

Sun Pharma

Performance Highlights

(₹ cr)	3QFY2013	2QFY2012	% chg qoq	3QFY2012	% chg yoy
Net sales	2,852	2,657	7.3	2,145	33.0
Other income	81	176	(53.8)	(27)	-
Gross profit	2,293	2,169	5.7	1,767	29.7
Operating profit	1,261	1,169	7.9	964	30.9
Adj. Net profit	881	711	24.0	668	31.9

Source: Company, Angel Research

Sun Pharmaceutical Industries (Sun Pharma) reported a much higher-than-expected 3QFY2013 performance. Its net sales reported a 33.0% yoy growth. The adjusted net profit grew by 31.9% yoy, driven by a higher-than-expected improvement in sales and a higher-than-expected expansion in the OPM, which came in at 44.2% vs our expectation of 40.6%. However, on account of the stock's rich valuation, we **recommend a Neutral rating on the stock.**

Better-than-expected results: For 3QFY2013, Sun Pharma reported net sales of ₹2,852cr, up 33.0% yoy, mainly driven by exports. The company's OPM contracted to 44.2% in 3QFY2013 from 44.9% in 3QFY2012. Also, the gross margin came in lower at 80.4% from 82.4% in 3QFY2012. The net profit during the quarter reported a 31.9% yoy growth to ₹881cr, which is higher than our expectations, mainly on the back of a higher sales growth and expansion in the OPM.

Outlook and valuation: Sun Pharma is one of the largest and fastest growing Indian pharmaceutical companies. We expect its net sales to post a 25.2% CAGR over FY2012-14 to ₹12,563cr. However, on account of higher taxation, we expect a flat EPS of ₹29.8 over FY2012-14. **However, on account of rich valuations, we recommend a Neutral stance on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	5,721	8,019	10,111	12,563
% chg	34.8	40.2	26.1	24.2
Net profit	1,777	2,388	2,993	3,086
% chg	31.8	34.3	25.4	3.1
EPS (₹)	17.5	23.1	28.9	29.8
EBITDA margin (%)	34.4	39.9	42.6	42.6
P/E (x)	42.4	32.3	25.7	25.0
RoE (%)	20.5	22.1	22.3	19.2
RoCE (%)	19.0	24.6	26.9	27.6
P/BV (x)	8.1	6.3	5.2	4.4
EV/Sales (x)	13.2	9.2	6.5	5.0
EV/EBITDA (x)	38.3	23.1	15.3	11.7

Source: Company, Angel Research

NEUTRAL

CMP ₹744
 Target Price -

Investment Period -

Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	77,054
Net Debt (₹ cr)	(5,229)
Beta	0.5
52 Week High / Low	776/535
Avg. Daily Volume	65,943
Face Value (₹)	1
BSE Sensex	19,485
Nifty	5,904
Reuters Code	SUN.BO
Bloomberg Code	SUNP@IN

Shareholding Pattern (%)

Promoters	63.7
MF / Banks / Indian FIs	9.5
FII / NRIs / OCBs	21.6
Indian Public / Others	5.2

Abs. (%)	3m	1yr	3yr
Sensex	3.4	10.0	22.3
Sun Pharma	6.9	35.4	146.5

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Exhibit 1: 3QFY2013 performance (Consolidated)

Y/E March (₹ cr)	3QFY2013	2QFY2013	% chg qoq	3QFY2012	% chg yoy	9MFY2013	9MFY2012	% chg
Net sales	2,852	2,657	7.3	2,145	33.0	8,167	5,675	43.9
Other income	81.3	175.9	-	(27.2)	-	255.3	204.9	24.6
Total income	2,933	2,833	3.5	2,118	38.5	8,423	5,880	43.2
Gross profit	2,293	2,169	5.7	1,767	29.7	6,617	4,526	46.2
Gross margin (%)	80.4	81.6		82.4		81.0	79.8	
Operating profit	1,261	1,169	7.9	964	30.9	3,646	2,295	58.9
Operating margin (%)	44.2	44.0		44.9		44.6	40.4	
Interest	(12)	28	-	0		37	17	-
Depreciation	84	83	1.9	77	9.1	247	209	18.5
PBT	1,270	1,233	3.0	859	47.9	3,617	2,274	59.0
Provision for taxation	237	214	10.7	63	273.4	643	206	212.6
PAT before extra-ordinary item	1,033	1,019	1.4	796	29.9	2,974	2,068	43.8
Minority interest(MI)	152	116	31.0	127	19	394	301	31
Extraordinary item loss/ (gain)	0	584		0		584	0	
PAT after extra-ordinary item & MI	881	320	175.6	668	31.9	1,996	1,767	13.0
Adj. PAT	881	711	24.0	668	31.9	2,456	1,767	39.0
EPS (₹)	8.5	6.9		6.5		23.7	17.1	

Source: Company, Angel Research

Exhibit 2: 3QFY2013 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variance (%)
Net sales	2,852	2,383	19.7
Other income	81	50	62.6
Operating profit	1,261	966	30.5
Tax	237	233	1.5
Adj. Net profit	881	584	50.9

Source: Company, Angel Research

Higher-than-expected top-line performance: For 3QFY2013, Sun Pharma reported net sales of ₹2,852cr, up 33.0% yoy, mainly driven by exports.

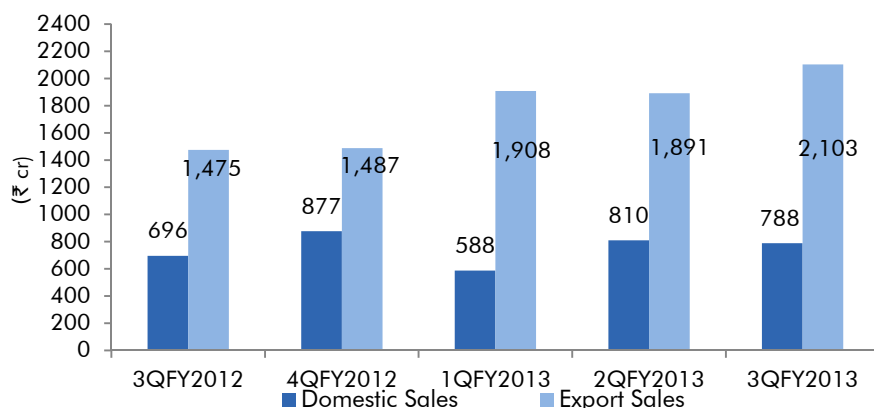
The growth in the top-line was mainly driven by US formulations, which grew by 32% yoy during the period to close the quarter at US\$276mn, accounting for 52% of the overall sales. Taro on the other hand clocked sales of US\$186mn, registering a growth of 25% yoy. ROW, also posted a healthy growth of 31% yoy to end the period at US\$73mn.

During the quarter, the DUSA acquisition achieved financial closure. DUSA is a dermatology company focused on developing and marketing its Levulan® (Aminolevulinic Acid HCl) photodynamic therapy platform.

Overall, exports sales of finished dosage products stood at ₹2,103cr in 3QFY2013, accounting for 73% of total sales.

On the regulatory front, abbreviated new drug application (ANDA) for 8 products was filed during the quarter. With this, ANDAs for 403 products cumulatively have been filed by Sun Pharma and Taro with the USFDA. ANDAs for 2 products received approval in 3QFY2013. Currently, ANDAs for 142 products await USFDA approval, including 17 tentative approvals.

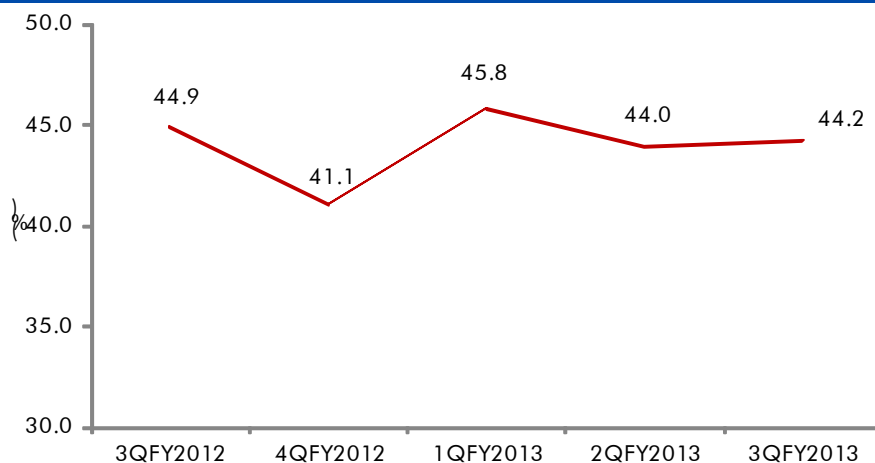
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM much higher than expectations: The company’s OPM contracted to 44.2% in 3QFY2013 from 44.9% in 3QFY2012. Also, the gross margin came lower at 80.4% from 82.4% in 3QFY2012.

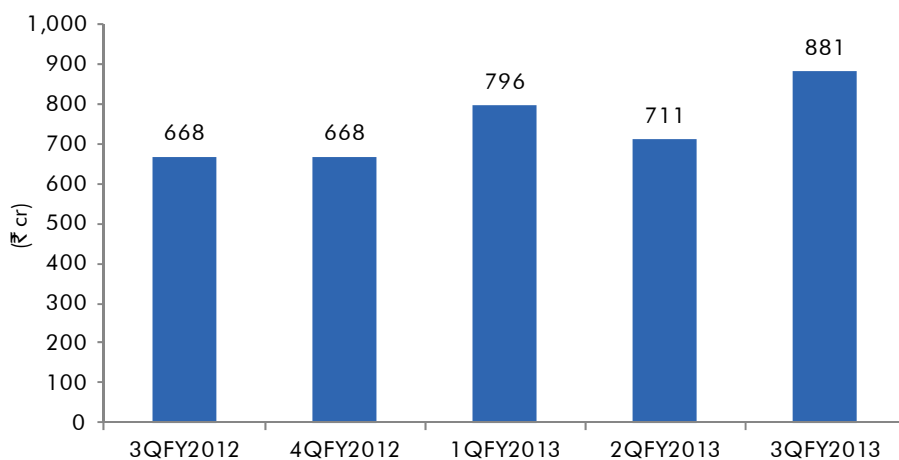
Exhibit 4: OPM trend (%)



Source: Company, Angel Research

Adj. net profit came in above expectations: The net profit during the quarter reported a 31.9% yoy growth to ₹881cr, which is higher than our expectations, mainly on the back of sales growth and an OPM’s higher than expected.

Exhibit 5: Net profit trend



Source: Company, Angel Research

Concall takeaways

- The company has withdrawn its offer of acquisition of residual shares of Taro as the offer price is lower than the current share price and is not acceptable to Taro's shareholders.
- The domestic business grew by 19% yoy, adjusted for an one-off sale in the same quarter last year.
- URL Pharma has 107 products in its portfolio, of which, several are not there in the market.

Investment arguments

Strongest ANDA pipeline: Sun Pharma's US business posted a 33% CAGR over FY2005–10, which contributed 30% to its total turnover in FY2010. Sun Pharma, along with Caraco and Taro, now has 142 ANDAs pending USFDA approval, which is one of the highest in the Indian pharma space. Sun Pharma has filed around 30 ANDAs in each of the past few years. The company indicated that it would file ~25 ANDAs in FY2013 as well. On the Caraco front, the resolution of the USFDA issue is not clear. The company's remediation work plan to the USFDA on Caraco is ongoing.

Domestic business: Sun Pharma's domestic formulation business has grown at a 23% CAGR, ie above the industry's average over FY2005–12. It contributed 36% to the company's total turnover in FY2012. The company has 3,000 MRs and its field force productivity is among the highest at around ₹97lakh/MR per year, which has resulted in high margins from the segment. The company has a market share of around 4.6%, with exposure to psychiatry, neurology, CVS, diabetic and gastroenterology segments. In FY2012, Sun Pharma launched 22 products in the domestic market.

Healthy balance sheet: Sun Pharma has one of the strongest balance sheets in the sector, with cash of around ₹5,000cr. The Management has indicated that it is looking at inorganic growth and scouting for acquisitions, especially in the US and the emerging markets.

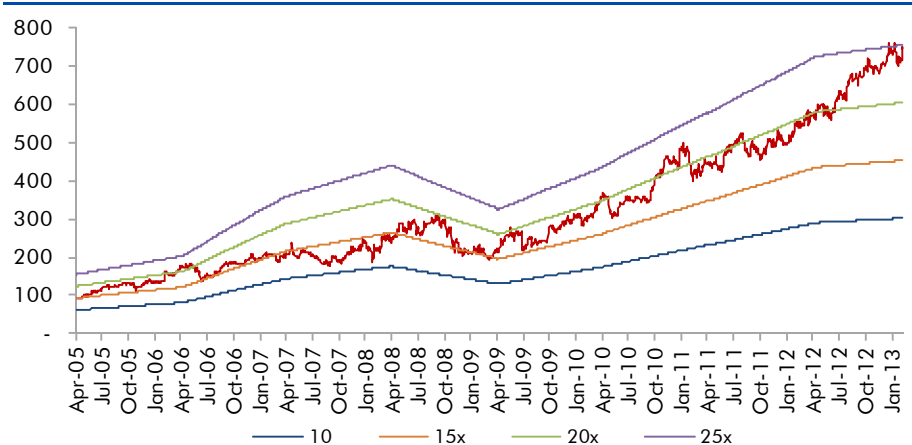
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Exhibit 6: Key assumptions

	FY2013E	FY2014E
Net sales growth (%)	26.1	24.2
Growth in employee expenses (%)	17.7	24.2
Operating margins (%)	42.6	42.6
Capex (₹cr)	700	700

Source: Company, Angel Research

Exhibit 7: One-year forward PE band



Source: Company, Angel Research

Exhibit 8: Recommendation Summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside %	FY2014E		FY12-14E		FY2014E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma.	Buy	74	95	28.4	7.8	0.9	5.0	17.1	29.4	30.2
Aurobindo Pharma	Accumulate	184	208	13.0	13.1	1.3	8.9	69.7	10.7	17.8
Cadila Healthcare	Neutral	791	-	-	20.0	2.4	13.6	11.5	17.2	24.8
Cipla	Accumulate	381	419	9.9	17.6	3.1	12.6	23.2	19.1	17.6
Dr Reddy's	Neutral	1,857	-	-	20.0	2.8	13.4	2.3	15.1	20.8
Dishman Pharma	Buy	99	145	46.5	7.3	1.1	5.5	26.6	8.7	11.0
GSK Pharma*	Neutral	2,093	-	-	25.4	5.0	16.0	8.7	38.9	29.0
Indoco Remedies	Buy	61	78	27.9	7.8	0.9	6.0	24.8	14.6	15.6
Ipca labs	Accumulate	482	559	15.9	12.9	1.9	9.1	30.6	25.7	26.4
Lupin	Accumulate	598	655	9.5	19.0	2.7	12.4	27.2	24.9	25.2
Ranbaxy*	Neutral	429	-	-	13.3	1.5	9.3	50.3	29.7	16.1
Sanofi India*	Neutral	2,292	-	-	26.1	2.9	17.3	2.7	12.5	14.8
Sun Pharma	Neutral	744	-	-	25.0	5.0	11.7	0.1	27.6	19.2

Source: Company, Angel Research; Note: *December year ending

Company background

Sun Pharma is an international specialty pharma company, with a large presence in the US and India, and a footprint across 40 other markets. In India and rest of the world markets, the key chronic therapy areas for the company are cardiology, psychiatry, neurology, gastroenterology, diabetology etc. We are market leaders in specialty therapy areas in India. In India, the company has emerged as a leading pharma company in India where we are the 6th largest by prescription sales. Also, in the US, a key geography, the company has expanded significantly through both in-organic and organic routes.

Profit & Loss statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Gross sales	4,375	3,981	5,807	8,127	10,245	13,580
Less: Excise duty	103	27	85	107	134	237
Net sales	4,273	4,007	5,721	8,019	10,111	12,563
Other operating income	4	237	-	-	5	5
Total operating income	4,276	4,244	5,721	8,019	10,116	12,567
% chg	27.3	(0.8)	34.8	40.2	26.1	24.2
Total expenditure	2,408	2,644	3,754	4,816	5,802	7,209
Net raw materials	856	1,098	1,461	1,640	1,972	2,450
Other mfg costs	202	221	314	350	442	549
Personnel	340	401	800	1,188	1,399	1,738
Other	1,011	925	1,494	1,639	1,990	2,472
EBITDA	1,864	1,363	1,967	3,203	4,309	5,354
% chg	20.2	(26.9)	44.3	62.8	34.5	24.2
(% of Net Sales)	43.6	34.0	34.4	39.9	42.6	42.6
Depreciation & amort.	123	153	204	291	347	453
EBIT	1,741	1,210	1,763	2,912	3,962	4,900
% chg	19.7	(30.5)	45.7	65.2	36.1	23.7
(% of Net Sales)	40.7	30.2	30.8	36.3	39.2	39.0
Interest & other charges				28		
Other income	205	205	273	472	355	355
(% of PBT)	10.5	14.5	13.4	14.1	8.2	7.8
Share in profit of Asso.	-	-	-	-	-	-
Recurring PBT	1,950	1,415	2,036	3,355	4,322	4,545
% chg	21.9	(27.4)	43.9	64.8	28.8	5.2
Extraordinary expense/(inc.)	(24.4)	(1.2)	(38.9)	(200)	-	-
PBT (reported)	1,950	1,415	2,036	3,355	4,322	4,545
Tax	71.2	67.9	128.4	382.6	864.4	909.0
(% of PBT)	3.7	4.8	6.3	11.4	20.0	20.0
PAT (reported)	1,878	1,347	1,907	2,973	3,458	3,636
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	60	(4)	91	385	464	550
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	1,818	1,351	1,816	2,587	2,993	3,086
ADJ. PAT	1,794	1,349	1,777	2,388	2,993	3,086
% chg	21.6	(24.8)	31.8	34.3	25.4	3.1
(% of Net Sales)	42.6	33.7	31.7	32.3	29.6	24.6
Basic EPS (₹)	17.6	13.0	17.5	23.1	28.9	29.8
Fully Diluted EPS (₹)	17.6	13.0	17.5	23.1	28.9	29.8
% chg	22.3	(25.7)	34.4	31.5	25.4	3.1

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity share capital	104	104	104	104	104	104
Preference capital	-	-	-	-	-	-
Reserves & surplus	6,941	7,725	9,380	12,063	14,633	17,294
Shareholders funds	7,045	7,829	9,483	12,166	14,736	17,398
Minority interest	197	193	847	1,161	1,625	2,176
Total loans	179	171	426	321	321	321
Deferred tax liability	(68)	(89)	(365)	(520)	(520)	(417)
Other Long Term Liabilities			7	9		
Long Term Provisions			13	139		
Total liabilities	7,353	8,104	10,411	13,276	16,162	19,374
APPLICATION OF FUNDS						
Gross block	2,148	2,334	4,547	5,427	6,127	6,827
Less: Acc. depreciation	685	801	2,026	2,497	2,844	3,297
Net block	1,463	1,533	2,521	2,930	3,283	3,530
Capital work-in-progress	157	145	235	345	345	345
Goodwill	325	406	772	1,022	1,972	1,972
Investments	1,859	3,066	2,230	2,213	2,213	2,213
Long term long & adv.			379	534	672	835
Current assets	4,268	3,712	5,736	8,534	11,251	14,919
Cash	1,669	607	2,205	3,367	4,736	6,825
Loans & advances	742	856	910	1,137	1,433	1,780
Other	1,857	2,249	2,651	4,031	5,082	6,314
Current liabilities	720	758	1,463	2,301	2,901	3,604
Net current assets	3,548	2,954	4,273	6,234	8,350	11,315
Others	-	-	-	-	-	-
Total assets	7,353	8,104	10,411	13,276	16,162	19,374

Cash Flow Statement (Consolidated)

Y/E March (₹cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	1,949	1,415	2,036	3,355	4,322	4,545
Depreciation	123	153	204	291	347	453
(Inc)/Dec in working capital	3	(467)	(131)	(768)	(748)	(876)
Direct taxes paid	169	162	87	466	864	909
Cash Flow from Operations	1,907	938	2,022	2,413	3,057	3,213
(Inc.)/Dec.in Fixed Assets	(640)	(174)	(2,304)	(989)	(700)	(700)
(Inc.)/Dec. in Investments	(1,103)	(1,207)	837	17	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(1,744)	(1,381)	(1,467)	(972)	(700)	(700)
Issue of Equity	-	-	-	-	-	-
Inc./Dec.) in loans	(35)	8	(254)	105	-	-
Dividend Paid (Incl. Tax)	(242)	(333)	(344)	(424)	(424)	(424)
Others	545	(294)	1,640	41	(564)	-
Cash Flow from Financing	267	(619)	1,042	(278)	(988)	(424)
Inc./Dec.) in Cash	430	(1,062)	1,597	1,163	1,369	2,089
Opening Cash balances	1,239	1,669	607	2,205	3,367	4,736
Closing Cash balances	1,669	607	2,205	3,367	4,736	6,825

Key Ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	42.4	57.0	42.4	32.3	25.7	25.0
P/CEPS	39.7	51.2	38.1	26.8	23.1	21.8
P/BV	10.9	9.8	8.1	6.3	5.2	4.4
Dividend yield (%)	1.8	1.8	0.5	0.6	0.6	0.6
EV/Sales	17.7	19.1	13.2	9.2	6.5	5.0
EV/EBITDA	40.5	56.2	38.3	23.1	15.3	11.7
EV / Total Assets	10.3	9.5	7.2	5.6	4.1	3.2
Per Share Data (₹)						
EPS (Basic)	17.6	13.0	17.5	23.1	28.9	29.8
EPS (fully diluted)	17.6	13.0	17.5	23.1	28.9	29.8
Cash EPS	18.7	14.5	19.5	27.8	32.3	34.2
DPS	13.8	13.8	3.5	4.3	4.3	4.3
Book Value	68.0	75.6	91.6	117.5	142.3	168.0
Dupont Analysis						
EBIT margin	40.7	30.2	30.8	36.3	39.2	39.0
Tax retention ratio	96.3	95.2	93.7	88.6	80.0	80.0
Asset turnover (x)	0.9	0.6	0.7	0.9	0.9	1.0
ROIC (Post-tax)	34.3	18.5	21.0	28.5	29.7	32.7
Cost of Debt (Post Tax)	0.0	0.0	0.0	6.7	0.0	0.0
Leverage (x)	(0.2)	(0.1)	(0.1)	(0.2)	(0.3)	(0.3)
Operating ROE	26.9	16.0	18.5	23.7	21.6	21.7
Returns (%)						
ROCE (Pre-tax)	27.4	15.7	19.0	24.6	26.9	27.6
Angel ROIC (Pre-tax)	38.5	19.9	24.9	37.0	44.9	50.7
ROE	29.8	18.1	20.5	22.1	22.3	19.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.3	1.9	1.7	1.6	1.8	1.9
Inventory / Sales (days)	75	88	81	81	81	87
Receivables (days)	98	88	75	69	73	78
Payables (days)	37	34	29	105	102	102
WC cycle (ex-cash) (days)	168	182	141	112	117	118
Solvency ratios (x)						
Net debt to equity	(0.2)	(0.1)	(0.2)	(0.3)	(0.3)	(0.4)
Net debt to EBITDA	(0.8)	(0.3)	(0.9)	(1.0)	(1.0)	(1.2)
Interest Coverage (EBIT/Int.)	-	-	-	-	-	-

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Disclosure of Interest Statement

Sun Pharma

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)