

Sun Pharmaceutical Industries (SUNPHA)

CMP: ₹ 774

Target: ₹ 800 (3%)

Target Period: 12 months

July 31, 2021

Strong Q1 beat on all fronts but upside capped...

About the stock: Sun Pharma is the world's fourth largest specialty generic company with sales of US\$3.8 billion & boasts of 43 manufacturing sites addressing segments like specialty products, branded generics, complex generics, pure generics and APIs.

- With a market share of 8.2%, Sun is ranked No. 1 in domestic formulations. It enjoys leadership position in 11 specialties based on prescription
- Revenue breakup: US formulations~30%, Indian branded~30%, Emerging markets~17%, RoW~14%, API & others~6%

Q1FY22 Results: Sun Pharma reported robust Q1FY22 results.

- Sales were up 28.1% YoY to ₹ 9718.7 crore
- EBITDA in Q1FY22 was at ₹ 2821 crore, up 53% YoY with margins at 29%
- Consequent adjusted PAT was at ₹ 2075 crore (up 81% YoY)

What should investors do? Sun Pharma's share price has declined by ~0.8x over the past five years (from ~₹ 763 in June 2016 to ~₹ 675 levels in June 2021).

- We maintain HOLD as we wait for more consistency on the specialty front. At the current level, the stock has priced in the medium term traction

Target Price and Valuation: We value Sun at ₹ 800 i.e. 28x P/E on FY23E EPS

Key triggers for future price performance:

- It has embarked on a strategy to in-license latest generation patent protected products from various innovators
- Higher contribution from specialty & strong domestic franchise is likely to change the product mix towards more remunerative businesses by FY23
- In the US, Sun diversifying into specialty products like Ilumya, Levulan, BromSite, Cequa, Xelpros, Odomzo, Yonsa, winlwvi etc.

Alternate Stock Idea: Apart from Sun, in our healthcare coverage we also like Cipla.

- It has a diversified portfolio with respiratory segment leadership
- BUY with a target price of ₹ 1040

Key Financial Summary

Key Financials (₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	29028.1	32837.5	33498.1	3.2	37801.4	40499.6	10.0
EBITDA	6269.8	6989.8	8491.4	-0.5	9066.4	9719.9	7.0
EBITDA Margins (%)	21.6	21.3	25.3		24.0	24.0	
Adj. Profit	3803.3	4025.6	7210.0	5.0	6030.8	6858.1	-2.5
Adj. EPS (₹)	15.9	16.8	30.0		25.1	28.6	
PE (x)	71.7	49.3	64.0		44.9	27.1	
EV to EBITDA (x)	29.5	26.1	21.1		19.7	17.9	
RoE (%)	9.2	8.9	15.5		12.0	12.2	
RoCE (%)	10.3	10.0	14.4		15.1	15.3	

HOLD



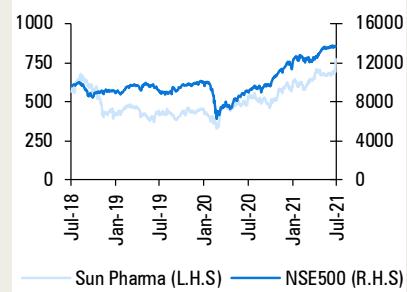
Particulars

Particular	Amount
Market Capitalisation	₹ 185709 crore
Debt (FY21)	₹ 3343 crore
Cash & Equivalents (FY21)	₹ 6446 crore
EV (₹ Cr)	₹ 182606 crore
52 week H/L (₹)	780/453
Equity capital	₹ 239.9 crore
Face value	₹ 1

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	54.7	54.7	54.5	54.5	54.5
Others	45.3	45.3	45.5	45.5	45.5

Price Chart



Recent Event & Key risks

- In-license of Winlevi in US & Canada adds to derma portfolio
- Key Risk:** (i) Price erosion impact
(ii) Better traction for specialty products

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Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Robust performance continues

- Revenues grew 28.1% YoY to ₹ 9718.7 crore. Indian formulations grew 38.5% YoY to ₹ 3308.4 crore. US formulations grew to ₹ 2800 crore, up 31.1% YoY. Emerging markets business grew 22% YoY to ₹ 1605.3 crore while RoW Markets business grew 32.8% YoY to ₹ 1368 crore. API segment de-grew 1.4% YoY to ₹ 587.8 crore
- EBITDA margins expanded 472 bps YoY to 29.0% mainly due to steady employee expense. Subsequently, EBITDA grew 53% YoY to ₹ 2821.1 crore. Adjusting for exceptional items in current and base quarter, PAT grew 81.1% YoY to ₹ 2075.1 crore
- While the company's US generics front is going through calibrated product rationalisation, the specialty segment looks promising due to robust product pipeline, steady progress. This metamorphic shift from generics to specialty, however, is likely to weigh on US growth in the near term. That said, higher contribution from specialty and strong domestic franchise is likely to change the product mix towards more remunerative businesses by FY22. This would have positive implications for margins also as we expect faster absorption of frontloaded costs on the specialty front

Q1FY22 Earnings Conference Call highlights

- Results were driven by robust core business growth, low base and some sale of Covid products
- India contributed 34% of total revenue. Covid products contributed 8-10% of India sales
- The company launched 13 new products in the Indian market in Q1FY22
- US was 29% of total sales at US\$380 million, driven by growth in specialty business
- The management witnessed an uptick in sales of ILumya, Cequa, etc, which countered the loss in business of Absorica
- Following specialty products are under development-
 - ILumya for Psoriatic Arthritis
 - GLP 1R for diabetes
 - SCD-044 for Atopic Dermatitis
- Recently licensed Winlevi (topical treatment for acne) will add to Derma portfolio and the management expects to launch the same in the US by December 2021
- Patients doctor visit in the US is still below pre Covid levels but the situation is getting normalised
- Global specialty revenue for Q1FY22: US\$148 million. The management guided for double digit growth in specialty portfolio for FY22
- Consolidated R&D investment for Q1FY22 was ₹ 592.6 crore compared to ₹ 420.6 million for Q1 last year. Specialty R&D was 26% of total R&D investment
- Approved ANDAs: 505, approved NDAs: 53 filings: 86 ANDAs & 13 NDAs await US FDA approval, including 22 tentative approvals. Six approvals were received in Q1FY22
- The company has repaid debt of about US\$185 million in Q1FY22. Over the last five quarters, debt repaid was about US\$765 million. The company is net cash positive (ex-Taro)

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	9,718.7	9,063.2	7,585.3	28.1	8,523.0	14.0	YoY growth mainly due robust core business growth, low base and some sale of Covid products. Beat vis-à-vis I-direct estimates mainly due to higher-than-expected domestic and US sepecialty sales
Raw Material Expens	2,649.4	2,401.7	1,969.6	34.5	2,240.8	18.2	
Gross margins (%)	72.7	73.5	74.0	-129 bps	73.7	-97 bps	
Employee Expenses	1,758.7	1,783.8	1,759.0	0.0	1,677.5	4.8	
Other Expenditure	2,489.5	2,673.6	2,013.1	23.7	2,556.3	-2.6	
Total Expenditure	6,897.7	6,859.2	5,741.7	20.1	6,474.5	6.5	
EBITDA	2,821.1	2,204.0	1,843.5	53.0	2,048.5	37.7	
EBITDA (%)	29.0	24.3	24.3	472 bps	24.0	499 bps	YoY improment mainly due to operational leverage and lower traveling cost in India
Interest	35.1	24.8	52.0	-32.5	30.1	16.6	
Depreciation	503.2	546.0	495.9	1.5	553.5	-9.1	
Other income	152.5	179.3	153.8	-0.8	111.0	37.4	
EO	631.1	0.0	3,633.3		672.8		
PBT	1,804.2	1,812.6	-2,183.9	LP	903.0	99.8	
Tax	395.6	344.4	245.9	60.9	55.0	618.7	
MI	-40.1	-25.3	-770.6	NA	-51.7	NA	
Net Profit	1,444.2	1,487.9	-1,655.6	LP	894.2	61.5	
Adj. Net Profit	1,979.2	1,487.9	1,146.0	72.7	1,343.1	47.4	YoY growth mainly due to strong operational perfomance and lower interest cost
Key Metrics							
India formulations	3,308.4	2,866.1	2,388.4	38.5	2,670.9	23.9	Besides strong growth in chronic segment and recovery in semi chronic segment, the company's Q1 growth was also driven by sale of Covid products
US formulations	2,800.0	2,696.5	2,136.4	31.1	2,694.6	3.9	YoY growth amid low base and strong growth in speciality segment
Emerging Markets	1,605.3	1,579.3	1,316.1	22.0	1,401.5	14.5	YoY growth in US\$ term was 25%
RoW	1,368.0	1,287.5	1,030.0	32.8	1,191.3	14.8	YoY growth in US\$ term was 35%
APIs	587.8	536.7	596.3	-1.4	473.1	24.2	
US Sales (Ex Taro)	1,714.7	1,611.3	1,244.0	37.8	1,613.1	6.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY22E		FY23E			Comments
	Old	New	% Change	Old	New	
Total Operating Income	36,836.2	37,801.4	2.6	40,167.5	40,499.6	0.8
EBITDA	8,381.3	9,066.4	8.2	9,439.4	9,719.9	3.0
EBITDA Margin (%)	22.8	24.0	118 bps	23.5	24.0	50 bps
Adjusted PAT	5,629.1	6,030.8	7.1	6,703.8	6,858.1	2.3
EPS (Adjusted)	23.5	25.1	6.9	27.9	28.6	2.4

Source: ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comments		
	₹ crore	FY20	FY21	FY22E	FY23E	FY22E	FY23E		
Indian Formulations	9,710.5	10,343.2	12,369.6	13,456.9	11,879.6	13,305.1			
US Formulations	10,542.5	10,083.9	11,007.9	11,519.6	10,425.6	10,991.5	Better-than-expected sales guidance of speciality segment		
RoW markets	10,025.3	10,602.5	12,055.4	13,032.0	11,948.8	13,143.7			
APIs	2,047.0	2,109.6	2,176.8	2,285.6	2,187.4	2,296.8			

Source: ICICI Direct Research

Exhibit 4: Financial Summary

	Revenues	Growth	EPS	Growth	P/E	EV/EBITDA	RoE	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(X)	(%)	(%)
FY20	32838	13.1	16.8	5.8	49.3	26.1	8.9	10.0
FY21	33498	2.0	30.0	79.1	64.0	21.1	15.5	14.4
FY22E	37801	12.8	25.1	-16.4	44.9	19.7	12.0	15.1
FY23E	40500	7.1	28.6	13.7	27.1	17.9	12.2	15.3

Source: ICICI Direct Research



Exhibit 5: Revenue break-up

₹ crore	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY16-21 (%)	FY21-23E (%)
Domestic	7,299.2	7,749.1	8,029.3	7,348.3	9,710.5	10,343.2	12,369.6	13,456.9	7.2	14.1
US	13,516.9	13,758.8	8,746.6	10,673.6	10,542.5	10,083.9	11,007.9	11,519.6	-5.7	6.9
Emerging Markets	3,584.3	4,544.8	4,839.2	5,359.0	5,504.4	5,783.4	6,519.4	7,010.8	10.0	10.1
ROW	2,161.8	2,583.2	2,974.0	3,452.6	4,521.0	4,819.1	5,536.0	6,021.2	17.4	11.8
API & Others	1,475.2	1,634.5	1,476.8	1,811.7	2,047.0	2,109.6	2,176.8	2,285.6	7.4	4.1
ROW	5,746.1	7,128.0	7,813.2	8,811.7	10,025.3	10,602.5	12,055.4	13,032.0	13.0	10.9

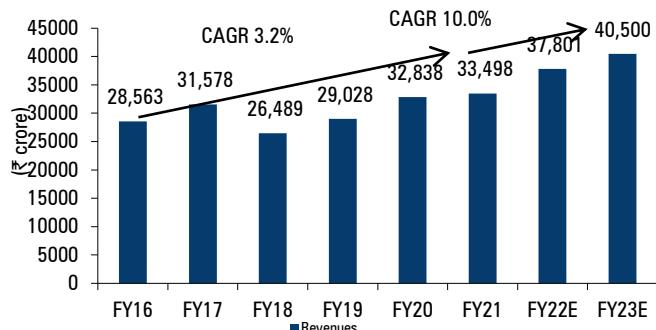
Source: ICICI Direct Research

Exhibit 6: Trends in quarterly performance

(₹ Crore)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Total Operating Income	7224.2	6937.6	7740.2	7163.9	8374.4	8123.4	8154.9	8184.9	7585.3	8553.1	8836.8	8523.0	9718.7	28.1	14.0
Raw Material Expenses	2106.8	1757.7	2165.7	1838.8	2457.8	2267.9	2200.0	2304.8	1969.6	2146.3	2333.4	2240.8	2649.4	34.5	18.2
Gross Profit Margin (%)	70.8	74.7	72.0	74.3	70.7	72.1	73.0	71.8	74.0	74.9	73.6	73.7	72.7		
Employee Expenses	1433.0	1470.3	1495.0	1568.8	1540.4	1620.9	1549.1	1651.9	1759.0	1705.3	1720.5	1677.5	1758.7	0.0	4.8
% of Revenue	19.8	21.2	19.3	21.9	18.4	20.0	19.0	20.2	23.2	19.9	19.5	19.7	18.1		
Other Expenditure	2077.6	2178.4	1926.7	2739.6	2380.6	2444.8	2564.3	2865.2	2013.1	2508.2	2376.8	2556.3	2489.5	23.7	-2.6
% of Revenue	28.8	31.4	24.9	38.2	28.4	30.1	31.4	35.0	26.5	29.3	26.9	30.0	25.6		
Total Expenditure	5617.5	5406.4	5587.3	6147.1	6378.8	6333.6	6313.5	6821.9	5741.7	6359.9	6430.6	6474.5	6897.7	20.1	6.5
% of Revenue	77.8	77.9	72.2	85.8	76.2	78.0	77.4	83.3	75.7	74.4	72.8	76.0	71.0		
EBITDA	1606.7	1531.2	2152.9	1016.8	1995.6	1789.7	1841.4	1363.0	1843.5	2193.3	2406.1	2048.5	2821.1	53.0	37.7
EBITDA Margin (%)	22.2	22.1	27.8	14.2	23.8	22.0	22.6	16.7	24.3	25.6	27.2	24.0	29.0		
Depreciation	401.6	426.5	471.1	454.1	457.1	473.3	547.0	575.4	495.9	498.6	531.9	553.5	503.2	1.5	-9.1
Other Income	199.8	351.2	193.1	281.5	213.0	200.9	119.9	102.2	153.8	255.8	315.0	111.0	152.5	-0.8	37.4
PBIT	1404.8	1455.9	1874.9	844.3	1751.5	1517.3	1414.3	889.9	1501.4	1950.5	2189.2	1606.0	2470.4	64.5	53.8
Interest	130.9	129.5	144.8	150.0	104.1	83.9	63.0	51.8	52.0	33.3	26.1	30.1	35.1	-32.5	16.6
Less: Exceptional Items	0.0	1214.4	0.0	0.0	0.0	0.0	0.0	260.6	3633.3	0.0	0.0	672.8	631.1		
PBT	1273.9	111.9	1730.1	694.2	1647.4	1433.4	1351.3	577.4	-2183.9	1917.2	2163.1	903.0	1804.2	-182.6	99.8
Total Tax	163.9	218.9	270.9	-28.8	146.1	266.0	327.6	83.1	245.9	-31.2	244.9	55.0	395.6	60.9	618.7
PAT before MI	1110.1	-107.0	1459.2	723.1	1501.4	1167.4	1023.7	494.3	-2429.8	1948.4	1918.1	848.0	1408.7	-158.0	66.1
Minority Interest	122.7	110.0	219.2	105.2	109.2	99.1	105.9	92.9	-770.6	130.0	60.9	-51.7	-40.1	-94.8	-22.4
PAT after MI	987.3	-217.0	1240.0	617.8	1392.2	1068.3	917.9	401.4	-1659.2	1818.4	1857.2	899.7	1448.8	-187.3	61.0
Profit from Associates	1.0	-1.9	1.8	-2.4	-4.7	-4.2	-4.3	-1.6	3.6	-5.6	-4.7	-5.6	-4.6		
PAT	988.3	-218.8	1241.9	615.4	1387.5	1064.1	913.5	399.8	-1655.6	1812.8	1852.5	894.2	1444.2	-187.2	61.5
Adjusted PAT	988.3	995.6	1241.9	615.4	1387.5	1064.1	913.5	660.5	1146.0	1812.8	1852.5	1343.1	1979.2	72.7	47.4
Adjusted EPS (₹)	4.1	4.1	5.2	2.6	5.8	4.4	3.8	2.8	4.8	7.6	7.7	5.6	8.2		

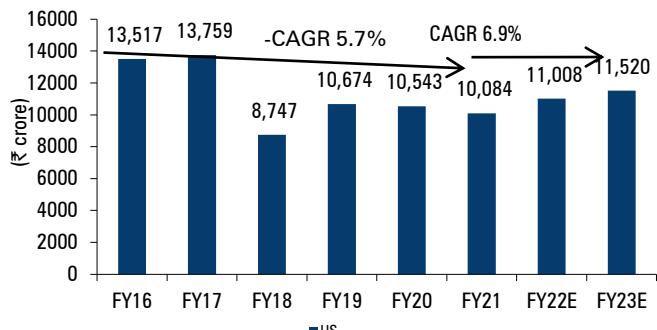
Source: ICICI Direct Research

Exhibit 7: Revenues to grow at CAGR of 10% over FY21-23E



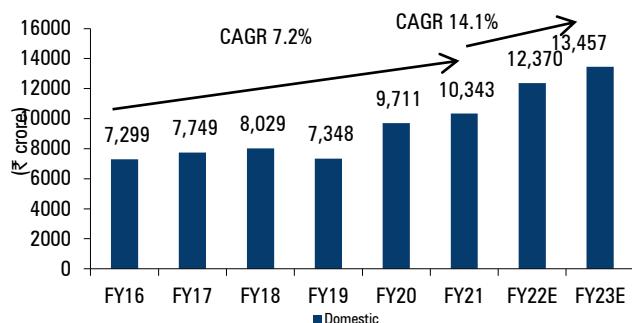
Source: ICICI Direct Research, Company

Exhibit 8: US to grow at CAGR of ~6.9% over FY21-23E



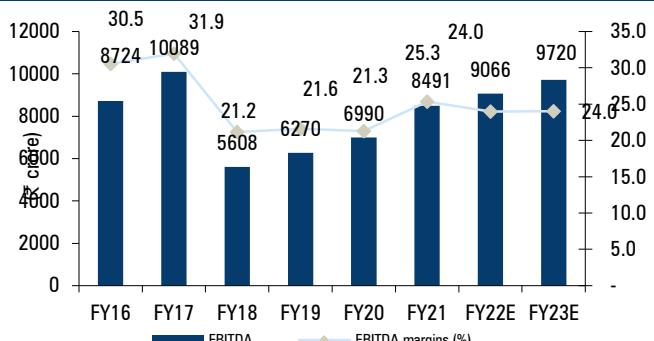
Source: ICICI Direct Research, Company

Exhibit 9: Domestic to grow at 14.1% CAGR in FY21-23E



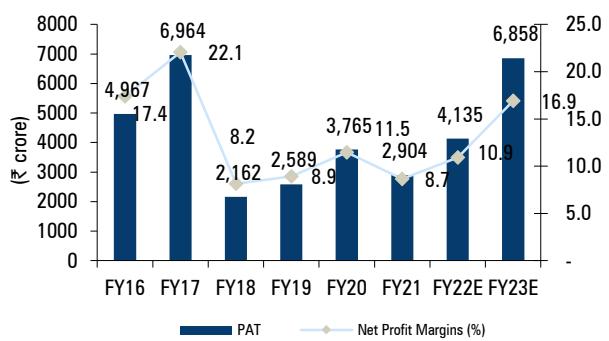
Source: ICICI Direct Research, Company

Exhibit 10: EBITDA & EBITDA margins trend



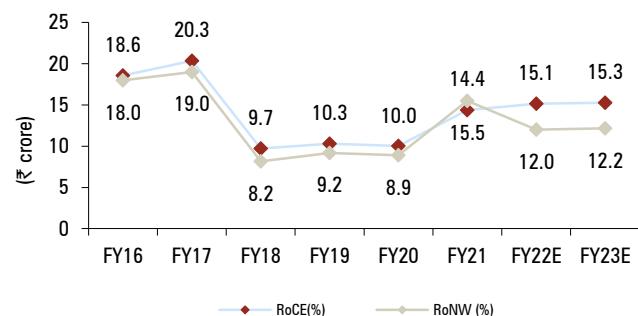
Source: ICICI Direct Research, Company

Exhibit 11: PAT & PAT margins trend



Source: ICICI Direct Research, Company

Exhibit 12: RoCE & RoE trend



Source: ICICI Direct Research, Company



Financial Summary

Exhibit 13: Profit and loss statement				₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E
Revenues	32,837.5	33,498.1	37,801.4	40,499.6
Growth (%)	13.1	2.0	12.8	7.1
Raw Material Expenses	9,230.5	8,690.1	10,305.1	10,529.9
Employee Expenses	6,362.4	6,862.2	7,515.7	8,302.4
Other Expenditure	10,254.9	9,454.5	10,914.3	11,947.4
Total Operating Expenditure	25,847.7	25,006.8	28,735.1	30,779.7
EBITDA	6,989.8	8,491.4	9,066.4	9,719.9
Growth (%)	11.5	21.5	6.8	7.2
Depreciation	2,052.8	2,080.0	2,012.9	2,108.7
Interest	302.7	141.4	140.4	80.5
Other Income	636.0	835.5	990.7	1,309.6
PBT	5,270.2	7,105.5	7,903.9	8,840.3
Less: Exceptional Items	260.6	4,306.1	2,374.6	0.0
Total Tax	822.8	514.7	1,212.3	1,679.7
PAT before MI	4,186.8	2,284.7	4,317.0	7,160.7
Minority Interest	407.0	-631.5	164.0	284.1
PAT	3,764.9	2,903.8	4,134.5	6,858.1
Adjusted PAT	4,025.6	7,210.0	6,030.8	6,858.1
Growth (%)	5.8	79.1	-16.4	13.7
EPS (Adjusted)	16.8	30.0	25.1	28.6

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	3663.7	1796.4	4134.5	6858.1
Depreciation	2052.8	2080.0	2012.9	2108.7
(Inc)/Dec in Current Assets	-292.5	-869.9	-3411.4	-1728.8
(Inc)/Dec in Current Liabilities	1191.0	3434.0	1991.8	1128.6
Others	-60.2	-270.1	140.4	80.5
CF from operation Activities	6554.8	6170.4	4868.1	8447.2
Purchase of Fixed Assets	-1450.0	-1073.0	-1478.9	-1480.0
(Inc)/Dec in Investments	-1551.8	1167.1	-2305.4	-2305.4
Others	1374.1	-326.0	-312.4	-225.7
CF from Investing Activities	-1627.7	-231.9	-4096.7	-4011.1
Inc / (Dec) in Loan Funds	-3341.9	-4489.6	-1000.0	-1000.0
Inc / (Dec) in Equity Capital	-425.0	-185.4	0.0	0.0
Dividend and dividend tax	-1662.6	-1586.2	-413.5	-685.8
Other Financial Activities	-285.6	280.8	-140.4	-80.5
CF from Financing Activities	-5715.1	-5980.5	-1553.8	-1766.3
Cash generation during the year	-788.1	-42.0	-782.4	2669.8
Op bal Cash & Cash equivalents	7275.6	6487.6	6445.5	5663.2
Closing Cash/ Cash Equivalent	6487.6	6445.5	5663.2	8332.9
Free Cash Flow	5104.8	5097.3	3389.3	6967.2

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet				₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	239.9	239.9	239.9	239.9
Reserve and Surplus	45,024.5	46,222.9	49,943.9	56,116.3
Total Shareholders funds	45,264.5	46,462.8	50,183.9	56,356.2
Total Debt	8,314.9	3,343.0	2,343.0	1,343.0
Deferred Tax Liability	58.1	44.5	47.6	51.0
Minority Interest	3,860.2	3,017.1	3,181.1	3,465.2
Other LT Liabilities & LT Provision	1,334.3	1,098.6	1,175.5	1,257.8
Total Liabilities	58,832.0	53,966.0	56,931.1	62,473.2
Gross Block - Fixed Assets	28,634.5	29,614.4	31,093.2	32,573.2
Accumulated Depreciation	12,269.1	14,349.0	16,361.9	18,470.6
Net Block	16,365.5	15,265.3	14,731.3	14,102.6
Capital WIP	1,220.3	1,566.8	1,566.8	1,566.8
Total Fixed Assets	17,585.8	16,832.2	16,298.1	15,669.5
Investments	10,143.1	9,612.5	11,917.9	14,223.3
Deferred tax assets	3,175.3	3,556.4	3,805.4	4,071.8
Goodwill on Consolidation	6,481.5	6,287.6	6,287.6	6,287.6
LT Loans & Advances & Assets	4,110.0	4,066.0	4,350.6	4,655.2
Cash	6,487.6	6,445.5	5,663.2	8,332.9
Debtors	9,421.2	9,061.4	11,269.8	12,074.2
Loans and Advances	148.4	56.0	59.9	64.1
Inventory	7,875.0	8,997.0	10,003.5	10,717.5
Other current assets	2,824.6	2,752.1	2,944.7	3,150.9
Total Current Assets	26,756.8	27,312.0	29,941.1	34,339.6
Creditors	4,093.7	3,973.7	5,261.7	5,637.2
Provisions & other current liability	5,326.7	972.7	10,408.0	11,136.5
Total Current Liabilities	9,420.5	13,700.7	15,669.6	16,773.7
Net Current Assets	17,336.3	13,611.3	14,271.5	17,565.9
Application of Funds	58,832.0	53,966.0	56,931.1	62,473.2

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	16.8	30.0	25.1	28.6
BV per share	188.7	193.6	209.2	234.9
Dividend per share	1.0	7.5	1.7	2.9
Cash Per Share	27.0	26.9	23.6	34.7
Operating Ratios (%)				
Gross Margin	71.9	74.1	72.7	74.0
EBITDA Margin	21.3	25.3	24.0	24.0
PAT Margin	12.3	21.5	16.0	16.9
Inventory days	87.5	98.0	96.6	96.6
Debtor days	104.7	98.7	108.8	108.8
Creditor days	45.5	43.3	50.8	50.8
Asset Turnover	0.6	0.7	0.7	0.7
EBITDA Conversion rate	93.8	72.7	53.7	86.9
Return Ratios (%)				
RoE	8.9	15.5	12.0	12.2
RoCE	10.0	14.4	15.1	15.3
RoIC	11.5	16.3	16.9	17.5
Valuation Ratios (x)				
P/E	49.3	64.0	44.9	27.1
EV / EBITDA	26.1	21.1	19.7	17.9
EV / Net Sales	5.6	5.4	4.7	4.3
Market Cap / Sales	5.7	5.5	4.9	4.6
Price to Book Value	4.1	4.0	3.7	3.3
Solvency Ratios				
Debt / EBITDA	1.2	0.4	0.3	0.1
Debt / Equity	0.2	0.1	0.0	0.0
Current Ratio	2.2	1.5	1.5	1.6
Working Capital Cycle	146.8	153.5	154.6	154.6

Source: Company, ICICI Direct Research

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