Indiabulls

CIPLA LIMITED
RESEARCH

EQUITY RESEARCH **July 7, 2008**

RESULTS REVIEW

Share Data

Market Cap	Rs. 162.0 bn
Price	Rs. 208.40
BSE Sensex	13,525.99
Reuters	CIPL.BO
Bloomberg	CIPLA IN
Avg. Volume (52 Week)	0.5 mn
52-Week High/Low	Rs. 233.80 / 160.00
Shares Outstanding	777.3 mn

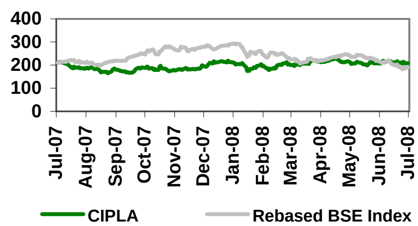
Valuation Ratios

Year to 31 March	2009E	2010E
EPS (Rs.)	10.3	11.8
EPS Growth (%)	14.7%	14.6%
PER (x)	20.2x	17.6x
EV/ Sales (x)	3.3x	2.9x
EV/ EBITDA (x)	16.5x	14.3x

Shareholding Pattern (%)

Promoters	39
FIIs	18
Institutions	13
Public & Others	29

Relative Performance



Cipla Limited **Hold**

Another year of double-digit revenue growth

For the quarter ended March 31, 2008, Cipla Limited posted strong earnings across the board. Net sales improved 19.2% yoy, gaining from a strong export growth and a decrease in excise duties. Adjusted EBITDA advanced to Rs. 2 bn, with the margin at 18.1% witnessing pressure from rising inflation and rupee appreciation. A strong export thrust and increased domestic sales propelled the Company's net income up by over 40% with a margin expansion of 273 bps over last year.

We expect FY09 net sales growth to be in line with the management's guidance of 12-15%, as the momentum continues on the back of:

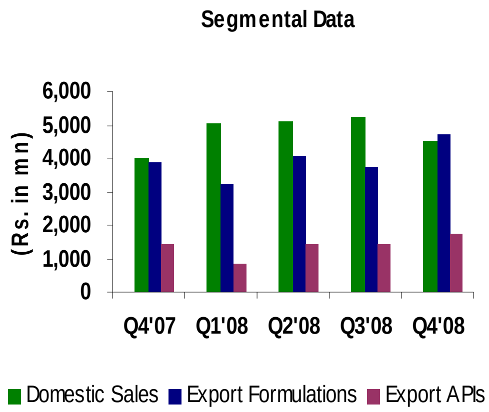
- Increasing domestic sales resulting from its leadership position and a large portfolio of powerful brands
- Robust growth in exports as both formulations and API businesses expand
- New marketing partnerships with global businesses such as Sigma Pharmaceuticals Ltd. in Q4'08 and Akorn, Inc. in Q3'08
- Expanding portfolios with existing partners in the US
- Revocation of MNC patents on anti-AIDS/cancer drugs

We expect the margins to stay muted as costs continue their upward march, even though efficiency is likely to improve with the increased utilization of existing capacity as seen in the manufacturing deal with Sigma. We foresee the EBITDA margin to remain in the range of 20% over the next two years.

At the current market price (CMP) of Rs. 208.4, the stock is trading at a forward P/E of 20.2x and 17.6x for FY09E and FY10E earnings, respectively. According to our DCF valuation, we foresee a limited upside from the current level. So we reiterate our Hold rating on the stock.

Key Figures

Quarterly Data	Q4'07	Q3'08	Q4'08	YoY%	QoQ%	FY07	FY08	YoY%
(Figures in Rs. mn, except per share data)								
Sales	9,385	11,045	11,221	19.6%	1.6%	35,707	42,268	18.4%
EBITDA	1,470	2,623	2,027	37.9%	(22.7)%	8,202	8,496	3.6%
Adjusted Net Profit	1,257	2,107	1,795	42.7%	(14.8)%	6,680	7,005	4.9%
Margins(%)								
EBITDA	15.7%	23.7%	18.1%			23.0%	20.1%	
NPM	13.4%	19.1%	16.0%			18.7%	16.6%	
Per Share Data (Rs.)								
Adjusted EPS	1.6	2.7	2.3	42.0%	(15.1)%	8.5	9.0	5.6%



Result Highlights

Cipla's domestic sales grew 13.2% yoy to Rs 4.5 bn in Q4'08. It maintained the trend of a weak fourth quarter as local sales dipped 12.9% qoq. Despite a significant rupee appreciation, exports held up and grew in excess of 20% over comparable periods to almost Rs. 6.5 bn. International sales of formulations registered a handsome increment of 21.9% yoy, while API exports grew 25% yoy albeit off a lower base. Technology knowhow/fees climbed 7.2% yoy to Rs 259 mn but registered a sharp decline of 65.4% compared to the surge in the last quarter.

Material costs at Rs. 5.7 bn increased around 15% yoy as the impact of inflation on key raw materials more than offset the lower costs emanating from the changes in the product mix. Employee costs spiked up 68.5% yoy to Rs. 730 mn on the back of increases in manpower, annual salary increments, director's commission, and the effect of the AS15 accounting guidelines. Other expenditure of Rs. 2.8 bn rose 10.2% over the corresponding period last year as the sales promotion & advertising spend and processing charges increased. Depreciation showed an upward trend in line with previous quarters, but registered a steep rise of 40.6% yoy.

Operating profit grew a healthy 37.3% to Rs. 1.7 bn and the operating margin, at 14.8%, improved compared to last year. The interest expense continued its upward climb through the year to end at Rs. 45.6 mn, more than 250% up over the last year's small base. Other income rose 84.4% yoy on the back of gains on the cover for foreign exchange of Rs. 250 mn.

Tax incentives on Baddi and EOUs lowered the tax bill compared to the previous quarters.

Key Events

Zidovudine Syrup gets FDA's nod

Cipla received an approval from the FDA to sell and market AIDS drug Zidovudine syrup in the US. The Company's application was considered under the expedited review provisions of US PEPFAR (President's Emergency Plan for AIDS Relief).

FDA's tentative approval for generic Lamivudine/Stavudine tablets

FDA reviewed Cipla's application under the US PEPFAR provisions and tentatively approved the paediatric use of fixed dose oral combination lamivudine/stavudine tablets.

Cipla inks a manufacturing & supply accord with Sigma Pharmaceuticals

Cipla gained a foothold in the USD 17 bn Australian drug market by entering into a long-term agreement with Sigma Pharmaceuticals Ltd. As per the terms of the contract, Cipla would locally manufacture more than 100 OTC drugs and supply them to Sigma, to be sold under the latter's brand name in Australia and other markets.

Patents Update

- Cipla received a product patent from Indian authorities for new forms of Osemaprazole and Alendronate drugs.
- Cipla was awarded an interim order from Delhi High Court, allowing it to produce and sell generic versions of Tarceva (Erlotinib) in India. Citing public interest, the court rejected an injunction plea by Roche Holding Ltd., holder of the anti-cancer drug patent. However, the court restrains Cipla from exporting the drug.

Key Risks

Key risks to our rating include:

- Loss of marketing alliance(s), which could impair profitability
- Currency fluctuations, which could lead to muted margins

- Tighter margins due to rising inflation and pricing pressures in key markets
- Tightening of the price controls or expanding the gambit of drugs under the price regulations of the Indian government
- An unfavourable court ruling in an ongoing litigation between Government of India and Cipla regarding alleged overcharging of certain drugs, which could potentially pressurise the Company's bottom line
- Rise in pension fund liability if the Company becomes liable to meet the interest shortfall, upon classification of PF as a defined pension plan

Outlook

We have raised our sales estimates for FY09 to Rs. 48.6 bn, owing to a robust growth in the top line, revocation of MNC patents on anti AIDS/cancer drugs, forging of new strategic alliances, and the expansion of portfolios with existing partners. Sales for FY10 are projected at Rs. 55.6 bn, gaining strength from a promising delivery pipeline with a tentative launch of combination drugs for allergic rhinitis, asthma, and cardiac segments. The clinical trials for these drugs are underway in Europe and the US.

The rise in material costs due to inflation and an increase in employee cost will pressurise the margins. Nonetheless, changes in the product mix should enable the Company to sustain its EBITDA margins at around 20% for the next 2-3 years. While Cipla's low-risk business model limits aggressive profit expansion, factors that can potentially lead to an upside in margins are:

- Earnings from the Sigma deal, as Cipla's existing manufacturing facilities have the capacity to cater to Sigma's requirements
- Domestic and overseas performance of Triohale
- A change in government policy to ease the price hike cap on non-scheduled drugs

At the current market price (CMP) of Rs. 208.4, the stock is trading at a forward P/E of 20.2x and 17.6x for FY09E and FY10E earnings, respectively. According to our DCF valuation, the stock is trading at a premium, but we believe that the valuation looks fair in the current market conditions. With limited upside foreseen at the current level, we reiterate our Hold rating on the stock.

Key Figures

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR
(Figures in Rs. mn, except per share data)						(FY08-10E)
Sales	29,858	35,707	42,268	48,601	55,629	14.7%
EBITDA	7,076	8,202	8,496	9,832	11,359	15.6%
Adjusted Net Profit	6,198	6,680	7,005	8,034	9,207	14.6%
Margins(%)						
EBITDA	23.7%	23.0%	20.1%	20.2%	20.4%	
NPM	20.8%	18.7%	16.6%	16.5%	16.6%	
Per Share Data (Rs.)						
Adjusted EPS	8.1	8.5	9.0	10.3	11.8	14.6%
PER (x)	32.7x	27.7x	23.2x	20.2x	17.6x	

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