

## Neutral

Price	Rs224
Target Price	-
Investment Period	-

### Stock Info

Sector	Pharmaceutical
Market Cap (Rs cr)	17,434
Beta	0.47
52 WK High / Low	260/160
Avg Daily Volume	558203
Face Value (Rs)	2
BSE Sensex	17,126
Nifty	5,112
BSE Code	500087
NSE Code	CIPLA
Reuters Code	CIPL.BO
Bloomberg Code	CIPLA IN

### Shareholding Pattern (%)

Promoters	39.4
MF/Banks/Indian FIs	14.2
FII/ NRIs/ OCBs	22.5
Indian Public	23.9

Abs.	3m	1yr	3yr
Sensex (%)	(0.7)	20.5	200
Cipla (%)	22	(11.1)	109

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## Performance Highlights

- 4QFY2008 Results beat street expectations:** Cipla's 4QFY2008 numbers have come in well ahead of expectations. For 4QFY2008, the company posted Net Sales and Profits of Rs1,082cr and Rs179.3cr, registering a rise of 19.2% and 42%, respectively. For FY2008, the company clocked Net Sales and Profits of Rs4,006cr and Rs700.9cr, registering a growth of 16.5% and 6.0%, respectively.
- Domestic Business drives Sales growth:** While during the quarter, Exports contributed significantly to the overall growth momentum, during the year Domestic Formulation was the key growth driver for the company. For the quarter, Exports grew 22.7%, while for FY2008 growth was restricted to 10%. Formulation Exports registered a yoy growth of 21% during the year, yoy lower by 11.7%, which resulted in sluggish Exports growth for FY2008. Domestic Formulation, which accounts for 50% of the company's overall Sales, posted 13.4% growth for FY2008.
- OPM expands substantially in 4QFY2008 aided by lower Other Expenses:** 4QFY2008 was the only quarter in fiscal 2008 when the company expanded its Operating Margins. During the quarter, the company posted a 223bp expansion in Operating Margins aided by improved Sales mix and lower Other Expenditure. Further, Margins improved despite a 69% increase in Staff Costs, which rose mainly owing to increments, rise in Manpower and change in accounting guidelines for employee benefits. Overall, the company ended the quarter with OPMs of 15%.

For FY2008 however, Margins remained under pressure witnessing a contraction of 776bp and ended the period at 15.7%. Sluggish Sales growth coupled with increase in Staff and Other Expenditure exerted pressure on Operating Margins.

### Key Financials ( Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
<b>Net Sales</b>	<b>3,438.1</b>	<b>4,006.3</b>	<b>4,521.8</b>	<b>5,245.5</b>
% chg	18.7	16.5	12.9	16.0
<b>Net Profit</b>	<b>667.1</b>	<b>700.9</b>	<b>788.6</b>	<b>867.1</b>
% chg	9.8	5.1	12.5	10.0
<b>EPS (Rs)</b>	<b>8.6</b>	<b>9.0</b>	<b>10.1</b>	<b>11.1</b>
EBITDA Margin (%)	20.0	15.7	16.7	16.7
<b>P/E (x)</b>	<b>26.1</b>	<b>24.8</b>	<b>22.1</b>	<b>20.1</b>
P/CEPS (x)	21.2	20.3	18.4	17.0
RoE (%)	25.6	20.3	20.1	19.8
RoCE (%)	23.7	16.9	14.1	14.8
P/BV (x)	10.8	9.5	8.3	7.6

Source: Company, Angel Research

**Outlook and Valuation**

At the CMP, the stock is trading at 22.1x FY2009E and 20.0x FY2010E Earnings. Over the last one year, the stock has underperformed the bourses on the back of lower profitability. Going forward, the company has guided for a 12-15% rise in Sales and to maintain Margins at the similar levels. With the Generic markets facing intense competitive pressures, the company's Margins and Profitability are likely to remain under pressure. Overall, during FY2008-10E while Net Sales are expected to post a CAGR growth of 14.4%, Net Profits are likely to post a CAGR of 11.2%. Given the trends in macro environment, at current valuations, **we remain Neutral on the stock.**

**Exhibit 2: 4QFY2008 Performance (Consolidated)**

Y/E March (Rs cr)	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
<b>Net Sales</b>	<b>1,081.5</b>	<b>907.1</b>	<b>19.2</b>	<b>4,006.3</b>	<b>3,438.1</b>	<b>16.5</b>
Other Income	81.1	53.9		345.7	223.2	
<b>Total Income</b>	<b>1,162.6</b>	<b>961.1</b>	<b>21.0</b>	<b>4,352.0</b>	<b>3,661.3</b>	<b>18.9</b>
PBIDT	162.1	115.7	40.2	629.2	688.7	(8.6)
<b>Operating Margin (%)</b>	<b>15.0</b>	<b>12.7</b>		<b>15.7</b>	<b>20.0</b>	
Interest	4.6	1.3		11.6	7.0	
Depreciation	36.7	26.1		132.3	104.1	27.1
PBT	202.0	142.2	42.0	831.0	800.8	3.8
Provision for Taxation	22.7	16.0		130.2	140.0	
<b>PAT before Extra-ordinary Item</b>	<b>179.3</b>	<b>126.3</b>	<b>42.0</b>	<b>700.9</b>	<b>660.8</b>	<b>6.1</b>
Extra-ordinary Items	0.0	0.0		0.0	0.0	
<b>PAT after Extra-ordinary Item</b>	<b>179.3</b>	<b>126.3</b>	<b>42.0</b>	<b>700.9</b>	<b>660.8</b>	<b>6.1</b>
<b>EPS (Rs)</b>	<b>2.3</b>	<b>1.6</b>		<b>9.0</b>	<b>8.5</b>	

Source: Company



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**Ratings (Returns) Buy (> 15%) Accumulate (5 to 15%) Neutral (5 to -5%) Reduce (> -5%) Sell (> -15%)**