

Cipla

15 November 2011

Reuters: CIPL.BO; Bloomberg: CIPLA IN

Performance in line with estimate, but high capex a concern

Cipla's 2QFY12 performance was broadly in line with estimates, with revenue at Rs17.8bn, including forex gain of Rs140mn, marginally higher than our/consensus estimates by 2%/1% and PAT at Rs3.09bn, higher than our/consensus estimates by 4% each, respectively. Margins at 24.6% improved 218bpsYoY and 139bpsQoQ, 40bps/30bps higher than our/consensus expectations, respectively. The management's guidance of 10-12% revenue growth in FY12 is uninspiring, especially in the backdrop of a huge capex drive of Rs31bn (26% CAGR) over the past five years. Key stock catalyst - the launch of combination inhalers - is still at least 12 months away and we believe its subdued capital efficiency following an additional Rs10bn of planned capex will steer further contraction in PE multiple. We maintain our Sell rating on the stock with a TP of Rs268.

Domestic growth improving, exports continue to lag: Sequential improvement in domestic revenue (up14%QoQ, 12%YoY) is encouraging, and reflects the benefits of recent field force addition and entry into newer therapies like neurology, psychiatry and oncology. Exports, however, continue to disappoint with 9.5%YoY growth, despite increased contribution from Indore SEZ (Rs1.5bn in 2Q versus Rs1bn in FY11). We continue to believe that most of the incremental revenue at Indore SEZ is driven by shift in existing volumes from other plants and we have accordingly modeled in a 20% shift in existing volume.

Other Con-call Highlights: a) Launch of combination inhalers in Europe is at least 12 months away b) The management gave guidance of capex of Rs5-6bn for FY12 and FY13, respectively c) Expects optimum capacity utilisation at Indore SEZ only in the next 3-4 years. The company is yet to file for an USFDA inspection of its plant d) Seroflo garnered US\$1.5mn revenue in Russia during 2QFY12 e) Company has secured four inhaler approvals in Europe; Expects to file applications for six more in the next two years.

Valuation: We value Cipla at 17.1x target PE on FY13E EPS of Rs15.7, to arrive at a target price of Rs268, implying a 7% downside from the CMP. Our TP is pegged at a 5% discount to our target sector multiple of 18x and ~25% discount to its five-year average, to factor in muted growth profile and continuing deterioration in return ratios.

SELL

Sector: Pharmaceuticals

CMP: Rs288

Target Price: Rs268

Downside: 7%

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Key Data

Current Shares O/S (mn)	802.9
Mkt Cap (Rsbn/US\$bn)	231.3/4.6
52 Wk H / L (Rs)	381/273
Daily Vol. (3M NSE Avg.)	1,321,851

Price Performance (%)

	1 M	6 M	1 Yr
Cipla	0.2	(6.5)	(16.2)
Nifty Index	(0.2)	(7.6)	(16.3)

Source: Bloomberg

Y/E March (Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	1HFY11	1QFY12	YoY (%)
Net Revenues	16,344	15,914	17,780	8.8	11.7	31,004	33,694	8.7
Total Material Cost	7,487	6,683	7,117	(4.9)	6.5	14,189	13,799	(2.7)
Mat. Cost/Net Revenues (%)	45.8	42.0	40.0			45.8	41.0	
Personnel cost	1,376	1,712	1,875	36.3	9.5	2,751	3,587	30.4
Personnel cost/ Net Revenues (%)	8.4	10.8	10.5			8.9	10.6	
Other Exp.	3,816	3,824	4,413	15.7	15.4	7,019	8,237	17.4
Other Exp./ Net Revenues (%)	23.3	24.0	24.8			22.6	24.4	
Total Expenditure	12,678	12,219	13,404	5.7	9.7	23,959	25,623	6.9
Total Expenditure/ Net Revenues (%)	77.6	76.8	75.4			77.3	76.0	
PBIDT	3,666	3,695	4,376	19.4	18.4	7,045	8,071	14.6
PBIDT/ Net Revenues (%)	22.4	23.2	24.6			22.7	24.0	
Other Income	166	249	243	46.1	(2.2)	461	492	6.6
Interest	3	43	24	750.0	(44.0)	4	66	1,600.0
Depreciation	639	703	656	2.7	(6.6)	1,187	1,359	14.4
PBT	3,190	3,199	3,939	23.5	23.2	6,314	7,270	15.1
Tax	560	666	850	51.7	27.6	1,110	1,515	36.5
Tax/PBT (%)	17.6	20.8	21.6			17.6	20.8	
PAT	2,630	2,533	3,090	17.5	22.0	5,204	5,755	10.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial Summary

Y/E Mar (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Revenue	52,343	56,249	63,218	69,066	75,903
YoY (%)	24.1	7.5	12.4	9.3	9.9
EBITDA	12,263	13,330	13,291	15,894	17,248
EBITDA (%)	23.4	23.7	21.0	23.0	22.7
Adj PAT	7,755	10,826	9,896	11,392	12,594
YoY (%)	10.6	39.6	(8.6)	15.1	10.6
Fully DEPS	10.0	13.5	12.3	14.2	15.7
RoE (%)	19.1	21.1	15.7	16.0	15.4
RoCE (%)	21.6	20.2	15.9	16.4	15.6
P/E (x)	28.9	21.4	23.4	20.3	18.4
EV/EBITDA (x)	19.6	17.3	17.8	14.8	13.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Revenue breakup

Y/E March (Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	1HFY11	1QFY12	YoY(%)
Domestic	7,564	7,436	8,470	12.0	13.9	14,316	15,907	11.1
Exports	8,322	8,302	9,111	9.5	9.7	15,981	17,412	9.0
Formulations	6,639	6,589	7,516	13.2	14.1	12,896	14,104	9.4
APIs & others	1,683	1,713	1,595	(5.2)	(6.9)	3,084	3,308	7.2
Other operating income	545	411	462	(15.3)	12.4	931	873	(6.3)
Technology income	120	98	78	(35.1)	(20.9)	279	176	(36.8)
Others	425	313	384	(9.7)	22.9	653	697	6.8
Total	16,431	16,149	18,043	9.8	11.7	31,228	34,192	9.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Actuals v/s ours, Bloomberg estimates

(Rsmn)	Actuals	NBIE	Variation (%)	BBG cons.	Variation (%)
Revenue	17,780	17,417	2.1	17,699	0.5
EBITDA	4,376	4,218	3.7	4,302	1.7
EBITDA margin (%)	24.6	24.2	-	24.3	-
PAT	3,090	2,974	3.9	2,975	3.9

Source: Company, Nirmal Bang Institutional Equities Research

Rating history

Date	Rating	CMP	Target Price (Rs)
1 November 2011	SELL	297	268

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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