

India Update

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Highlights

Sector/event	Impact
PHARMA: Cipla: Annual General Meeting	We attended Cipla's AGM, the only occasion on which the company's chairman Dr. YK Hamied meets investors, and we came back optimistic about its future. Notwithstanding the past six quarters of tepid growth in earnings, Dr. Hamied indicated several positives, the key ones being: 1) the next generation of the promoter family is now actively involved in the management, and 2) Cipla will have a combination inhaler in Europe in the next two years. Maintain BUY with target price of Rs363/share.

News Snippets

Economy

- The monsoon has made a spectacular return to 'normal' thus far during the season on Sunday, after hitting a nadir (deficit of 14%) in only the preceding month. (Business Line)
- Monsoon rains over most of India during the week ended August 24, after intense rainfall the previous week, did not have any significant impact on the sowing of kharif crops, which is nearing its end. (Business Standard)

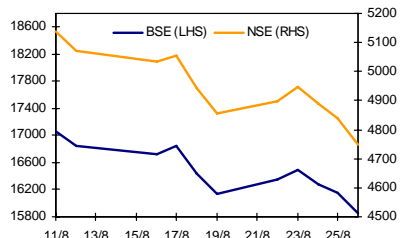
Sectoral

- The RBI has said Indian banks will adhere to the globally agreed timeline for implementation of Basel III norms and guidelines in this regard will be issued in the near future. Basel III is the new regulatory framework designed to correct the deficiencies in regulation that led to the global financial crisis of 2008. (The Economic Times)
- Spooked by the credit downgrade and bearish stock market, US companies could go slow on decisions and cut down on their IT budgets, a report based on interactions with 30 US firms and 15 large investment houses said. (The Economic Times)

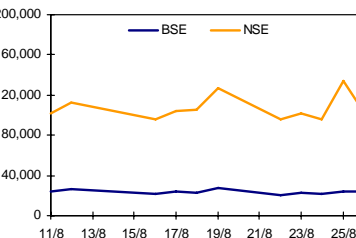
Corporate

- Corporate India's business confidence hit a 12-month low in the quarter ending June '11, coming down to 51.6 from 63.7 in the previous survey (Q4FY10) and is expected to get worse in the next six months (July-December '11), says a FICCI survey. (Business Line)
- With their home markets in turmoil, large global investors such as Blackstone, Carlyle, Morgan Stanley, JP Morgan and the Government of Singapore Investment Corporation are actively scouting for and signing deals in the Indian property sector. (Business Standard)
- With the cost of money moving up and freight rates diving, Shipping Corporation of India has put on hold its plans of issuing fresh tenders to acquire new vessels. (Business Standard)

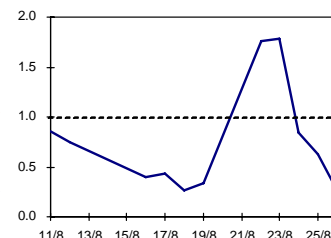
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



Market data as on Aug 26, 2011

INDICES		
		% chg (DoD)
BSE Sensex	15849	(1.84)
S&P CNX Nifty	4748	(1.90)
BSE 100	8311	(2.06)
BSE 200	1964	(2.07)

OVERSEAS MARKETS		
		% chg (DoD)
Dow Jones	11285	1.21
Nasdaq Comp.	2480	2.49
S&P 500	1177	1.51
Hang Seng	19822	1.22
Nikkei	8845	0.54

ADVANCES/DECLINES (BSE)			
Group	A	B	S
Advances	14	406	174
Declines	184	1727	375
Unchanged	0	71	29

FII TURNOVER (BSE+NSE)* (Rs mn)		
Bought	Sold	Net
31,300	46,240	(14,940)

NEW HIGHS AND LOWS (BSE)			
Group	A	B	S
High	1	9	10
Low	64	267	61

CURRENCY
US\$1 = Rs46.05

* FII turnover (BSE + NSE) as on August 25, 2011

Cipla (Buy)

PHARMA

ANNUAL GENERAL MEETING

Signs of a succession plan and hope from inhalers in the EU market**Rs280**Chirag Dagli (+91 22 6637 7320)
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gagan.borana@icicisecurities.com**Target price Rs363**

We attended Cipla's AGM, the only occasion on which the company's chairman Dr. YK Hamied meets investors, and we came back optimistic about its future. Notwithstanding the past six quarters of tepid growth in earnings, Dr. Hamied indicated several positives, the key ones being: 1) the next generation of the promoter family is now actively involved in the management, and 2) Cipla will have a combination inhaler in Europe in the next two years. Maintain BUY with target price of Rs363/share.

Table 1: Valuations summary

		Y/E Mar	EPS (Rs)	P/E (x)	EV/E (x)		
Price (25/8/11) (Rs)	280	2010	12.3	22.8	16.7	M.Cap. (Rs bn)	225
52 wk Range (Rs)	381/286	2011	12.3	22.7	17.1	M.Cap (US\$ bn)	5.0
Dividend yield FY12E (%)	1.0	2012E	15.2	18.4	13.2	Shares Out (mn)	802.9
BSE Sensex	16146	2013E	17.4	16.1	11.7	Free Float (%)	63.2

Source: Company data, I-Sec Research

- **Succession plan:** The son and daughter of Mr. MK Hamied (Dr. YK Hamied's brother) are now actively involved in the business. The daughter has been nominated to the board. Mr. Hamied's son has been involved with Cipla's marketing division for more than six years and is now playing a more general managerial role.
- **Inhalers in EU market:** Cipla has already filed (combination inhaler of salmetrol + fluticasone) in the EU in 2005 and it typically takes five to six years for inhaler approval to come through. Sales of the branded version of this product (*Advair*) are estimated at US\$2.5bn. Cipla has filed both the metered dose inhaler (MDI) and dry powder inhaler (DPI). The MDI was been filed a few months earlier than the DPI.
- **Other highlights:** 1) Cipla's Indore SEZ contributed 18% of exports in Q1FY12 and this is expected to rise in keeping with increase in sales to regulated markets; 2) There is no change in strategy for the company's export segment. Technology-licensing income in the past years will give way to manufacturing income in the future; 3) Cipla sees no structural issue with India market despite recent concerns; 4) Over the longer term, Cipla plans to enter the Chinese formulations market with its partner, Dusano group, which currently manufactures API for Cipla .
- **Valuations and risks:** We value Cipla at 22.5x Sept.12' earnings, i.e., at a 5% premium to the peer average, and our target price stands at Rs363/share. The key downside risks include: 1) delay in getting regulatory approvals, 2) currency volatility, 3) investments in biotech ventures in China, and 4) negative development over the DCPO case, resulting in payment of fine

Details in our report 'Signs of a succession plan and hope from inhalers in the EU market' dated August 26, 2011.

Recent reports/updates		
Analyst	Company/Sector	Date
Chirag / Gagan	Cipla: Signs of a succession plan and	Aug 26
Kuldeep / Krupal/ Varun	MphasiS: Sandwiched at HP	Aug 25
Kuldeep / Krupal/ Varun	Technology: BFSI: Medicine yesterday, poison today?	Aug 25
Prakash / /Vivek/Aniruddha	Power Sector: SEBs – Three defaults and counting...	Aug 25
Abhijit / Neerav	JSW Steel: Pricing in year long uncertainty in Karnataka	Aug 22
Kuldeep / Krupal/ Varun	Infosys Technologies: Playing it safe	Aug 22
Vikash / Satish	ZEEL: Zee Entertainment Enterprises	Aug 18
Vikash / Satish	MTNL: Weak balance sheet, low revenue potential	Aug 18
Abhijit / Neerav	Nalco: Favourably placed vs domestic peers	Aug 17
Vikash / Satish	RCom: Dissapointment is a norm	Aug 17
Kuldeep / Krupal/ Varun	Technology sector: The acquisition imperative	Aug 17
Shaleen Silori	Unitech: Slowdown visible	Aug 17
Shaleen Silori	HDIL: Strong headwinds – TDR volumes remain concern	Aug 16
Krupal/ Varun	Jaiprakash Associates: Short-term pain; long-term growth intact	Aug 16
Abhijit / Neerav	Hindalco: Project risks to create valuation overhang	Aug 16
Kuldeep / Krupal/ Varun	Tech Mahindra: BT revenues at risk?	Aug 12
Rohit Ahuja / Prolin Nandu	HPCL: Priced in	Aug 12
Abhijit / Neerav	Tata Steel: Steady quarter	Aug 12
Rohit Ahuja / Prolin Nandu	BPCL: Rising Uncertainty	Aug 12
Vikash / Satish	TV18 Broadcast: Punished; value emerges	Aug 12
Chirag / Gagan	Ranbaxy Laboratories: 10 burning questions on Lipitor, answered	Aug 11
Kuldeep / Krupal/ Varun	Technology sector: The fallacy of growth	Aug 11
Prakash / /Vivek/Aniruddha	Tata Power: Walking a tight rope	Aug 11
Chirag / Gagan	GSK Pharma: Field force productivity still not optimal	Aug 11
Sanket / Vijit	ABG Shipyard: Business case remains strong	Aug 11
Abhijit / Neerav	Hindalco Industries: Risks abound	Aug 9
Kuldeep / Krupal/ Varun	Mahindra Satyam: Good execution continues	Aug 9
Rohit Ahuja / Prolin Nandu	Gujarat State Petronet: Preferred play on gas	Aug 9
Shaleen Silori	Sobha Developers: H2FY12 looks promising	Aug 9
Kuldeep /Krupal/ Varun	Technology sector: Keep your powder dry	Aug 8
Abhijit / Neerav	Sesa Goa: Liberian acquisition raises concerns	Aug 5
Chirag / Gagan	Cipla: Margin recovery strong and sustainable	Aug 5
Chirag / Gagan	Ranbaxy Lab: Base business profitability under pressure	Aug 5
Krupal/ Kuldeep / Varun	Educomp Solutions: Valuation support	Aug 5
Prakash / /Vivek/Aniruddha	Adani Power: Downside risks persists	Aug 5
Abhijit / Neerav	Usha Martin: Looking for volume triggers	Aug 4
Rohit Ahuja / Prolin Nandu	Oil & Gas and Petrochemicals Monthly (August '11)	Aug 4
Prakash / /Vivek/Aniruddha	Power Grid: Coal issues may hurt execution	Aug 3
Shaleen Silori	DLF: Tough road ahead	Aug 3
Chirag / Gagan	Cipla: Could be at an inflection point	Aug 3
Vikash / Satish	Print: Digging their own grave; going the telecom way	Aug 2
Krupal / Varun	Shree Cement: In line quarter	Aug 2
Shaleen Silori	Prestige Estates: Looking forward to H2FY12	Aug 2
Vikash / Satish	Sun TV Network: Ad performance muted but still ahead of peers	Aug 2
Prakash / /Vivek	Chambal Fertilisers: Strong tailwinds, upgrade for 50% return	Aug 2
Krupal / Varun	Grasim: Short-term pain priced in	Aug 1
Sanket Maheshwari	TVS Motor: Standalone business improves	Aug 1
Vikash / Satish	TV Today: Weak quarter	Aug 1
Prakash / /Vivek/Aniruddha	CESC: Q1 a minor blip, on track for growth	Aug 1
Abhijit / Neerav	SAIL: Cost pressures mar Q1	Aug 1
Vikash / Satish	Idea Cellular: Tariffs increase surprise	Aug 1
Chirag / Gagan	Sun Pharma: Margin surprise unsustainable	July 29
Prakash / /Vivek/Aniruddha	T&D Equipment: PGCIL - Q1 ordering weak, revival expected	July 29
Abhishek / Digant	PNB: Operationally healthy quarter	July 29
Vikash / Satish	Jagran Prakashan: Muted ad growth	July 29
Rohit Ahuja / Prolin Nandu	ONGC: Uncertainty continues	July 28
Abhijit / Neerav	Metals & Minding (Iron Ore): Supply concerns dig deeper	July 28
Krupal / Varun	ACC: Gaining market share	July 28
Krupal / Varun	Ambuja Cements: Good show	July 28
Krupal / Varun	UltraTech Cement: Rock-solid quarter	July 28

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)

BUY: +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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