

Sun Pharma

₹ 1100

*Leader in Niche Therapy***Accumulate**

July 12, 2013

Company Background

Sun Pharma is an international, integrated specialty pharmaceutical company which manufactures, markets formulations as branded generics in India, US & across the world. Established in 1983, listed since 1994 and headquartered in India, Sun Pharma manufactures & markets a large basket of pharmaceutical formulations as branded generics as well as generics. In India, the company is a leader in niche therapy areas of psychiatry, neurology, cardiology, nephrology, gastroenterology, orthopaedics and ophthalmology. Sun Pharma has strong skills in product development, process chemistry and manufacturing of complex API, as well as dosage forms.

Key Highlights

- ➔ Sun Pharma's revenues grew 32.1% to INR 3087 crore. The growth was attributable to consolidation of URL, higher growth in the base business and higher Lipodox sales. Its sales from the recently acquired URL business started consolidating during the quarter starting from February 5, 2013.
- ➔ EBITDA margins increased 10 bps to 41.3%. However, Sun Pharma registered its highest ever gross margins of 82.8% on the back of higher niche product sales in the US market.
- ➔ Taro sales grew ~14% to USD 165 mn. Gross profit margins declined 300 bps QoQ. Taro reported an EO loss of USD 22 mn pertaining to settlement and loss of contingencies, which led net profit to grow only 4% YoY.
- ➔ US formulations grew 77% YoY to INR 1787.9 crore driven by consolidation of URL & Dusa and incremental volumes of Lipodox and existing products. The company filed nine ANDAs during the quarter taking the total filing with USFDA to 449 (including URL). It is planning to file 20 ANDAs in FY14. It received approval for nine products, which includes approval for Doxil during the quarter taking the total drug approvals till December 31, 2012 to 311.
- ➔ Domestic branded formulations adjusted sales, grew 16% YoY. It launched three products during the quarter taking total launches in FY13 to 25. As per latest AIOCD data, the company holds ~10% market share in chronic therapies.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	26,352.5	33,228.6	43,743.7
Rev. growth (%)	(35.01)	26.09	31.64
EBITDA (INR mn)	10,625.0	15,203.1	21,648.1
Net profit (INR mn)	8,986.5	13,838.0	19,296.0
Shares outstanding (mn)	207.1	1,035.6	1,035.6
EPS (INR)	43.4	13.4	18.6
EPS growth (%)	(28.98)	(69.20)	39.44
P/E (x)	2.6	11.9	8.1
RONW (%)	16.5	22.3	26.0
ROCE (%)	16.5	22.1	25.9

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Info Codes

Reuters	: SUN.BO
Bloomberg	: SUNP@IN
NSE	: SUNPHARMA
BSE	: 524715

Market Data

52 Wk Range (₹)	: 1112 / 606
Shares in Issue (mn)	: 1035.6
Mkt. Cap (₹ bn)	: 11147.64
BSE 2 Wk Avg Vol	: 91000

Share Holding Pattern (%)

Promoters	: 63.68
DII's	: 03.39
FII's	: 22.61
Others	: 10.32

Investment Theme

Sun Pharma sales have crossed the USD 2 bn mark in FY13, took almost 27 years to record USD 1 bn in revenues. Sun Pharma holds 4.9% market share in the Rs.70,000 crores pharmaceutical market as per latest AIOCD-AWACS report. The company filed nine ANDAs during the quarter taking the total filing with USFDA to 449 (including URL). It is planning to file 20 ANDAs in FY14. Sun Pharma has time and again demonstrated an uncanny knack for acquiring unique players to bolster its US portfolio, which now owns a huge basket of 449 ANDAs (311 approved+138 pending). The huge cash pile (~USD 1.3 bn) can be utilised for even more acquisitions, maybe from other geographies. Sun Pharma will continue to quote at a hefty premium vis-à-vis its peers with this kind of a cracking performance with Revenues expected to grow at a CAGR of 16% in FY13- FY15E.

No Side Effects

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	18686.5	20046.4	7.28	24789.6	23.66
Other Income	8095.9	13702.2	69.25	19640.8	43.34
Change in Stocks	309.1	(19.9)	(106.44)	817.3	(4207.04)
Raw Material Con.	6774.9	7521.6	11.02	9995.3	32.89
Employee Exp.	1747.1	2140.6	22.52	2589.5	20.97
Indirect Taxes	477.9	537.1	12.39	785.8	46.30
Other Exp.	7466.6	8326.3	11.51	10229.0	22.85
Operating Exp.	16157.4	18545.5	14.78	22782.3	22.85
Operating Profit	2529.1	1500.9	(40.65)	2007.3	33.74
Total Interest	445.1	5.9	(98.67)	553.6	9283.05
Gross Profit	10179.9	15197.2	49.29	21094.5	38.81
Net Dep.	688.3	657.4	(4.49)	820.8	24.86
Total Taxation	505.1	701.8	38.94	977.7	39.31
Net Profit/Loss	8986.5	13838.0	53.99	19296.0	39.44

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	51,750.2	57,474.7	67,310.6	81,489.1
Equity Share capital	1,035.6	1,035.6	1,035.6	1,035.6
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	50,478.6	56,144.2	65,769.7	80,050.5
Long Term Loans	236.0	294.9	505.3	403.0
Short Term Loans	0.0	0.0	0.0	0.0
USES OF FUNDS	51,750.2	57,474.7	67,310.6	81,489.1
Gross Block	10,619.0	11,597.6	12,687.6	15,421.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	3,626.4	4,192.4	4,743.7	5,388.9
Net Block	6,992.6	7,405.2	7,943.9	10,033.0
Capital Work in Progress	759.5	921.5	1,956.5	2,488.7
Investments	27,522.8	41,921.2	33,829.1	38,686.2
Current Assets	27,666.5	15,845.4	32,479.7	42,598.9
Less : Current Liabilities	11,191.2	8,618.6	8,900.9	12,319.6
Total Net Current Assets	16,475.3	7,226.8	23,578.8	30,279.3
Misc. Expenses not written	0.0	0.0	2.3	1.9
NOTE				
Bk Val Unquoted Investments	18,730.4	19,614.6	32,802.7	37,946.4
Mkt Val. Quoted Investments	8,823.5	20,591.3	2,678.7	753.6
Contingent Liabilities	853.6	1,842.4	1,780.3	3,410.5
Dividend (%)	275	275	350	425

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 12	Sep 12	Dec 12	Mar 13
Net Sales	10,052.10	10,353.40	8,767.10	7,810.70
Cost Of Sales	6,692.60	7,086.80	7,828.00	7,901.80
Operating Profit	3,359.50	3,266.60	939.10	(91.10)
Recurring Income	0.00	1,145.90	336.50	1,341.90
Adjusted PBDIT	3,359.50	4,412.50	1,275.60	1,250.80
Financial Expenses	1.10	2.00	1.20	1.00
Depreciation	211.20	217.80	229.50	204.80
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	3,147.20	4,192.70	1,044.90	1,045.00
Tax Charges	220.90	486.50	302.70	454.70
Adjusted PAT	2,926.30	3,706.20	742.20	590.30
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	2,926.30	3,706.20	742.20	590.30

52 Week Index Relative Percentage Appreciation



Sun Pharma vs SENSEX vs Pharma

Points to Ponder

- ➔ Sun Pharma sales have crossed the USD 2 bn mark in FY13, took almost 27 years to record USD 1 bn in revenues.
- ➔ During the quarter, the company has posted consolidated Net Profit which is increased by 23.33% to Rs. 10115.70 mn.
- ➔ During the quarter, Sun Pharma has launched 3 new products taking the total to 25 for the F.Y. 2012-13.
- ➔ Sun Pharma holds 4.9% market share in the INR 700 bn pharmaceutical market as per latest AIOCD-AWACS report.
- ➔ Sun Pharma has recommended a dividend of Rs. 5 per equity share of Rs. 1/- each for the year ended March 31, 2013.
- ➔ Sales in the US were USD 330 mn for Q4 FY13, up by 63%, accounting for 57% of total sales.

Risks Associated

- ➔ The Sun Pharma group has settled an ongoing patent infringement litigation pending in the US District Court of New Jersey regarding generic Protonix (Pantoprazole). Under the terms of the litigation settlement between Sun Pharma and Wyeth (now a division of Pfizer) and Altana AG (earlier Nycomed, now Takeda) the parties have dismissed all their claims. Sun Pharma will pay a lump sum USD 550 mn as a part of this settlement. Teva is also required to pay USD 1.60 bn under the said settlement. Sun Pharma can continue to sale generic Pantoprazole in the US.
- ➔ Sun Pharma provisioned INR 5.84bn (USD 107m) in Q2FY13 towards potential liability for patent infringement. Pfizer had claimed USD 960m. Sun Pharma's provision for damages was 11% of the claimed amount. Teva provisioned USD 670m, which was 31% of the claimed amount.

In a Nutshell

Sun Pharma is an international specialty pharma company, with a large presence in the US and India and a footprint across 40 other markets. Sun Pharma began in 1983. Since then, the company has crossed several milestones to emerge as a leading pharma company in India where it is the 6th largest by prescription sales, a rank retained over a decade in India and rest of the world markets, in the brands relating to chronic therapy areas like cardiology, psychiatry, neurology, gastroenterology, diabetology etc. It is the largest Indian company in the US generics space, the largest pharma company in India in chronic therapies and an emerging force in the rest of the world markets. The specialty product range features solid oral dosage forms, injections, nasal sprays, aerosols, dry powder inhalers, ophthalmic preparations, creams & ointments as well as technically complex preparations like melt tabs, liposome based products, depot preparations & time/controlled release preparations. Sun Pharma makes specialty APIs including peptides, steroids, hormones and anti-cancers at internationally approved world class sites. Its Hungary facility is one of the oldest sites for narcotic manufacture. The company scales up over 20 API processes including processes for DMFs and CEPs every year. The company is market leader in specialty therapy areas in India. In the US, which is its largest market, has built a strong pipeline of generics, directly and through its subsidiaries Caraco and Sun Pharmaceutical Inc. Taro add strong dermatology range to this portfolio. Sun Pharma is equipped with world class technology sites and systems to meet the most stringent international manufacturing standards.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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