Retail Equity Research

Sun Pharmaceutical Industries

Pharmaceuticals

BSE CODE: 524715 NSE CODE: SUNPHARMA
Bloomberg CODE: SUNP:IN SENSEX: 34,371

BUY

12M Investment period Rating as per Large Cap
CMP Rs. 489 TARGET Rs. 587 RETURN 20%
(Closing: 08-06-20)

KEY CHANGES: ***TARGET*** ↑ ***RATING*** ↑ ***EARNINGS*** ↓

Robust topline growth despite disruption

Sun Pharma is India's top drug maker and world's fifth largest specialty generic pharmaceutical company. The company develops, manufactures, and markets branded and generic formulations and active pharmaceutical ingredients (APIs) in India and globally.

- **Q4FY20 topline rose 14.7% YoY to Rs. 8,078cr, on the back of robust growth in India business (+114.7% YoY; 29.3% of total revenue), partially offset by lower US revenue (-13.2%; 33.6% of total revenue).**
- **R&D expense stood at Rs. 536cr (6.6% of revenue) vs. Rs. 567cr (8.0% of revenue) in Q4FY19.**
- **EBITDA grew 48.0% YoY to Rs. 1,505cr, as EBITDA margin expanded 420bps YoY, but contracted 330bps QoQ.**
- **Adj. PAT rose 16.2% YoY to Rs. 803cr (excluding one-time litigation expenses of Rs. 261cr and FX losses of Rs. 142cr).**
- **Robust India sales and new launches are key positives. Additionally, we believe US specialty business will support company's topline over the medium term. Hence, we upgraded our rating on the stock to BUY with a roll forward target price of Rs. 587 based on 25x FY22E adj. EPS.**

Revenue growth led by India operations

In Q4FY20, revenue rose 14.7% YoY to Rs. 8,078cr, largely contributed by India business (+114.7% YoY to Rs. 2,365cr; market share improved to 8.4%). However, excluding one-off (distribution related change in 4QFY19), India business grew ~8% YoY. Additionally, Emerging market (+11.0% YoY to Rs. 1,354cr), and ROW Formulations (+4.0% YoY to Rs. 1,121cr) witnessed gains. Meanwhile, revenue from US fell 13.2% YoY to Rs. 2,713cr in 4QFY19, while Bulks remained stable at Rs. 483cr.

EBITDA came in as mixed bag

EBITDA stood at Rs. 1,505cr (+48.0% YoY, -14.5% QoQ), as EBITDA margin expanded by 420bps YoY on lower cost as a % of revenue. However, EBITDA margin contracted ~330bps QoQ on higher cost of materials owing to product mix and material consumption for Taro. Additionally, Employee benefit expenses increased to Rs. 1,652cr (+5.3% YoY; +6.6 QoQ) on the back of provisions for incentives to employee. Besides, ILUMYA recorded sales of USD 94mn on full year of its commercialization and also planning to launch ILUMYA in Japanese market. However, phase-III study is getting delayed due to COVID-19.

Key concall highlights

- Company's pipeline remains strong with ANDAs for 483 products, and 98 ANDAs are under approval, of which 20 are tentatively approved. In Q4FY20, company filed 6 ANDAs and received approval for 2 from US FDA.
- Management guided R&D expenditure as % of sales to be in the range of ~8- 9% for FY21.
- On 29th March 2020, US FDA put all the new approvals on holds at Halol facility and gave OAI classification. This leads to delay of products approval for US market (19 ANDAs and 2 NDAs are pending for approval). However, the production of already approved products from the facility remains unaffected.

Valuation

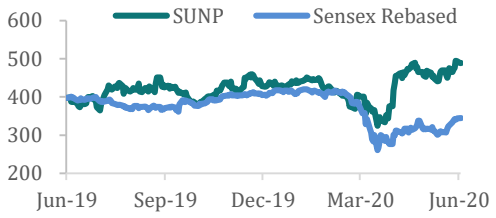
Despite the COVID-19 impact, we believe revenue growth will be driven by strong pipeline and new product additions. Also, US specialty business and India sales will support company's outlook in upcoming quarters. Therefore, we upgraded our rating on the stock to BUY with a revised target price of Rs. 587 based on 25x FY22E adj. EPS.

Company Data	
Market Cap (cr)	Rs. 117,327
Enterprise Value (cr)	Rs. 119,367
Outstanding Shares (cr)	240.0
Free Float	46.0%
Dividend Yield	0.2%
52 week high	Rs. 511
52 week low	Rs. 315
6m average volume (cr)	0.04
Beta	0.6
Face value	Rs. 1

Shareholding %	Q2FY20	Q3FY20	Q4FY20
Promoters	54.6	54.6	54.7
FII's	14.7	13.9	12.8
MFs/Insti	18.5	19.1	19.6
Public	7.6	7.5	7.7
Others	4.7	4.9	5.2
Total	100.0	100.0	100.0
Promoters' pledge	10.4	10.1	13.2

Price Performance	3 Month	6 Month	1 Year
Absolute Return	22.0%	14.1%	23.2%
Absolute Sensex	-8.5%	-15.0%	-13.2%
Relative Return*	30.5%	29.1%	36.4%

***over or under performance to benchmark index**



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	32,325	34,750	38,225
Growth (%)	12.7	7.5	10.0
EBITDA	6,974	7,774	8,659
EBITDA Margin (%)	21.6	22.4	22.7
Adj. PAT	4,010	4,647	5,633
Growth (%)	0.9	15.9	21.2
Adj. EPS	16.7	19.4	23.5
Growth (%)	0.9	15.9	21.2
P/E	21.1	25.2	20.8
P/B	1.9	2.4	2.1
EV/EBITDA	12.8	15.4	13.4
ROE (%)	8.3	9.4	10.3
D/E	0.2	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Revenue	8,078	7,044	*14.7*	8,039	*0.5*	32,325	28,686	*12.7*
EBITDA	**1,505**	**1,017**	*48.0*	**1,760**	*(14.5)*	**6,974**	**6,401**	*9.0*
EBITDA margins	18.6	14.4	420bps	21.9	(330bps)	21.6	22.3	(70bps)
Depreciation	575	454	*26.7*	547	*5.2*	2,053	1,753	*17.1*
EBIT	**930**	**563**	*65.2*	**1,213**	*(23.3)*	**4,921**	**4,648**	*5.9*
Interest	52	150	*(65.3)*	63	*(17.5)*	303	555	*(45.4)*
Other Income	(704)	226	*n.m.*	119	*n.m.*	147	(1,591)	*n.m.*
Exceptional Items	403	55	*632.7*	82	*391.5*	245	1,308	*(81.3)*
PBT	**577**	**694**	*(16.9)*	**1,351**	*(57.3)*	**5,010**	**3,810**	*31.5*
Tax	83	(29)	*n.m.*	328	*(74.6)*	823	601	*36.9*
Share of profit from Associate	(2)	(2)	*(34.8)*	(4)	*(63.3)*	(15)	(1)	*n.m.*
Minority Interest	93	85	*9.7*	106	*(12.2)*	407	542	*(25.0)*
Reported PAT	**400**	**636**	*(37.1)*	**914**	*(56.2)*	**3,765**	**2,665**	*41.3*
Adjustments	403	55	*n.m.*	(82)	*n.m.*	245	1,308	*n.m.*
Adjusted PAT	**803**	**691**	*16.2*	**832**	*(3.5)*	**4,010**	**3,973**	*0.9*
No. of shares	240.0	239.9	-	239.8	-	240.0	239.9	-
EPS (Rs.)	**3.3**	**2.9**	*16.2*	**3.5**	*(3.5)*	**16.7**	**16.6**	*0.9*

Segment revenue

	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
India Formulations	2,365	1,101	*114.7*	2,517	*(6.0)*	9,710	7,348	*32.1*
US Formulations	2,713	3,124	*(13.2)*	2,492	*8.8*	10,543	10,671	*(1.2)*
Emerging Market	1,354	1,220	*11.0*	1,390	*(2.6)*	5,504	5,362	*2.6*
ROW Formulations	1,121	1,078	*4.0*	1,104	*1.6*	4,521	3,455	*30.8*
Bulk	483	484	*(0.1)*	503	*(3.9)*	1,916	1,730	*10.7*
Others	42	37	*11.6*	32	*28.8*	131	119	*10.7*
Total	**8,078**	**7,044**	*14.7*	**8,039**	*0.5*	**32,325**	**28,686**	*12.7*

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	**FY21E**	**FY22E**	**FY21E**	**FY22E**	**FY21E**	**FY22E**
Revenue	36,330		34,750	38,225	*(5.1)*	
EBITDA	8,641		7,774	8,659	*(10.0)*	
Margins (%)	23.6		22.4	22.7	*(43bps)*	
Adj. PAT	5,372		4,647	5,633	*(13.5)*	
EPS	22.4		19.4	23.5	*(13.5)*	

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	**26,066**	**28,686**	**32,325**	**34,750**	**38,225**
% change	(13.9)	10.1	12.7	7.5	10.0
EBITDA	**5,608**	**6,401**	**6,974**	**7,774**	**8,659**
% change	(44.4)	14.1	9.0	11.5	11.4
Depreciation	1,500	1,753	2,053	2,088	2,044
EBIT	**4,108**	**4,648**	**4,921**	**5,686**	**6,616**
Interest	518	555	303	131	(186)
Other Income	(1,062)	(1,591)	147	625	688
Exceptional item	951	1,308	245	0	0
PBT	**3,479**	**3,810**	**5,010**	**6,181**	**7,490**
% change	(61.5)	9.5	31.5	23.4	21.2
Tax	845	601	823	1,015	1,230
Tax Rate (%)	24.3	15.8	16.4	16.4	16.4
Reported PAT	**2,162**	**2,665**	**3,765**	**4,647**	**5,633**
Adj*	951	1,308	245	-	-
Adj PAT	**3,112**	**3,973**	**4,010**	**4,647**	**5,633**
% change	(55.3)	27.7	0.9	15.9	21.2
No. of shares (cr)	239.9	239.9	240.0	240.0	240.0
Adj EPS (Rs.)	**13.0**	**16.6**	**16.7**	**19.4**	**23.5**
% change	(55.3)	27.7	0.9	15.9	21.2
DPS (Rs.)	2.0	2.8	1.0	1.2	1.5
CEPS (Rs.)	19.2	23.9	25.3	28.1	32.0

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	9,929	7,276	6,488	8,444	10,425
Accounts Receivable	7,815	8,884	9,421	10,425	11,467
Inventories	6,881	7,886	7,875	8,486	9,302
Other Cur. Assets	7,011	7,023	7,870	7,921	8,008
Investments	3,052	3,952	5,246	5,662	5,950
Gross Fixed Assets	14,876	16,755	18,297	19,955	21,779
Net Fixed Assets	9,159	10,027	10,567	10,137	9,917
CWIP	1,434	911	659	659	659
Intangible Assets	10,724	12,309	12,841	12,899	12,957
Def. Tax (Net)	2,194	2,555	3,175	3,046	3,691
Other Assets	6,103	3,870	4,110	4,144	4,178
Total Assets	**64,303**	**64,694**	**68,252**	**71,823**	**76,554**
Current Liabilities	11,885	8,969	10,157	10,305	10,778
Provisions	404	430	511	562	618
Debt Funds	9,783	9,896	7,621	6,121	4,421
Other Liabilities	246	676	839	857	876
Equity Capital	240	240	240	240	240
Reserves & Surplus	37,861	41,169	45,025	49,376	54,650
Shareholder's Fund	38,101	41,409	45,264	49,616	54,890
Minority Interest	3,884	3,314	3,860	4,363	4,972
Total Liabilities	**64,303**	**64,694**	**68,252**	**71,823**	**76,554**
BVPS (Rs.)	**159**	**173**	**189**	**207**	**229**

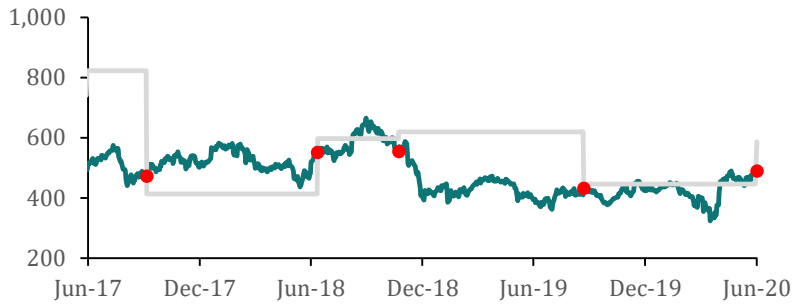
CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	**3,661**	**4,419**	**5,818**	**6,735**	**7,677**
Non-cash adj.	640	199	991	746	(246)
Changes in W.C	(394)	(2,421)	(254)	(1,515)	(1,455)
C.F. Operation	**3,907**	**2,196**	**6,555**	**5,966**	**5,975**
Capital exp.	(1,894)	(3,162)	(1,450)	(1,658)	(1,823)
Change in inv.	(762)	1,730	(1,702)	(367)	(239)
Other invest.CF	(714)	751	563	(58)	(59)
C.F – Investment	**(3,371)**	**(681)**	**(2,589)**	**(2,083)**	**(2,121)**
Issue of equity	(675)	(608)	(637)	-	-
Issue/repay debt	(575)	890	(3,342)	(1,500)	(1,700)
Dividends paid	(813)	(1,326)	(1,399)	(296)	(359)
Other finance.CF	524	(1,687)	(336)	(131)	186
C.F – Finance	**(1,539)**	**(2,731)**	**(5,715)**	**(1,927)**	**(1,873)**
Chg. in cash	(1,003)	(1,215)	(1,749)	1,956	1,981
Closing cash	9,929	7,276	6,488	8,444	10,425

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	21.5	22.3	21.6	22.4	22.7
EBIT margin (%)	15.8	16.2	15.2	16.4	17.3
Net profit mgn.(%)	8.3	9.3	11.6	13.4	14.7
ROE (%)	5.7	6.4	8.3	9.4	10.3
ROCE (%)	7.9	8.5	8.7	9.5	10.3
W.C & Liquidity					
Receivables (days)	109.4	113.0	106.4	109.5	109.5
Inventory (days)	338.3	365.8	311.4	310.3	310.3
Payables (days)	234.3	192.4	161.9	153.3	153.3
Current ratio (x)	1.6	1.8	2.0	2.5	3.0
Quick ratio (x)	1.1	1.2	1.3	1.7	2.0
Turnover & Leverage					
Gross asset T.O (x)	1.8	1.8	1.8	1.8	1.8
Total asset T.O (x)	0.4	0.4	0.5	0.5	0.5
Int. coverage ratio (x)	7.9	8.4	16.3	43.4	-
Adj. debt/equity (x)	0.2	0.2	0.2	0.1	0.1
Valuation					
EV/Sales (x)	4.7	4.2	2.8	3.4	3.0
EV/EBITDA (x)	21.8	18.9	12.8	15.4	13.4
P/E (x)	38.1	28.9	21.1	25.2	20.8
P/BV (x)	3.1	2.8	1.9	2.4	2.1

Recommendation Summary



Dates	Rating	Target
23-Feb-17	BUY	741
6-Jun-17	BUY	823
12-Sep-17	SELL	413
19-Jun-18	HOLD	597
30-Oct-18	BUY	620
29-Aug-19	HOLD	446
9-Jun-20	BUY	587

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:
Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.
Sell: Exit from the stock.
Not rated: The analyst has no investment opinion on the stock.

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JOE VARGHESE SAMUEL

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