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Networth Stock Broking Ltd.

Pharmaceuticals

Sun Pharmaceuticals Inds Ltd (SPIL)

Stable performance but stronger growth ahead....

Initiating Coverage

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Date: 21st July, 2010

- **Robust growth in revenues:** SPIL's domestic business has grown significantly at a CAGR of over 25% while the international business has contributed at a CAGR of over 25%. The buoyant growth is expected to continue in both segments (domestic CAGR 20% and international CAGR 22.3%) with the overall revenues posting a healthy 18.4% CAGR between FY10-12

- **Product pipeline leading to sizeable margins and healthy cash flows:** SPIL has managed to keep filing product applications and procure approvals, ensuring steady margins and healthy cash flows. SPIL has an impressive product portfolio and a spate of recent approvals for some high-turnover, high-margin drugs have enabled SPIL to remain highly dynamic & powerful.

- **Resolution of Caraco and Taro issues to contribute to SPIL's strong global positioning:** The proposal for remedial actions has been accepted by USFDA and we believe the resolution is imminent. The product portfolio & target markets of Taro perfectly complement those of SPIL. Thus, success in gaining Taro control would enable SPIL to emerge as one of the top Indian pharma players globally.

- **Valuations:** Healthy revenue growth, strong product pipeline and improved global positioning allow SPIL to consolidate its position as one of the top Indian pharmaceutical players globally.
  Currently, the stock is trading at 25.9x the FY10 EPS. We initiate coverage on Sun Pharma with a BUY rating and target price of Rs2,070 (21.8x FY12 core earnings) providing an upside of 20.1%.

Rating	BUY
Target Price	Rs2,070
CMP	Rs1,724
Upside	20.1%
Sensex	17878

Key Data	
Bloomberg Code	SUNP.IN
Reuters Code	SUN.BO
NSE Code	SUNPHARMA
Current Share o/s (mn)	206.0
Diluted Share o/s (mn)	206.0
MktCap (Rsbn/USDmn)	352.9/7468
52 WK H/L (Rs)	1853/1117
Daily Vol. (3M NSE Avg)	251761
Face Value (Rs)	5
Beta	0.50
1USD/INR	47.3

Shareholding Pattern	(%)
Promoters	63.7
FII	20.2
Others	16.1

Price Performance (%)	1M	6M	1yr
Sun Pharma	-2.3	-1.9	36.4
NIFTY	0.6	2.7	20.6

Source: *Bloomberg; *As on 20th July. 2010*

Key Financial

Y/E Mar (Rs Mn)	Sales	YoY (%)	EBITDA	YoY (%)	Adj PAT	YoY (%)	EPS (Rs)	BV (Rs)	RoE (%)	RoA (%)	P/E (x)	P/BV (x)
FY08	3,461	-	1,705	-	1,475	-	74.9	241.0	31.1	32.0	16.4	5.1
FY09	4,375	26.43	2,078	21.89	1,793	21.55	90.7	340.1	28.0	28.0	12.3	3.3
FY10	4,103	(6.22)	1,487	(28.47)	1,384	(22.85)	66.6	403.7	17.2	17.2	25.9	4.3
FY11E	4,882	19.00	1,770	19.07	1,597	15.43	77.7	472.2	17.6	17.6	22.2	3.7
FY12E	5,663	16.00	2,161	22.10	1,939	21.42	95.1	556.0	18.4	18.4	18.1	3.1

Source: *Company, Networth Research*

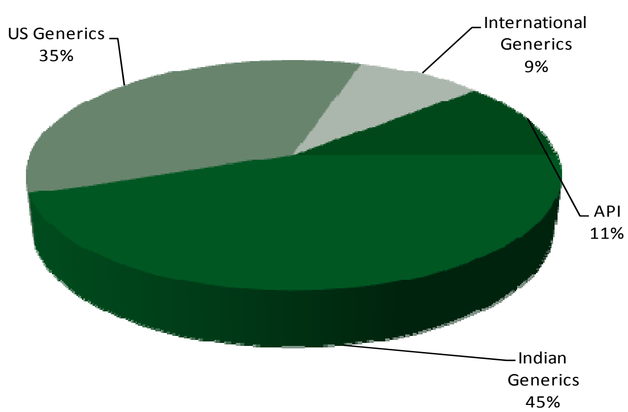
Investment Rationale

Robust domestic business would serve as the growth driver in the near future; expect 19.3% CAGR over FY10-12E:

The most profitable business segment of SPIL has been the domestic formulations and SPIL has always targeted the rapidly-growing, high-margin chronic segment (growing at a CAGR of 15% vs. industry growth of 10-12%) carrying a weightage of close to 70% in SPIL's overall domestic formulation business. SPIL has its presence in segments like CNS, Cardiology, Orthopedics and Ophthalmology enjoying leadership in most of them.

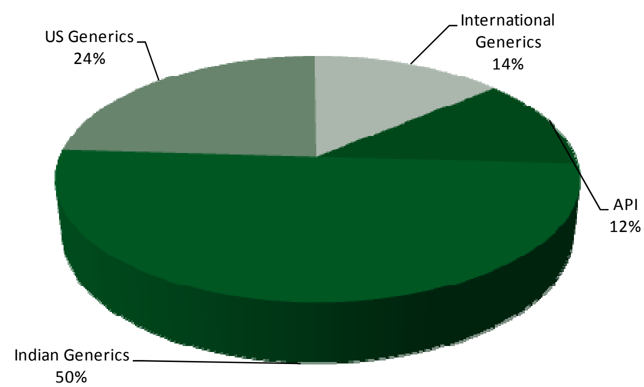
Domestic formulation business, which currently contributes 50% of the overall revenue, grew at a CAGR of 25.1% over FY04-09. However, domestic formulations business growth in 9MFY10 has been erratic because of bunched up sales in Q4FY09 impacting the H1FY10 performance. With Q3FY10 domestic formulation growth has come back on track, we believe SPIL will report higher growth in FY11E over FY10 because of low base effect & gradual recovery in the domestic demand. Overall, we expect its domestic formulation business to report a CAGR of 19.3% to Rs2635.2crs (53% contribution) over FY10-12.

Exhibit 1a: Revenue break-up (as of FY09)



Source: *Company, Networth Research*

Exhibit 1b: Revenue break-up (as of FY10)



Source: *Company, Networth Research*

International formulations business (ex-US) to gain strong momentum; anticipate 22.3% CAGR over FY10-12E:

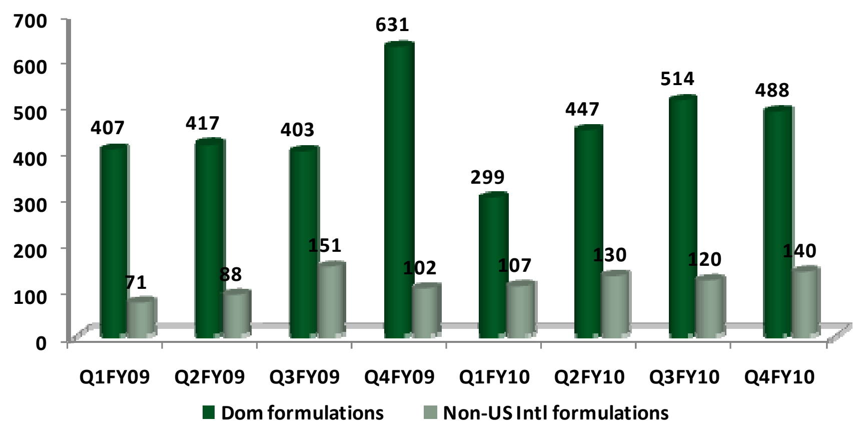
Sun Pharma's International formulation business (ex-US), which currently contributes 41.4% of overall revenue, grew at a CAGR of 21.2% over FY04-09. The contribution of this segment in export formulation has increased from 31.4% in FY08 to 41.4% in FY10. This segment is expected to show a CAGR of 22.3% over a period of FY10-12.

Sun Pharma has presence in more than 30 countries (Brazil, Russia, China, Mexico, South Africa & South-east Asian countries) with an on-ground field force of over 600 employees.

Sun Pharma has a product portfolio of 1600 products, with an additional 1100 awaiting registration. SPIL has exhibited its forte by focusing upon products requiring intricate and complex manufacturing processes, resulting in an unprecedented and incomparable performance in these markets. The branded-generic drugs being marketed in such markets offer typically high-margins.

The recent crises of US and Europe have apprised and incentivized SPIL to concentrate on an expansive span of (emerging) markets in addition to the (regulated) developed markets. Thus, in order to further expand its geographical reach & reduce its dependence on the US market, SPIL plans to enter EU markets & has already started making serious efforts in registering & launching its products in these markets. SPIL sees a huge untapped potential & is initially targeting niche segments (especially injectable drugs) for these markets. We expect its (ex-US) international formulations business to grow at a CAGR of 22.3% over FY10-12.

Exhibit 2: Revenue from Domestic & International (non-US) formulations segments



Source: *Company, Networth Research*

Strong product pipeline gives SPIL the propensity to maintain sizeable margins and thus generate healthy cash flows

SPIL has built up a product pipeline of very strong DMF & ANDA products, (and within this some para IV drugs are very lucrative and high-margin products) with a total revenue potential of Rs32,200crs over a period of FY11-16. 3 out of 5 major FTF opportunities have fair visibility in terms of launches under exclusivity.

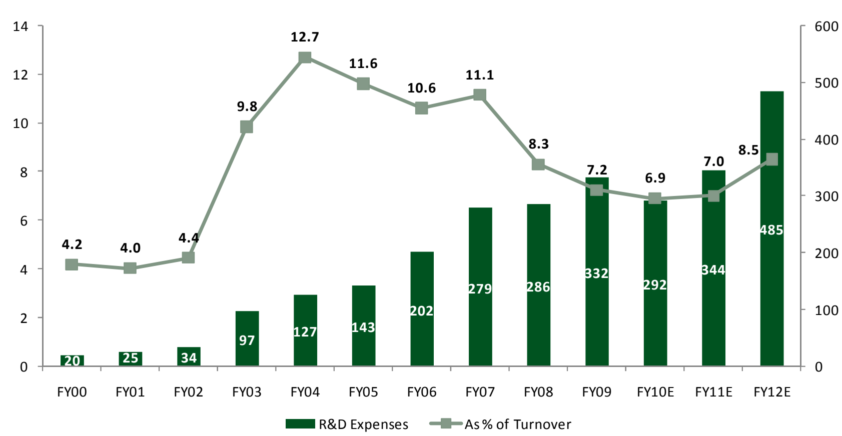
The anti-neoplastic drug Eloxatin generated revenues of Rs42crs last year but due to a US court decree will no longer be sold by SPIL in the US after 30 June, 2010. Another unfavorable judgement was seen in case of the anit-ulcerant Pantaprazole, which generated revenues of around Rs600crs last year. The court decided that the original patent is not invalid and thus SPIL stopped production & sales after Apr'10.

Impressive breakthroughs have been seen this year. The first one came in form of USFDA ANDA approvals with a para IV exclusivity of 180-days each for the Alzheimer's drug Memantine tablets & Parkinson's drug rivastigmine tartrate capsules having a potential to generate approx. USD2bn & USD130mn p.a. respectively. In addition to that, there have been many ANDA approvals recently like the epilepsy drug levetiracetam injections (USD85mn annually), the anxiety drug alprazolam tablets (USD145mn annually), the allergic-conjunctivitis azelastine ophthalmic solution (USD50mn annually) & BPH drug tamsulosin HCL to name some of the very recent ones.

In case of Exelon (USD225mn opportunity), SPIL has already entered into a settlement with the innovators while in case of Gemzar (USD2bn opportunity), SPIL has received favorable judgement from the lower court. Similarly, in the case of Gleevec (Patent expiry-2015; USD1bn opportunity), SPIL has clear cut FTF status and the fact that Novartis (innovator) has not filed litigation against SPIL, makes it a highly profitable opportunity for SPIL. SPIL currently enjoying limited competition opportunities in drugs like Ethyol and we expect SPIL to launch Effexor XR (non- AB rated) product under limited competition in the next 1-2 months.

SPIL's forte is clearly turning out to be its innovation & litigation teams, which have managed to keep developing products and filing applications. They have consciously planned to ensure their product-filings in a manner which would assure a continuous cash flow from the DMF and ANDA product sales, especially from the US market. This has empowered SPIL to make strategic plans for the global markets like planning exponential growth in the controlled products segment in the US, third party manufacturing of Caraco products in the US, planning manufacturing and marketing facilities around the world. SPIL has also extreme finesse in its dealings with the original drug manufacturers while dealing with the regulatory protocols, especially in the regulated markets.

Exhibit 3: R&D expenditure: absolute & as a percentage of turnover



Source: *Company, Networth Research*

Steady focus on US business with an optimistic view on the resolution of Caraco & Taro issues:

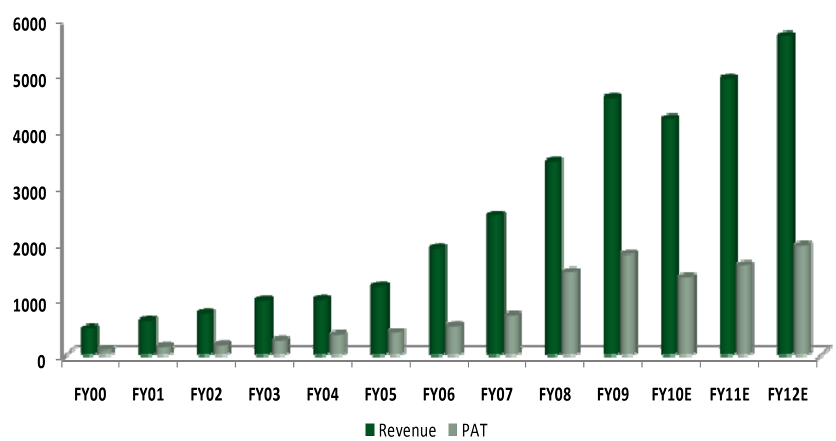
Caraco and the USFDA compliance issues:

Background: The current scenario appears to be grim for Sun Pharma, but the resolve and focus exhibited by the company management remains commendable. SPIL's business in the US markets has grown from Rs100crs in FY01 to Rs1,750crs in FY08, which allowed the company to establish itself as one of the strongest Indian players in the US market. The scenario changed in FY08 when Caraco, the US subsidiary of SPIL, ran into trouble with the USFDA regarding issues complying with the stringent manufacturing process standards prescribed by the apex body. Subsequently in the last quarter of FY09, Caraco had to call back some of its internally manufactured products from the market resulting in 4% and 42% reduction in the Revenues and Profits that year. Additionally, the FDA seized 33 products manufactured at the Michigan plant of Caraco, which was worth around USD16mn as per SPIL management.

Outlook: The management is extremely optimistic about resolving the USFDA compliance issues with regards to Caraco, and thus far it has shown tremendous commitment in taking serious efforts towards the same. SPIL's recent actions to recall some of the erstwhile-terminated employees, signing of consent decree and shifting to third party manufacturing gives us the confidence that SPIL is extremely focused on maintaining & growing its foot-print in the US market, especially via its subsidiary Caraco & also making it USFDA-compliant. However, it could still be impossible for us to put down any time-frame for Caraco to extricate itself from the compliance-issues with USFDA.

SPIL is committed to scale-up its generic business in the US despite the USFDA ban on its manufacturing products by accelerating its ANDA filings in the US from its sites In India and other facilities of SPIL across the world; and growing exponentially in the controlled-drugs segment. SPIL has the largest ANDA pipeline which has 123 ANDAs pending approval with 12 tentative approvals & it has filed 30 ANDAs in FY10 (highest number of ANDA filings), out of which 15 has received approvals. Additionally, to offset the impact of FDA ban on its US revenues, SPIL has planned to expand the capacity of its Cranberry facility in the US, capitalize by in-licensing and distributing third party manufactured products.

Exhibit 4: Revenue and Profitability



Source: *Networth Research*

Taro acquisition will strengthen SPIL's US operations & consolidate its position as one the top Indian pharma player globally, especially in the US market:

Background:

May 2007 - SPIL entered into an agreement to acquire Taro Pharma: SPIL entered into an agreement to acquire Taro Pharma at USD7.75/share (EV of USD454mn including debt of USD224mn). The agreement also had a provision that, in case merger talks failed, SPIL would have the right to acquire promoters stake @ USD7.75/share. SPIL had initially acquired 6.75mn shares @ USD6/share along with warrants of 3mn shares @ USD6/share. So in all, they made an initial investment of USD58mn for 25% stake, with 18% voting rights. SPIL also provided a loan of USD40mn to Taro Pharma to address the liquidity crisis.

July 2007 - Franklin opposed the deal: Franklin Advisors and Templeton holding 9.6% of the equity shares of Taro, had raised an objection to the fresh issue of shares and management acceptance of the SPIL's open offer. They sued the management of Taro Pharma, terming the deal as "Oppressive to Minority Shareholders". Franklin also filed a motion for the appointment of a special interim manager to review the efforts of Taro, Isarel to scout for a better suitor, which was rejected by Tel Aviv court.

May 2008 - Taro takes a U-turn: However, exactly a year after that, Taro Board unanimously terminated the merger agreement, citing among other things, Taro's better operational health, strong business outlook and inadequate offer price as key reasons.

June 2008 - SPIL made an open offer under the option letter agreement: As a consequence of termination of agreement, SPIL made an open offer to acquire promoters' stake @ USD7.75/share as per agreement. The directors of Taro rejected the offer price of SPIL stating that the Sun offer was financially inadequate in light of the present market value of the shares and asked Sun to tender their share at the above price. In the mean time, SPIL had also acquired 3.7mn shares @ USD10.25/share from Brandes (another institutional investor), taking their overall holding to 34%.

Dec 2009 - Templeton reversed its position: In Dec'2009, Templeton, which was thus far opposing the merger, decided to switch sides and support Sun's stance on Taro. We are of the view that Templeton's stand in favor of Sun will substantially boost its position of closing the Taro management control acquisition.

Dec 2009 - Minority shareholders of Taro voted against the current promoters: In the recently concluded AGM, the minority shareholders of Taro Pharma rejected the appointment of independent directors proposed by the promoters (Mr. Barrie Levitt & family). This development is also viewed as a positive for Sun Pharma as they have been trying hard to stop this resolution.

June 2010 - Guggenheim Partners offered to buy SPILs' stake in Taro Pharma on behalf of clients (mainly Institutional Investors) for about USD215mn: Guggenheim, which has been advising Taro, offered USD15 a share to SPIL and SPIL rejected the approach. SPIL said in a regulatory filing that it held about 144 lakh shares of Taro. That's about 36% of all outstanding shares. Selling at USD15 a share would give SPIL a profit of more than USD140mn, more than double the size of its initial investment. This rejection has instilled a sense of confidence in all concerned stakeholders that SPIL is strongly committed to gaining Taro management control and endeavoring towards utilizing this strategic fit to take it to greater summits of success.

Optimistic about the outcome, but as of now the time-frame remains unclear: The case remains sub-judice, and how much ever optimistic we remain about its outcome in SPIL's favor it would be extremely difficult for us to give a definitive timeline. We strongly believe that SPIL would eventually convince all the stakeholders and the Court that the Taro management control acquisition would be in the greater interests of SPIL and all concerned stakeholders.

Exhibit 5: Key Events in the SPIL & Taro tryst for management control

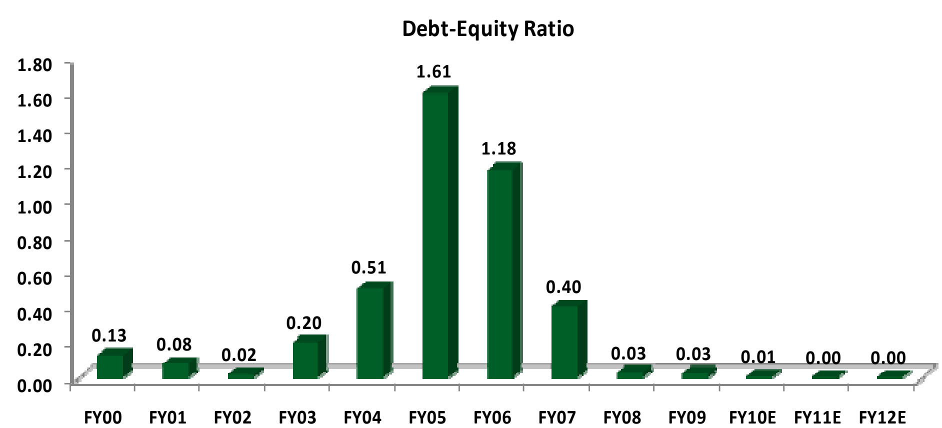
May-07	Sun- Taro entered into definitive the merger at USD454mn @ USD7.75/share
Jul-07	Franklin advisors and Templeton raised an objection & filed a motion for the appointment of a special interim manager to review the efforts of Taro Israel find the appropriate suitor. The motion was rejected by the Tel Aviv court.
May-08	Taro Israel terminated Merger Agreement with Sun India
Jun-08	Sun India exercised its option to acquire the shares of the controlling shareholders of Taro Israel under the Option Letter Agreement
Jun-08	Taro Israel's board of directors evaluated the tender offer from Alkaloida
Jul-08	Taro Israel's board of directors concluded that Alkaloida's tender offer was financially inadequate and urged its shareholders to not tender their shares
Aug-08	Sun India (for Alkaloida) announced the filing of amendment to tender offer for Taro Israel waiving certain conditions
Jan-09	Sun India (for Alkaloida) raised its offer from USD7.75 per share to USD9.5 per share
Mar-09	The mediation between Sun India and Taro Israel was unsuccessful
Dec-09	Templeton decided to switch sides and support Sun's stance on Taro
Dec-09	Minority shareholders of Taro voted against the current promoters
Jun-10	Sun Pharma rejects Guggenheim offer for Taro stake buy at USD15 per share

Source: *Networth Research*

Outlook: We believe that whenever SPIL manages to gain management control of Taro, it would consolidate SPIL's presence in the US market as 85% of Taro's revenue comes from the US. This acquisition would replenish SPIL's portfolio with strong and complementary branded products, expanding its overseas business to multi-fold its current capacity, thus transforming it into one of the strongest Indian pharmaceutical players both in the emerging and developed markets, especially in the US market.

But as of now, we have taken Taro investments with a 20% hair-cut on the current Taro market-valuations (on NYSE) of SPIL's entire stake in Taro.

Exhibit 6: Debt-Equity Ratio



Source: *Networth Research*

Healthy Financials:

Robust revenue growth of CAGR of 17.6% over the period of FY10-12E

SPIL's has shown robust revenue CAGR of 32.8% over a period of FY04-09, where the domestic business showed a CAGR of 25.1% while exports surged during the same period with a CAGR of 42.9%. SPIL has actively focused on chronic drugs and instilled strong doctor relationships amongst its employees, which has resulted in SPIL emerging as the market leader in key therapeutics like CNS, CVS, Ophthalmology, Orthopedics, Diabetics, etc. in the domestic market.

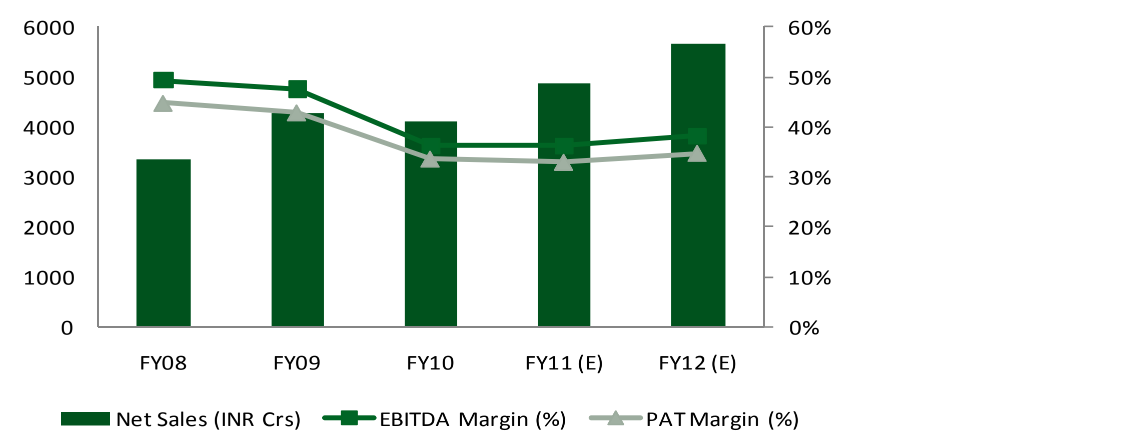
This year SPIL's growth in revenue has seen a major impact because of: 1] One-time sales of approx. Rs200crs. 2] Seizure of USFDA of 33 Caraco produced products due to non-compliance of manufacturing standards. The products were worth approx. USD16mn, thus reducing the revenues from USD32 to 2mn in Q2FY210. It would be impossible for us to give out any time-frame for the resolution of the USFDA-Caraco issues, SPIL's recent initiative to recall few of the erstwhile-terminated employees, signing of the consent decree and initiating implementation of manufacturing to third party facilities in US gives us the confidence that the roadmap to bringing Caraco to compliance & its resolved focus on the US markets is absolutely evident.

Going forward, we expect its base business to grow at a CAGR of 17.6% on the back of: a) CAGR of 16.1% in revenues in the overall international business, whereas the ex-US business would exhibit a CAGR of 22.3% in revenues, b) 19.3% CAGR in the domestic business revenues and c) SPIL's own filings in the US and gradual expansion of the controlled substance product portfolio. d) Also, the increasing third party manufacturing by Caraco in the US would take effect from FY13 onwards. These factors would gain major momentum from that point onwards, and eventually manifest as substantial higher market-share in the markets and thereby materializing as substantial revenues.

Robust balance sheet

Sun continues to remain a debt-free company with cash and cash equivalents of Rs3,528crs (as on FY09). We expect the company to generate free cash flow of Rs3,560crs over FY10E-12E. We believe that this liquidity would be useful in resolving various issues with the company such as resolution of Caraco issues with USFDA, acquiring the Taro management control, filing product applications, entering business affiliations and resolving other issues.

Exhibit 7: Profitability Trend



Source: *Networth Research*

Improving performance would translate to better margins

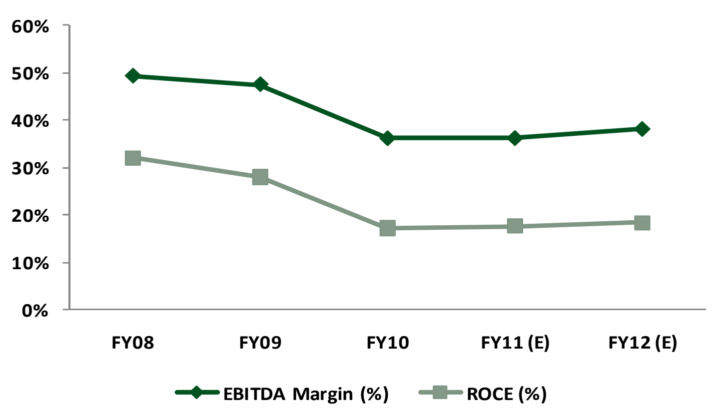
In FY10, SPIL's base business operating margins came down because of a) USD16mn write-off of inventory of the seized products b) Recall of products from the market and c) Disruption in the supply of Caraco's own manufactured products because of the USFDA ban. We expect SPIL to continue to experience higher operating margins vis-à-vis its peers because of significant contribution (of approx. 70%) coming from the high-margin chronic segment. However, overall margins are estimated to come down slightly due to the declining contribution of limited competition products in the US and other global markets. But this would be more than offset in due course, with substantial product approvals given to SPIL and Caraco product-filings by USFDA.

SPIL's base business revenues would see a CAGR of 17.6% over the period of FY10-12

We expect SPIL's base business earnings to grow at a CAGR of 22.9% over FY10-12E on the back of 17.6% base revenue growth and strong operating performance. Overall, we expect its earnings to decline by 3% over FY09-12E because of one-off impact of non-recurring income.

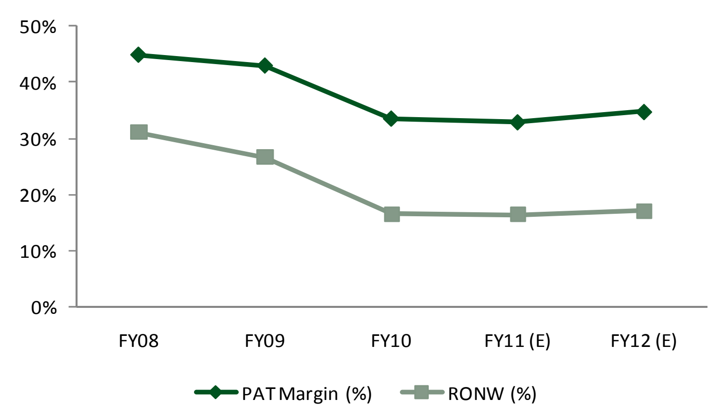
As of FY09, SPIL has a cash and cash equivalents of Rs3,528crs and we expect it to generate free cash flow of Rs3,560crs over FY10-12E. This will result in higher 'Other Income" on account of interest/dividend earned. This would add to the margins at the consolidated level for SPIL.

Exhibit 8: EBITDA margins & ROCE



Source: *Company, Networth Research*

Exhibit 9: PAT margins & RONW



Source: *Company, Networth Research*

Other Highlights

Our estimates assume sales of generic Eloxatin to cease in June 2010; however, sales of generic Protonix may resume once paediatric exclusivity on the relevant '579 patent ends on 19 Jan'11. Management also indicated that they hope to receive ANDA approval for Effexor XR tablets, but was unsure about the likely timeline.

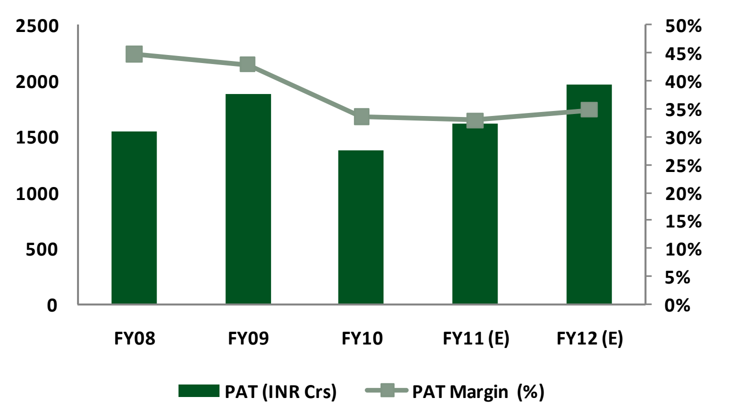
While it currently has ANDA approvals for formulations of three controlled substances (codeine phosphate, oxycodone HCl and promethazine HCl), it has yet to capture significant market share. Better performance in terms of production and sales would allow them to apply for and obtain higher quotas from the DEA and the SPIL management is hopeful of improving their position over time.

Currently, Sun (together with Caraco) has one of the best product pipelines in the country with 84 ANDA approvals. It has 123 ANDAs awaiting approval (including 12 tentative approvals) with 30 applications being filed in FY10 and 15 out of them receiving final approvals. The company intends to file at least 30 ANDAs in FY11.

Exports to the global (ex-US) markets (over 40 non-US markets) have been rising since the last couple of quarters. The major (Tier 1) export markets are China, Brazil, S Africa and Mexico. Sales have also been picking up in Tier 2 markets such as Venezuela, Algeria and Vietnam.

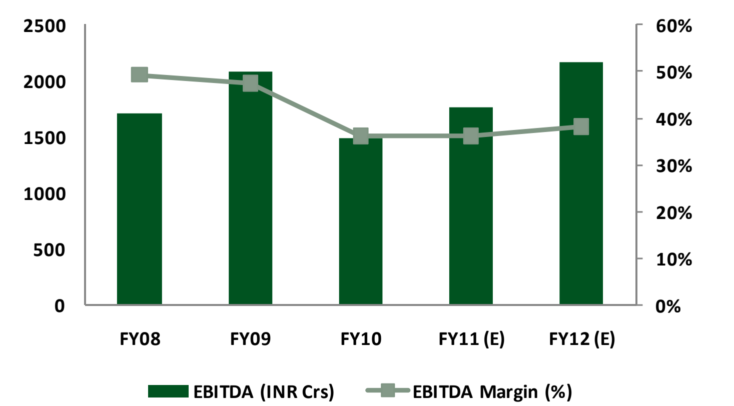
Inventories have risen to 104 days in FY10 (from 83 days in FY09) and receivables to 98 days (75 days) due to ongoing problems at Caraco and more crucially due to the set-up of different production facilities & marketing sites across the world.

Exhibit 10: PAT Trend



Source: *Company, Networth Research*

Exhibit 11: EBITDA Trend



Source: *Company, Networth Research*

Valuations

We value Sun Pharma on SOTP basis where we estimate the fair value for SPIL to be Rs2,070.

We initiate coverage on Sun Pharma with a "Buy" rating. We believe that the growth prospects for Sun Pharma are extremely promising and have used conservative estimations while making future projections in the context pertaining to the company and the markets that the company operates in.

The domestic business and the emerging markets business segments would likely gain momentum in the near term, while the third-party manufacturing and Caraco product-filings from various sites in the US market would serve as a long-term trigger for the company on a consolidated basis.

Exhibit 12: SUM-OF-THE-PARTS (SOTP) VALUATION

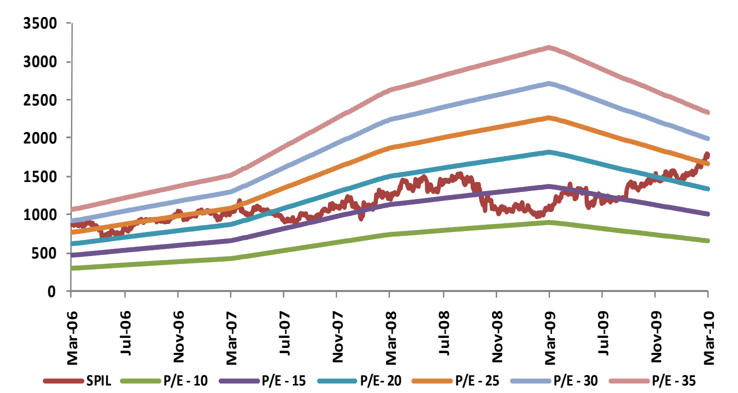
SOTP VALUATION	PAT [INR CRS]		P/E	VALUATIONS [INR CRS]	
	FY11E	FY12E	(x)	FY11E	FY12E
Domestic API	13.3	13.8	12.0	160.0	165.6
Domestic FDs	586.8	698.3	22.0	12,910.3	15,363.2
International API	59.2	61.6	14.0	829.1	862.3
International FDs	798.8	969.6	18.0	14,377.5	17,452.3
Sun ANDAs	296.9	333.3	18.0	5,344.9	5,999.7
Caraco	28.3	29.3	18.0	509.3	527.2
Total (ex-Interest Income)	**1,783.4**	**2,105.9**		**34,131.2**	**40,370.3**
Value per share				1,647.9	1,949.1
Taro per share				32.6	32.6
Cash per share				79.0	88.9
Target Price per share				**1,759.6**	**2,070.7**

Source: *Networth Research*

The resolution of the compliance issues of Caraco with the USFDA would serve as an instant trigger for the stock, as it would instantly and substantially increase its revenues from the lucrative US market. We have not factored-in any consequences of the Caraco issue resolution within the time-frame of FY12 (other than minimal growth of revenues). Therefore, we would revise our price target accordingly as and when any clarity is achieved on this front.

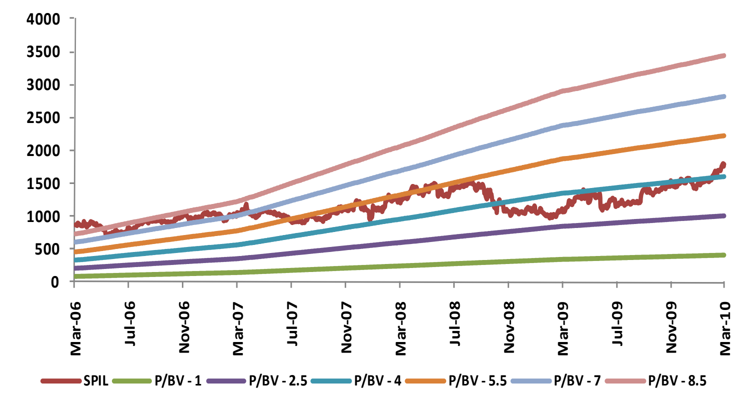
The acquisition of Taro management control would serve as another substantial trigger for this stock. We have not factored-in any earnings from Taro other than the market-value of the current holding of SPIL stake in Taro. As soon as the Taro management control is acquired by SPIL, the product portfolio and the markets would gradually be accreting and prove beneficial to the SPIL shareholders. Therefore in this matter as well, we would revise our price target accordingly, as and when any progress becomes evident.

Exhibit 13: Price / EPS band



Source: *Company, Networth Research*

Exhibit 14: Price / Book Value band



Source: *Company, Networth Research*

Key Risks:

Delay in acquiring USFDA approval for its subsidiary Caraco and delay in acquisition of Taro management control would delay SPIL from gaining the substantial scale and natural advantage that it would gain after the two issues get resolved.

Delay in gaining approvals, lower-than-expected sales in lieu of intense competition could suppress SPIL's performance going forward.

Company Background

Sun Pharmaceuticals Industries Limited (SPIL) came into existence as a startup with just 5 products in the year 1993. Currently, SPIL is an international specialty Pharmaceuticals Company, with a presence in 30 markets. The Company also makes Active Pharmaceutical Ingredients (API). In branded markets, Sun Pharma's products are prescribed in chronic therapy areas like Cardiology, Psychiatry, Neurology, Gastroenterology, Diabetology and Respiratory. It makes specialty formulations across a range of dosage forms - oral, injectable and delivery system based. Also API, specialty APIs including peptides, steroids, hormones & anti-cancers at internationally approved world-class sites.

Exhibit 15: Key Events

- 1993 - Sun Pharma Advanced Research Center (SPARC), the first research center was inaugurated.
- 1995 - The Company's first API manufacturing plant was built in Panoli, for access to high quality actives ahead of competition, and to tap the vast international opportunities.
- 1996 - Another API plant, at Ahmednagar was acquired from the MNC Knoll Pharmaceuticals
- 1997 - SPIL initiated its international acquisitions – Detroit-based Caraco Pharm Labs, MJ Pharma, TDPL
- 1999 - Milmet Labs was merged with SPIL
- 2004 - SPIL acquired common stock and options from 2 large shareholders of Caraco, increasing stake to over 60% from 44% at a total outlay of about USD42mn
- 2005 - SPIL bought a plant in Bryan, Ohio, US and the business of ICN, Hungary from Valeant Pharma; acquired the IP property and assets of Able Labs from the US District Bankruptcy court in New Jersey; entered into a distribution and sale agreement with Caraco.
- 2007 - SPIL signed definitive agreements to acquire Taro Pharmaceutical Industries Ltd., a multinational generic manufacturer with established subsidiaries, manufacturing and products across the U.S., Israel, Canada for USD454mn
- 2008 - SPIL purchased 3.71mn shares equivalent to an additional 9.4% stake in Taro via indirect subsidiary, Alkaloida Chemical Co. from Brandes Investment Partners, L.P increases Sun Pharma and its subsidiaries stake in Taro Pharma to 34.4%
- 2010 - Sun reiterates Taro's importance by rejecting offer for stake sale in Taro, an offer given by Guggenheim, an investment bank retained by Taro.

Key Management Personnel

Dilip S Shanghvi	CMD	Dilip S. Shanghvi is a graduate in commerce from Kolkata University. He founded SPIL in 1982 and has extensive industrial experience in the pharmaceutical industry. Mr. Shanghvi is actively involved in international pharmaceutical markets and R&D functions in SPIL and is also the Chairman of SPIL's primary subsidiary, Caraco, in Detroit, U.S.A.
Sudhir V Valia	Whole-time Director	Sudhir V. Valia is a fellow Member of ICAI and carries more than two decades of taxation and finance experience. He joined our company in 1994, prior to which he was in private taxation practice. In addition to being on the Board of Directors of a number of companies in our group, he is also on the Board of Directors of Caraco.
Sailesh T Desai	Whole-time Director	Sailesh T. Desai is a science graduate from Kolkata University, with more than 28 years of industrial experience, 18 of which have been in the pharmaceutical industry. Mr. Desai has had comprehensive corporate affairs experience, being involved in the turnaround at Milmet prior to our acquisition of it, as well as in the early stages of our company's growth.

Financial Summary

Income Statement

(Rs.crs)

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Net Sales	3,360	4,280	4,103	4,882	5,663
Growth(%)		27	(4)	19	16
Operating Expense	1,740	2,509	2,740	3,151	3,545
Inc/(Dec) in Stock	(70)	94	32	39	43
Cost of Materials	653	949	1,037	1,192	1,341
Employee Expenses	233	340	371	427	480
Selling & Distribution	360	462	504	580	652
Administration & General	294	378	412	474	534
Research & Development	286	332	369	439	510
Other Expenses	108	155	169	195	219
EBITDA	1,705	2,078	1,487	1,770	2,161
Growth(%)		22	(28)	19	22
Depreciation & Amortisation	61	81	97	123	153
EBIT	1,644	1,997	1,390	1,647	2,008
Interest	9	6	(114)	(125)	(138)
EBT	1,635	1,991	1,504	1,772	2,146
Other Income	154	214	91	0	0
PBT	1,789	2,206	1,595	1,772	2,146
Current Tax	48	71	68	85	104
PAT	1,741	2,134	1,527	1,688	2,042
Exeptional Items	12	24	0	0	0
PAT after Exeptional Items	1,729	2,110	1,527	1,688	2,042
Growth(%)		22	(28)	10	21
Minority Interest	64	60	(4)	13	30
PAT after Minority Interest	1,665	2,050	1,531	1,675	2,012

Ratios

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Bal. Sheet Structure Ratios (%)					
EPS (Rs)	75	91	67	78	95
Dividend Per Share (Rs)	10	14	8	9	11
Dividend Payout Ratio (%)	0	0	0	0	0
Sales per share (Rs)	162	207	198	236	273
Cash per share (Rs)	60	81	95	108	127
BV per Share (Rs)	241	340	404	472	556
EV per Share (Rs)	1,179	1,040	1,632	1,617	1,599
Profitability (%)					
OPM	51	49	36	36	38
NPM	46	44	34	33	35
ROI	32	28	17	18	18
ROE	31	27	16	16	17
Turnover					
Days Payable	50	37	47	52	56
Days Receivable	154	75	98	101	107
Days Inventory	84	83	104	105	109
Fixed Asset Turnover (x)	2	2	1	1	2
Inventory Turnover (x)	4	4	4	3	3
Leverage					
D/E (x)	0.03	0.03	0.01	0.00	0.00
Interest Coverage (x)	187	337	(12)	(13)	(15)
Valuation					
P/E (x)	16	12	26	22	18
P/BV (x)	5	3	4	4	3
EV/EBITDA (x)	14	10	23	19	15
EV/Sales (x)	7	5	8	7	6
Dividend Yield (%)	1	1	0	1	1

Balance Sheet

(Rs.crs)

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Sources of Funds:	5,333	7,353	8,636	10,039	11,778
Net Worth	4,991	7,045	8,362	9,780	11,516
Equity Capital	104	104	104	104	104
Upfront paymt for sh. wrrnts	0	0	0	0	0
ESOP outstanding	0	0	0	0	0
Reserves & Surplus	4,888	6,941	8,258	9,676	11,413
Minority Interest	189	197	213	217	217
Borrowings	144	179	67	35	39
Deferred Tax Liability	9	(68)	(6)	7	6
Application of Funds:	5,333	7,353	8,636	10,039	11,778
Gross Block	1,769	2,473	2,943	3,355	3,774
Depreciation & Amortisation	559	684	837	1,038	1,265
Capital WIP	69	157	212	265	325
Net Block	1,208	1,788	2,104	2,315	2,507
Goodwill	288	559	666	759	854
Investments	756	1,859	2,231	2,733	3,348
Current Assets	3,937	4,268	5,095	5,986	7,141
Inventories	773	976	1,171	1,405	1,686
Debtors	1,418	881	1,101	1,349	1,653
Cash & Bank Balances	1,239	1,669	1,969	2,245	2,638
Loans & Advances	508	742	854	986	1,164
Current Liabilities & Provisions	637	720	1,008	1,260	1,543
Liabilities	372	377	527	659	808
Provisions	265	343	480	600	736
Net Current Assets	3,300	3,548	4,088	4,726	5,597
Misc Expenses	0	0	0	0	0

Cash Flow

(Rs.crs)

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Cash & Cash Eq.at Beg of the yr	1,278	215	808	1,899	2,762
Net Cash from Oper. Act.	505	2,165	1,936	2,257	2,743
Net Cash Used in Invest. Act.	(582)	(1,509)	(567)	(1,170)	(987)
Net Cash Used in Fin. Act.	(986)	(64)	(278)	(223)	(229)
Net Inc/(Dec)in Cash & Cash Eq.	(1,063)	593	1,091	863	1,527
Cash & Cash Eq .at end of the yr	215	808	1,899	2,762	4,289

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Key to NETWORTH Investment Rankings

Buy: Upside by>15, **Accumulate:** Upside by +5 to 15, **Hold:** Upside/Downside by -5 to +5, **Reduce:** Downside by 5 to 15, **Sell:** Downside by>15

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