RESEARCH REPORT

2020-21

INDIAN PHARMACEUTICAL INDUSTRY

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TABLE OF CONTENTS

Index	Page No.

INTRODUCTION TO THE INDIAN PHARMA INDUSTRY

The pharmaceutical industry is one of the fastest-growing sectors with global sales of more than $982 billion in 2018. Approximately 47% of sales is contributed by the U.S. Started gaining importance in the 1970s, the Indian pharmaceutical industry has grown at a rapid pace and has acquired the3rd spot globally in terms of volume and the 10th spot in terms of value. The first pharmaceutical company in India was the Bengal chemicals and Pharmaceutical Works which is one of the 5 government owned drug manufacturers in India. The Indian pharmaceutical industry consists of 20000 registered units which are highly diversified and includes 250 companies, which hold a market share of 70%. The growth of Indian pharmaceutical industry is about 14% and it is the highest among developing countries. Its net worth is expected to surpass $100Billion by 2025. The pharmaceutical exports include bulk drugs, intermediates, active pharmaceutical ingredients, finished dosage and herbal drugs.

The Indian pharmaceutical industry has contributed mostly not just to India and the Indian sub-continent but to global economies. India continues to play an immense role in the manufacturing of various critical, high- quality and low-cost medicines for Indian and global markets. India supplies around 20% of the demand of global pharmaceutical in terms of volume. This is being driven by growth in the economy as a whole, an expanding population that is becoming more health-conscious, and a rising standard of living. Generic drugs have traditionally been India's strength and contributed over 70% to the overall revenue in 2018 alone.Healthy competition in the market has ensured that the prices of generic drugs produced in India are cheap when compared to global product prices.

MARKET SIZE

Manpower in the pharma industry is much less than what is required. According to the WHO there is a shortage of health workers in excess of 7.2 million around the world and will reach 12.9 million within the next 15 years. Health workers, in particular, are lacking in the workforce in many countries. The global pharmaceutical market is valued at about $1.25 trillion and it has seen significant growth in recent years from $390 billion in 2001 to $1.25 trillion in 2019.

Globally, India is the biggest provider of generic drugs and holds a crucial position in the pharmaceutical sector around the world. Indian pharmaceutical sector supplies more than 50% of the demand for various vaccines in the world, 40% of USA's generic drug demand, and 25% of all pharma drugs in the UK. The domestic pharma market in India reached ₹1.4 lakh crore in turnover in last year, increasing by 9.8 percent year-on-year from the ₹129,015 crore in 2018. India's pharmaceutical sector is expected to grow to US$ 100 billion by 2025. And the medical device market in India is going to rise by US$ 25 billion by 2025. India made pharmaceutical exports worth US$ 20.70 billion in the FY2020. India will be placed among the top 3 pharmaceutical markets by decent growth. In absolute size, it is expected to jump at 6th place among the largest market globally. India holds a significant competitive edge over others as our cost of production is almost half as of Europe and also a bit lower than that of the US. According to industry reports, the Indian pharmaceutical industry has been growing at around 13 -14 % in the last 5 years and will continue to rise exponentially due to various drivers of growth like the steady rise in population. Metro cities will maintain their growth momentum and expand at a high rate due to large urbanisation in the country. The market share of rural areas is expected to improve due to the increase in the higher net disposable income in these areas.

INDIAN MEDICAL INFRA AND STATES HOSTING KEY PHARMAVENTURES

Medical System has contributed immensely for providing better access to healthcare but its assistance would have been greater if we would have an intact medical infrastructure. India with its 130cr plus population and poor healthcare systems and infrastructure has the responsibility to utilize the resources and create a better infrastructure for medical. The 'Special 301 Report' by the USTR slammed India as leading sources of counterfeit medicines distributed globally with 20% of all pharma products sold in the Indian market is estimated to be counterfeit. This makes it rather essential to put in place a regulatory medical infrastructure to guarantee that global quality and safety demands are adhered both, at the domestic and export fronts.

Sikkim is coined as "Pharma Hub" as it has become home to some major pharma giants in the past few years. The major reason for choosing Sikkim as a place for manufacturing is that it is a beautiful and peaceful state with a relatively low population where Government interventions are minimum and with considerable tax benefits. Several pharma companies started evaluating Sikkim as a manufacturing hub in 2009 and after which Sikkim has been the top choice for recent Pharma ventures.

Recently, a big Medical Equipment Manufacturing Project costing US$136 million has been implemented in Sikkim. Telangana has been the prime choice for of IT sector but the State government aims to increase investment in other sectors also. The government is making numerous efforts in the intended direction and has launched the Hyderabad Pharma City project. This project focuses on attracting investments in the pharmaceutical industry. The project had experienced a great response as more than 100 large industries and around 200 MSMEs have submitted an expression of interest (EOI) to establish their manufacturing units across the various chain of pharmaceuticals including R&D, Active Pharmaceutical Ingredient, Finished Dosages etc. The Hyderabad Pharma City is of about 19,000 acres in Ranga Reddy district. Thus, ensuring Hyderabad to become the tropical choice of Pharmaceutical Industry.

API, MEDICAL DEVICES AND SURGICAL GOODS

API (Active Pharmaceutical Ingredient) is the main ingredient which targets the problem area for which the medicine is made for. For example, in a toothache medicine is the component which cures the toothache is the API.Some companies purchase the intermediate ingredients to produce the API and do the mixing whereas some produce the intermediates themselves and also do the mixing.The Indian API industry is the 3rd largest in the world in terms of volume and 13th largest in terms of value.

It is one of the major factors which help reduce the trade deficit specifically amongst the top 5 sectors. It contributes around $11 billion every year, to the trade surplus of our country.The API industry has a small profit margin which is around 10% on an average, the true margins lie in those companies which take the API and formulate consumable medicines i.e.the final drug. If one company tries to increase their prices, they are bound to lose their customers or suffer as there is strong competition in this pharma segment. But at the same time there are strong barriers to entry in this industry as the set up for production involves huge costs. The global medical devices market stands at a value of $456.9 billion in 2019, with an increased CAGR of 4.4% since 2015. The market has declined at a rate of 3.2% due to the lockdown imposed by the government across the world which hindered the supply chain in the medical device manufacturing industry. However, there is an unprecedented increase in themanufacturing of ventilators that are used to treat COVID-19 patients. The market is expected to recover and grow at a rate of 6.1% from 2021 to 2023. India's surgical equipment industry is expected to grow at rate of 20% by FY 2026. India's surgical devices market is segmented into abdominal, neurology, ENT and cancer, and various other segments. Among them, the abdominal surgeriesdominated the market in terms of revenue until FY2019.

COVID-19 ON PHARMA SECTOR

The COVID–19 pandemic has disturbed the supply chains across the world. Almost every sector is suffering from supply chains coming to a mincing standstill. Unfortunately, the same is happening with the pharmaceutical industry which has led to drastic changes in the prices. Prices of raw materials haveseen a sudden increase due to limited supply, productiondisruption and factories have been shut down. The impact on the Indian pharma sector is typically same, given that most raw materials are received from China, theepicentre of the outbreak. The movement of people and goods were restricted amid lockdowns, manufacturers of genericdrugs are unable to launch products or complete clinical trials. As a result, timelines for drug filings have got sloped. Furthermore, cash flows from new drug launches havehampered. Indian drug manufacturers face other challenges as well. An Indian pharmaceutical unit can selldrugs in the US only after it receives nod by the US FDA. The pandemic has also forced generic drug manufacturers to delay their plans for new product launches within the markets. When product launches and clinical trials by global pharma companies are delayed, the drug companies from which they source materials face the difficulties.

LEAST IMPACTED BY LOCKDOWN

As compared to other sectors, the pharmaceutical sector was the least impacted by the disruption caused by the national lockdown. Medicinal drugs being essential, were allowed to be manufactured and supplied across the nation. Thecompanies in this sector are now digitally transformed so as to connect doctors and patients. The events of the recent monthsincluding both the pandemic and issues with China, prompted the government to provide an incentive scheme to promote the local production of key active ingredients within the country. We have seen a major movement in stock prices of various pharmaceutical companies. API units emerged as the major beneficiary. The Indian pharma sector also emerged a leadingexporter of hydroxychloroquine (HCQ) drug to the US and other markets. Ipca Lab ltd and Zydus Cadila increased HCQ drug's production by 10 times to meet up the demand during the lockdown.NIFTYPHARMA posted ~60% return YTD whereas Divis Labs, the API giant emerged as the biggest gainer for the term posting over 100% returns. Rossari Biotech ltd and ChemconSpecialty Chemicals ltd launched their IPOs during lockdown, highlighting the pharma ingredients produced by them. Both these IPOs saw whopping subscription.

AUROBINDO PHARMA LTD

INTRODUCTION

Aurobindo Pharma Limited is a Pharmaceutical manufacturing company headquartered in Hyderabad, India.The company manufactures generic pharmaceuticals and active pharmaceutical products.The company’s area of activity includes six major therapeutic/product areas: antibiotics, anti-retrovirals, cardiovascular products, central nervous system products, gastroenterologicals, and anti-allergics. The company markets these products in over 125 countries. Its marketing partners include Astra Zeneca and Pfizer.Aurobindo Pharma was founded in 1986. The company commenced its operations in 1988–89 with a single unit that manufactured semi-synthetic penicillin (SSP) at Pondicherry. The company became a public company in 1992 and listed its shares in the Indian stock exchanges in 1995.In addition to being the market leader in SSPs, Aurobindo Pharma has presence in key therapeutic segments such as neurosciences, cardiovascular, anti-retrovirals, anti-diabetics, gastroenterology and cephalosporins, among others.The company has nine units for APIs/intermediates and seven units for formulations, which are designed to meet the requirements of both advanced as well as emerging market opportunities.

PRODUCTS OFFERED

- API – Active Pharmaceutical Ingredients to be used to drugs
- Formulations – The drugs itself
- Custom Synthesis – Contract manufacturing of drugs on contracts from other companies
- ARVs and HIV's – HIV treatment. A growing market area
- Peptides – Used in Drug development
- Nutraceutical – Food Supplements. A fast-growing market
- Bio Catalysts used in Pharma and Chemical business.

SOME KEY RATIOS

- Price to Earnings Ratio(P/E)=20.82
- Debt to Equity Ratio= 0.33
- Earnings Per Share= 45.40
- Return On Equity= 18.53%
- Dividend Yield= 0.32%
- Return on Capital Employed= 18.80%

AUROBINDO PHARMA'S GROWTH PROSPECTS.

The major growth drivers for the company in the near future are:

- Company aims at expansion of portfolio with a balanced approach through augmented growth in injectable, OTC and higher complexity products.
- Secondly, it would be increasing collaboration for penetration into global markets to increase its customer base.
- Thirdly and most importantly, company is looking forward to establish operational efficiencies and cost leadership in API, formulation manufacturing and supply chain planning & distribution.
- While building a differentiated product mix, company would spend more on R&D to build Oncology Products, Hormones, Depot injections, Peptides, Inhalers, Patches, Films, Vaccines, Biosimilars and Differentiated Oral delivery products.

FUNDAMENTAL ANALYSIS

MARKET CAP(CR)	50,282.32
FACE VALUE(RS)	1.00
BOOK VALUE	222.30
STOCK P/E	16.73
INDUSTRY P/E	37.16
Dividend yield	0.35%
ROE	16.95%
DEBT TO EQUITY RATIO	0.17
P/BV	2.99
PROMOTERS STAKE	48.94%

PROFIT AND LOSS

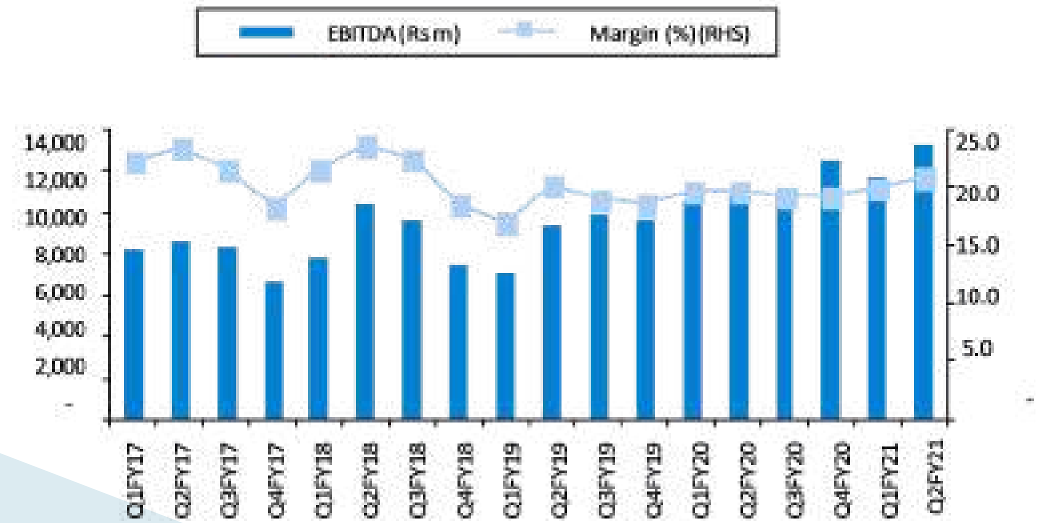
INR mn	Q2FY21	Q2FY20	% YoY chg	Q1FY21	% QoQ chg
Net Sales	64,834	56,005	15.8	59,248	9.4
EBITDA	14,328	11,675	22.7	13,174	8.8
Other Income	472	206	128.8	934	(49.5)
Interest	157	409	(61.6)	211	(25.4)
Depreciation	2,573	2,433	5.8	2,555	0.7
PBT	12,135	8,911	36.2	10,964	10.7
Tax	3,873	2,244	72.6	3,037	27.5
Tax Rate (%)	32	25	6.7	28	4.2
Minority	(6)	(3)	75.8	1	(680.0)
PAT (Adj.)	8,016	6,760	18.6	8,070	(0.7)
EO Items	(66)	128	(151.5)	378	(117.4)
PAT (Reported)	8,062	6,671	20.9	7,806	3.3

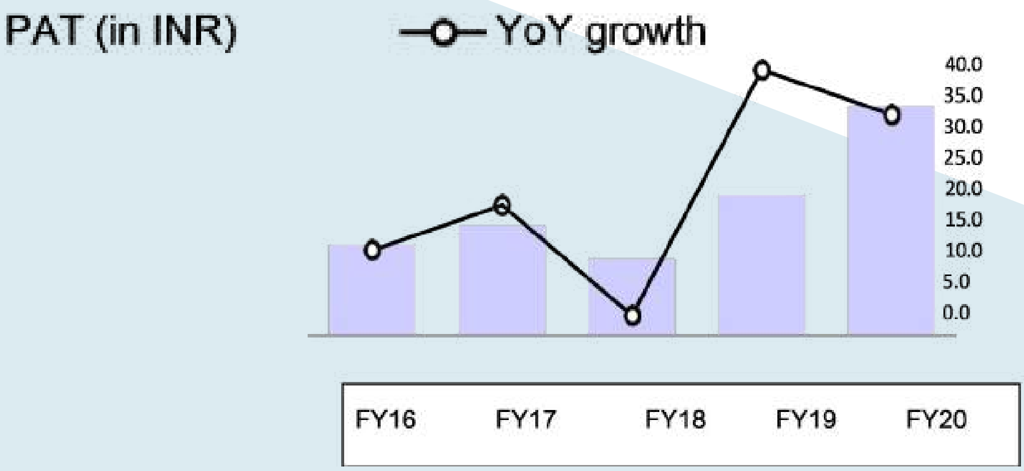
THE FINANCIALS THROUGH GRAPHS

Market price as on date of analysis

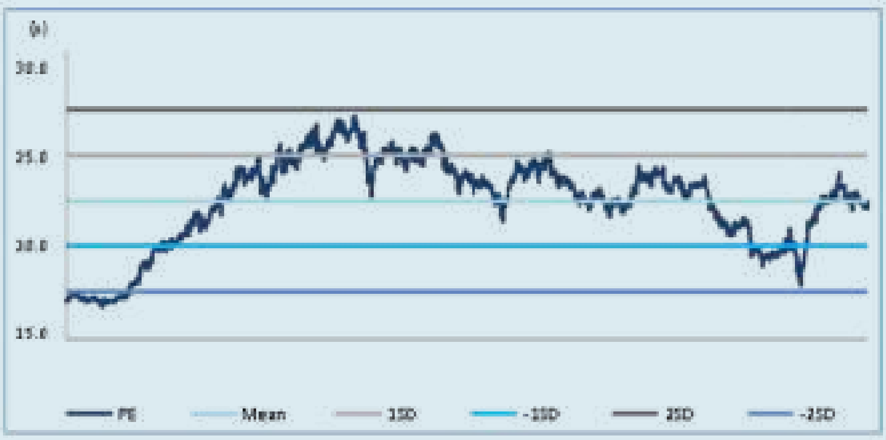
830.15

EBITDA (Rs) and EBITDAM: Margin stable and range bound





P/E Chart



FINANCIAL OUTLOOK

- Revenues grew by 16% YoY driven by strong across markets.
- Gross margins increased by 350bps YoY and 180bps QoQ led by favourable product mix R&D spends increased to 6.4% of sales company expects to maintain 5.5-6% run-rate p.a.
- EBITDA margins were flat QoQ as higher R&D was offset by higher gross margin
- US biz grew 4% QoQ primarily driven by sequential recovery in the injectables business
- Europe recovered (+10% QoQ, -3% YoY, in cc terms) from Q1 which was impacted by Covid-led stocking up.

DIVI'S LABORATORIES LTD.

INTRODUCTION

Established in the year 1990, Divi's Laboratories Ltd is an India based manufacturer of Active Pharmaceutical Ingredient (APIs) and Intermediates.It is one of the largest pharmaceutical companies in the country with a diverse portfolio of 120 products across diverse areas in pharma.The company has two manufacturing facilities one in Hyderabad and the other in Vizag.

PRODUCTS OFFERED

- Generic APIs
- Custom Synthesis
- Nutraceuticals

SOME KEY RATIOS (CURRENT YEAR)

1. Price to Earnings Ratio (P/E) = 59.98
2. Debt to Equity Ratio = 0.85
3. Earnings Per Share = 51.86
4. Return on Equity = 19.2%
5. Divided Yield = 0.51%
6. Return on Capital Employed = 25%

FUNDAMENTAL ANALYSIS

Some relevant information:
• Market Cap ₹ 83,104 Cr.
• Current Price ₹ 3,130
• High / Low ₹ 3,389 / 1,626
• Face Value ₹ 2.00
• 3rd largest pharmaceutical company in India in terms of Market Capitalization behind Sun Pharma and Dr. Reddy's Labs.
• Largest in terms of bulk drugs manufacturing ahead of Lupin and Jubilant Life.
• Credit Rating AA+ (CARE)

PROFIT AND LOSS

Report Date	Mar-17	Mar-18	Mar-19	Mar-20
Sales	4064.34	3891.49	4946.26	5394.42
Raw Material Cost	1608.36	1567.94	2169.72	2256.99
Change in Inventory	40.82	-3.33	304.59	105.98
Power and Fuel	198.8	228.73	248.78	280.73
Other Exp	120.99	134.6	160.96	203.73
Employee Cost	500.06	456.45	542.78	622.36
Selling and admin	154.1	200.09	175.19	226.92
Other	74.18	31.42	79.98	86.46
Other Income	73.36	107.26	155.21	189.63
Depreciation	123.33	142.49	168.9	186.24
Interest	3.36	2.37	4.68	7.14
Profit before tax	1395.34	1231.33	1855.07	1819.46
Tax	334.92	354.32	502.33	442.92
Net profit	1060.42	877.01	1352.74	1376.54

OBSERVATIONS

- Increase in Net Profit by 1.76%
- Increase in Total Revenue by 9.06%
- Increase in Interest Expense by 52.56%
- Tax payment reduced by 11.82%

CASH FLOW STATEMENT

Report Date	Mar-17	Mar-18	Mar-19	Mar-20
Cash from Operating Activity	1150.37	775.86	954.3	1215.94
Cash from Investing Activity	-1139.6	-478.3	-685.4	-83.47
Cash from Financing Activity	2.38	-314.16	-245.94	-1091.42
Net Cash Flow	13.15	-16.6	22.96	41.05

OBSERVATIONS

- Increase in Cash Flow from Operations by 27.41%
- Decrease in Cash Flow from Investing Activity by 87.82%
- Increase in Cash from Financing Activity by 343.77%
- Increase in net cash flow by 78.78%

BALANCE SHEET

Report Date	Mar-17	Mar-18	Mar-19	Mar-20
Equity Share Capital	53.09	53.09	53.09	53.09
Reserves	5304.3	5871.71	6904.06	7256.83
Borrowings	35.74	63.11	105.6	38.85
Other Liabilities	761.84	796.91	973.16	1182.55
Total	6154.97	6784.82	8035.91	8531.32
Net Block	1559.19	1996.19	2087.77	2781.85
Capital Work in Progress	443.57	119.76	491.91	919.69
Investments	1630.73	1889.29	1945.6	971.36
Other Assets	2521.48	2779.58	3510.63	3858.42
Total	6154.97	6784.82	8035.91	8531.32
Receivables	900.92	1014.36	1163.37	1413.35
Inventory	1319.91	1350.67	1772.34	1863.86
Cash & Bank	78.7	112.46	115.26	122.63

OBSERVATION

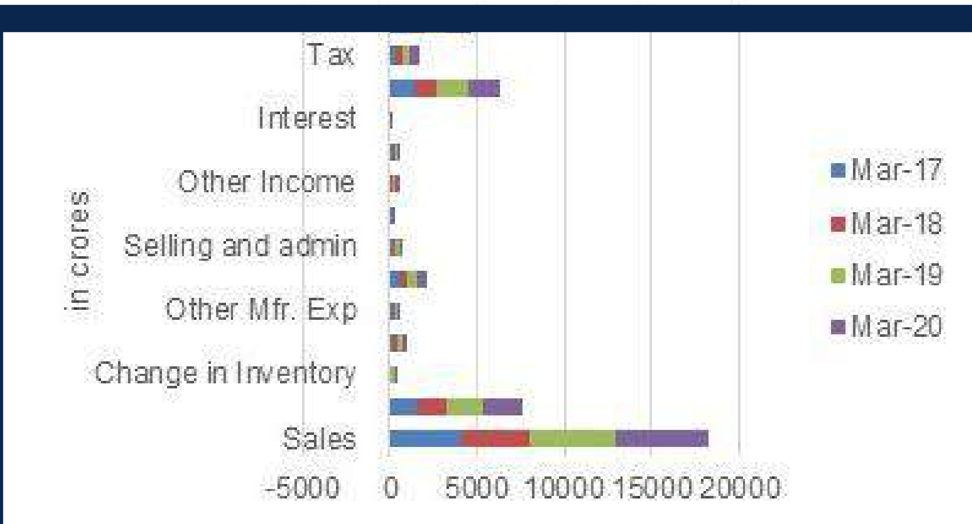
- There is no dilution of equity share capital
- Borrowings have reduced by 63.2%
- There is increase in Cash & Bank by 6.39%

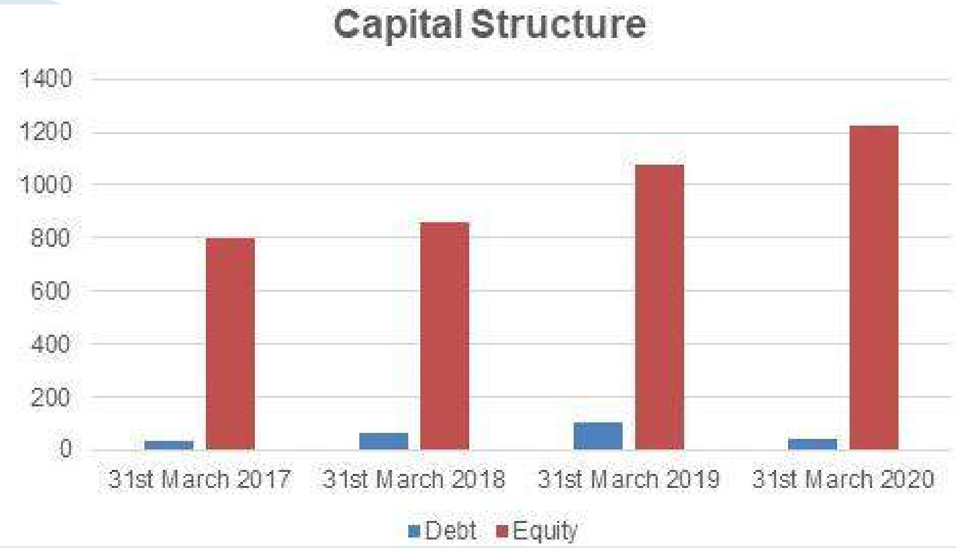
STOCK PRICE CHART

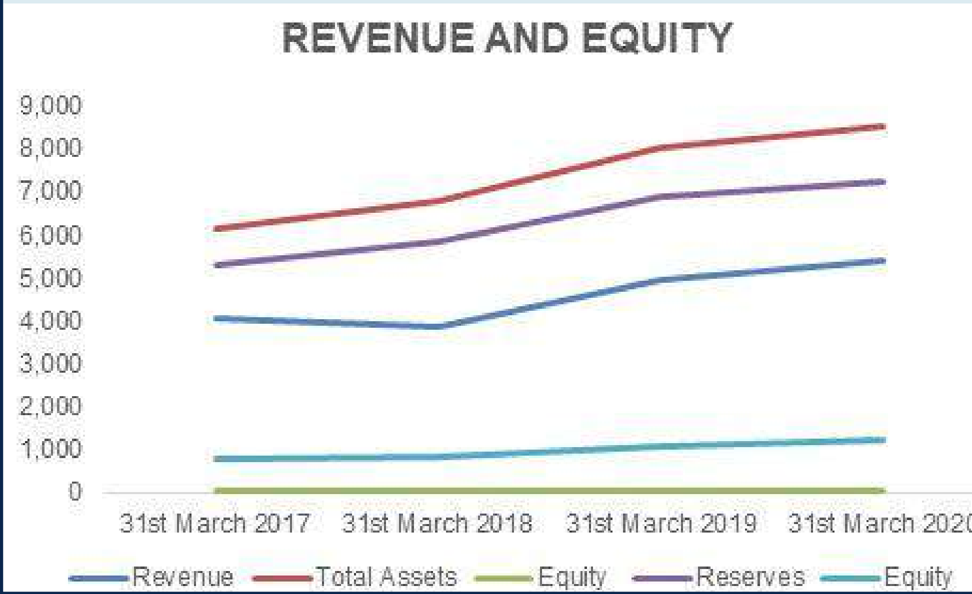
THE FINANCIALS THROUGH GRAPHS

Market price as on date of analysis

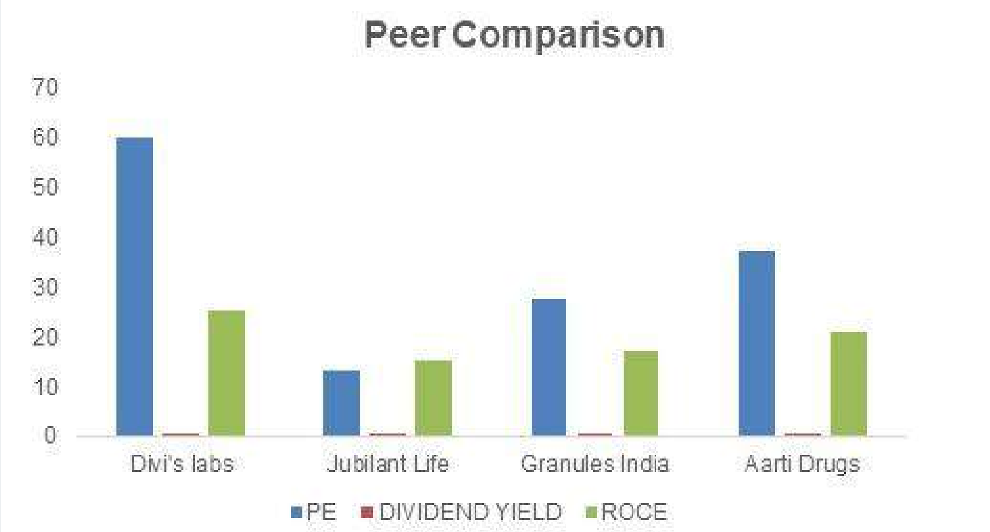
3130

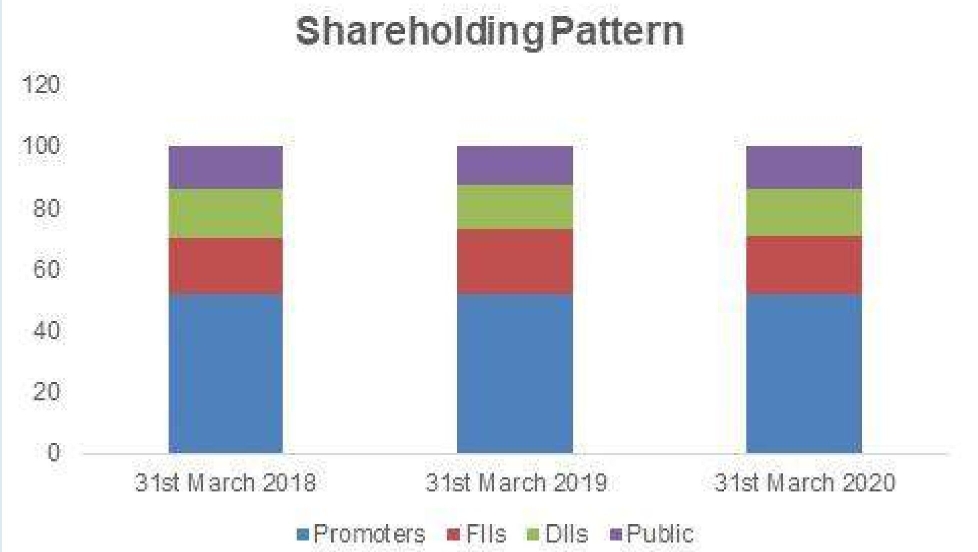






THE FINANCIALS THROUGH GRAPHS





PROS

•The company has been growing at a strong rate.
• Net Profit has been increasing QoQ since last 4 Quarters
• Stock is almost at its 52-week high and has shown impressive growth
• The company has reduced its debt significantly and is cash flow positive
• The company also has a healthy dividend payout
• Promoter Holding is more than 50% and not diluting

CONS

•The stock is trading at 11 times its book value (overvalued)
• Increasing costs of expansion YoY

QUARTERLY RESULTS

Report Date	Sep-19	Dec-19	Mar-20	Jun-20
Sales	1445.57	1396.26	1389.71	1730.47
Expenses	955.01	902.36	945.26	1030.39
Other Income	47.03	41.67	76.73	17.33
Depreciation	45.93	46.7	49.78	56.2
Interest	3.79	1.55	0.44	0.23
Profit before tax	487.87	487.32	470.96	660.98
Tax	131.09	128.23	82.73	168.92
Net profit	356.78	359.09	388.23	492.06
Operating Profit	490.56	493.9	444.45	700.08

DR REDDY'S LABORATORIES

INTRODUCTION

Dr. Reddy's Laboratories Ltd. Founded in 1984 by Kallam Anji Reddy is an integrated pharmaceutical company, committed to providing affordable and innovative medicines for healthier lives. Through its three businesses - Pharmaceutical Services & Active Ingredients, Global Generics and Proprietary Products. Dr. Reddy's offers a portfolio of products and services including APIs, custom pharmaceutical services, generics, biosimilars and differentiated formulations. Reddy's operates in markets across the globe, major markets include – USA, India, Russia & CIS countries, and Europe.

PRODUCTS

The company has over 190 medications, 60 active pharmaceutical ingredients (APIs) for drug manufacture, diagnostic kits, critical care, and biotechnology products.

- Pharmaceuticals
- generic drugs, over-the-counter drugs
- vaccines
- diagnostics
- contact lenses
- animal health

FUNDAMENTAL ANALYSIS

Some Key Ratios

1. P/E 48.6
2. EPS (TTM) 147.68
3. Price/Book 4.69
4. ROCE 11.1 %
5. ROE 13.6 %

Some relevant information

1. Market Cap ₹ 78,217 Cr.
2. Current Price ₹ 4,704
3. High / Low ₹ 5,515 / 2,495
4. Dividend Yield 0.53 %
5. Book Value 936.55

PROFIT AND LOSS

Report Date	Mar-18	Mar-19	Mar-20
Sales	14281	15448.2	17517
Raw Material Cost	4081	4770.2	5530.7
Change in Inventory	41.5	275.4	-23.7
Power and Fuel	329.3	329.1	314.8
Other Mfr. Exp	1746.5	1434.8	1445.4
Employee Cost	3221	3364.2	3391
Selling and admin	2100	2227.3	2173.4
Other Expenses	493.5	419.8	2160.9
Other Income	155.2	381.3	670
Depreciation	1077.2	1134.8	1163.1
Interest	78.8	88.9	98.3
Profit before tax	1350.4	2335.8	1885.7
Tax	438	385.8	-140.3
Net profit	946.8	1950	2026
Dividend Amount	332	332	415.5

OBSERVATION

- Sales have been consistently increasing and increased by 13% in 2019-20
- Other expenses have increased by a whopping 415%
- Interest paid has increased by 11%
- Profit before tax has reduced by 19% which hadshown good growth of 73% last year.
- Net profit has grown marginally by 4% but company has increased its dividend payout by 25% which is a healthy sign.

CASH FLOW STATEMENT

Report Date	Mar-18	Mar-19	Mar-20
Cash from Operating Activity	1803	2870.4	2984.1
Cash from Investing Activity	-1482.6	-769.2	-494.8
Cash from Financing Activity	-444	-2132.6	-2515.9
Net Cash Flow	-123.6	-31.4	-26.6

OBSERVATION

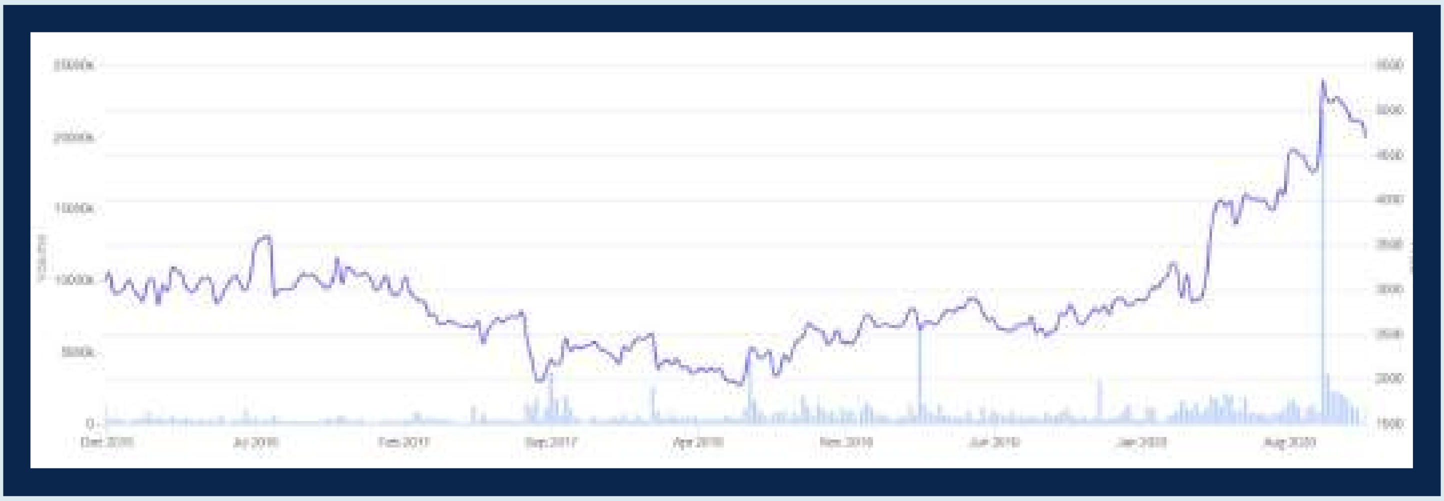
The cash from operating activities has increased marginally by 4% which had a shown an amazing growth of 59% last yearCash used in investing activity has reduced by 36%Cash used in Financing Activity has increased by 18% which can be majorly attributed to the increased dividend payout.Overall Net cash has reduced by 15%

BALANCE SHEET

Report Date	Mar-18	Mar-19	Mar-20
Equity Share Capital	83	83	83.1
Reserves	12488.6	13994.1	15616.3
Borrowings	5071.4	3838.1	2210.2
Other Liabilities	4706.3	4503.1	5313.7
Total	22349.3	22418.3	23223.3
Net Block	6968	7191	6850.3
Capital Work in Progress	3470.5	2933.5	1535.1
Investments	2298.3	2587.1	2677.8
Other Assets	9612.5	9706.7	12160.1
Total	22349.3	22418.3	23223.3
Receivables	4052.7	3986.9	5027.8
Inventory	2908.9	3357.9	3506.7
Cash & Bank	263.8	222.8	205.3
No. of Equity Shares	165911107	166066148	166172082

OBSERVATION

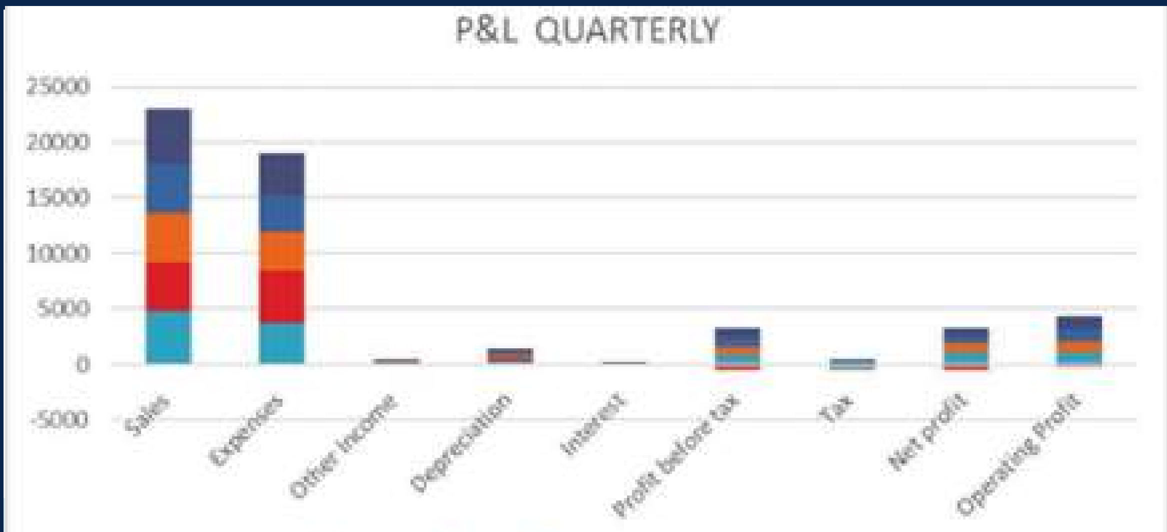
Equity Share Capital showed a slight increase of 0.12%Reserves have been growing consistently at 12%Company is reducing borrowings and it has reduced it by 42% in 2019-20 which is better than 24% reduction in its preceding year.

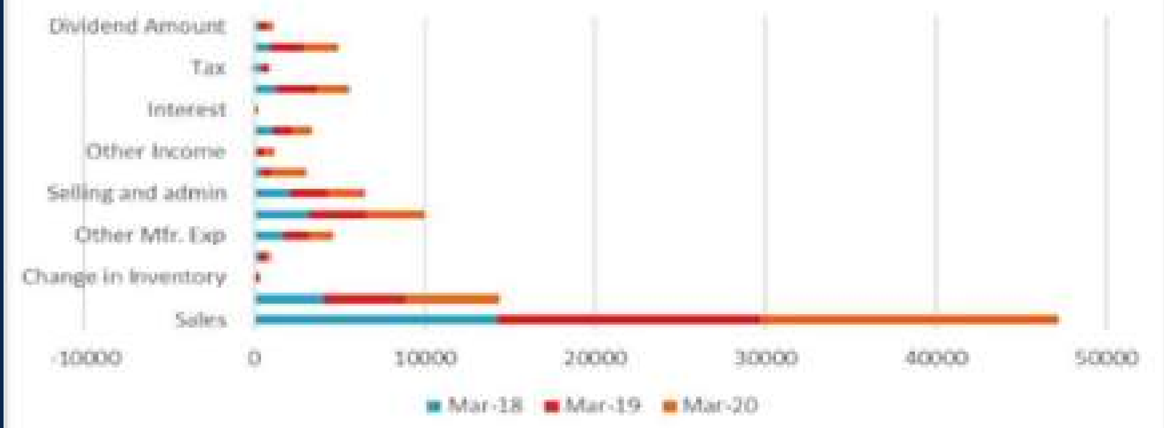


THE FINANCIALS THROUGH GRAPHS

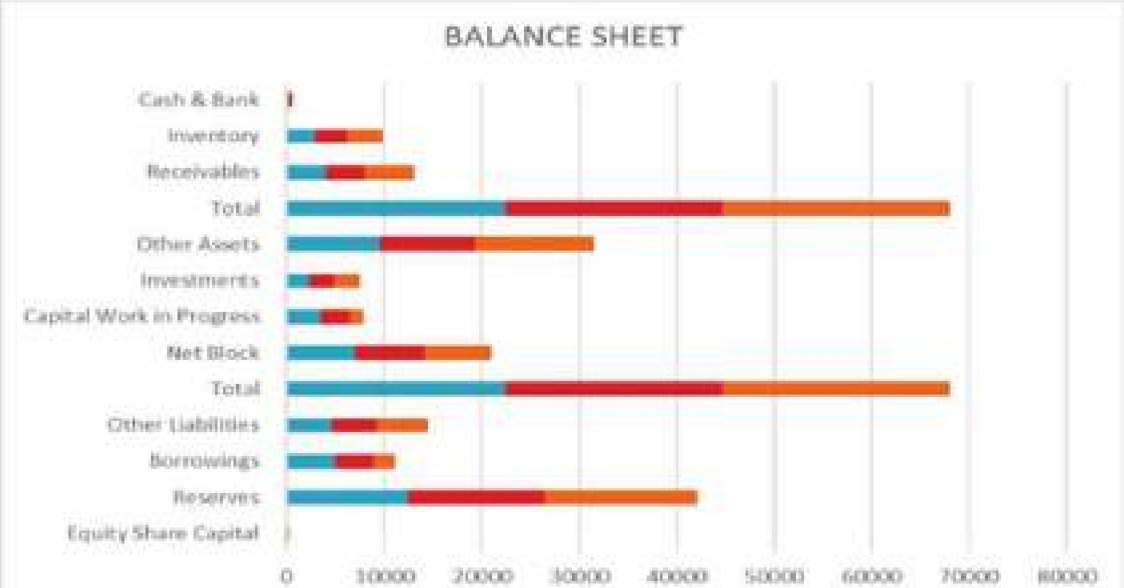
Market price as on date of analysis

4704





THE FINANCIALS THROUGH GRAPHS



DEMERITS

•Growth in Net Profit with increasing Profit Margin (QoQ)
• Company with Low Debt Strong cash generating ability from core business - Improving Cash Flow from operation for last 2 years Company able to generate Net Cash
• Annual Net Profits improving for last 2 years
• Book Value per share Improving for last 2 years
• Company with Zero Promoter Pledge
• FII / FPI or Institutions increasing their shareholding

MERITS

•Decline in Quarterly Net Profit with falling Profit Margin (YoY)
• Stocks with high PE (PE > 40)• Stock is trading at 4.69 times its book value
• The company has delivered a poor growth of 3.12% over past five years.
• Company has a low return on equity of 11.75% for last 3 years.

CIPLA LTD

INTRODUCTION

Cipla Ltd is one among the leading pharmaceutical companies in India. the corporate focuses on development of latest formulations and features a wide selection of pharmaceutical products. The Company's strategic business units include Active Pharmaceutical Ingredients (APIs), Respiratory and Cipla Global Access. The Company's geographical segments include India, USA, South Africa and remainder of the planet . the corporate offers its products for the therapeutic areas, including cardiovascular, children's health, dermatology and cosmetology, diabetes, human immunodeficiency virus/acquired immuno deficiency syndrome (HIV/AIDS), infectious diseases and important care, malaria, neurosciences, oncology, ophthalmology, osteoporosis, respiratory, urology and women's health. Its manufacturing facilities are located in Goa, Bengaluru, Baddi, Indore, Kurkumbh, Patalganga and Sikkim.

The Company manufactures over 200 generic and sophisticated APIs. the corporate features a total API manufacturing capacity of roughly 1,000 metric tons. Its respiratory products are available in over 100 countries. the corporate offers a portfolio of inhalation products, with over 30 molecules and combinations across a variety of devices, to suit individual patient needs. the corporate manufactures metered dose inhalers, dry powder inhalers, nasal sprays, nebulizers and a variety of inhaled accessory devices

PRODUCTS OFFERED

Cipla features a tender-based institutional business that concentrates on approximately four therapy areas: HIV/AIDS, malaria, multi drug-resistant tuberculosis and reproductive health. the corporate caters to over 300,000 patients round the world within thereproductive health and birth control segment. Cipla also provides medications for infections caused by helminths, schistosomiasis and kala azar.

Some Key Ratios:

1.Price to Earnings Ratio(P/E)=20.82

2. Debt to Equity Ratio= 0.33

3. Earnings Per Share= 45.40

4. Return On Equity= 18.53%

5. Dividend Yield=   0.32%

6. Return on Capital Employed= 18.80%

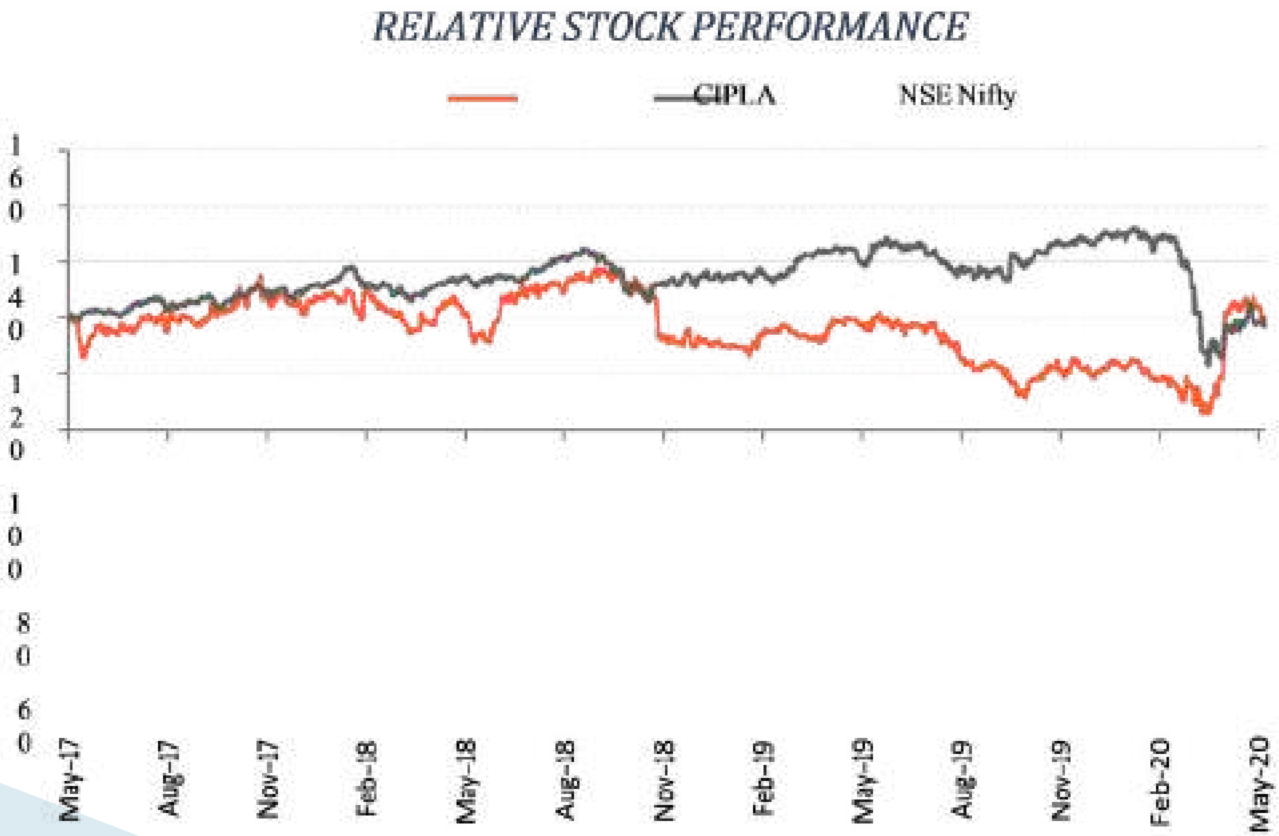
CIPLAS GROWTH PROSPECTS

Cipla, which has been a late entrant within the US, is now spreading its wings within the world's largest health care market. While its small contribution to sales has insulated the corporate from the impact of drug price erosion, which is hurting other pharma peers having a bigger presence within the US, Cipla, with its evolving product pipeline and launches, is seeing a healthy rate of product approvals, which is driving its growth.

Cipla, which has clocked better returns than most of its larger pharma peers within the past one year, has now outperformed the S&P BSE Sensex within the past one month. it's gained almost 11.5 per cent since the March-end lows, the road is showing confidence in Cipla primarily due to its strong growth prospects. After pegging earnings growth at over 30 per cent in 2017-18 (partly helped by a coffee base of 2016-17), analysts expect Cipla's earnings to extend by over 20 per cent each in 2018-19 and 2019-20. Cipla is growing well in most of its key markets, including India other emerging markets and even regulated countries. this could make sure that earnings momentum remains good.

The domestic market, during which the corporate derives quite 40 per cent of its revenue, had reported significant growth during this quarter, which was much above the rise reported by peers like Dr Reddy's Lab, Lupin or Sun Pharma. Growth is predicted to be strong within the coming quarters also and within the current fiscal year . Its presence within the specialty range like respiratory and oncology is witnessing limited competition, and consequently is very profitable.

The next important growth driver for Cipla remains Africa, which contributes a fifth of its sales. because of its own front-end presence within the continent, the corporate has seen an excellent growth within the continent.



FINANCIAL ANALYSIS

MARKET CAP(CR)	63,265
FACE VALUE(RS)	2.00
BOOK VALUE	215.83
STOCK P/E	28.42
INDUSTRY P/E	37.16
Dividend yield	0.51%
ROE	9.81%
DEBT TO EQUITY RATIO	0.05
P/BV	4.03
PROMOTERS STAKE	36.68%

FINANCIALS

Market price as on date of analysis
782.35

Cipla's Q1 results were strong (EBITDA/PAT beat of 85%) driven by good growth across regions and higher than expected cost savings. With strong traction in US and a good growth in India and reduction in costs margins are set to structurally improve. There is a forecast ~400bps of margin expansion over FY20-22e and increase in FY21/22e EPS estimates by 22%/13% to factor lower costs and strong revenue momentum.

• All round beat: Revenues at came ahead of expectations driven by Strong growth across all regions. Gross margin improvement coupled with sharp decline in lower other expenses led to EBIDTA margin of 24.1% . Adjusted PAT stood at Rs5.8bn (85% beat). India business on strong footing: India growth (+16% YoY) was driven by strong performance across three verticals - prescription business (+9% YoY), trade generics (+46% YoY), and consumer health.

• Strong growth momentum in the US driven by complex launches: USbusiness grew by 14% QoQ led by ramp up in gProventil , new launches and strong traction in base business.Market share ramp up in gProventil (upto 15% by FY22), recent niche launches (DHE nasal spray with CGT exclusivity, Icatibant inj) and new approvals to drive 18% CAGR over FY20.

Key takeaways from the management commentary were:

a) Cipla has adequate capacity for fair share, clocked 65% share in Proventil brand;

b) Other expenses to be lower by Rs4-5bn in FY21, a part of this is likely to sustain owing to digital initiatives; guides for 20% EBITDA in FY21;

c) Remdesvir in India - demand outpaces supply, additional players likely to enter which should address the shortages;

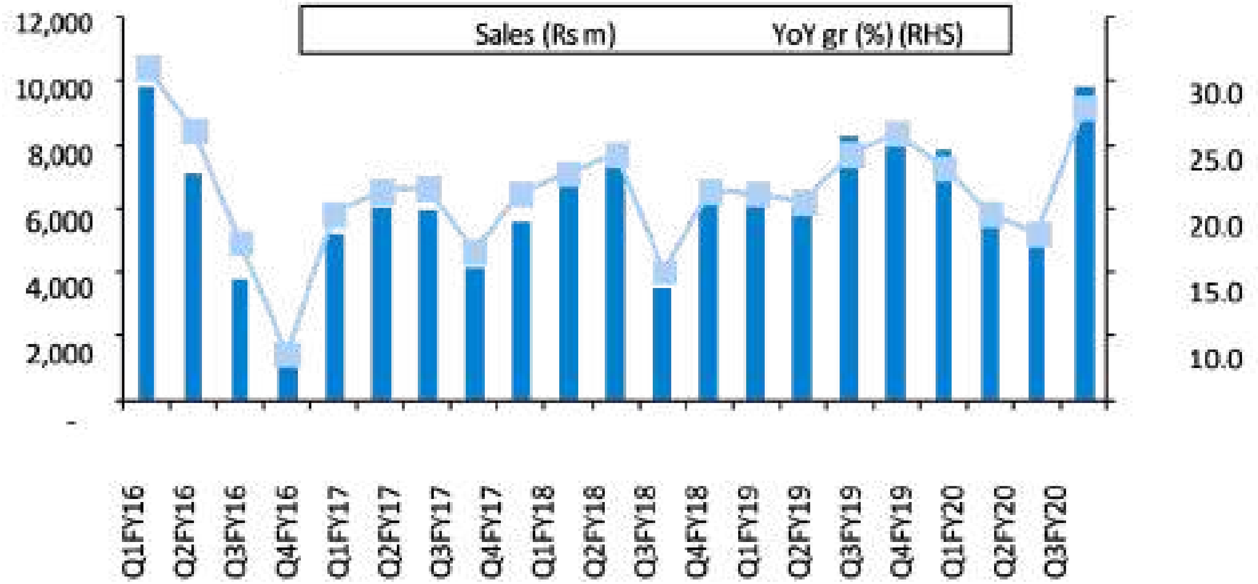
d) gAdvair was given approval timelines of 18-20 months from filing;

e) Net debt was adjudged to be Zero, Gross debt-USD317mn. The financials of Cipla are presented as:-

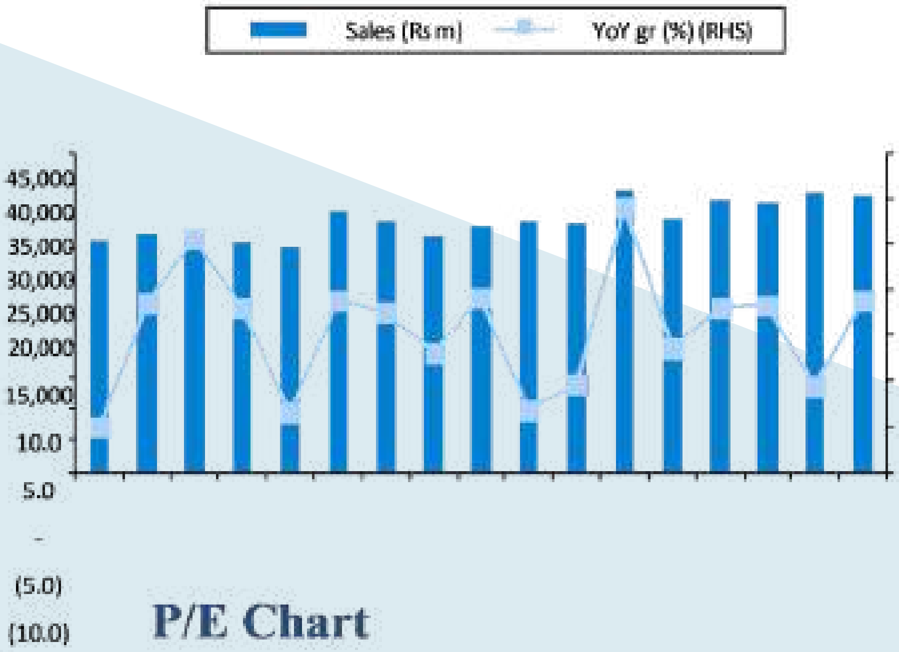
PROFIT AND LOSS

	1QFY21	1QFY20	*% Chg*	4QFY20	*% Chg*
Net Sales	**43,462**	**39,890**	***9.0***	**43,762**	***(0.7)***
EBITDA	10,487	9,046	*15.9*	6,335	*65.5*
Other income	655	784	*-16.5*	932	*(29.8)*
Depreciation	2,690	2,680	*0.4*	3,458	*(22.2)*
Interest	460	521	*(11.7)*	530	*(13.2)*
PBT	**7,992**	**6,629**	***20.6***	**3,279**	***143.7***
Tax	2,278	2,908	*-21.7*	936	*143.5*
Reported PAT	**5,779**	**4,782**	***20.9***	**2,460**	***135.0***
Extra ordinary income/ (exp.)	0	0		0	
Adjusted PAT	**5,779**	**4,782**	***20.9***	**2,460**	***135.0***
EBITDA margins (%)	24.1	22.7	*6.4*	14.5	*66.7*
Gross Profit margins (%)	63.4	70.0	*-9.4*	61.4	*3.3*
EPS	**7.2**	**5.9**	***20.9***	**3.1**	***135.0***

FINANCIALS THROUGH GRAPHS



The sales growth (QOQ)



P/E Chart

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