

C.M.P:
Rs.1697.00

Target Price:
Rs.1867.00

June 16, 2010

1 Year Comparative Graph



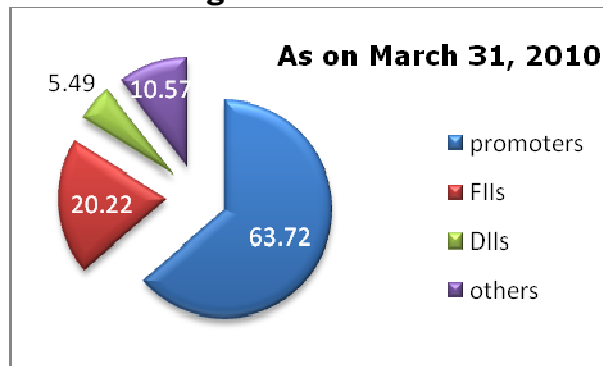
SYNOPSIS

- Sun Pharmaceuticals industries Ltd is one of the top player in global and a leading Pharma company in India.
- In the fourth quarter, ANDAs for 15 products have been filed by Sun Pharma. With this, ANDAs for a total of 30 products have been filed during the year.
- During the Q4FY10, the company has consolidated expensed on R & D is Rs.57 cr.
- Caraco has received an approval for a work plan submitted to the USFDA covering remedial actions that would lead to resuming manufacturing at its Michigan facilities.
- Company's API sales have grown by 13% over last year.
- The company's revenue is expected to grow at a CAGR of 7% over 2009 to 2012E respectively.

Stock Data

Sector	Pharma
Face Value Rs.	5.00
52 wk. High/Low (Rs.)	1846.00/1070.00
Volume (2 wk. Avg.)	15537
BSE Code	524715
Market Cap (Rs.In mn)	351482.6

Share Holding Pattern



V.S.R. Sastry
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Dr. V.V.L.N. Sastry Ph.D.
Chief Research Officer
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Financials
(Rs.in.mn)

	FY10	FY11E	FY12E
Net Sales	41027.7	47181.8	52843.6
EBIDTA	14524.6	17047.7	19601.8
Net Profit	13510.8	15832.2	18172.8
EPS	65.23	76.44	87.74
P/E	26.01	22.20	19.34

Peer Group Comparison

Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Sun Pharmaceuticals Ltd	1697.00	351482.6	65.23	26.02	5.81	275.00
Cipla Ltd	335.00	268697.6	13.48	24.85	4.95	100.00
Aventis Pharma Ltd	1830.00	42146.0	66.43	27.55	4.59	200.00
IPCA Laboratories Ltd	292.00	36566.5	16.70	17.49	5.73	110.00

Investment Highlights

➤ Q4 FY10 Results Update

Sun Pharmaceutical Industries has reported a decline in consolidated net profit for the quarter ended March 31, 2010. During the quarter, the profit of the company decline by 24.66% to Rs.3944.80 million from Rs.5236.20 million in the same quarter last year. Net sales for the quarter are decline by 11.83% to Rs.11091.50 million, while total income for the quarter decline 15.69% to Rs.10980.10 million, when compared with the prior year period. It posted earnings of Rs 19.05 a share during the quarter ended march 31 2010.

Quarterly Results – Consolidated (Rs in mn)			
As At	Mar-10	Mar-09	%change
Net sales	11091.50	12579.20	(11.83)
PAT	3944.80	5236.20	(24.66)
Basic EPS	19.05	25.28	(24.66)

➤ **Recommended dividend**

Sun Pharmaceutical Industries Ltd has recommended payment of dividend of Rs. 13.75 per equity share of Rs 5/- each of the Company for the year ended March 31, 2010 subject approval of the members.

➤ **USFDA nod for generic drug**

Sun Pharmaceutical Industries has received USFDA has granted for its subsidiary an approval for Abbreviated New Drug Application (ANDA) to market a generic version of Forest Laboratories, Inc.'s Namenda 5 mg and 10 mg tablets.

Sun was amongst the first ANDA applicants to submit a substantially complete ANDA with a paragraph IV certification to the '703 patent. Sun's subsidiary is eligible for 180 days generic exclusivity. These generic Memantine tablets are equivalent to Forest Laboratories, Inc.'s Namenda®. These strengths of Memantine have a combined annual sale of approximately USD 1.2 billion in the US.

➤ **Sun Pharma gets USFDA approval for generic tablets**

Sun Pharmaceutical Industries has received USFDA has granted its subsidiary an approval for its Abbreviated New Drug Application (ANDA) to market a generic version of GlaxoSmithKline's Wellbutrin SR Extended Release tablets.

These generic Bupropion Hydrochloride Extended Release tablets are equivalent to GlaxoSmithKline's Wellbutrin SR Extended Release. These strengths of generic Bupropion Hydrochloride Extended Release tablets have a combined annual sale of approximately USD 300 million in the US.

➤ **Sun Pharma arms received USFDA approval**

Sun Pharmaceutical's arm has received the approval from the US Food and Drug Administration (USFDA) for its ANDA for Promethazine Hydrochloride and Codeine Phosphate oral syrup, 6.25 mg/5 ml and 10mg/5ml.

This Promethazine Hydrochloride with Codeine Phosphate oral syrup is bioequivalent to Prometh w/ Codeine of Actavis Mid Atlantic LLC. The product has annual sales of about \$16 million in the US.

Company Profile

Sun Pharmaceutical Industries began with just 5 products to treat psychiatry ailments in 1983. Sales were initially limited to 2 states - West Bengal and Bihar. Sales were rolled out nationally in 1985. Products that are used in cardiology were introduced in 1987, and Montrate, one of the first products launched at that time has since become one of our largest selling products. Important products in Cardiology were then added; several of these were introduced for the first time in India. Sun Pharma was listed on the main stock exchanges in India in 1994.

It is an international speciality pharma company, with a presence in 30 markets. It also make active pharmaceutical ingredients. In branded markets, its products are prescribed in chronic therapy areas like cardiology, psychiatry, neurology, gastroenterology, diabetology and respiratory. Realizing the fact that research is a critical growth driver, they established their research center SPARC in 1993 and this created a base of strong product and process development skills. In India, it has reached leadership in each of the therapy areas that we operate in, and are rated among the leading companies by key customers. Strengthening market share and keeping this customer focus remains a high priority area for the company.

A number of its plants hold approvals from the USFDA and the UK MHRA. APIs and Dosage forms are made in 19 sites across India, US, Hungary and Bangladesh.

Formulation - Sun Pharma is a market leader in speciality therapy areas, with high quality brands trusted for chronic disease. A comprehensive product basket and products with technology-based differentiation are highlights. It make speciality formulations across a range of dosage forms- oral, injectable and delivery system based.

API- Its API (Active Pharmaceutical Ingredients) program began in 1995 with a simple objective - facilitating the manufacture of complex formulations, for which, sourcing the API would restrict entry. It make speciality APIs including peptides, steroids, hormones and anticancers at internationally approved worldclass sites. It has over 1600 registrations across 30 countries, over 1000 registrations filed and pending approval. In these countries, it uses the same approach to speciality brand building and customer focus that have worked for it in India.

The company is engaged in manufacturing of product in the following therapy areas:

- CNS disorders
- Cardiology
- Diabetes and Metabolic disorders
- Gastroenterology
- Ophthalmology
- Oncology
- Pain
- Allergy, Asthma and Inflammation
- Gynecological

Other group companies:

Caraco Pharmaceutical Laboratories- Based in Detroit, Michigan, Caraco develops, manufactures, market and distributes generic and private label pharmaceuticals* and markets them throughout the United States.

Sun Pharmaceutical Industries Inc. (SPI)- Sun Pharmaceutical Industries Inc is a Michigan Corporation and a wholly owned subsidiary of Sun Pharmaceutical Industries Ltd, India. A plant spread over 35,000 sq ft, in Bryan, Ohio, manufactures liquids, creams, and ointments. This plant was purchased from Valeant Pharma.

Sun Pharmaceutical (Bangladesh)- Sun Pharmaceutical (Bangladesh) is a private limited company incorporated in March 2001 under the Companies Act 1994. This company was formed jointly with Sun Pharma, City Overseas Ltd, a company incorporated in Bangladesh and Sun Pharma Global Inc, a company incorporated under the laws of the British Virgin Islands. The company began commercial operations in October 2004. The company owns and operates a pharmaceutical factory and makes pharmaceutical products that are sold in the local market.

Alkaloida Chemical Company Exclusive Group Ltd.- ICN Hungary, purchased from Valeant Pharmaceuticals in 2005, is one of the few units worldwide, authorized to make controlled substances. ICN Hungary has now been renamed Alkaloida Chemical Company.

Financials Results

12 Months Ended Profit & Loss Account (consolidated)

Value(Rs.in.mn)	FY09	FY10	FY11E	FY12E
Description	12m	12m	12m	12m
Net Sales	42723.00	41027.70	47181.86	52843.68
Other Income	868.40	914.50	1005.95	1106.55
Total Income	43591.40	41942.20	48187.81	53950.22
Expenditure	-24084.20	-27399.60	-31140.02	-34348.39
Operating Profit	19507.20	14542.60	17047.78	19601.83
Interest	1217.40	1138.90	1207.23	1267.60
Gross profit	20724.60	15681.50	18255.01	20869.43
Depreciation	-1232.90	-1533.10	-1763.07	-1939.37
Profit Before Tax	19491.70	14148.40	16491.95	18930.06
Tax	-711.60	-678.60	-659.68	-757.20
Profit After Tax	18780.10	13469.80	15832.27	18172.85
Minority Interest	-602.80	41.00	0.00	0.00
Net Profit	18177.30	13510.80	15832.27	18172.85
Equity capital	1035.60	1035.60	1035.60	1035.60
Reserves	69413.60	77253.50	93085.77	111258.63
Face value (Rs.)	5.00	5.00	5.00	5.00
EPS	87.76	65.23	76.44	87.74

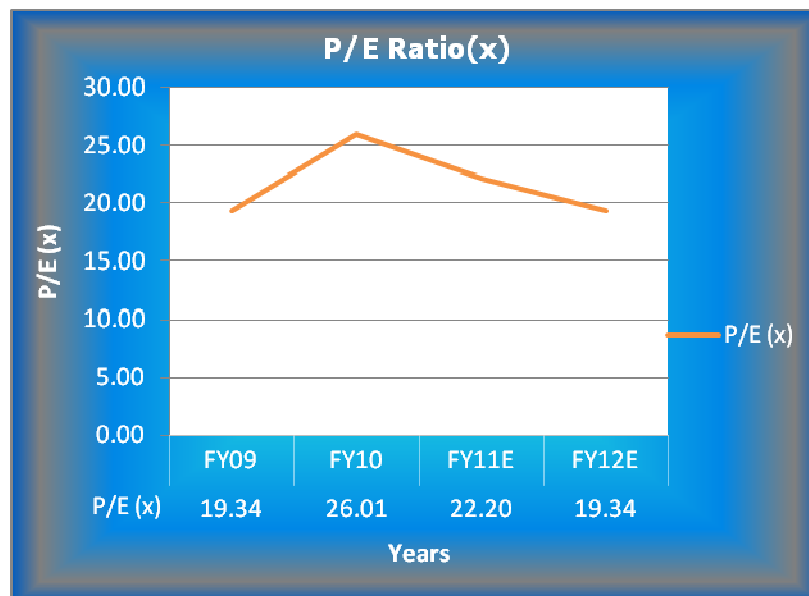
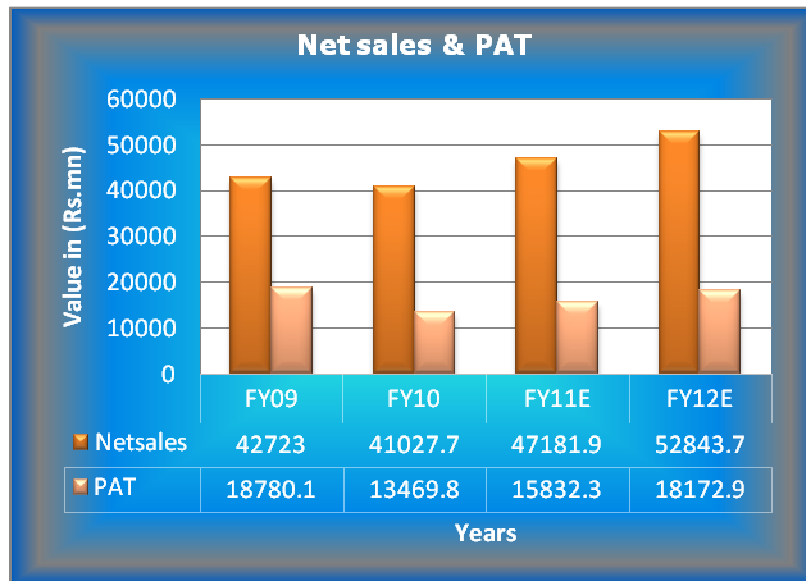
Quarterly Ended Profit & Loss Account (consolidated)

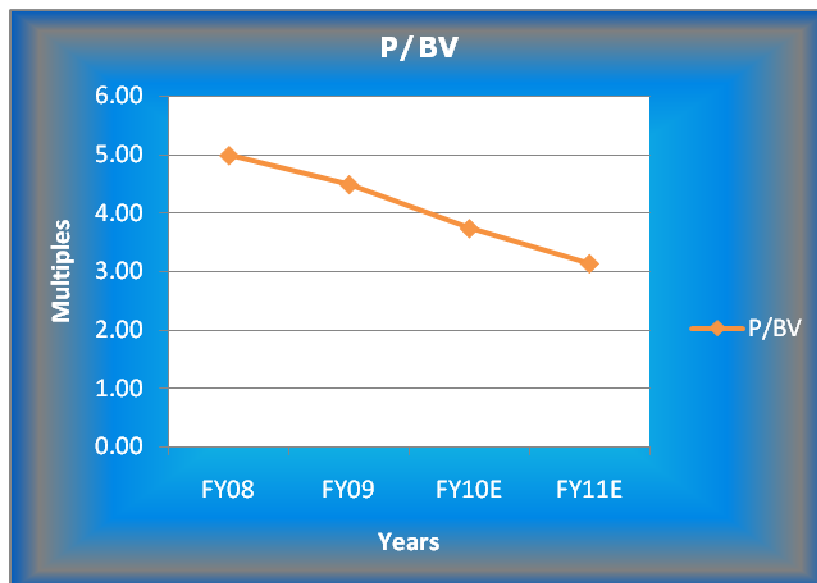
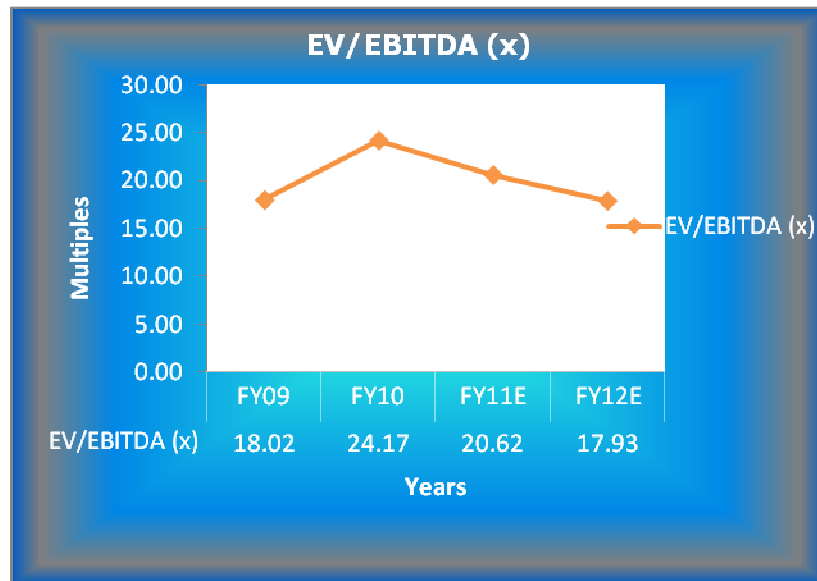
Value(Rs.in.mn)	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10E
Description	3m	3m	3m	3m
Net sales	11851.70	10208.60	11091.50	9760.52
Other income	663.70	91.40	-111.40	100.54
Total Income	12515.40	10300.00	10980.10	9861.06
Expenditure	-7378.70	-6524.50	-6906.40	-6734.76
Operating profit	5136.70	3775.50	4073.70	3126.30
Interest	324.70	233.10	248.70	273.57
Gross profit	5461.40	4008.60	4322.40	3399.87
Depreciation	-379.00	-358.90	-419.40	-440.37
Profit Before Tax	5082.40	3649.70	3903.00	2959.50
Tax	-399.60	-260.50	12.60	-88.79
Profit After Tax	4682.80	3389.20	3915.60	2870.72
Minority Interest	-144.70	0.30	29.20	0.00
Net profit	4538.10	3389.50	3944.80	2870.72
Equity capital	1035.60	1035.60	1035.60	1035.60
Face value (Rs.)	5.00	5.00	5.00	5.00
EPS	21.91	16.36	19.05	13.86

Key Ratios

Particulars	FY09	FY10	FY11E	FY12E
No. of Shares (In Million)	207.12	207.12	207.12	207.12
EBITDA Margin (%)	45.66%	35.45%	36.13%	37.09%
PBT Margin (%)	45.62%	34.48%	34.95%	35.82%
PAT Margin (%)	43.96%	32.83%	33.56%	34.39%
P/E Ratio (x)	19.34	26.01	22.2	19.34
ROE (%)	26.66%	17.21%	16.82%	16.18%
ROCE (%)	29.34%	20.47%	19.93%	19.14%
EV/EBITDA (x)	18.02	24.17	20.62	17.93
Book Value (Rs.)	340.14	377.99	454.43	542.17
P/BV	4.99	4.49	3.73	3.13

Charts:





Outlook and Conclusion

- At the current market price of Rs.1697.00, the stock is trading at 22.20 x FY11E and 19.34 x FY12E respectively.
- Price to Book Value of the stock is expected to be at 3.73 x and 3.13 x respectively for FY11E and FY12E.
- Net Sales of the company is expected to grow at a CAGR of 7% over 2009 to 2012E respectively.
- On the basis of EV/EBITDA, the stock trades at 20.62 x for FY11E and 17.93 x for FY12E.
- For the entire year, consolidated R & D expenses are Rs. 247 crores, equivalent to 6% of sales.
- Drug maker, Sun Pharmaceutical Industries has been granted approval from United States Food and Drug Administration (USFDA) for Namenda tablets.
- We estimates earnings for FY11E is Rs.76.44 and FY12E is Rs.87.74 for each share., so we recommend 'BUY' in this particular scrip with a target price of Rs.1867.00 for Medium to Long term investment.

Industry Overview

Sector structure/Market size

India's pharmaceutical industry is now the third largest in the world in terms of volume and 14th in terms of value. According to data published by the Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, total turnover of India's pharmaceuticals industry between September 2008 and September 2009 was US\$ 21.04 billion. Of this the domestic market was worth US\$ 12.3 billion.

By 2015, India is expected to rank among the top 10 global pharmaceutical markets. The industry is typically growing at around 1.5-1.6 times the country's gross domestic product (GDP) growth.

Moreover, according to an Ernst & Young and industry body study released in September 2009, the increasing populations of the higher-income group in the country

will, by 2015, open a potential US\$ 8 billion market for multinational companies selling costly drugs. Besides, the report said the domestic pharma market is likely to touch US\$ 20 billion by 2015, making India a lucrative destination for clinical trials for global giants.

Exports

Export of pharmaceutical products from India increased from US\$ 6.23 billion in 2006-07 to US\$ 7.74 billion in 2007-08 and to US\$ 7.81 billion in 2008-09—a combined annual growth rate (CAGR) of 21.25 per cent, according to Minister of State for Commerce, Jyotiraditya M Scindia. Pharmaceutical exports from the country have recorded growth rates of 21.61 per cent, 14.37 per cent and 28.54 cent, respectively, in the three consecutive years of 2006-07, 2007-08 and 2008-09.

Pharmaceutical exports during April-December 2009 were worth US\$ 6.3 billion, according to the Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers.

Growth

The domestic pharma market will outshine the global market, growing at a compounded annual rate of 12-15 per cent as against a global average of 4-7 per cent during 2008-2013, according to a study by market research firm IMS, released in October 2009.

According to detailed research by Angel Broking in October 2009, socio-economic factors such as rising income levels, increasing affordability, gradual penetration of health insurance and the rise in chronic diseases would see the Indian formulation market touch US\$ 13.7 billion by 2013, at a CAGR of 12.2 per cent over the period from fiscal year 2008 to 2013.

According to the research, the domestic formulation industry had registered a CAGR of 14 per cent during FY2003-08 from around US\$ 3.9 billion to US\$ 7.7 billion, outpacing the global pharma industry growth rate of 7 per cent.

According to a report published by RNCOS in April 2010, called 'Booming Pharma Sector in India', the industry is projected to continue growing at a CAGR of around 13

per cent during FY 2011-FY 2013. The formulations industry is expected to prosper parallel to the pharmaceutical industry. It is expected that the domestic formulations market in India will grow at an annual rate of around 17 per cent in FY 2010, owing to increasing middle class population and rapid urbanisation.

Pharmaceutical Retail

According to a report titled 'India Retail Research 2009' released in August 2009, pharmacy retail is growing at the rate of 20-25 per cent annually and the organised pharma retail market size has the potential to grow to US\$ 9 billion by the year 2011.

The size of India's pharmacy retail market is estimated at US\$ 4.5 billion, which is dominated by 12-15 big players.

Medicine retail chain Guardian Lifecare plans to double the number of its stores to 400 over the next two years with an investment of US\$ 21.7 million.

Diagnostics Outsourcing/Clinical Trials

According to the latest research published by RNCOS, titled 'Indian Diagnostic Market Analysis' in January 2010, the Indian diagnostic services are projected to grow at a CAGR of more than 20 per cent during 2010-2012.

Furthermore, according to Hari Bhatia, Co-Chairman & Managing Director, Jubilant Organosys, the contract research and manufacturing (CRAM) sector is growing at 15 per cent to 20 per cent.

Generics

Indian generic drug makers received half a dozen more approvals from the US Food and Drug Administration (FDA) in 2009, over the previous year. Dr Reddy's Laboratories received the highest number of tentative and final approvals in 2009 at 32, followed by Aurobindo at 26 and Wockhardt at 23.

According to Union Minister of State for Chemicals and Fertilisers, Mr Srikant Kumar Jena, India tops the world in exporting generic medicines worth of US\$ 11 billion and

currently, the Indian pharmaceutical industry is one of the world's largest and most developed.

Moreover, the Department of Pharmaceuticals is working with the vision to make India one of the top five global pharmaceutical innovation hubs by 2020.

Research & Development

The search for innovative drug molecules and better technologies by pharmaceutical MNCs is expected to offer a windfall for the smaller research-oriented Indian firms.

With their drug pipelines drying up and more blockbuster drugs going off-patent, MNCs are looking at alliances for drug co-development, buying or licensing out innovative molecules which can further be developed into finished drugs.

Government Initiative

100 per cent FDI is allowed under the automatic route in the drugs and pharmaceuticals sector including those involving use of recombinant technology.

According to Mr Ashok Kumar, Pharmaceuticals Secretary, the government is planning to set up a US\$ 430.5 million corpus fund for the pharma industry soon. The fund would be set up with the help of the government and the industry and will be used for helping the pharma industry in R&D.

According to the Union Minister of State for Chemicals and Fertilisers, Mr Srikant Kumar Jena, the Department of Pharmaceuticals has prepared a “Pharma Vision 2020” for making India one of the leading destinations for end-to-end drug discovery and innovation and for that purpose provides requisite support by way of world class infrastructure, internationally competitive scientific manpower for pharma R&D, venture fund for research in the public and private domain and such other measures.

Investment

- The drugs and pharmaceuticals sector has attracted foreign direct investment (FDI) worth US\$ 1.67 billion between April 2000 and February 2010.

- The total plan outlay for the Department of Pharmaceuticals for 2009-10 is US\$ 36.5 million.

Road Ahead

According to a new report published by PricewaterhouseCoopers (PwC) in April 2010, India will join the league of top 10 global pharmaceuticals markets in terms of sales by 2020 with the total value reaching USD 50 billion by then.

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