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Update

March 19, 2008

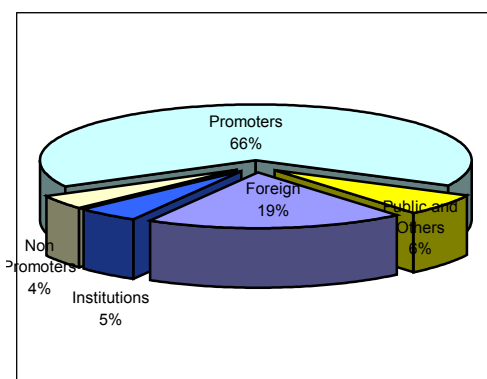
**Sun Pharmaceutical Industries Ltd.**

**Accumulate  
(Medium Risk)**

**CMP:Rs 1250**



Key Data	
Face Value:	5
52 week High:	1385
52Week Low:	855
NSE Code:	SUNPHARMA
Average Vol.	194144



## Company Background

Sun Pharmaceutical Industries Ltd is in the business of bulk drug manufacturing and formulations. The company claims to be a speciality pharma company and has presence in 30 different markets across the globe. The company manufactures drugs in areas such as Psychiatry, neurology, cardiology, diabetology, ophthalmology, orthopedics etc. The company was started in 1983 and has grown consistently.

## Investment Rationale

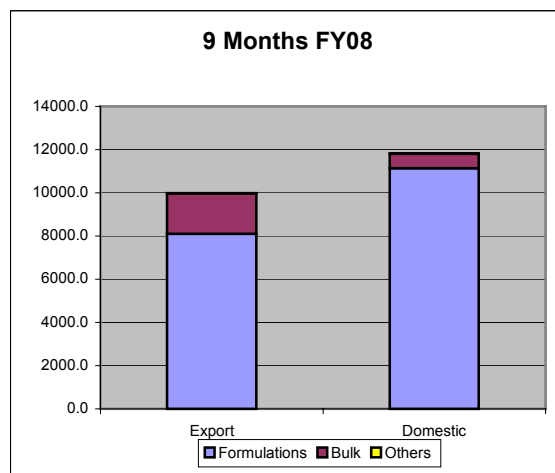
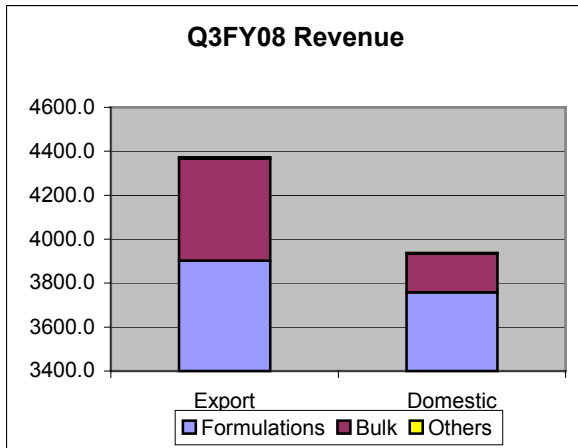
- High profit margins: - The Company is catering to speciality drug segment and has been posting high operating profit margins over the past few quarters. This can be attributed to high operating leverage arising due to speciality drug segment. The company had for the last quarter posted an operating profit margin of 51%. This was mainly due to launch of generic oxcarbazepine. Sales of oxcarbazepine during this exclusivity period (of 180 days) has led to an out-of-trend growth in US generic business. Change in product mix has also helped in the improvement in OPM. Going forward we expect the company to continue to maintain healthy operating profit margins of around 34-35%.

19 March 2008

**Make Money. Not Mistakes.**

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- Inorganic expansion powering the company ahead:- Sun Pharma ,with 15 manufacturing plants in 3 continents, is expanding its reach and product line through inorganic route. The company has recently acquired Taro Pharmaceutical Industries Ltd, a multinational generic manufacturer with established subsidiaries, manufacturing and products across the U.S., Israel, Canada. North America represents more than 90% of Taro's sales. This is a USD 454 million acquisition. Taro has a strong franchise in dermatology and topical products, in addition to product baskets in cardiovascular, neuropsychiatric and anti-inflammatory therapeutic categories. Taro US has more than 100 ANDA drug approvals in the U.S. alone. One NDA as well as 26 ANDAs are awaiting approval with the USFDA.
- A growing presence in the US generic market: - The company has presence in the US markets through its subsidiary Caraco, a US based manufacturer of generic pharmaceuticals with a US FDA Approved 70,000 sq ft plant. Based on the technology transferred out of Sun Pharma, Caraco now markets 34 ANDAs (including 10 Sun Pharma ANDAs) and has witnessed an increase in sales to \$117 million in the year ending March 2007. 77 more ANDAs await approval from both the companies with a well-considered pipeline of generics under development. The US generic opportunity is immense, with products worth over \$40 billion likely to go off patent in the next few years. For some key products, Caraco sources API from Sun Pharma's plants and competes as an integrated manufacturer. Such integration offers considerable time and cost advantages in the competitive US generics market. Moreover with the planned acquisition of Taro Pharmaceutical the company would further strengthen its generic drug base in USA.
- Brand selling in markets worldwide: - Sun Pharmaceutical Inds. Ltd is currently selling its prescription drugs in 30 markets world over. The company has presence in regions such as Southeast Asia, Russia, China, Africa, the Middle East and Latam. Recently the company has commenced operations in Brazil, Mexico, Peru and Columbia. The company is offering complete product basket of specialty branded generics including several products with complex technologies where the competition is relatively less.
- More than 40% of sales from international markets:- The company has reported 40% of the revenue is generated from the international market. For Q3 FY08, revenue from international market has contributed more than 50% of the total revenue.



- Sun pharma. Inds. has reported in FY07 to be ranked as number one in five of these areas namely Cardiology, Neurology, orthopedics, Diabetology and psychiatry and amongst the top five in the remaining six of the therapy area that the company is present in. Moreover it is Strong product introductions, execution of strategy and regular doctor coverage are the factors that have contributed a consistent increase in ranks.
- A change in product mix: - The Company has been improving its share of sales in the formulation and that of API sale has been down. Due to change in the product mix, the raw material cost has gone down and OPM has gone up .

## Financial Highlights

In Rs Cr.	0712 (9)	0612 (9)	Var(%)	0712 (3)	0612 (3)	Var(%)
<b>Sales</b>	2099.36	1587.87	32.21	803.97	540.04	48.87
<b>OPM (%)</b>	38.60	33.10		44.10	32.10	
<b>OP</b>	810.40	525.27	54.28	354.65	173.33	104.61
<b>Other income</b>	89.56	131.10	-31.69	17.91	63.55	-71.82
<b>PBDT</b>	899.96	656.37	37.11	372.56	236.88	57.28
<b>Depreciation</b>	70.02	61.69	13.50	24.49	21.15	15.79
<b>PBT</b>	829.94	594.68	39.56	348.07	215.73	61.35
<b>Tax</b>	21.51	-4.90	-538.98	11.60	-2.87	-504.18
<b>PAT</b>	808.43	599.58	34.83	336.47	218.60	53.92
<b>Minority Interest</b>	44.34	37.58	17.99	18.12	19.75	-8.25
<b>Net Profit</b>	764.09	562.00	35.96	318.35	198.85	60.10
<b>EPS (Rs)*</b>	49.19	36.17		61.52	38.43	

\* Annualised on diluted equity capital of Rs 103.50 crore.

Face Value: Rs 5 per share

Quarter ended Dec'07

Net sales were reported at Rs 803.97 crore, an impressive increase of 49% over the corresponding previous quarter. OPM expanded by a 1200 bps to 44.1%, mainly due to sales of oxcarbazepine in the exclusivity period of 180 days in the US market. Moreover with the Indian rupee appreciating the cost of raw material imported has gone down. The combined affect of increased sales and expanded OPM resulted into the operating profit reporting growth of 105% at Rs 354.65 crore. Operating margin expanded as all the expenditure heads reported decline as a % to sales. Total consumption cost, consisting of raw-material cost and traded goods cost, fell by 915 bps to 23.4%, employee cost declined 220 bps to 9.3%, other expenditure fell 90 bps to 22.2% and other indirect taxes declined by 75 bps to 1.7%.

Other income declined by 72% to Rs 17.91 crore. The company has been adjusting losses that it suffered on a fixed conversion rate of FCCB at 45.01, arising out of appreciation of rupee to Rs 40 for a dollar, against the other income. Resultantly, PBIDT reported growth of 57% only at Rs 372.56 crore. Depreciation was up by 16% at Rs 24.49 crore. PBT reported growth of 61% at Rs 348.07 crore. Company incurred a tax liability of Rs 11.60 crore as against a tax credit of Rs 2.87 crore in the corresponding previous quarter. As a result, PAT growth was restricted to 54% at Rs 336.47 crore. After accounting for minority interest of Rs 18.12 crore, decrease of 8% on a y-o-y basis, net profit increased by 60% at Rs 318.35 crore.

Nine-month period ended Dec07

Net sales, with an increase of 32% over the corresponding previous period, were reported at Rs 2099.36 crore. OPM was reported at 38.6%, an improvement of 555 bps on a y-o-y basis. As a result, OP was reported at Rs 810.40 crore, an increase of 54%. Other income fell down by 32% to Rs 89.56 crore on account of FCCB conversion loss. This restricted growth in PBIDT at 37% only at Rs 899.96 crore. Depreciation was up 14% at Rs 70.02 crore. PBT grew by 40% to Rs 829.94 crore. Company incurred a tax liability of Rs 21.51 crore as compared to enjoying a tax credit of Rs 4.90 crore in the corresponding previous period. As a result, PAT was up by 35% only at Rs 808.43 crore. Post minority interest of Rs 44.34 crore, an increase of 18% on a y-o-y basis, net profit was up 36% at Rs 764.09 crore.

### Risks

- The proposed new drug policy plans to have a ceiling price for a host of drugs based on the pricing of the top three brands in the respective product categories. This may adversely impact all the players having large domestic operations including Sun Pharmaceuticals Industries Ltd.

- Sun Pharma Inds. Ltd is exposed to forex fluctuations.

### Valuation and Recommendation

The company is currently trading at an earning multiple of 28.19x. Going forward we have estimated a forward EPS of 53.81 and 53.99 for FY08 and FY09 respectively. At the estimated EPS the company is currently available at a forward earning multiple of 23.6x and 23.52 x for FY08 and FY09 respectively. Sun Pharmaceutical Industries Ltd is expanding inorganically and seeking acquisitions abroad. The company has emerged as one of the few companies addressing the specialty drugs in the Indian Drug Markets. Company has been posting good quarterly results for the past few quarters. Going forward we expect the company to do well. And being a strong player in the pharma segment investors can accumulate in the price range of 1200-1250 for long term gain.

### Financial Projections

Earnings Table		(Rs Cr)			
Particulars	FY06	FY07	FY08E	FY09E	
Net Sales	1680.34	2243.18	2843.90	3628.82	
Change %	0.00	33.50	26.78	27.60	
Total Income	1875.42	2454.23	2946.90	3684.82	
Total Expenditure	1334.78	1758.62	1706.26	2420.93	
PBDIT	540.64	695.61	1240.65	1263.89	
Depreciation	40.73	46.27	68.30	79.60	
PBIT	499.91	649.34	1172.35	1184.29	
Interest	11.23	8.80	3.40	4.60	
PBT	488.68	640.54	1168.95	1179.69	
Tax	27.39	11.61	54.30	61.34	
Reported PAT	461.29	628.93	1114.65	1118.35	
Adjusted PAT	450.94	612.95	1114.65	1118.35	
Change %	0.00	35.93	81.85	0.33	
Cash Profit	491.67	659.22	1182.95	1197.95	

Key Ratios					
Particulars	FY06	FY07	FY08E	FY09E	
EBDIT (%)	32.17	31.01	43.62	34.83	
PBIT (%)	26.66	26.46	39.78	32.14	
PAT (%)	24.04	24.98	37.82	30.35	
RoCE (%)	11.89	11.93	14.15	11.35	
RoE (%)	30.78	25.02	26.10	21.03	
Debt-Equity	1.19	0.44	0.09	0.13	

Balance Sheet		(Rs Cr)			
Particulars	FY06	FY07	FY08E	FY09E	
Share Capital	94.27	98.07	103.57*	103.57	
Reserves	1370.67	2351.42	4166.99	5177.73	
Shareholder's Fund	1464.94	2449.49	4270.56	5317.27	
Loan Funds	1745.98	1068.15	372.13	689.51	
Total Liabilities	3210.92	3517.64	4642.69	6006.78	
Net Fixed Assets	566.99	621.20	847.90	1078.30	
Investments	779.62	1057.49	1680.00	2230.00	
Net Current Assets	1864.31	1838.95	2114.79	2698.48	
Total Assets	3210.92	3517.64	4642.69	6006.78	

\*On account of conversion of FCCB issued in Dec 2004

Valuations					
Particulars	FY06	FY07	FY08E	FY09E	
Adjusted EPS (Rs)	23.92	31.25	53.81	53.99	
Cash EPS (Rs)	26.08	33.61	57.11	57.83	
Book Value Per Share	77.70	124.88	206.17	256.70	
Dividend per share	5.50	6.75	8.00	9.00	
P/E	53.10	40.64	23.60	23.52	
P/BV	16.35	10.17	6.16	4.95	
M-Cap/Sales	14.25	11.10	9.25	7.25	

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