

Institutional Equities
 India Research

Sun Pharma

RESULT REVIEW

 Bloomberg: SUNP IN
 Reuters: SUN.BO

BUY

Results Outperform: Maintain BUY

Sun's revenues increased by 33.6% YoY to Rs. 28655mn in Q3FY13, as against our estimates of Rs. 26477mn. US outperformed on back of price increases in Taro Pharma, US sales and DUSA revenues for the quarter. Operating margins were better than estimates, comparable to Q3 FY12. Profits grew by 32%YoY at Rs. 8813mn in Q3FY13. Company does not wish to make Taro a 100 % subsidiary, hence minority interest will continue. We downgrade earnings on account of same but maintain BUY

Quarter Details: The Company's US Formulations business grew 43.7%YoY to Rs.14946.2mn (our expectations Rs.12851mn), while its Domestic formulations rose 13%YoY to Rs. 7885mn (our expectations Rs.8050mn). EBITDA is at 44.7% in Q3FY13, higher than our estimate of 39.6% due to higher gross margins and lower other expenses. Net profit is at Rs.8813mn as against our estimate of Rs 7595mn (up by 31.8%YoY). Tax is at 18.6% compared to 7.4% last year for the Quarter. Sun has converted the partnership into a Wholly Owned Subsidiary (WOS).

Outlook & Valuation:

We upgrade our revenues by 6.2% to Rs 112 bn in FY13 and by 3.2% to Rs 125 bn in FY14 due to price increases taken by Taro Pharma, incorporation of Dusa and scale up in US business. We upgrade our EBDITAM from 41.8% to 45 % in FY 13E and from 40.1 % to 42.5 % in FY14E. We upgrade our EPS estimates for FY 13E by 9.2 % to Rs 33.2 and downgrade by 6.6 % to Rs 34.6 for FY 14E due to Taro minority interest. Due to improving revenue and margin visibility we value the core business at a price of Rs 796 based on 23x FY14E. Due to better scalability anticipated in URL Pharma, we upgrade revenues by 20 % to USD 120 mn and value it at Rs 29 based on 5x P/S. We marginally downgrade our price Rs 825 but maintain **BUY**.

Risk : Downgrade in Taro revenue and margins due to competitive intensity would impact the company's earnings.

Key Financials

Y/E, Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	39,040	57,214	80,055	112,927	124,713
EBITDA	11,645	19,700	31,903	50,797	53,050
Net Profit	10,689	16,581	24,851	34,364	35,870
EPS(Rs)	10.3	16	24	33.2	34.6
EPS growth (%)	-39.2	55.1	49.9	38.3	4.4
EBITDA margin (%)	29.8	34.4	39.9	45	42.5
PER (x)	72.1	46.5	31	22.4	21.5
EV/EBITDA (x)	65.8	37.1	22.5	14.1	13
RoCE (%)	15.2	20.9	28.3	34.1	29.5
RoE (%)	14.5	19.4	23.4	26.3	22.8

Source: Company, Karvy Institutional Research

Indian GAAP Consolidated

Recommendation

CMP:	Rs746
Target Price:	Rs825
Upside (%)	11%

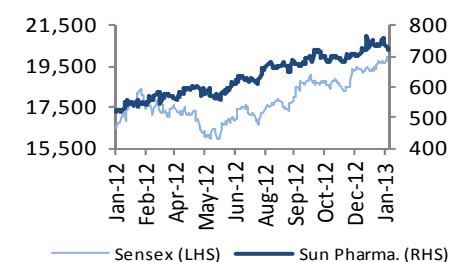
Stock Information

Market Cap. (Rs bn / US\$ mn)	771/14,397
52-week High/Low (Rs)	776/535
3m ADV (Rs mn /US\$ mn)	587/11.0
Beta	0.7
Sensex/ Nifty	19,485/5,904
Share outstanding (mn)	1,034

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(1.1)	7.1	35.5	1.3
Rel. to Sensex	0.2	3.6	23.1	1.0

Performance



Source: Bloomberg

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Revenue Analysis

In Q3FY13, US formulations revenues have grown at 43.7%YoY to Rs.14946mn. higher than our estimates of Rs.12851mn. Revenues from Rest of the markets outside India grew 40%YoY to Rs3942mn as against our estimates of Rs3750mn. Higher than expected growth in US market is primarily driven by growth in sales of Taro (price hikes taken) and currency appreciation compared to Q3FY12. Domestic Formulations business grew 13.3%YoY to Rs.7885mn lower than our estimates of Rs.8050mn. API's grew 36%YoY to Rs.2090mn compared to Rs.1536mn in Q3FY12.

EBIDTA Margin

Sun's EBITDAM was reported at 44.7% for the quarter which was higher than our estimates of 39.6% (44.9% in Q3FY12). R&D expenditure was higher in this Quarter at Rs1637mn, 5.7% of sales compared to 5% of sales in Q3FY12. However, this increase in R&D expenses was offset by lower raw material cost and other expenses compared to Q3FY12.

Non-Operating Items

- **Other income** increased to Rs 801mn in Q3FY13 compared to Rs 272 mn as net interest expenses in Q3FY12
- Effective tax rate was higher at 18.6% this quarter compared to 7.4% in Q3 FY12.

Net Profit Growth

Company's Net Profit stood at Rs 8813mn in Q3FY13 (up 31.8% YoY) compared to Rs 6683mn in Q3FY13.

Sun Pharma

Key highlights:

Company launched 7 new products in this Quarter and 22 products during 9month period. It also filed 8 ANDAs in third Quarter while 16 ANDAs filed in 9month period with the USFDA. It received 2 product approval in Q3FY13 and 11 over 9 months from USFDA. Cumulatively, Sun and Taro have filed for 403 products with USFDA till now. Recently in Feb'13, it received approval for generic Doxorubicin HCl liposomal injection (anti-cancer) in US. This product has no litigation overhang and competition apart from the innovator.

Sun completed its Acquisition process of URL and Dusa this quarter. URL has portfolio of 107 products with basket of 230 filed ANDAs. URL Pharma had defocused on its generics business in the last few years and was focusing on differentiated products with focus on 505(b)2 products. The company has the capability to scale up this business by 5-6x going ahead. Many investors were skeptical on the ability of the company's URL acquisition. With this doubt set to rest we would scale up our revenue assumption next year to USD 120 mn up 20 % from our previous estimate. Both these acquisitions will further strengthen Sun Pharma's place in the US markets.

Dusa had a severance package of Rs 280 mn as one time settlement for some of the senior employees in case the company goes private. These employees may wish to remain with Sun Pharma. Dusa has 8000 installations and has an intense relation with 300 -500 doctors.

Sun Pharma has decided not to acquire full control over Taro after its minority shareholders rejected the merger proposal from Sun Pharma for which Sun Pharma was willing to pay \$39/share. It means Sun will continue to report minority Interest in the company's P & L A/c, further Sun Pharma won't be able to access cash available in Taro's books.

The Prandin exclusivity could further give the company a revenue upside of USD 37 mn during the exclusivity period.

Exhibit 1: Quarterly performance

Y/E Mar (Rsmn)	Q3FY12	Q2FY13	Q3FY13	QoQ %	YoY %
Net Sales	21,451	26,639	28,655	7.6	33.6
Cost	11,814	14,888	15,910	6.9	34.7
EBITDA	9,638	11,751	12,745	8.5	32.2
EBITDA Margin (%)	44.9	44.2	44.7	1.1	
Other Income	(863)	1693	678	(59.9)	(178.6)
Interest	(591)	283	(123)	(143.6)	(79.2)
Depreciation	774	829	844	1.9	9.1
Profit before Tax	8,591	12,332	12,702	3.0	47.9
Exceptional items*	0	5,836	0	(100.0)	
Tax	634	2139	2369	10.7	273.4
Tax rate (%)	7.4	32.9	18.6	(43.4)	
Share of minority Interest	1,274	1,161	1,521	31.0	19.4
Net Profit After M. I	6,683	3,196	8,813	175.7	31.9

Source: Karvy Institutional Research, Company

Exhibit 2: Change in Estimates

Rs. mn	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% chg	
Revenues	112,927	106,311	6.2	124,713	120,522	3.5	
Domestic	31,942	32,278	(1.0)	37,691	38,734	(2.7)	Downgrade in domestic formulations revenues.
Export formulations	74,215	67,588	9.8	79,118	74,243	6.6	Upgrade in Taro revenues to USD 694 mn in FY13E and to USD 780 mn in FY14E, Caraco revenues of USD 499 mn and USD 455 mn factored for FY 13 and FY 14 respectively.
Net material consumption	21,601	21,240	1.7	23,401	25,299	(7.5)	Lower gross margin factored for Taro, Dusa. Higher GM factored in FY 14.
Manufacturing	19,508	19,350	0.8	24,113	23,353	3.3	Upgrade in line with 9 mth trend.
R&D	6,421	6,988	(8.1)	8,088	7,828	3.3	Higher R & D factored
Staff cost	14,601	14,280	2.2	16,061	15,708	2.2	Upgrade in line with 9 mth trend
EBITDA	50,797	44,453	14.3	53,050	48,333	9.8	Better gross margins aided by Taro and Doxil in FY13 and FY14..
EBITDA margin (%)	45.0	42.0	7.6	42.5	40.0	6.1	
Other income	2,999	3,967	(24.4)	4,020	3,703	8.6	Higher Other income due to Taro 100 % subsidiary being deferred.
Minority Interest	5,488	4,805	14.2	5,520	398	1286.9	Taro Minority Interest factored
Net Profit	34,364	31,481	9.2	35,870	38,368	(6.5)	
EPS (Rs.)	33.2	30.4	9.2	34.6	37.0	(6.5)	

Source: Karvy Institutional Research, Company

Exhibit 3: Profit & Loss

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net Revenues	39,040	57,214	80,055	112,927	124,713
Raw Material	10,977	14,607	16,399	21,601	23,401
Staff	4,008	6,729	10,110	14,601	16,061
Manufacturing	11,456	16,179	21,643	25,929	32,201
Indirect Taxes	953	0	0	0	0
Total Expenditure	27,394	37,514	48,152	62,131	71,663
EBITDA	11,645	19,700	31,903	50,797	53,050
Other income	1,681	1,892	2,392	2,999	4,020
Interest	62	0	282	372	205
Gross Profit	13,265	21,591	36,475	53,424	56,865
Depreciation	1,533	2,041	2,912	3,335	3,850
Profit Before Tax	11,732	19,551	33,564	50,089	53,015
Tax	678	1,284	3,826	9,216	10,603
Effective tax rate %	5.8	6.6	11.4	18.4	20.0
PAT	11,054	18,266	29,726	40,873	42,412
Minority Interest	(41)	913	3,855	5,488	5,520
Net Profit	11,095	17,353	25,872	35,386	36,892
Amortization	406	772	1,022	1,022	1,022
Net profit after Amor	10,689	16,581	24,851	34,364	35,870
EOI	2,417	807	0	(5,836)	0
Reported Net Profit	13,106	17,389	24,851	28,528	35,870

Source: Company, Karvy Institutional Research

Sun Pharma
Exhibit 4: Balance Sheet

Y/E Mar (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Equity	1,036	1,036	1,036	1,036	1,036
Reserves	76,522	92,294	118,103	141,056	170,868
Net worth	77,558	93,330	119,138	142,091	171,903
Short-term Loans	1,246	2,199	1,095	1,540	1,702
Long-term Loans	465	2,057	1,554	1,710	1,881
Total Loans	1,712	4,256	2,739	3,249	3,583
Minority Interest	1,932	8,472	11,615	17,102	22,622
Deferred Tax Liability	(890)	(3,652)	(5,199)	(5,798)	(5,798)
Liabilities	80,311	102,405	128,293	156,645	192,310
Gross Block	23,340	45,520	54,269	59,874	64,320
Depreciation	8,013	20,286	24,973	28,308	32,158
Net Block	15,328	25,234	29,295	31,566	32,163
Capital work-in-progress	1,448	2,706	3,447	2,841	2,895
Goodwill on consolidation	3,329	6,216	7,693	6,858	5,836
Long-term Investments	30,664	22,310	22,129	34,549	34,549
Inventories	10,739	14,794	20,870	29,296	33,791
Debtors	11,748	11,716	19,261	27,277	29,012
Cash	6,073	21,936	33,672	34,040	64,809
Other Current assets	8,562	11,726	16,878	19,615	21,027
Total Current assets	37,121	60,172	90,681	110,228	148,640
Creditors	3,194	4,808	8,401	11,787	13,017
Other current liabilities	4,385	9,425	16,549	17,610	18,754
Total current liabilities	7,579	14,234	24,950	29,397	31,772
Net current assets	29,542	45,938	65,730	80,831	116,868
Total Assets	80,311	102,404	128,294	156,645	192,310

Source: Company, Karvy Institutional Research

Sun Pharma
Exhibit 5: Cash Flow Statement

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	9,706	16,887	27,969	46,440	48,178
Change in working capital	(4,675)	(533)	(8,056)	(14,732)	(5,268)
Cash flow from operations	5,032	16,354	19,913	31,708	42,910
Other income	1,681	1,892	4,854	2,999	4,020
Depreciation & Amortization	1,533	2,041	3,933	4,356	4,872
Interest paid(-)	(62)	0	(282)	(372)	(205)
Dividends paid(-)	(3,321)	(4,213)	(5,148)	(5,575)	(6,058)
Tax paid(-)	(678)	(1,284)	(3,826)	(9,216)	(10,603)
Changes in minority interest	41	(913)	(3,855)	(5,488)	(5,520)
Deferred tax	(211)	(2,762)	(1,547)	(599)	0
Extra ordinaries	2,417	807	0	0	0
Net cash from operations	6,432	11,922	14,044	17,814	29,415
Capital Expenditure	(2,113)	(13,205)	(7,713)	(5,000)	(4,500)
Free Cash Flow	4,319	(1,283)	6,330	12,814	24,915
Change in short-term borrowing	(316)	953	(1,104)	445	162
Change in long-term borrowing	239	1,592	(503)	155	171
Change in borrowings	(77)	2,544	(1,607)	600	333
Increase in long term investments	(12,069)	8,354	181	(12,420)	0
Equity issue/buyback	(2,351)	(481)	5,957	0	0
Changes in minority interest	(39)	6,540	3,143	5,488	5,520
Cash from Financial Activities	(14,535)	16,957	7,674	(6,332)	5,853
Others	(401)	189	(2,269)	(6,113)	0
Opening cash	16,690	6,073	21,936	33,672	34,040
Closing cash	6,073	21,936	33,672	34,040	64,809
Change in Cash	(10,618)	15,863	11,736	369	30,769

Source: Company, Karvy Institutional Research

Exhibit 6: Key Ratios

Y/E Mar	FY10	FY11	FY12	FY13E	FY14E
EV/EBDITA(x)	65.8	38.2	23.2	14.6	12.7
ROE (%)	14.5	19.4	23.4	26.3	22.8
ROCE (%)	15.2	20.9	28.3	34.1	29.5
PE(x)	72.1	46.5	31.0	22.4	21.5
P/BV(x)	9.9	8.3	6.5	5.4	4.5
P/S(x)	18.9	13.3	9.5	6.8	6.1

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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