

Cipla Ltd

Relative to sector: **Underperformer**

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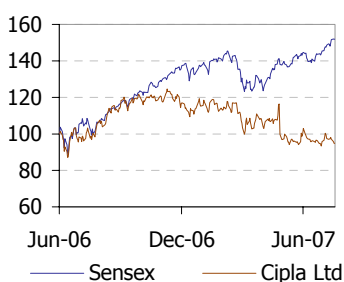
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 777mn
Market cap	: Rs 156bn
52 week high/low	: Rs 275/ Rs.200
Avg. daily vol. (6mth)	: 1.9mn shares
Bloomberg code	: CIPLA IN
Reuters code	: CIPL.BO

Shareholding (%)	Jun-07	QoQ chg
Promoters	: 39.4	0.0
FIIs	: 15.7	(1.1)
MFs / UTI	: 2.6	(0.6)
Banks / FIs	: 9.9	1.8
Others	: 32.4	(0.0)

DISAPPOINTMENT CONTINUES

Cipla's Q1FY08 numbers were well below our estimates, with net sales up 4.9% YoY to Rs 9bn and EBITDA down 30% YoY to Rs 1.6bn. The decline in EBITDA can be attributed to an extremely competitive situation in the US generics market and an unfavorable product mix. The fall in EBITDA has depressed adjusted PAT, which was down 30% YoY to Rs 1.2bn. Sales growth was muted because of a flat performance in formulation exports partly due to a CFC shortage, which affected the manufacturing of inhalers.

Q1FY08 Highlights

- At Rs 4.8bn, domestic formulation sales were up only 7% YoY – somewhat below overall growth in the domestic market during this period.
- API exports were up 8.5% YoY at Rs 816mn. However, contracts to supply APIs worth ~USD 6mn in revenues are expected to be signed later during the fiscal.
- Input costs have risen due to high prices for intermediates and APIs imported from China. Changes in pollution control norms and the withdrawal of some export benefits to Chinese API manufacturers resulted in production costs rising in China. Manufacturing costs are up due to new EOU in Patalganga, which has high traveling and one time training costs. Also, higher staff costs due to increase in manpower have impacted margins.
- Orders for inhalers were received from Denmark, Portugal and Germany; however supply constraints due to CFC shortage have muted the off-take.

While the management hopes to see EBITDA margin improve to ~20% by H2FY08, this is dependent on many factors, some of which are beyond its control. We have thus, reduced our FY08E EPS by 23% and are downgrading the stock to sector **Underperformer**. At CMP (Rs 201), the stock trades at 27.9x FY08E EPS of Rs 7.2 and 21.9x FY09E EPS of Rs 9.2.

Financial summary

Y/E Mar	Sales (Rs .mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2006	28,974	6,076	-	8.1	48	32.7	34.5	34.3	27.6	2.0
2007	34,412	6,608	-	8.5	5	27.7	25.5	25.8	21.7	2.0
2008E	36,869	5,604	10.8	7.2	(15)	27.9	16.5	16.8	21.0	2.0
2009E	42,604	7,120	12.1	9.2	27	21.9	18.5	18.4	17.2	2.2

Source: *Consensus broker estimates, Company, ENAM estimates

Results update

(Rs. mn)	Quarter ended					12 months ended		
	Jun-07	Jun-06	% Chg	Mar-07	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	9,018	8,601	4.9	9,385	(3.9)	36,869	34,412	7.1
EBIDTA	1,597	2,278	(29.9)	1,460	9.3	7,158	8,175	(12.4)
Other income	185	220	(15.5)	221	(16.0)	829	891	(7.0)
PBIDT	1,782	2,497	(28.6)	1,681	6.0	7,988	9,066	(11.9)
Depreciation	303	260	16.3	261	16.0	1,247	1,041	19.8
Interest	8	28	(70.6)	13	(36.4)	35	70	(49.2)
PBT	1,472	2,209	(33.4)	1,407	4.6	6,706	7,956	(15.7)
Tax	274	505	(45.7)	150	82.7	1,102	1,348	(18.2)
Reported PAT	1,198	1,704	(29.7)	1,257	(4.7)	5,604	6,608	(15.2)
No. of shares (mn)	777	777	-	777	-	777	777	-
EBIDTA margin (%)	17.7	26.5	-	15.6	-	19.4	23.8	-
PBIDT margin (%)	19.8	29.0	-	17.9	-	21.7	26.3	-
EPS - annualized (Rs.)	6.2	8.8	(29.7)	6.5	(4.7)	7.2	8.5	(15.2)

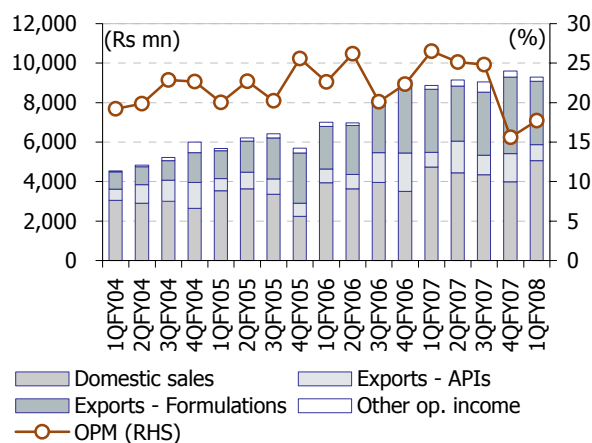
Source: Company, ENAM Research

Sales mix

(Rs mn)	Quarter ended				
	Jun-07	Jun-06	% Chg	Mar-07	% Chg
Domestic sales (Net of excise) (a)	4,784	4,461	7.2	3,778	26.6
<i>(% of sales)</i>	<i>54</i>	<i>53</i>	<i>-</i>	<i>42</i>	<i>-</i>
Exports					
- Formulations	3,203	3,187	0.5	3,879	(17.4)
- APIs	816	752	8.5	1,415	(42.3)
Total Exports (b)	4,019	3,938	2.1	5,293	(24.1)
<i>(% of sales)</i>	<i>46</i>	<i>47</i>	<i>-</i>	<i>58</i>	<i>-</i>
Total sales (a+b)	8,803	8,399	4.8	9,071	(3.0)
Other operating income	216	202	6.6	313	(31.2)
Total operating revenue	9,018	8,601	4.9	9,385	(3.9)

Source: Company data

Sales mix and OPM



Source: Company, ENAM Research

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