

June 14, 2017

Surajit Pal
surajitpal@plindia.com
+91-22-66322259

Rating	Reduce
Price	Rs536
Target Price	Rs501
Implied Upside	-6.5%
Sensex	31,103
Nifty	9,607

(Prices as on June 13, 2017)

Trading data

Market Cap. (Rs bn)	1,287.1
Shares o/s (m)	2,399.3
3M Avg. Daily value (Rs m)	3017.1

Major shareholders

Promoters	54.39%
Foreign	21.76%
Domestic Inst.	12.14%
Public & Other	11.71%

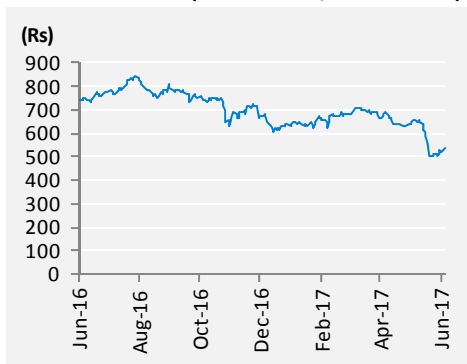
Stock Performance

(%)	1M	6M	12M
Absolute	(17.9)	(21.5)	(28.1)
Relative	(21.0)	(38.0)	(45.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	23.4	25.9	-9.6
2019	22.8	30.4	-25.1

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



Source: Bloomberg

- FDA approves Sun Pharma's gZetia:** Sun Pharma received approval for launch of Ezetimibe (gZetia) along with Teva (Watson), Mylan, Sandoz and Zydus Cadila post expiry of 180-day exclusivity period. The first generic to gZetia was launched in exclusivity by Glenmark in December 2016 in partnership with Par Pharma which expires in June 2017.
- gZetia, a cardiovascular drug** is indicated as adjunctive therapy to diet for the reduction of elevated total cholesterol (total-C), low-density lipoprotein cholesterol (LDL-C), and apolipoprotein B (Apo B) in patients with primary hyperlipidemia. The drug had 12-month sales of US\$2.3bn (as per IMS) in Dec 2016 before entry of first generic. Currently, Zetia's US market size is US\$1.2bn as per IMS-April 2017. We expect the market size of the drug to decrease further post entry of the new generics. Glenmark has realised revenues of US\$120m in Dec 2016 - Mar 2017 and expects to realise another US\$60-70m in Apr-June 2017.
- EPS benefits to be insignificant on high competitive intensity:** With the launch of five new generics post exclusivity period of gZetia, we expect Sun Pharma and Cadila Healthcare may gain 8%-12% market share in new prescription (Rx). Many generic launches are expected to increase competitive intensity, which will result in value erosion of the Zetia by 95-99% to US\$120-150m market of gZetia. With assumption of 10% market share, 95% value erosion and 50% EBITDA margins, the launch of gZetia is expected to be non-event for Sun pharma as EPS to be accretive only by 0.6% at Rs0.15. With the possibility of inventory push in marketing channels by Glenmark before expiry of exclusivity, we expect revenue realisation for the new generics to be delayed by two months post launch. Sun Pharma currently trades at 22.9x and 23.6x at FY18E and FY19E. We maintain our rating 'Reduce' on the stock with TP at Rs501 (22x of FY19E).

Key financials (Y/e March)

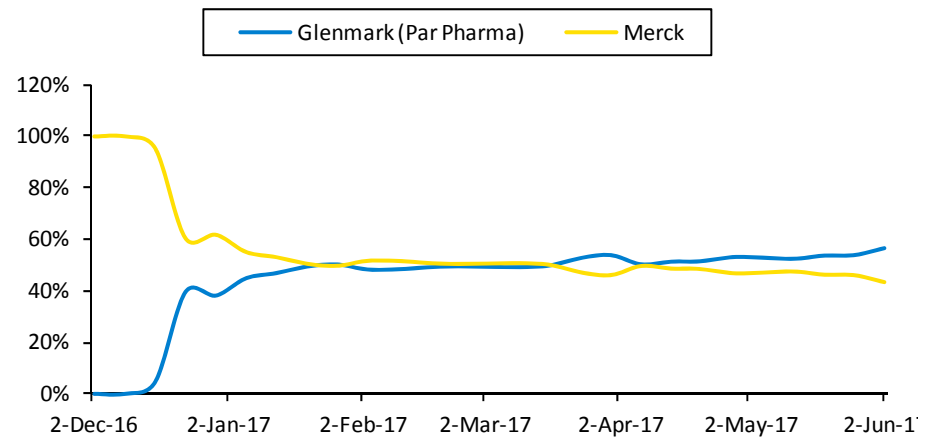
	2016	2017	2018E	2019E
Revenues (Rs m)	278,881	302,642	325,522	349,691
Growth (%)	2.2	8.5	7.6	7.4
EBITDA (Rs m)	75,594	87,751	85,612	84,800
PAT (Rs m)	52,309	69,644	56,238	54,605
EPS (Rs)	21.7	29.0	23.4	22.8
Growth (%)	(6.3)	33.5	(19.2)	(2.9)
Net DPS (Rs)	2.2	2.2	2.2	2.2

Profitability & Valuation

	2016	2017	2018E	2019E
EBITDA margin (%)	27.1	29.0	26.3	24.3
RoE (%)	17.6	20.0	14.3	12.3
RoCE (%)	15.4	16.6	13.4	11.8
EV / sales (x)	4.5	4.0	3.8	3.4
EV / EBITDA (x)	16.4	13.9	14.3	14.0
PE (x)	24.7	18.5	22.9	23.6
P / BV (x)	3.9	3.5	3.1	2.8
Net dividend yield (%)	0.4	0.4	0.4	0.4

Source: Company Data; PL Research

Exhibit 1: Market Share of gZetia post Glenmark's launch



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	278,881	302,642	325,522	349,691
Raw Material Expenses	63,304	81,307	87,891	95,990
Gross Profit	215,577	221,335	237,631	253,701
Employee Cost	47,723	49,023	52,735	55,251
Other Expenses	92,260	84,561	99,284	113,650
EBITDA	75,594	87,751	85,612	84,800
Depr. & Amortization	10,375	12,648	14,036	15,197
Net Interest	5,232	3,998	4,984	4,143
Other Income	12,572	19,374	13,201	13,861
Profit before Tax	72,558	90,479	79,793	79,321
Total Tax	9,138	12,116	12,767	14,278
Profit after Tax	63,420	78,363	67,026	65,043
Ex-Od items / Min. Int.	(2,592)	8,719	10,789	10,438
Adj. PAT	52,309	69,644	56,238	54,605
Avg. Shares O/S (m)	2,406.6	2,399.3	2,399.3	2,399.3
EPS (Rs.)	21.7	29.0	23.4	22.8

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	57,081	105,572	(8,089)	34,808
C/F from Investing	(42,125)	(46,861)	(17,723)	(18,388)
C/F from Financing	(24,549)	(7,802)	5,140	2,745
Inc. / Dec. in Cash	(9,594)	50,909	(20,673)	19,165
Opening Cash	110,093	100,499	151,408	130,736
Closing Cash	100,499	151,408	130,736	149,900
FCFF	28,282	57,721	(5,318)	40,260
FCFE	35,483	55,467	(21,500)	27,314

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	2.2	8.5	7.6	7.4
EBITDA (%)	(4.6)	16.1	(2.4)	(0.9)
PAT (%)	8.9	33.1	(19.2)	(2.9)
EPS (%)	(6.3)	33.5	(19.2)	(2.9)
Profitability				
EBITDA Margin (%)	27.1	29.0	26.3	24.3
PAT Margin (%)	18.8	23.0	17.3	15.6
RoCE (%)	15.4	16.6	13.4	11.8
RoE (%)	17.6	20.0	14.3	12.3
Balance Sheet				
Net Debt : Equity	(0.1)	(0.2)	(0.2)	(0.2)
Net Wrkng Cap. (days)	252	196	223	214
Valuation				
PER (x)	24.7	18.5	22.9	23.6
P / B (x)	3.9	3.5	3.1	2.8
EV / EBITDA (x)	16.4	13.9	14.3	14.0
EV / Sales (x)	4.5	4.0	3.8	3.4
Earnings Quality				
Eff. Tax Rate	12.6	13.4	16.0	18.0
Other Inc / PBT	17.3	21.4	16.5	17.5
Eff. Depr. Rate (%)	6.0	5.9	6.2	6.3
FCFE / PAT	67.8	79.6	(38.2)	50.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	329,825	366,397	418,191	466,738
Total Debt	83,164	80,910	64,728	51,782
Other Liabilities	31,445	29,547	46,333	57,406
Total Liabilities	444,434	476,853	529,252	575,927
Net Fixed Assets	124,130	149,403	151,169	152,054
Goodwill	56,347	55,362	55,362	55,362
Investments	18,299	11,919	14,187	16,892
Net Current Assets	212,897	214,907	256,825	292,532
<i>Cash & Equivalents</i>	<i>131,817</i>	<i>151,408</i>	<i>130,736</i>	<i>149,900</i>
<i>Other Current Assets</i>	<i>160,458</i>	<i>175,819</i>	<i>231,828</i>	<i>249,227</i>
<i>Current Liabilities</i>	<i>79,378</i>	<i>112,321</i>	<i>105,738</i>	<i>106,596</i>
Other Assets	32,762	45,262	51,708	59,087
Total Assets	444,434	476,853	529,252	575,927

Quarterly Financials (Rs m)

Y/e March	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Revenue	80,067	77,640	76,832	68,252
EBITDA	26,847	26,666	22,237	12,357
<i>% of revenue</i>	<i>33.5</i>	<i>34.3</i>	<i>28.9</i>	<i>18.1</i>
Depr. & Amortization	3,160	3,038	3,068	3,382
Net Interest	1,346	537	1,665	450
Other Income	3,934	6,205	3,516	5,363
Profit before Tax	26,275	29,295	21,020	13,888
Total Tax	3,527	4,417	3,729	443
Profit after Tax	24,103	16,277	14,718	12,237
Adj. PAT	24,103	16,277	14,718	12,237

Key Operating Metrics (Rs m)

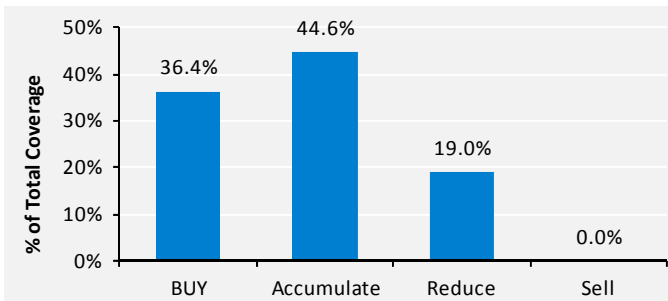
Y/e March	2016	2017	2018E	2019E
Formulations	265,169	284,287	309,893	332,338
India Formulations	72,538	78,341	87,742	99,148
US Formulations	135,170	135,301	137,635	139,073
ROW Formulations	57,461	70,645	84,517	94,117
APIs	14,025	16,068	17,870	19,882

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage**PL's Recommendation Nomenclature**

BUY	:	Over 15% Outperformance to Sensex over 12-months
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

DISCLAIMER/DISCLOSURES**ANALYST CERTIFICATION**

We/I, Mr. Surajit Pal (PGDBA, CFA, M.Com), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Surajit Pal (PGDBA, CFA, M.Com), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

DISCLAIMER/DISCLOSURES (FOR US CLIENTS)**ANALYST CERTIFICATION**

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report

Terms & conditions and other disclosures:

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.