

BUY

TP: Rs 900 | ▲ 19%

CIPLA

Pharmaceuticals

12 December 2020

Revlimid settlement: Cipla gains but limited NPV loss for Dr Reddy's

Event: Cipla has announced settlement of the US patent litigation with Celgene for Revlimid (lenalidomide capsules). The settlement allows Cipla to manufacture and market limited volumes of gRevlimid after Mar'22, subject to USFDA approval, and unlimited volumes beginning 31 Jan 2026. The specific volume-limited licence date and percentages agreed upon are confidential.

gRevlimid settlement positive – estimate US\$ 300mn NPV: In our view, the gRevlimid settlement is positive for Cipla's stock given the market was not factoring in potential upside sooner from this opportunity. Importantly, this enhances confidence in Cipla's capability and focus toward maximising the value opportunity in complex generics. The company is the fourth player to settle on gRevlimid (US\$ 8bn brand sales in the US) after Natco/Teva, Alvogen, and Dr Reddy's (DRRD). It is not yet clear whether the settlement terms are similar to DRRD's, but based on average 10% market share (FY23 to Jan'26) and 70% price erosion, we arrive at an NPV of ~US\$ 300mn (Rs 30-35/sh) for Cipla.

Competition visibility: There are seven other players in litigation on the polymorphic forms (Sun, Apotex, Hetero, Cadila, Mylan, Aurobindo, Lupin). Mylan's trial date is in Oct'21; the court is yet to set trial dates for the others.

DRRD's NPV impact not straightforward – management believes this could be neutral event: Our worst-case estimate of Rs 250-300/sh for DRRD's Revlimid NPV should remain largely protected, in our view, due to fixed volume market share under the settlement and likely pricing discipline by players till Jan'26. We have assumed all eight players entering together in FY23 (worst case). With more players settling, our base-case NPV of US\$ 900mn (Rs 400/sh) could move to the worst case, which still implies a marginal 2-3% hit on the stock rather than any major impact.

Our interaction with DRRD's management suggests a neutral impact from the Cipla settlement given that Cipla will take share from Celgene and not generics. Also, there is a good chance that the launch dates for both players would differ by 3-6 months.

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Ticker/Price	CIPLA IN/Rs 756
Market cap	US\$ 8.3bn
Shares o/s	806mn
3M ADV	US\$ 86.7mn
52wk high/low	Rs 829/Rs 355
Promoter/FPI/DII	37%/26%/13%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	186,103	198,465	213,811
EBITDA (Rs mn)	40,824	42,938	44,812
Adj. net profit (Rs mn)	22,122	23,200	24,864
Adj. EPS (Rs)	27.5	28.8	30.9
Adj. EPS growth (%)	39.5	4.9	7.2
Adj. ROAE (%)	12.6	11.8	11.4
Adj. P/E (x)	27.5	26.2	24.5
EV/EBITDA (x)	15.1	14.0	13.0

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

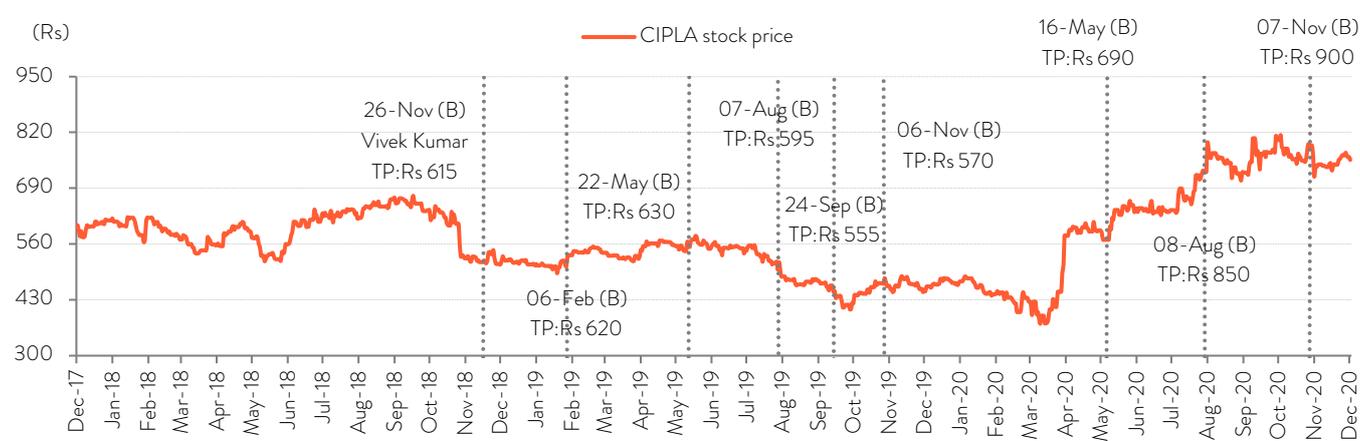
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): CIPLA (CIPLA IN)



B – Buy, A – Add, R – Reduce, S – Sell

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