Sun Pharmaceuticals

Performance Highlights

Sun Pharmaceutical (Sun) having one of the strongest ANDA pipelines in the Indian Pharma space, reported 3QFY2010 numbers which were ahead of our estimate. Net Sales came in at Rs1,021cr, up 11.2% yoy along with a healthy OPM of 36.1%, which was ahead of our estimate driven by lower Employee and R&D expenses. The company reported Net Profit of Rs339.0cr, which though down 17.0% yoy was ahead of our expectation. On the Caraco front, the subsidiary submitted a work plan to the Regulator for remedial action that could lead to commencement of manufacturing. Further, pending resolution of the USFDA issue, the subsidiary has transferred some of its products to alternate manufacturing sites. **Owing to Fair Valuations, we remain Neutral on the stock.**

Ahead of expectation: Sun reported Net Sales of Rs1,021cr (Rs918.3cr), which was in line with our estimate of Rs1,024cr. Growth in Top-line was driven by the Domestic Formulation and RoW Formulation Segments. Sun reported OPM of 36.1% (45.0%), which was ahead of our estimate of 28.3% on the back of lower Employee and R&D costs. Employee cost increased by mere 2.3% to Rs116.3cr (Rs113.7cr) on account of reduction in workforce at Caraco. R&D expenses came in at Rs51.5cr (Rs94.6cr), constituting 5% of Net Sales, was down 45.6% yoy. Net Profit came in at Rs339.0cr (Rs408.6cr), down 17.0% following contraction in OPM, but ahead of our estimate of Rs286.5cr.

Outlook and Valuation: Sun Pharma is one of the largest and fastest growing Indian Pharmaceutical companies. On the Domestic Formulation front it has 3.5% market share and in Exports has one of the strongest ANDA pipeline. At Rs1,508, the stock is trading at fair valuations of 20.6x and 18.4x FY2011E and FY2012E Earnings, respectively. Hence, we remain Neutral on the stock. The key upside risk to our estimates include: 1) Launch of generic version of *Effexor*; 2) Completion of Taro acquisition; and 3) Any further acquisitions given the high Cash balance on the books (Rs3,500cr)

NEUTRAL

CMP	Rs1,508
Target Price	-
Investment Period	-

Stock Info	
Sector	Pharmaceutical
Market Cap (Rs cr)	31,224
Beta	0.3
52 WK High / Low	1,605 / 953
Avg. Daily Volume	42,434
Face Value (Rs)	5
BSE Sensex	16,356
Nifty	4,900
Reuters Code	SUN.BO
Bloomberg Code	SUNP@IN

Shareholding Pattern (%)	
Promoters	63.7
MF/Banks/Indian FIs	10.6
FII/NRIs/OCBs	20.2
Indian Public	5.5

Abs. (%)	**3m**	**1yr**	**3yr**
Sensex	2.9	73.6	14.7
Sun Pharma	9.1	40.4	45.4

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	**4,272**	**4,221**	**4,814**	**5,287**
% chg	*27.3*	*(1.2)*	*14.0*	*9.8*
Net Profit	**1,828**	**1,222**	**1,517**	**1,699**
% chg	*21.4*	*(33.2)*	*24.1*	*12.0*
EPS (Rs)	**87.7**	**59.0**	**73.2**	**82.0**
EBITDA Margin (%)	43.6	32.0	33.7	34.7
P/E (x)	17.2	25.6	20.6	18.4
RoE (%)	30.2	16.3	17.7	17.3
RoCE (%)	27.3	15.2	16.2	16.0
P/BV (x)	4.4	3.9	3.4	3.0
EV/Sales (x)	6.9	6.9	6.0	5.3
EV/EBITDA (x)	16.0	21.8	17.8	15.3

Source: Company, Angel Research

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Revenues in line with expectation, up 11.2%: Sun reported Net Sales of Rs1,021cr (Rs918.3cr), which was in line with our estimate of Rs1,024cr. Top-line was driven by the Domestic Formulation and RoW Formulation Segment. The Domestic Formulation Segment grew by 23.8% to Rs532.6cr (Rs430.2cr), while the RoW Formulation markets grew by 32.3% yoy to Rs146.7cr (Rs110.9cr). Caraco sales came in at US $52mn (US $55mn), which fell 6.7% yoy. On the API front, the Export Segment grew by a healthy 58.4% to Rs112.5cr (Rs71.1cr). For 9MFY2010, Net Sales de-grew by 4.6% to Rs2,993cr (Rs3,138cr) on the back of USFDA action on Caraco.

OPM contracts, but ahead of our estimate: Sun reported OPM of 36.1% (45.0%) and was ahead of our estimate of 28.3% owing to lower Employee and R&D costs. Employee cost increased by a mere 2.3% to Rs116.3cr (Rs113.7cr) on account of the reduction in workforce at Caraco. R&D expenses came in at Rs51.5cr (Rs94.6cr), constituting 5% of Net Sales, fell 45.6% yoy following reduced spending at Caraco. Sun has indicated that R&D expenses in the long run would be in the range of 8-10%. For 9MFY2010, the company reported OPM of 31.5% (47.5%), which contracted by 15.9%.

Bottom-line beats expectation: Net Profit came in at Rs339.0cr (Rs408.6cr), down 17.0% due to contraction in OPM, but was ahead of our estimate of Rs286.5cr. Other Income for the quarter stood at Rs32.5cr (Rs44.3cr), down 26.7% on account of lower Interest rate and MTM losses on investment. For 9MFY2010, the company reported Profit of Rs956.8cr (Rs1,424cr).

Business Performance

Exports

The company's Exports for the quarter de-grew by 2.5% to Rs478.3cr (Rs490.7cr) due to lower sales clocked by Caraco. Caraco clocked Sales of US $52mn (US $55mn), down 6.7% yoy on the back of USFDA banning the sales of manufactured products in 1QFY2010. Sun has now indicated that Caraco has submitted a work plan to the Regulator for remedial actions that could lead to commencement of manufacturing. Further, it has started recalling employees to regain the cGMP compliance. On the positive front, pending resolution on the USFDA issue, Caraco has transferred some of its products to alternate manufacturing sites. Sun Pharma has one of the strongest ANDA pipelines in the India Pharma space with 108 ANDAs pending approval and 83 ANDA already approved. On the API front, Sales came in at Rs112.5cr (Rs71.1cr), up 58.4% on the back of lower internal consumption (especially by Caraco).

Domestic

Sun's Domestic business grew 23.4% to Rs561.5cr (Rs454.9cr) driven by the Formulation Segment. After two quarters of subdued performance, the company's Formulation business was back on higher growth trajectory with Revenues coming at Rs532.6cr (Rs430.2cr), up 23.8% yoy. The company launched 17 products during the quarter taking its cumulative launches to 38 for the year.

Exhibit 1: 3QFY2010 Performance (Consolidated)

Y/E March (Rs cr)	3QFY10	3QFY09	%chg	9MFY10	9MFY09	%chg
Net Sales	**1,021**	**918**	***11.2***	**2,994**	**3,138**	***(4.6)***
Other Income	32.5	44.3	*(26.7)*	191.6	145.9	*31.3*
Total Income	**1,053**	**963**	***9.4***	**3,185**	**3,284**	***(3.0)***
PBIDT	368.4	413.4	***(10.9)***	944.3	1,489.2	***(36.6)***
Operating Margin (%)	**36.1**	**45.0**		**31.5**	**47.5**	
Interest	0.0	0.0		0.0	0.0	
Depreciation	35.9	31.1	*15.6*	111.4	87.4	*27.5*
PBT	365.0	426.6	***(14.4)***	1,024.5	1,547.8	***(33.8)***
Provision for Taxation	26.1	17.0	*53.6*	69.1	75.6	*(8.6)*
PAT before Extra-ordinary item	338.9	409.7	***(17.3)***	955.4	1,472.1	***(35.1)***
Minority Interest(MI)	(0.0)	0.0		0.0	0.0	
Extraordinary Item	0.0	0.0		(1.4)	48.4	
PAT after Extra-ordinary item & MI	**339.0**	**408.6**	***(17.0)***	**956.8**	**1,423.8**	***(32.8)***
EPS (Rs)	**16.4**	**19.7**		**46.2**	**68.7**	

Source: Company, Angel Research

Outlook and Valuation

Sun Pharma is one of the largest and fastest growing Indian Pharmaceutical companies. On the Domestic front, it has grown at higher pace by focusing on the high-Growth and high-Margin Therapeutic Segments of Psychiatry, CNS, CVS, Ophthalmic and Orthopedic. Sun has a market share of 3.5% and is amongst the Top-5 players in the Indian market. On the Export front, it has presence in the US through its subsidiary, Caraco. Sun has one of the strongest ANDA pipelines in the sector with more than 100 ANDAs pending approval.

We expect the company to post CAGR of 11.9% in Net Sales to Rs5,287cr and EPS to clock a CAGR of 17.9% to Rs82 over FY201012E. At Rs1,508, the stock is trading at fair valuations of 20.6x and 18.4x FY2011E and FY2012E Earnings, respectively. **Hence, we remain Neutral on the stock.**

Key upside risks to our estimates include: 1) Launch of generic version of *Effexor;* 2) Completion of Taro acquisition; and 3) Any further acquisitions given high Cash balance on books (Rs3,500cr).

Exhibit 2: One Year Forward PE Band

Source: C-Line, Angel Research

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Disclosure of Interest Statement	Sun Pharmaceuticals
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 5 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to -15%)	Sell (< -15%)	

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