

Risks priced in, valuation support emerges

Cipla reported a weak 3QFY26 with revenue/EBITDA/PAT coming in at flat/-37%/-57% YoY, materially below expectations, with EBITDA margins contracting to 17.7% (-1,038bps YoY) driven by lower gRevlimid contribution, adverse product mix and elevated R&D spend. North America (-22% YoY) remained the key drag, impacted by sharper-than-expected gRevlimid decline and temporary halt in Lanreotide supplies, though the base business sustained double digit momentum. India delivered steady growth (+10% YoY) led by strong traction across all sub-segments. Other markets were stable, with Emerging Markets and Europe growing 13% YoY, while One Africa saw modest growth amid channel destocking. The US weakness on account of gRevlimid decline was a known factor, but the recent supply side issues in Lanreotide and increased R&D intensity has led to downward revision of our estimates. However, the stock has corrected ~21% from recent highs, largely on expectations of a weaker quarterly performance. With better visibility on post-Revlimid margin normalization, Lanreotide supply constraints, and a seasonally weak quarter already well flagged, we believe most of the near-term risks are now priced in, limiting the scope for further downgrades. At current levels, the stock trades at ~21x (-2SD) on FY28E EPS, a ~12% discount to its historical average multiple of 24x, offering an attractive entry point to start building positions amid weak broader market sentiment. Thus, we value the stock at 23x FY28E EPS, marginally lower than historical average, to arrive at a TP of INR 1,431. Upgrade to ADD.

- **Strong headwinds surround North America (INR 14.8bn | -22% YoY):** The quarter was particularly muted for the segment with CC sales of USD 167mn (vs -25+% YoY), driven by decreasing contribution from gRevlimid, though the weakness was more than earlier anticipated. Another reason for a weak 3Q was halt in Lanreotide in November due to FDA observation at partner's facility, however, Cipla is expecting supply to begin again in 1HFY27 with further plans to on-board an alternate partner down the line. The silver lining for the quarter is double-digit YoY growth in the base business excluding gRevlimid, even post factoring Lanreotide in 3QFY25 base.
- **US pipeline provides some relief in-sight:** Cipla currently has 4 respiratory (incl. gAdvair) and 4 peptides (incl. gliraglutide) in pipeline. Of the 4 respiratory, 2 unnamed products are likely to be large opportunities with Cipla as the sole player, and one of these two can potentially be a top 5 product for Cipla. Further, the 4 respiratory products are in-house, with 3 out of these 4 filed from on-shore facilities, thus ensuring higher margins. Timeline wise, over next 6 months, Cipla anticipates launch of 1 major respiratory asset, 1 small respiratory asset, gAdvair, gliraglutide and another small peptide. A large respiratory asset along with a major peptide opportunity is to follow in the subsequent 6 months. Though, the earlier guidance of FY27 US sales of 1bn seems dicey due to Lanreotide issues, the pipeline visibility provides cushion to the gRevlimid decline.
- **India sustains momentum (INR 34.5bn | +10% YoY):** The growth was led by all the three sub-segments – Branded prescriptions, Trade generics and Consumer healthcare. In Branded prescriptions, double-digit growth was driven by outperformance in key therapies, namely – respiratory (+11% YoY), urology (+15% YoY), cardiac (+13% YoY), and anti-diabetes (+13% YoY). In 3Q, Cipla added 4 brands to INR 1b+ club, taking the total to 30. On the portfolio expansion front, Cipla entered into an exclusive agreement with Pfizer for select products, acquired Inzpera to extend differentiated paediatric & wellness portfolio, launched Afrezza and entered in a marketing partnership with Eli Lilly for Tirzepatide. Trade Generics' healthy growth was led by distribution, new introductions and technological interventions. In 3Q, Cipla launched 8 new products, including the coverage expansion via sexual wellness product. Going forward, the focus is on execution to outperform the market and strengthen presence in chronic therapies.

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Recommendation and Price Target

Current Reco.	ADD
Previous Reco.	REDUCE
Current Price Target (12M)	1,431
Upside/(Downside)	8.8%
Previous Price Target	1,600
Change	-10.6%

Key Data – CIPLA IN

Current Market Price	INR1,315
Market cap (bn)	INR1,062.2/US\$11.6
Free Float	70%
Shares in issue (mn)	807.0
Diluted share (mn)	807.0
3-mon avg daily val (mn)	INR2,401.5/US\$26.1
52-week range	1,673/1,303
Sensex/Nifty	81,538/25,049
INR/US\$	92.0

Price Performance

%	1M	6M	12M
Absolute	-12.4	-10.8	-9.2
Relative*	-8.1	-9.5	-14.8

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	2,57,741	2,75,476	2,84,276	3,08,739	3,37,674
Sales Growth (%)	13.3	6.9	3.2	8.6	9.4
EBITDA	62,911	71,279	60,025	63,494	70,583
EBITDA Margin (%)	24.4	25.9	21.1	20.6	20.9
Adjusted Net Profit	32,009	39,578	39,217	45,312	50,213
Diluted EPS (INR)	39.7	49.0	48.6	56.1	62.2
Diluted EPS Growth (%)	22.0	23.6	-0.9	15.5	10.8
ROIC (%)	21.8	25.1	18.2	18.2	19.1
ROE (%)	12.8	13.7	11.9	12.3	12.2
P/E (x)	33.2	26.8	27.1	23.4	21.1
P/B (x)	4.0	3.4	3.0	2.7	2.4
EV/EBITDA (x)	16.1	13.8	15.9	14.6	12.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 23/Jan/2026

JM Financial Research is also available on:
Bloomberg - JMFR <GO>, FactSet, LSEG and
S&P Capital IQ.

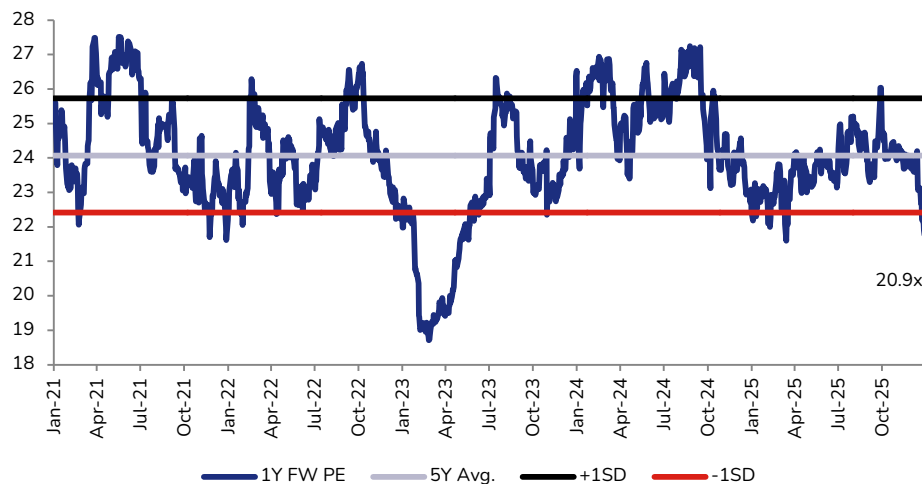
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- **Other markets:** The One Africa segment grew 3% YoY to come in at INR 10bn, aided by market outperformance in the South Africa's secondary private market. The company faced weakness in primary sales due to the in-country channel destocking. However, normalization is expected in 4Q. Focus going forward is on improving the private sector mix while being selective in tenders. In Emerging Markets and Europe, the company delivered a healthy 13% YoY growth with INR 9.2bn topline, while sustaining overall margins. The performance was led by both DTM and B2B categories. Future strategy entails top-line growth via deepening penetration in core markets and parallelly maintaining strong margin trajectory.
- **Our view and valuation:** The weakness in North America business on account of gRevlimid decline was a known factor, but the recent supply side issues in Lanreotide and increased R&D intensity has led to downward revision of our estimates (exhibit 2). The stock has corrected ~21% from recent highs, largely on expectations of a weaker quarterly performance. With better visibility on post-Revlimid margin normalization, Lanreotide supply constraints, and a seasonally weak quarter already well flagged, we believe most of the near-term risks are now priced in, limiting the scope for further downgrades. At current levels, the stock trades at ~21x (-2 SD) on FY28E EPS, a ~12% discount to its historical average multiple of 24x, offering an attractive entry point to start building positions amid the weak broader market sentiment. Thus, we value the stock at 23x FY28E EPS, marginally lower than the historical average, to arrive at a TP of INR 1,431. Upgrade to ADD.
- **Financial highlights:**
 - Revenue at INR 70.7bn (Flat YoY | -6%/-6% vs street/JMFe)
 - Gross profit of INR 44.4bn (-8% YoY | -11% vs JMFe). Gross margin at 63% (-519bps YoY | -356bps vs JMFe); GM was impacted by both lower gRevlimid as well as product mix.
 - EBITDA at INR 12.5bn (-37% YoY | -28%/-30% VS street/JMFe)
 - EBITDA margin at 17.7% (-1038bps YoY | -553bps/-607bps vs street/JMFe); Decline in EBITDA margins was due to lower gRevlimid contribution. R&D was higher than usual too in the quarter at 7% vs 5-5.5% in the past, owing to heavy pipeline. R&D guidance going forward is at 5-6% of sales.
 - EBITDA margin guidance for FY26 reduced to 21%.
 - PAT at INR 6.8bn (-57% YoY | -46%/-50% vs street/JMFe)

Segmental Analysis

- USA -22% YoY (-17% vs JMFe)
- Domestic +10% YoY (In-line with JMFe)
- South Africa+2% YoY (-7% vs JMFe)
- Intl mkts +11% YoY (-3% vs JMFe)
- APIs +14% YoY (-18% vs JMFe)

Exhibit 1. Stock trading at attractive valuations



Source: Bloomberg

Exhibit 2. Change in estimates

INR mn	FY26E			FY27E			FY28E		
	Old	New	change %	Old	New	change %	Old	New	change %
Net sales	2,90,462	2,84,276	-2%	3,10,767	3,08,739	-1%	3,36,587	3,37,674	0%
Gross profit	1,94,900	1,86,201	-4%	1,98,891	1,97,593	-1%	2,14,406	2,15,098	0%
- margin	67.2%	65.5%	-170bps	64.0%	64.0%	0bps	63.7%	63.7%	0bps
EBITDA	69,639	60,025	-13.8%	68,066	63,494	-7%	75,012	70,583	-6%
- margin	25.1%	21.1%	-397bps	21.9%	20.6%	-130bps	22.3%	20.9%	-138bps
Net profit	48,668	43,201	-11.2%	46,924	45,312	-3%	52,375	50,213	-4%

Source: JM Financial

Exhibit 3. Valuation methodology

Particulars	INR
FY28 EPS	62.2
Multiple (x)	23
TP	1431
CMP	1,315
Upside	+8.8%

Source: JM Financial

Exhibit 4. 3QFY26 review

Cipla P&L (INR mn)	Q3 FY25	Q3 FY26	% YoY	Q3 FY26	% Delta vs JMFe	Q2FY26E (cons)	% Delta vs cons	Q2 FY26	% QoQ
(in INR mn)									
Net Sales	69,616	69,630	0%	74,407	-6%			74,474	-7%
Other op. income	1,114	1,115	0%	800	39%			1,420	-21%
Total operating income	70,730	70,745	0%	75,207	-6%	75,279	-6%	75,894	-7%
Expenses									
Raw material	22,641	26,321	16%	25,300	4%			24,976	5%
Gross Profit	48,089	44,424	-8%	49,907	-11%			50,918	
% Margins	68.0%	62.8%	-519 bps	66.4%	-356 bps			67.1%	
Staff cost	11,976	13,250	11%	13,100	1%			13,148	1%
Other operating expenses	16,224	18,624	15%	18,900	-1%			18,823	-1%
EBITDA	19,889	12,551	-37%	17,907	-30%	17,517	-28%	18,948	-34%
% EBITDA Margin	28.1%	17.7%	-1038 bps	23.8%	-607 bps	23.3%	-553 bps	25.0%	-722 bps
Other income	2,216	2,063	-7%	2,700	-24%			2,690	-23%
Finance costs	146	140	-4%	140	0%			132	6%
Depreciation	2,798	2,784	-1%	3,087	-10%			2,970	-6%
Profit Before Tax (PBT)	19,161	11,690	-39%	17,379	-33%			18,535	-37%
Exceptional Items	0	-2,759		0				0	
Tax	3,324	2,186	-34%	4,000	-45%			5,005	-56%
% Tax rate	17.3%	18.7%		23.0%				27.0%	
Minority interest	-41	16		77				-22	
Share of Profit (+) / Loss (-) of associates	-91	-3		5				3	
Reported PAT	15,705	6,758	-57%	13,461	-50%	12,470	-46%	13,512	-50%

% Cost Ratios	Q3 FY25	Q3 FY26	% YoY	Q3 FY26	% Delta vs JMFe	Q2 FY26	% QoQ
Raw Materials	32.0	37.2	519 bps	33.6	356 bps	32.9	430 bps
Staff cost	16.9	18.7	180 bps	17.4	131 bps	17.3	140 bps
Mfg & Other expense	22.9	26.3	339 bps	25.1	119 bps	24.8	152 bps

Sales Break-up	Q3 FY25	Q3 FY26	% YoY	Q3 FY26	% Delta vs JMFe	Q2 FY26	% QoQ
Domestic formulations	31,460	34,570	10%	34,449	0%	31,460	10%
US	19,060	14,850	-22%	17,835	-17%	20,390	-27%
South Africa	7,690	7,840	2%	8,459	-7%	9,010	-13%
International Markets	10,300	11,460	11%	11,794	-3%	12,440	-8%
APIs	1,260	1,440	14%	1,750	-18%	1,480	-3%

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	2,57,741	2,75,476	2,84,276	3,08,739	3,37,674
Sales Growth	13.3%	6.9%	3.2%	8.6%	9.4%
Other Operating Income	0	0	0	0	0
Total Revenue	2,57,741	2,75,476	2,84,276	3,08,739	3,37,674
Cost of Goods Sold/Op. Exp	88,196	89,290	98,075	1,11,146	1,22,576
Personnel Cost	43,100	48,328	52,591	57,117	62,470
Other Expenses	63,534	66,579	73,585	76,982	82,046
EBITDA	62,911	71,279	60,025	63,494	70,583
EBITDA Margin	24.4%	25.9%	21.1%	20.6%	20.9%
EBITDA Growth	25.1%	13.3%	-15.8%	5.8%	11.2%
Depn. & Amort.	10,510	11,070	11,111	12,227	13,393
EBIT	52,401	60,210	48,913	51,267	57,190
Other Income	7,466	8,619	9,500	10,000	10,500
Finance Cost	899	620	600	650	550
PBT before Excep. & Forex	58,968	68,208	57,813	60,617	67,140
Excep. & Forex Inc./Loss(-)	-1,948	0	0	0	0
PBT	57,020	68,208	57,813	60,617	67,140
Taxes	15,466	15,298	14,453	15,154	16,785
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	306	-252	-239	-247	-256
Reported Net Profit	41,216	52,725	43,201	45,312	50,213
Adjusted Net Profit	32,009	39,578	39,217	45,312	50,213
Net Margin	12.4%	14.4%	13.8%	14.7%	14.9%
Diluted Share Cap. (mn)	807.0	807.0	807.0	807.0	807.0
Diluted EPS (INR)	39.7	49.0	48.6	56.1	62.2
Diluted EPS Growth	22.0%	23.6%	-0.9%	15.5%	10.8%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	57,020	68,208	57,813	60,617	67,140
Depn. & Amort.	10,510	11,070	11,111	12,227	13,393
Net Interest Exp. / Inc. (-)	598	319	299	349	249
Inc (-) / Dec in WCap.	5,191	-10,455	-1,939	-7,533	-8,022
Others	-2,178	-2,178	-2,178	-2,178	-2,178
Taxes Paid	-17,442	-17,186	-14,453	-15,154	-16,785
Operating Cash Flow	53,698	49,778	50,653	48,328	53,797
Capex	-15,006	-19,220	-17,935	-16,000	-20,001
Free Cash Flow	38,692	30,558	32,718	32,328	33,796
Inc (-) / Dec in Investments	-12,114	2,500	1,552	1,552	1,552
Others	927	927	927	927	927
Investing Cash Flow	-26,193	-15,794	-15,456	-13,521	-17,522
Inc / Dec (-) in Capital	-2,941	-3,135	-4	0	0
Dividend + Tax thereon	-4,721	-4,721	-5,665	-5,665	-5,665
Inc / Dec (-) in Loans	-2,147	-1,212	-500	-500	-500
Others	-1,236	-805	-759	-801	-692
Financing Cash Flow	-11,046	-9,874	-6,928	-6,966	-6,857
Inc / Dec (-) in Cash	16,459	24,111	28,269	27,841	29,419
Opening Cash Balance	40,361	56,820	80,931	1,09,199	1,37,040
Closing Cash Balance	56,820	80,931	1,09,199	1,37,040	1,66,459

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	2,67,064	3,11,935	3,49,466	3,89,113	4,33,661
Share Capital	1,615	1,615	1,611	1,611	1,611
Reserves & Surplus	2,65,450	3,10,319	3,47,855	3,87,501	4,32,050
Preference Share Capital	0	0	0	0	0
Minority Interest	959	958	958	958	958
Total Loans	5,594	4,382	3,882	3,382	2,882
Def. Tax Liab. / Assets (-)	-4,025	-5,913	-5,913	-5,913	-5,913
Total - Equity & Liab.	2,69,592	3,11,361	3,48,393	3,87,539	4,31,588
Net Fixed Assets	1,06,464	1,14,615	1,21,438	1,25,211	1,31,819
Gross Fixed Assets	1,17,156	1,31,674	1,51,674	1,71,674	1,91,674
Intangible Assets	47,130	49,864	49,864	49,864	49,864
Less: Depn. & Amort.	66,465	79,050	90,162	1,02,389	1,15,781
Capital WIP	8,643	12,128	10,062	6,062	6,063
Investments	40,659	39,712	39,712	39,712	39,712
Current Assets	1,74,178	2,13,096	2,53,167	2,95,415	3,39,024
Inventories	52,380	56,421	70,614	80,025	88,254
Sundry Debtors	47,707	55,064	52,307	56,808	62,132
Cash & Bank Balances	56,820	80,931	1,09,199	1,37,040	1,66,459
Loans & Advances	2	156	174	193	214
Other Current Assets	17,270	20,524	20,873	21,349	21,965
Current Liab. & Prov.	51,708	56,061	65,923	72,798	78,967
Current Liabilities	26,037	29,966	31,995	36,047	39,590
Provisions & Others	25,671	26,094	33,928	36,751	39,377
Net Current Assets	1,22,470	1,57,035	1,87,244	2,22,617	2,60,057
Total - Assets	2,69,593	3,11,362	3,48,393	3,87,540	4,31,588

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	12.4%	14.4%	13.8%	14.7%	14.9%
Asset Turnover (x)	0.9	0.9	0.8	0.8	0.8
Leverage Factor (x)	1.1	1.1	1.1	1.1	1.1
RoE	12.8%	13.7%	11.9%	12.3%	12.2%

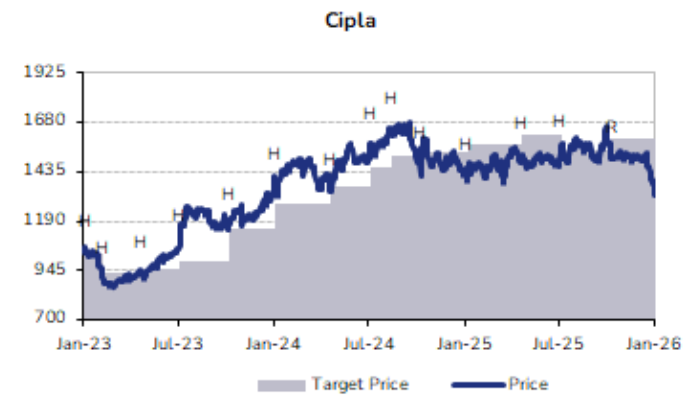
Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	330.9	386.5	433.0	482.2	537.4
ROIC	21.8%	25.1%	18.2%	18.2%	19.1%
ROE	12.8%	13.7%	11.9%	12.3%	12.2%
Net Debt/Equity (x)	-0.2	-0.2	-0.3	-0.3	-0.4
P/E (x)	33.2	26.8	27.1	23.4	21.1
P/B (x)	4.0	3.4	3.0	2.7	2.4
EV/EBITDA (x)	16.1	13.8	15.9	14.6	12.7
EV/Sales (x)	3.9	3.6	3.4	3.0	2.7
Debtor days	68	73	67	67	67
Inventory days	74	75	91	95	95
Creditor days	46	51	49	51	52

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
30-Jul-22	Hold	975	
4-Nov-22	Hold	1,020	4.6
26-Jan-23	Hold	1,030	1.0
28-Feb-23	Hold	930	-9.7
13-May-23	Hold	950	2.2
26-Jul-23	Hold	990	4.2
29-Oct-23	Hold	1,155	16.7
25-Jan-24	Hold	1,275	10.4
12-May-24	Hold	1,360	6.7
28-Jul-24	Hold	1,460	7.4
4-Sep-24	Hold	1,515	3.8
29-Oct-24	Hold	1,537	1.5
28-Jan-25	Hold	1,570	2.1
13-May-25	Hold	1,619	3.1
25-Jul-25	Hold	1,544	-4.6
31-Oct-25	Reduce	1,600	3.6

Recommendation History



APPENDIX I

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

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Rating System: Definition of ratings	
Rating	Meaning
BUY	Expected return \geq 15% over the next twelve months.
ADD	Expected return \geq 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return \geq -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

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