

BUY

TP: Rs 1,045 | ▲ 25%

SUN PHARMA

| Pharmaceuticals

| 01 February 2022

Broad based growth; steady margins

- **Strong Q3 with YoY growth across geographies; flat sequential growth in domestic/ROW markets due to lower Covid portfolio contribution**
- **Margins steady; US price erosion mitigated by new launches and better supply chain management**
- **We raise FY22-FY24 EBITDA by 4% each and roll forward to a new TP of Rs 1,045 (vs. Rs 955); maintain BUY**

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Broad-based growth: SUNP reported a 12% YoY increase in Q3FY22 revenue with growth across segments. The domestic market contributed 41% to the incremental revenue and was up 15% YoY, followed by the ROW market at 12% YoY on a lower base (33% contribution to growth), while US business contributed 21% to the incremental revenue and grew 8% YoY.

Specialty business fuels US growth: US business grew at 10% QoQ to US\$ 397mn underpinned by the specialty segment, albeit partly set off by price erosion. SUNP highlighted that patient flow to hospitals is still below pre-Covid levels. Cequa, Levulan, Iillumya and absorica were the major contributors of growth in specialty business. Company launched Winlevi in Canada in mid-Nov and expects better traction in Winlevi in Q4 onwards.

Strong momentum continues in domestic business: SUNP’s domestic business continued to grow faster than the market in Q3 at 15% YoY (flat QoQ), leading to an increase in overall market share to 8.6%. Growth was backed by improved demand for the non-Covid portfolio, better patient flow to hospitals and increased patient awareness. It witnessed negligible Covid portfolio contribution in the domestic market in Q3.

Steady margin despite rising costs: EBITDA margin for the quarter was stable YoY (-160bps QoQ) at 26.5% despite rising raw material costs and higher travelling and promotional expenses (still below pre-pandemic levels). Gross margin stood at 73.2% (-40bps YoY, -60bps QoQ).

Retain BUY; raise TP to 1,045: We marginally increase our FY22-FY24 revenue estimates by 2% each and EBITDA by 4% each. This coupled with rollover of valuations to FY24 yield a new TP of Rs 1,045 (vs. Rs 955). We continue to value the stock at an unchanged 18x EV/EBITDA multiple at premium of 30% to other large-cap peers such as CIPLA, DRRD, LPC due to high margin specialty presence in developed market of US, Europe and Japan. Retain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SUNP IN/Rs 835
Market cap	US\$ 26.8bn
Free float	45%
3M ADV	US\$ 43.6mn
52wk high/low	Rs 871/Rs 562
Promoter/FPI/DII	54%/12%/22%

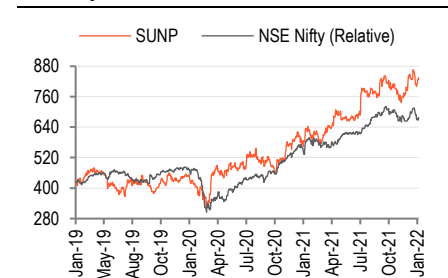
Source: NSE | Price as of 31 Jan 2022

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)	27.7	25.2	22.1
EV/EBITDA (x)	22.7	18.2	15.9
Adj. EPS growth (%)	80.8	9.9	14.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Net Sales	98,631	88,368	11.6	96,259	2.5	2,92,077	2,49,752	16.9
EBITDA	26,169	23,345	12.1	27,063	(3.3)	80,644	64,085	25.8
Depreciation	5,537	5,319	-	5,304	-	15,873	15,265	
EBIT	20,632	18,026	14.5	21,759	(5.2)	64,771	48,820	32.7
Interest	190	261	-	360	-	900	1,113	-
-Other Income	4,325	3,150	-	2,229	94%	8,079	7,245	-
P-BT	24,768	20,914	-	23,629	-	71,951	54,952	-
Less: Taxation	3,354	2,449	-	1,978	-	9,287	4,597	-
Less: Minority Interest	720	656	-	417	-	782	(5,730)	-
Recurring PAT	20,694	17,809	16.2	21,234	(2.5)	61,881	56,086	10.3
Exceptional items	(106)	716	-	(764)	-	(6,381)	(35,989)	-
Reported PAT	20,588	18,525	11.1	20,470	0.6	55,500	20,097	176.2
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	73.2	73.6	(37)	73.8	(57)	73.3	74.2	(92)
EBITDA Margin	26.5	26.4	11	28.1	(158)	27.6	25.7	195
Tax / PBT	13.5	11.7	-	8.4	-	12.9	8.4	-
NPM	21.0	20.2	-	22.1	-	21.2	22.5	-
EPS (Rs)	8.6	7.4	-	8.8	-	25.8	23.4	-

Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Formulation	92,824	83,220	11.5	90,582	2.5	2,74,223	2,32,051	18.2
Domestic	31,676	27,528	15.1	31,878	(0.6)	96,637	76,724	26.0
Exports	61,148	55,693	9.8	58,704	4.2	1,77,585	1,55,327	14.3
US	29,718	27,629	7.6	26,773	11.0	84,491	73,933	14.3
ROW	31,431	28,064	12.0	31,931	(1.6)	93,095	81,394	14.4
APIs and others	5,318	4,868	9.2	4,985	6.7	16,181	16,424	(1.5)
Net Sales	98,142	88,088	11.4	95,567	2.7	2,90,403	2,48,475	16.9
USDINR	75	74	1.6	74	1.1	74	75	0
US revenue (US\$ mn)	397	375	5.9	361	9.7	1137	990	15

Source: Company, BOBCAPS Research

Earnings call highlights

- **US Specialty revenues crosses revenues of FY21:** US specialty revenues US\$ 183m, grew 21% YoY, its 9MFY22 also crossed total revenues of FY22. Cequa, Levulan, Illumya and absorica were the major contributors of growth in specialty business. It launched Winlevi in Canada in mid-Nov and expects better traction in Winlevi in Q4 onwards.
- **US generics grew 10% QoQ:** US generics grew 10% QoQ to the revenues of US\$397, including revenues in Taro of Rs139m in Q3. The strong growth in ex-Taro US generic revenues were contributed by 5 new launches. It plans to launch gAmbisome in 4QFY21 with 180 days exclusivity.
- **Guided higher overhead:** Management guided for higher overhead costs with increasing normalization of economies worldwide. It also expects normalization will increase revenues with higher footfall in doctors' clinic and augment its sales of anti-acne products.
- **India formulations continues to expand market share:** With 8.6% market share (vs 8.1% QoQ), India formulations grew 15% YoY. The launch of 25 products helped to maintain growth in India formulations.
- **Debt Repayment:** The company repaid US\$254m in 9MFY22. Currently, it has net cash of US\$2.1bn including Taro pharma.
- **Pending ANDAs, R&D Costs, regulatory update:** There are 88 ANDAs and 13 NDAs are awaiting approval with USFDA. Management guided higher R&D costs in FY23E as important clinical trials of its NDA pipeline to begin. There are no new responses from USFDA after the company submitted data as guided by USFDA.

Valuation methodology

SUNP has sustained its growth momentum with a broad-based uptick across businesses in Q3FY22 while maintaining stable margins despite raw material inflation and price erosion in the US. The company is addressing price erosion by launching new products, improving supply chain management and ramping up specialty business. During 9MFY22, its global specialty business crossed full-year FY21 revenues. In the domestic market, SUNP is gaining market share by beating industry growth.

Post Q3, we slightly increase our FY22-FY24 revenue estimates by 2% each and EBITDA by 4% each. This coupled with rollover of valuations to FY24 yields a new TP of Rs 1,045 (vs. Rs 955). We continue to value the stock at an unchanged 18x EV/EBITDA multiple at premium of ~30% to other front-line stock like CIPLA, DRRD, LPC due to high margin specialty presence in developed market of US, Europe and Japan. Retain BUY.

Fig 3 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Sales	386.0	428.8	470.5	378.4	420.8	462.8	2.0	1.9	1.7
EBITDA	104.2	115.7	129.1	99.9	111.1	124.3	4.2	4.1	3.9
EBITDA margin (%)	27.0	27.0	27.4	26.4	26.4	26.9	58bps	58bps	58bps
EPS (Rs)	33.1	37.7	42.7	31.5	35.7	40.4	5.0	5.6	5.6

Source: BOBCAPS Research

Fig 4 – Key assumptions

Revenue (Rs bn)	FY21	FY22E	FY23E	FY24E
Domestic	103.4	116.9	130.9	144.0
US	100.8	125.1	134.6	142.0
ROW	106.0	119.8	135.4	153.0
APIs and others	21.1	24.3	27.9	31.5

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EBITDA CAGR FY21-24E (%)	EV/EBITDA		ROE (%)		Target P/E (x)
					FY23E	FY24E	FY23E	FY24E	
Cipla	CIPLA IN	BUY	1,160	11.0	13.2	11.7	13.6	14.5	16.0
Dr. Reddy's	DRRD IN	HOLD	4,700	10.6	12.6	11.9	17.2	15.5	12.5
Lupin	LPC IN	HOLD	1,045	19.0	11.4	9.6	12.9	15.1	11.6
Sun Pharma	SUNP IN	BUY	1,045	14.9	15.1	13.5	16.1	16.1	18.4
Aggregate	-	-	-	-	13.1	11.7	14.9	15.3	-

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- regulatory hurdles especially at the Halol plant,
- slow ramp-up in the specialty business, and

- above-expected price erosion in the US generics business.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.6	2,201	2,800	BUY
Alembic Pharma	ALPM IN	2.0	757	980	BUY
Alkem Labs	ALKEM IN	5.7	3,539	4,250	HOLD
Aurobindo Pharma	ARBP IN	5.0	634	886	BUY
Cipla	CIPLA IN	10.2	945	1,160	BUY
Divi's Labs	DIVI IN	14.4	4,036	5,540	HOLD
Dr Reddy's Labs	DRRD IN	9.6	4,303	4,700	HOLD
Eris Lifesciences	ERIS IN	1.3	699	890	BUY
Laurus Labs	LAURUS IN	3.6	503	570	HOLD
Lupin	LPC IN	5.5	908	1,045	HOLD
Sun Pharma	SUNP IN	26.8	835	1,045	BUY

Source: BOBCAPS Research, NSE | Price as of 31 Jan 2022

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	6.0	5.8	4.9	4.3	3.8
EV/EBITDA	27.9	22.7	18.2	15.9	13.8
Adjusted P/E	50.1	27.7	25.2	22.1	19.6
P/BV	4.4	4.3	3.8	3.4	3.0

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%

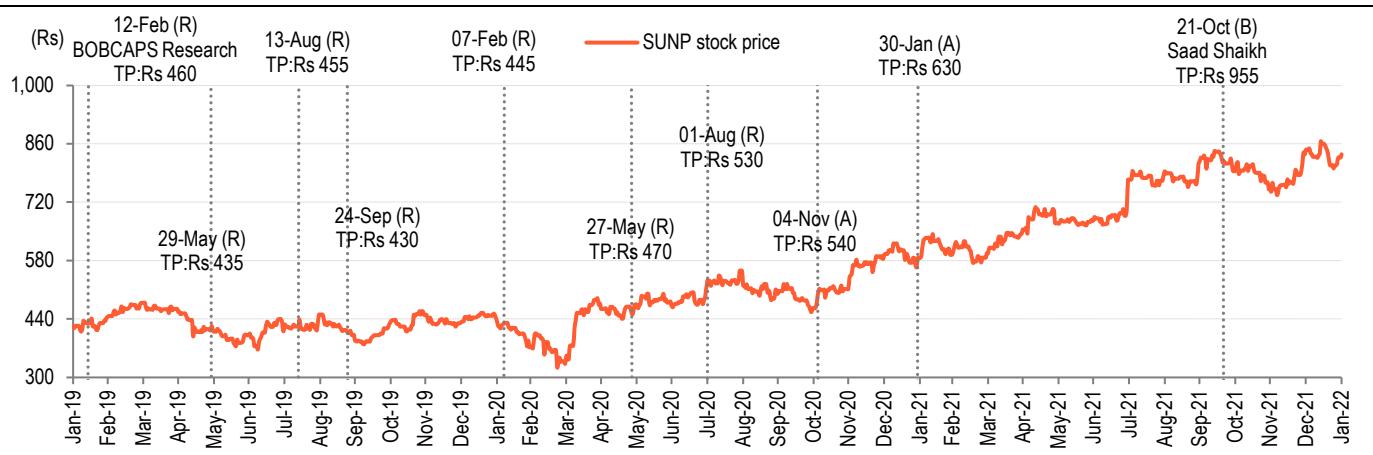
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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