

**ZEMDRI – antibiotic for AMR treatment**

- Cipla Therapeutics, a division of Cipla USA, Inc and SIGA Technologies, Inc. (SIGA) (NASDAQ: SIGA), a commercial-stage pharmaceutical company focused on the health security market have entered into a strategic partnership to deliver sustained innovation and access to novel antibacterial drugs, particularly against biothreats.
- SIGA Technologies is a US based company with expertise in drug development using the animal rule and in Government contracting. SIGA has partnered with BARDA (Biomedical Advanced Research & Development Authority), a US Department of Health & Human Services providing solutions for biothreats and public health needs.
- Cipla acquired global rights (excluding Gr China) for ZEMDRI from Achaogen in August 2019. ZEMDRI (Plazomicin injection) is now fully integrated into Cipla's specialty business in the US.
- We believe Cipla's partnership with SIGA will enable scale up of ZEMDRI in the US, as an antibiotic used in anti microbial treatment through Government contracts.
- Cipla's manufacturing facility at Long Island, New York manufactures oral solids and controlled substances Class 4 & 5.

**Other growth triggers**

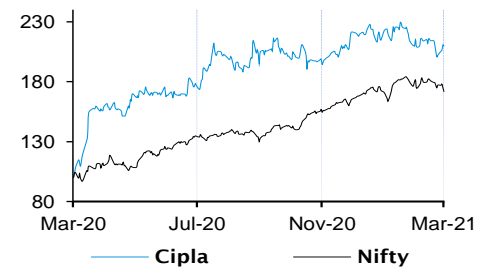
- Post the Albuterol launch in Q1FY21, Cipla has gained market share and crossed \$100 mn sales in respiratory in the US. The company expects further market share gains in respiratory inhalers, leading to improved profitability going forward.
- Cipla will commence limited competition launches in the US from Q1FY22.
- Cipla will continue its growth across key markets India, US and South Africa.

Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>914</b>	<b>16</b>

**Market data**

<b>Current price</b>	<b>Rs</b>	<b>788</b>
Market Cap (Rs.Bn)	(Rs Bn)	636
Market Cap (US\$ Mn)	(US\$ Mn)	8767
Face Value	Rs	2
52 Weeks High/Low	Rs	879/381
Average Daily Volume	('000)	7193
BSE Code		500087
Bloomberg		CIPLA:IN

Source: Bloomberg

**One Year Performance**

Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	36.70	36.70
FII	22.09	20.06
DII	17.96	19.75
Others	23.25	23.48
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	1,63,624	1,71,320	1,93,443	2,04,970	2,21,069
Adjusted net profit	14,572	14,525	23,105	25,865	32,440
Vs Consensus			-9%	-6%	-2%
Free cash flow	8,344	23,909	14,619	28,955	40,811
EPS (Rs)	18.1	18.0	28.7	32.1	40.2
growth (%)	3	(0)	59	12	25
P/E (x)	44	44	27	25	20
P/B (x)	4	4	4	3	3
EV/EBITDA (x)	22	20	15	13	11
D/E	0.3	0.2	0.2	0.2	0.1
RoIC (%)	8.8	9.1	13.6	15.4	20.3
RoE (%)	9.7	9.2	12.9	12.8	14.1
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3

Source: Company

**Charulata Gaidhani**  
(022) 67141446  
charulata.gaidhani@dalal-broacha.com

---

## Valuation & Outlook

---

At CMP, Cipla trades at 20x FY23E EPS of Rs 40.2.

We believe Cipla will benefit from strong demand across key markets namely India, US and South Africa, new respiratory launches and lower R & D spend due to gADVAIR trial completion, in FY21.

We believe Cipla will gain from its partnership with SIGA Technologies, through innovation for anti-microbial treatment & Government contracts in the US. We have not factored in any growth through US Government contracts. We believe the strategic partnership will improve business from ZEMDRI and other anti-microbial assets going forward.

**We maintain BUY with a target price of Rs 914.**

## Financial

P&L (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	1,63,624	1,71,320	1,93,443	2,04,970	2,21,069	Net Profit	14,572	14,525	23,105	25,865	32,440
Raw materials	(57,845)	(59,914)	(73,653)	(76,493)	(80,410)	Add: Dep. & Amort.	13,263	11,747	11,246	12,206	12,806
Employee costs	(28,565)	(30,270)	(31,784)	(33,373)	(35,041)	<b>Cash profits</b>	<b>27,835</b>	<b>26,272</b>	<b>34,351</b>	<b>38,071</b>	<b>45,246</b>
Other Expenses	(46,241)	(49,076)	(44,168)	(46,818)	(49,627)	(Inc)/Dec in					
<b>Cost of sales</b>	<b>(1,32,651)</b>	<b>(1,39,260)</b>	<b>(1,49,604)</b>	<b>(1,56,684)</b>	<b>(1,65,078)</b>	-Sundry debtors	(10,483)	2,594	(7,653)	(3,069)	(3,952)
<b>Operating Profit</b>	<b>30,973</b>	<b>32,060</b>	<b>43,839</b>	<b>48,285</b>	<b>55,990</b>	-Inventories	799	(4,128)	(5,895)	(2,722)	(1,194)
Depreciation*	(13,263)	(11,747)	(11,246)	(12,206)	(12,806)	-Loans/advances	1,488	245	(320)	(337)	(356)
<b>PBIT</b>	<b>17,710</b>	<b>20,313</b>	<b>32,593</b>	<b>36,080</b>	<b>43,185</b>	-Sundry creditors	(1,711)	3,338	1,774	1,164	1,380
Other income	4,766	3,442	2,409	2,530	2,656	-Others	(143)	5,144	3,152	3,848	4,688
Interest	(1,684)	(1,974)	(1,666)	(1,666)	(1,666)	Change in working capital	(10,051)	7,193	(8,942)	(1,115)	566
<b>Profit before tax</b>	<b>20,791</b>	<b>21,782</b>	<b>33,336</b>	<b>36,944</b>	<b>44,175</b>	<b>CF from Oper. activities</b>	<b>17,784</b>	<b>33,465</b>	<b>25,409</b>	<b>36,955</b>	<b>45,812</b>
Provision for tax	(5,695)	(6,312)	(9,501)	(10,529)	(11,486)	<b>CF from Inv. activities</b>	<b>(19,276)</b>	<b>(491)</b>	<b>(17,838)</b>	<b>(11,550)</b>	<b>(5,502)</b>
<b>PAT Bfr Excep Items</b>	<b>15,096</b>	<b>15,470</b>	<b>23,835</b>	<b>26,415</b>	<b>32,690</b>	<b>CF from Fin. activities</b>	<b>(1,044)</b>	<b>(26,547)</b>	<b>(1,198)</b>	<b>(2,758)</b>	<b>(3,313)</b>
Extraordinary Items	-	-	-	-	-	<b>Cash generated/(utilised)</b>	<b>(2,536)</b>	<b>6,427</b>	<b>6,374</b>	<b>22,648</b>	<b>36,996</b>
Minority Interest/ Share of	(524)	(945)	(730)	(550)	(250)	Cash at start of the year	8,724	6,188	12,615	18,989	41,637
<b>Reported PAT</b>	<b>14,572</b>	<b>14,525</b>	<b>23,105</b>	<b>25,865</b>	<b>32,440</b>	Cash at end of the year	6,188	12,615	18,989	41,637	78,634

Balance Sheet	FY19	FY20	FY21E	FY22E	FY23E	Ratios	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	1,611	1,613	1,613	1,613	1,613	OPM	18.9	18.7	22.7	23.6	25.3
Reserves	1,48,511	1,56,018	1,76,809	1,99,897	2,29,005	NPM	8.7	8.3	11.8	12.5	14.5
<b>Net worth</b>	<b>1,50,123</b>	<b>1,57,630</b>	<b>1,78,422</b>	<b>2,01,510</b>	<b>2,30,618</b>	Tax rate	(27.4)	(29.0)	(28.5)	(28.5)	(26.0)
Def. Tax Liab.+Minority Int	7,573	6,595	7,079	7,613	8,199	<b>Growth Ratios (%)</b>					
Secured loans	38,301	23,693	24,793	24,793	24,793	Net Sales	7.5	4.7	12.9	6.0	7.9
Unsecured loans	8,736	7,241	7,241	7,241	7,241	Operating Profit	9.6	3.5	36.7	10.1	16.0
<b>Total debt</b>	<b>47,037</b>	<b>30,933</b>	<b>32,033</b>	<b>32,033</b>	<b>32,033</b>	PAT	3.3	(0.3)	59.1	11.9	25.4
Other non current liab	833	675	742	817	898	<b>Per Share (Rs.)</b>					
<b>CAPITAL EMPLOYED</b>	<b>2,05,566</b>	<b>1,95,158</b>	<b>2,17,534</b>	<b>2,41,157</b>	<b>2,70,850</b>	Net Earnings (EPS)	18.1	18.0	28.7	32.1	40.2
Gross block	75,059	83,716	93,716	1,01,716	1,06,716	Cash Earnings (CPS)	34.5	32.6	42.6	47.2	56.1
Accumulated depreciation	(23,916)	(35,662)	(46,908)	(59,114)	(71,920)	Dividend	2.0	2.0	2.0	2.0	2.0
<b>Net block</b>	<b>51,144</b>	<b>48,053</b>	<b>46,807</b>	<b>42,601</b>	<b>34,796</b>	Book Value	186.3	195.5	221.30	249.9	286.0
Capital WIP	3,311	4,210	5,000	5,000	5,001	Free Cash Flow	(1.9)	40.9	9.4	31.5	50.0
<b>Total fixed assets</b>	<b>54,454</b>	<b>52,263</b>	<b>51,807</b>	<b>47,601</b>	<b>39,797</b>	<b>Valuation Ratios</b>					
<b>Intangible Assets</b>	<b>19,082</b>	<b>19,000</b>	<b>20,965</b>	<b>21,465</b>	<b>21,966</b>	P/E(x)	44	44	27	25	20
Goodwill	28,691	29,340	29,340	29,340	29,340	P/B(x)	4.2	4.0	3.6	3.1	2.8
Other non current assets	1,342	1,916	1,916	1,916	1,916	EV/EBIDTA(x)	21.8	20.4	14.8	12.9	10.5
Investments	26,160	15,953	21,036	24,085	24,085	EV/SALES(x)	4.1	3.8	3.3	3.0	2.7
Inventories	39,648	43,776	49,671	52,393	53,587	Div. Yield(%)	0.3	0.3	0.3	0.3	0.3
Sundry debtors	41,507	38,913	46,566	49,635	53,587	<b>FCF Yield(%)</b>	<b>(0.2)</b>	<b>5.2</b>	<b>1.2</b>	<b>4.0</b>	<b>6.4</b>
Cash & bank	6,188	12,615	18,989	41,637	78,634	<b>Return Ratios (%)</b>					
Loans & advances	6,468	6,223	6,543	6,880	7,236	ROE	9.7	9.2	12.9	12.8	14.1
Other current assets	10,623	8,866	9,310	9,775	10,264	ROCE	8.6	10.4	15.0	15.0	15.9
Sundry creditors	(19,480)	(22,818)	(24,593)	(25,756)	(27,136)	ROIC	8.8	9.1	13.6	15.4	20.3
Current Liabilities	(6,006)	(7,160)	(8,592)	(10,310)	(12,372)						
Provisions	(8,582)	(10,815)	(12,978)	(15,573)	(18,688)						
<b>Working capital</b>	<b>70,367</b>	<b>69,601</b>	<b>84,917</b>	<b>1,08,680</b>	<b>1,45,111</b>						
Deferred Tax Assets	5,470	7,084	7,553	8,068	8,635						
Miscellaneous exp.	-	-	-	-	-						
<b>CAPITAL DEPLOYED</b>	<b>2,05,566</b>	<b>1,95,158</b>	<b>2,17,534</b>	<b>2,41,157</b>	<b>2,70,850</b>						

\* Depreciation includes one time impairment charge of Rs 3500 mn due to litigation and regulatory developments of certain Invagen products

Source: Dalal & Broacha Research, Company

### Disclaimer

**Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B** (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services. D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. [www.dalal-broacha.com](http://www.dalal-broacha.com)

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time. SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

#### **Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-**

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have a actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

#### **Disclosures in respect of Research Analyst:**

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any

copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	HOR	kunal.bhatia@dalal-broacha.com	022 67141442	Auto   Auto Ancillary   FMCG
Mrs.Charulata Gaidhani	Sr. Analyst	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma   Healthcare
Mr. Mayank Babla	Sr. Analyst	mayank.babla@dalal-broacha.com	022 67141412	IT   Telecom   Media
Mr. Avinash Tanawade	Sr. Analyst	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	Analyst	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	Analyst	suraj.nandu@dalal-broacha.com	022 67141438	FMCG   Retail
Ms. Timshar Dhamodiwala	Associate	timshar.dhamodiwala@dalal-broacha.com	022 67141441	IT   Telecom   Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400021.

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)