

June 08, 2018

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Rating	Reduce
Price	Rs528
Target Price	Rs447
Implied Upside	-18.1%
Sensex	35,443
Nifty	10,767

(Prices as on June 08, 2018)

Trading data

Market Cap. (Rs bn)	1,267.2
Shares o/s (m)	2,399.3
3M Avg. Daily value (Rs m)	2643.7

Major shareholders

Promoters	54.30%
Foreign	16.32%
Domestic Inst.	16.23%
Public & Other	13.10%

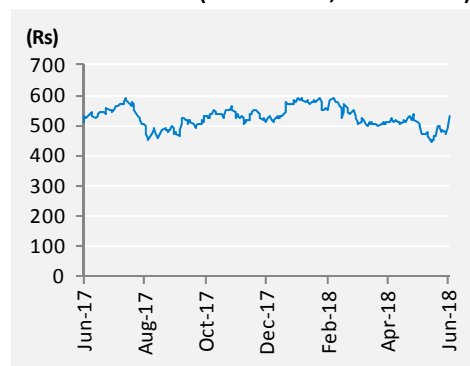
Stock Performance

(%)	1M	6M	12M
Absolute	(9.3)	(14.9)	(21.2)
Relative	(10.5)	(18.6)	(34.7)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	17.5	13.5	29.5
2020	19.3	19.9	-3.0

Price Performance (RIC: SUN.BO, BB: SUNP IN)



Source: Bloomberg

- **Halol received VAI:** The US regulator has upgraded current status of SUNP's Halol plant to VAI (Voluntary Action Indicated). The upgradation status of the plant means that the response and remediation works of SUNP are at satisfactory level of USFDA and critical issues in the company are virtually resolved.
- **Genesis of the manufacturing issues in Halol:** SUNP received warning letter and reduced the plant status to OAI (Official Action Indicated) in December CY15 after the FDA visit in October CY15. While management was active to achieve resolutions with comprehensive remediation works (being a large plant), SUNP received Form-483 with multiple observations during the last two years. The Halol plant came in to the fold of SUNP post its acquisition of MJ Pharma in CY05. The plant has production lines of Tabs, Caps, liquids, sterile dry powder injectable, small volume injectable, ointments, soft gelatine caps and aerosols. It has approvals from key regulators such as US FDA, MHRA (UK), MCC (SA).
- **What does VAI mean for Halol?:** The VAI status will open opportunity of receiving new approvals for US markets as USFDA will now start active consideration of the pending applications from Halol plant. We expect approvals of old ANDAs in near term due to large dependence on Halol plant among the pending approvals.
- **PL view—Maintain Reduce, retain TP at Rs447:** With SUNP's withdrawal of 15 ANDAs in Q3FY18, we indicated the event was a precursor of pending resolution as it has been observed in many cases of FDA with multiple companies. While many approvals are expected in near term, we believe majority of those ANDAs will be irrelevant as older molecules are crowded with strong competition and price erosion. Given the track record of SUNP, it will not pursue/launch majority of the molecules as management to pursue only 'profitable growth' as it was observed in the case of withdrawal of co-pay arrangement of Absorica in US. We find gVenofer (Iron Sucrose, mkt: US\$350m) will be one of the few major approvals in FY19E from Halol due to its complex chemistry. We remain cautious on the real opportunities of upcoming approvals and maintain earnings estimates for FY19E-20E. We maintain Reduce' and retain TP at Rs447.

Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	302,642	260,659	279,957	299,906
Growth (%)	8.5	(13.9)	7.4	7.1
EBITDA (Rs m)	87,751	51,846	60,191	65,979
PAT (Rs m)	69,644	28,241	42,028	46,409
EPS (Rs)	29.0	11.8	17.5	19.3
Growth (%)	33.5	(59.4)	48.8	10.4
Net DPS (Rs)	2.2	2.2	2.2	2.2

Profitability & Valuation	2017	2018	2019E	2020E
EBITDA margin (%)	29.0	19.9	21.5	22.0
RoE (%)	20.0	8.2	12.3	12.2
RoCE (%)	16.3	7.3	9.9	10.1
EV / sales (x)	3.5	4.2	3.8	3.4
EV / EBITDA (x)	12.2	21.2	17.6	15.4
PE (x)	16.1	39.6	26.6	24.1
P / BV (x)	3.1	3.5	3.1	2.8
Net dividend yield (%)	0.5	0.5	0.5	0.5

Source: Company Data; PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	302,642	260,659	279,957	299,906
Raw Material Expenses	81,307	74,247	78,388	79,475
Gross Profit	221,335	186,413	201,569	220,431
Employee Cost	49,023	53,671	55,991	58,482
Other Expenses	84,561	80,896	85,387	95,970
EBITDA	87,751	51,846	60,191	65,979
Depr. & Amortization	12,648	14,998	16,578	18,949
Net Interest	3,998	5,176	3,932	3,029
Other Income	19,374	12,623	13,254	13,917
Profit before Tax	90,479	44,295	52,934	57,918
Total Tax	12,116	11,331	7,411	8,108
Profit after Tax	78,363	32,963	45,523	49,809
Ex-Od items / Min. Int.	8,719	(14,288)	3,496	3,400
Adj. PAT	69,644	28,241	42,028	46,409
Avg. Shares O/S (m)	2,399.3	2,399.3	2,399.3	2,399.3
EPS (Rs.)	29.0	11.8	17.5	19.3

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	85,132	(23,480)	26,603	38,624
C/F from Investing	(25,196)	(13,000)	(13,000)	(13,000)
C/F from Financing	(7,802)	(3,143)	4,573	2,564
Inc. / Dec. in Cash	52,134	(39,623)	18,176	28,187
Opening Cash	103,710	155,844	116,221	134,397
Closing Cash	155,844	116,221	134,397	162,585
FCFF	60,423	35,258	41,094	47,601
FCFE	73,773	31,303	22,222	32,503

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	8.5	(13.9)	7.4	7.1
EBITDA (%)	16.1	(40.9)	16.1	9.6
PAT (%)	33.1	(59.4)	48.8	10.4
EPS (%)	33.5	(59.4)	48.8	10.4
Profitability				
EBITDA Margin (%)	29.0	19.9	21.5	22.0
PAT Margin (%)	23.0	10.8	15.0	15.5
RoCE (%)	16.3	7.3	9.9	10.1
RoE (%)	20.0	8.2	12.3	12.2
Balance Sheet				
Net Debt : Equity	(0.1)	(0.1)	(0.2)	(0.3)
Net Wrkng Cap. (days)	196	259	250	248
Valuation				
PER (x)	16.1	39.6	26.6	24.1
P / B (x)	3.1	3.5	3.1	2.8
EV / EBITDA (x)	12.2	21.2	17.6	15.4
EV / Sales (x)	3.5	4.2	3.8	3.4
Earnings Quality				
Eff. Tax Rate	13.4	25.6	14.0	14.0
Other Inc / PBT	21.4	28.5	25.0	24.0
Eff. Depr. Rate (%)	6.7	7.4	7.7	8.3
FCFE / PAT	105.9	110.8	52.9	70.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	366,397	324,178	360,148	400,498
Total Debt	98,318	94,363	75,490	60,392
Other Liabilities	54,475	61,787	65,900	69,905
Total Liabilities	519,189	480,329	501,538	530,796
Net Fixed Assets	149,403	148,545	144,967	139,018
Goodwill	55,362	55,362	55,362	55,362
Investments	11,919	12,265	12,663	13,121
Net Current Assets	232,314	192,109	214,797	247,741
<i>Cash & Equivalents</i>	<i>151,408</i>	<i>116,221</i>	<i>134,397</i>	<i>162,585</i>
<i>Other Current Assets</i>	<i>175,819</i>	<i>164,357</i>	<i>172,118</i>	<i>180,106</i>
<i>Current Liabilities</i>	<i>94,913</i>	<i>88,469</i>	<i>91,718</i>	<i>94,950</i>
Other Assets	70,190	72,048	73,748	75,553
Total Assets	519,189	480,329	501,538	530,796

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Revenue	61,667	65,901	65,982	67,110
EBITDA	10,535	13,153	13,984	14,174
<i>% of revenue</i>	<i>17.1</i>	<i>20.0</i>	<i>21.2</i>	<i>21.1</i>
Depr. & Amortization	3,466	3,587	3,393	4,552
Net Interest	1,094	1,574	953	1,554
Other Income	1,941	3,151	1,842	5,688
Profit before Tax	7,916	11,144	11,479	13,756
Total Tax	1,618	1,114	7,487	(1,767)
Profit after Tax	(4,249)	9,121	3,654	13,090
Adj. PAT	(4,249)	9,121	3,654	13,090

Key Operating Metrics (Rs m)

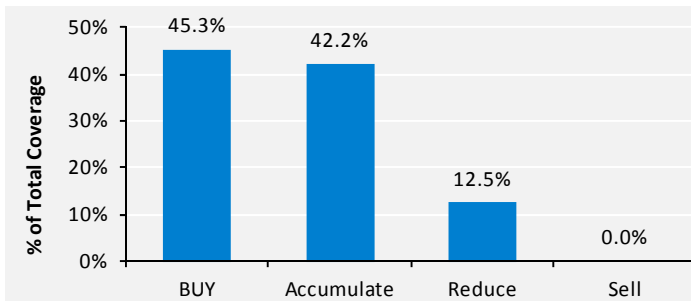
Y/e March	2017	2018	2019E	2020E
Formulations	280,207	246,400	263,221	281,957
India Formulations	78,341	80,691	90,374	100,315
US Formulations	135,301	97,836	98,234	99,634
ROW Formulations	66,565	67,873	74,613	82,008
APIs	16,068	17,165	19,045	20,509

Source: Company Data, PL Research.

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Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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