

Sun Pharmaceutical Industries

9 November 2012

Reuters: SUN.BO; Bloomberg: SUNP IN

Strong Performance, But Stretched Valuation

Sun Pharmaceutical Industries (SPL) reported better-than-expected earnings for 2QFY13, which coupled with the management's guidance of 30%-32% revenue growth for FY13 (from 18-20% earlier) and Dusa buyout led us to revise our FY13E/14E EPS up by 9%/3%, respectively. We have revised our TP up marginally, from Rs638 to Rs651, but retained our Sell rating on SPL due to stretched valuation (24x FY14E EPS) as we feel maintaining organic growth in FY14 will be a challenge in the wake of a high FY13 base and commoditised product pipeline.

2QFY13 results above expectations: SPL made a one-time provision of ~US\$110mn (~10% of Wyeth's claim of US\$960mn) for Protonix, owing to which reported PAT of Rs3.2bn was significantly below our estimate. We have noted that the provision is much below our expectation of ~US\$. Adjusted for this, PAT stood at Rs9.0bn, 22%/18% above our/consensus estimates, respectively. Revenue stood at Rs26.7bn, in line with our estimate and 8% above consensus estimate. Domestic growth moderated to 15%YoY - partly on account of pre-booked sales in 4QFY12 - while US revenue declined by ~US\$40mn QoQ, which we believe is largely on account of moderation in Lipodox sales (our estimate is ~US\$20mn). Rest-of-the-world (ROW) markets grew 21%YoY in constant currency terms (34% excluding Taro). EBITDA margin stood at 44.1%, in line with our estimate of 43.7% and 265bps above consensus estimate. Excluding Taro, we believe margins are at ~41% for SPL.

Dusa Pharmaceuticals acquisition is strategic fit at premium valuation: SPL's tender offer of US\$8/share, or US\$230mn, to acquire 28.8mn outstanding shares of Dusa Pharmaceuticals values the latter at 4.4x CY12E revenue and 33x PAT. Dusa is a vertically integrated dermatology company developing and marketing Levulan PDT (photodynamic therapy platform) technology. We feel the deal is at a premium, considering other recent buyouts - Valeant-Medicis and Sandoz-Fougera acquisitions took place at 3.6x revenue. While Dusa has no direct synergy with Taro's business, we believe the acquisition fits well into SPL's strategy to consolidate its presence in the high-growth US dermatology segment, where it already is a leading player. We expect this acquisition to add 3.0%/2.4% to SPL's FY14E revenue/PAT, respectively.

Raise earnings estimates: We have revised our FY13E/FY14E EPS upwards by 9%/3%, respectively, factoring in strong 1HFY13 performance and Dusa acquisition. Consequently, we have revised our TP marginally upwards by 2% to Rs651, valuing the stock at 22x FY14E revised EPS of Rs29.6 and retained our Sell rating on it.

SELL

Sector: Pharmaceuticals

CMP: Rs694

Target Price: Rs651

Downside: 6%

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Key Data

Current Shares O/S (mn)	1,034.0
Mkt Cap (Rsbn/US\$bn)	717.8/13.1
52 Wk H / L (Rs)	729/486
Daily Vol. (3M NSE Avg.)	979,436

Price Performance (%)

	1 M	6 M	1 Yr
Sun Pharma	(4.0)	15.7	41.5
Nifty Index	(0.3)	14.3	8.9

Source: Bloomberg

Y/E March (Rsmn)	2QFY12	1QFY13	2QFY13	YoY (%)	QoQ (%)	1HFY12	1HFY13	YoY (%)
Net revenue	18,946	26,835	26,639	40.6	(0.7)	35,303	53,473	51.5
Total raw material costs	3,639	5,023	4,886	34.3	(2.7)	7,709	9,909	28.5
Raw material costs/net revenue (%)	19.2	18.7	18.3	-	-	21.8	18.5	-
Personnel costs	2,727	3,512	3,568	30.8	1.6	5,513	7,080	28.4
Personnel costs/ net revenue (%)	14.4	13.1	13.4	-	-	15.6	13.2	-
Other expenses	4,740	5,878	6,434	35.7	9.5	8,766	12,312	40.5
Other expenses/net revenue (%)	25.0	21.9	24.2	-	-	24.8	23.0	-
PBIDT	7,840	12,422	11,751	49.9	(5.4)	13,315	24,173	81.5
PBIDT/net revenue (%)	41.4	46.3	44.1	-	-	37.7	45.2	-
Other income	765	(272)	1,693	121.2	(721.9)	1,419	1,421	0.1
Interest costs	(417)	212	283	(167.7)	33.2	(733)	495	(167.5)
Depreciation	668	801	829	24.2	3.4	1,315	1,630	24.0
Exceptional item	-	-	(5,836)	-	-	-	(5,836)	-
PBT	8,355	11,136	6,496	(22.2)	(41.7)	14,151	17,633	24.6
Tax	1,281	1,925	2,139	67.0	11.1	1,424	4,064	185.4
Tax/PBT (%)	15.3	17.3	32.9	-	-	10.1	23.0	-
PAT	7,074	9,211	4,358	(38.4)	(52.7)	12,728	13,569	6.6
Share of minority partner	1,097	1,256	1,161	5.8	(7.5)	1,740	2,417	38.9
Reported PAT	5,977	7,956	3,196	(46.5)	(59.8)	10,987	11,152	1.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	41,028	58,341	80,064	104,269	114,241
YoY (%)	(4.0)	42.2	37.2	30.2	9.6
EBITDA	13,633	19,672	32,521	45,253	44,211
EBITDA (%)	33.2	33.7	40.6	43.4	38.7
Adj.PAT	13,512	18,609	25,810	31,974	30,263
YoY (%)	(25.7)	37.7	38.7	23.9	(5.4)
Fully DEPS	13.0	18.0	24.9	30.9	29.2
RoE (%)	18.2	21.5	24.7	25.2	20.1
RoCE (%)	15.3	18.4	24.9	29.6	24.0
P/E (x)	53.2	38.6	27.8	22.5	23.7
EV/EBITDA (x)	52.4	35.6	21.3	15.1	15.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segmental break-up

Y/E March (Rsmn)	2QFY12	1QFY13	2QFY13	YoY (%)	QoQ (%)	1HFY12	1HFY13	YoY (%)
India formulations	7,046	5,877	8,099	14.9	37.8	13,431	13,975	4.1
US formulations	7,991	15,411	13,301	66.5	(13.7)	14,211	28,712	102.0
ROW formulations	2,567	3,666	3,726	45.1	1.6	5,089	7,392	45.3
Total formulations	17,604	24,955	25,125	42.7	0.7	32,730	50,079	53.0
Bulk	1,603	2,002	1,758	9.6	(12.2)	3,079	3,760	22.1
Others	4	18	125	2,953.7	591.7	6	143	2,414.0
Total sales	19,211	26,974	27,008	40.6	0.1	35,815	53,982	50.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Taro financials

Y/E December (US\$mn)	3QCY11	2QCY11	3QCY12	YoY (%)	QoQ (%)
Net revenue	138	159	161	16.4	1.1
Total raw material costs (a+b)	45	45	40	(11.8)	(12.0)
TMC/net revenue (%)	32.5	28.3	24.6	-	-
SG&A	24	24	28	14.5	18.6
SG&A/net revenue (%)	17.7	14.8	17.4	-	-
R&D expenses	7	12	11	57.8	(5.0)
R&D expenses/net revenue (%)	5.0	7.2	6.8	-	-
PBIDT	62	79	82	33.1	4.3
PBIDT/gross sales (%)	44.8	49.6	51.2	-	-
Other income	16	0	(1)	-	-
Interest costs	2	(0)	(0)	(116.5)	(21.7)
PBT	77	80	82	6.8	2.8
Tax expenses	18	17	16	(10.3)	(0.5)
PAT	58	63	65	12.2	3.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Actuals versus our estimates, Bloomberg consensus estimates

	Actuals	NBIE estimates	Variation (%)	BBG cons. est.	Variation (%)
Revenue	26,639	25,730	3.5	26,025	2.4
EBITDA	11,751	11,237	4.6	10,791	8.9
EBITDA margin (%)	44.1	43.7	-	41.5	-
PAT	3,196	7,426	(57.0)	7,632	(58.1)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our earnings estimates

(Rsmn)	FY13E			FY14E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	99,869	104,269	4.4	106,190	114,241	7.6
EBITDA	40,447	45,253	11.9	40,352	44,211	9.6
EBITDA margin (%)	40.5	43.4	-	38.0	38.7	-
Adjusted PAT	29,349	31,974	8.9	29,486	30,263	2.6

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
19 October 2012	Sell	700	638

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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