

Cipla

Performance Highlights

Y/E March (₹ cr)	2QFY2013	1QFY2013	% chg qoq	2QFY2012	% chg yoy
Net sales	2,146	1,917	11.9	1,732	23.9
Other income	110	93	18.2	71	56.2
Gross profit	1,357	1,185	14.5	1,020	33.0
Operating profit	631	499	26.4	391	61.2
Net profit	500	401	24.8	309	61.8

Source: Company, Angel Research

For 2QFY2013, Cipla's numbers came much better than expected both on the top-line and bottom-line front. The net sales and profits for the quarter came in at ₹2,146cr and ₹500cr, registering a growth of 23.9% yoy and 61.8% yoy respectively. However, the major positive highlight of the quarter was the improvement in the OPM which expanded by 684bp yoy for the quarter at 29.0%. For FY2013, the management has upgraded its revenue guidance from 12-15% to 15%+, with the bottom-line growing higher than that. **We recommend an Accumulate rating on the stock.**

Results better than expectations: For 2QFY2013, the company reported better-than-expected numbers. The net sales and profits for the quarter came in at ₹2,146cr and ₹500cr, registering a growth of 23.9% yoy and 61.8% yoy respectively. On the profitability front, the gross margins and operating profits came in much higher than expectations. The gross margin and operating margin came in at 63.3% and 29.0%. The expansion in the margins came on the back of an improvement in the product mix. Consequently the net profit came in at ₹500cr, higher than the expectations mainly on the back of the higher-than-expected sales and OPM.

Outlook and valuation: For FY2013, the management has revised its revenue guidance upwards from ~12-15% to 15%+ growth. We expect the company's net sales to post a 14.0% CAGR to ₹9,130cr and EPS to record a 21.2% CAGR to ₹20.9 over FY2012-14E. **We recommend an Accumulate on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	6,130	7,021	8,151	9,130
% chg	14.4	14.5	16.1	12.0
Net profit	990	1,144	1,569	1,681
% chg	0.4	15.6	37.1	7.1
EPS (₹)	12.3	14.3	19.5	20.9
EBITDA margin (%)	18.6	23.6	25.0	24.0
P/E (x)	30.8	26.7	19.4	18.2
RoE (%)	15.7	16.0	18.8	17.2
RoCE (%)	13.1	17.5	20.0	18.4
P/BV (x)	4.6	4.0	3.4	2.9
EV/Sales (x)	5.0	4.3	3.6	3.1
EV/EBITDA (x)	26.9	18.2	14.5	13.0

Source: Company, Angel Research

ACCUMULATE

CMP	₹380
Target Price	₹419

Investment Period	12 months
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Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	27,182
Net Debt (₹ cr)	(61)
Beta	0.4
52 Week High / Low	359/274
Avg. Daily Volume	148,974
Face Value (₹)	2
BSE Sensex	17,236
Nifty	5,229
Reuters Code	CIPL.BO
Bloomberg Code	CIPLA@IN

Shareholding Pattern (%)

Promoters	36.8
MF / Banks / Indian FIs	22.0
FII / NRIs / OCBs	21.6
Indian Public / Others	19.6

Abs. (%)	3m	1yr	3yr
Sensex	(0.4)	(5.3)	10.0
Cipla	8.6	10.0	22.8

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Exhibit 1: 2QFY2013 (Standalone) performance

Y/E March (₹ cr)	2QFY2013	1QFY2013	% chg qoq	2QFY2012	% chg yoy	1HFY2013	1HFY2012	% chg yoy
Net sales	2,146	1,917	11.9	1,732	23.9	4,063	3,281	23.8
Other income	110.1	93.2	18.2	70.5	56.2	203.3	136.4	49.0
Total income	2,256	2,011	12.2	1,802	25.2	4,267	3,418	24.8
Gross profit	1357	1185	14.5	1020	33.0	2542	1902	33.7
Gross margin	63.3	61.8		58.9		62.6	57.9	
Operating profit	631	499	26.4	391	61.2	1130	719	57.1
OPM (%)	29.4	26.0		22.6		27.8	21.9	
Interest	5.4	1.1	391.7	2.4	125.2	6.5	6.6	(2.7)
Depreciation	74	73	1.6	66	12.7	147	136	8.0
PBT	662	518	27.7	394	68.0	1180	713	65.5
Provision for taxation	162	118	36.8	85	90.4	280	152	84.8
PAT before extra-ordinary item	500	401	24.8	309	61.8	900	562	60.3
Extra-ordinary items/(income)	0	0		0		0	0	
PAT after extra-ordinary item	500	401	24.8	309	61.8	900	562	60.3
EPS (₹)	6.2	5.0		3.8		11.2	7.0	

Source: Company, Angel Research

Exhibit 2: 2QFY2013 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variance
Net sales	2,146	1,987	8.0
Other income	110	70	56.7
Operating profit	631	449	40.5
Tax	162	100	61.6
Net profit	500	339	47.5

Source: Company, Angel Research

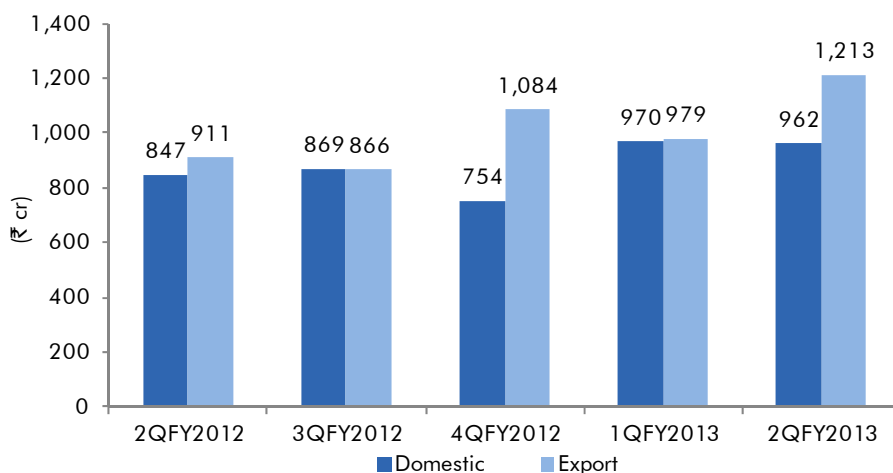
Top-line growth higher than expectations

For 2QFY2013, Cipla reported a top-line higher than expectations. The net sales came in at ₹2,146cr vis-à-vis estimates of ₹1,987cr, registering a growth of 23.9% yoy.

The domestic formulation segment grew by 13.5% yoy to ₹961.7cr. Overall exports increased by 33.2% yoy to ₹1,213cr, contributing 55.8% to overall sales. The API segment reported a 9% yoy growth to end the period at ₹174cr. Revenue of the formulation exports segment stood at ₹1,040cr during the quarter, registering a growth of 38.3% yoy.

Technological know-how fees stood at ₹4.6cr (₹7.8cr in 2QFY2012), registering a dip of 40.3% yoy. However, overall, the other operating income reported a growth of 7.6% yoy to ₹41.3cr in 2QFY2013 (₹38.4cr in 2QFY2012), mainly on account of forex gains.

Exhibit 3: Sales trend

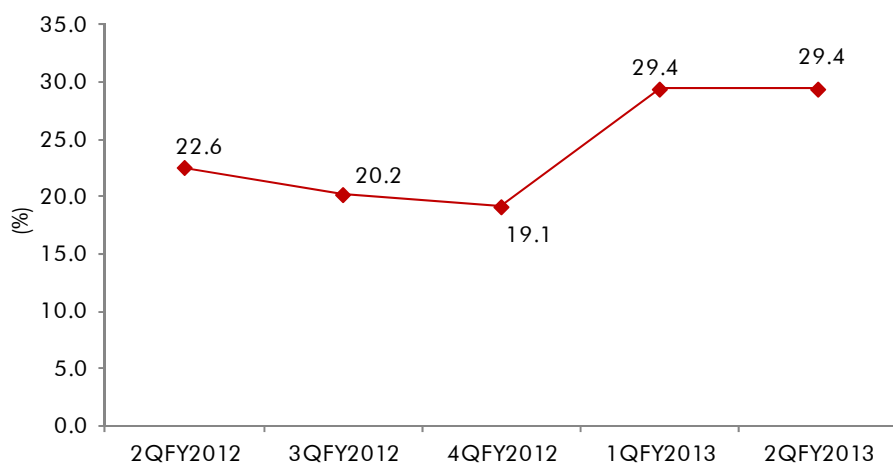


Source: Company, Angel Research

Improvement in gross and operating profit

For 2QFY2013, the company's gross margin expanded by 434bp yoy to 63.3%. This was mainly on account of *Lexparo*. This along with a lower rise in other expenditure (which grew by 9.6% yoy) aided the OPM to end the quarter at 29.4% (22.6% in 2QFY2012) an expansion of 680bps. This was much higher than the expected OPM of 22.6%.

Exhibit 4: OPM trend

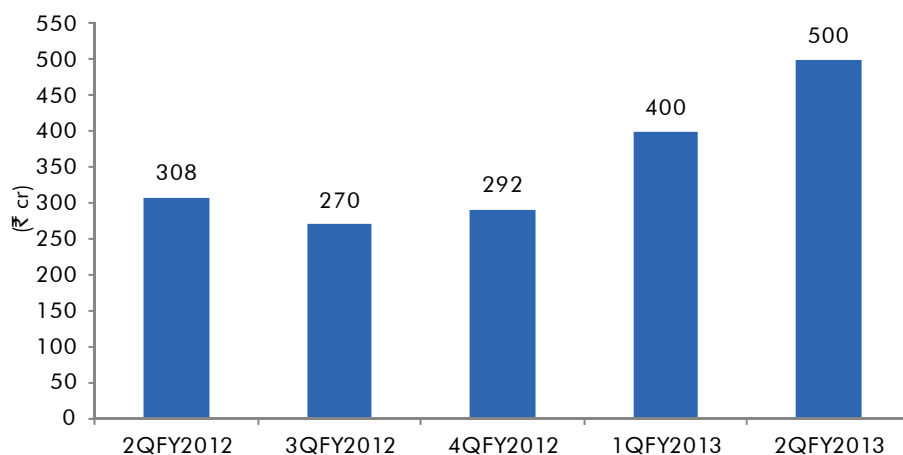


Source: Company, Angel Research

Net profit much above expectations

For 2QFY2013, the company's net profit came in at ₹500cr, posting a 61.8% yoy growth, much higher than our estimate. Net profit growth came in higher than our estimates on the back of higher OPM and sales growth.

Exhibit 5: Net profit trend



Source: Company, Angel Research

Concall takeaways

- For FY2013, the company has guided for a revenue growth +15% yoy on sales.
- Current EBDITA margin is to sustain going forward.
- Indore facility grossed sales of ₹300cr in 1HFY2013 and is currently operating at 70% utilization.
- Capex of ₹400cr in FY2013 to be spent on the API facilities and R&D facilities.
- Tax rate guided at 24% of PBT in FY2013.

Recommendation rationale

Export segment to be the growth driver: Cipla exports to more than 180 countries, with growth coming through marketing alliances and distribution tie-ups in various markets. Exports contributed 59% to the total turnover of FY2012, with Africa, US and Latin America constituting more than 60% of total exports. In the US, Cipla has entered into a partnership with more than 22 players and has a strong product pipeline of ANDAs, of which 49 have been launched, while 30 are pending for approval. Another long term growth driver for the company is the launch of the CFC-free inhalers in the regulated markets. CFC-free inhalers in Europe and US address a potential market size of more than US\$3bn. The management has also indicated that it is negotiating with MNCs such as Pfizer, GSK and Boehringer for long-term supply agreements.

Increasing penetration in the domestic market: Cipla is one of the largest players in the domestic formulation market, with a market share of around 5%, contributing 41% to the total turnover in FY2012. The company is the market

leader in key therapeutic areas such as respiratory care, anti-viral and urological. Cipla's distribution network in India consists of a field force of around 7,000 employees. The company plans to increase its focus on domestic markets with new therapies such as oncology and neuro-psychiatry in the offing. Cipla plans to focus on growing its market share and sales by increasing penetration in the Indian market, especially in rural areas and plans to expand its product portfolio by launching biosimilars, particularly relating to the oncology, anti-asthmatic and anti-arthritis categories.

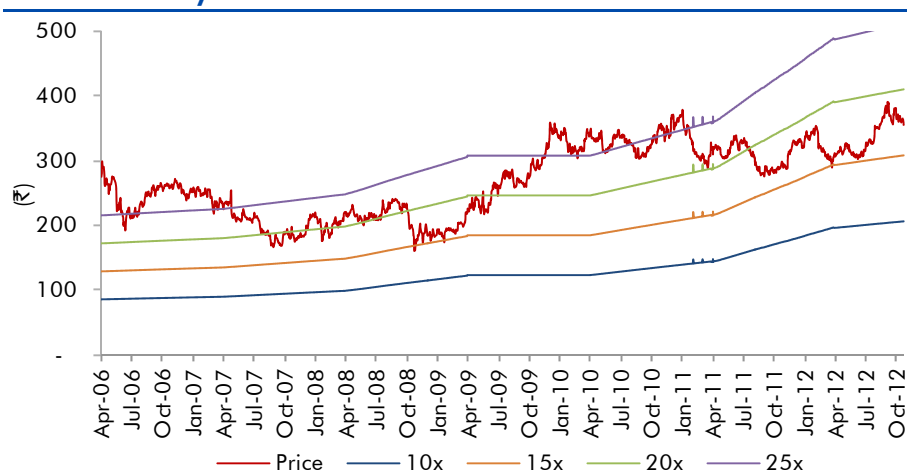
Valuation: For FY2013, Cipla has revised its revenue guidance upwards to 15%+, while the bottom-line growth is expected to be higher than that. We expect the company to maintain its OPM of 23–24% (excluding tech fees) for FY2013. We expect the company's net sales to post a 14.0% CAGR to ₹9,130cr and EPS to record a 21.2% CAGR to ₹20.9 over FY2012–14E. **The stock is trading at 19.4x and 18.2x FY2013E and FY2014E earnings, respectively. We recommend an Accumulate on the stock.**

Exhibit 6: Key assumptions

Key assumptions	FY2013E	FY2014E
Domestic growth (%)	16.0	16.0
Exports growth (%)	20.8	8.7
Growth in employee expenses (%)	19.0	12.0
Operating margins (excl tech. know-how fees) (%)	25.0	24.0

Source: Company, Angel Research

Exhibit 7: One-year forward PE band



Source: Company, Angel Research

Exhibit 8: Recommendation Summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside		FY2014E		FY12-14E	FY2014E	
				%	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Buy	68	91	34.3	7.4	0.8	4.9	14.8	29.4	30.0
Aurobindo Pharma	Neutral	170	-	-	13.5	1.2	8.5	61.1	10.4	16.4
Sanofi India*	Neutral	2,235	-	-	21.4	2.8	18.0	12.0	16.1	17.0
Cadila Healthcare	Accumulate	889	953	7.2	19.3	2.5	12.7	20.5	20.2	26.8
Cipla	Accumulate	380	419	10.1	18.2	3.1	13.0	21.2	18.4	17.2
Dr Reddy's	Neutral	1,795	-	-	21.0	2.7	13.1	2.3	15.1	20.8
Dishman Pharma	Buy	98	145	47.3	6.8	1.1	5.5	43.9	10.6	11.0
GSK Pharma*	Neutral	1,981	-	-	24.0	4.7	15.0	8.7	38.9	29.0
Indoco Remedies	Buy	65	89	37.0	7.3	0.9	5.9	32.8	15.5	17.0
Ipca labs	Accumulate	460	485	5.4	12.3	1.8	8.7	30.6	26.1	26.0
Lupin	Accumulate	584	652	11.7	18.8	2.6	13.2	26.5	22.5	24.7
Orchid Chemicals	Neutral	104	-	-	7.9	0.8	5.5	(1.2)	4.8	7.3
Ranbaxy*	Neutral	535	-	-	17.9	1.8	11.7	44.8	15.8	28.9
Sun Pharma	Neutral	699	-	-	24.7	4.7	11.4	0.1	26.7	18.8

Source: Company, Angel Research; Note: *December year ending

Background

Cipla is a leading pharma company in India with a strong presence in both, the export and domestic markets. On the export front, where it follows the partnership model, it has 5,700 product registrations in around 180 countries. Cipla is a market leader in the domestic formulation market with over 5% market share. Cipla is likely to continue on the growth trajectory owing to its entry into the inhalers market in the EU and potential new long-term manufacturing contracts with Global Innovators.

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Gross sales	5,022	5,410	6,180	7,129	8,188	9,174
Less: Excise duty	61.0	52.2	49.5	108.1	37.3	43.2
Net sales	4,961	5,358	6,130	7,021	8,151	9,130
Other operating income	276	265	217	140	226	240
Total operating income	5,236	5,623	6,347	7,160	8,377	9,370
% chg	24.2	7.4	12.9	12.8	17.0	11.9
Total expenditure	4,013	4,292	4,993	5,362	6,110	6,936
Net raw materials	2,347	2,453	2,747	2,739	3,256	3,739
Other mfg costs	439	445	635	705	713	798
Personnel	271	319	489	547	651	729
Other	955	1,075	1,121	1,370	1,490	1,670
EBITDA	948	1,066	1,138	1,659	2,041	2,195
(% of Net Sales)	19.1	19.9	18.6	23.6	25.0	24.0
Depreciation & amortisation	152	167	254	312	312	343
Interest & other charges	33	23	17	38	34	34
Other Income	90	88	79	-	144	154
Recurring PBT	1,129	1,230	1,162	1,448	2,064	2,211
% chg	34.7	8.9	(5.5)	24.5	42.6	7.1
Extraordinary expense/(Inc.)	233.3	(95.0)	-	-	-	-
PBT (reported)	895	1,325	1,162	1,448	2,064	2,211
Tax	124.5	243.5	195.2	306.5	495.5	530.7
(% of PBT)	13.9	18.4	16.8	21.2	24.0	24.0
PAT (reported)	771	1,081	967	1,141	1,569	1,681
Add: Share of earnings of asso.	-	-	22	3	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	771	1,081	990	1,144	1,569	1,681
ADJ. PAT	1,004	986	990	1,144	1,569	1,681
% chg	43.3	(1.8)	0.4	15.6	37.1	7.1
(% of Net Sales)	15.5	20.2	16.1	16.3	19.2	18.4
Basic EPS (₹)	9.9	12.3	12.3	14.3	19.5	20.9
Fully Diluted EPS (₹)	9.9	12.3	12.3	14.3	19.5	20.9
% chg	9.9	23.8	0.4	15.6	37.1	7.1

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity share capital	155	161	161	161	161	161
Reserves & surplus	4,192	5,750	6,506	7,478	8,861	10,355
Shareholders funds	4,349	5,911	6,667	7,641	9,024	10,519
Minority interest	-	-	-	-	-	-
Total loans	940.2	5.1	541.0	29.2	29.2	29.2
Long Term Provisions			0.9	31.5	31.5	31.5
Deferred tax liability	163.2	179.2	213.1	233.2	233.2	233.2
Total liabilities	5,452	6,095	7,422	7,935	9,318	10,814
APPLICATION OF FUNDS						
Gross block	2,693	2,897	4,246	4,632	5,040	5,540
Less: acc. depreciation	701	886	1,147	1,411	1,723	2,066
Net block	1,992	2,011	3,100	3,221	3,317	3,474
Capital work-in-progress	366	684	285	371	371	371
Goodwill						
Investments	80	246	590	1,269	1,269	1,269
Long Term Loans and Adv.			402	361	408	457
Current assets	4,418	4,367	4,221	4,130	5,420	6,886
Cash	53	62	96	90	652	1,545
Loans & advances	1,113	1,226	1,162	1,464	1,752	1,963
Others	3,251	3,079	2,963	2,576	3,016	3,378
Current liabilities	1,405	1,214	1,175	1,417	1,467	1,643
Net current assets	3,013	3,153	3,045	2,713	3,953	5,243
Mis. Exp. not written off	-	-	-	-	-	-
Total assets	5,452	6,095	7,422	7,935	9,318	10,814

Cash flow statement (Consolidated)

Y/E March (₹cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	895	1,325	1,162	1,448	2,064	2,211
Depreciation	152	167	254	312	312	343
(Inc)/Dec in Working Capital	(583)	(131)	(260)	327	(679)	(397)
Direct taxes paid	65	256	301	275	506	563
Cash Flow from Operations	400	1,105	856	1,812	1,191	1,595
(Inc.)/Dec.in Fixed Assets	(625)	(522)	(950)	(472)	(408)	(500)
(Inc.)/Dec. in Investments	13	(166)	(344)	(678)	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(612)	(688)	(1,294)	(1,150)	(408)	(500)
Issue of Equity	-	669	-	-	-	-
Inc./Dec.) in loans	395	(935)	536	(512)	-	-
Dividend Paid (Incl. Tax)	(155)	(155)	(225)	(187)	(187)	(187)
Others	(54)	13	57	31	(35)	(15)
Cash Flow from Financing	186	(408)	368	(668)	(221)	(202)
Inc./Dec.) in Cash	(26)	9	(71)	(6)	562	893
Opening Cash balances	80	53	62	96	90	652
Closing Cash balances	53	62	96	90	652	1,545

Key Ratio

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	38.4	31.0	30.9	26.7	19.5	18.2
P/CEPS	32.0	24.5	24.6	21.0	16.2	15.1
P/BV	6.8	5.2	4.6	4.0	3.4	2.9
Dividend yield (%)	0.5	0.5	0.7	0.8	1.0	1.1
EV/Sales	6.1	5.7	5.0	4.3	3.6	3.1
EV/EBITDA	32.1	28.6	26.9	18.2	14.5	13.0
EV / Total Assets	5.6	5.0	4.1	3.8	3.2	2.6
Per Share Data (₹)						
EPS (Basic)	9.9	12.3	12.3	14.3	19.5	20.9
EPS (fully diluted)	9.9	12.3	12.3	14.3	19.5	20.9
Cash EPS	11.9	15.5	15.5	18.1	23.4	25.2
DPS	2.0	2.0	2.8	3.0	3.9	4.2
Book Value	55.9	73.6	83.0	95.2	112.4	131.0
Dupont Analysis						
EBIT margin	16.1	16.8	14.4	19.2	21.2	20.3
Tax retention ratio	86.1	81.6	83.2	78.8	76.0	76.0
Asset turnover (x)	1.1	1.0	1.0	0.9	1.0	1.0
ROIC (Post-tax)	14.8	13.5	11.4	14.3	16.4	16.1
Cost of Debt (Post Tax)	3.8	4.0	5.3	10.6	89.4	89.4
Leverage (x)	0.2	0.1	0.0	0.0	(0.0)	0.0
Operating ROE	16.6	14.4	11.6	14.4	19.2	16.1
Returns (%)						
ROCE (Pre-tax)	16.1	15.6	13.1	17.5	20.0	18.4
Angel ROIC (Pre-tax)	17.4	17.3	14.3	18.6	21.9	21.5
ROE	24.8	19.2	15.7	16.0	18.8	17.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.1	2.0	1.8	1.6	1.7	1.8
Inventory / Sales (days)	88	94	98	102	101	49
Receivables (days)	114	111	88	81	81	40
Payables (days)	45	54	59	57	55	26
WC cycle (ex-cash) (days)	186	196	174	142	129	136
Solvency ratios (x)						
Net debt to equity	0.2	(0.01)	0.1	(0.0)	(0.1)	(0.1)
Net debt to EBITDA	0.9	(0.1)	0.4	(0.0)	(0.3)	(0.7)
Interest Coverage (EBIT / Int.)	24.2	39.2	-	-	-	-

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Disclosure of Interest Statement

	Cipla
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

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