

BSE SENSEX  
37,121

S&P CNX  
11,234

CMP: INR647 TP: INR790 (+22%)

Buy



Stock Info

Bloomberg	SUNP IN
Equity Shares (m)	2,399
M.Cap.(INRb)/(USD\$b)	1553 / 21.4
52-Week Range (INR)	679 / 435
1, 6, 12 Rel. Per (%)	6/15/11
12M Avg Val (INR M)	3363
Free float (%)	45.6

Financials Snapshot (INR b)

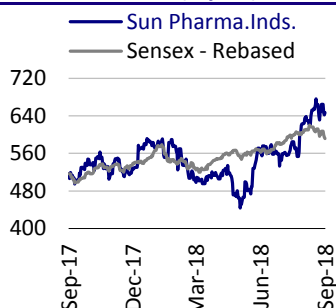
Y/E Mar	2018	2019E	2020E
Net Sales	260.7	311.7	361.6
EBITDA	51.8	68.6	92.2
PAT	32.4	44.8	63.3
EPS (INR)	13.5	18.6	26.3
Gr. (%)	-48.5	38.6	41.2
BV/Sh (INR)	158.4	170.0	189.3
RoE (%)	8.7	11.4	14.6
RoCE (%)	8.1	11.3	15.0
P/E (x)	48.1	34.7	24.6
P/BV (x)	4.1	3.8	3.4

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)



Mohali 483–Product approval or EIR key for compliance

- The USFDA conducted an inspection at SUNP’s Mohali plant during 10-14 September 2018, and issued Form 483 with two observations.
- We believe SUNP will be able to address these observations with a strong response, and subsequently take a corrective and preventive action (CAPA) plan on the same. Following this, we await product approvals and/or the Establishment Inspection Report (EIR) for regulatory compliance at Mohali.
- We remain positive on SUNP on the back of better traction in specialty portfolio, healthy growth in the generics business after offsetting the decline in base business, and better-than-industry growth in domestic formulations.
- Maintain ‘Buy’ with a price target of INR790 at 27x 12M forward earnings (unchanged).

Observations related to in-process materials/drug products and stability testing program

The USFDA has issued Form 483 with two observations with respect to its inspection conducted during 10-14 September 2018 at SUNP’s Mohali plant. (a) The first observation is related to approval/rejection of in-process materials and drug products. Specifically, the USFDA inspector highlighted that exhibit batches, which failed the in-process sampling were not rejected. The root cause analysis related to out of specification (OOS) results was not adequate, but results were still submitted in support of drug application. (b) The second observation is related to the stability testing program. The inspector observed that: (i) the stability data is not a representative of intended manufacturing process for particular tablets; and (ii) the manufacture of the feasibility/optimization batches on two different compression machines after the exhibit batches were manufactured. Overall, we believe these observations are product specific which can be resolved with a strong corrective and preventive action plan, so that it does not impact product approvals or good manufacturing practices (GMP) compliance.

Second USFDA inspection at Mohali post-merger of Ranbaxy

In 2013, the USFDA had banned the import of drugs from four Ranbaxy units, including the one at Mohali, for violation of good manufacturing practices. Ranbaxy had then signed a consent decree, promising to take corrective measures. Post-merger of Ranbaxy, SUNP implemented remedial measures resulting in the lifting of import alert from this facility in March 2017. The recent inspection is the second to occur, post-merger of Ranbaxy. The US business from this facility is yet to pick up.

**Valuation and view**

We maintain our estimates and value SUNP at 27x (unchanged) 12M forward earnings arriving at a price target of INR790. We believe that discount to its 3-year average P/E should narrow going forward as: (a) share of its specialty portfolio increases; (b) downside in base business erosion reduces; (c) healthy pipeline of ANDAs is pending for approval; and (d) there is a sustained outperformance in the domestic formulation market. Re-iterate 'Buy'.

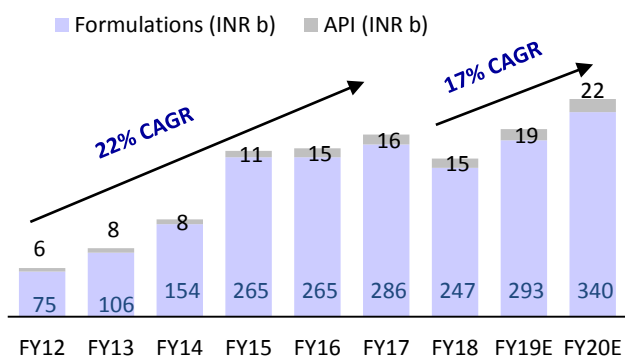
**Exhibit 1: Recent Inspection History**

Location	Type	Inspection End Date	Classification
Panoli, Gujarat	❖ API	May-18	NAI
Ahmednagar, Maharashtra	❖ API	Apr-18	VAI
Malanpur, MP	❖ API	Mar-18	NAI
Vadodara, Gujarat	❖ R&D	Mar-18	NAI
Cranbury (US)	❖ Formulation (Injectables)	Mar-18	VAI
Vadodara, Gujarat	❖ R&D	Mar-18	NAI
Halol, Gujarat	❖ Formulation (Oral solids, Inj. and Nasals)	Aug-18	Yet to be updated
Vadodara, Gujarat	❖ R&D	Feb-18	NAI
Gurugram, Haryana	❖ R&D	Jan-18	NAI

Source: US FDA

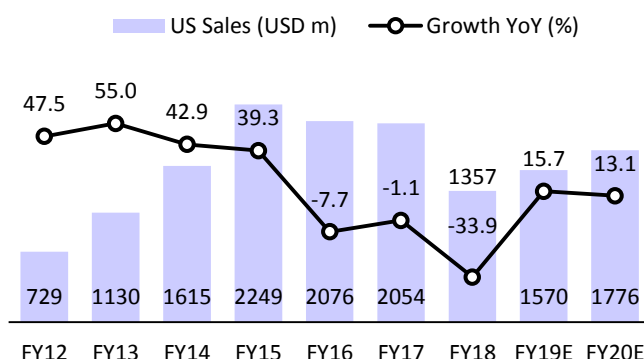
## Story in charts

**Exhibit 2: Revenues to grow at ~17% CAGR from FY18-20E**



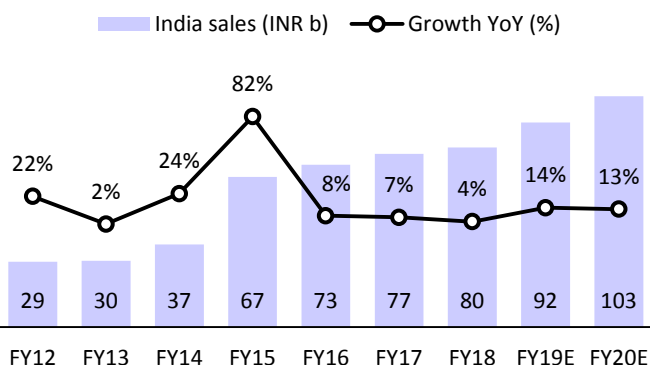
Source: Company, MOSL

**Exhibit 3: US sales to improve FY19 onwards**



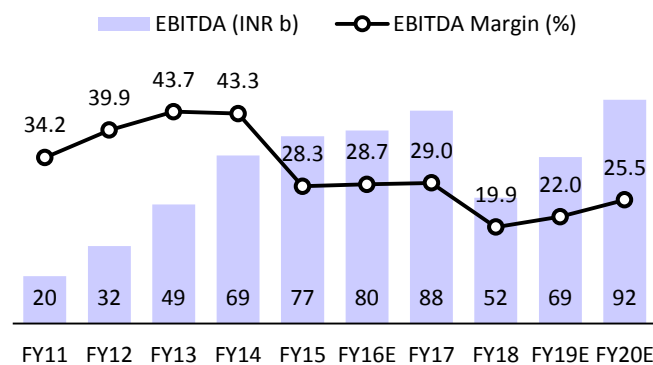
Source: Company, MOSL

**Exhibit 4: India biz to grow at 13% CAGR from FY18-20E**



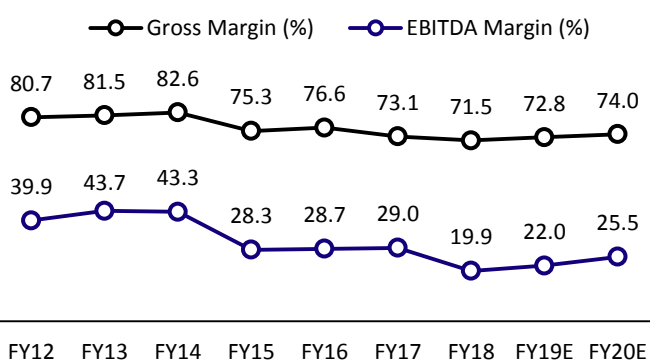
Source: Company, MOSL

**Exhibit 5: Margins to gradually improve**



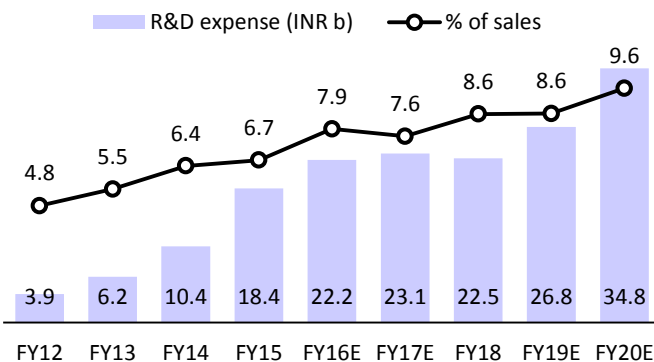
Source: Company, MOSL

**Exhibit 6: EBITDA to improve with a rise in gross margin**



Source: Company, MOSL

**Exhibit 7: R&D expense to increase going forward**



Source: Company, MOSL

## Financials and valuations

Income Statement						(INR Million)	
Y/E March	2014	2015	2016	2017	2018	2019E	2020E
<b>Net Sales</b>	<b>160,044</b>	<b>272,865</b>	<b>277,442</b>	<b>302,642</b>	<b>260,659</b>	<b>311,739</b>	<b>361,608</b>
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
<b>EBITDA (INR b)</b>	<b>69,257</b>	<b>77,198</b>	<b>79,561</b>	<b>87,751</b>	<b>51,846</b>	<b>68,632</b>	<b>92,224</b>
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
<b>EBIT</b>	<b>65,165</b>	<b>65,250</b>	<b>69,426</b>	<b>75,103</b>	<b>36,848</b>	<b>53,632</b>	<b>76,724</b>
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
<b>Profit after Tax</b>	<b>38,809</b>	<b>54,882</b>	<b>58,304</b>	<b>78,363</b>	<b>26,338</b>	<b>50,847</b>	<b>71,317</b>
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
<b>Reported PAT</b>	<b>31,434</b>	<b>45,394</b>	<b>47,159</b>	<b>69,644</b>	<b>21,616</b>	<b>44,847</b>	<b>63,317</b>
<b>Adjusted PAT (excl. Ex. Items)</b>	<b>52,813</b>	<b>47,415</b>	<b>47,069</b>	<b>62,890</b>	<b>32,362</b>	<b>44,847</b>	<b>63,317</b>

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
<b>Net Worth</b>	<b>185,249</b>	<b>256,232</b>	<b>329,825</b>	<b>366,397</b>	<b>381,006</b>	<b>409,009</b>	<b>455,483</b>
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
<b>Capital Employed</b>	<b>220,333</b>	<b>345,203</b>	<b>423,379</b>	<b>463,435</b>	<b>497,617</b>	<b>504,137</b>	<b>539,018</b>
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
<b>Net Fixed Assets</b>	<b>34,982</b>	<b>69,752</b>	<b>75,831</b>	<b>84,953</b>	<b>91,590</b>	<b>101,590</b>	<b>116,090</b>
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
<b>Curr. Assets</b>	<b>177,393</b>	<b>297,403</b>	<b>332,175</b>	<b>374,799</b>	<b>377,390</b>	<b>400,635</b>	<b>437,053</b>
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
<b>Curr. Liability &amp; Prov.</b>	<b>61,509</b>	<b>126,574</b>	<b>100,434</b>	<b>125,739</b>	<b>123,473</b>	<b>151,632</b>	<b>169,247</b>
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
<b>Net Current Assets</b>	<b>115,884</b>	<b>170,828</b>	<b>231,742</b>	<b>249,060</b>	<b>253,916</b>	<b>249,002</b>	<b>267,806</b>
<b>Appl. of Funds</b>	<b>220,333</b>	<b>345,203</b>	<b>423,379</b>	<b>463,435</b>	<b>497,617</b>	<b>504,137</b>	<b>539,018</b>

## Financials and valuations

### Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
<b>Reported EPS</b>	<b>13.1</b>	<b>18.9</b>	<b>19.6</b>	<b>28.9</b>	<b>9.0</b>	<b>18.6</b>	<b>26.3</b>
<b>Adjusted EPS</b>	<b>22.0</b>	<b>19.7</b>	<b>19.6</b>	<b>26.1</b>	<b>13.5</b>	<b>18.6</b>	<b>26.3</b>
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
<b>Valuation (x)</b>							
P/E		32.8	33.1	24.8	48.1	34.7	24.6
P/BV		6.1	4.7	4.2	4.1	3.8	3.4
EV/Sales		5.1	5.0	4.5	5.4	4.3	3.6
EV/EBITDA		17.9	17.4	15.5	27.2	19.5	14.1
Dividend Yield (%)		0.5	0.2	0.5	0.5	0.9	0.9
<b>Return Ratios (%)</b>							
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
<b>Working Capital Ratios</b>							
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
<b>Leverage Ratio</b>							
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
<b>CF from Operations</b>	<b>35,767</b>	<b>43,348</b>	<b>21,185</b>	<b>105,964</b>	<b>-8,427</b>	<b>122,117</b>	<b>84,539</b>
(inc)/dec in FA	-18,580	-82,570	-43,401	-36,936	-23,411	-26,434	-31,578
<b>Free Cash Flow</b>	<b>17,187</b>	<b>-39,223</b>	<b>-22,216</b>	<b>69,028</b>	<b>-31,838</b>	<b>95,683</b>	<b>52,961</b>
(Pur)/Sale of Invest.	-3,745	697	16,002	1,551	-20,913	0	0
<b>CF from investments</b>	<b>-22,324</b>	<b>-81,873</b>	<b>-27,399</b>	<b>-35,385</b>	<b>-44,324</b>	<b>-26,434</b>	<b>-31,578</b>
Change in networth	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
<b>CF from Fin. Activity</b>	<b>21,872</b>	<b>72,605</b>	<b>28,049</b>	<b>-50,987</b>	<b>636</b>	<b>-48,326</b>	<b>-39,736</b>
<b>Inc/Dec of Cash</b>	<b>35,315</b>	<b>34,079</b>	<b>21,836</b>	<b>19,592</b>	<b>-52,115</b>	<b>47,356</b>	<b>13,225</b>
Add: Beginning Balance	40,587	75,902	109,980	131,817	151,408	99,294	146,651
<b>Closing Balance</b>	<b>75,902</b>	<b>109,981</b>	<b>131,816</b>	<b>151,408</b>	<b>99,294</b>	<b>146,651</b>	<b>159,876</b>

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%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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