

November 09, 2012

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Rating	Accumulate
Price	Rs694
Target Price	Rs735
Implied Upside	5.9%
Sensex	18,684
Nifty	5,686

(Prices as on November 09, 2012)

Trading data

Market Cap. (Rs bn)	718.9
Shares o/s (m)	1,035.6
3M Avg. Daily value (Rs m)	705

Major shareholders

Promoters	63.69%
Foreign	20.44%
Domestic Inst.	5.19%
Public & Other	10.68%

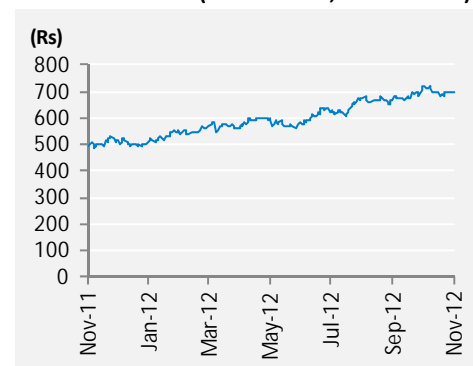
Stock Performance

(%)	1M	6M	12M
Absolute	(4.0)	15.7	41.5
Relative	(3.5)	2.4	33.9

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	26.8	29.2	-8.1
2014	30.5	31.3	-2.7

Price Performance (RIC: SUN.BO, BB: SUNP IN)



Source: Bloomberg

Sun Pharma's Q2FY13 core performance was in line with the estimates, while reported performance was impacted by one-time provision related to Protonix litigation. Top-line growth was led by US business and emerging markets exports. The performance was partly boosted by supplies of exclusivity product Lipodox to US which may not recur in future. At the current price (Adjusted for DCF of FTF opportunities), the stock trades at 26.1x FY13E and 23x FY14E earnings. We maintain **'Accumulate'** with target price of Rs735.

- Core top-line growth boosted by US and emerging markets exports:** Sun Pharma's core top-line is estimated to have grown by 36% YoY to Rs24.3bn. The growth was led by US businesses and emerging markets exports which grew by 66% and 45%, respectively. Domestic formulation business reported slightly muted growth of 15% YoY.
- Adjusted PAT grew by 44% boosted by forex gains:** The company is estimated to have reported 42.5% YoY growth in core EBITDA to Rs10.2bn in line with estimates. There is an improvement in core business margins. Adjusted PAT grew by 44.5% YoY to Rs7.9bn, partially boosted by forex gains. Reported PAT stood at Rs3.2bn impacted by Rs5.8bn provisioning for litigation on Protonix.
- Valuation and View:** Sun Pharma continues to deliver superior performance led by all the business segments. The company has strong balance-sheet to support inorganic growth initiatives. A superior business franchise in US and India are likely to deliver sustained value to the shareholders. However, we believe that all the positives are reflected in the current price. At current price, the stock trades at 26.1x FY13 and 23x FY14. We maintain **'Accumulate'** with target price of Rs735. We believe that the shareholders approval to Taro's open offer remains the next big trigger for the company.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	57,214	80,057	103,657	113,115
Growth (%)	39.5	39.9	29.5	9.1
EBITDA (Rs m)	19,700	32,507	44,313	44,691
PAT (Rs m)	14,041	23,228	27,749	31,535
EPS (Rs)	13.6	22.4	26.8	30.5
Growth (%)	47.8	65.4	19.5	13.6
Net DPS (Rs)	—	—	—	—

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	34.4	40.6	42.8	39.5
RoE (%)	16.2	21.5	21.3	20.9
RoCE (%)	16.2	22.4	22.4	21.1
EV / sales (x)	12.3	8.6	6.5	5.7
EV / EBITDA (x)	35.6	21.2	15.1	14.5
PE (x)	51.2	31.0	25.9	22.8
P / BV (x)	7.6	5.9	5.2	4.4
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

Exhibit 1: Q2FY13 Result Overview - Consolidated (Rs m)

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	Q1FY13	H1FY13	H1FY12	YoY gr. (%)
Net Revenues	26,572	18,946	40.3	26,581	53,154	35,303	50.6
Material Cost	4,886	3,639		5,023	9,909	7,709	
Total MC	4,886	3,639	34.3	5,023	9,909	7,709	28.5
<i>As % of Sales</i>	<i>18.4</i>	<i>19.2</i>		<i>18.9</i>	<i>18.6</i>	<i>21.8</i>	
Staff Cost	3,568	2,727	30.8	3,512	7,080	5,513	28.4
COGS	8,453	6,366	32.8	8,535	16,989	13,223	28.5
<i>As % of Sales</i>	<i>31.8</i>	<i>33.6</i>		<i>32.1</i>	<i>32.0</i>	<i>37.5</i>	
Research & Development	1,402	891		1,390	2,792	1,776	
<i>As % of Sales</i>	<i>5.3</i>	<i>4.7</i>		<i>5.2</i>	<i>5.3</i>	<i>5.0</i>	
SG&A (Other Expenditure)	5,032	3,849		4,488	9,520	6,990	
<i>As % of Sales</i>	<i>18.9</i>	<i>20.3</i>		<i>16.9</i>	<i>17.9</i>	<i>19.8</i>	
Total Expenditure (excl Indirect taxes)	14,888	11,106	34.1	14,413	29,301	21,988	33.3
EBDIT (including Op OI)	11,685	7,840	49.0	12,169	23,853	13,315	79.1
Depreciation / Amortisation	829	668	24.2	801	1,630	1,315	24.0
Net Interest Income/(Exp)	(283)	417	NA	212	(495)	733	NA
Other Income	1,759	765	129.8	19	1,740	1,419	22.7
PBT before EO Item	12,332	8,355		11,136	23,468	14,151	
EO exp/(inc)	5,836	-			5,836	-	
PBT after EO Item	6,496	8,355		11,136	17,633	14,151	
Provision for Tax	2,139	1,281		1,925	4,064	1,424	
<i>Effective tax rate (%)</i>	<i>32.9</i>	<i>5.5</i>		<i>17.3</i>	<i>23.0</i>	<i>10.1</i>	
Profit After Tax	4,358	7,074	(38.4)	9,211	13,569	12,728	6.6
Minority Interest	1,161	1,097		1,256	2,417	1,740	
Net Profit	3,196	5,977	(46.5)	7,956	11,152	10,988	1.5
Adj PAT after minority interest	3,196	5,977	(46.5)	7,956	15,643	10,988	42.4

Source: Company Data, PL Research

Top-line performance led by Taro; however, profits impacted by one-time provisioning

Sun Pharma's Q2FY13 core performance was in line with estimates. Reported operating performance was boosted by contribution from exclusivity product opportunity.

Core top-line growth boosted by US and emerging markets exports: Sun Pharma's core top-line is estimated to have grown 36% YoY to Rs24.3bn. The growth was led by US business and emerging markets exports.

Overall revenue from the US grew by 66% YoY to Rs13.3bn led by strong 36% YoY growth in revenue from Taro to Rs7.25bn. Further, during this quarter, US revenues are boosted by supplies of exclusivity product Lipidox to US market. We estimate revenue of US\$60m revenue from Lipidox for the quarter. Excluding the contribution from Lipidox, revenues are likely to have grown by 26% YoY to Rs10bn. Exports to emerging markets reported growth of 45% YoY to Rs3.7bn. The management indicated that the revenue from Lipidox is likely to go down, going forward, since the innovator is back in the market.

Domestic formulation business reported slightly muted growth of 15% to Rs8.4bn. The management indicated that the company will continue to outperform the industry, going forward.

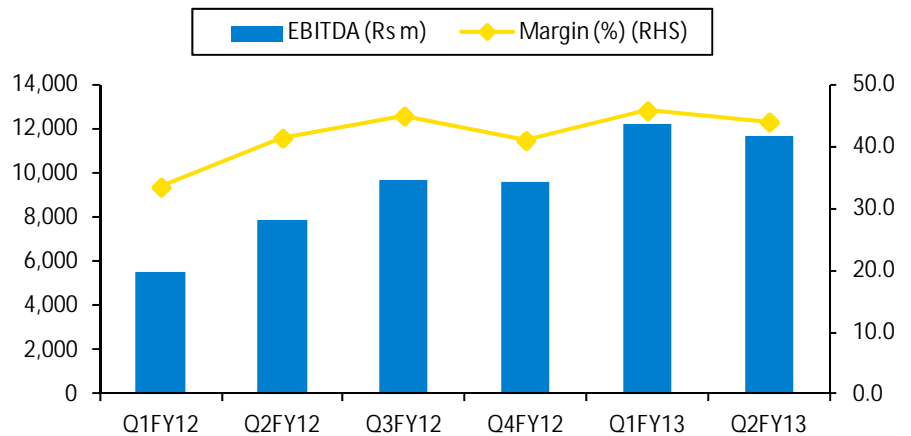
Exhibit 2: Revenue Mix (Rs m)

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	1QFY13	QoQ gr. (%)
Formulations	25,125	17,604	42.7	24,954	0.7
India	8,099	7,046	14.9	5,877	37.8
US	13,301	7,991	66.5	15,411	(13.7)
RoW	3,726	2,567	45.1	3,666	1.6
API	1,758	1,603	9.6	2,002	(12.2)
Others	125	4	NA	18	NA
Gross Revenues	27,008	19,211	40.6	26,974	0.1

Source: Company Data, PL Research

Core EBITDA is estimated to have grown by 42%: The company is estimated to have reported 42% YoY growth in core EBITDA to Rs10.2bn in line with estimates. There is improvement in core business margins led by favourable currency. On reported basis, EBITDA grew by 49% YoY to Rs11.7bn boosted by supplies of Lipidox in US.

Exhibit 3: EBITDA & Margin Trend



Source: Company Data, PL Research

Adjusted PAT grew by 44.5%: Sun Pharma’s adjusted PAT grew by 44.5% YoY to Rs7.9bn, led by better core operational performance and higher other income owing to the forex gains. The reported PAT declined by 46.5% YoY to Rs3.2bn due to Rs5.8bn provisioning for Protonix litigation.

Acquisition of DUSA further strengthens dermatology franchise in US: Sun Pharma announced acquisition of DUSA pharmaceuticals, a US based specialty dermatology company for US\$230m. This further strengthens Sun Pharma’s dermatology franchise in US with DUSA’s Levulan combination therapy. This acquisition will help company to launch some of its own products being developed by using technologies developed by DUSA Pharma.

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	57,214	80,057	103,657	113,115
Raw Material Expenses	14,607	16,413	19,695	23,754
Gross Profit	42,607	63,644	83,962	89,361
Employee Cost	—	—	—	—
Other Expenses	22,908	31,137	39,649	44,669
EBITDA	19,700	32,507	44,313	44,691
Depr. & Amortization	2,041	2,912	3,634	3,943
Net Interest	577	282	1,000	1,000
Other Income	3,276	4,240	3,553	4,658
Profit before Tax	20,358	33,554	43,232	44,406
Total Tax	1,284	3,826	7,782	8,881
Profit after Tax	19,074	29,727	35,450	35,525
Ex-Od items / Min. Int.	5,033	6,499	(3,970)	3,990
Adj. PAT	14,041	23,228	27,749	31,535
Avg. Shares O/S (m)	1,035.6	1,035.6	1,035.6	1,035.6
EPS (Rs.)	13.6	22.4	26.8	30.5

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	18,397	23,493	38,033	37,349
C/F from Investing	(8,510)	(10,205)	(5,000)	(4,500)
C/F from Financing	5,977	(1,553)	(14,590)	(9,515)
Inc. / Dec. in Cash	15,864	11,736	18,442	23,334
Opening Cash	6,072	21,936	33,672	52,115
Closing Cash	21,936	33,672	52,115	75,449
FCFF	(6,631)	10,371	24,331	27,859
FCFE	(4,087)	8,854	24,331	27,859

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	39.5	39.9	29.5	9.1
EBITDA (%)	44.5	65.0	36.3	0.9
PAT (%)	47.8	65.4	19.5	13.6
EPS (%)	47.8	65.4	19.5	13.6
Profitability				
EBITDA Margin (%)	34.4	40.6	42.8	39.5
PAT Margin (%)	24.5	29.0	26.8	27.9
RoCE (%)	16.2	22.4	22.4	21.1
RoE (%)	16.2	21.5	21.3	20.9
Balance Sheet				
Net Debt : Equity	(0.2)	(0.3)	(0.4)	(0.4)
Net Wrkng Cap. (days)	214	231	260	250
Valuation				
PER (x)	51.2	31.0	25.9	22.8
P / B (x)	7.6	5.9	5.2	4.4
EV / EBITDA (x)	35.6	21.2	15.1	14.5
EV / Sales (x)	12.3	8.6	6.5	5.7
Earnings Quality				
Eff. Tax Rate	6.3	11.4	18.0	20.0
Other Inc / PBT	16.1	12.6	8.2	10.5
Eff. Depr. Rate (%)	4.5	5.5	6.2	6.3
FCFE / PAT	(29.1)	38.1	87.7	88.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	94,833	121,664	139,091	162,111
Total Debt	4,256	2,739	2,739	2,739
Other Liabilities	4,819	6,416	10,849	14,838
Total Liabilities	103,908	130,818	152,678	179,689
Net Fixed Assets	27,940	32,916	34,282	34,839
Goodwill	7,720	10,218	10,218	20,918
Investments	22,310	22,129	22,129	11,429
Net Current Assets	45,939	65,556	86,050	112,503
<i>Cash & Equivalents</i>	<i>21,936</i>	<i>33,672</i>	<i>52,115</i>	<i>75,449</i>
<i>Other Current Assets</i>	<i>38,236</i>	<i>56,834</i>	<i>61,342</i>	<i>69,418</i>
<i>Current Liabilities</i>	<i>14,234</i>	<i>24,950</i>	<i>27,407</i>	<i>32,364</i>
Other Assets	—	—	—	—
Total Assets	103,908	130,819	152,679	179,689

Quarterly Financials (Rs m)

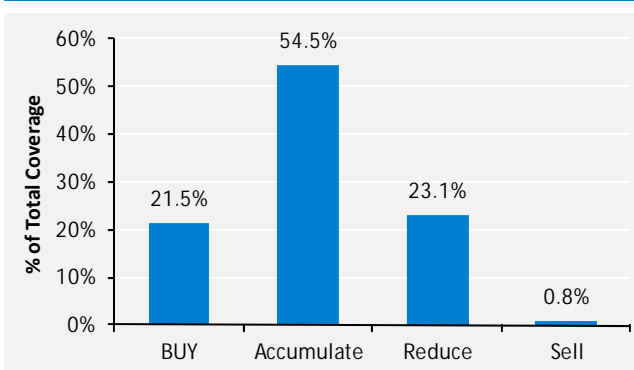
Y/e March	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Net Revenue	21,451	23,299	26,581	26,572
EBITDA	9,637	9,552	12,169	11,685
<i>% of revenue</i>	<i>44.9</i>	<i>41.0</i>	<i>45.8</i>	<i>44.0</i>
Depr. & Amortization	774	823	801	829
Net Interest	(591)	(552)	212	283
Other Income	(272)	2,082	(231)	1,476
Profit before Tax	8,591	10,811	11,136	12,332
Total Tax	634	1,768	1,925	2,139
Profit after Tax	6,683	8,202	7,956	3,196
Adj. PAT	6,110	7,279	5,837	7,883

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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