

## Gradual margin improvement; maintain Hold

We maintain our Hold rating on Sun Pharma (SPIL) with TP of Rs530 (earlier Rs520) based on 26x March'20E EPS of Rs20.4. SPIL's Q4FY18 revenues were in-line with our expectations. EBIDTA margin and net profit exceeded our expectations. The drug maker's revenue declined 2% YoY, margins improved by 240bps to 24.1%, and net profit grew 10% YoY. SPIL is facing supply constraints at its Halol facility. Key upside risks to our assumption include higher revenues from the US market and key downside risk includes regulatory risks for its manufacturing facilities catering to the global markets. We recommend a switch to Aurobindo or Cipla.

- **Revenue declined 2% YoY:** SPIL's revenue declined 2% YoY to Rs69.77bn from Rs71.37bn due to the decline in the US formulation business. The company's domestic business (29% of revenues) grew by 2% YoY to Rs19.62bn from Rs19.16bn. The US formulations business (35% of revenues) declined 7% YoY to Rs23.72bn from Rs25.55bn due to the absence of high margin generic Glivec and pricing pressure in the US' generic market. SPIL's formulation business in emerging markets (19% of revenues) grew 6% YoY. The company's RoW business (11% of revenues) grew by 2% YoY. We expect the domestic and emerging market businesses to drive future growth.
- **EBIDTA margin improved 240bps:** SPIL's EBIDTA margin grew by 240bps YoY to 24.1% from 21.7%, due to decline in material cost. Its material cost declined by 540bps YoY to 25.4% from 30.8%, due to its favourable product mix. SPIL's other expenses grew by 120bps to 31.3% from 30.1%. The company's personnel cost grew by 170bps to 19.2% from 17.5% due to addition of field force in US and annual increments. We expect SPIL's margins to improve due to re-stocking in the domestic market and new product launches in the US market.
- **Net profit grew 10% YoY:** SPIL's net profit grew 10% YoY to Rs15.29bn from Rs13.86bn due to margin improvement and lower tax rate. SPIL's tax expenses included deferred tax assets of Rs2.59bn created on difference of tax and book value on intra-group transfer of certain intangibles. We expect SPIL's net profit to improve with higher revenues from domestic and emerging markets.
- **Recommendation and view:** We maintain our Hold rating on SPIL with revised TP to Rs530 based on 26x March'19 EPS of Rs20.4 and upside of 7.2% from the CMP. Key positive risks to our assumptions would be higher growth in the US market and key negative risk would be regulatory risks for its manufacturing facilities. We recommend a switch to Aurobindo or Cipla.

Y/E Mar (Rs mn) (Cons.)	Q4FY18	Q4FY17	YoY%	Q3FY18	QoQ%	Q4FY18E	% Var.
<b>Total Revenues</b>	<b>69,771</b>	<b>71,370</b>	<b>(2.2)</b>	<b>66,532</b>	<b>4.9</b>	<b>69,125</b>	<b>0.9</b>
Raw material cost	17,701	21,951	(19.4)	20,998	(15.7)	22,300	(20.6)
Employee cost	13,413	12,488	7.4	13,726	(2.3)	14,300	(6.2)
Other expenses	21,823	21,455	1.7	17,275	26.3	18,470	18.2
<b>EBIDTA</b>	<b>16,834</b>	<b>15,476</b>	<b>8.8</b>	<b>14,533</b>	<b>15.8</b>	<b>14,055</b>	<b>19.8</b>
EBIDTA margin (%)	24.1	21.7	-	21.8	-	20.3	-
Depreciation	4,552	3,382	34.6	3,393	34.2	3,700	23.0
Interest	1,554	450	245.3	953	63.1	850	82.8
Other income	3,028	2,245	34.9	1,292	134.4	1,566	93.4
PBT	13,756	13,889	(1.0)	11,479	19.8	11,071	24.3
Prov. For tax	(1,767)	443	NM	7,487	NM	2,250	NM
Minority interest	233	(411)	NM	(10)	NM	(12)	NM
PAT after minority interest	15,290	13,857	10.3	4,002	282.1	8,833	73.1

Source: Company, Centrum Research Estimates; NA =Not Applicable

Y/E March (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Net profit	YoY (%)	DEPS Rs	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY16	2,84,870	3.8	81,584	28.6	63,436	32.8	26.4	21.6	17.7	32.5	24.8
FY17	3,15,784	10.9	1,00,892	31.9	78,462	23.7	32.7	22.5	18.5	22.4	16.8
FY18	2,64,894	(16.1)	56,080	21.2	35,589	(54.6)	14.8	9.5	8.3	37.1	23.5
FY19E	2,93,369	10.7	64,320	21.9	42,251	18.7	17.6	10.5	8.9	28.1	18.3
FY20E	3,23,858	10.4	73,348	22.6	49,037	16.1	20.4	11.1	9.6	24.2	15.8

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited.

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs530	Key Data	
CMP*	Rs495	Bloomberg Code	SUNP IN
Upside	7.2%	Curr Shares O/S (mn)	2,399.3
Previous Target	Rs520	Diluted Shares O/S(mn)	2,399.3
Previous Rating	Hold	Mkt Cap (Rsbn/USDbn)	1186.7/17.6
Price Performance (%)*		52 Wk H / L (Rs)	609/432.7
		5 Year H / L (Rs)	1200.8/432.7
SUNP IN	(6.4)	(8.4)	(2.6)
Nifty	(1.2)	3.8	10.3
		Daily Vol. (3M NSE Avg.)	5361649.0

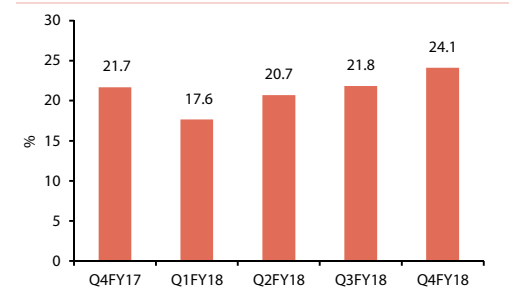
\*as on 30<sup>th</sup> May 2018 Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Mar-18	Dec-17	Sept-17	Jun-17
Promoter	54.4	54.4	54.4	54.4
FIs	16.3	17.2	18.2	19.7
DIs	16.2	14.0	13.8	12.8
Others	13.1	14.4	13.6	13.1

Source: BSE, \*as on 30<sup>th</sup> May 2018

### Trend in EBIDTA margin (%)\*



Source: Company, Centrum Research

### Earning Revision

Particulars (Rsmn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	2,93,369	2,70,713	8.4	3,23,858	2,83,759	14.1
EBITDA	64,320	59,303	8.5	73,348	70,379	4.2
EBITDA Margin (%)	21.9	21.9	0bps	22.6	24.8	(220)bps
PAT	42,251	38,514	9.7	49,038	47,798	2.6

Source: Centrum Research Estimates

### Centrum vs. Bloomberg Consensus\*

Particulars (Rs mn)	FY19E			FY20E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	2,93,369	2,99,307	(2.0)	3,23,858	3,34,720	(3.2)
EBITDA	64,320	69,729	(7.8)	73,348	84,288	(13.0)
PAT	42,251	44,792	(5.7)	49,038	57,097	(14.1)

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
16	13	13	525	530	0.9

\*as on 30<sup>th</sup> May 2018, Source: Bloomberg, Centrum Research Estimates

Ranjit Kapadia, ranjit.kapadia@centrum.co.in; 91 22 4215 9645

## Concall highlights

### US –affected by pricing pressure

- The management indicated that the US formulation business (35% of revenues) declined by 7% YoY due to pricing pressure and the absence of the high-margin generic Glivec and Omesartan Authorised generics. The US business was impacted by pricing pressure due to the consolidation of channel partners.
- SPIL has built a specialty portfolio for the US market. It has received approval for its oncology product Yonsa from US FDA and has plans to expand its specialty team in the US.
- Taro's net profit in the US grew by 4% YoY due to competitive pressure, new entrants in the market and a challenging pricing environment during the quarter. Taro's tax rate declined to 11% from 17.2% due to tax rate reduction in the US.
- The company filed 19 ANDAs and received 5 ANDA approvals during Q4FY18. The management indicated oncology, ophthalmology, dermatology and CNS as focus areas in the US.
- SPIL has filed 422 ANDAs with US FDA of which 283 are approved, while 139 ANDAs are pending approval. Hence, the company has a rich product pipeline for the US market. The company has 39 approved NDAs and 4 NDAs await US FDA approval.
- The management indicated site transfer of some critical products from Halol to other locations. The remedial measures for Halol facility have been completed and the management is expecting approval without re-inspection.

### India – market leadership

- SPIL ranks as the no. 1 drug maker in the domestic market and has an 8.5% market share in the Rs1,190bn domestic pharma market. As per the management, the company ranked no.1 in 13 therapeutic categories.
- As per the management, the domestic business grew by 2% during the quarter. The management expects gradual recovery in the coming quarters.
- In the domestic market, SPIL launched 15 new products during the quarter.

### Emerging market- growth through consolidation

- SPIL's emerging market growth was due to the consolidation of Biosintez in Russia.

### Financials

- SPIL's R&D expenditure was Rs22.49bn during FY18 and amounted to 8.0% of revenues. The higher R&D expenditure was attributed to clinical development of global specialty pipeline.
- The API business declined by 16% YoY due to higher captive consumption. This business has the benefit of vertical integration.
- The management has guided for low double digit growth in consolidated revenues and R & D expense of 8-9% of revenues. For FY19.
- Tax expense for Q4FY17 included deferred tax assets of Rs2.59bn created on difference of tax and book value on intra group transfer of certain intangibles.

## Sales Composition

SPII's Q4FY18 revenues declined by 2% to Rs69.77bn from Rs71.37bn a year ago, due to the decline in US formulations and API revenues. SPII's US business (35% of revenues) declined by 7% YoY to Rs23.72bn from Rs25.55bn due to the pricing pressure and absence of 180-days exclusivity of generic Gleevec in the US market. SPII's domestic business (29% of revenues) grew by 2% YoY to Rs19.62bn from Rs19.16bn. Emerging markets formulation business (19% of revenues) grew 6% to Rs12.79bn from Rs12.13bn. The RoW formulation business (11% of revenues) grew 2% YoY to Rs7.44bn from Rs7.32bn. SPII's API business (5% of revenues) declined by 16% YoY to Rs3.32bn from Rs3.95bn due to higher captive consumption. Hence, the overall growth was led by the domestic and emerging market businesses.

The details are as follows:

### Exhibit 1: Sales composition-Q4FY18

PARTICULARS (Rs mn)	Q4FY18	Q4FY17	YoY%	Q3FY18	QoQ%	Q4FY18E	% Var.
<b>Sales break up</b>							
India Formulations	19,626	19,164	2.4	20,850	(5.9)	21,500	(8.7)
US Formulations	23,716	25,545	(7.2)	21,242	11.6	22,400	5.9
Emerging markets	12,794	12,127	5.5	12,212	4.8	12,700	0.7
ROW Formulations	7,437	7,323	1.6	7,766	(4.2)	7,900	(5.9)
Total Formulations	63,573	64,159	(0.9)	62,070	2.4	64,500	(1.4)
Bulk	3,324	3,954	(15.9)	3,698	(10.1)	3,800	(12.5)
Others	213	138	54.3	215	(0.9)	200	6.5
Total sales	67,110	68,251	(1.7)	65,983	1.7	68,500	(2.0)
Excise duty	0	0	NA	0	NA	0	NA
Other operating income	2661	3118	(14.7)	550	383.8	625	325.8
Net sales	69,771	71,369	(2.2)	66,533	4.9	69,125	0.9

Source: Company, Centrum Research

## Major brands-growing well

As per AIOCD AWACS March'18 data, SPIL grew at 9.6%, in line with the industry growth of 9.5%. SPIL's 48 products appear in the list of top 500 products. Of these, 25 products (52% of total) grew faster than the market growth rate of 9.5%. We expect these brands to drive future growth. Hence, SPIL has a rich product portfolio in the domestic market.

SPIL's top 48 brands contributed 43% to the company's domestic revenues and have a good brand image. Its anti-flatulant brand Mesacol had the highest growth rate of 47.9%.

The following table presents the details.

### Exhibit 2: Performance of major brands

Products (Rs mn)	Therapeutic Category	January'18		February'18		March'18	
		Rs mn	Gr. Rate %	Rs mn	Gr. Rate %	Rs mn	Gr. Rate %
<b>Pharma Industry</b>		<b>1,00,565</b>	<b>9.5</b>	<b>97,543</b>	<b>7.1</b>	<b>1,00,292</b>	<b>9.5</b>
<b>Company</b>		<b>8,796</b>	<b>12.0</b>	<b>8,295</b>	<b>6.0</b>	<b>8,704</b>	<b>9.6</b>
Volini	NSAIDs	191	0.1	172	(6.6)	186	0.8
Rosuvas	cholesterol lowering	197	17.6	185	1.0	190	5.4
Gemer	Antidiabetic	163	(1.4)	151	(5.6)	161	0.3
Istamet	Antidiabetic	197	10.7	185	6.7	195	3.3
Susten	Gynaecological	147	4.6	144	4.4	155	8.4
Levipil	anti-epileptic	207	42.0	187	29.1	202	34.9
Pantocid	Antiulcerant	134	15.6	124	7.7	129	10.1
Storvas	cholesterol lowering	93	14.1	82	(9.7)	97	6.1
Pantocid-D	Antiulcerant	118	20.6	114	16.6	124	20.4
Aztor	Lipid Lowering	81	0.1	84	7.0	83	3.3
Revital H	multivitamin, Ginseng	95	(7.0)	87	(16.4)	100	19.4
Mox	Anti infective	120	32.2	103	17.0	105	24.1
Montek-LC	Anti-asthmatic	113	16.6	103	18.0	103	24.0
Moxclav	Anti infective	104	9.5	104	1.8	91	4.8
Rozavel	Lipid Lowering	85	10.5	78	6.5	83	10.8
Cepodem	Anti infective	69	21.5	74	25.2	63	22.6
Cardivas	CVS	67	1.3	63	(1.7)	68	2.2
Oxetol	Anticonvulsant	76	13.5	68	0.9	73	8.0
Glucored	Antidiabetic	54	(9.8)	48	(13.6)	50	(10.8)
Encorate Chrono	Anticonvulsant	49	(21.2)	46	(24.1)	47	(24.4)
Sporidex	Anti infective	64	14.7	57	4.0	55	7.1
Istavel	Antidiabetic	64	9.2	58	1.6	64	3.5
Rifagut	Anti-infective	70	25.2	68	18.0	77	21.5
Prolomet-XL	anti migraine	71	17.8	66	12.9	72	18.4
Ursocol	Hepatic protector	69	26.0	62	20.0	87	21.9
Volibo	Antidiabetic	47	(1.8)	44	0.1	48	3.2
Clopilet	Anti-coagulant	46	(14.0)	42	(15.3)	45	(3.7)
Cifran	Anti infective	39	12.8	34	(12.5)	41	10.4
Zanocin	Anti infective	40	14.0	42	5.8	46	14.1
Zole F	Antifungal	31	2.2	27	(6.2)	28	-4.0
Volix	Antidiabetic	34	(13.8)	32	(12.9)	38	-1.4
Sompraz-D	Anti-ulcerant	63	30.7	61	31.0	63	32.4
Mesacol	Anti-flatulant	55	20.7	52	16.1	56	47.9
Trivolib	Antidiabeti c	53	8.1	50	6.6	54	10.9
Strocit	Neurotonic	44	0.7	40	(2.1)	43	6.0
Metosartan	CVS	56	9.2	51	3.7	56	11.2
Silverex Ionic	skin Antiseptic	48	17.7	45	15.4	48	15.2
Olmezest	CVS	45	3.7	42	(0.9)	46	10.6
Nexito	Antidepressant	40	21.1	39	23.3	42	24.1
Mox CV	antiulcerant	49	21.8	48	19.1	45	21.2
Prazopress XL	anti hypertensive	37	6.6	36	8.9	37	1.3
Rozuvas F	Cholesterol lowering	42	7.2	40	1.8	43	8.8
Teczine	antiallergic	57	33.0	52	28.5	55	14.5
Axcer	CVS	61	30.9	56	19.4	58	6.1
Qutipin	antipsychotic	40	13.7	36	7.3	37	7.4
Moisturex	dermatological	55	12.2	47	17.3	44	14.4
Lulifin	Antifungal	77	65.0	72	45.9	<b>73</b>	<b>34.5</b>
AB Phylline	anti asthmatic	47	8.4	47	14.8	<b>45</b>	<b>13.7</b>
<b>Total</b>		<b>3,804</b>		<b>3,548</b>		<b>3,751</b>	

Source: AIOCD AWCS monthly data-January-March'18

### Taro's performance impacted by challenging pricing environment

For Q4FY18, SPIL's US subsidiary, Taro Pharma's revenue declined 11% YoY to \$175mn from \$196mn, with overall increase in volume in the US. The lower growth rate was due to competitive pressure and the challenging pricing environment. Gross profit declined 17% YoY to \$119mn from \$144mn. EBITDA margin slipped by 910bps to 42.7% from 51.8%. Taro's net profit grew 4% YoY to \$86mn from \$83mn. Taro's effective tax rate was lower at 11.0% compared to 17.2% due to reduction in US tax rate to 21% from 35%. We expect the pricing pressure to continue for another 1-2 quarters in the US.

Taro has 32 ANDAs pending approval with US FDA and received one ANDA approvals in Q4FY18. The company contributes ~17% to SPIL revenues.

The table below shows the details.

#### Exhibit 3: Taro Pharma-Q4FY18 results

PARTICULARS (\$ mn)	Q4FY18	Q4FY17	% YoY	FY18	FY17	% YoY
	MAR.18	MAR.17	CHANGE	MAR.18	MAR.17	CHANGE
Net sales	175.2	196.4	(10.8)	661.9	879.4	(24.7)
Cost of goods sold	56.3	52.5	7.2	198.4	207.9	(4.6)
Impairment	0.0	0.0	NA	0.0	0.3	(100.0)
Gross Profit	118.9	143.9	(17.4)	463.5	671.2	(30.9)
<b>Gross Margin %</b>	<b>67.9</b>	<b>73.3</b>		<b>70.0</b>	<b>76.3</b>	
Selling, general & admn. Exp	23.8	22.2	7.2	88.2	85.7	2.9
R & D expenses	20.3	19.9	2.0	70.4	70.6	(0.3)
Settlement & loss contingencies	0.0	0.0	NA	1.9	0.0	NA
<b>Operating income/(loss)</b>	<b>74.8</b>	<b>101.8</b>	<b>(26.5)</b>	<b>303.0</b>	<b>514.9</b>	<b>(41.2)</b>
<b>EBIDTA margin %</b>	<b>42.7</b>	<b>51.8</b>		<b>45.8</b>	<b>58.6</b>	
Interest expenses	(5.9)	(3.7)	59.5	(19.9)	(14.5)	37.2
Other Income	0.5	0.7	(28.6)	1.9	11.2	(83.0)
Foreign exchange exp./income	(16.0)	5.8	(375.9)	32.5	-20.2	(260.9)
<b>Profit/ (loss) before tax</b>	<b>97.2</b>	<b>100.4</b>	<b>(3.2)</b>	<b>292.3</b>	<b>560.8</b>	<b>(47.9)</b>
Tax provision	10.7	17.3	(38.2)	82.0	103.8	(21.0)
Profit/ (loss) before EO item	86.5	83.1	4.1	210.3	457.0	(54.0)
Income (loss) from discount. Oper.	0.0	0.0	NA	(0.3)	(0.4)	(25.0)
Profit (loss) after EO items	86.5	83.1	4.1	210.0	456.6	(54.0)
Net inc. attributable to non-cont. int	0.1	0.0	NA	(1.1)	0.3	NA
<b>Net profit</b>	<b>86.4</b>	<b>83.1</b>	<b>4.0</b>	<b>211.1</b>	<b>456.3</b>	<b>(53.7)</b>
EPS fully diluted \$	2.17	2.05	5.9	5.26	11.05	(52.4)
No. of shares (fully diluted)	39.7	40.6	(2.2)	40.2	41.3	(2.7)

Source: Company, Centrum Research

### Recommendation and view

At the CMP of Rs495, SPIL trades at 28.1x FY19E EPS of Rs17.6 and 24.2x FY20E EPS of Rs20.4. We maintain our Hold rating on SPIL with TP of Rs530 based on 26x March'20 EPS of Rs20.4 with a upside of 7.2% from the CMP. We expect SPIL's revenues and profitability to improve on clearance of its Halol facility by US FDA. SPIL is facing pricing pressure and absence of significant new launches in the US generic market as its major facility at Halol is under US FDA scanner. SPIL stock has corrected sharply in the last three quarters due to US FDA issues and muted performance of Taro Pharma. Key positive risks to our assumptions would be higher growth in the US market and key negative risk would be regulatory risks for its manufacturing facilities. We recommend a switch to Aurobindo or Cipla.

### Earning Revision

Based on the Q4FY18 results, we have revised our FY19E and FY20E EPS upwards by 10% and 3% respectively due to positive outlook of low double-digit growth for FY19 indicated by the management. The management has sounded that the remedial work for Halol facility has been completed and it would not require re-inspection.

#### Exhibit 4: Earning Revision

Particulars (Rsmn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	2,93,369	2,70,713	8.4	3,23,858	2,83,759	14.1
EBITDA	64,320	59,303	8.5	73,348	70,379	4.2
EBITDA Margin (%)	21.9	21.9	0bps	22.6	24.8	(220)bps
PAT	42,251	38,514	9.7	49,038	47,798	2.6

Source: Centrum Research

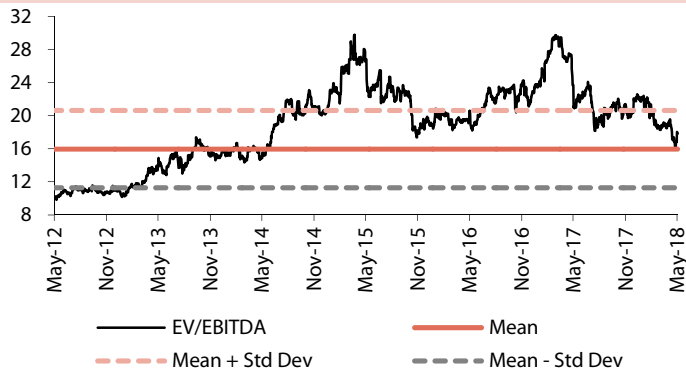
## Valuation and key risks

### Exhibit 5: Sensitivity Analysis

Sensitivity to key variables – FY19E	% change	% impact on EBITDA	% impact on EPS
Sales	1	4.6	6.9
Material cost	1	(1.3)	(1.9)

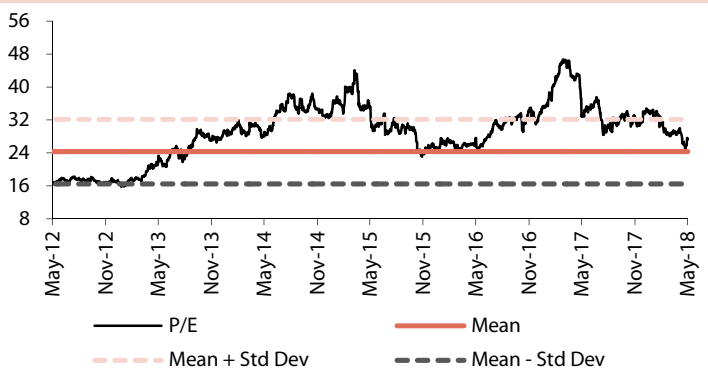
Source: Company, Centrum Research Estimates

### Exhibit 6: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 7: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 8: Comparative Valuations

Sector	Mkt Cap (Rs mn)	CAGR FY17-FY19E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18	FY19E	FY17	FY18	FY19E	FY17	FY18	FY19E	FY17	FY18	FY19E	FY17	FY18	FY19E
Sun Pharma	11,87,505	(3.6)	(20.2)	(26.6)	31.9	21.2	21.9	22.4	37.1	28.1	16.8	23.5	18.3	22.5	9.5	10.5	0.6	0.4	0.6
Aurobindo	3,31,676	14.4	20.8	20.6	22.8	24.1	25.4	19.0	14.3	9.9	13.5	10.2	6.9	27.6	25.8	25.0	0.4	0.3	0.7
Dr. Reddy's Labs	3,25,692	3.9	3.7	(2.6)	17.4	16.5	17.3	39.6	41.9	26.6	22.7	18.9	13.9	10.4	7.6	9.5	0.8	1.0	1.5
Lupin	3,52,108	(1.8)	(12.3)	(22.2)	25.7	19.9	20.5	26.8	26.6	22.7	16.8	16.2	11.8	20.7	1.9	10.9	0.6	0.6	0.9

Source: Company, Centrum Research Estimates Prices as on 30<sup>th</sup> May 2018

## Quarterly financials, Operating Metrics and Key Performance Indicators

### Exhibit 9: Quarterly Financials -consolidated

PARTICULARS (Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
<b>P &amp; L</b>								
Revenues	82,563	82,601	79,251	71,370	62,088	66,504	66,532	69,771
Material cost	18,470	18,399	22,487	21,951	16,774	18,775	20,998	17,701
Personnel cexpenses	12,393	11,991	12,151	12,488	13,299	13,233	13,726	13,413
Other Expenses	22,490	20,534	20,082	21,455	21,059	20,739	17,275	21,823
Total Expenses	53,353	50,924	54,720	55,894	51,132	52,747	51,999	52,937
EBIDTA	29,210	31,677	24,531	15,476	10,956	13,757	14,533	16,834
Other income	1,571	1,194	1,222	2,245	1,520	2,548	1,292	3,028
PBDIT	30,781	32,871	25,753	17,721	12,476	16,305	15,825	19,862
Interest	1,346	537	1,665	450	1,094	1,574	953	1,554
Depreciation	3,160	3,038	3,068	3,382	3,466	3,587	3,393	4,552
Profit before tax	26,275	29,296	21,020	13,889	7,916	11,144	11,479	13,756
Tax provision	3,527	4,417	3,729	443	1,618	1,114	7,487	(1,767)
Net profit before minority	22,748	24,879	17,291	13,446	6,298	10,030	3,992	15,523
Share of profit of ass./minority	(71)	(168)	(72)	411	(19)	(12)	10	(233)
Net profit before EO items	22,677	24,711	17,219	13,857	6,279	10,018	4,002	15,290
EO items	-	-	-	-	9,505	-	-	-
Net profit after EO items	22,677	24,711	17,219	13,857	(3,226)	10,018	4,002	15,290
<b>Growth (%)</b>								
Revenues	22.1	20.2	11.3	(6.8)	(24.8)	(19.5)	(16.0)	(2.2)
EBIDTA	65.2	69.1	9.2	(31.9)	(62.5)	(56.6)	(40.8)	8.8
Net profit before EO items	82.7	140.2	11.5	(16.7)	(72.3)	(59.5)	(76.8)	10.3
<b>Margin (%)</b>								
EBIDTA	35.4	38.3	31.0	21.7	17.6	20.7	21.8	24.1
Profit before tax	31.8	35.5	26.5	19.5	12.7	16.8	17.3	19.7
Net margin before EO	27.5	29.9	21.7	19.4	10.1	15.1	6.0	21.9

Source: Company, Centrum Research

### Exhibit 10: Key performance indicators

Key performance indicator	FY16	FY17	FY18	FY19E	FY20E
Domestic-Sales Growth %	6.4	8.4	3.6	13.0	12.0
US-sales growth %	(3.8)	(0.5)	(33.4)	8.0	9.0
RoW-sales growth %	(7.3)	19.5	15.1	14.0	13.0
Material cost %	22.2	25.7	28.0	27.6	27.2

Source: Centrum Research Estimates

## Financials - consolidated

### Exhibit 11: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>2,84,870</b>	<b>3,15,784</b>	<b>2,64,894</b>	<b>2,93,369</b>	<b>3,23,858</b>
Material cost	63,303	81,308	74,247	80,859	88,000
% of revenues	22.2	25.7	28.0	27.6	27.2
Employee cost	47,723	49,023	53,671	59,900	65,400
% of revenues	16.8	15.5	20.3	20.4	20.2
Other Expenses	92,260	84,561	80,896	88,290	97,110
% of revenues	32.4	26.8	30.5	30.1	30.0
<b>EBIDTA</b>	<b>81,584</b>	<b>1,00,892</b>	<b>56,080</b>	<b>64,320</b>	<b>73,348</b>
EBIDTA margin (%)	28.6	31.9	21.2	21.9	22.6
Depreciation & Amortisation	10,375	12,647	14,998	16,080	17,510
EBIT	71,209	88,245	41,082	48,240	55,838
Interest Expenses	5,232	3,998	5,176	4,500	4,400
PBT from operations	65,977	84,247	35,906	43,740	51,438
Other income	6,582	6,232	8,388	9,141	9,770
PBT	72,559	90,479	44,294	52,881	61,208
Tax provision	9,138	12,116	8,451	10,750	12,300
Effective tax rate (%)	12.6	13.4	19.1	20.3	20.1
Net profit	63,421	78,363	35,843	42,131	48,908
Minority interest	(15)	(99)	254	(120)	(130)
Reported net profit	63,436	78,462	35,589	42,251	49,037
<b>Adj. Net profit</b>	<b>63,436</b>	<b>78,462</b>	<b>35,589</b>	<b>42,251</b>	<b>49,037</b>

Source: Company, Centrum Research Estimates

### Exhibit 12: Key Ratios

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Growth Ratios (%)</b>					
Revenues	3.8	10.9	(16.1)	10.7	10.4
EBIDTA	3.7	23.7	(44.4)	14.7	14.0
Adj. Net Profit	32.8	23.7	(54.6)	18.7	16.1
<b>Margin Ratios (%)</b>					
EBIDTA margin	28.6	31.9	21.2	21.9	22.6
PBT from operations margin	23.2	26.7	13.6	14.9	15.9
Adj. PAT margin	22.3	24.8	13.4	14.4	15.1
<b>Return Ratios (%)</b>					
RoCE	17.7	18.5	8.3	8.9	9.6
RoE	21.6	22.5	9.5	10.5	11.1
RoIC	23.7	25.3	9.4	9.3	10.2
<b>Turnover ratios (days)</b>					
Gross Block Turnover (x)	1.6	1.5	1.1	1.1	1.2
Debtors	87	83	108	108	108
Creditors	46	51	66	68	59
Inventory	82	79	95	104	96
Cash Conversion Cycle	123	111	137	143	145
<b>Solvency Ratio</b>					
Debt-Equity	0.3	0.2	0.3	0.2	0.2
Net Debt-Equity	(0.1)	(0.2)	(0.0)	(0.0)	(0.1)
Current Ratio	3.2	3.0	2.7	3.0	3.2
Interest Coverage Ratio	0.1	0.0	0.1	0.1	0.1
Gross Debt/EBIDTA	1.0	0.8	1.7	1.5	1.2
<b>Per Share (Rs)</b>					
FDEPS (adjusted)	26.4	32.7	14.8	17.6	20.4
CEPS	30.8	38.0	21.1	24.3	27.7
Book Value	154.0	168.5	175.0	191.4	208.4
Dividend	4.0	3.5	2.0	2.5	3.0
Dividend Payout (%)	18.2	12.8	16.2	17.0	17.6
<b>Valuations (x) (Avg Mkt Cap)</b>					
PER	32.5	22.4	37.1	28.1	24.2
P/BV	5.6	4.3	3.1	2.6	2.4
EV/EBIDTA	24.8	16.8	23.5	18.3	15.8
Dividend Yield (%)	0.6	0.6	0.4	0.6	0.7
5-yr Avg AOCF/EV yield(%)	2.2	3.5	4.5	4.8	4.7

Source: Company, Centrum Research Estimates

### Exhibit 13: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	2,407	2,399	2,399	2,399	2,399
Reserves & surplus	3,27,418	3,63,996	3,78,606	4,17,748	4,58,151
Total shareholders Funds	3,29,825	3,66,395	3,81,005	4,20,147	4,60,550
Total Debt	83,164	80,910	97,518	93,675	84,785
Minority interest	40,853	37,909	38,842	39,000	39,500
Deferred tax Liab.	(30,462)	(21,780)	(19,748)	(21,960)	(23,180)
<b>Total Liabilities</b>	<b>4,23,380</b>	<b>4,63,435</b>	<b>4,97,617</b>	<b>5,30,863</b>	<b>5,61,655</b>
Gross Block	1,95,390	2,29,299	2,51,845	2,58,850	2,70,250
Less: Acc. Depreciation	83,297	95,113	1,09,081	1,23,861	1,39,711
Net Block	1,12,093	1,34,186	1,42,764	1,34,989	1,30,539
Capital WIP	12,035	15,648	14,345	15,000	15,900
<b>Net Fixed Assets</b>	<b>1,24,128</b>	<b>1,49,834</b>	<b>1,57,109</b>	<b>1,49,989</b>	<b>1,46,439</b>
Investments	18,300	11,487	71,429	71,700	79,900
Inventory	64,225	68,328	68,807	83,650	85,300
Debtors	67,757	72,026	78,153	86,600	95,700
Loans & Advances	11,789	10,889	23,339	25,800	27,600
Cash & Bank Balance	1,31,816	1,51,408	99,294	1,06,121	1,12,703
Other assets	49,450	69,839	66,892	75,600	82,000
<b>Total Current Assets</b>	<b>3,25,037</b>	<b>3,72,490</b>	<b>3,36,485</b>	<b>3,77,771</b>	<b>4,03,303</b>
Trade payable	35,829	43,954	47,662	55,000	52,000
Other current Liabilities	15,910	29,514	20,670	19,100	19,950
Provisions	48,693	52,270	55,141	51,797	54,536
<b>Net Current Assets</b>	<b>2,24,605</b>	<b>2,46,752</b>	<b>2,13,012</b>	<b>2,51,874</b>	<b>2,76,817</b>
<b>Total Assets</b>	<b>4,23,380</b>	<b>4,63,435</b>	<b>4,97,617</b>	<b>5,30,863</b>	<b>5,61,655</b>

Source: Company, Centrum Research Estimates

### Exhibit 14: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
CF before WC changes	65,038	99,792	52,620	56,121	65,331
Working Capital Changes	2,656	(2,555)	(18,374)	(32,035)	(18,361)
<b>CF from Operations</b>	<b>67,694</b>	<b>97,237</b>	<b>34,246</b>	<b>24,086</b>	<b>46,970</b>
Adj OCF (OCF-Interest)	69,803	97,237	34,246	24,086	46,970
Change in fixed assets	(33,119)	(37,522)	(21,243)	(7,660)	(12,300)
Adj. FCF (AOCF-Capex)	36,685	59,715	13,003	16,426	34,670
<b>CF from Investing</b>	<b>(40,110)</b>	<b>(29,724)</b>	<b>(81,891)</b>	<b>(9,164)</b>	<b>(21,700)</b>
<b>CF from Financing</b>	<b>(19,243)</b>	<b>(15,282)</b>	<b>11,783</b>	<b>(10,882)</b>	<b>(17,026)</b>
<b>Net change in Cash</b>	<b>8,341</b>	<b>52,232</b>	<b>(35,861)</b>	<b>4,040</b>	<b>8,244</b>

Source: Company, Centrum Research Estimates



## Appendix A

### Disclaimer

Centrum Broking Limited ("Centrum") is a full-service, Stock Broking Company and a member of The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE). Our holding company, Centrum Capital Ltd, is an investment banker and an underwriter of securities. As a group Centrum has Investment Banking, Advisory and other business relationships with a significant percentage of the companies covered by our Research Group. Our research professionals provide important inputs into the Group's Investment Banking and other business selection processes.

Recipients of this report should assume that our Group is seeking or may seek or will seek Investment Banking, advisory, project finance or other businesses and may receive commission, brokerage, fees or other compensation from the company or companies that are the subject of this material/report. Our Company and Group companies and their officers, directors and employees, including the analysts and others involved in the preparation or issuance of this material and their dependants, may on the date of this report or from, time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Centrum or its affiliates do not own 1% or more in the equity of this company. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or differed herein in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We and our Group may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of Centrum. Centrum or its affiliates do not make a market in the security of the company for which this report or any report was written. Further, Centrum or its affiliates did not make a market in the subject company's securities at the time that the research report was published.

This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients of Centrum. Though disseminated to clients simultaneously, not all clients may receive this report at the same time. Centrum will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. Any such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document.

The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accepted accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by or on behalf of the Company, Centrum, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts.

The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Centrum does not provide tax advice to its clients, and all investors are strongly advised to consult regarding any potential investment. Centrum and its affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk. Certain transactions including those involving futures, options, and other derivatives as well as non-investment-grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.

This report/document has been prepared by Centrum, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. Centrum has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change.

This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of Centrum. This report or any portion hereof may not be printed, sold or distributed without the written consent of Centrum.

The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither Centrum nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe any such restrictions. By accepting this report, you agree to be bound by the foregoing limitations. No representation is made that this report is accurate or complete.

The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of Centrum Broking and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection.

This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith.

Centrum and its affiliates have not managed or co-managed a public offering for the subject company in the preceding twelve months. Centrum and affiliates have not received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for service in respect of public offerings, corporate finance, debt restructuring, investment banking or other advisory services in a merger/acquisition or some other sort of specific transaction.

As per the declarations given by them, Mr. Ranjit Kapadia, research analyst and and/or any of his family members do not serve as an officer, director or any way connected to the company/companies mentioned in this report. Further, as declared by him, he has not received any compensation from the above companies in the preceding twelve months. He does not hold any shares by him or through his relatives or in case if holds the shares then will not to do any transactions in the said scrip for 30 days from the date of release such report. Our entire research professionals are our employees and are paid a salary. They do not have any other material conflict of interest of the research analyst or member of which the research analyst knows of has reason to know at the time of publication of the research report or at the time of the public appearance.

While we would endeavour to update the information herein on a reasonable basis, Centrum, its associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Centrum from doing so.

Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Centrum policies, in circumstances where Centrum is acting in an advisory capacity to this company, or any certain other circumstances.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Centrum Broking Limited or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market.

### Sun Pharma price chart



Source: Bloomberg, Centrum Research

### Disclosure of Interest Statement

1	Business activities of Centrum Broking Limited (CBL)	Centrum Broking Limited (hereinafter referred to as "CBL") is a registered member of NSE (Cash, F&O and Currency Derivatives Segments), MCX-SX (Currency Derivatives Segment) and BSE (Cash segment), Depository Participant of CDSL and a SEBI registered Portfolio Manager.
2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
3	Registration status of CBL:	Ranjit Kapadia is registered with SEBI as a Research Analyst (SEBI Registration No. INH000001352)

		Sun Pharma	Cipla	Dr. Reddy's Labs	Lupin
4	Whether Research analyst's or relatives' have any financial interest in the subject company and nature of such financial interest	No	No	No	No
5	Whether Research analyst or relatives have actual / beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the document.	No	No	No	No
6	Whether the research analyst or his relatives has any other material conflict of interest	No	No	No	No
7	Whether research analyst has received any compensation from the subject company in the past 12 months and nature of products / services for which such compensation is received	No	No	No	No
8	Whether the Research Analyst has received any compensation or any other benefits from the subject company or third party in connection with the research report	No	No	No	No
9	Whether Research Analysts has served as an officer, director or employee of the subject company	No	No	No	No
10	Whether the Research Analyst has been engaged in market making activity of the subject company.	No	No	No	No

### Rating Criteria

Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
Buy	Upside > 20%	Upside > 15%	Upside > 10%
Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
Sell	Downside > 20%	Downside > 15%	Downside > 10%

### Member (NSE and BSE)

#### Regn No.:

CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239  
 CAPITAL MARKET SEBI REGN. NO.: NSE: INB231454233  
 DERIVATIVES SEBI REGN. NO.: NSE: INF231454233  
 (TRADING & CLEARING MEMBER)  
 CURRENCY DERIVATIVES: MCX-SX INE261454230  
 CURRENCY DERIVATIVES:NSE (TM & SCM) – NSE 231454233

#### Depository Participant (DP)

CDSL DP ID: 120 – 12200  
 SEBI REGD NO.: CDSL : IN-DP-CDSL-661-2012

#### PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

#### Website: www.centrum.co.in

**Investor Grievance Email ID:** investor.grievances@centrum.co.in

#### Compliance Officer Details:

Kavita Ravichandran

(022) 4215 9842; Email ID: Compliance@centrum.co.in

### Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)

Registered Office Address	Corporate Office & Correspondence Address
Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	Centrum House 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000