

January 28, 2021

## Company Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	602		602	
Sales (Rs. m)	3,80,717	4,09,217	3,80,717	4,09,217
% Chng.	-	-	-	-
EBITDA (Rs. m)	91,377	97,991	91,377	97,991
% Chng.	-	-	-	-
EPS (Rs.)	26.7	28.7	26.7	28.7
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	323	328	381	409
EBITDA (Rs. bn)	65	79	91	98
Margin (%)	20.0	24.1	24.0	23.9
PAT (Rs. bn)	36	63	64	69
EPS (Rs.)	14.9	26.2	26.7	28.7
Gr. (%)	19.8	76.0	1.7	7.4
DPS (Rs.)	5.8	2.0	2.0	2.0
Yield (%)	1.0	0.4	0.4	0.4
RoE (%)	8.3	15.2	15.8	14.8
RoCE (%)	8.5	12.2	15.3	15.0
EV/Sales (x)	4.1	4.2	3.5	3.1
EV/EBITDA (x)	20.5	17.4	14.5	13.0
PE (x)	38.2	21.7	21.3	19.9
P/BV (x)	3.0	3.6	3.2	2.8

### Key Data

SUN.BO | SUNP IN

52-W High / Low	Rs.628 / Rs.312
Sensex / Nifty	47,410 / 13,968
Market Cap	Rs.1,367bn / \$ 18,748m
Shares Outstanding	2,399m
3M Avg. Daily Value	Rs.10774.19m

### Shareholding Pattern (%)

Promoter's	54.68
Foreign	12.38
Domestic Institution	22.23
Public & Others	10.71
Promoter Pledge (Rs bn)	9.09

### Stock Performance (%)

	1M	6M	12M
Absolute	(3.5)	19.8	27.1
Relative	(4.4)	(3.6)	11.5

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## Taro Q3FY21: Covid continues to impact growth

### Quick Pointers:

- Revenue declined by 2% QoQ to US\$140m (v/s US\$142.8m).
- Gross profit declined by 10% QoQ to US\$73.2m (v/s US\$81.6m), while gross margin was 52.2% v/s 57.1% QoQ.

**Taro's revenue was sequentially flattish while gross profit and gross margin were lower QoQ indicating continual price erosion, unfavorable product mix and impact from COVID. We expect sales growth to be muted and quarterly revenue to remain stable in the range of US\$140-150m. Key event for Taro in the near-term would be utilization of US\$1.55bn cash and cash equivalent for acquisition of specialty products, as its own products pipeline have only 17 ANDAs pending with USFDA. We believe that a sizeable part of US sales growth would be led by performance of its specialty portfolio and resolution of Halol facility, while Taro (contributes 40-45% of US sales) will report range bound earnings with limited downside from these levels. We have HOLD rating on SUNP with TP of Rs602 based on 21x (PE) of FY23E.**

**Result highlight:** Revenue declined by 2% QoQ to US\$140m (v/s US\$142.8m) and gross profit declined by 10% QoQ to US\$73.2m (v/s US\$81.6m). Gross margin declined to 52.2% v/s 57.1% QoQ due to continued price erosion, unfavorable impact from COVID, change in product mix and certain one-time charges. EBITDA grew by 2% QoQ to US\$47.5m due to 15% QoQ decline in R&D expense, while EBITDA margin was 34% v/s 32.7% QoQ. Net income was US\$32.9m compared to US\$45m QoQ due to higher tax during the quarter, resulting in diluted earnings per share of \$0.86 compared to \$1.18.

**Taro targets Inorganic growth:** With US\$1.55bn of cash and marketable securities, Taro hinted that it would look to expand its footprint in US by acquiring specialty products. With track record of initial struggling period to ramp-up sales of specialty products (LPC: Solosec and SUNP: Ilumya), Taro's foray into specialty products could increase overheads in near-term with further investment to expand marketing infrastructure.

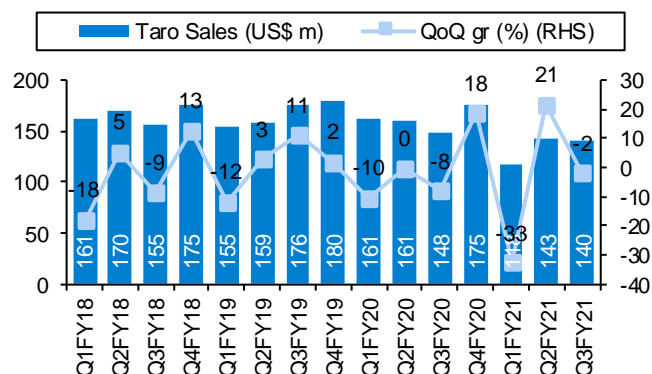
### Key highlights:

- In Q3, Taro received an approval from FDA for one ANDA Clindamycin Phosphate Gel USP, 1%. The Company currently has a total of 17 ANDAs awaiting FDA approval, including five tentative approvals (TA).

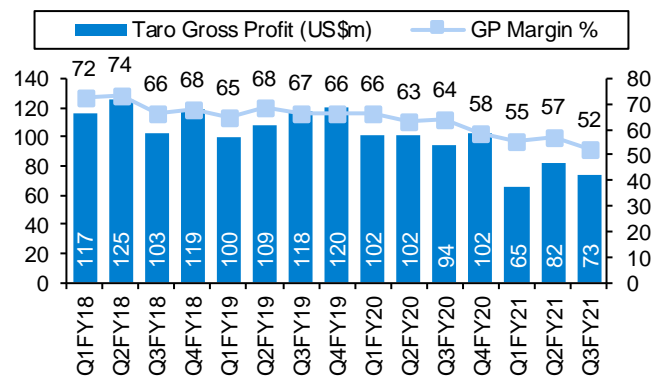
**Exhibit 1: Taro – Q3FY21 Result Overview (US\$ mn): Growth muted due to weak product pipeline**

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	9MFY21	9MFY20	YoY gr. (%)
<b>Net Sales</b>	<b>140</b>	<b>148</b>	<b>(5.1)</b>	<b>143</b>	<b>(1.9)</b>	<b>401</b>	<b>470</b>	<b>(14.7)</b>
Raw Material	67	54	24.9	61	9.2	181	172	4.9
<i>% of Net Sales</i>	<i>47.8</i>	<i>36.3</i>		<i>42.9</i>		<i>45.1</i>	<i>36.7</i>	
SG&A costs	12	15	(24.9)	18	(36.3)	47	48	(3.0)
<i>% of Net Sales</i>	<i>8.3</i>	<i>10.5</i>		<i>12.8</i>		<i>11.7</i>	<i>10.3</i>	
R&D exps	14	15	(6.0)	17	(15.1)	44	44	(0.8)
<i>% of Net Sales</i>	<i>10.1</i>	<i>10.2</i>		<i>11.6</i>		<i>10.9</i>	<i>9.4</i>	
Total Expenditure	93	84	10.2	96	(3.6)	271	265	2.5
<b>EBITDA</b>	<b>47</b>	<b>64</b>	<b>(25.4)</b>	<b>47</b>	<b>1.6</b>	<b>129</b>	<b>205</b>	<b>(37.0)</b>
<i>Margin (%)</i>	<i>33.9</i>	<i>43.1</i>		<i>32.7</i>		<i>32.3</i>	<i>43.7</i>	
Depreciation	11	5	105.1	6	90.8	23	16	40.0
<b>EBIT</b>	<b>36</b>	<b>58</b>	<b>(37.6)</b>	<b>41</b>	<b>(11.1)</b>	<b>107</b>	<b>189</b>	<b>(43.6)</b>
Other Income	0.9	0.5		-		-	-	
Interest	(4.0)	(8.5)	(53.1)	(5.7)	(29.8)	(17.0)	(27.0)	(37.1)
<b>PBT</b>	<b>41</b>	<b>67</b>	<b>(38.8)</b>	<b>47</b>	<b>(11.6)</b>	<b>124</b>	<b>216</b>	<b>(42.7)</b>
Extra-Ord. Inc./Exps.	(2)	3	(164.5)	2	(205.2)	(463)	11	
Total Taxes	6	3	110.3	4	69.4	19	40	(53.1)
<i>ETR (%)</i>	<i>14.8</i>	<i>4.3</i>		<i>7.7</i>		<i>15.0</i>	<i>18.3</i>	
<b>Reported PAT</b>	<b>33</b>	<b>68</b>	<b>(51.3)</b>	<b>45</b>	<b>(26.7)</b>	<b>(358)</b>	<b>188</b>	<b>(290.5)</b>

Source: Company, PL

**Exhibit 2: Revenue (US\$ mn) and QoQ Gr (%)**


Source: Company, PL

**Exhibit 3: Gross Profit (US\$ mn) and Gross Margin (%) of sales**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>3,23,252</b>	<b>3,27,604</b>	<b>3,80,717</b>	<b>4,09,217</b>
YoY gr. (%)	15.0	1.3	16.2	7.5
Cost of Goods Sold	92,305	85,593	1,00,122	1,10,346
Gross Profit	2,30,947	2,42,011	2,80,594	2,98,871
Margin (%)	71.4	73.9	73.7	73.0
Employee Cost	63,624	67,376	73,094	78,114
Other Expenses	19,252	23,749	30,457	32,737
<b>EBITDA</b>	<b>64,774</b>	<b>78,919</b>	<b>91,377</b>	<b>97,991</b>
YoY gr. (%)	7.2	21.8	15.8	7.2
Margin (%)	20.0	24.1	24.0	23.9
Depreciation and Amortization	20,528	20,400	22,183	23,140
<b>EBIT</b>	<b>44,247</b>	<b>58,519</b>	<b>69,193</b>	<b>74,852</b>
Margin (%)	13.7	17.9	18.2	18.3
Net Interest	1,541	1,541	1,232	1,228
Other Income	11,483	12,128	11,593	11,820
<b>Profit Before Tax</b>	<b>54,188</b>	<b>69,105</b>	<b>79,554</b>	<b>85,444</b>
Margin (%)	16.8	21.1	20.9	20.9
Total Tax	11,595	7,339	11,138	11,962
Effective tax rate (%)	21.4	10.6	14.0	14.0
<b>Profit after tax</b>	<b>42,594</b>	<b>61,766</b>	<b>68,417</b>	<b>73,482</b>
Minority interest	4,219	(1,188)	4,380	4,685
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>35,769</b>	<b>62,954</b>	<b>64,037</b>	<b>68,797</b>
YoY gr. (%)	19.8	76.0	1.7	7.4
Margin (%)	11.1	19.2	16.8	16.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>35,769</b>	<b>62,954</b>	<b>64,037</b>	<b>68,797</b>
YoY gr. (%)	19.8	76.0	1.7	7.4
Margin (%)	11.1	19.2	16.8	16.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	35,769	62,954	64,037	68,797
<b>Equity Shares O/s (m)</b>	<b>2,399</b>	<b>2,399</b>	<b>2,399</b>	<b>2,399</b>
<b>EPS (Rs)</b>	<b>14.9</b>	<b>26.2</b>	<b>26.7</b>	<b>28.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,86,345</b>	<b>2,97,345</b>	<b>3,08,345</b>	<b>3,19,345</b>
Tangibles	1,84,842	1,92,842	2,00,842	2,08,842
Intangibles	1,01,503	1,04,503	1,07,503	1,10,503
<b>Acc: Dep / Amortization</b>	<b>1,22,691</b>	<b>1,45,221</b>	<b>1,71,706</b>	<b>1,95,680</b>
Tangibles	79,168	94,990	1,12,884	1,29,106
Intangibles	43,523	50,231	58,821	66,574
<b>Net fixed assets</b>	<b>1,63,655</b>	<b>1,52,125</b>	<b>1,36,640</b>	<b>1,23,665</b>
Tangibles	1,05,675	97,852	87,958	79,736
Intangibles	57,980	54,272	48,682	43,929
Capital Work In Progress	12,203	11,825	11,527	11,303
Goodwill	64,815	64,815	64,815	64,815
Non-Current Investments	53,513	38,385	36,519	43,065
Net Deferred tax assets	31,172	31,538	32,095	32,693
Other Non-Current Assets	40,043	35,587	36,845	38,182
<b>Current Assets</b>				
Investments	48,974	31,833	33,424	35,096
Inventories	78,750	83,701	87,508	91,601
Trade receivables	94,212	1,00,525	1,18,909	1,28,932
Cash & Bank Balance	64,876	17,928	48,913	86,594
Other Current Assets	18,953	16,110	17,721	19,493
<b>Total Assets</b>	<b>6,82,524</b>	<b>5,94,000</b>	<b>6,35,323</b>	<b>6,86,775</b>
<b>Equity</b>				
Equity Share Capital	2,399	2,399	2,399	2,399
Other Equity	4,50,245	3,73,348	4,31,579	4,94,569
<b>Total Network</b>	<b>4,52,645</b>	<b>3,75,748</b>	<b>4,33,978</b>	<b>4,96,969</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	20,289	17,600	14,960	12,716
Provisions	5,110	5,314	4,252	3,401
Other non current liabilities	7,809	8,590	6,013	4,209
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	55,494	37,000	24,050	15,633
Trade payables	40,937	49,365	55,282	59,421
Other current liabilities	60,632	62,321	54,969	48,576
<b>Total Equity &amp; Liabilities</b>	<b>6,82,524</b>	<b>5,93,999</b>	<b>6,35,323</b>	<b>6,86,775</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	50,096	69,105	79,554	85,444
Add. Depreciation	20,528	20,400	22,183	23,140
Add. Interest	1,541	1,541	1,232	1,228
Less Financial Other Income	11,483	12,128	11,593	11,820
Add. Other	(85,347)	(1,27,665)	(16,982)	(26,536)
Op. profit before WC changes	(13,182)	(36,618)	85,987	83,276
Net Changes-WC	7,617	3,060	(26,573)	(19,671)
Direct tax	(12,077)	(12,077)	(11,966)	(9,583)
<b>Net cash from Op. activities</b>	<b>(17,642)</b>	<b>(45,635)</b>	<b>47,448</b>	<b>54,022</b>
Capital expenditures	(27,125)	(10,622)	(10,702)	(10,776)
Interest / Dividend Income	-	-	-	-
Others	-	16,062	-	-
<b>Net Cash from Inv. activities</b>	<b>(27,125)</b>	<b>5,440</b>	<b>(10,702)</b>	<b>(10,776)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	11,651	46,604	-	-
Dividend paid	(16,693)	(5,806)	(5,806)	(5,806)
Interest paid	(1,541)	(1,541)	(1,232)	(1,228)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(6,583)</b>	<b>39,256</b>	<b>(7,039)</b>	<b>(7,034)</b>
<b>Net change in cash</b>	<b>(51,350)</b>	<b>(939)</b>	<b>29,707</b>	<b>36,212</b>
Free Cash Flow	(44,767)	(56,257)	36,746	43,246

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21E
<b>Net Revenue</b>	<b>80,780</b>	<b>74,672</b>	<b>84,588</b>	<b>85,743</b>
YoY gr. (%)	14.7	(9.6)	6.4	6.7
Raw Material Expenses	23,048	19,696	21,463	22,379
Gross Profit	57,732	54,976	63,124	63,364
Margin (%)	71.5	73.6	74.6	73.9
<b>EBITDA</b>	<b>12,561</b>	<b>17,255</b>	<b>20,989</b>	<b>19,735</b>
YoY gr. (%)	40.0	(4.8)	30.6	20.1
Margin (%)	15.5	23.1	24.8	23.0
Depreciation / Depletion	5,754	4,959	4,986	5,086
<b>EBIT</b>	<b>6,807</b>	<b>12,295</b>	<b>16,003</b>	<b>14,650</b>
Margin (%)	8.4	16.5	18.9	17.1
Net Interest	518	520	333	339
Other Income	2,091	2,719	3,501	3,430
<b>Profit before Tax</b>	<b>8,381</b>	<b>14,494</b>	<b>19,172</b>	<b>17,740</b>
Margin (%)	10.4	19.4	22.7	20.7
Total Tax	831	2,459	(312)	2,661
Effective tax rate (%)	9.9	17.0	(1.6)	15.0
<b>Profit after Tax</b>	<b>7,550</b>	<b>12,035</b>	<b>19,484</b>	<b>15,079</b>
Minority interest	945	(7,742)	1,356	1,383
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,998</b>	<b>(16,556)</b>	<b>18,128</b>	<b>13,696</b>
YoY gr. (%)	(37.1)	(219.3)	70.4	49.9
Margin (%)	4.9	(22.2)	21.4	16.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,998</b>	<b>(16,556)</b>	<b>18,128</b>	<b>13,696</b>
YoY gr. (%)	(37.1)	(219.3)	70.4	49.9
Margin (%)	4.9	(22.2)	21.4	16.0
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>3,998</b>	<b>(16,556)</b>	<b>18,128</b>	<b>13,696</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>2.8</b>	<b>8.2</b>	<b>7.6</b>	<b>5.7</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	14.9	26.2	26.7	28.7
CEPS	23.5	34.7	35.9	38.3
BVPS	188.7	156.6	180.9	207.1
FCF	(18.7)	(23.4)	15.3	18.0
DPS	5.8	2.0	2.0	2.0
<b>Return Ratio(%)</b>				
RoCE	8.5	12.2	15.3	15.0
ROIC	8.5	12.2	16.1	17.1
RoE	8.3	15.2	15.8	14.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	0.0	(0.1)	(0.2)
Net Working Capital (Days)	149	150	145	144
<b>Valuation(x)</b>				
PER	38.2	21.7	21.3	19.9
P/B	3.0	3.6	3.2	2.8
P/CEPS	22.2	32.9	34.0	36.3
EV/EBITDA	20.5	17.4	14.5	13.0
EV/Sales	4.1	4.2	3.5	3.1
Dividend Yield (%)	1.0	0.4	0.4	0.4

Source: Company Data, PL Research

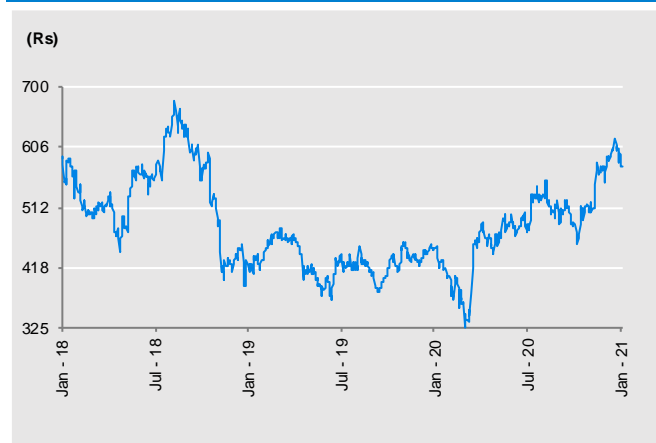
## Key Operating Metrics

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

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-21	Hold	602	621
2	04-Nov-20	BUY	597	486
3	30-Oct-20	Reduce	476	456
4	13-Oct-20	Reduce	476	514
5	02-Aug-20	Reduce	479	532
6	31-Jul-20	Hold	479	511
7	08-Jul-20	Hold	479	483
8	28-May-20	Hold	467	450
9	21-May-20	Hold	436	466
10	18-Apr-20	Hold	436	457

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	920	945
2	Cadila Healthcare	Sell	357	485
3	Cipla	Accumulate	879	839
4	Dr. Lal PathLabs	UR	-	2,407
5	Dr. Reddy's Laboratories	BUY	5,975	5,338
6	Eris Lifesciences	BUY	671	619
7	Glenmark Pharmaceuticals	Sell	449	518
8	Indoco Remedies	BUY	352	325
9	Ipca Laboratories	Accumulate	2,413	2,143
10	Jubilant Life Sciences	Accumulate	964	929
11	Lupin	BUY	1,214	1,039
12	Sun Pharmaceutical Industries	Hold	602	621
13	Thyrocare Technologies	UR	-	970

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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