

Sun Pharmaceutical Industries

10 December 2020

Reuters: SUN.NS; Bloomberg: SUNP IN

Sun Pharma's specialty portfolio prescription trends

Sun pharma efforts around specialty portfolio ramp up is yielding favorable progress as prescription trends around the key products suggest growth on a QoQ basis. Levulan which was significantly below pre COVID levels has broadly normalized, but we need to monitor the impact of resurgence in COVID cases. We are in fact seeing faint signals of an unfavorable impact of the second COVID wave as trends seems to suggest weakening prescription volumes across product categories in the last week of November. On a QoQ basis though, the trend so far is favorable and should support sales growth, unless the resurgence in COVID incidences lead to sharp correction going forward.

Levulan prescriptions (Dusa pharma) – Levulan which is one of the lead products of Sun pharma and in meant for the treatment of actinic keratosis is recouping to pre-COVID levels. On a QoQ basis, Levulan prescriptions are up more than 100%. Since Levulan is used in physician office in conjunction with the device, the prescriptions were down significantly owing to the lockdown.

Absorica and Absorica LD prescriptions – With looming threat of generic substitution, Sun has been able to convert 27% of the Absorica prescriptions to Absorica LD. We should see the impact of generic entry in 4QFY21.

Cequa prescription continues to trend favorably. Average weekly prescription run rate so far during the current quarter is up 35% compared to the average prescription weekly run rate in the previous quarter. Cequa market share is at 3% and the market size is \$1600mn on an annual basis.

Ilumya prescriptions are favorably trending. On a QoQ basis, average weekly prescription run rate is higher 20%. Overall prescription run rate is above pre pandemic levels. The psoriasis market continues to get competitive, and we expect a few more entrants in the category over the next two years, but Ilumya should be able to offset the incremental threat led by growing physician comfort/experience and growing evidence around long term safety, efficacy and durability of efficacy benefit.

Dysphagia portfolio which consists of sprinkle versions of Duloxetine Hydrochloride (Drizalma Sprinkle), Metoprolol Succinate (Kapspargo Sprinkle) And rosuvastatin Calcium (Ezallor Sprinkle).The portfolio intends to serve the need of patients who have swallowing issues. The portfolio targets therapeutic segments which have large prevalence. The portfolio is unique as these drugs are first to market in terms of addressing the unmet need. The portfolio continues to ramp up and is up almost 10% on a QoQ basis in terms of prescription volumes.

Other NDA Portfolio Products

Riomet (metformin liquid oral solution /suspension) - Micro Labs having launched the generic of 500mg/5ml version of Metformin HCL has taken market share from Sun Pharma's Riomet. Riomet ER which was launched recently in the same category, is yet to ramp up.

Other Products: Bromsite, Odomzo (sonidegib for basal cell carcinoma), Bynfezia (octreotide acetate), Ultravate (halobetasol propionate) and Yonsa (abiraterone acetate) have all had flat trend in prescriptions over the last quarter.

Outlook and Valuation: Ramp-up of Ilumya and Cequa, driving patient shift from Absorica to Absorica LD and return of normal growth in India business in are the key earning drivers for Sun going forward. We maintain our estimates with valuation multiple of 23x based on September FY23E earnings at target price of Rs 618. Considering the recent run-up in stock price we have assigned an Accumulate rating to the stock.

ACCUMULATE

Sector: Pharmaceuticals

CMP: Rs570

Target Price: Rs618

Upside: 8%

Vishal Manchanda

Research Analyst

vishal.manchanda@nirmalbang.com
+91-9737437148

Gaurang Sakare

Research Associate

gaurang.sakare@nirmalbang.com
+91-22 6273 8093

Key Data

Current Shares O/S (mn)	2,399.3
Mkt Cap (Rsbn/US\$bn)	1,366.5/18.6
52 Wk H / L (Rs)	592/312
Daily Vol. (3M NSE Avg.)	10,911,280

Price Performance (%)

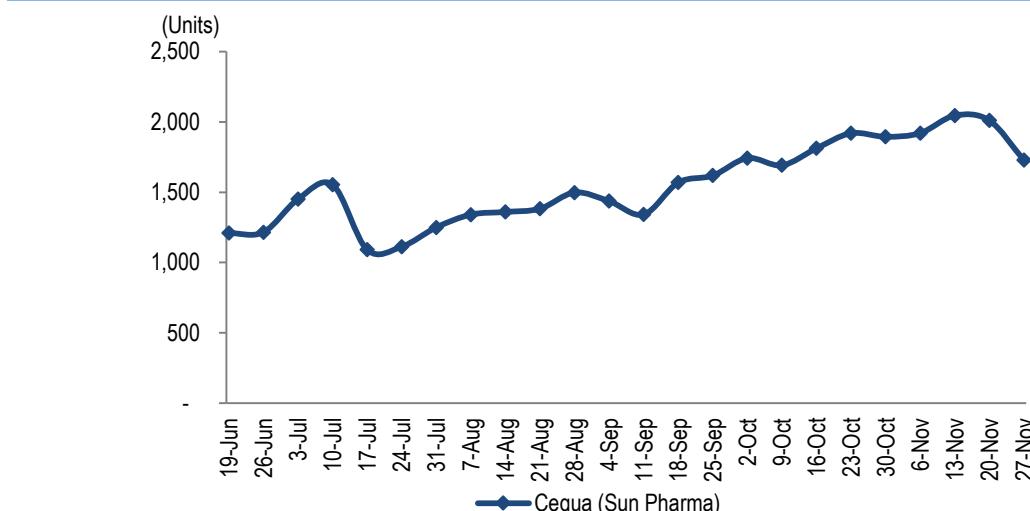
	1 M	6 M	1 Yr
SPIL	16.0	14.1	33.2
Nifty Index	7.1	33.7	14.1

Source: Bloomberg

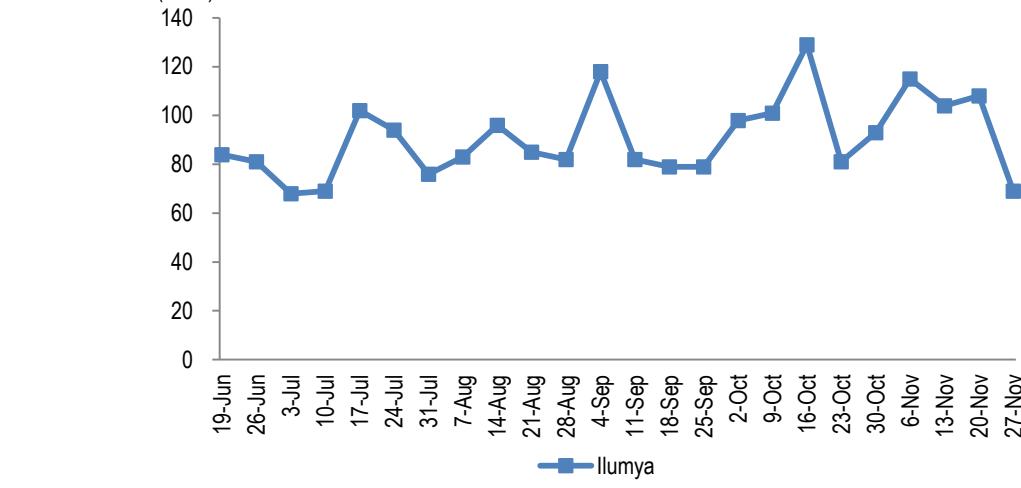
Latest Annual Report

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	2,90,659	3,28,375	3,41,485	3,69,725	3,95,211
EBITDA	63,076	69,898	80,921	94,955	1,06,633
Net profit	26,654	37,649	17,836	60,884	68,042
EPS (Rs)	11.1	15.7	7.4	25.4	28.3
EPS growth (%)	23.3	41.3	(52.6)	241.4	11.7
EBITDA margin (%)	21.7	21.3	23.7	25.7	27.0
P/E (x)	51.3	36.3	76.7	22.5	20.1
P/BV (x)	3.3	3.0	3.0	2.7	2.4
EV/EBITDA (x)	21.6	19.2	16.2	13.3	11.3
RoCE (%)	12.7	9.6	13.1	13.6	14.4
RoE (%)	14.2	14.0	17.2	16.8	16.5

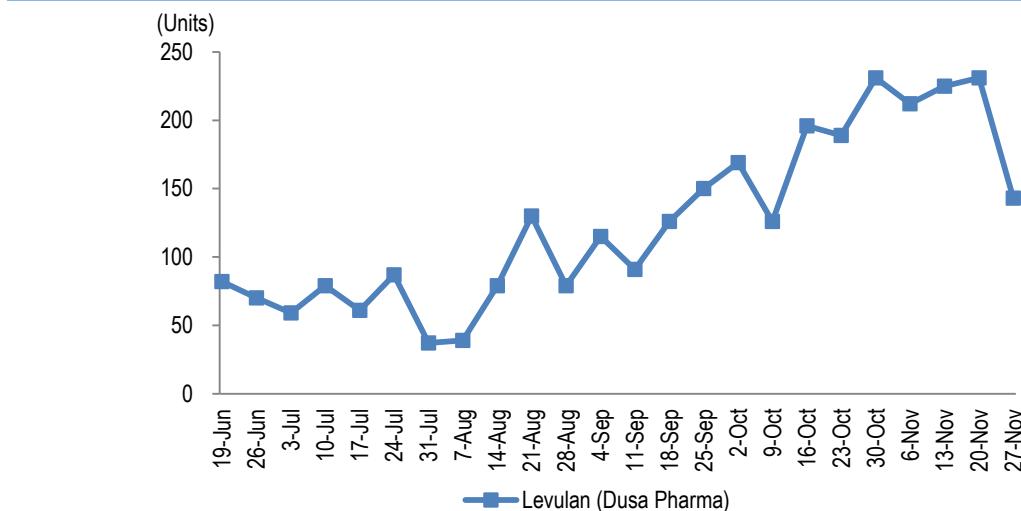
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Cequa prescription trend


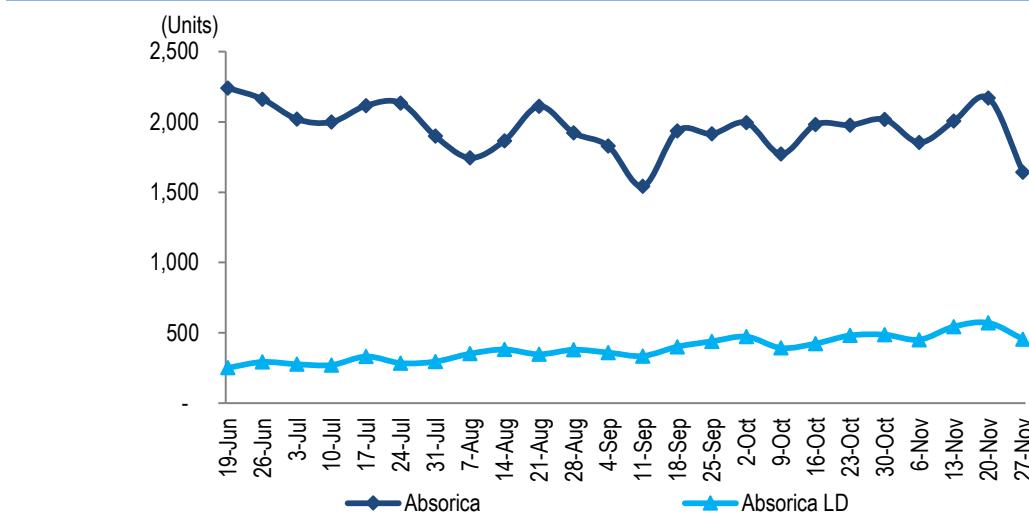
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 2: Prescription trend for Ilumya


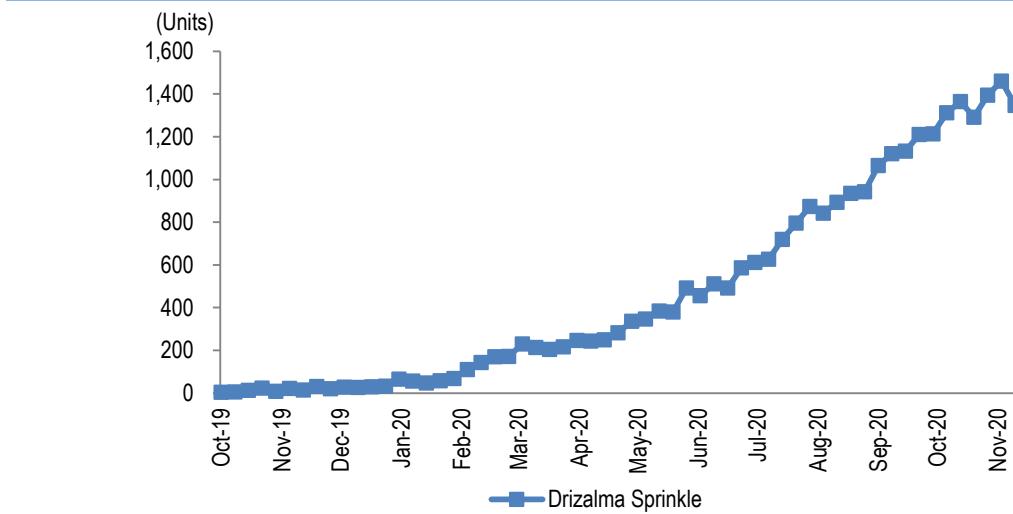
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: Levulan prescription trend


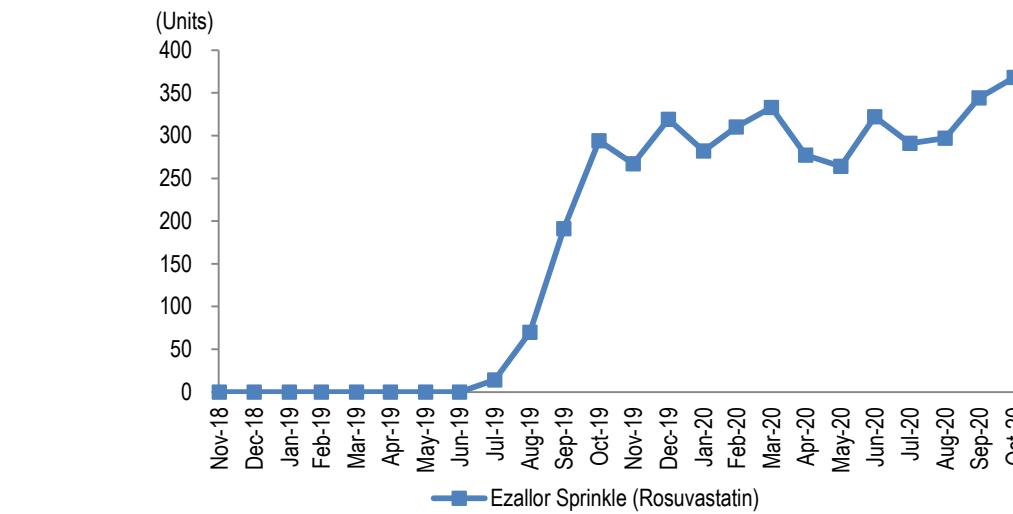
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 4: Prescription trend for Absorica and Absorica LD


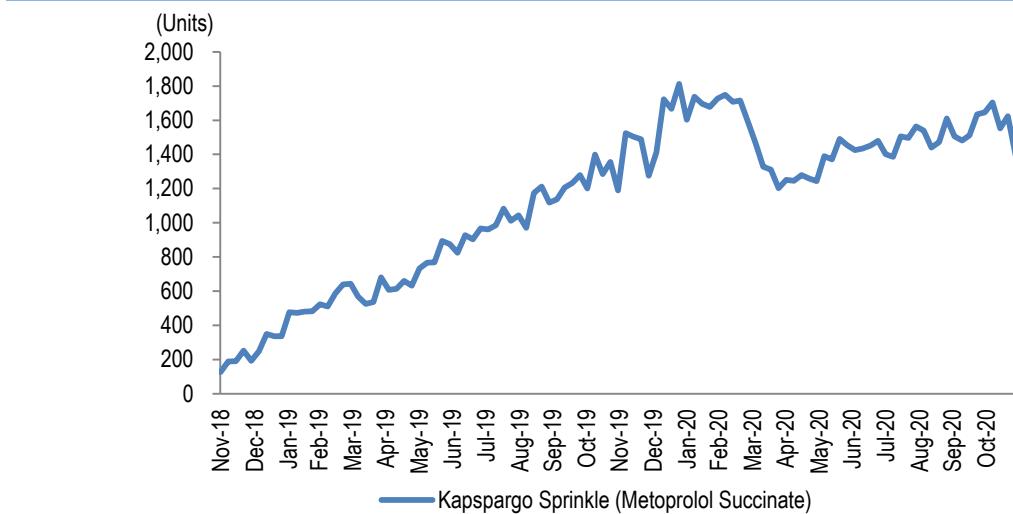
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: Prescription trend for Drizalma Sprinkle


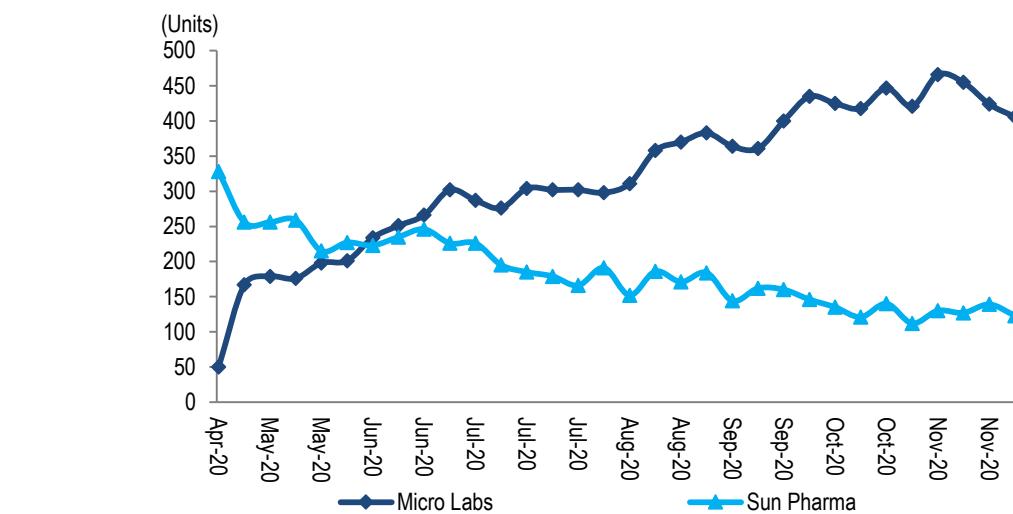
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 6: Prescription trend for Ezallor Sprinkle


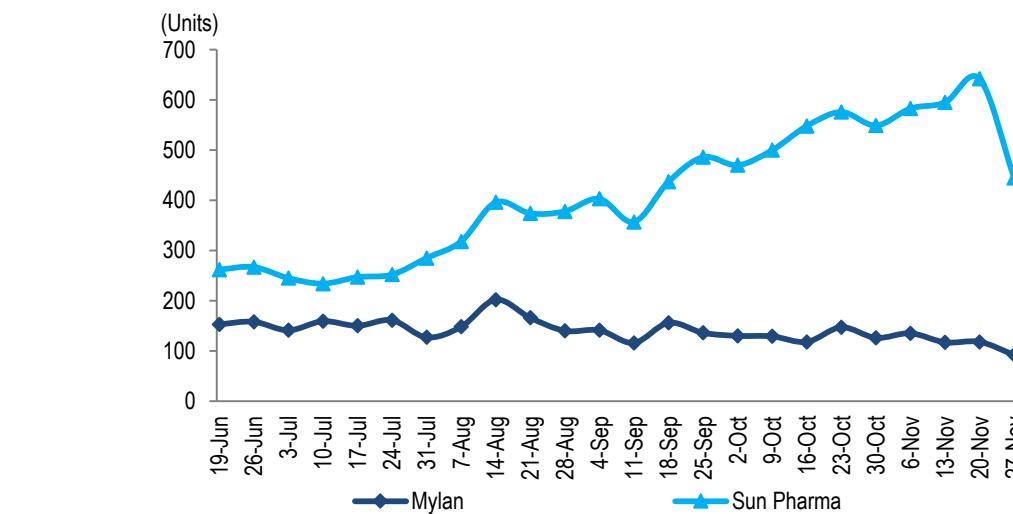
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 7: Prescription trend for Kapspargo Sprinkle


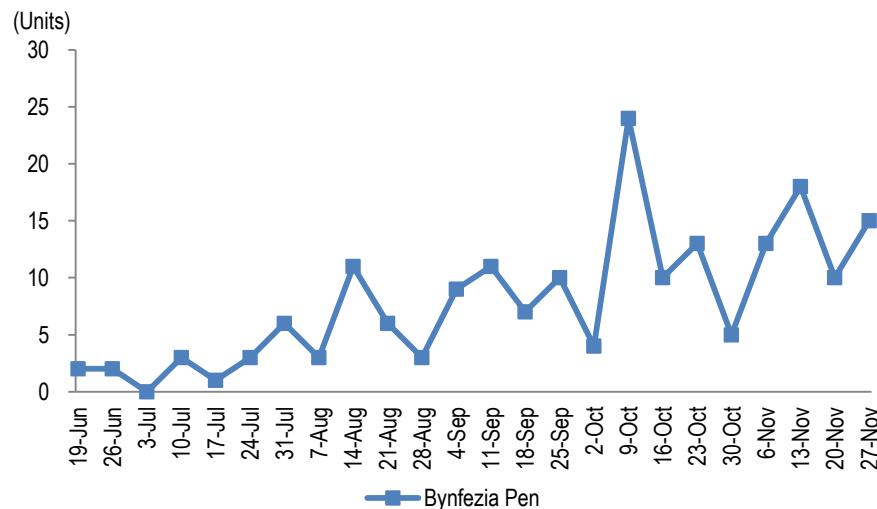
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 8: Riomet prescription trend


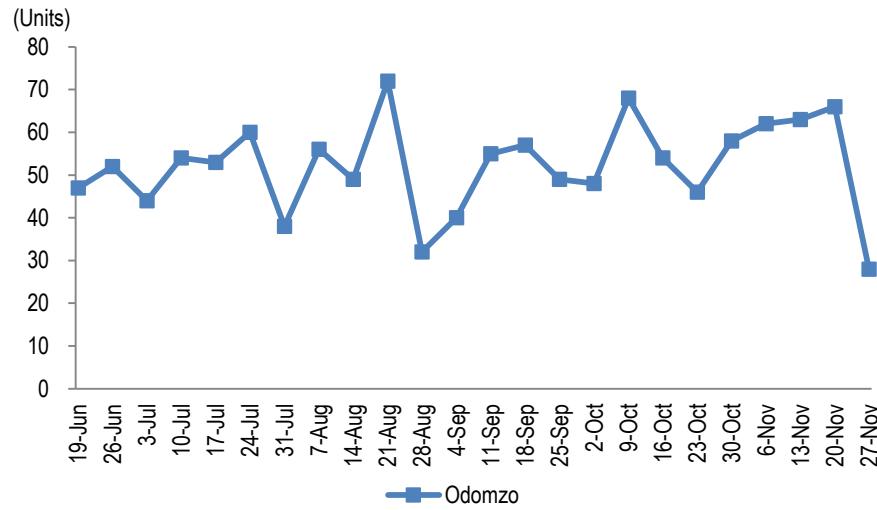
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 9: Prescription trend for Halog


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 10: Bynfezia Pen prescription trend


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 11: Prescription trend for Odomzo


Source: Bloomberg, Nirmal Bang Institutional Equities Research

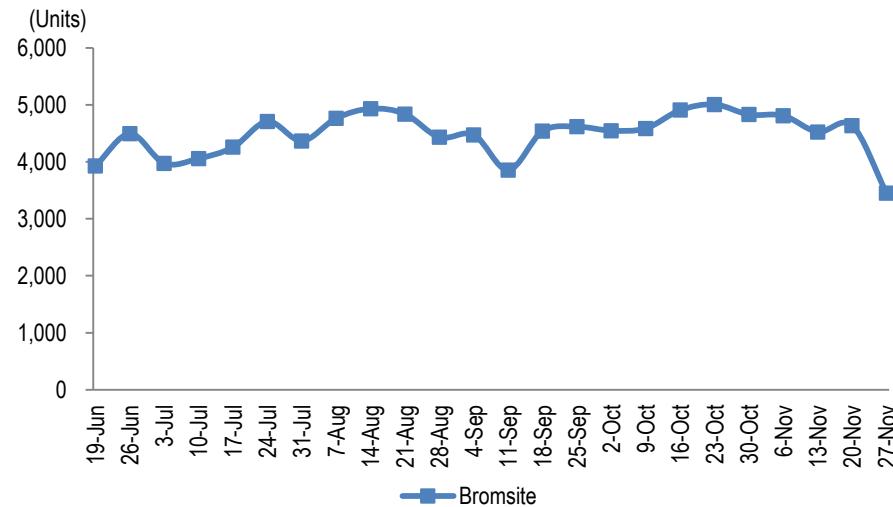
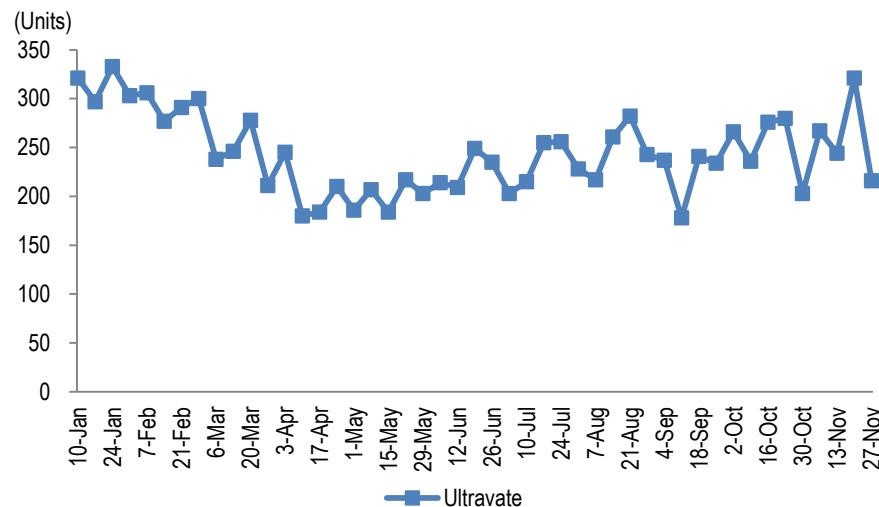
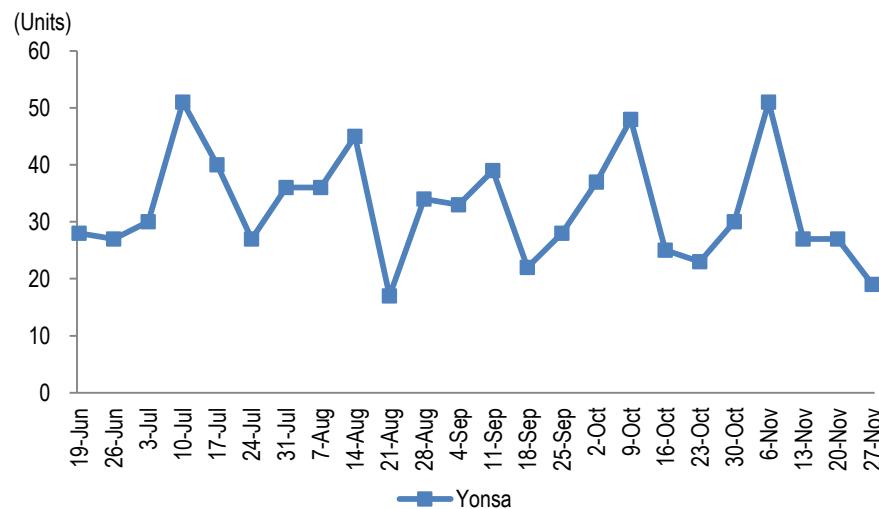
Exhibit 12: Bromsite prescription trend


Exhibit 13: Ultravate prescription trend

Exhibit 14: Yonsa prescription trend


Financial statement

Exhibit 15: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	2,90,659	3,28,375	3,41,485	3,69,725	3,95,211
Growth (%)	9.7	13.0	4.0	8.3	6.9
Raw material costs	78,690	92,305	97,505	1,05,014	1,11,751
Employee expenses	59,671	63,624	68,713	73,523	78,670
Other expenses	89,223	1,02,549	94,345	96,232	98,157
Total expenditure	2,27,583	2,58,477	2,60,564	2,74,770	2,88,578
EBITDA	63,076	69,898	80,921	94,955	1,06,633
Growth (%)	12.5	10.8	15.8	17.3	12.3
EBITDA margin (%)	21.7	21.3	23.7	25.7	27.0
Other income	10,255	6,360	5,800	7,500	7,500
Interest costs	5,553	3,027	4,464	3,000	3,872
Gross profit	2,11,969	2,36,071	2,43,980	2,64,711	2,83,460
% growth	11.2	11.4	3.4	8.5	7.1
Depreciation	17,533	20,528	21,204	20,691	21,211
Exceptional items	-12,144	-2,606	-39,300	0	0
PBT	38,102	50,096	21,753	78,764	89,050
% growth	9.5	31.5	(56.6)	262.1	13.1
Tax	6,009	8,228	7,614	13,390	16,697
Effective tax rate (%)	15.8	16.4	35.0	17.0	18.8
PAT before MI	32,079	41,720	14,139	65,374	72,353
MI	5,424	4,070	-3,696	4,490	4,311
PAT	26,654	37,649	17,836	60,884	68,042
Growth (%)	23.0	30.1	(66.1)	362.4	10.7
EPS (Rs)	11.1	15.7	7.4	25.4	28.3
EPS growth (%)	23.3	41.3	(52.6)	241.4	11.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	2,399	2,399	2,399	2,399	2,399
Reserves	4,11,691	4,50,245	4,58,484	5,09,770	5,68,210
Net worth	4,14,091	4,52,645	4,60,883	5,12,169	5,70,610
Minority interest	33,135	38,602	34,906	39,397	43,708
Total Loans	1,09,238	88,655	93,597	84,550	84,074
Deferred tax liabilities	2,312	2,602	2,602	2,602	2,602
Other non-current liabilities	10,016	12,919	12,919	12,919	12,919
Total liabilities	5,68,792	5,95,423	6,04,907	6,51,636	7,13,912
Fixed assets including CWIP	1,09,382	1,12,263	1,06,861	1,12,335	1,17,289
Goodwill & intangible assets	1,23,095	1,28,409	1,17,244	1,06,078	94,913
Long-term loans & advances	958	1,057	1,057	1,057	1,057
Other non-current assets	1,02,811	1,24,254	1,29,254	1,34,254	1,39,254
Inventories	78,860	78,750	86,820	93,506	99,505
Debtors	88,842	94,212	93,557	1,01,294	1,08,277
Cash and cash equivalents	70,623	56,766	70,524	1,14,871	1,75,891
Bank balances other than cash	2,133	8,109	35,000	35,000	35,001
Other current assets	70,234	78,704	75,704	72,704	69,704
Total current assets	3,10,692	3,16,542	3,61,605	4,17,375	4,88,377
Creditors	41,479	40,937	53,427	57,542	61,234
Other current liabilities/provisions	36,667	46,165	57,686	61,922	65,745
Total current liabilities	78,146	87,102	1,11,113	1,19,464	1,26,978
Net current assets	2,32,546	2,29,440	2,50,492	2,97,912	3,61,399
Total assets	5,68,792	5,95,423	6,04,907	6,51,636	7,13,912

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
PBT	38,102	50,096	61,053	78,764	89,050
(Inc.)/Dec. in working capital	-26,960	8,986	5,075	-10,309	-9,290
Other income	-6,692	-3,546	-5,800	-7,500	-7,500
Interest Paid	5,553	3,027	4,464	3,000	3,872
Depreciation	17,533	20,528	21,204	20,691	21,211
Tax paid (-)	6,009	8,228	7,614	13,390	16,697
Net cash from operations	24,684	53,696	78,383	71,256	80,646
Capital expenditure (-)	-36,831	-28,723	-4,636	-15,000	-15,000
Net cash after CapEx	-12,147	24,972	73,746	56,256	65,646
Other investing activities	25,489	-17,001	3,800	5,500	5,500
Cash from Financial Activities	-39,880	-15,852	-36,898	-17,409	-10,126
Change in Cash	-26,538	-7,881	40,648	44,348	61,020
Opening cash balance	99,294	72,756	64,876	1,05,524	1,49,871
Closing cash balance	72,756	64,875	1,05,524	1,49,871	2,10,892

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Key ratios

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Profitability & return ratios					
EBITDA margin (%)	21.7	21.3	23.7	25.7	27.0
EBIT margin (%)	19.2	17.0	19.2	22.1	23.5
Net profit margin (%)	11.0	12.8	4.1	17.7	18.3
RoE (%)	14.2	14.0	17.2	16.8	16.5
RoCE (%)	12.7	9.6	13.1	13.6	14.4
Working capital & liquidity ratios					
Receivables (days)	105	102	100	96	97
Inventory (days)	118	111	116	120	122
Payables (days)	71	58	66	74	75
Working capital (days)	152	155	150	142	144
Current ratio (x)	1.8	2.0	1.9	2.2	2.5
Cash ratio (x)	0.6	0.7	0.8	1.0	1.3
Valuation ratios					
EV/Sales (x)	4.7	4.1	3.8	3.4	3.0
EV/EBITDA (x)	21.6	19.2	16.2	13.3	11.3
P/E (x)	51.3	36.3	76.7	22.5	20.1
P/BV (x)	3.3	3.0	3.0	2.7	2.4

Source: Company, Nirmal Bang Institutional Equities Research

P/E Chart

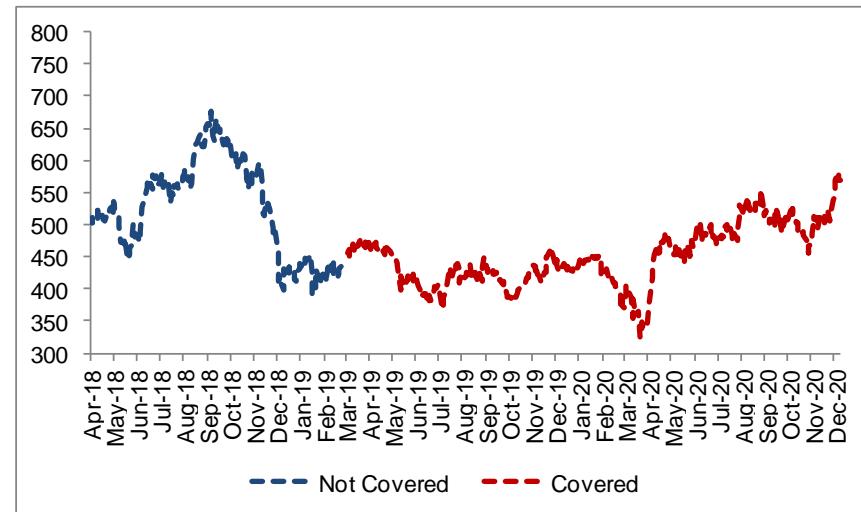


Source: BSE, Bloomberg, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
5 March 2019	Buy	446	581
5 April 2019	Buy	462	581
29 May 2019	Buy	414	578
14 August 2019	Buy	438	578
23 September 2019	Buy	414	573
8 November 2019	Buy	440	517
7 February 2020	Buy	431	517
27 March 2020	Buy	339	489
23 April 2020	Buy	474	543
27 May 2020	Buy	451	543
3 August 2020	Buy	532	625
23 September 2020	Buy	509	618
29 September 2020	Buy	510	618
3 November 2020	Buy	485	618
10 December 2020	Accumulate	570	618

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name	Email Id	Direct Line	
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010