

Synergies from Ranbaxy acquisition, upgrade to Buy

We upgrade Sun Pharma (SPIL) to Buy from Hold, with a TP of Rs850 based on 26x March'18E EPS of Rs32.6. SPIL's Q2FY17 results were above our and consensus expectations. The company posted 20%YoY growth in revenues, 1,110bps increase in margins to 38.3% and 117% growth in net profit due to 180-day exclusivity of generic Gleevec in the US in July'16. However, the company is facing pricing pressure in the US and supply constraints from its Halol facility. The management has guided for lower sales growth of 8-10% for FY17. Key risks to our assumption include higher revenues from the US market and regulatory risks for its manufacturing facilities catering to global markets.

- **Revenue grew by 20%YoY:** SPIL reported 20% YoY growth in revenues to Rs82.65bn from Rs68.73bn due to good growth in the US formulation and emerging market businesses. The company's domestic business (26% of revenues) grew by 11%YoY to Rs20.09bn from Rs18.08bn despite the impact of regulatory changes. The US formulations business (48% of revenues) grew by 11%YoY to Rs37.14bn from Rs33.16bn due to 180-day exclusivity for generic Gleevec in the US in July'16. SPIL's formulation business in emerging markets (15% of revenues) grew by 26%YoY. The company's API business (5% of revenues) grew by 17% YoY, driven by the integration of opiates business in Australia. We expect the US and emerging markets to drive future growth.
- **EBIDTA margin grew by 1,110bps YoY:** SPIL's EBIDTA margin grew by 1,110bps YoY to 38.3% from 27.2%, mainly due to the high-margin generic Gleevec under exclusivity period. Its material cost grew by 50bps YoY to 22.3% from 21.8%, led by change in product mix. SPIL's other expenses declined by 840bps to 24.9% from 33.3% due to the benefits of Ranbaxy integration.. The company's personnel cost declined by 310bps to 14.5% from 17.6%. We expect SPIL's margins to decline Q2FY17 onwards due to the expiry of generic Gleevec's 180-day exclusivity in the US market.
- **Net profit grew by 117% YoY:** SPIL's net profit grew by 117% YoY to Rs22.35bn from Rs10.29bn. The company's tax rate declined to 15.1% from 18.7% of PBT. We expect SPIL's net profit to decline from Q2FY17 due to lower margin.
- **Recommendation and view:** At the CMP of Rs666, SPIL trades at 23.0x FY17E EPS of Rs29.0 and 20.4x FY18E EPS of Rs32.6. We upgrade SPIL to Buy, with a TP of Rs850 based on 26x March'18 EPS of Rs32.6 and an upside of 27.6% from the CMP. We have revised our FY17E and FY18E EPS by 17% and 9% respectively. We expect SPIL to benefit from synergy benefits of \$300mn from Ranbaxy integration.

Y/E Mar (Rs mn) (Cons.)	Q2FY17	Q2FY16	YoY%	Q1FY17	QoQ%	Q2FY17E	% Var.
Total income	82,652	68,733	20.3	82,430	0.3	74,070	11.6
Total Expenditure	50,974	50,004	1.9	53,220	(4.2)	54,300	(6.1)
EBIDTA	31,678	18,729	69.1	29,210	8.4	19,770	60.2
EBIDTA Margin (%)	38.3	27.2		35.4		26.7	
Other income	1,194	1,152	3.6	1,571	(24.0)	1,650	(27.6)
PBDIT	32,872	19,881	65.3	30,781	6.8	21,420	53.5
PBT	29,297	15,715	86.4	26,275	11.5	16,840	74.0
Prov. For tax	4,417	2,946	49.9	3,527	25.2	2,900	52.3
% of PBT	15.1	18.7		13.4		17.2	
PAT before Minority interest	24,880	12,769	94.8	22,748	9.4	13,940	78.5
Minority int./ Sh of associates	2,527	2,481	1.9	2,411	4.8	2,550	(0.9)
PAT before EO items	22,353	10,288	117.3	20,337	9.9	11,390	96.3
EO items	0	4,340	NA	0	NA	0	NA
PAT after EO items	22,353	5,948	275.8	20,337	9.9	11,390	96.3

Source: Company, Centrum Research Estimates

Y/E March (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Net profit	YoY (%)	RoE (%)	DEPS Rs	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY14	160,804	42.3	69,998	43.5	56,589	58.4	34.5	23.5	33.8	28.3	20.1
FY15	274,334	70.6	78,667	28.7	47,774	(15.6)	23.4	19.8	22.1	33.6	18.5
FY16	282,697	3.0	84,817	30.0	54,012	13.1	20.4	22.4	18.2	29.7	19.9
FY17E	312,711	10.6	103,599	33.1	69,746	29.1	21.6	29.0	19.5	23.0	16.2
FY18E	344,742	10.2	116,372	33.8	78,441	12.5	21.8	32.6	20.0	20.4	14.4

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited.

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs850	Key Data	
CMP*	Rs666	Bloomberg Code	SUNP IN
Upside	27.6%	Curr Shares O/S (mn)	2,406.4
Previous Target	Rs780	Diluted Shares O/S(mn)	2,406.4
Previous Rating	Hold	Mkt Cap (Rsbn/USDbn)	1603.3/23.9
Price Performance (%)*		52 Wk H / L (Rs)	898.5/571.9
	1M	6M	1Yr
SUNP IN	(11.8)	(16.3)	(10.8)
Nifty	(4.7)	5.7	6.0
		5 Year H / L (Rs)	1200.8/243
		Daily Vol. (3M NSE Avg.)	3642893

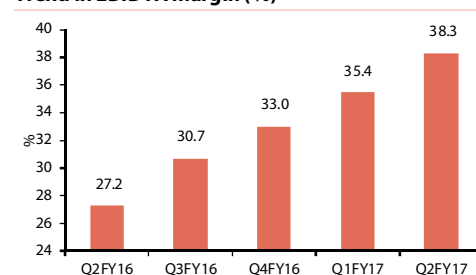
*as on 10 November 2016; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Sept-16	June-16	Mar-16	Dec-15
Promoter	55.0	55.0	55.0	55.0
FII's	22.4	24.8	26.4	26.1
DII's	11.0	10.1	8.9	9.2
Others	11.6	10.1	9.7	9.7

Source: BSE, *as on 10 November 2016

Trend in EBIDTA margin (%)*



Source: Company, Centrum Research

Earning Revision

Particulars (Rs mn)	FY17E			FY18E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	3,12,711	3,12,711	0.0	3,44,742	3,44,742	0.0
EBITDA	1,03,599	96,249	7.6	1,16,372	1,10,842	5.0
EBITDA Margin (%)	33.1	30.8	230bps	33.8	32.2	160bps
PAT	69,746	59,396	17.4	78,441	71,911	9.1

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY17E			FY18E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	312,711	321,505	(2.7)	344,742	355,699	(3.1)
EBITDA	103,599	108,466	(4.5)	116,372	120,699	(3.6)
PAT	69,746	73,236	(4.8)	78,441	84,513	(7.2)

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)	850	(0.6)
36	2	7	855	850	(0.6)

*as on 10 November 2016, Source: Bloomberg, Centrum Research Estimates

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Concall highlights

US growth initiatives

- The management indicated that the US formulation business (48% of revenues) grew by 12% YoY due to the 180-day exclusivity of generic Gleevec in the US in July'16. However, the US business was impacted by pricing pressure due to consolidation of channel partners and supply constraints from its Halol facility.
- The management said it has requested US FDA for re-inspection of the Halol plant.
- The management indicated building specialty business in the US in FY17.
- Taro's net profit in the US declined by 7% YoY due to increased competitive pressure during the quarter.
- The company has filed 3 ANDA and received six approvals during Q2FY17.
- SPIL has 423 approved ANDAs from US FDA, while 144 ANDAs are pending approval; hence, the company has a rich product pipeline for the US market.
- The management indicated that two generic players have entered the generic Gleevec market after the expiry of 180-day exclusivity.
- The management indicated that there was delay in the launch of generic Glumetza in the US due to the technical issues in manufacturing.
- SPIL had one-time sales of \$25mn (Rs1.65bn) in the US in Q2FY17.

India – market leadership

- SPIL ranks no.1 in the domestic market and has 8.7% MS in Rs1,000bn domestic pharma market. As per the management, the company ranked no.1 in 12 therapeutic categories.
- As per the management, domestic business grew 11% during the quarter despite regulatory changes and lower industry growth.
- In the domestic market, SPIL launched 8 new products during the quarter.

Financials

- SPIL's R&D expenditure was Rs5.7bn during the quarter and amounted to 7.3% of revenues. The higher R&D expenditure was attributed to clinical development of tildrakizumab in – licensed from MSD, US.
- The management indicated \$300mn (Rs20.0bn) synergy benefits from the integration of RLL by FY18.
- API business grew by 17%YoY due to the integration of opiates business in Australia. This business has the benefit of vertical integration.
- The management has guided for sales growth of 8-10% for FY17 and indicated higher tax rate for FY17.

Sales Composition

For Q2FY17, SPIL reported 20% YoY growth in revenues to Rs82.65bn from Rs68.73bn, driven by strong growth in US formulation and emerging market businesses. SPIL's US business (48% of revenues) grew by 12%YoY due to the 180-day exclusivity for generic Gleevec in the US for the month of July'16. However, the US business witnessed pricing pressure and supply constraints from Halol facility. SPIL's domestic business (26% of revenues) grew by 11%YoY to Rs20.09bn from Rs18.08bn despite price control by NPPA and 2.7% price reduction in NLEM products in April'16. Emerging markets formulation business (15% of revenues) grew by 26% to Rs11.41bn from Rs9.09bn. RoW formulation business (7% of revenues) grew by 6%YoY to Rs5.28bn from Rs4.97bn. The lower growth was attributed to currency fluctuations. SPIL's API business (5% of revenues) grew by 17% YoY to Rs3.67bn from Rs3.15bn, led by the integration of opiates business in Australia. Hence, the overall growth was led by the US formulations and emerging markets businesses.

The details are as follows:

Exhibit 1: Sales composition

PARTICULARS (Rs mn)	Q2FY17	Q2FY16	YoY%	Q1FY17	QoQ%	Q2FY17E	% Var.
Sales break up							
India Formulations	20,091	18,080	11.1	18,543	8.3	19,500	3.0
US Formulations	37,144	33,158	12.0	40,706	(8.8)	33,800	9.9
Emerging markets	11,411	9,089	25.5	10,311	10.7	10,300	10.8
ROW Formulations	5,281	4,968	6.3	5,625	(6.1)	5,200	1.6
Total Formulations	73,927	65,295	13.2	75,185	(1.7)	68,800	7.5
Bulk	3,669	3,146	16.6	4,698	(21.9)	5,100	(28.1)
Others	45	142	(68.3)	183	(75.4)	200	(77.5)
Total sales	77,641	68,583	13.2	80,066	(3.0)	74,100	4.8
Excise duty	0	0	NA	0	NA	680	(100.0)
Other operating income	5011	151	3,218.5	2363	112.1	650	670.9
Net sales	82,652	68,734	20.2	82,429	0.3	74,070	11.6

Source: Company, Centrum Research

SPIL reported \$45mn (Rs3.0bn) as milestone payment for licensing of Tildrakizumab to Almiral, Spain for the European market. The same has been included in the other operating income. Moreover, the management has indicated \$25mn (Rs1.65bn) as one time sales which is unlikely to get repeated. We have calculated the EBIDTA margin before and after the licencing income. The same has been shown in the following table:

Revenues and EBIDTA margin %

Particulars (Rs mn)	Q2FY17	Q2FY16	%YoY	Q1FY17	%QoQ
Sales from operations	75,990	68,582	10.8	77,757	(2.3)
One time sales \$25mn/ \$35mn	1,650	-	NA	2,310	(28.6)
Total sales	77,640	68,582	13.2	80,067	(3.0)
Licensing income \$45mn	3,000	-	NA	-	NA
Other operating income	2,011	151	1,231.8	2,363	(14.9)
Total other operating income	5,011	151	3,218.5	2,363	112.1
Total Revenues	82,651	68,733	20.2	82,430	0.3
EBIDTA excl. licensing income	28,677	18,729	53.1	29,210	(1.8)
EBIDTA incl. licensing income	31,677	18,729	69.1	29,210	8.4
EBIDTA margin % (exc. Licensing)	34.7	27.2		35.4	
EBIDTA margin % (incl. Licensing)	38.3	27.2		35.4	

Source: Company, Centrum Research

Performance of major brands

As per AIOCD AWACS September'16 data, SPIL grew at 17.0%, compared to the industry growth of 12.6%. SPIL's 48 products appear in the list of top 500 products. Of these, 31 products (65% of total) grew faster than the market growth rate of 12.6%. We expect these brands to drive future growth. Hence, SPIL has a rich product portfolio in the domestic market.

SPIL's top 48 brands contributed 43% to the company's domestic revenues. The company re-introduced Revital-H in the domestic market which is performing exceedingly well.

The following table presents the details.

Exhibit 2: Performance of major brands

Products (Rs mn)	Therapeutic Category	July'16		August'16		September'16	
		Rs mn	Gr. Rate %	Rs mn	Gr. Rate %	Rs mn	Gr. Rate %
Pharma Industry		91,255	9.5	96,428	15.3	97,922	12.6
Company		8,027	7.8	8,375	20.3	8,440	17.0
Volini	NSAIDs	214	21.5	221	15.2	235	29.1
Rosuvastatin	cholesterol lowering	161	18.2	170	30.3	165	28.1
Gemigli	Antidiabetic	163	18.3	174	41.5	175	38.4
Istamet	Antidiabetic	162	17.2	166	37.4	174	39.3
Susten	Gynaecological	128	(3.2)	128	10.8	123	5.1
Levipil	anti-epileptic	143	17.2	144	22.7	153	24.7
Pantocid	Antiulcerant	131	3.4	135	21.0	131	13.3
Storvas	cholesterol lowering	86	(12.1)	87	(6.1)	84	(7.3)
Pantocid-D	Antiulcerant	108	2.1	111	15.5	114	14.1
Aztor	Lipid Lowering	83	(16.0)	86	(4.6)	85	(7.1)
Revital H	multivitamin, Ginseng	137	32.7	143	40.2	152	63.0
Mox	Anti infective	100	19.6	101	23.3	83	(13.8)
Montek-LC	Anti-asthmatic	77	23.4	85	46.8	94	49.1
Moxclav	Anti infective	70	14.5	76	20.0	92	27.2
Rozavel	Lipid Lowering	75	17.6	79	36.7	80	33.0
Cepodem	Anti infective	73	38.0	82	39.9	79	12.2
Cardivas	CVS	71	15.9	75	38.6	77	39.1
Oxetol	Anticonvulsant	65	7.3	67	21.9	70	24.8
Glucored	Antidiabetic	63	(1.5)	63	12.8	65	15.6
Encorate Chrono	Anticonvulsant	62	7.0	65	20.4	67	19.9
Sporidex	Anti infective	66	23.3	75	37.1	78	12.5
Istavel	Antidiabetic	59	(0.6)	60	14.8	60	14.1
Rifagut	Anti-infective	69	20.7	70	32.8	66	26.5
Prolomet-XL	anti migraine	59	7.1	55	11.0	64	25.9
Ursocol	Hepatic protector	59	4.6	65	20.3	66	23.3
Volibo	Antidiabetic	51	3.4	53	17.8	52	16.1
Clopilet	Anti-coagulant	84	76.0	80	78.7	72	55.4
Cifran	Anti infective	59	19.4	60	22.4	52	(6.7)
Zanocin	Anti infective	61	29.1	63	24.5	58	7.6
Oframax	anti-infective	29	-48.7	31	(48.3)	33	(59.7)
Histac	Antiulcerant	48	7.8	49	13.4	43	(7.0)
Sompraz-D	Anti-ulcerant	53	16.7	54	35.1	53	23.6
Mesacol	Anti-flatulant	43	(1.9)	51	27.6	47	15.5
Trivolib	Antidiabeti c	48	3.6	50	30.0	49	28.7
Strocity	Neurotonic	41	1.3	41	12.0	45	15.6
Metosartan	CVS	48	23.8	50	42.8	53	42.5
Silverex Ionic	skin Antiseptic	40	13.3	38	15.8	37	4.8
Olmezest	CVS	43	11.4	46	34.5	47	32.8
Nexito	Antidepressant	34	(6.3)	35	1.7	35	(4.6)
Pantocid-L	antiulcerant	34	(12.5)	36	4.6	37	7.2
Gemigli-P	antidiabetic	23	(35.1)	23	(26.4)	24	(27.3)
Rozuvastatin-F	cholesterol reducer	34	2.7	37	23.0	38	28.0
AB Phylline	antiasthmatic	36	26.2	39	47.0	40	36.2
Teczine	antiallergic	39	27.5	43	31.2	43	19.5
Mox-CV	Anti-infective	37	37.8	41	60.1	38	33.5
Oframex Forte	Anti-infective	30	(10.0)	32	(3.2)	33	(17.6)
Volix	Antidiabetic	36	20.6	36	41.8	35	20.7
Cepodem XP	Anti infective	37	53.8	40	49.5	39	30.2
Total		3,472		3,611		3,635	

Source: AIOCD AWACS monthly data-July-September'16

Taro performance impacted by competitive pressure

For Q2FY17, Taro Pharma reported 8%YoY growth in revenues to \$228.8mn from \$212.1mn, with an increase in volume. The lower growth rate is due to competitive pressure. Gross profit grew by 5%YoY to \$177.4mn from \$168.8mn. EBIDTA margin grew by 290bps to 61.9% from 59.0%. Taro's net profit declined by 7%YoY to \$123.8mn from \$133.6mn. Taro's effective tax rate was higher at 22.3% compared to 18.5%.

Taro has 36 ANDA pending approval with US FDA. The company repurchased 1.8mn shares at average price of \$138.80 aggregating to \$249.8mn.

The table below shows the details.

Exhibit 3: Taro Pharma-Q2FY17 results

PARTICULARS (\$ mn)	Q2FY17 SEPT.16	Q2FY16 SEPT.15	% YoY CHANGE	FY16 MAR.16
Net sales	228.8	212.1	7.9	950.8
Cost of goods sold	51.4	41.4	24.4	169.7
Impairment	0.0	1.9	NA	2.0
Gross Profit	177.4	168.8	5.1	779.1
Gross Margin %	77.5	79.6	(2.6)	81.9
Selling, general & admn. Exp	20.9	24.1	(13.1)	92.4
R & D expenses	14.9	18.7	(20.7)	71.1
Settlement & loss contingencies	0.0	1.0	NA	1
Operating income/(loss)	141.6	125.0	13.3	614.6
EBIDTA margin %	61.9	59.0	5.0	64.6
Interest expenses	(3.5)	(3.4)	2.9	(12.6)
Other Income	1.1	0.8	37.5	2.7
Foreign exchange exp./income)	(13.4)	(34.9)	(61.6)	(7.1)
Profit/ (loss) before tax	159.6	164.1	(2.7)	637.0
Tax provision	35.6	30.4	17.1	95.3
Profit/ (loss) before EO item	124.0	133.7	(7.3)	541.7
Income (loss) from discount. Oper.	0.0	0.0	NA	(0.2)
Profit (loss) after EO items	124.0	133.7	(7.3)	541.5
Net inc. attributable to non-cont. int	0.2	0.1	NA	0.4
Net profit	123.8	133.6	(7.3)	541.1
EPS fully diluted \$	3.00	3.11	(3.5)	12.64
No. of shares(fully diluted)	41.3	42.8		42.8

Source: Company, Centrum Research

Recommendation and view

At the CMP of Rs666, SPIL trades at 23.0x FY17E EPS of Rs29.0 and 20.4x FY18E EPS of Rs32.6. We upgrade SPIL to Buy rating with a TP of Rs850 based on 26x March'18 EPS of Rs32.6 and an upside of 27.6% from the CMP. We expect SPIL revenues and profitability to improve due to the synergy benefits from Ranbaxy integration and good growth in the US generic market. Key risks to our assumptions would be slower growth in the US market and regulatory risks for its manufacturing facilities.

Exhibit 4: Earning Revision

Particulars	FY17E			FY18E		
	Current	Earlier	Chg(%)	Current	Earlier	Chg(%)
Sales	3,12,711	3,12,711	0.0	3,44,742	3,44,742	0.0
EBIDTA	1,03,599	96,249	7.6	1,16,372	1,10,842	5.0
EBIDTA margin (%)	33.1	30.8	230bps	33.8	32.2	160bps
Net profit	69,746	59,396	17.4	78,441	71,911	9.1

Source: Centrum Research

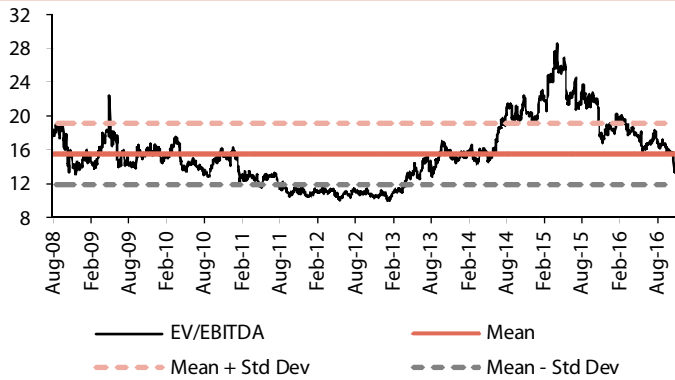
Valuation and key risks

Exhibit 5: Sensitivity Analysis

Sensitivity to key variables – FY17E	% change	% impact on EBITDA	% impact on EPS
Sales	1	3.0	4.5
Material cost	1	(0.7)	(1.0)

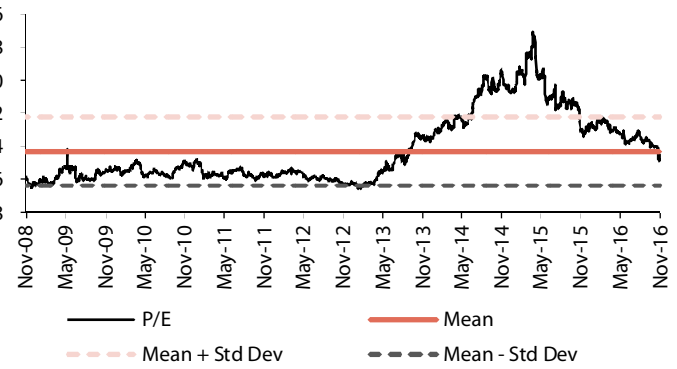
Source: Company, Centrum Research Estimates

Exhibit 6: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 7: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 8: Comparative Valuations

Sector	Mkt Cap (Rs mn)	CAGR FY16-FY18E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Sun Pharma	1,603,062	10.4	17.1	20.5	30.0	33.1	33.8	29.7	23.0	20.4	19.9	16.2	14.4	20.4	21.6	21.8	0.6	0.7	0.8
Aurobindo	463,320	19.6	24.9	31.6	23.1	24.1	25.2	23.4	17.4	13.5	15.5	11.7	9.2	32.5	32.1	30.9	0.3	0.4	0.4
Cipla	453,118	15.4	18.1	16.3	18.3	17.8	19.2	30.1	29.6	22.2	20.0	17.4	13.5	13.3	12.0	14.0	0.4	0.5	0.6
Dr. Reddy's Labs	542,837	8.1	8.3	17.1	24.0	23.6	24.2	27.1	23.6	20.4	15.6	13.7	11.9	16.6	16.2	15.8	0.6	0.8	0.9
Lupin	673,047	18.8	23.5	24.9	26.4	27.7	28.5	29.6	22.7	19.0	19.8	14.8	12.4	22.9	23.9	23.1	0.5	0.6	0.7

Source: Company, Centrum Research Estimates Prices as on 10th November 2016

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 9: Quarterly Financials -consolidated

PARTICULARS (Rs mn)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
P & L								
Revenues	69,324	61,124	67,615	68,733	70,642	76,342	82,430	82,652
Material cost	17,126	15,640	16,913	14,978	17,554	14,520	18,470	18,399
Personnel cexpenses	11,051	11,491	12,352	12,124	11,483	11,812	12,393	11,991
Other Expenses	19,501	26,045	20,672	22,902	19,915	24,807	22,357	20,584
Total Expenses	47,678	53,176	49,937	50,004	48,952	51,139	53,220	50,974
EBIDTA	21,646	7,948	17,678	18,729	21,690	25,203	29,210	31,678
Other income	(765)	3,927	1,641	1,152	2,192	(350)	1,571	1,194
PBDIT	20,881	11,875	19,319	19,881	23,882	24,853	30,781	32,872
Interest	1,497	1,350	1,345	1,582	1,170	886	1,346	537
Depreciation	2,284	4,618	2,402	2,584	2,508	2,643	3,160	3,038
Profit before tax	17,100	5,907	15,572	15,715	20,204	21,324	26,275	29,297
Tax provision	10,290	(5,999)	1,128	2,946	2,020	1,706	3,527	4,417
Net profit before minority	6,810	11,906	14,444	12,769	18,184	19,618	22,748	24,880
Share of profit of ass./minority	2,856	3,014	2,034	(2,481)	(4,018)	(2,483)	(2,411)	(2,527)
Net profit before EO items	9,666	14,920	16,478	10,288	14,166	17,135	20,337	22,353
EO items	-	-	(6,852)	4,340	-	-	-	-
Net profit after EO items	9,666	14,920	23,330	5,948	14,166	17,135	20,337	22,353
Growth (%)								
Revenues	60.8	50.6	6.6	(14.5)	1.9	24.9	21.9	20.3
EBIDTA	8.2	(55.9)	(8.8)	(38.9)	0.2	217.1	65.2	69.1
Net profit before EO items	(74.2)	(44.0)	(14.0)	(49.8)	258.3	92.7	63.9	117.3
Margin (%)								
EBIDTA	31.2	13.0	26.1	27.2	30.7	33.0	35.4	38.3
Profit before tax	24.7	9.7	23.0	22.9	28.6	27.9	31.9	35.4
Net margin before EO	13.9	24.4	24.4	15.0	20.1	22.4	24.7	27.0

Source: Company, Centrum Research

Exhibit 10: Key performance indicators

Key performance indicator	FY14	FY15	FY16	FY17E	FY18E
Domestic-Sales Growth %	24.5	81.9	8.0	11.0	13.0
US-sales growth %	59.0	40.2	(3.8)	11.0	14.0
RoW-sales growth %	(42.5)	165.7	(7.3)	6.0	9.0
Material cost %	17.3	24.6	22.9	22.9	23.2

Source: Centrum Research Estimates

Financials -consolidated

Exhibit 11: Income Statement

Y/E March (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	160,804	274,334	282,697	312,711	344,742
-Growth (%)	42.3	70.6	3.0	10.6	10.2
Material Cost	27794	67392	64831	71582	80,000
% of sales	17.3	24.6	22.9	22.9	23.2
Staff Cost	20,744	44,299	47,971	46,800	52,600
% of sales	12.9	16.1	17.0	15.0	15.3
Other Expenses	42,269	83,977	85,078	90,730	95,770
% of sales	26.3	30.6	30.1	29.0	27.8
Operating Expenses	90,807	195,668	197,880	209,112	228,370
% of sales	56.5	71.3	70.0	66.9	66.2
EBIDTA	69,998	78,667	84,817	103,599	116,372
-EBIDTA margin (%)	43.5	28.7	30.0	33.1	33.8
Depreciation	4,092	11,947	10,135	11,330	12,400
EBIT	65,905	66,719	74,682	92,269	103,972
Interest Income/(exp.)	442	5,789	4,769	4,000	3,100
PBT from operations	65,463	60,930	69,913	88,269	100,872
Other non op. income	5,523	5,479	4,592	7,477	9,119
PBT	70,986	66,409	74,505	95,746	109,991
-PBT margin (%)	44.1	24.2	26.4	30.6	31.9
Provision for tax	7,022	9,146	9,349	16,100	19,250
Effective tax rate (%)	9.9	13.8	12.5	16.8	17.5
Net profit before minority interest	63,964	57,263	65,156	79,646	90,741
Share of profit of associate	(7,375)	(9,489)	(11,144)	(9,900)	(12,300)
Net profit before EO items	56,589	47,774	54,012	69,746	78,441
EO items	25174	2378	6852	0	0
Net profit after EO items	31,415	45,396	47,160	69,746	78,441

Source: Company, Centrum Research Estimates

Exhibit 12: Key Ratios

Y/E March (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Growth Matrices (%)					
Net sales	42.3	70.6	3.0	10.6	10.2
EBIDTA	43.0	12.4	7.8	22.1	12.3
Adjusted PAT	58.7	(15.6)	13.1	29.1	12.5
Profitability Matrices (%)					
EBIDTA margin	43.5	28.7	30.0	33.1	33.8
EBIT margin	44.4	26.3	28.0	31.9	32.8
PAT margin	35.2	17.4	19.1	22.3	22.8
Return ratios (%)					
ROE	34.5	23.4	20.4	21.6	21.8
ROCE	33.8	22.1	18.2	19.5	20.0
ROIC	62.2	42.0	33.0	34.8	31.0
Turnover Ratios (days)					
Inventory	64.7	58.5	78.1	77.0	76.5
Debtors	55.7	50.0	78.2	77.9	77.3
Creditors	63.9	71.8	100.9	103.7	103.5
Solvency Ratio (X)					
Debt-equity	0.1	0.3	0.2	0.2	0.2
Net Debt-equity	(0.2)	(0.1)	(0.2)	(0.2)	(0.1)
Liquidity ratio	2.9	2.3	3.2	2.5	2.5
Interest coverage	161.6	12.5	16.6	24.9	36.5
Dividend					
DPS Rs.	1.5	3.5	4.0	4.5	5.0
Dividend Yield (%)	0.2	0.5	0.6	0.7	0.8
Dividend Payout (%)	6.4	18.2	21.4	18.6	18.4
Per share (Rs)					
Basic EPS (reported)	27.3	23.1	22.4	29.0	32.6
FDEPS (reported)	27.3	23.1	22.4	29.0	32.6
FDEPS(adjusted)	23.5	19.8	22.4	29.0	32.6
BVPS	98.7	137.5	147.4	159.0	186.6
CEPS	25.2	24.8	26.7	33.7	37.7
Valuation metrics (x)					
P/E	28.3	33.6	29.7	23.0	20.4
P/BV	6.7	4.8	4.5	4.2	3.6
EV/EBIDTA	20.1	18.5	19.9	16.2	14.4
EV/Sales	8.7	5.3	6.0	5.4	4.9

Source: Company, Centrum Research Estimates

Exhibit 13: Balance Sheet

Y/E March (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Share capital	2,071	2,071	2,407	2,407	2,407
Reserves & surplus	183,178	254,310	311,635	338,806	404,205
Total shareholder's fund	185,249	256,381	314,042	341,213	406,612
Loan fund	24,891	75,963	83,381	70,575	69,575
Deferred tax liability	(9,111)	(17,516)	(21,259)	(19,230)	(19,600)
Minority interest share capital	19,212	28,512	40,853	41,580	42,500
Total capital employed	220,241	343,340	417,018	434,138	499,088
Gross block	81,870	152,505	206,259	229,400	246,400
Accumulated depreciation	(36,681)	(76,294)	(83,057)	(93,527)	(104,897)
Net Block	45,189	76,211	123,202	135,873	141,503
Capital WIP	8,415	15,314	10,400	11,500	12,100
Net fixed assets	53,604	91,525	133,602	147,373	153,603
Investments	27,860	27,164	13,085	40,224	103,801
Goodwill on consolidation	22,981	55,689	41,811	39,300	40,460
Cash and bank	75,902	109,980	139,893	139,650	102,976
Inventories	31,231	56,680	64,236	67,660	76,860
Debtors	22,004	53,123	67,959	65,500	80,500
Other current assets and loans and advances	48,258	77,621	59,730	74,950	75,350
Total current assets and loans and advances	205,255	324,568	344,903	387,984	439,487
Current liabilities and provisions	61,599	128,442	103,298	140,518	134,462
Net current assets	143,656	196,126	241,605	247,466	305,025
Total assets	220,241	343,340	417,018	434,138	499,088

Source: Company, Centrum Research Estimates

Exhibit 14: Cash Flow

Y/E March (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
CF from operation					
Net Profit	56,589	47,774	54,012	69,746	78,441
Depreciation and amortization	4,092	11,947	10,135	11,330	12,400
Change in working capital	(5,590)	(19,088)	(29,645)	21,035	(30,656)
Deferred tax liability	(1,988)	(8,405)	(3,743)	2,029	(370)
Other non-cash charges	-	1	1	1	1
Net cash generated from operating activities	53,104	32,229	30,760	104,142	59,816
Cash Flow from Investing Activities					
Capex	(11,505)	(77,534)	(48,840)	(24,241)	(17,600)
Goodwill on consolidation	(11,651)	(32,708)	13,878	2,511	(1,160)
Investments	(3,744)	696	14,080	(27,139)	(63,577)
Net cash from / (used) in investing activities	(26,900)	(109,546)	(20,883)	(48,869)	(82,337)
Cash Flow from financing activities					
Inc / (dec) in long term debt	22,908	51,072	7,418	(12,806)	(1,000)
Dividends paid	(3,635)	(8,690)	(11,554)	(12,998)	(14,442)
Share issuance / (repurchase)	3,897	9,300	12,677	727	920
Net cash from / (used) in financing activities	23,170	51,682	8,542	(25,077)	(14,522)
Net Cash Flow	49,374	(25,635)	18,419	30,196	(37,043)

Source: Company, Centrum Research Estimates

Appendix A

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Sun Pharma price chart



Source: Bloomberg, Centrum Research

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