

May 30, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs465	Rs497
EPS change FY12E/13E (%)	- 3 / NA
Target Price change (%)	8
Nifty	5,473
Sensex	18,232

Price Performance

(%)	1M	3M	6M	12M
Absolute	(0)	11	3	42
Rel. to Nifty	6	9	11	33

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	SUNP@IN
Equity Capital (Rs mn)	1030
Face Value(Rs)	1
No of shares o/s (mn)	1030
52 Week H/L	511/325
Market Cap (Rs bn/USD mn)	479/10627
Daily Avg Volume (No of sh)	148531
Daily Avg Turnover (US\$m)	1.5

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	63.7	63.7	63.7
FII/NRI	18.5	19.1	19.1
Institutions	7.1	6.7	6.5
Private Corp	5.1	5.0	5.0
Public	5.6	5.5	5.6

Source: Capitaline

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- Sun Pharma's Q4'11 was above expectations with Revenues at Rs14.6bn (up 32% YoY), EBITDA at Rs4.44bn (up 6% YoY) and PAT at Rs4.43bn (up 12% YoY)
- Revenue growth was led by 20% growth in domestic branded business and 21% YoY growth in Taro. Ex-Taro, revenues declined by 13%
- Taro's contribution of 34% to the top-line at US\$108mn and PAT at US\$25mn was above expectations
- Taro remains the key to future performance; Maintain Hold with a revised target price of Rs497 (22x FY13 Core EPS)

Result Highlights

- Export formulations grew 98% YoY in Q4FY11 (contributed 52%) driven by Taro consolidation. Taro revenues grew 21% YoY to US\$108mn (contributed 33%). Ex-Taro, revenues de-grew by 28%
- Domestic branded formulations grew 20% YoY (contributed 40%), ahead of the industry growth rate in Q4FY11 on account of strong growth in the chronic portfolio
- Operating margins at 30% expanded 280bps QoQ on account of
 - Taro consolidation – Taro performed better on the operational front as it incurred lower R&D expenses this quarter. Ex-Taro, base EBITDA margins stood at a healthy 33% during the quarter
 - Remediation related cost at the company's manufacturing facilities led to 264bps QoQ and 311bps YoY expansion in other expenses

Future growth drivers

- Domestic formulations is expected to grow at 18% and operating margins are expected to improve once the additional field force becomes productive
- 377 ANDA filings till date with 152 pending for approval. Management has guided for 25 ANDA filings during FY12E
- MSD JV has already commenced operation with Sitagliptin & Sitagliptin+Metformin being launched in Indian markets
- Management has guided for top-line growth of 28-30% along with Rs4.5bn of capex and 6%+ R&D spend for FY12E. We believe strong growth in FY12E will be on account of Taro clocking sales in excess of US\$400mn and 18% growth in the domestic branded business. Ex-Taro, revenues are likely to grow by 9% in FY12E

Valuation

We expect Sun Pharma to report 23% growth in revenues in FY12E and 15% growth in FY13E. EBITDA margins are expected to decrease from 34.4% in FY11 to 33.2% in FY12E and 33.9% in FY13E. Earnings will grow by 15% CAGR over FY11-13E. We revise our target price to Rs497 (22x FY13E core earnings of Rs22.6). At CMP, the stock trades at 23x FY12E and 20x FY13E EPS.

Financials

Rs mn

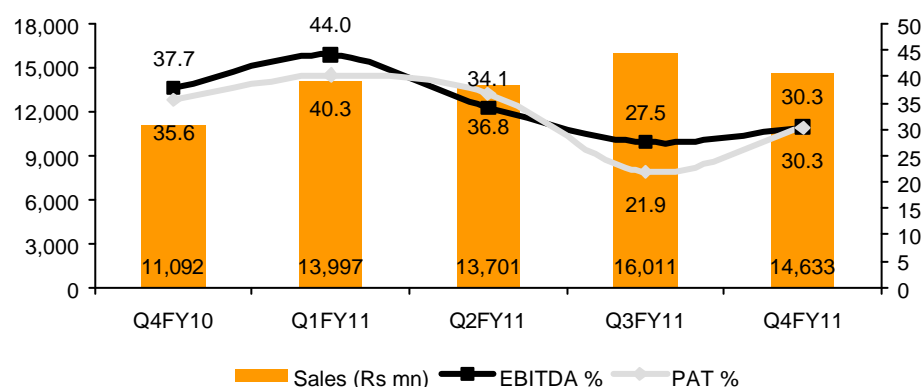
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	40,103	13,662	34.1	12,590	12.2	(30.7)	18.1	38.2	34.9	6.2
FY11	57,214	19,672	34.4	18,161	17.5	44.2	22.0	26.5	23.6	5.1
FY12E	70,282	23,303	33.2	20,694	20.0	14.0	21.1	23.3	19.9	4.3
FY13E	80,722	27,360	33.9	23,857	23.0	15.3	20.6	20.2	16.6	3.7

Quarterly break-up

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY12	Q4FY12	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
Revenue	11,092	13,997	13,701	16,011	14,633	31.9	(8.6)	40,103	57,214	43%
Expenditure	6,907	7,837	9,030	11,605	10,197	47.6	(12.1)	26,441	37,543	42%
as % of sales	62.3	56.0	65.9	72.5	69.7			65.9	65.6	
Consumption of RM	2,662	3,357	3,794	4,324	3,132	17.7	(27.6)	10,977.3	14,606.9	33%
as % of sales	24.0	24.0	27.7	27.0	21.4			27.4	25.5	
Employee Cost	1,160	1,246	1,456	2,754	2,540	119.0	(7.8)	4,007.9	7,995.6	99%
as % of sales	10.5	8.9	10.6	17.2	17.4			10.0	14.0	
Other expenditure	3,085	3,235	3,780	4,528	4,525	46.7	(0.1)	11,456.0	14,940.2	30%
as % of sales	27.8	23.1	27.6	28.3	30.9	3.11	2.64	28.6	26.1	
EBITDA	4,185	6,160	4,670	4,405	4,436	6.0	0.7	13,662	19,672	44%
Depreciation	419	402	352	805	482	14.9	(40.1)	1,533.1	2,040.6	33%
EBIT	3,766	5,758	4,319	3,601	3,954	5.0	9.8	12,129	17,631	45%
Other Income	138	115	924	580	1,108	705.6	90.9	1,686.2	2,727.2	62%
Non-recurring income	0	0	0	0	0			333.7	-	
PBT	3,903	5,873	5,242	4,181	5,062	29.7	21.1	14,148	20,358	44%
Total Tax	(12)	97	172	545	22	(280.5)	(95.9)	678.6	1,284.4	89%
Adjusted PAT	3,916	5,776	5,070	3,636	5,039	28.7	38.6	13,470	19,074	42%
Minority Interest	-29	133	33.7	134.4	612		-	(880.0)	(913.1)	-
APAT after MI	3,945	5,643	5,037	3,502	4,427	12.2	26.4	12,590	18,161	44%
Extra ordinary items	0	0	0	0	0			921.0	0.0	
Reported PAT	3,945	5,643	5,037	3,502	4,427	12.2	26.4	13,511	18,161	34%
Reported EPS	3.8	5.4	4.9	3.4	4.3	12.2	26.4	12.2	17.5	44%

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	37.7	44.0	34.1	27.5	30.3	(741)	280	34.1	34.4	32
EBIT	33.9	41.1	31.5	22.5	27.0	(693)	453	30.2	30.8	57
EBT	35.2	42.0	38.3	26.1	34.6	(60)	848	35.3	35.6	30
PAT	35.6	40.3	36.8	21.9	30.3	(531)	839	31.4	31.7	35
Effective Tax rate	(0.3)	1.7	3.3	13.0	0.4	76	(1,259)	4.8	6.3	151

Quarterly trend



Financial Snapshot

Rs mn	FY12E			FY13E		
	Sun Pharma	Taro	Consol.	Sun Pharma	Taro	Consol.
Sales	50,915	19,367	70,282	59,502	21,220	80,722
EBITDA	19,236	4,067	23,303	22,479	4,881	27,360
EBITDA %	37.8%	21.0%	33.2%	37.8%	23.0%	33.9%
EBITDA % Ex -One-offs	37.8%	21.0%	33.2%	37.2%	23.0%	33.5%
PAT	17,402	3,292	20,694	19,825	4,032	23,857
EPS	16.8	3.2	20.0	19.1	3.9	23.0
Core EPS	16.8	3.2	20.0	18.7	3.9	22.6

Rs mn	FY11	FY12E	YoY %	FY13E	YoY %
Formulations	51932	64070	23.4%	73406	14.6%
Domestic	23801	28087	18.0%	33278	18.5%
Taro	10,467	19,367	85.0%	21,220	9.6%
Ex-Taro	17664	16615	-5.9%	18908	13.8%
Base	10938	16615	51.9%	17929	7.9%
FTF	6726	0	-	979	-
API	5212	6119	17.4%	7221	18.0%
Domestic	1130	1220	8.0%	1342	10.0%
Exports	4082	4899	20.0%	5879	20.0%
Others	70	93	32.5%	95	2.0%
Total Sales	57214	70282	22.8%	80722	14.9%
EBITDA	19,672	23,303	18.5%	27,360	17.4%
EBITDA %	34.4	33.2		33.9	
PAT	18,161	20,694	14.0%	23,857	15.3%
PAT %	31.7	29.4	-	29.6	-
EPS	17.5	20.0	14.0%	23.0	15.3%
PE @ CMP	26.5	23.3	-	20.2	-
Core EPS	14.1	20.0	41.5%	22.6	13.0%
PE @ CMP	32.9	23.3	-	20.6	-

Valuation

Sun Pharma continues to remain a good long-term fundamental story in our view, however stock valuations are likely to limit upside. We expect Sun Pharma to report 23% growth in revenues in FY12E and 15% growth in FY13E. EBITDA margins are expected to decrease from 34.4% in FY11 to 33.2% in FY12E and 33.9% in FY13E. Earnings will grow by 15% CAGR over FY11-13E. We revise our target price to Rs497 (22x FY13E core earnings of Rs22.6). At CMP, the stock trades at 23x FY12E and 20x FY13E EPS.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	40,103	57,214	70,282	80,722
<i>Growth (%)</i>	-4.2	42.7	22.8	14.9
Expenditure	26,441	37,543	46,979	53,362
Raw Materials	10,977	14,607	18,642	22,602
SGA	9,146	11,869	15,040	16,411
Employee Cost	4,008	7,996	9,115	10,027
Other Exp	2,311	3,071	4,182	4,322
EBITDA	13,662	19,672	23,303	27,360
<i>Growth (%)</i>	-26.8	44.0	18.5	17.4
EBITDA margin (%)	34.1	34.4	33.2	33.9
Depreciation	1,533	2,041	2,557	2,871
EBIT	12,129	17,631	20,746	24,489
EBIT margin (%)	30.2	30.8	29.5	30.3
Other Income	1,686	2,727	2,932	2,807
Interest expenses	0	0	0	0
PBT	14,148	20,358	23,678	27,296
Tax	679	1,284	1,894	2,184
<i>Effective tax rate (%)</i>	4.8	6.3	8.0	8.0
Adjusted PAT	13,552	17,248	19,605	22,601
(Profit)/loss from JV's/Ass/MI	962	-913	-1,089	-1,256
Adjusted PAT after MI	12,590	18,161	20,694	23,857
<i>Growth (%)</i>	-30.7	44.2	14.0	15.3
Net Margin (%)	31.4	31.7	29.4	29.6
E/O items	334	0	0	0
Reported PAT	13,511	18,161	20,694	23,857
<i>Growth (%)</i>	-25.7	34.4	14.0	15.3

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	12,462	17,631	20,746	24,489
Depreciation	1,533	2,041	2,557	2,871
Interest Provided	0	0	0	0
Other Non-Cash items	0	0	0	0
Chg in working cap	-4,675	-498	-14,982	-12,174
Tax paid	-1,106	-1,284	-1,894	-2,184
Operating Cashflow	8,214	17,889	6,426	13,002
Capital expenditure	-2,920	-13,205	-4,500	-4,000
Free Cash Flow	5,295	4,685	1,926	9,002
Other income	1,686	2,727	2,932	2,807
Investments	-12,069	8,354	0	0
Investing Cashflow	-13,302	-2,123	-1,568	-1,193
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-77	2,544	-1,000	-1,000
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-3,321	-3,347	-3,823	-4,407
Others	-2,131	1,126	0	0
Financing Cashflow	-5,529	323	-4,823	-5,407
Net chg in cash	-10,618	16,089	35	6,402
Opening cash position	16,690	6,073	22,162	22,197
Closing cash position	6,073	22,162	22,197	28,599

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	1,036	1,036	1,036	1,036
Reserves & surplus	77,254	93,987	110,859	130,309
Net worth	78,289	95,023	111,894	131,344
Minority Interest	1,932	8,472	9,561	10,816
Secured Loans	479	1,179	679	179
Unsecured Loans	1,233	3,077	2,577	2,077
Loan Funds	1,712	4,256	3,256	2,256
Net deferred tax liability	-890	-3,652	-3,652	-3,652
Total Liabilities	81,042	104,098	121,059	140,764
Gross Block	27,401	43,947	48,447	53,447
Less: Depreciation	8,013	10,287	12,844	15,715
Net block	19,388	33,660	35,603	37,732
Capital work in progress	1,448	2,000	2,000	1,000
Investment	30,664	22,310	22,310	22,310
Current Assets	37,121	60,397	77,147	96,639
Inventories	10,739	14,794	17,571	23,409
Sundry debtors	11,748	11,716	23,193	29,060
Cash & bank balance	6,073	22,162	22,197	28,599
Loans & advances	8,562	11,726	14,186	15,570
Other current assets	0	0	0	0
Current liab & Prov	7,579	14,269	16,000	16,916
Current liabilities	4,095	9,203	10,366	11,108
Provisions	3,484	5,065	5,635	5,808
Net current assets	29,542	46,129	61,146	79,722
Total Assets	81,042	104,098	121,059	140,764

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	34.1	34.4	33.2	33.9
Net Margin	31.4	31.7	29.4	29.6
ROCE	18	21	20	20
ROE	18	22	21	21
RoIC	29.9	33.6	29.7	28.7
Per Share Data (Rs)				
EPS	12.2	17.5	20.0	23.0
CEPS	13.3	19.5	22.5	25.8
BVPS	75.6	91.8	108.0	126.8
DPS	3.2	4.6	5.1	5.2
Valuations (x)				
PER	38.2	26.5	23.3	20.2
P/CEPS	34.9	23.8	20.7	18.0
P/BV	6.2	5.1	4.3	3.7
EV / Sales	11.9	8.1	6.6	5.6
EV / EBITDA	34.9	23.6	19.9	16.6
Dividend Yield (%)	0.7	1.0	1.1	1.1
Gearing Ratio (x)				
Net Debt/ Equity	-0.1	-0.2	-0.2	-0.2
Net Debt/EBITDA	-0.3	-0.8	-0.7	-0.9

Recommendation History: Sun Pharma – SUNP IN

Date	Reports	Reco	CMP	Target
01/02/2011	Sun Pharma Q3FY11 Result Update	Hold	441	460
10/11/2010	Sun Pharma Q2FY11 Result Update	Hold	2,318	2,300
29/07/2010	Sun Pharma Q1FY11 Result Update	Hold	1,775	1,866
08/09/2010	Sun Pharma Event Update	Hold	1,756	1,866

Recent Research Reports

Date	Reports	Reco	CMP	Target
26/05/2011	Dishman Pharma Q4FY11 Result Update	Accumulate	96	125
25/05/2011	Ipca Laboratories Q4FY11 Result Update	Buy	301	409
20/05/2011	Divis Lab Q4FY11 Result Update	Buy	710	927
19/05/2011	Panacea Biotec Q4FY11 Result Update	Hold	181	185

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