



SUN PHARMACEUTICALS

Import alert, Doxycycline pricing risk: Negatives

India Equity Research | Pharmaceuticals



Sun Pharmaceuticals (SUNP) has received an import alert on its Karkhadi facility (Gujarat), which supplies Cephalosporins (API and formulations) to the US. While the facility does not make meaningful contribution to the company's US business, the manufacturing issue would have a negative sentimental impact on valuations. We also continue to perceive risks of competition and price decline in key products such as Doxil, Doxycycline and Taro's portfolio, which will bear risk to earnings growth. Hikma's lower guidance on sales and profits from Doxycycline is a negative and indicates increase in price competition. The product accounted for ~9-10% of SUNP's total EPS in FY14. We maintain 'HOLD' with target price of INR645 (based on 22.5x FY16E EPS).

Karkhadi facility: Import alert; no meaningful impact on business

The Karkhadi plant supplies Cephalosporins to US and the same accounts for a minuscule part of overall supplies to US, as per SUNP. Thus, the financial impact (not disclosed) of the same will be limited. We highlight that SUNP has total sales of USD1.5bn (60% of total sales) in US including acquired business of Taro, DUSA and URL.

Hikma guides for decline in Doxycycline sales

Hikma (one of the key suppliers of Doxycycline Hyclate in US) has guided for lower generic sales/operating profit of USD170mn/25% in CY14 down by 36%YoY from reported sales/OP of USD268mn/+60% in CY13. The sharp decline accounts for anticipated increase in competition in Doxycycline. The past three months have witnessed softening of prices in the product, as per Hikma. SUNP has 30% market share in the product with majority market held by three players (Sun/URL, Actavis and Hikma). It has gained windfall profits from the product (9-10% of FY14 EPS) which will recede, adding risk to FY15 earnings.

Outlook and valuations: Vulnerable to pricing competition; 'HOLD'

We believe risks of competition and price decline in key products (Doxil, Doxycycline, Taro's portfolio) are high and would remain a negative overhang on the stock. We maintain 'HOLD/Sector Performer' recommendation/rating on the stock.

Financials

| Year to March | FY13 | FY14E | FY15E | FY16E |
|----------------------------------|---------|---------|---------|---------|
| Revenues (INR mn) | 112,999 | 161,500 | 181,867 | 197,423 |
| Rev growth (%) | 40.9 | 42.9 | 12.6 | 8.6 |
| EBITDA (INR mn) | 49,749 | 73,996 | 79,856 | 83,266 |
| Adj. Net profit (INR mn) | 35,426 | 54,829 | 60,635 | 65,436 |
| EPS (INR) | 17.1 | 26.5 | 29.3 | 31.6 |
| Core EPS | 16.9 | 25.1 | 28.6 | 28.5 |
| P/E (x) (based on recurring EPS) | 35.8 | 24.1 | 21.1 | 21.2 |
| Core EV/EBITDA (x) | 24.8 | 19.2 | 16.6 | 15.1 |
| ROE (%) | 26.0 | 33.4 | 29.9 | 25.8 |

EDELWEISS 4D RATINGS

| Absolute Rating | HOLD |
|--------------------------------|------------|
| Rating Relative to Sector | Performer |
| Risk Rating Relative to Sector | Low |
| Sector Relative to Market | Overweight |

MARKET DATA (R: SUN.BO, B: SUNP IN)

| | |
|------------------------------|-----------------|
| CMP | : INR 604 |
| Target Price | : INR 632 |
| 52-week range (INR) | : 653 / 405 |
| Share in issue (mn) | : 2,071.1 |
| M cap (INR bn/USD mn) | : 1,252/ 20,520 |
| Avg. Daily Vol.BSE/NSE('000) | : 2,149.5 |

SHARE HOLDING PATTERN (%)

| | Current | Q2FY14 | Q1FY14 |
|--|---------|--------|--------|
| Promoters * | 63.7 | 63.7 | 63.7 |
| MF's, FI's & BK's | 5.7 | 3.2 | 3.2 |
| FII's | 22.5 | 22.8 | 22.8 |
| Others | 8.1 | 10.4 | 10.3 |
| * Promoters pledged shares (% of share in issue) | | | 0.4 |

PRICE PERFORMANCE (%)

| | Stock | Nifty | EW Pharma Index |
|-----------|-------|-------|-----------------|
| 1 month | 1.9 | (3.4) | (0.1) |
| 3 months | 1.0 | (0.1) | 5.3 |
| 12 months | 53.9 | 2.7 | 28.5 |

Anshuman Gupta

+91 22 6623 3399
anshumanm.gupta@edelweissfin.com

Perin Ali

+91 22 6620 3032
perin.ali@edelweissfin.com

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Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

| | | | |
|--------------------|--|--|------------------|
| Vikas Khemani | Head Institutional Equities | vikas.khemani@edelweissfin.com | +91 22 2286 4206 |
| Nischal Maheshwari | Co-Head Institutional Equities & Head Research | nischal.maheshwari@edelweissfin.com | +91 22 4063 5476 |
| Nirav Sheth | Head Sales | nirav.sheth@edelweissfin.com | +91 22 4040 7499 |

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