

CIPLA - Growth to Slow Down, Tough Time Ahead

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Abstracts

Q3FY13 result of Cipla was largely in line with our expectations. Revenue and EBITDA grew by 18% and 26% Y-o-Y respectively; however, EBITDA margins declined by 700 bps on sequential basis due to lower Lexapro sales. EBITDA margin stands at 23.8% during the quarter that includes a component of Lexapro sales. Management expects EBITDA to remain at ~22% going forward as Lexapro will decline further due to its market has been commoditized. Higher overhead costs will also keep margins under pressure as the company is looking to acquire front end.

Going forward in FY14 we expect revenue growth to remain modest (8-9%) due to (1) high base of FY13 (2) dearth of high value product launches in US and (3) impact of new pricing policy on the domestic business. On a longer term basis, we do not remain enthused about Cipla's inhaler opportunity in Europe as it has lost the first mover advantage.

Modest growth in revenue (8-9%), Lower EBITDA margins (at ~22%) and higher tax rate (~24%) will hit FY14 EPS significantly. We value the company at 20x of FY14 earnings and retain our target price of `360. We retain our market perform rating on Cipla.

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