

30 May 2013

Cipla

*Weak quarter, outlook intact; Buy*Rating: **Buy**

Target Price: ₹472

Share Price: ₹400

Key takeaways

Muted quarter. Cipla's 4QFY13 revenue grew 5.4% yoy to ₹19.7bn, less than our expected ₹20.9bn, chiefly due to lower domestic growth and a decline in APIs. Its EBITDA margin declined 60bps yoy to 20.8%, less than our estimated 23.8%, on lower domestic revenue and a 300-bp yoy increase in staff costs. Adjusted PAT fell 8.3% yoy to ₹2.7bn (vs our expected ₹3.5bn) on the lower revenue growth, EBITDA margin decline and a higher effective tax rate.

Export formulations – key growth driver. Revenue growth at 5.4% yoy was restrained. Export formulations was the key growth driver, with a 12% yoy increase in revenue led by the anti-asthma, anti-allergy, ARVs and anti-depressant segments. However, on the high base, export API revenue fell 24% yoy. Domestic formulations registered 5.2% yoy growth, much less than our estimated 10% due to the slowdown in industry growth particularly in the acute segments.

Our take. We believe that the weak performance chiefly stemmed from restrained growth in domestic formulations and the shift of some tender business in Africa to FY14. This also cut into the margin. Management is confident of healthy double-digit growth in FY14 and has guided to more R&D expenditure to build a future pipeline. Considering 4QFY13's subdued performance, the 100-bp rise in R&D spend and the higher tax rate, we lower our FY14e and FY15e revenue 1.6% and 0.3% respectively, and adjusted PAT estimates 5.7% and 5.3%. The Cipla Medpro acquisition is expected to be complete by 2QFY14 and we expect it to be 3.5% EPS accretive in FY15. We have not factored this acquisition into our estimates but have valued it separately.

We maintain a Buy on the stock, with a revised target of ₹472 based on 21x Sep'14e earnings and ₹17 for the Cipla Medpro acquisition. **Risks.** Currency fluctuations, regulatory hurdles.

Key data	CIPLA IN / CIPL.BO
52-week high / low	₹435 / ₹301
Sensex / Nifty	20147 / 6104
3-m average volume	US\$13.8m
Market cap	₹329bn / US\$6.1bn
Shares outstanding	803m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	36.8	36.8	36.8
- of which, Pledged	0	0	0
Free Float	63.2	63.2	63.2
- Foreign Institutions	23.89	22.24	20.79
- Domestic Institutions	10.19	11.84	13.36
- Public	29.12	29.12	29.05

Estimates revision (%)	FY13e	FY14e	FY15e
Sales	-	(1.6)	(0.3)
EBITDA	-	(4.9)	(5.0)
EPS	-	(5.7)	(5.3)
Target multiple (x)	-	-	-

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	93,898	107,263
Net profit (₹m)	16,123	18,635
EPS (₹)	20.1	23.2
Growth (%)	6.4	15.6
PE (x)	19.9	17.2
PBV (x)	3.1	2.7
RoE (%)	16.7	16.8
RoCE (%)	15.0	15.3
Dividend yield (%)	0.8	0.9
Net gearing (%)	(19.0)	(24.8)

Source: Anand Rathi Research

Quarterly results (YE Mar)	4QFY12	4QFY13	% yoy	FY12	FY13	% yoy
Sales (₹m)	18656	19667	5.4	51,134	62,205	21.7
EBITDA (₹m)	3988	4095	2.7	11,846	17,097	44.3
EBITDA margin (%)	21.4	20.8	(60)bps	23.2	27.5	430bps
Interest (₹m)	23	176	683.6	99	158	59.6
Depreciation (₹m)	705	783	11.1	2,116	2,248	6.2
Other income (₹m)	390	585	50.1	933	1,707	82.9
PBT (₹m)	3650	3720	1.9	10,564	16,398	55.2
Tax (₹m)	733	1045	42.5	2,242	4,003	78.5
Tax rate (%)	20.1	28.1	800bps	21.2	24.4	320bps
Adj PAT (₹m)	2,917	2,676	-8.3	8,212	12,025	46.4

Source: Company

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	63,145	70,207	82,793	93,898	107,263
Revenue growth (%)	12.6	11.2	17.9	13.4	14.2
- Op. expenses	49,878	53,250	60,816	70,891	81,035
EBIDTA	13,267	16,957	21,978	23,007	26,229
EBITDA margin (%)	21.0	24.2	26.5	24.5	24.5
- Interest expenses	173	383	339	532	483
- Depreciation	2,542	3,122	3,305	3,580	3,781
+ Other income	945	353	2,221	2,319	2,555
- Tax	1,952	3,065	5,443	5,091	5,885
Effective tax rate (%)	16.8	21.2	26.5	24.0	24.0
Reported PAT	9,896	11,442	15,448	16,123	18,635
+/- Extraordinary items	0	0	398	0	0
+/- Minority interest	(224)	(29)	62	0	0
Adjusted PAT	9,791	10,911	15,155	16,123	18,635
Adj. FDEPS (₹/share)	12.2	13.6	18.9	20.1	23.2
Adj. FDEPS growth (%)	(7.3)	11.4	38.9	6.4	15.6

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	1,606	1,606	1,606	1,606	1,606
Reserves & surplus	65,056	74,784	88,581	101,677	117,063
Net worth	66,661	76,389	90,187	103,283	118,669
Minority interest	0	0	0	0	0
Total debt	5,719	135	9,669	9,669	9,669
Def. tax liab. (net)	2,131	2,332	2,805	2,805	2,805
Capital employed	74,511	78,856	102,662	115,757	131,144
Net fixed assets	33,799	35,867	39,878	41,798	42,017
Investments	5,904	12,745	25,376	25,376	25,376
- of which, Liquid	2,465	9,405	21,168	21,168	21,168
Net working capital	33,798	29,340	35,978	40,488	45,794
Cash and bank balance	1,010	905	1,430	8,097	17,958
Capital deployed	74,511	78,856	102,662	115,757	131,144
Net debt	2,244	(10,175)	(12,928)	(19,595)	(29,456)
WC days	154.6	159.5	152.6	155.2	154.9
Book value (₹/sh)	83.0	95.1	112.3	128.6	147.8

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	9,896	11,442	15,448	16,123	18,635
+ Non-cash items	2,874	3,323	3,305	3,580	3,781
Cash profit	12,769	14,766	18,752	19,703	22,416
- Incr./ (Decr.) in WC	3,029	(4,458)	6,638	4,509	5,306
Operating cash-flow	9,741	19,224	12,114	15,193	17,110
- Capex	9,468	5,194	7,316	5,500	4,000
Free cash-flow	273	14,030	4,798	9,693	13,110
- Dividend	2,615	1,866	1,866	2,811	3,249
+ Equity raised	-	-	-	-	-
+ Debt raised	5,668	(5,584)	9,535	-	-
- Investments	3,253	6,841	12,631	0	0
- Misc. items	(329)	(156)	(689)	216	-
Net cash-flow	402	(105)	525	6,667	9,861
+ Op. cash & bank bal.	608	1,010	905	1,430	8,097
Cl. cash & bank bal.	1,010	905	1,430	8,097	17,958

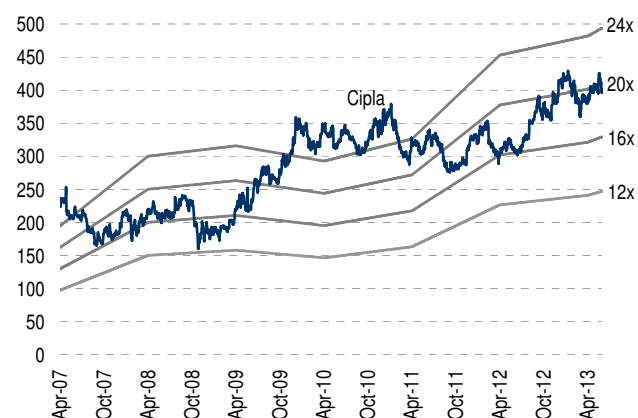
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹400

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	32.8	29.4	21.2	19.9	17.2
P/B (x)	4.8	4.2	3.6	3.1	2.7
EV/EBITDA (x)	23.8	18.3	14.0	13.1	11.1
RoE (%)	15.6	15.3	18.2	16.7	16.8
RoCE (%)	14.7	14.6	16.8	15.0	15.3
Dividend yield (%)	0.7	0.5	0.5	0.8	0.9
Dividend payout (%)	22.7	14.0	10.4	15.0	15.0
Asset turnover (x)	0.9	0.9	1.0	0.9	0.9
Net Debt/Equity (x)	0.0	(0.1)	(0.1)	(0.2)	(0.2)
Net debt/EBITDA (x)	0.2	(0.6)	(0.6)	(0.9)	(1.1)
Net debt/Op. CF (x)	0.2	(0.5)	(1.1)	(1.3)	(1.7)
Interest coverage (x)	61.9	36.1	55.1	36.5	46.4
P/CEPS (x)	31.9	27.2	20.3	19.3	16.8
EV/ sales (x)	5.0	4.4	3.7	3.2	2.7
M-cap/sales (x)	4.9	4.6	3.9	3.4	3.0

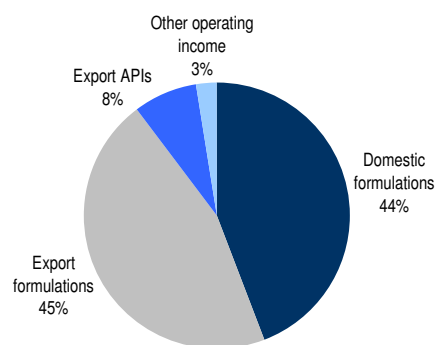
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 – Revenue break-up (FY13)



Source: Company

Result highlights

Result comparison

Cipla's 4QFY13 results belied our expectations. Net sales came 6.3% lower chiefly because of restrained growth in its domestic formulations (which rose a mere 5.4% yoy) and a decline in its APIs revenue. The EBITDA margin at 20.8% was less than our estimated 23.8%. The less-than-expected revenue, EBITDA-margin decline and the higher effective income-tax rate (of 28.1%) led to net profit being 23.8% less than we estimated.

Fig 7 – Estimates vs Actuals

(₹m)	4QFY13e	4QFY13	Variance (%)
Revenues	20,988	19,667	(6.3)
EBITDA	4,987	4,095	(17.9)
Margin (%)	23.8	20.8	(300)bps
PAT	3,513	2,676	(23.8)
Margin (%)	16.7	13.6	(310)bps

Source: Company, Anand Rathi Research

Rstrained growth across segments

Fro 4QFY13, yoy revenue growth was just 5.4% due to lower-than-expected growth in domestic formulations and a decline in API revenue. Export formulations at 12% yoy also grew less than we expected because of the shift of some tender supplies from 4QFY13 to FY14. The weak domestic-formulations growth followed from the slowdown in industry growth particularly in the acute segments. Management is optimistic regarding the domestic business, with healthy, higher-than-industry double-digit growth ahead. We expect domestic revenue to register a 14% CAGR over FY13-15, in line with the industry growth rate. We have not factored into our estimates the impact of the new pricing policy.

Fig 8 – Revenue break-up

(₹m)	4QFY12	4QFY13	% yoy	FY12	FY13	% yoy
Domestic	7,536	7,930	5.2	32,129	36,813	14.6
% of sales	39.9	40.0	-	45.4	44.3	-
Exports	10,850	11,290	4.1	36,920	44,270	19.9
% of sales	57.4	56.9	-	52.2	53.2	-
- Formulations	8,551	9,540	11.6	29,677	37,723	27.1
- APIs	2,299	1,750	-23.9	7,244	6,547	-9.6
Other Operating Income	515	605	17.4	1,698	2,105	23.9
% of sales	2.73	3.05	-	2.40	2.53	-
- Technology know how fees	56	390	596.4	310	662	113.3
- Others	459	215	-53.2	1,388	1,443	3.9
Total Sales	18,900	19,825	4.9	70,747	83,187	17.6

Source: Company

Valuation

We are upbeat about the stock. We expect EPS accretion from the Cipla Medpro acquisition and that higher domestic growth would lead to margin improvement. However, considering the restrained 4QFY13 performance, 100-bp rise in R&D expenditure and higher tax rate, we lower our FY14 and FY15 revenue estimates 1.6% and 0.3% respectively, and adjusted PAT estimates 5.7% and 5.3%. The Cipla Medpro acquisition should be completed by 2QFY14; we expect it to be 3.5% EPS accretive in FY15. We have not factored this acquisition into our estimates but have valued it separately.

We maintain a Buy rating on the stock, with a revised price target of ₹472 based on 21x Sep'14e earnings and ₹17 for the Cipla Medpro acquisition. The stock trades at 19.9x FY14e and 17.2x FY15e base business earnings. Though in the past it traded on average at the mean valuation of 21.7x, before FY12 it quoted at higher than the mean. We believe that the better margin due to a pick-up in domestic sales, the ramp-up in Dymista supplies and approval for combination inhalers in EU would help in a re-rating.

Fig 9 – Mean PE and Standard deviation



Source: Bloomberg, Anand Rathi Research

Risks

- Currency fluctuations and regulatory hurdles.
- Implementation of the new drug-pricing policy in India.

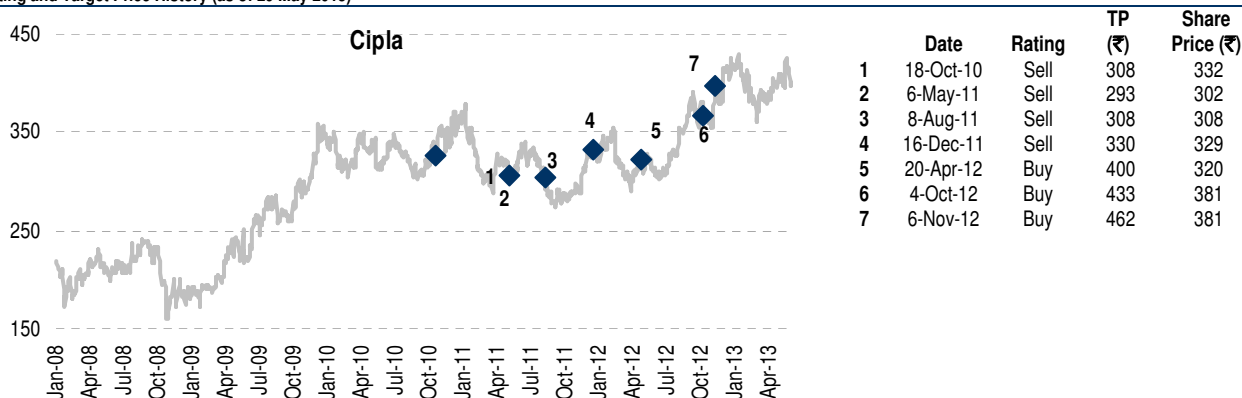
Appendix

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