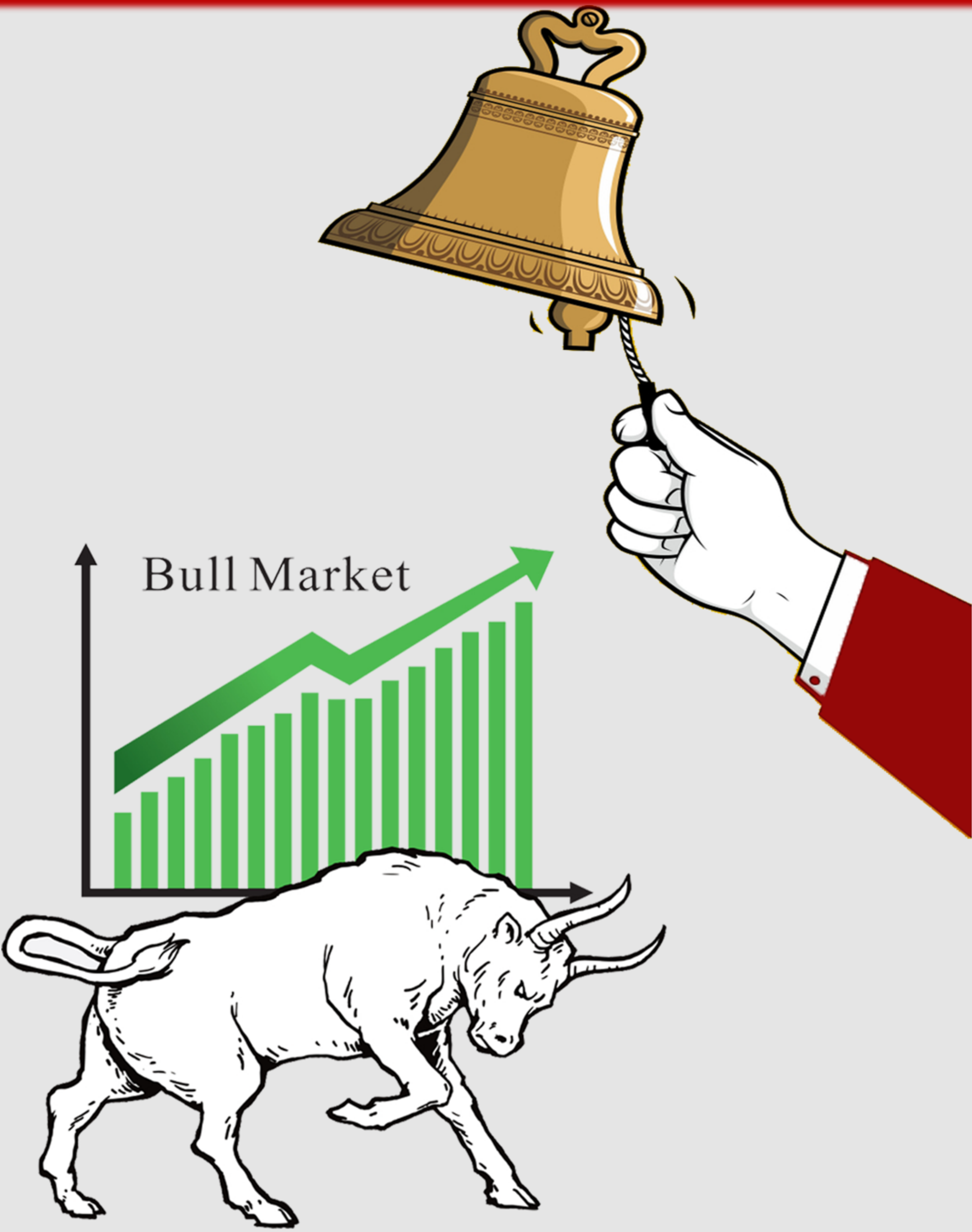
श्री LAKSHMISHREE

Gateway to your Financial Goals

ALL TIME HIGH...?

This May Impact Your Investments!!



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Cipla's Stake Change: Different Scenarios For The Investor

The biggest deal in the pharmaceutical industry in India is expected to go through anytime soon. According to market reports, the promoters of Cipla are selling their 33.47 percent holding.

It is not the first time that stake sale talks of Cipla have appeared in the media. What makes it different this time is that foreign broking firms expect the sale to go through. While matchmaking with different companies is being speculated upon in the media, this time, private equity firms are also named as likely suitors.

The Cipla management, as always, has been denying any sale news and calling the reports market rumours. But most company managements have been known to deny such news, only to be confirmed a few days later.

According to various reports, the likely suitors are either pharmaceutical companies' private equity players or pharma companies tying up with a private equity firm to finance the deal. As the market capitalisation of Cipla is nearly Rs 1 lakh crore, the promoters' stake is around Rs 33,500 crore, and if we add the compulsory buyback of 26 percent, the total cost of the acquisition will be Rs 59,500 crore at the current market price, by far the biggest pharmaceutical deal in the Indian market.

Cipla, the second-largest pharmaceutical company by market capitalisation, is a prize catch. It is a big generic player on the world scale and has a strong product pipeline for the domestic and international markets. Its research capabilities are well demonstrated over the years, and the company has a very strong brand recall internationally, especially in poor countries.

Cipla is also a formidable player in the US, which contributes 29 percent of sales as compared to 44 percent of revenue from the Indian market.

Regarding market share, Cipla is the third largest player in India, the biggest in Respiratory, the second largest in Chronic treatments and the fifth largest in the Cardiac therapeutic segment.

Though it will be too big to swallow for any Indian pharmaceutical player, either a combination with a private equity company or a plain private equity buyout is possible.

The two options have different ramifications for investors.

A private equity player is a temporary promoter of the company, they would be selling the company at some future date after 'right-sizing' or pumping in growth capital and ultimately exiting at a higher price. The private equity player will also ruthlessly exit from slow-growing businesses and unlock value by selling businesses in parts.

For the investor, in this case, the comfort is that it is in the interest of the private equity player to take the stock price higher and exit.

With the second option, where a pharmaceutical company acquires Cipla, the immediate impact will be that the combined entity will be the biggest in the country. The names of Torrent Pharmaceuticals and Dr Reddy's are making the rounds, and both stand to gain from the acquisition.

There will be a medium-term impact on the balance sheet of the acquirer, but Cipla's strong presence in India and the world market, both in traded and branded generics, and a strong free cash flow balance sheet will help the buyer digest the acquisition quickly.

For an investor, in this scenario where a company acquires Cipla, either directly or with the help of a financier, the combined entity will be a long-term bet. Teething issues arising from mergers and acquisitions will take time to iron out. But if handled efficiently by taking advantage of the synergies and cutting overlapping costs, the combined entity will be a force to reckon with.

In either case, the investor gains, but the time horizon will differ. In the case of an investor acquisition, the operations of Cipla will continue as they are, and right-sizing and value unlocking will keep the company in the news and bring in market interest.

As for a merger with another pharmaceutical player, the acquisition will take time to show results as the two companies will be ruminating for some time, internal power struggles will need to be tackled, and employee morale, especially of Cipla under the new promoters, will need to be kept high. But if the acquirer's management demonstrates their skill in steering the combined entity forward, gains over the longer term can be bigger in such a scenario.

What's Behind India's DPI Push At G20?

Throughout the year, meetings were held at Lucknow, Hyderabad, Pune and Bengaluru for careful negotiations and wordsmithing by the G20's Digital Economy Working Group (DEWG) on priority areas relating to the digital economy and the resulting transformation. Last month, the DEWG reached a consensus on three major areas: Digital Public Infrastructure (DPI), Security in the Digital Economy, and Digital Skilling.

But wait, what's DPI?

While security and skilling in the context of the digital economy is easily understood, DPI leaves much to be desired. The final outcome document of the DEWG describes DPI as, "a set of shared digital systems that should be secure and interoperable and can be built on open standards and specifications to deliver and provide equitable access to public and / or private services at societal scale and are governed by applicable legal frameworks and enabling rules to drive development, inclusion, innovation, trust, and competition and respect human rights and fundamental freedoms."

Sounds quite a mouthful doesn't it? But, if you've lived in India, you've already used parts of it; namely Aadhaar, and UPI (Unified Payments Interface) amongst others. Simply put, DPI are digital systems, generally operated by the government or public authorities, that offer services for public good. However, even after such a broad and all-encompassing definition, the outcome document anomalously recognises that, "DPI is an evolving concept that may not be limited to sets of digital systems with these characteristics..." Clearly, the DEWG's task isn't done, a rigorous definition is still found wanting.

What is India's contribution?

When the DEWG first met in February this year at Lucknow, few G20 bureaucracies and negotiators would have thought that a consensus on a topic like DPI that has long-lasting impact outside the G20 was even possible. Let consensus alone, even fewer understood what DPI is and the benefits it promises. After all, the term DPI gained parlance in its current form in the G20 only from 2022.

However, what India offered was proof: Identity verification and document signing by the use of Aadhaar, vaccinating a population of 1.2 Billion plus during the COVID-19 pandemic using the CoWIN application, and most importantly, cashless real-time transactions of any denomination using UPI.

UPI literally stole the show. Germany's Federal Minister for Digital and Transport, Volker Wissing even tried it out by buying some vegetables at a random road-side stall to his amazement. Other industry stalwarts, including Microsoft founder Bill Gates have had similar experiences. For many G20 delegates one thing became crystal clear: Rigorous definition or not, benefits of DPI are not only tangible, but profound and transformative to an extent that is just too hard to ignore.

Assuring Global Benefits

While India already has a head start with DPI, it has already made commitments to help other countries on their journeys. But that is not the end of it. Even more benefits will accrue when DPIs become interoperable across borders and between different jurisdictions. From efficient global commerce and payments to faster issuance of visas and travel documents, to climate solutions built on top of shared digital systems, the applications and benefits of interconnected DPIs across geographical and jurisdictional boundaries not only boggle the mind but are just too many to get into here.

But how will this global interoperability and interconnectedness come about? A global organization for DPI that brings together governments, the private sector, academic and research institutions, donor agencies, civil society organisations and other relevant stakeholders and existing mechanisms has been proposed. For now, it is being called the One Future Alliance (OFA). This organisation will be tasked to ensure synergies in funding, development and implementation of DPIs are maintained along with interoperability and interconnectedness. India has even volunteered to host a Global Digital Public Infrastructure Repository (GDPIR) — an open repository that will help stakeholders discover global DPI deployments, innovations, and market practices.

Of Dreams and Dangers

There's little doubt that global DPI deployments that are interconnected and interoperable will bring about a lasting social and economic impact around the world, especially in the low to middle income countries. However, this is not without its dangers.

India has had its own foibles with Aadhaar data security and leakages. For a long time, UPI lacked a formal dispute resolution mechanism. Payment scams are still on the rise. The DEWG rightly recognises this and devotes an entire paragraph to it. However, there are little to no answers on the questions of well-funded and fool proof security implementation yet.

In computer and information security circles, it is a well-accepted fact that successful cyber -attacks are not a question of if, but when. For interconnected DPI across borders any chink in the armour will lead to damages on a global scale. Regardless, one expects that these questions will be addressed as the initiative and the OFA takes shape along with a transparent and open GDPIR. Between security breaches and lifting billions out of poverty around the world, this risk is most definitely worth taking.

This then is a proud moment for India. We've not only demonstrated the fruits of our labour with DPI, but we're also openly offering it to the world. Forget the gifts of Arabic numerals, the number zero, and the insane amounts of blood and stolen resources during the world wars with little to show for it in return. If this initiative succeeds with humanity and fundamental human rights at the forefront, we'll have sown the seeds for global peace and prosperity that will keep bearing fruit for a long time to come.

Look What Our Research Analyst Has To Say...

Nifty has rejected previous weeks lows and has broken out of lower high lower low strcutre on lower degree charts which is a positive sign for the bulls and we expect that the current move has lots of fuel left for the index to test range high of 19990.

Since the range bottom has been rejected and we closed above the mid of the range there is high probability that we will not only test the range high but also surpass it in coming weeks registering fresh all time high above 20000. Immediate support on the downside are placed at 19645 and resistance at all time high 19990.

Anshul Jain

Sr. Research Analyst

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Sector To Watch

PAPER SECTOR

The paper industry in India is poised for significant growth, with paper consumption projected to reach 30 million tons by March 2027, driven by increased demand for innovative packaging solutions in sectors like FMCG and retail to reduce reliance on plastics.

The ban on single-use plastics is further increasing the demand for paper products. However, due to the high capital investment required, only large players like ITC Ltd, JK Paper, and West Coast Paper Mills can fully capitalize on this opportunity.

Additionally, factors such as the National Education Policy (NEP) and rising packaging demand are likely to stabilize paper prices and drive volume growth. Imports of writing and printing grades are expected to surge in the short term, dependent on demand from the educational sector, while falling international paper prices may reduce Indian industry exports, leading to a greater focus on domestic requirements.

Key demand drivers include the demand for higher quality FMCG products, organized retail, e-commerce, healthcare spending, over the counter medicines, and ready to eat foods, leading to capacity additions in the packaging paper segment in recent years.

Stock To Watch

West Coast Paper Mill Limited

Market Cap.	EPS	Net Profit	ROE	Promoter Holding
₹ 4,726 Cr	₹ 152	₹ 1,156 Cr	44.8%	56.5%

West Coast Paper Mills Ltd, established in 1955 and located in Dandeli, Karnataka, is one of India's oldest and largest paper producers, specializing in printing, writing, and packaging paper. The company's primary revenue comes from its Paper and Paperboard Division, producing high-quality paper under the WESCO brand, along with office stationery and printing products.

They also have a Cables Division manufacturing optical fiber cables for India's telecom sector. In FY22, they expanded into new products like micro cables, Ribbon & FTTH cables, and entered international markets with exports to over 15 countries. The acquisition of Andhra Papers Ltd (APL) added to their manufacturing capacity.

West Coast Paper Mills continues to invest in improving paper quality and expanding its cable business, with a focus on export growth, backed by a strong market position and integrated manufacturing capabilities. Their future prospects include capitalizing on upcoming business opportunities, particularly in the optical fiber cable sector.

JK Paper Limited

Market Cap.	EPS	Net Profit	ROE	Promoter Holding
₹ 6,730 Cr	₹ 73.3	₹ 1,257 Cr	33.4%	49.6%

JK Paper, established in 1962, is a prominent player in the paper industry, specializing in office papers, coated papers, and packaging boards. With a vast distribution network consisting of over 450 trade partners, 4000 dealers, 14 pan-India depots, and 2 Quick Service centers, the company ensures efficient customer service.

JK Paper acquired Sirpur Paper Mills Ltd in FY19, enhancing its manufacturing capacity and investing in its revival. With integrated facilities in three locations and increased capacity, the company achieved utilization levels of up to 103% in FY23.

Furthermore, they expanded their presence by acquiring Horizon Packs Pvt. Ltd. and Securipax Packaging Pvt. Ltd., becoming India's largest corrugated packaging manufacturers. JK Paper's global presence spans 60 countries, and it continues to gain market share in the paper industry, maintaining profitability and strong return ratios. Their robust business risk profile and growth prospects position them as a potential re-rating candidate in the industry.

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