

Industry  
Bloomberg  
BSE CODE

Pharmaceuticals  
SUNP IN  
524715

## Strong Domestic & ROW growth offset by weak US business.

RATING	ACCUMULATE
CMP	430
Price Target	472
Potential Upside	10%

Rating Change	↑
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	484/350
Mkt Capital (Rs Cr)	103277
Free float (%)	46%
Avg. Vol 1M (,000)	4087
No. of Shares (Crs)	240
Promoters Pledged %	10%

### 3QFY20 Result Update

- The Overall grew by 5% YoY to Rs. 8155 crs( vs our estimate of Rs.8231 crs) led by strong growth in domestic and the ROW market partly offset by weak US business.
- US sales declined by 3% YoY to US\$ 350 mn. US taro sales de-grew by 16% YoY to US\$ 148 mn while the PAT stood at US\$ 68 mn for the quarter. Revenues from the Domestic market and the ROW market increased by 13% and 23% to Rs. 2517 crs and Rs. 1104 crs respectively.
- Sales in the Emerging market declined by 4% YoY to US\$ 195 mn due to reduction in tender revenue in South Africa. Excluding the impact of tender sales, revenue grew by 15% in overall Emerging market.
- Gross margin for the quarter grew by 90 bps YoY to 72.6% on account of the product mix. However, EBITDA margin contracted by 260bp YoY to 20.4% on account of higher marketing spend for the specialty portfolio, consolidation of Pola Pharma and increased R&D cost.
- Net profit declined by 26% YoY to Rs. 914 crs on account of significant reduction in the forex gain YoY and higher taxes, sequentially de-grew by 14% due to higher depreciation and amortization cost.

### View and Valuation

SUNPHARMA reported 5% growth in its overall revenue this quarter driven by strong India and ROW business. The EBITDA margin stayed impacted on account of higher marketing spends for the specialty portfolio, consolidation of Pola Pharma and increased R&D cost.

All the geographies are doing decently well for SUNPHARMA apart from the US business, as the company is still in the phase of ramping up its specialty portfolio. The global specialty portfolio this quarter grew by 13% QoQ to US\$ 118 mn. R&D spending for specialty business was at 24% of the overall R&D spending. Going forward, we believe the improved traction in specialty sales will drive operating leverage and will lead to margin expansion. This along with healthy growth in India and EM markets will drive revenues going ahead. Therefore, we value the stock at 20x FY21E EPS to reach at target price of Rs 472. Maintain ACCUMULATE.

### Key Risks to our rating and target

- Higher R&D spend impacting earnings
- 8483s in Halol facility.

### RESEARCH ANALYST

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	31578	26489	29066	32692	35134
EBITDA	10089	5608	6308	7361	8783
EBIT	8825	4108	4554	5337	6595
PAT	6964	2162	2666	4280	5662
EPS (Rs)	29	9	11	18	24
EPS growth (%)	54%	-69%	23%	61%	32%
ROE (%)	19.0%	5.7%	6.4%	9.5%	11.3%
ROCE (%)	23.2%	10.3%	10.6%	11.3%	12.6%
BV	153	159	173	188	209
P/B (X)	4.5	3.1	2.8	2.3	2.1
P/E (x)	23.7	55.0	43.1	24.1	18.2

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## 3QFY20 Results

Fig in Rs Cr

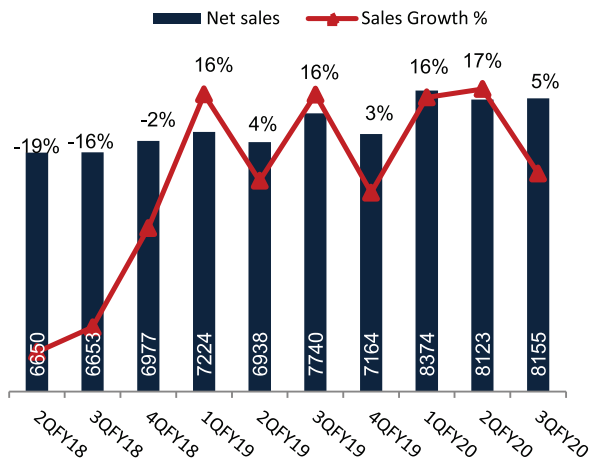
FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	7,740	7,164	8,374	8,123	8,155	5.4%	0.4%	26,489	29,066	9.7%
Other Income	193	282	213	201	120	-37.9%	-40.3%	839	1,025	22.3%
COGS	2,166	1,839	2,458	2,268	2,200	1.6%	-3.0%	7,425	7,869	6.0%
Gross Margin	72%	74%	71%	72%	73%	1.0%	0.9%	72%	73%	1.0%
Employee Cost	1,495	1,569	1,540	1,621	1,549	3.6%	-4.4%	5,367	5,967	11.2%
Other Expen.	1,927	2,740	2,381	2,445	2,564	33.1%	4.9%	8,090	8,922	10.3%
EBITDA	2,153	1,017	1,996	1,790	1,841	-14.5%	2.9%	5,608	6,308	12.5%
EBITDA Mar.	28%	14%	24%	22%	23%	-5.2%	0.5%	21%	22%	0.5%
Depreciation	471	454	457	473	547	16.1%	15.6%	1,500	1,753	16.9%
EBIT	1,682	563	1,538	1,316	1,294	-23%	-1.7%	4,108	4,554	10.9%
Interest	145	150	104	84	63	-57%	-25.0%	518	555	7.3%
PBT	1,730	694	1,647	1,433	1,351	-21.9%	-5.7%	4,429	5,025	13%
Exceptional Item	-	-	-	-	-			951	1,214	28%
Tax	271	(29)	146	266	328	20.9%	23%	845	601	-29%
PAT	1,240	636	1,387	1,064	914	-26.3%	-14%	2,162	2,666	23%
PAT Margin	16%	9%	17%	13%	11%	-4.8%	-2%	8%	9%	1%

## Concall Highlights

- US sales declined by 3% YoY to US\$ 350 mn, Emerging Markets sales de-grew by 4% YoY to US\$ 195 mn, while India and Rest of World sales grew by 13% and 24% YoY to US\$ 155 mn and Rs. 2,517 crs.
- US taro sales de-grew by 16% YoY to US\$ 148 mn while the PAT stood at US\$ 68 mn for the quarter.
- The US specialty revenue grew QoQ with growth mainly driven by higher seasonal sales of Absorica, improving sales of Illumya and Odomzo coupled with the contribution of Cequa launch.
- Illumya continues to add patients and doctors coverage and is confident of Illumya prospects in the next year.
- For the quarter, 7 ANDAs were filed and 9 approvals were received. There are 94 ANDAs and 4 NDAs awaiting approvals, some un-viable ANDAs have been withdrawn.
- The global specialty revenue stands at US\$ 118 mn. The R&D spends on the specialty segment is around 24% of the total R&D expenditure.
- Sales in the Emerging market declined by 4% YoY to US\$ 195 mn due to reduction in tender revenues in South Africa. Excluding the impact of tender sales, revenue grew by 15% in overall Emerging market.
- Other expenses increased by 33% YoY on account of higher marketing spend for the specialty portfolio, consolidation of Pola Pharma and increased R&D cost.
- R&D cost for the quarter stands at Rs. 527 crs(6.6% of sales), for the full year expects to be in the range of 6%. In FY21, R&D cost is expected to be higher for the clinical trial expenses related to new indication of Illumya.
- Gross margin improved YoY on account of the product mix. Net profit declined by 26% YoY to Rs. 914 crs on account of significant reduction in the forex gain YoY and higher taxes, sequentially de-grew by 14% due to higher depreciation and amortization cost.
- The company repaid US\$ 500 mn of debt as on Dec 2019, the net debt now stands at US\$ 410 mn.
- The overall strategy of the business going ahead would be on controlling costs, improving efficiency and focus on increased investments in the specialty portfolio.
- For the India business as a part of strategy, the company has initiated the expansion of field force by 10%, which will be onboard by Q1FY21. The main objective of this expansion includes:
  - Further widening strong customer reach
  - Deep penetration of products.
  - Ensure greater focus on existing brands
- The company continued its efforts to enhance the specialty portfolio in the new markets by entering into a licensing agreement with Astrazeneca in China for novel oncology products.
- On the regulatory front, the company has filed its response to USFDA to resolve the observations issued in Dec 2019 inspection in the Halol plant.

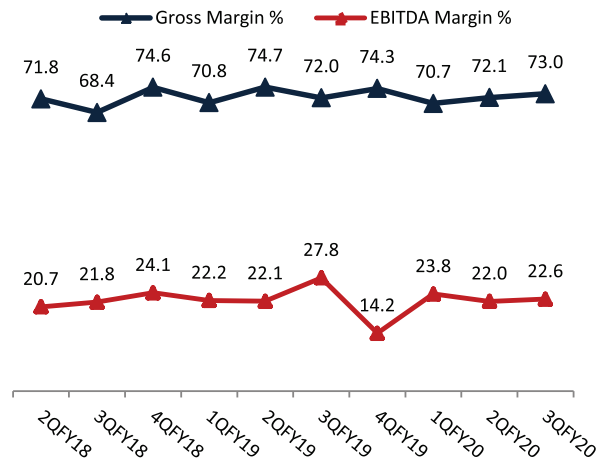
## Exhibit: Net sales and Sales Growth

The overall revenue grew by 5% YoY to Rs. 8155 crs (vs our estimate of 8231 crs)



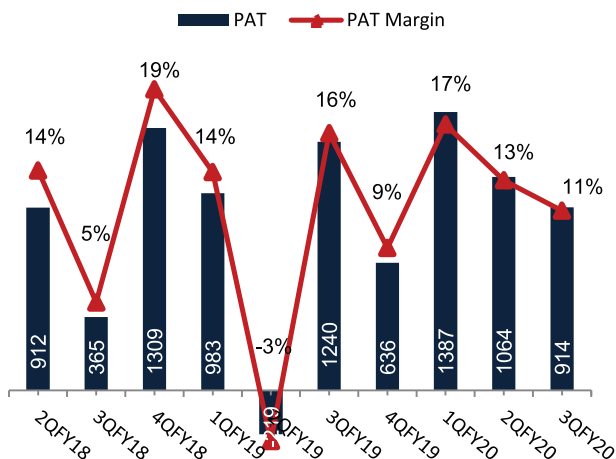
## Exhibit: EBITDA and EBITDA margin

Gross margin grew by 90 bps YoY to 72.6% while, EBITDA margin contracted by 260bp YoY to 20.4%



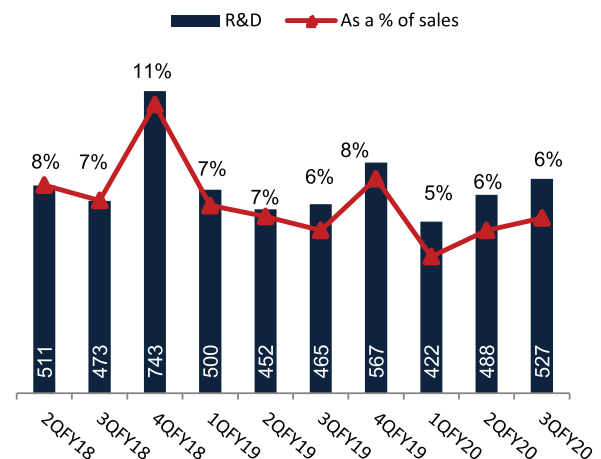
## Exhibit: PAT and PAT margin

Net profit declined by 26% YoY to Rs. 914 crs on account of significant reduction in the forex gain YoY and higher taxes.



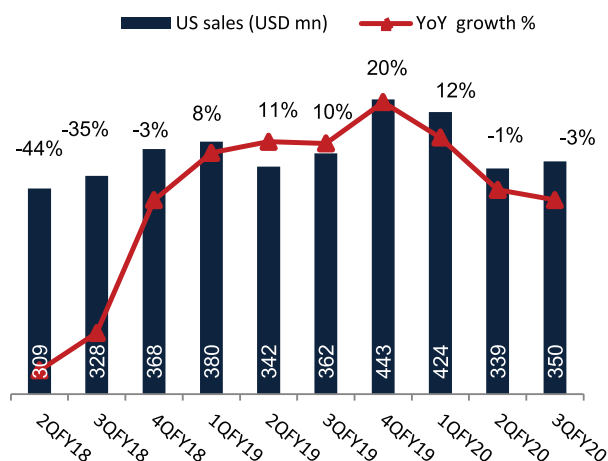
## Exhibit: R&D cost and R&D as a % of sales

R&D spends for the quarter was at Rs.527 crs (6.6% of sales) compared to Rs.466 crs (6% of sales) in Q3FY19.



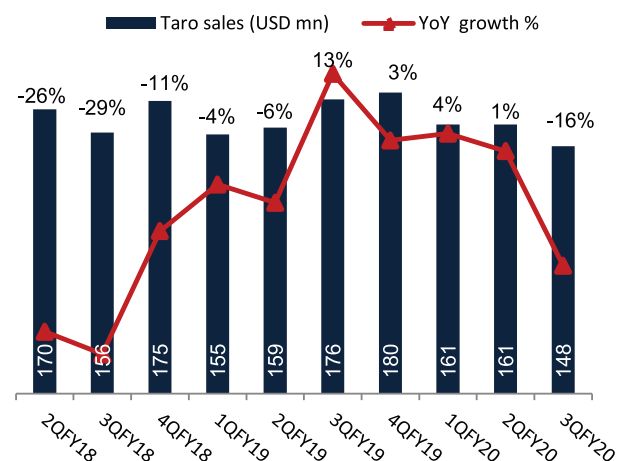
## Exhibit: US sales and YoY growth%

US sales was de-grew by 3% YoY at US\$ 350 million in this quarter.



## Exhibit: Taro sales and YoY growth%

Taro sales declined by 16% YoY at US\$ 148 mn. Net profit for Q3FY20 was US\$ 68 mn.



## Operational Details

GEOGRAPHY	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
India Formulations	2085	1963	2152	1860	2235	1101	2314	2515	2517
US Formulations	2124	2372	2544	2398	2606	3195	2942	2381	2492
Emerging Market	1221	1279	1309	1372	1462	1246	1346	1412	1390
ROW Formulations	777	744	718	762	898	1102	1159	1131	1104
API	370	332	394	426	426	484	461	468	503
Others	21	21	22	29	30	42	37	42	32

REVENUE GR. %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
India Formulations	6%	2%	22%	-16%	7%	-44%	8%	35%	13%
US Formulations	-38%	-7%	12%	21%	23%	34%	16%	-1%	-4%
Emerging Market	5%	5%	21%	9%	20%	-3%	3%	3%	-5%
ROW Formulations	2%	2%	-3%	7%	16%	48%	61%	48%	23%
API	1%	-16%	28%	10%	15%	46%	17%	10%	18%
Others	144%	54%	136%	16%	39%	97%	65%	44%	8%

REVENUE MIX%	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
India Formulations	32%	29%	30%	27%	29%	15%	28%	32%	31%
US Formulations	32%	35%	36%	35%	34%	45%	36%	30%	31%
Emerging Market	19%	19%	18%	20%	19%	17%	16%	18%	17%
ROW Formulations	12%	11%	10%	11%	12%	15%	14%	14%	14%
API	6%	5%	6%	6%	6%	7%	6%	6%	6%
Others	0%	0%	0%	0%	0%	1%	0%	1%	0%

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

## 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	44,872	49,956
<b>Networth</b>	<b>18,525</b>	<b>25,590</b>	<b>32,982</b>	<b>36,640</b>	<b>38,101</b>	<b>41,409</b>	<b>45,112</b>	<b>50,196</b>
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	1,247	1,289
<b>Total Capital Employed</b>	<b>21,014</b>	<b>33,186</b>	<b>41,299</b>	<b>44,731</b>	<b>47,852</b>	<b>51,302</b>	<b>52,584</b>	<b>56,668</b>
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	6,814	6,854
<b>Non Current Assets</b>	<b>10,684</b>	<b>19,883</b>	<b>25,589</b>	<b>28,457</b>	<b>32,667</b>	<b>33,625</b>	<b>34,902</b>	<b>35,242</b>
Inventory	3,123	5,668	6,423	6,833	6,881	7,886	8,870	9,532
Debtors	2,200	5,106	6,776	7,203	7,815	8,884	9,993	10,739
Cash & Bank	7,590	10,998	13,182	15,141	9,929	7,276	6,368	9,135
Other Current Assets	5,773	7,144	3,561	3,777	7,011	7,023	7,180	7,509
<b>Current Assets</b>	<b>18,686</b>	<b>28,916</b>	<b>29,941</b>	<b>32,954</b>	<b>31,636</b>	<b>31,069</b>	<b>32,410</b>	<b>36,915</b>
Creditors	1,328	3,287	3,583	4,395	4,766	4,148	4,478	4,813
Provisions	1,961	4,353	2,973	4,016	5,110	2,932	3,270	3,506
Other Current Liabilities	260	2,280	1,381	2,821	2,009	1,889	2,152	2,300
<b>Curr Liabilities</b>	<b>3,549</b>	<b>9,919</b>	<b>7,938</b>	<b>11,232</b>	<b>11,885</b>	<b>8,969</b>	<b>9,900</b>	<b>10,618</b>
<b>Net Current Assets</b>	<b>15,137</b>	<b>18,997</b>	<b>22,003</b>	<b>21,722</b>	<b>19,751</b>	<b>22,100</b>	<b>22,510</b>	<b>26,297</b>
<b>Total Assets</b>	<b>29,371</b>	<b>48,799</b>	<b>55,530</b>	<b>61,410</b>	<b>64,303</b>	<b>64,694</b>	<b>67,312</b>	<b>72,157</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>16,080</b>	<b>27,392</b>	<b>28,487</b>	<b>31,578</b>	<b>26,489</b>	<b>28,686</b>	<b>32,207</b>	<b>34,717</b>
Change (%)	42%	70%	4%	11%	-16%	8%	12%	8%
<b>EBITDA</b>	<b>7000</b>	<b>7867</b>	<b>8158</b>	<b>10089</b>	<b>5608</b>	<b>6308</b>	<b>7361</b>	<b>8783</b>
Change (%)	43%	12%	4%	24%	-44%	12%	17%	19%
Margin (%)	43.5%	28.7%	28.6%	31.9%	21.2%	21.7%	22.5%	25.0%
Depr & Amor.	409	1195	1038	1265	1500	1753	2024	2188
<b>EBIT</b>	<b>6591</b>	<b>6672</b>	<b>7121</b>	<b>8825</b>	<b>4108</b>	<b>4554</b>	<b>5337</b>	<b>6595</b>
Int. & other fin. Cost	44	579	523	400	518	555	314	272
Other Income	552	548	658	623	839	1,025	715	1162
<b>EBT</b>	<b>7,099</b>	<b>6,641</b>	<b>7,256</b>	<b>9,048</b>	<b>4,429</b>	<b>5,025</b>	<b>5,738</b>	<b>7,486</b>
Exp Item	2,517	238	685	-	951	1,214	-	-
Tax	702	915	914	1,212	845	601	1,056	1,422
Minority Int & P/L share of Ass.	738	924	1,114	892	421	541	399	399
<b>Reported PAT</b>	<b>3,879</b>	<b>5,488</b>	<b>5,657</b>	<b>7,836</b>	<b>2,634</b>	<b>3,210</b>	<b>4,280</b>	<b>5,662</b>
<b>Adjusted PAT</b>	<b>3,141</b>	<b>4,539</b>	<b>4,546</b>	<b>6,964</b>	<b>2,162</b>	<b>2,666</b>	<b>4,280</b>	<b>5,662</b>
Change (%)	5%	44%	0%	53%	-69%	23%	10%	32%
Margin(%)	19.5%	16.6%	16.0%	22.1%	8.2%	9.2%	13.1%	16.1%

## 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%	9.5%	11.3%
ROCE	35.5%	24.7%	19.7%	23.2%	10.3%	10.6%	11.3%	12.6%
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	17	24
P/E	37.9	46.7	43.4	23.7	55.0	43.1	24.1	18.2
Price / Book Value	6.4	8.3	6.0	4.5	3.1	2.8	2.3	2.1
EV/EBITDA	16	26	24	16	20	17	13	11
FCF per Share	15	16	14	15	8	(4)	11	19
Div Yield	0.4%	0.1%	0.4%	0.1%	0.7%	0.4%	0.5%	0.5%

### 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	5,336	7,084
(inc)/Dec in Working Capital	207	180	247	(409)	(212)	(2,696)	(1,859)	(1,015)
Non Cash Op Exp	409	1,195	1,038	1,265	1,500	1,753	2,024	2,188
Int Paid (+)	44	579	523	400	518	555	314	272
Tax Paid	(789)	(1,740)	(1,988)	(2,057)	(742)	(886)	(1,056)	(1,422)
others	(494)	(1,000)	296	(1,164)	(635)	(340)	-	-
<b>CF from Op. Activities</b>	<b>3,959</b>	<b>5,616</b>	<b>6,686</b>	<b>7,082</b>	<b>3,907</b>	<b>2,196</b>	<b>4,759</b>	<b>7,106</b>
(inc)/Dec in FA & CWIP	(906)	(2,342)	(3,404)	(3,693)	(1,961)	(3,213)	(2,069)	(2,488)
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)
<b>CF from Inv. Activities</b>	<b>(2,367)</b>	<b>(2,866)</b>	<b>(4,372)</b>	<b>(4,222)</b>	<b>(3,371)</b>	<b>(681)</b>	<b>(2,622)</b>	<b>(2,489)</b>
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)	(314)	(272)
Div Paid (inc tax)	(606)	(363)	(871)	(292)	(976)	(1,424)	(578)	(578)
others								
<b>CF from Fin. Activities</b>	<b>507</b>	<b>(1,187)</b>	<b>(1,889)</b>	<b>(2,285)</b>	<b>(1,539)</b>	<b>(2,731)</b>	<b>(3,045)</b>	<b>(1,849)</b>
Inc(Dec) in Cash	2,099	1,563	426	575	(1,003)	(1,215)	(908)	2,768
<b>Add: Opening Balance</b>	<b>2,260</b>	<b>5,722</b>	<b>7,606</b>	<b>8,067</b>	<b>8,909</b>	<b>8,278</b>	<b>7,276</b>	<b>6,368</b>
Closing Balance	4,359	7,286	8,032	8,642	7,906	7,062	6,368	9,135

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