Key Highlights

- The company informed that it has allotted 6,23,333 equity shares at a premium of Rs724.30 to the coupon holders on the conversion of 10,000 FCCB into equity shares during the meeting held on Feb,03,07 .
- Sun Pharmaceutical Industries is planning to spin off its research and development (R&D) division as a new company.
- Sun Pharmaceuticals is scouting for acquisitions in the US generic drugs market with a USD450 million (around Rs 2,000 crores) war chest.
- Company is trying to purchase the assets of US based Able Laboratories Limited.
- Company is trying to explore the European and US market through its branch in Hungary.
- Company's international operation in the next one or two years is expected to grow to 50 percent of total sales.
- Company acquired a manufacturing facility of the Valeant Pharmaceuticals international in Bryan in US.
- Sun Pharma shows interest to market Pfizer's epilepsy drug.
- Sun Pharma receives tentative FDA approval for Gabapentin drug.
- Sun Pharmaceutical Industries Ltd has received tentative approval from the USFDA for the drug 'Ondansetron' in tablet form. The tentative approval was given to the drug for strengths of 4 mg and 8 mg.

Industry Scenario

The Indian Pharmaceutical market is highly competitive and fragmented with nearly 20,000 players including organized and small-scale sectors. It is also called as sunrise sector in India. It has become a knowledge based and has gained a global recognition as a producer of low cost high quality bulk drug and formulations. Some of the Indian companies have gone global with presence in 60 countries, including USA, Europe and China. The industry meets around 70% of the country's demand for bulk drugs, drug intermediates, pharmaceutical formulations, chemicals, tablets, capsules, orals and injectibles. Globally, It is one of the most dynamic, high technology, knowledge-intensive industries and a significant contributor to economic growth. It grew by 7.5% in FY05 to the value of USUSD534.8bn. The global output of the Indian industry is ranked 4th in terms of volume and 13th in terms of value. MNCs control 38% of the market share while Indian companies control 62%. The top 10 companies in the sector control over 30% of the market. It is one of the globally competitive industries with strong R&D base, with exports accounting for nearly 32% of the total revenue. India is one of the top producers of bulk drugs in the world and 60% of Indian bulk drugs production is exported. It is home of to the largest number of pharma plants (75) approved by USFDA outside US. Indian pharma companies are expected to get revenue of USD 2.17 billion by 2008 (from USD 554 million in 2003) in the US generics market. With around USD 65 billion worth of drugs going off patent by 2008-09, exports are expected to grow at around 18% to about Rs 294 billion in 2007-08. Due to introduction of product patent from January 2005, few companies are heavily invested in R&D facilities domestically and internationally to come out with new chemical entities and more effective drugs. Due to product patent the Indian companies are forming marketing alliances with MNCs to market their products in India. Some companies have already joined hands with foreign companies for producing and marketing the drugs in the international market as well as in Indian market. Due to the applicability of product patent, prices of drugs may go up significantly. The industry has ventured into contract manufacturing as the R&D cost has increased due to new patent regime. The advantages for India in contract manufacturing are cheap labour, raw material and equipment, skills in chemistry, biotechnology, process engineering and IT and large number of English speaking scientists. It is estimated that if India is able to get a mere 5 per cent of the global contract manufacturing pie, it would more than double India's pharmaceutical exports. The estimated expenditure on health and family welfare is Rs102.8bn in FY06. Major domestic players are Cipla, Dr. Reddy, Ranbaxy, Aurobindo Pharma and Sun Pharmaceutical and MNC's like Glaxo, Wyeth, Roche and Pfizer. R&D spending by pharma companies is very low: around 4% of turnover in the country while the western and European counterparts spend around 10% of the turnover.

Operational Performance

For the financial year ending March 2006, the sales and the other income of the company increased by 39.32% and 381.57% to Rs.1709.38 crores and Rs 95.64 crores as compared to Rs. 1226.98 crores and Rs 19.86 crores respectively for the financial year ending March 2005. Operating expenses increased by 43.24% to Rs. 1275.61 crores as compared to Rs. 890.53 crores. It included raw material cost, employee expenses and other expenses, which increased by 60.76%, 22.89% and 36.31% to Rs. 888.49 crores, Rs 101.74 crores and Rs 342.60 crores respectively. Due to growth in the sales and other income, the operating profit of the company increased by 28.93% to Rs. 433.77 crores as compared to Rs. 336.45 crores for the financial year 2005. Operating profit margin (OPM) decreased by 204 basic points to 25.38% from 27.42%. The depreciation and taxation increased by 24.06% and 54.14% to Rs 40.73 crores and Rs 27.39 crores respectively. The net profit of the company reported to Rs. 461.29 crores. The net profit margin increased by 104 basis points to 25.56% from 24.52% in FY05.

International Market Foray

Sun Pharma, has acquired a company in Hungary recently and plans to use the production facility for making product filings both in bulk drugs and formulations in several international markets, including the US and Europe. The Hungarian pharma company is one of the few units worldwide authorized to make controlled substances. The company, with annual sales of about USD20m, manufactures both bulk actives and controlled substances. It also has a facility for different dosage forms such as film-coated and effervescent tablets and capsules. Sun Pharma's second acquisition in the US (in Bryan, Ohio) is aimed at making a foray into the generic space for creams, ointments and liquids in the US market.

Future plans

Foray into Biotech Space

The company is planning to foray into the biotech space. The company is likely to focus on products that are on the high end of the biotech spectrum. It will also explore the possibilities of alliances. The company has bid for the state-owned Pharma Company Hindustan Antibiotics (HAL), which was a pioneer in penicillin manufacturing in the country. HAL produces a range of biological like antibiotics and erythropoeitin, in addition to anti-tuberculosis drugs, anti-bacterial, analgesics, cardiac drugs and vitamins. The products are more likely to be high-end biotech products like monoclonal antibodies, an area that many leading companies are currently working on. Its bid is to acquire all the existing businesses and infrastructure of HAL. Its success in acquiring HAL will automatically replace the company in its existing joint ventures. Acquisition of HAL will be very profitable as biotechnology is a fast emerging sector and will play an important role in the economy. The Indian biotech market has grown to Rs 918 Crores by 2003 and is expected to double the size by 2007. It has enormous investment opportunities in vaccines, bioactive therapeutic proteins and agricultural sector. Union and state expenditures are expected to increase in this particular sector, which will result in huge incentives and increased margins in the early years.

R&D Division

Company is planning to spin off its research and development (R&D) division as a new company. The company, which will later formulate a clear operational model for this proposal, is learnt to have adopted a multi-pronged strategy to leverage its existing capabilities in basic research, drug development and marketing to maximise the returns in each segment.

Financial Performance

For the nine months ended Dec06, the company has posted a growth in net sales of 5.73% to Rs1364.77Cr as against Rs1290.75Cr in the quarter ended Dec 05.The company reported a tremendous growth in other income by 577.71% to Rs405.54Cr .The operating expenses of the company has soared up by 30.24% to Rs1251.03Cr as compared to Rs960.56Cr during the quarter ended Dec 05 and this increase was mainly credited to increase in raw material costs, employee expenses, other expenses by 27.42%, 20.14%and 22.67% to Rs864.89Cr, Rs93.85 and Rs301.67Cr respectively. The company reported a decline in operating profit by 65.55% to Rs113.74Cr as against Rs330.19Cr and this increase was mainly because of higher growth in operating expenses as compared operating income. After providing for depreciation of Rs36.06Cr and taxation of Rs9.96Cr, the net profit of the company stood at Rs473.26Cr representing a growth of 37.02% from Rs345.40Cr during the quarter ended Dec05. The net profit margin of the company inclined by 116 basis point to 26.73%.

For the third quarter ended Dec 06, the Company witnessed a decline in operating income of 2.42% to Rs417.91Cr as compared to Rs428.27Cr during the corresponding quarter ended Dec05.The Company reported a tremendous growth in other income by 907.71% to Rs194.79Cr. The operating expenses of the company has surged up by 34.95% to Rs431.24Cr as against Rs319.55Cr and this increase was mainly credited to increase in raw material costs, employee expenses and other expenses by 30.64%, 22.80% and 24.98% to Rs 302.01Cr, Rs31.40Cr and Rs110.28Cr respectively. However the company reported a decline in operating profit by 112.26% to a operating loss of Rs13.33Cr and this was mainly due to high growth in operating expenses as compared to operating income. After providing for depreciation of Rs12.54Cr and taxation of Rs3.79Cr, the net profit of the company stood at Rs165.13Cr representing a growth of 52.46%..The net profit margin reported a growth of 275 basis point to 2695% where as operating profit margin reported a decline .

Cautions

- Long Term growth prospects would hinge on receipt of approvals for new Process patents and successful launch of new medicines.
- The company should be well prepared for cutthroat competition from other pharma majors..
- The product patent regime effective from January 1st 2005 will affect the company, as the R&D cost of the company will increase considerably. It may also affect the topline of the company because the prices of the drugs are likely to increase.