MOTILAL OSWAL

*2QFY07 Results Update*

SECTOR:PHARMACEUTICALS

# Sun Pharmaceutical Industries

| STOCK INFO. | BLOOMBERG |
|---|---|
| BSE Sensex: 12,623 | SUNP IN |
| | REUTERS CODE |
| S&P CNX: 3,657 | SUN.BO |

| | |
|---|---|
| Equity Shares (m) | 185.7 |
| 52-Week Range | 954/553 |
| 1,6,12 Rel. Perf. (%) | -4/-1/-15 |
| M.Cap. (Rs b) | 169.5 |
| M.Cap. (US$ b) | 3.7 |

23 October 2006

**Buy**

*Previous Recommendation: Buy*

Rs913

| YEAR END | NET SALES (RS M) | PAT (RS M) | EPS (RS) | EPS GROWTH (%) | P/E (X) | P/BV (X) | ROE (%) | ROCE (%) | EV/ SALES | EV/ EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| 03/06A | 15,957 | 5,733 | 27.7 | 29.7 | 33.0 | 10.7 | 42.1 | 19.1 | 10.6 | 34.4 |
| 03/07E | 19,631 | 6,571 | 31.7 | 14.6 | 28.8 | 9.1 | 38.0 | 20.8 | 8.4 | 26.7 |
| 03/08E | 23,912 | 8,182 | 39.5 | 24.5 | 23.1 | 6.7 | 37.1 | 23.5 | 6.7 | 20.2 |

Sun Pharma's 2QFY07 results were above our estimates led by higher sales growth and tax write-backs. Key highlights include:

- Net sales grew by 27% while PAT grew by 26%. EBITDA margins were in-line with estimates at 32.7%, down 170bp YoY. Sales growth was led mainly by a 47% jump in exports to Rs2.52b while domestic revenues grew by 14.6% to Rs3.14b. Bottom-line was boosted by higher other income, up 110% at Rs402m and a tax write-back of Rs22m.
- **Guidance:** Sun Pharma has maintained its guidance of sales growth of 18-20% for FY07E, Generic R&D expenses at 10-12% of sales and capex of Rs1.0b. It expects to maintain EBITDA margins at 31-32% for FY07E. Management indicated that it will be paying negligible income tax for FY07E based on the various tax shields available to it.
- **Caraco results better than expected:** Caraco (USA) reported strong 2QFY07 results with topline growth of 43% to US$28.3m, primarily driven by Ultracet sales. Caraco management has guided sales growth of at least by 25-30%.

We have revised our FY07E and FY08E earnings estimates upwards by 3% and 4.5% respectively on back of better then expected 2Q performance as well as the lower tax outgo guided by the company. Sun Pharma is currently valued at 28.8x FY07E and 23.1x FY08E fully diluted EPS, which does not fully factor in the expected ramp-up in its US business as well as the value that it could add by using its strong cash chest (US$450m) through the inorganic route. We maintain **Buy** with revised price target of Rs990.

QUARTERLY PERFORMANCE (CONSOLIDATED) (Rs Million)

| Y/E MARCH | FY06 | | | | FY07 | | | | FY06 | FY07E |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | |
| **Net Revenues** | **3,784** | **4,112** | **4,236** | **3,966** | **4,987** | **5,229** | **5,131** | **4,284** | **15,932** | **19,631** |
| *YoY Change (%)* | *35.7* | *43.2* | *35.0* | *36.2* | *31.8* | *27.2* | *21.1* | *8.0* | *36.5* | *23.2* |
| **EBITDA** | **1,281** | **1,415** | **1,476** | **969** | **1,811** | **1,708** | **1,597** | **1,089** | **4,975** | **6,206** |
| *Margins (%)* | *33.9* | *34.4* | *34.8* | *24.4* | *36.3* | *32.7* | *31.1* | *25.4* | *31.2* | *31.6* |
| Depreciation | 119 | 130 | 177 | 189 | 202 | 204 | 209 | 212 | 615 | 827 |
| Net Other Income | 284 | 193 | 268 | 697 | 274 | 402 | 425 | 558 | 1,608 | 1,658 |
| **PBT** | **1,446** | **1,478** | **1,567** | **1,477** | **1,883** | **1,906** | **1,813** | **1,434** | **5,969** | **7,037** |
| Tax | 33 | 23 | 70 | 113 | 2 | -22 | 102 | -11 | 239 | 70 |
| *Rate (%)* | *2.3* | *1.5* | *4.5* | *7.7* | *0.1* | *-1.1* | *5.6* | *-0.8* | *4.0* | *1.0* |
| **Profit after Tax** | **1,413** | **1,455** | **1,497** | **1,364** | **1,882** | **1,928** | **1,712** | **1,445** | **5,729** | **6,966** |
| Share of Minority Partner | 52 | -23 | 33 | -65 | 115 | 64 | 75 | 142 | -3 | 395 |
| **Adj Net Profit** | **1,361** | **1,478** | **1,464** | **1,429** | **1,767** | **1,864** | **1,637** | **1,303** | **5,732** | **6,571** |
| *YoY Change (%)* | *53.9* | *48.0* | *36.8* | *20.8* | *29.9* | *26.1* | *11.8* | *-8.8* | *44.7* | *14.6* |
| *Margins (%)* | *36.0* | *36.0* | *34.6* | *36.0* | *35.4* | *35.6* | *31.9* | *30.4* | *36.0* | *33.5* |

*E: MOSt Estimates; * Quaterly results have been recasted and hence do not tally with full year results*

*Nimish Desai (Nimishdesai@MotilalOswal.com); Tel: +91 22 39825406 / Jinesh K Gandhi (Jinesh@MotilalOswal.com); Tel +91 22 39825416*

## Formulations drive revenue growth

Consolidated sales grew by 27% to Rs5.6b, primarily driven by formulation exports (up 49% YoY to Rs1.8b) and API exports (up 40% YoY to Rs726m). Formulation exports were boosted by 43% YoY growth in Caraco sales as well as by exports to un-regulated markets.

SPIL's domestic formulation sales recorded 15% growth YoY to Rs2.8b, led by its strong brand equity in the core therapy areas (CNS, CVS, gastroenterology and diabetology) and prolific rate of new launches (22 new launches in 1HFY07 and 6 new products launched during the quarter). Sun Pharma enjoys the No.1 rank with psychiatrists, neurologists, cardiologists, ophthalmologists and diabetologists.

SUN PHARMA - BUSINESS BREAK-UP (RS M)

| | 2QFY07 | 2QFY06 | YOY (%) | 1QFY07 | QOQ (%) |
|---|---|---|---|---|---|
| **Domestic** | | | | | |
| Formulation | 2,834 | 2,463 | 15.1 | 2,918 | -2.9 |
| Bulk | 278 | 255 | 9.3 | 218 | 27.5 |
| Others | 1 | 0 | - | 3 | -44.0 |
| **Total Domestic** | **3,114** | **2,718** | **14.6** | **3,139** | **-0.8** |
| *Contribution (%)* | *55.2* | *61.2* | | *58.7* | |
| **Exports** | | | | | |
| Formulation | 1,796 | 1,204 | 49.2 | 1,601 | 12.1 |
| Bulk | 726 | 517 | 40.4 | 601 | 20.9 |
| Others | 6 | 0 | - | 7 | -14.1 |
| **Total Exports** | **2,528** | **1,721** | **46.9** | **2,209** | **14.4** |
| *Contribution (%)* | *44.8* | *38.8* | | *41.3* | |
| **Total Sales** | **5,642** | **4,439** | **27.1** | **5,348** | **5.5** |

*Source: Company/Motilal Oswal Securities*

## Higher R&D costs and consolidation of acquisitions impact EBITDA margins

EBITDA margins were in-line with estimates at 32.7%, down 170bp YoY. Low competition for Ultracet led to better margins as reflected in 120bp improvement in Caraco's gross margins to 50.3%. However higher R&D costs (at 10% of sales vs 8% for 2QFY06) and fixed costs related to acquired companies have impacted EBITDA margins. SPIL will continue to incur these fixed expenses (about US$16m for FY07E) without any commensurate revenue contribution as it is in the process of filing products from the acquired facilities. These acquisitions are expected to generate revenues from FY08E onwards as product approvals start coming through gradually.

## Revising estimates

We have revised our EPS estimates upwards by 3% and 4.5% for FY07E and FY08E to factor in:

a) Better than expected performance for SPIL and Caraco (Caraco has guided 25-30% growth for FY07E compared to our previous estimates of 17%).

b) Lower tax outgo helped by various tax covers, which the company enjoys.

REVISED FORECAST (RS M)

| | FY07E | | | FY08E | | |
|---|---|---|---|---|---|---|
| | REV. | OLD | CHG(%) | REV. | OLD | CHG(%) |
| Net Sales | 19,631 | 19,149 | 2.5 | 23,912 | 22,827 | 4.8 |
| Net Profit | 6,571 | 6,383 | 3.0 | 8,182 | 7,830 | 4.5 |
| EPS (Rs) | 31.7 | 30.8 | 3.0 | 39.5 | 37.8 | 4.5 |

*Source: Motilal Oswal Securities*

## De-merger of NCE & NDDS research activities to de-risk existing business

SPIL has proposed a de-merger of its NCE/NDDS research into a separate company in order to de-risk the existing business. Key highlights of the de-merger include:

- NCE & NDDS research activities to be de-merged into a separate company. These activities are likely to involve R&D expenditure of Rs700-800m in FY07E, which will now be incurred in the new R&D company. SPIL will transfer cash of Rs2b and other assets of Rs550m to the new R&D company. The cash will enable the company to sustain its operations for the next two years. SPIL's book value will reduce accordingly. About 120-140 employees (including 100 scientists) will also be transferred to the new R&D company.
- All IPRs related to the NCE/NDDS projects will also be transferred to the new R&D company. SPIL will not have any first-right of refusal on the IPRs or geographical licenses related to these products. Since NDDS products have also been transferred to the new R&D company, SPIL is unlikely to launch branded products in regulated markets on its own.
- New R&D company may not have any revenues for the next two years till the NCE/NDDS are out-licensed or commercialized. However, it is likely to earn interest income on the unutilized portion of Rs2b cash

transferred by SPIL.

- We see this as a de-risking step as NCE/NDDS research involves uncertain returns. Since SPIL's NCE and NDDS projects are entering clinical trials, the R&D expenditure for these activities is expected to increase exponentially in the coming years.
- Existing shareholders of SPIL to get shares of the new company in 1:1 ratio. SPIL's shares have a face value of Rs5/share while the new R&D company will have a face value of Re1/share. FCCB holders to have similar rights as existing equity shareholders. SPIL has raised about US$350m through a FCCB. Conversion price for FCCBs remains at Rs729/share but can change if FCCB holders do not exercise their conversion rights in the new R&D company.
- De-merger to be effective from 01 April 2006. The new R&D company will be listed separately on the stock exchanges by March 2007.

## Impact of de-merger of NCE & NDDS research

We believe that the de-merger will de-risk SPIL's current operations from the uncertainties related to innovative R&D activities. It will also help SPIL to de-risk it existing business from the high R&D expenses, which the company is likely to incur for conducting clinical trials. We believe that the de-merger will result in the following benefits:

- Savings in R&D costs related to NCE/NDDS research (approximately Rs700-800m for FY07E).
- Marginal 20bp increase in effective tax-rate as R&D expenses enjoy 150% weighted deduction as per the Income Tax Act.
- Reduction in Other income due to transfer of Rs2b cash to the new R&D company.
- Reduction in SPIL's book value to reflect transfer of assets worth Rs2.55b (including cash) to the new R&D company.

## Generic pipeline being strengthened

SPIL (along with Caraco) has about 56 ANDAs pending US FDA approval. In FY07 it expects to file about 30 ANDAs including Caraco's filings with the US FDA. Management has in the past, indicated that the filings will be a mix of Para-III and Para-IVs, but will not be skewed in favor of patent challenges. We expect SPIL's generic pipeline to acquire significant strength in the US market by end FY07E with about 70 ANDAs pending US FDA approval.

## Acquisitions to be leveraged from FY08E onwards

Product filings are also likely to pick up out of the acquired Valeant facility (situated at Ohio, USA). This facility gives SPIL the capability to manufacture liquids and semi-solids. It is pertinent to note that Caraco does not have such capabilities and that it would have been economically uncompetitive for SPIL to transport such products from India to USA. The acquisition of Valeant's Hungary facility is expected to help SPIL in filings for the European markets.

SPIL has also acquired the assets of US-based Able Laboratories Ltd. for US$23.15m. Able Labs had filed for bankruptcy as per US regulations and had invited bids for its assets. SPIL will be acquiring the manufacturing facilities of Able Labs through this acquisition. The purchase also includes a lease for Able's premises in New Jersey, some contracts and purchase of another property in New Jersey. Able Labs had faced problems with US FDA compliance in the past and had to recall all of its 30 products from the US market. In August 2005, the US FDA denied Able's proposal that it be permitted to revalidate its data and re-launch its product line without full US FDA review.

Able was in the process of transferring its manufacturing lines to a new 225,000 sq ft facility from its old 50,000 sq ft plant. We believe that this new facility will be utilised by SPIL to launch its own products in the US generics market. SPIL will also have the option of re-launching Able's products after rectifying the deficiencies identified by the US FDA. Able Labs had generated sales of about US$100m from its generic portfolio in 2004. We, however, do not have details on Able's product portfolio and hence are not aware about any possible overlaps with SPIL's existing portfolio.

We believe that SPIL is cautiously acquiring generic assets (with specific focus on distress assets). This is evident from

SPIL's recent acquisitions of Valeant Pharma's facilities in Hungary and USA (both costing about US$$10m each). The acquisition of Able Labs assets is also a step in this direction. With this acquisition, SPIL has, till date, spent about US$40-US$50m of the US$350m raised through the FCCB some time back. Unlike its other generic peers, SPIL is looking at acquiring assets with reasonable valuations and hence has targeted distress sellers in the past. In fact, SPIL's acquisitions in India have also been on similar lines.

While we do not expect any immediate financial benefits to SPIL from the acquisition of Able Lab's facilities (since it will have to rectify the deficiencies identified by the US FDA), we believe that it will be long-term positive for the company going by SPIL's past track record of acquisitions. SPIL is currently in the process of re-filing some of the products of Able Labs with the US FDA and we expect these products to start contributing to SPIL's revenues from FY08E onwards.

### Caraco continues with good performance, guides 25-30% sales growth for FY07E

Caraco Pharma, (SPIL's US subsidiary), reported 2QFY07 results which were better than our estimates, as net revenues grew by 43% YoY to US$28.3m primarily driven by Ultracet sales. Caraco management has guided sales growth of at least 25-30% in FY07E. Net profit (pre non-cash R&D) grew by 66% to US$9.7m.

Caraco's R&D cost to affiliate (i.e. compensation to SPIL for product transfer) stood at US$7.4m representing transfer of 2 products. R&D cost to affiliate is expected to come down in FY07E as only 2 products of 25 products agreement with Sun Pharma are remaining to be transferred. The company doesn't anticipate higher product development cost, inspite of aggressive product development plan, as it expects to utilize savings in non-cash R&D for product development.

### Competition for Ultracet yet to build up

Caraco had received favorable ruling in a summary motion from the US lower court for its patent challenge on Ultracet (Acetaminophen and Tramadol HCl) tablets. J&J is the innovator for this product with patent expiry in August 2011. At innovator prices, Ultracet commanded revenues of about US$330m-US$350m.

US-based Par Pharma was eligible for 180-day exclusivity on the product and had launched the generic version in April 2005. Its exclusivity expired in October 2005. Ivax has launched an authorized generic for the product along with Par Pharma. Hence, the market currently has two generic players. Teva has also filed a patent challenge on this drug and is awaiting a court ruling. However, Teva may or may not go ahead with the litigation since it already has a presence in the market through Ivax (now taken over by Teva). Teva is expected to garner a major share of the market, given its dominant presence and distribution clout.

Caraco launched generic Ultracet (it was a launch-at-risk) in December 2005. Despite receiving US FDA approval Barr Labs is yet to launch its version of Ultracet. Although, Barr has not officially commented on its strategy for generic Ultracet, we believe that it has not launched its generic version, as it is yet to get a favourable summary motion ruling from the US courts. We expect Caraco to generate about US$12m in sales from generic Ultracet for FY07E. However, it should be noted that this is a launch-at-risk product for Caraco as the patent litigation with the innovator is still pending.

### FCCB funds to depress return ratios short term

SPIL has raised US$350m from the international markets through an equity-linked FCCB instrument to fund its acquisitions in regulated markets. Although the company has not disclosed any further details, we believe the company may be looking at expanding its presence in the US generics market through an acquisition to be funded by the FCCB.

This may depress the return ratios in the short term (as the benefits of acquisition will accrue over a period of time) depending on the quantum of equity dilution. Delay in deploying funds raised through this offering may also have an adverse impact on these ratios in the short term. However, we believe that expanding its presence in the regulated markets is imperative for SPIL in order to gain critical mass in the regulated markets. We also draw comfort from the company's past successes in acquiring other players.

Sun Pharma is likely to follow a conservative policy for acquisitions in regulated markets. It has recently acquired Able Pharma and the facilities of Valeant Pharma in the US and Hungary. It has till date spent about US$40m-US$50m to acquire these assets. These acquisitions reflect the characteristic SPIL policy of acquiring loss-making units and effecting a turnaround.

### Acquisitions to adversely impact FY07 consolidated earnings

All the acquisitions made by Sun Pharma in the past 12 months have been for distress assets. While these acquisitions will have positive implications for the company in the long term, we believe they are likely to drag down consolidated earnings in FY07. Sun Pharma has indicated a timeline of at least 18 months for effecting a turnaround at these units. Our estimates have been accordingly adjusted to take into account the impact of these acquisitions.

### Maintaining Guidance

Sun Pharma has guided sales growth of 18-20% for FY07E, Generic R&D expenses at 10-11% of sales and capex of Rs1b. It expects to maintain EBITDA margins at 31-32% for FY07E. It targets to file 30 ANDAs with the US FDA in FY07E to strengthen its generic pipeline (which will also result in higher R&D costs).

### Valuation and outlook

An expanding generic portfolio coupled with change in product mix in favor of high-margin exports is likely to bring in long-term benefits for SPIL. As investors start focusing on SPIL's generics business, the concerns about a slowdown in the company's domestic formulations business (due to the patent regime) are already being discounted.

SPIL's ability to sustain high growth rates at superior margins even on a high base is a clear positive. With the domestic business progressing well and increasing traction on the US front (both in Caraco and from India), the possibility of a rapid scale-up over the next couple of years is high. SPIL is currently valued at 28.8x FY07E and 23.1x FY08E fully diluted EPS, which does not fully factor in the value that Sun could add by using its strong cash chest (US$450m post R&D de-merger) for acquisitions as well as ramp up its overseas business. We have revised our FY07E and FY08E earnings estimates upwards by 3% and 4.5% respectively on back of better then expected 2Q performance as well as the lower tax outgo guided by the company. Maintain **Buy** with revised price target of Rs990.

# Sun Pharmaceuticals: an investment profile

## Company description

Sun Pharma is among the largest players in the domestic formulations market and the most profitable one. It makes and markets specialty medicines and APIs for chronic therapy areas such as cardiology, psychiatry, neurology, etc. Sun has forayed into regulated markets by acquiring majority stake in Caraco Pharma and intends to look at inorganic means to get a foothold in Europe, as well.

## Key investment arguments

- Ability to identify niches in long term therapy areas with high entry barriers and build strong franchise to ensure sustainable growth and high margins
- Well-diversified portfolio de-risks its portfolio against any slowdown in a particular category
- Among the few Indian companies to have a direct presence in the US market (through Caraco)

## Key investment risks

- Highly dependent on new product launches for growth in domestic market
- Has not demonstrated the ability to build any big brand so far – a key driver for growth going forward
- Capability to scale up exports, particularly to unregulated markets, is yet to be fully demonstrated

## Recent developments

- Has acquired Able Pharma in US and two facilities from Valeant Pharma in US and in Hungary
- Has recently proposed de-merger of NCE & NDDS research activities

## Valuation and view

- Revenue and earnings CAGR of 22% and 19% expected over FY06-FY08E
- Multiples of 28.8x FY07E and 23.1x FY08E earnings do not reflect the potential leverage arising out of overseas acquisitions
- Re-iterate **Buy** with revised price target of Rs990 (~25x FY08E earnings)

## Sector view

- Regulated markets would remain the key sales and profit drivers in the medium term. Europe is expected to emerge as the next growth driver, particularly for companies with a direct marketing presence
- We are overweight on companies that are towards the end of the investment phase, with benefits expected to start coming in from the next fiscal

COMPARATIVE VALUATIONS

| | | SUN PHARMA | CIPLA | NPIL |
|---|---|---|---|---|
| P/E (x) | FY07E | 28.8 | 27.6 | 23.0 |
| | FY08E | 23.1 | 23.2 | 17.4 |
| P/BV (x) | FY07E | 9.1 | 6.0 | 4.7 |
| | FY08E | 6.7 | 5.0 | 4.1 |
| EV/Sales (x) | FY07E | 8.4 | 5.2 | 2.3 |
| | FY08E | 6.7 | 4.3 | 2.0 |
| EV/EBITDA (x) | FY07E | 26.7 | 20.9 | 14.6 |
| | FY08E | 20.2 | 17.0 | 12.1 |

SHAREHOLDING PATTERN (%)

| | SEP.06 | JUN.06 | SEP.05 |
|---|---|---|---|
| Promoter | 71.2 | 71.3 | 71.8 |
| Domestic Inst | 3.0 | 2.7 | 2.9 |
| Foreign | 15.8 | 15.9 | 15.1 |
| Others | 10.0 | 10.1 | 10.2 |

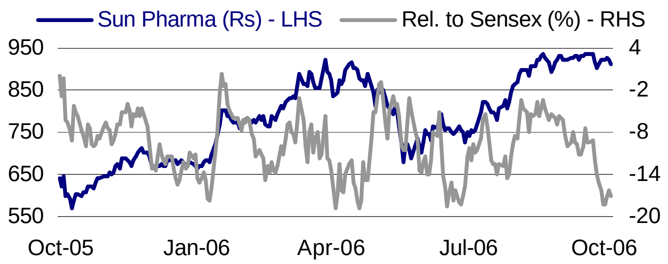
EPS: MOST FORECAST VS CONSENSUS (RS)

| | MOST FORECAST | CONSENSUS FORECAST | VARIATION (%) |
|---|---|---|---|
| FY07 | 31.7 | 34.1 | -7.1 |
| FY08 | 39.5 | 41.7 | -5.2 |

TARGET PRICE AND RECOMMENDATION

| CURRENT PRICE (RS) | TARGET PRICE (RS) | UPSIDE (%) | RECO. |
|---|---|---|---|
| 913 | 990 | 8.5 | Buy |

STOCK PERFORMANCE (1 YEAR)



| CONSOLIDATED INCOME STATEMENT | | | | | (Rs Million) |
|---|---|---|---|---|---|
| Y/E MARCH | 2005 | 2006 | 2007E | 2008E | 2009E |
| **Net Sales** | **11,448** | **15,957** | **19,631** | **23,912** | **28,244** |
| *Change (%)* | *210* | *39.4* | *23.0* | *218* | *18.1* |
| Total Expenditure | 7,266 | 11,040 | 13,425 | 16,008 | 18,895 |
| **EBITDA** | **4,182** | **4,917** | **6,206** | **7,903** | **9,349** |
| *Margin (%)* | *36.5* | *30.8* | *316* | *33.1* | *33.1* |
| Depreciation | 406 | 610 | 827 | 930 | 983 |
| **EBIT** | **3,776** | **4,307** | **5,379** | **6,973** | **8,366** |
| Int. and Finance Charges | 129 | 156 | 160 | 200 | 240 |
| Other Income - Rec. | 563 | 1,818 | 1,818 | 1,983 | 2,134 |
| PBT | 4,209 | 5,969 | 7,037 | 8,756 | 10,259 |
| Tax | 207 | 239 | 70 | 175 | 513 |
| *Tax Rate (%)* | *4.9* | *4.0* | *10* | *2.0* | *5.0* |
| **Profit after Tax** | **4,002** | **5,730** | **6,966** | **8,581** | **9,746** |
| *Change (%)* | *16.2* | *43.2* | *216* | *23.2* | *13.6* |
| *Margin (%)* | *35* | *36* | *35* | *36* | *35* |
| Less: Mionrity Interest | 42 | -3 | 395 | 399 | 421 |
| **Net Profit** | **3,960** | **5,733** | **6,571** | **8,182** | **9,325** |

| CONSOLIDATED BALANCE SHEET | | | | | (Rs Million) |
|---|---|---|---|---|---|
| Y/E MARCH | 2005 | 2006 | 2007E | 2008E | 2009E |
| Equity Share Capital | 928 | 929 | 929 | 929 | 929 |
| Preference Share Capital | 14 | 14 | 14 | 14 | 14 |
| Total Reserves | 10,366 | 14,959 | 17,765 | 24,433 | 32,033 |
| **Net Worth** | **11,307** | **15,902** | **18,707** | **25,375** | **32,975** |
| Minority Interest | 161 | 332 | 727 | 1,126 | 1,547 |
| Deferred Liabilities | 896 | 1053 | 982 | 982 | 1239 |
| Total Loans | 18,230 | 18,745 | 16,000 | 16,000 | 16,000 |
| **Capital Employed** | **30,595** | **36,031** | **36,416** | **43,483** | **51,761** |
| Gross Block | 7,806 | 12,342 | 12,792 | 13,792 | 14,292 |
| Less: Accum. Deprn. | 2,087 | 3,779 | 4,606 | 5,536 | 6,519 |
| **Net Fixed Assets** | **5,719** | **8,563** | **8,186** | **8,255** | **7,773** |
| Capital WIP | 493 | 414 | 414 | 414 | 414 |
| Goodwill | 1,538 | 507 | 507 | 507 | 507 |
| Investments | 6,485 | 3,541 | 3,541 | 3,541 | 3,541 |
| **Curr. Assets** | **18,946** | **26,520** | **26,714** | **34,351** | **43,698** |
| Inventory | 3,173 | 5,117 | 3,094 | 3,705 | 4,376 |
| Account Receivables | 2,511 | 3,609 | 4,303 | 5,241 | 6,190 |
| Cash and Bank Balance | 11,809 | 15,323 | 16,359 | 21,933 | 29,031 |
| **Curr. Liability & Prov.** | **2,587** | **3,515** | **2,946** | **3,585** | **4,172** |
| Account Payables | 1,741 | 2,279 | 1,729 | 2,071 | 2,446 |
| Provisions | 845 | 1,236 | 1,217 | 1,514 | 1,726 |
| **Net Current Assets** | **16,360** | **23,006** | **23,768** | **30,766** | **39,526** |
| **Appl. of Funds** | **30,595** | **36,031** | **36,416** | **43,483** | **51,761** |

*E: MOst Estimates*

| RATIOS | | | | | |
|---|---|---|---|---|---|
| Y/E MARCH | 2005 | 2006 | 2007E | 2008E | 2009E |
| **Basic (Rs)** | | | | | |
| **EPS** | **21.3** | **30.9** | **35.4** | **44.0** | **50.2** |
| **Fully Diluted EPS** | **21.3** | **27.7** | **31.7** | **39.5** | **45.0** |
| Cash EPS | 23.5 | 30.6 | 35.7 | 44.0 | 49.8 |
| BV/Share | 60.9 | 85.5 | 100.6 | 136.5 | 177.5 |
| DPS | 3.8 | 5.5 | 5.7 | 7.1 | 8.1 |
| Payout (%) | 18.2 | 20.4 | 17.5 | 17.6 | 17.7 |
| **Valuation (x)** | | | | | |
| P/E | | 33.0 | 28.8 | 23.1 | 20.3 |
| Cash P/E | | 29.8 | 25.5 | 20.7 | 18.3 |
| P/BV | | 10.7 | 9.1 | 6.7 | 5.1 |
| EV/Sales | | 10.6 | 8.4 | 6.7 | 5.4 |
| EV/EBITDA | | 34.4 | 26.7 | 20.2 | 16.4 |
| Dividend Yield (%) | | 0.6 | 0.6 | 0.8 | 0.9 |
| **Return Ratios (%)** | | | | | |
| RoE | 40.7 | 42.1 | 38.0 | 37.1 | 32.0 |
| RoCE | 20.7 | 19.1 | 20.8 | 23.5 | 23.2 |
| **Working Capital Ratios** | | | | | |
| Asset Turnover (x) | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 |
| Debtor (Days) | 84 | 87 | 84 | 84 | 84 |
| Inventory (Days) | 107 | 123 | 61 | 60 | 60 |
| Working Capital T/O (Days) | 550 | 555 | 466 | 495 | 539 |
| **Leverage Ratio** | | | | | |
| Debt/Equity (x) | 16 | 12 | 0.9 | 0.7 | 0.5 |

| CASH FLOW STATEMENT | | | | | (Rs Million) |
|---|---|---|---|---|---|
| Y/E MARCH | 2005 | 2006 | 2007E | 2008E | 2009E |
| Oper. Profit/(Loss) before Tax | 4,271 | 4,168 | 6,206 | 7,903 | 9,349 |
| Interest/Dividends Recd. | 247 | 1,025 | 1,818 | 1,983 | 2,134 |
| Direct Taxes Paid | -107 | -165 | -141 | -175 | -256 |
| (Inc)/Dec in WC | -658 | -3,177 | 274 | -1,424 | -1,663 |
| **CF from Operations** | **3,754** | **1,852** | **8,157** | **8,287** | **9,563** |
| (inc)/dec in FA | -1,623 | -3,384 | -450 | -1,000 | -500 |
| (Pur)/Sale of Investments | -4,908 | 5,173 | 0 | 0 | 0 |
| **CF from investments** | **-6,531** | **1,789** | **-450** | **-1,000** | **-500** |
| Issue of Shares | 0 | 0 | -2,549 | 1 | 1 |
| (Inc)/Dec in Debt | 14,349 | 801 | -2,745 | 0 | 0 |
| Interest Paid | -84 | -156 | -160 | -200 | -240 |
| Dividend Paid | -625 | -793 | -1,217 | -1,514 | -1,726 |
| **CF from Fin. Activity** | **13,640** | **-148** | **-6,671** | **-1,714** | **-1,965** |
| **Inc/Dec of Cash** | **10,864** | **3,493** | **1,036** | **5,574** | **7,098** |
| Add: Beginning Balance | 945 | 11,809 | 15,323 | 16,359 | 21,933 |
| **Closing Balance** | **11,809** | **15,302** | **16,359** | **21,933** | **29,031** |

*Note: Cashflows do not tally due to acquisition*

For more copies or other information, contact
**Institutional:** Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

**Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021**



| Disclosure of Interest Statement | Sun Pharmaceutical Industries |
|---|---|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |