

BSE SENSEX
38,390

S&P CNX
11,589

CMP: INR664

TP: INR790 (+19%)

Buy



Stock Info

Bloomberg	SUNP IN
Equity Shares (m)	2,399
M.Cap.(INRb)/(USD\$b)	1593.6 / 22.2
52-Week Range (INR)	679 / 435
1, 6, 12 Rel. Per (%)	15/16/17
12M Avg Val (INR M)	3363
Free float (%)	45.6

Financials Snapshot (INR b)

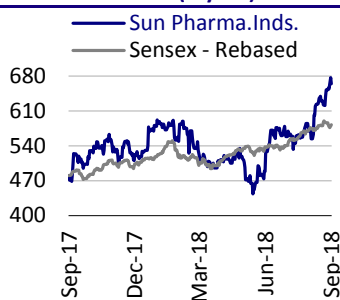
Y/E Mar	2018	2019E	2020E
Net Sales	260.7	311.7	361.6
EBITDA	51.8	68.6	92.2
PAT	32.4	44.8	63.3
EPS (INR)	13.5	18.6	26.3
Gr. (%)	-48.5	38.6	41.2
BV/Sh (INR)	158.4	170.0	189.3
RoE (%)	8.7	11.4	14.6
RoCE (%)	8.1	11.3	15.0
P/E (x)	49.4	35.6	25.2
P/BV (x)	4.2	3.9	3.5

Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	54.4	54.4	54.4
DII	16.6	16.2	12.9
FII	16.4	16.3	19.7
Others	12.6	13.1	13.0

FII Includes depository receipts

Stock Performance (1-year)



Recent Halol 483 - Not a show stopper

- US FDA recently conducted an inspection at SUNP’s Halol plant from 27-31 August and issued Form-483 with six observations.
- We believe the observations are resolvable and should not impact existing business and/or new approvals, pertaining to SUNP.
- We raise EPS estimate by 1%/3% for FY19/FY20 to factor in the favorable currency movement.
- We expect a premium for SUNP to further expand from 25% to 35%, compared to an industry average of 20x 12M Forward Earnings on the back of increasing share of specialty portfolio. SUNP is the only Indian-listed entity, which is progressing well in the specialty portfolio. We believe, the incremental generics business from new launches should be higher than base business erosion, and sustained outperformance in the domestic formulation business should also support multiple re-rating.
- Accordingly, we raise our P/E multiple to 27x (from 25x earlier) and revise our price target to INR790 (from INR700 earlier); reiterate a Buy.
- **Observations largely procedural in nature:** The US FDA issued Form-483 with six observations, with respect to the recent US FDA inspection conducted during 27-31 August 2018. There are three observations related to laboratory systems, one related to production system and two related to quality system. The observations at the laboratory system are towards test procedures designed to assure appropriate standards of identity/quality/strength/purity, procedures to prevent objectionable micro-organisms in drug products that are not required to be sterile and non-inclusion of sample size (based on statistical criteria) in written stability program. The observation at the production systems are related to line clearances required during intervention activities performed by production operators. The observation at quality systems are towards written procedures for cleaning/maintenance of equipment and procedures for batch trending of critical alarms raised during production activities. We expect this observation to be non-critical and to warrant stoppage of existing production or new approvals.
- **Second consecutive inspection within six months:** This is the second inspection by the US FDA within a short span of six months at the Halol facility. Also, given the facility size, this inspection would be the shortest in terms of the number of days. Post clearance, the company received its first approval from the plant in five years. Halol is an important facility for SUNP as it would provide visibility regarding key approvals including Xelpros, Elepsia, Vagifem, etc. We expect incremental sales of ~USD100-150m from this facility on annualised basis.

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- **Well-placed to deliver growth in the US market:** SUNP has a portfolio of 10 specialty products, a few are already commercialized. In 1QFY19, it launched Yoansa. The company has also received an approval for Cequa, expected to be launched in the coming quarters and Ilumya, to be launched in 2QFY19. Although, the generic market in the US is expected to remain under pressure, we expect SUNP's growth in the US to be higher than the base-business erosion on the back of new launches, in both generics and in the specialty products category.
- **Valuation and view:** We raise EPS estimates by 1%/3% for FY19/FY20 to factor in the favorable currency movement. We also raise our P/E multiple to 27x from 25x 12M Forward Earnings as we expect a premium to industry average for SUNP to expand. Incremental generics business from new launches, which should be higher than base business erosion, increased traction in specialty products and sustained outperformance in the domestic formulation business should drive growth. Accordingly, we revise our target price to INR790 (from INR700 earlier).

Exhibit 1: Key specialty products for Sun Pharma

Products	Status	Expected Sales (USD m)
MK-3222 Tildrakizumab	-Post successful result of Phase 3 results, US FDA has accepted SUNP filing. It is expected to be launched in early 2QFY19	100
Cequa (OTX-101)	Dec end US FDA announced acceptance of Cequa filing and approved in Aug-18. It is expected to be launched in coming quarters	60-70
Odomzo	Already launched	40-50
Bromsite	Already launched	50

Source: Company, MOSL

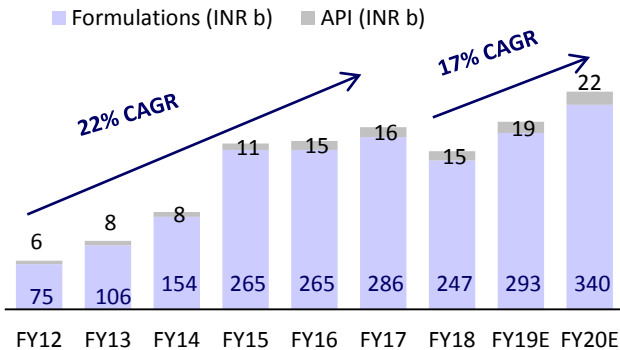
Exhibit 2: Key products from Halol facility

Generic Products	Products filed from Halol facility	Expected Sales (USD m)
Focalin XR	Market size of ~USD100 with 4 players	15
Ganirelix	Market size of USD60-70m with no generic player	20
Lupron	Market Size of USD100m	20-22
Vagifem	Market size of ~350m with 4 players	35
Protonix IV	Market size of ~USD100 with 4 players	20
Invega	Market size of USD250m with 3 players	20-22
Makena	Market size of USD200m with 3 players	20-22
Specialty Products		
Elepsia	Launch expected in end FY19/early FY20	20-25
Xelpros	Launch expected in FY19	20-25

Source: Company, MOSL

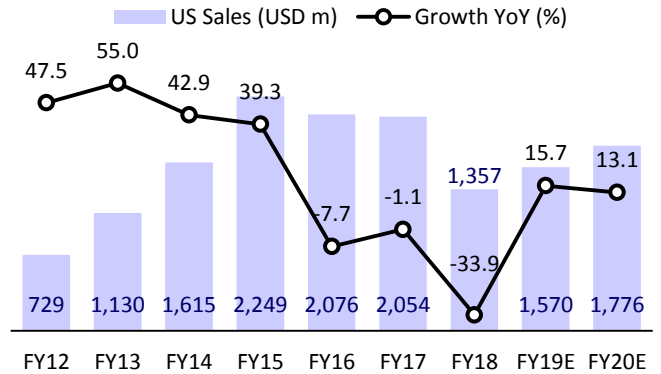
Story in charts

Exhibit 3: Revenues to grow at ~17% CAGR from FY18-20E



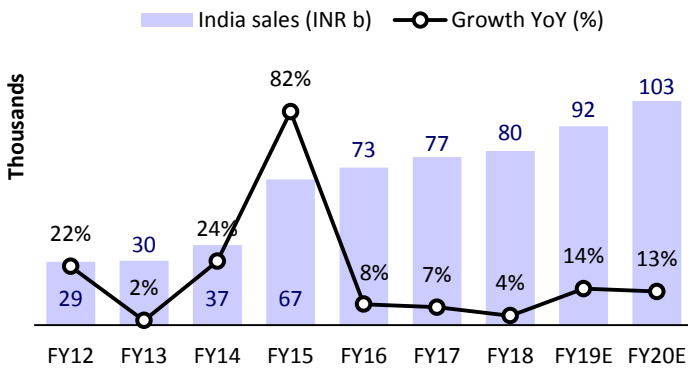
Source: Company, MOSL

Exhibit 4: US sales to improve FY19 onwards



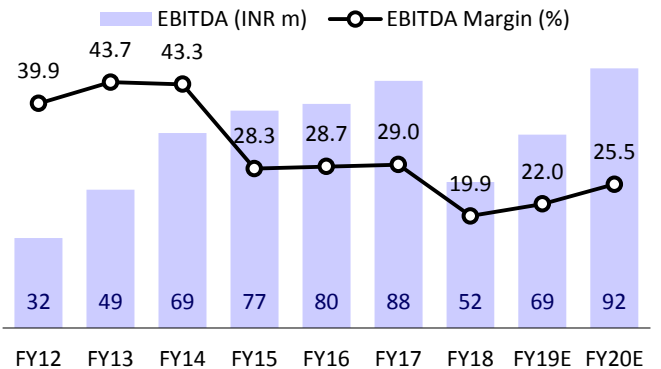
Source: Company, MOSL

Exhibit 5: India biz to grow at 13% CAGR from FY18-20E



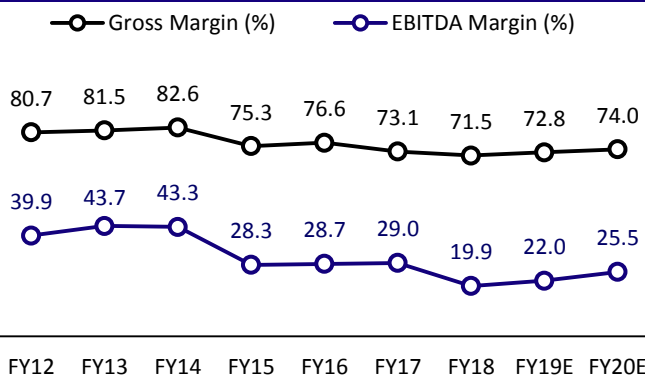
Source: Company, MOSL

Exhibit 6: Margins to gradually improve



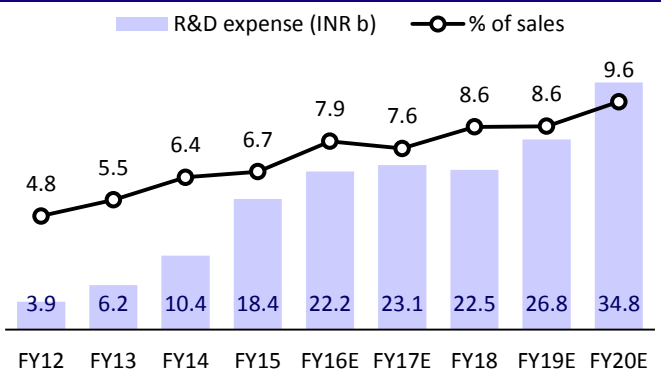
Source: Company, MOSL

Exhibit 7: EBITDA to improve with an increase in gross margins



Source: Company, MOSL

Exhibit 8: R&D expenses to increase going forward



Source: Company, MOSL

Financials and Valuations

Income Statement

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	160,044	272,865	277,442	302,642	260,659	311,739	361,608
Total Expenditure	90,787	195,667	197,881	214,892	208,813	243,107	269,384
% of Sales	56.7	71.7	71.3	71.0	80.1	78.0	74.5
EBITDA (INR b)	69,257	77,198	79,561	87,751	51,846	68,632	92,224
Margin (%)	43.3	28.3	28.7	29.0	19.9	22.0	25.5
Depreciation	4,092	11,947	10,135	12,648	14,998	15,000	15,500
EBIT	65,165	65,250	69,426	75,103	36,848	53,632	76,724
Int. and Finance Charges	442	5,790	4,769	3,998	5,176	4,000	3,300
Other Income - Rec.	6,282	6,946	9,848	19,374	12,623	12,000	12,500
Extra-ordinary Exp	25,174	2,378	6,852	0	9,505	0	0
PBT	45,831	64,029	67,653	90,479	34,790	61,632	85,924
Tax	7,022	9,147	9,349	12,116	8,452	10,786	14,607
Tax Rate (%)	15.3	14.3	13.8	13.4	24.3	17.5	17.0
Profit after Tax	38,809	54,882	58,304	78,363	26,338	50,847	71,317
Change (%)	11.9	41.4	6.2	34.4	-66.4	93.1	40.3
Margin (%)	24	20	21	26	10	16	20
Less: Mionrity Interest	7375	9488	11145	8719	4722	6000	8000
Reported PAT	31,434	45,394	47,159	69,644	21,616	44,847	63,317
Adjusted PAT (excl. Ex. Items)	52,813	47,415	47,069	62,890	32,362	44,847	63,317

Balance Sheet

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Equity Share Capital	2,071	2,406	2,407	2,399	2,399	2,399	2,399
Total Reserves	183,178	253,826	327,418	363,997	378,606	406,610	453,084
Net Worth	185,249	256,232	329,825	366,397	381,006	409,009	455,483
Minority Interest	19,212	28,661	40,853	37,909	38,842	44,842	52,842
Deferred Liabilities	-9110	-17516	-30462	-21780	-19748	-19748	-19748
Total Loans	24,982	77,827	83,164	80,910	97,518	70,035	50,442
Capital Employed	220,333	345,203	423,379	463,435	497,617	504,137	539,018
Gross Block	63,886	130,369	123,033	133,994	155,630	180,630	210,630
Less: Accum. Deprn.	28,904	60,617	47,201	49,041	64,040	79,040	94,540
Net Fixed Assets	34,982	69,752	75,831	84,953	91,590	101,590	116,090
Capital WIP	8,415	20,386	12,035	15,648	14,345	15,779	17,357
Goodwill	33,191	57,073	92,611	104,165	107,243	107,243	107,243
Investments	27,860	27,163	11,161	9,610	30,523	30,523	30,523
Curr. Assets	177,393	297,403	332,175	374,799	377,390	400,635	437,053
Inventory	31,230	56,680	64,225	68,328	68,807	69,385	76,934
Account Receivables	22,004	53,123	67,757	72,026	78,153	53,463	62,188
Cash and Bank Balance	75,902	109,980	131,817	151,408	99,294	146,651	159,876
L & A and Others	48,257	77,619	68,377	83,036	131,136	131,136	138,055
Curr. Liability & Prov.	61,509	126,574	100,434	125,739	123,473	151,632	169,247
Account Payables	15,887	59,198	51,741	73,469	68,332	74,484	82,587
Provisions	45,622	67,376	48,693	52,270	55,141	77,148	86,660
Net Current Assets	115,884	170,828	231,742	249,060	253,916	249,002	267,806
Appl. of Funds	220,333	345,203	423,379	463,435	497,617	504,137	539,018

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Reported EPS	13.1	18.9	19.6	28.9	9.0	18.6	26.3
Adjusted EPS	22.0	19.7	19.6	26.1	13.5	18.6	26.3
Cash EPS	14.8	23.8	23.8	34.2	15.2	24.9	32.8
BV/Share	77.0	106.5	137.1	152.3	158.4	170.0	189.3
DPS	2.6	3.0	1.0	3.5	3.5	6.0	6.0
Payout (%)	18.7	15.4	4.8	12.5	37.3	33.1	23.6
Valuation (x)							
P/E		33.7	33.9	25.4	49.4	35.6	25.2
P/BV		6.2	4.8	4.4	4.2	3.9	3.5
EV/Sales		5.6	5.5	5.0	6.0	4.8	4.0
EV/EBITDA		19.9	19.3	17.2	30.1	21.7	15.8
Dividend Yield (%)		0.5	0.2	0.5	0.5	0.9	0.9
Return Ratios (%)							
RoE	31.5	21.5	16.1	18.1	8.7	11.4	14.6
RoCE	33.4	22.7	18.3	19.0	8.1	11.3	15.0
RoIC	55.5	37.8	26.2	23.4	8.7	13.3	19.8
Working Capital Ratios							
Fixed Asset Turnover (x)	4.8	5.2	3.8	3.8	3.0	3.2	3.3
Debtor (Days)	50	71	89	87	109	63	63
Creditor (Days)	209	321	291	330	336	321	321
Inventory (Days)	71	76	84	82	96	81	78
Leverage Ratio							
Debt/Equity (x)	0.2	0.3	0.3	0.2	0.3	0.2	0.1

Cash Flow Statement

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
OP/(Loss) bef. Tax	44,083	74,820	72,709	87,751	42,341	68,632	92,224
Int./Dividends Recd.	6,282	6,946	9,848	19,374	12,623	12,000	12,500
Direct Taxes Paid	-9,010	-17,553	-22,295	-3,434	-6,420	-10,786	-14,607
(Inc)/Dec in WC	-5,589	-20,865	-39,077	2,274	-56,971	52,271	-5,578
CF from Operations	35,767	43,348	21,185	105,964	-8,427	122,117	84,539
(inc)/Dec in FA	-18,580	-82,570	-43,401	-36,936	-23,411	-26,434	-31,578
Free Cash Flow	17,187	-39,223	-22,216	69,028	-31,838	95,683	52,961
(Pur)/Sale of Invest.	-3,745	697	16,002	1,551	-20,913	0	0
CF from investments	-22,324	-81,873	-27,399	-35,385	-44,324	-26,434	-31,578
Change in networkth	6,674	33,994	30,296	-34,910	-971	0	0
(Inc)/Dec in Debt	22,910	52,845	5,337	-2,254	16,608	-27,483	-19,593
Interest Paid	-442	-5,790	-4,769	-3,998	-5,176	-4,000	-3,300
Dividend Paid	-7,270	-8,445	-2,816	-9,825	-9,825	-16,843	-16,843
CF from Fin. Activity	21,872	72,605	28,049	-50,987	636	-48,326	-39,736
Inc/Dec of Cash	35,315	34,079	21,836	19,592	-52,115	47,356	13,225
Add: Beginning Balance	40,587	75,902	109,980	131,817	151,408	99,294	146,651
Closing Balance	75,902	109,981	131,816	151,408	99,294	146,650	159,876

Note: Cash flows do not tally due to acquisition

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
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Sun Pharma

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