



# DealMoney

World-Class Financial Services

SECTOR OF  
THE MONTH  
**Pharma**



PICKS OF  
THE MONTH  
**#CIPLA LTD**

**#IPCA LABRATORIES LTD**

## Sector of the Month: Pharma

### India is leading pharma producer

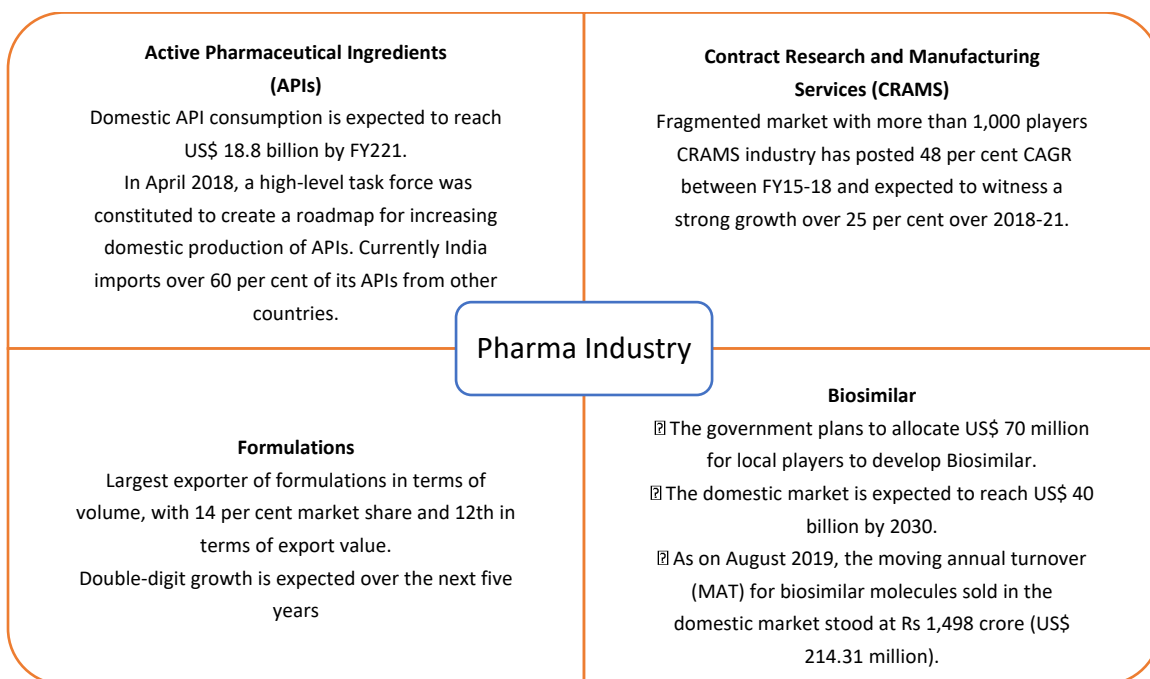
India is a prominent and rapidly growing presence in global pharmaceuticals. It is the largest provider of generic medicines globally, occupying a 20% share in global supply by volume, and also supplies 50% of global demand for vaccines. India ranks 3rd worldwide for production by volume and 13th by value, thereby accounting for around 10% of world's production by volume and 1.5% by value. It supplies over 40 per cent of generic demand in the US and 25 per cent of all medicine in UK. India's pharmaceutical exports stood at US\$ 13.69 billion in FY20 (up to January 2020). The exports are expected to reach US\$ 22 billion by 2020. Indian pharmaceutical sector is expected to grow at a CAGR of 22.4 per cent in the near future and medical device market expected to grow US\$ 25 billion by 2025. India is the second largest contributor of global biotech and pharmaceutical workforce.

India is the source of 60,000 generic brands across 60 therapeutic categories and manufactures more than 500 different Active Pharmaceutical Ingredients (APIs). The Department of Pharmaceuticals aims to make the country a hub for end-to-end drug discovery under its 'Pharma Vision 2020'.

### Advantage India

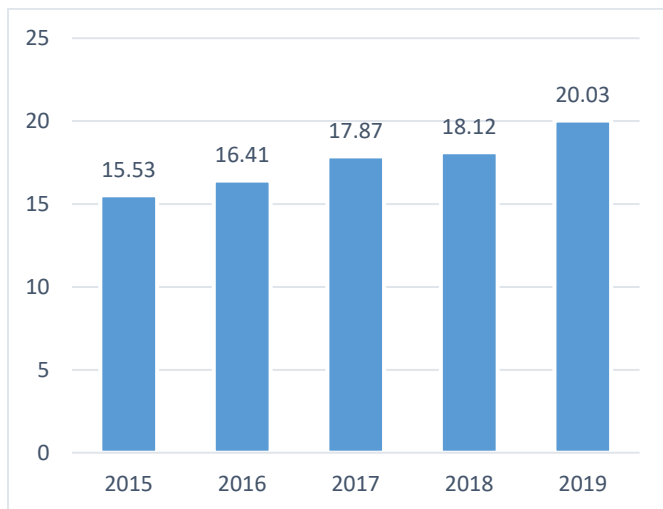
- From 2018-19, India's pharmaceuticals exports were worth US\$ 19.13 billion with a growth of 10.72 per cent over \$17.28 billion in pharma exports last year
- Third largest Pharmaceuticals market by 2020 in terms of incremental growth
- The cost of manufacturing in India is approximately 33% lower than that of the US

### Important Segments in Indian Pharmaceutical Sector

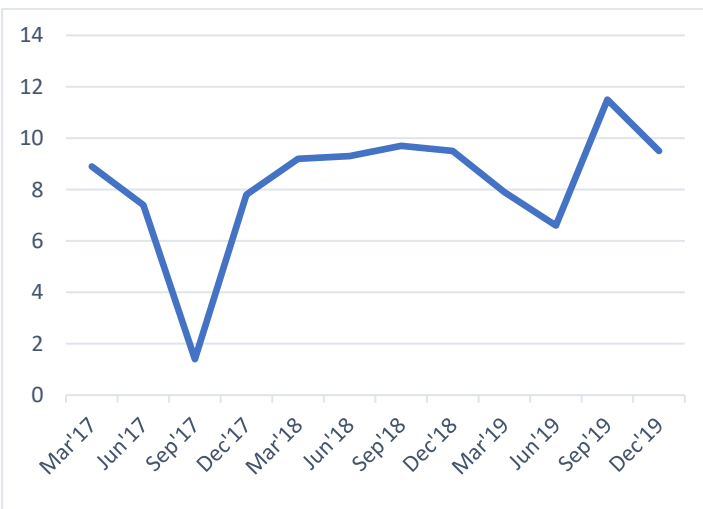


Source: Ace equity, IBEF, Dealmoney research

Annual Turnover of Indian Pharmaceutical Market (US\$ billion)



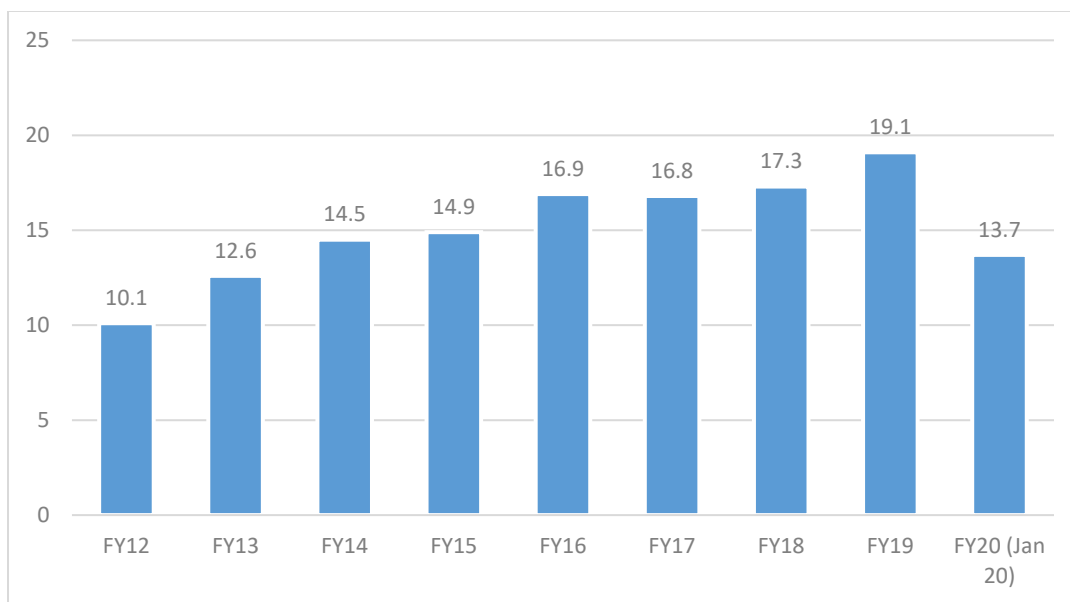
Quarterly Growth in Indian Pharma Market (%)



- India's domestic pharmaceutical market turnover reached Rs 1.4 lakh crore (US\$ 20.03 billion) in 2019, growing 9.8 per cent year-on-year (in Rs) from Rs 129,015 crore (US\$ 18.12 billion) in 2018.
- Medicine spending in India is projected to grow 9-12 per cent over the next five years, leading India to become one of the top 10 countries in terms of medicine spending.
- India's cost of production is significantly lower than that of the US and almost half of that of Europe. It gives a competitive edge to India over others

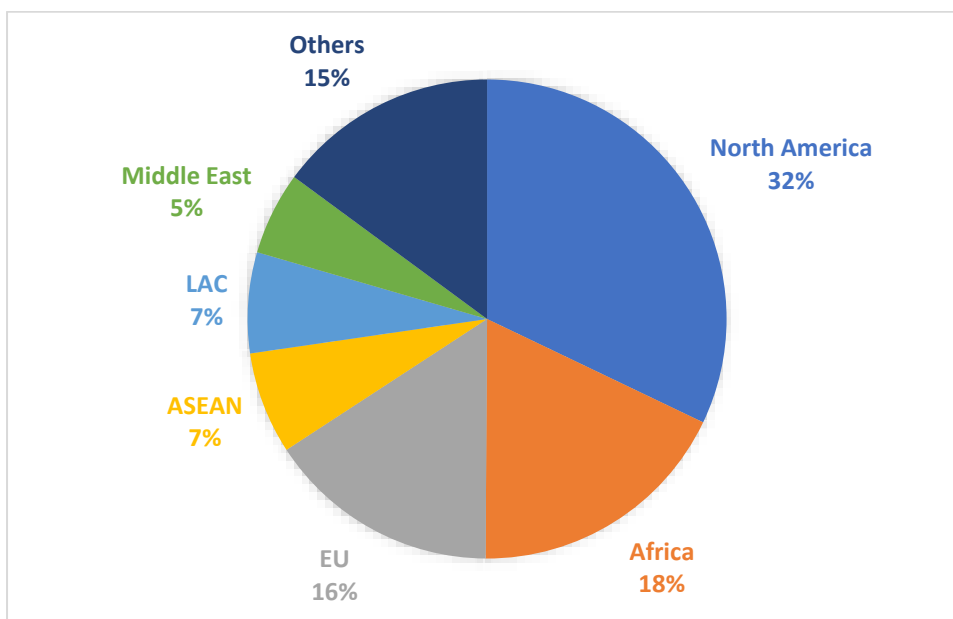
**Pharma export to continue to grow**

Pharmaceutical Exports from India (US\$ billion)



Source: Ace equity, IBEF, Dealmoney research

### Major Export Destinations in India's Pharma Export in FY19 (%)



India is the world's largest provider of generic medicines; the country's generic drugs account for 20 per cent of global generic drug exports (in terms of volumes). Indian drugs are exported to more than 200 countries in the world, with the US as the key market. Indian pharma companies are capitalising on export opportunities in regulated and semi-regulated markets. Pharmaceutical exports from India, which include bulk drugs, intermediates, drug formulations, biologicals, Ayush & herbal products and surgicals reached US\$ 19.14 billion in FY19 and US\$ 13.7 billion in FY20 (up to Jan 2020). The pharma export is estimated to touch US\$ 22 billion in FY20.

#### Current Scenario

Because of Covid-19 most sectors continue to suffer on account of unprecedented lockdowns and limited business continuity plans besides there is also a threat of bleak demand outlook. The cases of Covid-19 are still increasing with significant velocity in many parts of the world. There is significant uncertainty as to when things will normalise. However, Pharmaceutical stocks have remained resilient during the ongoing COVID-19 crisis barring few supply related disturbances, we do not see any material earnings impact in FY21. Also pharma and healthcare services, being at the top layer of essential services, remain exempted everywhere. The Chinese supply lines are returning back to normal after they have ended the lockdown and the supply side issue with Key Starting Materials and APIs are returning back to normal.

Source: Ace equity, IBEF, Dealmoney research

**Pick of the Month (Cipla Ltd.):**

The Company is a pharmaceutical company. 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 Rest of the World. Its manufacturing facilities are located in Goa, Bengaluru, Baddi, Indore, Kurkumbh, Patalganga and Sikkim.

**Surprise early approval of gProventil:** USFDA approved Cipla's ANDA for gProventil HFA (Albuterol). This is the first metered dose inhaler approval for Cipla. The Albuterol HFA market comprise three brands: ProAir, Ventolin and Proventil. Cipla's ANDA refers to Proventil HFA. ProAir, Ventolin and Proventil along with respective generics account for 48.3%, 44.4% and 7.3%, respectively.

In the initial phase, we believe Cipla is likely to benefit from two factors: 1) limited competition and 2) a sudden surge in demand due to the spread of COVID-19 in the US. **Successful Phase III Clinical trials of another asthma drug Fluticasone Propionate. If Cipla receives the approval, its drug would be the fourth such drug after innovator GSK and two other generic players**

**Impact of COVID-19:** The pharmaceutical sector being an essential service provider is exempt from many restrictions, but the indirect impact of the lockdown on the pharma companies cannot be completely ruled out. Many of the pharma companies including cipla had beforehand stocked up raw materials in anticipation of Chinese new year. Hence, we do not envisage any material impact on input costs due to raw material supply issues for Cipla.

Cipla is also involved in the manufacturing of Hydroxychloroquine, which is touted as a one of the effective drug in the fight against COVID-19. The management has stated that company is fast-tracking development of promising anti-viral compounds like Favipiravir, Remdesivir and Bolaxavir in collaboration with government laboratories, and repurposing its wide portfolio of respiratory, asthma, anti-virals and HIV drugs to meet challenges arising from Covid-19 in India.

**Outlook:** The company has a strong presence in domestic (38% of revenue) and also international geographic diversification n (21% of sales from the US, 19% from SAGA & 21% from others markets). And also beneficiary of rise in demand of respiratory related medications will be affected less compared to other pharma companies. At the CMP price of Rs. 590, it is trading at an TTM PE of 20.25x we recommend a buy with the target price of Rs. 693

**CMP: 590**

**Target: 693**

NSE / BSE Code	CIPLA / 500087
Sector	Healthcare
Industry	Pharmaceuticals & Drugs
Face value / Book Value (Rs per share)	2 / 213.2
Dividend yield (%)	1.3
52 H/L (Rs.)	632 / 357
Market Cap. (Rs. Cr)	1,195,653
Shares Outstanding (Cr)	806.2

(In Rs.Mn)	FY16	FY17	FY18	FY19
Net Sales	135,949	143,943	151,557	163,624
Sales Growth	19.8%	5.9%	5.3%	8.0%
EBITDA	24,797	24,758	24,534	28,682
EBITDA Margin	18.2%	17.2%	16.2%	17.5%
PAT	13,954	10,424	14,194	15,096
NPM%	10.3%	7.2%	9.4%	9.2%
Adj. EPS (Rs.)	16.9	12.5	17.5	19.0

	FY16	FY17	FY18	FY19
P/E (x)	34.1	45.6	33.5	31.5
P/B (x)	4.1	3.8	3.3	3.2
EV/Sales(x)	4.2	4.0	3.8	3.5
EV/EBITDA(x)	23.3	23.3	23.5	20.1
ROCE(%)	13.2%	8.3%	10.2%	11.9%
ROE(%)	12.6%	8.7%	10.7%	10.4%

Quarterly Earnings	Q3FY20	Q2FY20	Q-o-Q %	Q3FY19
Net Sales	4,234.6	4,264.2	(0.7)	3,906.2
Total Expenditure	3,612.7	3,486.3	3.6	3,299.9
PBIDT (Excl OI)	758.3	909.5	(16.6)	707.7
PAT	35358%	48044%	-2640%	32320%
PBIDTM% (Excl OI)	1735%	2069%	-1614%	1766%
PBIDTM%	19	22.98	-17.32	19.62
PATM%	8.09	10.93	-25.98	8.06
Adj. EPS(Rs)	4.35	5.85	-25.64	4.12

Source: Ace equity, IBEF, Dealmoney research

**Pick of the Month (IPCA Labs Ltd.):**

**CMP: 1619**

**Target: 1932**

Ipca Laboratories Limited is engaged in pharmaceuticals business. The Company is a manufacturer and supplier of over 10 active pharmaceutical ingredients (APIs). It offers APIs, such as atenolol, hydroxychloroquine sulfate, morantel citrate, pyrantel pamoate and zaltoprofen. It offers brands, such as Zerodol, Lariago, HCQS Perinorm, Rapither, Tenoric, Lumerax, Etova, Malirid and Folitrax.

**Strong growth in API:** API Scarcity led super-normal growth in sartans and few other APIs in FY20 (26% of revenue), IPCA's revenues from API grew at 33% in 9MFY20, led by volume growth in Losartan and de-bottlenecking of its current API plants.

**Aiming for self-sufficiency in APIs:** IPCA acquired 35-acre land at Dewas and Noble Explochem plant to expand its API facilities and reduce dependence on others for API and intermediaries. Currently, 55% of its formulations business is backed by captive APIs while 70% intermediaries are imported from China. IPCA imports only one API from China.

**Impact of Covid-19:** IPCA's API consumption is not directly imported from China for manufacturing formulations, the source of KSM for its 3rd party outsourcing APIs are imported from China. Therefore, management has guided a negative impact in China's delayed production with due consideration to the Covid epidemic spread across. IPCA stated its formulation business won't be impacted till May-June since it has high inventories back-up. Shipment from North China has already commenced while for the rest of China, it may start within next few weeks.

**Growth drivers:** With 27% of the domestic business under price control, IPCA guided to outperform IPM (Indian Pharmaceutical Market) with continued focus on pain management, derma and other therapies. Guided revenue guidance of 10-12% for Europe branded business over FY20-22E. Currently, Piparia and Pithampur facility is running at 20% capacity utilization level and revenue contribution from the UK and Europe are at the same level. However, IPCA guided to increase focus in EU markets due to its high operating margin (40% margin) than the average margin at the company level.

**Outlook:** Their focus of domestic business for formulations, APIs and branded generics provide a base for healthy growth. While its non exposure to US markets and focusing on non-US markets especially EU generics are to drive its growth with limited risk from USFDA. It is trading at TTM PE of 32.2x, we give a buy at the CMP of Rs. 1619 with the target price of Rs. 1932.

NSE/BSE Code	IPCALAB / 524494
Sector	Healthcare
Industry	Pharmaceuticals & Drugs
Face value/Book Value (Rs.per share)	2 / 285.8
Dividend yield(%)	0.2
52H/L(Rs.)	1821 / 844
Market Cap.(Rs.Cr)	204,438
Shares Outstanding (Cr)	126.4

(InRs.Cr)	FY16	FY17	FY18	FY19
NetSales	28,671	31,562	32,578	37,457
SalesGrowth	-8.8%	10.1%	3.2%	15.0%
EBITDA	2,737	4,154	4,420	6,783
EBITDAMargin	9.5%	13.2%	13.6%	18.1%
PAT	962	2,028	2,437	4,440
NPM%	3.4%	6.4%	7.5%	11.9%
Adj.EPS(Rs.)	7.4	15.4	19.0	35.3

	FY16	FY17	FY18	FY19
P/E(x)	212.5	100.8	83.9	46.0
P/B(x)	9.0	8.3	7.6	6.5
EV/Sales(x)	7.4	6.7	6.5	5.6
EV/EBITDA(x)	77.1	50.8	47.8	31.1
ROCE(%)	4.8%	9.4%	9.9%	16.5%
ROE(%)	4.3%	8.6%	9.5%	15.3%

Quarterly Earnings	Q3FY20	Q2FY20	Q-o-Q %	Q3FY19
Net Sales	1,212.9	1,283.9	(5.5)	1,006.1
Total Expenditure	939.2	1,018.0	(7.7)	771.7
PBIDT (Excl OI)	273.7	265.9	2.9	234.5
PAT	20006%	19491%	264%	15952%
PBIDTM% (Excl OI)	2256%	2071%	893%	2330%
PBIDTM%	24.06	21.86	10.06	24.63
PATM%	16.49	15.18	8.63	15.85
Adj. EPS(Rs)	15.64	15.28	2.36	12.6

Source: Ace equity, IBEF, Dealmoney research

**Analysts: -**

Brijesh Bhatia - Research Head

[brijesh.bhatia@dealmoney.in](mailto:brijesh.bhatia@dealmoney.in)

Rohitkumar Rai - Research Analyst

[rohitkumar.rai@dealmoney.in](mailto:rohitkumar.rai@dealmoney.in)

For private circulation only

Website: [www.dealmoneyonline.com](http://www.dealmoneyonline.com)

SEBI Research Analyst Registration No: INH000002319

**DISCLAIMER**

Dealmoney Securities Private Limited (hereinafter referred to as "Dealmoney") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. Dealmoney is also registered as a Depository Participant with CDSL. Dealmoney is in the process of making an application with SEBI for registering it as a Research Entity in terms of SEBI (Research Analyst) Regulations, 2014. Dealmoney or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market and no material disciplinary action has been taken by SEBI/other regulatory authorities impacting Dealmoney's Equity Research Analysis. Dealmoney or its associates/analyst including its relatives do not hold any actual/beneficial ownership of more than 1% in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analyst including its relatives may hold financial interest in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analysts or his/her relative does not receive any compensation or other benefits from the subject company/ies mentioned in this research report (hereinafter referred to as "Report") or from a third party in connection with preparation of the report. Accordingly, Dealmoney or its associates/analyst or his/her relative does not have any other material conflict of interest at the time of publication of the Report.

Research analyst/s engaged in preparation of the Report, has not received any compensation / managed or co-managed public offering of securities of the subject company/ies / has not received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation or other benefits from the subject company/ies or third party in connection with the Report of the subject company/ies during the past twelve months / has not served as an officer, director or employee of subject Company/ies and is not engaged in market making activity of the subject Company/ies.

Dealmoney or its associates are engaged in various financial services business, thus, it might have, received any compensation / managed or co-managed public offering of securities of the subject company/ies / received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / received compensation or other benefits from the subject company/ies or third party in connection with the Report of subject company/ies during the past twelve months engaged in market making activity for the subject company/ies.

Dealmoney group companies provides finance related product services like distribution of financial products and as such is a provider of many services like loans, mutual funds, tax & trust planning etc. mentioned in this brochure. And hence, Dealmoney do not warranty / guarantee about performance of any products and customer servicing w.r.t third party products per se.

Third party products are subject to code of conduct to be adhered to by the representatives of Dealmoney and Dealmoney is not responsible for the losses, whether actual or notional incurred by any investor. Services assured and expected may vary from actual service and Dealmoney does not guarantee about the quality of services. Investments in securities and commodities are subject to market and other risks and there is no assurance or guarantee that the objectives of any of the Investments/Schemes/product would be achieved. Past performances are only indicative and returns are not assured and guaranteed by Dealmoney group companies. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

Information/ opinion conveyed through this material/document/Report are strictly meant for the registered Clients of Dealmoney group of Companies of the respective segments. This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Dealmoney or its affiliates to any registration requirement within such jurisdiction or country. This information does not constitute an offer to sell or a solicitation of an offer to buy any financial products to any person in any jurisdiction where it is unlawful to make such an offer or solicitation. No part of this material may be duplicated in whole or in part in any form and / or redistributed without the prior written consent of Dealmoney. This material/document/Report is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on directly or indirectly.

Recipients of the Report shall always independently verify reliability and suitability of the Report and opinions before investing.

For Company details, please visit our website [www.Dealmoney.com](http://www.Dealmoney.com)

For research related query, write to us at [research@Dealmoney.com](mailto:research@Dealmoney.com)