

BUY

TP: Rs 1,045 | ▲ 28%

SUN PHARMA

| Pharmaceuticals

| 24 February 2022

Alchemee acquisition to expand global branded derma portfolio

- SUNP, through subsidiary Taro Pharma, to acquire Galderma's skincare arm Alchemee in US\$ 90mn all-cash
- Deal includes Alchemee's global business and assets, including the Proactiv brand
- Retain BUY on SUNP with TP of Rs 1,045 set at 18x FY24E EV/EBITDA

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Taro to access Alchemee's global business and assets: SUNP, through its wholly owned subsidiary Taro Pharma, has signed a definitive agreement with Galderma to acquire the latter's subsidiary Alchemee along with its global business and assets. Alchemee (formerly The Proactiv Company) has a 25-year-old global acne-care brand 'Proactiv' in the OTC and non-prescription skincare markets. The US\$ 90mn all-cash deal (subject to adjustment of current working capital valuation) is guided to be concluded by 28 February 2022 with zero cash and zero debt.

Ticker/Price	SUNP IN/Rs 818
Market cap	US\$ 25.9bn
Free float	45%
3M ADV	US\$ 43.5mn
52wk high/low	Rs 903/Rs 562
Promoter/FPI/DII	54%/12%/22%

Source: NSE | Price as of 24 Feb 2022

Strong skincare portfolio under 'Proactiv' brand: Under its flagship brand Proactiv, Alchemee has a portfolio of cleanser (Benzoyl Peroxide 2.5%), toner and repairing treatment (Benzoyl Peroxide 2.5%). These three steps are formulated to work together to treat and prevent breakouts for most skin types, especially oily and combination skin.

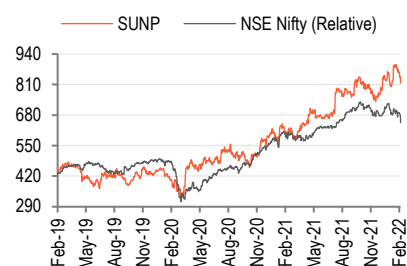
Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	3,31,395	3,86,007	4,28,780
EBITDA (Rs mn)	85,028	1,04,192	1,15,695
Adj. net profit (Rs mn)	72,189	79,309	90,409
Adj. EPS (Rs)	30.1	33.1	37.7
Consensus EPS (Rs)	30.1	30.5	34.2
Adj. ROAE (%)	14.6	15.0	15.1
Adj. P/E (x)	27.2	24.8	21.7
EV/EBITDA (x)	22.2	17.8	15.6
Adj. EPS growth (%)	80.8	9.9	14.0

Source: Company, Bloomberg, BOBCAPS Research

Acquisition to complement Taro's dermatology offerings: As per exchange filings, Alchemee had revenue of US\$ 166mn in FY21 and is valued at 0.5x sales. Taro had revenue of US\$ 549mn in FY21, of which dermatology and topical products contributed 58%. This acquisition will complement Taro's portfolio as dermatological and topical therapeutic products are its key focus areas in the US and Canada.

Stock performance



Source: NSE

Genesis of Alchemee: Alchemee is an omnichannel platform that has strong brand equity in products with dermatological applications in skincare cosmetics. As per the company, Proactiv is America's most recognised acne brand with industry-leading efficacy and 20mn customers.

Retain BUY: We maintain our TP of Rs 1,045 for SUNP and continue to value the stock at an unchanged 18x FY24E EV/EBITDA multiple, a 30% premium to large-cap peers such as CIPLA and DRRD due to its high-margin specialty presence in the developed markets of the US, Europe and Japan. BUY.

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Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	3,23,252	3,31,395	3,86,007	4,28,780	4,70,485
EBITDA	69,566	85,028	1,04,192	1,15,695	1,29,095
Depreciation	20,528	20,800	21,248	22,323	23,661
EBIT	49,038	64,229	82,944	93,371	1,05,434
Net interest inc./(exp.)	(3,027)	(1,414)	(1,021)	(511)	(255)
Other inc./(exp.)	6,360	8,355	14,063	17,196	20,071
Exceptional items	0	0	0	0	0
EBT	52,370	71,170	95,985	1,10,056	1,25,250
Income taxes	8,228	5,147	12,465	15,392	18,770
Extraordinary items	(2,606)	(43,061)	0	0	0
Min. int./Inc. from assoc.	4,219	(6,166)	4,212	4,256	4,122
Reported net profit	37,317	29,128	79,309	90,409	1,02,358
Adjustments	2,606	43,061	0	0	0
Adjusted net profit	39,924	72,189	79,309	90,409	1,02,358

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	40,937	39,737	57,333	61,257	64,550
Other current liabilities	29,746	59,604	59,649	59,698	59,752
Provisions	44,812	49,098	53,680	58,721	64,266
Debt funds	75,783	33,430	21,730	10,865	5,432
Other liabilities	0	0	0	0	0
Equity capital	2,399	2,399	2,399	2,399	2,399
Reserves & surplus	4,88,848	4,92,399	5,58,571	6,33,479	7,17,612
Shareholders' fund	4,91,247	4,94,798	5,60,970	6,35,878	7,20,011
Total liab. and equities	6,82,524	6,76,667	7,53,362	8,26,419	9,14,012
Cash and cash eq.	65,742	66,570	1,18,790	1,66,712	2,31,092
Accounts receivables	94,212	90,614	1,12,356	1,24,806	1,36,945
Inventories	78,750	89,970	99,351	1,10,360	1,21,094
Other current assets	1,02,583	1,04,305	1,04,305	1,04,305	1,04,305
Investments	1,01,431	97,025	97,025	97,025	97,025
Net fixed assets	1,04,808	93,185	86,537	88,213	88,553
CWIP	12,203	12,203	12,203	12,203	12,203
Intangible assets	1,22,795	1,22,795	1,22,795	1,22,795	1,22,795
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	6,82,524	6,76,667	7,53,362	8,26,419	9,14,012

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	67,057	78,890	92,635	98,749	1,12,239
Capital expenditures	(25,524)	(9,177)	(14,600)	(24,000)	(24,000)
Change in investments	(22,407)	4,407	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(47,932)	(4,770)	(14,600)	(24,000)	(24,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(23,151)	(42,353)	(11,701)	(10,865)	(5,432)
Interest expenses	(3,027)	(1,414)	(1,021)	(511)	(255)
Dividends paid	(16,624)	(15,595)	(17,200)	(19,608)	(22,199)
Other financing cash flows	16,662	(13,930)	4,108	4,156	4,028
Cash flow from financing	(26,140)	(73,292)	(25,814)	(26,827)	(23,859)
Chg in cash & cash eq.	(7,014)	828	52,221	47,922	64,380
Closing cash & cash eq.	65,742	66,570	1,18,790	1,66,712	2,31,092

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	15.6	12.1	33.1	37.7	42.7
Adjusted EPS	16.6	30.1	33.1	37.7	42.7
Dividend per share	6.9	6.5	7.2	8.2	9.3
Book value per share	188.7	193.7	219.6	249.1	282.5

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	5.9	5.7	4.8	4.2	3.7
EV/EBITDA	27.3	22.2	17.8	15.6	13.5
Adjusted P/E	49.2	27.2	24.8	21.7	19.2
P/BV	4.3	4.2	3.7	3.3	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	76.2	101.4	82.6	82.1	81.7
Interest burden (PBT/EBIT)	106.8	110.8	115.7	117.9	118.8
EBIT margin (EBIT/Revenue)	15.2	19.4	21.5	21.8	22.4
Asset turnover (Rev./Avg TA)	12.1	12.2	13.5	13.6	13.5
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	8.5	14.6	15.0	15.1	15.1

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	12.7	2.5	16.5	11.1	9.7
EBITDA	14.6	22.2	22.5	11.0	11.6
Adjusted EPS	9.6	80.8	9.9	14.0	13.2
Profitability & Return ratios (%)					
EBITDA margin	21.5	25.7	27.0	27.0	27.4
EBIT margin	15.2	19.4	21.5	21.8	22.4
Adjusted profit margin	12.4	21.8	20.5	21.1	21.8
Adjusted ROAE	8.5	14.6	15.0	15.1	15.1
ROCE	7.6	13.3	14.3	14.7	14.9
Working capital days (days)					
Receivables	106	106	106	106	106
Inventory	94	94	94	94	94
Payables	207	207	207	207	207
Ratios (x)					
Gross asset turnover	1.2	1.2	1.3	1.4	1.4
Current ratio	3.0	2.4	2.5	2.8	3.1
Net interest coverage ratio	16.2	45.4	81.2	182.8	412.9
Adjusted debt/equity	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

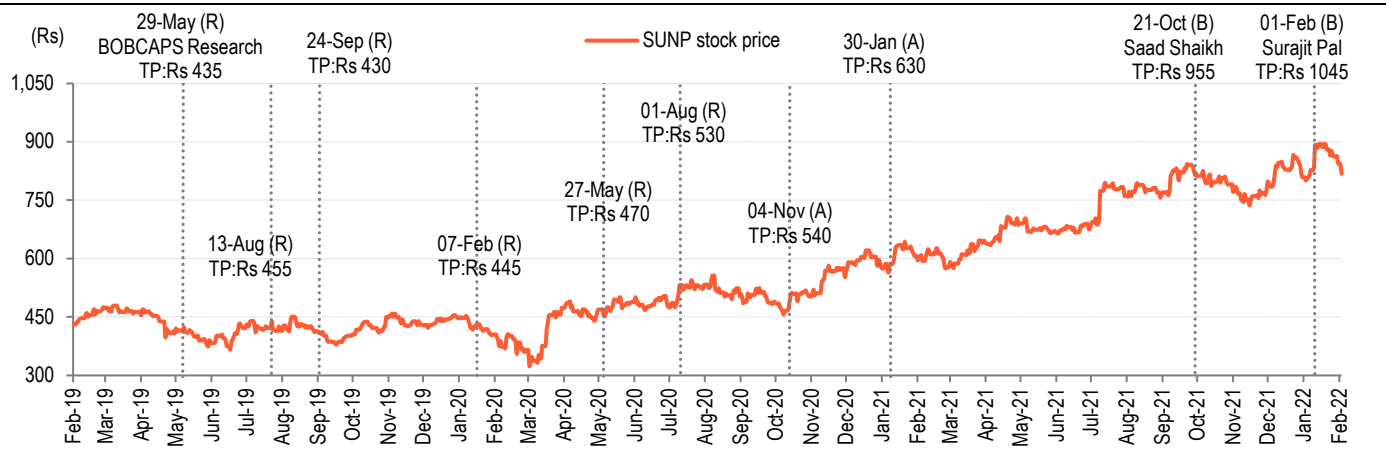
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SUN PHARMA (SUNP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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