

SUN PHARMA – Outperform, Balance Sheet Leveraging At Play

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Abstracts

Sun Pharma's Q2 FY13 result was pretty much in line with our estimates. Taro sales remained strong, however, Sun's own sales declined by \$40m sequentially largely due to reduction in Lipodox sales. As expected the FY13 sales guidance was increased to 30- 32% growth.

The real highlight of the quarter remained the acquisition of DUSA pharma – a specialty company focused on dermatology business with devices. This along with its pending acquisition of the minority stake in Taro and an enabling resolution to raise Rs.80b clearly indicates Sun's intention to leverage its strong balance sheet with a target on specialty / complex generics to drive growth. In other words, balance sheet would remain the biggest growth driver, both for the near and the long term. Given its history of being a consummate acquirer, Sun Pharma remains the safest bet in Pharma at a time when Para IV opportunities for generics are dwindling.

DUSA acquisition looks very attractive for Sun Pharma due to (1) DUSA is acquired at a trailing EV / Operating cashflow multiple of 24x (2) annual growth rate of Levulan – the key drug of DUSA is growing at 22% annually (3) DUSA management had plans to increase price of Levulan by 7-8% every year for next 2 years, implying a significant growth in margin. (4) Taro's sales force may help in Levulan's marketing. DUSA had planned a sales force increase from its current headcount of 50. (5) Ongoing PhII trials for label expansion.

Although there might be a slow down in Lipodox sales in US as the innovator plans to reenter, we consider this slowdown as temporary as we expect Sun's own Doxil ANDA to get approved over the next 6 months. Thus a slowdown due to generic Lipodox may be considered as the best opportunity to enter the stock.

We retain our estimates. We also retain our target price of Rs.795 and reiterate our Outperform rating on the stock.

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