

Retail Equity Research

Sun Pharmaceutical Industries

Pharmaceuticals

BSE CODE: 524715

NSE CODE: SUNPHARMA

Bloomberg CODE: SUNP:IN

SENSEX: 51,935

BUY

12 Months Investment period Rating as per Large Cap
CMP Rs. 671 TARGET Rs. 783 RETURN 17% ↑
(Closing: 01-06-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Outlook promising on COVID drug launches

Sun Pharma is India's top drug maker and world's fifth largest specialty generic pharmaceutical company. The company develops, manufactures, and markets branded and generic formulations and active pharmaceutical ingredients (APIs) in India and globally.

- Q4FY21 revenue increased by 4.4% YoY, with growth led by India Formulations (+12.9% YoY) and ROW Formulations (+6.3%).
- EBITDA margin expanded 580bps to 24.4% and EBITDA rose 36.8% YoY to Rs. 2,059cr, driven by favorable product mix and efficiencies, along with low advertising and discretionary expenses. Adj. PAT was up 96.6% YoY. R&D remained stable at Rs. 557cr (~6.6% of sales).
- Outlook remains positive with new launches (COVID drugs like Remdisivir, Itolizumab and Favipiravir) and Licensing agreements signed for Molnupiravir from Merck and Baricitinib from Eli Lilly. Biosimilars, API and Emerging markets are the long-term growth catalysts for the company. We reiterate our BUY rating with revised TP of Rs. 783 based on 26x FY23E adj. EPS.

Topline fueled by specialty products

Q4FY21 revenue increased 4.4% YoY to Rs. 8,431cr, with India formulations rising to Rs. 2,671cr (+12.9% YoY). Emerging markets (+3.5% YoY) and ROW formulations (+6.3% YoY) also performed reasonably well. Meanwhile, US Formulations declined marginally (-0.7% YoY to Rs. 2,695cr) primarily due to poor performance by Taro (-15.3% YoY to Rs. 1,480cr). External sales for API business slumped to Rs. 436cr (-9.9% YoY). However, overall outlook for API segment remains strong due to its vertical integration benefits. Global specialty business revenue rose to Rs. 14cr due to 51% YoY jump in Ilumya sales for FY2021. Market share for the quarter improved to 8.3% (vs. 8.0% in Q3FY21). However, patent expiry of Absorica will bring down market share due to competition from generics.

Margins improve on cost efficiencies

Gross margin improved ~190bps YoY to 73.4%, while EBITDA margin boosted to 24.4% (+580bps YoY). As % of sales, purchases cost, employee benefits and other expenses contributed +247bps, +55bps and +352bps YoY, respectively. These benefits were partially offset by (-574bps YoY) in costs of materials consumed as % of sales. Resultantly, EBITDA and Adj. PAT jumped to Rs. 2,059cr (+36.8% YoY) and Rs. 1,578cr (+96.6% YoY), respectively.

Key concall highlights

- R&D spend was stable at Rs. 557cr (6.6% as percentage of sales).
- During the quarter, company filed 8 ANADAs and received approval for 5. Current Pipeline includes 55 approved NDAs and 9 NDAs awaiting US FDA approval.
- In-line with company's plans for being debt-free (excl. Taro) by FY22, USD 580mn of debt has been repaid, with outstanding net debt (excl. Taro) of USD 179mn.

Valuation

Outlook remains positive with new product launches (COVID drugs like Remdisivir, Itolizumab and Favipiravir). Additionally, licensing agreements for Molnupiravir from Merck and Baricitinib from Eli Lilly have also been signed. Biosimilars, API business and Emerging markets should act as long-term growth catalysts. Hence, we continue to be positive on the stock and reiterate our BUY rating with revised TP of Rs. 783 based on 26x FY23E adj. EPS.

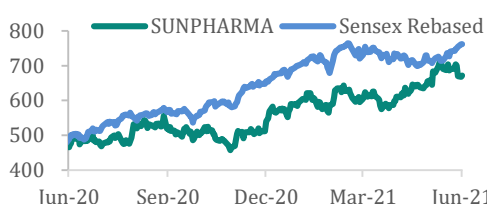
Company Data

Market Cap (cr)	Rs. 161,090
Enterprise Value (cr)	Rs. 158,808
Outstanding Shares (cr)	240.0
Free Float	46.0%
Dividend Yield	1.1%
52 week high	Rs. 722
52 week low	Rs. 453
6m average volume (lac)	4.2
Beta	0.6
Face value	Rs. 1

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	54.7	54.5	54.5
FII's	12.4	12.2	11.7
MFs/Insti	20.5	20.8	21.6
Public	7.5	7.2	7.3
Others	5.0	5.3	4.9
Total	100.0	100.0	100.0
Promoters' pledge	9.1	9.0	8.6

Price Performance	3 Month	6 Month	1 Year
Absolute Return	11.1%	24.4%	44.3%
Absolute Sensex	4.2%	16.3%	55.9%
Relative Return*	6.9%	8.1%	-11.6%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	33,139	37,343	41,115
Growth (%)	2.5	12.7	10.1
EBITDA	8,468	9,190	10,365
EBITDA Margin (%)	25.6	24.6	25.2
Adj. PAT	7,186	6,253	7,226
Growth (%)	79.2	(13.0)	15.6
Adj. EPS	29.9	26.1	30.1
Growth (%)	79.2	(13.0)	15.6
P/E	20.0	25.8	22.3
P/B	3.1	3.1	2.8
EV/EBITDA	16.9	17.3	15.3
ROE (%)	6.2	12.2	12.6
D/E	0.1	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Revenue	8,431	8,078	4.4	8,782	(4.0)	33,139	32,325	2.5
EBITDA	2,059	1,505	36.8	2,335	(11.8)	8,468	6,974	21.4
EBITDA margins	24.4	18.6	580bps	26.6	(220bps)	25.6	21.6	400bps
Depreciation	553	575	(3.8)	532	4.1	2,080	2,053	1.3
EBIT	1,506	930	62.0	1,803	(16.5)	6,388	4,921	29.8
Interest	30	52	(41.9)	26	15.3	141	303	(53.3)
Other Income	135	102	31.7	315	(57.2)	836	636	31.4
Exceptional Items	(684)	(403)	n.m.	72	n.m.	(4,282)	(245)	n.m.
PBT	927	577	60.5	2,163	(57.2)	2,799	5,010	(44.1)
Tax	55	83	(33.8)	245	(77.5)	515	823	(37.4)
Sh of profit from Associate	(6)	(2)	(251.6)	(5)	(18.9)	(12)	(15)	16.9
Minority Interest	(52)	93	n.m.	61	n.m.	(631)	407	n.m.
Reported PAT	894	400	123.6	1,852	(51.7)	2,904	3,765	(22.9)
Adjustments	684	403	n.m.	(72)	n.m.	4,282	245	n.m.
Adj. PAT	1,578	803	96.6	1,781	(11.4)	7,186	4,010	79.2
No. of shares	240.0	240.0	0.0	239.8	0.1	240.0	240.0	0.0
Adj. EPS (Rs.)	6.6	3.3	96.4	7.4	(11.5)	29.9	16.7	79.2

Segment revenue

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
India Formulations	2,671	2,365	12.9	2,753	(3.0)	10,343	9,710	6.5
US Formulations	2,695	2,713	(0.7)	2,761	(2.4)	10,084	10,543	(4.4)
Emerging Market	1,402	1,354	3.5	1,507	(7.0)	5,783	5,504	5.1
ROW Formulations	1,191	1,121	6.3	1,276	(6.6)	4,819	4,521	6.6
Bulk	436	483	(9.9)	450	(3.3)	1,950	1,916	1.8
Others	37	42	(10.3)	35	7.7	159	131	21.4
Total	8,431	8,078	4.4	8,782	(4.0)	33,139	32,325	2.5

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	38,016	41,856	37,343	41,115	(1.8)	(1.8)
EBITDA	9,677	10,654	9,190	10,365	(5)	(2.7)
Margins (%)	25.5	25.5	24.6	25.2	(90bps)	(30bps)
Adj. PAT	5,965	6,748	6,253	7,226	4.8	7.1
Adj. EPS	24.9	28.1	26.1	30.1	4.8	7.1

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	28,686	32,325	33,139	37,343	41,115
% change	10.1	12.7	2.5	12.7	10.1
EBITDA	6,401	6,974	8,468	9,190	10,365
% change	14.1	9.0	21.4	8.5	12.8
Depreciation	1,753	2,053	2,080	1,991	1,972
EBIT	4,648	4,921	6,388	7,200	8,393
Interest	555	303	141	247	299
Other Income	(282)	391	(3,447)	1,120	1,233
PBT	3,810	5,010	2,799	8,073	9,328
% change	9.5	31.5	(44.1)	188.4	15.5
Tax	601	823	515	1,130	1,306
Tax Rate (%)	15.8	16.4	18.4	14.0	14.0
Reported PAT	2,665	3,765	2,904	6,253	7,226
Adj*	1,308	245	4,282	-	-
Adj PAT	3,973	4,010	7,186	6,253	7,226
% change	27.7	0.9	79.2	(13.0)	15.6
No. of shares (cr)	239.9	240.0	240.0	240.0	240.0
Adj EPS (Rs.)	16.6	16.7	29.9	26.1	30.1
% change	27.7	0.9	79.2	(13.0)	15.6
DPS (Rs.)	2.8	4.0	7.5	5.2	6.0
CEPS (Rs.)	23.9	25.3	38.6	34.4	38.3

BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	7,276	6,488	6,446	7,837	8,813
Accounts Receivable	8,884	9,421	9,061	10,456	11,923
Inventories	7,886	7,875	8,997	10,185	11,645
Other Cur. Assets	7,023	7,870	5,938	6,307	6,899
Investments	3,952	5,246	6,482	6,807	7,149
Gross Fixed Assets	16,755	18,297	19,468	21,249	22,976
Net Fixed Assets	10,027	10,567	10,235	10,025	9,780
CWIP	911	659	937	937	937
Intangible Assets	12,309	12,841	11,948	11,999	12,049
Def. Tax (Net)	2,555	3,175	3,556	3,391	4,963
Other Assets	3,870	4,110	4,066	4,238	4,598
Total Assets	64,694	68,252	67,667	72,181	78,756
Current Liabilities	8,969	10,157	13,701	13,962	13,922
Provisions	430	511	327	360	396
Debt Funds	9,896	7,621	3,363	1,863	1,863
Other Liabilities	676	839	796	839	855
Equity Capital	240	240	240	240	240
Reserves & Surplus	41,169	45,025	46,223	51,226	57,006
Shareholder's Fund	41,409	45,264	46,463	51,465	57,246
Minority Interest	3,314	3,860	3,017	3,693	4,474
Total Liabilities	64,694	68,252	67,667	72,181	78,756
BVPS (Rs.)	173	189	194	214	239

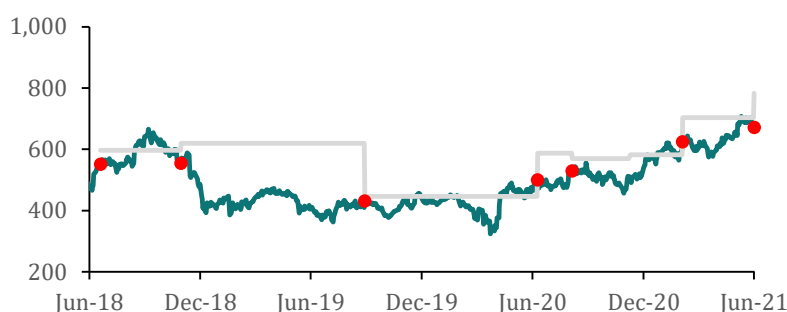
CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	4,419	5,818	4,984	8,244	9,198
Non-cash adj.	199	991	1,792	431	(1,400)
Changes in W.C	(2,421)	(254)	(605)	(1,973)	(2,631)
C.F. Operation	2,196	6,555	6,170	6,702	5,167
Capital exp.	(3,162)	(1,450)	(1,073)	(1,781)	(1,727)
Change in inv.	1,730	(1,702)	1,312	(481)	(671)
Other invest.CF	751	563	298	(50)	(51)
C.F - Investment	(681)	(2,589)	536	(2,313)	(2,448)
Issue of equity	(608)	(637)	(185)	-	-
Issue/repay debt	890	(3,342)	(4,317)	(1,500)	-
Dividends paid	(1,326)	(1,399)	(1,586)	(1,250)	(1,445)
Other finance.CF	(1,687)	(336)	108	(247)	(299)
C.F - Finance	(2,731)	(5,715)	(5,980)	(2,997)	(1,744)
Chg. in cash	(1,215)	(1,749)	726	1,392	975
Closing cash	7,276	6,488	6,446	7,837	8,813

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	22.3	21.6	25.6	24.6	25.2
EBIT margin (%)	16.2	15.2	19.3	19.3	20.4
Net profit mgn.(%)	9.3	11.6	8.8	16.7	17.6
ROE (%)	6.4	8.3	6.2	12.2	12.6
ROCE (%)	8.5	8.7	12.1	12.6	13.2
W.C & Liquidity					
Receivables (days)	113.0	106.4	99.8	102.2	105.9
Inventory (days)	365.8	311.4	377.9	365.0	383.3
Payables (days)	192.4	161.9	166.9	164.3	160.6
Current ratio (x)	1.8	2.0	1.9	2.3	2.6
Quick ratio (x)	1.2	1.3	1.2	1.4	1.6
Turnover & Leverage					
Gross asset T.O (x)	1.8	1.8	1.8	1.8	1.9
Total asset T.O (x)	0.4	0.5	0.5	0.5	0.5
Int. coverage ratio (x)	8.4	16.3	45.2	29.2	28.1
Adj. debt/equity (x)	0.2	0.2	0.1	0.0	0.0
Valuation					
EV/Sales (x)	4.2	2.8	4.3	4.3	3.9
EV/EBITDA (x)	18.9	12.8	16.9	17.3	15.3
P/E (x)	28.9	21.1	20.0	25.8	22.3
P/BV (x)	2.8	1.9	3.1	3.1	2.8

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
19-Jun-18	HOLD	597
30-Oct-18	BUY	620
29-Aug-19	HOLD	446
09-Jun-20	BUY	587
05-Aug-20	HOLD	570
07-Nov-20	BUY	582
03-Feb-21	BUY	703
02-Jun-21	BUY	783

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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