Company report

Healthcare
Pharmaceuticals
Equity – India

Global Research

Sun Pharma (SUNP)

Reiterate OW: Para IV strategy working

- **Success of Para IV strategy highlighted by at-risk launches of Protonix and Ethyol and legal developments on Lexapro**
- **Could capture USD150mn upside from a Teva-led exclusive launch on Lexapro in 2012, adding c3-4% to valuation**
- **We believe positive news flow on Lexapro could be an additional sentiment driver. Reiterate OW and INR1446 target**

Possibility of shared exclusivity on Lexapro. We do not see Sun Pharma overturning the composition-of-matter patent '712 on Lexapro expiring in March 2012. However, while the probability of Sun capturing significant upside from the Lexapro opportunity may be small, there is a realistic possibility that Sun could effectively destroy the first-to-file opportunity for Teva. Shared co-exclusivity of a Teva-led launch could mean upside of at least cUSD150mn in the exclusivity period for Sun Pharma, assuming 40% discount to brand (USD2.5bn) and 50% generic penetration. If our scenario for Lexapro materializes, we see upside of c3-4% to our existing target price.

Protonix and Ethyol highlight Para IV capabilities. Recent at-risk launches on Protonix and Ethyol highlight Sun's growing sophistication and maturing Para IV capabilities.

We value the stock at INR1446 with core business valued at INR1390/share and Effexor XR valued at INR56/share. We reiterate our Overweight rating. Key risk is any change in Sun Pharma's current near-zero tax liability, which could dent future earnings growth.

Key investment triggers. Stable earnings growth, potential earnings upgrades and the Effexor XR launch in Dec 08. This is a strong defensive stock.

Overweight

Target price (INR)	**1446.00**
Share price (INR)	**1276.60**
Potential total return (%)	**16**

Mar	**2007a**	**2008e**	**2009e**
HSBC EPS	40.62	47.97	57.92
HSBC PE	31.4	26.6	22.0
Performance	**1M**	**3M**	**12M**
Absolute (%)	-3.2	13.8	22.5
Relative^ (%)	-1.8	50.3	0.0

Note: (V) = volatile (please see disclosure appendix)

9 April 2008

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Key financials (INRm)

Year to	**03/2007a**	**03/2008e**	**03/2009e**	**03/2010e**
Revenue	20,792	26,219	31,592	37,675
EBITDA	6,722	8,477	10,881	13,885
EPS	40.62	47.97	57.92	64.03
PE*	30.9	26.1	21.6	19.6
EV/EBITDA	37.2	29	22.1	17.2

Source: HSBC

Index^	BOMBAY SE SENSITIVE INDEX
Index level	15757.08
RIC	SUN.BO
Bloomberg	SUNP IN

Source: HSBC

Enterprise value (INRm)	253972
Free float (%)	28.1
Market cap (USDm)	6,579
Market cap (INRm)	262,949

Source: HSBC

HSBC

Financials & valuation

Financial statements

Year to	03/2007a	03/2008e	03/2009e	03/2010e
Profit & loss summary (INRm)				
Revenue	20,792	26,219	31,592	37,675
EBITDA	6,722	8,477	10,881	13,885
Depreciation & amortisation	-813	-927	-1,038	-1,163
Operating profit/EBIT	5,909	7,550	9,843	12,722
Net interest	1,072	1,122	1,069	950
PBT	8,333	10,190	12,407	13,672
HSBC PBT	0	0	0	0
Taxation	67	-270	-430	-430
Net profit	8,400	9,920	11,977	13,242
HSBC net profit	8,400	9,920	11,977	13,242
Cash flow summary (INRm)				
Cash flow from operations	3,868	8,557	9,821	9,005
Capex	-1,958	-2,242	-550	-2,150
Cash flow from investment	-960	-5,837	-1,742	-1,883
Dividends	-2,477	-2,974	-4,220	-4,715
Change in net debt	-5,151	-1,527	-5,180	-2,661
FCF equity	1,740	4,815	7,847	6,936
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	10,122	11,437	10,949	11,936
Current assets	32,432	35,839	41,879	46,890
Cash & others	16,345	17,476	20,217	19,594
Total assets	42,554	49,526	55,128	61,176
Operating liabilities	2,988	3,391	3,571	3,890
Gross debt	11,144	10,749	8,310	5,027
Net debt	-5,201	-6,727	-11,907	-14,568
Shareholders funds	27,468	34,335	42,106	51,036
Invested capital	23,221	26,409	29,040	35,342

Ratio, growth and per share analysis

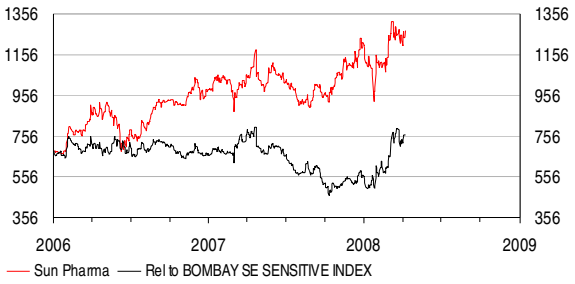
Year to	03/2007a	03/2008e	03/2009e	03/2010e
Y-o-y % change				
Revenue	30.5	26.1	20.5	19.3
EBITDA	35.1	26.1	28.4	27.6
Operating profit	35.5	27.8	30.4	29.3
PBT	39.6	22.3	21.8	10.2
HSBC EPS	46.6	18.1	20.7	10.6
Ratios (%)				
Revenue/IC (x)	1.0	1.1	1.1	1.2
ROIC	29.0	29.6	34.3	38.3
ROE	38.9	32.1	31.3	28.4
ROA	20.6	21.5	22.9	22.8
EBITDA margin	32.3	32.3	34.4	36.9
Operating profit margin	28.4	28.8	31.2	33.8
EBITDA/net interest (x)				
Net debt/equity	-18.9	-19.6	-28.3	-28.5
Net debt/EBITDA (x)	-0.8	-0.8	-1.1	-1.0
CF from operations/net debt				
Per share data (INR)				
EPS reported (fully diluted)	40.62	47.97	57.92	64.03
HSBC EPS (fully diluted)	40.62	47.97	57.92	64.03
DPS	11.56	13.85	19.73	21.94
NAV	132.83	166.03	203.61	246.79

Valuation data

Year to	03/2007a	03/2008e	03/2009e	03/2010e
EV/sales	12.4	9.7	7.9	6.5
EV/EBITDA	38.3	30.0	22.9	17.7
EV/IC	11.1	9.6	8.6	7.0
PE*	31.4	26.6	22.0	19.9
P/NAV	9.6	7.7	6.3	5.2
FCF yield (%)	0.7	1.8	3.0	2.7
Dividend yield (%)	0.9	1.1	1.5	1.7

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 07 Apr 2008

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Para IVs come to the fore

- Recent developments on Lexapro and Ethyol Para IVs highlight maturation and sophistication of Sun Pharma's Para IV strategy
- We see Ethyol as an interesting but small sized opportunity. We do not factor in Sun overturning the composition patent in Lexapro
- We see a scenario for Sun Pharma to capture upside from a Teva-led exclusive launch on Lexapro in 2012

Summary

In this note we highlight the interesting legal developments in the Lexapro litigation which we believe bring to the forefront Sun Pharma's growing sophistication in Para IVs. This point is further corroborated by the at-risk launches on Ethyol and Protonix (please see our note dated 19 March 2008 titled *Reiterate OW: Discounting risk of adverse Protonix ruling*) which in our view carry upside with only limited potential for damages. Overall these developments enhance our confidence in Sun's Para IV strategy.

On Lexapro, our scenario analysis suggests the most likely scenario is that Sun overturns the 941 patent but loses on 712, which could lead to a competitive launch in 2012 and minimal upside for Sun. We also highlight other possibilities:

- Caraco (Sun's US subsidiary) overturns both patent 712 and 941 which we believe is unlikely given the fact that Teva has already failed to overturn 712 in the courts
- Fails to overturn both 712 and 941 which we believe is also highly unlikely
- Overturns 941 but loses on 712 which we believe is a likely scenario – Caraco also ends up hurting Teva's exclusivity and hence this opens possibilities of a shared exclusivity
- Overturns 712 but fails to overturn 941 which also seems unlikely as highlighted in the point above

We believe the third possibility is most likely. And since this scenario encompasses the realistic possibility that they (Sun) could effectively destroy the first to file (FTF) opportunity for Teva by starting the clock on Teva's 180-day exclusivity while continuing to block Teva's launch through the RE34712 patent, we believe that the rational path forward for both companies would be to do a deal on Lexapro leading to an exclusive launch in 2012 with shared economics. We believe that Sun could capture upside of at least USD150m during the exclusive launch period assuming a 40% discount to the brand (USD2.5bn) and 50% market share for generics (including the authorised generic).

Lexapro patent estate has been defended against Teva

There are two patents listed in the FDA's Orange Book for Lexapro. We believe that the RE34712 is the key composition-of-matter patent as it covers escitalopram oxalate (Lexapro).

The 6916941 patent covers crystalline particles of escitalopram oxalate, the method of manufacture and pharmaceutical compositions covering the crystalline particles, and in our view would be easier to overturn than the RE34712 patent.

As mentioned previously, Lexapro is protected by a reissued composition-of-matter patent, RE34712, which expires in March 2012 (with paediatric extension). The RE34712 patent was filed in September 1993 to correct technical errors in the previous Lexapro patent (4,543,590), which was issued in July 1990. Patent RE34712 was issued by the US Patent and Trademark Office (PTO) in August 1994, and Forest has received a term extension on the patent to 2011. The '590 patent specifically claims only the (+) enantiomer of citalopram, while the RE34712 patent claims the two enantiomers of racemate Celexa, the method to resolve the enantiomers and the discovery of the active (+) enantiomer that is Lexapro.

Lexapro patent and exclusivity situation

Patent / Exclusivity	Expiration	Comment
RE34712	14-Mar-12	Composition-of-matter patent; includes paediatric exclusivity
6916941	12-Feb-23	Covers crystalline particles of escitalopram oxalate with a particle size of at least 40 .mu.m; includes paediatric exclusivity
Exclusivity	Feb-06	New chemical entity plus paediatric exclusivity
Exclusivity	Dec-06	Treatment of GAD
Exclusivity	Aug-05	Prevention of relapse following long-term treatment of MDD

Source: HSBC

Teva filed an ANDA with a paragraph IV certification, challenging the RE34712 patent, in August 2003. Subsequently, Forest and Lundbeck sued Ivax in October 2003 for alleged patent infringement, triggering an automatic 30-month stay.

Teva's challenge to the RE34712 patent revolved around obviousness, anticipation, and double patenting. Teva also claims that by correcting the claims of the '590 patent, Lundbeck managed to broaden the scope of the patent claims and this was done more than three years after the issuance of the '590 patent.

Prior to the Court decision upholding the RE34712 patent we maintained (*Forest: New drugs represent reinvestment opportunity; initiating at Overweight*, 11 July 2006) that the claims in the RE34712 patent are valid, as the enantiomer formulations were not obvious. Thus, the patent claim that "almost the entire 5-HT uptake inhibition resided in the (+) citalopram enantiomer" was novel and no prior art existed at the time of the discovery. The ruling by the Judge upholding the patent essentially mirrored our reasoning.

The concern at the time was that while patent law allows patent reissuance to correct claims (even if this broadens the scope of the patent), the corrections have to be filed within two years of the issuance of the base patent. This could have led to invalidation of the RE34712 patent. As the original '590 patent was surrendered on the issuance of RE34712, the claims of that patent are no longer valid.

Teva potentially holds FTF

Ivax (first to file and now a subsidiary of Teva) filed an ANDA with a paragraph IV certification challenging the Orange Book listed patents RE34712 and 6916941 in August 2003. Forest sued Ivax for patent infringement in October 2003 on the RE34712 patent but chose not to sue on the 6916941 patent.

Forest succeeded in defending Lexapro's patent exclusivity in the US against a patent challenge by Ivax and Cipla. The case was heard in the District Court of Delaware, and the trial phase concluded in May 2006. The Court delivered its decision in July 2006 upholding the validity and enforceability of the patent. Teva appealed the decision to the U.S. Court of Appeals for the Federal Circuit and the Court of Appeals affirmed the decision of the District Court in September 2007. Since the Court essentially upheld the RE34712 patent but the 6916941 patent was not litigated we believe that currently Teva hold the FTF 180-day exclusivity on Lexapro and could launch with exclusivity (shared with the authorized generic) when the RE34712 expires in March 2012.

Previously Forest settled litigation with Alphapharma in October 2005 under which Alphapharma will be the authorized generic producer pending generic launch by any third party. Teva filed an objection to the settlement in November 2005 but we believe currently there are no outstanding issues relating to the settlement over Lexapro.

In May 2006 Caraco filed an ANDA with paragraph IV certification challenging the Orange Book listed patents RE34712 and 6916941.

Lexapro Events Chronology

Date	Comment
August-03	Ivax (first to file and now a subsidiary of Teva) filed an ANDA with a paragraph IV certification challenging the Orange Book listed patents RE34712 and 6916941
October-03	Forest sued Ivax for patent infringement on the RE34712 patent but chose not to sue on the 6916941 patent
May-06	Forest succeeded in defending Lexapro's patent exclusivity in the US against a patent challenge by Ivax and Cipla, trial phase concluded
May-06	Caraco filed an ANDA with paragraph IV certification challenging the Orange Book listed patents RE34712 and 6916941
July-06	The Court delivered its decision upholding the validity and enforceability of the patent
September-07	Teva appealed the decision to the U.S. Court of Appeals for the Federal Circuit and the Court of Appeals affirmed the decision of the District Court

Source: US FDA

Caraco tries to maximize return on ANDA investment

As mentioned above in May 2006 Caraco filed an ANDA with paragraph IV certification challenging the Orange Book listed patents RE34712 and 6916941. In July 2006, Caraco was sued by Forest on the RE34712 patent alleging patent infringement – Caraco alleges that this was 47 days after the filing of their ANDA (i.e. 2 days after the statutory deadline). The case is pending in the US District Court for the Eastern District of Michigan. Caraco's challenge to the '712 patent revolved around obviousness, anticipation, and broadening reissue. However, we believe that the RE34712 patent has been thoroughly litigated and is unlikely to be overturned.

Since Forest did not sue Caraco on the 6916941 patent, to try and clear a path to the market Caraco then filed a complaint seeking a declaratory judgment (DJ) that its generic version of Lexapro does not infringe the 6916941 patent. In response Forest unilaterally granted Caraco an irrevocable covenant not to sue for infringement of the 6916941 patent. Due to the covenant not to sue, the district court dismissed Caraco's complaint for lack of jurisdiction. Caraco appealed the decision

to the Court of Appeals which overturned the district court decision sending the case back to the district court saying that Caraco is entitled to a DJ on the 6916941 patent.

Given the importance of the case and in view of the split decision (the Court of Appeals decision was 2-1 in favour of Caraco) we believe that it is likely that Forest would appeal to have the case heard by the Court of Appeals en banc.

Finally, even though we do not assign a high probability to this opportunity, in our view it does demonstrate the sophistication and maturation of Caraco's legal strategy in the attempt to maximize their return on the ANDA filing for Lexapro.

Scenario analysis

As discussed above, Caraco are challenging the RE34712 and 6916941 patents and given that this is a pre-MMA (Medicare Modernization Act) ANDA filing this leads to four possible scenarios with different probability-payoff profiles. These scenarios, which are discussed below, are based on our view that the RE34712 will be difficult to overturn while it is reasonable to assume that Sun will be successful in overturning the 6916941 if they can get it to trial.

Win on both patents: catch-22 with limited upside

As we have stated above, we believe that this scenario is unlikely since in our view Caraco will not be able to overturn the RE34712 patent. However, in the event that Caraco does win on both the patents, ironically it creates a situation with limited upside for Caraco.

Currently Teva's market launch on Lexapro is blocked by the RE34712 patent while their 180-day exclusivity is linked to the 6916941 patent. Therefore, if Caraco were to prevail on both the patents it would essentially accelerate a Teva launch with 180-day exclusivity on Lexapro by removing the impediment of the RE34712 patent.

In our view, Caraco (and other generics with approved ANDAs) could then enter the market after the expiration of Teva's 180-day exclusivity. Given that only a limited number of ANDAs have been filed and it takes 18-24 months for approval, we believe that if Caraco can overturn both the patents in the next couple of years then they could have a semi-exclusive launch on Lexapro.

Under these circumstances we value this opportunity at approximately USD15m pre-tax for every six months (USD2500m annual Lexapro sales, five competitors, 85% price discount to brand, 15% market share and 50% gross margin).

Win on 6916941 and lose on RE34712 patent: hurt Teva but still little upside

In our view, this is the most likely of the four scenarios. We believe that while the economics for Caraco would be limited the key issue here for Teva is timing in terms of being able to get FTF exclusivity. Recall here that currently Teva's market launch on Lexapro is blocked by the RE34712 patent while their 180-day exclusivity is linked to the 6916941 patent. Therefore, if Caraco win on the 6916941 patent but lose on the RE34712 patent it will start the clock on Teva's 180-day exclusivity while continuing to block Teva's launch through the RE34712 patent. Therefore, the key is whether the decision comes soon enough (Q1 2011) for Teva's 180-day exclusivity to have expired prior to expiration of the RE34712 patent. We believe that this is possible given that Caraco are seeking a declaratory judgement on the 6916941 patent. Further we also believe that this opens up possibilities of a settlement between Sun Pharma and Teva with Sun sharing upsides of a Teva led exclusivity launch in 2012. We believe that the upside for Sun Pharma from co-exclusivity in a

Teva-led launch would be at least USD150mn, assuming a 40% discount to brand (USD2.5bn), and 50% share for generics including authorised generics.

DMF Filers for Lexapro

Date of Filing	Name of Company
12-Jun-2003	Cipla
29-Dec-2004	Hetero Labs
25-Feb-2005	Aurobindo
30-Mar-2005	Matrix Lab
9-May-2005	Dr. Reddy's Lab
24-Dec-2005	Aurobindo
31-Dec-2005	Lupin
16-Mar-2006	Sun
12-May-2006	Jubilant
7-Aug-2006	Neuland
20-Jun-2006	Watson
17-Oct-2006	Zhejing

Source: HSBC, US FDA

Win on RE34712 and lose on 6916941 patent: no upside

As we have stated above we believe that this scenario is unlikely since in our view the RE34712 patent is the more difficult to overturn. However, in the event that Caraco do lose on the 6916941 patent, we believe that Teva would retain FTF exclusivity and launch after expiry of the RE34712 patent in March 2012 and Caraco would then have a non-exclusive launch after expiration of the 6916941 patent in 2023.

Lose on both patents: no upside

As we have stated above we believe that this scenario is unlikely since in our view Caraco should be able to overturn the 6916941 patent if they can get it to trial. However, in the event that Caraco do lose on both the patents, we believe that Teva would retain FTF exclusivity and launch after expiry of the RE34712 patent in March 2012 and Caraco would then have a non-exclusive launch after the expiration of the 6916941 patent in 2023.

At risk launch of Ethyol

Sun Pharma filed an ANDA on Ethyol (generic Amifostine) in 2004 and launched the product at risk on 31st March 2008 (US FDA approval on 15th March 2008). While the product is small sized (US sales cUSD80mn), given the fact that Sun Pharma is the only Para IV challenger and no imminent generic launch is in sight, Sun Pharma would enjoy an extended exclusivity on the product until a final court verdict is announced.

Background Ethyol has three existing patents (see table below) of which Caraco has received a favourable summary judgement on 471 in January 2007. However, the judge refrained from any judgement on 731 patent with the 409 patent not being litigated by both parties. While the patent holder J&J could eventually prevail on the 731 patent, given the small size of the product and the earlier favourable summary judgement, damages if any to Sun Pharma would we believe be capped at c1.5x profits during the exclusivity period. We are currently not factoring in any upside to our target price on account of the at-risk launch of Ethyol.

Chronology of events on Ethyol

Date	Comment
April-04	Sun submitted an ANDA to the U.S. FDA for a generic version of Ethyol (amifostine) and notified the company of such submission in June 2004
August-04	Medimmune filed an action against Sun for patent infringement, arising out of the filing by Sun of the ANDA with the FDA seeking approval to manufacture and sell the generic version of Ethyol prior to the expiration of various U.S. patents - No.'471, which is composition and method of preparation, and No: '731 which is composition
November-05	The court issued a scheduling order regarding procedures through a claim construction hearing to be held in March 2007
January-07	Sun's motion for summary judgement of non-infringement is granted in part, Medimmune's claim of infringement of U.S patent No: '471 is dismissed and patent No: '731 remains pending
March 15, 2008	USFDA granted approval for the ANDA to market generic Ethyol, amifostine injection 500mg
March 31, 2008	Sun launched at risk - the case is under litigation

Source: US FDA

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Valuation and rating

- We value Sun Pharma's core business at INR1390/share and value Para IVs separately
- We exclude our Protonix NPV (INR50/share) from valuation as we believe that Wyeth will eventually prevail at patent trial
- Overall we value Sun Pharma's core business at INR1390/share and Effexor opportunity at INR56/share

Valuation and rating

Investment thesis

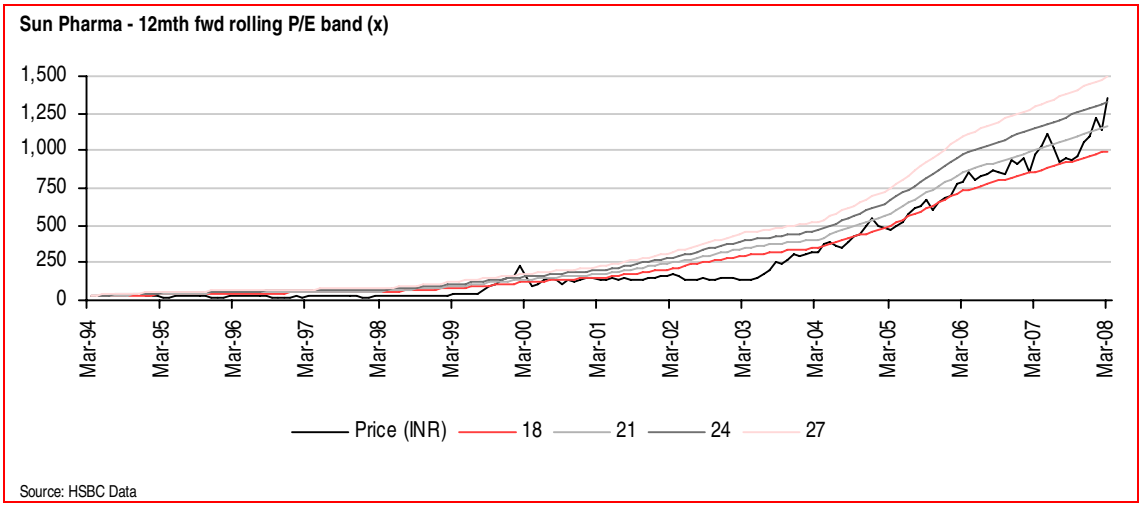
Sun Pharma commands a premium to the valuation multiple in the Indian healthcare space. Our valuation for Sun Pharma's base business of INR1390 implies 24x one-year forward earnings, which is at a premium to both our coverage in the Indian healthcare space as well as Sun Pharma's historic one-year forward PE trading band. We believe that these premiums are justified given:

- Sun Pharma's strong base business is in chronic segments where margins are relatively higher as are the entry barriers like access to prescribing specialists.
- Further, unlike other Indian pharma companies which have a diversified presence across both acute and chronic therapies, we believe that Sun Pharma is unlikely to have a significant business in acute therapies which have higher competition and relatively lower margins and return ratios.
- Sun Pharma has a fast expanding international business with amongst the largest ANDA pipeline and a growing basket of Para IVs. Further, Sun has several interesting Para IV launches which enjoy longer exclusivity periods like Effexor XR (expected launch end CY 08).
- Strong earnings visibility with expected earnings growth at a CAGR of c16% over FY08-10. While the growth appears moderate, our estimates 1) do not include earnings from Para IV launches, 2) are conservative and lower than consensus estimates, 3) have room for earnings upside as we get better visibility on Sun Pharma's earnings.
- A strong defensive stock given current market turmoil.

Sun Pharma Para IV valuations

Brand/Generic name	Brand Sales (USDm)	Launch Year	NPV	Value/per share	Assumptions During Exclusivity
Protonix	1,911	2008	258	50	Penetration 40%, Discount 30%, Share 50%
Effexor XR	644	2008	292	56	Penetration 10%, Discount 20%, Share 100%

Source: HSBC Data



Valuing the core business

Applying our one-year forward PE multiple to our estimated EPS for March 09 of INR58, we derive a core business value of INR1390/share. This is at a small premium to Sun Pharma's historic one-year forward trading band. We believe that this premium is justified given Sun Pharma's large ANDA pipeline and also the fact that Sun Pharma has been re rated in the past 4-5 years in line with improving visibility for its international business (specifically its US formulations business).

We can alternatively value Sun Pharma's core business using one-year forward EV/EBITDA multiple. In the last 5 years, Sun Pharma's EV/EBITDA multiple has expanded from less than 9x to between 9-11x in last 3 years to c13x currently. We use a 10% premium to current EV/EBITDA multiple to value Sun Pharma, which gives us a core business value of INR1388/share, similar to our core business valuation based on one-year forward PE.

Para IV valuation

We value the Effexor XR opportunity for Sun Pharma at INR56/share assuming 10% penetration and product discounting of 20%. Our Effexor XR valuation assumes that Sun Pharma will maintain its market share below 20% in order to prevent a launch of regular dosage of Effexor by Teva.

On Protonix we value the opportunity for Sun at INR50/share assuming penetration of 95%, price discounting of 50% and a market share of 33%. We have also assumed a rapid genericisation of the market post Jan 2009 when we expect more generic players to enter the market beginning with Schwarz Pharma which completes its mandatory 30-month stay. However, we do not include the Protonix value in our Sun target price as we believe that Wyeth will eventually prevail and the patent is unlikely to be overturned by Teva and Sun combined. (Please our note dated 19th March 2008 titled *Reiterate OW: Discounting risk of advance Protonix ruling*.)

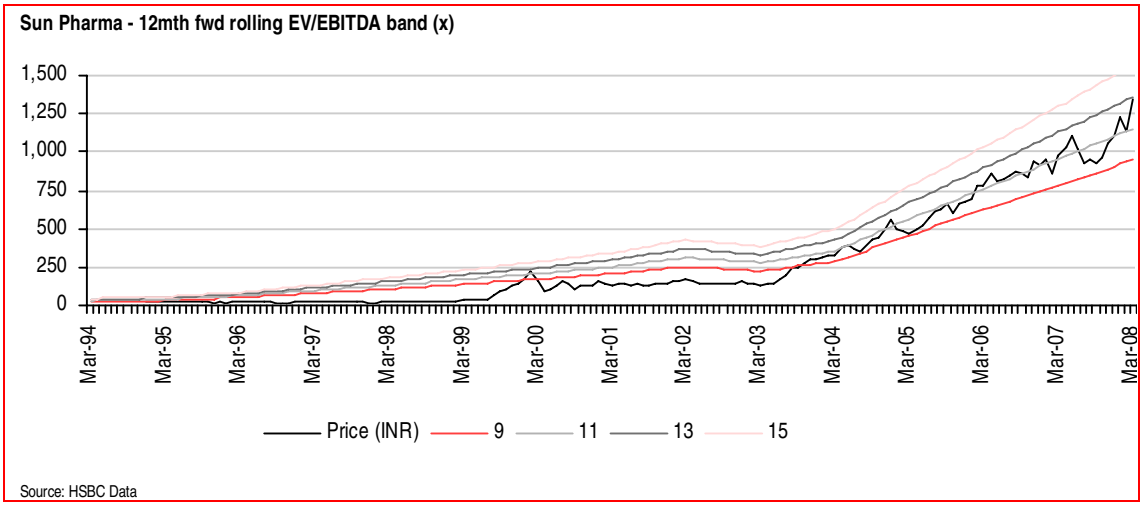
Rating

Using our PE derived valuation of INR1390 for Sun Pharma's core business and Effexor XR valuation of INR56, our target price for Sun Pharma is INR1446.

On our target price of INR1446, the overall stock returns are 16% (including expected dividend per share). We reiterate our Overweight rating.

Key risks

- Key risk to our estimates is a change in Sun Pharma's currently near-zero tax liability which could dent future earnings growth.



- Sun Pharma is the leader in chronic segments in the domestic market which other pharma companies are now working hard to penetrate. The segment is a high margin one and any significant loss in market share over the next few years could dent overall margins.

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Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Jatin Kotian

Important disclosures

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Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However,

stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

Prior to 15 November 2004, HSBC's ratings system was based upon a two-stage recommendation structure: a combination of the analysts' view on the stock relative to its sector and the sector call relative to the market, together giving a view on the stock relative to the market. The sector call was the responsibility of the strategy team, set in co-operation with the analysts. For other companies, HSBC showed a recommendation relative to the market. The performance horizon was 6-12 months. The target price was the level the stock should have traded at if the market accepted the analysts' view of the stock.

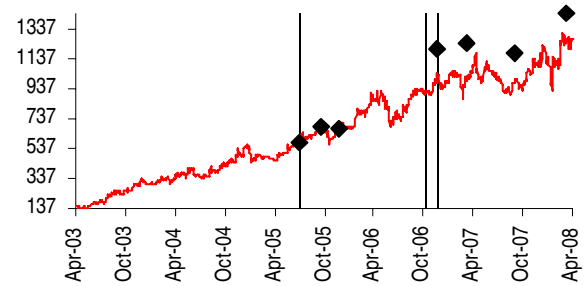
Rating distribution for long-term investment opportunities

As of 09 April 2008, the distribution of all ratings published is as follows:

Overweight (Buy)	56%	(21% of these provided with Investment Banking Services)
Neutral (Hold)	29%	(24% of these provided with Investment Banking Services)
Underweight (Sell)	15%	(13% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Sun Pharma Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/R	Neutral	08 July 2005
Neutral	N/A	12 October 2006
N/A	Overweight	30 November 2006
Target Price	**Value**	**Date**
Price 1	580.00	08 July 2005
Price 2	688.00	29 September 2005
Price 3	675.00	29 November 2005
Price 4	N/A	12 October 2006
Price 5	1200.00	30 November 2006
Price 6	1247.00	16 March 2007
Price 7	1180.00	10 September 2007
Price 8	1446.00	19 March 2008

Source: HSBC

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