

Industry	Pharmaceuticals
Bloomberg	SUNP IN
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The slower uptake of specialty launches and US price rigging litigation outcome makes FY20 growth uncertain

RATING **NEUTRAL**

CMP	417
Price Target	436
Potential Upside	5%

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L	679/350
Mkt Capital (Rs Cr)	99126
Free float (%)	46%
Avg. Vol 1M (,000)	7422
No. of Shares (Crs)	240
Promoters Pledged %	11%

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4QFY19 Result update

- Overall revenue for the quarter grew by merely 3% to Rs.7164 crs majorly due to the one-time impact of approximately Rs.1085 crs related to the change in distribution for India business.
- US sales for Q4FY19 grew by 20% YoY to US\$ 443 million; this growth was mainly driven by a significant business of generic supply to a customer to be serviced over 6 months starting from Q4FY19.
- Taro posted Q4FY19 sales of US\$ 180 million, up 3% over Q4 last year. Taro's net profit for Q4 was US\$ 58 million while for the full year FY19; it reported a net profit of US\$ 282 million.
- ROW sales grew by 32% YoY to US\$ 153 million as Pola Pharma (Japan) has been consolidated with effect from 1st January 2019.
- EBITDA margin declined from 24.1% in Q4FY18 to 14.2% in Q4FY19 majorly on account of increased staff cost due to consolidation of Pola Pharma and increased promotional expenses for the specialty launches in US.

View and Valuation

The company's overall revenue grew by 3% YoY to Rs.7164 crs. The revenues this quarter was impacted due to change in distribution for India business from AML to a wholly owned subsidiary. Adjusted India sales growth was 11% for the quarter over Q4 last year. US sales for Q4FY19 grew by 20% YoY to US\$ 443 million driven by significant business of generic supply to a customer to be serviced over 6 months starting from Q4FY19. Taro grew by 3% YoY to US\$ 180 million. Margins were impacted in Q4FY19 largely due to higher staff cost on account of consolidation of Pola pharma and increased promotional expenses.

Going forward, we believe the margins will continue to be under pressure as the uptake of specialty products is slower in comparison to their promotional expenses. Though Cequa is expected to be launched in US in Q2FY20, but we don't see a significant change due to the launch. Therefore, we maintain our NEUTRAL stance with the target price of Rs.436.

Key Risks to our rating and target

- Lawsuit filed for generics price rigging
- Specialty launch
- R&D expenditure

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	28487	31578	26489	29066	32396
EBITDA	8158	10089	5608	6308	7210
EBIT	7121	8825	4108	4554	5478
PAT	4546	6964	2162	2666	4187
EPS (Rs)	19	29	9	11	17
EPS growth (%)	-14%	54%	-69%	23%	57%
ROE (%)	13.8%	19.0%	5.7%	6.4%	9.3%
ROCE (%)	19.7%	23.2%	10.3%	10.6%	11.8%
BV	137	153	159	173	187
P/B (X)	6.0	4.5	3.1	2.7	2.5
P/E (x)	43.4	23.7	55.0	42.3	26.9

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4QFY19 Results

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	6,977	7,224	6,938	7,740	7,164	2.7%	-7.4%	26,489	29,066	9.7%
Other Income	303	200	351	193	282	-7.0%	45.8%	839	1,025	22.3%
COGS	1,770	2,107	1,758	2,166	1,839	3.9%	-15.1%	7,425	7,869	6.0%
Gross Margin	75%	71%	75%	72%	74%	-0.3%	2.3%	72%	73%	1.0%
Employee Cost	1,341	1,433	1,470	1,495	1,569	17.0%	4.9%	5,367	5,967	11.2%
Other Expen.	2,182	2,078	2,178	1,927	2,740	25.5%	42.2%	8,090	8,922	10.3%
EBITDA	1,683	1,607	1,531	2,153	1,017	-39.6%	-52.8%	5,608	6,308	12.5%
EBITDA Mar.	24%	22%	22%	28%	14%	-9.9%	-13.6%	21%	22%	0.5%
Depreciation	455	402	427	471	454	-0.3%	-3.6%	1,500	1,753	16.9%
EBIT	1,228	1,205	1,105	1,682	563	-54%	-66.5%	4,108	4,554	10.9%
Interest	155	131	130	145	150	-3%	3.6%	518	555	7.3%
PBT	1,376	1,274	1,326	1,730	694	-49.5%	-59.9%	4,429	5,025	13%
Exceptional	-	-	1,214	-	-			951	1,214	28%
Tax	(177)	164	219	271	(29)	-83.7%	-111%	845	601	-29%
PAT	1,309	983	(219)	1,240	636	-51.4%	-49%	2,162	2,666	23%
PAT Margin	19%	14%	-3%	16%	9%	-9.9%	-7%	8%	9%	1%

Muted performance

Overall revenue for Q4FY19 was weak and grew by 3% to Rs.7164 crs. US sales for Q4FY19 grew by 20% YoY to US\$ 443 million driven by significant business of generic supply to a customer to be serviced over 6 months starting from Q4FY19. Taro posted Q4FY19 sales of US\$ 180 million, up 3% over Q4 last year. India sales de-grew by 44% YoY to Rs.1101 crs, sales for the quarter includes a one-time impact of approximately Rs.1085 crs related to the change in distribution for India business. Adjusted India sales growth was 11% for the quarter over Q4 last year. ROW sales grew by 32% YoY to US\$ 153 million as Pola Pharma (Japan) has been consolidated with effect from 1st January 2019.

Margins impacted due to higher staff cost and other expenses

EBITDA margin for the quarter declined from 24.1% in Q4FY18 to 14.2% in Q4FY19 on account of higher staff cost and promotional expenses for the specialty launches in US. Staff cost for the quarter increased by 17% YoY to Rs.1569 crs mainly due to increase in staff cost for specialty business in US and consolidation of Pola pharma. Other expenses increased by 26% to Rs.2740 crs as the company has launched a direct-to-customer campaign for Illumya launch, which in turn has increased the promotional expenses. Also the forex loss of 52 crs this quarter has contributed towards such increase.

Going forward, we believe higher staff cost and promotional expenses for the specialty products will continue to put pressure on the margins.

Concall Highlights

- India sales de-grew by 44% YoY to Rs.1101 crs, sales for the quarter includes a one-time impact of approximately Rs.1085 crs related to the change in distribution for India business. Adjusted India sales growth was 11% for the quarter over Q4 last year.
- Staff cost for the quarter increased by 17% YoY to Rs.1569 crs mainly due to increase in staff cost for specialty business in US and consolidation of Pola Pharma.
- Other expenses increased by 26% to Rs.2740 crs majorly driven by Forex losses of 52 crs this quarter vs the forex gain of 174 crs in Q4FY18 and increase in promotional expenses for the specialty launches in US (Illumya launch).
- In Q4FY19, 9 ANDAs were filed and 12 approvals were received. Filings of 118 ANDAs awaits US FDA approval, including 13 tentative approvals
- R&D investments for the quarter were at Rs. 567 crs (8% of sales) compared to Rs. 743 crs (11% of sales) for Q4FY18.
- Cequa is expected to be launched in Q2FY20; the sales force required for cequa promotions is now onboard.
- The management has guided the consolidated sales for FY20 to be in the range of low to mid double digit teens.
- Management expects the R&D spends to be in the range of 8-9% of sales. Capex for FY20 is expected to be US\$ 200 mn.

Exhibit: Net sales and Sales Growth

Sales for the quarter grew by 3% YoY to Rs. 7164 crores (vs our expectation of Rs. 7615 crores)

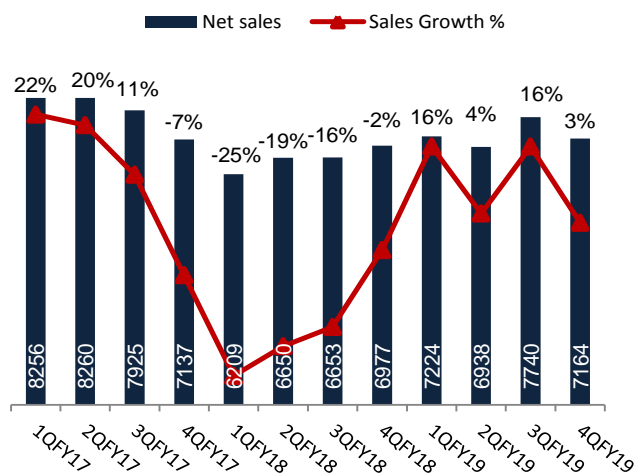


Exhibit: Gross and EBITDA margin

EBITDA margin declined from 24.1% to 14.2% YoY in Q4FY19 due to higher staff cost and other expenses

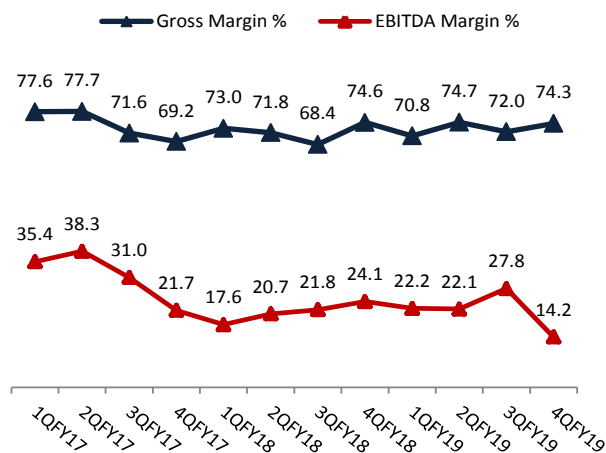


Exhibit: PAT and PAT margin

PAT for Q4FY19 was Rs. 636 crs. PAT margin was at 9%.

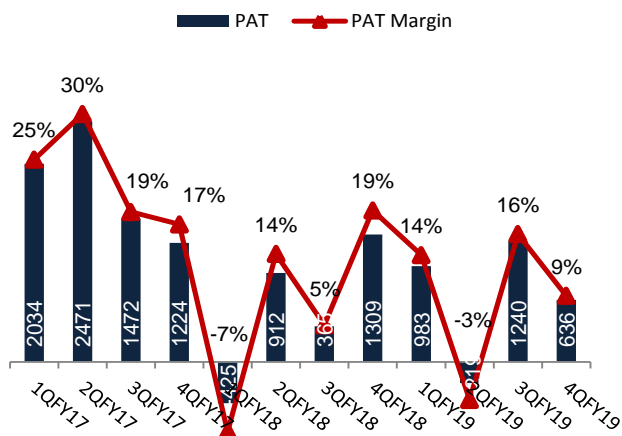


Exhibit: R&D cost and R&D as a % of sales

R&D expenditure for the quarter were Rs. 567 crores, 7.9% of sales.

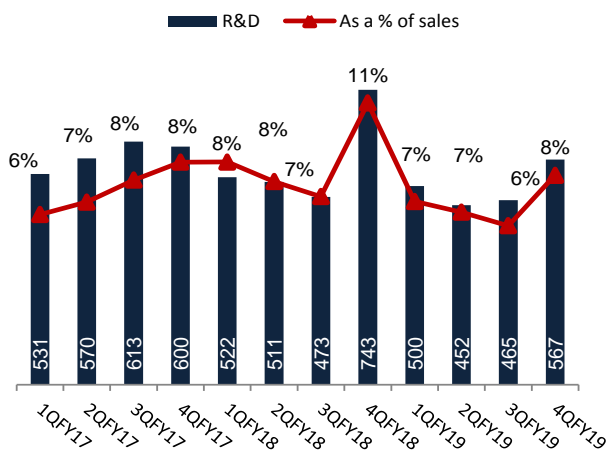


Exhibit: US sales and YoY growth%

US sales grew by 20% YoY to US\$ 443 million.

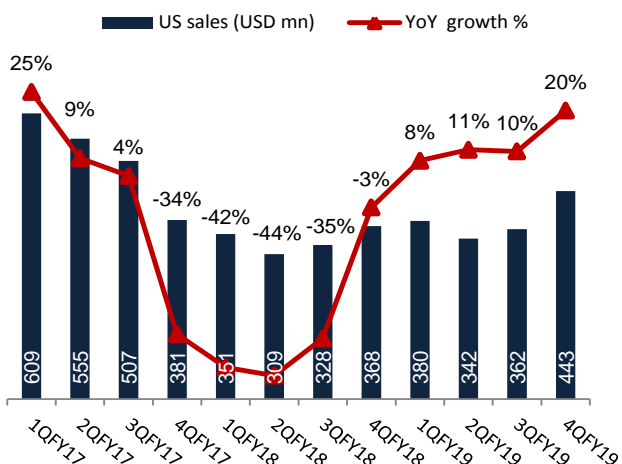
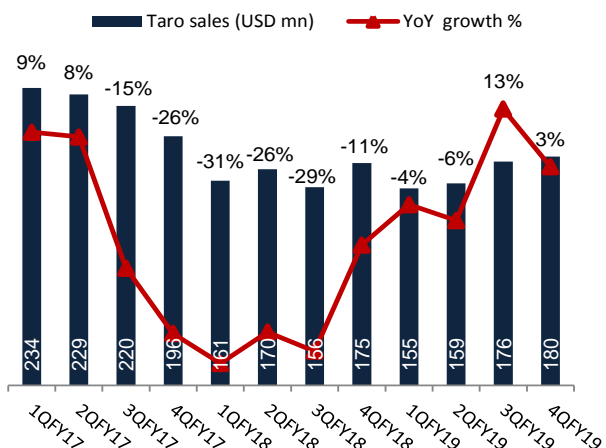


Exhibit: Taro sales and YoY growth%

Taro sales grew by 3% to US\$ 180 million and reported a net profit of US\$58 million.



Operational Details

Geography	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
India Formulations	1916	1761	2221	2085	1963	2152	1860	2235	1101
US Formulations	2554	2265	1986	2124	2372	2544	2398	2606	3190
Emerging Market	1213	1080	1258	1221	1279	1309	1372	1462	1246
ROW Formulations	732	742	711	777	744	718	762	898	1102
API	395	309	388	370	332	394	426	426	484
Others	14	10	25	21	21	22	29	30	42

Revenue gr. %	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
India Formulations	10%	-5%	11%	6%	2%	22%	-16%	7%	-44%
US Formulations	-35%	-44%	-47%	-38%	-7%	12%	21%	23%	34%
Emerging Market	45%	5%	12%	5%	5%	21%	9%	20%	-3%
ROW Formulations	37%	32%	35%	2%	2%	-3%	7%	16%	48%
API	5%	-34%	6%	1%	-16%	28%	10%	15%	46%
Others	-16%	-48%	460%	144%	54%	136%	16%	39%	97%

Revenue mix%	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
India Formulations	28%	29%	34%	32%	29%	30%	27%	29%	15%
US Formulations	37%	37%	30%	32%	35%	36%	35%	34%	45%
Emerging Market	18%	18%	19%	19%	19%	18%	20%	19%	17%
ROW Formulations	11%	12%	11%	12%	11%	10%	11%	12%	15%
API	6%	5%	6%	6%	5%	6%	6%	6%	7%
Others	0%	0%	0%	0%	0%	0%	0%	0%	1%

ANDA pipeline	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
ANDA filings	14	8	4	4	19	3	4	5	9
ANDA approvals	4	5	3	5	5	6	4	10	12

Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	104	207	207	241	240	240	240	240
Reserves	14,886	18,318	25,383	32,742	36,400	37,861	41,169	44,562
Networth	14,990	18,525	25,590	32,982	36,640	38,101	41,409	44,802
Debt	198	2,489	7,596	8,316	8,091	9,752	9,893	9,893
Minority interest	1,635	1,921	2,885	4,085	3,791	3,884	3,314	3,314
Other Non Current Liab	1,001	2,886	2,794	2,208	1,657	682	1,109	1,284
Total Capital Employed	15,188	21,014	33,186	41,299	44,731	47,852	51,302	54,696
Net Fixed Assets (incl CWIP)	6,210	7,659	14,721	18,048	20,477	21,318	23,248	23,303
Non Current Investments	1,106	788	599	1,116	961	3,052	3,952	3,952
Other Non Current Assets	1,763	2,238	4,563	6,425	7,019	8,297	6,425	6,582
Non Current Assets	9,080	10,684	19,883	25,589	28,457	32,667	33,625	33,837
Inventory	2,578	3,123	5,668	6,423	6,833	6,881	7,886	8,906
Debtors	2,412	2,200	5,106	6,776	7,203	7,815	8,884	10,033
Cash & Bank	4,059	7,590	10,998	13,182	15,141	9,929	7,276	9,120
Other Current Assets	2,454	5,773	7,144	3,561	3,777	7,011	7,023	7,440
Current Assets	11,503	18,686	28,916	29,941	32,954	31,636	31,069	35,499
Creditors	1,058	1,328	3,287	3,583	4,395	4,766	4,148	4,684
Provisions	1,482	1,961	4,353	2,973	4,016	5,110	2,932	3,268
Other Current Liabilities	219	260	2,280	1,381	2,821	2,009	1,889	2,090
Curr Liabilities	2,758	3,549	9,919	7,938	11,232	11,885	8,969	10,042
Net Current Assets	8,745	15,137	18,997	22,003	21,722	19,751	22,100	25,457
Total Assets	20,583	29,371	48,799	55,530	61,410	64,303	64,694	69,336

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	11,300	16,080	27,392	28,487	31,578	26,489	28,686	32,075
Change (%)	41%	42%	70%	4%	11%	-16%	8%	12%
EBITDA	4896	7000	7867	8158	10089	5608	6308	7210
Change (%)	53%	43%	12%	4%	24%	-44%	12%	14%
Margin (%)	43.3%	43.5%	28.7%	28.6%	31.9%	21.2%	21.7%	22.3%
Depr & Amor.	336	409	1195	1038	1265	1500	1753	1732
EBIT	4560	6591	6672	7121	8825	4108	4554	5478
Int. & other fin. Cost	43	44	579	523	400	518	555	569
Other Income	388	552	548	658	623	839	1,025	1,005
EBT	4,905	7,099	6,641	7,256	9,048	4,429	5,025	5,914
Exp Item	584	2,517	238	685	-	951	1,214	-
Tax	846	702	915	914	1,212	845	601	1,183
Minority Int & P/L share of Ass.	480	738	924	1,114	892	421	541	541
Reported PAT	3,476	3,879	5,488	5,657	7,836	2,634	3,210	4,731
Adjusted PAT	2,983	3,141	4,539	4,546	6,964	2,162	2,666	4,187
Change (%)	12%	5%	44%	0%	53%	-69%	23%	57%
Margin(%)	26.4%	19.5%	16.6%	16.0%	22.1%	8.2%	9.2%	12.9%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	19.9%	17.0%	17.7%	13.8%	19.0%	5.7%	6.4%	9.3%
ROCE	30.2%	35.5%	24.7%	19.7%	23.2%	10.3%	10.6%	11.8%
Asset Turnover	0.5	0.5	0.6	0.5	0.5	0.4	0.4	0.5
Debtor Days	78	50	68	87	83	108	113	113
Inv Days	83	71	76	82	79	95	100	100
Payable Days	34	30	44	46	51	66	53	53
Int Coverage	106	149	12	14	22	8	8	10
P/E	14.2	37.9	46.7	43.4	23.7	55.0	42.3	26.9
Price / Book Value	2.8	6.4	8.3	6.0	4.5	3.1	2.7	2.5
EV/EBITDA	8	16	26	24	16	20	17	15
FCF per Share	24	15	16	14	15	8	(14)	13
Div Yield	1.0%	0.4%	0.1%	0.4%	0.1%	0.7%	0.4%	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	4,481	5,370
(inc)/Dec in Working Capital	(45)	207	180	247	(409)	(212)	(5,069)	(1,492)
Non Cash Op Exp	336	409	1,195	1,038	1,265	1,500	1,753	1,732
Int Paid (+)	43	44	579	523	400	518	555	569
Tax Paid	(1,073)	(789)	(1,740)	(1,988)	(2,057)	(742)	(601)	(1,183)
others	(219)	(494)	(1,000)	296	(1,164)	(635)	(571)	-
CF from Op. Activities	3,357	3,959	5,616	6,686	7,082	3,907	479	4,996
(inc)/Dec in FA & CWIP	(845)	(906)	(2,342)	(3,404)	(3,693)	(1,961)	(3,334)	(1,787)
Free Cashflow								
(Pur)/Sale of Inv	(47)	(80)	39	1,520	363	(5,594)	(760)	-
others	(1,743)	(1,381)	(563)	(2,488)	(892)	4,184	1,876	(2)
CF from Inv. Activities	(2,635)	(2,367)	(2,866)	(4,372)	(4,222)	(3,371)	(2,217)	(1,789)
inc/(dec) in NW	(41)	(1,140)	75	(38)	(2,732)	(675)	-	-
inc/(dec) in Debt	(75)	2,275	(548)	(678)	1,072	588	142	-
Int. Paid	(38)	(23)	(350)	(301)	(334)	(477)	(555)	(569)
Div Paid (inc tax)	(512)	(606)	(363)	(871)	(292)	(976)	(502)	(794)
others								
CF from Fin. Activities	(665)	507	(1,187)	(1,889)	(2,285)	(1,539)	(916)	(1,363)
Inc(Dec) in Cash	57	2,099	1,563	426	575	(1,003)	(2,654)	1,844
Add: Opening Balance	2,013	2,260	5,722	7,606	8,067	8,909	9,929	7,276
Closing Balance	2,069	4,359	7,286	8,032	8,642	7,906	7,276	9,120

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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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