

Pharmaceuticals

Sun Pharmaceutical Inds Ltd (SPIL)

Sun brightens on Taro acquisition

Company Update

Analyst:
Vishal Kothari
vishal.kothari@networthdirect.com
022 3028 6402
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Sun has increased its economic interest in Taro to 48.7% & voting rights to 65.8%

- SPIL has announced that it has completed the acquisition of a controlling stake in Taro Pharma pursuant to the Option Agreement entered into in 2007 with Taro's controlling shareholders led by Taro's Chairman, Dr. Barrie Levitt. SPIL CMD, Dilip Shanghvi who has been appointed to serve as Chairman of the Taro Board, welcomed Ilan Leviteh, former CEO of Makhteshim Agan Industries, one of the world's major producers of agro-chemical products & one of Israel's largest industrial companies, as a new director of Taro.

Taro Pharma to perfectly complement Sun Pharma:

- Taro has an established franchise in dermatology and topical products in the US, in addition to generic product offerings in CV, CNS-psychiatric and anti-inflammatory therapeutic categories. Taro has strategic sales and marketing operations in Israel and Canada. Taro has factories in Canada and Israel that manufacture topical creams and ointments, liquids, capsules and tablets dosage forms, which complements Sun's current manufacturing and development capabilities for the US.

Management plans to capitalize upon the synergies:

- Management says that they were excited about completing this transaction & intend to build on Taro's market presence in US, Israel and Canada and its expertise in dermatology and pediatrics, along with specialty and generic pharmaceuticals, and OTC products. Taro's current employees are an important part of SPIL's future plans for Taro and they are committed to productive relations with Taro's employees, and maintaining and enhancing Taro's facilities in Israel as well as Canada.
- They further added that they have tangible plans to significantly increase volume of production and approve further investments in R&D in Israel and Canada, especially in delivery systems and complex chemistry. With the scientific talent within Taro, they look forward to increasing the number of product filings of higher complexity. Specifically on the future of Taro, management mentioned that their intent is to help Taro benefit from SPIL's resources and international presence in order to bring a better future to all of Taro's shareholders, as well as its employees.

Valuations: After successful Taro acquisition, we assign SPIL a 19.6x forward multiple to the FY12E EPS of Rs108.34, and we upwardly revise its fair-value to Rs2,121. We maintain "Accumulate" from current levels of Rs1925 with an upside of 10.15%, which will likely be achieved within a medium-to-long term horizon.

Rating	ACCUMULATE
Target Price	2,121
CMP	1,925
Upside	10.2%
Sensex	20,001

Key Data	
Bloomberg Code	SUNP IN
Reuters Code	SUN.BO
NSE Code	SUNPHARMA
Current Share o/s (mn)	206.0
Diluted Share o/s (mn)	206.0
MktCap (₹bn/\$mn)	398.5/8755.4
52 WK H/L (₹)	1984.7/1184.9
Daily Vol. (3M NSE Avg)	198525
Face Value (₹)	5
Beta	0.52
1USD/₹	45.5

Shareholding Pattern	(%)
Promoters	63.7
FII	19.5
Others	16.8

Price Performance (%)	1M	6M	1yr
SPIL	7.9	9.8	60.6
NIFTY	8.3	12.6	19.3

Source: Bloomberg; *As on 21st Sept., 2010

Key Financials

Y/E Mar (Rs Cr)	Sales	YoY (%)	EBITDA	YoY (%)	Adj PAT	YoY (%)	EPS (Rs)	BV (Rs)	RoE (%)	RoA (%)	P/E (x)	P/BV (x)
FY08	3,461		1,705		1,475		74.9	241.0	31.1	32.0	16.4	5.11
FY09	4,375	26.43	2,078	21.89	1,799	21.95	91.0	340.1	28.0	28.0	12.2	3.27
FY10	3,981	(9.00)	1,568	(24.55)	1,350	(24.98)	65.0	378.0	19.1	19.1	27.5	4.73
FY11E	4,738	19.00	1,589	1.34	1,325	(1.87)	64.6	434.9	17.2	17.2	29.8	4.43
FY12E	5,496	16.00	1,953	22.87	1,634	23.32	80.3	505.7	18.2	18.2	24.0	3.81

Source: Company, Networth Research

Valuations:

SOTP	PAT [INR CRS]		P/E (x)	VALUATIONS [INR CRS]	
	FY11E	FY12E		FY11E	FY12E
Domestic API	13.34	13.80	12.00	160.04	165.64
Domestic FDs	586.83	698.33	22.00	12,910.29	15,363.24
International API	59.22	61.59	14.00	829.12	862.29
International FDs	798.75	969.57	18.00	14,377.54	17,452.31
Sun ANDAs	296.94	333.31	18.00	5,344.90	5,999.66
Caraco	28.30	29.29	18.00	509.34	527.16
Taro	124.29	137.96	12.50	1,553.58	1,724.47
Total (ex-Interest Income)	1,783.38	2,105.90		35,684.81	42,094.77
Value p.s.				1,722.91	2,032.39
Cash p.s.				79.05	88.93
Target Price p.s.				1,801.95	2,121.31

Networth Research: E-mail- research@networthdirect.com

Adesh Doifode	Telecom & Metals	adesh.doifode@networthdirect.com	022-30281685
Dimple Khetan	Banking & Midcaps	dimple.khetan@networthdirect.com	022-30286405
Jinal Savla	Power	jinal.savla@networthdirect.com	022-30286399
Minal Dedhia	Midcaps	minal.dedhia@networthdirect.com	022-30641600
Vishal Kothari	Pharmaceuticals & Chemicals	vishal.kothari@networthdirect.com	022-30286402

Derivatives & Technical Research

Akshata Deshmukh	Sr. Technical & Derivatives Analyst	akshata.deshmukh@networthdirect.com	022-30286406
Kekin Maru	Derivatives Analyst	kekin.maru@networthdirect.com	022-30286406

Institution Sales

		dealing@networthdirect.com	
Prakash Diwan	Head- Institutional Business	prakash.diwan@networthdirect.com	022-30286408
Viral Malia	AVP Institutional Sales	viral.malia@networthdirect.com	022-30286407

Key to NETWORTH Investment Rankings

Buy: Upside by>15, **Accumulate:** Upside by +5 to 15, **Hold:** Upside/Downside by -5 to +5, **Reduce:** Downside by 5 to 15, **Sell:** Downside by>15

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Networth Stock Broking Ltd. (www.networthdirect.com)

Regd. Office:- 2nd Floor, D. C. Silk Mills Compound, Kondivita Road, Opp J.B. Nagar Market, Andheri (E), Mumbai - 400059. Tel Phone nos.: 022 – 30641600.

Corporate Office:- 4th Floor, B - Wing, 403, High Street Phonix Bldg., Lower Parel, Mumbai - 400013.