

CIPLA LTD**Current Price: Rs. 367 Target Price: Rs. 410****BUY****QUICK DATA**

Face Value (Rs)	2.0
Div. Yield (%)	0.55
No of shares ('mn)	802.9
52 week High/Low(Rs)	368 / 273
NSE Symbol	CIPLA
BSE Code	500087
Edel Code	CIPLTD
Market cap (Rs. bn.)	292.0

BUSINESS OVERVIEW

CIPLA LTD (CIPLTD), is India's third largest company by domestic sales. Cipla's revenues (excluding tech fees) and profits have posted 17% and 13% CAGR in FY06-10, to Rs. 65 bn and Rs. 12 bn in FY10 respectively. Cipla's domestic formulations contribute 46% to total FY10 revenues (excluding tech fees) and have posted 14% CAGR in FY06-10. With a market share of ~5%, Cipla is the third largest player in the Indian market, with leadership positions in ARTs, respiratory and urology. Cipla's export sales (excluding tech fees) have grown at 22% CAGR during FY06-10, to Rs. 28 bn, in FY10. Africa, with 34% share, is the largest contributor to exports, followed by the Americas (26%) and Europe (17%).

INVESTMENT THEME

- India is projected to be the third-largest pharma market (after the US and China) in terms of incremental growth. It is also evident that the sub-continent, with the highest population and robust economic growth, offers attractive return to pharma companies due to its cost effective manufacturing capabilities and branded generics nature of the market. As the domestic pharma market grows in size and diversity, there are several opportunities that will scale up to their full potential. Some of these include biologics and vaccines, consumer healthcare, patented products and hospital segment, which are at an early stage of lifecycle, but are likely to scale up with upgradation of therapies, increased penetration of multi-specialty hospitals and changes in patients preference. According to industry sources, these opportunities will collectively grow to USD 25 bn by 2020 from the current USD 5 bn.
- Cipla's domestic operations are its strength, offering it strong, steady cash flows to sustain operations. With a market share of ~5%, Cipla is the third largest player in the Indian market. It is the leader in ARTs, respiratory and urology segments. Domestic formulations contributed 46% to FY12 overall revenues and accounted for 34% of the incremental growth during FY05-09.

SHAREHOLDING PATTERN (%)

Promoters	36.8
MFs, FIs & Banks	16.2
FIIIs	18.1
Others	29.0

EDELWEISS CLASSIFICATION

Market Cap	Large Cap
Liquidity	High
Relative Reco	Sector Outperformer
Relative Risk	Low
Sector Rating	Pharma - Underweight

GROWTH METRICS (%)

Year to March	FY12	FY13E	FY14E
Revenues	10.7	21.0	13.7
EBITDA	22.6	29.4	12.5
EPS	15.0	34.8	12.2

- We expect Cipla gross sales to grow at 17% CAGR to Rs. 96bn by FY14E, led by 17-19% CAGR in domestic branded formulation and export formulations business to Rs. 44bn and Rs. 42bn, respectively. Bulk business is expected to grow at 11% CAGR in FY12-14E. We believe Cipla's growth profile and margin expansion render strong earnings growth. We expect net profit to grow at 23% CAGR in FY12-14E to Rs. 19.4bn. Further, timely approval of inhalers for EU and/or long-term partnerships with innovator companies could add large upsides to our estimates.
- Cipla's valuations have declined to 16-17x, from historical five year average of 19-20x 1- year forward, due to poor operating performance. We believe the expected turnaround in domestic business, sustainable licensing income and ramp up in Indore SEZ should drive 23% earnings CAGR over FY12-14E. Inhaler exports to EU and ROW markets will be long-term growth drivers. Hence, we believe de-rating factors have now become re-rating triggers.
- Current interest by Big Pharma (Abbott's deal with Piramal Healthcare, Pfizer's deal with Aurobindo and Claris, Glaxo's deal with Dr. Reddy's) shows a burgeoning interest by Big Pharma to expand their generic footprint globally by collaborating with Indian generic companies for emerging market sales, which is a structural positive for the Indian generic sector, in our view. Any such deal with Cipla would be a significant positive for the company.

INVESTMENT RISKS

- Contingent NPPA liability.
- Proposed NPPA pricing policy.

OUTLOOK AND VALUATIONS

We believe the expected turnaround in domestic business, sustainable licensing income and margin improvement from ramp-up in Indore SEZ will render higher earnings growth (23% CAGR over FY12-14E) could be re-rating triggers going forward. On our FY13E and FY14E estimates, the stock currently is trading at a P/E 20x and EV/EBITDA of 13.3x on FY14E basis and at a P/E of 17.7x and EV/EBITDA of 11.6x on FY14E basis. Given these attractive valuations and its growth prospects, we believe the stock offers upside potential in the near term.

EDELWEISS RATIOS - COMPARATIVE VALUATIONS

Company	Cipla	Cadila Healthcare	Lupin	Ranbaxy Labs	Sun Pharma
1 Wk Price performance (%)	2.2	1.2	4.0	7.2	0.7
3 M Price performance (%)	17.6	18.9	7.3	9.2	16.9
PE (x)	25.5	29.0	27.6	19.5	24.0
Price to Book Value (x)	3.8	7.0	6.4	8.1	5.7
Dividend Yield (%)	16.2	16.6	17.8	-	29.3
Return on Equity (%)	16.0	27.8	23.9	14.3	20.8

FINANCIAL SNAPSHOT

Year to March (Rs. mn)	FY12	FY13E	FY14E
Income from operations	69,892	84,572	96,147
Materials costs	27,393	33,321	38,267
Employee costs	7,725	9,283	10,438
Total SG&A expenses	18,500	20,911	23,747
EBITDA	16,273	21,056	23,696
Depreciation & Amortization	3,122	3,544	3,966
Other income	1,481	1,295	1,371
Interest expenses	154	43	43
Profit before tax	14,478	18,764	21,057
Provision for tax	3,065	3,940	4,422
Profit after minority interest	11,413	14,824	16,635
Diluted EPS (Rs.)	13.7	18.5	20.7
Diluted P/E (x)	26.8	19.8	17.7
EV/EBITDA (x)	17.2	13.3	11.6
ROAE (%)	15.4	18.0	18.0

TECHNICAL VIEW

Resistance

Resistance 1 - 370

Resistance 2 - 400

Support

Support 1 - 360

Support 2 - 345



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