

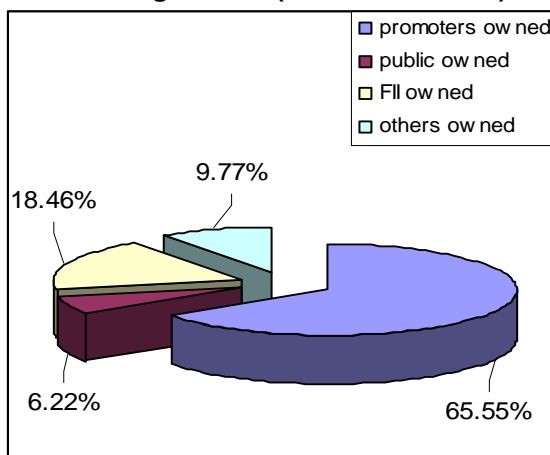
Stock statistics	7th March 2008
Market Cap (Rs Mn) :	267612.87
52-Week high/low (Rs) :	1320/886
Face value :	5
BSE Code :	524715
NSE Code :	SUNPHARMA
Industry :	PHARMA
Shares outstanding :	204,597,557
Avg. daily vol. (30 days):	40.3

BUSINESS BACKGROUND

Established in 1983, listed since 1994 and headquartered in India, Sun Pharma is an international, integrated, speciality pharmaceutical company. The company manufactures a huge basket of pharmaceutical formulations as branded generics as well as generics in India, US and several other markets across the world. The company leads in therapy areas of psychiatry, neurology, cardiology, diabetology, gastroenterology and orthopedics. The company possesses strong skills in product development, process chemistry and manufacturing of complex active pharmaceutical ingredients as well as dosage forms. In the Indian prescription market, the company leads in special therapy areas, with a top rank in 6 of the 15 therapy areas it deals in. The company has a significant presence in the US through its subsidiary Caraco. The company owns a market share of 3.3% in the Indian pharmaceuticals market.

INVESTMENT RATIONALE

Shareholding Pattern (as on 31 Dec. '07)



Key Statistics (as on 7th March 2008)

CMP	:	1308
BV (FY'07)	:	197.01
PE	:	28.16
PB	:	6.64
Beta	:	0.55
Turnover (Rs Mn)	:	16.571
Net worth (Rs Mn)	:	26747.20

- The company has received final USFDA approval for its Abbreviated New Drug Application (ANDA) to market its generic version of Hoffman la Roche's Demadex R, torsemide tablets. Use of torsemide has been found to be effective for the treatment of edema associated with chronic renal failure. Torsemide is also indicated for the treatment of hypertension alone or in combination with other anti-hypertensive agents. The tablets that are available in four strengths have annual sales of USD 35 million in the US, creating enough room for the company to increase its operations.
- The company has also received USFDA approval for its ANDA for generic Depakote, divalproex sodium delayed release tablets in various strengths that pertain to a sales figure of around USD 755 million in the US.
- The company has one of the highest spends on research and development. The R&D investment of the company for the last 9 months came out to be Rs 2.2 billion which is 10.7% of the net sales. The company has built a patent library of 206 patents filed out of which 55 patents have been approved.
- The company has a huge pipeline of filings waiting approval from USFDA. About 17 products have already been approved in the current fiscal that takes the total pipeline of products approved across Sun and Caraco to 46 of a total of 133 filings. This pipeline is definitely going to create additional opportunities for the company in the US markets.
- The company has raised its stake in Taro pharmaceutical industries to 34.4% by recently purchasing stake equivalent to 9.4%. With this move the company has opened up doors to directly boost its revenues from the US generics market and penetrate into the dermatology segment. The company has recently allotted 3,120,084 equity shares of Rs 5 each at a premium of Rs 724.30 a share on conversion of 50,555 zero coupon foreign currency convertible bonds (FCCB).

FINANCIAL STATEMENT ANALYSIS

Particulars	Rs. Mn				
	Q3FY07	Q4FY08	Q1FY08	Q2FY08	Q3FY08
Revenues	4179.10	4306.40	5088.10	5412.80	7339.10
Growth (%)	--	3.05	18.15	6.38	35.59
Total Expenditure	4312.40	4662.10	4996.80	5623.20	5814.80
Operating Profit	(133.30)	(355.70)	91.30	(210.40)	1524.30
Growth (%)	--	--	--	--	--
OPM	-3.19	-8.26	1.79	-3.89	20.77
Other Income	1947.90	2031.00	2387.90	2328.10	2264.20
EBIDT	1814.60	1675.30	2479.20	2117.70	3788.50
Depreciation	125.40	102.10	135.40	136.90	140.50
Profit before Tax	1689.20	1573.20	2343.80	1980.80	3648.00
Tax	37.90	16.50	89.90	32.50	188.70
Adjusted PAT	1651.30	1556.70	2253.90	1948.30	3459.30
Growth (%)	--	(5.73)	44.79	(13.56)	77.55
Adjusted NPM	39.51	36.15	44.30	35.99	47.14
Reported PAT	1651.30	1573.20	2343.90	1980.80	3648.00
EPS	8.69	8.05	11.44	9.78	17.17
Equity Capital	950.30	967.00	985.50	995.90	1007.20

The company has posted growth across all the parameters in the quarter ended Dec 07. The sales for the quarter ended Dec 07 stood at Rs 7339.10 million against a turnover of Rs 4179 million posted in Dec 06 showing a sharp growth of 75.62% on YoY basis. The share of formulations has increased significantly in the net sales over the 12 month period. The operating profit for Q3FY08 stood at Rs 1524.30 million showing a robust growth from operating loss posted in the quarter ended Dec 06. The operating profit margin has shown tremendous improvement in the quarter ended Dec 07, taking the margins to 20.77%. The company has worked on reduction of its expenses to a large extent. The consumption of raw material, employee expenses have reduced in absolute terms followed by a reduction in the depreciation as well as indirect tax expenses. The earning before interest depreciation and tax for the quarter ended Dec 07 stood at Rs 3788.50 million showing growth of over 100% against Rs 1814.60 million posted in Q3FY07. The EBITDA margins have shot up steeply to 51.62% in the quarter ended Dec 07 against 43.42% posted in Q3FY07. The bottom line of the company has almost doubled itself from Rs 1651.30 million to Rs 3648.00 million in Q3FY08. The company has also posted very healthy net profit margins in the quarter ended Dec 07. The NPM for Q3FY08 stood at 47.14% significantly higher than 39.51% achieved in Q3FY07. The earning per share comes out to Rs 46.44(TTM basis). The company has posted a sequential increase in its Return on Net worth as well as Return capital employed.

VALUATION

After posting tremendous financial performance in the quarter, the company offers immense potential for the future also. Despite the damage done by the strengthening rupee on the margins, the company has been able to deliver strong operating profitability. The ongoing R&D efforts of the company and the strong pipeline of AN-DAs and APIs awaiting approval from USFDA, further add strength to the stock. The company's strength lies in its cost competitiveness and has been a major factor behind its strong presence in the global generics market. Pharmaceutical friendly budget announced by the FM is also expected to add value to the stock, as the excise duty cuts and higher weighted deduction for research expenses shall help the company to cut down its cost effectively.

At current market price of Rs 1308, the stock is trading at 28.16 times to its earnings of Rs 46.44 and 6.64 times to its book value of Rs 197.01. We, initiate a BUY signal on the stock keeping in mind the immense upside potential offered at the current level with a target price of Rs 1450 in medium to long term investment horizon, expecting an appreciation of 11%.

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