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Sun Pharmaceuticals

4QFY2008 Result Update

NEUTRAL

Price	**Rs1,447**
Target Price	**-**
Investment Period	**-**

Stock Info

Sector	Pharmaceuticals
Market Cap (Rs cr)	29,964
Beta	0.41
52 WK High / Low	1481/886
Avg Daily Volume	49594
Face Value (Rs)	5
BSE Sensex	16,063
Nifty	4,740
BSE Code	524715
NSE Code	SUNPHARMA
Reuters Code	SUN.BO
Bloomberg Code	SUNP IN

Shareholding Pattern (%)

Promoters	63.7
MF/Banks/Indian FIs	5.0
FII/ NRIs/ OCBs	21.6
Indian Public	9.7

Abs.	3m	1yr	3yr
Sensex (%)	2.0	10.2	138.0
Sun Pharma.(%)	18.5	32.5	167.4

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Performance Highlights

- **Net Sales jump 133%:** Sun Pharma's 4QFY2008 numbers came well ahead of expectations. The company posted Net Sales of Rs1,239cr, registering a yoy growth of 133.2%. With this, the company ended FY2008 with Net Sales of Rs3,291cr, registering a yoy growth of 58%. The growth during the period was mainly driven by Exports, which surged 319% and 96% during 4QFY2008 and FY2008 respectively, as compared to corresponding periods last year.

- **Aided by US generic sales, Operating Margins expand significantly:** Contribution from the launch of FTF (First-To-File) products in the US markets led to substantial rise in the Gross Margins. During the quarter, these stood at 86.1% (77.3%), while for FY2008, the Gross Margins were at 78.1% (72.3%). Higher Gross Margins during the period aided a significant rise in Operating Margins. During 4QFY2008, the OPMs leapfrogged to 59.8% (27.7%). With this, the company ended the year with Operating Margins of 47.1% (32.3%). The R&D expenditure rose 9.8% and 10.7% during 4QFY2008 and FY2008 respectively. Staff costs and other expenditure increased by 18.9% and 33.5% respectively for FY2008.

- **Net Profit up 226%:** Robust Sales growth along with expansion of Operating Margins aided the Net Profit to surge 225.6% during the quarter and 89.6% yoy for FY2008. Thus, the company reported a Net Profit of Rs723cr and Rs1,487cr for 4QFY2008 and FY2008 respectively.

Key Financial (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	**2,079.2**	**3,290.8**	**3,773.1**	**4,229.6**
% chg	*30.3*	*58.3*	*14.7*	*12.1*
Net Profit	**784.2**	**1,486.8**	**1,401.7**	**1,403.7**
% chg	*37.1*	*89.6*	*(5.7)*	*0.1*
EPS	**40.5**	**71.8**	**68.6**	**68.7**
EBITDA Margin (%)	32.4	34.4	38.5	34.5
P/E (x)	35.7	32.6	21.1	21.1
RoE (%)	32.3	29.7	19.7	19.6
RoCE (%)	38.5	26.5	28.8	23.5
P/BV (x)	24.6	24.3	28.8	23.7
EV/Sales (x)	10.1	6.6	5.2	4.4
EV/EBITDA (x)	13.3	10.2	7.3	6.3

Source: Company, Angel Research

Business Performance

Exports register exponential growth on back of US generics

Exports registered a growth of 319% and 95.7% during the period, contributing almost 70% and 54.8% to the overall sales of the company in 4QFY2008 and FY2008 respectively. The growth during the period was driven by the US sales, which registered a yoy growth of 433% and 167% in 4QFY2008 and FY2008 respectively. The growth in the region was driven by the FTF product launches by the company, i.e. *Pantaprazole, Amifostine* and *Oxcarbazapine*. These products contributed significantly to the overall growth and profitability of the company during 4QFY2008 and FY2008. Going forward in FY2009, *Pantaprazole* and *Amifostine,* which were launched in 4QFY2008, would propel the growth in 1QFY2009. Apart from this, the company has received a 'will not sue' covenant on Generic Effexor XR and expects to launch the product after USFDA approval. Overall, the company has guided towards a 25% yoy rise in the US business for FY2009.

In terms of filings between Sun Pharma and its US subsidiary Caraco Pharma, it has 53 ANDAs approved compared to 29 at the end of FY2007. For FY2007, ANDA's for 48 products were filed, of which 41 were filed by Sun Pharma and 7 by Caraco. With this, ANDAs for 89 products await USFDA approval, including 8 tentative approvals; one of the strongest pipelines amongst all generic companies. Going forward, the company is expected to file 30 ANDA's per annum.

Taro – terminates the merger

Taro, in which Sun had acquired a 34.4% stake, terminated the merger plan. Amongst the reasons cited by the former was that US$ 10.25 per share offered was too low in view of the turnaround of its business and pipeline. While Sun Pharma has not commented on the same, it believes that according to the agreement, Taro is not entitled to terminate the merger and plans to explore all options available. While the termination will not have any impact on Sun's financials, it would be a negative from the strategic front, as the acquisition would have helped scale – up Sun's presence in the US market and would have provided it a presence in the niche Dermatology segment.

Domestic Formulations – maintain the momentum

Domestic formulation business continued its momentum during FY2008, outpacing the overall Industry growth. Sales of domestic formulations at Rs 1,476cr, registered a yoy growth of 25%, contributing 43% of Total Sales. For 4QFY2008, domestic formulations sales increased by 16% yoy.

Outlook & Valuations

FY2008 was a robust year for Sun Pharmaceuticals on back of the launch of the FTF products. Going into FY2009, the company would see potential upsides from *Pantaprazole* and *Amifostine*. Sun has guided for a 25% rise in the US business, while the ex-USA region is expected to deliver 18-20% growth. Currently, we are not changing our estimates. On the valuations front, at the CMP, the stock trades at **21.1x FY2009E and 21.1xFY2010E** Earnings, which we believe is fair and hence **we remain Neutral on the stock.**

Exhibit 1: 4QFY2008 Performance (Consolidated)

Y/E March (Rs cr)	4QFY2008	4QFY2007	*% chg*	FY2008	FY2007	*% chg*
Net Sales	**1,238.9**	**531.4**	***133.2***	**3,290.8**	**2083.0**	***58.0***
Other Income	55.6	111.4		145.1	242.5	
Total Income	**1,294.5**	**642.7**	***101.4***	**3,435.9**	**2325.4**	***47.8***
PBIDT	740.7	147.3	*403.0*	1551.0	672.4	*130.7*
Operating Margin (%)	**59.8**	**27.7**		**47.1**	**32.3**	
Interest	0.0	0.0		0.0	0.0	
Depreciation	26.8	20.1		96.9	81.3	
PBT	769.5	238.5	***222.6***	1599.3	833.6	***91.9***
Provision for Taxation	27.0	(1.8)		48.5	(6.7)	
PAT before Extra-ordinary item	742.5	240.3	***209.0***	1550.8	840.2	***84.6***
Minority Interest(MI)	19.7	18.3		64.0	55.9	
PAT after Extra-ordinary item & MI	**722.8**	**222.0**	***225.6***	**1,486.8**	**784.4**	***89.6***
EPS (Rs)	**35.4**	**11.1**		**71.8**	**40.5**	

Source: Company, Angel Research

Angel Broking Limited

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Ratings (Returns) :	**Buy (Upside > 15%)** **Reduce (Downside upto 15%)**	**Accumulate (Upside upto 15%)** **Sell (Downside > 15%)**	**Neutral (5 to -5%)**