

SUN PHARMA - At a Sweet Spot

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Abstracts

We reiterate Sun Pharma as our top pick after the Q1 FY13 result that reported sales and net income, much above our estimates. The performance was not only driven by Taro (net profit up by 76%), but Sun's own portfolio too grew by 185%. Significant price increases in Taro and a slew of low competition launches (Lipodox, Sumatriptan auto injector. Cardizem CD, Keppra injection and Optivar).

We consider most of the earnings as sustainable despite the company cautioning against the recurrence of Lipodox, Taro margin and favorable forex. This is because (1) Lipodox sales will continue once Sun gets approval for the generic Doxil (2) Taro's increase in pricing to sustain given that generic dermatology has several entry barriers like clinical trials, high time for FDA approval and manufacturing complexity.

We view Taro board's acceptance of Sun pharma's offer at \$39.5 as a great positive for Sun pharma. Besides the attractive valuation (~7x PE), the merger will allow Sun to generate cost synergy (shifting facility to India) and value synergy (using Taro's platform to launch newer products). Besides this near term growth will be driven by the launch of Stalevo, Comtan and Prandin under 180-day exclusivity.

We upgrade our FY13 earnings estimate by 35% accounting for improved US generics performance and merger of Taro that will add ~8-10% to Sun's profitability in FY13 (assuming merger closure by September). We revise our target price upwards to Rs.795 derived by applying a PE of 21x on FY13 base business estimate, valuing the net cash (post Taro acquisition) of ~\$400m at 1x, valuing the upcoming Para IV opportunities at Rs.32 per share.

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