

Industry
Bloomberg
BSE CODE

Pharmaceuticals
SUNP IN
524715

The de-growth in the specialty portfolio across the markets impacted the revenue growth this quarter.

RATING	NEUTRAL
CMP	531
Price Target	533
Potential Upside	0%
Rating Change	↔
Estimate Change	↑
Target Change	↔

STOCK INFO	
52wk Range H/L	541/315
Mkt Capital (Rs Cr)	127581
Free float (%)	46%
Avg. Vol 1M (,000)	9588
No. of Shares (Crs)	240
Promoters Pledged %	10%

RESEARCH ANALYST

J MADHAVI

j.madhavi@narnolia.com

1QFY21 Result update

- The total US business declined by 33% YoY to US\$ 282 mn in 1QFY21 as sales for Q1FY20 included a one-time contribution from the special business in US. Taro's sales declined by 27% YoY to US\$ 118 mn; adjusted for the one-time settlement charge of US\$ 478.9 mn, PAT declined by 56% YoY to US\$ 29 mn.
- The global specialty sales across all markets de-grew by 38% QoQ to US\$ 78 mn in 1QFY21 impacted on account Covid-related lockdown. The R&D spend on the specialty segment is around 39% of the total R&D expenditure.
- Revenues from the Domestic business increased by 3% YoY to Rs.2388 crs; the chronic division has shown good performance whereas the acute segment has faced challenges due to closure of Doctor's clinics.
- The sales from the Emerging market have declined by 11% YoY to US\$ 173 mn on account of reduction in tender revenues from South Africa.
- EBITDA margin grew by 50 bps YoY to 24.3% on account of lower marketing & selling and travelling expenses across markets.
- The adjusted PAT stood declined by 17% YoY to Rs. 1146 crs excluding the exceptional items of Rs. 3,633 crs (and its minority interest of Rs. 832 crs), with resulting PAT margin at 15.3%. Reported net loss for quarter was at Rs. 1,656 crs due to the exceptional items.
- Taro reported settlements and loss contingencies of US\$ 479 mn, which reflect the one-time settlement charge of US\$ 418.9 mn related to the global resolution of the DOJ investigations into the US generic pharmaceutical industry & an additional provision of US\$ 60 mn has been taken for the related ongoing multi-jurisdiction civil antitrust matters.

View and Valuation

SUNPHARMA reported a decline of 10% YoY in the overall revenues of 1QFY21 on account of lower than expected sales in the US business due to lower prescription generation for Illumya & Levulan on account of temporary closure of clinics. The entire specialty portfolio across the markets has been impacted on account of extended lockdown driven by Covid'19 but the market share for the key specialty products remains intact. The growth in the API segment has helped amidst pressures across geography on account of Covid'19 pandemic.

Going forward, as the lockdown is relaxed across the markets; we believe to see growth in the prescription generation and the company's focus to reduce debt will strengthen the balance sheet.

The OAI status on the Halol plant still remains an overhang. Therefore, we maintain our NEUTRAL stance with a target price of Rs. 533.

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY18	FY19	FY20	FY21E	FY22E
Net Sales	26489	29066	32838	33832	36113
EBITDA	5608	6308	6990	7467	8204
EBIT	4108	4554	4937	5483	6050
PAT	3112	3880	4025	5182	5118
EPS (Rs)	13	16	17	22	21
EPS growth (%)	-55%	25%	4%	29%	-1%
ROE (%)	8.2%	9.4%	8.9%	11.2%	10.1%
ROCE (%)	10.3%	10.6%	10.4%	11.4%	11.5%
BV	159	173	189	193	212
P/B (X)	3.1	2.8	1.9	2.8	2.5
P/E (x)	38.2	29.6	21.0	24.6	24.9

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1QFY21 Results

Fig in Rs Cr

FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	8,374	8,123	8,155	8,185	7,585	-9.4%	-7.3%	29,066	32,838	13.0%
Other Income	213	201	120	102	154	-27.8%	50.4%	1,025	636	-38.0%
COGS	2,458	2,268	2,200	2,305	1,970	-19.9%	-14.5%	7,869	9,230	17.3%
Gross Margin	71%	72%	73%	72%	74%	3.4%	2.2%	73%	72%	-1.0%
Employee Cost	1,540	1,621	1,549	1,652	1,759	14.2%	6.5%	5,967	6,362	6.6%
Other Expen.	2,381	2,445	2,564	2,865	2,013	-15.4%	-29.7%	8,922	10,255	14.9%
EBITDA	1,996	1,790	1,841	1,363	1,844	-7.6%	35.3%	6,308	6,990	10.8%
EBITDA Mar.	24%	22%	23%	17%	24%	0.5%	7.7%	22%	21%	-0.4%
Depreciation	457	473	547	575	496	8.5%	-13.8%	1,753	2,053	17.1%
EBIT	1,538	1,316	1,294	788	1,348	-12%	71.1%	4,554	4,937	8.4%
Interest	104	84	63	52	52	-50%	0.3%	555	303	-45.5%
PBT	1,647	1,433	1,351	838	1,449	-12.0%	73.0%	5,025	5,270	5%
Exceptional Item	-	-	-	261	3,633	-	-	1,214	261	-79%
Tax	146	266	328	83	246	68.4%	196%	601	823	37%
Reported PAT	1,387	1,064	914	400	(1,656)	N.A	N.A	2,666	3,765	41%
Adjusted PAT	1,387	1,064	914	660	1,146	-17.4%	73%	3,880	4,025	4%
PAT Margin	17%	13%	11%	8%	15%	-1.5%	7%	13%	12%	-1%

Concall Highlights

- The total US business declined by 33% YoY to US\$ 282 mn in 1QFY21 as sales for Q1FY20 included a one-time contribution from the special business in US.
- Taro sales declined by 27% YoY to US\$ 118 mn; adjusted for the one-time settlement charge of US\$ 478.9 mn, PAT declined by 56% YoY to US\$ 29 mn. Taro's reported net loss for Q1 was US\$ 434.9 mn.
- Taro reported settlements and loss contingencies of US\$ 478.9 mn, which reflect the one-time settlement charge of US\$ 418.9 mn related to the global resolution of the Department of Justice investigations into the US generic pharmaceutical industry & an additional provision of US\$ 60 mn has been taken for the related ongoing multi-jurisdiction civil antitrust matters.
- The global specialty sales across all markets de-grew by 38% QoQ to US\$ 78 mn in 1QFY21 impacted on account Covid-related lockdown. The R&D spends on the specialty segment is around 39% of the total R&D expenditure.
- The decline in the specialty portfolio has been mainly driven by lower sales of Illumya & levulan as the temporary closure of clinics have impacted these products. Now, the prescription shares are near to pre-covid levels & MoM improvement is visible.
- Revenues from the Domestic business increased by 3% YoY to Rs.2388 crs; the chronic division has shown good performance whereas acute segment has faced challenges due to closure of Doctor's clinics.
- In the Domestic business, the patients flow still remains low; for the non-Covid segment, hospitals & OPDs are gradually starting. The MRs have started the field work barring the containment zones.
- The expansion of the field force in the India business is nearing completion & will help in long run to enhance geographical & doctor's reach.
- The company has commenced clinical trials in India for 2 products related to Covid'19, these trials are progressing well.
- The sales from the Emerging market has declined by 11% YoY to US\$ 173 mn on account of reduction in tender revenues from South Africa; excluding the tender business, the sales from the Emerging market were flat compared to last year.
- The margins have improved YoY as well as sequentially on account of lower marketing & selling and travelling expenses across markets.
- The company has reduced debt positions by around US\$ 200 mn in 1QFY21 compared to 4QFY20.
- On the regulatory front, all the remediation work is almost done in the Halol plant.

Exhibit: Net sales and Sales Growth

The overall revenue grew by 9% YoY to Rs. 7585 crs on account of lower than expected sales in US.

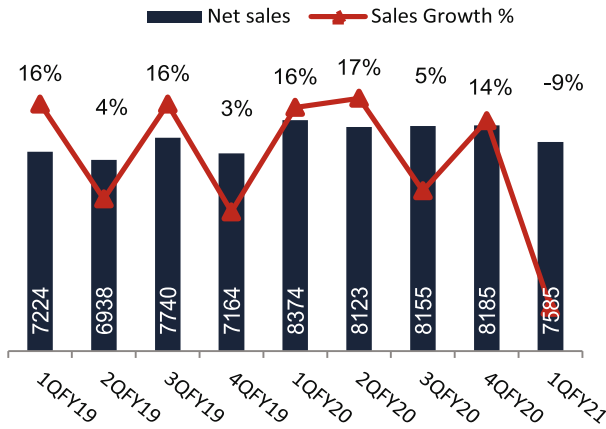


Exhibit: Gross & EBITDA margin

EBITDA margin grew by 50 bps YoY to 24.3% on account of lower marketing & selling and travelling exp.

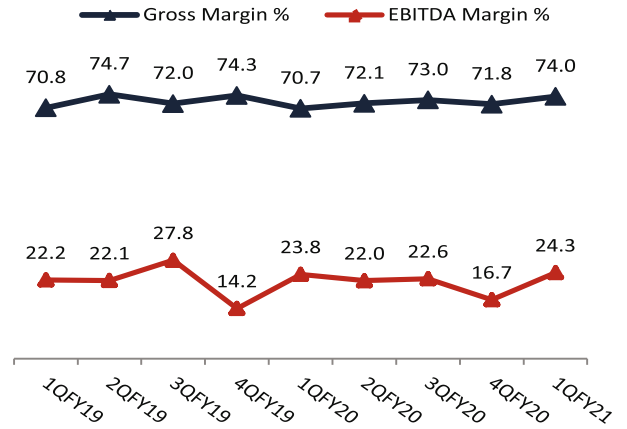


Exhibit: PAT and PAT margin

The adjusted PAT stood declined by 17% YoY to Rs. 1146 crs excluding the exceptional items.

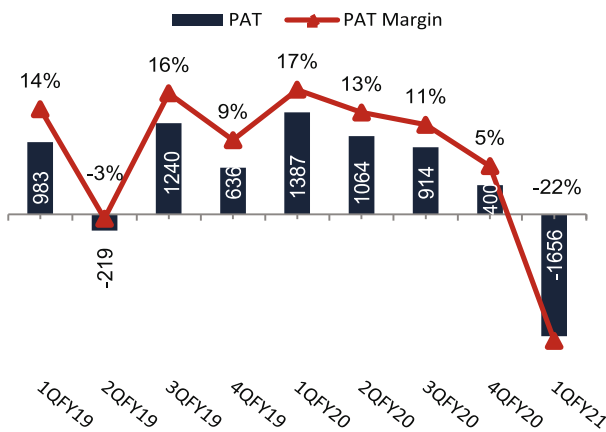


Exhibit: R&D cost and R&D as a % of sales

R&D spends remains deferred to subsequent quarters due to delay in clinical trials due to Covid.

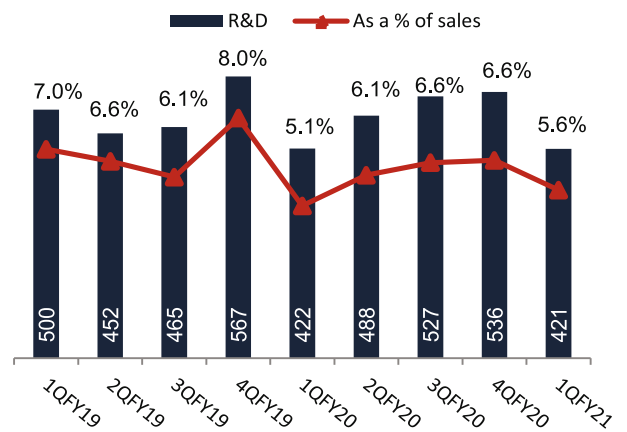


Exhibit: US sales and YoY growth %

"US sales declined by 33% YoY in Q1FY21 as Q4FY20 had a one-time contribution from the special business in US.

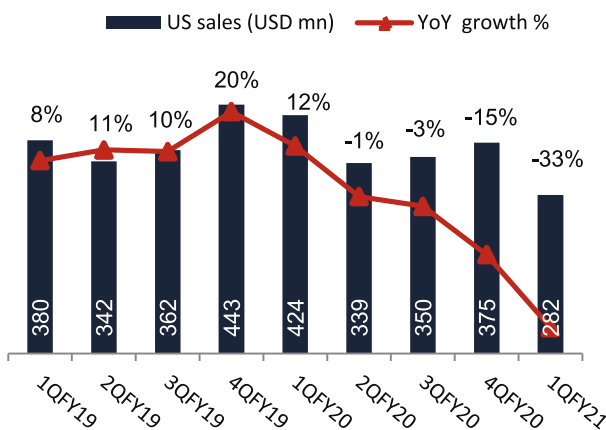
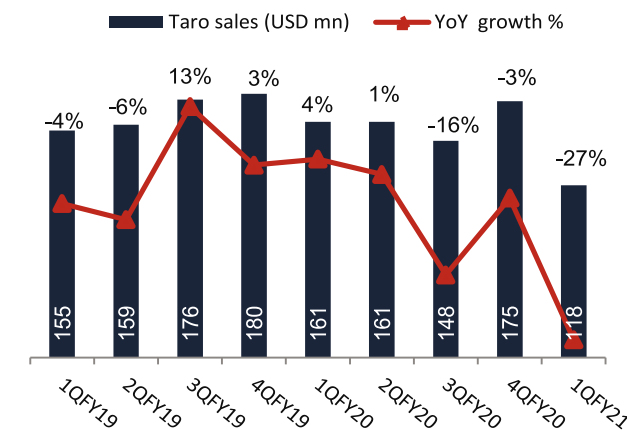


Exhibit: Taro sales and YoY growth %

Taro's sales declined by 27% YoY to US\$ 118 mn due to pricing pressure in the US generic market.



Operational Details

GEOGRAPHY	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
India Formulations	2152	1860	2235	1101	2314	2515	2517	2365	2388
US Formulations	2544	2398	2606	3190	2942	2381	2492	2713	2136
Emerging Market	1309	1372	1462	1246	1346	1412	1390	1354	1316
ROW Formulations	718	762	898	1102	1159	1131	1104	1121	1030
API	394	426	426	484	461	468	503	483	554
Others	22	29	30	42	37	42	32	42	43

REVENUE GR. %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
India Formulations	22%	-16%	7%	-44%	8%	35%	13%	115%	3%
US Formulations	12%	21%	23%	34%	16%	-1%	-4%	-15%	-27%
Emerging Market	21%	9%	20%	-3%	3%	3%	-5%	9%	-2%
ROW Formulations	-3%	7%	16%	48%	61%	48%	23%	2%	-11%
API	28%	10%	15%	46%	17%	10%	18%	0%	20%
Others	136%	16%	39%	97%	65%	44%	8%	-1%	15%

REVENUE MIX %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
India Formulations	30%	27%	29%	15%	28%	32%	31%	29%	32%
US Formulations	36%	35%	34%	45%	36%	30%	31%	34%	29%
Emerging Market	18%	20%	19%	17%	16%	18%	17%	17%	18%
ROW Formulations	10%	11%	12%	15%	14%	14%	14%	14%	14%
API	6%	6%	6%	7%	6%	6%	6%	6%	7%
Others	0%	0%	0%	1%	0%	1%	0%	1%	1%

ANDA pipeline	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
ANDA filings	3	4	5	9	3	2	7	6	7
ANDA approvals	6	4	10	12	13	7	9	2	8

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	207	241	240	240	240	240	240	240
Reserves	25,383	32,742	36,400	37,861	41,169	45,025	45,996	50,537
Networth	25,590	32,982	36,640	38,101	41,409	45,264	46,236	50,777
Debt	7,596	8,316	8,091	9,752	9,893	7,578	6,578	6,578
Minority interest	2,885	4,085	3,791	3,884	3,314	3,860	3,860	3,860
Other Non Current Liab	2,794	2,208	1,657	682	1,109	1,392	1,424	1,465
Total Capital Employed	33,186	41,299	44,731	47,852	51,302	52,843	52,814	57,355
Net Fixed Assets (incl CWIP)	14,721	18,048	20,477	21,318	23,248	24,067	24,452	24,598
Non Current Investments	599	1,116	961	3,052	3,952	5,246	5,246	4,243
Other Non Current Assets	4,563	6,425	7,019	8,297	6,425	7,285	7,336	7,362
Non Current Assets	19,883	25,589	28,457	32,667	33,625	36,598	37,034	36,204
Inventory	5,668	6,423	6,833	6,881	7,886	7,875	8,113	8,660
Debtors	5,106	6,776	7,203	7,815	8,884	9,421	9,707	10,361
Cash & Bank	10,998	13,182	15,141	9,929	7,276	6,488	5,840	7,085
Other Current Assets	7,144	3,561	3,777	7,011	7,023	7,870	7,743	7,153
Current Assets	28,916	29,941	32,954	31,636	31,069	31,654	31,403	33,260
Creditors	3,287	3,583	4,395	4,766	4,148	4,094	4,218	4,502
Provisions	4,353	2,973	4,016	5,110	2,932	3,970	3,970	-
Other Current Liabilities	2,280	1,381	2,821	2,009	1,889	2,093	2,150	2,282
Curr Liabilities	9,919	7,938	11,232	11,885	8,969	10,157	10,338	6,784
Net Current Assets	18,997	22,003	21,722	19,751	22,100	21,497	21,064	26,476
Total Assets	48,799	55,530	61,410	64,303	64,694	68,252	68,436	69,464

Income Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue from Operation	27,392	28,487	31,578	26,489	28,686	32,325	33,403	35,680
Change (%)	70%	4%	11%	-16%	8%	13%	3%	7%
EBITDA	7867	8158	10089	5608	6308	6990	7467	8204
Change (%)	12%	4%	24%	-44%	12%	11%	7%	10%
Margin (%)	28.7%	28.6%	31.9%	21.2%	21.7%	21.3%	22.1%	22.7%
Depr & Amor.	1195	1038	1265	1500	1753	2053	1984	2154
EBIT	6672	7121	8825	4108	4554	4937	5483	6050
Int. & other fin. Cost	579	523	400	518	555	303	263	263
Other Income	548	658	623	839	1025	636	597	943
EBT	6641	7256	9048	4429	5025	5270	5817	6730
Exp Item	238	685	-	951	1,214	261	3,633	-
Tax	915	914	1,212	845	601	823	1,119	1,226
Minority Int & P/L share of Ass.	924	1,114	892	421	541	392	(456)	414
Reported PAT	4,539	4,546	6,964	2,162	2,666	3,765	1,549	5,118
Adjusted PAT	4,777	5,231	6,964	3,112	3,880	4,025	5,182	5,118
Change (%)	-16%	9%	33%	-55%	25%	4%	29%	-1%
Margin(%)	17.4%	18.4%	22.1%	11.7%	13.3%	12.3%	15.3%	14.2%

Financial Details

Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
ROE	18.7%	15.9%	19.0%	8.2%	9.4%	8.9%	11.2%	10.1%
ROCE	24.7%	19.7%	23.2%	10.3%	10.6%	10.4%	11.4%	11.5%
Asset Turnover	0.6	0.5	0.5	0.4	0.4	0.5	0.5	0.5
Debtor Days	68	87	83	108	112	105	105	105
Inv Days	76	82	79	95	99	88	88	88
Payable Days	44	46	51	66	52	46	46	46
Int Coverage	12	14	22	8	8	16	21	23
P/E	44.4	37.7	23.7	38.2	29.6	21.0	24.6	24.9
Price / Book Value	8.3	6.0	4.5	3.1	2.8	1.9	2.8	2.5
EV/EBITDA	26	24	16	20	17	12	17	15
FCF per Share	16	14	15	8	(4)	21	5	1
Div Yield	0.1%	0.4%	0.1%	0.7%	0.4%	1.6%	0.4%	0.4%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	6,403	6,571	9,048	3,479	3,810	5,010	6,302	6,345
(inc)/Dec in Working Capital	180	247	(409)	(212)	(2,696)	899	(218)	(5,049)
Non Cash Op Exp	1,195	1,038	1,265	1,500	1,753	2,053	1,984	2,154
Int Paid (+)	579	523	400	518	555	303	263	263
Tax Paid	(1,740)	(1,988)	(2,057)	(742)	(886)	(1,346)	(1,119)	(1,226)
others	(1,000)	296	(1,164)	(635)	(340)	(362)	-	-
CF from Op. Activities	5,616	6,686	7,082	3,907	2,196	6,555	3,578	2,486
(inc)/Dec in FA & CWIP	(2,342)	(3,404)	(3,693)	(1,961)	(3,213)	(1,542)	(2,369)	(2,300)
Free Cashflow	-	-	-	-	-	-	-	-
(Pur)/Sale of Inv	39	1,520	363	(5,594)	31,994	(1,552)	-	1,900
others	(563)	(2,488)	(892)	4,184	2,720	505	(16)	(1)
CF from Inv. Activities	(2,866)	(4,372)	(4,222)	(3,371)	(681)	(2,589)	(2,385)	(401)
inc/(dec) in NW	75	(38)	(2,732)	(675)	(608)	(212)	-	-
inc/(dec) in Debt	(548)	(678)	1,072	588	(237)	(3,123)	(1,000)	-
Int. Paid	(350)	(301)	(334)	(477)	(461)	(272)	(263)	(263)
Div Paid (inc tax)	(363)	(871)	(292)	(976)	(1,424)	(1,683)	(578)	(578)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(1,187)	(1,889)	(2,285)	(1,539)	(2,731)	(5,715)	(1,840)	(840)
Inc(Dec) in Cash	1,563	426	575	(1,003)	(1,215)	(1,749)	(648)	1,245
Add: Opening Balance	5,722	7,606	8,067	8,909	8,278	7,426	6,488	5,840
Closing Balance	7,286	8,032	8,642	7,906	7,062	5,677	5,840	7,085

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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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 Commerce Limited (Formerly Microsec Commerce 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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