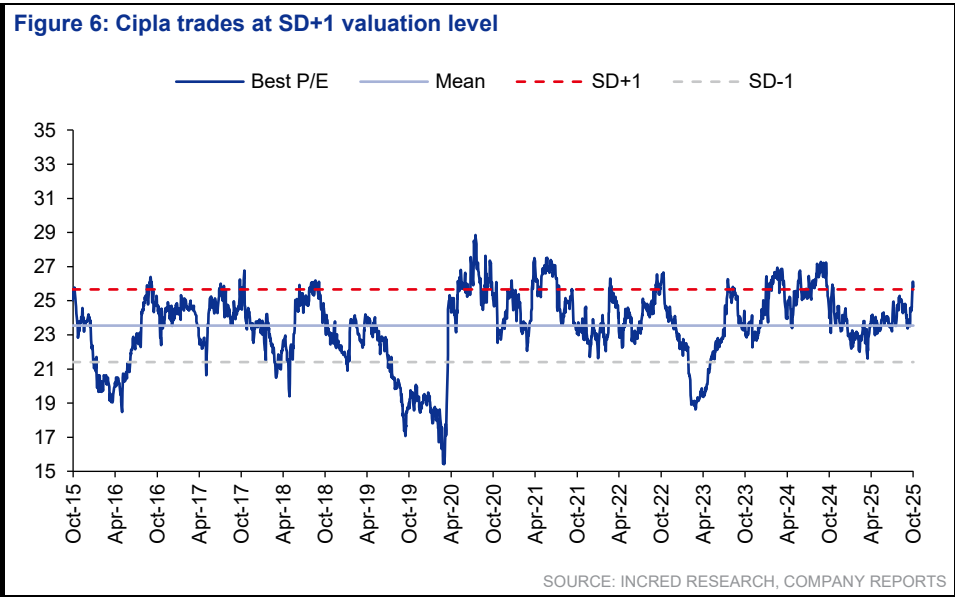
	Actuals	Incared Estimates	Change (%)	Bloomberg Estimates	Change (%)
Revenue (Rsm)	75,894	74,021	2.5	74,386	2.0
EBITDA (Rsm)	18,948	18,492	2.5	18,849	0.5
Margin (%)	25.0	25.0	-2	25.3	
PAT (Rsm)	13,512	12,613	7.1	13,457	0.4

SOURCE: INCRED RESEARCH, COMPANY REPORTS

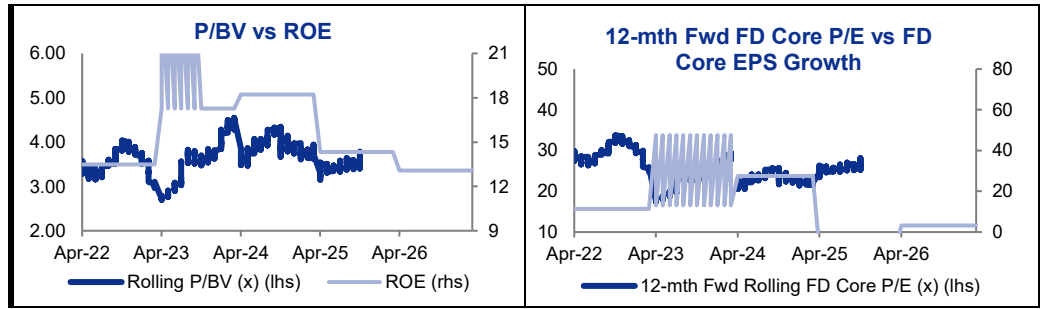
Figure 5: Our revised earnings estimates

	FY26F			FY27F		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	2,97,799	2,92,679	-1.7	3,23,369	3,14,428	-2.8
EBITDA	71,833	68,865	-4.1	77,195	72,304	-6.3
Margin (%)	24.1	23.5		23.9	23.0	
PAT	49,603	47,776	-3.7	52,374	49,273	-5.9
EPS	61.3	59.1	-3.7	64.7	60.9	-5.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Net Revenues	227,531	257,741	275,476	292,679	314,428
Gross Profit	145,008	169,545	186,186	196,201	209,648
Operating EBITDA	50,270	62,910	71,279	68,865	72,304
Depreciation And Amortisation	(11,721)	(10,510)	(11,070)	(12,000)	(13,000)
Operating EBIT	38,549	52,400	60,210	56,865	59,304
Financial Income/(Expense)	(1,095)	(899)	(620)	(600)	(550)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	4,755	7,466	8,619	8,500	8,000
Profit Before Tax (pre-EI)	42,208	58,967	68,208	64,765	66,754
Exceptional Items	(1,824)	(1,948)			
Pre-tax Profit	40,384	57,019	68,208	64,765	66,754
Taxation	(12,029)	(15,466)	(15,298)	(16,839)	(17,356)
Exceptional Income - post-tax					
Profit After Tax	28,355	41,553	52,911	47,926	49,398
Minority Interests	(336)	(211)	(185)	(150)	(125)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	28,019	41,343	52,725	47,776	49,273
Recurring Net Profit	29,300	42,762	52,725	47,776	49,273
Fully Diluted Recurring Net Profit	29,300	42,762	52,725	47,776	49,273

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
EBITDA	50,270	62,910	71,279	68,865	72,304
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,594)	(8,061)	(6,655)	(27,622)	16,707
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(12,299)	(13,510)	(14,575)	(16,989)	(17,481)
Net Interest (Paid)/Received	(1,095)	(899)	(620)	(600)	(550)
Tax Paid	(15,958)	(20,077)	(22,573)	(24,889)	(24,931)
Cashflow From Operations	32,377	41,339	50,050	24,254	71,529
Capex	(11,355)	(13,151)	(15,148)	(13,171)	(12,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(251)	(420)	(1,606)		
Other Investing Cashflow					
Cash Flow From Investing	20,770	27,768	33,296	11,083	59,529
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	1		(403)		
Shares Repurchased					
Dividends Paid	(4,035)	(6,862)	(364)	(4,848)	(4,850)
Preferred Dividends					
Other Financing Cashflow	436	47,961	24,875	14,095	8,338
Cash Flow From Financing	(3,598)	41,100	24,109	9,248	3,488
Total Cash Generated	17,172	68,868	57,404	20,331	63,018
Free Cashflow To Equity	53,147	69,107	83,345	35,338	131,059
Free Cashflow To Firm	54,242	70,006	83,965	35,938	131,609

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	15,722	56,822	80,931	101,262	164,280
Total Debtors	40,570	47,707	55,064	55,609	62,886
Inventories	51,564	52,380	56,421	84,877	59,741
Total Other Current Assets	64,893	37,506	40,470	43,902	50,309
Total Current Assets	172,750	194,414	232,885	285,650	337,215
Fixed Assets	57,398	60,469	65,863	67,033	66,033
Total Investments	5,725	6,422	6,395	6,395	6,395
Intangible Assets	45,140	47,130	49,864	49,864	49,864
Total Other Non-Current Assets	13,620	18,743	18,863	18,863	18,863
Total Non-current Assets	121,883	132,764	140,985	142,156	141,156
Short-term Debt	5,204	2,470	801	801	801
Current Portion of Long-Term Debt					
Total Creditors	24,571	24,740	28,375	30,179	31,230
Other Current Liabilities	21,323	25,248	25,664	28,671	32,874
Total Current Liabilities	51,097	52,458	54,840	59,651	64,906
Total Long-term Debt	2,088	2,254	120	6,315	7,204
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,313	4,443	6,019	6,019	6,019
Total Non-current Liabilities	6,401	6,697	6,138	12,334	13,222
Total Provisions					
Total Liabilities	57,497	59,155	60,978	71,985	78,128
Shareholders Equity	234,078	267,064	311,935	354,713	399,010
Minority Interests	3,058	959	958	1,108	1,233
Total Equity	237,135	268,023	312,893	355,821	400,243

Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	4.5%	13.3%	6.9%	6.2%	7.4%
Operating EBITDA Growth	11.8%	25.1%	13.3%	(3.4%)	5.0%
Operating EBITDA Margin	22.1%	24.4%	25.9%	23.5%	23.0%
Net Cash Per Share (Rs)	10.45	64.56	99.14	116.66	193.65
BVPS (Rs)	290.06	330.93	386.54	439.54	494.44
Gross Interest Cover	35.19	58.30	97.10	94.77	107.82
Effective Tax Rate	29.8%	27.1%	22.4%	26.0%	26.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	60.01	62.51	68.08	69.01	68.78
Inventory Days	232.36	215.09	222.38	267.28	251.89
Accounts Payables Days	109.80	102.04	108.56	110.76	106.96
ROIC (%)	12.7%	18.3%	19.4%	16.3%	18.2%
ROCE (%)	16.5%	20.3%	20.5%	16.8%	15.4%
Return On Average Assets	11.0%	14.2%	15.2%	12.1%	11.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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InCred Research Services Private Limited

Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Mayuresh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.