

Industry  
Bloomberg  
BSE CODE

Pharmaceuticals  
SUNP IN  
524715

RATING	NEUTRAL
CMP	451
Price Target	472
Potential Upside	5%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	505/315
Mkt Capital (Rs Cr)	109767
Free float (%)	46%
Avg. Vol 1M (,000)	14582
No. of Shares (Crs)	240
Promoters Pledged %	13%

## RESEARCH ANALYST

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## Revenue in line, Net profit impacted due to exceptional loss & higher cost.

### 4QFY20 Result update

- The US sales for the quarter declined by 15% YoY to US\$ 375 mn. Sales for Q4 last year included a one-time contribution from the special business in US.
- Taro sales declined by 3% YoY to US\$ 175 mn, though sequentially has grown by 18% as there has been some stocking up due to Covid'19. The net profit declined by 7% YoY to US\$ 54 mn.
- The Domestic sales grew 8% YoY (Adjusted for one-time impact related to the change in distribution) to Rs.2365 crs, marginally impacted by the logistical issue. The acute prescription has been impacted due to Covid'19.
- Emerging market grew by 8% YoY to US\$ 187 mn as the company is witnessing reduction in the South Africa tender sales; excluding the impact of tender sales- the Emerging market recorded double digit growth, key growth markets being Russia, Romania & Brazil.
- EBITDA margin for the quarter grew by 250 bps YoY to 16.7%, sequentially declined by 590 bps. Approximately 50% of the EBITDA margin decline versus Q3FY20 is due to the adverse impact of forex loss (forex loss of 142 crs in Q4FY20 vs forex gain of 82 crs in Q3FY20).
- The Net profit declined by 37% due to adverse impact of forex loss, higher costs and exceptional item of Rs. 260 crs.

### View and Valuation

Overall revenue came in line, though margins were impacted sequentially due to forex loss and higher costs in 4QFY20.

The global specialty portfolio grew by 7% QoQ to US\$ 126 mn led by Cequa, Illumya & Yonza. Illumya sales for Illumya FY20 stood at US\$ 94 mn. The specialty portfolio of the company has gained reasonable traction, but we expect the uptake to be impacted due to Covid led shutdown. The prescription of Cequa & Illumya has been impacted, though Cequa prescriptions have started seeing an upward trend as doctors resumed clinics. The domestic business grew by 8% YoY marginally impacted by the logistical issues, going forward, with relaxation in the lockdown – the improvement in prescription generation will lead to the growth of overall business.

The significant cost incurred by the company in the branding & promotion for the specialty portfolio will impact the margins in near term as the ramp up maybe slower on account of covid led disruption, though the endeavor of the company remains to improve the existing margin through cost optimization initiatives. Therefore, we maintain our NEUTRAL stance with a target price of Rs 472.

### Key Risks to our rating and target

- Delay in the resolution of OAI in the Halol plant.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	31578	26489	29066	32838	35203
EBITDA	10089	5608	6308	6990	8134
EBIT	8825	4108	4554	4937	5832
PAT	6964	2162	2666	3765	5027
EPS (Rs)	29	9	11	16	21
EPS growth (%)	54%	-69%	23%	41%	34%
ROE (%)	19.0%	5.7%	6.4%	8.3%	10.1%
ROCE (%)	23.2%	10.3%	10.6%	10.4%	11.3%
BV	153	159	173	189	207
P/B (X)	4.5	3.1	2.8	1.9	2.2
P/E (x)	23.7	55.0	43.1	22.4	21.5

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## 4QFY20 Results

Fig in Rs Cr

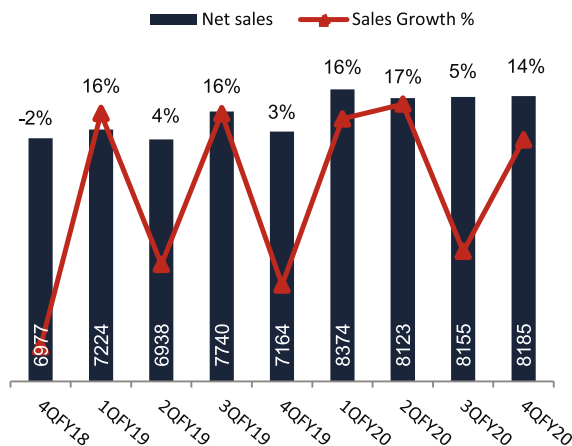
FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %
Net Sales	7,164	8,374	8,123	8,155	8,185	14.3%	0.4%	29,066	32,838	13.0%
Other Income	282	213	201	120	102	-63.7%	-14.7%	1,025	636	-38.0%
COGS	1,839	2,458	2,268	2,200	2,305	25.3%	4.8%	7,869	9,230	17.3%
Gross Margin	74%	71%	72%	73%	72%	-2.5%	-1.2%	73%	72%	-1.0%
Employee Cost	1,569	1,540	1,621	1,549	1,652	5.3%	6.6%	5,967	6,362	6.6%
Other Expen.	2,740	2,381	2,445	2,564	2,865	4.6%	11.7%	8,922	10,255	14.9%
EBITDA	1,017	1,996	1,790	1,841	1,363	34.1%	-26.0%	6,308	6,990	10.8%
EBITDA Mar.	14%	24%	22%	23%	17%	2.5%	-5.9%	22%	21%	-0.4%
Depreciation	454	457	473	547	575	26.7%	5.2%	1,753	2,053	17.1%
EBIT	563	1,538	1,316	1,294	788	40%	-39.2%	4,554	4,937	8.4%
Interest	150	104	84	63	52	-65%	-17.7%	555	303	-45.5%
PBT	694	1,647	1,433	1,351	838	20.7%	-38.0%	5,025	5,270	5%
Exceptional Item	-	-	-	-	261	-	-	1,214	261	-79%
Tax	(29)	146	266	328	83	-388.4%	-75%	601	823	37%
PAT	636	1,387	1,064	914	400	-37.1%	-56%	2,666	3,765	41%
PAT Margin	9%	17%	13%	11%	5%	-4.0%	-6%	9%	11%	2%

## Concall Highlights

- The US sales for the quarter declined by 15% YoY to US\$ 375 mn. Sales for Q4 last year included a one-time contribution from the special business in US.
- Taro sales declined by 3% YoY to US\$ 175 mn, though sequentially has grown by 18% as there has been some stocking up due to Covid'19. The net profit declined by 7% YoY to US\$ 54 mn.
- The global specialty sales across all markets grew by 7% QoQ to US\$ 126 mn in 4QFY20. Illumya recorded annual sales of US\$ 94 mn. The R&D spends on the specialty segment is around 24% of the total R&D expenditure.
- Cequa has seen downward trend on account of Covid'19. The entire market of dry eye has come down due to Covid'19. However, as the no. of clinics start opening – the prescription is expected to improve as per the management.
- Illumya has been impacted in 4QFY20 on account of lesser prescription generation due to Covid'19, though the long term view of the company for this product stays intact. The company will try to optimize the cost for Illumya.
- The US generics pipeline is strong though the pricing pressure will continue to exist.
- The Domestic sales grew 8% YoY(Adjusted for one-time impact related to the change in distribution) to Rs.2365 crs, marginally impacted by the logistical issue. The acute prescription has been impacted due to Covid'19, though strong brand equity with doctors in chronic segment has helped to protect the business.
- For the India business as a part of strategy, the company has initiated the expansion of field force by 10% as mentioned in the last quarter, which will be 6-7% are onboard.
- Emerging market grew by 8% YoY to US\$ 187 mn as the company is witnessing reduction in the South Africa tender sales; excluding the impact of tender sales- the Emerging market recorded double digit growth, key growth markets being Russia, Romania & Brazil.
- EBITDA margin for the quarter grew by 250 bps YoY to 16.7%, sequentially declined by 590 bps. Approximately 50% of the EBITDA margin decline versus Q3FY20 is due to the adverse impact of forex loss (forex loss of 142 crs in Q4FY20 vs forex gain of 82 crs in Q3FY20)..
- On the CAPEX front, the company will expand & upgrade its facilities but there will be no investment in the greenfield projects.
- The company expects to see some softening in the sales in the near term due to lockdown.

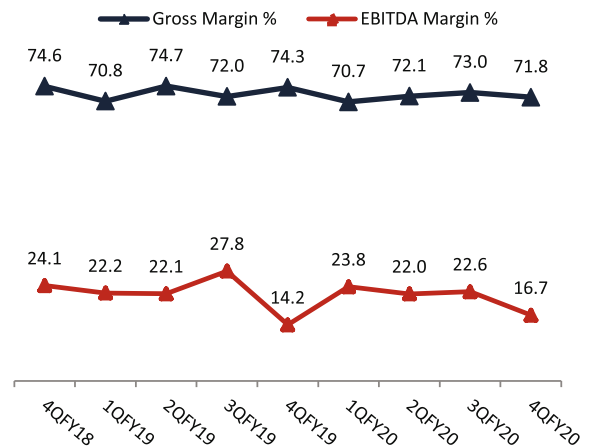
## Exhibit: Net sales and Sales Growth

The overall revenue grew by 15% YoY to Rs. 8078crs (vs our estimate of 7189 crs).



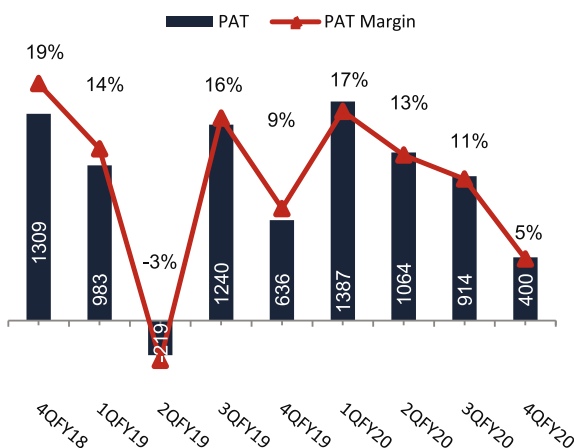
## Exhibit: EBITDA and EBITDA margin

"EBITDA margin contracted by 590bps QoQ to 16.7% due to forex loss and higher costs.



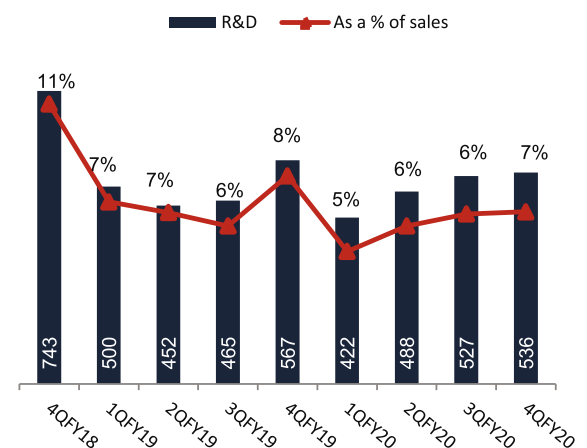
## Exhibit: PAT and PAT margin

The Net profit declined by 37% due to adverse impact of forex loss, higher costs and exceptional item of Rs. 260 crs.



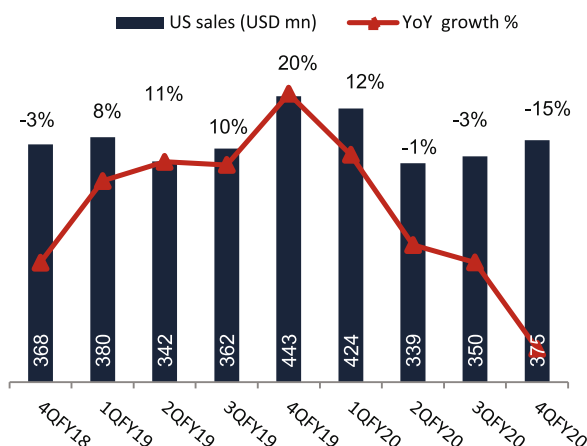
## Exhibit: R&D cost and R&D as a % of sales

R&D spends remains deferred to subsequent quarters due to delay in initiation of trials for Illumya due to Covid.



## Exhibit: US sales and YoY growth%

US sales declined by 15% YoY in 4QFY20 as 4QFY19 had a one-time contribution from the special business in US.



## Exhibit: Taro sales and YoY growth%

Taro sales declined by 3% YoY, though sequentially has grown by 18%.



## Operational Details

GEOGRAPHY	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
India Formulations	1963	2152	1860	2235	1101	2314	2515	2517	2365
US Formulations	2372	2544	2398	2606	3190	2942	2381	2492	2713
Emerging Market	1279	1309	1372	1462	1246	1346	1412	1390	1354
ROW Formulations	744	718	762	898	1102	1159	1131	1104	1121
API	332	394	426	426	484	461	468	503	483
Others	21	22	29	30	42	37	42	32	42

REVENUE GR. %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
India Formulations	2%	22%	-16%	7%	-44%	8%	35%	13%	115%
US Formulations	-7%	12%	21%	23%	34%	16%	-1%	-4%	-15%
Emerging Market	5%	21%	9%	20%	-3%	3%	3%	-5%	9%
ROW Formulations	2%	-3%	7%	16%	48%	61%	48%	23%	2%
API	-16%	28%	10%	15%	46%	17%	10%	18%	0%
Others	54%	136%	16%	39%	97%	65%	44%	8%	-1%

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

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

## 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	45,025	49,474
<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>45,264</b>	<b>49,714</b>
Debt	2,489	7,596	8,316	8,091	9,752	9,893	7,578	6,578
Minority interest	1,921	2,885	4,085	3,791	3,884	3,314	3,860	3,860
Other Non Current Liab	2,886	2,794	2,208	1,657	682	1,109	1,392	1,458
<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>52,843</b>	<b>56,292</b>
Net Fixed Assets (incl CWIP)	7,659	14,721	18,048	20,477	21,318	23,248	24,067	24,230
Non Current Investments	788	599	1,116	961	3,052	3,952	5,246	5,246
Other Non Current Assets	2,238	4,563	6,425	7,019	8,297	6,425	7,285	7,367
<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>36,598</b>	<b>36,843</b>
Inventory	3,123	5,668	6,423	6,833	6,881	7,886	7,875	8,442
Debtors	2,200	5,106	6,776	7,203	7,815	8,884	9,421	10,100
Cash & Bank	7,590	10,998	13,182	15,141	9,929	7,276	6,488	8,956
Other Current Assets	5,773	7,144	3,561	3,777	7,011	7,023	7,870	7,858
<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>31,654</b>	<b>35,356</b>
Creditors	1,328	3,287	3,583	4,395	4,766	4,148	4,094	4,389
Provisions	1,961	4,353	2,973	4,016	5,110	2,932	3,970	3,970
Other Current Liabilities	260	2,280	1,381	2,821	2,009	1,889	2,093	2,229
<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>10,157</b>	<b>10,588</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>21,497</b>	<b>24,768</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>68,252</b>	<b>72,199</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	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>32,325</b>	<b>34,785</b>
Change (%)	42%	70%	4%	11%	-16%	8%	13%	8%
<b>EBITDA</b>	<b>7000</b>	<b>7867</b>	<b>8158</b>	<b>10089</b>	<b>5608</b>	<b>6308</b>	<b>6990</b>	<b>8134</b>
Change (%)	43%	12%	4%	24%	-44%	12%	11%	16%
Margin (%)	43.5%	28.7%	28.6%	31.9%	21.2%	21.7%	21.3%	23.1%
Depr & Amor.	409	1195	1038	1265	1500	1753	2053	2302
<b>EBIT</b>	<b>6591</b>	<b>6672</b>	<b>7121</b>	<b>8825</b>	<b>4108</b>	<b>4554</b>	<b>4937</b>	<b>5832</b>
Int. & other fin. Cost	44	579	523	400	518	555	303	276
Other Income	552	548	658	623	839	1025	636	1162
<b>EBT</b>	<b>7099</b>	<b>6641</b>	<b>7256</b>	<b>9048</b>	<b>4429</b>	<b>5025</b>	<b>5270</b>	<b>6718</b>
Exp Item	2,517	238	685	-	951	1,214	261	-
Tax	702	915	914	1,212	845	601	823	1,276
Minority Int & P/L share of Ass.	738	924	1,114	892	421	541	392	385
<b>Reported 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>3,765</b>	<b>5,027</b>
<b>Adjusted PAT</b>	<b>5,659</b>	<b>4,777</b>	<b>5,231</b>	<b>6,964</b>	<b>3,112</b>	<b>3,880</b>	<b>4,025</b>	<b>5,027</b>
Change (%)	59%	-16%	9%	33%	-55%	25%	4%	25%
Margin(%)	19.5%	16.6%	16.0%	22.1%	8.2%	9.2%	11.5%	14.3%

## 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%	8.3%	10.1%
ROCE	35.5%	24.7%	19.7%	23.2%	10.3%	10.6%	10.4%	11.3%
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	112	105	105
Inv Days	71	76	82	79	95	99	88	88
Payable Days	30	44	46	51	66	52	46	46
Int Coverage	149	12	14	22	8	8	16	21
P/E	37.9	46.7	43.4	23.7	55.0	43.1	22.4	21.5
Price / Book Value	6.4	8.3	6.0	4.5	3.1	2.8	1.9	2.2
EV/EBITDA	16	26	24	16	20	17	12	13
FCF per Share	15	16	14	15	8	(4)	21	18
Div Yield	0.4%	0.1%	0.4%	0.1%	0.7%	0.4%	1.6%	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	5,010	6,303
(inc)/Dec in Working Capital	207	180	247	(409)	(212)	(2,696)	899	(801)
Non Cash Op Exp	409	1,195	1,038	1,265	1,500	1,753	2,053	2,302
Int Paid (+)	44	579	523	400	518	555	303	276
Tax Paid	(789)	(1,740)	(1,988)	(2,057)	(742)	(886)	(1,346)	(1,276)
others	(494)	(1,000)	296	(1,164)	(635)	(340)	(362)	-
<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>6,555</b>	<b>6,803</b>
(inc)/Dec in FA & CWIP	(906)	(2,342)	(3,404)	(3,693)	(1,961)	(3,213)	(1,542)	(2,465)
Free Cashflow	-	-	-	-	-	-	-	-
(Pur)/Sale of Inv	(80)	39	1,520	363	(5,594)	31,994	(1,552)	-
others	(1,381)	(563)	(2,488)	(892)	4,184	2,720	505	(17)
<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>(2,589)</b>	<b>(2,481)</b>
inc/(dec) in NW	(1,140)	75	(38)	(2,732)	(675)	(608)	(212)	-
inc/(dec) in Debt	2,275	(548)	(678)	1,072	588	(237)	(3,123)	(1,000)
Int. Paid	(23)	(350)	(301)	(334)	(477)	(461)	(272)	(276)
Div Paid (inc tax)	(606)	(363)	(871)	(292)	(976)	(1,424)	(1,683)	(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>(5,715)</b>	<b>(1,854)</b>
Inc(Dec) in Cash	2,099	1,563	426	575	(1,003)	(1,215)	(1,749)	2,468
<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>7,426</b>	<b>6,488</b>
Closing Balance	4,359	7,286	8,032	8,642	7,906	7,062	5,677	8,956



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