



ENAM Securities  
India Research

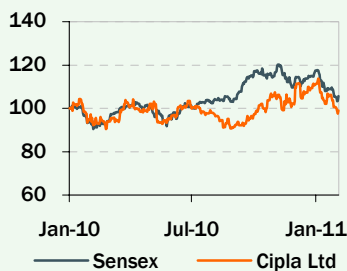
CMP: Rs 324  
Target Price: Rs 307  
Potential Upside: -5%  
Absolute Rating: **HOLD**

# Cipla Ltd

Relative to sector: **Neutral**

**Deepak Khetan**  
Asst VP – Life Sciences  
Email: deepak.khetan@enam.com

## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares : 803 mn  
Market cap : Rs 260.3 bn  
52 week high/low : Rs 381/ Rs 299  
Avg. daily vol. (6mth) : 1.8 mn shares  
Bloomberg code : CIPLA IB  
Reuters code : CIPL.BO

| Shareholding (%) | Dec-10 | QoQ chg |
|------------------|--------|---------|
| Promoters        | 36.8   | 0.0     |
| FIs              | 15.4   | 0.2     |
| MFs / UTI        | 6.7    | 1.5     |
| Banks / FIs      | 12.0   | (1.1)   |
| Others           | 29.1   | (0.6)   |

## GROWTH SLIPS; MARGINS CONTINUES TO DISAPPOINT

Cipla's Q3FY11 PAT was down 20% YoY to Rs 2.3 bn, significantly lower than our estimate, primarily due to lower EBITDA margin (20.5%). However, sales (up 8%, Rs 15.5 bn) was in-line. Management expects growth to pick up (with ramp-up at Indore SEZ) in the coming quarters.

### Key highlights (Other highlights overleaf)

- **Sales:** Net sales rose 8% to Rs 15.5 bn driven by 12% rise in formulations (11% growth in domestic formulation at Rs 7.3 bn and 12% growth in export formulations at Rs 6.4 bn) and 13% rise in API exports to Rs 1.4 bn. Other operating income (Rs 523 mn) declined 45% due to lower technical know-how fee of Rs 151 mn v. Rs 703 mn in Q3FY10 (included one-time fee of Rs 550 mn). Mgmt indicated that going forward technology fees would remain low.
- **EBITDA:** Margin was lower at 20.5% from 26.4% in Q3FY10 due to increased overheads at Indore SEZ (Rs 250-300 mn), rise in staff costs (due to increase in manpower at Indore SEZ, regrouping of contractual staff at Goa & annual increments), increase in marketing cost (Rs 200-250 mn) and 4% rupee appreciation.
- **PAT:** Was down 20% led by lower EBITDA and higher depreciation (on account of commissioning of Indore SEZ).

### Reduce estimates; maintain HOLD (5% downside from CMP)

We believe, with ramp-up of Indore SEZ and launch of combination inhalers in Europe, Cipla's sales growth rate and margins should see improvement. However, it will materialize over a period of time. In view of slow ramp-up at Indore SEZ and continued pressure on margins, we reduce our FY11E and FY12E EPS estimates by 7.5% and 2.8% to Rs 12.5 and Rs 15.3 respectively. **Maintain HOLD** for a lower target price of Rs 307 (20x FY12E EPS).

## Financial Summary

| Y/E Mar | Sales<br>(Rs mn) | PAT<br>(Rs mn) | Consensus<br>EPS* (Rs) | EPS<br>(Rs.) | Change<br>YoY (%) | P/E<br>(x) | RoE<br>(%) | RoCE<br>(%) | EV/EBITDA<br>(x) | DPS<br>(Rs) |
|---------|------------------|----------------|------------------------|--------------|-------------------|------------|------------|-------------|------------------|-------------|
| 2009    | 49,606           | 9,682          | -                      | 12.5         | 50                | -          | 23.9       | 24.2        | -                | 2.0         |
| 2010    | 53,595           | 10,532         | -                      | 13.1         | 5                 | -          | 20.5       | 23.5        | -                | 2.0         |
| 2011E   | 60,480           | 10,086         | 14.0                   | 12.5         | (4)               | 25.8       | 16.0       | 19.3        | 18.2             | 2.1         |
| 2012E   | 67,585           | 12,323         | 16.4                   | 15.3         | 22                | 21.1       | 17.1       | 20.5        | 15.2             | 2.4         |

Source: \* Consensus broker estimates, Company, ENAM estimates

## Results Update

| (Rs mn)                       | Quarter ended |               |               |               |               | 12 months ended |               |              |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|-----------------|---------------|--------------|
|                               | Dec-10        | Dec-09        | % Chg         | Sep-10        | % Chg         | Mar-11E         | Mar-10E       | % Chg        |
| <b>Net Sales</b>              | <b>15,537</b> | <b>14,385</b> | <b>8.0</b>    | <b>16,154</b> | <b>(3.8)</b>  | <b>60,480</b>   | <b>53,595</b> | <b>12.8</b>  |
| <b>EBITDA</b>                 | <b>3,182</b>  | <b>3,799</b>  | <b>(16.2)</b> | <b>3,516</b>  | <b>(9.5)</b>  | <b>13,904</b>   | <b>13,742</b> | <b>1.2</b>   |
| Other income                  | 257           | 178           | 44.0          | 166           | 54.4          | 799             | 1,073         | (25.5)       |
| <b>PBIDT</b>                  | <b>3,439</b>  | <b>3,977</b>  | <b>(13.5)</b> | <b>3,682</b>  | <b>(6.6)</b>  | <b>14,703</b>   | <b>14,815</b> | <b>(0.8)</b> |
| Depreciation                  | 653           | 457           | 42.9          | 639           | 2.1           | 2,484           | 1,671         | 48.7         |
| Interest                      | 29            | 44            | (33.0)        | 2.8           | -             | 38              | 230           | (83.4)       |
| <b>PBT</b>                    | <b>2,757</b>  | <b>3,477</b>  | <b>(20.7)</b> | <b>3,040</b>  | <b>(9.3)</b>  | <b>12,181</b>   | <b>12,915</b> | <b>(5.7)</b> |
| Tax                           | 430           | 587           | (26.7)        | 560           | (23.2)        | 2,095           | 2,383         | (12.1)       |
| <b>Adjusted PAT</b>           | <b>2,327</b>  | <b>2,890</b>  | <b>(19.5)</b> | <b>2,480</b>  | <b>(6.2)</b>  | <b>10,086</b>   | <b>10,532</b> | <b>(4.2)</b> |
| Extra ordinary income/ (exp.) | 0             | 0             | -             | 150           | -             | 0               | 294           | -            |
| <b>Reported PAT</b>           | <b>2,327</b>  | <b>2,890</b>  | <b>(19.5)</b> | <b>2,630</b>  | <b>(11.5)</b> | <b>10,086</b>   | <b>10,826</b> | <b>(6.8)</b> |
| No. of shares (mn)            | 803           | 803           | -             | 803           | -             | 804             | 804           | -            |
| EBITDA margins (%)            | 20.5          | 26.4          | -             | 21.8          | -             | 23.0            | 25.6          | -            |
| PBIDT margins (%)             | 22.1          | 27.6          | -             | 22.8          | -             | 24.3            | 27.6          | -            |
| <b>EPS - annualized (Rs.)</b> | <b>11.6</b>   | <b>14.4</b>   | <b>(19.5)</b> | <b>12.4</b>   | <b>(6.2)</b>  | <b>12.5</b>     | <b>13.1</b>   | <b>(4.2)</b> |

Source: Company, ENAM Research

## Sales mix\*

| (Rs mn)                        | Quarter ended |               |             |               |              |
|--------------------------------|---------------|---------------|-------------|---------------|--------------|
|                                | Dec-10        | Dec-09        | % Chg       | Sep-10        | % Chg        |
| <b>Domestic sales</b>          | <b>7,340</b>  | <b>6,592</b>  | <b>11.3</b> | <b>7,564</b>  | <b>(3.0)</b> |
| <b>Exports</b>                 |               |               |             |               |              |
| - Formulations                 | 6,432         | 5,758         | 11.7        | 6,639         | (3.1)        |
| - APIs                         | 1,386         | 1,229         | 12.8        | 1,683         | (17.6)       |
| <b>Total Exports</b>           | <b>7,818</b>  | <b>6,987</b>  | <b>11.9</b> | <b>8,322</b>  | <b>(6.1)</b> |
| <b>Total sales</b>             | <b>15,158</b> | <b>13,579</b> | <b>11.6</b> | <b>15,886</b> | <b>(4.6)</b> |
| Other operating income         | 523           | 943           | (44.6)      | 355           | 47.5         |
| <b>Total operating revenue</b> | <b>15,681</b> | <b>14,522</b> | <b>8.0</b>  | <b>16,241</b> | <b>(3.4)</b> |

Source: Company data, \*Gross Sales

## Other Highlights

- ❑ **Indore SEZ** – Currently the facility is EBITDA negative as sales are negligible but overheads are being incurred (Rs 250-300 mn). The facility has been approved by WHO, South Africa, Australia and UK. Mgmt seemed confident of ramping up the sales at the SEZ over next 4-5 quarter and indicated that it may start contributing 10% of revenues by end-FY12.
- ❑ **CFC-free inhalers** – Cipla has already launched salmeterol in South Africa and would soon be launching in Russia. The mgmt expects to commercialize few products in Europe over next 12 months. But, failed to provide clarity on combination inhalers.
- ❑ The company indicated that it has 64 products approved and 46 pending approval with US FDA. Management expects these approvals to drive growth in US markets.
- ❑ The mgmt indicated that they are in talks with innovator companies over supply agreement for various markets. However, did not provide any time-line.

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