

May 21, 2020

Company Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	436		436	
Sales (Rs. m)	3,21,814	3,43,170	3,21,814	3,43,170
% Chng.	-	-	-	-
EBITDA (Rs. m)	70,638	75,326	70,638	75,326
% Chng.	-	-	-	-
EPS (Rs.)	18.9	20.8	18.9	20.8
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	281	314	322	343
EBITDA (Rs. bn)	60	69	71	75
Margin (%)	21.5	22.0	22.0	22.0
PAT (Rs. bn)	30	43	45	50
EPS (Rs.)	12.4	18.0	18.9	20.8
Gr. (%)	59.3	44.8	4.8	10.1
DPS (Rs.)	2.2	2.2	2.2	2.2
Yield (%)	0.5	0.5	0.5	0.5
RoE (%)	7.5	11.2	12.1	12.0
RoCE (%)	8.8	10.0	10.3	10.5
EV/Sales (x)	3.9	3.6	3.4	3.1
EV/EBITDA (x)	18.3	16.6	15.7	14.1
PE (x)	37.5	25.9	24.7	22.4
P/BV (x)	2.7	3.2	2.8	2.6

Key Data

SUN.BO | SUNP IN

52-W High / Low	Rs.505 / Rs.312
Sensex / Nifty	30,933 / 9,106
Market Cap	Rs.1,119bn/ \$ 14,800m
Shares Outstanding	2,399m
3M Avg. Daily Value	Rs.12238.06m

Shareholding Pattern (%)

Promoter's	54.56
Foreign	13.89
Domestic Institution	19.07
Public & Others	12.48
Promoter Pledge (Rs bn)	10.07

Stock Performance (%)

	1M	6M	12M
Absolute	(1.4)	4.3	14.1
Relative	(2.4)	36.8	43.7

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Taro Q4FY20: Covid led sales growth; Derma led lower margin reflects real health

Quick Pointers:

- Reported a lowest gross margin of 58%
- Sales higher by 18% QoQ, due to stockup during COVID

Taro Pharma's sales was US\$180m in Q4FY20 v/s US\$148m in Q3FY20. Gross margin however declined to 58% v/s 64% QoQ reflecting an ongoing price erosion in US derma segment. The decline attributed to an unfavorable product mix, mainly contributed by derma products. The company has huge stock of medicines to avoid any shortage post COVID. While US generic price stabilized at 5-7%, Taro continued to face challenges through large revenue exposure (55-60%) and EBITDA contributions (70-75%) from derma products in US portfolio.

With ongoing trend and guidance, we believe Taro's earnings would continue to disappoint over FY21E and FY22E due to lack of meaningful launches (almost dry pipeline of pending ANDAs) and pricing environment in US derma business. While US demand is already back to normal level, Taro Q1FY21E sales are likely to be in the range of US\$135-145m with gross margin of 55-60%. Taro's disappointment in the US market would continue to be a biggest overhang in SUNP earnings which contribute 40-45% to the overall US revenues. We maintain 'HOLD' on SUNP and retain TP of Rs436.

Evaluating Inorganic Opportunities: Taro highlighted it is in a continuous process to evaluate inorganic opportunities as its own product pipeline is limited and lacks latest technology. Taro's management expressed their interest in acquisition of branded products and utilize better earnings potential by employing cash in the company. We expect Taro to invest in non-derma portfolio to reduce concentration of revenues/ earnings in a single segment. However, its lower contributions from derma segment continue to impact earnings in near term.

Key highlights:

- Received 4 ANDA approvals in Q4FY20, while 21 ANDAs are pending for approval with US FDA including 5 tentative approvals.
- Cash and cash equivalents increased by US\$215m to US\$1.6bn in FY20.
- R&D expenses increased marginally to US\$15.8m v/s US\$15m in Q3FY20.
- Status of price-fixing allegations remain unchanged; The US DOJ (Department of Justice) have been investigating the case. We expect Taro to prefer out-of-court settlement with investigating authority in 1HFY21E, like its peers in US.

**Exhibit 1: Taro – Q4FY20 Result Overview (US\$ mn): Sales up due to COVID**

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	175	180	(2.8)	148	645	670	(3.8)
Raw Material	73	60	20.3	54	245	224	9.3
<i>% of Net Sales</i>	<i>41.5</i>	<i>33.6</i>		<i>36.3</i>	<i>38.0</i>	<i>33.5</i>	
SG&A costs	24	19	27.7	15	72	68	6.4
<i>% of Net Sales</i>	<i>13.7</i>	<i>10.4</i>		<i>10.5</i>	<i>11.2</i>	<i>10.1</i>	
R&D exps	16	21	(23.0)	15	60	63	(5.5)
<i>% of Net Sales</i>	<i>9.0</i>	<i>11.4</i>		<i>10.2</i>	<i>9.3</i>	<i>9.4</i>	
Total Expenditure	112	100	12.8	84	377	355	6.1
EBITDA	63	80	(22.1)	64	268	315	(14.9)
<i>Margin (%)</i>	<i>35.7</i>	<i>44.6</i>		<i>43.1</i>	<i>41.6</i>	<i>47.0</i>	
Depreciation	5	5	8.7	5	21	19	15.0
EBIT	57	75	(24.1)	58	247	296	(16.8)
Other Income	0.8	(0.1)		0.5	3.0	1.8	66.7
Interest	(6.6)	(8.2)	(19.5)	(8.5)	(33.6)	(33.5)	0.3
PBT	65	84	(22.6)	67	283	332	(14.6)
Extra-Ord. Inc./Exps.	3	(9)		3	15	25	
Total Taxes	14	16	(11.0)	3	53	75	(28.4)
<i>ETR (%)</i>	<i>21.5</i>	<i>18.7</i>		<i>4.3</i>	<i>18.9</i>	<i>22.5</i>	
Reported PAT	54	58	(7.2)	68	244	282	(13.3)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	2,81,075	3,14,001	3,21,814	3,43,170
YoY gr. (%)	7.8	11.7	2.5	6.6
Cost of Goods Sold	78,701	83,210	85,603	91,283
Gross Profit	2,02,374	2,30,790	2,36,211	2,51,887
Margin (%)	72.0	73.5	73.4	73.4
Employee Cost	56,215	61,230	61,788	65,889
Other Expenses	21,081	26,690	27,354	29,169
EBITDA	60,431	69,080	70,638	75,326
YoY gr. (%)	16.6	14.3	2.3	6.6
Margin (%)	21.5	22.0	22.0	22.0
Depreciation and Amortization	16,578	20,299	21,650	22,049
EBIT	43,853	48,782	48,989	53,277
Margin (%)	15.6	15.5	15.2	15.5
Net Interest	3,932	3,029	3,808	3,427
Other Income	13,254	11,162	11,720	12,306
Profit Before Tax	53,175	56,915	56,901	62,156
Margin (%)	18.9	18.1	17.7	18.1
Total Tax	7,444	11,125	7,966	8,702
Effective tax rate (%)	14.0	19.5	14.0	14.0
Profit after tax	45,730	45,790	48,935	53,454
Minority interest	3,738	4,155	3,657	3,587
Share Profit from Associate	-	-	-	-
Adjusted PAT	29,848	43,212	45,277	49,867
YoY gr. (%)	59.3	44.8	4.8	10.1
Margin (%)	10.6	13.8	14.1	14.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	29,848	43,212	45,277	49,867
YoY gr. (%)	59.3	44.8	4.8	10.1
Margin (%)	10.6	13.8	14.1	14.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	29,848	43,212	45,277	49,867
Equity Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	12.4	18.0	18.9	20.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	2,46,259	2,58,259	2,69,259	2,80,259
Tangibles	1,62,426	1,69,426	1,77,426	1,85,426
Intangibles	83,834	88,834	91,834	94,834
Acc: Dep / Amortization	87,451	1,08,149	1,29,799	1,51,847
Tangibles	62,151	75,860	90,364	1,04,657
Intangibles	25,300	32,289	39,434	47,190
Net fixed assets	1,58,808	1,50,110	1,39,461	1,28,412
Tangibles	1,00,274	93,565	87,061	80,768
Intangibles	58,534	56,545	52,399	47,644
Capital Work In Progress	14,112	11,289	11,708	12,143
Goodwill	59,558	50,624	50,624	50,624
Non-Current Investments	40,476	41,001	41,678	42,380
Net Deferred tax assets	24,506	25,012	25,581	26,202
Other Non-Current Assets	37,744	32,953	33,897	34,888
Current Assets				
Investments	39,507	41,483	46,460	52,036
Inventories	78,860	82,000	85,218	88,650
Trade receivables	88,842	99,792	1,05,802	1,12,823
Cash & Bank Balance	72,756	39,654	62,249	92,773
Other Current Assets	23,149	20,834	18,750	16,875
Total Assets	6,46,938	6,03,245	6,30,125	6,66,760
Equity				
Equity Share Capital	2,399	2,399	2,399	2,399
Other Equity	4,11,691	3,51,835	3,91,055	4,34,864
Total Networkth	4,14,091	3,54,235	3,93,454	4,37,263
Non-Current Liabilities				
Long Term borrowings	15,226	13,703	12,333	11,100
Provisions	4,304	4,476	4,655	4,841
Other non current liabilities	5,713	5,827	5,943	6,062
Current Liabilities				
ST Debt / Current of LT Debt	83,708	92,078	82,871	74,583
Trade payables	41,479	49,036	48,493	51,711
Other current liabilities	48,210	46,031	41,428	37,286
Total Equity & Liabilities	6,46,938	6,03,245	6,30,125	6,66,760

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	41,031	52,144	56,901	62,156
Add. Depreciation	16,578	20,299	21,650	22,049
Add. Interest	3,932	3,029	3,808	3,427
Less Financial Other Income	13,254	11,162	11,720	12,306
Add. Other	(8,799)	(85,347)	(76,341)	(14,116)
Op. profit before WC changes	52,742	(9,875)	6,018	73,517
Net Changes-WC	(51,427)	(6,775)	(13,062)	(10,381)
Direct tax	(12,077)	(12,077)	(12,077)	(12,077)
Net cash from Op. activities	(10,763)	(28,728)	(19,122)	51,058
Capital expenditures	(20,349)	(9,178)	(11,419)	(11,435)
Interest / Dividend Income	-	-	-	-
Others	-	-	16,062	-
Net Cash from Inv. activities	(20,349)	(9,178)	4,643	(11,435)
Issue of share cap. / premium	-	-	-	-
Debt changes	14,564	11,651	46,604	-
Dividend paid	(6,058)	(6,058)	(6,058)	(6,058)
Interest paid	(3,932)	(3,029)	(3,808)	(3,427)
Others	-	-	-	-
Net cash from Fin. activities	4,573	2,564	36,738	(9,485)
Net change in cash	(26,538)	(35,342)	22,260	30,138
Free Cash Flow	(31,111)	(37,906)	(30,540)	39,623

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20E
Net Revenue	82,593	79,492	80,387	71,529
YoY gr. (%)	15.7	16.1	5.0	1.5
Raw Material Expenses	24,578	22,679	22,000	19,313
Gross Profit	58,015	56,813	58,387	52,216
Margin (%)	70.2	71.5	72.6	73.0
EBITDA	18,132	16,071	16,434	12,143
YoY gr. (%)	12.5	11.6	(20.6)	35.4
Margin (%)	22.0	20.2	20.4	17.0
Depreciation / Depletion	4,571	4,733	5,470	5,525
EBIT	13,560	11,338	10,964	6,619
Margin (%)	16.4	14.3	13.6	9.3
Net Interest	1,041	839	630	567
Other Income	3,281	3,750	2,361	1,771
Profit before Tax	15,801	14,249	12,695	7,823
Margin (%)	19.1	17.9	15.8	10.9
Total Tax	1,461	2,660	3,276	1,330
Effective tax rate (%)	9.2	18.7	25.8	17.0
Profit after Tax	14,340	11,589	9,419	6,493
Minority interest	1,139	1,033	1,102	882
Share Profit from Associates	-	-	-	-
Adjusted PAT	13,875	10,641	9,135	5,611
YoY gr. (%)	31.2	(586.3)	(3.5)	(11.8)
Margin (%)	16.8	13.4	11.4	7.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	13,875	10,641	9,135	5,611
YoY gr. (%)	31.2	(586.3)	(3.5)	(11.8)
Margin (%)	16.8	13.4	11.4	7.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,875	10,641	9,135	5,611
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	5.5	4.4	3.5	2.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	12.4	18.0	18.9	20.8
CEPS	19.4	26.5	27.9	30.0
BVPS	172.6	147.6	164.0	182.2
FCF	(13.0)	(15.8)	(12.7)	16.5
DPS	2.2	2.2	2.2	2.2
Return Ratio(%)				
RoCE	8.8	10.0	10.3	10.5
ROIC	9.8	9.7	11.5	12.7
RoE	7.5	11.2	12.1	12.0
Balance Sheet				
Net Debt : Equity (x)	0.0	0.1	0.0	(0.1)
Net Working Capital (Days)	164	154	162	159
Valuation(x)				
PER	37.5	25.9	24.7	22.4
P/B	2.7	3.2	2.8	2.6
P/CEPS	19.9	27.2	28.6	30.8
EV/EBITDA	18.3	16.6	15.7	14.1
EV/Sales	3.9	3.6	3.4	3.1
Dividend Yield (%)	0.5	0.5	0.5	0.5

Source: Company Data, PL Research

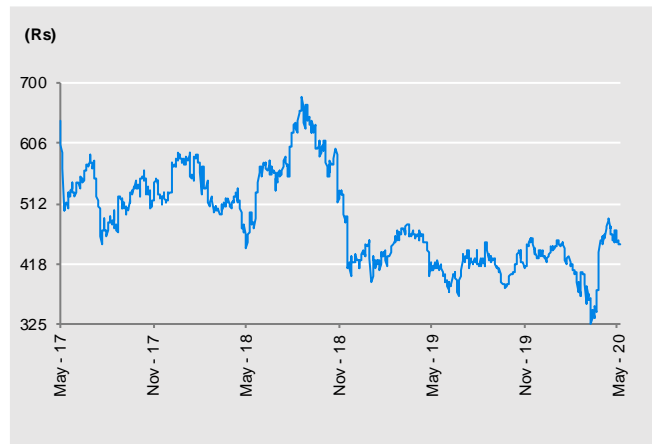
Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Formulations	2,63,902	2,85,772	3,04,098	3,24,156
India Formulations	85,914	93,646	1,01,138	1,09,229
US Formulations	95,248	1,00,821	1,04,150	1,07,982
ROW Formulations	82,741	91,305	98,810	1,06,945
APIs	16,322	18,010	19,388	20,874

Source: Company Data, PL Research



Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	18-Apr-20	Hold	436	457
2	14-Apr-20	Hold	412	454
3	07-Feb-20	Reduce	412	431
4	04-Feb-20	Reduce	396	418
5	09-Jan-20	Reduce	396	439
6	03-Jan-20	Reduce	396	445
7	21-Dec-19	Reduce	396	430
8	07-Nov-19	Reduce	396	441
9	05-Nov-19	Reduce	396	430
10	03-Oct-19	Reduce	396	388

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	702	644
2	Cadila Healthcare	Sell	263	324
3	Cipla	Reduce	542	570
4	Dr. Lal PathLabs	Sell	895	1,583
5	Dr. Reddy's Laboratories	Accumulate	4,326	3,915
6	Eris Lifesciences	BUY	547	486
7	Glenmark Pharmaceuticals	Sell	257	314
8	Indoco Remedies	Hold	259	236
9	Ipca Laboratories	Accumulate	1,728	1,619
10	Jubilant Life Sciences	Hold	363	345
11	Lupin	BUY	978	835
12	Sun Pharmaceutical Industries	Hold	436	457
13	Thyrocare Technologies	Hold	523	543

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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