

May 28, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	467		436	
Sales (Rs. m)	3,42,072	3,68,443	3,21,814	3,43,170
% Chng.	6.3	7.4		
EBITDA (Rs. m)	75,085	80,873	70,638	75,326
% Chng.	6.3	7.4		
EPS (Rs.)	19.7	22.2	18.9	20.8
% Chng.	4.3	7.0		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. bn)	281	323	342	368
EBITDA (Rs. bn)	60	65	75	81
Margin (%)	21.5	20.0	22.0	22.0
PAT (Rs. bn)	30	35	47	53
EPS (Rs.)	12.4	14.4	19.7	22.2
Gr. (%)	59.3	16.0	36.3	13.0
DPS (Rs.)	2.2	5.8	2.0	2.0
Yield (%)	0.5	1.3	0.4	0.4
RoE (%)	7.5	8.0	11.3	13.2
RoCE (%)	8.8	8.5	10.6	12.0
EV/Sales (x)	3.8	3.2	3.1	2.8
EV/EBITDA (x)	17.7	16.1	14.3	12.8
PE (x)	36.2	31.2	22.9	20.2
P/BV (x)	2.6	2.4	2.8	2.5

Key Data

SUN.BO | SUNP IN

52-W High / Low	Rs.505 / Rs.312
Sensex / Nifty	31,605 / 9,315
Market Cap	Rs.1,080bn/ \$ 14,266m
Shares Outstanding	2,399m
3M Avg. Daily Value	Rs.12334.81m

Shareholding Pattern (%)

Promoter's	54.69
Foreign	12.89
Domestic Institution	19.94
Public & Others	12.48
Promoter Pledge (Rs bn)	13.22

Stock Performance (%)

	1M	6M	12M
Absolute	(8.1)	(1.9)	8.5
Relative	(7.7)	27.4	36.3

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COVID spoils growth in Specialty; Outlook tepid

Quick Pointers:

- COVID to drag core business growth in Q1FY21E
- Outlook remains weak for US business

We believe SUNP's US business continues to be biggest hangover on earnings over FY20-22E due to 1) Taro's continued underperformance, 2) lower than expected ramp up in US Specialty 3) regulatory hurdle in Halol and 4) pricing pressure in US derma products. Over several quarters SUNP had been quite optimistic about their specialty products, however it has failed to meet its own expectation. Much hyped Ilumya was able to generate only US\$94mn in FY20 even after 18months of its launch. With requirement of further investment for specialty products (R&D and marketing), SUNP earnings are expected to stay muted in US while India formulations could act as a savior to hold earnings. We increase our earnings estimate by 7% primarily due to growth in domestic market and arrive new TP of Rs467 (earlier Rs 436) based on 21x PE of FY22E, while maintain 'Hold' recommendation.

Revenue holds up but EBITDA margin disappoints: Revenue and EBITDA were higher YoY due to low base as last year SUNP incurred one-time charge of Rs10.9bn cause of change in distribution for domestic formulation. Revenue grew 15% YoY and 1% QoQ to Rs80.7bn (PL e Rs71.5bn) while EBITDA grew 40% YoY but declined 24% QoQ to Rs12.5bn (PL e 12.14bn). EBITDA margin was lower than our estimate at 15.5% (PL e 17%) v/s 12.7% YoY and 20.4% QoQ. Adj. PAT grew 4% YoY while QoQ declined 21% to Rs6.6bn (PL e Rs5.6bn)

Conference call and key highlights:

- US Formulations (Inc Taro):** Total US sales grew 7% QoQ to US\$375m led by 15% QoQ growth of Taro (US\$175m) while specialty revenues were US\$126m v/s US\$118m in Q3FY20. Taro sales inched up sequentially due to stock up but gross margin continued to decline. Specialty business showed benefit from Ilumya. Cequa and Younsa while seasonal products Absorica and Levulan lost momentum over last 15 days of Q4FY20. Cequa and Absorica ramp-up were lower than expected due to COVID lockdown. Currently, SUNP spends ~24% of R&D budget in developing specialty portfolio. Clinical trial for Ilumya is expected to commence post lockdown (new indication).
- Weak outlook on US Generic:** SUNP highlighted pricing environment would continue to remain challenging (specially for Taro business). While there are 98 pending ANDA's and commercialization of these products would be challenging as important products are filed from Halol facility.

- **Halol regulatory update:** In Q3FY20, Halol plant went under cGMP inspection and received 8 observations including one issue of data integrity. SUNP continues to update USFDA on monthly basis of its remediation work and FDA may conduct virtual CGMP inspection (if possible). SUNP have not yet planned for product transfer from Halol to other plants.
- **India Business:** Adj. growth was 8% YoY (due to one-time charge Rs.10.9bn post change in distribution strategy in Q4FY19). Guided weak sales in Q1FY21E due to lockdown, led to low generation of new Rx and supply chain disruption. The impact would be severe for acute therapy as chronic could have stocked up. Currently 35-40% of the medical practitioner are back on duty and expect new Rx to inch up gradually. SUNP is on track for 10% field force expansion for FY21-22E and this could drive earnings growth.
- **EM:** Revenue were US\$187m v/s US\$195m for Q3FY20. Growth would be impacted due to lower sales from South Africa tender biz and lower realization from currency devaluation of EM's. Acute contribution is higher in EM's for SUNP.
- **ROW and API business:** ROW revenue was flat QoQ to US\$155m, while API segment was also flat YoY.

Exhibit 1: Q4FY20 Result Overview (Rs mn)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	80,780	70,443	14.7	80,387	3,23,252	2,86,863	12.7
Raw Material	23,048	18,388	25.3	22,000	92,305	78,690	17.3
<i>% of Net Sales</i>	<i>28.5</i>	<i>26.1</i>		<i>27.4</i>	<i>28.6</i>	<i>27.4</i>	
Personnel Cost	16,519	15,688	5.3	15,491	63,624	59,671	6.6
<i>% of Net Sales</i>	<i>20.4</i>	<i>22.3</i>		<i>19.3</i>	<i>19.7</i>	<i>20.8</i>	
Others	28,652	27,396	4.6	26,461	1,02,549	89,223	14.9
<i>% of Net Sales</i>	<i>35.5</i>	<i>38.9</i>		<i>32.9</i>	<i>31.7</i>	<i>31.1</i>	
Total Expenditure	68,219	61,471	11.0	63,953	2,58,477	2,27,583	13.6
EBITDA	12,561	8,971	40.0	16,434	64,774	59,280	9.3
<i>Margin (%)</i>	<i>15.5</i>	<i>12.7</i>		<i>20.4</i>	<i>20.0</i>	<i>20.7</i>	
Depreciation	5,754	4,541	26.7	5,470	20,528	17,533	17.1
EBIT	6,807	4,431	53.6	10,964	44,247	41,747	6.0
Other Income	2,091	4,012	(47.9)	2,361	11,483	14,051	(18.3)
Interest	518	1,500	(65.5)	630	3,027	5,553	(45.5)
PBT	8,381	6,942	20.7	12,695	52,702	50,246	4.9
Minority Interest	945	872		1,102	4,219	5,439	
Total Taxes	831	(288)	(388.4)	3,276	8,228	6,009	36.9
<i>ETR (%)</i>	<i>9.9</i>	<i>(4.1)</i>		<i>25.8</i>	<i>15.6</i>	<i>12.0</i>	
PAT	6,605	6,359	3.9	8,317	40,256	38,798	3.8
Exceptional items	(2,606)	-		818	(2,606)	(12,144)	
Adj Pat	3,998	6,359	(37.1)	9,135	37,649	26,654	41.3

Source: Company, PL

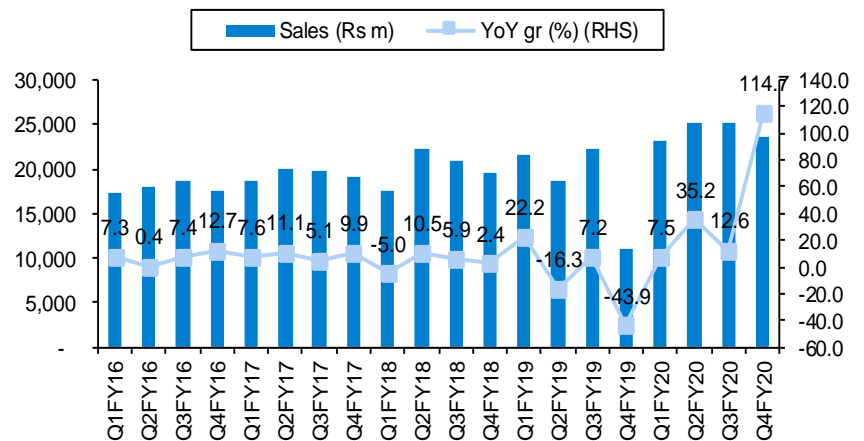


Exhibit 2: Major Sources of Revenues

Major sources of income	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
API	4,834	4,830	0.1	5,032	19,159	17,303	10.7
<i>% of Net Sales</i>	<i>6.0</i>	<i>6.9</i>		<i>6.3</i>	<i>5.9</i>	<i>6.0</i>	
Formulation	75,528	65,231	15.8	75,031	3,02,780	2,68,375	12.8
<i>% of Net Sales</i>	<i>93.5</i>	<i>92.6</i>		<i>93.3</i>	<i>93.7</i>	<i>93.6</i>	
India	23,648	11,013	114.7	25,170	97,102	73,483	32.1
<i>% of Net Sales</i>	<i>29.3</i>	<i>15.6</i>		<i>31.3</i>	<i>30.0</i>	<i>25.6</i>	
International	51,880	54,218	(4.3)	49,861	2,05,678	1,94,892	5.5
<i>% of Net Sales</i>	<i>64.2</i>	<i>77.0</i>		<i>62.0</i>	<i>63.6</i>	<i>67.9</i>	
US formulations	27,129	31,238	(13.2)	24,924	1,05,425	1,06,713	(1.2)
<i>% of Net Sales</i>	<i>33.6</i>	<i>44.4</i>		<i>31.0</i>	<i>32.6</i>	<i>37.2</i>	
ROW formulations	24,751	22,980	7.7	24,937	1,00,253	88,178	13.7
<i>% of Net Sales</i>	<i>30.6</i>	<i>32.6</i>		<i>31.0</i>	<i>31.0</i>	<i>30.7</i>	
Others	417	374	11.6	324	1,312	1,185	10.7
Total Sales	80,779	70,435	14.7	80,387	3,23,252	2,86,863	12.7

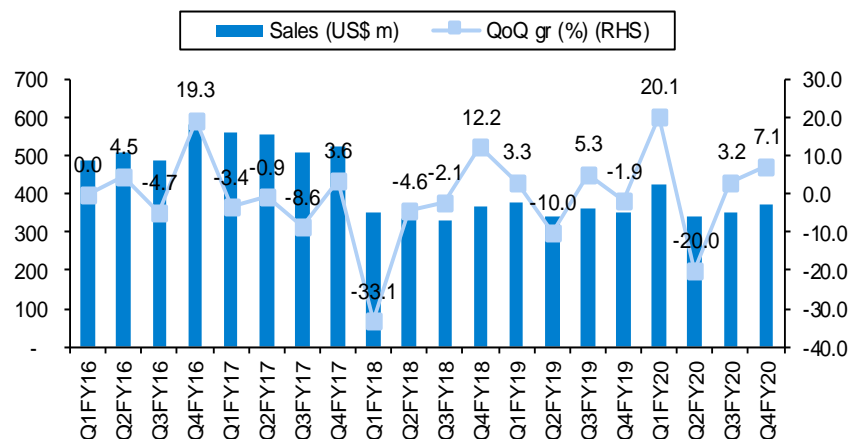
Source: Company, PL

Exhibit 3: Domestic (Rs mn) and YoY Gr (%). Adj Growth 8% YoY for Q4FY20



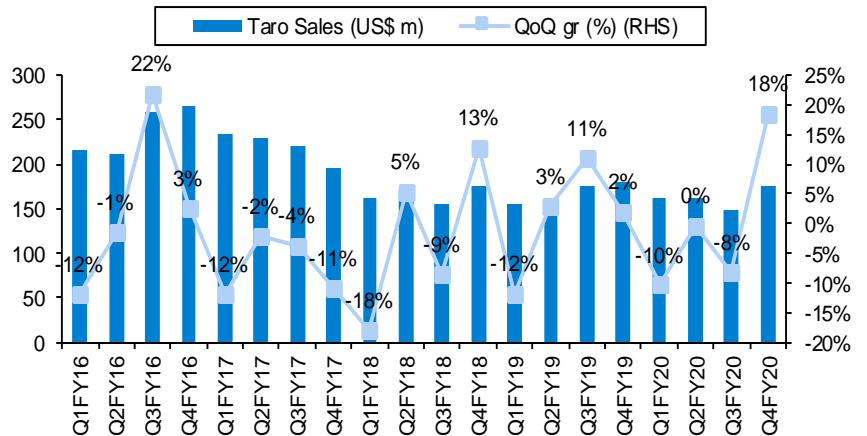
Source: Company, PL

Exhibit 4: US Generic (US\$ mn) & QoQ Gr (%)



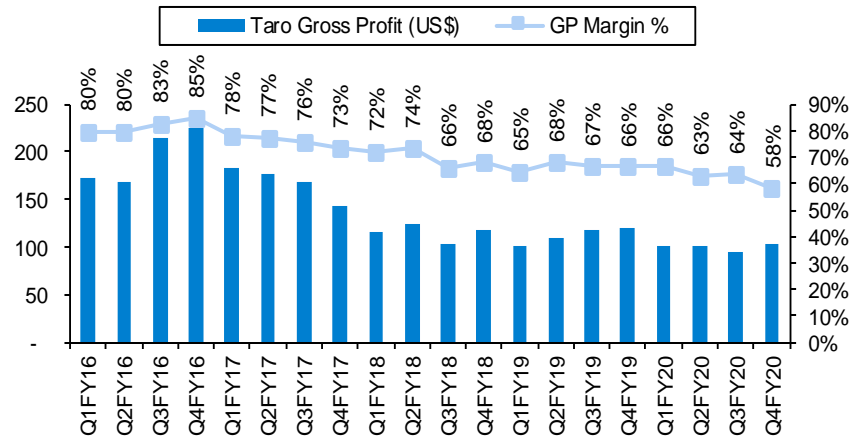
Source: Company, PL

Exhibit 5: Taro Sales (US\$ mn) & QoQ Gr (%)



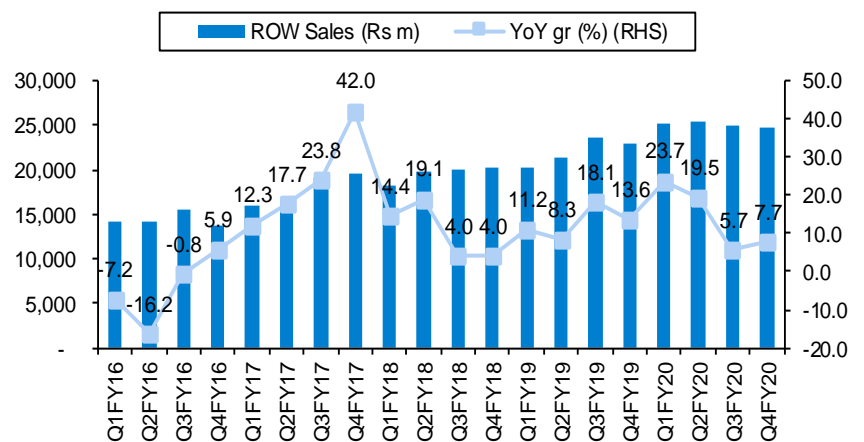
Source: Company, PL

Exhibit 6: Taro Gross Profit (US\$ mn) and Gross margin (%)



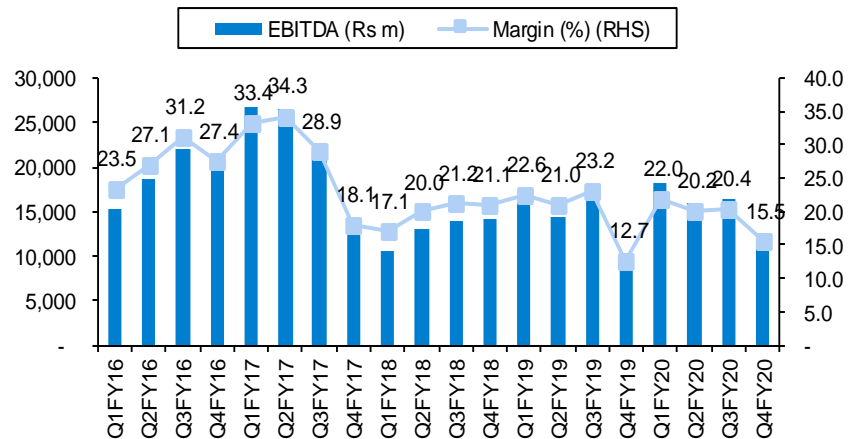
Source: Company, PL

Exhibit 7: ROW Sales (Rs mn) and Gr YoY (%)



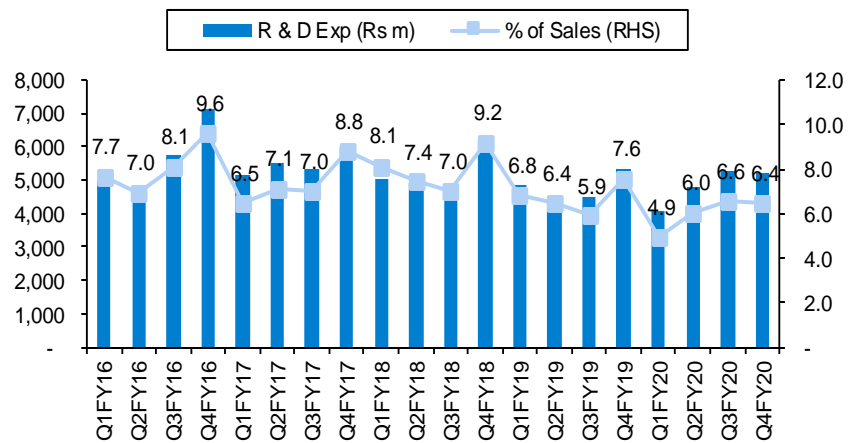
Source: Company, PL

Exhibit 8: EBITDA (Rs mn) and EBITDA Margin (%)



Source: Company, PL

Exhibit 9: R&D Expense (Rs mn) and % of sales



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	2,81,075	3,23,252	3,42,072	3,68,443
YoY gr. (%)	7.8	15.0	5.8	7.7
Cost of Goods Sold	78,701	92,305	90,991	98,006
Gross Profit	2,02,374	2,30,947	2,51,081	2,70,437
Margin (%)	72.0	71.4	73.4	73.4
Employee Cost	56,215	63,624	65,678	70,741
Other Expenses	21,081	19,252	29,076	31,318
EBITDA	60,431	64,774	75,085	80,873
YoY gr. (%)	16.6	7.2	15.9	7.7
Margin (%)	21.5	20.0	22.0	22.0
Depreciation and Amortization	16,578	20,528	22,530	24,226
EBIT	43,853	44,247	52,555	56,647
Margin (%)	15.6	13.7	15.4	15.4
Net Interest	3,932	2,674	3,116	1,098
Other Income	13,254	11,483	10,909	11,454
Profit Before Tax	53,175	53,056	60,347	67,003
Margin (%)	18.9	16.4	17.6	18.2
Total Tax	7,444	11,595	9,052	9,380
Effective tax rate (%)	14.0	21.9	15.0	14.0
Profit after tax	45,730	41,461	51,295	57,623
Minority interest	3,738	4,219	4,073	4,251
Share Profit from Associate	-	-	-	-
Adjusted PAT	29,848	34,636	47,222	53,372
YoY gr. (%)	59.3	16.0	36.3	13.0
Margin (%)	10.6	10.7	13.8	14.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	29,848	34,636	47,222	53,372
YoY gr. (%)	59.3	16.0	36.3	13.0
Margin (%)	10.6	10.7	13.8	14.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	29,848	34,636	47,222	53,372
Equity Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	12.4	14.4	19.7	22.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	2,46,259	2,71,713	2,69,259	2,80,259
Tangibles	1,62,426	1,82,880	1,77,426	1,85,426
Intangibles	83,834	88,834	91,834	94,834
Acc: Dep / Amortization	87,451	1,08,058	1,30,588	1,54,815
Tangibles	62,151	75,770	91,592	1,07,443
Intangibles	25,300	32,289	38,997	47,372
Net fixed assets	1,58,808	1,63,655	1,38,671	1,25,444
Tangibles	1,00,274	1,07,110	85,834	77,983
Intangibles	58,534	56,545	52,837	47,461
Capital Work In Progress	14,112	12,203	11,825	11,527
Goodwill	59,558	64,815	64,815	64,815
Non-Current Investments	40,476	53,513	48,390	46,025
Net Deferred tax assets	24,506	31,172	31,775	32,445
Other Non-Current Assets	37,744	40,043	38,971	40,296
Current Assets				
Investments	39,507	48,974	31,833	33,424
Inventories	78,860	78,750	82,171	85,855
Trade receivables	88,842	94,212	1,04,965	1,14,066
Cash & Bank Balance	72,756	64,876	50,821	68,025
Other Current Assets	23,149	18,953	16,110	16,916
Total Assets	6,46,938	6,82,524	6,29,737	6,48,774
Equity				
Equity Share Capital	2,399	2,399	2,399	2,399
Other Equity	4,11,691	4,50,245	3,78,573	4,26,139
Total Network	4,14,091	4,52,645	3,80,973	4,28,538
Non-Current Liabilities				
Long Term borrowings	15,226	20,289	21,304	18,108
Provisions	4,304	5,110	5,314	4,252
Other non current liabilities	5,713	7,809	8,590	6,013
Current Liabilities				
ST Debt / Current of LT Debt	83,708	55,494	56,604	36,792
Trade payables	41,479	40,937	51,545	53,500
Other current liabilities	48,210	60,632	62,321	54,969
Total Equity & Liabilities	6,46,938	6,82,524	6,29,737	6,48,774

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	41,031	50,096	60,347	67,003
Add. Depreciation	16,578	20,528	22,530	24,226
Add. Interest	3,932	2,674	3,116	1,098
Less Financial Other Income	13,254	11,483	10,909	11,454
Add. Other	(8,799)	(85,347)	(1,15,502)	(26,513)
Op. profit before WC changes	52,742	(12,050)	(29,509)	65,814
Net Changes-WC	(51,427)	7,617	2,331	(20,204)
Direct tax	(12,077)	(12,077)	(12,077)	(12,077)
Net cash from Op. activities	(10,763)	(16,510)	(39,254)	33,533
Capital expenditures	(20,349)	(10,092)	(10,622)	(10,702)
Interest / Dividend Income	-	-	-	-
Others	-	-	16,062	-
Net Cash from Inv. activities	(20,349)	(10,092)	5,440	(10,702)
Issue of share cap. / premium	-	-	-	-
Debt changes	14,564	11,651	46,604	-
Dividend paid	(6,058)	(16,693)	(5,806)	(5,806)
Interest paid	(3,932)	(2,674)	(3,116)	(1,098)
Others	-	-	-	-
Net cash from Fin. activities	4,573	(7,716)	37,682	(6,904)
Net change in cash	(26,538)	(34,318)	3,868	15,927
Free Cash Flow	(31,111)	(26,602)	(49,876)	22,831

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	82,593	79,492	80,387	80,780
YoY gr. (%)	15.7	16.1	5.0	14.7
Raw Material Expenses	24,578	22,679	22,000	23,048
Gross Profit	58,015	56,813	58,387	57,732
Margin (%)	70.2	71.5	72.6	71.5
EBITDA	18,132	16,071	16,434	12,561
YoY gr. (%)	12.5	11.6	(20.6)	40.0
Margin (%)	22.0	20.2	20.4	15.5
Depreciation / Depletion	4,571	4,733	5,470	5,754
EBIT	13,560	11,338	10,964	6,807
Margin (%)	16.4	14.3	13.6	8.4
Net Interest	1,041	839	630	518
Other Income	3,281	3,750	2,361	2,091
Profit before Tax	15,801	14,249	12,695	8,381
Margin (%)	19.1	17.9	15.8	10.4
Total Tax	1,461	2,660	3,276	831
Effective tax rate (%)	9.2	18.7	25.8	9.9
Profit after Tax	14,340	11,589	9,419	7,550
Minority interest	1,139	1,033	1,102	945
Share Profit from Associates	-	-	-	-
Adjusted PAT	13,875	10,641	9,135	3,998
YoY gr. (%)	31.2	(586.3)	(3.5)	(37.1)
Margin (%)	16.8	13.4	11.4	4.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	13,875	10,641	9,135	3,998
YoY gr. (%)	31.2	(586.3)	(3.5)	(37.1)
Margin (%)	16.8	13.4	11.4	4.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,875	10,641	9,135	3,998
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	5.5	4.4	3.5	2.8

Source: Company Data, PL Research

Key Financial Metrics

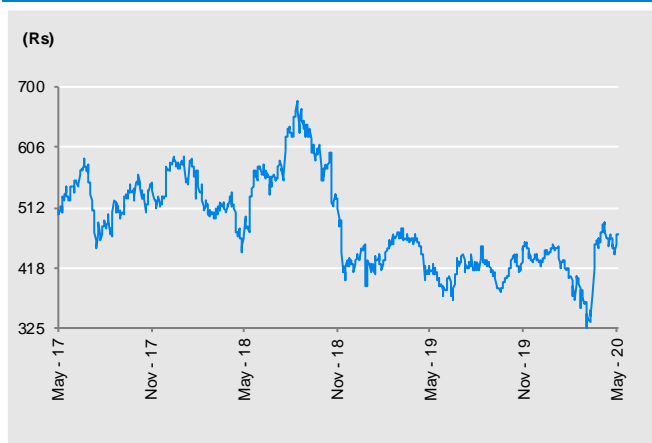
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	12.4	14.4	19.7	22.2
CEPS	19.4	23.0	29.1	32.3
BVPS	172.6	188.7	158.8	178.6
FCF	(13.0)	(11.1)	(20.8)	9.5
DPS	2.2	5.8	2.0	2.0
Return Ratio(%)				
RoCE	8.8	8.5	10.6	12.0
ROIC	9.8	8.5	10.9	13.2
RoE	7.5	8.0	11.3	13.2
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	0.0	(0.1)
Net Working Capital (Days)	164	149	145	145
Valuation(x)				
PER	36.2	31.2	22.9	20.2
P/B	2.6	2.4	2.8	2.5
P/CEPS	19.4	23.0	29.1	32.3
EV/EBITDA	17.7	16.1	14.3	12.8
EV/Sales	3.8	3.2	3.1	2.8
Dividend Yield (%)	0.5	1.3	0.4	0.4

Source: Company Data, PL Research

Key Operating Metrics (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Formulations	2,63,902	2,91,897	3,22,473	3,46,526
India Formulations	85,914	97,102	1,04,870	1,13,260
US Formulations	95,248	1,02,221	1,13,247	1,20,333
ROW Formulations	82,741	92,574	1,04,356	1,12,933
APIs	16,322	19,159	21,329	23,843

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	21-May-20	Hold	436	466
2	18-Apr-20	Hold	436	457
3	14-Apr-20	Hold	412	454
4	07-Feb-20	Reduce	412	431
5	04-Feb-20	Reduce	396	418
6	09-Jan-20	Reduce	396	439
7	03-Jan-20	Reduce	396	445
8	21-Dec-19	Reduce	396	430
9	07-Nov-19	Reduce	396	441
10	05-Nov-19	Reduce	396	430

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	466
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



ANALYST CERTIFICATION

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