

SUNPHARMA - Acquisitions to drive the next Growth Wave

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Abstracts

Sun Pharma's Q3 FY13 result was better than our estimates largely on account of stronger sales of Taro. Lipodox continued during the quarter. We expect sustainable annual sales of \$80-100m for Sun's Lipodox, assuming entry of one additional generic player by early 2014. A US based company AZAYA Therapeutics is also developing generic copy of JNJ's doxil and based on our estimates, it should as well reach the market by early 2014. The company is currently conducting a bioequivalence study comparing its generic Liposomal doxorubicin (ATI-0918) to JNJ's Doxil. The study is expected to complete in May 2013 and we expect the USFDA to approve a copy in smaller time frame than it usually takes for approving other ANDA's (because of the shortage). As such under the new GDUFA regime, USFDA is expected to act on new ANDA applications within 10 months of filing.

In FY 14, we expect integration of DUSA and URL to be neutral to dilutive to Sun's earnings. Among the near term generic opportunities, the timelines for launch of Prandin (\$230m) and Skelaxin (\$400m) remain uncertain, but could be a source of potential surprise in 2014. Skelaxin is likely to be a low competition opportunity. Besides Skelaxin, URL also brings along a portfolio of approximately 120 ANDA's which as well remains a source of potential surprise.

Taro's earning grew 27 percent in the first nine months of FY 2013, despite a declining volume, We see Sun's decision to not increase the offer price and terminate the merger agreement as a reflection of uncertainty around Taro future earning potential. So far the earnings have been supported by extraordinary price rises in 2013, but we doubt the price rise would be sustainable. The price rise is already pinching the patients and has caught media attention. A100 percent control over Taro though would have helped Sun realize cost and revenue synergies between Taro and DUSA, but now this

will take time.

Leveraging Balance sheet for Acquisition

Consolidation of recent acquisitions (URL and DUSA) as well as management's quest for new acquisitions with a target on Specialty/ Complex drugs will further strengthen Sun's Presence in US. Management has commented that Sun Pharma will continue to seek acquisitions in US (focus on Derma) and other emerging markets with small to medium size companies. With an enabling resolution to raise Rs.80b and cash of Rs.65b in the balance sheet, we believe its balance sheet is going to be the key growth driver.

We reiterate our outperform rating on Sun Pharma with a price target of INR 790.

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