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**Recommend investors not to get carried away by recent rally; Second wave of COVID-19 crisis imposing lot of challenges on the ground..**

The month gone by witnessed significant surge in COVID-19 cases in the second wave across the country which is a matter of serious concern. The country has been witnessing significant single day spike on daily basis in the second wave with daily numbers of Covid positive cases touching 4,00,000 lakhs.. The Country is also reporting Covid deaths above 3,000 now on daily basis which is a matter of great concern. To contain the COVID-19 spread, night curfew, lockdowns and strict restrictions in many States remained the buzzword in April 2021 which has affected economic activity and consumer spendings to a great extent. India has given the first dose of covid antidote to 15.89 Crores beneficiaries in the Nation-wide vaccination till date. Factors like US Bond yields trading a high range, rise in inflation, contraction of IIP too are lingering in investors mind and causing worries.

In the month of April, the FIIs sold equities worth Rs. 12,039 Crores and DIIs purchased equities worth Rs. 11,359.88 Crores.

**Way forward..**

Indian equities are likely to remain under pressure considering the significant surge in COVID-19 cases resulting into strict restrictions and lockdowns in various states. US President Joe Biden proposing to hike the capital gains tax rate for wealthy individuals to 39.6% to help pay for a raft of social spending that addresses long-standing inequality lead to a sell of US equities which can dampen investor sentiments across the globe.

The recent rally can be attributed to foreign medical support to fight the second wave of COVID-19 and optimism on mass vaccination drive for COVID-19 which started from May 01, 2022. Strong strong set of numbers in Q4FY21 by Reliance Industries, Hindustan Unilever, Bajaj Finserv, Bajaj Finance, Shriram Transport Finance, HDFC Life, SBI Cards, Castrol have aided in rally. No doubt Q4FY21 results have been strong and encouraging but the second wave of COVID-19 would impact Q1FY22 results.

The sharp spike COVID-19 cases in the second wave with more deaths on daily basis is a matter of serious concern and the infrastructure and resources are falling short to fight this devastating pandemic. The vaccination coverage for major population will take lot of time and efforts. The mass vaccination drive for above 18 years which started in some State from May 1, will help arrest the significant spike in COVID-19 cases but it will also take a good amount of time to show its effect.

Going ahead investors will keep a watch on COVID-19 cases number on daily basis amidst significant spike and vaccination drive, Q4FY21 earnings season, movement of US bond yields and FPI liquidity. No doubt the Country is facing the second wave of COVID-19 crisis on war footing; there are still positives that the Country has to offer. Key domestic factors like record GST collections in April 2021, positive GDP data, good proposals presented in Union Budget 2021-22 will always keep bulls in the hunt for long term. Improved US GDP data, good stimulus package in US and reduced unemployment rate in US will also support bulls. The Nifty valuations are trading in the range of 35x-40x which looks expensive amidst the high intensity of second wave of COVID-19.

We recommend investors to look out for stock specific opportunities. We have still not witnessed a steep correction so far. The current second wave of rising of COVID-19 cases will give opportunities to investors on corrections led by strict localised restrictions and lockdown in certain States. Investors will track ongoing Q4FY21 earnings season and management commentary on future scenario. Investors will continue to focus on quality names in Defensive sectors like Pharma, FMCG and ITC amidst significant spike of COVID-19 cases on daily basis in second wave.

No doubt the second wave of COVID-19 has shaken the country, One must remember, this too shall pass. Pharma companies are working hard to tackle the second wave. The Government and Central Bank have too learnt their lessons to deal with the pandemic from the first wave of COVID-19.

**Key recent developments**

**GST collections were buoyant in April 2021**

In line with the trend of recovery in the GST revenues over past six months, The gross Goods and Services Tax (GST) revenue collection for the month of April 2021 touched a record high of Rs. 1,41,384 crore, of which CGST was Rs. 27,837 crore, SGST Rs. 35,621, and IGST Rs.

68,481 crore. GST collections have consistently crossed Rs. 1 trillion mark for the last seven months. "Despite the second wave of coronavirus pandemic affecting several parts of the country, Indian businesses have once again shown remarkable resilience by not only complying with the return filing requirements but also paying their GST dues in a timely manner during the month," the government said in an official statement. During April, the revenues from domestic transaction (including import of services) are 21 per cent higher than the revenues from these sources during the last month. "These are clear indicators of sustained economic recovery during this period. Closer monitoring against fake-billing, deep data analytics using data from multiple sources including GST, Income-tax and Customs IT systems and effective tax administration have also contributed to the steady increase in tax revenue," the government said. The revenues for the month of March 2021 were 27 percent higher than the GST revenues in the same month last year.

#### **Output expansion in eight core sectors..**

India's eight key infrastructure industries growth reached a 32-month high of 6.8 per cent in March as compared to a year earlier, mainly due to a low base, data released by the commerce and industry ministry showed. Core sector output had contracted 37.9 per cent in April last year, with the imposition of a nationwide lockdown. While the pace of contraction declined in the subsequent months, positive growth was seen only in December and January. In fact in February, there was a degrowth of 3.8 per cent after mild growth in the previous months. The cumulative growth during April-March (2020-21) was 7 per cent. The output of eight infrastructure sectors contracted by 4.6 per cent in February as compared to a revised growth of 0.9% in January.

#### **Strong growth in exports**

The country's exports jumped by 60.29 per cent to \$34.45 billion in March even as the outbound shipments contracted by 7.26 per cent during the full 2020-21 fiscal to \$290.63 billion. Imports too grew by 53.74 per cent to \$48.38 billion in March, but dipped by 18 per cent to \$389.18 billion during April-March 2020-21, according to the government data released on Thursday. Trade deficit during March 2021 widened to \$13.93 billion from \$9.98 billion in March 2020. The trade deficit during the full fiscal, however, narrowed to \$98.56 billion as against \$161.35 billion during 2019-20, the data showed.

#### **Positive global factors..**

US economic growth accelerated in the first quarter, fuelled by massive government aid to households and businesses, charting the course for what is expected will be the strongest performance this year in nearly four decades. Gross domestic product increased at a 6.4% annualized rate last quarter, the Commerce Department said on Thursday in its advance estimate of GDP for the first three months of the year. That was the second-fastest GDP growth pace since the third quarter of 2003 and followed a 4.3% rate in the fourth quarter. Personal consumption, the biggest part of the economy, surged an annualised 10.7%, the second-fastest since the 1960s. The United States' economy is reviving rapidly as compared to its global rivals, thanks to two additional rounds of COVID-19 relief money from Washington as well as easing anxiety over the pandemic, which has boosted domestic demand and allowed services businesses like restaurants and bars to reopen. Former President Donald Trump's government provided nearly \$3 trillion in relief money early in the pandemic, leading to record GDP growth in the third quarter of last year. That was followed by nearly \$900 billion in additional stimulus in late December. President Joe Biden's administration offered another \$1.9 trillion rescue package in March, which sent one-time \$1,400 checks to qualified households and extended a \$300 unemployment subsidy through early September.

The euro zone economy declined less than expected in the first three months of the year, preliminary data showed on Friday, while headline inflation picked up as expected on a surge in energy prices. The European Union's statistics office Eurostat said gross domestic product in the 19 countries sharing the euro contracted 0.6% quarter-on-quarter for a 1.8% year-on-year fall. The euro zone's first quarter contraction was mainly caused by a 1.7% quarterly slump in its biggest economy Germany, though mitigated by 0.4% quarterly growth in second biggest France.

#### **S&P Global Ratings view on Indian Economy amidst second wave of COVID-19 crisis..**

Credit rating agency S&P Global said on Wednesday the second wave of COVID-19 infections in India could impede the country's economic recovery and expose other nations to further waves of outbreaks. "In addition to the substantial loss of life and significant humanitarian concerns, S&P Global Ratings believes the outbreak poses downside risks to GDP and heightens the possibility of business disruptions," the rating agency said in a note. India's healthcare system has been overwhelmed, with the world's second most populous country reporting more than 300,000 new COVID-19 cases daily over the past six days and the death toll set to cross 200,000. S&P, which has a long-term credit rating of 'BBB-' on India, just one notch above junk, said it may have to revise its base-case assumption of 11% growth over fiscal 2021/2022, especially if wider containment measures are re-imposed. S&P expects the consumer retail and airport sectors to have a dragged out recovery with localized lockdowns and curfews in several parts of the country, and said the Indian banking sector continued to face a "high level of systemic risk".

#### **WPI rose for the third consecutive month..**

The wholesale price-based inflation was up to over 8-year high of 7.39 per cent in March on rising crude oil and metal prices. Also, the low base of March last year, when the data was computed with a low response rate due to the nationwide lockdown, contributed to a spike in inflation in March 2021. The WPI inflation was 4.17 per cent in February and 0.42 per cent in March 2020. This is the third straight month of



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up-tick seen in the wholesale priceindex (WPI) based inflation. "The annual rate of inflation stood at 7.39 per cent (provisional) for the month of March2021 over March 2020," the Commerce and Industry Ministry said. Such a high level of WPI was last recorded in October 2012, when inflation was 7.4 per cent.

*In this Monthly Newsletter we have focused on "Pharma Sector"  
and a leading Pharma Company..*

*Cipla Limited*





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## Pharmasector overview

- 1) According to the IQVIA Report, the global formulation market grew at a CAGR of approximately 5.4% from 2014 to reach approximately US\$1,111 billion in 2020. The market is estimated to grow at a CAGR of approximately 4.4% to reach approximately US\$1,376 billion by 2025.
- 2) According to the IQVIA Report, North America is expected to constitute approximately 49% of the overall market by value and grow at a CAGR of approximately 3.9%. India and China are expected to contribute approximately 2% and 8%, respectively, of the market by value, with India expected to grow at a faster rate of approximately 9.3% and China at a CAGR of approximately 5.2% during 2020 to 2025.
- 3) The US market, the major hub of pharmaceutical innovation, is the largest market in the world, accounting for more than 40% of global pharma consumption in value. China and Japan are ranked second and third, respectively. Together, these 3 markets cover 60% of the global pharma market.
- 4) The global sales of branded generic drugs is expected to grow at a CAGR of 8% through 2029 nearly doubling its revenues. It is expected that the global branded generics market will lead by China, India and Asia Pacific (excluding Japan). Drugs for cardiovascular diseases and diabetes, which account more than 20% of total sales of branded generics in the global market are projected to remain at the top over the next 10 years.
- 5) The US generic market remains the largest generic drugs market as nearly 90% of total generic prescriptions were dispensed in the US. The US generic market reached a value of around US\$ 115 Bn in 2019, registering a CAGR of 11.7% during 2014 to 2019. The growth is driven by increase in the prevalence of chronic diseases and increase in number of generic drug approvals across the region. The US generic drug market is expected to reach US\$ 209 Bn by 2025, at a CAGR of around 10.5% during 2020 to 2025 as many branded drugs are expected to lose their patent protection during this period. The US Generic market has been under tremendous pressure for the last few years with significant pricing pressure, eroding profit margins, big players divesting large parts of their generics portfolio. Despite all these hurdles, the US generic market continues to attract a large number of ANDA filings with 833 final ANDA approvals in the year 2019 along with 146 tentative approvals.
- 6) According to India's Economic Survey, India's pharmaceutical industry, which is currently valued at US\$41 billion, is expected to grow to US\$65 billion by 2024 and US\$120-130 billion by 2030. At the same time, the global pharmaceutical market is set to exceed \$1.5 trillion by 2023. India is a leading and key manufacturing hub for generics. Indian pharmaceutical companies have been partnering with multi-national companies to improve their reach and product portfolio.
- 7) In India, the per capita spend on medicines is close to US\$15 annually, which is 1/6th of China and 1/90th of the US.
- 8) India is the largest provider of generic drugs globally. Indian pharmaceutical sector caters to 40 percent of generic demand in the US and 25 percent of all medicine in the UK. The sector supplies over 50% of global demand for various vaccines, India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers with a potential to steer the industry ahead to greater heights. Presently, over 80% of the antiretroviral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are supplied by Indian pharmaceutical firms.
- 9) A generic drug is a pharmaceutical drug that contains the same chemical substance, intended use, effects, side effects, risks, safety and strength as a drug that was originally protected by chemical patents. Global generic drug market reached around US\$ 367 Bn in 2019, registering a CAGR of 5.7% during 2014 to 2019. The increasing number of patent expiry for leading branded drugs, government initiatives boosting the generic drug usage for prevailing chronic diseases, growing ageing population, adoption of complex generics and industry consolidation will drive the growth of generic drugs market across the world. However, companies in the generic drug market face several disruptive factors that negatively affect the growth such as downward pricing pressure from increasing competition, stringent government regulations and regulatory compliance leading to higher regulatory costs, further aggravating their profit margins. Despite these challenges, the market is expected to exhibit steady growth in the future. The generic market is expected to reach US\$ 497 Bn by 2025, with a CAGR of around 5.2% during 2020 and 2025.
- 10) India is considered to be one of the largest generic drug supplier and has significant foot prints in all the developed markets. With a growing ageing population, a large number of multinational pharmaceutical companies continue to make their presence in the Indian market. While India's pharma exports grew by 11% in 2019 and appear to be promising, it continues to face challenges in

maintaining itself as the low cost manufacturing destination due to pricing pressures, which are seen across all the markets and further compounded by regulatory agencies demanding stricter compliances, which are leading to higher compliance costs.

- 11) According to the IQVIA Report, Indian manufacturers accounted for approximately 33% market share by volume in the generics market in the United States (largest market within North America) in 2019. Indian manufacturers have increased their share significantly by approximately 10% from 2017 to 2019. This was primarily driven by quality manufacturing capacity and competitive pricing. India also has the highest number of USFDA-approved manufacturing facilities outside the United States, accounting for approximately 20% of manufacturing facilities of finished dosage forms. The pricing of generic molecules from Indian manufacturers is lower compared to non-Indian manufacturers in the United States market. For example, average price of key molecules such as Amlodipine, Glimepiride and Metformin from Indian manufacturers were 40-50% lower than non-Indian generics in 2019. The lower pricing is primarily driven by the lower cost of production in India, which is nearly 30-40% lower than that of the United States, attributable to a range of factors including competitive land rates, skilled labour and low utility (water and electricity) cost.
- 12) According to the Economic Survey 2020-21, a significant raw material base and availability of a skilled workforce have enabled India to emerge as an international manufacturing hub for generic medicines. Further, India is the only country with the largest number of US-FDA compliant pharma plants (more than 262 including Active Pharmaceutical Ingredients - APIs) outside of the USA.
- 13) Pharmaceuticals export from India stood at US\$ 16.3 billion in FY20. Pharmaceutical export includes bulk drugs, intermediates, drug formulations, biologicals, Ayush and herbal products and surgical. As of November 2020, India exported pharmaceuticals worth US\$ 15.86 billion in FY21. Pharmaceutical exports from India stood at US\$ 16.28 billion in FY20 and US\$ 2.07 billion in October 2020.
- 14) The pharmaceutical industry in India produces a range of bulk drugs, which are the key acting ingredients with medicinal properties that form the basic raw materials for formulations. Bulk drugs account for roughly one-fifth of the industry output while formulations account for the rest. India also has the expertise for active pharmaceutical ingredients (APIs) and sees significant opportunities for value-creation. India is the source of 60,000 generic brands across 60 therapeutic categories and manufactures more than 500 APIs.
- 15) According to the Confederation of Indian Industry, India's API industry is ranked the third largest in the world, and the country contributes approximately 57 percent of APIs to the pre-qualified list of the WHO.
- 16) Indian companies supply over 80 percent of the anti-retro-viral drugs used globally to combat AIDS (Acquired Immuno Deficiency Syndrome). Since the COVID-19 pandemic broke out this year, most Indian vaccine companies have reportedly been working closely with academic research institutions and major pharma companies outside the country. Six domestic firms – Aurobindo, Cipla, Desano, Emcure, Hetero Labs, and Laurus Labs have a sub license with the UN-backed Medicines Patent Pool to manufacture anti-AIDS medicine TenofovirAlafenamide (TAF) for 112 developing countries.

#### **Impact of COVID-19 Pandemic on Global Pharmaceutical Growth**

The COVID-19 pandemic has been fast-moving and has had very serious and unprecedented effects in many countries, which are still unfolding. Regions in North America, Europe, China and India have seen a lower pharmaceutical market growth rate in 2020 due to the COVID-19 pandemic. Any potential impacts on pharmaceutical consumption are also complex, multifaceted and very difficult to predict. Although there is currently no treatment or vaccine for COVID-19, the pandemic is still expected to impact pharmaceutical markets, with seven key themes identified:

- a) **Economic impact on growth:** The COVID-19 pandemic is already causing a slowdown in economic growth around the world and this may have knock-on effects for pharmaceutical markets which are sensitive to the country's economic growth. In contrast, in many developed markets it is thought that pharmaceutical sales are generally protected from economic downturns.
- b) **Impact on APIs/Generics:** The industry faces interruptions to the supply chain, given that China is a key global source of APIs. For example, India's dependence on China for around 70% of API imports meant that disruptions in China's API production caused upward pressure on drug prices in India in early 2020. Where disruption to the supply from China and India persists, especially if COVID-19 spreads significantly in India, this could trigger price increases globally for affected products, particularly generics.
- c) **Upsurge in demand for medicines to alleviate COVID-19 symptoms:** Shortly following the COVID-19 outbreak significant consumer panic purchasing of OTC medication was witnessed in several countries. This has included increases in the sale of immunity enhancing treatments, vita-



mins, analgesics (especially paracetamol), anti-infectives, and cough and cold medications. This is expected to lead to a short term boost in retail volume growth in those countries most affected.

- d) **Delays in treatment of non-COVID-19 patients:** Hospitals under increasing pressure to accommodate COVID-19 inpatients have deprioritised elective surgeries and other treatments. The drug sales for certain treatments could reduce due to the reduced focus on non-COVID-19 patients.
- e) **Face-to-Face interactions minimised:** Due to concerns regarding COVID-19 transmission, face-to-face interactions between healthcare professionals and pharmaceutical industry representatives has already fallen in many countries. This trend is expected to continue and may lead to a small negative impact on pharmaceutical sales.
- f) **Impact on innovation:** Manufacturers may consider postponing their approach to new product launches to beyond the peak of the pandemic. Lack of personnel could also result in delays to regulatory approvals and formulary listings. This may have a short-term impact on pharmaceutical sales growth in the countries affected, most notably in the hospital sector.
- g) **Travel Restrictions & Medical Tourism:** Reductions in medical tourism is expected to cause a decrease in sales and retail sector pharmaceutical consumption. Widespread travel restrictions and border closures globally, will constrain pharmaceutical consumption through hospital and private sector outlets.

#### Opportunity for India during COVID-19 crisis

1. Last year, Indian government had announced an economic development scheme called 'Atmanirbhar Bharat' (self-reliant India). In keeping to the tone of the scheme, introduced in response to COVID-19, recently the government cleared the decks for three drugmakers, including one public sector firm, to set up capacities under the production-linked incentive (PLI) scheme to promote self-reliance in critical drug ingredients in the country.
2. Covid-19 has presented both an opportunity and a challenge for India to emerge as the 'pharmacy of the world'. During April-October, 2020, India's pharmaceutical exports registered a growth of 18 percent totaling US\$11.1 billion as against US\$ 9.4 billion during the corresponding period a year ago. This has led to an increase in the share of pharmaceuticals exports in India's total exports from 5.1 percent in April-October, 2019 to 7.3 percent in April-October, 2020, making it the third largest exported commodity.

#### Indian Pharmaceutical Market - Development and Trends

- 1) Branded generic products provide healthy margins and will continue to dominate the Indian market. Leading domestic companies may also pursue opportunities in higher-margin sectors of the market, including difficult-to-make generics and biosimilars.
- 2) Pressure on doctors to include generic names in prescriptions will increase and moves to introduce mandatory generic prescribing are likely to resurface in the future.
- 3) There have been signs of a more flexible approach to drug registration since 2015. Procedures also were being overhauled in a bid to improve the efficiency of the process, which has driven a reduction in approval times.
- 4) Pressure on drug prices will intensify, driven by the imposition of caps on trade mark-ups applied to a growing number
- 5) of non-scheduled products.
- 6) Leading manufacturers are lobbying for bioequivalence requirements to apply to all generics and to be made
- 7) retrospective, to improve the quality of products on the Indian market and improve standards in the industry.
- 8) India will remain the world's biggest exporter of generic medicines, but with growth in the United States and Europe becoming harder to achieve, the country's major manufacturers will focus increasingly on growing their domestic and export business in emerging markets.

#### R&D Expenditure - % of sales

Particulars	FY17	FY18	FY19	FY20
Sun Pharma	7.6%	8.6%	6.9%	6.1%
Dr. Reddy's	13.9%	12.9%	10.1%	8.8%
Cipla	8.0%	7.1%	7.4%	6.9%
Lupin	14.5%	13.1%	10.5%	10.3%
Cadila Healthcare	8.1%	7.4%	7.4%	7.9%
AurobindoPharma	3.6%	4.0%	4.4%	4.1%
GlenmarkPharma	5.94%	7.03%	6.0%	5.5%
Wockhardt	10%	7.0%	7.0%	6.3%



### Top 10 Indian Pharmaceutical Companies (over 20 years)

2000 Market share		2007 Market share		2014 Market share		2019 Market share	
Company		Company		Company		Company	
Glaxo-Wellcome	6%	GlaxoSmithkline	5%	Sun Pharma	9%	Sun Pharma	8%
Ranbaxy	5%	Ranbaxy	5%	Abbott	6%	Abbott	6%
Cipla	4%	Cipla	5%	Cipla	5%	Cipla	5%
Hoechst+Roussel	3%	Nicholas Piramal	4%	ZydusCadila	4%	Cadila	4%
ZydusCadila	2%	ZydusCadila	4%	Mankind Pharma	4%	Lupin	4%
Wockhardt	2%	Sun Pharma	3%	Alkem	4%	Mankind	4%
Sun Pharma	2%	Alkem	3%	GlaxoPharma	4%	Alkem	4%
Pfizer	2%	Pfizer	3%	Lupin	3%	Torrent Pharma	3%
Lupin	2%	Lupin	2%	Pfizer Wyeth	3%	Intas	3%
Novartis India	2%	Dr. Reddy's Lab	2%	Sanofi India	3%	GSK	3%

Source: AICOD

### Indian Pharmaceutical Marketbreak up in terms of market share and growth

Therapeutic	Market share	Therapeutics segments	CAGR
Anti infective	14%	Anti Diabetic	15%
Cardiac	13%	Derma	11%
Gastro-intestinal	11%	Cardiac	10%
Anti-diabetic	10%	Hormones	9%
VMN	9%	Neuro/CNS	9%
Respiratory	8%	Respiratory	8%
Pain	7%	Pain/Analgesics	8%
Derma	7%	Ophthalmic	8%
CNS	6%	Gastro Intestinal	8%
Gynae	5%	Nutraceuticals	8%
Rest	12%	Gynaecological	7%
		Others	7%
		Anti-Neoplastics	7%
		Anti-Infectives	6%

Source: AICOD

### Companies presence in different therapeutics

Particulars	Top 3 Therapeutics segments
<b>Sun Pharma</b>	Cardiovascular (CVS), Central Nervous System (CNS), Gastro
<b>Dr. Reddy's</b>	Gastro, CVS, Derma
<b>Lupin</b>	CVS, Anti Daibetics, Anti infectives
<b>Cipla</b>	Anti Infectives, CVS, Respiratory
<b>Cadila Healthcare</b>	Anti Infectives, CVS, Respiratory, Vaccines
<b>Alkem Laboratories</b>	Anti Diabetics, CVS, CNS
<b>Torrent Pharmaceuticals</b>	CVS, CNS, Gastro

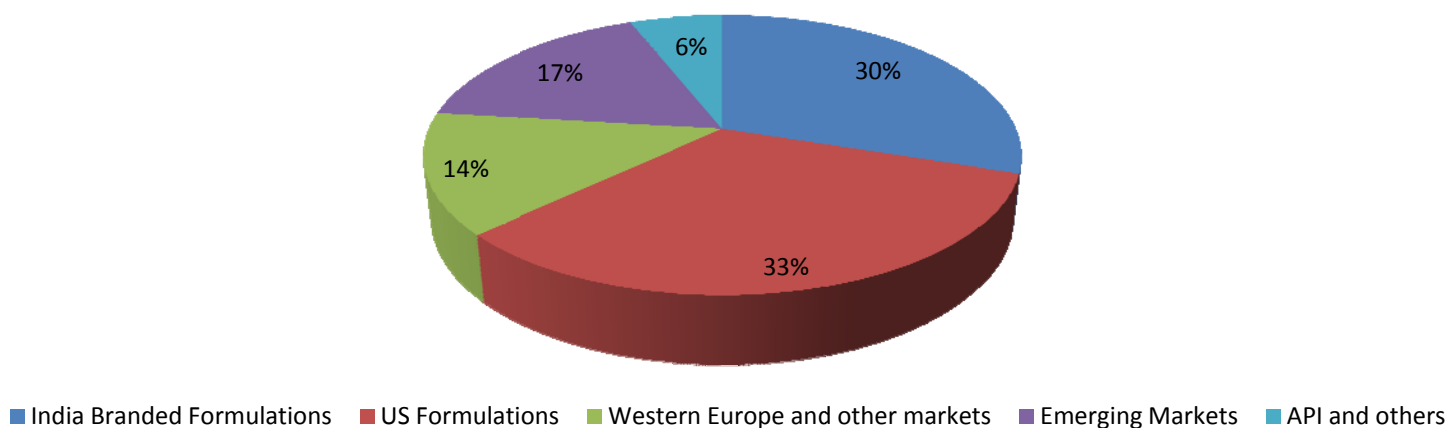


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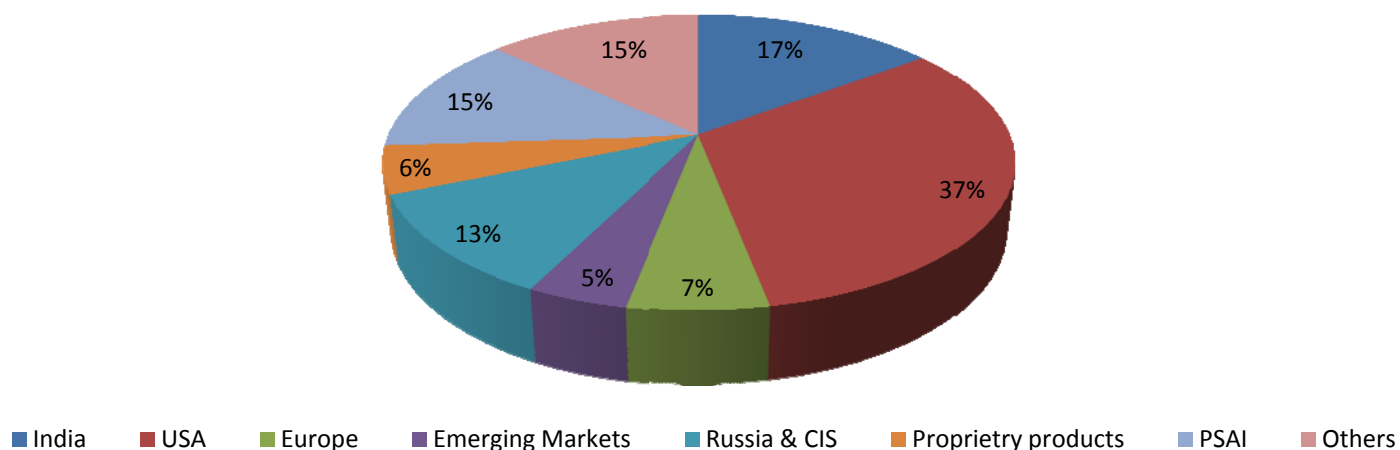
<b>AurobindoPharma</b>	CNS, CVS, Anti-retroviral, Anti-diabetics
<b>GlenmarkPharma</b>	Derma, CVS, Respiratory
<b>Wockhardt</b>	Oncology, Biotechnology, API, Vaccines,
<b>Astrazeneca</b>	Anti Diabetics, Oncology, CVS
<b>Pfizer</b>	Anti infectives, Gastro, Vitamins
<b>Sanofi</b>	Anti Diabetics, CVS, Vaccine
<b>GSK</b>	Derma, Anti infectives, Vaccine
<b>Abbott India (Innovator)</b>	Anti Diabetics, Gastro Gynac

## Revenue Mix of leading Indian Pharma companies

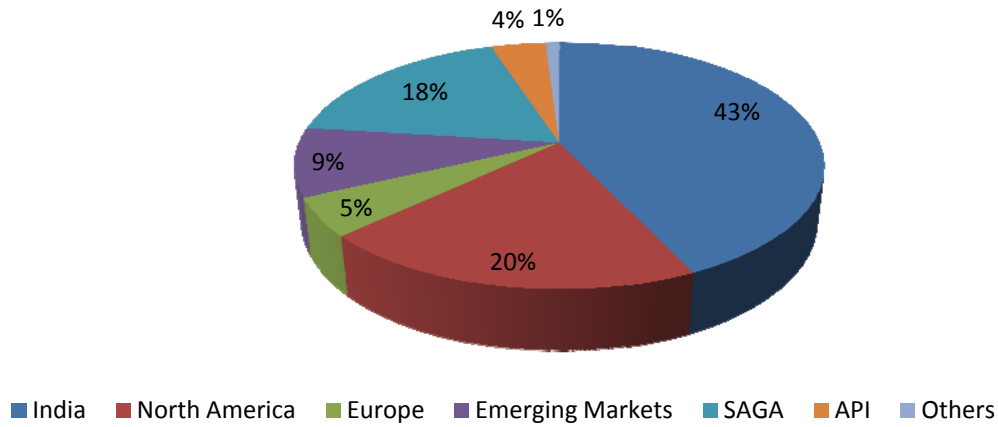
### Sun Pharma



### Dr. Reddy's

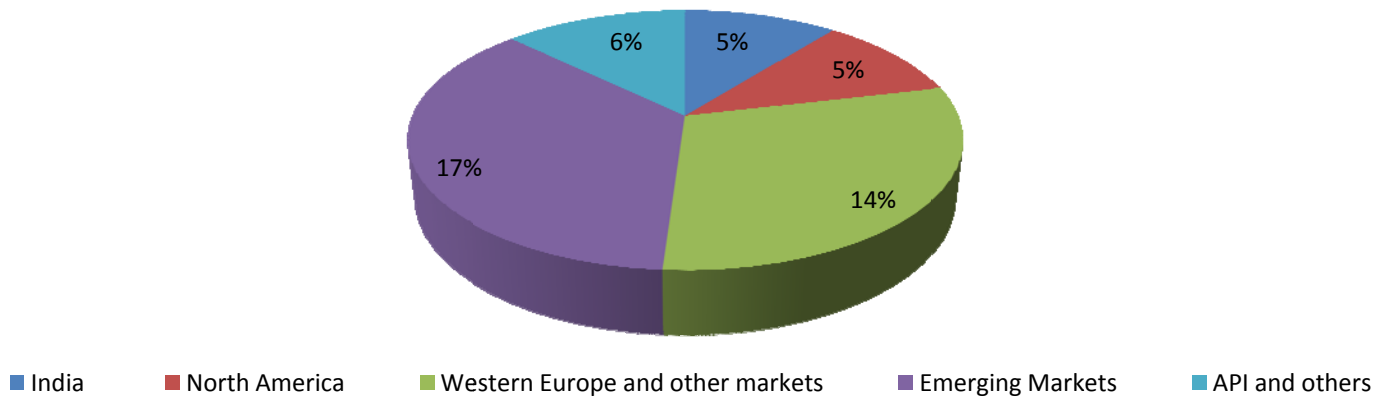


## Cipla

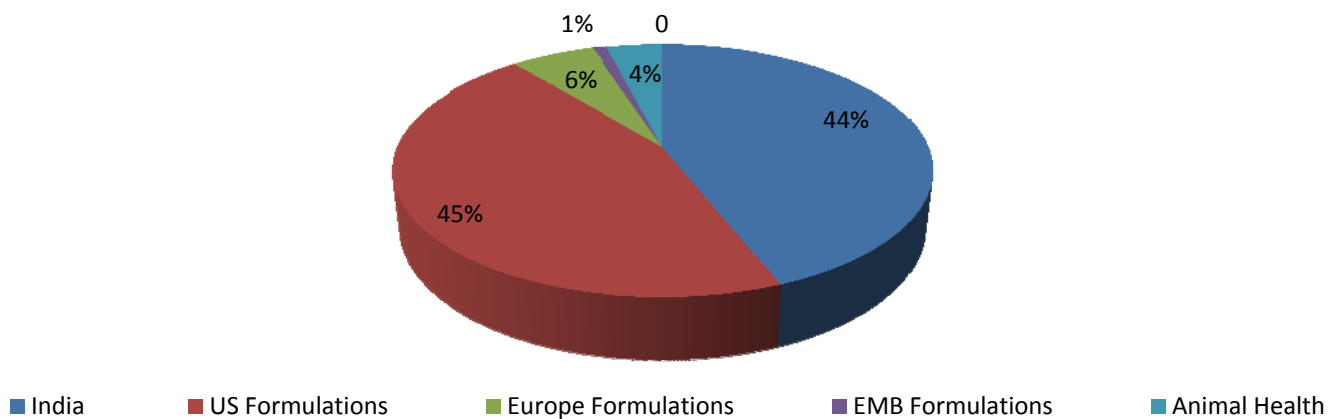


*SAGA denotes - South Africa and sub saharan markets*

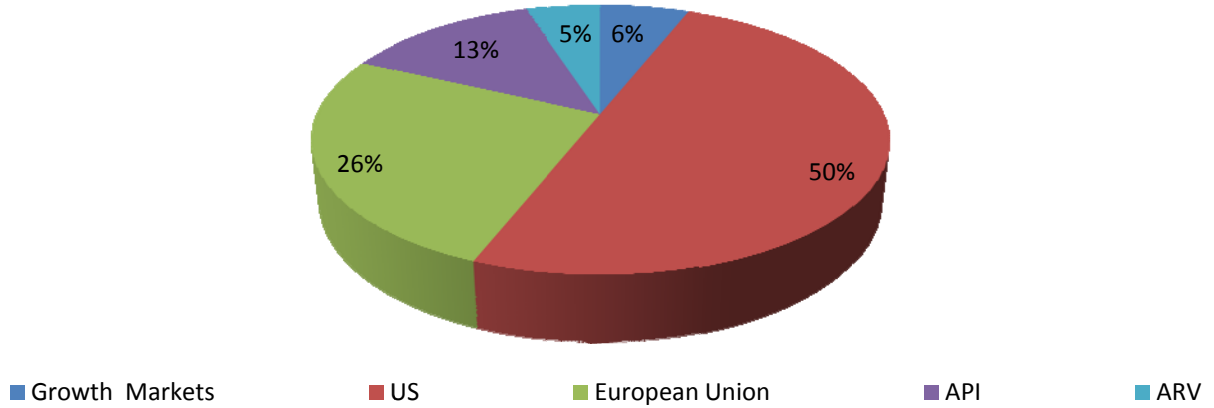
## Lupin



## Cadila Healthcare

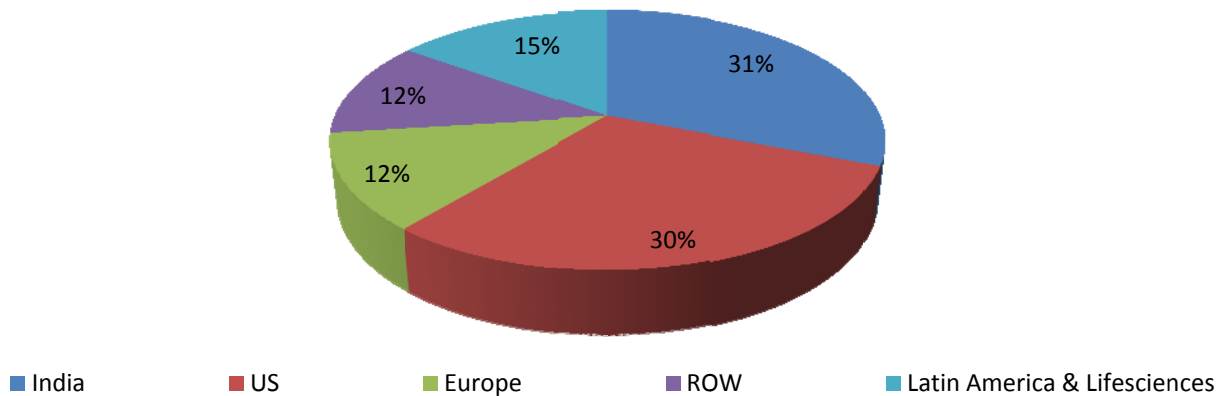


### AurobindoPharma

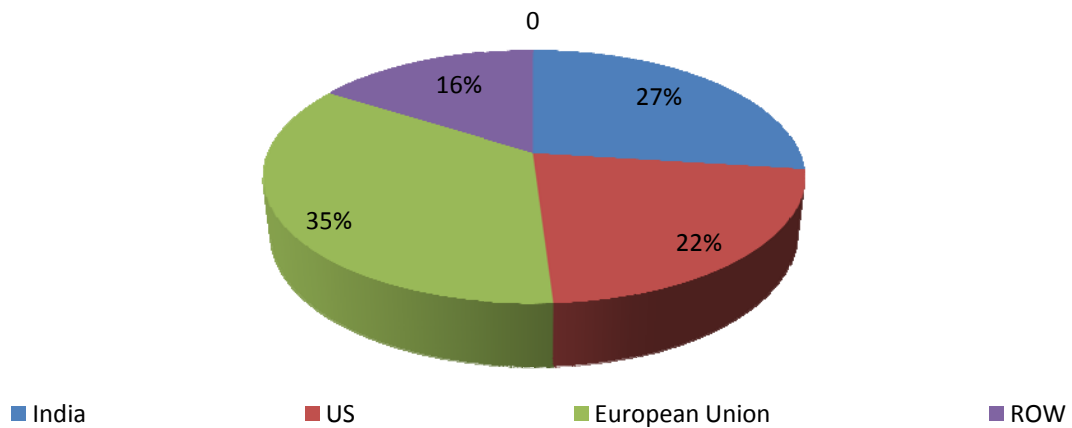


*Growth markets include Canada, Brazil and China*

### GlenmarkPharma



### Wockhardt





Cipla Limited - "BUY"

May 04, 2021

### Impressive background and history..

Cipla began its humble journey in 1935 with the sole purpose of making healthcare accessible to all. For over eight decades the Company dedicated itself not just to improve access to quality healthcare but to make a difference in the lives of people and in the process established an enviable international footprint. Today Cipla is ranked 3rd largest in pharma in India and 3rd largest in the pharma private market in South Africa and is among the most dispensed generic players in the U.S. The Company's strengths in the respiratory, anti-retroviral, urology, cardiology, anti-infective and CNS as well as other key therapeutic segments are well-known. The Company's 46 manufacturing sites around the world produce 50+ dosage forms and 1,500+ products using cutting-edge technology platforms to cater to 80+ markets. Cipla emerged as the third largest pharmaceutical corporation [Prescription (Rx) + Over The Counter (OTC)], third largest player in the OTC space and the third largest within ARV (anti-retroviral) in the South African private market and is among the most dispensed generic players in the US.

### Strong respiratory portfolio

Over the last six decades, the Company has developed widest portfolio of drug-device combinations which has made it lung leader in India and key emerging markets. According to the IQVIA report (Mar 2020), Cipla is the second largest inhaler (MDI + DPI) selling company by volume and four of its respiratory brands are listed among the Top 50 medicine brands in the country.

### Domestic business witnessed strong momentum..

The Company's domestic business witnessed a growth of 22 percent on yoy basis by COVID-19 portfolio, healthy traction in respiratory and chronic therapies, recovery in hospital and acute businesses with opening up of OPDs in Q3FY21.

### Leading the fight in COVID-19 crisis and playing a strong role..

Cipla is at the forefront to fight against COVID-19 through mix of vital drugs that show potency against the virus. Cipla is providing a spectrum of drugs to treat COVID-19 patients including remdesivir, tocilizumab and favipiravir in addition to other complementary therapies. The Company launched Ciphands portfolio including sanitiser, hand-rub, and surface disinfectant to strengthen portfolio around Covid-19. Recently, the Company has doubled production of COVID-19 medication Remdesivir to help meet "unprecedented demand" as the country battles a massive second wave of COVID-19 infections. Cipla, one of India's oldest and largest drug manufacturers, has a deal to make and supply U.S.-based Gilead's remdesivir in more than 100 countries. Several other Indian drug producers also have similar agreements.

### US business continues to be strong..

Over the years, the Company has invested significantly in its US business to create a sustainable pipeline that offers strong medium to long-term visibility on revenue and profitability. The USFDA approval for generic Albuterol MDI and the successful completion of the Phase-3 clinical study of generic AdvairDiskus® further strengthened its respiratory franchise in the US market - an exemplary testament to Cipla's strong R&D capabilities in the space. In Q3FY21 US business witnessed yoy growth of 6 percent to touch US\$141mn. The Company witnessed continued expansion in market share for Albuterol and traction in other assets along with growth in the institutional channel. In 9MFY21, the US business continued to deliver robust profitability.

### South Africa business continues to grow strongly..

The Company is the fastest growing amongst top five corporations in South Africa private market. In Q3FY21, private market witnessed a growth of 11 percent on yoy basis and tender market grew by 8% YoY in cc terms for 9mFY21.

### Strong performance witnessed in Q3FY21 and expected to continue

CMP	Rs. 878 (Face value: Rs. 2)
Book value	Rs. 198 per share
Recommendation	BUY
Target price	1,095
Upside	24.7%
52 Week High/Low	Rs. 966.35/Rs. 565.60
Beta	0.25
Market Cap	Rs. 73,416 crores
EPS (TTM)/P/E(x)	27.74/ 33x
BSE code	500087
Bloomberg code	CIPLA IN
Promoter holding	36.73 %
3 year CAGR	Revenue - 6.1%, EBITDA - 9.0%, PAT - 15.4%
Price performance	1 month: 12.08 %, 3 months: 10.23 %, YTD: 11.03%, 1 Year: 54.40%

Particulars (Rs. crores)	9MFY21	FY20	FY19	FY18
Topline	14,553	17,132	16,362	15,219
EBITDA	3,662	3,230	3,171	2,826
EBITDA (%)	25.16%	18.9%	19.4%	18.6%
Profit after tax	1,985	1,547	1,528	1,411
PAT margin (%)	13.64	9.0	9.3	9.3
Equity share cap.	161	161	161	161
Networth	-	15,709	14,955	14,229
Cash conversion cycle (days)	-	130	125	114
Net Debt/Equity (x)	-	0.05	0.10	0.14
EPS (Rs.)	32.86*	19.16	18.93	17.50
P/E (x)	27	47	48	52
RoNW (%)	-	10.1	10.4	10.5

Source: RHP, # denotes P/E on annualised 9MFY21 numbers,

The Company witnessed strong performance across various geographies and segments (India, CGA, Europe, API). EBITDA margin was above street expectations and stood at 24% an improvement 647bps on yoy basis and 46bpsqoq basis led by cost control measures. Q3FY21 EBITDA margin is the highest ever reported EBITDA for the company in the recent history.

### Investment recommendation and rationale

At CMP of Rs. 878, the Company is valued at P/E of 27x on 9MFY21 annualised EPS and P/E of 32x at TTM EPS of Rs. 27.74. The Company will enjoy premium considering its leadership position in respiratory segment, strong growth in domestic business led by COVID-19 portfolio. We like the Company due to the following factors: a) strong respiratory portfolio, b) leading the fight in COVID-19 crisis, c) the ongoing second wave of COVID-19 crisis will augur well for Cipla's COVID-19 related drugs business, d) strong pipeline in US with gAdvair, gAbraxane, Albuterol and other respiratory filings driving visibility over the next few years. Its pipeline includes 35 para IV assets with market size of USD42bn. e) Cipla expects to add US\$300-500mn to its US revenue base of US\$500mn+ by FY25, f) non - COVID business is also expected to do well, g) the return ratios are also expected to improve significantly led by operating leverage benefits and cost optimisation efforts, h) good financial performance witnessed in Q3FY21 and expected to continue in coming quarters and years, i) strong balance sheet, good free cash flow generating capability with decent ROEs. We recommend a "BUY" with a target price of Rs. 1092 (P/E of 30 at estimated FY22 EPS of Rs. 36.4).

### Q3FY21 result and concall highlights

- 1) The Company repaid US\$137.5 million of InvaGen acquisition loan during Q3FY21, which was due several months later. The Company also repaid working capital loans of Rs. 300 crore in India during this quarter.
- 2) The Company's return on invested capital has seen expansion by about 900 basis points over the last nine months, driven by its focus on growth, margin expansion, coupled with cost discipline. While part of this expansion is attributable to some levers which may not always sustain fully in the coming year, this puts the Company on an accelerated journey towards achieving a sustainable range of 17% to 20% over the long term which is its aspiration.
- 3) The Company is constantly simplifying its manufacturing network to unblock capacities and improve operational efficiency.
- 4) The prescription business in India grew by 25% on a YoY basis led by covid-19 portfolio, healthy traction in respiratory and chronic therapies, recovery in hospital and acute businesses with opening-up of OPDs
- 5) Trade generics business grew at an adjusted 7% on a YoY basis led by healthy seasonal demand across regions
- 6) Consumer health business in India: strong demand for organic products and continued traction in consumer brands transferred from trade generics business
- 7) In India, the Company's One India Strategy continues to see seamless execution. The Company continued the momentum in its Prescription business and has reported market-beating growth for the sixth consecutive quarter now. Prescription business grew at 25% on a year-on-year basis, led by contributions from the COVID portfolio, healthy traction in respiratory and chronic therapies, recovery in the hospital and acute businesses with the opening up of several OPDs.
- 8) As per IQVIA October-December '20 quarter, the Company continued to deliver market-beating growth in Respiratory of 14% versus the minus 4% in the market, Urology 8% versus a 7% and Derma 15% versus 8%. Cipla ranked number two with a market share of 8.1% in chronic therapies, and grew by 6% in the chronic therapies.
- 9) The Company's US business - margins are at corporate average levels. The Management expects one niche launch per quarter starting from 1QFY22 (USD 15- 20mn+); gAdvair –Q4FY21 or early Q1FY22, R&D spends to remain at 6-7%;
- 10) In North America - Cipla ranks #1 with a TRx market share ~85% of the gProventil market as per IQVIA week ending 15 th January 2021
- 11) India – ex-Covid portfolio, growth was at 6-7%,
- 12) US respiratory portfolio – USD100mn+ in 9mFY21;
- 13) Albuterol – Cipla will defend its share as it has a cost edge;
- 14) The emerging market business grew by 46% on a YoY basis in USD terms led by continued demand across all regions
- 15) The European operations grew by 28% on a YoY basis in USD terms led by consistent in-market performance and market share gains in key DTMs
- 16) The Company plans to ramp up consumer business in India and South Africa to 12%+ of sales (vs. 5-7% currently).
- 17) The API business grew by 18% on a YoY basis in USD terms driven by seamless execution of orderbook and well-entrenched customer relationships. On the regulatory front, Cipla is actively engaged with the agency and working towards the resolution of observations for its Goa plant.
- 18) In Q3FY21, the Company also entered into a strategic partnership with Alvogen for four oncology products, which will enhance its oncology presence over the long term. The emerging markets business grew by 46% on a year-on-year basis in U.S. dollar terms, driven by continued demand across all regions. Cipla is the largest Indian exporter to emerging markets as per the IntelliMax for the period April to November. The European operations grew 28% driven by consistent end market performance and market share gains in some of its key direct market businesses. The Company's flagship respiratory products continue to demand double-digit market share.

### Key recent developments

- 1) The Company has signed a non-exclusive licensing agreement with MSD a tradename of Merck & Co., Inc. Kenilworth, NJ., USA for the manufacturing and distribution of Molnupiravir, the investigational oral antiviral drug currently being studied in a Phase 3 trial for the treatment of non-hospitalized patients with confirmed COVID-19. MSD is developing Molnupiravir in collaboration with Ridgeback Biotherapeutics.
- 2) This agreement is a part of Cipla's efforts to enhance global access to treatments for patients affected by the pandemic. As part of the agreement, Cipla will be permitted to manufacture, market and distribute Molnupiravir in India and more than 100 low and middle income countries. Cipla's extensive geographical and commercial footprint will help make this therapy accessible to more patients and markets.
- 3) Molnupiravir (EIDD-2801/MK-4482) is an investigational, orally bioavailable form of a potent ribonucleotide analog that inhibits the replication of multiple RNA viruses including SARS-CoV-2, the causative agent of COVID-19. Molnupiravir has been shown to be active in several models of SARS-CoV-2, including for prophylaxis, treatment and prevention of transmission, as well as SARS-CoV-1 and MERS. EIDD-2801 was invented at Drug Innovations at Emory (DRIVE), LLC, a not-for-profit biotechnology company wholly owned by Emory University.
- 4) Commenting on the partnership, Mr. UmangVohra (MD and Global CEO, Cipla Limited) said, "Cipla continues to remain at the forefront in its fight against COVID-19. As we are hit by the second wave, it is pivotal for us to embrace the power of collaboration in order to combat the threat to human life. We are pleased to partner with MSD for this cause and take this treatment to patients across countries. In keeping with our purpose of Caring for Life, this collaboration will expand patient access to quality treatment for COVID-19"

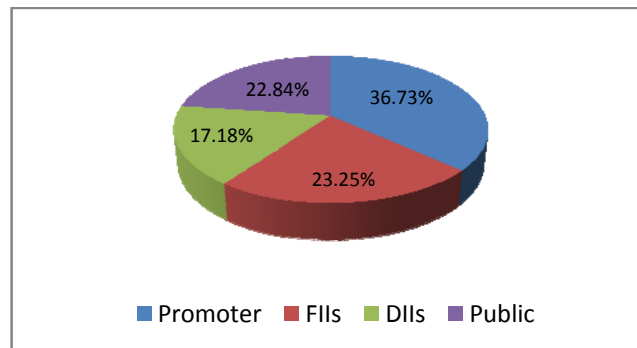
### Business strategy

- 1) Maintain market beating growth in large branded and unbranded generic franchises of India, South Africa and augment consumer wellness franchise
- 2) Increase penetration in key markets to establish leadership in volumes of inhalers sold
- 3) Expanding lung leadership globally and maximising value opportunity in US complex generics by prioritizing key launches with focused execution and collaborating with regulatory authorities
- 4) Scaling up businesses across branded and generic DTMs of Europe and Emerging markets through execution on organic and partnered launches
- 5) Anti-Microbial Resistance (AMR) to be the next meaningful play for Cipla. Identify innovative ways to fight against AMR, such as drug repurposing, new routes of delivery, and identify new antibiotics and combinations
- 6) Embrace the 'New Normal', postCovid, and identify new ways of working to stay relevant

### Indian Pharma Companies - Comparison

Company Name	CMP (Rs.)	MCap(Cr)	TTM P/E(x)	P/B(x)	ROE (%)	Net Sales	Net Profit	PAT Margin (%)	Debt to Equity
Sun Pharma	645	154,793	60	3.16	8.31	32,837	4,186	12.75	0.17
DrReddys Labs	5067	84,268	39	5.41	12.98	17,517	1,969	11.24	0.11
Cipla	878	70,843	32	4.59	9.81	17,131	1,546	9.02	0.18
Lupin	1057	47,997	42	3.89	-2.14	15,374	-403	-2.62	0.34
Cadila Health	569	58,266	32	4.99	11.33	14,253	1,175	8.24	0.68
AurobindoPharma	956	56,045	10	3.34	16.84	23,098	2,844	12.31	0.32
GlenmarkPharma	558	15,749	16	2.60	10.24	6,712	1,354	20.17	0.27
Wockhardt	516	5,726	7	1.88	-2.59	2,843	-137	-	0.80

### Shareholding of the Company



### Cipla - One year price movement (Source: Trading view)



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**Buy** – Absolute return of 20% and above

**Accumulate** – Absolute return between 15% and above

**Book profits:** On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

**Not rated/Neutral** - No recommendation but only outlook given

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