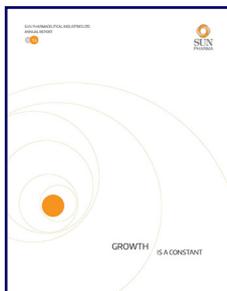


BSE Sensex
27,140

S&P CNX
8,115

CMP: INR863
TP: INR980
Buy


Stock Info

Bloomberg	SUNP IN
Equity Shares (m)	2,071.1
52-Week Range (INR)	877/500
1, 6, 12 Rel. Per (%)	8/13/20
M.Cap. (INR b)	1,787.8
M.Cap. (USD b)	29.6

Financial Snapshot (INR b)

Y/E Mar	2015E	2016E	2017E
Sales	175.8	204.6	230.7
EBITDA	77.5	88.9	96.4
Rep. PAT	61.7	72.7	81.6
RepEPS (INR)	29.8	35.1	39.4
Adj. PAT	54.3	66.3	76.5
Core EPS (INR)	26.2	32.0	36.9
EPS Gr. (%)	11.9	22.0	15.3
RoE (%)	25.6	24.6	22.7
RoCE (%)	35.2	34.9	31.2

Valuations

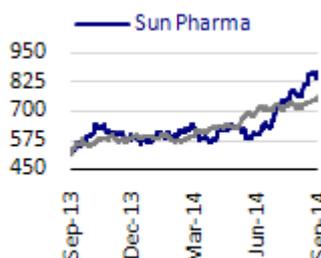
P/E (x)	32.9	27.0	23.4
P/BV (x)	7.5	5.9	4.8

Shareholding Pattern (%)

As on	Jun-14	Mar-14	Jun-13
Promoter	63.7	63.7	63.7
DII	5.1	5.6	3.2
FII	23.0	22.5	22.8
Others	8.3	8.3	10.3

Notes: FII incl. depository receipts

Stock Performance (1-year)



Annual Report 2014 Analysis

Well charted strategy offers growth visibility

- SUNP's FY14 annual report provides good visibility on the key pillars of growth which include enhancing its pipeline of complex/specialty products for the US and successfully turning around Ranbaxy's operations.
- Future focus will be on building a differentiated product basket, foraying into products that yield stable and consistent cash flows.
- At the same time, the company continues to be on the lookout for value enhancing inorganic opportunities in the US.

Financial analysis

- The India subsidiary created last year (Sun Pharma Global) has shown a PBT of INR3.4b versus a negative PBT of INR1.3b in FY13.
- URL Pharma did sales of INR 17.6b with PAT of INR 6b (margins of ~30). A significant part of URL Pharma performance in FY14 was driven by favourable pricing for key products and re-launch of some of the discontinued products from URL's portfolio. Recently, prices of some of these products have normalised significantly and hence a part of URL Pharma's performance may not be sustainable in our view.
- Dusa Pharma reported sales of INR 4.3b versus INR975m in FY13 (consolidated for three months) while it turned profitable in FY14 (INR237m vs loss of INR47m in FY13). This was driven by greater penetration with dermatologists and gradual price increases.
- SUNP is carrying hedges of USD240m with MTM loss of INR2b classified as long-term provision. This implies hedges are for a period of over one year, largely hedged in the range of 50-52.
- Contingent liabilities related to income tax on account of disallowance/addition has increased from INR7.6b in FY13 to INR12.1b in FY14.

Valuation and view

- We remain confident of SUNP's business mix and execution skills in its key markets.
- We however see a slow FY15 for SUNP's base business which we believe is expected to bounce back to mid teens growth in FY16. But, prospects of consolidating Ranbaxy's business and potential turn-around continue to remain appealing.
- We maintain **Buy** with a revised target SoTP price target of INR980 which includes upsides from Ranbaxy's business.
- However, stock may trade in a narrow range till the RBXY deal concludes and any decline presents a buying opportunity.

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Well charted strategy offers growth visibility

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- Future focus will be on building a differentiated product basket, foraying into products that yield stable and consistent cash flows.
- At the same time, the company continues to be on the lookout for value enhancing inorganic opportunities in the US.

Acquisition of Ranbaxy

SUNP is in the process of acquiring RBXY for USD4b in an all stock deal:

- Post-deal closure, the merged entity targets to generate synergy benefits of USD250m by the third year - driven by a combination of revenue, procurement, supply chain and other cost synergies.
- SUNP believes its ability to juggle different businesses and multiple cultures is likely to help achieve the transformation at RBXY.
- SUNP plans to leverage complementary functional strengths to achieve top line growth and gains through both revenue enhancement and cost efficiencies- translating into higher margins, greater market share and more operating profits.

Financial Analysis

- The India subsidiary created last year (Sun Pharma Global) has shown a PBT of INR3.4b versus a negative PBT of INR1.3b in FY13.
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- Contingent liabilities related to income tax on account of disallowance/addition have increased from INR7.6b in FY13 to INR12.1b in FY14.
- Net working capital days in FY14 have reduced to 91 days from 112 days last year.
- Cash tax rate for the year stood at 11.1% while the effective tax rate was 9.9%.
- Consultancy fees of INR4.8b for FY14 versus INR4.2b for FY13.
- Long term loans and advances have increased 25% YoY to INR10.5b. However as a percentage of sales, it has come down to 6.5% as compared to 7.4% in FY13.
- Capex for FY14 stood at INR9b.
- For FY14, SUNP made an additional provision of INR23.2b towards settlement for patent infringement litigation related to generic versions of 'Protonix'.

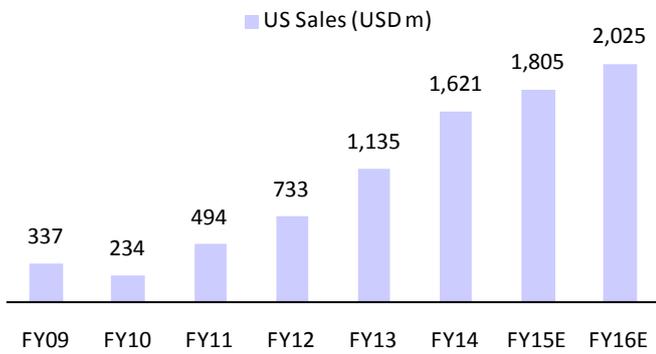
Improving profitability in recently acquired companies (INR m)

URL Pharma	FY14	FY13	DUSA Pharma	FY14	FY13
Revenue	17699	1838	Revenue	4232	976
PBT	9642	565	PBT	-52	-90.1
PBT (%)	54.5	30.7	PBT (%)	-1.2	-9.2
PAT	6048	339	PAT	237	-47
PAT (%)	34.2	18.5	PAT (%)	5.6	-4.8

Note: URL Pharma was consolidated for 55 days in FY13 and DUSA Pharma was consolidated for 101 days in FY13

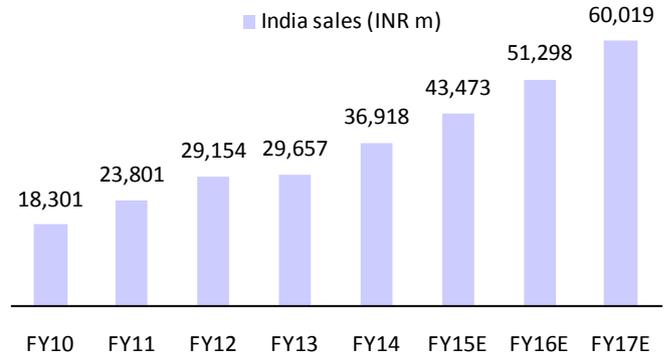
Story in charts

US generic sales to be driven by new launches



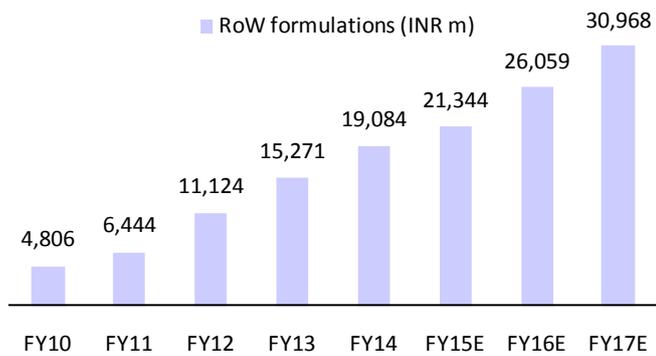
Source: Company, MOSL

Domestic formulations sales to sustain momentum



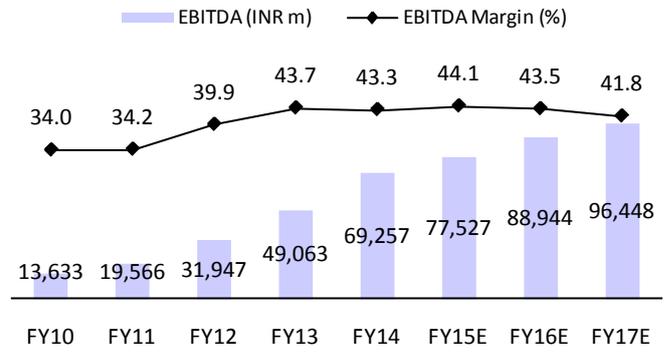
Source: Company, MOSL

RoW sales to grow over 17% CAGR over FY14-16E



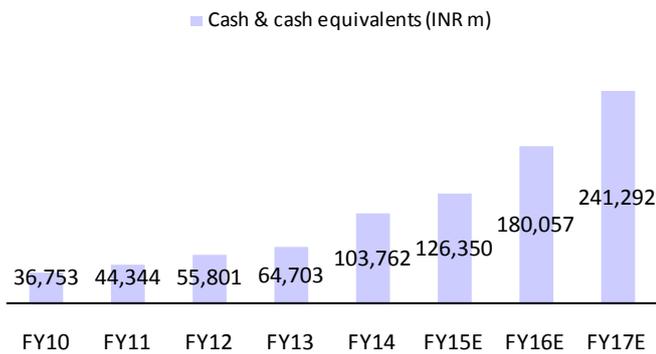
Source: Company, MOSL

Profitability to moderate under competitive pressure



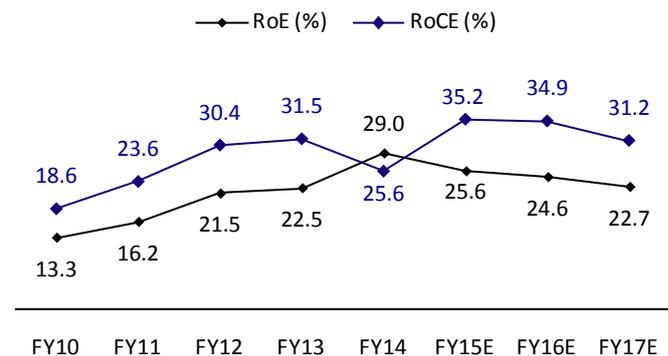
Source: Company, MOSL

Building cash war-chest



Source: Company, MOSL

Healthy return ratios to sustain



Source: Company, MOSL

Valuation and view

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- We maintain **Buy** with a revised target SoTP price target of INR980 which includes upsides from Ranbaxy's business.
- However, stock may trade in a narrow range till the RBXY deal concludes and any decline presents a buying opportunity.

Financial snapshot (INR m)

Particulars	Sun Pharma			Ranbaxy				
	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY18E	FY19E
Core sales	162,645	193,167	221,495	104,026	123,303	139,711	159,271	181,569
YoY growth (%)	9.0	18.8	14.7	-21.6	18.5	13.3	14.0	14.0
Core EBITDA	67,037	80,627	89,850	10,014	15,384	20,882	25,483	32,682
Margin (%)	41.2	41.7	40.6	9.6	12.5	14.0	16.0	18.0
Core PAT	54,338	66,319	76,471	2,379	6,807	10,669	15,150	20,512
YoY growth (%)	11.9	22.0	15.3	-39.6	186.2	56.7	42.0	35.4
Core EPS (INR)	26.2	32.0	36.9	5.6	16.1	25.2	35.8	48.5
Target multiple for terminal value								20
Terminal value								410,235
Discount factor for 3 years @15%								0.6575
One-year forward RBXY value								269,736
Per share value								115

SoTP based valuation

Particulars	Valuation basis	Per share value (INR)
SUNP's business	26x FY17E FDEPS	825
RBXY business	DCF of TV terminal value in FY19E	115
FTF opportunities + Doxil	DCF of exclusive sales	40
Total intrinsic value	Sum-of-parts	980

Financials and valuations

Income statement				(INR Million)		
Y/E Mar	2012	2013	2014	2015E	2016E	2017E
Net Sales	80,098	112,388	160,044	175,758	204,563	230,744
Change (%)	40	40	42	10	16	13
EBITDA	31,947	49,063	69,257	77,527	88,944	96,448
EBITDA Margin (%)	39.9	43.7	43.3	44.1	43.5	41.8
Depreciation	2,912	3,362	4,092	5,240	5,252	5,664
EBIT	29,035	45,701	65,165	72,287	83,692	90,784
Interest	282	443	442	308	308	308
Other Income	4,856	3,727	6,282	6,680	10,556	14,394
Extraordinary items	11	5,836	25,174	0	0	0
PBT	33,598	43,148	45,831	78,660	93,940	104,871
Tax	2,991	8,456	7,022	10,147	14,091	15,731
Tax Rate (%)	8.9	19.6	15.3	12.9	15.0	15.0
Min. Int. & Assoc. Share	-3,855	-4,863	-7,375	-6,831	-7,148	-7,491
Reported PAT	30,607	34,693	38,809	68,513	79,849	89,140
Adjusted PAT	23,273	30,550	48,572	54,338	66,319	76,471
Change (%)	66	31	59	12	22	15
Margins (%)	24	23	26	27	29	30

Balance sheet				(INR Million)		
Y/E Mar	2012	2013	2014	2015E	2016E	2017E
Share Capital	1,036	1,036	2,071	2,071	2,071	2,071
Reserves	120,628	148,862	183,178	236,379	299,386	368,920
Net Worth	121,663	149,897	185,249	238,450	301,458	370,991
Debt	2,739	2,072	24,982	403	403	403
Deferred Tax	-5,199	-7,122	-9,110	-9,110	-9,110	-9,110
Total Capital Employed	130,820	161,197	220,333	255,785	325,942	402,966
Gross Fixed Assets	46,542	56,026	63,886	72,886	81,886	90,886
Less: Acc Depreciation	20,406	24,421	28,904	34,144	39,396	45,060
Net Fixed Assets	26,136	31,604	34,982	38,741	42,490	45,826
Capital WIP	3,447	5,626	8,415	8,415	8,415	8,415
Investments	22,129	24,116	27,860	27,860	27,860	27,860
Current Assets	90,681	113,420	177,393	219,210	291,567	372,827
Inventory	20,870	25,778	31,230	36,771	43,787	51,837
Debtors	19,261	27,108	22,004	29,762	34,706	39,131
Cash & Bank	33,672	40,587	75,902	98,489	152,197	213,432
Loans & Adv, Others	16,878	19,948	48,257	54,188	60,878	68,427
Curr Liabs & Provns	24,950	38,439	61,509	71,633	77,583	85,154
Curr. Liabilities	14,410	15,752	15,887	22,765	27,108	32,092
Provisions	10,541	22,687	45,622	48,869	50,475	53,062
Net Current Assets	65,730	74,981	115,884	147,577	213,985	287,673
Total Assets	130,820	161,198	220,333	255,785	325,941	402,965

E: MOSL Estimates

Financials and valuations

Ratios

Y/E Mar	2012	2013	2014	2015E	2016E	2017E
Basic (INR)						
EPS	11.2	14.8	23.5	26.2	32.0	36.9
Cash EPS	13.9	16.0	17.2	32.3	37.6	42.2
Book Value	58.7	72.4	89.4	115.1	145.5	179.1
DPS	2.1	2.5	3.0	3.5	4.0	5.0
Payout (incl. Div. Tax.)	22.0	39.7	15.0	15.6	14.6	15.8
Valuation(x)						
P/E	76.8	58.5	36.8	32.9	27.0	23.4
Cash P/E	62.0	53.9	50.3	26.7	22.9	20.5
Price / Book Value	14.7	11.9	9.7	7.5	5.9	4.8
EV/Sales	21.7	15.4	10.7	9.5	7.9	6.7
EV/EBITDA	54.3	35.2	24.7	21.4	18.1	16.0
Dividend Yield (%)	0.2	0.3	0.3	0.4	0.5	0.6
Profitability Ratios (%)						
RoE	21.5	22.5	29.0	25.6	24.6	22.7
RoCE	30.4	31.5	25.6	35.2	34.9	31.2
Turnover Ratios (%)						
Asset Turnover (x)	0.6	0.7	0.7	0.7	0.6	0.6
Debtors (No. of Days)	87.8	88.0	50.2	61.8	61.9	61.9
Inventory (No. of Days)	95.1	83.7	71.2	76.4	78.1	82.0
Creditors (No. of Days)	65.7	51.2	36.2	47.3	48.4	50.8
Leverage Ratios (%)						
Net Debt/Equity (x)	0.0	0.0	0.1	0.0	0.0	0.0

Cash flow statement

(INR Million)

Y/E Mar	2012	2013	2014	2015E	2016E	2017E
OP/(Loss) before Tax	28,742	39,422	39,549	71,979	83,384	90,477
Depreciation	2,912	3,362	4,092	5,240	5,252	5,664
Others	4,856	3,727	6,282	6,680	10,556	14,394
Interest	282	443	442	308	308	308
Direct Taxes Paid	-5,373	-10,379	-9,010	-10,147	-14,091	-15,731
(Inc)/Dec in Wkg Cap	-8,319	-2,336	-5,589	-9,105	-12,700	-12,453
CF from Op. Activity	23,099	34,239	35,767	64,956	72,708	82,659
(Inc)/Dec in FA & CWIP	-10,585	-22,501	-18,580	-9,000	-9,000	-9,000
(Pur)/Sale of Invt	169	-1,987	-3,745	0	0	0
Others	0	0	0	0	0	0
CF from Inv. Activity	-10,416	-24,488	-22,324	-9,000	-9,000	-9,000
Inc/(Dec) in Net Worth	5,318	4,334	6,674	0	0	0
Inc / (Dec) in Debt	-978	-668	22,910	-24,578	0	0
Interest Paid	-282	-443	-442	-308	-308	-308
Divd Paid (incl Tax)	-5,115	-6,058	-7,270	-8,481	-9,693	-12,116
CF from Fin. Activity	-1,058	-2,835	21,872	-33,368	-10,001	-12,424
Inc/(Dec) in Cash	11,626	6,915	35,315	22,588	53,707	61,235
Add: Opening Balance	22,046	33,672	40,587	75,902	98,489	152,197
Closing Balance	33,672	40,587	75,902	98,490	152,197	213,432

E: MOSL Estimates

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SUN PHARMACEUTICAL IN

- Analyst ownership of the stock

No

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