

Buy

Given the structural headwinds in the US faced by Indian generic companies, Sun's investments to build a branded specialty business is a key differentiator. However, Specialty pharma is a vastly different business model compared to traditional generics requiring significantly superior R&D skills, M&A capabilities, business development strategy and risk appetite.

Having built a branded portfolio focused on dermatology and ophthalmology, Sun is ahead of Indian peers in building a specialty business in the US. Ramp-up of Ilumya, Cequa, Yonsa, Xelpros, Bromsite and Odomzo sales are value drivers for SUNP's specialty business in the next 3-4 years.

While R&D expenses (~6% of sales in FY20) remain low, management expects an increase (guidance of 7-8% of sales) in the medium-term to develop new specialty products and to add additional indications for existing products. We estimate sales of ~\$660mn from specialty products in FY23 (from ~\$450mn in FY20). The superior margin profile of specialty products should drive Sun's consolidated margins (from ~21% in FY20 to ~23.5% in FY23E).

We see multiple drivers of near-term earnings momentum including an uptick in specialty sales post normalization of the COVID situation, strong domestic cash flows and a bottoming out of the core US generics business. With Sun having underperformed the Nifty Pharma Index by ~20% YTD, we believe that the leader cannot be left behind in a sectoral rally. The peak multiple (~28x in FY15) has now compressed to ~22x FY22E EPS. With the earnings momentum changing direction decisively, we believe the valuation gap should narrow between Sun and peers.

We introduce FY23E numbers in this note. We expect top-line to grow at 9% CAGR and bottom-line of 19% CAGR over FY20-23E. At CMP the stock trades at 22x FY22 and 20x FY23 earnings of Rs23 and Rs26.3 respectively. We value the company on an SOTP basis and assign India formulation 18x EV/EBITDA, 12x EV/EBITDA to RoW/EM and 7x EV/EBITDA for US formulations. We maintain BUY with target price of Rs660 (implied PE 25x FY23E).

CMP	Rs 523
Target / Upside	Rs 660 / 26%
BSE Sensex	38,877
NSE Nifty	11,516

Scrip Details

Equity / FV	Rs 2,399mn / Rs 1
Market Cap	Rs 1,256bn
	US\$ 17bn
52-week High/Low	Rs 565/Rs 312
Avg. Volume (no)	10,150,700
NSE Symbol	SUNPHARMA
Bloomberg Code	SUNP IN

Shareholding Pattern Jun'20(%)

Promoters	54.7
MF/Banks/FIs	10.8
FIIIs	13.6
Public / Others	20.9

Sun Pharma Relative to Sensex



FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	290,659	328,375	366,191	392,715	423,208
Growth(%)	9.7	13.0	11.5	7.2	7.8
EBITDA	64,008	69,742	80,530	89,306	99,523
OPM(%)	22.0	21.2	22.0	22.7	23.5
PAT	37,039	39,828	48,358	55,253	63,101
Growth(%)	37.0	7.5	21.4	14.3	14.2
EPS(Rs.)	15.4	16.6	20.2	23.0	26.3
Growth(%)	37.0	7.5	21.4	14.3	14.2
PER(x)	33.9	31.5	26.0	22.7	19.9
ROANW(%)	6.7	8.7	10.3	10.9	11.4
ROACE(%)	9.1	8.2	9.0	9.7	10.3

VP - Research: Sapna Jhavar

Tel: +9122 40969724

E-mail: sapnaj@dolatcapital.com

Associate: Zain Gulam Hussain

Tel: +9122 40969724

E-mail: zain@dolatcapital.com

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	328,375	366,191	392,715	423,208
Total Expense	258,634	285,661	303,409	323,685
COGS	92,305	101,247	107,272	112,525
Employees Cost	63,624	70,508	75,725	81,714
Other expenses	102,706	113,906	120,412	129,446
EBIDTA	69,742	80,530	89,306	99,523
Depreciation	20,528	23,391	24,411	25,273
EBIT	49,214	57,139	64,896	74,250
Interest	3,027	1,728	1,436	1,299
Other Income	6,360	7,724	8,165	8,882
Exc. / E.O. items	(2,450)	0	0	0
EBT	50,096	63,135	71,625	81,832
Tax	8,228	10,370	11,764	13,912
RPAT	37,649	48,358	55,253	63,101
Minority Interest	4,070	4,274	4,488	4,712
Profit/Loss share of associates	(148)	(133)	(120)	(108)
APAT	39,828	48,358	55,253	63,101

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	2,399	2,399	2,399	2,399
Minority Interest	38,602	38,602	38,602	38,602
Reserves & Surplus	450,245	483,957	524,565	573,020
Net Worth	452,645	486,357	526,964	575,419
Total Debt	75,783	71,994	68,394	64,974
Net Deferred Tax Liability	21,873	18,890	16,186	14,409
Total Capital Employed	588,903	615,843	650,146	693,404

Applications of Funds

Net Block	163,655	151,731	139,765	124,917
CWIP	77,018	75,018	73,018	71,018
Investments	58,658	58,658	58,658	58,658
Current Assets, Loans & Advances	351,441	397,324	443,118	506,983
Inventories	78,750	85,697	87,277	90,855
Receivables	94,212	105,383	113,181	120,548
Cash and Bank Balances	64,875	88,704	121,633	170,672
Loans and Advances	45,676	47,718	49,121	50,709
Other Current Assets	18,953	20,848	22,933	25,226

Less: Current Liabilities & Provisions

Payables	40,937	45,056	43,242	45,487
Other Current Liabilities	20,931	21,833	21,171	22,686

sub total

Net Current Assets	289,572	330,435	378,705	438,811
Total Assets	588,903	615,843	650,146	693,404

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	71.9	72.4	72.7	73.4
EBIDTA Margin	21.2	22.0	22.7	23.5
EBIT Margin	15.0	15.6	16.5	17.5
Tax rate	16.4	16.4	16.4	17.0
Net Profit Margin	11.5	13.2	14.1	14.9
(B) As Percentage of Net Sales (%)				
COGS	28.1	27.6	27.3	26.6
Employee	19.4	19.3	19.3	19.3
Other	31.3	31.1	30.7	30.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.1	0.1	0.1
Interest Coverage	16.3	33.1	45.2	57.1
Inventory days	88	85	81	78
Debtors days	105	105	105	104
Average Cost of Debt	3.5	2.3	2.0	1.9
Payable days	46	45	40	39
Working Capital days	322	329	352	378
FA T/O	2.0	2.4	2.8	3.4
(D) Measures of Investment				
AEPS (Rs)	16.6	20.2	23.0	26.3
CEPS (Rs)	25.2	29.9	33.2	36.8
DPS (Rs)	5.7	5.7	5.7	5.7
Dividend Payout (%)	34.6	28.5	25.0	21.9
BVPS (Rs)	188.7	202.7	219.6	239.8
RoANW (%)	8.7	10.3	10.9	11.4
RoACE (%)	8.2	9.0	9.7	10.3
RoAIC (%)	9.7	10.9	12.3	14.1
(E) Valuation Ratios				
CMP (Rs)	523	523	523	523
P/E	31.5	26.0	22.7	19.9
Mcap (Rs Mn)	1,255,674	1,255,674	1,255,674	1,255,674
MCap/ Sales	3.8	3.4	3.2	3.0
EV	1,217,608	1,189,990	1,153,462	1,101,003
EV/Sales	3.7	3.2	2.9	2.6
EV/EBITDA	17.5	14.8	12.9	11.1
P/BV	2.8	2.6	2.4	2.2
Dividend Yield (%)	1.1	1.1	1.1	1.1
(F) Growth Rate (%)				
Revenue	13.0	11.5	7.2	7.8
EBITDA	9.0	15.5	10.9	11.4
EBIT	5.9	16.1	13.6	14.4
PBT	31.5	26.0	13.4	14.3
APAT	7.5	21.4	14.3	14.2
EPS	7.5	21.4	14.3	14.2

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	65,324	64,118	67,572	80,976
CFI	(46,990)	(9,468)	(10,445)	(8,425)
CFF	(26,214)	(30,821)	(24,198)	(23,512)
FCFF	18,334	54,650	57,127	72,551
Opening Cash	72,756	64,875	88,704	121,633
Closing Cash	64,875	88,704	121,633	170,672

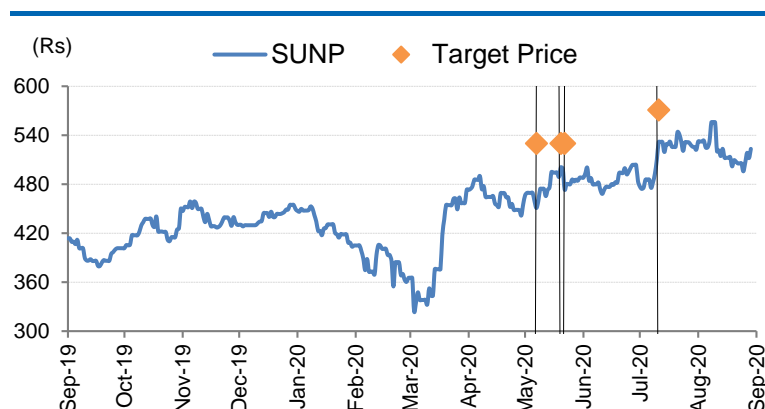
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-20	Buy	530	451
Jun-20	Buy	530	501
Jun-20	Buy	530	474
Jul-20	Buy	571	532

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
