

## In line sales, higher margin amid lower SG&A cost...

Q3 revenues grew 8.4% YoY to ₹ 8837 crore (I-direct estimate: ₹ 8636 crore). US formulations grew 10.8% YoY to ₹ 2761 crore. Indian formulations grew 9.4% YoY to ₹ 2753 crore. Emerging markets business grew 8.4% YoY to ₹ 1507 crore. RoW markets business grew 15.6% YoY to ₹ 1276 crore. API segment de-grew 9.4% YoY to ₹ 485 crore. EBITDA margins expanded 465 bps YoY to 27.2% (I-direct estimate: 23.0%) due to lower other expenditure and better gross margins. Delta vis-à-vis I-direct estimates was mainly due to significantly lower other expenditure. EBITDA grew 30.7% YoY to ₹ 2406 crore (I-direct estimate: ₹ 1986 crore). PAT more than doubled to ₹ 1852 crore (I-direct estimate: ₹ 1319 crore) vs. ₹ 914 crore in Q3FY20. Delta vis-à-vis EBITDA was due to higher other income, lower interest expense and lower tax rate.

## Specialty diversification to be key for US business

The US business comprises ~32% of turnover (FY20). The US product basket comprises 497 approved ANDAs, 90 pending final approvals (including 22 tentative approvals). It also has 55 approved NDAs and eight pending NDAs. US growth has also been backed by extensive infrastructure with 44 global manufacturing facilities. Due to a challenging environment on the generics front, the management plans to diversify into specialty products such as Ilumya, Levulan (dermatology), BromSite, Cequa, Xelpros (ophthalmic), Odomzo, Yonsa (oncology), etc. US growth, however, is likely to remain muted in the near term mainly due to expiry of Absorica patent, pandemic impact on Ilumya & Levulan and slowdown in the generics space.

## New launches to drive domestic revenues

Indian formulations form 30% of turnover (FY20). With a market share of 8.3%, Sun is ranked No. 1 in domestic formulations. It leads prescription share in 11 specialties including psychiatrists, neurologist, cardiovascular and diabetes. It has also embarked on a strategy to in-license latest generation patent protected products from various innovators. We expect Indian formulations to grow at 11% CAGR to ₹ 13277 crore in FY20-23E backed by a lower base, new launches and price hikes.

## Valuation & Outlook

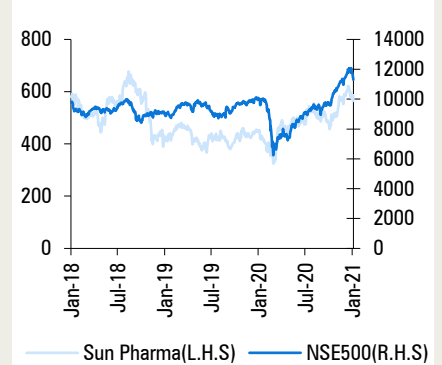
Q3FY21 revenues were in line with I-direct estimates whereas profitability was better on account of lower-than-expected other expenditure, higher other income and lower interest expense. While the company's US generics front is going through calibrated product rationalisation, specialty segment looks promising due to robust product pipeline, steady progress. This metamorphic shift from generics to specialty, however, is likely to weigh on US growth in the near term. That said, higher contribution from specialty and strong domestic franchise is likely to change the product mix towards more remunerative businesses by FY23. This would have positive implications for margins also as we expect faster absorption of frontloaded costs on the specialty front. We maintain **BUY** and arrive at our new target price of ₹ 675 (vs. earlier ₹ 585) based on 25x FY23E EPS of ₹ 27.0.



### Particulars

| Particular                 | Amount        |
|----------------------------|---------------|
| Market Capitalisation      | ₹140706 crore |
| Debt (FY 20)               | ₹8315 crore   |
| Cash & Equivalents (FY 20) | ₹6488 crore   |
| EV (₹Cr)                   | ₹142533 crore |
| 52 week H/L (₹)            | 628/315       |
| Equity capital             | ₹239.9 crore  |
| Face value                 | ₹1            |

### Price performance



### Key risks to our call

- USFDA related regulatory challenges
- Continued price erosion impact on Taro US portfolio

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### Key Financial Summary

| (₹Crore)           | FY20    | FY21E   | FY22E   | FY23E   | CAGR FY20-23E (%) |
|--------------------|---------|---------|---------|---------|-------------------|
| Net Sales          | 32837.5 | 33693.8 | 36612.6 | 40083.3 | 6.9               |
| EBITDA             | 6989.8  | 8230.2  | 8054.8  | 9018.7  | 8.9               |
| EBITDA Margins (%) | 21.3    | 24.4    | 22.0    | 22.5    |                   |
| Adj. Profit        | 4025.6  | 6889.5  | 5639.2  | 6484.7  | 17.2              |
| Adj. EPS (₹)       | 16.8    | 28.7    | 23.5    | 27.0    |                   |
| PE (x)             | 37.4    | 43.2    | 25.0    | 21.7    |                   |
| EV to EBITDA (x)   | 19.7    | 16.6    | 16.5    | 14.3    |                   |
| RoE (%)            | 8.9     | 14.3    | 10.6    | 11.0    |                   |
| RoCE (%)           | 10.0    | 12.9    | 12.3    | 12.9    |                   |

Source: ICICI Direct Research; Company

**Exhibit 1: Variance Analysis**

|                     | Q3FY21  | Q3FY21E | Q3FY20  | Q2FY21  | YoY (%) | QoQ (%)  | Comments  |
|---------------------|---------|---------|---------|---------|---------|----------|---|
| Revenue             | 8,836.8 | 8,636.0 | 8,154.9 | 8,553.1 | 8.4     | 3.3      | YoY growth due to growth across geographies in formulation segment  |
| Raw Material Expens | 2,333.4 | 2,202.2 | 2,200.0 | 2,146.3 | 6.1     | 8.7      |   |
| Gross margins (%)   | 73.6    | 74.5    | 73.0    | 74.9    | 57 bps  | -131 bps | YoY improvement amid better product mix and cost efficiencies   |
| Employee Expenses   | 1,720.5 | 1,727.2 | 1,549.1 | 1,705.3 | 11.1    | 0.9      |   |
| Other Expenditure   | 2,376.8 | 2,720.3 | 2,564.3 | 2,508.2 | -7.3    | -5.2     | Declined mainly due to lower marketing, selling and travelling cost. Sequential decline mainly due to forex gains of ₹ 72 crore vs. forex loss of ₹ 116 crore in Q2FY21   |
| Total Expenditure   | 6,430.6 | 6,649.7 | 6,313.5 | 6,359.9 | 1.9     | 1.1      |   |
| EBITDA              | 2,406.1 | 1,986.3 | 1,841.4 | 2,193.3 | 30.7    | 9.7      |   |
| EBITDA (%)          | 27.2    | 23.0    | 22.6    | 25.6    | 465 bps | 159 bps  | YoY increase and beat vis-à-vis I-direct estimates mainly due to better product mix and lower other expenditure   |
| Interest            | 26.1    | 32.6    | 63.0    | 33.3    | -58.5   | -21.6    |   |
| Depreciation        | 531.9   | 498.6   | 547.0   | 498.6   | -2.8    | 6.7      |   |
| Other income        | 315.0   | 256.2   | 119.9   | 255.8   | 162.7   | 23.1     |   |
| EO                  | 0.0     | 0.0     | 0.0     | 0.0     |         |          |   |
| PBT                 | 2,163.1 | 1,711.3 | 1,351.3 | 1,917.2 | 60.1    | 12.8     |   |
| Tax                 | 244.9   | 256.7   | 327.6   | -31.2   | -25.2   | LP       |   |
| MI                  | 60.9    | 130.0   | 105.9   | 130.0   | -42.4   | -53.1    |   |
| Net Profit          | 1,852.5 | 1,319.0 | 913.5   | 1,812.8 | 102.8   | 2.2      |   |
| Adj. Net Profit     | 1,852.5 | 1,319.0 | 913.5   | 1,812.8 | 102.8   | 2.2      | Delta vis-à-vis EBITDA owing to lower interest cost amid loan repayment and lower tax rate (-1.6% vs. 18.6% in Q2FY20)  |
| <b>Key Metrics</b>  |         |         |         |         |         |          |   |
| India formulations  | 2,752.8 | 2,642.8 | 2,517.0 | 2,531.1 | 9.4     | 8.8      | YoY growth mainly driven by strong growth in chronic segment. Acute segment still facing some challenges due to lower incidence of infections and less patient flow to the doctor's clinic  |
| US formulations     | 2,760.9 | 2,579.6 | 2,492.4 | 2,492.0 | 10.8    | 10.8     | Despite decline in Taro's sales (37% of US sales) by 5% YoY to US\$ 140 million, robust growth and beat vis-a-vis I-direct estimates mainly due to sharp jump in speciality pipeline. Speciality sales (40% of US sales) grew 25.4% YoY, 37% QoQ to US\$148 million |
| Emerging Markets    | 1,507.1 | 1,529.2 | 1,390.1 | 1,558.8 | 8.4     | -3.3     | YoY growth in CC term was 11%   |
| RoW                 | 1,275.8 | 1,213.9 | 1,103.5 | 1,322.0 | 15.6    | -3.5     | YoY growth, beat vis-à-vis I-direct estimates mainly driven by all-round growth including Japan, EU coupled with growth in Taro's RoW sales   |
| APIs                | 485.3   | 575.3   | 535.6   | 554.9   | -9.4    | -12.6    |   |

Source: ICICI Direct Research

**Exhibit 2: Change in Estimates**

| ₹ Crore                | FY21E    |          |          | FY22E    |          |          | Comments   |
|------------------------|----------|----------|----------|----------|----------|----------|--|
|                        | Old      | New      | % Change | Old      | New      | % Change |  |
| Total Operating Income | 32,884.0 | 33,693.8 | 2.5      | 36,172.8 | 36,612.6 | 1.2      |  |
| EBITDA                 | 7,385.9  | 8,230.2  | 11.4     | 7,958.0  | 8,054.8  | 1.2      | Changed mainly due to better-than-expected margins in Q3FY21 |
| EBITDA Margin (%)      | 22.5     | 24.4     | 193 bps  | 22.0     | 22.0     | 0 bps    |  |
| Adjusted PAT           | 6,130.0  | 6,889.5  | 12.4     | 5,536.4  | 5,639.2  | 1.9      | Changed mainly in sync with EBITDA                           |
| EPS (Adjusted)         | 25.5     | 28.7     | 12.6     | 23.1     | 23.5     | 1.7      |  |

Source: ICICI Direct Research

**Exhibit 3: Change in estimates**

| ₹ crore             | Current  |          |          |          | Earlier  |          | Comments   |
|---------------------|----------|----------|----------|----------|----------|----------|--|
|                     | FY19     | FY20     | FY21E    | FY22E    | FY21E    | FY22E    |  |
| Indian Formulations | 7,348.3  | 9,710.5  | 10,320.9 | 11,854.6 | 10,211.0 | 11,810.8 |  |
| US Formulations     | 10,673.6 | 10,542.5 | 10,123.0 | 10,037.7 | 9,242.7  | 9,339.1  | Changed mainly due to faster than expected recovery in speciality sales and slower than expected generic competition in Absorica |
| RoW markets         | 8,811.7  | 10,025.3 | 10,732.4 | 12,091.7 | 10,692.5 | 12,047.8 |  |
| APIs                | 1,811.7  | 2,047.0  | 2,163.8  | 2,244.3  | 2,278.0  | 2,469.2  |  |

Source: ICICI Direct Research

## Conference Call Highlights

- **US** – constant currency sales of US\$374 million (up 7% YoY)
  - Led by ramp-up in specialty and ex-Taro generics
  - Specialty sales crossed pre-Covid led by Cequa, Ilumya, Absorica
    - (a) No visibility on generic entry for Absorica
    - (b) Absorica – transferred 20% share to LD version
  - Levulan sales better than H1, but still not normalised
  - Patient flow to clinics yet to normalise
  - MR interaction at 40-50% of normal, rest virtual calls; overall ~80% of normal
  - 497 approved ANDAs, 90 pending approvals (incl. 22 tentative)
  - Pipeline - 55 approved NDAs and 8 NDAs awaiting USFDA approval
  - In Q3FY21 3 ANDAs were approved and two ANDAs were filed
  - Generics – ex-Taro growth led by market share gain, better supply chain management, capitalising on shortage opportunities
    - (a) Portfolio close to pre-Covid levels
- R&D investments at ₹ 560 crore (6.4% of sales)
- Reduction in debt in 9MFY21 from FY20 of ~ US\$490 million; Net debt (ex-taro) ~US\$250 million
- **India** – 27 new products launched in Q3FY21 (20+ launches per quarter to continue)
  - approximately 8.3% market share in IPM as per AIOCD MAT December 2020
  - growth led by chronic portfolio, revival seen in semi-chronic and acute portfolio
    - (a) acute still facing challenges due to lower infection and lower patient flow to clinics
    - (b) MRs completely operational, 90-95% doctors started their clinics, 70-75% pre-Covid patient footfalls
- **Specialty** revenues for Q3FY21 were US\$148 million
  - Ilumya 9MFY20 crossed FY20 sales global
  - Specialty R&D was 27% of R&D spent for the quarter
- **Emerging Markets**- US\$204 million for Q3FY21, a growth of 4.7% over Q3FY20
- **RoW** - were US\$173 million in Q3FY21, up by 11.7% over Q3FY20
- Lower raw material cost due to change in product mix
- Lower other expenditure due to lower marketing & travel spend in US, India and other markets
  - To increase as market situation normalises
- Forex gain of ₹ 72 crore in Q3FY21
- Halol: status quo - all responses filed, awaiting USFDA action

**Exhibit 4: Trends in quarterly financials**

| (₹Crore)                | 13FY18 | 14FY18 | 15FY19 | 16FY19 | 17FY19 | 18FY19 | 19FY19 | 20FY20 | 21FY20 | 22FY20 | 23FY20  | 24FY20 | 25FY21 | 26FY21 | 27FY21 | YoY (%) | QoQ (%) |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|--------|--------|--------|---------|---------|
| Total Operating Income  | 6653.2 | 6977.1 | 7224.2 | 6937.6 | 7740.2 | 7163.9 | 8374.4 | 8123.4 | 8154.9 | 8184.9 | 7585.3  | 8553.1 | 8836.8 | 8.4    | 3.3    |         |         |
| Raw Material Expenses   | 2099.7 | 1770.1 | 2106.8 | 1757.7 | 2165.7 | 1838.8 | 2457.8 | 2267.9 | 2200.0 | 2304.8 | 1969.6  | 2146.3 | 2333.4 | 6.1    | 8.7    |         |         |
| Gross Profit Margin (%) | 68.4   | 74.6   | 70.8   | 74.7   | 72.0   | 74.3   | 70.7   | 72.1   | 73.0   | 71.8   | 74.0    | 74.9   | 73.6   |        |        |         |         |
| Employee Expenses       | 1372.6 | 1341.3 | 1433.0 | 1470.3 | 1495.0 | 1568.8 | 1540.4 | 1620.9 | 1549.1 | 1651.9 | 1759.0  | 1705.3 | 1720.5 | 11.1   | 0.9    |         |         |
| % of Revenue            | 20.6   | 19.2   | 19.8   | 21.2   | 19.3   | 21.9   | 18.4   | 20.0   | 19.0   | 20.2   | 23.2    | 19.9   | 19.5   |        |        |         |         |
| Other Expenditure       | 1727.5 | 2182.3 | 2077.6 | 2178.4 | 1926.7 | 2739.6 | 2380.6 | 2444.8 | 2564.3 | 2865.2 | 2013.1  | 2508.2 | 2376.8 | -7.3   | -5.2   |         |         |
| % of Revenue            | 26.0   | 31.3   | 28.8   | 31.4   | 24.9   | 38.2   | 28.4   | 30.1   | 31.4   | 35.0   | 26.5    | 29.3   | 26.9   |        |        |         |         |
| Total Expenditure       | 5199.9 | 5293.6 | 5617.5 | 5406.4 | 5587.3 | 6147.1 | 6378.8 | 6333.6 | 6313.5 | 6821.9 | 5741.7  | 6359.9 | 6430.6 | 1.9    | 1.1    |         |         |
| % of Revenue            | 78.2   | 75.9   | 77.8   | 77.9   | 72.2   | 85.8   | 76.2   | 78.0   | 77.4   | 83.3   | 75.7    | 74.4   | 72.8   |        |        |         |         |
| EBITDA                  | 1453.4 | 1683.5 | 1606.7 | 1531.2 | 2152.9 | 1016.8 | 1995.6 | 1789.7 | 1841.4 | 1363.0 | 1843.5  | 2193.3 | 2406.1 | 30.7   | 9.7    |         |         |
| EBITDA Margin (%)       | 21.8   | 24.1   | 22.2   | 22.1   | 27.8   | 14.2   | 23.8   | 22.0   | 22.6   | 16.7   | 24.3    | 25.6   | 27.2   |        |        |         |         |
| Depreciation            | 339.3  | 455.2  | 401.6  | 426.5  | 471.1  | 454.1  | 457.1  | 473.3  | 547.0  | 575.4  | 495.9   | 498.6  | 531.9  | -2.8   | 6.7    |         |         |
| Other Income            | 129.2  | 302.8  | 199.8  | 351.2  | 193.1  | 281.5  | 213.0  | 200.9  | 119.9  | 102.2  | 153.8   | 255.8  | 315.0  | 162.7  | 23.1   |         |         |
| PBIT                    | 1243.3 | 1531.0 | 1404.8 | 1455.9 | 1874.9 | 844.3  | 1751.5 | 1517.3 | 1414.3 | 889.9  | 1501.4  | 1950.5 | 2189.2 | 54.8   | 12.2   |         |         |
| Interest                | 95.3   | 155.4  | 130.9  | 129.5  | 144.8  | 150.0  | 104.1  | 83.9   | 63.0   | 51.8   | 52.0    | 33.3   | 26.1   | -58.5  | -21.6  |         |         |
| Less: Exceptional Items | 0.0    | 0.0    | 0.0    | 1214.4 | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 260.6  | 3633.3  | 0.0    | 0.0    |        |        |         |         |
| PBT                     | 1147.9 | 1375.6 | 1273.9 | 111.9  | 1730.1 | 694.2  | 1647.4 | 1433.4 | 1351.3 | 577.4  | -2183.9 | 1917.2 | 2163.1 | 60.1   | 12.8   |         |         |
| Total Tax               | 748.7  | -176.7 | 163.9  | 218.9  | 270.9  | -28.8  | 146.1  | 266.0  | 327.6  | 83.1   | 245.9   | -31.2  | 244.9  | -25.2  | -885.1 |         |         |
| PAT before MI           | 399.2  | 1552.3 | 1110.1 | -107.0 | 1459.2 | 723.1  | 1501.4 | 1167.4 | 1023.7 | 494.3  | -2429.8 | 1948.4 | 1918.1 | 87.4   | -1.6   |         |         |
| Minority Interest       | 34.8   | 220.0  | 122.7  | 110.0  | 219.2  | 105.2  | 109.2  | 99.1   | 105.9  | 92.9   | -770.6  | 130.0  | 60.9   | -42.4  | -53.1  |         |         |
| PAT after MI            | 364.4  | 1332.3 | 987.3  | -217.0 | 1240.0 | 617.8  | 1392.2 | 1068.3 | 917.9  | 401.4  | -1659.2 | 1818.4 | 1857.2 | 102.3  | 2.1    |         |         |
| Profit from Associates  | 1.0    | -23.3  | 1.0    | -1.9   | 1.8    | -2.4   | -4.7   | -4.2   | -4.3   | -1.6   | 3.6     | -5.6   | -4.7   |        |        |         |         |
| PAT                     | 365.4  | 1309.0 | 988.3  | -218.8 | 1241.9 | 615.4  | 1387.5 | 1064.1 | 913.5  | 399.8  | -1655.6 | 1812.8 | 1852.5 | 102.8  | 2.2    |         |         |
| Adjusted PAT            | 365.4  | 1309.0 | 988.3  | 995.6  | 1241.9 | 615.4  | 1387.5 | 1064.1 | 913.5  | 660.5  | 1146.0  | 1812.8 | 1852.5 | 102.8  | 2.2    |         |         |
| Adjusted EPS (₹)        | 1.5    | 5.5    | 4.1    | 4.1    | 5.2    | 2.6    | 5.8    | 4.4    | 3.8    | 2.8    | 4.8     | 7.6    | 7.7    |        |        |         |         |

Source: ICICI Direct Research

## Company Background

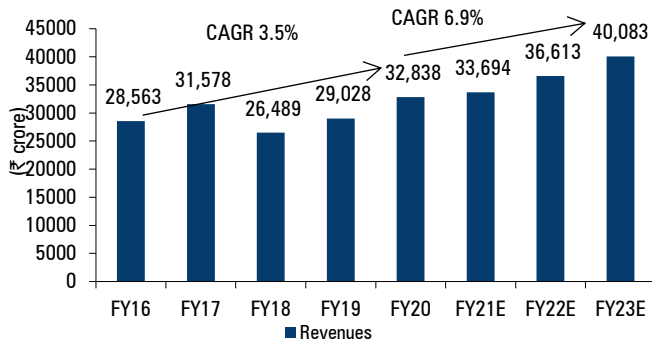
Established in 1983, Sun Pharma is the largest Indian pharmaceutical company both in terms of market capitalisation and turnover (FY20).

The company manufactures and markets a large basket of pharmaceutical formulations in India, the US and several other markets across the world. However, US and Indian formulations are by far the core strengths and growth drivers of the company. The company has ~44 manufacturing sites across the world. The US business has been built mostly on acquisitions and generic focus. It owns the largest product basket among Indian players with as many as 587 product (ANDA) filings as of Q2FY21. In Indian formulations, the company is a leader in niche therapy areas of psychiatry, gastroenterology, neurology, cardiology, nephrology, orthopaedics and ophthalmology.

The company completed the \$3.2 billion acquisition of Ranbaxy Laboratories after almost a year of navigating the regulatory hurdles to create the world's fifth-largest generic pharmaceutical company by revenue. The company has planned a capex of US\$250 million for Tildrakizumab, the IL-23 monoclonal anti-body in-licensed from MSD (US) over four or five years to be utilised for its psoriasis trials.

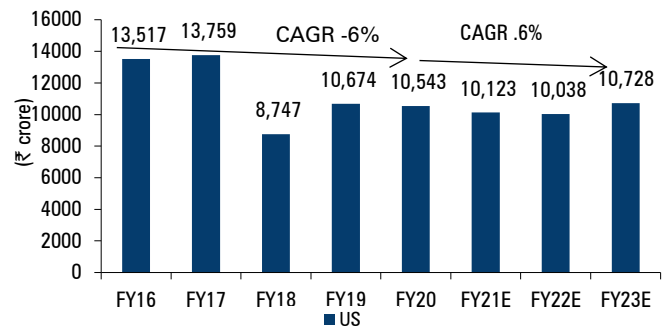
Sun acquired Odomzo (oncology) from Novartis in December, 2016 for \$175 million and additional milestones payments. USFDA approved this in July, 2015 for treatment of locally advanced basal cell cancer and is the first branded oncology product for Sun Pharma in the US. Total 70% who prescribe the products are dermatologists while the rest are oncologists for this drug. Seciera (for dry eyes disease), which was acquired from Ocular Technologies, has shown promising phase III results.

Exhibit 5: Revenues to grow at CAGR of 7% over FY20-23E



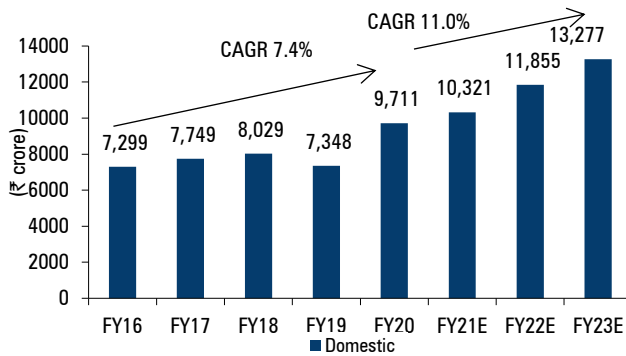
Source: ICICI Direct Research, Company

Exhibit 6: US to grow at CAGR of ~1% over FY20-23E



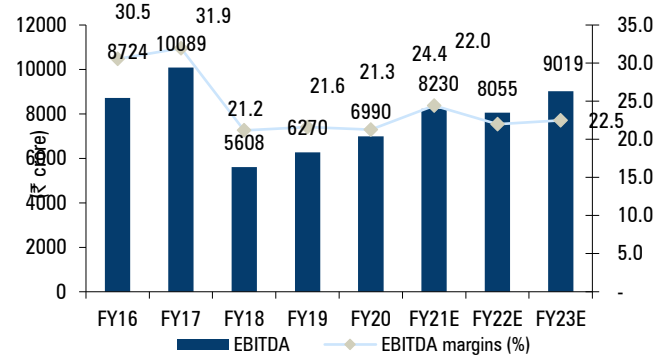
Source: ICICI Direct Research, Company

Exhibit 7: Domestic to grow at 11% CAGR in FY20-23E



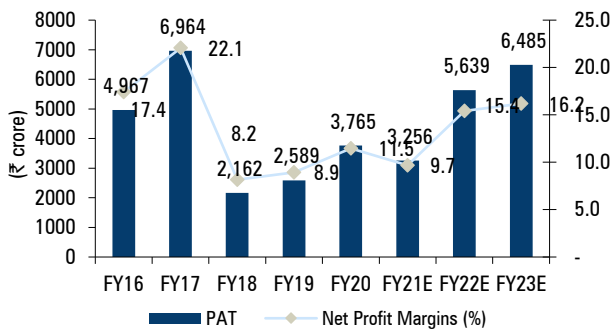
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA & EBITDA margins trend



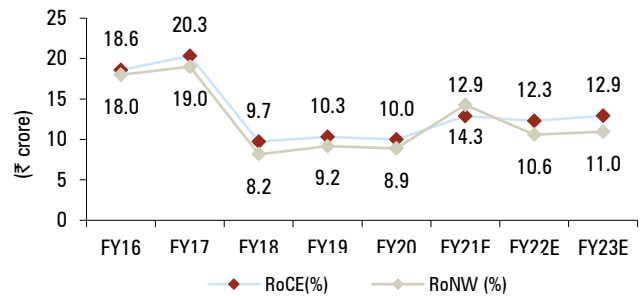
Source: ICICI Direct Research, Company

Exhibit 9: PAT & PAT margins trend



Source: ICICI Direct Research, Company

Exhibit 10: RoCE & RoE trend



Source: ICICI Direct Research, Company

Exhibit 11: Revenue break-up

| ₹ crore          | FY16     | FY17     | FY18    | FY19     | FY20     | FY21E    | FY22E    | FY23E    | FY16-20 (%) | FY20-23E (%) |
|------------------|----------|----------|---------|----------|----------|----------|----------|----------|-------------|--------------|
| Domestic         | 7,299.2  | 7,749.1  | 8,029.3 | 7,348.3  | 9,710.5  | 10,320.9 | 11,854.6 | 13,277.2 | 7.4         | 11.0         |
| US               | 13,516.9 | 13,758.8 | 8,746.6 | 10,673.6 | 10,542.5 | 10,123.0 | 10,037.7 | 10,728.0 | -6.0        | 0.6          |
| Emerging Markets | 3,584.3  | 4,544.8  | 4,839.2 | 5,359.0  | 5,504.4  | 5,871.3  | 6,590.0  | 7,249.0  | 11.3        | 9.6          |
| ROW              | 2,161.8  | 2,583.2  | 2,974.0 | 3,452.6  | 4,521.0  | 4,861.1  | 5,501.7  | 6,051.9  | 20.3        | 10.2         |
| API & Others     | 1,475.2  | 1,634.5  | 1,476.8 | 1,811.7  | 2,047.0  | 2,163.8  | 2,244.3  | 2,356.5  | 8.5         | 4.8          |

Source: ICICI Direct Research, Company

**Exhibit 12: Valuation**

|        | <b>Revenues</b> | <b>Growth</b> | <b>EPS</b> | <b>Growth</b> | <b>P/E</b> | <b>EV/EBITDA</b> | <b>RoE</b> | <b>RoCE</b> |
|--------|-----------------|---------------|------------|---------------|------------|------------------|------------|-------------|
|        | (₹ crore)       | (%)           | (₹)        | (%)           | (x)        | (X)              | (%)        | (%)         |
| FY 20  | 32838           | 13.1          | 16.8       | 5.8           | 37.4       | 19.7             | 8.9        | 10.0        |
| FY 21E | 33694           | 2.6           | 28.7       | 71.1          | 43.2       | 16.6             | 14.3       | 12.9        |
| FY 22E | 36613           | 8.7           | 23.5       | -18.1         | 25.0       | 16.5             | 10.6       | 12.3        |
| FY 23E | 40083           | 9.5           | 27.0       | 15.0          | 21.7       | 14.3             | 11.0       | 12.9        |

Source: ICICI Direct Research, Company

**Exhibit 13: Shareholding Pattern**

| (in %)   | <b>Dec-19</b> | <b>Mar-20</b> | <b>Jun-20</b> | <b>Sep-20</b> | <b>Dec-20</b> |
|----------|---------------|---------------|---------------|---------------|---------------|
| Promoter | 54.6          | 54.7          | 54.7          | 54.7          | 54.5          |
| Others   | 45.4          | 45.3          | 45.3          | 45.3          | 45.5          |

Source: ICICI Direct Research, Company

## Financial Summary

Exhibit 14: Profit & Loss (₹ crore)

| (Year-end March)            | FY20            | FY21E           | FY22E           | FY23E           |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| <b>Revenues</b>             | <b>32,837.5</b> | <b>33,693.8</b> | <b>36,612.6</b> | <b>40,083.3</b> |
| Growth (%)                  | 13.1            | 2.6             | 8.7             | 9.5             |
| Raw Material Expenses       | 9,230.5         | 8,803.3         | 9,702.3         | 10,421.7        |
| Employee Expenses           | 6,362.4         | 6,928.5         | 7,505.6         | 8,217.1         |
| Other Expenditure           | 10,254.9        | 9,731.7         | 11,349.9        | 12,425.8        |
| Total Operating Expenditure | 25,847.7        | 25,463.5        | 28,557.8        | 31,064.6        |
| <b>EBITDA</b>               | <b>6,989.8</b>  | <b>8,230.2</b>  | <b>8,054.8</b>  | <b>9,018.7</b>  |
| Growth (%)                  | 11.5            | 17.7            | -2.1            | 12.0            |
| Depreciation                | 2,052.8         | 2,058.4         | 2,128.3         | 2,198.3         |
| Interest                    | 302.7           | 137.4           | 115.3           | 93.2            |
| Other Income                | 636.0           | 1,034.1         | 1,449.1         | 1,586.5         |
| PBT                         | 5,270.2         | 7,068.5         | 7,260.3         | 8,313.8         |
| Less: Exceptional Items     | 260.6           | 3,633.3         | 0.0             | 0.0             |
| Total Tax                   | 822.8           | 690.5           | 1,379.5         | 1,579.6         |
| PAT before MI               | 4,186.8         | 2,744.7         | 5,880.8         | 6,734.2         |
| Minority Interest           | 407.0           | -522.9          | 222.8           | 230.6           |
| PAT                         | 3,764.9         | 3,256.2         | 5,639.2         | 6,484.7         |
| <b>Adjusted PAT</b>         | <b>4,025.6</b>  | <b>6,889.5</b>  | <b>5,639.2</b>  | <b>6,484.7</b>  |
| Growth (%)                  | 5.8             | 71.1            | -18.1           | 15.0            |
| <b>EPS (Adjusted)</b>       | <b>16.8</b>     | <b>28.7</b>     | <b>23.5</b>     | <b>27.0</b>     |

Source: ICICI Direct Research

Exhibit 16: Balance Sheet (₹ crore)

| (Year-end March)                       | FY20            | FY21E           | FY22E           | FY23E           |
|--|-----------------|-----------------|-----------------|-----------------|
| Equity Capital                         | 239.9           | 239.9           | 239.9           | 239.9           |
| Reserve and Surplus                    | 45,024.5        | 47,955.1        | 53,030.4        | 58,866.7        |
| Total Shareholders funds               | 45,264.5        | 48,195.0        | 53,270.3        | 59,106.6        |
| Total Debt                             | 8,314.9         | 6,209.4         | 5,209.4         | 4,209.4         |
| Deferred Tax Liability                 | 58.1            | 62.2            | 66.6            | 71.2            |
| Minority Interest                      | 3,860.2         | 3,337.3         | 3,560.1         | 3,790.8         |
| Other LT Liabilities & LT Provisions   | 1,334.3         | 1,427.7         | 1,527.6         | 1,634.6         |
| <b>Total Liabilities</b>               | <b>58,832.0</b> | <b>59,231.6</b> | <b>63,634.0</b> | <b>68,812.5</b> |
| Gross Block - Fixed Asset              | 28,634.5        | 29,434.5        | 30,434.5        | 31,434.5        |
| Accumulated Depreciation               | 12,269.1        | 14,327.5        | 16,455.8        | 18,654.1        |
| Net Block                              | 16,365.5        | 15,107.1        | 13,978.7        | 12,780.5        |
| Capital WIP                            | 1,220.3         | 1,220.3         | 1,220.3         | 1,220.3         |
| Total Fixed Assets                     | 17,585.8        | 16,327.4        | 15,199.1        | 14,000.8        |
| Investments                            | 10,143.1        | 12,448.5        | 14,753.9        | 17,059.3        |
| Deferred tax assets                    | 3,175.3         | 3,397.6         | 3,635.4         | 3,889.9         |
| Goodwill on Consolidation              | 6,481.5         | 6,481.5         | 6,481.5         | 6,481.5         |
| LT Loans & Advances & A                | 4,110.0         | 4,397.7         | 4,705.6         | 5,034.9         |
| Cash                                   | 6,487.6         | 4,503.5         | 6,129.9         | 8,343.9         |
| Debtors                                | 9,421.2         | 9,990.4         | 10,855.9        | 11,884.9        |
| Loans and Advances                     | 148.4           | 158.8           | 169.9           | 181.8           |
| Inventory                              | 7,875.0         | 8,867.9         | 9,636.1         | 10,549.5        |
| Other current assets                   | 2,824.6         | 3,022.4         | 3,233.9         | 3,460.3         |
| Total Current Assets                   | 26,756.8        | 26,542.9        | 30,025.6        | 34,420.5        |
| Creditors                              | 4,093.7         | 4,664.3         | 5,068.4         | 5,548.9         |
| Provisions & other current liabilities | 5,326.7         | 5,699.6         | 6,098.6         | 6,525.5         |
| Total Current Liabilities              | 9,420.5         | 10,363.9        | 11,167.0        | 12,074.3        |
| Net Current Assets                     | 17,336.3        | 16,179.0        | 18,858.7        | 22,346.2        |
| <b>Application of Funds</b>            | <b>58,832.0</b> | <b>59,231.6</b> | <b>63,634.0</b> | <b>68,812.5</b> |

Source: ICICI Direct Research

Exhibit 15: Cash Flow Statement (₹ crore)

| (Year-end March)                    | FY20           | FY21E          | FY22E          | FY23E          |
|-------------------------------------|----------------|----------------|----------------|----------------|
| Profit/(Loss) after taxation        | 3663.7         | 3256.2         | 5639.2         | 6484.7         |
| Depreciation                        | 2052.8         | 2058.4         | 2128.3         | 2198.3         |
| (Inc)/Dec in Current Assets         | -292.5         | -1770.2        | -1856.4        | -2180.8        |
| (Inc)/Dec in Current Liabilities    | 1191.0         | 979.2          | 841.3          | 948.3          |
| Others                              | -60.2          | 137.4          | 115.3          | 93.2           |
| <b>CF from operation Activities</b> | <b>6554.8</b>  | <b>4661.1</b>  | <b>6867.8</b>  | <b>7543.7</b>  |
| Purchase of Fixed Assets            | -1450.0        | -800.0         | -1000.0        | -1000.0        |
| (Inc)/Dec in Investments            | -1551.8        | -2305.4        | -2305.4        | -2305.4        |
| Others                              | 1374.1         | -971.2         | -256.9         | -282.6         |
| <b>CF from Investing Activities</b> | <b>-1627.7</b> | <b>-4076.6</b> | <b>-3562.3</b> | <b>-3588.0</b> |
| Inc / (Dec) in Loan Funds           | -3341.9        | -2105.5        | -1000.0        | -1000.0        |
| Inc / (Dec) in Equity Capital       | -425.0         | 0.0            | 0.0            | 0.0            |
| Dividend and dividend tax           | -1662.6        | -325.6         | -563.9         | -648.5         |
| Other Financial Activities          | -285.6         | -137.4         | -115.3         | -93.2          |
| <b>CF from Financing Activities</b> | <b>-5715.1</b> | <b>-2568.5</b> | <b>-1679.2</b> | <b>-1741.6</b> |
| Cash generation during the year     | -788.1         | -1984.0        | 1626.3         | 2214.1         |
| Op bal Cash & Cash equivalents      | 7275.6         | 6487.6         | 4503.5         | 6129.9         |
| <b>Closing Cash/ Cash Equiva</b>    | <b>6487.6</b>  | <b>4503.5</b>  | <b>6129.9</b>  | <b>8343.9</b>  |
| <b>Free Cash Flow</b>               | <b>5104.8</b>  | <b>3861.1</b>  | <b>5867.8</b>  | <b>6543.7</b>  |

Source: ICICI Direct Research

Exhibit 17: Key Ratios (₹ crore)

| (Year-end March)            | FY20  | FY21E | FY22E | FY23E |
|-----------------------------|-------|-------|-------|-------|
| <b>Per share data (₹)</b>   |       |       |       |       |
| Adjusted EPS                | 16.8  | 28.7  | 23.5  | 27.0  |
| BV per share                | 188.7 | 200.9 | 222.0 | 246.4 |
| Dividend per share          | 1.0   | 1.4   | 2.4   | 2.7   |
| Cash Per Share              | 27.0  | 18.8  | 25.5  | 34.8  |
| <b>Operating Ratios (%)</b> |       |       |       |       |
| Gross Margin                | 71.9  | 73.9  | 73.5  | 74.0  |
| EBITDA Margin               | 21.3  | 24.4  | 22.0  | 22.5  |
| PAT Margin                  | 12.3  | 20.4  | 15.4  | 16.2  |
| Inventory days              | 87.5  | 96.1  | 96.1  | 96.1  |
| Debtor days                 | 104.7 | 108.2 | 108.2 | 108.2 |
| Creditor days               | 45.5  | 50.5  | 50.5  | 50.5  |
| Asset Turnover              | 0.6   | 0.6   | 0.6   | 0.6   |
| EBITDA Conversion rate      | 93.8  | 56.6  | 85.3  | 83.6  |
| <b>Return Ratios (%)</b>    |       |       |       |       |
| RoE                         | 8.9   | 14.3  | 10.6  | 11.0  |
| RoCE                        | 10.0  | 12.9  | 12.3  | 12.9  |
| RoIC                        | 11.5  | 14.0  | 13.0  | 14.4  |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| P/E                         | 37.4  | 43.2  | 25.0  | 21.7  |
| EV / EBITDA                 | 19.7  | 16.6  | 16.5  | 14.3  |
| EV / Net Sales              | 4.2   | 4.1   | 3.6   | 3.2   |
| Market Cap / Sales          | 4.3   | 4.2   | 3.8   | 3.5   |
| Price to Book Value         | 3.1   | 2.9   | 2.6   | 2.4   |
| <b>Solvency Ratios</b>      |       |       |       |       |
| Debt / EBITDA               | 1.2   | 0.8   | 0.6   | 0.5   |
| Debt / Equity               | 0.2   | 0.1   | 0.1   | 0.1   |
| Current Ratio               | 2.2   | 2.1   | 2.1   | 2.2   |

Source: ICICI Direct Research



Exhibit 18: ICICI Direct Coverage Universe (Healthcare)

| Company         | I-Direct Code | CMP (₹) | TP Rating | M Cap (₹cr) | EPS (₹) |       |       |      | PE(x) |       |       |      | RoCE (%) |      |      |      | RoE (%) |      |      |      |      |
|-----------------|---------------|---------|-----------|-------------|---------|-------|-------|------|-------|-------|-------|------|----------|------|------|------|---------|------|------|------|------|
|                 |               |         |           |             | FY19    | FY20  | Y21E  | Y22E | FY19  | FY20  | FY21E | Y22E | FY19     | Y20  | '21E | '22E | Y19     | FY20 | Y21E | Y22E |      |
| Ajanta Pharma   | AJAPHA        | 1758    | 1,960     | Buy         | 15340   | 43.5  | 53.4  | 62.7 | 73.8  | 40.4  | 32.9  | 28.0 | 23.8     | 21.8 | 24.7 | 25.4 | 24.5    | 17.1 | 18.1 | 18.4 | 18.6 |
| Alembic Pharm   | ALEMPHA       | 948     | 1,055     | Hold        | 18636   | 30.2  | 44.4  | 57.5 | 43.9  | 31.4  | 21.4  | 16.5 | 21.6     | 19.6 | 21.0 | 23.9 | 17.0    | 21.8 | 27.1 | 23.0 | 15.5 |
| Apollo Hospital | APOHOS        | 2622    | 2,310     | Hold        | 37706   | 16.2  | 22.3  | -1.6 | 36.1  | 161.5 | 117.4 | NA   | 72.7     | 8.8  | 10.2 | 4.9  | 13.0    | 7.1  | 9.7  | -0.5 | 10.0 |
| Aurobindo Pha   | AURPHA        | 944     | 1,025     | Buy         | 55333   | 41.9  | 48.8  | 55.1 | 61.7  | 22.6  | 19.4  | 17.2 | 15.3     | 15.9 | 17.2 | 17.9 | 17.3    | 17.7 | 17.0 | 14.3 | 13.9 |
| Biocon          | BIOCON        | 380     | 450       | Hold        | 45612   | 6.2   | 5.8   | 6.5  | 13.9  | 61.2  | 65.3  | 58.4 | 27.4     | 10.9 | 10.2 | 9.2  | 16.5    | 12.2 | 10.4 | 10.5 | 18.7 |
| Cadila Healthc  | CADHEA        | 462     | 555       | Buy         | 47312   | 18.1  | 14.0  | 20.1 | 22.0  | 25.6  | 33.1  | 23.0 | 21.0     | 12.8 | 10.7 | 13.7 | 14.2    | 17.8 | 13.8 | 15.9 | 15.3 |
| Cipla           | CIPLA         | 826     | 975       | Buy         | 66581   | 18.6  | 19.2  | 31.0 | 32.4  | 44.4  | 43.0  | 26.6 | 25.5     | 10.9 | 12.0 | 17.0 | 16.1    | 10.0 | 9.8  | 14.0 | 13.1 |
| Divi's Lab      | DIVLAB        | 3430    | 4,425     | Buy         | 91049   | 51.0  | 51.9  | 74.1 | 89.8  | 67.3  | 66.1  | 46.3 | 38.2     | 25.5 | 23.9 | 28.8 | 28.6    | 19.4 | 18.8 | 22.5 | 22.3 |
| Dr Reddy's Lab  | DRREDD        | 4599    | 5,525     | Buy         | 76470   | 114.6 | 121.8 | 87.0 | 188.6 | 40.1  | 37.7  | 52.8 | 24.4     | 10.7 | 9.6  | 15.7 | 19.5    | 13.6 | 13.0 | 8.6  | 16.0 |
| Glenmark Phar   | GLEPHA        | 481     | 635       | Buy         | 13565   | 26.9  | 26.4  | 36.5 | 37.6  | 17.9  | 18.2  | 13.2 | 12.8     | 15.3 | 12.7 | 14.9 | 14.1    | 13.5 | 12.2 | 14.5 | 13.1 |
| Hikal           | HIKCHE        | 171     | 230       | Buy         | 2110    | 8.4   | 8.1   | 10.2 | 12.2  | 20.5  | 21.1  | 16.8 | 14.0     | 14.3 | 12.8 | 13.6 | 14.9    | 13.6 | 12.2 | 13.5 | 14.2 |
| Ipca Laboratori | IPCLAB        | 1896    | 2,665     | Buy         | 24052   | 34.9  | 47.6  | 93.5 | 89.8  | 54.4  | 39.9  | 20.3 | 21.1     | 15.0 | 17.6 | 27.3 | 21.8    | 14.2 | 16.6 | 24.8 | 19.3 |
| Jubilant Life   | JUBLIF        | 901     | 850       | Buy         | 14351   | 54.9  | 59.9  | 54.4 | 70.3  | 16.4  | 15.0  | 16.6 | 12.8     | 14.3 | 14.4 | 14.7 | 16.9    | 17.8 | 16.6 | 13.2 | 14.7 |
| Lupin           | LUPIN         | 1012    | 1,165     | Buy         | 45896   | 16.5  | -12.7 | 24.5 | 37.3  | 61.2  | NA    | 41.4 | 27.2     | 9.4  | 9.7  | 8.9  | 12.2    | 5.4  | -4.6 | 8.2  | 11.2 |
| Narayana Hrud   | NARHRU        | 438     | 405       | Buy         | 8954    | 2.9   | 6.4   | -4.2 | 8.3   | 150.9 | 69.0  | NA   | 52.6     | 7.7  | 11.0 | -2.4 | 12.8    | 5.5  | 11.4 | -8.3 | 14.2 |
| Natco Pharma    | NATPHA        | 894     | 885       | Hold        | 16298   | 35.4  | 25.3  | 32.7 | 28.0  | 25.3  | 35.4  | 27.4 | 31.9     | 21.3 | 14.0 | 17.1 | 13.6    | 18.5 | 12.2 | 14.0 | 11.0 |
| Sun Pharma      | SUNPHA        | 586     | 675       | Buy         | 140706  | 15.9  | 16.8  | 28.7 | 23.5  | 37.0  | 35.0  | 20.4 | 25.0     | 10.3 | 10.0 | 12.9 | 12.3    | 9.2  | 8.9  | 14.3 | 10.6 |
| Syngene Int.    | SYNINT        | 588     | 700       | Buy         | 23508   | 8.3   | 10.3  | 9.7  | 13.2  | 71.1  | 57.1  | 60.6 | 44.5     | 14.8 | 14.5 | 12.6 | 15.8    | 16.8 | 15.7 | 15.1 | 17.1 |
| Torrent Pharm   | TORPHA        | 2664    | 3,135     | Buy         | 45078   | 48.9  | 60.6  | 70.6 | 85.8  | 54.4  | 44.0  | 37.7 | 31.1     | 14.2 | 15.4 | 17.9 | 20.2    | 17.5 | 21.2 | 20.9 | 21.3 |
| Shalby          | SHALIM        | 110     | 130       | Hold        | 1185    | 2.9   | 2.6   | 4.7  | 4.9   | 37.4  | 43.0  | 23.3 | 22.3     | 6.8  | 7.2  | 6.6  | 7.9     | 4.1  | 3.5  | 6.0  | 5.9  |
| Aster DM        | ASTDM         | 155     | 170       | Buy         | 7760    | 6.7   | 5.5   | 3.1  | 9.9   | 23.3  | 28.1  | 50.0 | 15.6     | 8.3  | 7.1  | 5.2  | 9.1     | 10.4 | 8.5  | 4.5  | 12.7 |
| Indoco Remedi   | INDREM        | 310     | 380       | Buy         | 2861    | -0.3  | 2.6   | 9.3  | 14.8  | NA    | 118.7 | 33.4 | 20.9     | 0.9  | 4.6  | 11.4 | 15.6    | -0.4 | 3.5  | 11.4 | 15.7 |
| Caplin Point    | CAPPOI        | 462     | 605       | Buy         | 3496    | 23.3  | 28.4  | 33.5 | 43.5  | 19.8  | 16.3  | 13.8 | 10.6     | 34.6 | 26.5 | 26.9 | 28.1    | 27.9 | 22.7 | 21.5 | 22.3 |
| Granules India  | GRANUL        | 354     | 460       | Buy         | 8757    | 9.5   | 12.4  | 21.1 | 23.6  | 37.0  | 28.5  | 16.7 | 15.0     | 11.8 | 15.2 | 22.4 | 22.0    | 15.5 | 16.7 | 22.4 | 20.2 |
| Laurus Labs     | LAULAB        | 343     | 440       | Buy         | 18392   | 1.7   | 4.8   | 17.9 | 21.1  | 196.1 | 72.0  | 19.2 | 16.3     | 7.7  | 13.0 | 33.8 | 31.6    | 6.0  | 14.4 | 36.4 | 31.0 |

Source: ICICI Direct Research, Bloomberg

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Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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