

Sun Pharma

Performance Highlights

(` cr)	2QFY2018	1QFY2018	% chg (qoq)	2QFY2017	% chg (yoy)
Net sales	6,590	6,167	6.9	7,764	(15.1)
Other income	315	194	62.3	621	(49.2)
Gross profit	4,713	4,489	5.0	5,924	(20.5)
Operating profit	1,315	1,054	24.9	2,667	(50.7)
Adj. Net profit	1,002	632	58.6	2,471	(59.5)

Source: Company, Angel Research

For 2QFY2018, sales came in at `6,590cr (`7,118cr expected) v/s. `7,764cr in 2QFY2017, a yoy de-growth of 15.1%, following a decline in US sales (which was impacted on the back of pricing pressures and base effect). On operating front, the EBITDA margins came in at 20.0% as expected v/s. 34.3% in 2QFY2017, mainly on the back of lower sales during the quarter and base effect. Thus, Adj. net profit came in at `1,002cr V/s `2,471cr in 2QFY2017, a yoy dip of 59.5%. The management has maintained top-line guidance of high-single-digit decline in FY2018; EBITDA margin guidance is also maintained at 20-22% for 2HFY18. **We maintain our BUY.**

US impact sales: Sales came in at `6,590cr (`7,118cr expected) v/s. `7,764cr in 2QFY2017, a yoy de-growth of 15.1%, following a decline in US sales (which was impacted on the back of pricing pressures and base effect). US sales came in at `1986cr, a yoy dip of 46.5%. Domestic Formulation sales were `2,221cr, a yoy growth of 10.5%. On operating front, the EBITDA margins came in at 20.0% as expected v/s. 34.3% in 2QFY2017, mainly on the back of lower sales during the quarter and base effect. Thus, Adj. net profit came in at `1,002cr V/s `2,471cr in 2QFY2017, a yoy dip of 59.5%.

Outlook and valuation: We expect its net sales to post a CAGR of 2.5% to `31,826cr and EPS to come in at `24.8 over FY2017–19E. %. The management has maintained top-line guidance of high-single-digit decline in FY2018; EBITDA margin guidance is also maintained at 20-22% for 2HFY18. **We maintain a Buy rating.**

Key financials (Consolidated)

Y/E March (` cr)	FY2016	FY2017	FY2018E	FY2019E
Net sales	27,888	30,264	28,466	31,826
% chg	2.2	8.5	(5.9)	11.8
Adj. Net profit	6,248	7,846	5,101	5,949
% chg	31.7	25.6	(35.0)	16.6
EPS (`)	26.0	32.7	21.3	24.8
EBITDA margin (%)	24.6	29.0	20.8	22.4
P/E (x)	18.7	14.8	22.8	19.6
RoE (%)	21.0	22.2	13.0	15.2
RoCE (%)	15.6	18.8	11.5	12.3
P/BV (x)	3.5	3.2	2.9	2.6
EV/Sales (x)	4.0	3.6	3.7	3.2
EV/EBITDA (x)	16.3	12.5	17.9	14.4

Source: Company, Angel Research; Note: CMP as of November 22, 2017

BUY

CMP `535
Target Price `615

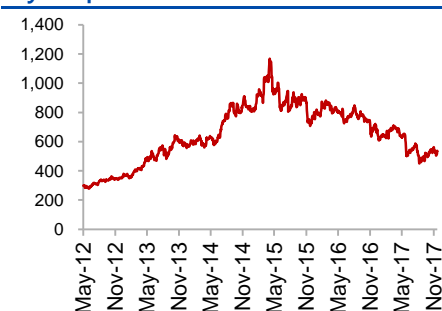
Investment Period 12 months

Stock Info	
Sector	Pharmaceutical
Market Cap (` cr)	128,411
Net Debt (` cr)	(8,242)
Beta	0.7
52 Week High / Low	731/433
Avg. Daily Volume	477,916
Face Value (`)	1
BSE Sensex	33,562
Nifty	10,342
Reuters Code	SUN.BO
Bloomberg Code	SUNP@IN

Shareholding Pattern (%)	
Promoters	54.4
MF / Banks / Indian Fls	18.5
FII / NRIs / OCBs	18.7
Indian Public / Others	8.4

Abs. (%)	3m	1yr	3yr
Sensex	6.3	29.3	17.8
Sun Pharma	14.2	(22.4)	(36.1)

3-year price chart



Source: Company, Angel Research

Sarabjit Kour Nangra

+91 22 39357600 Ext: 6806

sarabjit@angelbroking.com

Exhibit 1: 2QFY2018 performance (Consolidated)

Y/E March (` cr)	2QFY2018	1QFY2018	% chg QoQ	2QFY2017	% chg yoy	1HFY2018	1HFY2017	% chg
Net sales	6,590	6,167	6.9	7,764	(15.1)	12,757	15,756	(19.0)
Other income	315.1	194.1	62.3	620.5	(49.2)	509	1,037	(50.9)
Total income	6,905	6,361	8.6	8,385	(17.6)	13,266	16,793	(21.0)
Gross profit	4,713	4,489	5.0	5,924	(20.5)	9,202	12,069	(23.8)
Gross margin (%)	71.5	72.8		76.3		72.1	76.6	
Operating profit	1,315	1,054	24.9	2,667	(50.7)	2,369	5,328	(55.5)
Operating margin (%)	20.0	17.1		34.3		18.6	33.8	
Interest	157	109	43.9	54	193.1	267	188	41.7
Depreciation	359	347	3.5	304	18.0	705	620	13.8
Extraordinary item loss/ (gain)	0	951		0		951	0	
PBT	1,114	792	40.8	2,930	(62.0)	1,906	5,557	(65.7)
Provision for taxation	111	161.8	(31.1)	441.7	(74.8)	273	794	(65.6)
PAT before extra-ordinary item	1,003	630	59.3	2,488	(59.7)	1,633	4,763	(65.7)
Minority interest(MI)	(1)	(2)	(38.4)	17		(3)	(24)	
Reported PAT	1,002	632	58.6	2,471	(59.5)	1,636	4,739	(65.5)
Adj. PAT/(Loss)	1,002	(323)	-	2,471	(59.5)	679	4,739	(85.7)
Adj. EPS (`)	4.2	2.6		9.3		6.8	17.7	

Source: Company, Angel Research

Exhibit 2: 2QFY2018 – Actual V/s Angel estimates

(` cr)	Actual	Estimates	Variance (%)
Net sales	6,590	7,118	(7.4)
Other income	315	200	57.6
Operating profit	1,315	1,422	(7.5)
Tax	111	162	(31.1)
Adj. Net profit	1,002	752	33.3

Source: Company, Angel Research

Sales lower than expectations: Sales came in at `6,590cr (`7,118cr expected) v/s. `7,764cr in 2QFY2017, a yoy de-growth of 15.1%, following a decline in the US (which was impacted on back of pricing pressures and base effect). India sales at `1,761cr (which accounted for 33.7% of sales) were up by 10.5% yoy, while Exports (`3,956cr) were down 26% yoy, following a 46.5% yoy dip in the US sales during the quarter.

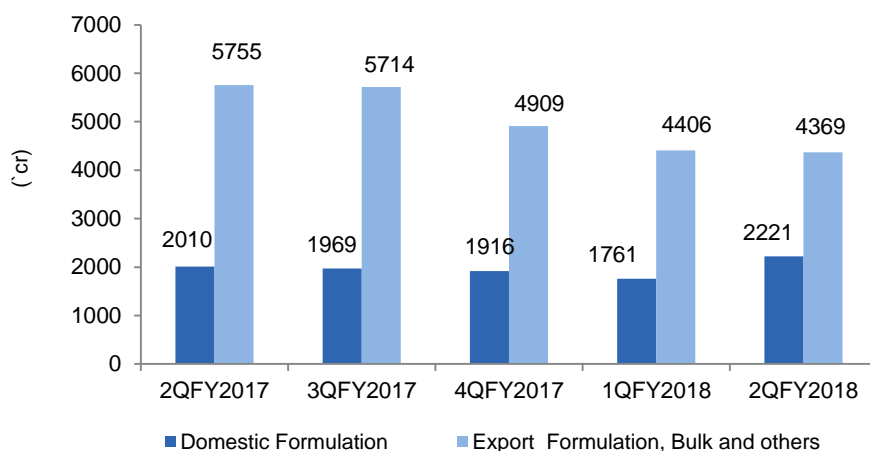
Sales in the US were US\$309mn for the quarter, a de-growth of 44% yoy over same period last year and accounted for 30% of total sales. Taro posted 2QFY2018 sales of US\$170mn, down 26% over 2QFY2017. For the first half, sales were US\$331mn, down 28% over first half last year. Taro's net profit for 2QFY2018 was US\$ 52mn, down by 58% over 2QFY2017. Net profit for 1HFY2018 was US\$107mn, down by 54% over first half last year.

Sales in emerging markets were at US\$196mn for 2QFY2018, a growth of 16% yoy and accounted for 19% of total sales. The growth was partly boosted by the consolidation of the Biosintez acquisition in Russia.

Formulation sales in Rest of World (ROW) markets excluding US and Emerging Markets were US\$111mn in 2QFY2018, a growth of 37% from 2QFY2017 and accounting for 11% of revenues. The growth was partly boosted by the consolidation of revenues from the acquisition of 14 brands from Novartis.

The company had a total of 422 ANDAs filed with the USFDA. Currently, ANDAs for 136 products await USFDA approval, including 15 tentative approvals. For the quarter, 4 ANDAs were filed and 3 approvals were received. Additionally, the pipeline includes 37 approved NDAs while 4 NDAs await USFDA approval.

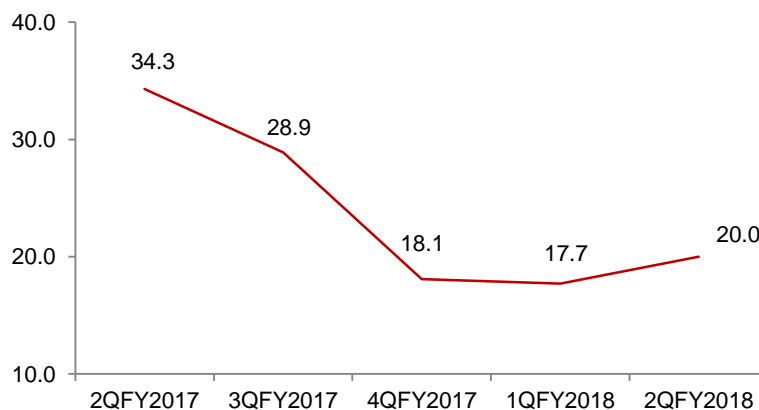
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM at 20.0%, lower than expected: On operating front, the EBITDA margins came in at 20.0% as expected v/s. 34.3% in 2QFY2017, mainly on the back of lower sales during the quarter and base effect. Gross margins came in at 71.5% v/s. 76.3% in 2QFY2017, while R&D expenses were at 8.5% of sales v/s 7.3% of sales during the last corresponding period.

Exhibit 4: OPM trend (%)

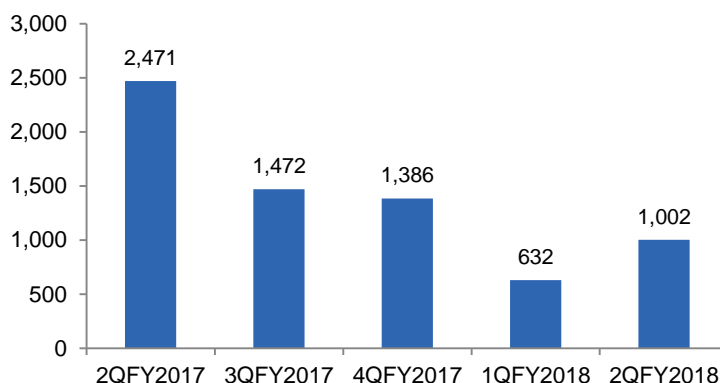


Source: Company, Angel Research,

Net profit above expectations; mainly driven by other income:

Thus, Adj. net profit came in at ₹1,002cr V/s ₹2,471cr in 2QFY2018, a yoy dip of 59.5%, but higher compared to ₹752cr expected, mainly on back of better than expected other income. The yoy dip was mainly on back of lower sales and base effect, further augmented by the 193.1% yoy rise in interest expenses.

Exhibit 5: Adjusted Net profit trend (₹ cr)



Source: Company, Angel Research

Concall takeaways

- The management has maintained top-line guidance of high-single-digit decline in FY2018.
- Company expects US FDA inspection at Halol before CY2017-end
- 2HFY2018E EBITDA margin to be ~20-22%.
- MK-3222- EU approval deferred to CY2018-end/CY2019- beginning; US approval expected in 2018.

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, which accounted for 37% of its sales in FY2017. In terms of ANDAs, the company cumulatively has 422 products, out of which 136 products now await USFDA approval, including 15 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. Also, during FY2018, the company like other generic players in the US is expecting a pricing dip on back of the consolidation in the buyers chain (4 players hold now 90% market share). Overall, we expect the region to post a CAGR of -10.5% in sales over FY2017-19E, accounting for almost 34% 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 15.0% over FY2017-19E, contributing 32% 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.

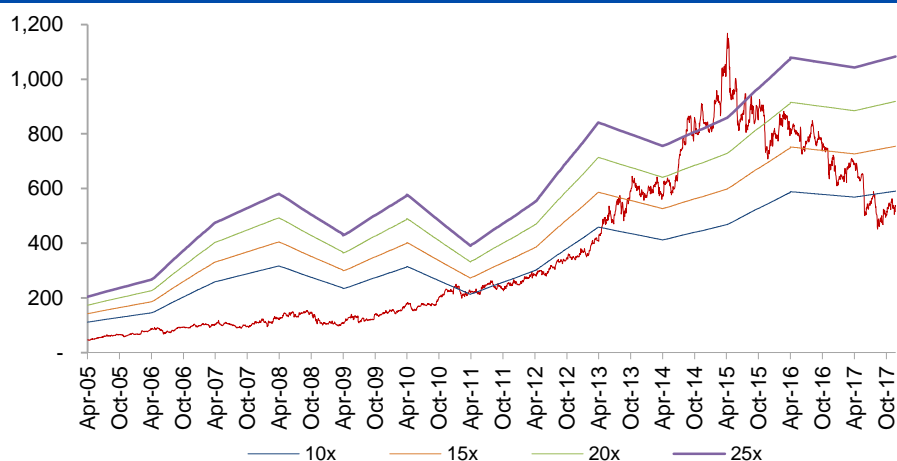
Outlook and valuation: Sun Pharma is one of the largest and fastest growing Indian pharmaceutical companies. We expect its net sales to post a CAGR of 2.5% (including Ranbaxy Laboratories) to `31,826cr and EPS to post a CAGR of 8.0% to `24.8 over FY2017-19E. **We recommend a Buy.**

Exhibit 6: Key assumptions

	FY2018E	FY2019E
Domestic Formulation sales growth (%)	10.0	20.0
Export Formulation sales growth (%)	(11.8)	9.9
Growth in employee expenses (%)	15.0	15.0
Operating margins (%)	20.7	22.4
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)	FY2019E		FY17-19E	FY2019E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Buy	511	600	17.3	21.4	2.9	13.0	5.7	20.6	18.4
Aurobindo Pharma	Buy	699	823	17.8	13.6	2.5	9.9	14.2	25.3	22.7
Cadila Healthcare	Reduce	443	411	(7.2)	21.6	4.1	17.6	18.9	16.5	22.2
Cipla	Sell	619	462	(25.3)	25.5	3.2	16.2	39.3	10.9	13.1
Dr Reddy's	Reduce	2,361	2,040	(13.6)	23.2	3.1	13.3	18.5	10.3	12.4
Dishman Pharma	Under Review	301	-	-	19.3	2.7	10.1	23.3	4.5	4.4
GSK Pharma	Sell	2,496	2,000	(19.9)	53.9	6.9	39.3	19.3	25.8	23.5
Indoco Remedies	Sell	280	136	(49.0)	23.5	2.1	14.9	16.2	10.1	14.5
Ipca labs	Neutral	535	-	-	21.2	1.9	13.5	24.7	12.4	11.0
Lupin	Buy	828	1,091	31.8	16.7	2.4	9.3	(6.6)	13.7	13.7
Sanofi India*	Neutral	4,434	-	-	27.1	3.8	17.0	12.8	25.8	27.5
Sun Pharma	Buy	535	615	15.0	24.0	3.7	16.3	(17.5)	11.3	14.0

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	28,569	32,115
Less: Excise duty	366	366	272	257	289
Net sales	27,287	27,888	30,264	28,312	31,826
Other operating income	147	599	1,314	599	599
Total operating income	27,433	28,487	31,578	28,911	32,425
% chg	70.6	3.8	10.9	-8.4	12.2
Total expenditure	19,470	21,014	21,489	22,446	24,699
Net raw materials	6,739	6,330	8,131	7,644	8,550
Other mfg costs	1,192	1,218	1,322	1,237	1,390
Personnel	4,430	4,772	4,902	5,638	6,483
Other	7,109	8,693	7,134	7,927	8,275
EBITDA	7,817	6,874	8,775	5,866	7,127
% chg	12.9	(12.1)	(27.5)	(56.5)	3.7
(% of Net Sales)	28.6	24.6	29.0	20.7	22.4
Depreciation & amort.	1,195	1,038	1,265	1,465	1,665
EBIT	6,622	6,436	8,825	5,000	6,061
% chg	1.7	(2.8)	(18.7)	(43.3)	21.2
(% of Net Sales)	24.3	23.1	29.2	17.7	19.0
Interest & other charges	579	523	400	400	400
Other income	451	1,248	623	623	623
(% of PBT)	6.8	17.4	6.9	11.9	9.9
Share in profit of Asso.	-	-	-	-	1.0
Recurring PBT	6,641	7,161	9,048	5,223	6,285
% chg	(6.4)	7.8	(16.8)	0.0	0.1
Extraordinary expense/(inc.)	237.8	589.9	-	951	-
PBT (reported)	6,641	7,161	9,048	4,272	6,285
Tax	914.7	913.8	1,211.6	640.9	942.7
(% of PBT)	13.8	12.8	13.4	15.0	15.0
PAT (reported)	5,726	6,247	7,836	3,632	5,342
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	3,632	5,342
ADJ. PAT	4,743	6,248	7,846	4,440	5,342
% chg	(10.0)	31.7	65.4	(53.7)	47.1
(% of Net Sales)	16.6	0.0	1.0	2.0	3.0
Basic EPS (`)	22.9	26.0	32.7	18.5	22.3
Fully Diluted EPS (`)	22.9	26.0	32.7	18.5	22.3
% chg	(10.0)	13.4	42.8	(43.4)	20.3

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	38,908	43,127
Shareholders' funds	26,507	32,982	36,640	39,148	43,367
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	2,355	2,591
Total liabilities	37,922	44,443	47,685	51,207	55,663
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	3,956	4,425
Current assets	27,005	29,227	32,723	34,330	39,831
Cash	10,998	13,182	15,141	17,745	21,201
Loans & advances	2,193	2,006	2,480	2,332	2,608
Other	13,813	14,040	15,102	14,253	16,022
Current liabilities	9,256	7,938	11,232	8,479	9,330
Net current assets	17,748	21,290	21,491	25,851	30,501
Others	-	-	-	-	-
Total assets	37,922	44,443	47,685	51,207	55,663

Cash Flow Statement (Consolidated)

Y/E March (` cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	6,641	7,161	9,048	5,223	6,285
Depreciation	1,195	1,038	1,265	1,465	1,665
(Inc)/Dec in working capital	(4,322)	(1,898)	(2,505)	(12,062)	(2,341)
Direct taxes paid	915	914	1,212	641	943
Cash Flow from Operations	2,598	5,386	6,596	(6,015)	4,665
(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)	1,013	236
Dividend Paid (Incl. Tax)	-	(282)	(1,123)	(1,123)	(1,123)
Others	14,320	(2,431)	(1,485)	9,925	678
Cash Flow from Financing	9,392	(4,046)	(4,480)	9,815	(209)
Inc./Dec.) in Cash	3,408	2,184	1,959	2,604	3,456
Opening Cash balances	7,590	10,998	13,182	15,141	17,745
Closing Cash balances	10,998	13,182	15,141	17,745	21,201

Key Ratios

Y/E March	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)					
P/E (on FDEPS)	23.4	20.6	16.4	28.9	24.0
P/CEPS	19.3	19.2	14.1	25.2	18.3
P/BV	4.9	3.9	3.5	3.3	3.0
Dividend yield (%)	0.6	0.2	0.2	0.2	0.2
EV/Sales	3.9	4.5	4.0	4.2	3.7
EV/EBITDA	13.7	18.1	13.8	20.4	16.3
EV / Total Assets	2.8	2.8	2.5	2.3	2.1
Per Share Data (₹)					
EPS (Basic)	22.9	26.0	32.7	18.5	22.3
EPS (fully diluted)	22.9	26.0	32.7	18.5	22.3
Cash EPS	27.7	27.8	38.0	21.2	29.2
DPS	3.0	1.0	1.0	1.0	1.0
Book Value	110.2	137.1	152.3	162.7	180.2
Dupont Analysis					
EBIT margin	24.3	23.1	29.2	17.7	19.0
Tax retention ratio	86.2	87.2	86.6	85.0	85.0
Asset turnover (x)	1.2	1.0	1.1	0.9	1.0
ROIC (Post-tax)	26.1	19.7	27.5	13.2	15.5
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	13.2	15.5
Returns (%)					
ROCE (Pre-tax)	21.1	15.6	18.8	10.1	11.3
Angel ROIC (Pre-tax)	38.3	29.6	41.3	22.4	26.1
ROE	21.1	21.0	22.2	11.5	14.0
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.6	1.9	1.9	1.5	1.6
Inventory / Sales (days)	58	77	76	87	90
Receivables (days)	50	76	76	87	90
Payables (days)	61	91	95	69	69
WC cycle (ex-cash) (days)	82	95	71	51	98
Solvency ratios (x)					
Net debt to equity	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
Net debt to EBITDA	(0.4)	(0.7)	(0.8)	(1.6)	(1.8)
Interest Coverage (EBIT/Int.)	-	-	-	-	-

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may

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)