

# Stock Update

## One-off impacts Q4, Regulatory overhang remains

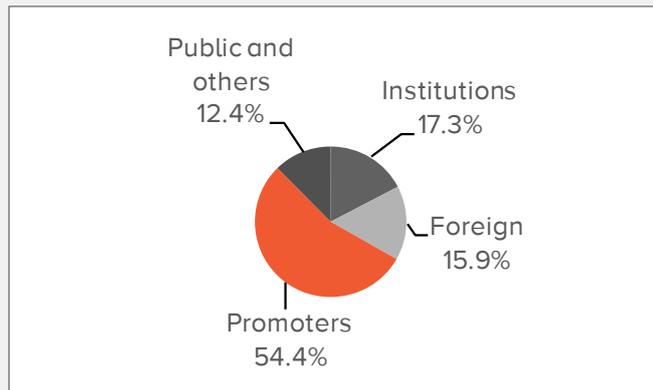
### Sun Pharmaceutical Industries

Reco: Hold | CMP: Rs413

#### Company details

Price target:	Rs460
Market cap:	Rs99,091 cr
52-week high/low:	Rs679 / 350
NSE volume: (No of shares)	105 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	-10.6	-6.3	-16.0	-10.8
Relative to Sensex	-12.1	-15.4	-25.1	-22.5

#### Key points

- Weak performance due to one-offs:** Sales for the quarter grew by 2.3% to Rs 7163.9 crore (2% below estimate). Operating profit declined by 36.5% to Rs 1068.8 crore (34% below estimate). OPM declined by 921 bps to 14.9%. Adjusted profit de-grew by 51.1% to Rs 775.1 crore (18% below estimate). Weak performance was due to the one-time impact of ~Rs 1085 crores related to change in distribution for India business.
- Business outlook remains stable:** Sun Pharma continues to invest significantly for building a specialty franchise in the US, which is gaining traction slowly. The company stated that Ilumya has started gaining traction and Cequa launch is expected in upcoming months in the US. Management guidance for FY2020 is as follows: 1) Sales to grow at low-to-mid digit teens (on reported FY2019 sales number); 2) R&D to be in range of 8-9%; 3) Capex to be \$200 million for FY2020 and 4) Tax rate to increase progressively in the upcoming years. With better product mix and cost control measures, the management expects margin expansion over the next two years.
- Maintain Hold with lower PT of Rs 460:** We expect Sun Pharma to report sales and profit CAGR of 20% and 38% over FY2019-FY2021 on account of growth across all business verticals. However, taking into account the one-time sales impact of FY2019 and increased tax rate for the upcoming years, we have revised our sales downward and earnings estimates by 7%/5% and 12%/7% respectively for FY2020/FY2021 respectively. Also, the outcome of investigation related to pricing issues taken up by DoJ (Dept. of Justice, USA) and that of SEBI investigation will continue to weigh on the stock. We maintain Hold recommendation on the stock with lowered PT of Rs 460.
- Key Risk:** Any delay in product launches or change in pharma policy or regulations in US can impact our earnings estimates severely. Any adverse outcome of Litigations/ investigations also poses a threat to our outlook in the near term.

<b>Results</b>					<b>Rs cr</b>	
<b>Particulars</b>	<b>Q4FY2019</b>	<b>Q4FY2018</b>	<b>YoY %</b>	<b>Q3FY2019</b>	<b>QoQ %</b>	
Total sales	7,163.9	6,977.1	2.7	7,740.2	-7.4	
Expenditure	6,095.1	5,293.6	15.1	5,587.3	9.1	
Operating profit	1,068.8	1,683.5	-36.5	2,152.9	-50.4	
Other Income	281.5	302.8	-7.0	193.1	45.8	
EBITDA	1,350.3	1,986.2	-32.0	2,346.0	-42.4	
Interest	150.0	155.4	-3.4	144.8	3.6	
Depreciation	454.1	455.2	-0.3	471.1	-3.6	
PBT	746.2	1,375.6	-45.8	1,730.1	-56.9	
Taxes	-28.8	-210.2	-86.3	270.9	-110.6	
Adjusted PAT	775.1	1,585.9	-51.1	1,459.2	-46.9	
MI+OCI+Excep Item	139.2	243.4		217.3		
Reported PAT	635.9	1,342.5	-52.6	1,241.9	-48.8	
EPS	2.6	5.6		5.2		
<b>Margins</b>			<b>BPS</b>		<b>BPS</b>	
OPM %	14.9	24.1	-921	27.8	-1290	
EBIDTA %	18.8	28.5	-962	30.3	-1146	
PATM %	8.9	19.2	-1037	16.0	-717	
Tax rate %	-3.9	-15.3	1142	15.7	-1952	

Source: Sharekhan Research

<b>Geography-wise Sales Break-up</b>					<b>Rs cr</b>	
<b>Particulars</b>	<b>Q4FY2019</b>	<b>Q4FY2018</b>	<b>YoY %</b>	<b>Q3FY2019</b>	<b>QoQ %</b>	
Formulations	6523.1	6357.3	2.6	7201.0	-9.4	
India	1101.3	1962.6	-43.9	2235.3	-50.7	
US	3123.8	2371.6	31.7	2605.9	19.9	
Emerging Market	1219.9	1279.4	-4.6	1461.8	-16.5	
ROW	1078.0	743.7	45.0	898.1	20.0	
<b>API</b>	<b>483.7</b>	<b>332.4</b>	<b>45.5</b>	<b>426.1</b>	<b>13.5</b>	
Others	37.4	21.3	75.3	29.6	26.3	
<b>Total</b>	<b>7044.3</b>	<b>6711.0</b>	<b>5.0</b>	<b>7656.7</b>	<b>-8.0</b>	
Other Op Inc	119.66	266.1	-55.0	83.5	43.3	
<b>Total Sales</b>	<b>7163.92</b>	<b>6977.10</b>	<b>2.7</b>	<b>7740.19</b>	<b>-7.4</b>	

Source: Company

<b>Valuation</b>					<b>Rs cr</b>	
<b>Particulars</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020E</b>	<b>FY2021E</b>		
Net sales	26488.8	29065.9	34051.2	41841.8		
OPM (%)	21.2%	21.7%	24.0%	26.0%		
Adj. PAT	3111.4	3879.8	5428.7	7375.1		
EPS (Rs)	13.0	16.2	22.6	30.7		
PER (x)	31.8	25.5	18.3	13.4		
EV/Ebidta (x)	17.9	16.3	11.1	7.7		
P/BV (x)	2.6	2.4	2.1	1.9		
Mcap/sales	3.7	3.4	2.9	2.4		
ROCE (%)	9.2	10.0	12.5	15.4		
RONW (%)	8.1	9.4	11.7	13.9		

Source: Sharekhan Research

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

---

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

---

**Registered Office:** Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.