

RESEARCH
BOB Economics Research | Weekly Wrap

Early indicators point to sharp dip in growth

Sun Pharma | Target: Rs 445 | +32 % | REDUCE

USFDA classifies Halol site as OAI

SUMMARY
India Economics: Weekly Wrap

Global markets responded positively to US fiscal stimulus. Sharp dip in global services PMIs (US: 10ppt, Euro: 24ppt) and US consumer sentiment implies demand will decelerate in the coming days. India is in complete lockdown till 14 April. Government announced Rs 1.7tn fiscal stimulus and RBI did a 75bps reduction in repo rate along with Rs 3.74tn of liquidity infusion and 3-month moratorium on existing loans. More such measures will follow. 10Y yield hasn't fallen in-line as markets expect increase in government borrowings.

[Click here for the full report.](#)
Sun Pharma

The USFDA has classified Sun Pharma's (SUNP) key formulation site Halol under OAI (official action indicated). This site was inspected during 3-13 Dec 2019 and received eight observations (no data integrity issues but several lapses around quality control). The OAI is in line with our expectations and the risk of an import alert is low. SUNP will continue to engage with the FDA to regain cGMP compliance. We maintain our REDUCE rating on SUNP in view of slower-than-expected Ilumya scale up and likely earnings risk from Covid-19 (we estimate a 20% EPS CAGR for FY20-FY22).

[Click here for the full report.](#)
TOP PICKS
LARGE-CAP IDEAS

| Company | Rating | Target |
|-------------------------------------|--------|--------|
| Bajaj Finance | Buy | 5,200 |
| Cipla | Buy | 570 |
| Eicher Motors | Buy | 25,000 |
| Petronet LNG | Buy | 330 |
| Reliance Industries | Buy | 1,500 |

MID-CAP IDEAS

| Company | Rating | Target |
|-------------------------------------|--------|--------|
| Alkem Labs | Buy | 2,870 |
| Greenply Industries | Buy | 205 |
| Laurus Labs | Buy | 510 |
| Transport Corp | Buy | 355 |
| Ashok Leyland | Sell | 64 |

Source: BOBCAPS Research

DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|------------------------|---------|-----------|-----------|-----------|
| US 10Y yield (%) | 0.67 | (17bps) | (66bps) | (172bps) |
| India 10Y yield (%) | 6.14 | (8bps) | (21bps) | (118bps) |
| USD/INR | 74.92 | 0.3 | (4.5) | (8.0) |
| Brent Crude (US\$/bbl) | 24.93 | (5.4) | (53.3) | (63.2) |
| Dow | 21,637 | (4.1) | (19.7) | (15.9) |
| Shanghai | 2,772 | 0.3 | (7.2) | (7.4) |
| Sensex | 29,816 | (0.4) | (25.3) | (22.6) |
| India FII (US\$ mn) | 26 Mar | MTD | CYTD | FYTD |
| FII-D | (243.0) | (7,368.8) | (8,935.9) | (5,991.8) |
| FII-E | 1.5 | (7,542.1) | (5,755.1) | 1,634.1 |

Source: Bank of Baroda Economics Research

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WEEKLY WRAP

30 March 2020

Early indicators point to sharp dip in growth

Global markets responded positively to US fiscal stimulus. Sharp dip in global services PMIs (US: 10ppt, Euro: 24ppt) and US consumer sentiment implies demand will decelerate in the coming days. India is in complete lockdown till 14 April. Government announced Rs 1.7tn fiscal stimulus and RBI did a 75bps reduction in repo rate along with Rs 3.74tn of liquidity infusion and 3-month moratorium on existing loans. More such measures will follow. 10Y yield hasn't fallen in-line as markets expect increase in government borrowings.

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Markets

- Bonds:** Global yields closed lower as global economic outlook remains jittery. US 10Y yield fell by 17bps (0.67%) on the back of increase in jobless claims and sharp dip in consumer sentiment. Oil prices fell by (-) 7.6% (US\$ 25/bbl) due to muted demand. India's 10Y yield fell by 12bps (6.14%) supported by RBI's rate cut of 75bps and liquidity infusion measures of Rs 3.74tn. System liquidity surplus rose to Rs 3.2tn as on 27 Mar 2020 vs Rs 2.2tn in the previous week.
- Currency:** DXY fell by (-) 4.3% from a 3-year high, registering its biggest weekly decline since CY09 as dollar liquidity improved. Most global currencies closed higher, led by GBP which rose by 7.1%. INR rose by 0.4% in the week after depreciating to a lifetime low as government and RBI unveiled measures to combat the economic fallout of Covid-19. FII outflows continued (US\$ 1.4bn in the week).
- Equity:** Barring Sensex, global indices ended the week higher on the back of monetary and fiscal measures to counter the impact of COVID-19. US cleared US\$ 2tn fiscal stimulus. Nikkei (17.1%) surged the most followed by Dow (12.8%). Sensex pared losses to end the week lower by only (-) 0.3% on the back of government stimulus and RBI's monetary easing measures.
- Upcoming key events:** In the current week, markets will continue to monitor daily increase in COVID-19 confirmed cases which have increased by 373k vs 165k last week. Manufacturing and services PMIs along with US ISM index, factory orders and unemployment rate will be in focus. On the domestic front, H1FY21 borrowing calendar, PMIs, core industry data and fiscal deficit data is awaited.



REDUCE

TP: Rs 445 | ▲ 32%

SUN PHARMA

Pharmaceuticals

30 March 2020

USFDA classifies Halol site as OAI

What's new: The USFDA has classified Sun Pharma's (SUNP) key formulation site Halol under OAI (official action indicated). This site was inspected during 3-13 Dec 2019 and received eight observations (no data integrity issues but several lapses around quality control). The OAI is in line with our expectations and the risk of an import alert is low. SUNP will continue to engage with the FDA to regain cGMP compliance.

Implications: Halol is a key facility for SUNP's US business with a large manufacturing capacity for complex orals, injectables and dermatology drugs, among others. Current business, which in our view is US\$ 150mn-200mn (i.e. 3-4% of overall company FY20 sales), from this site will continue.

Future approvals (the site has 19 pending ANDAs as per the company) will be delayed due to the OAI, but this is likely to have limited earnings impact since the company has partly derisked key filings from this site to the Baska and Pharmeducence plants since 2015 (both have complex injectable manufacturing capabilities). But we highlight that the Baska unit has just a fourth of the capacity at Halol and hence may face supply constraints in the medium term.

Retain REDUCE: We maintain our REDUCE rating on SUNP in view of slower-than-expected Ilumya scale up and likely earnings risk from Covid-19 (we estimate a 20% EPS CAGR for FY20-FY22). Other concerns constraining valuations include potential penalty by DOJ in the price fixing case, the SEBI-ordered forensic audit of 2016-18 financials, and the Rs 40.6bn contingent tax liability not provided for. The stock is trading at reasonable valuations of 15x FY21E EPS.

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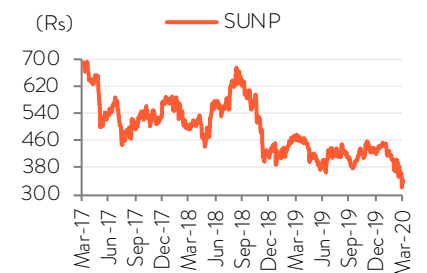
| | |
|------------------|----------------|
| Ticker/Price | SUNP IN/Rs 338 |
| Market cap | US\$ 10.8bn |
| Shares o/s | 2,399mn |
| 3M ADV | US\$ 36.6mn |
| 52wk high/low | Rs 484/Rs 315 |
| Promoter/FPI/DII | 54%/17%/16% |

Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY20E | FY21E | FY22E |
|-------------------------|---------|---------|---------|
| Total revenue (Rs mn) | 325,880 | 359,740 | 400,315 |
| EBITDA (Rs mn) | 73,200 | 82,929 | 91,855 |
| Adj. net profit (Rs mn) | 47,500 | 55,534 | 62,602 |
| Adj. EPS (Rs) | 19.8 | 23.1 | 26.1 |
| Adj. EPS growth (%) | 30.2 | 16.9 | 12.7 |
| Adj. ROAE (%) | 10.1 | 10.8 | 11.1 |
| Adj. P/E (x) | 17.1 | 14.6 | 13.0 |
| EV/EBITDA (x) | 10.2 | 8.9 | 7.6 |

Source: Company, BOBCAPS Research

STOCK PERFORMANCE

Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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