

Stock Update

No critical observations but warning letter overhang continues; **Maintain Hold**

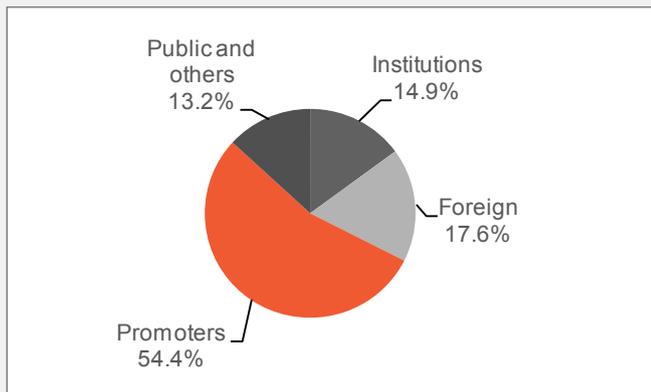
Sun Pharmaceutical Industries

Reco: Hold | CMP: Rs532

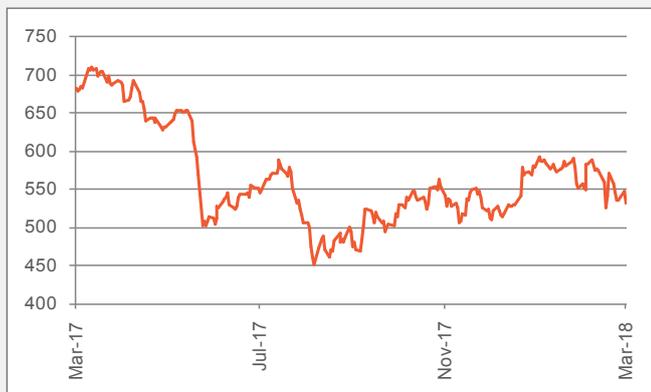
Company details

| | |
|----------------------------|--------------|
| Price target: | Rs600 |
| Market cap: | Rs127,643 cr |
| 52-week high/low: | Rs728/433 |
| NSE volume: (No of shares) | 56.5 lakh |
| BSE code: | 524715 |
| NSE code: | SUNPHARMA |
| Sharekhan code: | SUNPHARMA |
| Free float: (No of shares) | 109 cr |

Shareholding pattern



Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|------|-----|------|-------|
| Absolute | -1.6 | 4.9 | 12.3 | -19.6 |
| Relative to Sensex | 1.3 | 1.8 | 5.5 | -32.1 |

Key points

- Event:** The key plant of Sun Pharmaceutical Industries (Sun) at Halol was re-inspected by the USFDA in February 2018 and was issued Form 483 with fresh three observations. The fresh observations relate to equipment, employee training and incubation temperature, i.e. they are procedural in nature and do not point towards data integrity issues. Hence, these issues are addressable and can be resolved in three to six months without inspection.
- Impact:** The news has come as a breather for Sun, as the number of observations came down to three (from earlier nine observations in 2016). However, the company has a pending warning letter that was received in December 2015, which could be lifted (as the next logical step) if Sun can successfully remediate the three observations received. An all-clear for the Halol plant will help Sun speed up several complex generic filings and ramp up existing products in the US. However, if the plant is not cleared, Sun would lose opportunities in the US due to delayed drug approvals. Hence, clarity on the pending warning letter and key product approvals filed from Halol are some of the key monitorables that shall be watched closely in the near term.
- Maintain Hold with unchanged PT of Rs. 600:** We maintain our earnings estimates for FY2018E, FY2019E and FY2020E. We maintain our Hold recommendation on the stock with unchanged price target (PT) of Rs. 600 (valuing the stock at 20x its FY2020E earnings). However, we feel the USFDA's response on Halol's remediation process and its final outcome and clarity on the warning letter will weigh on the stock in the near term.

| Valuations | | | | | Rs cr |
|-----------------------|---------|---------|---------|---------|---------|
| Particulars | FY16 | FY17 | FY18E | FY19E | FY20E |
| Net sales | 28486.9 | 31578.4 | 28350.8 | 31092.0 | 35427.0 |
| Adj. PAT | 5230.8 | 6964.4 | 2680.8 | 4889.8 | 7077.0 |
| Shares in issue (cr) | 240.7 | 239.9 | 239.9 | 239.9 | 239.9 |
| EPS (Rs) | 21.7 | 29.0 | 11.2 | 20.4 | 29.5 |
| PER (x) | 24.5 | 18.3 | 47.6 | 26.1 | 18.0 |
| EV/Ebidta (x) | 15.2 | 12.2 | 20.0 | 14.0 | 10.0 |
| Book value (Rs/share) | 137.1 | 152.7 | 160.4 | 177.2 | 203.2 |
| P/BV (x) | 3.9 | 3.5 | 3.3 | 3.0 | 2.6 |
| Mcap/sales | 4.5 | 4.0 | 4.5 | 4.1 | 3.6 |
| ROCE (%) | 16.8 | 18.5 | 10.1 | 13.9 | 17.3 |
| RONW (%) | 15.9 | 19.0 | 7.0 | 11.5 | 14.5 |

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