



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Event Update @ Dalal & Broacha

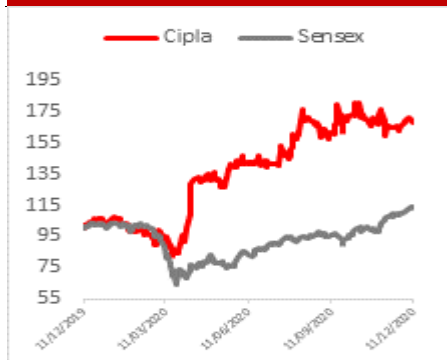
BUY

| | |
|---------------|---------|
| Current Price | 780 |
| Target Price | 914 |
| Upside | 17% |
| 52 Week Range | 357/829 |

Key Share Data

| | |
|-----------------------------------|----------|
| Market Cap (Rs.bn) | 627 |
| Market Cap (US\$ mn) | 8525 |
| No of o/s shares (mn) | 806 |
| Face Value | 2 |
| Monthly Avg.vol (BSE+NSE) Nos'000 | 6123 |
| BSE Code | 500087 |
| NSE Code | CIPLA |
| Bloomberg | CIPLA:IN |

Price performance



Cipla and Bristol Myers Squibb (BMS thru Celgene), has settled for the launch of REVLIMID in the US. Cipla is the fourth player to have settled for REVLIMID after Natco, Alvogen and Dr. Reddy's. With similar settlement terms, USFDA approval to players holds key.

Our analysis based on current volumes of REVLIMID, indicates a NPV of Rs 34/ share as a base case (3 players) scenario. Being a limited competition product, we expect Cipla to benefit through improvement in profitability from FY23E onwards.

REVLIMID has global sales of \$12 bn, with US sales around \$7.5 bn in 2020. Celgene has settled for the following:

1. Limited volume generic supplies of Revlimid on a confidential date post March'2022 subject to USFDA approval.
2. Unlimited generic supplies after January 31, 2026.
3. The percentages agreed upon are confidential.

Outlook & Valuation

Cipla is progressing well in its key markets of India, US and South Africa. The recent launch of ALBUTEROL in the US and more respiratory launches going forward, are expected to improve profitability.

% Shareholding

| | Sep-20 | Jun-20 |
|--------------|------------|------------|
| Promoters | 36.70 | 36.68 |
| FII | 20.06 | 18.64 |
| DII | 19.34 | 20.88 |
| Others | 23.48 | 23.40 |
| Total | 100 | 100 |

At Rs 780, Cipla trades at 20x FY23E EPS of Rs 40. We roll over our estimates to FY23E and value Cipla as a weighted average of DCF (20%), 15x EV/EBITDA(40%) and 25x P/E (40%). We arrive at a target price of Rs 914.

We upgrade our rating from BUY on Dips to BUY.

Key Financials

| Year | Sales | % Growth | EBIDTA | OPM (%) | PAT | % Grow | EPS | PE (x) | EV/EBIT | RoE (%) | RoCE (%) |
|-------|----------|----------|--------|---------|--------|--------|------|--------|---------|---------|----------|
| FY19A | 1,63,624 | 8 | 30,973 | 18.9 | 14,572 | 3.3 | 18.1 | 43.7 | 21.9 | 9.7 | 8.6 |
| FY20A | 1,71,320 | 5 | 32,060 | 18.7 | 14,525 | (0.3) | 18.0 | 43.9 | 20.4 | 9.2 | 10.4 |
| FY21E | 1,88,853 | 10 | 43,562 | 23.1 | 23,099 | 59.0 | 28.7 | 27.6 | 14.9 | 12.9 | 14.4 |
| FY22E | 1,99,579 | 6 | 47,140 | 23.6 | 25,223 | 9.2 | 31.3 | 25.3 | 13.2 | 12.6 | 14.1 |
| FY23E | 2,15,388 | 8 | 55,364 | 25.7 | 32,169 | 27.5 | 39.9 | 19.8 | 10.6 | 14.0 | 15.4 |



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REVLIMID MARKET DYNAMICS

| REVLIMID | FY21E | FY22E | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E |
|--------------------------|-----------|-------|-----------|-----------|-----------|-----------|-----------|------------|
| CELGENE - MBS \$ mn/m | 452 | | | | | | | |
| MBS \$ mn | 5424 | | | | | | | |
| Volumes - per month | 592620 | | | | | | | |
| Volumes - Total | 71,11,440 | | 64,00,296 | 56,89,152 | 47,64,665 | 35,55,720 | 17,77,860 | (7,11,144) |
| Price per pack (\$) | 763 | | | | | | | |
| Expected Generic Volume | 0 | 0 | 7,11,144 | 14,22,288 | 23,46,775 | 35,55,720 | 53,33,580 | 78,22,584 |
| % volume generic | | | 10% | 20% | 33% | 50% | 75% | 110% |
| Price per pack (\$) | 763 | | | | | | | |
| Price discount | -20% | | -20% | -20% | -20% | -20% | -50% | -70% |
| Price - generic | 610 | 610 | 610 | 488 | 391 | 313 | 156 | 47 |
| Sales - generics | | | 434 | 695 | 917 | 1111 | 833 | 367 |
| Number of Players | | | | | | | | |
| | 2 | | 151.93 | 243.09 | 320.87 | 388.94 | | |
| | 3 | | 101.29 | 162.06 | 213.92 | 259.29 | | |
| | 5 | | 60.77 | 97.23 | 128.35 | 155.58 | 138.91 | 61.12 |
| Re - \$ rate | | | 70 | 70 | 70 | 70 | 70 | 70 |

BASE CASE

| | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E |
|------------------------|--------------|---------|---------|---------|---------|--------------|
| Cipla Sales (\$ mn) | 101.29 | 162.06 | 213.92 | 259.29 | 129.65 | 108.04 |
| PBT margin | 75% | 75% | 60% | 60% | 35% | 30% |
| PBT | 75.96 | 121.54 | 128.35 | 155.58 | 45.38 | 32.41 |
| Tax rate | 30% | 30% | 30% | 30% | 30% | 30% |
| PAT | 53.18 | 85.08 | 89.84 | 108.90 | 31.76 | 22.69 |
| PAT (Rs mn) | 3,722.3 | 5,955.6 | 6,289.1 | 7,623.2 | 2,223.4 | 1,588.2 |
| No of shares | 806.25 | 806.25 | 806.25 | 806.25 | 806.25 | 806.25 |
| EPS | 4.62 | 7.39 | 7.80 | 9.46 | 2.76 | 1.97 |
| COST OF CAPITAL | 12% | 12% | 12% | 12% | 12% | 12% |
| Number of years | 1 | 2 | 3 | 4 | 5 | 6 |
| | 4.12 | 5.89 | 5.55 | 6.01 | 1.56 | 1.00 |
| | | | | | | 1.05 |
| NPV (FY23E-26E) | 24.13 | | | | | 10.48 |
| NPV | 34.61 | | | | | |



| BEST CASE | | | | | | |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E |
| Cipla Sales (\$ mn) | 151.93 | 243.09 | 320.87 | 388.94 | 194.47 | 162.06 |
| PBT margin | 75% | 75% | 60% | 60% | 35% | 30% |
| PBT | 113.95 | 182.31 | 192.52 | 233.36 | 68.06 | 48.62 |
| Tax rate | 30% | 30% | 30% | 30% | 30% | 30% |
| PAT | 79.76 | 127.62 | 134.77 | 163.35 | 47.64 | 34.03 |
| PAT (Rs mn) | 5,583.4 | 8,933.4 | 9,433.7 | 11,434.8 | 3,335.1 | 2,382.2 |
| No of shares | 806.25 | 806.25 | 806.25 | 806.25 | 806.25 | 806.25 |
| EPS | 6.93 | 11.08 | 11.70 | 14.18 | 4.14 | 2.95 |
| COST OF CAPITAL | 12% | 12% | 12% | 12% | 12% | 12% |
| Number of years | 1 | 2 | 3 | 4 | 5 | 6 |
| | 6.18 | 8.83 | 8.33 | 9.01 | 2.35 | 1.50 |
| | | | | | | 1.57 |
| NPV (FY23E-26E) | 36.20 | | | | | 15.72 |
| NPV | 51.92 | | | | | |

| WORST CASE | | | | | | |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E |
| Cipla Sales (\$ mn) | 60.77 | 97.23 | 128.35 | 155.58 | 138.91 | 61.12 |
| PBT margin | 75% | 75% | 60% | 60% | 35% | 30% |
| PBT | 45.58 | 72.93 | 77.01 | 93.35 | 48.62 | 18.34 |
| Tax rate | 30% | 30% | 30% | 30% | 30% | 30% |
| PAT | 31.91 | 51.05 | 53.91 | 65.34 | 34.03 | 12.83 |
| PAT (Rs mn) | 2,233.4 | 3,573.4 | 3,773.5 | 4,573.9 | 2,382.2 | 898.4 |
| No of shares | 806.25 | 806.25 | 806.25 | 806.25 | 806.25 | 806.25 |
| EPS | 2.77 | 4.43 | 4.68 | 5.67 | 2.95 | 1.11 |
| COST OF CAPITAL | 12% | 12% | 12% | 12% | 12% | 12% |
| Number of years | 1 | 2 | 3 | 4 | 5 | 6 |
| | 2.47 | 3.53 | 3.33 | 3.61 | 1.68 | 0.56 |
| | | | | | | 0.59 |
| NPV (FY23E-26E) | 15.18 | | | | | 5.93 |
| NPV | 21.11 | | | | | |



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| CIPLA - Key Financials | | | | | | | | | | | |
|------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------------------|-----------------|-----------------|-----------------|-----------------|----------------|
| 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 | 1,88,853 | 1,99,579 | 2,15,388 | Net Profit | 14,572 | 14,525 | 23,099 | 25,223 | 32,169 |
| Raw materials | (57,845) | (59,914) | (65,413) | (68,567) | (71,958) | Add: Dep. & Amort. | 13,263 | 11,747 | 12,183 | 13,223 | 13,873 |
| Employee costs | (28,565) | (30,270) | (31,784) | (33,373) | (35,041) | Cash profits | 27,835 | 26,272 | 35,282 | 38,446 | 46,042 |
| Other Expenses | (46,241) | (49,076) | (48,094) | (50,499) | (53,024) | (Inc)/Dec in | | | | | |
| Cost of sales | (1,32,651) | (1,39,260) | (1,45,291) | (1,52,439) | (1,60,024) | -Sundry debtors | (10,483) | 2,594 | (6,522) | (2,871) | (3,880) |
| Operating Profit | 30,973 | 32,060 | 43,562 | 47,140 | 55,364 | -Inventories | 799 | (4,128) | (4,688) | (2,526) | (1,196) |
| Depreciation* | (13,263) | (11,747) | (12,183) | (13,223) | (13,873) | -Loans/advances | 1,488 | 245 | (320) | (337) | (356) |
| PBIT | 17,710 | 20,313 | 31,379 | 33,917 | 41,491 | -Sundry creditors | (1,711) | 3,338 | 1,065 | 1,175 | 1,247 |
| Other income | 4,766 | 3,442 | 3,614 | 3,795 | 3,985 | -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 | (7,312) | (710) | 502 |
| Profit before tax | 20,791 | 21,782 | 33,327 | 36,046 | 43,810 | CF from Oper. activities | 17,784 | 33,465 | 27,970 | 37,735 | 46,545 |
| Provision for tax | (5,695) | (6,312) | (9,498) | (10,273) | (11,391) | CF from Inv. activities | (19,276) | (491) | (17,838) | (11,550) | (5,502) |
| PAT Bfr Excep Items | 15,096 | 15,470 | 23,829 | 25,773 | 32,419 | CF from Fin. activities | (1,044) | (26,547) | (1,198) | (2,762) | (3,314) |
| Extraordinary Items | - | - | - | - | - | Cash generated/(utilised) | (2,536) | 6,427 | 8,934 | 23,424 | 37,729 |
| Minority Interest/ Share of | (524) | (945) | (730) | (550) | (250) | Cash at start of the year | 8,724 | 6,188 | 12,615 | 21,550 | 44,971 |
| Reported PAT | 14,572 | 14,525 | 23,099 | 25,223 | 32,169 | Cash at end of the year | 6,188 | 12,615 | 21,550 | 44,971 | 82,698 |
| 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 | 23.1 | 23.6 | 25.7 |
| Reserves | 1,48,511 | 1,56,018 | 1,76,803 | 1,99,249 | 2,28,087 | NPM | 8.7 | 8.3 | 12.0 | 12.4 | 14.7 |
| Net worth | 1,50,123 | 1,57,630 | 1,78,415 | 2,00,861 | 2,29,699 | Tax rate | (27.4) | (29.0) | (28.5) | (28.5) | (26.0) |
| Def. Tax Liab.+Minority Int. | 7,573 | 6,595 | 7,079 | 7,608 | 8,192 | Growth Ratios (%) | | | | | |
| Secured loans | 38,301 | 23,693 | 24,793 | 24,793 | 24,793 | Net Sales | 7.5 | 4.7 | 10.2 | 5.7 | 7.9 |
| Unsecured loans | 8,736 | 7,241 | 7,241 | 7,241 | 7,241 | Operating Profit | 9.6 | 3.5 | 35.9 | 8.2 | 17.4 |
| Total debt | 47,037 | 30,933 | 32,033 | 32,033 | 32,033 | PAT | 3.3 | (0.3) | 59.0 | 9.2 | 27.5 |
| Other non current liab | 833 | 675 | 742 | 817 | 898 | Per Share (Rs.) | | | | | |
| CAPITAL EMPLOYED | 2,05,566 | 1,95,158 | 2,17,528 | 2,40,503 | 2,69,925 | Net Earnings (EPS) | 18.1 | 18.0 | 28.7 | 31.3 | 39.9 |
| Gross block | 75,059 | 83,716 | 93,716 | 1,01,716 | 1,06,716 | Cash Earnings (CPS) | 34.5 | 32.6 | 43.8 | 47.7 | 57.1 |
| Accumulated depreciation | (23,916) | (35,662) | (47,845) | (61,068) | (74,941) | Dividend | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Net block | 51,144 | 48,053 | 45,870 | 40,647 | 31,774 | Book Value | 186.3 | 195.5 | 221.29 | 249.1 | 284.9 |
| Capital WIP | 3,311 | 4,210 | 5,000 | 5,000 | 5,001 | Free Cash Flow | (1.9) | 40.9 | 12.6 | 32.5 | 50.9 |
| Total fixed assets | 54,454 | 52,263 | 50,870 | 45,647 | 36,775 | Valuation Ratios | | | | | |
| Intangible Assets | 19,082 | 19,000 | 20,965 | 21,465 | 21,966 | P/E(x) | 43.7 | 43.9 | 27.6 | 25.3 | 19.8 |
| Goodwill | 28,691 | 29,340 | 29,340 | 29,340 | 29,340 | P/B(x) | 4.2 | 4.0 | 3.6 | 3.2 | 2.8 |
| Other non current assets | 1,342 | 1,916 | 1,916 | 1,916 | 1,916 | EV/EBIDTA(x) | 21.9 | 20.4 | 14.9 | 13.2 | 10.6 |
| Investments | 26,160 | 15,953 | 21,036 | 24,085 | 24,085 | EV/SALES(x) | 4.1 | 3.8 | 3.4 | 3.1 | 2.7 |
| Inventories | 39,648 | 43,776 | 48,464 | 50,989 | 52,186 | Div. Yield(%) | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Sundry debtors | 41,507 | 38,913 | 45,435 | 48,306 | 52,186 | FCF Yield(%) | (0.2) | 5.2 | 1.6 | 4.1 | 6.4 |
| Cash & bank | 6,188 | 12,615 | 21,550 | 44,971 | 82,698 | Return Ratios (%) | | | | | |
| Loans & advances | 6,468 | 6,223 | 6,543 | 6,880 | 7,236 | ROE | 9.7 | 9.2 | 12.9 | 12.6 | 14.0 |
| Other current assets | 10,623 | 8,866 | 9,310 | 9,775 | 10,264 | ROCE | 8.6 | 10.4 | 14.4 | 14.1 | 15.4 |
| Sundry creditors | (19,480) | (22,818) | (23,883) | (25,058) | (26,305) | | | | | | |
| Current Liabilities | (6,006) | (7,160) | (8,592) | (10,310) | (12,372) | | | | | | |
| Provisions | (8,582) | (10,815) | (12,978) | (15,573) | (18,688) | | | | | | |
| Working capital | 70,367 | 69,601 | 85,847 | 1,09,980 | 1,47,204 | | | | | | |
| Deferred Tax Assets | 5,470 | 7,084 | 7,553 | 8,068 | 8,635 | | | | | | |
| Miscellaneous exp. | - | - | - | - | - | | | | | | |
| CAPITAL DEPLOYED | 2,05,566 | 1,95,158 | 2,17,528 | 2,40,502 | 2,69,923 | | | | | | |

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



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| Contact | Email ID | Contact No. | Sector |
|------------------------------|--|---------------------|----------------------------|
| Mr. Kunal Bhatia | kunal.bhatia@dalal-broacha.com | 022 67141442 | Auto, Auto Ancillary, FMCG |
| Ms.Charulata Gaidhani | charulata.gaidhani@dalal-broacha.com | 022 67141446 | Pharma /Healthcare |
| Mr. Mayank Babla | Mayank.babla@dalal-broacha.com | 022 67141412 | I.T. |
| Mr. Avinash Tanawade | avinash.tanawade@dalal-broacha.com | 022 67141449 | BFSI |
| Mr. Akshay Ashok | akshay.ashok@dalal-broacha.com | 022 67141486 | BFSI |
| Mr. Suraj Nandu | suraj.nandu@dalal-broacha.com | 022 67141438 | Associate |

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 617 Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com