



Sunpharma Industries Ltd.

Industry	Pharmaceuticals
Bloomberg	SUNP IN
BSE CODE	524715

Higher marketing expenses on account of specialty product launch to put pressure on margins going ahead

RATING	Under Review
CMP	415
Price Target	
Potential Upside	
Rating Change	
Estimate Change	
Target Change	

3QFY19 Result update

- ❑ Overall revenue grew by 16% YoY to Rs.7657 crores, it was driven by growth across geographies. US have been a major contributor followed by India.
- ❑ US overall revenue grew by 10% YoY to US\$ 362 million based on the Taro performance and improvement in base business. Taro reported net sales of US\$176 million this quarter.
- ❑ EBITDA margin improved by 597 bps YoY to 27.8% partly driven by the forex gain and reduced R&D expenditure this quarter.
- ❑ The company is in the process of transitioning the distribution of India formulation business from Aditya Medisales to 100% subsidiary of Sunpharma by FY20.
- ❑ In the FY19 consolidated financials, the loan of US\$300 million towards Altas would be squared off against the non-fulfillment of supply obligations. The unwinding of Atlas transaction will result in the assignment of this supply contract to one of the Sunpharma's wholly owned subsidiary.

View and Valuation

The company's overall revenue grew by 16% YoY to Rs.7657 crores. The growth was majorly driven by US and India business. Overall US revenue grew by 10% YoY to US\$ 362 million based on Taro performance, excluding Taro the US business grew by 8% YoY on the back of growth in the base business. The company has committed around US\$ 1 billion to build the specialty business in the US by the way of acquisitions over the years, But the business doesn't seem to justify the investment made due to high generic competition. Specialty products require significant investment in terms of marketing & promotional expenses and field force which would put pressure in the margins going forward. With such investment involved the management has decided against the launch of Elepsia (Specialty product) as it doesn't see commercial merit in building a CNS field force for a single product. Also, with the corporate governance issue going on we remain a little cautious. Hence considering the uncertain growth prospects of the company we keep the stock Under Review.

Key Risks to our rating and target

- ❑ Corporate governance issue.
- ❑ Specialty launch
- ❑ R&D expenditure

Stock Info

52wk Range H/L	679/375
Mkt Capital (Rs Cr)	101561
Free float (%)	46%
Avg. Vol 1M (,000)	14035
No. of Shares (Cr)	240
Promoters Pledged %	8%

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KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	28487	31578	26489	29444	30732
EBITDA	8158	10089	5608	7043	7118
EBIT	7121	8825	4108	5405	5386
PAT	4546	6964	2162	2847	3980
EPS (Rs)	19	29	9	12	17
EPS growth (%)	-14%	54%	-69%	32%	40%
ROE (%)	14%	19%	6%	7%	9%
ROCE (%)	20%	23%	10%	13%	12%
BV	137	153	159	171	188
P/B (X)	6.0	4.5	3.1	2.4	2.2
P/E (x)	43.4	23.7	55.0	35.0	25.0

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3QFY19 Results

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	6,653	6,977	7,224	6,938	7,740	16.3%	11.6%	31,578	26,489	-16.1%
Other Income	129	303	200	351	193	49.4%	-45.0%	623	839	34.6%
COGS	2,100	1,770	2,107	1,758	2,166	3.1%	23.2%	8,131	7,425	-8.7%
Gross Margin	68%	75%	71%	75%	72%	5.2%	-3.5%	74%	72%	-3.1%
Employee Cost	1,373	1,341	1,433	1,470	1,495	8.9%	1.7%	4,902	5,367	9.5%
Other Expen.	1,728	2,182	2,078	2,178	1,927	11.5%	-11.6%	8,456	8,090	-4.3%
EBITDA	1,453	1,683	1,607	1,531	2,153	48.1%	40.6%	10,089	5,608	-44.4%
EBITDA Mar.	22%	24%	22%	22%	28%	27.3%	26.0%	32%	21%	-33.7%
Depreciation	339	455	402	427	471	38.8%	10.4%	1,265	1,500	18.6%
EBIT	1,114	1,228	1,205	1,105	1,682	51%	52.2%	8,825	4,108	-53.4%
Interest	95	155	131	130	145	52%	11.8%	400	518	29.5%
PBT	1,148	1,376	1,274	1,326	1,730	50.7%	30.4%	9,048	4,429	-51%
Exceptional	-	-	-	1,214	-			-	951	
Tax	749	(177)	164	219	271	-63.8%	23.8%	1,212	845	-30%
PAT	365	1,309	983	(219)	1,240	239.4%	-667%	6,964	2,162	-69%
PAT Margin	5%	19%	14%	-3%	16%	191.7%	-608%	22%	8%	-63%

Reduced R&D and forex gain improved EBITDA margin

EBITDA margin has improved by 597 bps YoY to 27.8% due to the reduced R&D expenditure. R&D expenditure this quarter were Rs.465 crores, 6.1% of sales compared to Rs.473 crores, 7.2% of sales in the previous quarter, the contraction was largely due to delay in the clinical trials. Also, forex gain this quarter has led to such improvement in the EBITDA margin.

Uncertain growth prospects of specialty business in US

Sunpharma have invested around US\$ 1 billion to build the specialty business in US over the years through acquisition. The growth of specialty business now seems uncertain, as the business doesn't seem to justify the investment made due to the high competition. Specialty products require significant investment in terms of R&D, marketing & promotional expenses and field force expansion. With such huge investment involved, the company has decided not to launch Elepsia as it doesn't find it financially feasible in building a CNS field force for a single product.

Illumya which was launched in October 2018 is facing competition from the companies like Novartis, Eli Lilly and Johnson & Johnson to gain market share. And also, the launch of Cequa has been pushed to FY20 due to manufacturing issue.

Concall Highlights

- The company commercialized Illumya in US in October 2018, the product is well received by the doctors, close to 800 doctors has prescribed the product as on date.
- Xelpros has been recently launched in US, with Illumya and Xelpros launch, the company has launched 3 specialty products in US in this year. The company expects to launch Cequa in Q1FY20.
- The company has received USFDA approval for Elepsia XR few months back. The management has now decided not to launch this product in the US since the high cost for setting up the field force will not be justified for just one product.
- Going forward with the launch of the specialty products in the US, the marketing expenses would also increase with such launch.
- For the quarter, 5 ANDAs were filed and 10 approvals were received. During the quarter, the company has withdrawn unviable ANDA's.
- Post the clearance of Halol facility by USFDA in June 2018, the company has received 4 ANDA approvals from Halol facility.
- Regarding the whistleblower complaint, Sunpharma has responded to the queries from SEBI regarding FCCB issuance in 2014 and transactions from Aditya Medisales.
- In the FY19 consolidated financials, the loan of US\$300 million towards Atlas would be squared off against the non-fulfillment of supply obligations. The unwinding of Atlas transaction will result in the assignment of this supply contract to one of the Sunpharma's wholly owned subsidiary.
- The management has guided for the R&D investment to be around 7-7.5% of sales. R&D investment for the quarter was at Rs.463 crs, 6.1% of sales.

Exhibit: Net sales and Sales Growth

Sales for the quarter grew by 16% YoY to Rs.7740 crores (vs our expectation of Rs.7309 crores)

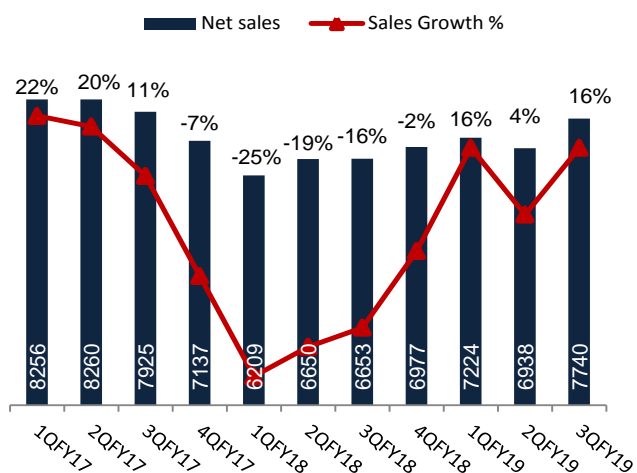


Exhibit: Gross and EBITDA margin

EBITDA margin improved by 597 bps YoY to 27.8% partly driven by the forex gain and reduced R&D expenditure.

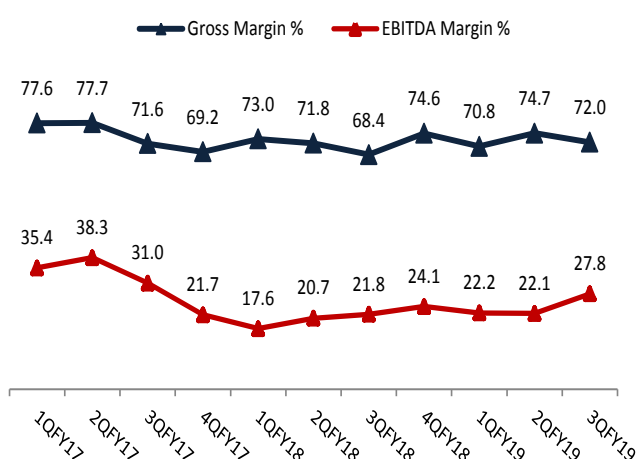


Exhibit: PAT and PAT margin

Adjusting for the one-time deferred tax adjustment, PAT for the quarter improved by 49% YoY to Rs.1240 crore.

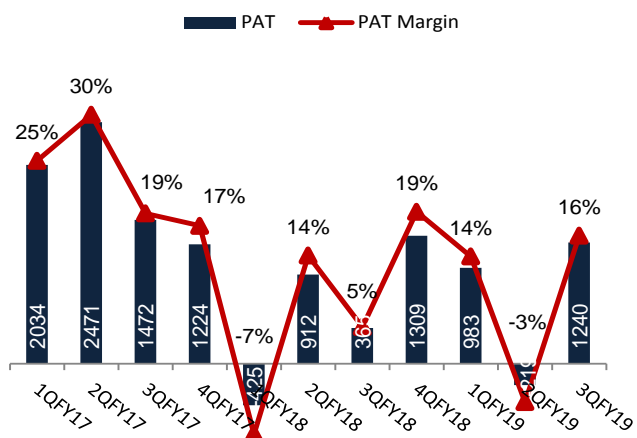


Exhibit: R&D cost and R&D as a % of sales

R&D expenditure for the quarter were Rs.465 crores, 6.1% of sales.

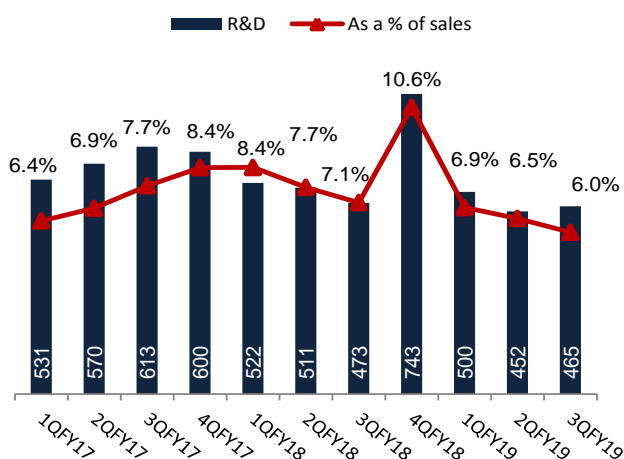


Exhibit: US sales and YoY growth%

US sales grew by 10% YoY to US\$ 362 million based on the Taro sales and base business improvement.

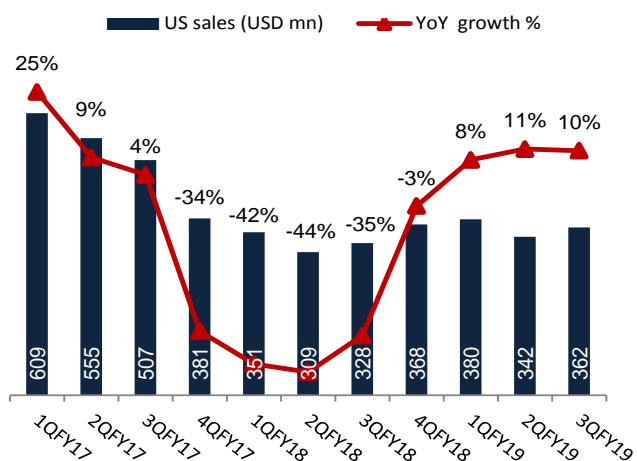
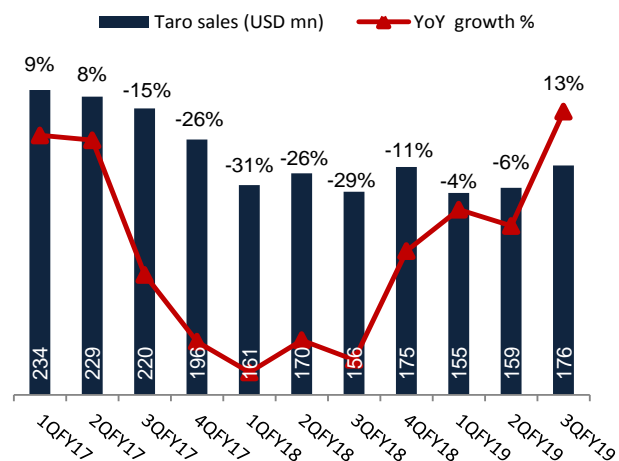


Exhibit: Taro sales and YoY growth%

Taro sales grew by 13% to US\$ 176 million and reported a net profit of US\$93 million.



Operational Details

Geography	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
India Formulations	1969	1916	1761	2221	2085	1963	2152	1860	2235
US Formulations	3419	2554	2265	1986	2124	2372	2544	2398	2606
Emerging Market	1160	1213	1080	1258	1221	1279	1309	1372	1462
ROW Formulations	760	732	742	711	777	744	718	762	898
API	366	395	309	388	370	332	394	426	426
Others	9	14	10	25	21	21	22	29	30

Revenue gr. %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
India Formulations	5%	10%	-5%	11%	6%	2%	22%	-16%	7%
US Formulations	7%	-35%	-44%	-47%	-38%	-7%	12%	21%	23%
Emerging Market	17%	45%	5%	12%	5%	5%	21%	9%	20%
ROW Formulations	37%	37%	32%	35%	2%	2%	-3%	7%	16%
API	-17%	5%	-34%	6%	1%	-16%	28%	10%	15%
Others	-58%	-16%	-48%	460%	144%	54%	136%	16%	39%

Revenue mix%	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
India Formulations	26%	28%	29%	34%	32%	29%	30%	27%	29%
US Formulations	45%	37%	37%	30%	32%	35%	36%	35%	34%
Emerging Market	15%	18%	18%	19%	19%	19%	18%	20%	19%
ROW Formulations	10%	11%	12%	11%	12%	11%	10%	11%	12%
API	5%	6%	5%	6%	6%	5%	6%	6%	6%
Others	0%	0%	0%	0%	0%	0%	0%	0%	0%

ANDA pipeline	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
ANDA filings	8	14	8	4	4	19	3	4	5
ANDA approvals	1	4	5	3	5	5	6	4	10

Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	104	207	207	241	240	240	240	240
Reserves	14,886	18,318	25,383	32,742	36,400	37,861	40,833	44,762
Networth	14,990	18,525	25,590	32,982	36,640	38,101	41,073	45,002
Debt	198	2,489	7,596	8,316	8,091	9,752	10,718	10,718
Minority interest	1,635	1,921	2,885	4,085	3,791	3,884	3,884	3,884
Other Non Current Liab	1,001	2,886	2,794	2,208	1,657	682	805	806
Total Capital Employed	15,188	21,014	33,186	41,299	44,731	47,852	51,792	55,721
Net Fixed Assets (incl CWIP)	6,210	7,659	14,721	18,048	20,477	21,318	22,127	22,795
Non Current Investments	1,106	788	599	1,116	961	3,052	4,431	4,431
Other Non Current Assets	1,763	2,238	4,563	6,425	7,019	8,297	8,535	8,677
Non Current Assets	9,080	10,684	19,883	25,589	28,457	32,667	35,093	35,903
Inventory	2,578	3,123	5,668	6,423	6,833	6,881	7,511	8,167
Debtors	2,412	2,200	5,106	6,776	7,203	7,815	9,302	9,709
Cash & Bank	4,059	7,590	10,998	13,182	15,141	9,929	8,757	10,749
Other Current Assets	2,454	5,773	7,144	3,561	3,777	7,011	7,245	7,592
Current Assets	11,503	18,686	28,916	29,941	32,954	31,636	32,815	36,217
Creditors	1,058	1,328	3,287	3,583	4,395	4,766	4,051	4,229
Provisions	1,482	1,961	4,353	2,973	4,016	5,110	5,138	5,151
Other Current Liabilities	219	260	2,280	1,381	2,821	2,009	2,239	2,330
Curr Liabilities	2,758	3,549	9,919	7,938	11,232	11,885	11,427	11,710
Net Current Assets	8,745	15,137	18,997	22,003	21,722	19,751	21,387	24,508
Total Assets	20,583	29,371	48,799	55,530	61,410	64,303	67,908	72,120

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	11,300	16,080	27,392	28,487	31,578	26,489	29,109	30,427
Change (%)	41%	42%	70%	4%	11%	-16%	10%	5%
EBITDA	4,896	7,000	7,867	8,158	10,089	5,608	7,043	7,118
Change (%)	53%	43%	12%	4%	24%	-44%	26%	1%
Margin (%)	43%	44%	29%	29%	32%	21%	24%	23%
Depr & Amor.	336	409	1195	1038	1265	1500	1638	1732
EBIT	4,560	6,591	6,672	7,121	8,825	4,108	5,405	5,386
Int. & other fin. Cost	43	44	579	523	400	518	569	569
Other Income	388	552	548	658	623	839	943	1,005
EBT	4,905	7,099	6,641	7,256	9,048	4,429	5,779	5,822
Exp Item	584	2,517	238	685	-	951	1,214	-
Tax	846	702	915	914	1,212	845	1,040	1,164
Minority Int & P/L share of Ass.	480	738	924	1,114	892	421	676	676
Reported PAT	3,476	3,879	5,488	5,657	7,836	2,634	3,524	4,658
Adjusted PAT	2,983	3,141	4,539	4,546	6,964	2,162	2,847	3,980
Change (%)	12%	5%	44%	0%	53%	-69%	32%	40%
Margin(%)	26%	20%	17%	16%	22%	8%	10%	13%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	20%	17%	18%	14%	19%	6%	7%	9%
ROCE	30%	35%	25%	20%	23%	10%	13%	12%
Asset Turnover	0.55	0.55	0.56	0.51	0.51	0.41	0.43	0.43
Debtor Days	78	50	68	87	83	108	115	115
Inv Days	83	71	76	82	79	95	93	97
Payable Days	34	30	44	46	51	66	50	50
Int Coverage	106	149	12	14	22	8	10	9
P/E	14.2	37.9	46.7	43.4	23.7	55.0	35.0	25.0
Price / Book Value	2.8	6.4	8.3	6.0	4.5	3.1	2.4	2.2
EV/EBITDA	8	16	26	24	16	20	13	13
FCF per Share	24	15	16	14	15	8	7	14
Div Yield	1.0%	0.4%	0.1%	0.4%	0.1%	0.7%	0.5%	0.6%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	4,315	4,581	6,403	6,571	9,048	3,479	4,564	5,822
(inc)/Dec in Working Capital	(45)	207	180	247	(409)	(212)	(2,155)	(1,161)
Non Cash Op Exp	336	409	1,195	1,038	1,265	1,500	1,638	1,732
Int Paid (+)	43	44	579	523	400	518	569	569
Tax Paid	(1,073)	(789)	(1,740)	(1,988)	(2,057)	(742)	(1,040)	(1,164)
others	(219)	(494)	(1,000)	296	(1,164)	(635)	-	-
CF from Op. Activities	3,357	3,959	5,616	6,686	7,082	3,907	3,576	5,798
(inc)/Dec in FA & CWIP	(845)	(906)	(2,342)	(3,404)	(3,693)	(1,961)	(1,823)	(2,400)
Free Cashflow								
(Pur)/Sale of Inv	(47)	(80)	39	1,520	363	(5,594)	(1,897)	-
others	(1,743)	(1,381)	(563)	(2,488)	(892)	4,184	(874)	(109)
CF from Inv. Activities	(2,635)	(2,367)	(2,866)	(4,372)	(4,222)	(3,371)	(4,594)	(2,509)
inc/(dec) in NW	(41)	(1,140)	75	(38)	(2,732)	(675)	-	-
inc/(dec) in Debt	(75)	2,275	(548)	(678)	1,072	588	967	-
Int. Paid	(38)	(23)	(350)	(301)	(334)	(477)	(569)	(569)
Div Paid (inc tax)	(512)	(606)	(363)	(871)	(292)	(976)	(551)	(729)
others								
CF from Fin. Activities	(665)	507	(1,187)	(1,889)	(2,285)	(1,539)	(154)	(1,298)
Inc(Dec) in Cash	57	2,099	1,563	426	575	(1,003)	(1,172)	1,991
Add: Opening Balance	2,013	2,260	5,722	7,606	8,067	8,909	9,929	8,581
Closing Balance	2,069	4,359	7,286	8,032	8,642	7,906	8,757	10,572

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