

# Trade Report: Cipla Ltd

Abhishek Upadhya

May 31, 2025

## Trade Snapshot

**Stock:** Cipla Ltd (NSE: CIPLA)  
**Date of Entry:** May 27, 2025  
**Buy Price:** Rs. 1,480  
**Target Price:** Rs. 2,000  
**Time Horizon:** 12–18 months  
**Conviction:** Medium–High

## Why I Bought

Cipla is currently trading at a historically low P/E ratio of 22.5, despite delivering standout financial performance. Net profit has grown  $3.35\times$  since FY22, while the stock price has increased only  $1.4\times$  — suggesting a potential valuation mismatch. Return on capital employed (ROCE) is among the highest in the sector, and the stock’s price-to-book ratio is at multi-year lows. Cipla has also materially strengthened its balance sheet, reducing its debt-to-equity ratio from 0.18 in FY20 to 0.01 in FY24.

Additionally, the company’s borrowings have declined by over 50% since FY22, while investments have grown by 116% — reflecting aggressive capital deployment and potential for near-term breakthroughs. Cipla primarily operates in the generics segment, which benefits from favorable pricing dynamics. The recent U.S. clarification that generic drugs will be exempt from broad-based price cuts is a major positive, especially considering that North America accounts for approximately 26% of Cipla’s revenue.

Strategically, Cipla is well-positioned to benefit from shifting global supply chains. With India currently importing the majority of its active pharmaceutical ingredients (APIs) from China, Cipla’s in-house manufacturing capability — spanning over 75 APIs — offers a domestic hedge and an edge if the government pushes for API self-reliance.

These combined factors — strong financials, undervaluation, favorable regulatory positioning, and strategic optionality — form the basis for my investment in Cipla.

## Risks

**Regulatory Scrutiny:** Cipla’s U.S. business is heavily exposed to FDA inspections. Any adverse observations or compliance issues can lead to product bans, delays in approvals, or reputational

damage — all of which can significantly impact the stock price. The pharmaceutical sector, particularly biotech and generics, is highly sensitive to such events.

**Competitive Pressure:** Sun Pharma, the dominant player in India's pharma landscape, has both the scale and capital to aggressively defend or grow its market share. This poses a real threat to Cipla, especially in overlapping therapeutic segments and export markets.

**Market Sensitivity to News Flow:** Biotech and pharma stocks tend to be highly reactive to clinical trial results, regulatory outcomes, or geopolitical news. This can introduce short-term volatility even if fundamentals remain intact.

While I do not believe geopolitical tensions will impact Cipla's long-term fundamentals — given India's strong position in the global pharmaceutical supply chain — a severe escalation may lead to short-term volatility.

## **Exit Criteria**

Exit if the stock reaches the target price of Rs. 2,000 or valuation becomes stretched relative to earnings growth.

## **Sources**

- Screener.in
- Tradingview.com