

Retail Equity Research

Sun Pharmaceutical Industries

HOLD

Pharmaceuticals

BSE CODE: 524715

NSE CODE: SUNPHARMA

Bloomberg CODE: SUNP:IN

SENSEX: 37,663

12M Investment period

Rating as per Large Cap

CMP Rs. 529

TARGET Rs. 570

RETURN 8% ↑

(Closing: 05-08-20)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Weak US business impacts Q1; Outlook cautious

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.

- Q1FY21 revenue fell 9.6% YoY, primarily impacted by lower revenue from US Formulations (-27.5% YoY) and rest of the world (-11.1% YoY).
- The R&D expenses stood at Rs. 421cr (~5.6% of sales) vs. Rs. 422cr (5.1% of sales) in Q1FY20.
- EBITDA de-grew 8.5% YoY although margin remained largely flat at 23.6% (+30bps YoY). Adj. PAT declined Rs. 1,146cr (-13.2% YoY) excluding one-time post-minority exceptional items of Rs. 2,802cr.
- We expect US business environment to remain challenging in the near-term. Given current expensive valuation, we downgrade our rating on the stock to a HOLD with a revised target price of Rs. 570 based on 26x FY22E adj. EPS.

India business remains firm while International operations stumble

Q1FY21 revenue fell 9.6% YoY to Rs. 7,467cr, primarily as a result of steep decline in US Formulations (-27.5% YoY to Rs. 2,136cr) and ROW (-11.1% to Rs. 1,030cr). However, India business grew 3.2% YoY to Rs. 2,388cr. Company laid continuous efforts to invest in R&D to enhance its specialty and differentiated generic pipeline. Despite challenging conditions due to COVID-19, the company has performed considerably well and retained its market share in all of its key specialty products in the US as well as domestic market. As timely risk mitigation initiative, it ensured uninterrupted supplies and smooth operations throughout.

Margins remain stable

EBITDA reported a de-growth of 8.5% YoY to Rs. 1,764cr, while EBITDA margin remained largely flat at 23.6% mainly due to improved product mix and controlled other expenditure. During the quarter, company recorded the exceptional charges worth Rs. 3,633cr for Taro Pharma settlement with US DOJ (Rs. 3,178cr) and provision for multi-jurisdiction anti-trust matters (Rs. 455cr). As a result, reported PAT came in at Rs. 1,656cr loss vs. Rs. 1,387cr gain in Q1FY20. Adj. PAT was at Rs. 1,146cr (-13.2% YoY) after excluding exceptional items.

Key concall highlights

- Company awaits approval by US FDA w.r.t its current generic pipeline for the US market that includes 95 ANDAs and 6 NDAs.
- Entered into exclusive licensing agreement with HIKMA Pharmaceuticals for commercializing ILUMYA in North Africa and Middle East region.
- Launch preparations have been initiated in Japan for ILUMYA post receiving regulatory approval as a means for expansion. Company also commenced clinical trials in India for 2 products for COVID-19.
- Launched 27 SKUs and almost 10 new products in the Indian market for Q1FY21.

Valuation

SUNP performance was impacted by weak US operations despite some respite from Indian operations. We expect US business environment to remain challenging in the near-term. Additionally, the company valuation looks expensive at current levels and hence we downgrade our rating on the stock to a HOLD with a revised target price of Rs. 570 based on 26x FY22E adj. EPS.

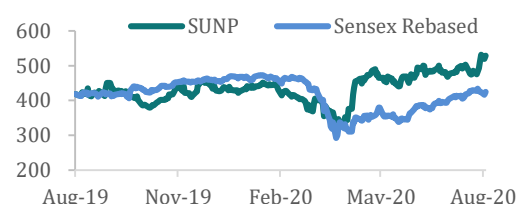
Company Data

Market Cap (cr)	Rs. 126,985
Enterprise Value (cr)	Rs. 129,995
Outstanding Shares (cr)	240.0
Free Float	46.0%
Dividend Yield	0.2%
52 week high	Rs. 541
52 week low	Rs. 315
6m average volume	270,596
Beta	0.5
Face value	Rs. 1

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	54.6	54.7	54.7
FII's	13.9	12.8	12.7
MFs/Insti	19.1	19.6	20.1
Public	7.5	7.7	7.5
Others	4.9	5.2	5.1
Total	100.0	100.0	100.0
Promoters' pledge	10.1	13.2	10.4

Price Performance	3 Month	6 Month	1 Year
Absolute Return	15.9%	25.0%	27.7%
Absolute Sensex	19.7%	-8.5%	2.6%
Relative Return*	-3.8%	33.5%	25.1%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	32,325	34,426	37,938
Growth (%)	12.7	6.5	10.2
EBITDA	6,974	7,702	8,595
EBITDA Margin (%)	21.6	22.4	22.7
Adj. PAT	4,010	4,518	5,265
Growth (%)	0.9	12.7	16.6
Adj. EPS	16.7	18.8	21.9
Growth (%)	0.9	12.7	16.6
P/E	21.1	28.1	24.1
P/B	1.9	2.7	2.4
EV/EBITDA	12.8	16.9	15.1
ROE (%)	8.3	3.7	10.2
D/E	0.2	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	7,467	8,259	(9.6)	8,078	(7.6)
EBITDA	1,764	1,928	(8.5)	1,505	17.2
EBITDA margins	23.6	23.3	30bps	18.6	500bps
Depreciation	496	457	8.5	575	(13.8)
EBIT	1,268	1,471	(13.8)	930	36.4
Interest	52	104	(50.1)	52	0.3
Other Income	154	213	(16.9)	102	684.7
Exceptional Items	(3,633)	67	n.m.	(403)	n.m.
PBT	(2,184)	1,647	(232.6)	577	(478.2)
Tax	246	146	68.4	83	196.0
Share of profit from Associate	-	-	-	-	-
Minority Interest	(771)	109	n.m.	93	n.m.
Reported PAT	(1,656)	1,387	(219.3)	400	n.m.
Adjustments	2,802	(67)	n.m.	403	1,294.0
Adj. PAT	1,146	1,320	(13.2)	803	42.8
No. of shares	240.0	240.0	-	240.0	-
Adj. EPS (Rs.)	4.8	5.5	(13.2)	3.3	42.8

Segment revenue

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
India Formulations	2,388	2,314	3.2	2,365	1.0
US Formulations	2,136	2,947	(27.5)	2,713	(21.2)
Emerging Market	1,316	1,349	(2.4)	1,354	(2.8)
ROW Formulations	1,030	1,159	(11.1)	1,121	(8.1)
Bulk	554	461	20.1	483	14.5
Others	43	29	45.2	42	2.0
Total	7,467	8,259	(9.6)	8,078	(7.6)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	34,750	38,225	34,426	37,938	(0.9)	(0.8)
EBITDA	7,774	8,659	7,702	8,595	(0.9)	(0.7)
Margins (%)	22.4	22.7	22.4	22.7	(3bps)	(5bps)
Adj. PAT	4,647	5,633	4,518	5,265	(2.8)	(6.5)
Adj. EPS	19.4	23.5	18.8	21.9	(3.0)	(6.6)

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	26,066	28,686	32,325	34,426	37,938
% change	(13.9)	10.1	12.7	6.5	10.2
EBITDA	5,608	6,401	6,974	7,702	8,595
% change	(44.4)	14.1	9.0	10.4	11.6
Depreciation	1,500	1,753	2,053	2,088	2,042
EBIT	4,108	4,648	4,921	5,614	6,553
Interest	518	555	303	204	(79)
Other Income	(112)	(282)	391	(3,014)	683
PBT	3,479	3,810	5,010	2,397	7,315
% change	(61.5)	9.5	31.5	(52.2)	205.2
Tax	845	601	823	479	1,463
Tax Rate (%)	24.3	15.8	16.4	20.0	20.0
Reported PAT	2,162	2,665	3,765	1,716	5,265
Adj*	951	1,308	245	2,802	-
Adj PAT	3,112	3,973	4,010	4,518	5,265
% change	(55.3)	27.7	0.9	12.7	16.6
No. of shares (cr)	239.9	239.9	240.0	240.0	240.0
Adj EPS (Rs.)	13.0	16.6	16.7	18.8	21.9
% change	(55.3)	27.7	0.9	12.7	16.6
DPS (Rs.)	2.0	2.8	1.0	0.5	1.4
CEPS (Rs.)	19.2	23.9	25.3	27.5	30.5

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	3,661	4,419	5,818	3,804	7,307
Non-cash adj.	640	199	991	2,077	(2,431)
Changes in W.C	(394)	(2,421)	(254)	(1,378)	(1,471)
C.F. Operation	3,907	2,196	6,555	4,502	3,405
Capital exp.	(1,894)	(3,162)	(1,450)	(1,642)	(1,810)
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)	(2,067)	(2,107)
Issue of equity	(675)	(608)	(637)	-	-
Issue/repay debt	(575)	890	(3,342)	(1,500)	(1,700)
Dividends paid	(813)	(1,326)	(1,399)	(109)	(336)
Other finance.CF	524	(1,687)	(336)	(204)	79
C.F - Finance	(1,539)	(2,731)	(5,715)	(1,813)	(1,957)
Chg. in cash	(1,003)	(1,215)	(1,749)	621	(659)
Closing cash	9,929	7,276	6,488	7,109	6,449

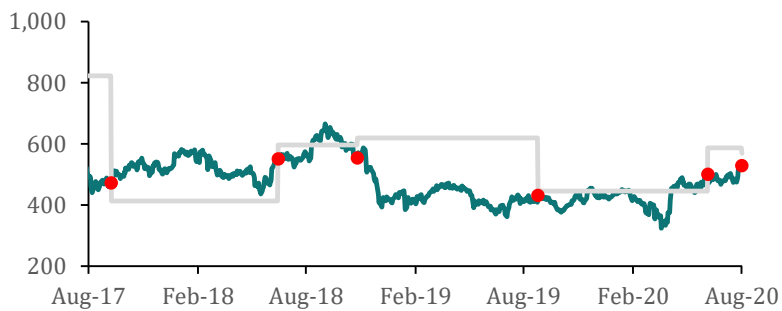
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	9,929	7,276	6,488	7,109	6,449
Accounts Receivable	7,815	8,884	9,421	10,328	11,381
Inventories	6,881	7,886	7,875	8,407	9,233
Other Cur. Assets	7,011	7,023	7,870	7,910	7,998
Investments	3,052	3,952	5,246	5,662	5,949
Gross Fixed Assets	14,876	16,755	18,297	19,940	21,749
Net Fixed Assets	9,159	10,027	10,567	10,122	9,890
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	1,438	4,389
Other Assets	6,103	3,870	4,110	4,144	4,178
Total Assets	64,303	64,694	68,252	68,678	73,084
Current Liabilities	11,885	8,969	10,157	10,260	10,738
Provisions	404	430	511	562	618
Debt Funds	9,783	9,896	7,621	6,121	4,421
Other Liabilities	246	676	839	819	892
Equity Capital	240	240	240	240	240
Reserves & Surplus	37,861	41,169	45,025	46,631	51,561
Shareholder's Fund	38,101	41,409	45,264	46,871	51,801
Minority Interest	3,884	3,314	3,860	4,046	4,615
Total Liabilities	64,303	64,694	68,252	68,678	73,084
BVPS (Rs.)	159	173	189	195	216

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	16.3	17.3
Net profit mgn. (%)	8.3	9.3	11.6	5.0	13.9
ROE (%)	5.7	6.4	8.3	3.7	10.2
ROCE (%)	7.9	8.5	8.7	9.8	10.8
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	2.4	2.7
Quick ratio (x)	1.1	1.2	1.3	1.6	1.7
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	27.5	(82.9)
Adj. debt/equity (x)	0.2	0.2	0.2	0.1	0.1
Valuation					
EV/Sales (x)	4.7	4.2	2.8	3.8	3.4
EV/EBITDA (x)	21.8	18.9	12.8	16.9	15.1
P/E (x)	38.1	28.9	21.1	28.1	24.1
P/BV (x)	3.1	2.8	1.9	2.7	2.4

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
5-Aug-20	HOLD	570

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.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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