

Sun Pharmaceutical Industries

28 May 2020

Reuters: SUN.NS; Bloomberg: SUNP IN

In line revenue, but higher costs impact margins

Sun Pharmaceutical Industries' (SPIL) 4QFY20 revenue at Rs81,849mn is up 0.4% QoQ and 14.3% YoY. Revenue is 1.9% above our estimate and 1.5% above consensus estimate. Despite in line revenue, reported net profit of Rs3,998mn was lower than our/consensus estimates by 56%/58%. Net profit declined by 56.2% QoQ and 37.1% YoY due to forex loss (Rs1,400mn), exceptional items (Rs2,606mn), higher cost of sales (up 120bps QoQ) and higher employee expenses (up 6.6% QoQ led by provisioning for bonus).

Concall Highlights

- Revenue was in line and flat QoQ, indicating stable business performance across geographies. US sales (ex-specialty) going forward would be driven by new ANDA approvals. Recent launches of gLialda and gFebuxostat seem to be reflected fully in the numbers and may see some erosion pain. Overall SPIL has 98 ANDAs and 5 NDAs pending approval.
- Specialty sales for the quarter touched record high of US\$125mn, led by Cequa, Ilumya and Yonsa. The run rate should gather pace during the year, except for a decline in 1QFY21 due to COVID led shutdown impacting uptake. Lately, Cequa prescriptions have started an upward journey again as physicians have resumed office.
- Ilumya (tildrakizumab) sales for FY20 stood at US\$94mn, which came as a surprise, considering the prescription trends tend to reflect lower numbers. Higher Ilumya sales also imply that SPIL's dependence on Absorica may be lower than estimated, which should alleviate some concerns about the impact on Absorica sales post generic entry. COVID led shutdown has also delayed initiation of trials on Ilumya in new indications. Hence, the cost of R&D stands deferred to subsequent quarters.
- In the domestic markets, SPIL's market share has expanded to 8.4% from 8.2%. In 1QFY21, there will be some disruption in domestic sales as doctors remain shut and the acute demand is impacted. Even the chronic demand has taken some hit. Overall SPIL with a very large presence in chronic segment is also well poised to expand its domestic footprint through in-licensing deals with MNC Pharma. With MNC Pharma trading at record high valuations, SPIL may be a proxy to MNC Pharma.
- SPIL aims to improve its existing margin profile through ongoing cost initiatives and revenue growth.
- Refrained from sharing a guidance for FY21, considering uncertainties around operations. Might revisit guidance in the next quarter.

We have maintained our estimates and Buy rating with a target price of Rs543 based on 20x PE on FY22E EPS.

BUY

Sector: Pharmaceuticals

CMP: Rs451

Target Price: Rs543

Upside: 21%

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Key Data

Current Shares O/S (mn)	2,399.3
Mkt Cap (Rsbn/US\$bn)	1081.8/14.3
52 Wk H / L (Rs)	505/312
Daily Vol. (3M NSE Avg.)	14,657,950

Price Performance (%)

	1 M	6 M	1 Yr
SPIL	(4.9)	(1.4)	9.2
Nifty Index	0.4	(23.0)	(21.9)

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Revenues (Incl. Other Op. Revenues)	71,639	81,549	81,849	14.3	0.4	2,90,659	3,28,375	13.0
Raw material costs	18,388	22,000	23,048	25.3	4.8	78,690	92,305	17.3
%age of revenues	25.7	27.0	28.2	249 bps	118 bps	27.1	28.1	104 bps
Staff costs	15,688	15,491	16,519	5.3	6.6	59,671	63,624	6.6
%age of revenues	21.9	19.0	20.2	(172) bps	119 bps	20.5	19.4	(115) bps
Other expenses	27,396	25,643	28,652	4.6	11.7	89,223	1,02,549	14.9
%age of revenues	38.2	31.4	35.0	(323) bps	356 bps	30.7	31.2	53 bps
EBITDA	10,168	18,414	13,630	34.1	(26.0)	63,076	69,898	10.8
EBITDA margin (%)	14.2	22.6	16.7	246 bps	(593) bps	21.7	21.3	(42) bps
Other income	2,815	1,199	1,022	(63.7)	(14.7)	10,255	6,360	(38.0)
Interest costs	1,500	630	518	(65.5)	(17.8)	5,553	3,027	(45.5)
Depreciation	4,541	5,470	5,754	26.7	5.2	17,533	20,528	17.1
Exceptional item	0	0	-2,606	-	-	-12,144	-2,606	(78.5)
PBT	6,942	13,513	5,774	(16.8)	(57.3)	38,102	50,096	31.5
Tax	-288	3,276	831	(388.4)	(74.6)	6,249	8,228	31.7
Tax rate (%)	-	24.2	14.4	-	-	16.4	16.4	2 bps
PAT before MI	7,231	10,237	4,944	(31.6)	(51.7)	31,853	41,868	31.4
MI and shares of associates	-872	-1,102	-945	8.4	(14.2)	-5,439	-4,219	(22.4)
PAT	6,359	9,135	3,998	(37.1)	(56.2)	26,414	37,650	42.5
PAT margin (%)	8.9	11.2	4.9	(399) bps	(632) bps	9.1	11.5	238 bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	2,64,895	2,90,659	3,28,375	3,60,664	3,85,108
EBITDA	56,081	63,076	69,898	91,522	1,00,755
Net profit	21,616	26,654	37,649	58,813	65,196
EPS (Rs)	9.0	11.1	15.7	24.5	27.2
EPS growth (%)	(69.0)	23.3	41.3	56.2	10.9
EBITDA margin (%)	21.2	21.7	21.3	25.4	26.2
PER (x)	48.3	39.2	27.7	17.7	16.0
P/BV (x)	2.7	2.5	2.3	2.1	1.9
EV/EBITDA (x)	18.1	16.5	14.9	11.1	9.2
RoCE (%)	12.0	12.7	9.6	13.2	13.4
RoE (%)	13.6	14.2	14.0	16.4	16.3

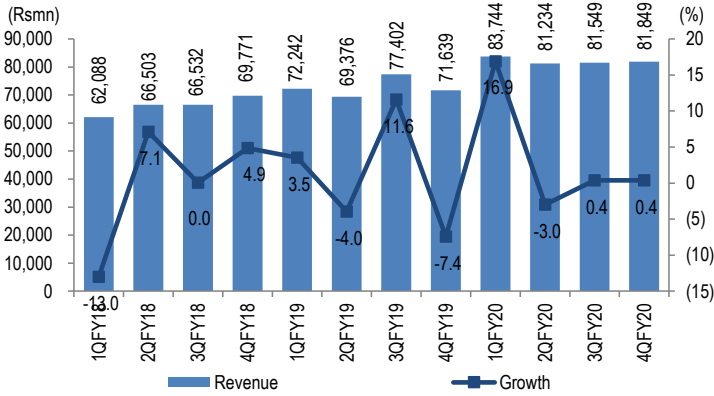
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimate and Bloomberg consensus estimate

(Rsmn)	Actual	NBIE est.	Var.(%)	Consensus est.	Var.(%)
Revenues	81,849	80,328	1.9	80,636	1.5
EBITDA	13,630	15,586	(12.5)	16,871	(19.2)
EBITDA margin (%)	16.7	19.4	(275) bps	20.9	(425) bps
PAT	3,998	9,128	(56.2)	9,546	(58.1)
PAT margin (%)	4.9	11.4	(648) bps	11.8	(695) bps

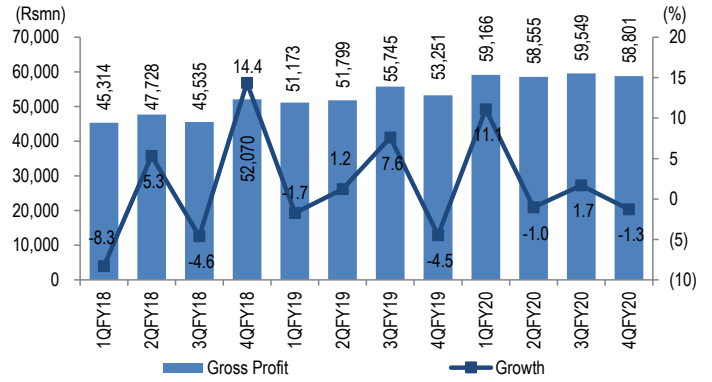
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Revenue and growth trend



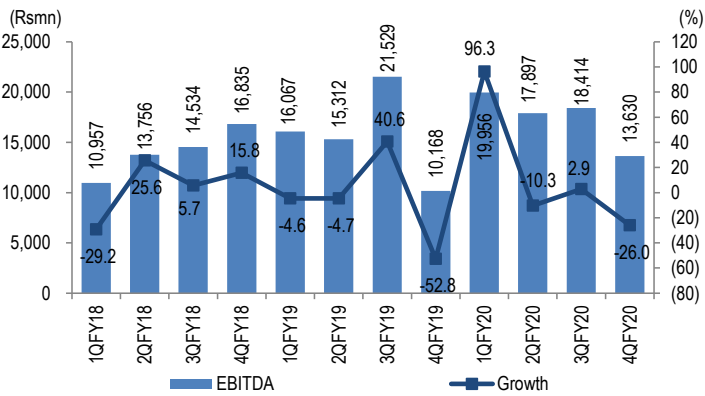
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Gross profit and growth trend



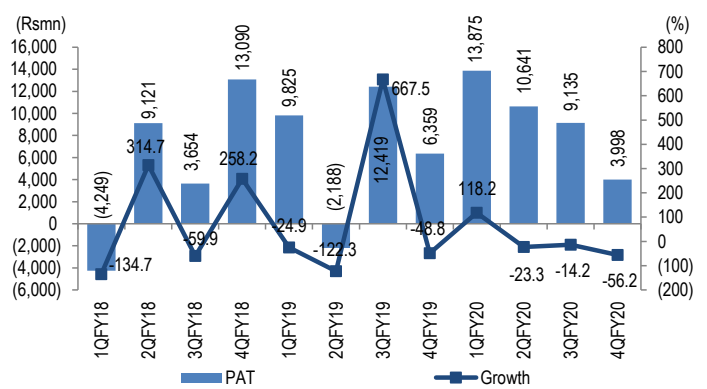
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: EBITDA and growth trend



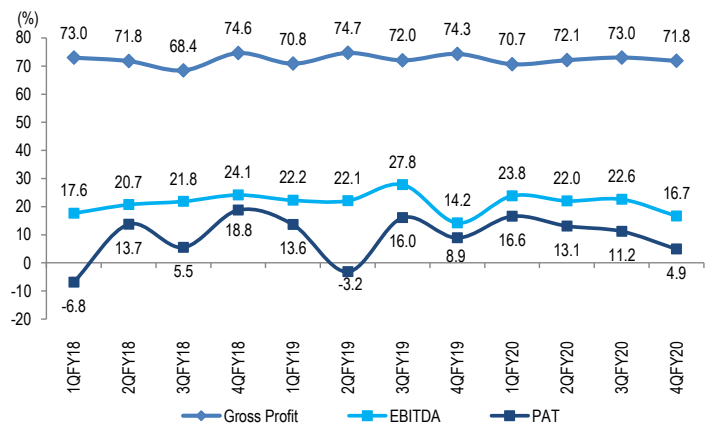
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: PAT and growth trend



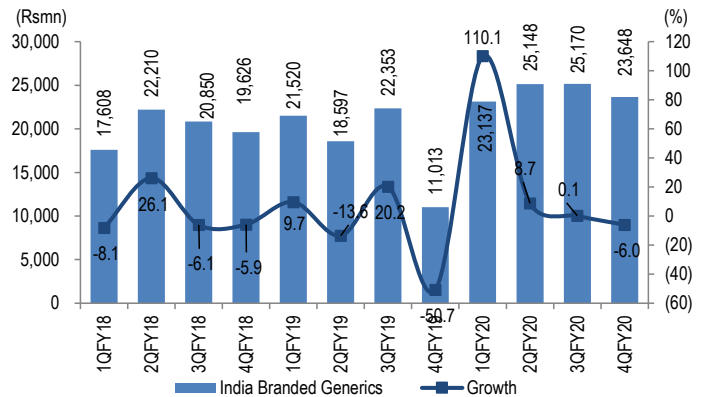
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Margin trend



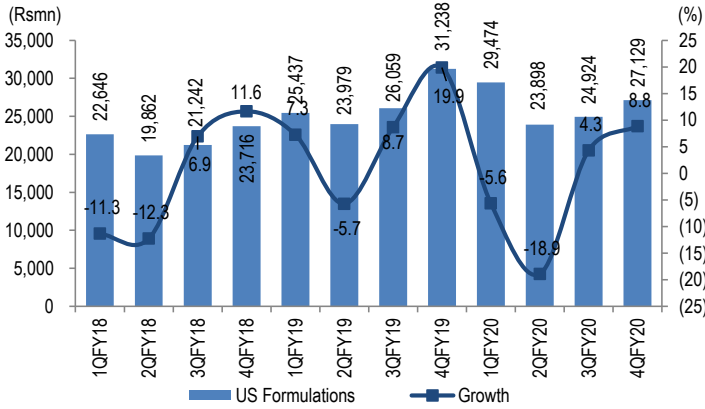
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: India Branded Generics revenue and growth trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: US Formulations revenue and growth trend



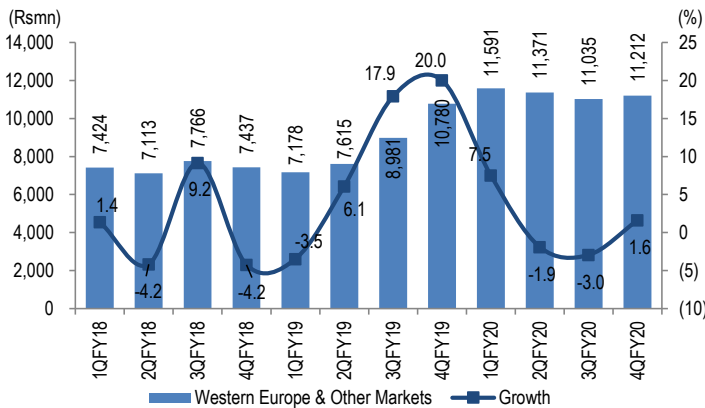
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Emerging Markets revenue and growth trend



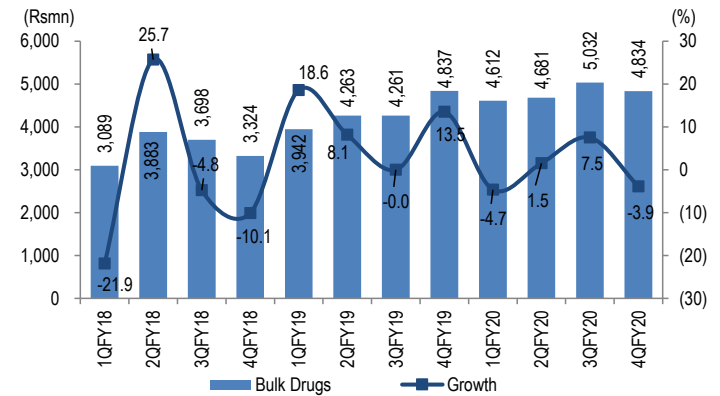
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Western Europe & Other Markets growth trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Bulk Drugs revenue and growth



Source: Company, Nirmal Bang Institutional Equities Research

Financial statement
Exhibit 13: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	2,64,895	2,90,659	3,28,375	3,60,664	3,85,108
Growth (%)	(16.1)	9.7	13.0	9.8	6.8
Raw material costs	74,247	78,690	92,305	95,837	1,04,133
Employee expenses	53,671	59,671	63,624	68,764	74,609
Other expenses	80,896	89,223	1,02,549	1,04,541	1,05,611
Total expenditure	2,08,813	2,27,583	2,58,477	2,69,142	2,84,353
EBITDA	56,081	63,076	69,898	91,522	1,00,755
Growth (%)	(44.4)	12.5	10.8	30.9	10.1
EBITDA margin (%)	21.2	21.7	21.3	25.4	26.2
Other income	8,388	10,255	6,360	12,408	13,649
Interest costs	5,176	5,553	3,027	4,528	3,940
Gross profit	1,90,648	2,11,969	2,36,071	2,64,827	2,80,975
% growth	(18.7)	11.2	11.4	12.2	6.1
Depreciation	14,998	17,533	20,528	19,461	21,216
Exceptional items	-9,505	-12,144	-2,606	0	0
PBT	34,790	38,102	50,096	79,941	89,248
% growth	(61.5)	9.5	31.5	59.6	11.6
Tax	8,452	6,009	8,228	15,988	19,188
Effective tax rate (%)	24.3	15.8	16.4	20.0	21.5
PAT before MI	26,084	32,079	41,720	63,953	70,059
MI	4,468	5,424	4,070	5,140	4,864
PAT	21,616	26,654	37,649	58,813	65,196
Growth (%)	(66.8)	23.0	30.1	53.3	9.5
EPS (Rs)	9.0	11.1	15.7	24.5	27.2
EPS growth (%)	(69.0)	23.3	41.3	56.2	10.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Equity	2,399	2,399	2,399	2,399	2,399
Reserves	3,78,606	4,11,691	4,50,245	4,99,461	5,55,059
Net worth	3,81,006	4,14,091	4,52,645	5,01,860	5,57,458
Minority interest	38,842	33,135	38,602	43,743	48,606
Total Loans	1,11,212	1,09,238	88,655	94,954	85,613
Deferred tax liabilities	3,518	2,312	2,602	2,602	2,602
Other non-current liabilities	4,311	10,016	12,919	12,919	12,919
Total liabilities	5,38,887	5,68,792	5,95,423	6,56,077	7,07,198
Fixed assets including CWIP	1,05,935	1,09,382	1,12,263	1,14,513	1,19,643
Goodwill & intangible assets	1,07,243	1,23,095	1,28,409	1,03,619	1,03,773
Long-term loans & advances	23,474	958	1,057	1,057	1,057
Other non-current assets	90,017	1,02,811	1,24,254	1,29,254	1,34,254
Inventories	68,807	78,860	78,750	85,334	92,721
Debtors	78,153	88,842	94,212	98,812	1,05,509
Cash and cash equivalents	79,254	70,623	56,766	1,25,860	1,63,826
Bank balances other than cash	20,040	2,133	8,109	35,000	35,000
Other current assets	70,106	70,234	78,704	75,704	72,704
Total current assets	3,16,359	3,10,692	3,16,542	4,20,710	4,69,760
Creditors	47,662	41,479	40,937	52,513	57,059
Other current liabilities/provisions	56,479	36,667	46,165	60,562	64,229
Total current liabilities	1,04,141	78,146	87,102	1,13,076	1,21,288
Net current assets	2,12,218	2,32,546	2,29,440	3,07,635	3,48,472
Assets held for sale	0	0	0	0	0
Total assets	5,38,887	5,68,792	5,95,423	6,56,077	7,07,198

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
PBT	44,295	50,246	52,702	79,941	89,248
(Inc.)/dec. in working capital	6,601	(26,802)	(878)	392	(9,538)
Cash flow from operations	50,896	23,444	51,825	80,333	79,709
Other income	(8,388)	(10,255)	(6,360)	(12,408)	(13,649)
Interest paid	5,176	5,553	3,027	4,528	3,940
Depreciation	14,998	17,533	20,528	19,461	21,216
DTL&DTA	1,243	(5,581)	(7,096)	-	-
Tax paid (-)	8,452	6,009	8,228	15,988	19,188
Net cash from operations	55,473	24,684	53,696	75,926	72,029
Capital expenditure (-)	(23,411)	(36,831)	(28,723)	3,079	(26,500)
Net cash after Capex	32,062	(12,147)	24,972	79,005	45,529
Other investing activities	(71,581)	25,489	(17,001)	10,408	11,649
Cash from financial activities	(12,596)	(39,880)	(15,852)	6,571	(19,212)
Change in cash balance	(52,115)	(26,538)	(7,881)	95,985	37,966
Opening cash balance	1,51,408	99,294	72,756	64,876	1,60,860
Closing cash balance	99,294	72,756	64,875	1,60,860	1,98,826

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Key ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Profitability & return ratios					
EBITDA margin (%)	21.2	21.7	21.3	25.4	26.2
EBIT margin (%)	18.7	19.2	17.0	23.4	24.2
Net profit margin (%)	9.9	11.0	12.8	17.7	18.2
RoE (%)	13.6	14.2	14.0	16.4	16.3
RoCE (%)	12.0	12.7	9.6	13.2	13.4
Working capital & liquidity ratios					
Receivables (days)	28	29	28	27	27
Inventory (days)	120	118	111	115	118
Payables (days)	80	71	58	65	73
Working capital (days)	68	76	81	76	72
Current ratio (x)	1.6	1.8	2.0	2.2	2.4
Cash ratio (x)	0.7	0.6	0.7	1.1	1.3
Valuation ratios					
EV/Sales (x)	3.8	3.6	3.2	2.8	2.4
EV/EBITDA (x)	18.1	16.5	14.9	11.1	9.2
P/E (x)	48.3	39.2	27.7	17.7	16.0
P/BV (x)	2.7	2.5	2.3	2.1	1.9

Source: Company, Nirmal Bang Institutional Equities Research

P/E Chart

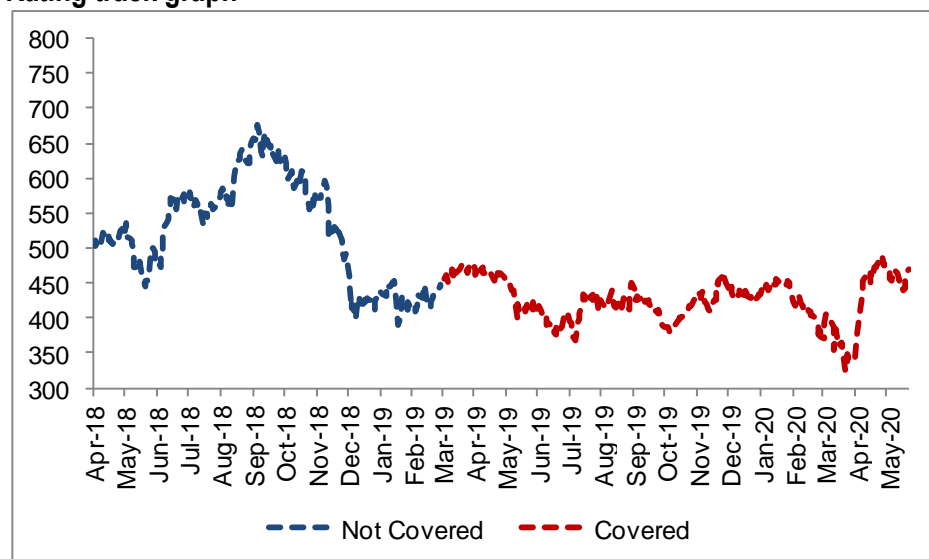


Source: BSE, Bloomberg, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
5 March 2019	Buy	446	581
5 April 2019	Buy	462	581
29 May 2019	Buy	414	578
14 August 2019	Buy	438	578
23 September 2019	Buy	414	573
8 November 2019	Buy	440	517
7 February 2020	Buy	431	517
27 March 2020	Buy	339	489
23 April 2020	Buy	474	543
28 May 2020	Buy	451	543

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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