

VALUE PICK

Rationale:

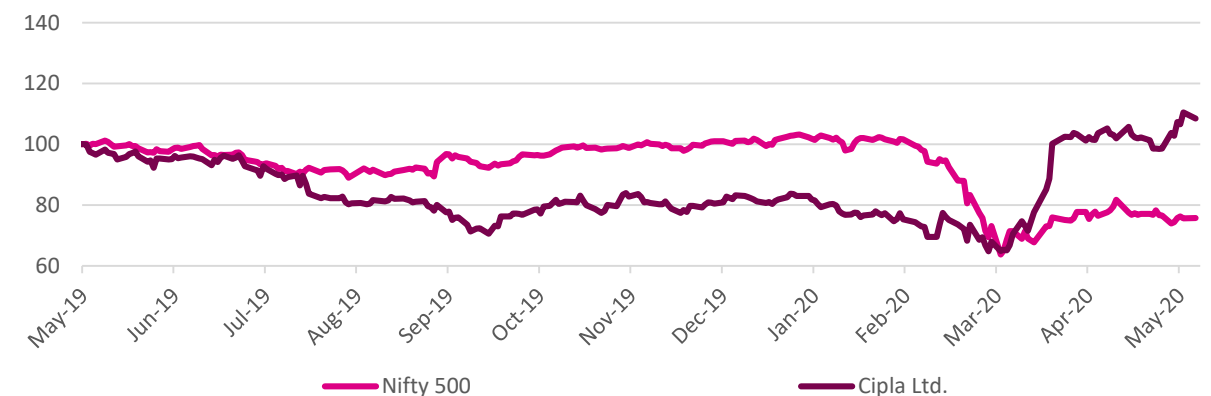
- Formed by Dr KA Hamied in 1935, Cipla is one of the oldest ventures set up by an Indian in the pre-independence era. With 34 manufacturing facilities spread over seven different locations, Cipla has a complete range of therapeutic offerings ranging from simple anti-infectives to complex oncology products. The facilities of the company have been approved by various agencies such as the USFDA.
- On the product filing front, Cipla has filed 259 ANDAs (Abbreviated New Drug Application) with the USFDA cumulatively (FY20) with 175 of them already approved and 22 tentative approvals. The company currently spends 7-8% of revenues on R&D.
- In the domestic market, Cipla remains among the top five players, due to a complete range of product offerings, which covers almost all therapies, and is built on a network of ~7500 medical representatives (MRs) covering a doctor base of ~5,00,000.
- As per MAT (Moving Annual Total) March 2020 AIOCD ranking, Cipla ranked third with a market share of 4.66%. Breaking it down further, its ranking in chronic therapies was at second and is a market leader in respiratory therapies with a market share of 21.2%.
- Exports constitute around ~61% of total sales. The company exports both APIs and formulations to more than 170 countries including advanced regions such as the US and Europe. Cipla derives 23% of its export revenues from US followed by 18% from South Africa, 5% from Europe and 15% from RoW markets.
- Cipla has recently signed a non-exclusive licensing agreement with Gilead Sciences, Inc. for the manufacturing and distribution of the investigational medicine Remdesivir, which has been issued an Emergency Use Authorization (EUA) by the U.S. Food and Drug Administration (FDA) to treat COVID-19 patients.
- As part of the agreement, Cipla will be permitted to manufacture the API and Finished product, and market it in 127 countries including India and South Africa under Cipla's own brand name. Cipla will receive the manufacturing know-how from Gilead Sciences, Inc. to manufacture the API and Finished product at a commercial scale. Cipla's extensive geographical and commercial footprint will help make this therapy accessible to more patients and markets.
- We believe with healthy earnings growth and core ROCE expansion over FY20-22e, valuations are likely to witness re-rating. We initiate our coverage on Cipla Limited (CIPLA) with a **BUY** rating and a target price of **Rs.738 per share**.

52 Week L/H	355/647
Avg. Daily Volume (3M) ('000)	9,182
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	806/5,10,390
Shareholding (Promoters/Institutions/Others)	37%/40%/23%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	1,59,710	1,66,949	1,83,143	1,99,997
EBITDA	28,682	32,060	36,443	41,190
EBITDA Margin	18.0%	19.2%	19.9%	20.6%
PAT	15,277	15,465	19,060	22,470
PAT Margin	9.6%	9.3%	10.4%	11.2%
EPS (₹)	19.0	19.2	23.7	27.9
P/E (x)	33.4	33.0	26.8	22.7
ROE	10.4%	9.8%	10.8%	11.3%

Source: Company, Bloomberg Consensus. Note: Prices are as on 27-May-2020 close.

Price Performance (May'19=100)



Rationale:

- Alkyl Amines Chemicals Ltd (AACL) is a public Limited Listed Company promoted in 1979. The Company is in the business of manufacturing and marketing various aliphatic amines, amine derivatives and other speciality chemicals for the last 35 years.
- AACL has three manufacturing sites with twelve plants in western Maharashtra and Gujarat, covering approximately one hundred and fifteen acres. The Patalganga site manufactures Higher Amines, The Kurkumbh site manufactures Ethyl amines, Amine Derivatives and Specialty Chemicals while The Dahej site is manufacturing Methylamines.
- AACL has leadership position in the amines market for some of the products. The Indian amines industry broadly oligopolistic and AACL is one of the leading players with over 100 products.
- The company has been the market leader in ethylamine segment and among the foremost manufactures of methylamine, diethyl hydroxylamine, and dimethylamine hydrochloride in the country. It has also commissioned a new methylamine plant at Dahej in March 2018.
- Market share of AACL in methyl amines market has improved significantly in FY19 post the capacity addition at new plant and subsequent utilisation at the new plant stood to around 70% in the year.
- Going ahead, AACL aims to gain from its augment capacity of the existing plant to 45,000 tons per year by FY21 which augurs well for medium term revenue visibility for the company.
- The company planned to incur capex of about ₹800 million in FY20E and about ₹1,000 million in FY21E to further add capacities in its Dahej plant and augment capacities at other locations. AACL is expected to generate revenues of around ₹2,500 to ₹3,000 million out of these capital expenditure programs in coming years.
- With sustained improvement in performance owing to favourable raw material pricing, lower threat of dumping through imports and increased visibility of revenues going ahead we believe AACL should continue to report better performance reiterate our coverage with a **BUY** rating and a target price of **₹2,650 per share**.

52 Week L/H	660 /2,059
Avg. Daily Volume (3M) ('000)	26.6
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	20.4/40,994
Shareholding (Promoters/Institutions/Others)	74.2%/2.4%/23.4%

(In ₹ mn)	FY-18	FY-19	FY-20E	FY-21E
Net Sales	6,162	8,464	10,492	12,066
EBITDA	1,176	1,644	2,571	2,896
EBITDA Margin	19.1%	19.4%	24.5%	24.0%
PAT	660	861	1,680	1,901
PAT Margin	10.7%	10.2%	16.0%	15.8%
EPS (₹)	32.4	42.2	82.4	93.2
P/E (x)	62.1	47.6	24.4	21.6

Source: Company, Anand Rathi Research, Prices are as on 27th May-2020

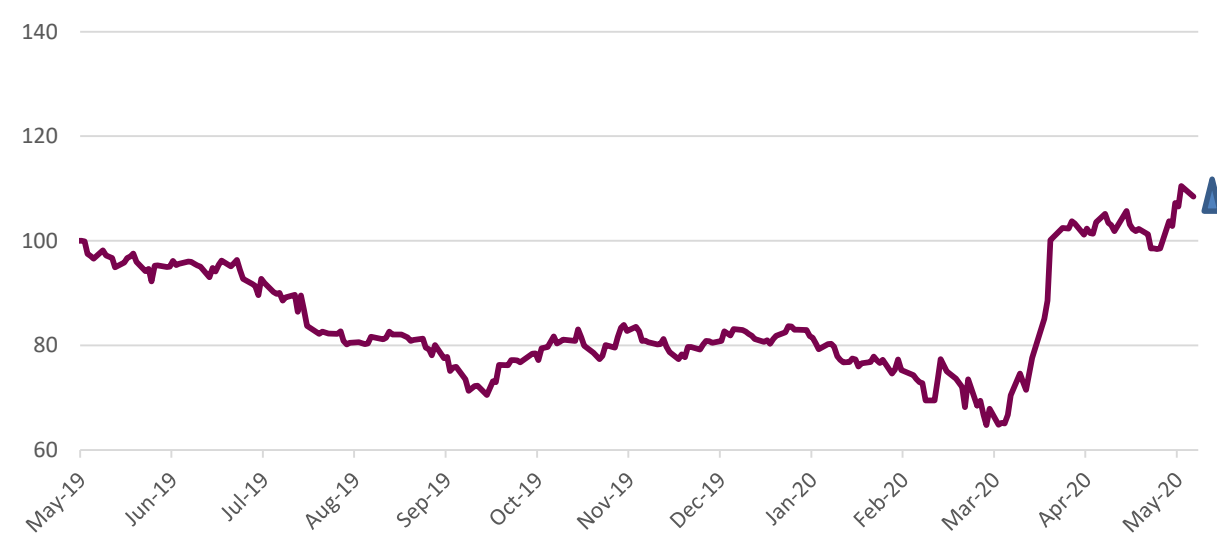
Price Performance (May'19=100)



AACL rating history & price chart



CIPLA rating history & price chart



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Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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