Fullerton Securities

Mar 5, 2010

CIPLA LTD. BUY

Cipla is one of the leading pharmaceutical companies in the domestic retail market and has a presence in formulations and bulk drug manufacturing, which includes anti-asthmatic, anti-infective and anti-AIDS/HIV formulations. It has a strong presence in the anti-retroviral (ARV) segment with a market share of 51%.

- The company outlook remains strong, following its entry into the EU inhaler market and potential of new long-term manufacturing contracts with global majors.
- The management has said that the company has incurred a capital expenditure to the tune of Rs 4.45bn during 9M FY2010, largely on account of its Indore project (Rs 2.6bn) and an upgradation of other facilities. The company would be incurring a capex of Rs 6 bn and Rs 5 bn for F 2010 and FY2011 respectively
- It is the only company to have 2 different drugs to treat H1N1 influenza (swine flu), which is spreading rapidly across the world and is placed to serve the US market as there is a shortage of the drug due to rapid spreading of H1N1 virus.
- We expect **Cipla's** revenues to grow at a CAGR of 11.9% over FY2009-11 to Rs 65,793mn by FY2011. We further estimate that PAT would grow at a CAGR of 30.2% over FY2009-11 to Rs 13,170mn in FY2011 from Rs 7,768mn in FY2009.

Based on a standalone P/E multiple of 22, the fair value for Cipla Ltd. works out to Rs 361.

Financial Snapshot

Projections (Rs mn)	FY07A	FY08A	FY09A	FY10E	FY11E
Net Revenue	35,707	42,185	52,570	58,353	65,793
Y-o-Y Growth %	20%	18%	25%	11%	13%
EBITDA	9,183	9,807	11,059	15,369	18,162
Y-o-Y Growth %	15%	7%	13%	39%	18%
PAT	6,680	7,014	7,768	10,795	13,170
Y-o-Y Growth %	10%	5%	11%	39%	22%
EPS Rs	8.6	9.0	10.0	13.4	16.4
EBITDA Margins %	26%	23%	21%	26%	27%
NPM %	19%	17%	15%	18%	20%
RoE %	21%	19%	18%	18%	18%
PERx				23.8	19.5
P/B Ratio				4.2	3.5

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy		✓	
Hold			
Reduce			
Sell			

***Strong Buy** – Expected Returns > 20% p.a.*
***Buy** – Expected Returns from 10 to 20% p.a.*
***Hold** – Expected Returns from 0 % to 10% p.a.*
***Reduce** – Expected Returns from 0 % to 10% p.a. with possible downside risk*
***Sell** – Returns < 0 %*

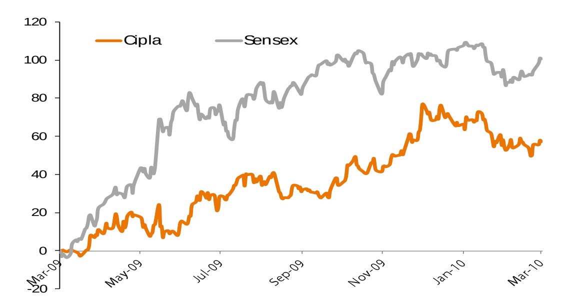
Cipla
Caring for life

STOCK DATA	
BSE / NSE Code	500087 / CIPLA
Bloomberg Code	CIPLA IN EQUITY
No. of Shares (Mn)	802.9
Sensex / Nifty	16,994 / 5,089
PRICE DATA	
CMP Rs (Mar 5, 2010)	320.6
Beta	0.45
Market Cap (Rs mn)	257,370
52 Week High-low	363 - 191
Average Daily Volume	358,891

STOCK RETURN (%)	30D	3M	6M	1Y
Cipla	2%	-11%	20%	58%
Sensex	5%	-1%	8%	101%
Nifty	5%	-1%	9%	92%

SHARE HOLDING PATTERN (%)	
Promoter	36.8
Institution	34.9
Non Institution	28.3
Total	100.0

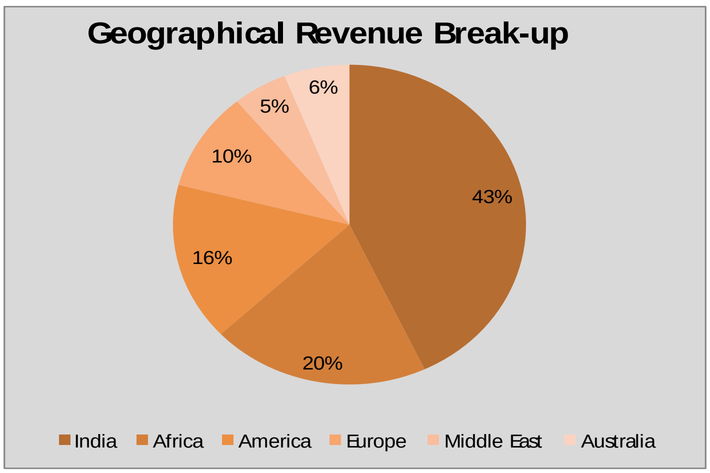
1 Year Price Performance (Rel. to Sensex)

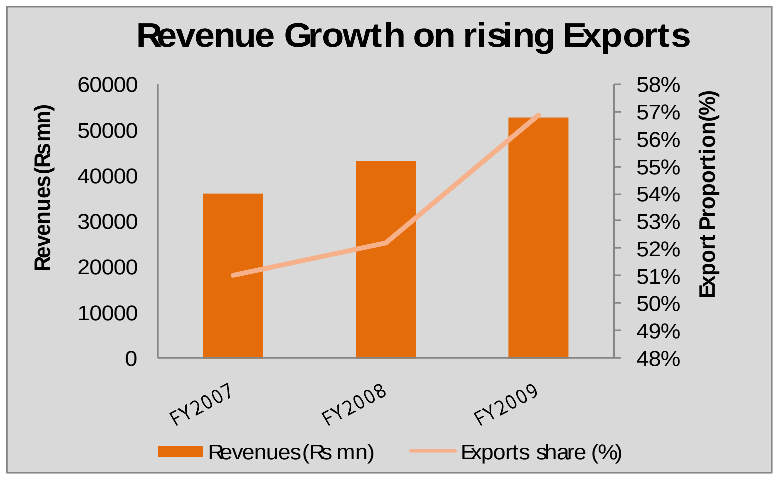


BUSINESS PROFILE

Cipla is a leading player in the domestic market with a major share in many therapeutic segments and offers the widest range across various dosage forms in these segments. It exports to more than 180 countries worldwide and about 56% of the turnover comes from its international operations. With over 5,700 product registrations worldwide, the company continues to leverage its strategic partnerships to expand sales and increase market share overseas. Currently, the company has nearly 21 partners in the US generic market for the marketing of 118 Abbreviated New Drug Applications (ANDA), of which 36 are approved and 64 are under registration with 23 products commercialized so far. The number of partners has increased from 17 to 21 over the last year. Going ahead, some of Cipla's partnerships with generic companies in Europe and US involve payment of licensing income by the partners on achieving certain milestones for generic filings. In the European market, the company is operating with nearly 60 partners and has registered 400 products, of which 292 are approved and 51 products are commercialized.

Cipla is the world's largest manufacturer of cost effective anti-retroviral drugs (ARVs)





Global tie-ups expected to maintain revenue growth

The company is in advance stages for a drug supply agreement with a German drug maker, Bushranger Ingelheim (BI) for supplying generic drugs to the USD 17bn German company. The company is also discussing similar deals with other global pharma majors.

Recent European inhaler launches and expected tie-ups for generic drugs supply to maintain revenue growth

Further, the company, which is among the largest producers of Inhalers, expects the overall EU market to be at USD 1.8bn, which it plans to tap in the next 2-3 years. The company plans to launch its inhaler, Salbutamol, in UK by Q4 FY2010. The company has set up an SEZ at Indore, which is likely to commence commercial production in Q1 FY2011. The Indore SEZ is eligible for the tax benefits.

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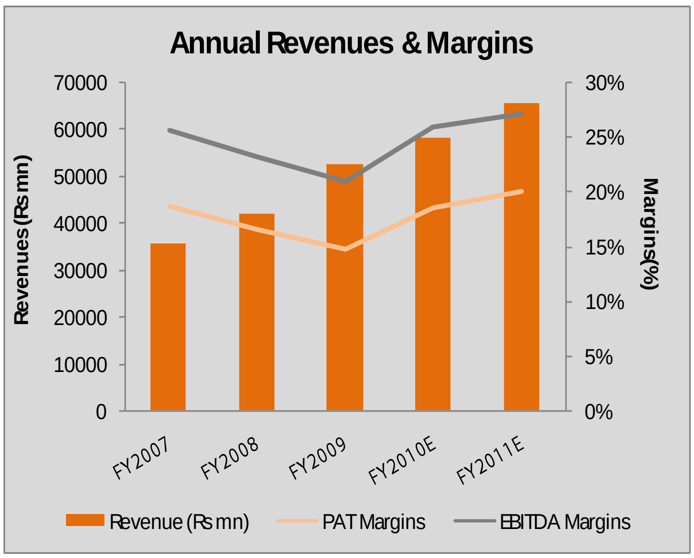
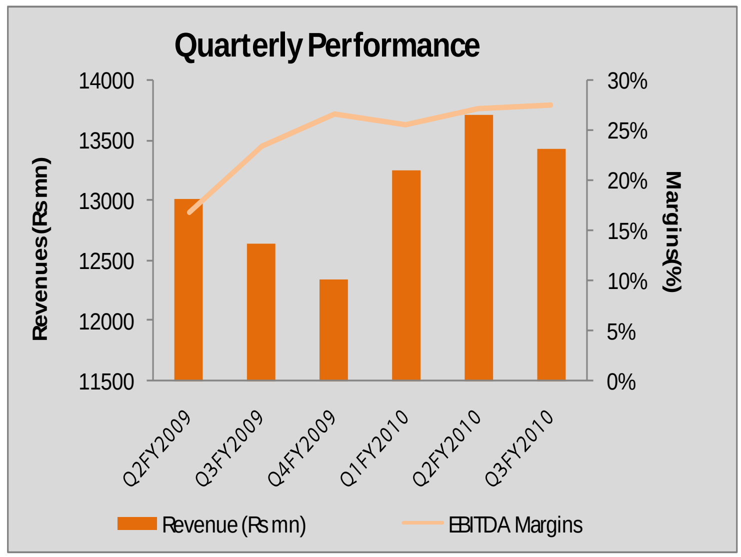
BUSINESS PERFORMANCE

Strong Margins.....

The company has exhibited muted revenue growth of 6.3% to Rs 13.4bn mainly on account of lower ARV sales, as the company chose not to participate in low margin tenders. As a result, the export formulations registered a 2.5% Y-o-Y decline. However, the company has maintained its strong performance in the domestic market, despite the high base with a strong growth of 14% to Rs 6.6bn. The export of Active Pharmaceutical Ingredients (APIs) sales grew by 10% to Rs 1.2bn.

Net Profit is expected to grow at a CAGR of 30.2% over FY09-FY11





Peer Group Comparison

Companies	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	RoE %	P/E	P/B	CMP	FV
Cipla	56,242	27%	19%	18%	23.7	5.1	321	2
Ranbaxy Laboratories	45,212	24%	13%	14%	34.5	5.0	469	5
Sun Pharma	41,280	36%	33%	19%	24.7	4.7	1610	5
Dr Reddy Laboratories	45,006	27%	17%	14%	26.0	3.7	1154	5

*TTM figures used

Peer Comparison

Cipla continues to sustain its gradual growth, as it follows its partnership-based business model, which saves the company from the costs of setting up overseas infrastructure, other overheads or any product litigation risks. The company has one of the strongest balance sheets among peers and robust EBITDA margins.

Cipla has one of the strongest balance sheets and robust EBITDA margins

VALUATION

We expect **Cipla Ltd's** revenues to grow at a CAGR of 11.9% over FY2009-11 to Rs 65,793mn by FY2011. We further estimate that the PAT would grow at a CAGR of 30.2% over FY2009-11 to Rs 13,170mn in FY2011 from Rs 7,768mn in FY2009.

Based on a standalone P/E multiple of 22, the fair value for Cipla Ltd. works out to Rs 361.

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We recommend the stock as a '**BUY**'.

Financial Analysis and Projections

Particulars (Rs mn)	FY2007	FY2008	FY2009	FY2010E	FY2011E
Net Revenue	35,707	42,185	52,570	58,353	65,793
Other Income	981	527	698	759	855
Total Income	36,688	42,711	53,268	59,112	66,648
Operating Expenditure	27,505	32,904	42,209	43,743	48,487
Depreciation	1,034	1,307	1,706	2,075	2,336
EBITDA	9,183	9,807	11,059	15,369	18,162
EBITDA Margin (%)	26%	23%	21%	26%	27%
Interest	69.5	116.9	339.6	288.7	332.0
Profit Before Tax	8,080	8,384	9,013	13,006	15,494
Less: Tax	1,400	1,369	1,245	2,211	2,324
Profit After Tax	6,680	7,014	7,768	10,795	13,170
PAT Margin (%)	19%	17%	15%	18%	20%
ROE (%)	21%	19%	18%	18%	18%
EPS Rs	8.6	9.0	10.0	13.4	16.4
BVPS Rs	41.6	48.3	56.0	76.0	92.5
Valuation Ratios (x)				**FY2010E**	**FY2011E**
PERx				23.8	19.5
P/B Ratio				4.2	3.5

Board of Directors

Director Name	Current Position	Description
Y K Hamied	Chairman & Managing Director	Dr. Y. K. Hamied is an Executive Chairman of the Board, Managing Director of Cipla Limited. Dr. Hamied is a highly qualified and eminent chemist. Having obtained a Doctorate in chemistry from Cambridge University, he has done research work under Lord Todd FCS, a Nobel Laureate. He joined the company at the age of 24 years as an officer-in-charge of research and development in 1960. He was appointed its Managing Director in 1976 and became its Chairman in 1989. He is well-respected for his vast and varied experience of 48 years not only in India but also internationally. Dr. Y.K. Hamied has played the lead role in formulating the company's strategy and has also been actively involved in research and development. For his distinguished service and contributions to the pharmaceutical industry, Dr. Y.K. Hamied was awarded the Padma Bhushan, one of the highest civilian awards in India in the year 2005.
M K Hamied	Joint Managing Director	Mr. M. K. Hamied serves as a Joint Managing Director, Executive Director of Cipla Limited. Mr. Hamied has been working as a Whole-time Director of the company with effect from 15th December 1983. He was redesignated as Joint Managing Director effective from 6th December 2000. He is a science graduate from Bombay University. Mr. Hamied along with the other Joint Managing Director of the company is in charge of day-to-day management of the company with special focus on domestic pharmaceutical markets. He has vast and varied experience in all functions of the company including production, technical areas, quality management and general administration.
Amar Lulla	Joint Managing Director	Mr. Amar Lulla serves as a Joint Managing Director, Executive Director of Cipla Limited.
V C Kotwal	Director	Mr. V. C. Kotwal is a Director of Cipla Limited .He is a senior advocate of Bombay High Court. He joined the Board of Directors of the company in 1989. He is a Science & Law graduate from Bombay University. He has been in the legal profession since 1961 and has been designated as Senior Advocate since 1983.
H R Manchanda	Director	Dr. H.R. Manchanda serves as an Independent Non-Executive Director of Cipla Limited. He has done his M.B.B.S. from Mumbai University in the year 1951. He has also completed his F.R.C.S. from England and did his second F.R.C.S. from Edinburg. He is a consultant surgeon at Breach Candy Hospital since 1960. He is also on a panel of physicians for USA Visa work at Breach Candy Hospital. He joined the Board of Directors of the company in 1983. He was the Professor of Surgery and Head of Surgery at J. J. Hospital and Grant Medical College during the period 1960-85. He has been a postgraduate examiner for Mumbai University and was a Board Member of Haffkine Institute. He has worked with top hospitals both in India and abroad.
S A A Pinto	Director	Mr. S. A. A. Pinto serves as an Independent Non-Executive Director of Cipla Limited. He is an M. A. in Economics from Madras University and LL.B. from Bombay University and an Advocate of the Bombay High Court. He joined the Board of Directors of the company in 1983. He was instrumental in setting up Grindlays Bank's first merchant banking unit in India in 1968 and became its first Indian Director in 1973. In 1982, he set up a financial services consultancy with Mr. Uday Kotak and in 1985 they established a financial services company which later changed its name to Kotak Mahindra Bank Ltd. to which Mr. Pinto has devoted most of his working life since then.
M R Raghavan	Director	Mr. M. R. Raghavan is an Independent Non-Executive Director of the company. Mr. M.R. Raghavan is a top Chartered Accountant. He has done his Bachelor of Science (Mathematics and Statistics) and is a Fellow member of the Institute of Chartered Accountants of India. He joined the Board of Directors of the company in the year 2002. On the social front, he has significantly contributed on child education since 1980 and is currently involved in pioneering projects in rural areas.
Pankaj Patel	Director	Mr. Pankaj B. Patel serves as a Non-Executive Independent Director of Cipla Limited. He is a science and law graduate from Bombay University. He is an eminent lawyer practicing in the field of industrial relations for nearly 20 years.
Ramesh Shroff	Director	Mr. Ramesh Shroff serves as an Independent Non-Executive Director of Cipla Limited. He holds an LL.B Degree from Mumbai University and is a well known solicitor by profession. He joined the Board of Directors of the company in the year 1987.