May 27, 2021

RESULT REPORT Q4 FY21 | Sector: Pharmaceuticals

Sun Pharmaceutical Industries

ADD	CMP Rs 700	Target Rs790	Upside 12%

Result Highlights

- ✓ Q4 revenues increased by 4% YoY but lower QoQ as US specialty sales had some pre-buying in Q3
- ✓ Gross margin expanded 187bps YoY, further aided by decrease in other expenses and staff cost on YoY basis; as other expenses up ~8% QoQ. EBITDA margin declined ~300bps qoq on revenue decline and higher other expenses.
- ✓ Exceptional item of Rs6.7bn pertains to part provision recognition made by Taro (US$ 80mn) relating to multi-district trial and settlement by Ranbaxy in EU (Rs895 mn) .
- ✓ Company did not guidance for FY22; healthy commentary on Ilumya, Cequa while generic Absorica impact not felt yet

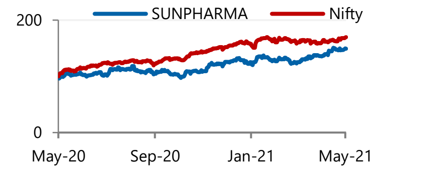
Our view: Non-Taro US sales which showed first signs of life in Q3 FY21 may have temporary given up some gains as pre-buying partly weighed on specialty sales in Q4. In Q2 update, we had outlined our thought that until signs emerge of specialty turnaround, we would be reluctant to change our negative stance. Now ex-Taro US business has delivered in two successive quarters which we think implants a credible platform for the next 2 years. Product wise Ilumya, Cequa have shown ability to grow in past 2-3 quarters and while generic Absorica would dent sales, reckon on balance, US business ex-Taro should maintain average US$240mn run rate in FY22. While competitive landscape in the branded business remains fierce as before, Sun has managed to grow ex-Taro quarterly revenues to one of their highest barring two exception-filled quarters in Q4 FY19/Q1 FY20.

While FY22 estimates do not undergo a material change, we would be ahead of consensus on FY23 EPS by ~10%, factoring in robust ~US$290mn quarterly run rate in FY23, for non-Taro business, vs US$210mn in FY21. We also raise FY23 target PE to 24x (from 15x earlier) as risks to US specialty business have receded after 2 quarters of solid execution. We upgrade to ADD from SELL with revised target price of Rs790 (Rs400 earlier). A large part of our change in TP is driven by change in PE multiple and less due to valuing on FY23 EPS. Since Q2 FY21 results, stock has rallied and outperformed BSE Healthcare index; albeit, on a 1Y basis, SUNP has still underperformed benchmark indices. We expect stock to outperform LPC (tepid inhaler traction, target PE 22x) and DRRD (target ~23x) in the near term as US specialty business revenues play out. Key risk would be slowdown in US business or increased costs which can translate into earnings disappointment.

Stock data (as on May 27, 2021)

Nifty:	15,338
52 Week h/l (Rs)	722 /443
Market cap (Rs/USD mn)	1678293/23122
Outstanding Shares	2,399
6m Avg t/o (Rs mn):	5,114
Div yield (%):	1.1
Bloomberg code:	SUNP IN
NSE code:	SUNPHARMA

Stock performance



	1M	3M	1Y
Absolute return	9.4%	17.6%	56.8%

Shareholding pattern (As of Mar'21 end)

Promoter	54.5%
FII+DII	33.3%
Others	12.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	SELL
Target Price	790	400

Δ in earnings estimates

	FY22e	FY23e
EPS (New)	25.8	31.4
EPS (Old)	26.7	-
% change	-3.2%	-

Financial Summary

	FY21	FY22e	FY23e
Net Revenue	334,981	375,965	423,167
YoY Growth	2.0	12.2	12.6
EBIDTA	84,677	84,110	104,412
YoY Growth	21.4	-0.7	24.1
PAT	29,038	62,000	77,640
YoY Growth	(22.9)	113.5	25.2
ROE	14.3	11.5	13.4
EPS	12.1	25.8	32.4
P/E	57.9	27.1	21.7
BV	193.7	210.6	234.2
P/BV	3.6	3.3	3.0

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Sun Pharmaceuticals Industries

Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Revenues	**85,230**	**88,368**	(3.6)	**81,849**	4.1
RM + inventory changes	(14,989)	(14,651)	2.3	(13,942)	7.5
Purchase of goods	(7,418)	(8,683)	(14.6)	(9,106)	(18.5)
Staff	(16,775)	(17,205)	(2.5)	(16,519)	1.5
Other expenses	(25,563)	(23,768)	7.6	(28,652)	(10.8)
Operating profit	**20,484**	**24,061**	(14.9)	**13,630**	50.3
OPM (%)	***24.0***	***27.2***	***-319 bps***	***16.7***	***738 bps***
Depreciation	(5,535)	(5,319)	4.1	(5,754)	(3.8)
Interest	(301)	(261)	15.3	(518)	(41.9)
Other income	1,110	3,150	(64.8)	1,022	8.6
PBT	**15,759**	**21,631**	(27.1)	**8,381**	88.0
Tax	(550)	(2,449)	(77.5)	(831)	(33.8)
Effective tax rate (%)	***3.4***	***11.7***	***-828 bps***	***11.2***	***-778 bps***
PAT	**15,208**	**19,181**	(20.7)	**7,550**	101.4
PAT margin (%)	***17.8***	***21.7***	***-386 bps***	***9.2***	***862 bps***
Minority/Associate	462	(656)	(170.3)	(945)	(148.8)
Exceptional	(6,728)	-		(2,606)	
PAT	**8,942**	**18,525**	(51.7)	**3,998**	123.6

CON-CALL HIGHLIGHTS

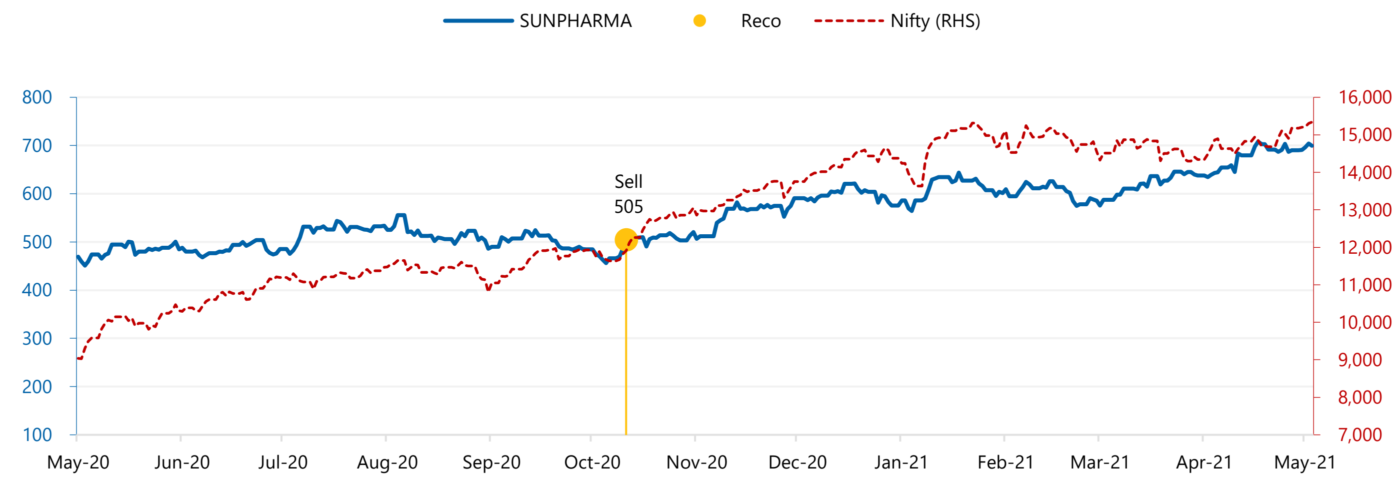
- ✓ No FY22 guidance due to near term uncertainty
- ✓ Q4 global specialty sales at US$120mn
- ✓ Specialty sales lower QoQ - Dec saw some pre-buying as financial year close in US; secondly, January sees insurance plan roll over and takes time till even Feb for patients to be enrolled onto new ones and also some impact of COVID early in Q4
- ✓ FY21 global Ilumya sales of US$143mn, up 51% yoy; recorded good growth despite doctor closure in US in H1 FY21
- ✓ Ilumya, Cequa, Absorica remain key growth drivers; generic Absorica launched and Sun also launched authorized generic
- ✓ Cequa would continue to grow and expect continued momentum; no visibility on Restatis generic
- ✓ Ilumya trial for Psoriatic Arthritis – clinical sites have started in last few weeks but uncertainty in patient enrollment due to pandemic
- ✓ Watchful on Absorica launch by Teva in late April
- ✓ Levulan saw a bit of uptick in Q4 and if the situation normalizes expect good growth from the product.
- ✓ Biosimilars – looking to launch products with patent expiries far out; looking at 2028-29 launches

- ✓ Think there is still opportunity in biosimilars despite large investments required in development and manufacturing and evidence of price erosion in market
- ✓ R&D subdued in FY21 but seen at 7-8% of sales
- ✓ Marketing spends will go up but would try to see that it does not go to pre-COVID levels though not possible for all markets
- ✓ Vaccine cannot be made in facilities where multiple products are being made; not looking at vaccine production
- ✓ Expanded field force and have added 1,000 people. So, currently there are 10,000 people in the field force cumulatively.

Exhibit 2: Financial summary

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Revenues	290,659	328,375	334,981	375,965	423,167
yoy growth (%)	9.7	13.0	2.0	12.2	12.6
Operating profit	63,076	69,742	84,677	84,110	104,412
OPM (%)	21.7	21.2	25.3	22.4	24.7
Reported PAT	26,654	37,649	29,038	62,000	77,640
yoy growth (%)	27.2	41.3	(22.9)	113.5	25.2
EPS (Rs)	11.1	15.7	12.1	25.8	32.4
P/E (x)	63.1	44.7	57.9	27.1	21.7
Price/Book (x)	4.1	3.7	3.6	3.3	3.0
EV/EBITDA (x)	25.3	23.0	19.0	19.0	14.9
Debt/Equity (x)	0.1	0.1	0.0	0.0	0.0
RoE (%)	11.1	10.2	14.3	11.5	13.4
RoCE (%)	12.7	11.4	14.9	13.6	15.7

Recommendation Tracker



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