

Cipla

gRevlimid settlement: The unaccounted upside

- **US growth visibility improves:** Cipla settles patent litigation with Celgene (Bristol Myers Squibb) in the US for gRevlimid (~USD7.6bn). As per the settlement terms, Cipla is licensed to sell volume-limited quantity after Mar 2022 and without volume-restriction after Jan 31, 2026 subject to product approval from the US FDA. While the details pertaining to launch date and market share are not disclosed, the opportunity can add an NPV of Rs40/share to our target price in a base case scenario (assuming 5-10% market share, 30-50% price erosion between FY23-26). We increase our target price to Rs940 to factor gRevlimid launch in FY23 and maintain our BUY rating. Key catalysts are ramp-up in Albuterol, progress on IV Tramadol, limited competition launches in the US.
- **Competitive landscape is crowded, yet remains lucrative:** Natco, Alvogen, Dr. Reddy's have settled for a volume-limited launch until Jan 31, 2026. However, Natco's terms appear favorable compared to others with launch starting from Mar 2022 (first to market) and volumes increasing every year upto Mar 2025 but capped at one-third volume share in the final year. Alvogen will enter after Mar 2022 and their volumes can increase each period to no more than a single-digit percentage in the final year. While Dr. Reddy's and Cipla will enter after Mar-2022, they have not disclosed volume-limited license date and percentages. Other known filers are Aurobindo, Sun, Hetero, Apotex, ANDA Inc, Cadila, Mylan, Lupin. So far, only Alvogen has received tentative approval.
- **Bull-Bear spread of Rs26-Rs71:** Our base case scenario assumes 30-50% price erosion and 5-10% market share between FY23-26 which results in an NPV of Rs40/share for Cipla. Our bear case scenario assumes higher competition, higher price erosion and lower market share resulting in an NPV of Rs26/share and bull case scenario assumes three player market with lower price erosion and higher market share resulting in an NPV of Rs71/share. We note the possibility of more players settling with Celgene could limit upside. Assuming a 5 player market, we factor 30-50% erosion between FY23-26 for Dr. Reddy's and Cipla. We value Reddy's gRevlimid opportunity at Rs384/sh.
- **Valuation and risks:** We maintain BUY rating and increase our TP to Rs940/sh based on 23x Sep 22 EPS, Rs29/sh for gAdvair and Rs40/sh for gRevlimid. We believe Cipla is in sweet spot with key businesses witnessing strong growth momentum. While Covid sales could normalise in India, recovery in ex-Covid prescription business, structural savings in costs and ramp up in gAlbuterol share in the US is likely to drive an earnings growth of ~28% CAGR over FY20-23e. Key risks: lower-than-expected growth in India, slower ramp-up in Albuterol, delay in resolution of Goa warning letter, higher price erosion in the US.

Financial Summary

YE Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	1,52,200	1,63,624	1,71,320	1,94,799	2,18,031	2,38,097
EBITDA	28,271	30,973	32,060	44,216	47,676	53,905
EBITDA Margins	18.6%	18.9%	18.7%	22.7%	21.9%	22.6%
APAT	15,489	14,924	14,995	24,831	28,175	33,080
Adj. EPS (Rs)	19.2	18.5	18.6	30.8	34.9	41.0
P/E (x)	39.3	40.8	40.6	24.5	21.6	18.4
RoCE (%)	8.9	8.3	8.6	12.9	13.3	14.0

Source: Company, HSIE Research

BUY

CMP(as on 11 Dec 2020)	Rs 756
Target Price	Rs 940
NIFTY	13,514

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 900	Rs 940
EPS %	FY21E	FY22E
	+0%	+0%

KEY STOCK DATA

Bloomberg code	CIPLA IN
No. of Shares (mn)	806
MCap (Rs bn) / (\$ mn)	610/8,276
6m avg traded value (Rs mn)	6,112
52 Week high / low	Rs 829/354

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.1	19.0	68.4
Relative (%)	(14.5)	(18.4)	54.4

SHAREHOLDING PATTERN (%)

	Sep-20	Jun-20
Promoters	36.65	36.65
FIs & Local MFs	21.01	22.33
FPIs	20.02	18.61
Public & Others	22.32	22.41
Pledged Shares	0.00	0.00

Source : BSE

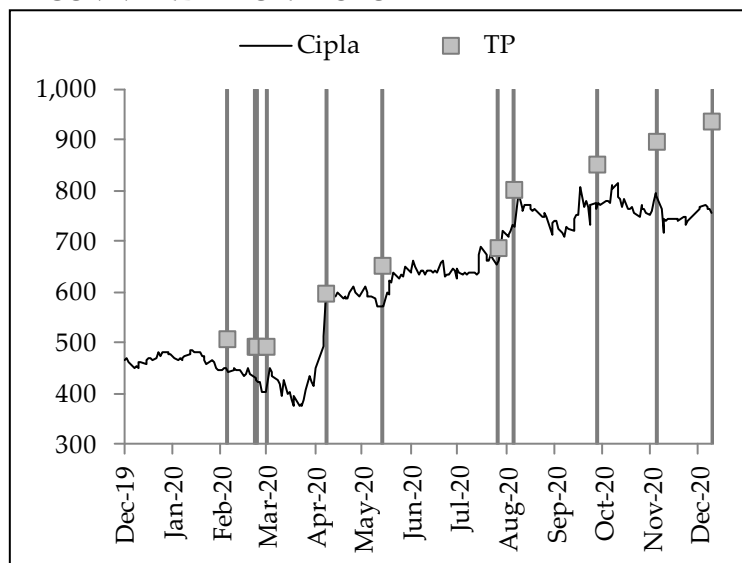
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RECOMMENDATION HISTORY



Date	CMP	Reco	Target
6-Feb-20	448	BUY	510
24-Feb-20	436	BUY	495
26-Feb-20	426	BUY	495
2-Mar-20	402	BUY	495
9-Apr-20	580	BUY	600
16-May-20	570	BUY	655
28-Jul-20	663	BUY	690
10-Aug-20	729	BUY	805
28-Jul-20	663	BUY	690
29-Sep-20	773	BUY	855
7-Nov-20	790	BUY	900
14-Dec-20	756	BUY	940

From 2nd March 2020, we have moved to new rating system

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

We, **Bansi Desai, CFA** and **Karan Vora, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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