Sun Pharmaceutical Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,742	SUNP IN
	REUTERS CODE
S&P CNX: 3,156	SUN.BO

Equity Shares (m)	185.5
52-Week Range	935/553
1,6,12 Rel. Perf. (%)	4/9/-7
M.Cap. (Rs b)	148.0
M.Cap. (US$ b)	3.2

27 July 2006

Buy

Previous Recommendation: Buy

Rs798

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/06A	15,931	5,732	27.7	25.8	28.8	9.3	42.2	20.0	9.1	29.2
03/07E	19,149	6,384	30.8	11.4	25.9	8.0	37.1	21.6	7.5	23.1
03/08E	22,828	7,832	37.8	22.7	21.1	5.9	36.1	23.4	6.0	17.6

Sun Pharma's 1QFY07 results were well above our estimates with higher sales growth and significantly higher margins. Key highlights include:

- Consolidated sales grew by 32% to Rs5b, primarily driven by formulation exports (up 60% YoY to Rs1.6b) and domestic formulation business (up 15.5% YoY growth to Rs2.9b on high base of 1QFY06).
- EBITDA margins expanded by 240bp to 36.3% mainly because of lower material costs (down by 450bp) and lower SG&A costs (down by 500bp). However, higher depreciation (up by 69%) restricted PAT growth to 30% to Rs1.77b.
- At the end of 1QFY07, Sun has around 50 ANDAs pending approval (Caraco's 15 + Sun's 35). Furthermore, the company plans to file another 30 ANDAs during FY07, significantly strengthening its US pipeline.
- We have revised our estimates downwards marginally by 2.4% and 1% for FY07E and FY08E respectively. While our revised estimates take into account the better than expected performance in 1QFY07, lower product development income from Caraco, higher minority interest (due to turnaround at Caraco) and higher depreciation have negated these upsides.

Sun Pharma is currently valued at 25.9x FY07E and 21.1x FY08E fully diluted EPS, which does not fully factor in the expected ramp-up in its US business as well as the value that it could add by using its strong cash chest (US$400m post R&D demerger) through the inorganic route. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (Rs Million)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Revenues	**3,784**	**4,112**	**4,236**	**3,966**	**4,987**	**4,970**	**5,008**	**4,185**	**15,932**	**19,149**
YoY Change (%)	*35.7*	*43.2*	*35.0*	*36.2*	*31.8*	*20.9*	*18.2*	*5.5*	*36.5*	*20.2*
EBITDA	**1,281**	**1,415**	**1,476**	**969**	**1,811**	**1,517**	**1,443**	**1,412**	**4,975**	**6,183**
Margins (%)	*33.9*	*34.4*	*34.8*	*24.4*	*36.3*	*30.5*	*28.8*	*33.7*	*31.2*	*32.3*
Depreciation	119	130	177	189	202	205	209	212	615	828
Net Other Income	284	193	268	697	274	325	425	635	1,608	1,659
PBT	**1,446**	**1,478**	**1,567**	**1,477**	**1,883**	**1,637**	**1,659**	**1,835**	**5,969**	**7,015**
Tax	33	23	70	113	2	68	68	152	239	289
Rate (%)	*2.3*	*1.5*	*4.5*	*7.7*	*0.1*	*4.1*	*4.1*	*8.3*	*4.0*	*4.1*
Profit after Tax	**1,413**	**1,455**	**1,497**	**1,364**	**1,882**	**1,570**	**1,591**	**1,683**	**5,729**	**6,725**
Share of Minority Partner	52	-23	33	-65	115	72	75	80	-3	342
Adj Net Profit	**1,361**	**1,478**	**1,464**	**1,429**	**1,767**	**1,498**	**1,516**	**1,603**	**5,732**	**6,384**
YoY Change (%)	*53.9*	*48.0*	*36.8*	*20.8*	*29.9*	*1.3*	*3.5*	*12.2*	*44.7*	*11.4*
Margins (%)	*36.0*	*36.0*	*34.6*	*36.0*	*35.4*	*30.1*	*30.3*	*38.3*	*36.0*	*33.3*

*E: MOSt Estimates; * Quaterly results have been recasted and hence do not tally with full year results*

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Formulations drive revenue growth

Consolidated sales grew by 32% to Rs5b, primarily driven by formulation exports (up 60% YoY to Rs1.6b) and domestic formulation business (up 15.5% YoY growth to Rs2.9b on high base of 1QFY06). Formulation exports were boosted by 40% YoY growth in Caraco sales as well as by exports to un-regulated markets.

SPIL's domestic formulation sales recorded 15.5% growth YoY to Rs2.9b, despite high base of 1QFY06 which witnessed recovery of sales lost in 4QFY05 due to VAT issues. This was led by its strong brand equity in the core therapy areas (CNS, CVS, gastroenterology and diabetology) and prolific rate of new launches (16 new products launched during the quarter). Sun Pharma enjoys the No.1 rank with psychiatrists, neurologists, cardiologists, ophthalmologists and diabetologists.

SUN PHARMA - BUSINESS BREAK UP (RS M)

	1QFY07	1QFY06	YOY (%)	4QFY06	QOQ (%)
Domestic Sales					
Formulation	2,918	2,526	15.5	2,132	36.9
Bulk	218	230	-5.1	144	51.6
Others	3	0	733.3	2	8.7
Total Domestic Sales	**3,139**	**2,756**	**13.9**	**2,278**	**37.8**
Contribution (%)	*58.7*	*66.5*	*47.7*	*53.1*	
International Sales					
Formulation	1,601	1,005	59.3	1,528	4.8
Bulk	601	382	57.5	464	29.4
Others	7	0	-	18	-60.6
Total Internat. Sales	**2,209**	**1,387**	**59.3**	**2,010**	**9.9**
Contribution (%)	*41.3*	*33.5*		*46.9*	
Gross Sales	**5,348**	**4,143**	**29.1**	**4,288**	**24.7**

Source: Company/Motilal Oswal Securities

Lower material and SG&A costs expand EBITDA margins

EBITDA margins for the quarter expanded by 240bp to 36.3%, translating into EBITDA growth of 41% YoY. The margin expansion was primarily on lead by lower material costs (down by 450bp) and lower SG&A costs (down by 500bp), despite higher staff cost (up by 70% YoY). Raw material cost savings were due to higher in-house sourcing of inputs and higher inventory valuations due to rupee depreciation. We believe that these benefits may not be sustained if the rupee were to appreciate against the US dollar. Also, low competition on Ultracet led to better margins as reflected in 630bp improvement in Caraco's gross margins to 52.6%.

However, higher margins are after absorbing fixed costs (~US$3-4m for the quarter) of the acquired companies which are yet to contribute to the revenues. We believe that SPIL will continue to incur these expenses (about US$16m for FY07E) without any commensurate revenue contribution as it is in the process of filing products from the acquired facilities. These acquisitions are expected to generate revenues from FY08E onwards as product approvals start coming through gradually.

However, higher depreciation (up by 69%), lower other income (down by 3% impacted by forex loss) and higher share of minority interest (at Rs115m v/s Rs52m in 1QFY06) restricted PAT growth to 30% to Rs1.77b.

Revising estimates

We have revised our EPS estimates downwards marginally by 2.4% and 1% for FY07E and FY08E to Rs30.8 and Rs37.8 respectively. This revision is to factor in:

a) Higher minority interest due to positive contribution by Caraco
b) Lower product development income for SPIL (arising out of R&D to affiliate by Caraco)
c) Better than expected domestic formulation sales
d) Better than expected margins
e) Higher staff cost
f) Higher depreciation due to acquired assets

The positive impact of increased domestic sales and margins were negated by higher minority interest as Caraco starts contributing positively to the parent (due to lower R&D to affiliate).

De-merger of NCE & NDDS research activities to de-risk existing business

SPIL has proposed a de-merger of its NCE/NDDS research into a separate company in order to de-risk the existing business. Key highlights of the de-merger include:

- NCE & NDDS research activities to be de-merged into a separate company. These activities are likely to involve R&D expenditure of Rs700-800m in FY07E, which will now be incurred in the new R&D company. SPIL will transfer cash of Rs2b and other assets of Rs550m to the new R&D company. The cash will enable the company to sustain its operations for the next two years. SPIL's book value will reduce accordingly. About 120-140 employees (including 100 scientists) will also be transferred to the new R&D company.

- All IPRs related to the NCE/NDDS projects will also be transferred to the new R&D company. SPIL will not have any first-right of refusal on the IPRs or geographical licenses related to these products. Since NDDS products have also been transferred to the new R&D company, SPIL is unlikely to launch branded products in regulated markets on its own.
- New R&D company may not have any revenues for the next two years till the NCE/NDDS are out-licensed or commercialized. However, it is likely to earn interest income on the unutilized portion of Rs2b cash transferred by SPIL.
- We see this as a de-risking step as NCE/NDDS research involves uncertain returns. Since SPIL's NCE and NDDS projects are entering clinical trials, the R&D expenditure for these activities is expected to increase exponentially in the coming years.
- Existing shareholders of SPIL to get shares of the new company in 1:1 ratio. SPIL's shares have a face value of Rs5/share while the new R&D company will have a face value of Re1/share. FCCB holders to have similar rights as existing equity shareholders. SPIL has raised about US$350m through a FCCB. Conversion price for FCCBs remains at Rs729/share but can change if FCCB holders do not exercise their conversion rights in the new R&D company.
- De-merger to be effective from 1 April 2006. The new R&D company will be listed separately on the stock exchanges by October 2006.

Impact of de-merger of NCE & NDDS research

We believe that the de-merger will de-risk SPIL's current operations from the uncertainties related to innovative R&D activities. It will also help SPIL to de-risk it existing business from the high R&D expenses which the company is likely to incur for conducting clinical trials. We believe that the de-merger will result in the following benefits:

- Savings in R&D costs related to NCE/NDDS research (approximately Rs700-800m for FY07E).
- Marginal 20bp increase in effective tax-rate as R&D expenses enjoy 150% weighted deduction as per the Income Tax Act.
- Reduction in Other income due to transfer of Rs2b cash to the new R&D company.
- Reduction in SPIL's book value to reflect transfer of assets worth Rs2.55b (including cash) to the new R&D company.

Generic pipeline being strengthened

SPIL (along with Caraco) has about 50 ANDAs pending US FDA approval. In FY07 it expects to file about 30 ANDAs including Caraco's filings with the US FDA. Management has in the past, indicated that the filings will be a mix of Para-III and Para-IVs, but will not be skewed in favor of patent challenges. We expect SPIL's generic pipeline to acquire significant strength in the US market by end FY07E with about 70 ANDAs pending US FDA approval.

Acquisitions to be leveraged from FY08E onwards

Product filings are also likely to pick up out of the recently acquired Valeant facility (situated at Ohio, USA). This facility gives SPIL the capability to manufacture liquids and semi-solids. It is pertinent to note that Caraco does not have such capabilities and that it would have been economically uncompetitive for SPIL to transport such products from India to USA. The acquisition of Valeant's Hungary facility is expected to help SPIL in filings for the European markets.

SPIL has recently acquired the assets of US-based Able Laboratories Ltd. for US$23.15m. Able Labs had filed for bankruptcy as per US regulations and had invited bids for its assets. SPIL will be acquiring the manufacturing facilities of Able Labs through this acquisition. The purchase also includes a lease for Able's premises in New Jersey, some contracts and purchase of another property in New Jersey. Able Labs had faced problems with US FDA compliance in the past and had to recall all of its 30 products from the US market. In August 2005, the US FDA denied Able's proposal that it be permitted to revalidate its data and re-launch its product line without full US FDA review.

Able was in the process of transferring its manufacturing lines to a new 225,000 sq ft facility from its old 50,000 sq ft plant. We believe that this new facility will be utilised by SPIL to launch its own products in the US generics market. SPIL will also have the option of re-launching Able's products after rectifying the deficiencies identified by the US FDA. Able Labs had generated sales of about US$100m from its generic portfolio in 2004. We, however, do not have details on Able's product portfolio and hence are not aware about any possible overlaps with SPIL's existing portfolio.

We believe that SPIL is cautiously acquiring generic assets (with specific focus on distress assets). This is evident from SPIL's recent acquisitions of Valeant Pharma's facilities in Hungary and USA (both costing about US$10m each). The acquisition of Able Labs assets is also a step in this direction. With this acquisition, SPIL has, till date, spent about US$40-50m of the US$350m raised through the FCCB some time back. Unlike its other generic peers, SPIL is looking at acquiring assets with reasonable valuations and hence has targeted distress sellers in the past. In fact, SPIL's acquisitions in India have also been on similar lines.

While we do not expect any immediate financial benefits to SPIL from the acquisition of Able Lab's facilities (since it will have to rectify the deficiencies identified by the US FDA), we believe that it will be long-term positive for the company going by SPIL's past track record of acquisitions. SPIL is currently in the process of re-filing some of the products of Able Labs with the US FDA and we expect these products to start contributing to SPIL's revenues from FY08E onwards.

Caraco continues with good performance

Caraco Pharma, (SPIL's US subsidiary), reported 1QFY07 results which were in line with our estimates, as net revenues grew by 40% YoY to US$24.5m and PAT (pre non-cash R&D) growing by 93% to US$9.4m. The results were primarily driven by launch of Ultracet (end of 3QFY06.) However, increased competition in US market let to intense pricing pressure in US markets in FY06.

Caraco's R&D cost to affiliate (i.e. compensation to SPIL for product transfer) stood at US$4.4m representing transfer of 1 product. R&D cost to affiliate is expected to come down in FY07E as only 3 products of 25 products agreement with Sun Pharma are remaining to be transferred. The company does not anticipate higher product development cost, inspite of aggressive product development plan, as it expects to utilize savings in non-cash R&D for product development.

Expect competition for Ultracet in near term

Caraco received favorable ruling in a summary motion from the US lower court for its patent challenge on Ultracet (Acetaminophen and Tramadol HCl) tablets. J&J is the innovator for this product with patent expiry in August 2011. At innovator prices, Ultracet commanded revenues of about US$330m-US$350m.

US-based Par Pharma was eligible for 180-day exclusivity on the product and had launched the generic version in April 2005. Its exclusivity expired in October 2005. Ivax has launched an authorized generic for the product along with Par Pharma. Hence, the market currently has two generic players. Teva has also filed a patent challenge on this drug and is awaiting a court ruling. However, Teva may or may not go ahead with the litigation since it already has a presence in the market through Ivax (now taken over by Teva). Teva is expected to garner a major share of the market, given its dominant presence and distribution clout.

Caraco launched generic Ultracet (it was a launch-at-risk) in December 2005. We expect more competition for this product in the near term as a few more generic companies are expected to launch their versions. We expect Caraco to generate about US$10m in sales from generic Ultracet for FY07E. However, it should be noted that this is a launch-at-risk product for Caraco as the patent litigation with the innovator is still pending.

FCCB funds to depress return ratios short term

SPIL has raised US$350m from the international markets through an equity-linked FCCB instrument to fund its acquisitions in regulated markets. Although the company has not disclosed any further details, we believe the company may be looking at expanding its presence in the US generics market through an acquisition to be funded by the FCCB.

This may depress the return ratios in the short term (as the benefits of acquisition will accrue over a period of time) depending on the quantum of equity dilution. Delay in deploying funds raised through this offering may also have an adverse impact on these ratios in the short term. However, we believe that expanding its presence in the regulated markets is imperative for SPIL in order to gain critical mass in the regulated markets. We also draw comfort from the company's past successes in acquiring other players.

Sun Pharma is likely to follow a conservative policy for acquisitions in regulated markets. It has recently acquired Able Pharma and the facilities of Valeant Pharma in the US and Hungary. It has till date spent about US$40m-US$50m to acquire these assets. These acquisitions reflect the characteristic SPIL policy of acquiring loss-making units and effecting a turnaround.

Phlox Pharma gives access to high-end Cephalosporins

SPIL had acquired Phlox Pharma – a BIFR company – through a 790:1 stock swap implying a negligible equity dilution of Rs0.15m. The company has stated that, contrary to Gujarat Lyka (which SPIL had acquired some years ago and later disposed off); Phlox Pharma gives its access to the high-end second and third generation Cephalosporin range of products including sterile Cephalosporins. Gujarat Lyka's facilities could manufacture only the first generation products and hence SPIL had closed down the unit. SPIL expects to incur capex of Rs150m to spruce up the Phlox unit as well as to complete the formulations unit of Phlox. Filings for regulated markets (for sterile Cephalosporins), including that for dosage forms will be made from this unit in the future. However, we believe that SPIL will be a late entrant in the Cephalosporin segment in the regulated markets as other generic companies have already filed their products. We also believe that since Phlox was a BIFR company, SPIL will enjoy income tax benefits through its acquisition of Phlox.

Acquisitions to adversely impact FY07 consolidated earnings

All the acquisitions made by Sun Pharma in the past few months have been for distress assets. While these acquisitions will have positive implications for the company in the long term, we believe they are likely to drag down consolidated earnings in FY07. Sun Pharma has indicated a timeline of at least 18 months for effecting a turnaround at these units. Our estimates have been accordingly adjusted to take into account the impact of these acquisitions.

Eyeing a large acquisition in the US

Sun Pharma is on the look out for a large acquisition in the US but is currently constrained by very high valuations for most of the generic assets. The company has indicated that the strength of its product pipeline and customer relationships will be the key drivers for any potential acquisitions. It expects payback of about 4-5 years from such an acquisition. The company currently has cash of US$400m (post R&D demerger) on its books, which could be utilized for funding future acquisitions. Our estimates do not take into account the upsides from any potential acquisitions.

Maintaining Guidance

Sun Pharma has guided sales growth of 18-20% for FY07E, Generic R&D expenses at 10-11% of sales and capex of Rs1b. It expects to maintain EBITDA margins at 31-32% for FY07E. It targets to file 30 ANDAs with the US FDA in FY07E to strengthen its generic pipeline (which will also result in higher R&D costs).

Valuation and outlook

An expanding generic portfolio coupled with change in product mix in favor of high-margin exports is likely to bring in long-term benefits for SPIL. As investors start focusing on SPIL's generics business, the concerns about a slowdown in the company's domestic formulations business (due to the patent regime) are already being discounted.

SPIL's ability to sustain high growth rates at superior margins even on a high base is a clear positive. With the domestic business progressing well and increasing traction on the US front (both in Caraco and from India), the possibility of a rapid scale-up over the next couple of years is high. SPIL is currently valued at 25.9x FY07E and 21.1x FY08E fully diluted EPS, which does not fully factor in the value that Sun could add by using its strong cash chest (US$400m post R&D de-merger) for acquisitions as well as ramp up its overseas business. Maintain **Buy**.

Sun Pharmaceuticals: an investment profile

Company description

Sun Pharma is among the largest players in the domestic formulations market and the most profitable one. It makes and markets specialty medicines and APIs for chronic therapy areas such as cardiology, psychiatry, neurology, etc. Sun has forayed into regulated markets by acquiring majority stake in Caraco Pharma and intends to look at inorganic means to get a foothold in Europe, as well.

Key investment arguments

- Ability to identify niches in long term therapy areas with high entry barriers and build strong franchise to ensure sustainable growth and high margins
- Well-diversified portfolio de-risks its portfolio against any slowdown in a particular category
- Among the few Indian companies to have a direct presence in the US market (through Caraco)

Key investment risks

- Highly dependent on new product launches for growth in domestic market
- Has not demonstrated the ability to build any big brand so far – a key driver for growth going forward
- Capability to scale up exports, particularly to unregulated markets, is yet to be fully demonstrated

Recent developments

- Recently acquired Able Pharma in US and two facilities from Valeant Pharma in US and in Hungary
- Has recently proposed de-merger of NCE & NDDS research activities.

Valuation and view

- Revenue and earnings CAGR of 20% and 17% expected over FY06-FY08E
- Multiples of 25.9x FY07E and 21.8x FY08E earnings do not reflect the potential upside from any overseas acquisitions
- Re-iterate **Buy** with revised price target of Rs900 (~24x FY08E earnings)

Sector view

- Regulated markets would remain the key sales and profit drivers in the medium term. Europe is expected to emerge as the next growth driver, particularly for companies with a direct marketing presence
- We are overweight on companies that are towards the end of the investment phase, with benefits expected to start coming in from the next fiscal

COMPARATIVE VALUATIONS

		SUN PHARMA	CIPLA	NPIL
P/E (x)	FY07E	25.9	24.8	19.7
	FY08E	21.1	20.7	14.7
P/BV (x)	FY07E	8.0	5.4	4.0
	FY08E	5.9	4.5	3.5
EV/Sales (x)	FY07E	7.5	4.6	2.0
	FY08E	6.0	3.8	1.7
EV/EBITDA (x)	FY07E	23.1	18.5	12.7
	FY08E	17.6	15.1	10.4

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	30.8	33.5	-8.1
FY08	37.8	40.7	-7.2

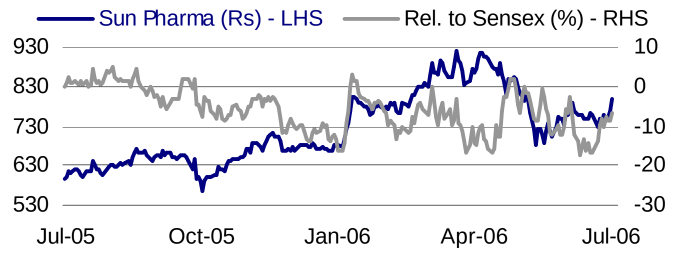
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
798	900	12.8	Buy

SHAREHOLDING PATTERN (%)

	MAR.06	DEC.05	MAR.05
Promoters	71.3	71.4	71.9
Domestic Institutions	2.7	2.8	2.8
FIIs/FDIs	15.9	15.7	14.6
Others	10.1	10.1	10.7

STOCK PERFORMANCE (1 YEAR)



CONSOLIDATED INCOME STATEMENT					(Rs Million)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Net Sales	**9,459**	**11,448**	**15,931**	**19,149**	**22,828**
Change (%)	*8.3*	*21.0*	*39.2*	*20.2*	*19.2*
Total Expenditure	5,494	7,266	10,957	12,966	15,059
EBITDA	**3,965**	**4,182**	**4,975**	**6,183**	**7,769**
Margin (%)	*41.9*	*36.5*	*31.2*	*32.3*	*34.0*
Depreciation	286	406	615	828	867
EBIT	**3,679**	**3,776**	**4,360**	**5,356**	**6,902**
Int. and Finance Charges	73	129	156	160	240
Other Income - Rec.	207	562	1,764	1,819	1,929
PBT	3,812	4,209	5,968	7,015	8,591
Tax	367	207	239	289	355
Tax Rate (%)	*9.6*	*4.9*	*4.0*	*4.1*	*4.1*
Profit after Tax	**3,446**	**4,002**	**5,729**	**6,725**	**8,236**
Change (%)	*16.7*	*16.2*	*43.1*	*17.4*	*22.5*
Margin (%)	*36*	*35*	*36*	*35*	*36*
Less: Mionrity Interest	151	42	-3	342	404
Net Profit	**3,295**	**3,960**	**5,732**	**6,384**	**7,832**

CONSOLIDATED BALANCE SHEET					(Rs Million)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Equity Share Capital	464	928	928	928	928
Preference Share Capital	155	14	14	14	14
Total Reserves	7,540	10,366	14,931	17,584	23,967
Net Worth	**8,159**	**11,307**	**15,873**	**18,525**	**24,909**
Minority Interest	83	161	158	500	904
Deferred Liabilities	741	896	1016	1165	1348
Total Loans	4,130	18,230	15,912	16,000	16,000
Capital Employed	**13,113**	**30,595**	**32,959**	**36,190**	**43,161**
Gross Block	6,232	7,806	9,806	10,256	10,756
Less: Accum. Deprn.	1,713	2,087	2,702	3,529	4,396
Net Fixed Assets	**4,518**	**5,719**	**7,105**	**6,727**	**6,360**
Capital WIP	410	493	493	493	493
Goodwill	1,612	1,538	1,538	1,538	1,538
Investments	1,765	6,485	6,485	6,485	6,485
Curr. Assets	**6,924**	**18,946**	**20,519**	**24,600**	**32,595**
Inventory	2,542	3,173	3,602	4,421	5,118
Account Receivables	2,250	2,511	2,663	3,200	3,815
Cash and Bank Balance	945	11,809	12,116	14,409	20,597
Curr. Liability & Prov.	**2,116**	**2,587**	**3,181**	**3,653**	**4,311**
Account Payables	1,383	1,741	2,013	2,471	2,861
Provisions	734	845	1,167	1,182	1,450
Net Current Assets	**4,807**	**16,360**	**17,339**	**20,947**	**28,284**
Appl. of Funds	**13,113**	**30,595**	**32,959**	**36,190**	**43,161**

E: MOst Estimates

RATIOS					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Basic (Rs)					
EPS	**17.8**	**21.3**	**30.9**	**34.4**	**42.2**
Fully Diluted EPS	**17.8**	**22.0**	**27.7**	**30.8**	**37.8**
Cash EPS	38.6	23.5	34.2	38.9	46.9
BV/Share	86.3	60.9	85.5	99.8	134.2
DPS	6.5	3.8	5.5	5.6	6.9
Payout (%)	18.4	18.2	20.4	17.6	17.6
Valuation (x)					
P/E		36.3	28.8	25.9	21.1
Cash P/E		33.9	23.3	20.5	17.0
P/BV		13.1	9.3	8.0	5.9
EV/Sales		12.9	9.1	7.5	6.0
EV/EBITDA		35.4	29.2	23.1	17.6
Dividend Yield (%)		0.5	0.7	0.7	0.9
Return Ratios (%)					
RoE	47.3	40.7	42.2	37.1	36.1
RoCE	40.2	20.7	20.0	21.6	23.4
Working Capital Ratios					
Asset Turnover (x)	0.7	0.4	0.5	0.5	0.5
Debtor (Days)	92	84	64	64	64
Inventory (Days)	103	107	87	89	86
Working Capital T/O (Days)	196	550	419	421	477
Leverage Ratio					
Debt/Equity (x)	0.5	1.6	1.0	0.9	0.7

CASH FLOW STATEMENT					(Rs Million)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Oper. Profit/(Loss) before Tax	3,965	4,182	4,975	6,183	7,769
Interest/Dividends Recd.	207	562	1,764	1,819	1,929
Direct Taxes Paid	87	-51	-119	-140	-172
(Inc)/Dec in WC	-860	-689	-672	-1,316	-1,148
CF from Operations	**3,398**	**4,004**	**5,947**	**6,545**	**8,378**
(inc)/dec in FA	-3,340	-1,616	-2,000	-450	-500
(Pur)/Sale of Investments	-1,727	-4,720	0	0	0
CF from investments	**-5,067**	**-6,335**	**-2,000**	**-450**	**-500**
Issue of Shares	-362	-46	1	-2,549	1
(Inc)/Dec in Debt	2,867	14,100	-2,318	88	0
Interest Paid	-73	-129	-156	-160	-240
Dividend Paid	-633	-730	-1,167	-1,182	-1,450
CF from Fin. Activity	**1,799**	**13,195**	**-3,640**	**-3,803**	**-1,689**
Inc/Dec of Cash	**130**	**10,863**	**307**	**2,292**	**6,189**
Add: Beginning Balance	816	945	11,809	12,116	14,409
Closing Balance	**945**	**11,809**	**12,116**	**14,409**	**20,597**

N O T E S

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Disclosure of Interest Statement	Sun Pharmaceutical Industries
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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