

## Sector update

## Recommendations

Aurobindo (ADD from Buy)

Cadila Healthcare  
(REDUCE from Hold)Dr Reddy's (ADD from  
Buy)

Pfizer (HOLD from Buy)

Shilpa Medicare (SELL  
from Reduce)Strides Pharma Science  
(HOLD from Add)

## INDIA

## Pharmaceuticals

## Potential upside from vaccines priced in?

The pharma stocks which are involved with COVID-19 vaccine have seen a sharp run-up recently, especially post the announcement of phase 3 vaccination program that also opened up of vaccine supplies for private market. These stocks under our coverage are Dr Reddy's, Cadila, Aurobindo, Strides, Pfizer and Shilpa Medicare. Supplies to private market would help in raising the realisations but we expect competition to be high from domestic and imported vaccines. This should provide a significant upside in near term, however, we refrain from assigning a multiple to this opportunity as the earnings sustainability remains uncertain and likely increase in competition. We believe the recent rally in these stocks has factored in the near term upside to some extent and hence downgrade Dr Reddy's and Aurobindo to ADD from Buy, Cadila to REDUCE from Hold, Strides to HOLD from Add, Pfizer to HOLD from Buy and Shilpa to SELL from Reduce.

- ▶ **Currently approved vaccines and potential entrants:** Govt recently announced opening up the vaccination for ages 18-45 along with opening of private market where domestic players will have to supply 50% quantity to central Govt and remaining to state Govts or private market. Approved imported vaccines will be supplied to state Govts and private market. Serum and Bharat Biotech already have vaccines in market with EUA. Dr Reddy's recently got EUA for *Sputnik V* which is likely to be launched in May'21. Cadila expects approval by Jun'21 if trials are successful. We also expect imported vaccines from Pfizer, Moderna, J&J etc. to enter the private market. We expect supplies to Govt to continue at ~US\$2/dose, while the price in private market to be US\$8-10/dose.
- ▶ **Stocks impact:** Dr Reddy's, Cadila, Aurobindo, Strides, Pfizer India and Shilpa Medicare are the key stocks involved with COVID-19 vaccine in our coverage.
  - **Dr Reddy's** recently received EUA for *Sputnik V* vaccine. Dr Reddy's conducted clinical trials and is a distribution partner for RDIF (Russian Direct Investment Fund) in India. The agreement is for 250mn doses (125mn people). Assuming avg. realisation of Rs600 and 15% EBITDA margin (only marketing partner), it can provide ~22% upside to FY23E EBITDA.
  - **Cadila** is developing and will be manufacturing *ZyCov-D* on its own. Data from its Phase III trials are expected in May'21. However, it's a three dose vaccine while other vaccines that are approved require two doses. It has a capacity of 120mn dose with potential to double it. Assuming approval and avg. realisation is Rs600 with 25% EBITDA margin, EBITDA upside could be ~31% in FY23E.
  - **Aurobindo** has developed vaccine capacity for CMO and would have 480mn dose capacity by June'21. It has signed exclusive manufacturing contract with US based COVAXX and may sign more contracts with other companies. At peak capacity utilisation Aurobindo can get ~17% EBITDA upside to FY23E estimate assuming avg. realisation of US\$2/dose and 15% EBITDA margin.
  - **Strides Pharma** has developed vaccine capacity in its associate company, Stelis Biopharma, for CMO business. It has signed agreement with RDIF for manufacturing of 200mn doses of *Sputnik V*. Stelis will be demerged and listed as a separate entity later. Assuming avg. realisation of US\$2/dose and 15% margin, it can provide ~16% upside to FY23E EBITDA for its 33% stake.
  - **Pfizer India:** Pfizer Inc (parent) was one of the first manufacturers to seek EUA in Dec'20. It revoked its application at that time but currently its under discussion with Govt to launch the vaccine under the fast track approval process. It has also said that it will offer the vaccine at a not-for-profit price. Although it's unclear if Pfizer India will be marketing the vaccine, but since the listed arm markets key vaccines like *Prevnar-13*, we expect COVID-19 vaccine to be launched and marketed by Pfizer India.
  - **Shilpa Medicare** has capacity for vaccines since it has plants for injectables and biosimilars. However, the company has not disclosed any manufacturing agreements or development work till now. As per media reports – [link](#), company has a capacity of 100-200mn doses. However, it is uncertain if there could be any commercial agreement for manufacturing.
- ▶ **Key risks:** Delay in vaccine approvals, increase in competition.

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**Table 1: Assumption based calculation for upside from COVID-19 vaccines**

	Dr Reddy's	Cadila	Aurobindo	Strides (Stelis-33% holding)
Business model	Marketing	Manufacturing & Marketing	CMO	CMO
Total dose quantity (mn)	250	120	480	200
Free distribution, wastage etc.	30%	25%	10%	10%
Commercial quantity (mn)	175	90	432	180
Avg. Rate (Rs)	600	500	150	150
Revenue (Rs mn)	105,000	45,000	64,800	27,000
EBITDA margin (%)	15	25	15	15
EBITDA (Rs mn)	15,750	11,250	9,720	1,337
% upside to FY23E EBITDA	22.2	30.7	16.6	16.3
<b>EPS upside (Rs)</b>	<b>71</b>	<b>8</b>	<b>12</b>	<b>11</b>

Source: Company data; I-Sec research

**Table 2: Change in rating and target prices**

Company	Target Price (Rs)		Rating	
	New	Old	New	Old
Aurobindo	1,116	1,054	Add	Buy
Cadila Healthcare	490	445	Reduce	Hold
Dr Reddys	5,528	5,166	Add	Buy
Pfizer	5,143	5,143	Hold	Buy
Shilpa Medicare	336	298	Sell	Reduce
Strides Pharma	939	939	Hold	Add

Source: Company data; I-Sec research

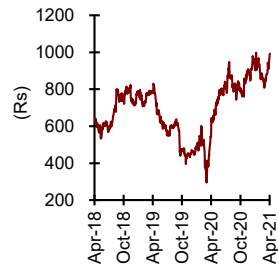
**Table 3: Valuation summary**

	RATING	CMP (Rs)	TP (Rs)	M Cap (Rs bn)	PE (x)			EV/EBITDA (x)			ROE (%)			RoCE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
<b>Pharma</b>																
Aurobindo	Add	993	1,116	582	18.5	17.3	16.0	10.7	10.1	9.1	16.5	14.7	14.0	13.2	13.1	13.1
Cadila	Reduce	571	490	585	28.7	28.1	25.6	18.9	18.1	16.6	18.6	17.1	16.9	11.3	11.4	12.1
Dr Reddy's	Add	5,067	5,528	840	31.5	27.9	18.2	18.3	16.2	10.9	16.4	16.6	21.8	14.2	14.6	19.5
Shilpa Medicare	Sell	438	336	35	28.7	26.0	23.5	20.0	18.8	16.9	8.8	8.8	9.0	7.2	7.2	7.4
Strides Pharma Sc	Hold	915	939	82	38.1	23.6	18.8	15.3	13.1	11.2	8.2	11.9	13.3	6.6	9.0	10.1
Pfizer	Hold	5,172	5,143	237	45.6	40.4	35.2	29.4	26.5	23.2	17.7	21.8	21.1	17.3	21.1	20.5

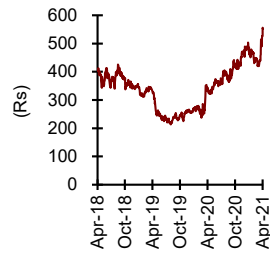
Source: I-Sec research;

**Price charts**

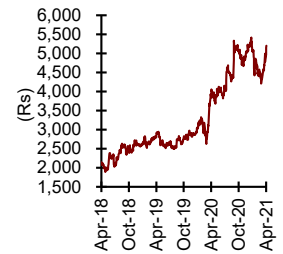
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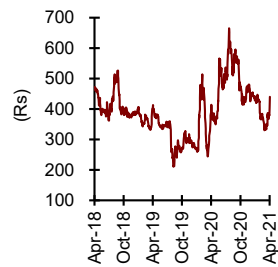
**Cadila**



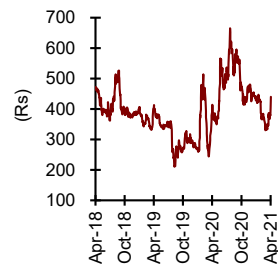
**Dr Reddy's**



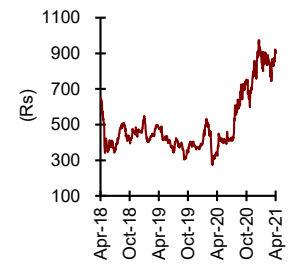
**Pfizer**



**Shilpa Medicare**



**Strides Pharma Science**



Source: Bloomberg

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