

SUN PHARMA - A structural improvement at play

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Abstracts

Sun's Q2 FY12 result was much higher than our and street's estimates. An EBITDA margin improvement of 730 bps is due to (1) non-realized forex gains (2) improvement in market conditions for certain Taro products (3) benefits of Taro integration including a reduction in R&D expense and (4) ramp up of the low competition launches like generic Kepra injection, Optivar, Tiazac and Exelon.

While forex gains will not sustain, market conditions for Taro products may sustain for few quarters. Although such high margin may not continue, we expect much improved performance in the coming quarters due to (1) ramp up in sales of generic Imitrex injection (2) recent launch of low competition Cardizem CD and (3) benefit of a favorable forex in sales that is yet not realized.

On the longer term, the performance will improve on the back of (1) resolution of USFDA warning letter to the Caraco facility (2) rich, highly probable yet hidden Para IV / low competition pipeline (3) a full impact of Taro profitability after acquisition of 100% stake.

We thus rate Sun Pharma as our top pick in the large cap India pharma. We will change our estimate later to incorporate launches of Cardizem CD, generic Elestat and improvement in margin. We thus will revisit our target price of Rs.536 as well.

Contents

COMPANIES MENTIONED

SUN PHARMA

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