

Sun Pharmaceuticals

Bloomberg: SUNP IN EQUITY

Recommendation: BUY

Reuters: SUN.BO

No Change



EVENT UPDATE

US Court's Favourable Ruling Sets Precedent

US district court rules in favor of Sun Pharmaceuticals, dismisses all of Taro's claims: The court rejected Taro's claims that were based on allegations that Sun and Alkaloida had failed to make adequate disclosures concerning the open offer. The court has allowed two weeks for Taro to file an amended complaint to fix defects in its original complaint but this will not entitle Taro to obtain an injunction against the open offer. A similar case is still pending in the Israeli Supreme Court and a final verdict is awaited.

Ruling sets a precedent for the Israeli court: The legal recourse adopted by Taro's directors thus far appears to represent Taro's futile attempts to divert the limited resources to assist the Levitts in their ongoing refusal to comply with the written agreements with Sun Pharma. The US court ruling sets a precedent for the Israeli court and should put pressure on the latter. This verdict, anticipated for the last six months, is delayed and yet to be ruled in the Supreme Court. The US court's favourable ruling for Sun reiterates our belief that Israel's SC should also rule likewise.

Guggenheim's offer to Sun Pharma – last ditch effort by Taro's directors: The Guggenheim partners, on behalf of Taro, offered to buy out Sun Pharma's 36.4% stake at US\$15/share, much higher than Sun's acquisition cost of US\$7.75/share. We believe that Taro's directors are getting indicators about the case settling in favour of Sun Pharma in the Israeli court soon and have made a last ditch effort to buy back stake from Sun Pharma. The US being a focus market for Sun, the possibility of Sun tendering its stake to Taro is minimal.

Taro acquisition — strategic buy and long-term growth driver: Taro owns over 100 ANDAs and has 34 active USDMFs in the US with a presence across US, Canada, Europe, Israel and other global markets. Taro's portfolio comprises mainly niche dermatology products that contribute more than 70% to its turnover. Taro's manufacturing facilities in the US, Canada, Israel and Ireland are mainly oriented to make topical products including topical ointments and steroids, and could complement Sun's range. Taro registered turnover of US\$360mn in CY2009 with net profit of US\$44.1mn.

Valuations: We believe concerns are receding over: 1) resolution of Caraco's FDA issues; and 2) completion of the Taro acquisition, which have weighed heavily on Sun Pharma's stock price over the past one year. We value Sun's core business at Rs2,046 at 22x FY12 EPS estimates of Rs93 and upsides from the Taro acquisition at Rs21 (0.5x Rs42/share). We believe that there is greater certainty of growth for Sun Pharma and maintain our BUY recommendation with a target price (TP) of Rs2,067, a 19 % upside from current levels.

Exhibit 1: Key financials

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Income from operations	33,565	42,723	41,028	48,387	57,524
EBITDA	15,511	18,640	13,628	16,645	20,076
EBITDA Margins (%)	46.2	43.6	33.2	34.4	34.9
PAT	14,352	18,177	13,511	15,943	19,212
EPS (Rs)	69.3	87.8	65.2	77.0	92.8
ROE (%)	28.8	25.8	16.8	17.2	17.8
ROCE (%)	29.4	25.9	16.5	17.7	18.4
PE (x)	25.2	19.9	26.8	22.7	18.8

Source: Company, Ambit Capital research

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Recommendation

CMP:	Rs1,740
Target Price (Period):	Rs2,067
Previous TP:	Rs2,067
Upside(%)	19
EPS (FY11E):	Rs77
Change from previous (%)	-

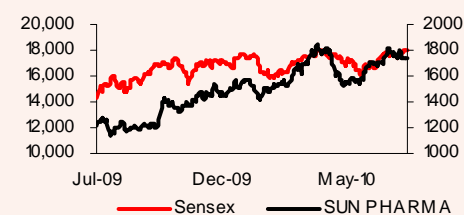
Stock Information

Mkt cap:	Rs358,399mn/US\$7,675mn
52-wk H/L:	1,853/1,117
3M Avg. daily vol. (mn):	0
Beta (x):	0.5
BSE Sensex:	17909
Nifty:	5379

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	2.3	-3.3	43.4	15.3
Rel. to Sensex	-0.6	-4.8	14.1	12.5

Performance (%)



Source: Bloomberg, Ambit Capital research

Exhibit 2: Income statement

Y/E March (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
Income from operations	33,565	42,723	41,028	48,387	57,524
Gross sales	34,606	43,751	41,599	49,315	58,610
Less: Excise	1,040	1,028	571	928	1,086
Net sales	33,565	42,723	41,028	48,387	57,524
Total operating expenses	18,054	24,084	27,400	31,742	37,448
Materials cost	7,222	8,556	10,979	13,064	15,531
Employee cost	2,331	3,401	3,795	4,355	5,062
Mfg Expenses	656	890	923	968	1,150
R&D Expenses	2,725	3,099	2,631	3,726	4,314
Other expenses	5,120	8,138	9,072	9,629	11,390
EBITDA	15,511	18,640	13,628	16,645	20,076
Depreciation and amortisation	969	1,233	1,533	1,661	1,788
Interest	88	58	70	70	70
Other income	1,451	2,143	2,123	2,430	2,660
Profit before tax	15,906	19,492	14,149	17,344	20,877
Provision for tax	914	712	679	1,301	1,566
PAT	14,352	18,177	13,511	15,943	19,212

Source: Company, Ambit Capital research

Exhibit 3: Cashflow statement

Y/E March (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
Cash flow from operations	14,040	17,846	13,864	16,444	19,710
Increase in Cash for working capital	(8,183)	4,148	(1,398)	(2,791)	(1,847)
Net Operating Cash Flow	5,857	21,994	12,465	13,653	17,863
Net purchase of fixed assets	(1,995)	(5,900)	(2,500)	(2,000)	(2,000)
Net purchase of investments	(4,078)	(8,604)	1,139	1,260	1,390
Net cash flow from investing	(6,073)	(14,503)	(1,361)	(740)	(610)
Proceeds from equity capital	-	(796)	-	-	-
Proceeds from LTB/STB	690	571	305	(270)	(270)
Others	(2,547)	(3,332)	(3,332)	(3,877)	(4,362)
Net cash flow from financing	(1,857)	(3,557)	(3,027)	(4,147)	(4,632)
Free cash flow	(2,072)	3,934	8,077	8,766	12,621
Market cap	362,039	362,039	362,039	362,039	362,039
Debt	1,436	1,789	2,164	1,964	1,764
Cash & cash equivalents	12,389	26,768	34,845	43,611	56,232
Enterprise value	351,087	337,061	329,358	320,392	307,571

Source: Company, Ambit Capital research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
Shareholders funds	49,915	70,449	80,586	92,753	107,703
Capital	1,036	1,036	1,036	1,036	1,036
Reserves & surplus	48,879	69,414	79,551	91,717	106,667
Borrowings	1,436	1,789	2,164	1,964	1,764
Secured loans	368	364	364	364	364
Unsecured loans	1,068	1,425	1,800	1,600	1,400
Deferred tax liability (net)	1,178	1,228	1,497	1,674	1,857
Sources of funds	54,415	75,436	86,047	98,340	113,958
Gross block	15,960	21,476	23,976	25,976	27,976
Depreciation	5,607	6,851	8,383	10,044	11,832
Net block	10,354	14,625	15,593	15,932	16,144
Capital work in progress	686	1,571	1,571	1,571	1,571
Goodwill on consolidation	1,729	3,253	3,253	3,253	3,253
Investments	7,560	8,518	8,518	8,518	8,518
Deferred tax assets	1,087	1,907	1,907	1,907	1,907
Inventories	7,728	9,757	10,997	13,700	15,661
Sundry debtors	14,177	8,811	11,422	12,440	15,928
Cash and Cash Equivalents	12,389	26,768	34,845	43,611	56,232
Loans and advances	4,759	6,983	7,079	7,984	8,893
Other current assets	320	441	829	497	300
Total current assets	39,372	52,760	65,173	78,232	97,014
Current liabilities	3,722	3,767	5,858	5,596	8,021
Provisions	2,651	3,431	4,109	5,478	6,428
Total current liabilities and provisions	6,373	7,198	9,967	11,074	14,448
Net current assets	32,999	45,562	55,205	67,158	82,566
Uses Of funds	54,414	75,436	86,047	98,340	113,958
Book value per share (INR)	241	340	389	448	520

Exhibit 5: Ratio analysis

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
ROE (%)	28.8	25.8	16.8	17.2	17.8
ROCE (%)	29.4	25.9	16.5	17.7	18.4
Inventory days	363	373	345	345	345
Debtors days	114	98	90	90	90
Fixed assets T/o ratio	2.1	2.0	1.7	1.9	2.1
Debt/equity	0.03	0.03	0.03	0.02	0.02
Net Debt/Equity	(0.22)	(0.35)	(0.41)	(0.45)	(0.51)

Exhibit 6: Valuation parameters

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
EPS, post exceptional (INR.)	69.3	87.8	65.2	77.0	92.8
yoy growth (%)		26.7	(25.7)	18.0	20.5
Cash EPS (INR)	74.0	93.7	72.6	85.0	101.4
PE (x)	25.2	19.9	26.8	22.7	18.8
Price/BV(x)	7.3	5.1	4.5	3.9	3.4
EV/Sales (x)	10.5	7.9	8.0	6.6	5.3
EV/EBITDA (x)	22.6	18.1	24.2	19.2	15.3

Source for all the above tables: Company, Ambit Capital research

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	<5%

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