

SO WHAT? THE BNP PARIBAS ANGLE

INDUSTRY OUTLOOK: ← →

- We value Sun Pharma on a SoTP valuation method as opposed to Street's blended multiple approach.
- Only broker to quantify the financial impact of Taro's impending acquisition.

Net Profit 09	INR17.4b
.....	(Unchanged)
Diff from Consensus.....	4.2%
Consensus (mean)	INR16.7b
Consensus (momentum)	↑

Target Price..	INR1,695.00
.....	(Unchanged)
Diff from Consensus	5.7%
Consensus (median) INR1,603.75	
Consensus (momentum)	↑
Current Price	INR1,282.55
Upside/(Downside).....	32.2%

BUY
(Unchanged)

Recs in the Market

Positive	20
Neutral	6
Negative	1
Consensus (momentum)	↑

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- Company reported strong quarterly numbers and hinted at possible inorganic moves.
- Currency movement provides cushion to growth trajectory in the US generics market.
- Company is on track to meet Full year estimates and risks to estimates are on the upside.

Solid to the core, with exclusivity upside

Sun reported strong 2QFY09 numbers on the back of higher-than-expected exclusivity upside. Its net profit at INR5.1b increased 135% y-y and 2% q-q. Strong exclusivity upside was accompanied by a strong base business growth of 20% which was broadly in line with our and slightly ahead of the street estimates. EBITDA margins were down ~580bp sequentially and we believe that current exclusivities should become less meaningful to the company's operating metrics. The risks to full-year Street estimates are on the upside.

We believe investors should focus on the core business and the margin of safety it provides to play for exclusivity led earning surprises and healthy cash position driven inorganic moves.

Highlights from the call

Playing Taro hardball: Management pointed out the possibility of disengaging from Taro, given the recent turmoil in credit markets and availability of far superior assets. We believe this could be a strategy to expedite the transaction and not the real intention.

Examining other potential assets: Given its strong cash position, management hinted at the possibility of exploring other inorganic moves in the US generics space as long as they fit the company's defined criterion of capital returns.

Zero forex management adventurism: Consistent with Sun's risk averse business philosophy, the company has not hedged any of its foreign currency revenue exposure. The company also continues to hold significant cash ~USD550m in domestic currency. Sun will be a beneficiary of foreign currency movement for the rest of the year but is not raising guidance to factor this in.

Valuation: We value Sun Pharma on a SoTP basis. We believe Sun Pharma's core earnings will continue to grow at a healthy rate of 21% EPS CAGR. (FY08-11). We have assigned a premium to the peer multiple of 25 % to our FY10 estimates. We have also separately valued Taro at INR69/share. We assign option value of ~INR50 to the visible exclusivity opportunities from the Para IV pipeline. This translates into a target price of INR1,695 implying a 32% upside from current levels.

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Anmol Ganjoo

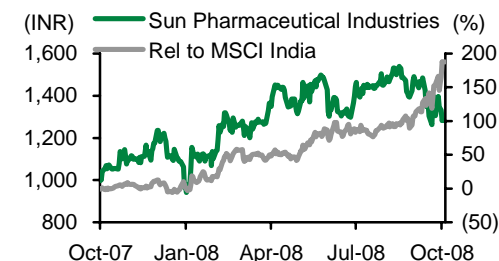
BNP Paribas Securities India Pvt Ltd
(91 22) 6628 2421
anmol.ganjoo@asia.bnpparibas.com

Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Revenue	34,606	41,834	45,566	51,217
Reported net profit	14,869	17,394	17,408	18,391
Recurring net profit	14,869	17,394	17,408	18,391
Previous rec net profit	14,869	17,394	17,408	18,391
Chg from previous (%)	—	—	—	—
Recurring EPS (INR)	37.05	49.42	77.86	86.24
Prev rec EPS (INR)	37.05	49.42	77.86	86.24
Rec EPS growth (%)	20.8	33.4	57.6	10.8
Recurring P/E (x)	34.6	26.0	16.5	14.9
Dividend yield (%)	—	0.9	1.1	1.5
EV/EBITDA (x)	15.8	13.3	13.5	12.7
Price/book (x)	5.3	4.0	3.3	2.8
ROE (%)	38.4	30.0	23.8	20.9
Net debt/equity (%)	(23.9)	(36.8)	(47.2)	(55.5)

Sources: Sun Pharmaceutical Industries; BNP Paribas estimates

Share Price Daily vs MSCI



Next results/event	January 2009
Market cap (USD m)	5,302
12m avg daily turnover (USD m)	9.6
Free float (%)	36
Major shareholder	Sanghvi family (64%)
12m high/low (INR)	1,539.85/925.50
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

FINANCIAL STATEMENTS

Sun Pharmaceutical Industries

Profit and Loss (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Revenue	22,373	34,606	41,834	45,566	51,217
Cost of sales ex depreciation	(7,348)	(8,918)	(10,732)	(12,893)	(15,056)
Gross profit ex depreciation	15,025	25,688	31,103	32,673	36,161
Other operating income	-	-	-	-	-
Operating costs	(8,301)	(10,176)	(12,738)	(15,556)	(19,010)
Operating EBITDA	6,724	15,511	18,365	17,116	17,150
Depreciation	(813)	(969)	(1,056)	(1,151)	(1,254)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	5,910	14,543	17,309	15,966	15,896
Net financing costs	1,072	1,146	1,650	2,500	3,650
Associates	-	-	-	-	-
Recurring non operating income	1,353	305	182	191	200
Non recurring items	-	-	-	-	-
Profit before tax	8,335	15,994	19,141	18,656	19,746
Tax	67	(485)	(831)	(892)	(980)
Profit after tax	8,402	15,509	18,309	17,764	18,766
Minority interests	(559)	(640)	(915)	(355)	(375)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	7,843	14,869	17,394	17,408	18,391
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	7,843	14,869	17,394	17,408	18,391
Per share (INR)					
Recurring EPS *	30.67	37.05	49.42	77.86	86.24
Reported EPS	40.55	71.79	83.98	84.05	88.79
DPS	-	-	12.07	14.48	19.31
Growth					
Revenue (%)	28.8	54.7	20.9	8.9	12.4
Operating EBITDA (%)	37.1	130.7	18.4	(6.8)	0.2
Operating EBIT (%)	37.6	146.1	19.0	(7.8)	(0.4)
Recurring EPS (%)	(0.6)	20.8	33.4	57.6	10.8
Reported EPS (%)	31.4	77.0	17.0	0.1	5.6
Operating performance					
Gross margin inc depreciation (%)	63.5	71.4	71.8	69.2	68.2
Operating EBITDA margin (%)	30.1	44.8	43.9	37.6	33.5
Operating EBIT margin (%)	26.4	42.0	41.4	35.0	31.0
Net margin (%)	35.1	43.0	41.6	38.2	35.9
Effective tax rate (%)	(0.8)	3.0	4.3	4.8	5.0
Dividend payout on recurring profit (%)	-	-	24.4	18.6	22.4
Interest cover (x)	na	na	na	na	na
Inventory days	292.1	294.1	282.5	270.4	266.3
Debtor days	84.8	110.6	136.6	143.4	133.8
Creditor days	130.3	136.9	138.6	135.3	138.3
Operating ROIC (%)	29.7	51.5	49.5	42.6	41.9
Operating ROIC - WACC (%)	16.7	38.4	36.5	29.6	28.9
ROIC (%)	31.6	45.0	41.8	36.4	35.9
ROIC - WACC (%)	18.6	32.0	28.8	23.4	22.9
ROE (%)	36.3	38.4	30.0	23.8	20.9
ROA (%)	18.0	28.6	25.0	18.0	14.5

Tapering top-line growth masks the robust 38% CAGR growth FY08-11 in the base business base business

EBITDA margins for the base business to post growth. The exclusivities one-offs don't represent steady state

* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (INR m)	2007A	2008A	2009E	2010E	2011E
Formulations	19,100	31,101	38,139	41,682	47,142
Bulk	3,223	3,463	3,636	3,818	4,008
Others	50	42	60	67	67
Consolidation	-	-	-	-	-

Sources: Sun Pharmaceutical Industries; BNP Paribas estimates

Cash Flow (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Recurring net profit	7,843	14,869	17,394	17,408	18,391
Depreciation	813	969	1,056	1,151	1,254
Associates & minorities	559	640	915	355	375
Other non-cash items	-	-	-	-	-
Recurring cash flow	9,215	16,478	19,365	18,914	20,021
Change in working capital	(5,358)	(7,572)	(1,845)	939	1,826
Capex - maintenance	-	-	-	-	-
Capex - new investment	(2,005)	(1,533)	(2,750)	(3,000)	(3,000)
Free cash flow to equity	1,852	7,373	14,770	16,853	18,847
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	-	-	(2,500)	(3,000)	(4,000)
Non recurring cash flows	855	(5,408)	-	-	-
Net cash flow	2,708	1,966	12,270	13,853	14,847
Equity finance	3,984	7,318	-	-	-
Debt finance	(7,759)	(10,512)	(1,436)	-	-
Movement in cash	(1,068)	(1,228)	10,834	13,853	14,847

Per share (INR)

Recurring cash flow per share	47.65	79.56	93.50	91.32	96.66
FCF to equity per share	9.58	35.60	71.31	81.37	91.00

Balance Sheet (INR m)

Year Ending March	2007A	2008A	2009E	2010E	2011E
Working capital assets	16,086	26,986	32,185	36,197	39,328
Working capital liabilities	(3,046)	(6,373)	(9,728)	(14,678)	(19,636)
Net working capital	13,041	20,613	22,458	21,518	19,692
Tangible fixed assets	10,122	11,040	12,734	14,583	16,329
Operating invested capital	23,163	31,652	35,191	36,102	36,021
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	2,543	6,565	6,565	6,565	6,565
Other assets	-	-	-	-	-
Invested capital	25,706	38,217	41,756	42,666	42,586
Cash & equivalents	(13,802)	(13,382)	(24,216)	(38,069)	(52,916)
Short term debt	667	634	-	-	-
Long term debt *	10,477	802	-	-	-
Net debt	(2,658)	(11,946)	(24,216)	(38,069)	(52,916)
Deferred tax	895	92	92	92	92
Other liabilities	-	-	-	-	-
Total equity	27,469	50,071	65,880	80,644	95,410
Minority interests	-	-	-	-	-
Invested capital	25,706	38,217	41,756	42,666	42,586

* Includes convertibles and preferred stock which is being treated as debt

Per share (INR)

Book value per share	142.03	241.75	318.08	389.37	460.66
Tangible book value per share	142.03	241.75	318.08	389.37	460.66

Financial strength

Net debt/equity (%)	(9.7)	(23.9)	(36.8)	(47.2)	(55.5)
Net debt/total assets (%)	(6.2)	(20.6)	(32.0)	(39.9)	(46.0)
Current ratio (x)	8.1	5.8	5.8	5.1	4.7
CF interest cover (x)	na	na	na	na	na

Valuation	2007A	2008A	2009E	2010E	2011E
Recurring P/E (x) *	41.8	34.6	26.0	16.5	14.9
Recurring P/E @ target price (x) *	55.3	45.8	34.3	21.8	19.7
Reported P/E (x)	31.6	17.9	15.3	15.3	14.4
Dividend yield (%)	-	-	0.9	1.1	1.5
P/CF (x)	26.9	16.1	13.7	14.0	13.3
P/FCF (x)	133.9	36.0	18.0	15.8	14.1
Price/book (x)	9.0	5.3	4.0	3.3	2.8
Price/tangible book (x)	9.0	5.3	4.0	3.3	2.8
EV/EBITDA (x) **	30.2	15.8	13.3	13.5	12.7
EV/EBITDA @ target price (x) **	39.8	21.0	18.0	18.5	17.6
EV/invested capital (x)	9.5	6.6	5.8	5.3	5.0

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: Sun Pharmaceutical Industries; BNP Paribas estimates

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*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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