

Sun Pharmaceutical Industries

19 October 2012

Reuters: SUN.BO; Bloomberg: SUNP IN

Lipodox Party Is Over

US-based Johnson & Johnson (J&J), in a press release dated 15 October 2012, has announced full access to Doxil (doxorubicin HCl liposome injection, an oncology drug) for physicians and patients by releasing the remaining supply from the reserves it had before its manufacturing partner, Ben Venue's plant shutdown and transitioning towards newly manufactured product in the near future. The development, largely on expected lines, implies cessation of Lipodox supply by Sun Pharmaceutical Industries (SPIL), which was temporarily allowed by the USFDA to bridge doxorubicin shortage in the market. We had expected J&J to resume Doxil supply by 4QCY12 and accordingly factored in US\$110mn revenue from Lipodox sales in FY13E and nil revenue in FY14E. We maintain our earnings estimates, target price of Rs638 as well as Sell rating on SPIL.

J&J indicates resumption of Doxil supply: J&J indicated resumption of Doxil supply by releasing its remaining reserves (before Ben Venue's plant shutdown in November 2011) of Doxil and transitioning towards its newly manufactured product in the near future. Fresh supply is likely to be from Ben Venue (from available areas of its Bedford plant, subject to manufacturing approval – under expedited review by the USFDA), while another supplier will handle sterilisation-related tasks for the drug. The company also indicated that the drug will be available through normal distribution channels from 22 October 2012.

We expected J&J to resume Doxil supply by December 2012: We expected Lipodox sales to contribute US\$110mn in FY13E (assuming Doxil supply by J&J resumes by December 2012) and nil revenue in FY14E. We, therefore, do not feel there is a need to change our estimates.

Valuation stretched - two out of the three near-term drivers at risk: As highlighted in our previous research reports, two of the three near-term drivers – rupee depreciation, continuation of price hikes by Taro and Lipodox revenue – are at risk as the rupee has appreciated nearly 5% over the past two months and with Lipodox revenue ceasing in the wake of J&J resuming Doxil supply. Taro's strong performance is likely to continue for some more quarters, but barring the price hikes, the outlook on Taro remains dim owing to a thin US product pipeline (only 16 ANDAs, or abbreviated new drug applications, pending approval). Given the higher valuation (24.6x FY14E EPS of Rs28.5; around 30-40% premium to peers), we believe there is limited room for error. We have retained our Sell rating on SPIL with a target price of Rs638.

SELL

Sector: Pharmaceuticals

CMP: Rs700

Target Price: Rs638

Downside: 9%

Praful Bohra

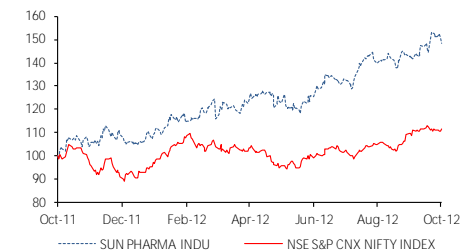
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Key Data

Current Shares O/S (mn)	1,034.0
Mkt Cap (Rsbn/US\$bn)	723.6/13.5
52 Wk H / L (Rs)	729/465
Daily Vol. (3M NSE Avg.)	972,678

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Sun Pharma	3.9	17.3	50.0
Nifty Index	2.1	7.9	13.5

Source: Bloomberg

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	41,028	58,341	80,064	99,869	106,190
YoY (%)	(4.0)	42.2	37.2	24.7	6.3
EBITDA	13,633	19,672	32,521	40,447	40,352
EBITDA (%)	33.2	33.7	40.6	40.5	38.0
Adj. PAT	13,512	18,609	25,810	29,349	29,486
YoY (%)	(25.7)	37.7	38.7	13.7	0.5
Fully DEPS	13.0	18.0	24.9	28.3	28.5
RoE (%)	18.2	21.5	24.7	23.4	19.9
RoCE (%)	15.3	18.4	24.9	26.1	21.9
P/E (x)	53.7	39.0	28.1	24.7	24.6
EV/EBITDA (x)	52.9	36.0	21.5	17.1	16.8

Source: Company, Nirmal Bang Institutional Equities Research

Rating history

Date	Rating	Market price (Rs)	Target price (Rs)
1 November 2011	Hold	503	513
15 November 2011	Hold	510	532
12 January 2012	Buy	519	592
14 February 2012	Buy	552	635
19 March 2012	Hold	545	596
16 April 2012	Hold	579	596
31 May 2012	Hold	566	596
13 August 2012	Sell	675	638
4 October 2012	Sell	698	638

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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