

July 31, 2020

Company Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	479		479	
Sales (Rs. m)	3,76,111	4,13,744	3,76,111	4,13,744
% Chng.	-	-	-	-
EBITDA (Rs. m)	82,556	90,817	82,556	90,817
% Chng.	-	-	-	-
EPS (Rs.)	22.8	26.7	22.8	26.7
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	323	342	376	414
EBITDA (Rs. bn)	65	75	83	91
Margin (%)	20.0	22.0	22.0	22.0
PAT (Rs. bn)	34	47	55	64
EPS (Rs.)	14.3	19.7	22.8	26.7
Gr. (%)	14.9	37.6	15.8	17.1
DPS (Rs.)	5.8	2.0	2.0	2.0
Yield (%)	1.1	0.4	0.4	0.4
RoE (%)	7.9	11.3	13.5	14.0
RoCE (%)	8.5	10.6	12.4	13.6
EV/Sales (x)	3.7	3.6	3.1	2.8
EV/EBITDA (x)	18.3	16.3	14.3	12.6
PE (x)	35.7	26.0	22.4	19.1
P/BV (x)	2.7	3.2	2.9	2.5

Key Data

SUN.BO | SUNP IN

52-W High / Low	Rs.513 / Rs.312
Sensex / Nifty	37,736 / 11,102
Market Cap	Rs.1,227bn/ \$ 16,386m
Shares Outstanding	2,399m
3M Avg. Daily Value	Rs.10018.47m

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	15.6	24.6
Relative	-	25.4	23.5

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Taro Q1FY21: Weak performance continues

Quick Pointers:

- Lowest revenue in last 36 quarters at US\$118m
- Gross profit and gross margin were all time low at US\$65m and 55%

Taro Pharma's sales declined 33% QoQ to US\$118m in Q1FY21 v/s US\$175m in Q4FY20. The company reported lowest revenue in last 36 quarters including lowest ever gross profit and gross margin. Though Q4FY20 was an exceptional quarter where revenues shot up due to stocking up during COVID yet its revenue, gross profit and gross margin continued to be impacted due to derma products price erosion. Taro reported net loss of US\$434m due to one-time settlement charge of US\$418.9m and US\$60m provision related to ongoing multi-jurisdiction civil antitrust matters. While the settlement with Department of Justice (DOJ) is a sign of relief for Taro, its growth prospect remains weak due to price erosion and limited pipeline.

We expect US business will continue to face challenges for SUNP because of 1) lower revenue from specialty products, 2) lack of approvals due to Halol regulatory issue, 3) Taro's persistently weak performance and 4) R&D spends on Ilumya for new indications. While US generic price erosion stabilized at 5-7%, Taro continues to face challenges due to large contributions of revenues (75-80%) and EBITDA (85%) from derma products in US. With 40-45% contribution of Taro to the overall US revenues for SUNP, we maintain 'HOLD' on SUNP and retain TP of Rs479.

Key highlights:

- Gross margin was 55% v/s 58.5% QoQ
- EBITDA declined 18% QoQ to US\$51m while EBITDA margin was 43% v/s 35.7% QoQ.
- R&D expense was US\$12.9m v/s US\$15.8m QoQ
- Taro will acquire Canada's Aquinox Pharma for US\$8.2m in cash deal
- With five tentative approvals (TA), there are only 19 ANDAs awaiting FDA approval in its pipeline

Exhibit 1: Taro – Q1FY21 Result Overview (US\$ mn): Lowest revenue in last 36 quarters

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	118	161	(27.1)	175	543	645	(15.8)
Raw Material	53	60	(11.6)	73	217	245	(11.4)
<i>% of Net Sales</i>	<i>44.8</i>	<i>36.9</i>		<i>41.5</i>	<i>40.0</i>	<i>38.0</i>	
SG&A costs	17	15	15.3	24	54	72	(24.6)
<i>% of Net Sales</i>	<i>14.4</i>	<i>9.1</i>		<i>13.7</i>	<i>10.0</i>	<i>11.2</i>	
R&D exps	13	13	(3.8)	16	49	60	(18.2)
<i>% of Net Sales</i>	<i>11.0</i>	<i>8.3</i>		<i>9.0</i>	<i>9.0</i>	<i>9.3</i>	
Total Expenditure	83	88	(5.9)	112	320	377	(15.0)
EBITDA	35	74	(52.3)	63	223	268	(16.9)
<i>Margin (%)</i>	<i>29.9</i>	<i>45.7</i>		<i>35.7</i>	<i>41.0</i>	<i>41.6</i>	
Depreciation	6	5	8.5	5	22	21	5.0
EBIT	30	69	(56.8)	57	200	247	(18.8)
Other Income	0.5	0.6		0.8	2.4	3.0	(20.0)
Interest	(7.3)	(9.6)	(24.1)	(6.6)	(28.6)	(33.6)	(15.0)
PBT	37	79	(52.4)	65	231	283	(18.4)
Extra-Ord. Inc./Exps.	(463)	8		3	7	15	
Total Taxes	9	20	(56.7)	14	46	53	(13.5)
<i>ETR (%)</i>	<i>23.6</i>	<i>26.0</i>		<i>21.5</i>	<i>20.0</i>	<i>18.9</i>	
Reported PAT	(434)	66	(756.0)	54	192	244	(21.3)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	3,23,252	3,42,072	3,76,111	4,13,744
YoY gr. (%)	15.0	5.8	10.0	10.0
Cost of Goods Sold	92,305	90,991	1,00,045	1,10,056
Gross Profit	2,30,947	2,51,081	2,76,065	3,03,688
Margin (%)	71.4	73.4	73.4	73.4
Employee Cost	63,624	65,678	72,213	79,439
Other Expenses	19,252	29,076	31,969	35,168
EBITDA	64,774	75,085	82,556	90,817
YoY gr. (%)	7.2	15.9	10.0	10.0
Margin (%)	20.0	22.0	22.0	22.0
Depreciation and Amortization	20,528	22,530	24,226	22,096
EBIT	44,247	52,555	58,330	68,721
Margin (%)	13.7	15.4	15.5	16.6
Net Interest	3,001	3,116	1,098	786
Other Income	11,483	10,909	11,454	12,027
Profit Before Tax	52,728	60,347	68,686	79,962
Margin (%)	16.3	17.6	18.3	19.3
Total Tax	11,595	9,052	9,616	11,195
Effective tax rate (%)	22.0	15.0	14.0	14.0
Profit after tax	41,134	51,295	59,070	68,767
Minority interest	4,219	4,073	4,378	4,711
Share Profit from Associate	-	-	-	-
Adjusted PAT	34,309	47,222	54,692	64,057
YoY gr. (%)	14.9	37.6	15.8	17.1
Margin (%)	10.6	13.8	14.5	15.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	34,309	47,222	54,692	64,057
YoY gr. (%)	14.9	37.6	15.8	17.1
Margin (%)	10.6	13.8	14.5	15.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	34,309	47,222	54,692	64,057
Equity Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	14.3	19.7	22.8	26.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	2,71,713	2,69,259	2,80,259	2,91,259
Tangibles	1,82,880	1,77,426	1,85,426	1,93,426
Intangibles	88,834	91,834	94,834	97,834
Acc: Dep / Amortization	1,08,058	1,30,588	1,54,815	1,76,910
Tangibles	75,770	91,592	1,07,443	1,21,969
Intangibles	32,289	38,997	47,372	54,941
Net fixed assets	1,63,655	1,38,671	1,25,444	1,14,349
Tangibles	1,07,110	85,834	77,983	71,457
Intangibles	56,545	52,837	47,461	42,892
Capital Work In Progress	12,203	11,825	11,527	11,303
Goodwill	64,815	64,815	64,815	64,815
Non-Current Investments	53,513	48,390	46,025	54,471
Net Deferred tax assets	31,172	31,775	32,462	33,261
Other Non-Current Assets	40,043	38,971	40,296	41,703
Current Assets				
Investments	48,974	31,833	33,424	35,096
Inventories	78,750	82,171	85,932	90,069
Trade receivables	94,212	1,04,965	1,17,470	1,30,358
Cash & Bank Balance	64,876	50,821	66,161	88,561
Other Current Assets	18,953	16,110	17,721	19,493
Total Assets	6,82,524	6,29,737	6,51,318	6,94,248
Equity				
Equity Share Capital	2,399	2,399	2,399	2,399
Other Equity	4,50,245	3,78,573	4,27,459	4,85,709
Total Network	4,52,645	3,80,973	4,29,858	4,88,108
Non-Current Liabilities				
Long Term borrowings	20,289	21,304	18,108	15,392
Provisions	5,110	5,314	4,252	3,401
Other non current liabilities	7,809	8,590	6,013	4,209
Current Liabilities				
ST Debt / Current of LT Debt	55,494	56,604	36,792	23,915
Trade payables	40,937	51,545	54,613	60,078
Other current liabilities	60,632	62,321	54,969	48,576
Total Equity & Liabilities	6,82,524	6,29,737	6,51,318	6,94,248

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	50,096	60,347	68,686	79,962
Add. Depreciation	20,528	22,530	24,226	22,096
Add. Interest	3,001	3,116	1,098	786
Less Financial Other Income	11,483	10,909	11,454	12,027
Add. Other	(85,347)	(1,15,502)	(26,766)	(31,213)
Op. profit before WC changes	(11,722)	(29,509)	67,245	71,631
Net Changes-WC	7,617	2,331	(23,498)	(21,255)
Direct tax	(12,077)	(12,077)	(12,077)	(12,077)
Net cash from Op. activities	(16,183)	(39,254)	31,670	38,299
Capital expenditures	(10,092)	(10,622)	(10,702)	(10,776)
Interest / Dividend Income	-	-	-	-
Others	-	16,062	-	-
Net Cash from Invt. activities	(10,092)	5,440	(10,702)	(10,776)
Issue of share cap. / premium	-	-	-	-
Debt changes	11,651	46,604	-	-
Dividend paid	(16,693)	(5,806)	(5,806)	(5,806)
Interest paid	(3,001)	(3,116)	(1,098)	(786)
Others	-	-	-	-
Net cash from Fin. activities	(8,043)	37,682	(6,904)	(6,592)
Net change in cash	(34,318)	3,868	14,063	20,931
Free Cash Flow	(26,274)	(49,876)	20,968	27,523

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	14.3	19.7	22.8	26.7
CEPS	22.9	29.1	32.9	35.9
BVPS	188.7	158.8	179.2	203.4
FCF	(11.0)	(20.8)	8.7	11.5
DPS	5.8	2.0	2.0	2.0
Return Ratio(%)				
RoCE	8.5	10.6	12.4	13.6
ROIC	8.5	10.9	13.5	15.5
RoE	7.9	11.3	13.5	14.0
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	(0.1)	(0.2)
Net Working Capital (Days)	149	145	144	141
Valuation(x)				
PER	35.7	26.0	22.4	19.1
P/B	2.7	3.2	2.9	2.5
P/CEPS	26.0	33.0	37.3	40.8
EV/EBITDA	18.3	16.3	14.3	12.6
EV/Sales	3.7	3.6	3.1	2.8
Dividend Yield (%)	1.1	0.4	0.4	0.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21E
Net Revenue	79,492	80,387	80,780	83,530
YoY gr. (%)	16.1	5.0	14.7	1.1
Raw Material Expenses	22,679	22,000	23,048	20,882
Gross Profit	56,813	58,387	57,732	62,647
Margin (%)	71.5	72.6	71.5	75.0
EBITDA	16,071	16,434	12,561	16,035
YoY gr. (%)	11.6	(20.6)	40.0	(11.6)
Margin (%)	20.2	20.4	15.5	19.2
Depreciation / Depletion	4,733	5,470	5,754	5,869
EBIT	11,338	10,964	6,807	10,166
Margin (%)	14.3	13.6	8.4	12.2
Net Interest	839	630	518	466
Other Income	3,750	2,361	2,091	1,673
Profit before Tax	14,249	12,695	8,381	11,373
Margin (%)	17.9	15.8	10.4	13.6
Total Tax	2,660	3,276	831	1,933
Effective tax rate (%)	18.7	25.8	9.9	17.0
Profit after Tax	11,589	9,419	7,550	9,440
Minority interest	1,033	1,102	945	756
Share Profit from Associates	-	-	-	-
Adjusted PAT	10,641	9,135	3,998	8,684
YoY gr. (%)	(586.3)	(3.5)	(37.1)	(37.4)
Margin (%)	13.4	11.4	4.9	10.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,641	9,135	3,998	8,684
YoY gr. (%)	(586.3)	(3.5)	(37.1)	(37.4)
Margin (%)	13.4	11.4	4.9	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,641	9,135	3,998	8,684
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	4.4	3.5	2.8	3.6

Source: Company Data, PL Research

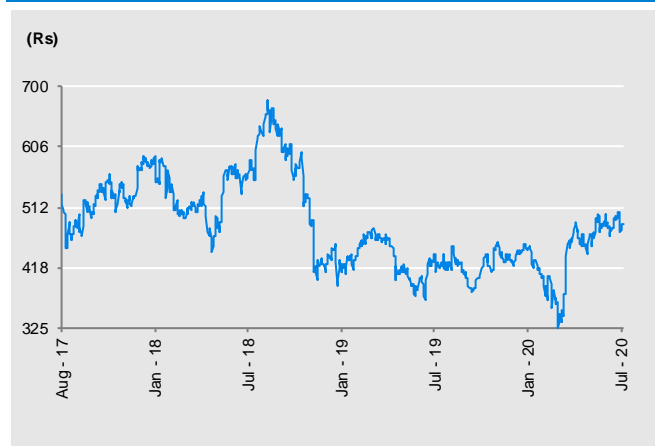
Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Formulations	2,91,897	3,22,473	3,53,524	3,87,711
India Formulations	97,102	1,04,870	1,13,260	1,22,321
US Formulations	1,02,221	1,13,247	1,23,943	1,35,717
ROW Formulations	92,574	1,04,356	1,16,321	1,29,673
APIs	19,159	21,329	24,484	28,112

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Hold	479	483
2	28-May-20	Hold	467	450
3	21-May-20	Hold	436	466
4	18-Apr-20	Hold	436	457
5	14-Apr-20	Hold	412	454
6	07-Feb-20	Reduce	412	431
7	04-Feb-20	Reduce	396	418
8	09-Jan-20	Reduce	396	439
9	03-Jan-20	Reduce	396	445
10	21-Dec-19	Reduce	396	430

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	838	802
2	Cadila Healthcare	Reduce	329	360
3	Cipla	Reduce	542	634
4	Dr. Lal PathLabs	Sell	895	1,762
5	Dr. Reddy's Laboratories	Hold	4,326	4,306
6	Eris Lifesciences	BUY	576	446
7	Glenmark Pharmaceuticals	Sell	365	419
8	Indoco Remedies	Hold	219	208
9	Ipca Laboratories	BUY	1,839	1,636
10	Jubilant Life Sciences	Sell	414	703
11	Lupin	BUY	1,001	865
12	Sun Pharmaceutical Industries	Hold	479	483
13	Thyrocare Technologies	Sell	307	522

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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