

# Cipla (CIPLA IN)

Rating: BUY | CMP: Rs756 | TP: Rs887

December 14, 2020

## Company Update

■ Change in Estimates |  Target |  Reco

### Change in Estimates

	Current FY22E	Previous FY23E	Current FY22E	Previous FY23E
Rating	BUY	HOLD		
Target Price	887	836		
Sales (Rs. m)	1,96,587	2,01,632	1,96,587	2,01,632
% Chng.	-	-		
EBITDA (Rs. m)	42,000	43,616	42,000	43,616
% Chng.	-	-		
EPS (Rs.)	34.5	38.0	34.5	38.0
% Chng.	-	-		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,66,949	1,89,547	1,96,587	2,01,632
EBITDA (Rs. m)	27,689	41,300	42,000	43,616
Margin (%)	16.6	21.8	21.4	21.6
PAT (Rs. m)	15,940	25,073	27,803	30,625
EPS (Rs.)	19.8	31.1	34.5	38.0
Gr. (%)	3.1	57.3	10.9	10.1
DPS (Rs.)	7.0	2.0	2.0	2.0
Yield (%)	0.9	0.3	0.3	0.3
RoE (%)	10.4	15.5	16.7	18.3
RoCE (%)	12.5	18.6	18.8	21.1
EV/Sales (x)	3.7	3.3	3.1	3.1
EV/EBITDA (x)	22.3	15.0	14.7	14.1
PE (x)	38.2	24.3	21.9	19.9
P/BV (x)	3.9	3.7	3.7	3.6

Key Data	CIPLA.BO   CIPLA IN
52-W High / Low	Rs.829 / Rs.354
Sensex / Nifty	46,099 / 13,514
Market Cap	Rs.610bn/ \$ 8,276m
Shares Outstanding	806m
3M Avg. Daily Value	Rs.12894.54m

### Shareholding Pattern (%)

Promoter's	36.65
Foreign	20.02
Domestic Institution	19.88
Public & Others	23.45
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	1.8	19.0	68.4
Relative	(3.7)	(13.4)	47.6

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## Revlimid settlement with BMS – Upgrade to BUY

### Quick Pointers:

- Cipla joins Dr. Reddy's, Natco/Allergan and Alvogen for volume restricted launch post Mar CY22E.
- Zydus, Apotex, SunPharma, Hetero, Mylan and Aurobindo are also known filers for Revlimid which could settle patent litigation and launch in CY22E.

**We upgrade CIPLA to Buy (earlier Hold) as we include Rs51/share benefit from Revlimid launch which leads to new TP of Rs887(earlier Rs836). CIPLA is now the fourth player to settle Revlimid patent litigation with BMS (Bristol Myers Squibb) for volume restricted launch post March-CY22E and no volume restriction post January-CY26E. Volume restriction and launch date are kept confidential, but we believe CIPLA's settlement agreement could be similar to DRRD, NATCO/ALLGERGAN and ALVOGEN. Volume restriction for each player would be capped at 10% of total Revlimid volume for initial years and gradually increase till CY25E, while launch date will be in the order of settlement done. We value Revlimid benefit using NPV method as competitive environment could be fast changing with few more similar settlement agreements for launch post Mar-CY22E. We assume CIPLA to capture market share of 5%/7%/10%/12% over FY23/24/25/26E with price erosion of 40-65% which translates into Rs41bn of NPV and Rs51/per share. Our assumption for core business remains unchanged and we value CIPLA on FY23E and assign 22x(Unchanged) PE on core business while we include Rs51/share (assigning 1x(PE) benefit from Revlimid over FY23-26E using NPV method. We upgrade our recommendation to Buy (earlier Hold) and increase TP by Rs51(Revlimid benefit) to Rs887 (earlier Rs836).**

**Key Assumptions:** We expect CIPLA to launch gRevlimid by CY22E post launch of Natco/Allergan, Alvogen and DRRD since their settlement was done earlier. We expect Natco to have better terms of settlement with BMS (patent holder) as compared to peers and assume it's launch by Mar CY22E. CIPLA and DRRD's gRevlimid may gain market share of 5%/7%/10%/12% in FY23/24/25/26E but price erosion can be higher for CIPLA v/s DRRD. We value gRevlimid benefits using NPV method, as competitive environment is fast-changing given current group of pending litigants could also settle the case and receive similar benefits like DRRD, Alvogen, Natco/Allergan & CIPLA and then launch by CY22E. **gRevlimid could fetch Rs41bn of NPV over FY23-26E which translates into Rs51/per share for CIPLA.**

CIPLA settlement agreement with BMS for gRevlimid is surprising because the former never pursued aggressively for early launch or settlement. Recent CIPLA and DRRD settlements for Revlimid opens up the possibility of other filers such as **Zydus, Apotex, Sunpharma, Hetero, Mylan and Aurobindo** also reaching a settlement in coming times. We believe competitive landscape would change fast with higher intensity, as and how multiple generic players enter into similar settlement. With early mover advantage in filing and better completeness of data, Natco, DRRD and Alvogen are in better position compared to other players, but

generic launch of gRevlimid is subject to USFDA approval. Given 12-15 months' delay (versus initial guidance) in approving NATCO/ALLERGAN, other filers launch may also get delayed if they receive CRL from FDA.

**Genesis of Revlimid (Lenalidomide):** It is a medication used to treat multiple myeloma (MM) and myelodysplastic syndromes (MDS). Global sales of Revlimid were US\$10.6bn, of which US sales were US\$7.8bn in CY19. Revlimid was originally approved by the FDA back in CY05 and its last patent expires in CY27. Natco and its marketing partner Allergan claimed to have FTF on gRevlimid

**Few more generic player could also step-in for CY22E launch:** Zydus, Apotex, Sun Pharma, Hetero, Mylan and Aurobindo have filed para-IV generic challenges on the patent of Revlimid. All applicants seek approvals to launch gRevlimid before the patent expiry of CY-27. We expect major pending litigants to have a large probability of settlement with innovator at varied length of –volume restricted launch of generics before it becomes commodities post Jan-CY26E.

#### Exhibit 1: Key assumptions for Revlimid

	FY23E	FY24E	FY25E	FY26E
US Revlimid sales (US\$mn)	8,624	8,624	8,624	7,761
Market share(%)	5%	7%	10%	12%
Gross Sales(US\$mn)	431	604	862	931
Price Erosin (%)	40%	50%	60%	65%
Net Sales (US\$mn)	259	302	345	326
PAT (US\$mn)	164	191	218	180
PV of Cash flow(Rsmn)	10,107	10,848	11,403	8,671
<b>Sum of PV Revlimid(Rs mn)</b>	<b>41,029</b>			
<b>Per Share Value</b>	<b>51</b>			

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>1,66,949</b>	<b>1,89,547</b>	<b>1,96,587</b>	<b>2,01,632</b>
YoY gr. (%)	4.5	13.5	3.7	2.6
Cost of Goods Sold	59,914	73,755	74,703	78,837
<b>Gross Profit</b>	<b>1,07,034</b>	<b>1,15,792</b>	<b>1,21,884</b>	<b>1,22,795</b>
Margin (%)	64.1	61.1	62.0	60.9
Employee Cost	30,270	32,667	37,225	37,642
Other Expenses	12,061	8,662	14,154	14,719
<b>EBITDA</b>	<b>27,689</b>	<b>41,300</b>	<b>42,000</b>	<b>43,616</b>
YoY gr. (%)	2.3	49.2	1.7	3.8
Margin (%)	16.6	21.8	21.4	21.6
Depreciation and Amortization	11,747	10,721	11,308	11,767
<b>EBIT</b>	<b>15,942</b>	<b>30,579</b>	<b>30,692</b>	<b>31,849</b>
Margin (%)	9.5	16.1	15.6	15.8
Net Interest	1,974	1,179	492	352
Other Income	7,813	5,031	5,898	8,872
<b>Profit Before Tax</b>	<b>21,782</b>	<b>34,431</b>	<b>36,097</b>	<b>40,369</b>
Margin (%)	13.0	18.2	18.4	20.0
Total Tax	6,312	9,227	8,844	10,294
Effective tax rate (%)	29.0	26.8	24.5	25.5
<b>Profit after tax</b>	<b>15,470</b>	<b>25,204</b>	<b>27,253</b>	<b>30,075</b>
Minority interest	(470)	131	(550)	(550)
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>15,940</b>	<b>25,073</b>	<b>27,803</b>	<b>30,625</b>
YoY gr. (%)	3.2	57.3	10.9	10.1
Margin (%)	9.5	13.2	14.1	15.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>15,940</b>	<b>25,073</b>	<b>27,803</b>	<b>30,625</b>
YoY gr. (%)	3.2	57.3	10.9	10.1
Margin (%)	9.5	13.2	14.1	15.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	15,940	25,073	27,803	30,625
<b>Equity Shares O/s (m)</b>	<b>806</b>	<b>806</b>	<b>806</b>	<b>806</b>
<b>EPS (Rs)</b>	<b>19.8</b>	<b>31.1</b>	<b>34.5</b>	<b>38.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,17,813</b>	<b>1,26,813</b>	<b>1,35,813</b>	<b>1,45,813</b>
Tangibles	79,536	85,536	91,536	98,536
Intangibles	38,277	41,277	44,277	47,277
<b>Acc: Dep / Amortization</b>	<b>53,551</b>	<b>67,518</b>	<b>82,490</b>	<b>94,055</b>
Tangibles	30,240	36,983	44,206	51,990
Intangibles	23,311	30,535	38,283	42,065
<b>Net fixed assets</b>	<b>64,262</b>	<b>59,295</b>	<b>53,323</b>	<b>51,757</b>
Tangibles	49,296	48,553	47,329	46,546
Intangibles	14,965	10,742	5,994	5,211
Capital Work In Progress	8,245	8,366	8,491	8,277
Goodwill	32,567	32,567	32,567	32,567
Non-Current Investments	5,489	5,682	5,883	5,364
Net Deferred tax assets	(1,254)	945	3,111	4,725
Other Non-Current Assets	6,603	5,977	5,661	4,888
<b>Current Assets</b>				
Investments	10,165	8,132	6,506	5,205
Inventories	43,776	45,699	48,473	49,718
Trade receivables	38,913	46,738	47,396	48,613
Cash & Bank Balance	10,039	12,862	12,910	13,241
Other Current Assets	8,866	9,044	8,139	8,953
<b>Total Assets</b>	<b>2,36,625</b>	<b>2,43,245</b>	<b>2,38,254</b>	<b>2,38,723</b>
<b>Equity</b>				
Equity Share Capital	1,613	1,613	1,613	1,613
Other Equity	1,56,018	1,64,016	1,65,137	1,66,350
<b>Total Networth</b>	<b>1,57,630</b>	<b>1,65,629</b>	<b>1,66,750</b>	<b>1,67,962</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	23,693	23,049	18,439	17,517
Provisions	1,333	1,133	963	818
Other non current liabilities	675	484	321	183
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	4,472	8,285	7,456	7,829
Trade payables	22,818	23,369	24,237	24,859
Other current liabilities	16,642	13,318	14,095	15,219
<b>Total Equity &amp; Liabilities</b>	<b>2,36,626</b>	<b>2,43,245</b>	<b>2,38,254</b>	<b>2,38,724</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	21,782	34,431	36,097	40,369
Add. Depreciation	11,747	10,721	11,308	11,767
Add. Interest	1,974	1,179	492	352
Less Financial Other Income	7,813	5,031	5,898	8,872
Add. Other	2,425	(8,429)	(12,966)	(17,859)
Op. profit before WC changes	37,927	37,903	34,932	34,629
Net Changes-WC	5,747	(11,731)	(230)	(2,505)
Direct tax	(6,312)	(9,227)	(8,844)	(10,294)
<b>Net cash from Op. activities</b>	<b>37,363</b>	<b>16,945</b>	<b>25,858</b>	<b>21,831</b>
Capital expenditures	(9,465)	(9,121)	(9,125)	(9,786)
Interest / Dividend Income	-	-	-	-
Others	10,836	1,989	1,582	1,530
<b>Net Cash from Invt. activities</b>	<b>1,371</b>	<b>(7,132)</b>	<b>(7,543)</b>	<b>(8,256)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(14,998)	3,169	(5,438)	(549)
Dividend paid	(5,650)	(1,609)	(1,609)	(1,609)
Interest paid	(1,974)	(1,179)	(492)	(352)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(22,622)</b>	<b>381</b>	<b>(7,539)</b>	<b>(2,510)</b>
<b>Net change in cash</b>	<b>16,112</b>	<b>10,194</b>	<b>10,776</b>	<b>11,064</b>
Free Cash Flow	27,898	7,824	16,734	12,045

*Source: Company Data, PL Research*
**Key Financial Metrics**

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	19.8	31.1	34.5	38.0
CEPS	34.3	44.4	48.5	52.6
BVPS	195.5	205.4	206.8	208.3
FCF	34.6	9.7	20.8	14.9
DPS	7.0	2.0	2.0	2.0
<b>Return Ratio(%)</b>				
RoCE	12.5	18.6	18.8	21.1
ROIC	11.7	17.0	17.6	18.3
RoE	10.4	15.5	16.7	18.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	0.1	0.0	0.0
Net Working Capital (Days)	131	133	133	133
<b>Valuation(x)</b>				
PER	38.2	24.3	21.9	19.9
P/B	3.9	3.7	3.7	3.6
P/CEPS	22.0	17.0	15.6	14.4
EV/EBITDA	22.3	15.0	14.7	14.1
EV/Sales	3.7	3.3	3.1	3.1
Dividend Yield (%)	0.9	0.3	0.3	0.3

*Source: Company Data, PL Research*
**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Net Revenue</b>	<b>42,346</b>	<b>43,016</b>	<b>42,769</b>	<b>49,726</b>
YoY gr. (%)	8.4	0.7	9.8	16.6
Raw Material Expenses	16,450	16,889	15,895	19,465
Gross Profit	25,896	26,127	26,874	30,260
Margin (%)	61.2	60.7	62.8	60.9
<b>EBITDA</b>	<b>6,219</b>	<b>5,590</b>	<b>9,795</b>	<b>11,109</b>
YoY gr. (%)	2.6	(32.5)	20.9	42.8
Margin (%)	14.7	13.0	22.9	22.3
Depreciation / Depletion	2,779	3,458	2,690	2,651
<b>EBIT</b>	<b>3,440</b>	<b>2,132</b>	<b>7,105</b>	<b>8,458</b>
Margin (%)	8.1	5.0	16.6	17.0
Net Interest	462	530	460	393
Other Income	2,086	1,678	1,347	1,192
<b>Profit before Tax</b>	<b>5,064</b>	<b>3,280</b>	<b>7,992</b>	<b>9,257</b>
Margin (%)	12.0	7.6	18.7	18.6
Total Tax	1,528	856	2,278	2,638
Effective tax rate (%)	30.2	26.1	28.5	28.5
<b>Profit after Tax</b>	<b>3,536</b>	<b>2,424</b>	<b>5,714</b>	<b>6,619</b>
Minority interest	26	38	54	25
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,510</b>	<b>2,385</b>	<b>5,661</b>	<b>6,594</b>
YoY gr. (%)	5.7	(35.0)	26.6	39.9
Margin (%)	8.3	5.5	13.2	13.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,510</b>	<b>2,385</b>	<b>5,661</b>	<b>6,594</b>
YoY gr. (%)	5.7	(35.0)	26.6	39.9
Margin (%)	8.3	5.5	13.2	13.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>3,510</b>	<b>2,385</b>	<b>5,661</b>	<b>6,594</b>
Avg. Shares O/s (m)	806	806	806	806
<b>EPS (Rs)</b>	<b>4.4</b>	<b>3.0</b>	<b>7.0</b>	<b>8.2</b>

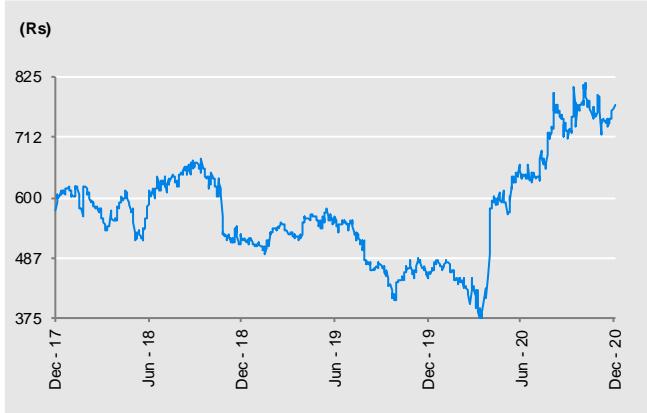
*Source: Company Data, PL Research*
**Key Operating Metrics**

Y/e Mar	FY20	FY21E	FY22E	FY23E
India Formulations	65,856	70,466	76,103	82,191
Exports	94,313	98,469	1,04,275	1,14,643
APIs	7,711	7,865	8,652	9,517

*Source: Company Data, PL Research*

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Nov-20	Hold	836	789
2	13-Oct-20	Reduce	657	787
3	13-Oct-20	Reduce	657	814
4	09-Aug-20	Reduce	657	729
5	08-Jul-20	Reduce	542	634
6	16-May-20	Reduce	542	570
7	18-Apr-20	Reduce	542	598
8	14-Apr-20	Reduce	460	580
9	05-Feb-20	Reduce	460	448
10	03-Jan-20	Reduce	439	470

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	921	840
2	Cadila Healthcare	Sell	357	411
3	Cipla	Hold	836	789
4	Dr. Lal PathLabs	UR	-	2,179
5	Dr. Reddy's Laboratories	BUY	5,964	4,951
6	Eris Lifesciences	BUY	671	518
7	Glenmark Pharmaceuticals	Sell	424	481
8	Indoco Remedies	BUY	352	256
9	Ipca Laboratories	Hold	2,393	2,278
10	Jubilant Life Sciences	Accumulate	752	696
11	Lupin	BUY	1,212	936
12	Sun Pharmaceutical Industries	BUY	597	486
13	Thyrocare Technologies	UR	-	1,138

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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