

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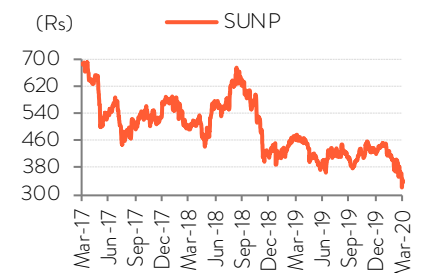
Ticker/Price	SUNP IN/Rs 338
Market cap	US\$ 10.8bn
Shares o/s	2,399mn
3M ADV	US\$ 36.6mn
52wk high/low	Rs 484/Rs 315
Promoter/FPI/DII	54%/17%/16%

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%

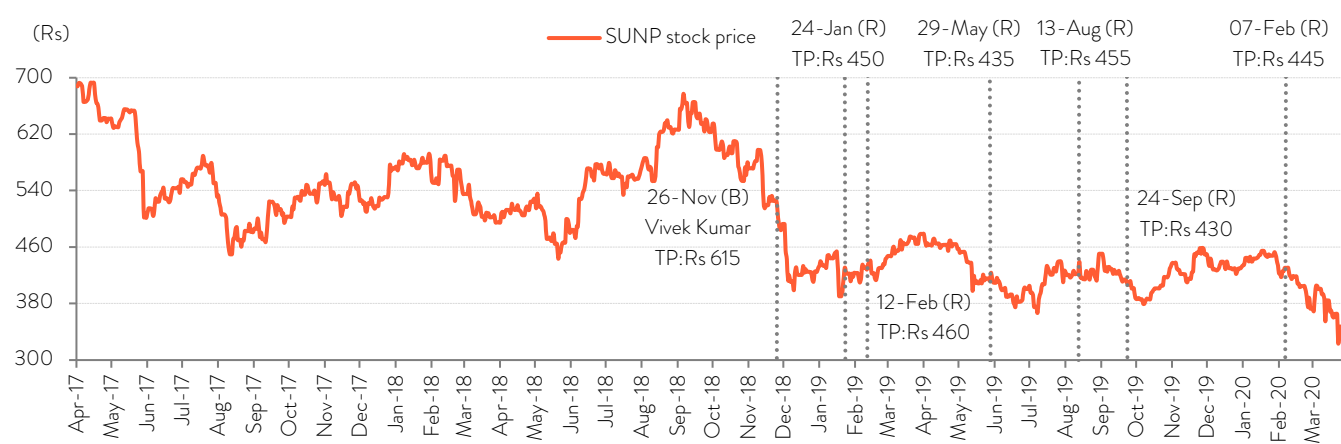
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: SUN PHARMA (SUNP IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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