



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 939	
Price Target: Rs. 1,100	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

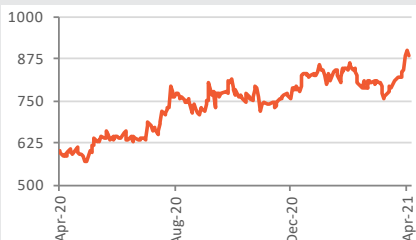
Company details

Market cap:	Rs. 75,703 cr
52-week high/low:	Rs. 944 / 566
NSE volume: (No of shares)	60.1 lakh
BSE code:	500087
NSE code:	CIPLA
Free float: (No of shares)	51.1 cr

Shareholding (%)

Promoters	36.6
FII	23.0
DII	17.9
Others	22.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	18.4	14.0	20.0	56.3
Relative to Sensex	21.5	14.4	-2.1	-3.3

Sharekhan Research, Bloomberg

Summary

- We maintain Buy recommendation on Cipla Limited (Cipla) with a revised PT of Rs 1,100.
- Promising growth outlook for Indian pharmaceutical markets (IPM), which is expected to grow in high single digit to low double digit for FY2022 coupled with Covid led opportunities (albeit in the near term) could benefit Cipla's India business.
- Ramp up in gAlbuterol in US followed by a strong product pipeline of respiratory assets as well as complex generics would fuel the growth in US sales.
- Healthy topline growth, strong earnings visibility, and a healthy balance sheet augur well and would be key positives going ahead.

Cipla Limited (Cipla) is expected to benefit from the promising growth outlook for Indian pharmaceutical markets (IPM), which has revived with 10.3% y-o-y growth for March 2021. For 2HFY2021, IPM growth has been healthy at 5.8% y-o-y, as compared to a decline of 2.6% y-o-y for 1HFY2021. Largely IPM growth has been driven by price hikes and share of new products, while volumes have been weak. Going ahead, IPM is expected to stage high single-digit to low double-digit growth for FY2022 backed by sustained price hikes, while volumes are expected to pick up. In addition to sustained growth in chronics, acute therapies (which have underperformed in FY2021) are likely to report healthy growth in FY2022 due to a low base. A strong growth outlook for IPM augurs well for Cipla as it derives around 40% of sales from India and has a higher presence in chronics, which are expected to sustain the strong growth momentum. Recently, the government has restricted exports of Remdesivir and its API so as to cater to the sudden spike in demand in India for the drug due to surging COVID-19 cases. In order to meet incremental demand, Cipla (with a 50%+ market share of Remdesivir as of January 2021) has almost doubled its production. We believe this could yield short-term benefits for Cipla by the way of higher revenues. Cipla's One-India strategy has played out well and would drive the growth momentum upwards going ahead as well. Sustained traction in chronics and market leadership position in therapies of respiratory, inhalation, and urology segments bode well for Cipla. Ramp-up in gAlbuterol sales with Cipla gaining a 12% share of the total Albuterol market in the US and strong new product pipeline, including high-value respiratory assets and complex generics, are likely to strengthen Cipla's respiratory franchise and could drive US sales. We expect Cipla's topline and PAT to report a CAGR of 12% and 35%, respectively, over FY2020-FY2023E.

Our Call

**Valuation - Maintain Buy with a revised PT of Rs. 1,100:** Cipla's key geographies – India and US are witnessing a healthy growth outlook. Revival in IPM growth to 5.8% y-o-y for 2HFY2021 versus a 2.6% decline in 1HFY2021, expectations of high single digit to low double-digit growth in FY2022 coupled with COVID-led opportunities and synergies of One-India strategy would lead to double-digit growth in India business over FY2020-FY2023. Expected ramp up in gAlbuterol and a strong new product pipeline of high-value respiratory assets and complex generics would drive growth of US sales. Other geographies of South Africa are also expected to grow at a healthy pace. We have increased our estimates by around 6% for FY2022E and FY2023E to factor in the effect of expected growth in respiratory assets and strengthening of the respiratory franchise. Currently, the stock is trading at a valuation of 24.3x/20.4x its FY2022E/FY2023E earnings, which is lower than the long-term historical average multiple. Healthy topline growth, strong earnings visibility, and a healthy balance sheet augur well and would be key positives. We maintain our Buy recommendation on the stock with a revised PT of Rs. 1,100.

Key Risks

- 1) Currency fluctuations, 2) delay in key product approvals/faster approvals for competitors' products, and 3) any regulatory changes in India, South Africa, or the US could affect business.

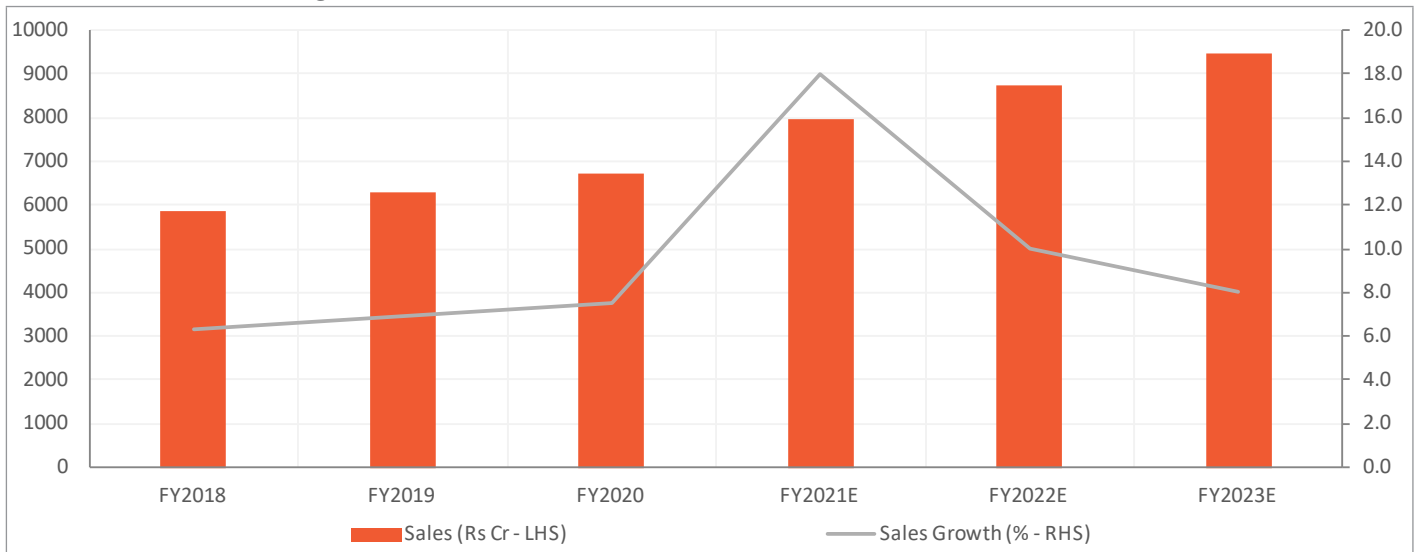
Valuation (Consolidated)

Particulars	Rs cr				
	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Net sales	16362.4	17132.0	19783.3	21423.3	24002.3
Operating Profits	3573.9	3550.2	5061.1	5540.3	6337.7
OPM (%)	18.9	18.7	24.2	24.5	25.0
Reported PAT	1492.4	1499.5	2770.2	3111.2	3706.5
EPS (Rs)	18.7	19.2	34.4	38.6	46.0
PER (x)	50.1	48.9	27.3	24.3	20.4
EV/Ebitda (x)	25.9	24.4	16.1	14.4	12.2
P/BV (x)	5.0	4.8	4.1	3.6	3.1
ROCE (%)	11.1	11.6	19.0	19.1	20.2
RONW (%)	10.3	10.1	13.9	14.6	16.1

Source: Company; Sharekhan estimates

**Strong traction in the domestic business to sustain:** India business accounts for around 40% of the company’s overall sales and the performance for 9MFY2021 has been strong and impressive. Cipla’s domestic formulations sales for 9MFY2021 stood at Rs. 5,929 crore, up 19% y-o-y. Strong growth could largely be attributed to Cipla’s strong presence in the chronics space, which has largely outperformed IPM growth. As India constitutes around 40% of overall sales, performance of the segment is largely influenced by IPM prospects. After a decline of 2.6% y-o-y for 1HFY2021, IPM growth has shown signs of revival, reporting 5.8% y-o-y growth for 2HFY2021. A larger chunk of growth can be attributed to price increases, followed by share of new product introductions, while volumes were on a weaker trend across the year. However, March 2021 witnessed strong 10.3% y-o-y growth, with volumes staging 1.6% y-o-y growth. Therapy wise, growth in IPM is largely driven by the chronics segment, while the acute segment’s performance was weak.

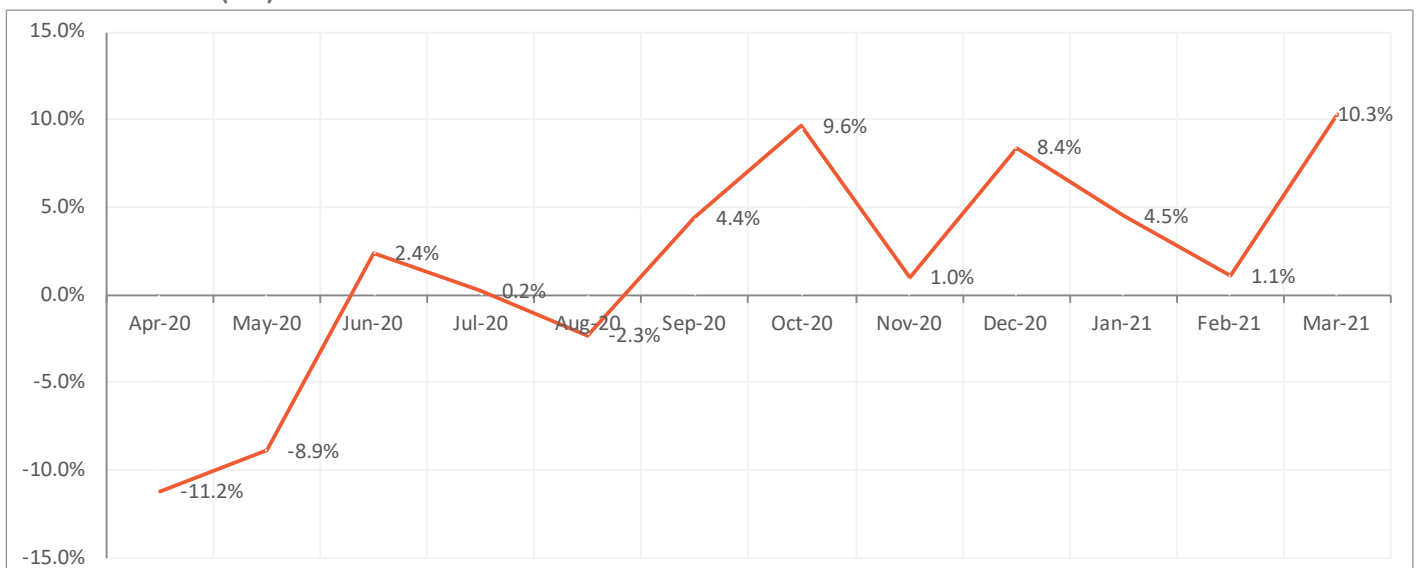
**India Business sales - Sales growth**



Source: Company, Sharekhan Research

Going ahead, industry reports point that strong pricing growth and share of new products are expected to sustain, which is likely to be complemented by pick-up in volume growth as well. Moreover, performance of acute therapy is expected to improve partially due to low base in FY2020. Collectively, IPM is expected to report high single-digit growth or double-digit growth in FY2022, likely to be driven by sustained traction in chronics as well as improvement in acute therapies. Consequently, this augurs well for companies such as Cipla, which have a significant share of sales from India with a higher share of the chronic segment.

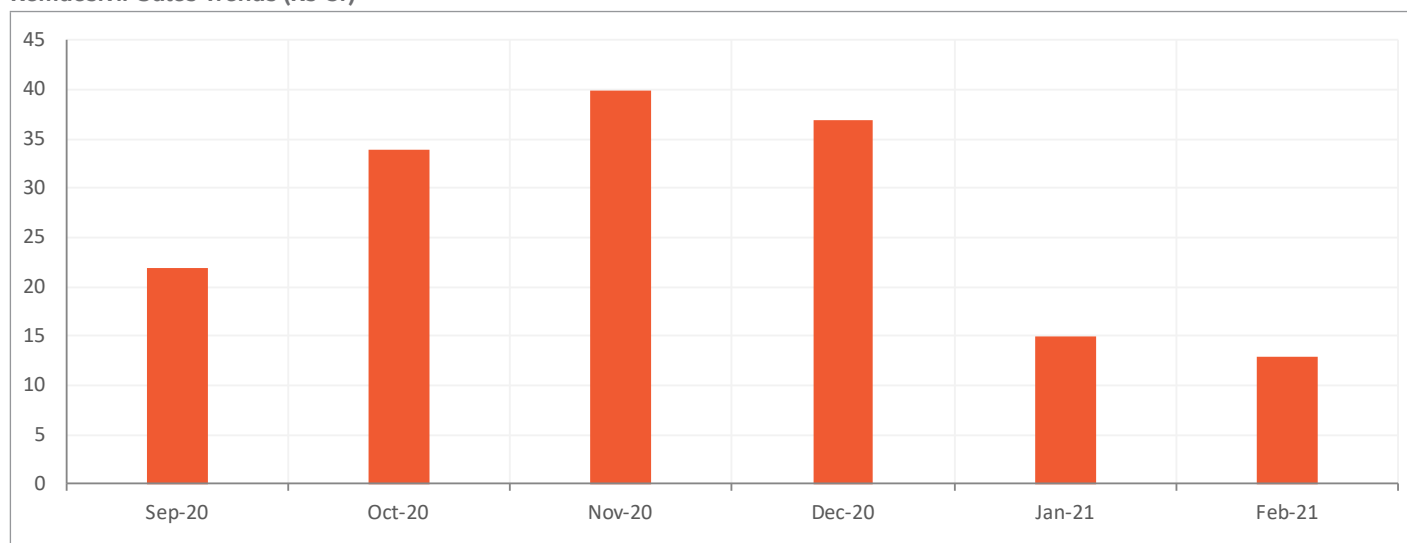
**IPM Growth Trends (YoY)**



Source: Industry, Sharekhan Research

**COVID's second wave to drive demand for Remdesivir in the short term; Cipla could benefit from the opportunity:** Recently, India has been confronting a sudden and a sharp spike in COVID-19 cases with the number of cases surpassing that of Brazil, which was the world's second most hit nation with higher infections. A sudden spike in cases has resulted in acute short supply of an anti-viral drug, Remdesivir, across the country, which is administered in hospitalised patients. Citing the steep surge in domestic demand, the government of India has also banned the export of Remdesivir and its active pharmaceutical ingredients (API). Simultaneously, the company manufacturing the drug has also increased the production of the drug to cater to increasing demand. Cipla has also almost scaled up the production of the drug by two times as compared to production in the last wave. In addition to this, the company is evaluating to tap its network capacities to meet incremental demand.

#### Remdesivir Sales Trends (Rs Cr)



Source: Industry, Sharekhan Research

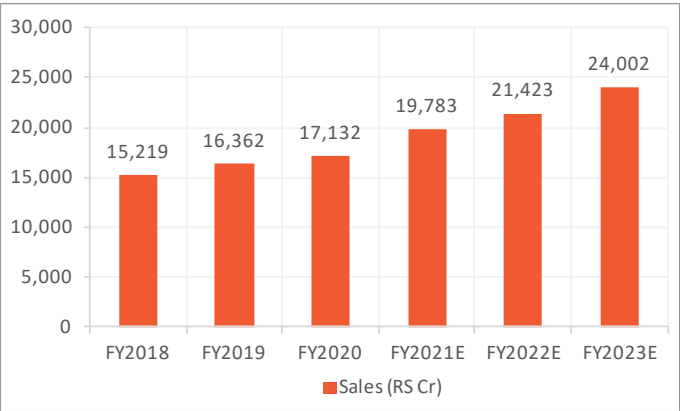
Cipla is one of the leading manufacturers of Remdesivir catering to demand in domestic as well as exports markets. As of January 2021, the company commanded more than half of the Remdesivir market share in the domestic market. Now, with the second wave of the pandemic strengthening further, and Cipla almost doubling Remdesivir production, it is likely to benefit from the demand spike, albeit likely in the short term only. In addition to Remdesivir, Cipla manufactures and supplies Actemra and Favipiravir for COVID-19 patients, which could also see a spike in sales. Collectively, the COVID-led portfolio is likely to add to the company's topline growth, but it is likely to be a short-term phenomenon.

#### **US respiratory portfolio to strengthen, backed by strong new product pipeline and ramp-up in gAlbuterol:**

Cipla's US sales constitute around 20% of its overall sales and the respiratory portfolio is one of the company's key growth drivers in the US. Growth is led by continued improvement in the performance of gAlbuterol, backed by Cipla's strong execution muscle. As of Q3FY2021, the company has gained a market share of 12% of the total Albuterol market in the US and expects the same to further improve, given the strong growth prospects. In addition to gAlbuterol, the company has a strong pipeline in the respiratory segment, which would play out going forward. Cipla has filed for Advair in Q1FY2021, the approval for this is expected in FY2023. Advair has an indicative market size of around \$800 million, which points at substantial opportunities, despite existing competition. In addition to Advair, the company has two more respiratory assets in the pipeline currently, which are expected to be commercialised in or beyond FY2024, thus pointing at strong traction in the respiratory portfolio. In addition to this, the company has a strong product pipeline consisting of complex generics, which is likely to unfold going ahead in FY2022 and would strengthen the company's presence in US markets, leading to growth in US sales.

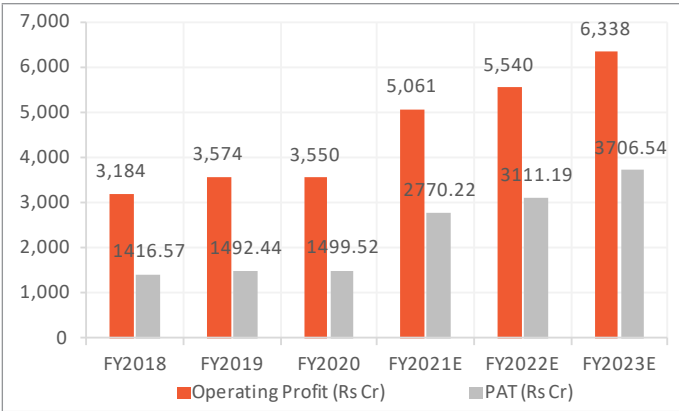
Financials in charts

Sales Trends



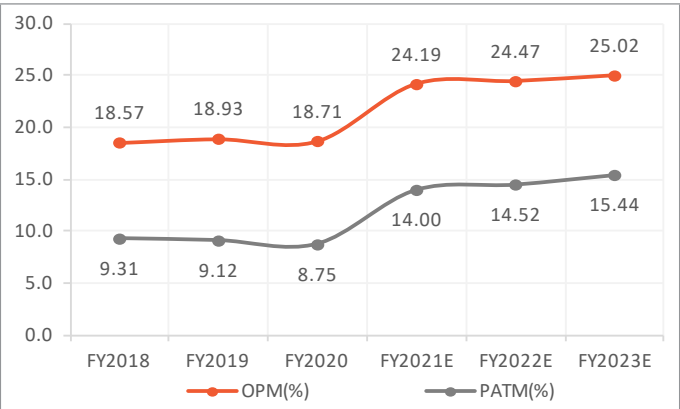
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



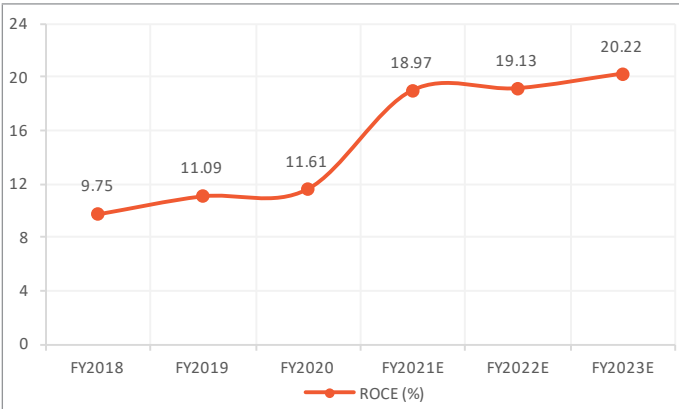
Source: Company, Sharekhan Research

Margin Trends



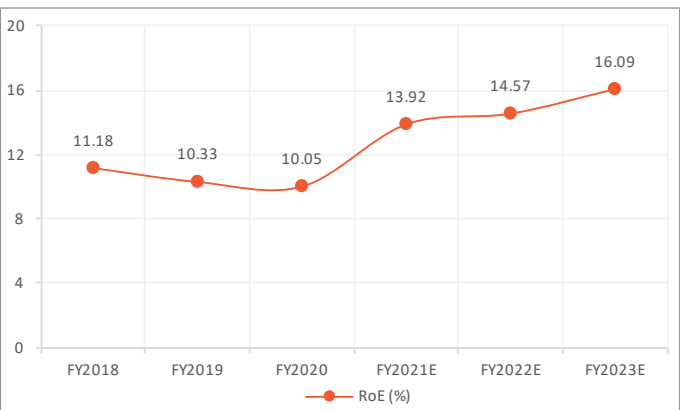
Source: Company, Sharekhan Research

RoCE Trend (%)



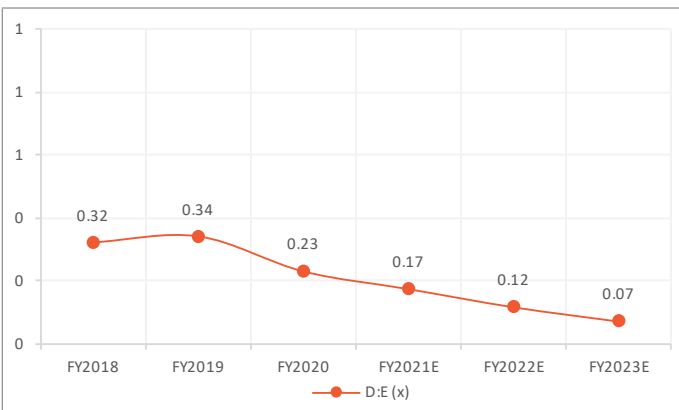
Source: Company, Sharekhan Research

RoE (%) Trends



Source: Company, Sharekhan Research

D:E



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View - Growth momentum to improve:

Indian pharmaceutical companies are better placed to harness opportunities and post healthy growth going ahead. Indian companies are among the most competitive ones globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in the US generics market), rise in product approvals, and plant resolutions by the USFDA coupled with strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules and biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this points towards a strong growth potential going ahead for pharmaceutical companies.

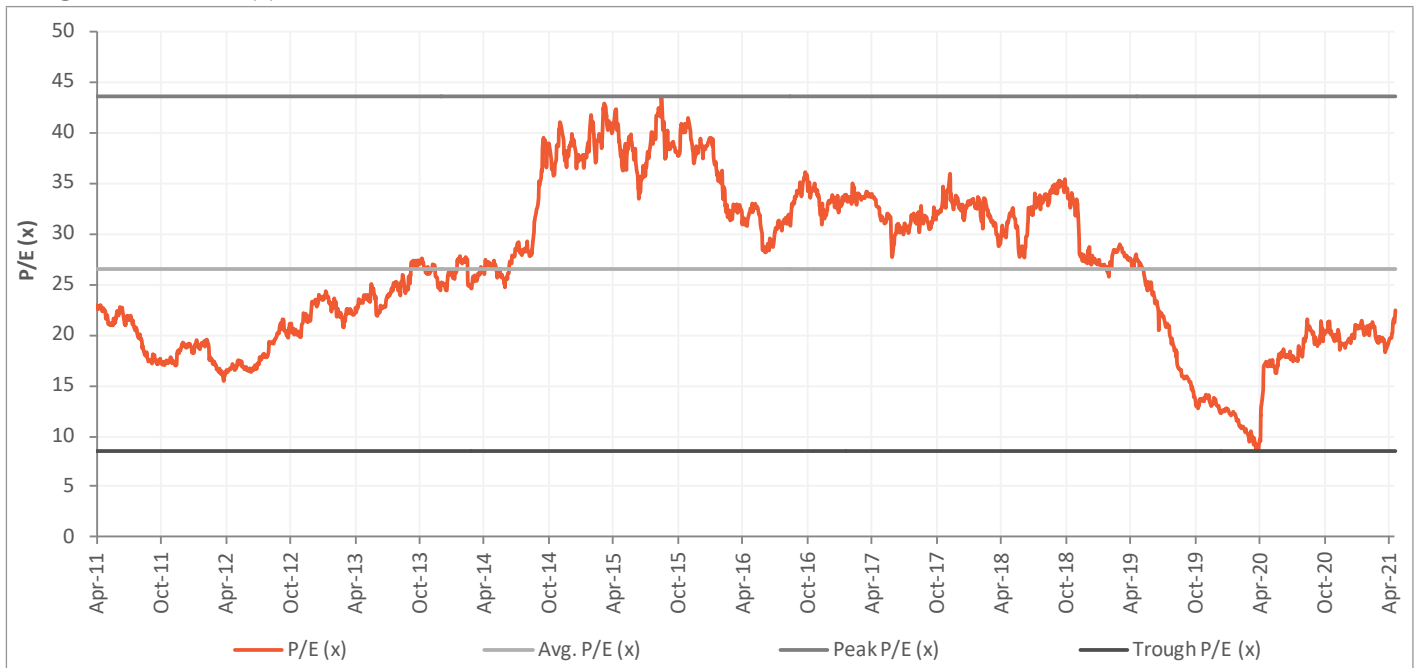
### ■ Company outlook - Gaining traction:

Cipla's domestic business is expected to be a key contributor towards the company's growth, followed by the US business, which is also expected to gain traction. A solid presence in the chronics segment along with market leadership position in select chronic therapies such as – respiratory, inhalation, and urology bodes well for the company. Moreover, increased hospital orders and a likely improvement in the acute therapy segment would fuel growth for India business. The One-India strategy implemented by Cipla has played out well and is expected to result in strong growth momentum. Backed by a strong product launch pipeline comprising complex generics, the US business is expected to report healthy growth, with Albuterol being a key growth driver. Moreover, businesses across other geographies are well set to capitalise on the upcoming opportunities and are likely to gain traction. Cost-optimisation measures implemented by the company in the near term are expected to sustain going ahead as well, leading to an improvement in margin trajectory. Moreover, the board of directors has approved a scheme of arrangement, wherein India-based US business and the consumer healthcare business would be transferred to two different wholly owned subsidiaries with a view to reap benefits of synergies, which seems to be a long-term trigger upon approval by the NCLT.

### ■ Valuation - Maintain Buy with a revised PT of Rs. 1,100:

Cipla's key geographies – India and US are witnessing a healthy growth outlook. Revival in IPM growth to 5.8% y-o-y for 2HFY2021 versus a 2.6% decline in 1HFY2021, expectations of high single-digit to low double-digit growth in FY2022 coupled with COVID-led opportunities and synergies of One-India strategy would lead to double-digit growth in India business over FY2020-FY2023. Expected ramp-up in gAlbuterol and a strong new product pipeline of high-value respiratory assets and complex generics would drive growth of US sales. Other geographies of South Africa are also expected to grow at a healthy pace. We have increased our estimates by around 6% for FY2022E and FY2023E to factor in the effect of expected growth in respiratory assets and strengthening of respiratory franchise. Currently, the stock is trading at a valuation of 24.3x/20.4x its FY2022E/FY2023E earnings, which is lower than the long-term historical average multiple. Healthy topline growth, strong earnings visibility, and a strong balance sheet augur well and would be key positives. We maintain our Buy recommendation on the stock with a revised PT of Rs. 1,100.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Cipla	939.0	80.6	75703.0	48.9	27.3	24.3	24.4	16.1	14.4	10.1	13.9	14.6
Lupin	1056	45.3	47,902	135.7	44.2	26.0	22.6	17.3	11.9	2.8	8.0	11.9
Aurobindo	953	58.6	55839	19.2	17.1	14.7	12.0	9.7	7.9	19.0	16.3	15.1

Source: Company, Sharekhan estimates

## About company

Cipla is a global pharmaceutical company with a geographically diversified presence and products registered in more than 170 countries. Indian branded formulations account for more than 40% of business and Cipla is among the top three players in the market. In the past, the company believed in the partnership model for international markets. However, in the past three years, the company is undergoing a strategic shift and has started setting up its own front-end divisions. Cipla is also a well-known global player in inhalers and anti-retrovirals. Going forward, the company is planning to launch combination inhalers in larger markets such as the US and EU and is setting up its own front-ends to drive growth.

## Investment theme

Cipla banks on its branded business in India, US and South Africa. A solid presence in the chronics segment in domestic markets along with market leadership position in select chronic therapies such as – respiratory, inhalation, and urology bodes well for the company. Moreover, likely improvement in the acute therapy segment would fuel growth for India business. The One-India strategy implemented by Cipla has played out well and is expected to result in strong growth momentum. Backed by a strong product launch pipeline comprising complex generics, the US business is expected to report healthy growth, with gAlbuterol being a key growth driver. Moreover, businesses across other geographies are well set to capitalise on the upcoming opportunities and are likely to gain traction. Cost-optimisation measures implemented by the company could lead to margin expansion. The board of directors has approved a scheme of arrangement, wherein India-based US business and the consumer healthcare business would be transferred to two different wholly owned subsidiaries with a view to reap benefits of synergies, which seems to be a long-term trigger if approved by the NCLT.

## Key Risks

- ◆ Currency fluctuations could have an adverse impact.
- ◆ Delay in key product approvals/faster approvals for competitors.
- ◆ Any regulatory changes in India or South Africa or the US could affect business.

## Additional Data

### Key management personnel

Dr Y K Hamied	Chairman
Mr M K Hamied	Vice Chairman
Ms Samina Hamied	Executive Vice-Chairperson
Mr. Umang Vohra	Managing Director & Global Chief Executive Officer
Mr. Kedar Upadhye	Global Chief Financial Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.24
2	ICIC Prudential Asset Management Co	3.7
3	First State Investments ICVC	3.12
4	SBI Fund Management	2.65
5	HDFC Asset Management	2.25
6	GOVERNMENT PENSION FUND - GLOBAL	1.65
7	Vanguard Group Inc/The	1.43
8	BlackRock Inc	1.21
9	Reliance Capital Trustee Company	1.17
10	Norges Bank	1.16

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research



# Sharekhan

by BNP PARIBAS

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