

Cipla

Bloomberg: CIPLA IN EQUITY

Reuters: CIPL.BO

Recommendation: BUY

No Change



RESULT UPDATE

Inhaler launches, visibility on biosimilars maintain optimism

Revenue growth of 8% YoY (and QoQ) for the quarter; EBITDA at 24%:

Operating income grew 8% YoY (and QoQ) below our expectation of 10% for the quarter. This is owing to lower domestic sales growth and lower R&D income for the quarter. EBITDA margin at 24% was slightly below our expectation of ~25%. Increase in employee costs, sales force ramp-up and lower R&D income led to lower EBITDA margin and net profit margins. Lower tax-rate of 18% v/s our expectation of 20% supported net profit margins.

We are revising our FY12 EPS to Rs17.7 from Rs18.5 due to lower than expected growth for the quarter but remain positive on the Company's overall growth prospects. We maintain our **BUY** recommendation with a TP of Rs355, an upside of 17% from the current levels.

Outlook

- Inhalers business continues to be a strong growth driver:** The Company has secured approval for Seroflo inhaler in South Africa and can be expected to generate Rs1bn in peak sales. Seroflo Multi-Haler™ (a combination of Salmeterol and Fluticasone) is a leading product globally (mkt. size: US\$10bn) for treatment of asthma. This approval provides further confidence in Cipla's ability to develop and market technologically complex inhaler products. **Salbutamol inhaler in Europe continues to do well** and Cipla is on track to launch 8 inhaler products by end-FY13. We estimate an EPS of Re1.0 in FY12E from the EU inhaler business.
- Biosimilar launch program firming up:** The Company has invested in two biotech companies last quarter for development and manufacture of biosimilars. The India launch for biosimilars is on track and we expect the first product launch in early FY12 adding to India business growth.
- Domestic business all set to deliver:** Sales force ramp up (added 600 reps) and new product launches will likely contribute to domestic growth ahead. We expect overall domestic business growth at 12% CAGR to FY12.
- Low R&D (technical know how) income this quarter, expected to touch Rs1.7bn for the year:** We expect R&D income to contribute ~Rs1.7bn annually due to a strong US/EU generic pipeline. The company has a strong generic development pipeline in the US with 41 ANDAs under filing and another 45 ANDAs awaiting filing.

Exhibit 1: Key financials

Y/E March (Rsmn)	FY08	FY09	FY10	FY11E	FY12E
Income from operations	42,157	52,343	56,043	63,039	71,755
EBITDA	8,316	12,183	13,123	15,911	18,566
EBITDA Margins (%)	19.7	23.3	23.4	25.2	25.9
Adj PAT	7,010	7,723	10,029	12,222	14,217
EPS (Rs)	9.0	9.9	12.5	15.2	17.7
ROE (%)	18.7	17.8	17.0	17.7	17.7
ROCE (%)	19.0	16.1	20.7	21.8	21.6
PE (x)	33.7	30.6	24.3	20.0	17.2
Price/BV(x)	6.3	5.4	4.1	3.5	3.0

Source: Company, Ambit Capital research

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Recommendation

CMP:	Rs304
Target Price :	Rs355
Previous TP:	Rs370
Upside (%) :	17%
EPS (FY12E):	Rs17.7
Change from previous (%):	-4

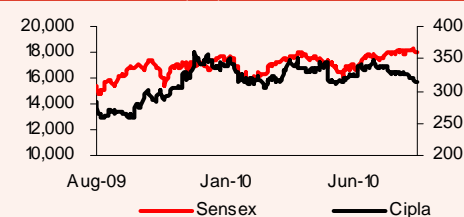
Stock Information

Mkt cap:	Rs252,800mn/US\$5,404mn
52-wk H/L:	Rs364/251
3M Avg. daily vol. (mn):	2
Beta (x):	0.6
BSE Sensex:	18,167
Nifty:	5,452

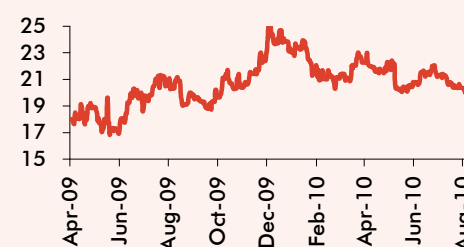
Stock Performance (%)

	1M	3M	12M	YTD
Absolute	-6.2	0.1	10.2	-6.0
Rel. to Sensex	-7.1	-4.9	-5.8	-9.7

Performance (%)



1-year forward P/E



Source: Bloomberg, Ambit Capital research

Exhibit 2: Quarterly snapshot

	Q110	Q410	Q111	QoQ	YoY
Total Operating Income	13,760	13,747	14,798	8%	8%
Domestic Sales	6,519	5,688	6,752	19%	4%
Export Sales	6,876	7,602	7,659	1%	11%
Less: Excise Duty	142	115	137	18%	-4%
Net Sales	13,253	13,175	14,274	8%	8%
Other operating Income	508	572	524	-8%	3%
Cost of Goods Sold	6,067	6,108	6,702	10%	10%
Gross Profit	7,694	7,639	8,096	6%	5%
Gross Margin %	58.1%	55.6%	54.7%		
Salaries, wages, other payments	950	999	950	-5%	0%
Other expenses	3,329	4,060	3,750	-8%	13%
Total Expenses	10,345	11,167	11,292	1%	9%
EBITDA	3,415	2,580	3,507	36%	3%
EBITDA Margin %	24.8%	18.8%	23.7%		
Other Income	120	451	168	-63%	40%
PBDIT	3,535	3,031	3,674	21%	4%
Depreciation	458	495	548	11%	20%
Interest	105	5	1		
PBT	2,972	2,532	3,125	23%	5%
Tax (including deferred tax)	555	567	550	-3%	-1%
Tax Rate	19%	22%	18%	-21%	-6%
PAT	2,417	1,965	2,575	31%	7%
Net profit	2,417	2,756	2,575	-7%	7%

Source: Company, Ambit Capital research

Exhibit 3: Income statement

Y/E March (Rsmn)	FY08	FY09	FY10	FY11E	FY12E
Income from operations	42,157	52,343	56,043	63,039	71,755
Gross sales	41,010	50,216	54,103	60,882	69,346
Less: Excise	907	610	522	551	617
Net sales	40,103	49,606	53,581	60,331	68,729
Other operating income	2,054	2,737	2,462	2,708	3,026
Total operating expenses	(33,841)	(40,160)	(42,919)	(47,129)	(53,189)
EBITDA	8,316	12,183	13,123	15,911	18,566
Depreciation and amortisation	(1,163)	(1,518)	(1,671)	(1,999)	(2,318)
Interest	(113)	(329)	(221)	(6)	(10)
Other income	1,339	(1,367)	1,072	1,000	1,100
Profit before tax	8,380	8,968	12,304	14,905	17,338
Provision for tax	(1,369)	(1,245)	(2,275)	(2,683)	(3,121)
Adj PAT	7,010	7,723	10,029	12,222	14,217
Extraordinary items [expenses/(gain)]			(950)		
Reported PAT	7,010	7,723	10,979	12,222	14,217

Source: Company, Ambit Capital research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY08	FY09	FY10	FY11E	FY12E
Shareholders funds	37,552	43,478	59,106	68,987	80,395
Capital	1,555	1,555	1,606	1,606	1,606
Reserves & surplus	35,997	41,923	57,500	67,381	78,789
Borrowings	5,405	9,402	51	154	254
Secured loans	141	28	4	4	4
Unsecured loans	5,264	9,375	47	150	250
Deferred tax liability (net)	1,492	1,642	1,792	1,922	2,600
Sources of funds	44,448	54,522	60,945	71,548	83,764
Gross block	22,018	26,933	28,973	34,473	39,973
Depreciation	(5,404)	(7,008)	(8,861)	(10,860)	(13,179)
Net block	16,614	19,925	20,112	23,613	26,794
Capital work in progress	2,331	3,663	6,842	6,842	6,842
Investments	935	801	2,464	3,200	3,800
Inventories	11,205	13,983	15,123	17,066	19,540
Sundry debtors	14,065	18,529	15,666	20,698	22,611
Cash and bank balances	797	534	620	4,773	10,600
Loans and advances	11,037	10,901	11,682	10,294	10,294
Other current assets	345	235	578	235	235
Total current assets	37,449	44,181	43,670	53,064	63,279
Current liabilities	8,710	10,129	9,980	11,831	12,743
Provisions	4,168	3,917	2,164	3,341	3,809
Total current liabilities and provisions	12,878	14,046	12,144	15,172	16,552
Net current assets	24,571	30,136	31,527	37,893	46,727
Uses Of funds	44,448	54,522	60,945	71,548	83,764
Book value per share (INR)	48	56	74	86	100

Source: Company, Ambit Capital research

Exhibit 5: Cash flow statement

Y/E March (Rsmn)	FY08	FY09	FY10	FY11E	FY12E
Cash flow from operations	7,707	10,841	11,976	14,221	16,535
Increase in Cash for working capital	4,044	7,129	1,735	3,946	3,007
Net Operating Cash Flow	3,663	3,712	10,241	10,275	13,529
Net purchase of fixed assets	(5,628)	(6,998)	(5,255)	(5,500)	(5,500)
Net purchase of investments	(1,109)	1,221	(383)	(236)	50
Net cash flow from investing	(6,737)	(5,777)	(5,638)	(5,736)	(5,450)
Proceeds from equity capital	-	-	6,691	-	-
Proceeds from LTB/STB	4,367	3,616	(9,588)	97	90
Others	(1,819)	(1,819)	(1,819)	(1,873)	(2,341)
Net cash flow from financing	2,548	1,797	(4,716)	(1,776)	(2,251)
Change in Cash and equivalents	(525)	(268)	(113)	2,764	5,827
Cash flow from operations	7,707	10,841	11,976	14,221	16,535
Increase in Cash for working capital	4,044	7,129	1,735	3,946	3,007
Net Operating Cash Flow	3,663	3,712	10,241	10,275	13,529
Net purchase of fixed assets	(5,628)	(6,998)	(5,255)	(5,500)	(5,500)
Net purchase of investments	(1,109)	1,221	(383)	(236)	50
Net cash flow from investing	(6,737)	(5,777)	(5,638)	(5,736)	(5,450)

Source: Company, Ambit Capital research

Exhibit 6: Ratios

Y/E March	FY08	FY09	FY10	FY11E	FY12E
ROE (%)	18.7	17.8	17.0	17.7	17.7
ROCE (%)	19.0	16.1	20.7	21.8	21.6
Inventory days	91	88	95	93	93
Debtors days	105	114	111	105	110
Fixed assets T/o ratio	2.5	2.6	2.8	2.7	2.7
Debt/equity	0.14	0.22	0.00	0.00	0.00
Net Debt/Equity	0.12	0.20	(0.01)	(0.07)	(0.13)
Current Ratio	2.9	3.1	3.6	3.5	3.8

Source: Company, Ambit Capital research

Exhibit 7: Valuation parameter

Y/E March	FY08	FY09	FY10	FY11E	FY12E
EPS, post exceptional (INR.)	9.0	9.9	12.5	15.2	17.7
Reported EPS	9.0	9.9	13.7	15.2	17.7
PE (x)	33.7	30.6	24.3	20.0	17.2
Price/BV(x)	6.3	5.4	4.1	3.5	3.0
EV/Sales (x)	5.7	4.7	4.3	3.8	3.3
EV/EBITDA (x)	29.0	20.1	18.6	15.1	12.6

Source: Company, Ambit Capital research

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	<5%

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