

Sun Pharma

Performance Highlights

(₹ cr)	4QFY2016	3QFY2016	% chg QoQ	4QFY2015	% chg yoy
Net sales	7,414	7,047	5.2	6,145	20.7
Other income	185	255	(27.2)	396	(53.2)
Gross profit	5,962	5,291	12.7	4,547	31.1
Operating profit	2,300	2,134	7.8	880	161.3
Adj. Net profit	1,714	1,417	21.0	889	92.7

Source: Company, Angel Research

For 4QFY2016, Sun Pharmaceuticals Industries (Sun Pharma) posted results marginally lower than our expectations. Sales for the quarter, at ₹7,414cr (V/s ₹7,700cr estimated) grew 20.7% yoy. On the operating front, the company posted an OPM of 31.0% V/s 14.3% in 4QFY2015 and V/s our expectation of 34.9%. Thus, the net profit came in at ₹1,714cr V/s ₹1,653cr expected and V/s ₹889cr in 4QFY2015, a yoy growth of 92.7%. For FY2017, the company has guided for 8-10% yoy growth, while R&D expenses are expected to be 9% of sales in FY2017. **However, we are currently maintaining our buy with target price of ₹944.**

Results mostly in line with expectations: For 4QFY2016, Sun Pharma posted results marginally lower than our expectations. Sales for the quarter, at ₹7,414cr (V/s ₹7,700cr estimated) grew 20.7% yoy. The Indian formulations market posted a growth of 17% yoy to ₹1807cr. US finished dosage sales at US\$580mn were up by 19% yoy. US sales include the benefit of the 180-day exclusivity for Imatinib which commenced from Feb 2016. Emerging Markets sales stood at US\$124mn, while Rest of World (RoW) sales came in at US\$79mn. On the operating front, the company posted an OPM of 31.0% V/s 14.3% in 4QFY2015 and V/s our expectation of 34.9%. R&D expenditure during the quarter was 9.6% of sales. Thus, the net profit came in at ₹1,714cr V/s ₹1,653cr expected and V/s ₹889cr in 4QFY2015, a yoy growth of 92.7%. Other income during the quarter came in at ₹185cr V/s ₹396cr in 4QFY2015.

Outlook and valuation: Sun Pharma is one of the largest and fastest growing Indian pharmaceutical companies. We expect its net sales to post a 12.7% CAGR (including Ranbaxy Laboratories) to ₹35,258cr and EPS to post a 22.0% CAGR to ₹32.8 over FY2016–18E. **We recommend a Buy on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	27,287	27,744	31,129	35,258
% chg	70.6	1.7	12.2	13.3
Adj. Net profit	4,743	5,306	6,735	7,895
% chg	(10.0)	11.9	26.9	17.2
EPS (₹)	22.9	22.0	28.0	32.8
EBITDA margin (%)	28.6	26.2	30.0	30.9
P/E (x)	32.3	33.5	26.4	22.5
RoE (%)	21.1	18.3	18.7	18.9
RoCE (%)	21.1	16.6	17.7	33.1
P/BV (x)	6.7	4.9	4.0	3.4
EV/Sales (x)	5.5	6.2	5.4	4.5
EV/EBITDA (x)	19.1	23.8	17.9	14.7

Source: Company, Angel Research; Note: CMP as of June 7, 2016

Please refer to important disclosures at the end of this report

BUY

CMP	₹739
Target Price	₹944

Investment Period 12 months

Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	1,77,811
Net Debt (₹ cr)	(6,960)
Beta	0.8
52 Week High / Low	965/706
Avg. Daily Volume	4,23,363
Face Value (₹)	1
BSE Sensex	27,010
Nifty	8,266
Reuters Code	SUN.BO
Bloomberg Code	SUNP@IN

Shareholding Pattern (%)

Promoters	55.0
MF / Banks / Indian FIs	11.6
FII / NRIs / OCBs	26.7
Indian Public / Others	6.7

Abs. (%)	3m	1yr	3yr
Sensex	9.6	0.9	39.0
Sun Pharma	(13.8)	(12.9)	45.9

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 performance (Consolidated)

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg QoQ	4QFY2015	% chg yoy	FY2016	FY2015	% chg
Net sales	7,414	7,047	5.2	6,145	20.7	27,744	27,287	1.7%
Other income	185.3	254.7	(27.2)	395.8	(53.2)	984.8	599.0	64.4
Total income	7,599	7,301	4.1	6,541	16.2	28,729	27,886	3.0
Gross profit	5,962	5,291	12.7	4,547	31.1	21,261	20,547	3.5
Gross margin (%)	80.4	75.1		74.0		76.6	75.3	
Operating profit	2,300	2,134	7.8	880	161.3	7,271	7,679	(5.3)
Operating margin (%)	31.0	30.3		14.3		26.2	28.1	
Interest	89	117	(24.3)	125	(29.0)	477	579	(17.6)
Depreciation	264	251	5.4	562	(53.0)	1,014	1,295	(21.7)
Extraordinary item loss/ (gain)	0	0		0		(590)	(204)	
PBT	2,132	2,020	5.5	589	261.8	6,765	6,404	5.6
Provision for taxation	170.6	202.0	(15.6)	(599.9)	(128.4)	935	915	2.2
PAT before extra-ordinary item	1,962	1,818	7.9	1,189	65.0	5,830	5,489	6.2
Minority interest(MI)	248	402	(38.2)	301	(17.6)	1,114	949	17.5
Reported PAT	1,714	1,417	21.0	889	92.7	4,716	4,540	3.9
Adj. PAT	1,714	1,417	21.0	889	92.7	5,306	4,743	11.9
Adj. EPS (₹)	7.1	5.9		3.7		22.0	22.9	

Source: Company, Angel Research

Exhibit 2: 4QFY2016 – Actual V/s Angel estimates

(₹ cr)	Actual	Estimates	Variance (%)
Net sales	7,414	7,700	(3.7)
Other income	185	255	(27.2)
Operating profit	2,300	2,690	(14.5)
Tax	171	396	(56.9)
Adj. Net profit	1,714	1,653	3.7

Source: Company, Angel Research

Lower than expected performance: Sun Pharma posted marginally lower than expected results for the quarter. Sales grew 20.7% yoy to ₹7,414cr (V/s ₹7,700cr estimated). Amongst the key markets- India (₹1,807cr) posted a growth of 17% yoy, US (US\$580mn) posted a growth of 19% yoy, Emerging Markets (US\$124mn) were flat and ROW (US\$79mn) was down 6% yoy.

Sale of branded formulations in India for 4QFY2016 stood at ₹1,807cr, up 17% yoy from the corresponding quarter last year and accounted for 24% of total sales. Withdrawal of bonus offers continues to adversely impact sales in the acute segment. For FY2016, sales were at ₹7,254cr, higher by 9% yoy over the same period last year. Sun Pharma is ranked No. 1 and holds ~8.8% market share in the ₹98,000cr pharmaceutical market as per the March-2016 AIOCD-AWACS report.

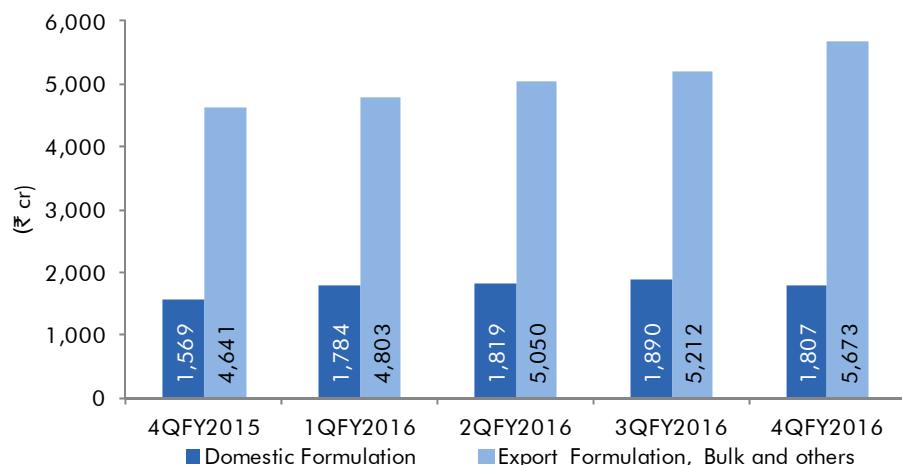
In USD terms, sales in the US came in at US\$580mn for the quarter, accounting for 52% of total sales. Sales for the quarter were boosted primarily due to the benefit of the 180-day exclusivity for Imatinib which commenced from 01-Feb-2016. At the same time, Taro posted 4QFY2016 sales of US\$265mn, up 9% yoy. For FY2016, sales were up by 10% yoy to US\$951mn.

Sales in emerging markets were at US\$124mn for 4QFY2016, flat compared to the same period last year and accounted for 11% of total sales. For FY2016, sales were at US\$548mn, a drop of 10% over the previous year. The decline is largely a result of volatile currency movements in certain emerging markets and a strategic decision of not participating in some low margin businesses.

Formulation sales in Rest of World (ROW) markets excluding US and Emerging Markets were US\$79mn in 4QFY2016, a de-growth of 6% yoy from the corresponding quarter last year. For FY2016, sales were at US\$330mn, a reduction of 13% over same period last year. A conscious effort at reducing the participation in non-remunerative businesses has contributed to de-growth in the business. ROW markets accounted for ~7% of revenues for 4QFY2016.

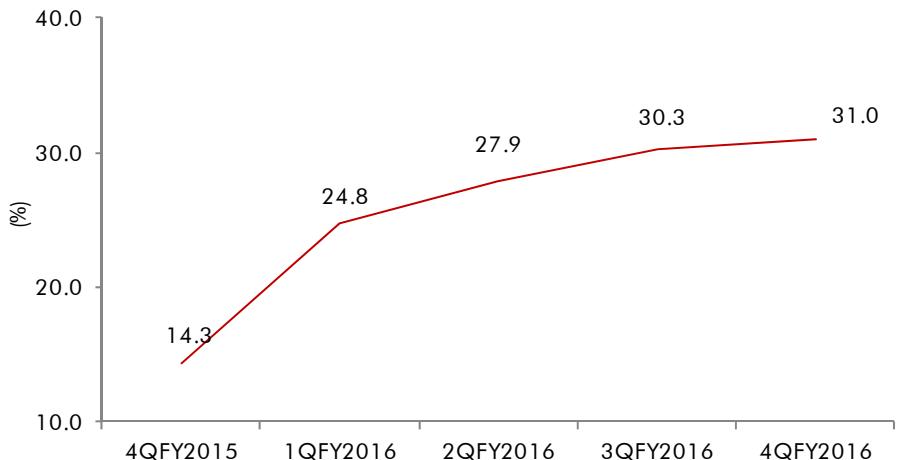
The company had a total of 413 ANDAs filed with the USFDA. Currently, ANDAs for 159 products await USFDA approval, including 14 tentative approvals.

Exhibit 3: Sales trend



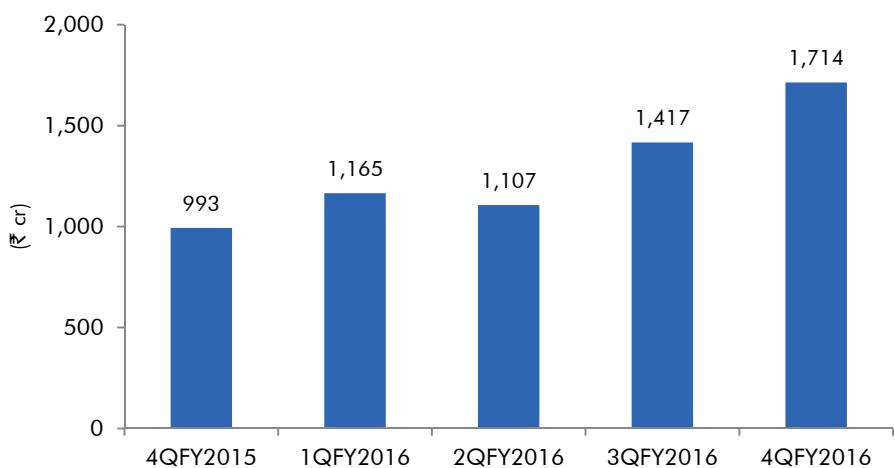
Source: Company, Angel Research

OPM at 31.0%; higher than an expected 34.9%: On the operating front, the company posted an OPM of 31.0% V/s 14.3% in 4QFY2015. This is against our expectation of 34.9%. Sun Pharma had launched generic Gleevec in Feb 2016 in the US under 180 days exclusivity. Being the sole generic player in the market, the company has generated sales of close to US\$110m-115m from the product. The R&D expenditure was 9.1% of sales V/s 9.4% of sales in 4QFY2015.

Exhibit 4: OPM trend (%)


Source: Company, Angel Research, Note- post 4QFY2015 numbers are of merged entity

Net profit came in higher than our expectation: Thus, the net profit came in at ₹1,714cr V/s ₹1,653cr expected and V/s ₹889cr in 4QFY2015, a yoy growth of 92.7%. Other income during the quarter came in at ₹185.3cr V/s ₹395.8cr in 4QFY2015.

Exhibit 5: Adjusted Net profit trend (₹cr)


Source: Company, Angel Research

Concall takeaways

- Guidance for top-line growth of 8-10% in FY2017, while R&D expenses to be at 9% of sales in FY2017.
- Halol remediation to be completed in 1QFY2017 and re-inspection is expected in the near-term.
- Tax rate guidance of 14-15% provided for FY2017.
- The company is on track to achieve US\$300m from Ranbaxy synergies by FY2018E; a part of it will also be in FY2017.

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 52% of its sales in FY2016. In terms of ANDAs, the company cumulatively has 413 products, out of which 159 products now await USFDA approval, including 13 tentative approvals. With the merger of Ranbaxy Laboratories, the company is now the fifth-largest specialty generics company in the world (behind Teva, Sandoz, Activas and Mylan). However, the near term performance of the company has been impacted on back of supply constraints at the Halol facility, although the company has taken remedial measures including site transfers. Overall, we expect the region to post a 14.5% CAGR in sales over FY2016-18E, accounting for almost 49% of the overall sales in FY2018E.

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 is ranked second and holds a market share of 5.4% in the domestic formulation market, with exposure to psychiatry, neurology, CVS, diabetic and gastroenterology segments. With Ranbaxy Laboratories' merger, the company is now the segment leader with a 9.2% market share 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 12.5% over FY2016-18E, contributing 25% to the overall formulation sales of the company in FY2018.

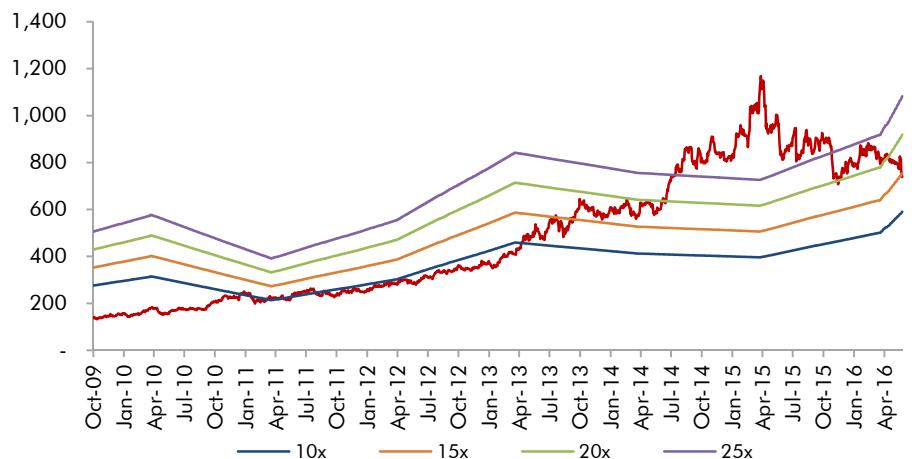
Healthy balance sheet: Sun Pharma has one of the strongest balance sheets in the sector with cash of ~₹15,000cr. The same can continue to support the Management in inorganic growth and in scouting for acquisitions, especially in the US and in emerging markets.

Outlook and valuation: Sun Pharma is one of the largest and fastest growing Indian pharmaceutical companies. We expect its net sales to post a 12.7% CAGR (including Ranbaxy Laboratories) to ₹35,258cr and EPS to post an 22.0% CAGR to ₹32.8 over FY2016–18E. **We recommend a Buy on the stock.**

Exhibit 6: Key assumptions

	FY2017E	FY2018E
Domestic Formulation sales growth (%)	10.0	15.0
Export Formulation sales growth (%)	14.3	13.5
Growth in employee expenses (%)	15.0	20.0
Operating margins (%)	30.0	30.9
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		FY2017E		FY15-17E		FY2017E	
				%	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)	
Alembic Pharma	Neutral	557	-	-	29.8	3.0	18.2	11.4	22.0	20.1	
Aurobindo Pharma	Accumulate	773	768	10.8	20.1	3.1	14.5	11.4	21.4	27.7	
Cadila Healthcare	Buy	320	400	25.0	18.7	2.9	13.2	22.9	24.2	28.8	
Cipla	Neutral	469	-	-	21.6	2.7	15.3	4.9	11.1	13.7	
Dr Reddy's	Accumulate	3,158	3,476	10.1	20.7	3.0	12.3	6.8	19.2	18.7	
Dishman Pharma	Neutral	152	-	-	15.2	1.6	7.7	15.9	9.4	11.0	
GSK Pharma	Neutral	3,515	-	-	58.4	8.1	43.0	0.0	33.0	29.9	
Indoco Remedies	Neutral	282	-	-	20.7	2.2	12.4	23.0	19.7	19.7	
Ipca labs	Buy	431	750	74.0	15.4	1.6	8.8	17.9	11.8	14.9	
Lupin	Buy	1,435	1,809	26.1	24.7	4.1	15.6	13.1	29.6	24.7	
Sanofi India*	Accumulate	4,300	4,738	10.2	28.0	3.9	22.3	34.2	21.0	25.6	
Sun Pharma	Buy	739	950	28.6	26.4	5.4	17.9	10.5	17.7	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)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Gross sales	16,200	27,652	28,110	31,412	35,578
Less: Excise duty	195	366	366	283	320
Net sales	16,004	27,287	27,744	31,129	35,258
Other operating income	76	147	526	526	526
Total operating income	16,080	27,433	28,270	31,655	35,784
% chg	42.3	70.6	3.0	12.0	13.0
Total expenditure	9,081	19,470	20,473	21,799	24,348
Net raw materials	2,779	6,739	6,483	7,274	8,239
Other mfg costs	699	1,192	1,212	1,360	1,540
Personnel	2,074	4,430	4,797	5,382	6,459
Other	3,528	7,109	7,981	7,782	8,109
EBITDA	6,923	7,817	7,271	9,330	10,910
% chg	41.1	12.9	(7.0)	(23.2)	(19.3)
(% of Net Sales)	43.3	28.6	26.2	30.0	30.9
Depreciation & amort.	409	1,195	1,014	1,214	1,414
EBIT	6,514	6,622	6,783	8,642	10,022
% chg	42.5	1.7	2.4	-20.7	16.0
(% of Net Sales)	40.7	24.3	24.4	27.8	28.4
Interest & other charges	44	579	477	477	477
Other income	552	451	1,050	1,050	1,050
(% of PBT)	7.8	6.8	14.3	11.4	9.9
Share in profit of Asso.	-	-	-	-	-
Recurring PBT	7,098	6,641	7,356	9,215	10,595
% chg	44.9	(6.4)	10.8	(15.6)	0.0
Extraordinary expense/(inc.)	2,517	237.8	590.5	-	-
PBT (reported)	7,098	6,641	6,765	9,231	10,595
Tax	702.2	914.7	934.9	1,384.6	1,589.3
(% of PBT)	9.9	13.8	13.8	15.0	15.0
PAT (reported)	6,396	5,726	5,830	7,846	9,006
Add: Share of earnings of asso.		(13)	(2)	-	-
Less: Minority interest (MI)	738	936	1,111	1,111	1,111
Prior period items		-	-	-	-
PAT after MI (reported)	3,141	4,539	4,716	6,735	7,895
ADJ. PAT	5,273	4,743	5,306	6,735	7,895
% chg	52.6	(10.0)	11.9	(12.6)	17.2
(% of Net Sales)	19.6	16.6	0.0	1.0	2.0
Basic EPS (₹)	25.5	22.9	22.0	28.0	32.8
Fully Diluted EPS (₹)	25.5	22.9	22.0	28.0	32.8
% chg	52.6	(10.0)	(3.7)	(24.8)	17.2

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS					
Equity share capital	207	207	241	241	241
Preference capital					
Reserves & surplus	18,318	26,300	31,164	37,617	45,231
Shareholders' funds	18,525	26,507	31,404	37,858	45,472
Minority interest	1,921	2,851	4,085	5,196	6,307
Total loans	2,561	7,596	8,338	8,338	8,338
Deferred tax liability	(911)	(1,752)	(2,126)	(2,126)	(2,126)
Other Long Term Liabilities	9	9	10	10	11
Long Term Provisions	2,602	2,710	2,293	2,287	2,554
Total liabilities	24,707	37,922	44,005	51,563	60,556
APPLICATION OF FUNDS					
Gross block	6,389	15,041	18,621	19,621	20,621
Less: Acc. depreciation	3,668	4,863	6,102	7,315	8,729
Net block	2,721	10,179	12,519	12,306	11,892
Capital work-in-progress	842	842	842	303	1,144
Goodwill	4,097	3,701	4,181	4,181	4,181
Investments	2,786	2,716	1,309	1,551	1,388
Long term long & adv.	1,051	2,736	3,032	3,402	3,854
Current assets	16,688	27,005	30,149	38,366	47,641
Cash	7,590	10,998	13,989	20,005	27,173
Loans & advances	3,774	2,193	2,006	2,480	2,481
Other	3,816	13,813	14,154	15,881	17,987
Current liabilities	3,477	9,256	8,026	8,546	9,545
Net current assets	13,211	17,748	22,123	29,820	38,096
Others	-	-	-	-	-
Total assets	24,707	37,922	44,006	51,563	60,556

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	7,098	6,641	7,356	9,215	10,595
Depreciation	409	1,195	1,014	1,214	1,414
(Inc)/Dec in working capital	(1,782)	(4,322)	(1,680)	(4,815)	(14,776)
Direct taxes paid	702	915	935	1,385	1,589
Cash Flow from Operations	5,024	2,598	5,754	4,229	(4,357)
(Inc.)/Dec.in Fixed Assets	681	(8,653)	(3,580)	(3,141)	(1,842)
(Inc.)/Dec. in Investments	(374)	70	1,408	1,165	163
Other income	-	-	-	-	-
Cash Flow from Investing	306	(8,583)	(2,172)	(1,975)	(1,679)
Issue of Equity	-	-	-	-	-
Inc.)/(Dec.) in loans	(548)	(4,928)	(1,157)	(1,165)	268
Dividend Paid (Incl. Tax)	(606)	-	(282)	(282)	(282)
Others	(645)	14,320	847	(1,404)	13,217
Cash Flow from Financing	(1,799)	9,392	(592)	(2,850)	13,204
Inc.)/(Dec.) in Cash	3,531	3,408	2,991	(596)	7,168
Opening Cash balances	4,059	7,590	10,998	20,601	20,005
Closing Cash balances	7,590	10,998	13,989	20,005	27,173

Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)					
	29.0	32.3	33.5	26.4	22.5
P/CEPS	43.1	26.7	31.0	22.4	19.1
P/BV	8.3	6.7	4.9	4.0	3.4
Dividend yield (%)	0.3	0.4	0.1	0.1	0.1
EV/Sales	9.2	5.5	6.2	5.4	4.5
EV/EBITDA	21.4	19.1	23.8	17.9	14.7
EV / Total Assets	6.0	3.9	3.9	3.2	2.6
Per Share Data (₹)					
EPS (Basic)	25.5	22.9	22.0	28.0	32.8
EPS (fully diluted)	25.5	22.9	22.0	28.0	32.8
Cash EPS	17.1	27.7	23.8	33.0	38.7
DPS	2.5	3.0	1.0	1.0	1.0
Book Value	89.4	110.2	151.6	182.8	219.5
Dupont Analysis					
EBIT margin	40.7	24.3	24.4	27.8	28.4
Tax retention ratio	90.1	86.2	86.2	85.0	85.0
Asset turnover (x)	1.1	1.2	1.0	1.1	1.1
ROIC (Post-tax)	40.5	26.1	20.9	26.2	26.6
Cost of Debt (Post Tax)	2.9	9.8	5.2	5.1	9.7
Leverage (x)	0.0	0.0	0.0	0.0	0.0
Operating ROE	40.5	26.1	20.9	26.2	26.6
Returns (%)					
ROCE (Pre-tax)	32.0	21.1	16.6	17.7	33.1
Angel ROIC (Pre-tax)	57.4	38.3	28.6	36.0	71.4
ROE	32.3	21.1	18.3	18.7	18.9
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.3	2.6	1.7	1.8	3.5
Inventory / Sales (days)	98	58	78	88	97
Receivables (days)	80	50	77	88	97
Payables (days)	49	61	94	72	72
WC cycle (ex-cash) (days)	91	82	96	91	56
Solvency ratios (x)					
Net debt to equity	(0.3)	(0.1)	(0.2)	(0.3)	(0.4)
Net debt to EBITDA	(0.7)	(0.4)	(0.8)	(1.3)	(1.7)
Interest Coverage (EBIT/Int.)	-	-	-	-	-

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Disclosure of Interest Statement	Sun Pharma
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15)