CIPLA

Cipla is the largest player in the domestic formulation market and has presence across most therapeutic areas. Company's products & services are categorized into Prescription, Animal Products, OTC, Bulk Drugs, Flavors & Fragrances, Agrochemicals and Technology to several markets including US, Europe, South Africa, Australia and the Middle East.

Cipla has the third largest capacity of inhalers in the world and could be a key beneficiary of the unfolding opportunity in the long-term. Supply agreements with 22 US players for 118 products are major achievements by company. Cipla generated healthy FCF by improving working capital cycle with receivable days now down to 83 from >100 days 2yrs ago.

Company announces its 3QFY13 results in line with street expectation with sales figures close to Rs 2030 Cr up by 18% YoY. The healthy growth in sales led by strong growth in export sales. The export sales accountable for nearly 55 % of consolidated revenue for the quarter grow by 28 % YoY. The domestic business contributed rest 47 % of total revenue. India business grows normally by 10 % YoY. Within exports business formulation (88% of total 3QFY13revenue) shown 38 % growth YoY while API business (12 % of total 3QFY13 revenue) declineD by 16%

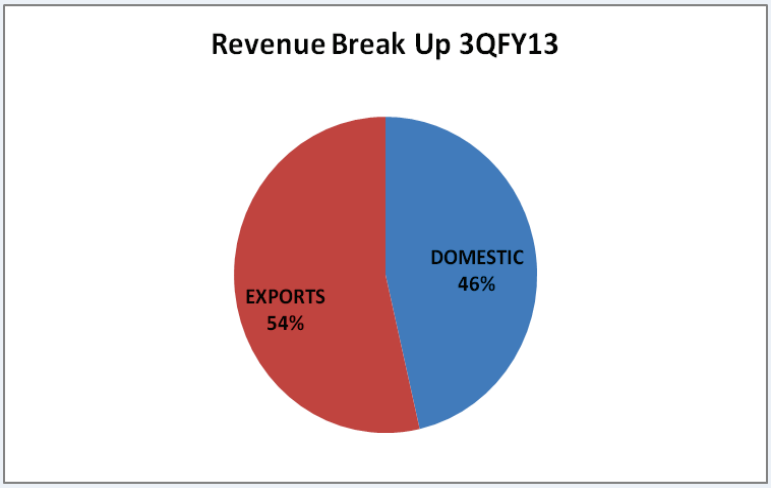
The EBITDA for the quarter came in at Rs 492 Cr and consequently OPM for the quarter came at 24.25 % which has improved by 130bps YoY. The improvement in the EBITDA margin YoY is due to higher contribution from export formulations, decline in API contribution, currency-mix and decline in Africa tender sales

The net profit for the 3QFY13 came at Rs 338Cr up by 25.3 % YoY even though with higher Tax Rate incidence .The Tax Rate for the quarter was 26.24 %.However Management in its previous commentary said that Tax rate should be hovering around 24% for the whole FY13.The NPM came at 16.3% for the quarter which is up 100bps on YoY basis.

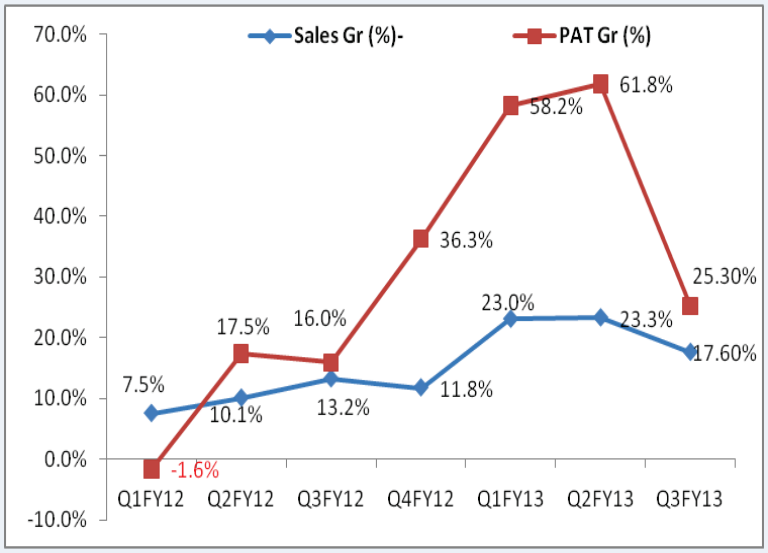
On a sequential basis, results show an expected weaker 3QFY13 due to expiry of 180 days exclusive Lexapro sales.

New proposed Pharmaceutical policy regarding pricing of drugs in India and consolidation in the global generic space could be a major concerns in near future. Recently the company has been scanned with some illegal practices related to sale of banned drugs and infringed a patent.

Company's strong generic pipelines coupled with dominated sales strategy in domestic formulation market, sustainable inhaler franchise and improving capacity utilization at Indore SEZ will help to boost margin in mid to long term term. Further, management has guided for 10% sales growth with 22-24% margin range,10-15% growth in PAT for FY13 and capex of Rs500cr on account of capacity expansions at various plants. More importantly this stake sale from LIC could be a better entry point. At a CMP of Rs 402 stock trades at 3.7x P/BV FY13E and 20x FY14E earnings. We maintain "Buy" with a target price to Rs 435. Any temporary weakness can be utilized to accumulate on the stock



(Source: Company/Eastwind)



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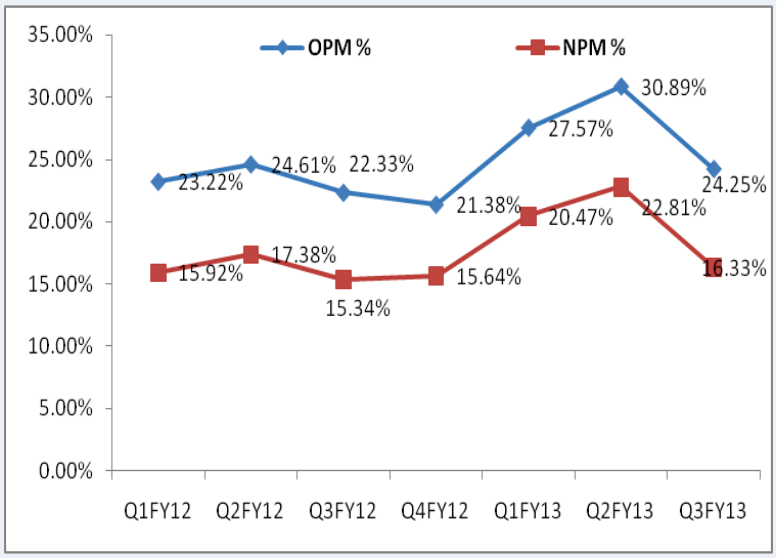

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