SUMMER INTERNSHIP REPORT

Final Report

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Submitted to:

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Company Name: Cadila Pharmaceuticals Ltd.

Project Title: Financial Research and Analysis

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Date of report: 12th July, 2021

Purpose of report: To do the financial research of companies to better understand their current financial health, their future potential to grow and the effect of their actions on the markets.

Prepared for: Institute of Management, Nirma University

Submitted to: Prof. Rajesh Kumar Jain

Acknowledgement

I wish to express a heartfelt gratitude to all the people who have played a crucial role in the research for this project. Without their active cooperation the preparation of this project could not have been completed within the specified time limit and desired learning outcomes won't have been achieved without their active cooperation.

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I am also thankful to my faculty mentor Prof. Rajesh Jain whose teaching has helped me in my research project. Ending with s heartfelt appreciation for all those who have knowingly or unknowingly, helped me in making this internship a successful endeavour.

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Abstract

The industry is predicted to succeed in $65 bn by 2024 and to $120 bn by 2030

The pharmaceutical industry is currently valued at $41.7 bn.

Generic drugs, with 71% market share, form the most important segment of the pharmaceutical industry in India. this is often set to grow as exports of generics to the US rise, as branded drugs worth $55 bn will become off-patent during 2017-2019. within the domestic market by revenue, Anti-Infectives (13.6%), Cardiac (12.4%) and Gastrointestinal (11.5%) had the most important market share.

Under the assembly Linked Incentive (PLI) Scheme for Promotion of Domestic Manufacturing of critical Key Starting Materials (KSMs)/ Drug Intermediates and Active Pharmaceutical Ingredients (APIs), 47 applications with committed investments of INR 5366.35 crore are approved.

The sector is supported by the subsequent Production Linked Incentive Schemes to spice up domestic manufacturing capacity, including of high value products across the worldwide supply chain. 1. PLI Scheme for Key Starting Materials (KSMs)/Drug Intermediates (DIs) and Active Pharmaceutical Ingredients (APIs) (PLI 1.0) 2. Production-Linked Incentive (PLI) Scheme for Pharmaceuticals d (PLI 2.0)

Part-A Cadila Pharmaceutical Limited

About Cadila

Cadila pharmaceuticals ltd., a privately held company, was founded by Mr. Indravadan A Modi in 1951. It is an Indian multinational pharmaceutical company headquartered in Ahmedabad, Gujarat, India. The company is engaged in production and distribution of branded generic drugs and Active Pharmaceutical Ingredients (APIs) in over 90 countries which includes USA, UK, Japan, Sweden, the Middle East, Russia and Africa in which it has a strong position.

The company is focused on research and innovation and therefore it employees more than 300 employees in its R&D department. The company has a wide range of products and services with products including about 45 therapeutic categories and 12 specialties. These specialties include gastrointestinal, haematinics, cardiovascular, analgesics, anti-infectives and antibiotics, antidiabetics, respiratory agents and immunological. The services include contract research and contract manufacturing.

The company has five manufacturing units, which comprises of three API manufacturing units (2 in India and 1 in Ethiopia), two formulations and manufacturing units and one R&D centre.

Timeline of formation and expansion of Cadila

1951: Company was founded.

1952: Cadila started its production

1967: Cadila shifts to its own manufacturing premises with full-fledged operations.

1982: Karnavati Engineering Limited (KEL), the manufacturing arm of Cadila, started its operations

1999: It ventured in US market by forming Cadila Pharmaceutical Ltd. Inc

➢ Products/Services (Businesses)

- APIs
- Formulations
- Contract research operations
- Alliances
- IRM Group enterprise

APIs

Cadila offers around 38 APIs and caters to over 90 countries. It has been considered as the world's top API supplier because of its cost effectiveness and quality. It is also vertically integrated with a strong independent positioning in both API and formulation.

Formulations

It has around 850 products that cater to most of the human problems. Its manufacturing plants are located in Dholka (Guj.), Samba (J&K), Addis Ababa (Ethiopia) which manufacture both sterile as well as non-sterile products.

Contract Research Operation

Cadila has a Contract Research Operation (CRO) unit at Dholka which provides various pre-clinical and clinical test facilities. CRO is a place where they develop and modify their clients' drugs. It covers various tests from pre-clinical, BA-BE to Phase II to Phase IV trials.

Alliances

Cadila has alliances with many national and international organisations like Apollo hospitals, Stemcyte, Novavax, etc. These alliances are majorly for formulation of some drugs. These collaborations led to better results for both the companies as their combined resources are used in a project.

IRM group companies

IRM companies are also a part of Cadila and they have a very diverse business which includes agriculture, travel, veterinary, pharma machinery manufacturing, forex, aviation and hospitality industry.

➢ Customers

Cadila pharmaceuticals customer base includes patients but because of the IRM group it has a large customer base. It is a B2C as well as a B2B business. Its products reach to customers through distribution channels i.e. from wholesale to retail and then finally to customers. Since medicines are a product with less substitutes, it caters to both rural and urban markets.

➢ Company’s performance

Since the company is unlisted its financials are not available in public but according to many sites its revenue is around 1700 crores and it is showing an increasing trend.

➢ Major Competitors

The Cadila pharmaceutical has many competitors and among them the major ones are Intas, Solara and SunPharma.

Intas pharmaceutical, founded in 1984, is also an Indian company and it is also headquartered in Ahmedabad. It has 13 manufacturing facilities of which 10 are in India and remaining in the US and Mexico. Its main focus is on bio pharmacy and has international operations. It has its presence in more than 85 countries. Intas is also working on raising entry barriers with developments like Biosimilar and New Chemical Entities which targets cancer and neurodegenerative diseases.

Solara Active Pharma, located in Puducherry, is focused on manufacturing of API. It was formed in 2017 by combining two demerged companies namely Strides Pharma Science Limited (previously known as Strides Shasun Ltd.) and Sequent Science Ltd. into a separate entity. It has 5 API manufacturing centres and 2 R&D centres with more than 140 scientists. It has a global presence with more than 75 industries. Along with manufacturing of APIs it also provides contract research and manufacturing services.

Sun Pharma Ltd., headquartered in Mumbai, is a Indian multinational company which was founded in 1983 by Dilip Shangvi in Gujarat. It has 14 API manufacturing sectors and 30 formulation centres. It has a team of about 2000 worldwide. It is among the top 10 pharmaceutical company worldwide.

Cipla is a leading pharmaceutical from India with presence across the world. It was established in 1935 as Chemical Industrial & Pharmaceutical Laboratories Ltd and changed to its current name in 1984. The company has a vast portfolio with more than 1,500 products in the market. The company's business is divided into three strategic units - APIs, respiratory and Cipla Global Access. Its largest market is India, followed by Africa and North America. Company's total revenue reached Rs. 17,132 crore (US$ 2.43 billion) in FY20.

Growth of Cadila

- Mr Indravadan Modi, the founder of Cadila, played a vital role in formulation of 1986 Drug policy.
- Cadila introduced world's first IMMUVAC, a unique immunomodulator, in 2000 and in 2004 it introduced world's first Parental Formulation of Rabeprazole (Rabeloc I.V.) and Investigational New Drug (IND) with the USFDA for pulmonary tuberculosis.
- It has also received WHO-cGMP certification for Ethiopia manufacturing facility which is the only facility in the region.
- It has also launched Mydiac-C a first in world affordable drug for the patients suffering from lung cancers and also launched NEVA HIV which is again world's first whole blood rapid HIV detection kit.
- Thus, Cadila is a pioneer in many drugs because of its efficient R&D team.

Organisational Culture

Cadila being a leader in manufacturing of drugs and supplying them at affordable costs shows how it values human lives. It also signifies the importance of its 300 scientists who work hard to make Cadila a world leader, and with affordable drugs make the world a better place.

Cadila aims to provide a conducive environment that supports talent and enables growth. It organises few events and also many extra-curricular activities like sports and social development. It has CSR entities named Kaka-Ba and Kala Budh Charitable Trust which encourages employees to volunteer.

Comparison with Peers (SWOT)

Company	Strengths	Weakness	Opportunities	Threats
Cadila Pharmaceuticals Ltd.	-Cadila has a strong and wide product base and it has a very efficient R&D team due to which it was first in the introduction of many drugs.	-Its manufacturing facilities have faced scrutinies because of their non-upgradation.	-Favorable macroeconomic factors for India and for the world will ensure growth of pharmaceutical products and since its reach is wide, it can definitely benefit from these situations.	-The government controls the price of pharma products and this is a huge threat to them as it reduces their profitability.
Intas	-Unlike its peers, it focuses on bio-pharmacy and has expanded its business on that basis.	-Bio-pharmacy is a very sophisticated business and thus requires huge costs and skilled people. Its focus on R&D is less compared to its peers.	-The ability of bio-pharma products to cure many severe diseases has increased its demand.	-High costs combined with government regulations are a threat. - Also, big players are entering into this segment because of its good future aspects
Solara Active Pharma	-As it is a pure-play API company its core strength is its capability to manufacture	-Cost efficiency has not been achieved as compared to global counterparts	-Covid-19 has given it an opportunity as India wants to rely on itself and India has been	-Continuous upgradation of global manufacturing standards increase the

	APIs at a large scale.		importing around 70% of APIs from China.	costs.
Sun Pharma	-Largest company in India by market share. -4th largest global specialty generic company	-Specialty initiative requires high upfront investment which impacts short-term profitability.	-Contribution of specialty products are expected to increase in the developed market.	-Challenging Pricing environment and faster approval of drugs by USFDA.

Competitive position in the industry

Porter's five forces

Bargaining power of suppliers (low) There are numerous suppliers and switching cost is low. Raw material cost consists Of more than 50% of the Total costs	**Bargaining power of Buyers(low)** Price sensitivity is less and the consumer has no choice but to buy what has been prescribed by the doctor. arket is highly ented.
Threat to New Entrants **(Medium)** The Government regulation is high in terms of price and quality and thus new entry is not easy.	**of Substitutes(low)** Substitutes are not easily available. Every branch is different like Ayurveda, Homeopathy, etc.

Industry Competition high

There is high growth prospect and there are many small players

The working capital requirement is quite high and due to economies of scale fixed cost is low

Porter's five forces indicate that the industry is competitive and the competition is high for Cadila. The threat of new entrants is not there however, the existing companies will provide a great competition to Cadila. To have an edge over the competitors the company has to focus on its research and development. As the industry is highly competitive, only the first mover will take the advantage. If the company fails to take the early advantage, it will lose its competitive position.

Cadila enjoys a strong hold in the market both domestically and globally. It has achieved this position because of its focus on research and development. It will surely withstand the competition and will grow better than its peers as it focuses on a wide range of products from formulations to contract research services.

Problem areas and its Probable solution

- Cadila also manufactures API, however like the entire industry it also depends upon China for many APIs. Now, due to covid-19 pandemic the company will suffer for a few quarters. However, with the passage of time things will get normal and it may also lead to new opportunities for the company as it can try to be self-reliant. The focus of government is also on being self-reliant and Cadila can definitely be benefitted from it.
- Another problem that can be faced by the company is to maintain international quality standards. Cadila, in the past, has received warning for not maintaining proper quality standards by US FDA in its Ankleshwar plant. The company has to ensure that with the advancement in its products it does not compromise with its quality standards. Cadila has high quality standards when it comes to products but these standards should also be followed for manufacturing them. Residents near Ankleshwar have complained of foul smells. This may lead to Cadila losing its license to export its drug to the US. Cadila has to adopt environment friendly manufacturing methods to overcome this problem.
- The whole Pharma Industry faces compliance issues. The Indian Government controls prices of many drugs and that reduces the profitability of the companies. Since Cadila is manufacturer of many essential and non-essential drugs it also faces this issue. To overcome this problem Cadila with the help of other pharmaceutical companies can convince the government to control the prices of essential drugs only and this will help the entire Pharma Industry. India has the potential of becoming a world Pharma hub. With the support of the Government the entire Pharma Industry can be benefitted.
- Significant volatility in the forex market, especially for emerging market currencies, may adversely impact growth reported for a particular period.

Pharmaceutical Industry Overview

Introduction

India is that the largest provider of generic drugs globally. Indian pharmaceutical sector supplies over 50% of worldwide demand for various vaccines, 40% of generic demand within the US and 25% of all medicine within the UK. Globally, India ranks 3rd in terms of pharmaceutical production by volume and 14th by value. The domestic pharmaceutical industry includes a network of three ,000 drug companies and ~10,500 manufacturing units.

India enjoys a crucial position within the global pharmaceuticals sector. The country also features a large pool of scientists and engineers with a possible 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.

Market Size

According to the Indian Economic Survey 2021, the domestic market is predicted to grow 3x within the next decade. India’s domestic pharmaceutical market is estimated at US$ 42 billion in 2021 and certain to succeed in US$ 65 billion by 2024 and further expand to succeed in ~US$ 120-130 billion by 2030.

India's biotechnology industry comprising biopharmaceuticals, bio-services, bio-agriculture, bio-industry, and bioinformatics. The Indian biotechnology industry was valued at US$ 64 billion in 2019 and is predicted to succeed in US$ 150 billion by 2025.

India’s drugs and pharmaceuticals exports stood at US$ 24.44 billion in FY21.

Investments and up to date Developments

The Union Cabinet has given its nod for the amendment of existing Foreign Direct Investment (FDI) policy within the pharmaceutical sector so as to permit FDI up to 100% under the automated route for manufacturing of medical devices subject to certain conditions.

The drugs and pharmaceuticals sector attracted cumulative FDI inflow worth US$ 17.75 billion between April 2000 and December 2020 consistent with the info released by Department for Promotion of Industry and Internal Trade (DPIIT).

Some of the recent developments/investments within the Indian pharmaceutical sector are as follows:

• In May 2021, the govt of India invited R&D proposals on critical components and innovations in oxygen concentrators by June 15, 2021.

• In May 2021, Indian Immunologicals Ltd. (IIL) and Bharat Immunologicals and Biologicals Corporation (BIBCOL) inked technology transfer pacts with Bharat Biotech to develop the vaccine locally to spice up India's vaccination drive. the 2 PSUs decide to start production of vaccines by September 2021.

• In May 2021, Eli Lilly & Company issued non-exclusive voluntary licenses to pharmaceutical companies—Cipla Ltd., Lupin Ltd., Natco Pharma & Sun Pharmaceutical Industries Ltd.—to produce and distribute Baricitinib, a drug for treating COVID-19.

• In April 2021, the CSIR-CMERI, Durgapur, indigenously developed the technology of Oxygen Enrichment Unit (OEU). The unit can deliver medical air within the range of ~15 litres per minute, with oxygen purity of >90%. It transferred the technology to MSMEs—Conquerent Control Systems Pvt. Ltd., A B Elasto Products Pvt. Ltd. and Automation Engineers, Mech Air Industries and Auto Malleable.

• In April 2021, National Pharmaceutical Pricing Authority (NPPA) fixed the worth of 81 medicines including off-patent anti-diabetic drugs allowing due benefits of patent expiry to the patients.

• In February 2021, Aurobindo Pharma announced plans to acquire solar energy from two open access projects of NVNR Power and Infra in Hyderabad. the corporate will acquire 26% share capital in both companies with an US$ 1.5 million investment. The acquisition is predicted to be completed by the top of March 2021.

• In February 2021, the Telangana government partnered with Cytiva to open a ‘Fast Trak’ lab to strengthen the biopharma industry of the state.

• In February 2021, Glenmark Pharmaceuticals Limited launched SUTIB, a generic version of Sunitinib oral capsules, for the treatment of kidney cancer in India.

• In February 2021, Natco Pharma launched Brivaracetam for the treatment of epilepsy in India.

• In February 2021, the Russian Ministry of Health allowed Glenmark Pharmaceuticals to plug its novel fixed-dose combination nasal spray in Russia.

• In January 2021, the Central government announced to line up three bulk drug parks at a price of Rs. 14,300 crore (US$ 1,957 million) to manufacture chemical compounds or active pharmaceutical ingredients (APIs) for medicines and reduce imports from China.

Government Initiatives

Some of the initiatives taken by the govt to market the pharmaceutical sector in India are as follows:

• To achieve self-reliance and minimise import dependency within the country's essential bulk drugs, the Department of Pharmaceuticals initiated a PLI scheme to market domestic manufacturing by fixing greenfield plants with minimum domestic value addition in four separate ‘Target Segments’ with a cumulative outlay of Rs. 6,940 crore (US$ 951.27 million) from FY21 to FY30.

• In May 2021, under Atmanirbhar Bharat 3.0, Mission COVID Suraksha was announced by the govt of India to accelerate development and production of indigenous COVID vaccines. to reinforce the capacity of indigenous production of Covaxin under the mission, the Department of Biotechnology, Government of India, provided support within the sort of a grant to vaccine manufacturing facilities for enhanced production capacities, which is predicted to succeed in >10 crore doses per month by September 2021.

• In April 2021, the Union Government decided to streamline and fast-track the regulatory system for COVID-19 vaccines that are approved for restricted use by the US FDA, EMA, UK MHRA, PMDA Japan or those listed within the WHO Emergency Use Listing (EUL). This decision is probably going to facilitate quicker access to foreign vaccines by India and encourage imports.

• In February 2021, the Punjab government announced to determine three pharma parks within the state. Of these, a pharma park has been proposed at Bathinda, spread across ~1,300 acres area and project worth ~Rs. 1,800 crore (US$ 245.58 million). Another medical park worth Rs. 180 crore (US$ 24.56 million) has been proposed at Rajpura and therefore the third project, a greenfield project, has been proposed at Wazirabad, Fatehgarh Sahib.

• Under Union Budget 2021-22, the Ministry of Health and Family Welfare has been allocated Rs. 73,932 crore (US$ 10.35 billion) and therefore the Department of Health Research has been allocated Rs. 2,663 crore (US$ 365.68 billion). the govt allocated Rs. 37,130 crore (US$ 5.10 billion) to the 'National Health Mission'. PM Aatmanirbhar Swasth Bharat Yojana was allocated Rs. 64,180 crore (US$ 8.80 billion) over six years. The Ministry of AYUSH was allocated Rs. 2,970 crore (US$ 407.84 million), up from Rs. 2,122 crore (US$ 291.39 million).

Road Ahead

Medicine spending in India is projected to grow 9 12% over subsequent five years, leading India to become one among the highest 10 countries in terms of drugs spending

Going forward, better growth in domestic sales would also depend upon the power of companies to align their product portfolio towards chronic therapies for diseases like like cardiovascular, anti-diabetes, anti-depressants and anti-cancers, which are on the increase .

The Indian Government has taken many steps to scale back costs and convey down healthcare expenses. Speedy introduction of generic drugs into the market has remained focused and is predicted to profit the Indian pharmaceutical companies. additionally , the thrust on rural health programmes, lifesaving drugs and preventive vaccines also augurs well for the pharmaceutical companies.

PHARMACEUTICALS

MARKET SIZE

Indian Pharmaceutical Market (US$ billion)

SECTOR COMPOSITION

R&D Investment by Indian Pharma Companies* (% of sales)

Note: *Top 10 companies as per research by HDFC Securities

KEY TRENDS

Pharmaceutical Export from India (US$ billion)

Government Expenditure on Health in India (US$ billion)

GOVERNMENT INITIATIVES

- Pradhan Mantri Bhartiya Janaushadhi Pariyojana (PMBJP)
- COVID BEEP
- National Health Policy

ADVANTAGE INDIA

- **Cost Efficiency:** Low cost of production and R&D boost efficiency of Indian pharma companies, leading to competitive export.
- **Economic Drivers:** High economic growth along with increasing penetration of health insurance to push expenditure on healthcare and medicine in India.
- **Policy support:** In February 2021, the government approved a production-linked incentive (PLI) scheme for the pharmaceuticals sector from FY21 to FY29. The scheme is expected to attract investments of Rs. 15,000 crore (US$ 2.07 billion) into the sector.
- **Increasing Investments:** The foreign direct investment (FDI) inflows in the Indian drugs and pharmaceuticals sector stood at US$ 17.75 billion between April 2000 and December 2020.

Part-B Project Work

Nature of Project: -

- The projects that are provided by the Cadila Pharmaceuticals is to mainly understand the financial management of the company, how the finance department of a company works and what are the different tools that can be used to work efficiently in the finance department. And how the financial decisions of the company have an implication in the future of the company and also on the markets. There is no gap as such in the project but the projects are more focused on the research and analysis.
- Various projects are given by the company like **Business Valuation** of a company, **Fair value of a company's share** using DCF method, **PE Comparison** of company its peers in the industry, the **reaction of markets to the financial result** of the company and **GST Implications** on Non-Taxable and Taxable Supplies and ITC Reversal on the same. In this report we will briefly discuss all of these projects.

Objectives: -

- To better understand the company's management of finances
- How to work efficiently in a finance department
- Different tools that can be used when working in a finance department
- To understand the implications of the financial decisions of a company on its future.
- Understand how Financial Markets are connected with the company performance.

Utility: -

- Being a Finance Major, this internship would really help me when I step foot in the finance field and would give me a beforehand understanding of the finance department that I gained through this internship.

Methodology

Approach: -

- The approach of the project was dynamic because there were both quantitative and qualitative approach were used during the project.
- The quantitative data which is the financial reports and statements of the company were available through the financial statements and other third-party sites like screener.
- The qualitative part of the project that is to predict the future statements was something that was qualitative in nature and which required some expert opinions and other intellectual input.

Source of Data: -

- The source of data was secondary and the data I used was from the financial statements of the company that is freely available on the internet in the annual reports of the company as well as the third-party websites like screener etc.

Method of collection: -

- The method of collection of data was online through the company website as well as the Screener website.

Size of Samples: -

- The size of the data collected varies between 2 years historical financial data to 5 years of historical financial data, based on the requirements of the project.

Business Valuation

Introduction

This project is inclined to calculate the Market value or the Enterprise value of the company (Venky's India Ltd.). This enterprise value will be used by the potential/Interested buyers who are eyeing to acquire the Venky's business.

Acquiring Venky's will be having many motives. The merger may be horizontal merger where the company wants to increase its producing capacity. The merger maybe vertical where a company wants to do forward or backward integration. Many reasons could be there for the merger.

Data Presentation

(Rs in Crore)	2017	2018	2019	2020	2021	Average	2022	2023	2024	2025	2026	Exit
Revenue	2,476	2,686	3,043	3,261	3,117		3304.02	3502.26	3712.4	3935.14	4171.25	
Revenue Growth		8%	13%	7%	-4%	6%						
Total Operating Expenses	2,198	2,299	2,734	3,282	2,728		2918.96	3123.29	3341.92	3575.85	3826.16	
Expense Growth		5%	19%	20%	-17%	7%						
EBIT	278	387	309	-21	389		385.06	378.974	370.48	359.289	345.088	
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	
Add: Depreciation & Ammortization	28	28	29	34	35	30.8	30.8	30.8	30.8	30.8	30.8	
Minus: Net Capital Expenditure	-25.68	-46.85	-101.83	-83.66	-46	-60.804	-60.804	-60.804	-60.804	-60.804	-60.804	
Minus: Change in Working Capital	-8.78	-4.96	-37.12	43.37	-93	-20.098	-20.098	-20.098	-20.098	-20.098	-20.098	
						FCF	240.383	236.427	230.906	223.632	214.401	3758.88

NPV of FCF (Enterprise Value)	**₹ 3,019.97**
Add: Cash & Cash Equivalents	48
Minus: Debt	178
Equity Value	₹ 2,889.97
Shares outstanding	1.41
Fair Value per share	₹ 2,049.62
Market price of share (21st June)	2798
Growth Forecast	**-26.75%**

EV/EBITDA Multiple	10
Terminal Value	
EV/EBITDA	3758.88

FCF Formula **EBIT*(1-t)+Depreciation & Ammortization-Net capex-increase in working capital**

Analysis

According to the DCF approach, the enterprise value of Venky’s India Ltd. Is Rs 3020 Crores.

This is the amount one needs to pay in order to acquire the complete business of Venky’s Ltd.

The DCF approach is more accurate because it takes both the historical and future statements of the company and comes at the fair enterprise value.

Conclusion

Venky’s India is a growing company and has a huge growth potential. It has taken a hit due to the COVID but it is recovering very well and we can see its recovery in its recent EPS and PE ratios.

Thus, it is a good option to buy Venky’s if a company is looking to Increase its production capacity or to better its supply chain or to diversify its business and enter into the animal healthcare space.

Fair Value of Share using DCF Method

Introduction

- Many methods are used to arrive at the fair value of share price of a company. In this particular project we have used the Discounted cash flow method (DCF) method to calculate the fair value of the share price of the Venky's India Ltd.

Methodology

- In the DCF method of calculating the fair value of share price the historical financial data is used and then the figures of future are projected.
- In this we have taken 4 years of historical data to predict the preceding 5 years.
- We have taken revenue of last 4 years of the company and then took the growth into consideration. Then we took the average of the growth rate of last 4 years and increased the future revenues by taking that growth rate as a base. The same is used for the expenses.
- After predicting the Revenues and operating expenses, the EBIT (Earnings before interest and tax) is calculated.
- The tax rate is kept constant at 35%.
- We have to add back the depreciation and amortization to get more accurate cash flows and also subtract the net capital expenditure and changes in working capital.
- After that we calculated the terminal value using the EV/EBITDA multiple concepts. Then the Free cash flows of the companies are calculated for the using the formula: EBIT*(1-t)+Depreciation & Amortization-Net capex-increase in working capital.
- After that the NPV of the Free cash flows is calculated using the WACC as a base. After that we add the cash and subtract the debt from the NPV of FCF to arrive at the Equity value.
- Then the equity value is divided by the shares outstanding of the company, by doing this we arrive at the Fair value of the share.
- Then that value is compared with the current market price to see whether the share price is undervalued or overvalued.

Data Presentation

Forecasted Statement: -

(Rs in Crore)	2017	2018	2019	2020	2021	Average	2022	2023	2024	2025	2026
Revenue	2,476	2,686	3,043	3,261	3,117		3304.02	3502.26	3712.4	3935.14	4171.25
Revenue Growth		8%	13%	7%	-4%	6%					
Total Operating Expenses	2,198	2,299	2,734	3,282	2,728		2918.96	3123.29	3341.92	3575.85	3826.16
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Minus: Net Capital Expenditure	-25.68	-46.85	-101.83	-83.66	-46	-60.804	-60.804	-60.804	-60.804	-60.804	-60.804
Minus: Change in Working Capital	-8.78	-4.96	-37.12	43.37	-93	-20.098	-20.098	-20.098	-20.098	-20.098	-20.098

Calculation of Terminal Value of FCF: -

EV/EBITDA Multiple	10
Terminal Value	
EV/EBITDA	3758.88

FCF Formula =	**EBIT*(1-t)+Depreciation & Ammortization-Net capex-increase in working capital**

WACC Calculation: -

Cost of Equity	**9.75%**	
Equity Risk Premium	6.10%	Market risk premium
(*) Beta	0.73	Beta of Stock Price
(+) Risk Free Rate	1.10%	Coupon of 10-year govt coupon
Cost of Debt	**15.73%**	Interest rate
Tax Rate	**35%**	65%
WACC	**9.82%**	
Percent of Equity	61.68%	
Percent of Debt	38.32%	

Fair Value Calculation: -

NPV of FCF (Enterprise Value)	₹ 3,019.97
Add: Cash & Cash Equivalents	48
Minus: Debt	178
Equity Value	₹ 2,889.97
Shares outstanding	1.41
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Growth Forecast	**-26.75%**

Analysis

- After doing the above calculations we can come to a conclusion that the share price of Venky's India ltd is overvalued by 27%.

- The share price is said to be overvalued because the fair value of the stock, that we arrived at using the DCF method, is 2050 and the share is currently trading at around 2800. Thus, it is trading at a higher price compared to its fair value on the basis of cash flows.

- Thus, we can say that share is overvalued by around 26.75% and we can see a downfall of 26.75% in future.

- However, these calculations don't take into consideration several factors like future qualitative outlook, the hit due to COVID etc.

- Future qualitative outlook includes the growth potential of the company, the debt financing of the company and the future plans of the company. It also includes the future of the industry that the company is operating in. All these factors which cannot be jotted down in the spreadsheets affects the price of the share of the company. If the people are trusting in the future of the company, then it is quite obvious that the share price of the company will be quite higher than the fair value of the company.

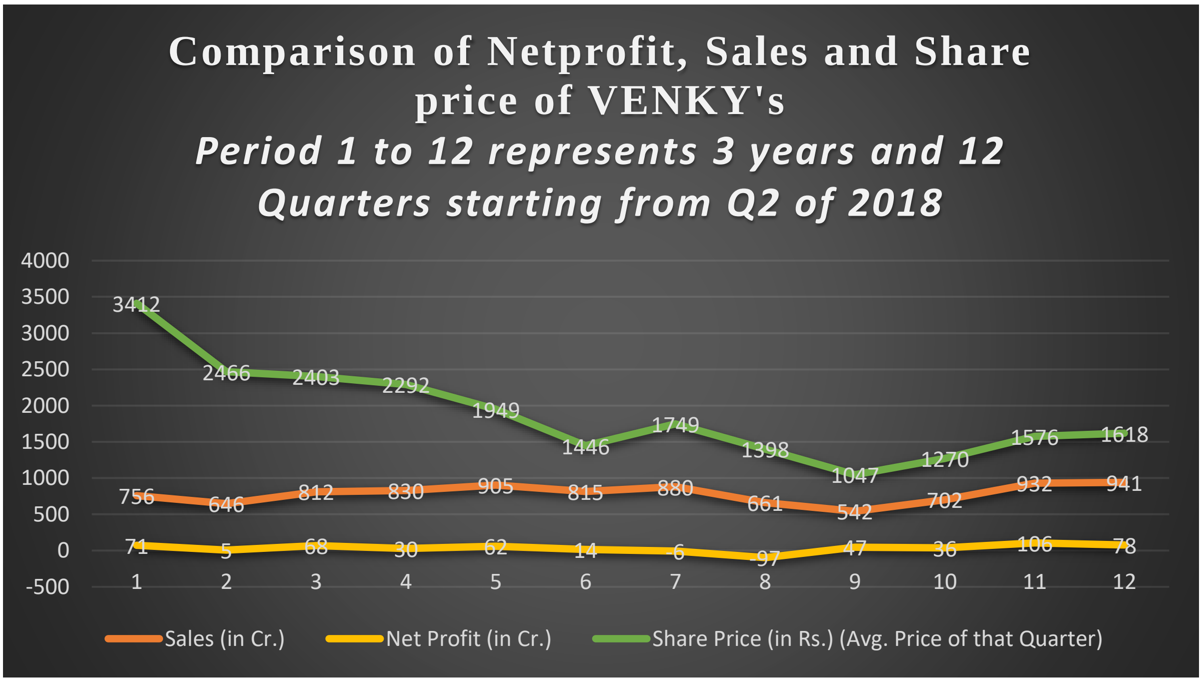
- Also, when we closely looked at the COVID impact we saw that because of COVID the company has generated less revenue in 2020-21 and thus it has a compounding effect in the projected years and thus the fair value decreases. If the revenue has not been decreased and remained flat then also the growth prospect was around 12% but because of the pandemic the company has taken a hit and the fair value has decreased. But the recovery will be good and thus the fair value will also increase in the coming years along with the Share price of the company.

- Thus, we should not solely on this basis decide whether a stock is under or overvalued we should also take other factors like EPS, P/E ratio etc. into consideration to decide if a company is overvalued or undervalued.

<u>Comparison of Netprofit, Sales and Share price of VENKY's</u>

Period 1 to 12 represents 3 years and 12 Quarters starting from Q2 of 2018

Year	***Quarter***	***Sales (in Cr.)***	***Net Profit (in Cr.)***	***Share Price (in Rs.) (Avg. Price of that Quarter)***
2018	Quarter 2	756	71	3412
	Quarter 3	646	5	2466
	Quarter 4	812	68	2403
2019	Quarter 1	830	30	2292
	Quarter 2	905	62	1949
	Quarter 3	815	14	1446
	Quarter 4	880	-6	1749
2020	Quarter 1	661	-97	1398
	Quarter 2	542	47	1047
	Quarter 3	702	36	1270
	Quarter 4	932	106	1576
2021	Quarter 1	941	78	1618



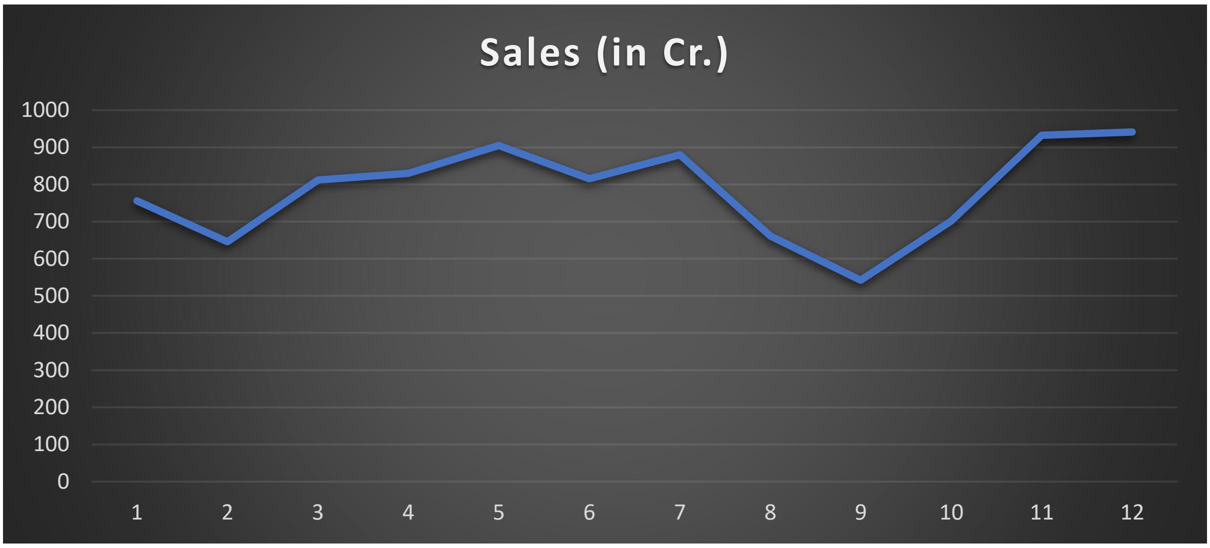
Overall Analysis

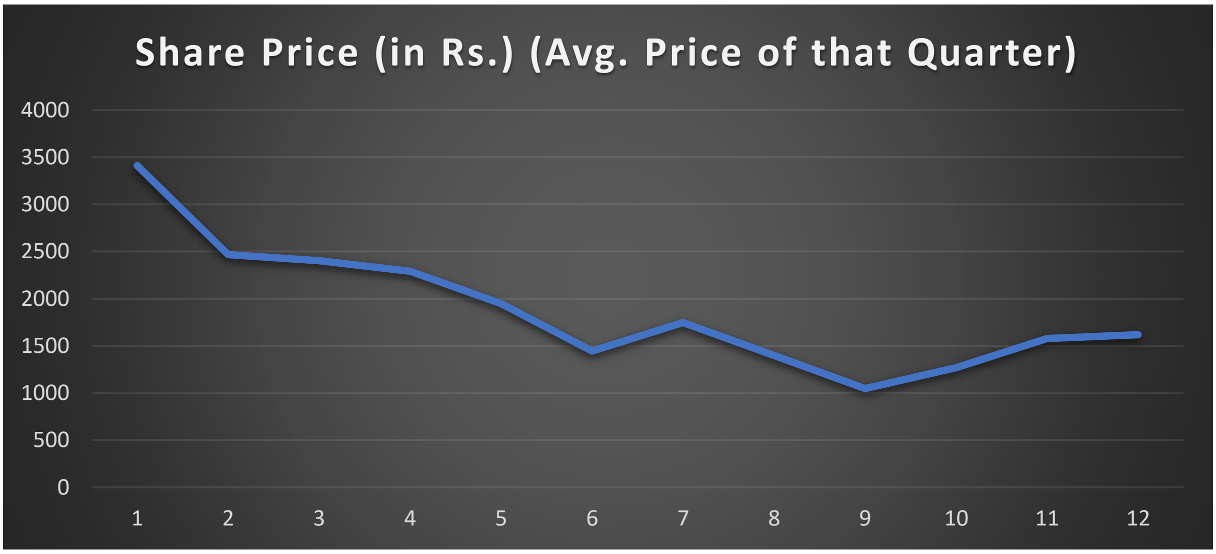
When we see overall analysis and see all 3 variables in the charts, we can see that the share price has been quite responsive to the income statement of the company.

The share price has followed the trend of sales and Net profit for 4 quarters out of the 11 quarters taken into account.

This means that the share price has decreased with the decrease in both Net Profit and Sales in that particular quarter. For example, in Quarter 3 of the year 2018 we can see that the Sales and Net Profit of the company has decreased and it has resulted in the decrease of the share price of the company in that quarter. The same trend has been seen in the Quarter 3 of year 2019 and in Quarter 1 & 4 of the year 2019.

Sales and Share Price





Analysis

In some quarters, the sales were in the incline and profits were decreasing and vice versa. This is because of the increased operating and interest expense of the company in that particular quarter and the revenues were eaten up by those expenses and profits were seen less.

This has happened in 4 out of 11 quarters taken into account.

In Q4 of 2019, both sales and share price increased but there was a decrease in the profit because of the increased expenses of the company for expansion.

In Q2 and Q3 of 2020 we have seen the same.

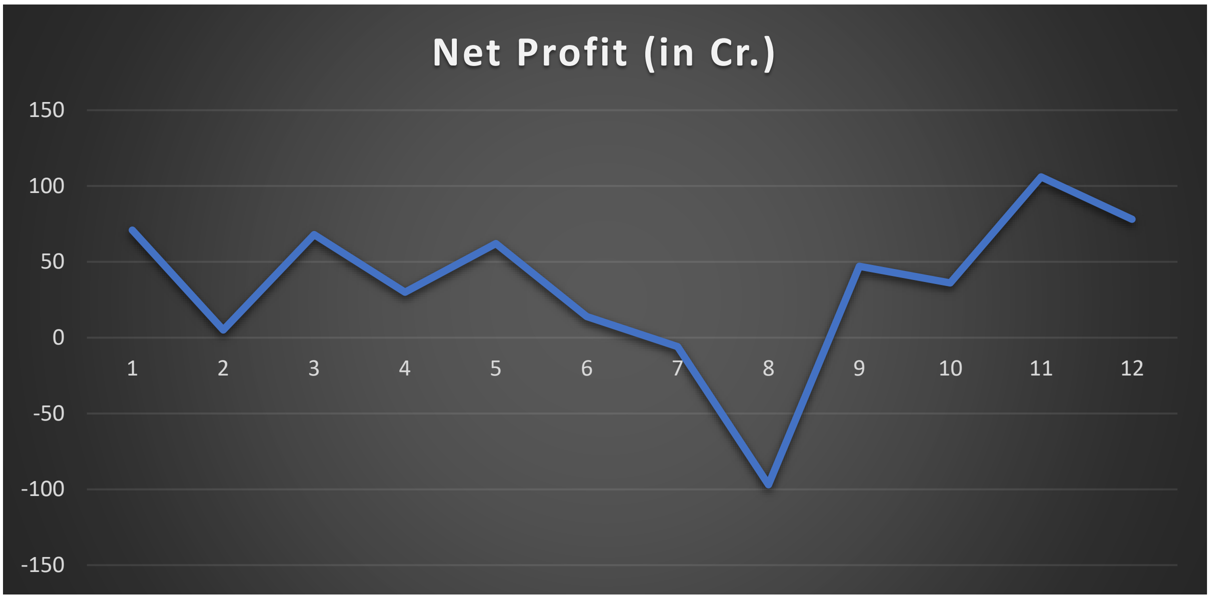
In Q2 of 2020 we saw a decrease in the sale but there was a significant increase in profits but the share price decreased and followed the trend of sales. The profit was seen because of the significant decrease in the operating expenses because major part of expenses were done in the preceding quarters.

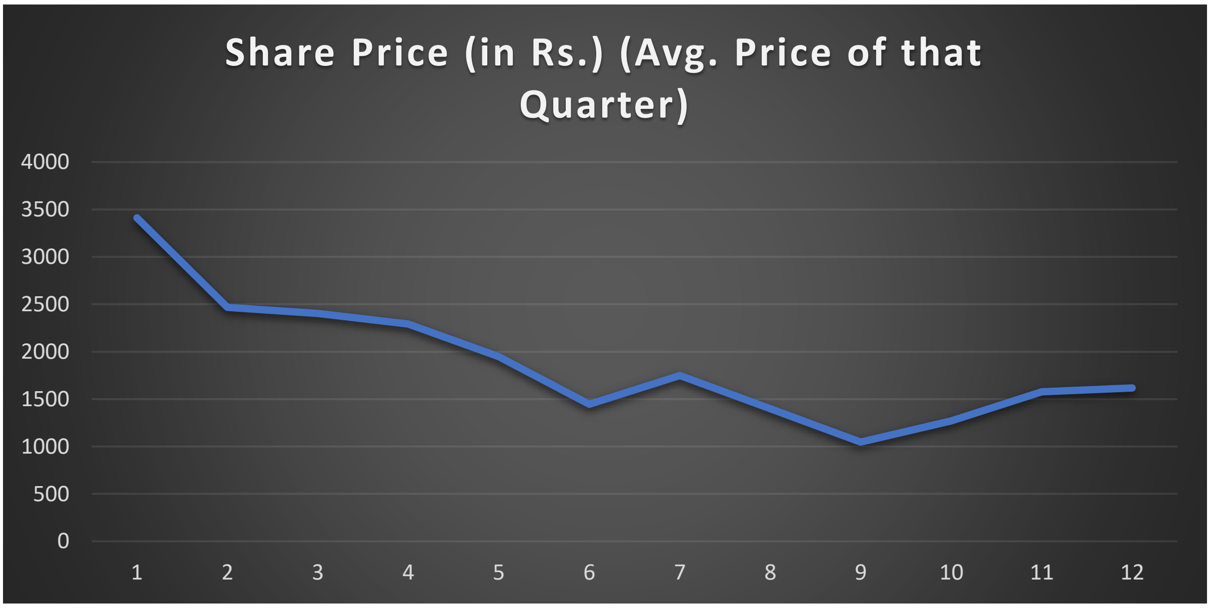
In Q3 of 2020, there was an increase in the sales but there was a decline in the profit. But the share price followed the trend of sales and increased. The decrease in profit was seen mainly because of the increase in expense of expansion with unlock happening and COVID crisis relaxing.

This was also seen in the Quarter 1 of the year 2021 and for the similar reasons.

This way we can see those 4 times the share price has followed the trend of sales and not profit.

Net Profit and Share Price





Analysis

In some quarters, the sales were declining and the net profit has increased and vice versa. This has happened in only 1out of 11 quarters that the share price has followed the trend of Net profit. This means that it has increased with the increase in profit and decreased with the decrease in profit even when the sales are going in other direction.

This has happened in Quarter 1 of the year 2019 when the share price has decreased as there was a significant decline in the profits and sales were increased only marginally.

Conclusion:

We can see that 8 out of 11 times the share price movement and the movement of sales were the same. Thus, we can conclude that Sales and share price have more correlation than Net profit and share price.

This is because Net profit doesn’t necessarily indicate the position of the company because net profit can be less if company is in the expansion stage and has various operating and interest expenses.

On the other hand, Sales is more accurate measure of the company’s position because if sales are increasing then we can say that people are accepting the company’s products and company is able to generate and consistently increase the revenue. And with increase in the sales, we can say that company is performing well and thus share price has more correlation with the sales of the company than its Net profit.

Definitely, the sales of the company don’t necessarily describe the position of the company and it depends on a lot of things like what products company is selling, what is the future of the company’s industry, what is the debt that company is operating with, the management of the company etc.

Thus, all the above things should be taken into consideration while investing and assessing a company.

P/E Ratio analysis

Introduction

The Price Earnings Ratio (P/E Ratio) represents the connection between a company's stock price and earnings per share (EPS). It is a common ratio that provides investors with a better understanding of the company's value. The P/E ratio reflects market expectations and is the price that must be paid per unit of current and future earnings.

The price-to-earnings ratio, in essence, represents the dollar amount an investor can anticipate to invest in a firm in order to obtain one dollar of earnings from that company. It indicates how much investors are prepared to pay each dollar of profits. If a firm is currently selling at a P/E multiple of 20x, an investor is ready to pay $20 for $1 of current earnings.

Therefore, companies having a high Price Earnings Ratio are frequently thought of as growth companies. This shows that investors have larger expectations for future profits growth and are ready to pay more for it. However, the drawback of having a high P/E ratio is that it shows a volatile nature of the return which puts a lot of pressure on firms to maintain stability. As a result, investing in growth stocks is more likely to be perceived as a risky investment.

Whereas, companies having a low-Price Earnings Ratio are sometimes regarded as value stocks. It indicates they are undervalued. This price volatility presents a fantastic opportunity for the investors, prompting them to acquire the stock before this gap is bridged. And when it does, investors profit because the stock price rises. Low P/E equities can be found in established businesses that offer consistent dividends.

Among the numerous ratios, the P/E is used in the research process for stock selection since it allows us to determine whether we are paying a reasonable price. Regardless of stock price, similar firms within the same industry are put together for comparison.

Venkys P/E Ratio

Venkys P/E ratio has been experiencing minor deviations which indicates that the organization is in the growing period of its life cycle currently. From the following table we can see that although there is an increase of 1.70 and decrease of 4.48 in 2018 and 2019 respectively but the P/E ratio does not slip down catatonically until 2020.

The effect of Covid-19 can be seen in the negative 77.03 P/E ratio that is driven by a negative EPS of 19.28. The operations of the company have been affected significantly due to the global pandemic; however, it is to be noted that the company has responded excellently and has managed to push the EPS and P/E ratio to 190.06 and 14.03 respectively.

We can conclude from this basic information that Venkys was able to adapt to the challenges that it faced in the year 2019-2020 and is in a favorable growth position in 2020-2021.

P/E ratio				
Year	**Basic EPS**	**Avg Share Price (NSE)**	**Avg Share Price (BSE)**	**P/E Ratio (BSE)**
2017	88.55	1672.13	1670.7	18.86730661
2018	141.77	2928.25	2917.12	20.57642661
2019	123.62	1994.2	1989.8	16.09610095
2020	-19.28	1487.42	1485.23	-77.03475104
2021	190.06	2181.86	2180.93	14.03

P/E Ratio Peer Comparison

Analysis: Fish and Poultry industry is a growing industry in India which houses only a few listed companies. The following table shows the P/E ratio comparison of Simran Farms, Ovobel foods and Uniroyal Marine Exports with Venkys.

The figures indicate that Uniroyal Marine Exports has sported a volatile but extremely attractive P/E ratio, jumping from 15.02 to 480 in 2020. However, staying true to the unpredictability of growth stocks, the company drop down to -403.17 the following year itself. While Uniroyal is the only company to have shown such a jump in the year 2019-2020, the subsequent drop expresses the lack of a stable growth strategy during the pandemic.

Venkys closely follows Uniroyal in providing consistent growth in its P/E ratio. The two companies seems to be at the two ends of growth and stability in their life cycles. Although Venkys has not shown exceptional increase in its P/E ratio over the last 5 years, it has been able to maintain a similar P/E ratio over the years. The company has recovered well from the downfall in its ratio, it has sported a ratio of 14.03 after a -77.03 ratio in 2019-2020; Venkys is the only company that has managed a positive P/E ratio in the year 2020-2021.

In a peer-to-peer comparison, we can conclude that Venkys is doing better than others in terms of consistent performance.

Year	Venkys	Simran Farms	Ovobel Foods	Uniroyal Marine Exports
2017	18.86730661	17.53	-8.23	90
2018	20.57642661	12.42	5.03	36.18
2019	16.09610095	6.27	2.52	15.02
2020	-77.03475104	-0.47	6.6	480
2021	14.03	-383.24	-37.96	-403.17

P/E Ratio Industry comparison

With the available data, the P/E ratio comparison of Venkys and the industry it belongs to, shows us that in 2019-2020 the company has not been able to catch up with the industry P/E ratio of 14.2 at all. Venkys' negative EPS has resulted in a negative P/E ratio that is more than 5 times lower than the industry ratio.

However, Venkys has bridged this gap in the next year itself with a ratio of 14.03 w.r.t the industry ratio of 20.3. The company is performing well, however, the results are not yet paralleled. Venkys past record presents a promising view of the future potential, making it a favorable company to invest in.

Year	Venkys	Industry
2020	-77.03	14.2
2021	14.03	20.3

GST Implications on Non-Taxable and Taxable Supplies and ITC Reversal on the same

GST Introduction

- GST was implemented in India on 1st July, 2017.
- GST is an indirect tax which was introduced to replace many indirect taxes such as Value added tax, excise duty, service tax etc.
- GST law in India is a multi-stage, destination based comprehensive tax which is levied on every value addition. GST is a single domestic indirect tax for the entire country.
- The tax is levied under every point of sale under GST. CGST and SGST are charged in the case of intra-states sale and IGST is charged fir the inter-state sale.
- The main advantage of GST is that it removes the cascading effect of tax and thus the removal of cascading effect has positively impacted the cost of goods. As GST eliminated the tax on tax the prices of the goods and services have decreased.
- Another advantage of GST is that it is a technologically driven tax regime. Activities like Registration, return, refund and notice are done online on the GST portal and this accelerates the process and facilitates the traders because of the transparent and fast process.

GST Implications on non-taxable suppliers

There are 3 types of exempt supplies: -

1) **NIL rated-** These are the supplies that are taxable at 'NIL' rate i.e., 0% tax. (E.g. Salt, Grains, Jaggery etc.)
2) **Wholly or partially exempt-** These are the supplies that are fully or partially exempt from the CGST or IGST.
3) **Non-Taxable-** These are the supplies that are not taxable under the act of GST. (Alcohol for human consumption, petrol etc.)

Non-Taxable suppliers mainly benefits because they do not have to pay the GST but the producers are the ones that are affected by the exemptions because when the exempt businesses sell their products to other suppliers, the taxes are already embedded in the production and capital costs and thus they cascade into higher prices. But every time the higher taxes cannot be passed on to the suppliers because of many reasons like higher competition, alternatives available, thus ultimately the taxes have to be borne by the producers.

One of the positive implications of non-taxable supplies is that the prices of many commodities in need can be brought down. Most of the exempt items are items that are used in day to day lives and are a necessity. Thus, GST had a positive implication on those items.

ITC Reversal implications on non-taxable suppliers: -

If the tax is exempt on the supplies, then the amount of the credit as attributable to the exempt supplies needs to be reversed.

The formula to calculate the credit attributable to the exempt supplies is (A/T)*C

A= The aggregate value of the exempt supplies

T= Total turnover of the person in the tax period

C= Common Credit

Common Credit= Total input tax in a period

Less: -

Tax attributable exclusively for non-business purpose

Tax attributable exclusively for exempt supplies

Ineligible credits as per section 17(5) works contract, rent a cab etc.

Tax attributable exclusively for taxable supplies (Including zero-rated supplies).

GST Implications on taxable suppliers: -

GST implementation eradicates the tax on tax or double taxation or cascading effects on the products.

Example: -

If a manufacturer of Pen obtains the raw material worth Rs. 10 which includes the 10% tax, this means that the manufacturer pays Rs.1 in tax for Rs. 9 worth of raw materials procured. The manufacturer then manufactures the pen and adds value of Rs. 5 and sells the pen at Rs. 15 and the tax due on the finished product will be Rs. 1.5 (10%). Now, under GST system the previous Rs.1 tax can be set off against this additional tax to bring the effective tax rate to Rs. 1.5 -1= Rs. 0.50.

This is how the GST system helps reduce the cascading effect of taxes.

Also, all the indirect taxes are merged under GST thus the process has become simpler and also the online ecosystem of GST return filing has made the return process more transparent and hassle free.

ITC Reversal implications on taxable suppliers: -

Business can use the Input Tax credit of GST that is paid on the purchases like raw material/service used for manufacturing or selling products. This is the concept of ITC (Input Tax Credit).

ITC can only be claimed only if the supplier has deposited the tax he collected from his customer. This is very important thing that needs to be kept in mind by the supplier because if he fails to pay taxes in time or intentionally doesn't do it then his customers cannot claim ITC on the purchased products.

If, by some reason, the input tax credit is wrongly claimed then it should be reversed by making the payment.

Reversal of Input tax credit means the credit of inputs utilised earlier would now be added to the output tax liability, effectively nullifying the credit claimed earlier. In some cases the payment of interest may also be considered.

There are various rules under which one can calculate ITC: -

1) **Specific Credit: -**
   This is ITC that can be specifically attributable to a supply which is either taxable, non-taxable or supply consumed for personal.
2) **Common Credit: -**
   This ITC cannot be attributable to any specific supply but it is used for partly making both the taxable and non-taxable supplies used for personal consumption.
3) **Rule 42: -**
   Reversal of ITC on the inputs/input services
4) **Rule 43: -**
   Reversal of ITC on Capital Goods
5) **Rule 44: -**
   Reversal of ITC in case of cancellation of GSt registration or switches to composition scheme.

Conclusion

Finance is a subject which I consider equivalent to an ocean. It is very vast and deep. Each and everything in the statements has its own interpretations and consequences.

These projects have helped me to come closer to making an accurate prediction and analysis based on the past financials of the company.

Although financials are not the only thing that drives a company there are many qualitative aspects that are needed to be considered like the industry company is operating in, what are the long-term goals of the company, company management and their history etc. are also the thins that are to be taken into consideration while assessing a company and predicting its future.

Thus, for an accurate prediction of the future of the company one needs experience and extensive analytical skills.

Recommendations

The company that has weak financials should focus on the reasons because of which they are lagging to perform and analyse each quarter extensively in order to thrive in the industry if a company is looking to be a long-term player.

I would also like to recommend the company with very strong financials i.e. the cash heavy companies or companies which has asset acquiring capacities should use their cash or assets majorly in 2 areas. First in the CSR activities in order to help for the development and upliftment of the society. The second area where they can use their cash or the asset acquiring capacity is by funding the emerging businesses. This can be proved to be a very beneficial investment that a company make.

Part-C -Learnings from summer internship project

The summer internship project helped me enhance and groom my analytical skills and my decision-making abilities. These skills are very important for a Finance Manager because a finance manager has to do a lot of analytical work and decision-making process because he has to work with the numbers (Quantitative data) and make a qualitative decision for the company. This requires analytical and decision-making skills which I gained through this internship program.

I worked closely with the finance department during this internship which helped me to get a hands-on experience of the corporate life and also helped me identify the skills required to thrive in the corporate culture.

All in all, this internship experience has made me corporate ready and was a great start to my corporate journey.

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6) https://www.ibef.org/industry/pharmaceutical-india.aspx
7) Crunchbase website for information regarding investors.
8) Screener and Tickertape website for the financials and stock price information.

Annexure 1

Name of App	Subscription Service	Package 1		Package 2	
		Price	Service	Price	Service
1) 1mg	Yes	₹ 249/ 6 months	1 Free Doctor Consultaton,Health Monitoring, Early Acess to sale period, free delivery across India, 1 free lab test(Complete Blood Count test/Diabetes Screening test)		
2) Practo	Yes	₹ 349/ month	Unlimited consultations with any specialities	₹ 1999/ 6 months	Unlimited Consultations with any speciality
3) Mfine	Yes	₹ 499/ month	60% off on all consultations, free follow-up upto 5 days at hospital or online, covers upto 6 members of family	₹ 899/ 6 months	60% off on all consultations, free follow-
4) Netmeds	Yes	₹ 299/6 months	Free unlimited consultations, Additional 10% off on lab tests, Basic Health Check Up, Priority Processing, Free delivery, 2.5% NMS cash on all prepaid orders (Max 100)	₹ 499/ year	Free unlimited consultations, Additional 10% off on lab tests, Basic Health Check Up, Priority Processing, Free delivery, 2.5% NMS cash on all prepaid orders (Max 100)
5) DocsApp	Yes	₹ 999/ month	Unlimited free consultation for any health problem, free for full family	₹ 1999/ year	Unlimited free consultation for any health problem, free for full family, discounts on lab tests and medicines
6) PharmEasy	Yes	₹ 149/ 3 months	Free doctor consultaions	₹ 279/ 6 months	Free doctor Consultaions
7) MyUpchar	Yes	₹ 99/ year	Free delivery of mediciens, 5% cashback on mediciens order and lab tests, free online consultations, valid for 6 members of a family		
8) DoctorInsta	Yes	₹ 2499/ year	Unlimited Consultations for family		
9) MyMedic	Yes	₹ 299/ month	Unlimited free General Physician Consultation, 20% off on specialist consultation, 20-40% dis off on laboratory	₹ 1499/ 6 months	4 free predefined lab tests, 1 free General Physician consultation, 2 free Physical expert consultation, 3 free Nutritionist Consultation
10) iCliniq	Yes	₹ 1999/ 6 months or ₹ 2999 for 1 year	Primary Care consultation/ Peadiatric Health and Wellness/Diet and Wellness	₹ 4999/ 6 month or ₹ 7999 for a year	Emotinonal Wellness
11) Doxtro	Yes	₹ 499/3 months	Unlimited free consultations for entire family, Up to 40 % discount on medicine order and lab tests	₹ 999/ 1 year	Unlimited free consultations for entire family, Up to 40 % discount on medicine order and lab tests
12) DocOnline	Yes	₹ 399/ month	Unlimited Consultations for family as well, Medicine delivery free		
13) Asha Didi	Yes	₹ 8500 / year	Unlimited consultation for the family 4		
14) LifCare	Yes	₹ 999/ year	25% off on everyorder for a year		
15) MediMetry	Yes				
16) Lybrate	No				
17)MediBuddy	No				
18) HealthKart	No				
19) SastaSundar	No				
20) DocPrime	No				
21) CrediHealth	No				

THE END