

Industry
Bloomberg
BSE CODE

Pharmaceuticals
SUNP IN
524715

Strong Domestic & ROW growth offset by muted US growth

RATING	NEUTRAL
CMP	447
Price Target	409
Potential Upside	-9%

Rating Change	↔
Estimate Change	↔
Target Change	↓

STOCK INFO	
52wk Range H/L	533/350
Mkt Capital (Rs Cr)	108891
Free float (%)	46%
Avg. Vol 1M (,000)	6292
No. of Shares (Crs)	240
Promoters Pledged %	11%

2QFY20 Result Update

- The overall revenue grew by 17% YoY to Rs. 8123 crs (vs our estimate of 8264 crs) majorly on account of consolidation of Pola Pharma and lower base of domestic business last year based on the planned one-time inventory reduction in the supply chain.
- The US sales were flat at US\$ 339 mn in Q2FY20 on account of slower uptake in the specialty products and lack of one-off supply opportunity in this quarter.
- Taro sales this quarter grew by 1% YoY to US\$ 161 mn and Net profit de-grew by 10% YoY to US\$ 56 mn.
- Adjusted for the voluntary inventory correction in Q2FY19, the India business grew by 12% YoY (otherwise 35% growth) to Rs. 2515 crs. The company launched 12 products in India in Q2FY20.
- The Gross margin de-grew by 258 bps YoY to 72.1% and EBITDA margin remain flat at 22% on account of increased other expenses due to the consolidation of Pola Pharma.
- The R&D spends for the quarter was at Rs. 488 crs (6% of sales) in comparison to Rs. 452 crs (6.6% of sales) in Q2FY19.

View and Valuation

The overall revenue grew by 17% YoY to Rs. 8123 crs (vs our estimate of 8264 crs) majorly on account of consolidation of Pola Pharma and lower base of domestic business last year based on the planned one-time inventory reduction in the supply chain. US revenues declined sequentially by 20% to US\$ 339 mn on account of slower uptake in the specialty products and lack of one-off supply opportunity in this quarter.

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 ramp up would take time. The Specialty sales this quarter was flat at US\$ 94 mn, the company has launched Cequa recently for dry eyes in the US. Though the specialty products are continuing to gain market share but it would take time to justify the investment made in these. Therefore, factoring in the slower uptake of the specialty products and increased R&D spends to focus on the specialty products would impact the earnings in the near term; however the sales growth in the other geographies will continue to offset the US slow growth.

We maintain NEUTRAL with the Target price of Rs.409 (20x FY21E EPS).

Key Risks to our rating and target

- Higher R&D spend impacting earnings
- Cequa ramp up

RESEARCH ANALYST

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	31578	26489	29066	32747	34803
EBITDA	10089	5608	6308	7374	8109
EBIT	8825	4108	4554	5488	6163
PAT	6964	2162	2666	4577	4924
EPS (Rs)	29	9	11	19	21
EPS growth (%)	54%	-69%	23%	72%	8%
ROE (%)	19.0%	5.7%	6.4%	10.1%	9.9%
ROCE (%)	23.2%	10.3%	10.6%	11.5%	11.9%
BV	153	159	173	189	207
P/B (X)	4.5	3.1	2.8	2.4	2.2
P/E (x)	23.7	55.0	43.1	23.4	21.8

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1QFY20 Results

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	6,938	7,740	7,164	8,374	8,123	17.1%	-3.0%	26,489	29,066	9.7%
Other Income	351	193	282	213	201	-42.8%	-5.7%	839	1,025	22.3%
COGS	1,758	2,166	1,839	2,458	2,268	29.0%	-7.7%	7,425	7,869	6.0%
Gross Margin	75%	72%	74%	71%	72%	-2.6%	1.4%	72%	73%	1.0%
Employee Cost	1,470	1,495	1,569	1,540	1,621	10.2%	5.2%	5,367	5,967	11.2%
Other Expen.	2,178	1,927	2,740	2,381	2,445	12.2%	2.7%	8,090	8,922	10.3%
EBITDA	1,531	2,153	1,017	1,996	1,790	16.9%	-10.3%	5,608	6,308	12.5%
EBITDA Mar.	22%	28%	14%	24%	22%	0.0%	-1.8%	21%	22%	0.5%
Depreciation	427	471	454	457	473	11.0%	3.5%	1,500	1,753	16.9%
EBIT	1,105	1,682	563	1,538	1,316	19%	-14.4%	4,108	4,554	10.9%
Interest	130	145	150	104	84	-35%	-19.3%	518	555	7.3%
PBT	1,326	1,730	694	1,647	1,433	8.1%	-13.0%	4,429	5,025	13%
Exceptional Item	1,214	-	-	-	-			951	1,214	28%
Tax	219	271	(29)	146	266	21.5%	82%	845	601	-29%
PAT	(219)	1,240	636	1,387	1,064	-586.7%	-23%	2,162	2,666	23%
PAT Margin	-3%	16%	9%	17%	13%	16.3%	-3%	8%	9%	1%

Slower uptake of Specialty products and Higher R&D spends to hurt earnings in the near term

The US specialty sales remained flat in comparison to Q1FY20 at US\$ 94 mn. Cequa was launched recently in Oct 2019 and the management seems confident about the product despite competition. For Illumya, the prescription growth is higher in comparison to Q1FY20. The company remains optimistic about the prospects of Illumya. Odomzo continues to gain market share on account increased efforts in increasing prescription. Although these products are continuing to gain market share but it would take time for these products to justify the investment made. Apart from this, the higher R&D spends to focus on the specialty products is likely to hurt the earning in the near term.

Concall Highlights

- For the quarter, 3 ANDAs were filed and 13 approvals were received.
- The US sales were flat at US\$ 339 mn in Q2FY20. Taro sales this quarter grew by 1% YoY to US\$ 161 mn and Net profit de-grew by 10% YoY to US\$ 56 mn.
- Update on the US specialty segment:
 - The US Specialty sales remained flat in comparison to Q1FY20.
 - Cequa launched recently in Oct 2019. As per the management guidance, the company further plans to launch Cequa and Illumya through partnership or themselves in other markets.
 - For Illumya, the prescription growth is higher in comparison to Q1FY20. The company remains optimistic about the prospects of Illumya.
 - Odomzo continues to gain market share on account increased efforts in increasing prescription.
 - Overall the management expects traction in specialty segment going forward.
- Adjusted for the voluntary inventory correction in Q2FY19, the India business grew by 12% YoY (otherwise 35% growth) to Rs. 2515 crs. The company launched 12 products in India in Q2FY20.
- The major strategy for the India business going ahead would be in-licensing as a route to launch latest generation patented product and strengthening of prescription base.
- For China Market, the strategy of the company would be to develop relationships with some important player in China for branded as well as generics products.
- Staff cost was higher by 10% YoY on account of annual increments and addition of Pola Pharma in Japan.
- Other expenses grew by 12% YoY this quarter on account of higher branding & promotional spending on specialty segment and Pola pharma addition.
- The Total debt of the company (excluding Taro) reduced by Rs. 2500 crs in H1FY20 compared to Fy19.
- The R&D spends for the quarter was at Rs. 488 crs (6% of sales) in comparison to Rs. 452 crs (6.6% of sales) in Q2FY19. For the full year, the company expects R&D spends to be higher (8-9% of sales) on account of increased focus on specialty segment.

Exhibit: Net sales and Sales Growth

The overall revenue grew by 17% YoY to Rs. 8123 crs (vs our estimate of 8264 crs)

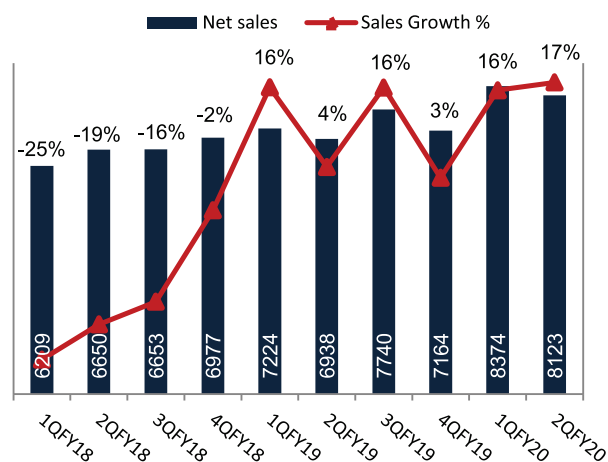


Exhibit: EBITDA and EBITDA margin

EBITDA margin remain flat at 22% YoY due to increased other expenses due to the consolidation of Pola Pharma.

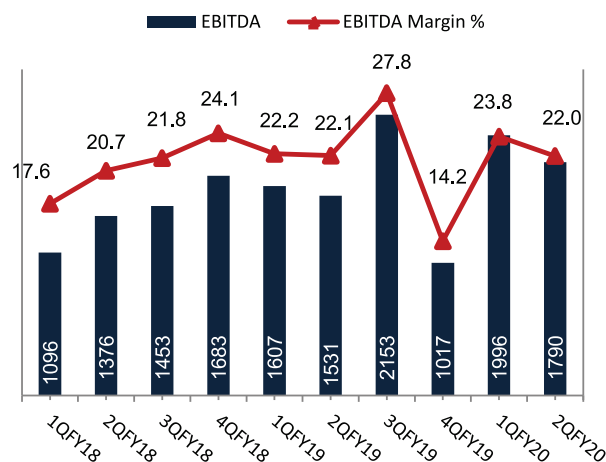


Exhibit: PAT and PAT margin

PAT for Q2FY20 was at Rs. 1064 crs compared to the loss of Rs.219 crs. PAT margin was at 13%.

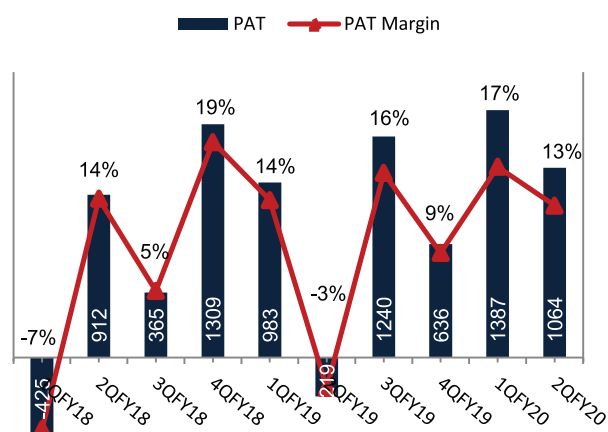


Exhibit: R&D cost and R&D as a % of sales

R&D spends for the quarter was at Rs.488 crs (6% of sales) compared to Rs.452 crs (7% of sales) in Q2FY19.

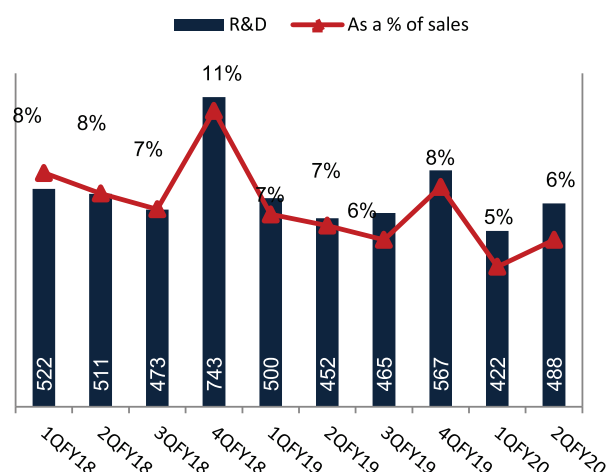


Exhibit: US sales and YoY growth%

US sales was flat YoY at US\$ 339 million on account of lack of one-off supply opportunity in this quarter.

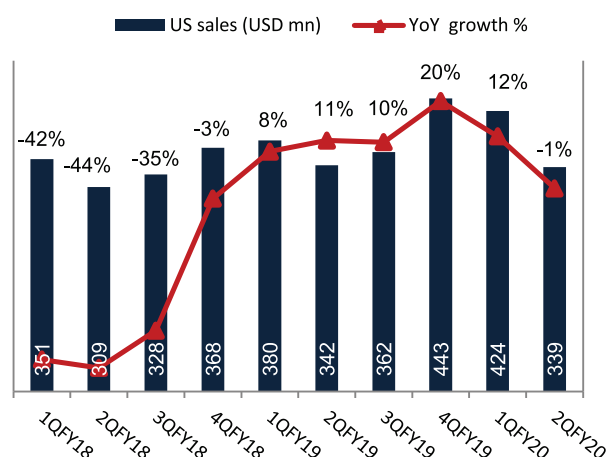
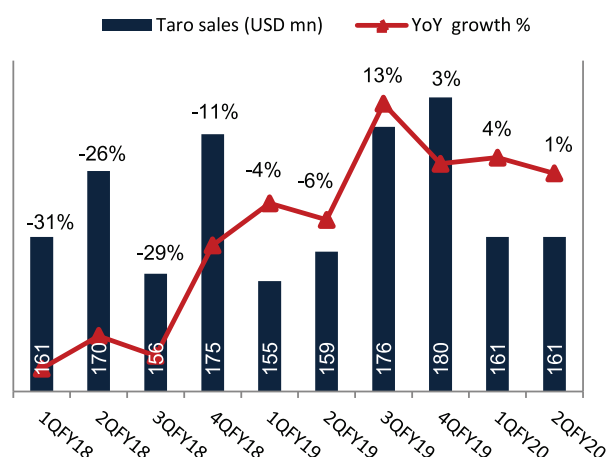


Exhibit: Taro sales and YoY growth%

Taro sales was flat YoY at US\$ 161 mn. Net profit for Q2FY20 was US\$ 56 mn.



Operational Details

GEOGRAPHY	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
India Formulations	2221	2085	1963	2152	1860	2235	1101	2314	2515
US Formulations	1986	2124	2372	2544	2398	2606	3190	2942	2381
Emerging Market	1258	1221	1279	1309	1372	1462	1246	1346	1412
ROW Formulations	711	777	744	718	762	898	1102	1159	1131
API	388	370	332	394	426	426	484	461	468
Others	25	21	21	22	29	30	42	37	42

REVENUE GR. %	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
India Formulations	11%	6%	2%	22%	-16%	7%	-44%	8%	35%
US Formulations	-47%	-38%	-7%	12%	21%	23%	34%	16%	-1%
Emerging Market	12%	5%	5%	21%	9%	20%	-3%	3%	3%
ROW Formulations	35%	2%	2%	-3%	7%	16%	48%	61%	48%
API	6%	1%	-16%	28%	10%	15%	46%	17%	10%
Others	460%	144%	54%	136%	16%	39%	97%	65%	44%

REVENUE MIX%	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
India Formulations	34%	32%	29%	30%	27%	29%	15%	28%	32%
US Formulations	30%	32%	35%	36%	35%	34%	45%	36%	30%
Emerging Market	19%	19%	19%	18%	20%	19%	17%	16%	18%
ROW Formulations	11%	12%	11%	10%	11%	12%	15%	14%	14%
API	6%	6%	5%	6%	6%	6%	7%	6%	6%
Others	0%	0%	0%	0%	0%	0%	1%	0%	1%

ANDA PIPELINE	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
ANDA filings	4	4	19	3	4	5	9	3	2
ANDA approvals	3	5	5	6	4	10	12	13	7

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	207	207	241	240	240	240	240	240
Reserves	18,318	25,383	32,742	36,400	37,861	41,169	45,168	49,515
Networth	18,525	25,590	32,982	36,640	38,101	41,409	45,408	49,754
Debt	2,489	7,596	8,316	8,091	9,752	9,893	7,472	6,472
Minority interest	1,921	2,885	4,085	3,791	3,884	3,314	3,581	3,581
Other Non Current Liab	2,886	2,794	2,208	1,657	682	1,109	1,249	1,279
Total Capital Employed	21,014	33,186	41,299	44,731	47,852	51,302	52,880	56,227
Net Fixed Assets (incl CWIP)	7,659	14,721	18,048	20,477	21,318	23,248	23,431	23,731
Non Current Investments	788	599	1,116	961	3,052	3,952	4,657	4,657
Other Non Current Assets	2,238	4,563	6,425	7,019	8,297	6,425	6,815	6,846
Non Current Assets	10,684	19,883	25,589	28,457	32,667	33,625	34,904	35,234
Inventory	3,123	5,668	6,423	6,833	6,881	7,886	8,885	9,442
Debtors	2,200	5,106	6,776	7,203	7,815	8,884	10,009	10,638
Cash & Bank	7,590	10,998	13,182	15,141	9,929	7,276	6,649	8,825
Other Current Assets	5,773	7,144	3,561	3,777	7,011	7,023	7,186	7,473
Current Assets	18,686	28,916	29,941	32,954	31,636	31,069	32,729	36,378
Creditors	1,328	3,287	3,583	4,395	4,766	4,148	4,486	4,767
Provisions	1,961	4,353	2,973	4,016	5,110	2,932	3,281	3,478
Other Current Liabilities	260	2,280	1,381	2,821	2,009	1,889	2,155	2,280
Curr Liabilities	3,549	9,919	7,938	11,232	11,885	8,969	9,922	10,525
Net Current Assets	15,137	18,997	22,003	21,722	19,751	22,100	22,807	25,853
Total Assets	29,371	48,799	55,530	61,410	64,303	64,694	67,632	71,612

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	16,080	27,392	28,487	31,578	26,489	28,686	32,297	34,458
Change (%)	42%	70%	4%	11%	-16%	8%	13%	7%
EBITDA	7000	7867	8158	10089	5608	6308	7374	8109
Change (%)	43%	12%	4%	24%	-44%	12%	17%	10%
Margin (%)	43.5%	28.7%	28.6%	31.9%	21.2%	21.7%	22.5%	23.3%
Depr & Amor.	409	1195	1038	1265	1500	1753	1885	1946
EBIT	6591	6672	7121	8825	4108	4554	5488	6163
Int. & other fin. Cost	44	579	523	400	518	555	359	311
Other Income	552	548	658	623	839	1,025	803	929
EBT	7,099	6,641	7,256	9,048	4,429	5,025	5,932	6,782
Exp Item	2,517	238	685	-	951	1,214	-	-
Tax	702	915	914	1,212	845	601	954	1,356
Minority Int & P/L share of Ass.	738	924	1,114	892	421	541	399	499
Reported PAT	3,879	5,488	5,657	7,836	2,634	3,210	4,978	5,425
Adjusted PAT	3,141	4,539	4,546	6,964	2,162	2,666	4,577	4,924
Change (%)	5%	44%	0%	53%	-69%	23%	72%	8%
Margin(%)	19.5%	16.6%	16.0%	22.1%	8.2%	9.2%	14.0%	14.1%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	17.0%	17.7%	13.8%	19.0%	5.7%	6.4%	10.1%	9.9%
ROCE	35.5%	24.7%	19.7%	23.2%	10.3%	10.6%	11.5%	11.9%
Asset Turnover	0.5	0.6	0.5	0.5	0.4	0.4	0.5	0.5
Debtor Days	50	68	87	83	108	113	112	112
Inv Days	71	76	82	79	95	100	99	99
Payable Days	30	44	46	51	66	53	50	50
Int Coverage	149	12	14	22	8	8	15	20
P/E	37.9	46.7	43.4	23.7	55.0	43.1	23.4	21.8
Price / Book Value	6.4	8.3	6.0	4.5	3.1	2.8	2.4	2.2
EV/EBITDA	16	26	24	16	20	17	14	12
FCF per Share	15	16	14	15	8	(4)	13	17
Div Yield	0.4%	0.1%	0.4%	0.1%	0.7%	0.4%	0.4%	0.4%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	4,581	6,403	6,571	9,048	3,479	3,810	5,531	6,280
(inc)/Dec in Working Capital	207	180	247	(409)	(212)	(2,696)	(1,874)	(869)
Non Cash Op Exp	409	1,195	1,038	1,265	1,500	1,753	1,885	1,946
Int Paid (+)	44	579	523	400	518	555	359	311
Tax Paid	(789)	(1,740)	(1,988)	(2,057)	(742)	(886)	(954)	(1,356)
others	(494)	(1,000)	296	(1,164)	(635)	(340)	-	-
CF from Op. Activities	3,959	5,616	6,686	7,082	3,907	2,196	4,946	6,311
(inc)/Dec in FA & CWIP	(906)	(2,342)	(3,404)	(3,693)	(1,961)	(3,213)	(1,930)	(2,246)
Free Cashflow								
(Pur)/Sale of Inv	(80)	39	1,520	363	(5,594)	31,994	(412)	-
others	(1,381)	(563)	(2,488)	(892)	4,184	2,720	(141)	(1)
CF from Inv. Activities	(2,367)	(2,866)	(4,372)	(4,222)	(3,371)	(681)	(2,483)	(2,247)
inc/(dec) in NW	(1,140)	75	(38)	(2,732)	(675)	(608)	-	-
inc/(dec) in Debt	2,275	(548)	(678)	1,072	588	(237)	(2,154)	(1,000)
Int. Paid	(23)	(350)	(301)	(334)	(477)	(461)	(359)	(311)
Div Paid (inc tax)	(606)	(363)	(871)	(292)	(976)	(1,424)	(578)	(578)
others								
CF from Fin. Activities	507	(1,187)	(1,889)	(2,285)	(1,539)	(2,731)	(3,090)	(1,888)
Inc(Dec) in Cash	2,099	1,563	426	575	(1,003)	(1,215)	(626)	2,176
Add: Opening Balance	2,260	5,722	7,606	8,067	8,909	8,278	7,276	6,649
Closing Balance	4,359	7,286	8,032	8,642	7,906	7,062	6,649	8,825

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Analyst's ownership of the stocks mentioned in the Report	NIL
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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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