

BUY

TP: Rs 1,100 | ▲ 24%

SUN PHARMA

| Pharmaceuticals

| 31 May 2022

Strong India growth; cost normalisation impacts margins

- Q4 EBITDA/adj. PAT declined 17%/28% QoQ (+6%/-5% YoY) due to 350bps QoQ contraction in operating margin
- Specialty and India business continued to outperform despite lower Covid contribution, led by traction in existing business and launches
- We broadly maintain FY23-FY24 estimates and reiterate BUY with a TP of Rs 1,100

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Q4 loss due to litigation settlement and one-off expenses: SUNP reported Q4FY22 revenue slightly below consensus (-1%), but EBITDA/adj. PAT were significantly lower (-14%/-12%) due to a QoQ increase in costs. Revenue at Rs 94.5bn declined 4% QoQ (+11% YoY). EBITDA margin contracted 350bps QoQ to 23.1% (flat gross margin) owing to higher SG&A expenses as travel normalised and Covid-related cost savings were reversed. On account of litigation settlements, SUNP reported exceptional expenses of Rs 39.4bn which resulted in a loss of Rs 22.8bn in Q4. Adjusting for the one-off expenses, PAT was at ~Rs 15bn.

Strong India business; US revenue declines QoQ due to flattish specialty sales and generic competition: US revenue declined 2% QoQ CC to US\$ 389mn due to flattish sales in the global specialty segment and increased competition in generic Absorica. On a YoY basis, US revenue grew 5% backed by traction in Ilumya, Cequa and Odomzo plus the launch of Winlevi in Q3FY22. India business recorded strong growth of 16% YoY in Q4 amid normalised market conditions, improved patient flow to clinics and new launches (11 in Q4). Management expects overall FY23 revenue growth to be in high-single-digits to low-double-digits with stable margins.

Healthy outlook: Management intends to raise its domestic field force by ~10% in FY23 to expand geographically and strengthen brand focus. R&D expense for FY23 would be at 7-8% of sales (FY22: 5.6%) with increased clinical trial activities and higher patient recruitment. Despite these additional expenses, the company intends to maintain margins via new launches and traction in existing business.

Retain BUY with TP at Rs 1,100: We marginally lower our FY23-FY24 EBITDA estimates by 3% each as we factor in increased costs toward the new field force, SG&A, launches and R&D spend. We continue to value SUNP at an unchanged 18.5x EV/EBITDA multiple – a premium of 30% to large-cap peers such as CIPLA and DRRD due to its high-margin specialty presence in the developed markets of US, Europe and Japan. Retain BUY with an unchanged TP of Rs 1,100.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SUNP IN/Rs 888
Market cap	US\$ 27.5bn
Free float	45%
3M ADV	US\$ 34.0mn
52wk high/low	Rs 967/Rs 653
Promoter/FPI/DII	54%/12%/22%

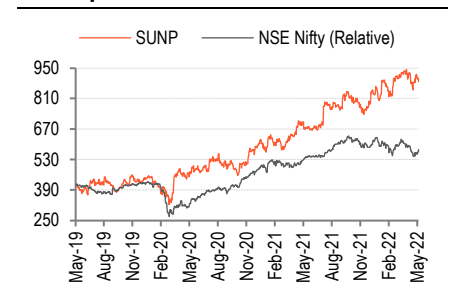
Source: NSE | Price as of 30 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	3,84,265	4,30,371	4,73,116
EBITDA (Rs mn)	1,02,395	1,17,965	1,32,047
Adj. net profit (Rs mn)	76,855	88,245	1,03,222
Adj. EPS (Rs)	32.0	36.8	43.0
Consensus EPS (Rs)	32.0	35.4	40.8
Adj. ROAE (%)	15.3	16.1	16.3
Adj. P/E (x)	27.7	24.1	20.6
EV/EBITDA (x)	19.8	16.8	14.6
Adj. EPS growth (%)	6.6	14.8	17.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Sales	94,468	85,230	10.8	98,631	(4.2)	3,86,545	3,34,981	15.4
EBITDA	21,794	20,592	5.8	26,169	(16.7)	1,02,438	84,677	21.0
Depreciation	5,565	5,535	-	5,537	-	21,437	20,800	-
EBIT	16,229	15,057	7.8	20,632	(21.3)	81,000	63,878	26.8
Interest	373	301	-	190	-	1,274	1,414	-
Other Income	1,136	1,110	-	4,325	(74)	9,215	8,355	-
PBT	16,991	15,866	7.1	24,768	(31.4)	88,942	70,819	-
Less: Taxation	1,468	550	-	3,354	-	10,755	5,147	-
Less: Minority Interest	549	(462)	-	720	-	1,331	(6,191)	-
Recurring PAT	14,975	15,777	(5.1)	20,694	(27.6)	76,856	71,863	6.9
Exceptional items	(37,747)	(6,836)	-	(106)	-	(44,129)	(42,825)	-
Reported PAT	(22,773)	8,941	NM	20,588	NM	32,727	29,038	12.7
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	73.1	73.7	(59)	73.2	(11)	73.2	74.1	(84)
EBITDA Margin	23.1	24.2	(109)	26.5	(346)	26.5	25.3	122
Tax / PBT	8.6	3.5	-	13.5	-	12.1	7.3	-
NPM	15.9	18.5	--	21.0	-	19.9	21.5	-
EPS (Rs)	6.2	6.6		8.6	-	32.0	30.0	-

Source: Company, BOBCAPS Research

Fig 2 – Segmental mix

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Formulation	89,083	79,880	11.5	92,824	(4.0)	3,63,306	3,11,931	16.5
Domestic	30,956	26,709	15.9	31,676	(2.3)	1,27,593	1,03,432	23.4
Exports	58,127	53,172	9.3	61,148	(4.9)	2,35,712	2,08,499	13.1
US	29,246	26,988	8.4	29,718	(1.6)	1,13,737	1,00,921	12.7
ROW	28,881	26,183	10.3	31,431	(8.1)	1,21,976	1,07,578	13.4
APIs and others	4,777	4,757	0.4	5,318	(10.2)	20,958	21,182	(1.1)
Net Sales	93,860	84,637	10.9	98,142	(4.4)	3,84,264	3,33,112	15.4
USDINR	75	73	3.2	75	0.3	74.5	74.2	0.4
US revenue (US\$ mn)	389	370	5.0	396	(1.9)	1,527	1,360	12.3

Source: Company, BOBCAPS Research

Earnings call takeaways

- **Ilumya sales crossed US\$ 400mn:** SUNP's global specialty sales grew 39% YoY to US\$ 674mn in FY22, including Ilumya sales of US\$ 315mn in North America and US\$ 100mn in Europe. Revenue share of global specialty business increased to 13% of consolidated sales in FY22 from 7% in FY18. SUNP's specialty portfolio benefitted from the launch of Winlevi in Nov'21. Global specialty sales for Q4 were at US\$ 185mn (flattish QoQ but up 30% YoY) in Q4.
- **US sales impacted by generic portfolio:** While the US specialty portfolio grew 24% YoY, overall US revenues declined by 2% CC in Q4. US revenue stood at Rs 1.5bn in FY22, up 12% YoY mainly driven by ramp-up in the specialty portfolio (Ilumya, Cequa and Odomzo), partially offset by declining sales of Absorica due to launches of generics. SUNP witnessed prescription traction in Winlevi post launch in Q3. It launched five commoditised generics and Mesalamine from complex generics. Dermatology, ophthalmology and selected oncology products will be its core focus areas in the global specialty business.
- **India sales healthy:** India sales grew 16% YoY to Rs 30.9bn with the launch of 11 products.
- **R&D spends:** Management has guided for R&D spend at 7-8% of sales in FY23.
- **Debt redemption:** SUNP repaid US\$ 355mn in debt in FY22 and US\$ 1.4bn since FY20. Its net cash is US\$ 713mn ex-Taro Pharma and US\$ 2bn including Taro.
- **Guidance for FY23:** With expectations of growth across business verticals, sales growth is guided to be in high-single-digits to low-double-digits. Specialty portfolio sales continue to ramp up with better traction in prescriptions in target markets.

Valuation methodology

We marginally lower our FY23-FY24 EBITDA estimates by 3% each as we factor in increased costs toward the new field force, SG&A, launches and R&D spend. We continue to value SUNP at an unchanged 18.5x EV/EBITDA multiple – a premium of 30% to large-cap peers such as CIPLA and DRRD due to its high-margin specialty presence in the developed markets of US, Europe and Japan. Retain BUY with an unchanged TP of Rs 1,100.

Fig 3 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	430.4	473.1	433.9	477.1	(0.8)	(0.8)
EBITDA	118.0	132.0	121.7	136.1	(3.1)	(3.0)
EBITDA Margin (%)	27.4	27.9	28.1	28.5	(65bps)	(62bps)
EPS (Rs)	36.7	42.9	39.6	45.0	(7.5)	(4.8)

Source: BOBCAPS Research

Fig 4 – Key assumptions

Revenue (Rs bn)	FY22A	FY23E	FY24E
Domestic	127.6	142.9	157.2
US	113.7	125.5	132.9
ROW	122.0	137.8	155.8
API & Others	21.0	24.1	27.2

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EBITDA CAGR FY21-24E (%)	EV/EBITDA (x)		ROE (%)		Target EV/EBITDA (x)
					FY22E	FY23E	FY22E	FY23E	
Cipla	CIPLA IN	BUY	1,100	8.8	15.8	14.0	12.9	13.6	16.0
Dr. Reddy's	DRRD IN	HOLD	4,450	9.0	13.6	12.2	16.5	16.3	12.5
Lupin	LPC IN	SELL	600	5.0	12.5	10.3	8.9	11.0	10.0
Sun Pharma	SUNP IN	BUY	1,100	15.9	16.7	14.9	17.1	17.4	18.5

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	1.9	1,711	2,050	BUY
Alembic Pharma	ALPM IN	1.9	737	770	HOLD
Alkem Labs	ALKEM IN	4.7	3,077	3,400	BUY
Aurobindo Pharma	ARBP IN	4.0	528	850	BUY
Cipla	CIPLA IN	10.3	987	1,100	BUY
Divi's Labs	DIVI IN	12.2	3,567	4,250	HOLD
Dr Reddy's Labs	DRRD IN	9.4	4,370	4,450	HOLD
Eris Lifesciences	ERIS IN	1.2	689	970	BUY
Laurus Labs	LAURUS IN	3.9	563	645	HOLD
Lupin	LPC IN	3.6	613	600	SELL
Sun Pharma	SUNP IN	27.5	888	1,100	BUY

Source: BOBCAPS Research, NSE | Price as of 30 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	3,23,252	3,32,331	3,84,265	4,30,371	4,73,116
EBITDA	73,261	84,913	1,02,395	1,17,965	1,32,047
Depreciation	20,528	20,800	21,437	22,820	24,099
EBIT	52,734	64,113	80,958	95,145	1,07,948
Net interest inc./(exp.)	(3,027)	(1,414)	(1,274)	(1,097)	(1,032)
Other inc./(exp.)	6,360	8,355	9,215	12,257	16,451
Exceptional items	0	0	0	0	0
EBT	56,066	71,054	88,899	1,06,305	1,23,366
Income taxes	8,228	5,147	10,755	13,820	16,038
Extraordinary items	(2,606)	(43,061)	(44,129)	0	0
Min. int./Inc. from assoc.	4,219	(6,191)	1,289	4,241	4,107
Reported net profit	41,013	29,038	32,727	88,245	1,03,222
Adjustments	2,606	43,061	44,129	0	0
Adjusted net profit	43,620	72,099	76,855	88,245	1,03,222

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	40,937	39,737	44,793	45,160	47,713
Other current liabilities	29,746	54,349	34,472	34,504	34,539
Provisions	44,812	49,098	95,169	1,04,317	1,14,379
Debt funds	75,783	38,686	12,903	12,903	12,903
Other liabilities	0	0	0	0	0
Equity capital	2,399	2,399	2,399	2,399	2,399
Reserves & surplus	4,92,543	4,92,399	5,08,262	5,84,724	6,73,330
Shareholders' fund	4,94,942	4,94,798	5,10,661	5,87,123	6,75,729
Total liab. and equities	6,86,220	6,76,667	6,97,998	7,84,006	8,85,264
Cash and cash eq.	69,438	64,455	50,334	1,20,232	2,00,650
Accounts receivables	94,212	90,614	1,05,929	1,10,063	1,20,994
Inventories	78,750	89,970	89,968	1,00,764	1,10,772
Other current assets	1,02,583	1,04,305	85,817	85,817	85,817
Investments	1,01,431	96,125	1,28,486	1,28,486	1,28,486
Net fixed assets	1,04,808	1,02,350	1,03,713	1,04,893	1,04,794
CWIP	12,203	15,668	12,868	12,868	12,868
Intangible assets	1,22,795	1,13,180	1,20,884	1,20,884	1,20,884
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	6,86,220	6,76,667	6,97,998	7,84,006	8,85,264

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	70,753	73,544	83,394	1,06,746	1,20,030
Capital expenditures	(25,524)	(12,192)	(27,704)	(24,000)	(24,000)
Change in investments	(22,407)	5,307	(32,361)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(47,932)	(6,885)	(60,065)	(24,000)	(24,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(23,151)	(37,097)	(25,783)	0	0
Interest expenses	(3,027)	(1,414)	(1,274)	(1,097)	(1,032)
Dividends paid	(16,624)	(15,595)	(23,990)	(15,900)	(18,599)
Other financing cash flows	16,662	(17,535)	13,597	4,149	4,019
Cash flow from financing	(26,140)	(71,641)	(37,450)	(12,848)	(15,612)
Chg in cash & cash eq.	(3,318)	(4,983)	(14,121)	69,898	80,418
Closing cash & cash eq.	69,438	64,455	50,334	1,20,232	2,00,650

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	17.1	12.1	13.6	36.8	43.0
Adjusted EPS	18.2	30.1	32.0	36.8	43.0
Dividend per share	6.9	6.5	10.0	6.6	7.8
Book value per share	190.2	193.7	200.1	230.3	265.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	6.4	6.2	5.3	4.6	4.1
EV/EBITDA	28.2	24.2	19.8	16.8	14.6
Adjusted P/E	48.9	29.6	27.7	24.1	20.6
P/BV	4.7	4.6	4.4	3.9	3.3

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	77.8	101.5	86.5	83.0	83.7
Interest burden (PBT/EBIT)	106.3	110.8	109.8	111.7	114.3
EBIT margin (EBIT/Revenue)	16.3	19.3	21.1	22.1	22.8
Asset turnover (Rev./Avg TA)	12.1	12.2	14.0	14.5	14.2
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	9.3	14.6	15.3	16.1	16.3

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	12.7	2.8	15.6	12.0	9.9
EBITDA	20.7	15.9	20.6	15.2	11.9
Adjusted EPS	19.8	65.3	6.6	14.8	17.0
Profitability & Return ratios (%)					
EBITDA margin	22.7	25.6	26.6	27.4	27.9
EBIT margin	16.3	19.3	21.1	22.1	22.8
Adjusted profit margin	13.5	21.7	20.0	20.5	21.8
Adjusted ROAE	9.3	14.6	15.3	16.1	16.3
ROCE	8.2	13.2	14.6	15.8	16.1
Working capital days (days)					
Receivables	103	101	93	93	93
Inventory	89	93	85	85	85
Payables	163	169	149	149	149
Ratios (x)					
Gross asset turnover	1.2	1.2	1.3	1.3	1.3
Current ratio	3.0	2.4	1.9	2.3	2.6
Net interest coverage ratio	17.4	45.3	63.6	86.8	104.6
Adjusted debt/equity	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)

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

Disclaimer

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

BUY – Expected return >+15%

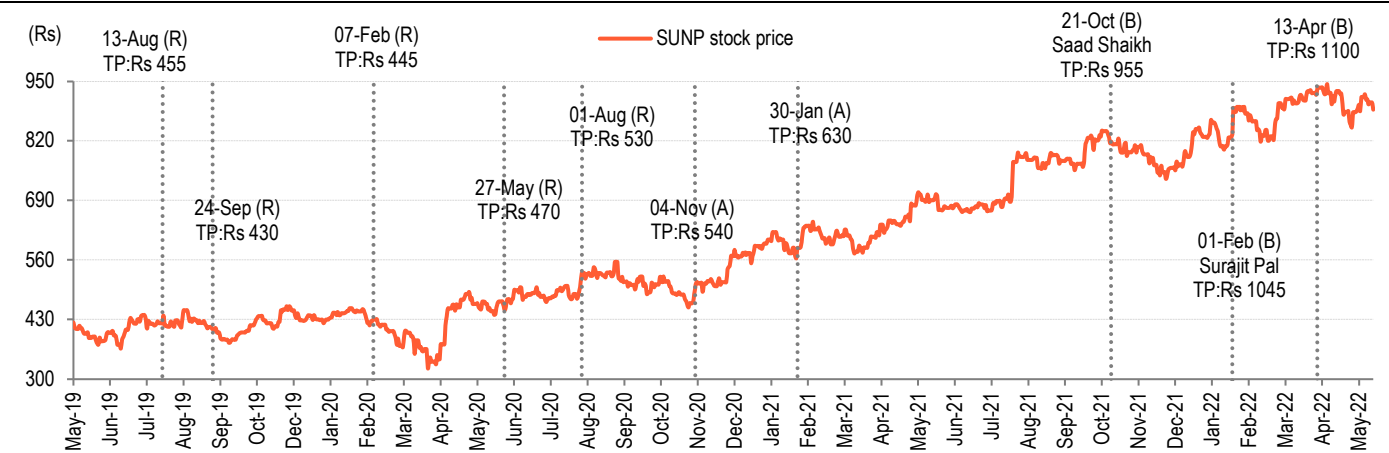
HOLD – Expected return from -6% to +15%

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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