

**Milind Bhangale**

+91 22 67069907

Milind.bhangale@investsmartindia.com

**Shareholding (%)**

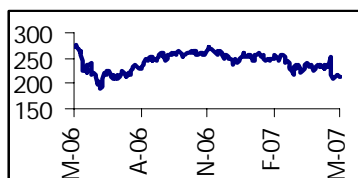
Promoters	39.4
FII's	16.8
MF/FI's/banks	5.7
Insurance Co.	5.7
Others	32.4

**Share price performance**

52-week high/low (Rs)	280/180		
	-1m	-3m	-12m
Abs (%)	-10.1	-16.2	-22.4
Rel* (%)	-16.2	-13.6	-32.8

\*to Nifty

**Stock chart**



**Results below expectation**

During Q4FY07, Cipla's net revenue has grown 6.3% YoY to Rs9.4bn, but EBITDA was down 23% to Rs1.5bn. Due to change in product mix, Cipla's EBITDA margin declined by 590bps YoY to 15.7%, resulting in a decline in PAT by 34% YoY to Rs1.26bn. API exports were down by 27% YoY as a result of lower sales in regulated markets; while formulation exports grew at 16.8% YoY to Rs3.9bn due to an increase in dispatches of low value ARVs. Export growth has been impacted by high base effect in API exports (Q4FY06 had been significantly high, due to supplies of Sertraline API to Teva) and slower formulation export growth. Cipla has given a growth guidance of 10-12% sales and sustaining margins at FY07 levels, implying a 10-12% YoY EPS growth in FY08E.

We are reducing FY08E and FY09E earning estimates by 15% and 13% respectively, on account of significant capex and change in product mix. At revised earnings, Cipla trades at 21.1x FY08E EPS of Rs10.0 and 17.3x FY09E EPS of Rs12.3. We are reducing Cipla to a price target of Rs245 (20x FY09E), an upside of 16% from current levels.

- ▲ For Q4FY07, domestic formulation sales were up 16% YoY to Rs3.8bn, which is significantly above market growth rate. This growth was mainly on account of price increase and higher volume in its main therapeutic segment, i.e. anti-asthmatics, ARVs and antibiotics.
- ▲ Cipla recently introduced one more ARV (Zanamavir) in the domestic market to add to its large portfolio of HIV drugs. The company is also moving ahead with its plan to set up an SEZ in Goa, in addition to its recently commissioned EOU at Patalganga.
- ▲ In FY07, formulation export sales grew at 26% YoY to Rs13bn, giving us an indication of the challenges in sustaining the historical growth rates on a much larger export base. Cipla's increase in formulation exports seems to come from lower margin products. API export growth has been flat on YoY basis at Rs4.8bn.
- ▲ Cipla currently has supply agreements for 136 products with nine partners in the developed market. The company management has stated that it intends to file an NDA in the US shortly (for an unspecified amount), in addition to its ANDA filing plans.

**Hold**  
**Rs212**

09 May 2007

**Market cap**

Rs bn 164

US\$ mn 4,010

**Avg 3m daily volume**

1,523,874

**Avg 3m daily value**

USD mn 9

**Shares outstanding (mn)**

777

**Reuters**

CIPL.BO/CIPLA.NA

**Bloomberg**

CIPLA IN

**Sensex**

13,765

**Nifty**

4,077

## Cipla

- ▲ The company is currently marketing Budesonide inhaler in Germany and Portugal and its Salmeterol MDI has recently received approval in Denmark. The company has nine other inhalers in various stages of clinical approval for EU markets and has plans to start clinical trials for a multi-dose dry power inhaler in Europe. Currently, Cipla exports two-thirds of its inhaler production. A sharp expansion in inhaler production capacity in recent years is indicative of the management's assessment of the opportunity from this segment. We believe inhaler exports will continue to grow steadily.
- ▲ **Low-Risk, Geographically Diversified Business Model:** Though Q4FY07 results are below our expectations, we believe that Cipla's overall business momentum remains robust. We are positive on the company's growth prospects due to its strong pipeline, global tie-ups, geographical spread, increasing formulation exports, and steady domestic business.
- ▲ **Valuation:** We are reducing our FY08E and FY09E earning estimates by 15% and 13% respectively, in light of growth guidance given by the company (10-12% sales and sustaining margins at FY07 levels), implying a 10-12% YoY EPS growth in FY08E. At revised earnings, Cipla trades at 21.1x FY08E EPS of Rs10.0 and 17.3x FY09E EPS of Rs12.3. We are reducing Cipla to a price target of Rs245 (20x FY09E), an upside of 16% from current levels. Positive risk to our call would be stronger growth in inhaler business and incremental exclusive opportunities.

**Table 1. Sales mix**

Rs mn	Q4FY07	Q3FY07	QoQ (%)	Q4FY06	YoY (%)
Domestic sales (net of excise) (a)	3778.1	4113.4	(8.2)	3263.8	15.8
% to sales	41.6	49.6		38.3	
Exports					
Formulations	3878.7	3197.2	21.3	3320.4	16.8
APIs	1414.6	981.5	44.1	1945.9	(27.3)
Total Exports (b)	5293.3	4178.7	26.7	5266.3	0.5
% of exports to sales	58.4	50.4	15.8	61.7	5.8
<b>Total Sales (a+b)</b>	<b>9071.4</b>	<b>8292.1</b>	<b>9.4</b>	<b>8530.1</b>	<b>6.3</b>
Other operating income					
Technology Knowhow/Fees	242.0	257.6		61.8	
Others	71.3	255.7		233.7	
Total (c)	313.3	513.3	(39.0)	295.5	6.0
<b>Total operating Income (a+b+c)</b>	<b>9384.7</b>	<b>8805.4</b>	<b>6.6</b>	<b>8825.6</b>	<b>6.3</b>

Source: IISL research, company

*Table 2. Quarterly result table*

Rs mn	Q4FY07	Q3FY07	QoQ (%)	Q4FY06	YoY (%)
Net Sales	9384.7	8805.4	6.6	8825.6	6.3
Total Expenses	7914.8	6612.7	19.7	6921.9	14.3
(%) of net sales	84.3				
EBITDA	1469.9	2192.7	-33.0	1903.7	-22.8
Depreciation	260.8	275.0	-5.2	250.0	4.3
EBIT	1209.1	1917.7	-37.0	1653.7	-26.9
Interest	12.9	13.2	-2.3	32.9	-60.8
Other Income	220.6	261.3	-15.6	366.9	-39.9
PBT	1416.8	2165.8	-34.6	1987.7	-28.7
Provision for tax(including deferred tax)	159.5	322.0	-50.5	80.0	99.4
PAT	1257.3	1843.8	-31.8	1907.7	-34.1
Equity (Face value 2)	1554.6	1554.6		599.7	
EPS (Rs.)	1.6	2.4		2.5	
<b>Key Ratios (%)</b>					
EBITA Margin	15.7	24.9		21.6	
Interest / Sales	0.1	0.1		0.4	
Tax / PBT	11.3	14.9		4.0	
Other Income /Sales	2.4	3.0		4.2	
NPM	13.4	20.9		21.6	

Source: IISL research, company

## Financials

### Profit & Loss

In Rs million	FY06	FY07E	FY08E	FY09E
Net sales	29,858.8	35,721.4	40,921.6	47,758.1
YoY (%)	32.4	19.6	14.6	16.7
Total expenses	23,060.7	27,493.8	31,383.5	36,337.1
Inc/dec in stock	(943.5)	338.2	(426.3)	(747.2)
Raw material cost	15,059.2	16,941.7	19,886.5	23,141.0
Staff cost	1,507.6	1,842.9	2,395.8	2,874.9
Power and fuel cost	630.8	738.0	848.0	986.4
Other manufacturing expenses	2,790.5	3,104.5	3,503.8	4,061.0
Selling Expenses	2,259.3	2,473.1	2,826.5	3,288.1
Other expenses	1,756.8	2,055.5	2,349.2	2,732.8
EBIDTA	6,798.1	8,227.6	9,538.1	11,421.0
YoY (%)	34.1	21.0	15.9	19.7
EBIDTA (%)	22.8	23.0	23.3	23.9
Other income	1,216.3	891.3	1,146.1	1,318.0
PBIDT	8,014.4	9,118.9	10,684.2	12,739.0
Interest	114.2	69.6	77.0	99.0
Gross profit	7,900.2	9,049.3	10,607.2	12,640.0
Depreciation	801.8	1,040.8	1,230.0	1,373.6
PBT and extra ordinary	7,098.4	8,008.5	9,377.2	11,266.4
Extra ordinary items	941.9	0.0	0.0	0.0
PBT	8,040.3	8,008.5	9,377.2	11,266.4
(-) Tax	1,022.0	1,400.1	1,590.4	1,740.7
Tax/ PBT	12.7	17.5	17.0	15.5
PAT	7,018.3	6,608.4	7,786.8	9,525.8
Adjusted net profit	7,018.3	6,608.4	7,786.8	9,525.8
YoY (%)	66.5	(5.8)	17.8	22.3

### Key Ratios

	FY06	FY07E	FY08E	FY09E
EPS (Rs)	23.4	8.5	10.0	12.3
CEPS (Rs)	26.7	10.0	11.7	14.1
Book value (Rs)	66.1	41.7	47.7	56.0
Dividend per share (Rs)	5.9	3.4	4.0	4.0
Debt-equity (x)	0.2	0.0	0.0	0.0
ROCE	24.5	21.8	21.3	22.5
ROE	35.4	20.4	21.0	21.9

### Valuations

	FY06	FY07E	FY08E	FY09E
PE (x)	9.0	24.9	21.1	17.3
Cash PE (x)	7.9	21.1	18.1	15.0
Price/book value (x)	3.2	5.1	4.4	3.8
Dividend yield	2.8	1.6	1.9	1.9
Market cap/sales	2.1	4.6	4.0	3.4
EV/sales (x)	2.3	4.6	4.0	3.4
EV/EBDITA (x)	10.0	19.9	17.3	14.4

### Balance Sheet

In Rs million	FY06	FY07E	FY08E	FY09E
Equity capital	599.7	1,554.6	1,554.6	1,554.6
Preference capital	0.0	0.0	0.0	0.0
Reserves	19,233.0	30,854.9	35,540.3	41,964.7
Net worth	19,832.7	32,409.5	37,094.9	43,519.3
Total borrowings	4,689.1	575.2	1,833.2	1,130.1
Deferred tax	979.5	1,104.5	1,194.5	1,245.2
Total liabilities	25,501.3	34,089.1	40,122.6	45,894.6
Gross block	13,666.7	16,141.1	18,141.1	20,141.1
Less: Acc. depreciation	3,100.6	4,141.4	5,371.4	6,744.9
Net block	10,566.1	11,999.7	12,769.7	13,396.2
CWIP	870.1	400.0	400.0	400.0
Investments	224.3	6,922.3	10,695.6	12,609.0
Current assets	22,922.8	26,104.3	30,191.6	34,982.3
Inventories	9,570.0	9,108.4	10,408.2	12,084.6
Debtors	8,759.6	10,647.5	12,335.0	14,349.3
Cash	444.8	1,000.0	1,000.0	1,000.0
Loans and advances	4,148.4	5,348.4	6,448.4	7,548.4
Current liabilities	6,358.9	7,788.8	9,943.0	11,501.5
Provisions	2,723.1	3,548.3	3,991.4	3,991.4
Net current assets	13,840.8	14,767.1	16,257.2	19,489.5
Miscellaneous expenses	0.0	0.0	0.0	0.0
Total assets	25,501.3	34,089.1	40,122.5	45,894.6

### Cash Flow

In Rs million	FY06	FY07E	FY08E	FY09E
Net profit	7,124.1	6,608.4	7,786.8	9,525.8
Deprn and w/o	801.8	1,040.8	1,230.0	1,373.6
Deferred tax	90.0	125.0	90.0	50.7
Change in working cap	(3,802.0)	(371.1)	(1,490.1)	(3,232.3)
Other income	1,216.3	891.3	1,146.1	1,318.0
Operating cash flow	2,997.6	6,511.8	6,470.6	6,399.8
Other income	1,216.3	891.3	1,146.1	1,318.0
Capex	(3,789.3)	(2,004.3)	(2,000.0)	(2,000.0)
Investments	(41.3)	(6,698.0)	(3,773.3)	(1,913.4)
Investing cash flow	(2,614.3)	(7,811.0)	(4,627.2)	(2,595.3)
Dividend	(1,772.6)	(2,658.3)	(3,101.4)	(3,101.4)
Fresh equity	(1,055.1)	7,671.8	0.0	0.0
Debt	2,777.1	(4,113.9)	1,258.0	(703.0)
Financing cash flow	(50.6)	899.5	(1,843.4)	(3,804.4)
Others	0.1	954.8	0.0	0.0
Net change in cash	332.8	555.2	0.0	(0.0)
Opening cash	112.0	444.8	1,000.0	1,000.0
Closing cash	444.8	1,000.0	1,000.0	1,000.0

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