

Sun Pharmaceutical Industries Ltd

Bloomberg Code: SUNP IN

India Research - Stock Broking

SELL

Better Margins on Gross Margins and Cost Savings

Net Revenues for the quarter increased by 9.7% YoY to Rs75.9 Bn. EBITDA Margins were marginally higher for the quarter at 23.3% due to better gross margins and lower overheads. The company incurred a Net loss of Rs 16.6 Bn after providing for one time settlement of Rs 36.3 Bn related to DOJ.

Domestic Formulations (DF) market and API show positive growth: India formulations business has grown by 3% YoY for the quarter to Rs 23.9 Bn while US formulations declined by 28% to Rs 21 Bn. Taro Pharma sales declined by 26% to USD 118 Mn for the quarter. ROW declined by 11% to Rs 10.3 Bn while EM declined by 2.4% to Rs 13 Bn. API business increased by 20% to Rs 5.5 Bn for the quarter.

Margins improve: EBITDA margins at 23.3% in Q1FY21 was marginally higher than 23% in Q1FY20. Improvement in margins was on account of savings in material cost of 340 bps to 26.4% on account of better product mix, with Chronic portion growing by 10% in DF. Staff cost was higher by 14% to Rs 17.6 Bn due to higher MR cost. Other expenses de-grew by 18% due to lower marketing and promotion expenses. R & D expenses were at 5.6% of revenues in Q1FY21 as compared to 4.9% of revenues in Q1 FY20. The company has posted a net loss of Rs 16.6 Bn after Taro's provision of Rs 36.3 Bn for settlement with DOJ.

Outlook & Valuation

We downgrade our revenues by 4%/2% to Rs 348 Bn/Rs 385Bn for FY21E/FY22E on account of downgrade in Domestic formulations, US/Taro and other businesses. We upgrade our EBITDAM by 13 bps to 22.6% and downgrade by 10 bps to 23.1% for FY22E due to lower overheads and R&D for FY21/FY22E. We downgrade our EPS estimates for FY21E by 60% to Rs. 8.1 on account of provision of Taro's DOJ settlement and by 3.5% to Rs 23.3 for FY22E. We downgrade to **"SELL"** with a revised price target of Rs 536 based on 23x FY22E.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	264895	290659	328375	348080	385096
EBITDA	56081	63076	69898	78701	88877
Net Profit	30462	38798	40256	55759	55880
Reported Net Profit	20957	26654	37649	19426	55880
EPS Reported (Rs.)	8.7	11.1	15.7	8.1	23.3
EPS Growth (%)	(69.9)	27.2	41.3	(48.4)	187.6
EBITDA Margin (%)	21.2	21.7	21.3	22.6	23.1
PER (x)	59.5	46.8	33.1	64.2	22.3
EV/EBITDA (x)	21.8	19.8	17.7	15.3	13.1
RoCE (%)	9.9	10.5	10.0	11.3	12.9
RoE (%)	8.2	9.8	9.3	12.2	11.5

Source: Company, Karvy Research

Consolidated

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Recommendation (Rs.)

CMP (as on Aug 03, 2020)	520
Target Price	536
Previous Target Price	554
Upside (%)	3

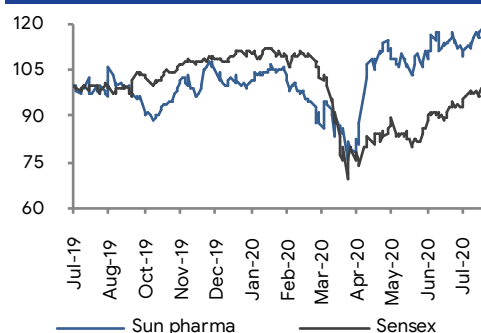
Stock Information

Mkt Cap (Rs.Bn/US\$ Mn)	1248 / 16580
52-wk High/Low (Rs.)	541 / 312
Sensex/Nifty	36940/10890
O/S Shares(Mn)	2399.3
Face Value (Rs.)	1.0

Shareholding Pattern (%)

Promoters	54.7
FII's	12.7
Banks/Fis/MFs	10.5
Public	22.1

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision

%	FY21E	FY22E
Revenue	↓ (4.0)	↓ (2.0)
EBITDA	↓ (3.4)	↓ (2.4)
EPS (Rs.)	↓ (60.1)	↓ (3.5)

Source: Karvy Research

Analyst Contact

Rahul Sharma
 rahul.sharma@karvy.com

Key highlights:

US:

- The company's US specialty business and Derma business has been impacted by the lockdown as majority of the business is clinic driven. Majority of the Derma and Ophthalmics Clinics were closed during April- June quarter. Illumya and Levulan are clinically administered products. Cequa also witnessed decline in sales. The current generic pipeline includes 95 ANDAs and 6 NDAs awaiting approval.
- The company continues to promote Illumya to doctors on safety, efficacy and cost parameters.

Domestic formulations:

- On the domestic front the company's chronic business of CVS and CNS has grown by 10% during the quarter while semi chronic has shown a de-growth and Acute has seen a 20% de-growth during the quarter.
- The company's MRs have started field work. Meetings have improved to 20-30% in May to 50% in June. July has seen some improvement but could be impacted by local lockdowns.

Regulatory:

- Sun Pharma continues to update USFDA on Halol remediation measures on a quarterly basis. No update has come from USFDA. Hopefully they may do it by Desk audit.

Other Takeaways:

- Gross margins have improved due to efficiency of manufacturing operations, management of inventories and product mix of India business.
- Company continues to focus on supply chain and continuity. Marketing costs are lower across regions.
- The company is adopting a watch and respond strategy in marketplace. It continues to maintain strict control on cost.
- 39% of R & D cost spend is on specialty portfolio.
- Japan's approval of Illumya has come and company is making preparations for the launch.
- Emerging Markets decline is driven by tender business.

Exhibit 2: Quarterly Performance

YE Mar (Rs. Mn)	Q1FY21	Q4FY20	Q1FY20	QoQ (%)	YoY (%)
Net Sales	75853	81849	83744	(7.3)	(9.4)
Cost	58209	68219	64461	(14.7)	(9.7)
EBITDA	17644	13630	19282	29.4	(8.5)
EBITDA Margin (%)	23.3	16.7	23.0		
Other Income	1538	1022	2130	50.4	(27.8)
Interest	520	518	1041	0.3	(50.1)
Depreciation	4959	5754	4571	(13.8)	8.5
Profit before Tax	14494	8381	16474	72.9	(12.0)
Exceptional items*	(36333)	2606	0		
Tax	2459	831	1461	196.0	68.4
Tax rate (%)	17.0	9.9	8.9		
Share of minority Interest	(7706)	929	1092		
Share of Loss in Associates	36	(16)	(47)		
Net Profit	(16556)	3998	13875		

Source: Company, Karvy Research

Exhibit 3: Change in Estimates

YE Mar (Rs. Mn)	FY21E			FY22E			Comments
	New	Old	% change	New	Old	% change	
Revenues	348080	362569	(4.0)	385096	393035	(2.0)	
Domestic	101957	103899	(1.9)	111133	113250	(1.9)	downgrade in domestic formulations business
Sun US business	759	902	(15.8)	1012	1056	(4.1)	recalibrate US business
Taro USD mn	606	621	(2.4)	580	603	(4.0)	Downgrade in business due to Q1FY21
Net material consumption	95673	98348	(2.7)	102099	103441	(1.3)	
Manufacturing	82467	89479	(7.8)	93138	95058	(2.0)	lower overheads factored in FY21
R&D	20617	23265	(11.4)	24710	27159	(9.0)	lower R & D factored on account of uncertain business environment
Staff cost	70622	69986	0.9	76272	76285	(0.0)	higher staff cost on account of MR addition
EBITDA	78701	81491	(3.4)	88877	91092	(2.4)	
EBITDA Margin (%)	22.6	22.5		23.1	23.2		
Other Income	6370	7446	(14.5)	7743	9317	(16.9)	lower other income factored in FY21/ FY22
Depreciation	21810	22604	(3.5)	23096	23720	(2.6)	lower depreciation factored
Interest expense	2609	2967	(12.1)	2258	2304	(2.0)	lower interest expenses factored
Exceptionals	36333						DOJ settlement
Tax	10650	11127	(4.3)	12514	13062	(4.2)	
Minority Interest	(5558)	3721	(249.4)	3072	3643	(15.7)	Taro loss due to settlement with DoJ
Share of loss in associates	(200)	(200)	0.0	(200)	(200)	-	
Net Profit	19426	48719	(60.1)	55880	57881	(3.5)	
EPS (Rs.)	8.1	20.3	(60.1)	23.3	24.1	(3.5)	

Source: Company, Karvy Research

Financials

Exhibit 4: Income Statement

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Net Revenues	264895	290659	328375	348080	385096
% growth	(16.1)	9.7	13.0	6.0	10.6
Raw Material	74247	78690	92305	95673	102099
Staff	53671	59671	63624	70622	76272
Manufacturing	60227	70094	83298	82467	93138
R&D	20669	19129	19252	20617	24710
Total Expenditure	208813	227583	258477	269379	296219
EBITDA	56081	63076	69898	78701	88877
EBITDA margin (%)	21.2	21.7	21.3	22.6	23.1
Other income	8388	10255	6360	6370	7743
Interest	5176	5553	3027	2609	2258
Gross Profit	59293	67778	73230	82462	94362
Depreciation	14998	17533	20528	21810	23096
Profit Before Tax	44295	50246	52702	60652	71266
Tax	9111	6009	8228	10650	12514
Effective tax rate (%)	20.6	12.0	15.6	17.6	17.6
PAT	35184	44237	44474	50001	58751
Minority Interest	4468	5424	4070	(5558)	3072
Share of loss in Associates	(254)	(15)	(148)	(200)	(200)
Net Profit	30462	38798	40256	55759	55880
EOI	(9505)	(12144)	(2606)	(36333)	0
Reported Net Profit	20957	26654	37649	19426	55880

Source: Company, Karvy Research

Exhibit 5: Balance Sheet

YE Mar (Rs. Mn)	FY18	FY19	FY20P	FY21E	FY22E
Y/E Mar (Rs Mn)	FY18	FY19	FY20P	FY21E	FY21E
Equity	2399	2399	2399	2399	2399
Reserves	377081	409733	450245	460073	506355
Net worth	381006	414091	452644	462472	508754
Total Loans	97518	98934	75782	54650	45702
Minority Interest	38842	33135	38602	33044	36116
Deferred Tax Liability	(19748)	(24506)	(31172)	(31172)	(31172)
Liabilities	497617	521654	535858	518996	559400
Gross Block	148765	167555	193483	203072	213072
Depreciation	57174	67281	87808	109619	132715
Net Block	91590	100274	105674	93453	80357
Capital work-in-progress	14345	9108	6589	7000	7000
Goodwill on consolidation	56067	59558	64815	64815	64815
Intangible assests under devlp	10307	5004	5614	5614	5614
Other intangible assets	40869	58534	57980	57980	57980
Long-term Investments	71429	79025	101411	101411	101411
Inventories	68807	78860	78750	81889	89377
Debtors	78153	88842	94212	93266	103380
Cash	99294	72756	64895	72843	107132
Other Current assets	90230	69429	70830	76696	85979
Total Current assets	336483	309887	308687	324695	385867
Creditors	47662	41479	40937	49684	54968
Other current liabilities	75811	58257	73976	86288	88676
Total current liabilities	123473	99736	114913	135972	143644
Net current assets	213010	210152	193774	188723	242223
Total Assets	497617	521654	535858	518996	559400

Source: Company, Karvy Research

Exhibit 6: Cash Flow Statement

YE Mar (Rs. Mn)	FY18	FY19	FY20P	FY21E	FY22E
EBIT	41083	45543	49370	56890	65781
Change in working capital	(18440)	(23679)	8517	13000	(19212)
Cash flow from operations	22643	21864	57886	69890	46569
Other income	8388	10255	6360	6370	7743
Depreciation & Amortisation	14998	17533	20528	21810	23096
Interest paid(-)	(5176)	(5553)	(3027)	(2609)	(2258)
Dividends paid(-)	(5758)	(7918)	(15917)	(9597)	(9597)
Tax paid(-)	(9111)	(6009)	(8228)	(10650)	(12514)
Changes in minority interest	(4468)	(5424)	(4070)	5558	(3072)
Deferred tax	2032	(4758)	(6666)	0	0
Extraordinaries	0	0	0	(36333)	0
Net cash from operations	23548	19990	52123	44440	49967
Capital Expenditure	(6586)	1766	(12332)	(33621)	(36192)
Free Cash Flow	16962	21757	39792	10820	13776
Change in short-term borrowing	13248	3911	(28214)	(21132)	(3949)
Change in long-term borrowing	3360	(2495)	5063	0	(5000)
Change in borrowings	16608	1416	(23151)	(21132)	(8949)
Increase in long term investments	(59510)	(7597)	(22386)	0	0
Equity issue/buyback	3063	18361	(337)	0	0
Changes in minority interest	933	(5706)	5467	(5558)	3072
Cash from Financial Activities	(38906)	6474	(40407)	(26690)	(5877)
Others	(30171)	(54768)	(7246)	23819	26390
Opening cash	151408	99294	72756	64895	72843
Closing cash	99294	72756	64895	72843	107132
Change in Cash	(52115)	(26538)	(7861)	7948	34288

Source: Company, Karvy Research

Exhibit 7: Key Ratios

YE Mar	FY18	FY19	FY20	FY21E	FY22E
EV/EBITDA (x)	21.8	19.8	17.7	15.3	13.1
RoE (%)	8.2	9.8	9.3	12.2	11.5
RoCE (%)	9.9	10.5	10.0	11.3	12.9
PE (x)	59.5	46.8	33.1	64.2	22.3
P/BV (x)	3.3	3.0	2.8	2.7	2.5
P/S (x)	4.8	4.3	3.9	3.6	3.3

Source: Company, Karvy Research

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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Karvy Stock Broking Limited

Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India

Tel: 91-40-2331 2454; Fax: 91-40-2331 1968

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