

INDUSTRY	PHARMA
CMP (as on 2 Jan 2013)	Rs 741
Target Price	Rs 787
Nifty	5,993
Sensex	19,714

KEY STOCK DATA	
Bloomberg	SUNP IN
No. of Shares (mn)	1,034
MCap (Rs bn) / (\$ mn)	766 / 14,092
6m avg traded value (Rs mn)	590

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 775 / 488		
	3M	6M	12M
Absolute (%)	6.9	16.7	49.6
Relative (%)	2.2	3.4	22.6

SHAREHOLDING PATTERN (%)	
Promoters	63.69
FIs & Local MFs	5.19
FIIIs	20.44
Public & Others	10.68

Source : BSE

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Lipodox, Taro effect wearing off ?

Sun Pharma has been on a roll for the last six quarters reporting +40% EBITDA margin on the back of (a) INR depreciation, (b) price hikes and strong rebound in Taro's performance (+45% EBITDA margins), (c) benefits from Lipodox supplies (last 2-3 quarters). While we continue to remain positive on Sun's US business on its strong pipeline of 150 ANDAs pending USFDA approval, Taro has been cautioning investors on the sustainability of its performance on account of increased competition.

Sun also gained from J&J's Doxil shortage (J&J's sole supplier, Ben View Labs ran into manufacturing issues and subsequently halted production) as the USFDA allowed import of Sun's Lipodox as alternative to J&J's Doxil until supply issues were sorted out. Sun reported EBITDA margins of +45% in the last 2-3 quarters largely driven by Lipodox supplies to the US markets. We estimate sales of ~US\$ 100 mn from Lipodox in 9MFY13 with gross margins + 90%. This translates to 5.1% contribution to sales but 11% contribution to EBITDA for FY13E.

J&J announced full resumption of Doxil (doxorubicin HCL liposome injection) in its press release on Oct 2012. J&J is expected to release supplies from reserves and would eventually shift to a new supplier in mid-longer term. This does not impact our numbers for Sun (marginally pruned our sales estimates by US\$ 10 mn) as we had expected J&J to resume Doxil supplies by December 2012. Excluding Lipodox, we expect Sun's sustainable EBITDA margins to be 36% - 38%. In FY14E we expect Sun to report EBITDA margins of ~37.5% (as have not penned in any upsides from

Lipodox or price hikes at Taro) which translates to PAT of Rs 30.5 bn (slightly below FY13E PAT of Rs 30.6 bn).

Further, the huge cash reserves of Sun could come down from ~ US\$ 1.1 bn to ~US\$ 200 mn if it pursues 100% stake in Taro (currently has 66% economic interest, would cost Sun ~ US\$ 600 mn), US\$ 230 mn for acquisition of DUSA and we believe that Sun could be acquiring URL Pharma (non colcrys business) at 1.0x CY13 sales which translates to company would spend ~ US\$ 200 mn. We have not included impact of any acquisitions into our FY14E numbers. Our FY14E numbers includes interest income of Rs 4.2 bn on its cash reserves; until the transactions come to a close it would be difficult to gauge the profitability of the acquired businesses.

At CMP, the stock trades at 25.3x FY14E EPS of Rs 29.5/sh. While Sun's strong presence in chronic space for domestic business and +136 ANDAs pending USFDA approval puts it in a different league, slower PAT growth (albeit on a superlative FY13E performance) would limit upsides in the short term. We maintain OPF with TP of Rs 787/sh (24x FY14E core EPS + upsides from pipeline).

Financial summary

(Rs mn)	FY12	FY13E	FY14E
Net Sales	81,129	105,637	112,070
EBITDA	32,043	42,581	42,166
APAT	25,873	30,608	30,520
Diluted EPS (Rs)	25.0	29.6	29.5
P/E (x)	29.8	25.2	25.3
EV / EBITDA (x)	23.1	17.2	16.9
RoE (%)	23.9	23.3	19.8

Source : Company, HDFC Sec Inst Research

Income Statement

(Rs mn)	FY11	FY12	FY13E	FY14E
Net Sales	57,214	80,054	105,637	112,070
Growth (%)	50.4	40.0	31.7	6.1
Material Expenses	14,607	16,399	21,769	24,989
Employee Expenses	8,190	11,877	15,846	16,250
SG&A Expenses	10,498	13,792	21,213	24,172
Other Operating Expenses	4,352	6,083	4,229	4,492
EBIDTA	19,568	31,902	42,581	42,166
EBIDTA (%)	34.2	39.9	40.3	37.6
EBIDTA Growth (%)	68.6	63.2	32.9	(1.0)
Other Income	3,549	4,715	3,780	4,228
Depreciation	2,049	2,912	3,081	3,499
EBIT	21,068	33,706	43,279	42,895
Interest	738	282	638	638
PBT	20,330	33,424	42,641	42,257
Tax	1,286	3,826	6,993	8,029
Minority Interest	945	3,866	3,873	3,708
E/o Income / (expenses)	0	0	(5,836)	0
APAT	18,161	25,873	30,608	30,520
EPS	17.5	25.0	29.5	29.5
EPS Growth (%)	62.3	42.5	18.3	(0.3)

Source: Company, HDFC Sec Inst Research

Balance Sheet

(Rs mn)	FY11	FY12	FY13E	FY14E
SOURCES OF FUNDS				
Share Capital	1,036	1,036	1,036	1,036
Reserves	78,699	105,529	125,436	149,921
Others	15,099	15,099	15,099	15,099
Total Shareholders Funds	94,833	121,663	141,571	166,056
Minority Interest	8,472	11,615	15,487	19,196
Secured Loans	44	497	497	497
Unsecured Loans	1,529	1,058	539	539
Total Debt	1,573	1,554	1,035	1,035
Other long term provisions	197	1,477	206	206
Deferred Taxes	1,348	1,636	1,636	1,636
TOTAL SOURCES OF FUNDS	106,423	137,945	159,936	188,129
APPLICATION OF FUNDS				
Net Block	25,213	29,274	29,413	30,114
CWIP	2,355	3,467	3,500	3,750
Goodwill	7,720	10,218	12,522	13,532
Non current Investments	3,460	5,890	6,479	6,802
LT loans and advances	3,790	5,338	5,871	6,165
Other non current assets	262	174	192	201
Inventories	14,895	20,870	25,019	27,337
Trade Receivables	11,049	19,261	25,080	26,607
Cash & Equivalents	22,046	33,672	40,028	59,586
ST Loans & Advances	8,492	10,427	13,577	14,403
ST Investments	18,838	16,239	19,487	22,410
Other current assets	612	939	1,222	1,297
Current Assets	75,931	101,408	124,412	151,640
Trade Payables	6,454	8,401	9,500	10,009
ST Borrowings	2,078	1,096	1,130	1,130
Other Current Liabilities	3,624	6,009	7,824	8,300
Provisions	5,153	9,153	11,519	12,305
Current Liabilities	17,309	24,658	29,972	31,745
Net current Assets	58,622	76,750	94,440	119,895
TOTAL APPLICATION OF FUNDS	106,423	137,945	159,936	188,129

Source: Company, HDFC Sec Inst Research

Cash Flow

(Rs mn)	FY11	FY12	FY13E	FY14E
PAT from Operations	19,666	31,286	35,648	34,228
Interest	739	282	638	638
Depreciation	2,049	2,912	3,081	3,499
Working Capital Change	4,877	(10,033)	(10,487)	(3,761)
Others	(4,499)	(965)	(5,182)	0
OPERATING CASH FLOW (a)	22,831	23,482	23,699	34,605
Capex	(4,219)	(7,129)	(3,200)	(4,200)
<i>Free Cash Flow</i>	18,613	16,353	20,499	30,405
Investments & Others	(14,259)	(1,518)	(2,523)	(954)
INVESTING CASH FLOW (b)	(18,477)	(8,647)	(5,723)	(5,154)
Capital Issuance	0	0	0	0
Debt Issuance	(3,787)	(1,049)	0	0
Interest	(866)	(286)	(638)	(638)
Dividend	(3,320)	(4,096)	(6,032)	(6,035)
Others	5,385	16	(4,949)	(3,220)
FINANCING CASH FLOW (c)	(2,588)	(5,413)	(11,620)	(9,893)
NET CASH FLOW (a+b+c)	1,766	9,421	6,356	19,558
Closing Cash	22,046	17,527	40,028	59,586

Source: Company, HDFC Sec Inst Research

Key Ratios

	FY11	FY12	FY13E	FY14E
PROFITABILITY (%)				
GPM	74.5	79.6	79.4	77.7
EBITDA Margin	34.3	40.0	40.3	37.6
EBIT Margin	30.7	36.3	37.4	34.5
PAT Margin	31.7	32.3	29.0	27.2
RoE	21.0	23.9	23.3	19.8
RoCE	21.0	24.8	23.7	20.1
EFFICIENCY				
Tax Rate (%)	6.3	11.4	19.0	19.0
Asset Turnover (x)	0.5	0.6	0.7	0.6
Inventory (days)	372	465	419	399
Debtors (days)	70	88	87	87
Payables (days)	213	211	178	163
Cash Conversion Cycle (days)	229	341	328	323
VALUATION				
EPS (Rs/sh)	17.5	25.0	29.6	29.5
CEPS (Rs/sh)	19.5	27.8	32.5	32.8
BV (Rs/sh)	91.6	117.5	136.7	160.3
P/E	42.5	29.8	25.2	25.3
P/BV	8.1	6.3	5.4	4.6
EV/EBITDA	38.3	23.1	17.2	16.9
EV/Revenues	13.1	9.2	6.9	6.4
Dividend Yield (%)	0.5	0.6	0.7	0.7

Source: Company, HDFC Sec Inst Research

Rating Definitions

BUY	:	Where the stock is expected to deliver more than 15% returns over the next 12 months' period
OUTPERFORM	:	Where the stock is expected to deliver 0 to 15% returns over the next 12 months' period
UNDERPERFORM	:	Where the stock is expected to deliver (-) 10% to 0% returns over the next 12 months' period
SELL	:	Where the stock is expected to deliver less than (-)10% returns over the next 12 months' period

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