

February 1, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		HOLD	
Target Price	672		602	
Sales (Rs. m)	387,023	416,024	380,717	409,217
% Chng.	1.7	1.7		
EBITDA (Rs. m)	94,102	103,250	91,377	97,991
% Chng.	3.0	5.4		
EPS (Rs.)	29.6	32.0	26.7	28.7
% Chng.	11.0	11.7		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. bn)	281	323	333	387
EBITDA (Rs. bn)	60	65	82	94
Margin (%)	21.5	20.0	24.7	24.3
PAT (Rs. bn)	34	40	30	71
EPS (Rs.)	19.1	17.8	27.7	29.6
Gr. (%)	94.9	(6.5)	55.3	7.1
DPS (Rs.)	2.2	5.8	5.5	5.5
Yield (%)	0.4	1.0	0.9	0.9
RoE (%)	8.4	9.3	7.0	16.3
RoCE (%)	8.8	8.5	12.2	14.4
EV/Sales (x)	5.0	4.2	4.1	3.5
EV/EBITDA (x)	23.1	21.1	16.8	14.4
PE (x)	30.8	32.9	21.2	19.8
P/BV (x)	3.4	3.1	3.4	3.0

Key Data

SUN.BO | SUNP IN

52-W High / Low	Rs.628 / Rs.312
Sensex / Nifty	46,286 / 13,635
Market Cap	Rs.1,406bn/ \$ 19,279m
Shares Outstanding	2,399m
3M Avg. Daily Value	Rs.10896.01m

Shareholding Pattern (%)

Promoter's	54.68
Foreign	12.38
Domestic Institution	20.46
Public & Others	12.48
Promoter Pledge (Rs bn)	9.01

Stock Performance (%)

	1M	6M	12M
Absolute	(0.7)	18.9	30.2
Relative	2.1	(2.2)	15.9

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Specialty products growth momentum to continue – Upgrade to BUY

Quick Pointers:

- Global specialty sales surpass pre-COVID levels while Ilumya global sales for 9MFY21 already crossed FY20 full year sales.
- Decline in operating expense (Ex R&D) of 12% YoY and 12% QoQ leads EBITDAM surprise to 26.8% (PLe: 22.7%).

We upgrade SUNP to BUY (earlier Hold) as we increase our earnings estimate by 4%/11%12% for FY21/22/23E on the back of better visibility for specialty products and improved approval rate for US(Gx) post-Halol resolution. This would lead to improved EBITDAM and change in the US business mix. Ilumya 9MFY21 sales have already surpassed FY20 sales and we believe growth prospects are much better in FY22-23E once COVID cases subside in the US and dermatologists operate with normalcy. Halol resolution is also expected in 1HFY22E without further escalation which would improve new products approval which has been muted in FY20-21. SUNP has already completed its Corrective and Preventive Actions (CAPA) for Halol and is currently waiting for a physical USFDA audit. Our new rating is BUY (earlier Hold) and new TP is Rs672 (earlier Rs602) based on 21x(PE) of FY23E EPS of 32.

Earnings beat due to Specialty products: Revenue grew 9% YoY and 4% QoQ to Rs87.8bn (PLe: Rs85.7bn). US formulation grew 12% QoQ to US\$374m while India formulations grew 9% YoY. ROW and EM declined 3% QoQ. EBITDA grew 43% YoY and 12% QoQ to Rs23.5bn (PLe: 19.7bn) while EBITDA margin was 26.8% (PLe: 22.7%) v/s 25% QoQ and 20.4% YoY. PBT grew 70% YoY and 13% QoQ to Rs21.6bn (PLe: Rs17.4b) while PAT grew 103% YoY and declined 2% QoQ to Rs19.1bn (PLe: Rs13.6b). 2QFY21 had DTA of Rs2.9bn arising out of subsequent measurement attributable to restructuring of an acquired entity.

Conference call and key highlights:

- US Formulations (Including Taro):** Total US revenue grew 12% QoQ to US\$374m v/s US\$335m (2QFY21) with Taro revenue being US\$140m (v/s US\$143mn in 2QFY21). Global specialty sales surpass pre-COVID levels while Ilumya global sales for 9MFY21 already crossed FY20 full year sales. SUNP hiked price of Ilumya by 5% recently. Generic Absorica is yet to enter the market and conversation rate to Absorica LD is still at 20% because of lower footfalls of patients in clinics and marketing activity is at 40-50% in US. It has 90 ANDAs and 6 NDAs pending with USFDA. New approvals for SUNP has been muted in last 9 months because of Halol OAI status.
- Halol regulatory update:** In Q3FY20, Halol plant went under cGMP inspection and received 8 observations including one issue of data integrity. The plant is under OAI status and its remediation work is completed. SUNP has waiting now for USFDA physical audit which could commence in FY22E.

- **India Business:** Grew 9% YoY and QoQ led by growth in chronic products while acute products continue to underperform due to lower number of incidence. MRs back on field with full force and even doctors are back on chambers but patient footfalls in clinics are at 70-75% of pre COVID levels. In 3QFY21, SUNP launched 27 new products in domestic market.
- **EM/ROW/API:** Revenue declined 3% for EM and ROW QoQ while API grew 8% QoQ.
- **Net debt (Ex-Taro) is currently US\$250m.**

Exhibit 1: 3Q21 Result Overview (Rs mn): Specialty products drives growth

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)	FY21E	FY20	YoY gr. (%)
Net Sales	87,818	80,387	9.2	84,588	3.8	2,47,078	2,42,471	1.9
Raw Material	23,334	22,000	6.1	21,463	8.7	64,493	69,256	(6.9)
<i>% of Net Sales</i>	<i>26.6</i>	<i>27.4</i>		<i>25.4</i>		<i>26.1</i>	<i>28.6</i>	
Personnel Cost	17,205	15,491	11.1	17,053	0.9	51,848	47,105	10.1
<i>% of Net Sales</i>	<i>19.6</i>	<i>19.3</i>		<i>20.2</i>		<i>21.0</i>	<i>19.4</i>	
Others	23,768	26,461	(10.2)	25,082	(5.2)	68,981	75,474	(8.6)
<i>% of Net Sales</i>	<i>27.1</i>	<i>32.9</i>		<i>29.7</i>		<i>27.9</i>	<i>31.1</i>	
Total Expenditure	64,306	63,953	0.6	63,599	1.1	1,85,322	1,91,835	(3.4)
EBITDA	23,512	16,434	43.1	20,989	12.0	61,756	50,637	22.0
<i>Margin (%)</i>	<i>26.8</i>	<i>20.4</i>		<i>24.8</i>		<i>25.0</i>	<i>20.9</i>	
Depreciation	5,319	5,470	(2.8)	4,986	6.7	15,265	14,774	3.3
EBIT	18,193	10,964	65.9	16,003	13.7	46,491	35,863	29.6
Other Income	3,699	2,361	56.7	3,501	5.6	9,919	9,392	5.6
Interest	261	630	(58.5)	333	(21.6)	1,113	2,510	(55.6)
PBT	21,631	12,695	70.4	19,172	12.8	55,297	42,745	29.4
Total Taxes	2,449	3,276	(25.2)	(312)	(885.1)	4,597	7,397	(37.9)
<i>ETR (%)</i>	<i>11.3</i>	<i>25.8</i>		<i>(1.6)</i>		<i>8.3</i>	<i>17.3</i>	
PAT	19,181	9,419	103.6	19,484	(1.6)	50,700	35,348	43.4
Minority Interest	656	1,102		1,356		(5,730)	3,274	
Exceptional items	-	818		-		(36,333)	1,577	
Adj Pat	18,525	9,135	102.8	18,128	2.2	20,097	33,651	(40.3)

Source: Company, PL

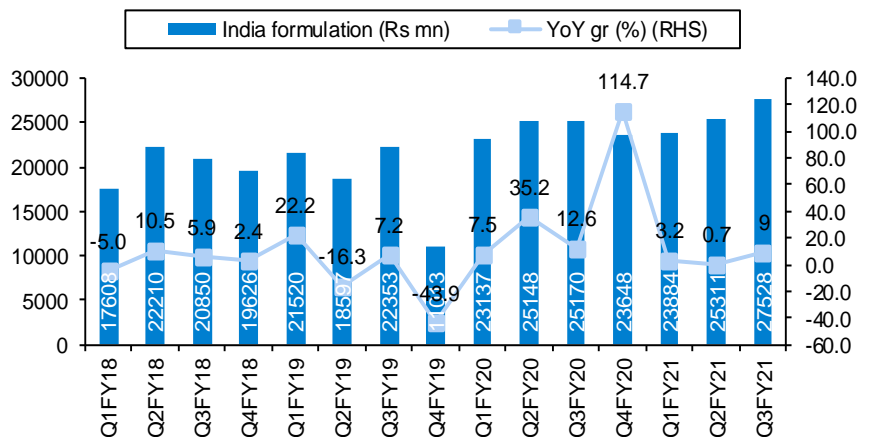


Exhibit 2: Major Sources of Revenues

Major sources of income	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)	FY21E	FY20	YoY gr. (%)
API	4,505	5,032	(10.5)	5,104	(11.7)	15,147	14,325	5.7
<i>% of Net Sales</i>	<i>5.1</i>	<i>6.3</i>		<i>6.0</i>		<i>6.1</i>	<i>5.9</i>	
Formulation	82,966	75,031	10.6	79,038	5.0	2,30,712	2,27,252	1.5
<i>% of Net Sales</i>	<i>94.5</i>	<i>93.3</i>		<i>93.4</i>		<i>93.4</i>	<i>93.7</i>	
India	27,528	25,170	9.4	25,311	8.8	76,723	73,454	4.5
<i>% of Net Sales</i>	<i>31.3</i>	<i>31.3</i>		<i>29.9</i>		<i>31.1</i>	<i>30.3</i>	
International	55,438	49,861	11.2	53,727	3.2	1,53,989	1,53,798	0.1
<i>% of Net Sales</i>	<i>63.1</i>	<i>62.0</i>		<i>63.5</i>		<i>62.3</i>	<i>63.4</i>	
US formulations	27,609	24,924	10.8	24,920	10.8	73,893	78,296	(5.6)
<i>% of Net Sales</i>	<i>31.4</i>	<i>31.0</i>		<i>29.5</i>		<i>29.9</i>	<i>32.3</i>	
ROW formulations	27,829	24,937	11.6	28,807	(3.4)	80,096	75,501	6.1
<i>% of Net Sales</i>	<i>31.7</i>	<i>31.0</i>		<i>34.1</i>		<i>32.4</i>	<i>31.1</i>	
Others	348	324	7.3	445	(21.8)	1,218	895	36.1
Total Sales	87,818	80,387	9.2	84,588	3.8	2,47,077	2,42,472	1.9

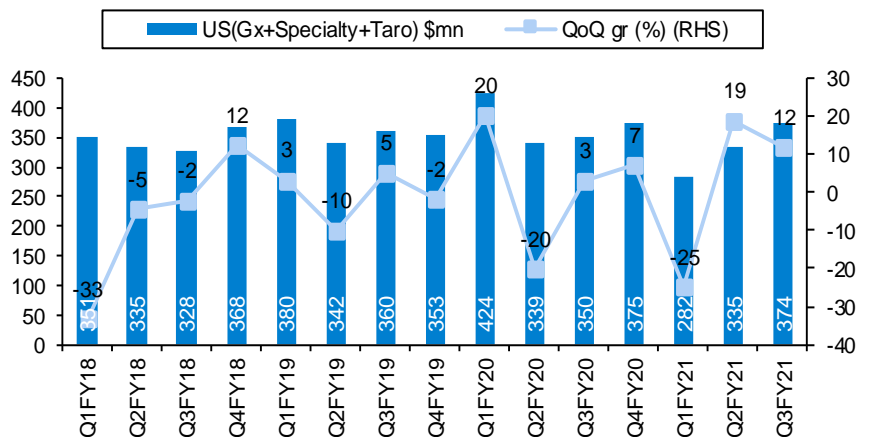
Source: Company, PL

Exhibit 3: Domestic FM(Rs mn) :Growth lower due to lockdown restriction



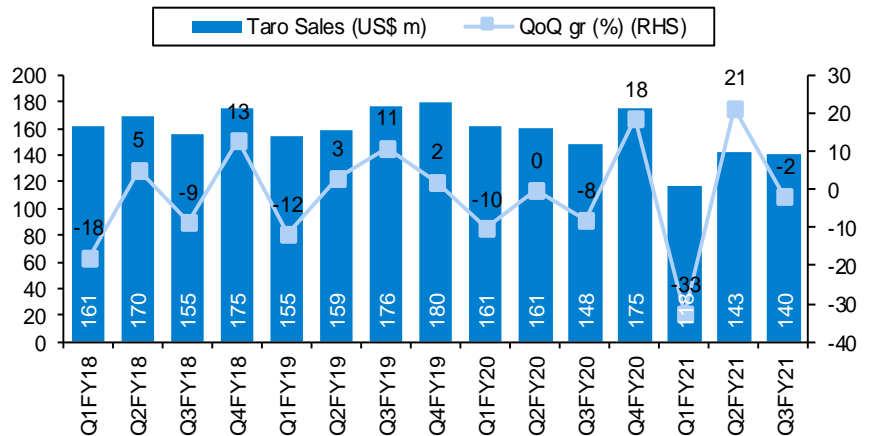
Source: Company, PL

Exhibit 4: US (US\$ mn) :New launch Muted due to Halol OAI status



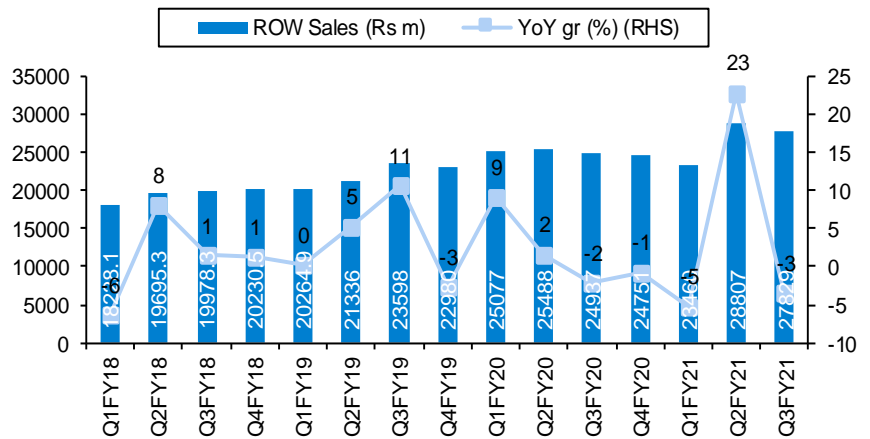
Source: Company, PL

Exhibit 5: Taro Sales (US\$ mn):Derma products creates a drag



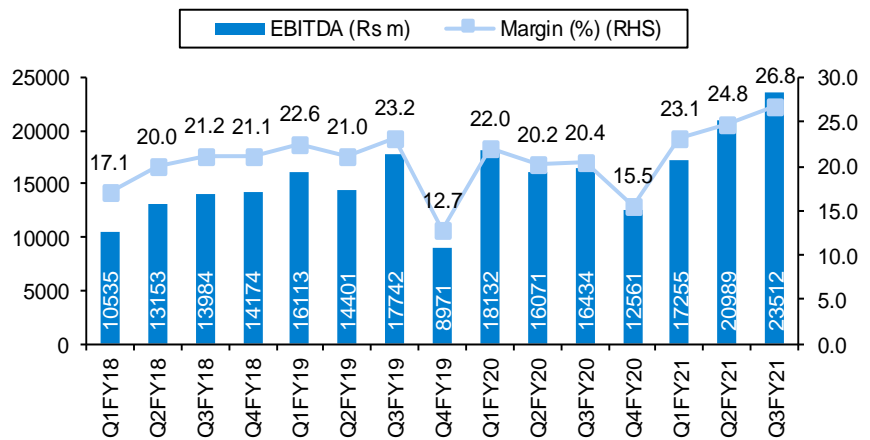
Source: Company, PL

Exhibit 6: ROW Sales (Rs mn) :



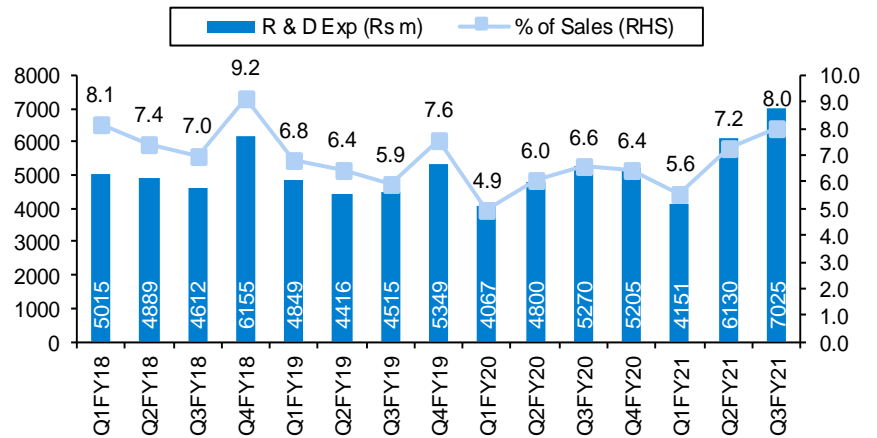
Source: Company, PL

Exhibit 7: EBITDA (Rs mn) and EBITDA Margin (%)



Source: Company, PL

Exhibit 8: R&D Expense (Rs mn) and % of sales



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	281,075	323,252	333,204	387,023
YoY gr. (%)	7.8	15.0	3.1	16.2
Cost of Goods Sold	78,701	92,305	86,972	101,782
Gross Profit	202,374	230,947	246,232	285,241
Margin (%)	72.0	71.4	73.9	73.7
Employee Cost	56,215	63,624	69,073	74,304
Other Expenses	21,081	19,252	24,369	30,962
EBITDA	60,431	64,774	82,168	94,102
YoY gr. (%)	16.6	7.2	26.9	14.5
Margin (%)	21.5	20.0	24.7	24.3
Depreciation and Amortization	16,578	20,528	20,604	22,952
EBIT	43,853	44,247	61,563	71,151
Margin (%)	15.6	13.7	18.5	18.4
Net Interest	3,932	1,382	1,382	947
Other Income	13,254	11,483	13,433	9,676
Profit Before Tax	53,175	54,347	73,614	79,879
Margin (%)	18.9	16.8	22.1	20.6
Total Tax	7,444	11,595	7,216	8,787
Effective tax rate (%)	14.0	21.3	9.8	11.0
Profit after tax	45,730	42,753	66,398	71,092
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	33,586	40,147	30,065	71,092
YoY gr. (%)	43.2	19.5	(25.1)	136.5
Margin (%)	11.9	12.4	9.0	18.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	33,586	40,147	30,065	71,092
YoY gr. (%)	43.2	19.5	(25.1)	136.5
Margin (%)	11.9	12.4	9.0	18.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	33,586	40,147	30,065	71,092
Equity Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	19.1	17.8	27.7	29.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	257,313	286,345	297,345	308,345
Tangibles	167,555	184,842	192,842	200,842
Intangibles	89,758	101,503	104,503	107,503
Acc: Dep / Amortization	98,505	122,691	145,221	171,706
Tangibles	67,280	79,168	94,990	112,884
Intangibles	31,225	43,523	50,231	58,821
Net fixed assets	158,808	163,655	152,125	136,640
Tangibles	100,275	105,675	97,852	87,958
Intangibles	58,534	57,980	54,272	48,682
Capital Work In Progress	14,112	12,203	11,825	11,527
Goodwill	59,558	64,815	64,815	64,815
Non-Current Investments	40,476	53,513	38,385	36,519
Net Deferred tax assets	24,506	31,172	31,532	35,147
Other Non-Current Assets	37,744	40,043	35,587	39,146
Current Assets				
Investments	39,507	48,974	31,833	35,016
Inventories	78,860	78,750	83,515	87,385
Trade receivables	88,842	94,212	100,418	120,878
Cash & Bank Balance	72,756	64,876	65,311	63,005
Other Current Assets	23,149	18,953	16,110	17,721
Total Assets	646,938	682,524	641,088	658,330
Equity				
Equity Share Capital	2,399	2,399	2,399	2,399
Other Equity	411,691	450,245	408,018	460,585
Total Networkth	414,091	452,645	410,418	462,985
Non-Current Liabilities				
Long Term borrowings	15,226	20,289	17,600	14,960
Provisions	4,304	5,110	5,314	4,252
Other non current liabilities	5,713	7,809	8,590	6,013
Current Liabilities				
ST Debt / Current of LT Debt	83,708	55,494	49,944	32,464
Trade payables	41,479	40,937	50,209	53,017
Other current liabilities	48,210	60,632	64,811	48,385
Total Equity & Liabilities	646,938	682,524	641,088	658,330

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	41,031	50,096	109,947	79,879
Add. Depreciation	16,578	20,528	20,604	22,952
Add. Interest	3,932	1,382	1,382	947
Less Financial Other Income	13,254	11,483	13,433	9,676
Add. Other	(8,799)	(85,347)	(119,657)	(30,061)
Op. profit before WC changes	52,742	(13,341)	12,277	73,717
Net Changes-WC	(51,427)	7,617	6,688	(40,896)
Direct tax	(12,077)	(12,077)	(7,216)	(8,787)
Net cash from Op. activities	(10,763)	(17,802)	11,749	24,034
Capital expenditures	(31,402)	(27,125)	(10,622)	(10,702)
Interest / Dividend Income	-	-	-	-
Others	-	-	16,062	-
Net Cash from Invt. activities	(31,402)	(27,125)	5,440	(10,702)
Issue of share cap. / premium	-	-	-	-
Debt changes	14,564	11,651	46,604	-
Dividend paid	(6,058)	(16,693)	(15,967)	(15,967)
Interest paid	(3,932)	(1,382)	(1,382)	(947)
Others	-	-	-	-
Net cash from Fin. activities	4,573	(6,424)	29,255	(16,915)
Net change in cash	(37,591)	(51,350)	46,444	(3,583)
Free Cash Flow	(42,165)	(44,926)	1,127	13,332

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	80,780	74,672	84,588	87,818
YoY gr. (%)	14.7	(9.6)	6.4	9.2
Raw Material Expenses	23,048	19,696	21,463	23,334
Gross Profit	57,732	54,976	63,124	64,485
Margin (%)	71.5	73.6	74.6	73.4
EBITDA	12,561	17,255	20,989	23,512
YoY gr. (%)	40.0	(4.8)	30.6	43.1
Margin (%)	15.5	23.1	24.8	26.8
Depreciation / Depletion	5,754	4,959	4,986	5,319
EBIT	6,807	12,295	16,003	18,193
Margin (%)	8.4	16.5	18.9	20.7
Net Interest	518	520	333	261
Other Income	2,091	2,719	3,501	3,699
Profit before Tax	8,381	14,494	19,172	21,631
Margin (%)	10.4	19.4	22.7	24.6
Total Tax	831	2,459	(312)	2,449
Effective tax rate (%)	9.9	17.0	(1.6)	11.3
Profit after Tax	7,550	12,035	19,484	19,181
Minority interest	945	(7,742)	1,356	656
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,998	(16,556)	18,128	18,525
YoY gr. (%)	(37.1)	(219.3)	70.4	102.8
Margin (%)	4.9	(22.2)	21.4	21.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,998	(16,556)	18,128	18,525
YoY gr. (%)	(37.1)	(219.3)	70.4	102.8
Margin (%)	4.9	(22.2)	21.4	21.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,998	(16,556)	18,128	18,525
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	2.8	8.2	7.6	7.7

Source: Company Data, PL Research

Key Financial Metrics

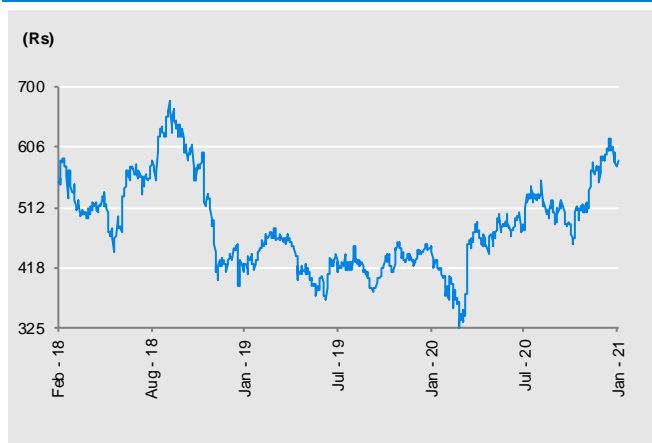
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	19.1	17.8	27.7	29.6
CEPS	20.9	25.3	21.1	39.2
BVPS	172.6	188.7	171.1	193.0
FCF	(17.6)	(18.7)	0.5	5.6
DPS	2.2	5.8	5.5	5.5
Return Ratio(%)				
RoCE	8.8	8.5	12.2	14.4
ROIC	9.8	8.6	13.7	16.0
RoE	8.4	9.3	7.0	16.3
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	164	149	146	146
Valuation(x)				
PER	30.8	32.9	21.2	19.8
P/B	3.4	3.1	3.4	3.0
P/CEPS	20.9	25.3	21.1	39.1
EV/EBITDA	23.1	21.1	16.8	14.4
EV/Sales	5.0	4.2	4.1	3.5
Dividend Yield (%)	0.4	1.0	0.9	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Formulations	263,902	291,897	322,473	353,524
India Formulations	85,914	97,102	104,870	113,260
US Formulations	95,248	102,221	113,247	123,943
ROW Formulations	82,741	92,574	104,356	116,321
APIs	16,322	19,159	21,329	24,484

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	28-Jan-21	Hold	602	570
2	11-Jan-21	Hold	602	621
3	4-Nov-20	BUY	597	486
4	30-Oct-20	Reduce	476	456
5	13-Oct-20	Reduce	476	514
6	2-Aug-20	Reduce	479	532
7	31-Jul-20	Hold	479	511
8	8-Jul-20	Hold	479	483
9	28-May-20	Hold	467	450
10	21-May-20	Hold	436	466

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	666	621
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	1,287	1,049
12	Sun Pharmaceutical Industries	Hold	602	570
13	Thyrocare Technologies	UR	-	970

PL's Recommendation Nomenclature (Absolute Performance)

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



ANALYST CERTIFICATION

(Indian Clients)

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