

SUNPHARMA - Taro Merger called off

Sun Pharma, India's largest drug manufacturers by market value and engages with specialty medicine and APIs for chronic therapy areas such as cardiology, psychiatry, neurology, etc. Company has forayed into regulated market by acquiring Caraco Pharma and Taro Pharma.

Company posted its 3QFY13 results in line with street expectations. The net sales for the quarter grew to Rs 2852 up 33% YoY. The impressive sales growth of the company led by strong sales growth across all geographies. The Indian generics grew by 33 % YoY to Rs 2852 Cr while sales in US The operating EBITDA for 3QFY13 came at Rs 1261Cr translating a growth of 31% on YoY basis. The OPM stands 44.5% up by nearly 350 bps for the same quarter last fiscal. The good rise in OPM is due to business mix and better realization of INR.

The net profit for the company for 3QFY13 Rs 881 Cr witnessed a growth of 32% over Q3 last year.

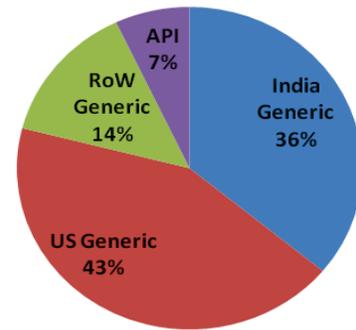
API business continues to grow, and largely be used for vertical integration on key products. A cumulative of 232 DMF / CEP applications have been made, with 161 approved so far. External sales of API, accounting for a fraction of the total API production, reached Rs 209 crores in Q3FY13 registering a growth of 36% over Q3 last year.

Company have made two important acquisitions during the 3QFY13 which will strengthen its US Presence. The first acquisition is of DUSA a dermatology company focused on developing and marketing its Levulan®. The second acquisition done Caraco Pharma (Sun Pharma's 100 % subsidiary) of URL Pharma Inc.'s generic business in US.

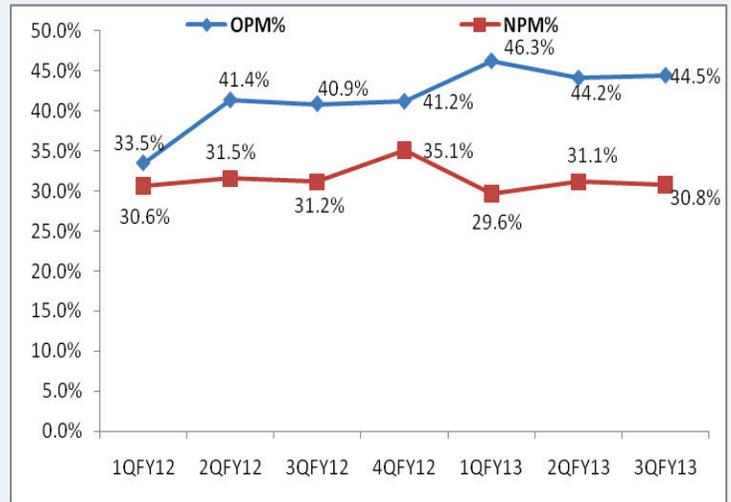
On 8 Feb 2013 company have made announcement that Sun Pharma and TARO have mutually agreed to terminate their merger agreement, announced in August 2012, pursuant to which all shareholders of Taro (other than Sun Pharma and its affiliates) would have received a cash payment of \$39.50 per share upon the closing of the merger.

In the third quarter, ANDAs for 8 products were filed while for the first nine months, ANDAs for 16 products have been filed with the US FDA. After counting these, and adjusting for filings that were dropped, cumulatively ANDAs for 403 products have been filed by Sun Pharma and Taro with the USFDA (as on December 31, 2012). ANDAs for 2 products received approvals in the third quarter while ANDAs for 11 products were approved for the first nine months. As of December 31, 2012, cumulative approvals stand at 261 while ANDAs for 142 products now await USFDA approval, including 17 tentative approvals. The recent acquisition of URL's generic business in US adds ANDAs for 107 products to our product basket. Company maintained its sales guidance to 32-35 % in their post result management commentry for the whole year FY13. Management have also guided tax rate to be below 20 % lower than previous year. Management has denied regarding further provisioning in ongoing patent litigation over Protonix, probably ruling of such litigation would be publically out in June-July 2013. All said and done, the termination of TARO merger would be a temporary dampner to our original target price, considering the EPS-accretive nature of that transaction. Otherwise the long term story hold intact. At a CMP of Rs 742, stock trades at 21.1x FY14E EPS, providing marginal upsides in the near term. We turn "NEUTRAL" on stock for now, and wait for attractive entry point

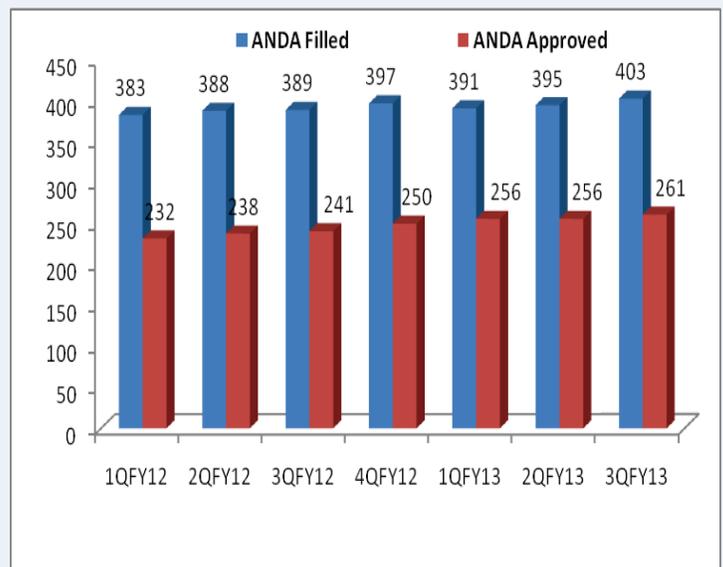
SALES BREAK-UP FY12 (%)



(Source: Company/Eastwind)



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