

Sun Pharmaceutical Industries

Reco: Buy

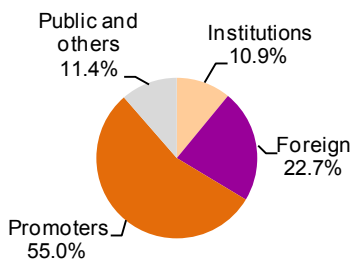
Stable long-term outlook; maintain Buy, PT revised down to Rs845

CMP: Rs667

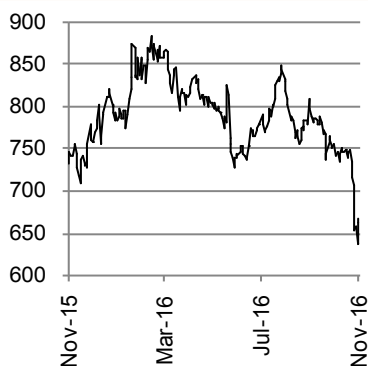
Company details

Price target:	Rs845
Market cap:	Rs160,527 cr
52-week high/low:	Rs898/572
NSE volume: (No of shares)	33.3 lakh
BSE code:	524715
NSE code:	SUNPHARMA
Sharekhan code:	SUNPHARMA
Free float: (No of shares)	108 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.0	-20.2	-17.8	-12.6
Relative to Sensex	-9.6	-18.1	-23.4	-17.5

Key points

- Strong operating performance:** Sun Pharmaceutical Industries (Sun Pharma) reported 90.2% YoY growth in its Q2FY2017 net profit at Rs2,471.1 crore. Revenue grew by 20.2% YoY to Rs8,265 crore. This included milestone payments of \$45 million as a part of licensing agreement signed with Almirall and one month inclusion of benefit from gGleevec's 180-day exclusivity. India sales stood at Rs2,009 crore, up 11% YoY. US Finished Dosages sales at \$555 million were up 9% YoY. US sales included the benefit of 180-day exclusivity for Imatinib, which lasted till July 2016. R&D investments were Rs570 crore, or 7.3% of sales compared to Rs498 crore, or 7.3% of sales in Q2FY2016.
- Long-term outlook remains stable:** Remediation efforts at Halol are on track and the Sun Pharma management is waiting for the USFDA to re-inspect the plant. The management sounded confident of getting the issues resolved at Halol in the near term, which will act as key upside trigger for the stock. The management is also confident of getting \$300 million synergy benefit from Ranbaxy integration, which should be evident from FY2018. Also, the Specialty segment is expected to perform well, as the company gears up for the launch of BromSite drug (used to treat Dry Eye disease). Also, very recently, Sun Pharma launched Authorized Generics (AG) for Benicar, Benicar HCT, Azor and Tribenzor. All four products put together recorded sales of \$2.5 billion for the 12-month ended August 2016. Therefore, we expect Sun Pharma's H2FY2017 financial performance to be positive and long-term performance to be solid. As a result, we continue to remain positive on the company's long-term prospects.
- Maintain 'Buy' rating, Price Target revised down to Rs845:** We have maintained our earnings estimates for FY2017 and FY2018. We maintain our 'Buy' rating with downward revision in Price Target (PT) to Rs845, valuing the stock at 25x FY2018E earnings vs. 28x earlier due to uncertainty related to the outcome of the Halol plant inspection by USFDA.

Results

Particulars	Q2FY17	Q2FY16	YoY (%)	Q1FY17	Rs cr QoQ (%)
Total sales	8,265.1	6,873.3	20.2	8,243.0	0.3
Expenditure	5,097.4	5,000.4	1.9	5,322.0	-4.2
Operating profit	3,167.7	1,872.9	69.1	2,921.0	8.4
Other income	119.4	115.2	-203.6	157.1	-24.0
EBITDA	3,287.1	1,988.2	65.3	3,078.1	6.8
Interest	53.7	158.2	-66.0	134.6	-60.1
Depreciation	303.8	258.4	17.6	316.0	-3.8
PBT	2,929.5	1,571.6	86.4	2,627.5	11.5
Taxes	441.7	294.6	49.9	352.7	25.2
Minority interest	16.8	-22.3	-175.4	7.1	136.7
Reported PAT	2,471.1	1,299.2	90.2	2,267.7	9.0
EPS	10.3	5.4	90.2	9.4	9.0
Margin			BPS		BPS
OPM (%)	38.3	27.2	1108	35.4	289
EBIDTA (%)	39.8	28.9	1084	37.3	243
PATM (%)	29.9	18.9	1100	27.5	239
Tax rate (%)	15.1	18.7	-367	13.4	165

Indian Business: The company's Indian Generic business during Q2FY2017 grew by 11% YoY to Rs2,009 crore despite the combined effect of multiple regulatory changes, which adversely impacted overall industry growth. This business accounted for 26% of total sales. Sun Pharma is ranked No 1 and holds ~8.7% market share in the Rs1,00,000 crore Indian pharmaceuticals market. The company had launched eight new products during the year. The management is confident of posting better than Indian pharma market growth rate (10-12%) over the next two years.

Base business continues to improve; new products to help mitigate pricing pressure: The US formulations business for Q2FY2017 expanded by 9% YoY to \$555 million, accounting 48% of total sales. In the US market, the company has 423 approved ANDAs while filings for 144 products await USFDA approval, including 13 tentative approvals. In Q2FY2017, the company filed three ANDAs and received USFDA approvals for six ANDAs. Additionally, the pipeline included 37 approved NDAs while four NDAs await USFDA approval, of which two NDAs were filed in H1FY2017.

Active Pharmaceutical Ingredients (API) - strategic strength: Benefits from vertical integration impart strategic importance to the company's API business. Sun Pharma continues to significantly increase API supply for captive consumption. For Q2FY2017, external API sales stood at Rs367 crore, up 17% YoY. A large part of the growth was driven by the consolidation of the Opiates business in Australia.

Research update: Consolidated R&D expenses for Q2FY2017 were at Rs570 crore, or 7.3% of sales compared to Rs498 crore or 7.3% of sales in Q2FY2016. For H2FY2017, R&D expenses stood at Rs1,101 crore or 7% of sales. This R&D expenditure includes investments on account of funding the clinical development of the Specialty segment pipeline.

Maintain Buy rating, PT revised down to Rs845: We have maintained our earnings estimates for FY2017 and FY2018. We maintain our 'Buy' rating with a downward revision in PT to Rs845, valuing the stock at 25x its FY2018E earnings vs. 28x earlier due to uncertainty related to the outcome of Halol plant inspection by USFDA.

Valuation (consolidated)

Particulars	Rs cr			
	FY15	FY16	FY17E	FY18E
Net sales	27,392.0	28,269.7	35,638.9	36,757.9
Operating profit	7,963.5	8,481.6	10,708.8	12,130.1
OPM (%)	29.1	30.0	30.0	33.0
PAT consolidated	4,777.1	5,401.1	7,317.6	8,122.9
Shares in issue (cr)	207.1	240.7	240.7	240.7
EPS (Rs)	23.1	22.4	30.4	33.8
P/E (x)	28.9	29.7	21.9	19.8
EV/EBIDTA (x)	16.9	18.2	14.3	11.7
Book value (Rs/share)	123.7	130.5	158.6	188.8
P/BV (x)	5.4	5.1	4.2	3.5
Mcap/sales (x)	5.0	5.7	4.5	4.4
RoCE (%)	21.7	20.3	23.5	24.2
RoNW (%)	18.6	17.2	19.2	17.9

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