

Sun Pharma

15 November 2011

Reuters: SUN.BO; Bloomberg: SUNP IN

Taro surprises positively

Sun Pharmaceutical Industries (Sun Pharma) reported strong 2QFY12 results, with revenue growth of 42%YoY and PAT growth of 19%, both above ours as well as consensus estimates. This was primarily on account of Taro, which reported a sharp 2,082bpsYoY and 1,419bps QoQ improvement in margins. With revenue growth of 31%YoY in 1HFY12, Sun Pharma looks on course to achieve its FY12 revenue guidance of 28-30%, excluding third party revenue. We revise upwards our FY12/13 revenue estimates by 2%/3%, respectively, and FY13 PAT estimate by 4% to factor in better-than-expected performance by Taro, which consequently leads to an upward revision in our target price from Rs513 earlier to Rs532. Our Hold rating, however, remains unchanged because of limited upside of 4% from the CMP.

2QFY12 results above estimates: Sun Pharma's 2QFY12 revenue at Rs18.9bn (up 42%YoY, 16%QoQ) was 3%/4% above our/consensus estimates, while PAT of Rs5.9bn was 17%/10% above our/consensus estimates, respectively. This was mainly because of Taro, which reported strong revenue of US\$138mn (against our expectation of US\$110mn) and margins of 45%, benefiting from higher closing stock valuation owing to currency depreciation and lower R&D expenditure. On a consolidated basis, Sun Pharma reported margins of 41%, showing an improvement of 630bpsYoY and 791bpsQoQ. Tax rate increased sharply to 15%, as tax benefits depleted for Taro.

Broad-based growth across geographies: Growth was broad-based driven by the US market (up 77%, led by Taro consolidation), India (up 15% YoY, 18% YoY excluding discontinued third party operations) and ROW markets (up 85%YoY, 20% YoY excluding Taro). Excluding Taro, we believe US revenue declined ~34%YoY owing to a high base of Eloxatin in 2QFY11.

Valuation: With ~25% re-rating in PE multiple in the past 18 months, we believe Sun Pharma's growth trajectory and Taro-related upsides are well discounted in the share price, leaving little scope for appreciation. We value Sun Pharma at 22.5x FY13E EPS of Rs24 to arrive at a target price of Rs532, implying a 4% upside from the CMP.

HOLD

Sector: Pharmaceuticals

CMP: Rs510

Target Price: Rs532

Upside: 4%

Praful Bohra

praful.bohra@nirmalbang.com

+91-22-3926 8175

Key Data

Current Shares O/S (mn)	1029.9
Mkt Cap (Rsbn/US\$bn)	526.1/10.5
52 Wk H / L (Rs)	603/392
Daily Vol. (3M NSE Avg.)	1,067,005

Price Performance (%)

	1 M	6 M	1 Yr
Sun Pharma	6.4	19.5	10.7
Nifty Index	0.3	(7.1)	(15.9)

Source: Bloomberg

Y/E March (Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	1HFY11	1QFY12	YoY (%)
Net revenues	13,314	16,357	18,946	42.3	15.8	26,965	35,303	30.9
Total material costs	3,794	4,071	3,639	(4.1)	(10.6)	7,151	7,709	7.8
Mat. Cost/net revenues (%)	28.5	24.9	19.2			26.5	21.8	
Personnel costs	1,456	2,786	2,727	87.3	(2.1)	2,702	5,513	104.1
Personnel cost/ net revenues (%)	10.9	17.0	14.4			10.0	15.6	
Other expenses	3,394	4,026	4,740	39.7	17.7	6,282	8,766	39.5
Other exp./ net revenues (%)	25.5	24.6	25.0			23.3	24.8	
Total expenditure	8,644	10,883	11,106	28.5	2.0	16,135	21,988	36.3
Total expenditure/ net revenues (%)	64.9	66.5	58.6			59.8	62.3	
PBIDT	4,670	5,474	7,840	67.9	43.2	10,830	13,315	22.9
PBIDT/net revenues (%)	35.1	33.5	41.4			40.2	37.7	
Other income	556	653	765	37.7	17.2	468	1,419	202.9
Net interest income	368	316	417	13.4	32.2	571	733	28.3
Depreciation	352	647	668	89.8	3.2	754	1,315	74.4
PBT	5,242	5,796	8,355	59.4	44.2	11,116	14,151	27.3
Tax	172	143	1,281	644.3	797.7	269	1,424	429.1
Tax/PBT (%)	3.3	2.5	15.3			2.4	10.1	
PAT	5,070	5,653	7,074	39.5	25.1	10,847	12,728	17.3
Share of minority partner	34	643	1,097	3,155.2	70.6	167	1,740	943.2
Reported PAT	5,037	5,010	5,977	18.7	19.3	10,680	10,987	2.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Change in earnings estimates

(Rsmn)	FY12E			FY13E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	72,364	73,903	2.1	80,136	82,512	3.0
EBITDA	23,722	26,448	11.5	26,124	280,54	7.4
EBITDA margin (%)	32.8	35.8	-	32.6	34.0	-
Reported PAT	21,845	21,937	0.4	23,609	24,478	3.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Financial summary

Y/E Mar (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Revenue	42,723	41,028	58,341	73,903	82,512
YoY (%)	27.3	(4.0)	42.2	26.7	11.6
EBITDA	18,640	13,633	19,672	26,448	28,054
EBITDA (%)	43.6	33.2	33.7	35.8	34.0
Adj PAT	18,178	13,512	18,609	21,937	24,478
YoY (%)	22.3	(25.7)	37.7	17.9	11.6
Fully DEPS	17.6	13.0	18.0	21.2	23.6
RoE (%)	30.2	18.2	21.5	21.3	20.3
RoCE (%)	26.8	15.3	18.4	20.4	18.6
P/E (x)	29.1	39.1	28.4	24.1	21.6
EV/EBITDA (x)	27.5	38.4	25.9	19.0	17.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Segmental break-up

Y/E Mar (Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	1HFY11	1QFY12	YoY (%)
India formulations	6,105	6,385	7,046	15.4	10.4	11,812	13,431	13.7
US formulations	4,511	6,220	7,991	77.1	28.5	10,169	14,211	39.7
ROW formulations	1,388	2,521	2,567	85.0	1.8	2,463	5,089	106.6
Total formulations	12,004	15,126	17,604	46.7	16.4	24,445	32,730	33.9
Bulk	1,491	1,476	1,603	7.5	8.6	2,909	3,079	5.9
Others	33	2	4	(87.3)	154.2	37	6	(84.6)
Total sales	13,527	16,604	19,211	42.0	15.7	27,390	35,815	30.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Taro financials

Y/E Dec. (US\$m)	3QCY10	2QCY11	3QCY11	YoY (%)	QoQ (%)
Net revenues	103	112	138	34.1	23.9
Total material costs	41	45	45	9.3	0.9
TMC/net revenues (%)	39.9	39.9	32.5		
SG&A	28	25	24	(11.7)	(2.6)
SG&A/net revenues (%)	26.9	22.5	17.7		
R&D costs	10	8	7	(27.4)	(11.2)
R&D/net revenues (%)	9.3	7.0	5.0		
Total expenditure	78	77	76	(2.6)	(1.4)
Total expenditure/net revenues (%)	76.0	69.4	55.2		
PBIDT	25	34	62	150.5	81.3
PBIDT/net revenues (%)	24.0	30.6	44.8		
Other Income	(2)	1	16	(994.4)	2,060.0
Interest costs	3	3	2	(45.5)	(50.7)
PBT	20	32	77	280.7	140.7
Tax	1	(5)	18	2,748.7	(488.2)
PAT	19	37	58	199.3	59.5
Share of minority partner	1	0	(1)	(160.3)	(248.7)
Reported PAT	19	36	59	218.0	62.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Actuals v/s ours, Bloomberg estimates

	Actuals	NBIE	Variation (%)	BBG cons.	Variation (%)
Revenues	18,946	18,320	3.4	18,145.0	4.4
EBITDA	7,840	6,069	29.2	6,056.0	29.5
EBITDA margin (%)	41.4	33.1	-	33.4	-
PAT	5,977	5,108	17.0	5,418.0	10.3

Source: Company, Nirmal Bang Institutional Equities Research

Rating history

Date	Rating	CMP	Target Price (Rs)
1 November 2011	Hold	503	513

Disclaimer**Stock Ratings Absolute Returns**

BUY > 15%

HOLD 0-15%

SELL < 0%

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Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	+91 22 3926 8098 / 99
Hemindra Hazari	Head of Research	hemindra.hazari@nirmalbang.com	+91 22 3926 8017 / 18

Sales and Dealing:

Neha Grover	AVP Sales	neha.grover@nirmalbang.com	+91 22 3926 8093
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8832
Sudhindar Rao	Dealing Desk	sudhindar.rao@nirmalbang.com	+91 22 3926 8229
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 3926 8000/1
 Fax. : 022 3926 8010