

Sun Pharma

Performance Highlights

(` cr)	4QFY2017	3QFY2017	% chg (qoq)	4QFY2016	% chg (yoy)
Net sales	6,825	7,683	(11.2)	7,414	(7.9)
Other income	536	352	52.6	185	189.4
Gross profit	4,630	5,435	(14.8)	5,962	(22.3)
Operating profit	1,235	2,224	(44.4)	2,300	(46.3)
Adj. Net profit	1,385	1,722	(19.5)	1,714	(19.2)

Source: Company, Angel Research

For 4QFY2017, Sun Pharma posted tepid numbers. For the quarter, the sales came in at `6,825cr v/s. `7,600cr expected, registering a yoy dip of 7.9%. India sales at `1,916cr, were up by 10% as compared to 4QFY2016, US finished dosage sales at US\$381mn down by 34% vis-à-vis 4QFY2016. On the OPM front, the gross margins came in at 67.8% v/s. 80.4% in 4QFY2016, which lead the EBDITA margins to come in at 18.1% (v/s. 31.1% expected) v/s. 31.0% in 4QFY2016. Despite the sharp dip in margins, the higher other income at `536cr v/s. `185cr in 4QFY2016, lead the Adj. net profit to come in at `1,385cr v/s. `1,433cr expected, a yoy dip of 19.2%. **We maintain our Buy.**

Results lower than expectations: India sales at `1,916cr, were up by 10% as compared to 4QFY2016, US finished dosage sales at US\$381mn down by 34% vis-à-vis 4QFY2016. Emerging Markets sales at US\$181mn was up 46% over 4QFY2016. Rest of World sales at US\$109mn grew 38% over 4QFY2016. This growth was partly driven by the consolidation of the Japan business. On the OPM front, the gross margins came in at 67.8% v/s. 80.4% in 4QFY2016, which lead the EBDITA margins to come in at 18.1% (v/s. 31.1% expected) v/s. 31.0% in 4QFY2016. Despite the sharp dip in the margins, the higher other income at `536cr v/s. `185cr in 4QFY2016, lead Adj. net profit to come in at `1,385cr, a yoy dip of 19.2%.

Outlook and valuation: Sun Pharma is one of the largest and fastest growing Indian pharmaceutical companies. We expect its net sales to post a CAGR of 9.7% (including Ranbaxy Laboratories) to `36,451cr and EPS to come in at `32.3 over FY2017–19E. **We recommend a Buy rating on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
Net sales	27,888	30,264	32,899	36,451
% chg	2.2	8.5	8.7	10.8
Adj. Net profit	6,248	7,846	7,580	7,760
% chg	31.7	25.6	(3.4)	2.4
EPS (₹)	26.0	32.7	31.6	32.3
EBITDA margin (%)	24.6	29.0	26.9	25.4
P/E (x)	20.2	16.0	16.6	16.2
RoE (%)	21.0	22.2	18.7	18.8
RoCE (%)	15.6	18.8	16.9	15.1
P/BV (x)	3.8	3.4	2.9	2.5
EV/Sales (x)	4.4	3.9	3.5	3.0
EV/EBITDA (x)	17.7	13.6	13.1	11.9

Source: Company, Angel Research; Note: CMP as of June 9, 2017

BUY

CMP	₹525
Target Price	₹712

Investment Period 12 months

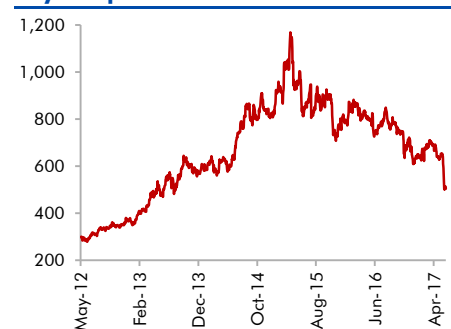
Sector	Pharmaceutical
Market Cap (₹ cr)	1,25,916
Net Debt (₹ cr)	(8,242)
Beta	0.7
52 Week High / Low	855/493
Avg. Daily Volume	1,78,292
Face Value (₹)	1
BSE Sensex	31,262
Nifty	9,668
Reuters Code	SUN.BO
Bloomberg Code	SUNP@IN

Shareholding Pattern (%)

Promoters	54.4
MF / Banks / Indian Fls	16.0
FII / NRIs / OCBs	21.6
Indian Public / Others	8.0

Abs. (%)	3m	1yr	3yr
Sensex	8.1	16.8	22.2
Sun Pharma	(23.4)	(29.3)	(12.7)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2017 performance (Consolidated)

Y/E March (` cr)	4QFY2017	3QFY2017	% chg QoQ	4QFY2016	% chg yoy	FY2017	FY2016	% chg
Net sales	6,825	7,683	(11.2)	7,414	(7.9)	30,264	27,888	8.5
Other income	536.4	351.6	52.6	185.3	189.4	1,902	1,257.2	51.3
Total income	7,362	8,035	(8.4)	7,599	(3.1)	32,166	29,145	10.4
Gross profit	4,630	5,435	(14.8)	5,962	(22.3)	22,133	21,558	2.7
Gross margin (%)	67.8	70.7		80.4		73.1	77.3	
Operating profit	1,235	2,224	(44.4)	2,300	(46.3)	8,810	6,874	28.2
Operating margin (%)	18.1	28.9		31.0		29.1	24.6	
Interest	45	167	(73.0)	89	(49.2)	400	523	(23.6)
Depreciation	338	307	10.2	264	27.9	1,265	1,038	21.9
Extraordinary item loss/ (gain)	0	0		0		0	-590	
PBT	1,389	2,102	(33.9)	2,132	(34.9)	9,048	6,571	37.7
Provision for taxation	44.3	372.9	(88.1)	170.6	(74.0)	1,212	914	32.6
PAT before extra-ordinary item	1,344	1,729	(22.2)	1,962	(31.5)	7,836	5,657	38.5
Minority interest(MI)	(41)	7	-	248	-	(10)	1	-
Reported PAT	1,385	1,722	(19.5)	1,714	(19.2)	7,846	5,655	38.7
Adj. PAT	1,385	1,722	(19.5)	1,714	(19.2)	7,846	6,248	25.6
Adj. EPS (`)	5.8	7.2		7.1		32.6	26.0	

Source: Company, Angel Research

Exhibit 2: 4QFY2017 – Actual V/s Angel estimates

(` cr)	Actual	Estimates	Variance (%)
Net sales	6,825	7,600	(10.2)
Other income	536	185	189.4
Operating profit	1,235	2,364	(47.7)
Tax	44	372	(88.1)
Adj. Net profit	1,385	1,443	(4.0)

Source: Company, Angel Research

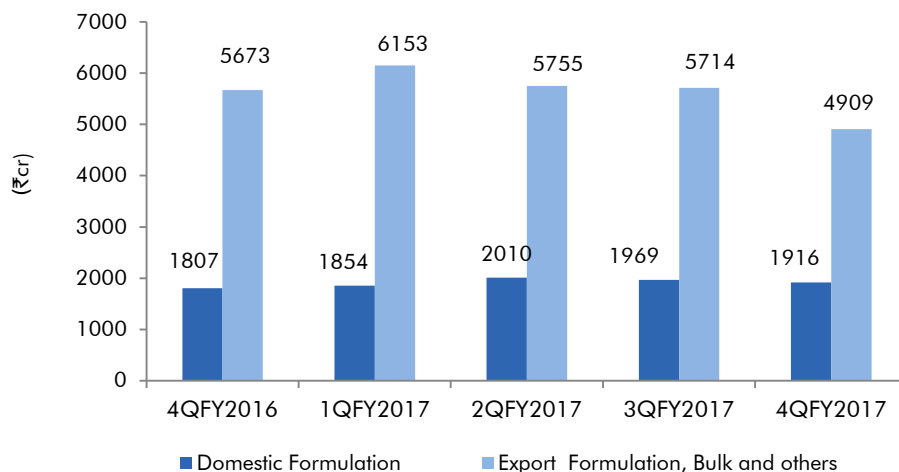
Numbers lower than expectations: For 4QFY2017, the company posted tepid numbers. For the quarter, the sales came in at `6,825cr v/s. `7,600cr expected, registering a yoy dip of 7.9%. India sales at `1,916cr, were up by 10% over 4QFY2016, US finished dosage sales at US\$381mn were down by 34% over 4QFY2016. Emerging Markets sales at US\$181mn were up by 46% over 4QFY2016. Rest of World sales at US\$109mn grew 38% over 4QFY2016. This growth was partly driven by the consolidation of the Japan business.

Sales of branded formulations in India for 4QFY2017 stood at `1,916cr, up 10% yoy and accounted for 28% of total sales. Sun Pharma is ranked No. 1 and holds ~8.6% market share in the `100,000cr pharmaceutical market as per the March-2017 AIOCD-AWACS report.

Sales in the US came in at US\$381mn for the quarter, accounting for 37% of total sales. Sales in emerging markets were at US\$181mn for 4QFY2017, a yoy growth of 46% and accounted for 18% of total sales. Formulation sales in Rest of World (ROW) markets excluding US and Emerging markets were US\$109mn in 4QFY2017, a growth of 38% yoy and accounted for ~11% of revenues for the quarter.

The company had a total of 427 ANDAs filed with the USFDA. Currently, ANDAs for 157 products await USFDA approval, including 16 tentative approvals.

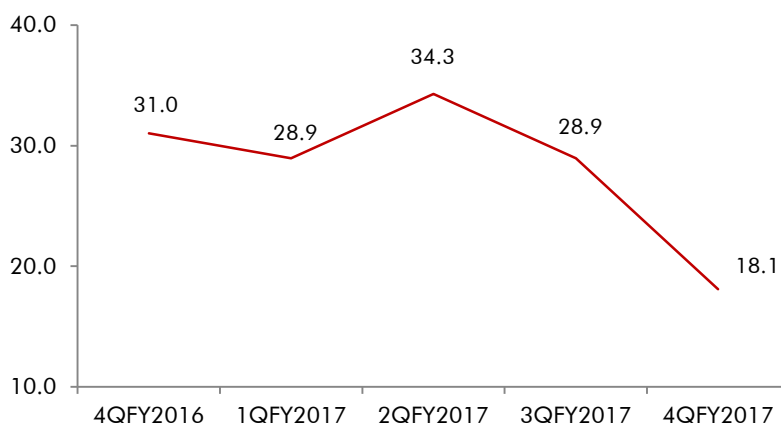
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM at 18.1%, lower than expected: On the OPM front, the gross margins came in at 67.8% v/s. 80.4% in 4QFY2016, which lead the EBDITA margins to come in at 18.1% (v/s. 31.1% expected) v/s. 31.0% in 4QFY2016. Company's performance was impacted by the challenging generic pricing environment in the US. The R&D expenses came in at 8.8% of sales, almost in-line with last year, at 9.6% of sales as in 4QFY2016.

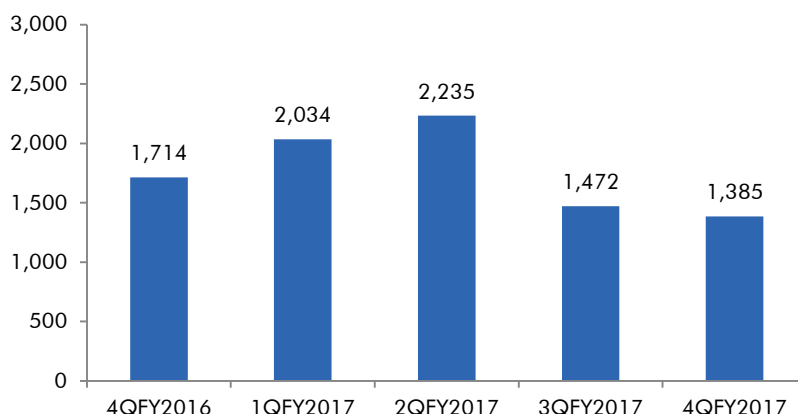
Exhibit 4: OPM trend (%)



Source: Company, Angel Research,

Net profit slightly below expectations: Despite the sharp dip in margins, the higher other income at `536cr v/s. `185cr in 4QFY2016, lead the Adj. net profit to come in at ₹1,385cr v/s. ₹1,433cr expected, a yoy dip of 19.2%. Other operating income for the quarter at `312cr included a milestone payment from Almirall S.A. (Spain), as a part of the licensing agreement for the development and commercialization of Tildrakizumab for psoriasis in Europe.

Exhibit 5: Adjusted Net profit trend (₹ cr)



Source: Company, Angel Research

Concall takeaways

- Revenue may decline due to challenges in the US (assuming no new approval from Halol and no disruption at Dadra).
- Two thirds of Ranbaxy integration benefit came in FY2017; rest expected in FY2018.
- Tildrakizumab NDA launch expected by early 2019.
- Gleevec launch in FY2018E.

Investment arguments

Strongest ANDA pipeline: Sun Pharma, with the recent acquisitions of DUSA, URL Pharma and Ranbaxy Laboratories, has now become strong in the US region, with the geography accounting for 37% of its sales in FY2017. In terms of ANDAs, the company cumulatively has 427 products, out of which 157 products now await USFDA approval, including 16 tentative approvals. With the merger of Ranbaxy Laboratories, the company is now the fifth-largest specialty generics company in the world (behind Teva, Sandoz, Actavis and Mylan). However, the near term performance of the company has been impacted on the back of supply constraints at the Halol facility although the company has taken redemption measures including site transfers. Overall, we expect the region to post a CAGR of 6.4% in sales over FY2017-19E, accounting for almost 44% of the overall sales in FY2019E.

Domestic business: Sun Pharma’s domestic formulation business is among the fastest growing in the Indian pharmaceutical industry. It contributed 23% to the company’s total turnover in FY2014. Sun Pharma, with Ranbaxy Laboratories’ merger, is now the segment leader with a market share of 8.7% in the domestic formulation market, followed by Abbott India, which has a market share of 6.5%. This is a significant gap considering that the segment is highly fragmented. We expect the domestic formulation business to post a CAGR of 14.5% over

FY2017-19E, contributing 28% to the overall formulation sales of the company in FY2019.

Healthy balance sheet: Sun Pharma has one of the strongest balance sheets in the sector with cash of ~₹15,000cr. The same can continue to support the Management in inorganic growth and in scouting for acquisitions, especially in the US and in emerging markets.

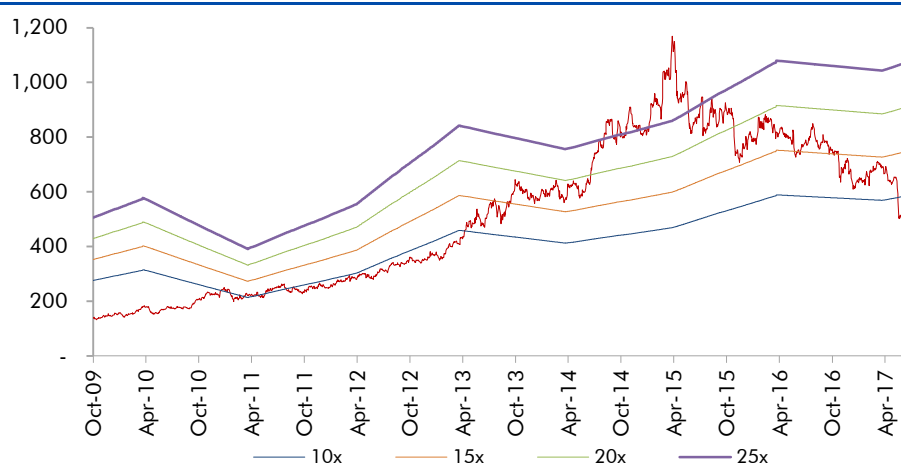
Outlook and valuation: Sun Pharma is one of the largest and fastest growing Indian pharmaceutical companies. We expect its net sales to post a CAGR of 9.7% (including Ranbaxy Laboratories) to ₹36,451cr and EPS to post a CAGR of (0.5)% to ₹32.3 over FY2017–19E. **We recommend a Buy rating on the stock.**

Exhibit 6: Key assumptions

	FY2018E	FY2019E
Domestic Formulation sales growth (%)	14.0	15.0
Export Formulation sales growth (%)	8.9	9.9
Growth in employee expenses (%)	20.0	20.0
Operating margins (%)	26.9	25.4
Tax as % of PBT	15.0	15.0

Source: Company, Angel Research

Exhibit 7: One-year forward PE band



Source: Company, Angel Research

Exhibit 8: Valuation summary

Company	Reco	CMP (₹)	Tgt. Price (₹)	Upside %	PE (x)	FY2018E		FY16-18E	FY2018E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Buy	552	648	17.3	21.7	2.5	12.0	(10.8)	27.5	25.3
Aurobindo Pharma	Buy	609	823	35.2	13.6	2.2	9.9	18.1	22.5	26.1
Cadila Healthcare	Sell	541	450	(16.8)	28.4	4.8	23.8	(0.5)	16.2	24.6
Cipla	Sell	550	465	(15.5)	22.4	2.5	15.2	14.2	12.2	13.9
Dr Reddy's	Neutral	2,631	-	-	24.8	2.9	15.8	(13.7)	10.8	13.6
Dishman Pharma	Under Review	301	-	-	26.6	2.9	12.7	16.3	13.0	13.5
GSK Pharma*	Neutral	2,463	-	-	49.7	6.2	38.4	6.0	22.3	21.3
Indoco Remedies	Sell	193	153	(20.7)	17.1	1.7	11.7	6.3	10.1	15.0
Ipca labs	Buy	501	710	41.7	25.8	1.8	12.6	13.9	10.4	9.5
Lupin	Buy	1,161	1,526	31.5	19.0	2.7	11.4	10.0	20.6	17.8
Sanofi India	Neutral	4,051	-	-	29.0	3.3	19.8	16.8	22.5	26.4
Sun Pharma	Buy	525	712	35.7	16.6	3.5	12.9	1.2	16.9	18.7

Source: Company, Angel Research; Note: * December year ending

Company background

Sun Pharma is an international specialty pharma company, with a large presence in the US and India, and a footprint across 40 other markets. In India and rest of the world markets, the key chronic therapy areas for the company are cardiology, psychiatry, neurology, gastroenterology, diabetology, etc. The company is a market leader in specialty therapy areas in India. In India, the company has emerged as a leading pharma company, where it is the third largest player. Also, in the US, a key geography, the company has expanded significantly through both in-organic and organic routes.

Profit & Loss statement (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Gross sales	27,652	28,254	30,536	33,198	36,782
Less: Excise duty	366	366	272	299	331
Net sales	27,287	27,888	30,264	32,899	36,451
Other operating income	147	599	1,314	1,314	1,314
Total operating income	27,433	28,487	31,578	34,213	37,765
% chg	70.6	3.8	10.9	8.3	10.4
Total expenditure	19,470	21,014	21,489	24,054	27,193
Net raw materials	6,739	6,330	8,131	8,839	9,793
Other mfg costs	1,192	1,218	1,322	1,437	1,593
Personnel	4,430	4,772	4,902	5,883	7,059
Other	7,109	8,693	7,134	7,896	8,748
EBITDA	7,817	6,874	8,775	8,845	9,258
% chg	12.9	(12.1)	(27.5)	(34.4)	34.7
(% of Net Sales)	28.6	24.6	29.0	26.9	25.4
Depreciation & amort.	1,195	1,038	1,265	1,465	1,665
EBIT	6,622	6,436	8,825	8,694	8,907
% chg	1.7	(2.8)	(18.7)	(1.5)	2.5
(% of Net Sales)	24.3	23.1	29.2	26.4	24.4
Interest & other charges	579	523	400	400	400
Other income	451	1,248	623	623	623
(% of PBT)	6.8	17.4	6.9	7.0	6.8
Share in profit of Asso.	-	-	-	-	1.0
Recurring PBT	6,641	7,161	9,048	8,917	9,131
% chg	-6.4	7.8	-16.8	0.0	0.1
Extraordinary expense/(inc.)	237.8	589.9	-	-	1.0
PBT (reported)	6,641	7,161	9,048	8,917	9,130
Tax	914.7	913.8	1,211.6	1,337.6	1,369.4
(% of PBT)	13.8	12.8	13.4	15.0	15.0
PAT (reported)	5,726	6,247	7,836	7,580	7,760
Add: Share of earnings of asso.	(13)	1	10	-	-
Less: Minority interest (MI)	936	-	-	-	-
Prior period items	-	-	-	-	-
PAT after MI (reported)	4,539	5,658	7,846	7,580	7,760
ADJ. PAT	4,743	6,248	7,846	7,580	7,760
% chg	(10.0)	31.7	65.4	(3.4)	2.4
(% of Net Sales)	16.6	0.0	1.0	2.0	3.0
Basic EPS (₹)	22.9	26.0	32.7	31.6	32.3
Fully Diluted EPS (₹)	22.9	26.0	32.7	31.6	32.3
% chg	(10.0)	13.4	42.8	(3.4)	2.4

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
SOURCES OF FUNDS					
Equity share capital	207	241	240	240	240
Preference capital					
Reserves & surplus	26,300	32,742	36,400	42,857	49,494
Shareholders' funds	26,507	32,982	36,640	43,097	49,734
Minority interest	2,851	4,085	3,791	3,791	3,791
Total loans	7,596	8,316	8,091	8,091	8,091
Deferred tax liability	(1,752)	(3,046)	(2,178)	(2,178)	(2,178)
Other Long Term Liabilities	9	-	-	-	-
Long Term Provisions	2,710	2,106	1,342	2,523	2,853
Total liabilities	37,922	44,443	47,685	55,324	62,290
APPLICATION OF FUNDS					
Gross block	15,041	15,084	18,162	19,162	20,162
Less: Acc. depreciation	4,863	7,139	8,404	9,869	11,534
Net block	10,179	7,945	9,758	9,293	8,628
Capital work-in-progress	842	842	303	303	303
Goodwill	3,701	9,261	10,417	10,417	10,417
Investments	2,716	1,830	1,192	1,388	1,389
Long term long & adv.	2,736	3,276	4,526	4,574	5,068
Current assets	27,005	29,227	32,723	38,436	46,757
Cash	10,998	13,182	15,141	19,178	25,420
Loans & advances	2,193	2,006	2,480	2,696	2,987
Other	13,813	14,040	15,102	16,562	18,351
Current liabilities	9,256	7,938	11,232	9,086	10,272
Net current assets	17,748	21,290	21,491	29,350	36,486
Others	-	-	-	-	-
Total assets	37,922	44,443	47,685	55,324	62,290

Cash Flow Statement (Consolidated)

Y/E March (' cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	6,641	7,161	9,048	8,917	9,131
Depreciation	1,195	1,038	1,265	1,465	1,665
(Inc)/Dec in working capital	(4,322)	(1,898)	(2,505)	(14,746)	(4,750)
Direct taxes paid	915	914	1,212	1,338	1,369
Cash Flow from Operations	2,598	5,386	6,596	(5,702)	4,676
(Inc.)/Dec.in Fixed Assets	(8,653)	(43)	(1,682)	(1,000)	(1,000)
(Inc.)/Dec. in Investments	70	886	1,524	(196)	(1)
Other income	-	-	-	-	-
Cash Flow from Investing	(8,583)	843	(157)	(1,196)	(1,001)
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	(4,928)	(1,333)	(1,873)	1,181	329
Dividend Paid (Incl. Tax)	-	(282)	(1,123)	(1,123)	(1,123)
Others	14,320	(2,431)	(1,485)	10,875	3,360
Cash Flow from Financing	9,392	(4,046)	(4,480)	10,934	2,566
Inc./(Dec.) in Cash	3,408	2,184	1,959	4,036	6,242
Opening Cash balances	7,590	10,998	13,182	15,141	19,178
Closing Cash balances	10,998	13,182	15,141	19,178	25,420

Key Ratios

Y/E March	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)					
P/E (on FDEPS)	22.9	20.2	16.0	16.6	16.2
P/CEPS	19.0	18.9	13.8	13.9	13.4
P/BV	4.8	3.8	3.4	2.9	2.5
Dividend yield (%)	0.6	0.2	0.2	0.2	0.2
EV/Sales	3.9	4.4	3.9	3.5	3.0
EV/EBITDA	13.5	17.7	13.6	13.1	11.9
EV / Total Assets	2.8	2.7	2.5	2.1	1.8
Per Share Data (₹)					
EPS (Basic)	22.9	26.0	32.7	31.6	32.3
EPS (fully diluted)	22.9	26.0	32.7	31.6	32.3
Cash EPS	27.7	27.8	38.0	37.7	39.3
DPS	3.0	1.0	1.0	1.0	1.0
Book Value	110.2	137.1	152.3	179.1	206.7
Dupont Analysis					
EBIT margin	24.3	23.1	29.2	26.4	24.4
Tax retention ratio	86.2	87.2	86.6	85.0	85.0
Asset turnover (x)	1.2	1.0	1.1	1.0	1.0
ROIC (Post-tax)	26.1	19.7	27.5	22.4	21.5
Cost of Debt (Post Tax)	9.8	5.7	4.4	8.4	4.1
Leverage (x)	0.0	0.0	0.0	0.0	0.0
Operating ROE	26.1	19.7	27.5	22.4	21.5
Returns (%)					
ROCE (Pre-tax)	21.1	15.6	18.8	16.9	15.1
Angel ROIC (Pre-tax)	38.3	29.6	41.3	36.8	34.5
ROE	21.1	21.0	22.2	18.7	18.8
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.6	1.9	1.9	1.8	1.9
Inventory / Sales (days)	58	77	76	82	90
Receivables (days)	50	76	76	82	90
Payables (days)	61	91	95	69	69
WC cycle (ex-cash) (days)	82	95	71	54	93
Solvency ratios (x)					
Net debt to equity	(0.1)	(0.1)	(0.2)	(0.3)	(0.3)
Net debt to EBITDA	(0.4)	(0.7)	(0.8)	(1.3)	(1.9)
Interest Coverage (EBIT/Int.)	-	-	-	-	-

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Disclosure of Interest Statement

Sun Pharma

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	Yes
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)