

REDUCE

Price	Rs275
Target Price	Rs238
Investment Period	12 months

Stock Info

Sector	Pharmaceutical
Market Cap (Rs cr)	21,371
Beta	0.5
52 WK High / Low	292/146
Avg. Daily Volume	285817
Face Value (Rs)	2
BSE Sensex	15,173
Nifty	4,514
BSE Code	500087
NSE Code	CIPLA
Reuters Code	CIPL.BO
Bloomberg Code	CIPLA@IN

Shareholding Pattern (%)

Promoters	39.4
MF/Banks/Indian FIs	19.8
FII/ NRIs/ OCBs	19.1
Indian Public/others	21.7

Abs.	3m	1yr	3yr
Sensex (%)	33.1	10.0	42.1
Cipla (%)	11.4	22.5	15.5

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Performance Highlights

- Net Sales increase by 13%:** For 1QFY2010, Net Sales came in at Rs1,325cr (Rs1,171cr), and were in-line with our estimate. The company's domestic sales grew by 11% to Rs651.9cr (Rs585.3cr), while export sales grew by 14% to Rs687.6cr (Rs601.5cr). Within Exports, formulations grew by 29% to Rs547.2cr (Rs424.2cr) while APIs de-grew by 21% to Rs140.4cr (Rs177.3cr). For FY2010E, the company expects a 10-12% growth on the Top-line front.
- Operating Margin expands:** For 1QFY2010, the OPM (excluding technical know-how fees) expanded by 840bp to 21.9% (13.6%), driven by higher gross margins and lower forex losses. The gross margin for the company expanded by 240bp on account of a lower material cost, which was buoyed by favorable changes in the product mix and the exchange rate (the Rupee depreciated 17% yoy). Further, the company reported foreign exchange losses to the tune of Rs27cr (as against losses of Rs75cr in the corresponding last quarter). Adjusting for foreign exchange losses, the OPM expanded by 400bp to 24% (20%).
- Net Profit rises 73%:** Cipla reported other income of Rs62.8cr (Rs53.4cr), up 18% yoy, of which technical know-how fees comprise Rs25.7cr (Rs15.5cr), up 65% yoy. However, Cipla's interest cost during the quarter went up by 186% to Rs10.5cr (Rs3.7cr), due to an increase in the working capital loan. The company has outstanding debt of US \$300mn, as on the quarter end. Cipla reported Net profit to the tune of Rs241.7cr (Rs139.9cr), buoyed by lower foreign exchange losses and a higher OPM. The company also stated that it has forex cover to the tune of US \$96mn, as on the quarter end.

Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	3,998	4,973	5,478	6,128
% chg	16.3	24.4	10.2	11.9
Net Profit	701.4	767.8	1,031.5	1,156.5
% chg	5.1	9.5	34.3	12.1
EPS (Rs)	9.0	9.9	13.3	14.9
EBITDA Margin (%)	16.0	19.8	19.3	19.8
P/E (x)	30.5	27.9	20.7	18.5
RoE (%)	20.1	23.7	22.0	21.4
RoCE (%)	13.3	17.1	15.7	15.5
P/BV (x)	5.7	4.9	4.3	3.7
EV/Sales (x)	5.5	4.5	4.0	3.6
EV/EBITDA (x)	34.2	22.5	20.8	18.3

Source: Company, Angel Research

Key developments

Cipla plans to raise Rs1,500cr, subject to approval by the shareholders, to meet its capex requirements. Cipla has incurred capex to the tune of Rs1,700cr in the last three years, and plans to incur capex amounting to Rs500-600cr over the next two years. Assuming the company raises the fund through equity route the dilution would be to the tune of 7% at current market price.

Outlook and Valuation

Though 1QFY2010 was ahead of our expectation, buoyed primarily by a favorable currency movement (the Rupee depreciated 17% yoy), going forward, we believe that the currency benefit would reduce as the base effect would kick in. At the CMP, the stock is trading at 20.7x FY2010E and 18.5x FY2011E earnings, which we believe is expensive. **Hence, we recommend a Reduce view on the stock, with a Target Price of Rs238.**

Exhibit 1: 1QFY2010 Performance

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	1,325.3	1,170.6	13.2	4,972.7	3,997.9	24.4
Other Income	62.8	53.4		365.7	273.2	
Total Income	1,388.0	1,223.9	13.4	5,338.3	4,271.1	25.0
PBIDT	290.7	158.9	83.0	753.6	707.5	6.5
Operating Margin (%)	21.9	13.6		15.2	17.7	
Interest	10.5	3.7	186.1	33.5	11.7	186.9
Depreciation	45.8	38.2	19.9	175.6	130.7	34.4
PBT	297.2	170.4	74.4	910.1	838.4	8.6
Provision for Taxation	55.5	30.5	82.0	142.3	136.9	3.9
PAT before Extra-ordinary items	241.7	139.9	72.8	767.8	701.4	9.5
Extra-ordinary Items	0.0	0.0		0.0	0.0	
PAT after Extra-ordinary items	241.7	139.9	72.8	767.8	701.4	9.5
EPS (Rs)	3.1	1.8		9.9	9.0	

Source: Company, Angel Research


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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)