

Current	Previous
CMP : Rs.405	
Rating : BUY	Rating : BUY
Target : Rs.440	Target : Rs.440

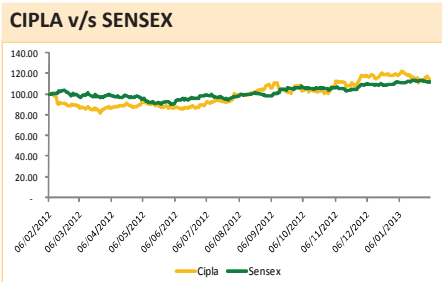
STOCK INFO	
Bse	500087
Nse	CIPLA
Bloomberg	CIPLA IN
Reuters	CIPLA.BO
Sector	Pharmaceutical
Face Value (Rs)	2
Equity Capital (Rs mn)	1606
Mkt Cap (Rs mn)	325,215
52w H/L (Rs)	359/274
Avg Daily Vol (BSE+NSE)	1,579,372

SHAREHOLDING PATTERN	%
<i>(as on 31st Dec. 2012)</i>	
Promoters	36.80
FII's	22.24
DII's	11.84
Public & Others	29.12

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
CIPLA	-2.4	12.1	15.6
SENSEX	-0.5	6.2	11.0

Source: IndiaNivesh Research



Source: IndiaNivesh Research, Capitaline

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### Profitability hit by higher than anticipated operating expenses & employee cost, however topline growth maintained

Cipla's revenue was inline with our estimates, while operating performance marginally lower. Company reported growth of 18.7% y-o-y (*declined 5.4% q-o-q*) to Rs 20.31 billion in Q3FY13 (*V/s INSPL est= Rs 20.33 billion*). The robust growth was mainly on account of exports formulation business, which grew 38% y-o-y to Rs 9.69 billion on account of healthy growth across the markets & improvement in base business linked with Lexapro supply to Teva (*even after 180 days exclusivity*) & Dymista supply to its partner MEDA in US market. Additionally, company's domestic formulation business grew 10.2% y-o-y to Rs 9.57 billion on the back of healthy growth in anti asthma, cardiovascular & anti biotic therapeutic segments. Overall growth was partially offset by 16% decline in API business due to one off item in the same quarter previous year.

### Higher than anticipated operating expenses & employee cost impacted EBITDA margins sequentially:

On account of healthy contribution from formulations business compared to API business, change in products mix & supply of Dymista & Lexapro to US, company's Gross margins increased ~250 bps y-o-y (*declined ~250 bps q-o-q due to 180 days exclusivity of Lexapro in Q2FY13*) to 60.7% level in Q3FY13.

Despite higher sales & ~250 bps y-o-y expansion in Gross margins, company's EBITDA margins expanded only ~140 bps y-o-y (*declined ~730 bps q-o-q*) to 24.3% level (*V/s INSPL est of 25.8%*) mainly due to higher 38% y-o-y increase in employee cost [*or employee cost increased ~178 bps y-o-y (140 bps q-o-q)*] to 12.7% of revenue (*incrementally Rs 710 mn*) linked with increase in head counts (*~Rs250 million*) & annual increment (*Rs 460 million*). Due to higher sales during the quarter, other expenditure declined ~140 bps y-o-y but increased ~315 bps q-o-q to 25.7% level mainly due to increase in travel expenses & professional charges. As a result, company's EBITDA grew 26% y-o-y (*declined 27% q-o-q*) to Rs 4.93 billion (*V/s INSPL est=Rs 5.25 billion*) in Q3FY13.

Due to going away of the tax benefits, company's tax rate stood at 27.3% in Q3FY13 compared to 21.5% in Q3FY12 (*25.4% in Q2FY13*). Cipla's adj net profit (*adj for forex gain of Rs 190 million in Q3FY13, Rs 45 million in Q3FY12 & Rs 260 million in Q2FY13*) grew 21% y-o-y (*declined 33% q-o-q*) to Rs 3.20 billion in Q3FY13 (*V/s INSPL est=Rs 3.62 billion*).

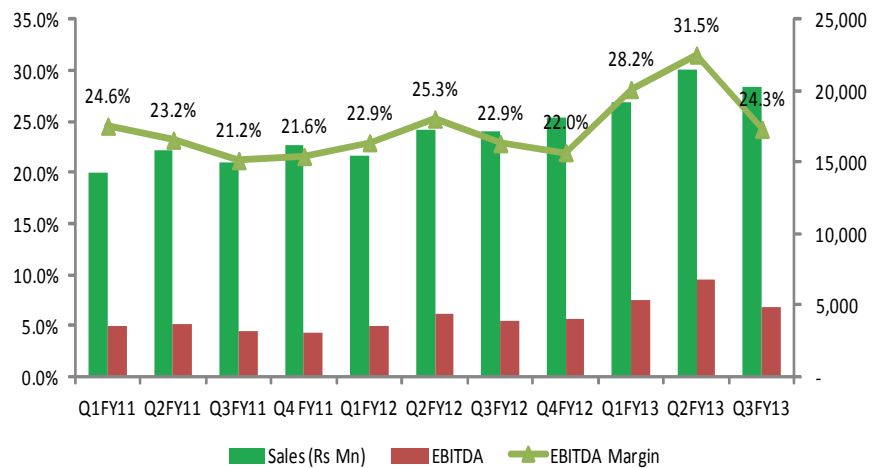
Company reported adj EPS of Rs 4.0 in Q3 FY13 compared to Rs 3.3 in Q2 FY12 (*Rs 5.9 in Q2FY13*).

### Key takeaways from con call:

#### Above 22% y-o-y growth in 9MFY13 & 18.7% y-o-y in Q3FY13:

Company has reported above 22% revenue growth in 9MFY13 against management guidance of 15% y-o-y in FY13. The revenue growth has come mainly from the exports business linked with 180 days exclusivity of Lexapro for its partner Teva & launch of Dymista by another partner MEDA in the current quarter, which is likely to ramp up going forward.

**Revenue & EBITDA trend:**

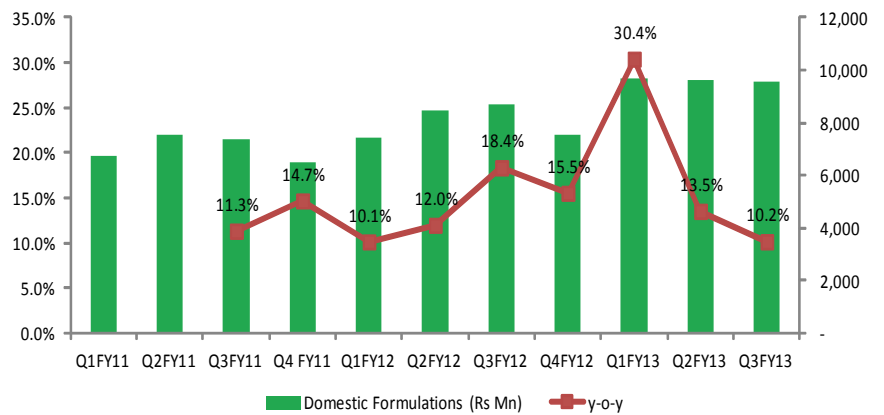


Source: Company Filings; IndiaNivesh Research

**Domestic business grew 17.4% y-o-y in 9MFY13 & 10.2% in Q3FY13:**

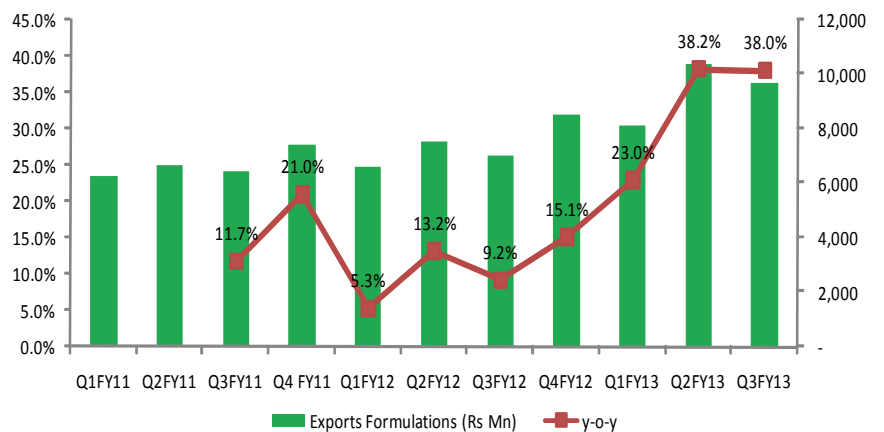
In 9MFY13, company's domestic formulation has grown 17.4% y-o-y on the back of healthy growth in Cardio, Respiratory & anti-biotic products. During the quarter, growth was muted to 10.2% y-o-y mainly due to industry slow down. Management expects this business to maintain the growth of 14-15% going forward.

**Domestic revenue trend:**



Source: Company Filings; IndiaNivesh Research

**Exports revenue trend:**



Source: Company Filings; IndiaNivesh Research

**Other Key takeaways from Con call:**

Company's partner MEDA launched Dymista in US market in mid Sep-2012, for which Cipla has an agreement to supply the formulation. Dymista's total prescriptions are picking up gradually in US market & MEDA is likely to launch the same in European markets in coming 1 or 2 quarters. At peak sales level, we expect ~\$20-\$25 million annual revenue contribution to Cipla from this product.

In 9M FY13, Indore SEZ facility has contributed Rs 4 billion & likely to contribute Rs 6 billion by the end of FY13. Company has total 76 ANDAs approval in US market with its partners, out of which 60-65% has been launched. Another 23 ANDAs are pending approval, including 5 ANDAs filed in FY13 for own self.

Management has increased capex guidance for FY13 to Rs 6.5-7.0 billion (*from earlier capex guidance of Rs 4-5 billion*) due to office expansion for Rs 2.70 billion in Lower Parel, Mumbai. While other capex for API facility & R&D is likely to be Rs 4-5 billion. Capex for FY14E is likely to be Rs 3-4 billion.

Currently, company has cash of Rs 14 billion on its balance sheet and management has indicated to go for small size acquisitions in Japan, China, Brazil & Turkey region to expand its business. These small acquisitions (*in the range of \$100 mn to \$200 mn*) may be other than ongoing proposed acquisition of Cipla Medpro in South Africa.

During the quarter, contribution of Lexapro was substantially lower than previous quarter. However, there was first time marginal supply of Dymista to Meda in this quarter, which is likely to ramp-up going forward.

Management has guided for tax rate to be in the range of 25-26% & R&D expenses in between of 4-5% of revenue going forward.

**Valuation:**

At CMP of Rs 405, the stock is trading at PE 21.6x of FY13E & 20.7x of FY14E earnings estimates. On account of increase in contribution from high margins business from exports, positive outlook for domestic market & expansion in margins partially linked with higher price realization, We believe that company is likely to manage healthy growth across the markets going forward. We have adjusted numbers slightly for higher employee cost & increase in other expenditure for FY13 & FY14E. However, pharma pricing policy may have marginal negative impact on the margins of the company.

We continue to maintain BUY rating on the stock with the target price of Rs 440 (*Valuing at 22x of FY14e earnings estimates*).

**Q3FY13E**

Particulars (Rs Mn except EPS)	Q3FY13	Q3FY12	Y-o-Y	Q2FY13	Q-o-Q	FY12
Net Sales	20,307	17,115	18.7%	21,459	-5.4%	68,077
Other Operating Income	398	465	-14.5%	460	-13.4%	1,698
<b>Total Income</b>	<b>20,705</b>	<b>17,580</b>	<b>17.8%</b>	<b>21,918</b>	<b>-5.5%</b>	<b>69,775</b>
(increase)/Decrease in closing stock	(2,202)	(313)	NM	(509)	332.8%	112
Consumption of raw material	7,400	6,110	21.1%	6,557	12.9%	23,009
Purchase of finished goods	2,778	1,355	105.0%	1,838	51.1%	5,556
Employee Cost	2,586	1,875	37.9%	2,426	6.6%	7,282
Other Expenditure	5,214	4,638	12.4%	4,837	7.8%	17,998
<b>Total Expenditure</b>	<b>15,776</b>	<b>13,666</b>	<b>15.4%</b>	<b>15,149</b>	<b>4.1%</b>	<b>53,956</b>
<b>EBITDA</b>	<b>4,929</b>	<b>3,915</b>	<b>25.9%</b>	<b>6,770</b>	<b>-27.2%</b>	<b>15,819</b>
Depreciation & Ammortization	780	757	3.0%	740	5.5%	2,821
<b>EBIT</b>	<b>4,149</b>	<b>3,157</b>	<b>31.4%</b>	<b>6,030</b>	<b>-31.2%</b>	<b>12,998</b>
Other Income	345	257	34.4%	381	-9.5%	816
Interest Expenses/ (income)	93	32	187.0%	54	73.5%	266
<b>Pre-tax Profit</b>	<b>4,401</b>	<b>3,381</b>	<b>30.1%</b>	<b>6,357</b>	<b>-30.8%</b>	<b>13,548</b>
Tax	1,203	727	65.4%	1,618	-25.6%	2,975
<b>Net Profit (adj)</b>	<b>3,198</b>	<b>2,654</b>	<b>20.5%</b>	<b>4,740</b>	<b>-32.5%</b>	<b>10,573</b>
Forex gain (loss)	190	45	322.2%	260	-26.9%	667
<b>Net Profit (Reported)</b>	<b>3,388</b>	<b>2,699</b>	<b>25.5%</b>	<b>5,000</b>	<b>-32.2%</b>	<b>10,573</b>
Adj EPS	4.0	3.3	20.4%	5.9	-32.6%	13.2
Adj O/ Share ( In Million)	803	803	0.0%	803	0.0%	803

Ratios	Q3FY13	Q3FY12	Bps	Q2FY13	Bps	FY12
Gross Margins	60.7%	58.2%	252	63.3%	(253)	57.9%
EBITDA margin	24.3%	22.9%	140	31.5%	(727)	23.2%
Net Margin	15.7%	15.5%	24	22.1%	(634)	15.5%
Material cost/Net Sales	39.3%	41.8%	(252)	36.7%	253	42.1%
Employee Cost/ Net Sales	12.7%	11.0%	178	11.3%	143	10.7%
Other Expenditure/ Net Slaes	25.7%	27.1%	(142)	22.5%	314	26.4%
Tax Rate	27.3%	21.5%	583	25.4%	189	22.0%

Source: Company Filings; IndiaNivesh Research



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