

Morgan Stanley India Company
Private Limited+

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Stock Rating
Overweight

Industry View
In-Line

Sun Pharmaceutical Industries

Warning Letter Issued; Caraco Under FDA Lens

What's new: Caraco (CPD, Sun's 65%-owned US subsidiary) has issued a press release highlighting that the FDA has issued it a warning letter (received on October 31), as a follow up to FDA's inspection of its Detroit facility in May 2008 and the subsequent 483s. According to CPD, the warning letter could result in suspension of approval for any of its pending ANDAs. The current business will likely not be affected, we believe.

Assessing damage: Sun has roughly 96 ANDAs pending FDA approval, 23 of which have been filed from Caraco's Detroit-based facility. Caraco grossed US\$122mn in sales in F2Q09, US\$32mn of which was contributed by products manufactured at the Detroit facility (and the balance, including Protonix, by Sun in India). A key product pending approval, Effexor XR tab, was filed from the Indian facility.

Impact on our views: Details of the warning letter will be known once it is posted on the FDA website. The company does not expect this to be a major issue, and targets to resolve this over next three to four months. In view of the FDA issues at Ranbaxy and the impact on its stock price, we believe SUN stock could be down meaningfully in the ensuing days. We would see this as a buying opportunity in view of the limited impact of the warning letter on Sun: 1) only 25% of pending ANDAs affected; 2) major products (most of them filed from India) appear safe; and 3) as of now, procedural lapses do not appear too difficult to rectify.

Key Ratios and Statistics

Reuters: SUN.BO Bloomberg: SUNP IN

India Pharmaceuticals

Price target	Rs1,604.00
Upside to price target (%)	45
Shr price, close (Nov 3, 2008)	Rs1,106.25
52-Week Range	Rs1,557.80-890.00
Sh out, dil, curr (mn)	207
Mkt cap, curr (mn)	Rs229,127
EV, curr (mn)	Rs212,183
Avg daily trading volume (mn)	Rs54

Fiscal Year ending	03/08	03/09e	03/10e	03/11e
ModelWare EPS (Rs)	71.79	58.03	69.69	79.01
Prior ModelWare EPS (Rs)	-	-	-	-
Consensus EPS (Rs)§	67.50	81.32	82.35	87.05
Revenue, net (Rs mn)	33,566	32,929	38,852	44,723
EBITDA (Rs mn)	15,512	12,167	14,246	16,157
ModelWare net inc (Rs mn)	14,870	12,019	14,435	16,364
P/E	17.2	19.1	15.9	14.0
P/BV	5.1	3.8	3.1	2.6
RNOA (%)	41.9	21.8	28.8	29.3
ROE (%)	39.8	24.1	23.9	22.3
EV/EBITDA	15.3	16.3	13.2	11.0
Div yld (%)	0.5	0.6	0.7	0.7
FCF yld ratio (%)	1.6	6.6	4.5	5.1
Leverage (EOP) (%)	(37.7)	(54.7)	(57.9)	(60.5)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

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Company Description

Sun Pharmaceutical Industries manufactures and markets specialty drugs and active pharmaceutical ingredients for chronic therapy areas, such as cardiology, psychiatry, neurology and women's health.

India Pharmaceuticals


Industry View: In-Line

Moderation in growth and lack of major product opportunity underline our sector view.

MSCI Country: India

Asia Strategist's Recommended Weight: 2.7%

MSCI Asia/Pac All Country Ex Jp Weight: 6.5%

	<p>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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(as of October 31, 2008)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	869	39%	275	42%	32%
Equal-weight/Hold	983	44%	286	44%	28%
Underweight/Sell	403	18%	89	14%	22%
Total	2,255		650		

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Sun Pharmaceutical Industries

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

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More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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Sun Pharmaceutical Industries

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Industry Coverage: India Pharmaceuticals

Company (Ticker)	Rating (as of)	Price (11/03/2008)
Sameer Baisiwala, CFA		
Aventis (India) (AVPH.BO)	O (07/06/2005)	Rs746.8
Biocon Ltd (BION.BO)	U (10/24/2005)	Rs101.25
Cipla Ltd. (CIPL.BO)	O (07/21/2008)	Rs175.75
Dr. Reddy's Lab (REDY.BO)	E (05/14/2007)	Rs403.3
GlaxoSmithKline Pharma (GLAX.BO)	O (06/05/2006)	Rs1,098.8
Lupin Ltd. (LUPN.BO)	O (10/03/2006)	Rs714.1
Ranbaxy Laboratories (RANB.BO)	U (09/19/2008)	Rs190.35
Sun Pharmaceutical Industries (SUN.BO)	O (09/27/2004)	Rs1,106.25
Wockhardt Limited (WCKH.BO)	E (05/02/2008)	Rs107.75

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