

## Sun Pharmaceutical Industries

20 February, 2023

Reuters: SUN.NS; Bloomberg: SUNP IN

### Management Meet Update

We hosted the management of Sun Pharmaceutical Industries Ltd (Sun Pharma) at the NBIE Annual Investors' Conference to discuss the company's business outlook. Scaling up the global Specialty portfolio would remain the key focus area with Ilumya and Winlevi being the main growth drivers. The recent acquisition of Deuruxolitinib is a step in that direction. In India, the target would be to grow in line or faster than the market, with the new addition of MRs and new launches. The management believes that it is well placed to meet FY23 revenue guidance of high single-digit to low double-digit growth despite import alert at its Halol facility. We remain positive on Sun Pharma on the back of the following catalysts: (i) Ramp-up of Branded/Specialty business in the US (recently acquired Deuruxolitinib would further strengthen the Specialty pipeline) (ii) Continued growth in India business (iii) Potential inorganic opportunity due to a strong balance sheet, especially in Dermatology, Ophthalmology and Oncology Specialty segments and (iv) Maintenance of healthy EBITDA margin at ~27% despite higher R&D spends. We assign a BUY rating on Sun Pharma with a target price (TP) of Rs1,202, valuing it at 28x Sept'24 EPS of Rs42.9.

#### Global Specialty Business

- **Ilumya** – It is the key growth driver for the business in the near term. Trials are underway for psoriatic arthritis. A couple of factors has led to delay in enrolment for the trials such as the covid-19 pandemic and geopolitical uncertainties. Enrolment is expected to accelerate here onwards.
- **Winlevi** – New patients are getting on-boarded for the product. The company is trying to deepen its relations with the doctors. Realizations will increase as the company reduces its reliance on co-pay and increases its formulary coverage. Prescription numbers are still less than Sept'22 level but product response has been encouraging. The company is trying to attain global licenses for the product.
- **Absorica LD** – The company has maintained overall volume share. There are three generics in the market for Absorica, which has led to pricing pressure.
- **Cequa** – Despite generic launches in restasis, the company is able to hold on to overall share for the product.
- **Sezaby** – In-licensed product from SPARC indicated for neonatal seizures; currently, there is no approved product in the market, but unapproved products are still prescribed. It is an Orphan drug with seven years' exclusivity. Number of patients stand at ~10,000. Overall market is relatively small for the product.
- Key risk for Specialty products is patent expiry and increase competition as better products enter the market. The company is continuously looking for back-up manufacturing sites to de-risk the supply chain.
- Proactiv is an Alchemee brand; it is an OTC product and is marketed by Taro's field force.
- The company is still small based on size of its Specialty business; it does have aspiration to scale up its Specialty portfolio and efforts will be made for the same.

### BUY

Sector: Pharmaceuticals

CMP: Rs984

Target Price: Rs1,202

Upside: 22.2%

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#### Key Data

Current Shares O/S (mn)	2,399.3
Mkt Cap (Rsbn/US\$bn)	2,361.8/28.5
52 Wk H / L (Rs)	1,072/790
Daily Vol. (3M NSE Avg.)	2,292,141

#### Price Performance (%)

	1 M	6 M	1 Yr
Sun Pharma	(4.5)	9.2	14.1
Nifty Index	(1.0)	0.5	3.3

Source: Bloomberg

[FY22 Annual Report](#)
[3QFY23 Results](#)

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	3,34,981	3,86,545	4,40,294	4,79,736	5,20,970
EBITDA	84,914	1,03,977	1,18,036	1,31,618	1,44,087
Net profit	59,318	66,658	85,217	97,634	1,08,394
EPS (Rs)	24.7	27.8	35.5	40.7	45.2
EPS growth (%)	50.5	12.4	27.8	14.6	11.0
EBITDA margin (%)	25.3	26.9	26.8	27.4	27.7
P/E (x)	39.8	35.4	27.7	24.2	21.8
P/BV (x)	5.1	4.9	4.3	3.7	3.3
EV/EBITDA (x)	27.1	21.6	18.9	16.4	14.4
RoCE (%)	10.8	12.6	14.8	14.9	14.9
RoE (%)	12.9	14.1	16.5	16.5	16.1

Source: Company, Nirmal Bang Institutional Equities Research

## US Generics Business

- Until Oct'22, the company did not face significant price erosion (ex-Taro). But, Taro continued to suffer from price erosion. It intends to counter price erosion by launching new products, through better supply chain management and market share gains.
- 75% of R&D spend is still towards the Generics portfolio. Generics is still a large part of the company's US business. It would continue to deploy capital to grow the Generics business
- Import alert at the company's Halol facility will be a downward pull for the US Generics business.

## India

- The company won't outperform IPM by a large difference given its size. Brand equity will help it in growing faster than the market. The company has done significant MR addition twice over the last three years. It has acquired three womb management products recently.
- Long-term growth guidance would be to grow in line or faster than the market.
- MR strength stands at ~11,200 people.
- OTC is small piece of the overall domestic portfolio. Due to increased awareness post Covid-19, OTC brands are scaling up well.

## Concert Pharma acquisition

- There are no delays in completion of the deal. The company believes that the deal will stand up to regulatory scrutiny.
- Post-acquisition, it does not expect any large additional overhead burden on the company.
- Deuruxolitinib will take a few more years to ramp up. It is a potential best-in-class product for its indication. SALT score, as per placebo adjusted trial data, is better than other competition products. Leading dermatologists are also supporting the product's efficacy.
- There is a significant doctor overlap between Winlevi and Deuruxolitinib. Incremental need to reach out to new dermatologists will reduce given the doctor overlap.

## Margins

- Positive margin surprise in 3QFY23 was led by growth in Specialty sales.
- In FY24, there will be DPCO impact on the Indian portfolio.
- R&D guidance for FY24 will take into consideration additional R&D cost from concert and revenue growth. By nature, R&D is lumpy in nature; one single Phase 3 trial can affect R&D cost significantly.

## Halol facility update

- The company's Halol facility accounts for ~3% of US sales. In future, exemptions from import alert may be rescinded based on product availability in the US by the USFDA.
- Relative contribution from Halol has come down over the past 5-6 years.

## Miscellaneous

- For FY23, the company will meet its revenue guidance of high single-digit to low double-digit revenue growth.
- Commercial strength in Dermatology and Ophthalmology helps in gaining in-licensing deals. Dermatology has seen more action in the M&A space. The company is open for acquisition in the Ophthalmology space as well.
- In Biosimilar, the company is looking for wave 3 products expiring beyond 2029. Current investments in Biosimilar remain muted as the company is waiting to see how the market evolves. Price erosion has been rampant (ex-Humira). Even a 3-4 player market is seeing price erosion.

**Exhibit 1: One-year Rolling Forward P/E Chart**



Source: Company, Nirmal Bang Institutional Equities Research

## Financial statement

### Exhibit 6: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>3,34,981</b>	<b>3,86,545</b>	<b>4,40,294</b>	<b>4,79,736</b>	<b>5,20,970</b>
Growth (%)	2.17	15.39	13.90	8.96	8.60
Raw Materials	86,901	1,03,515	1,12,069	1,21,259	1,30,863
Employee Expenses	68,622	73,008	81,545	88,748	96,414
Other expenses	73,516	84,719	1,05,564	1,08,100	1,17,224
R&D	21,028	21,325	23,079	30,012	32,382
Total expenditure	2,50,068	2,82,568	3,22,258	3,48,118	3,76,884
Gross Profit	2,48,081	2,83,030	3,28,225	3,58,477	3,90,107
% growth	5.3	14.1	16.0	9.2	8.8
<b>EBITDA</b>	<b>84,914</b>	<b>1,03,977</b>	<b>1,18,036</b>	<b>1,31,618</b>	<b>1,44,087</b>
Growth (%)	22.4	22.5	13.5	11.5	9.5
EBITDA margin (%)	25.3	26.9	26.8	27.4	27.7
Other income	8,355	9,215	3,522	11,437	12,420
Interest Costs	1,414	1,274	1,252	1,276	616
Depreciation	20,800	21,437	25,184	22,030	23,020
Exceptional Items	-38,966	-45,668	-	-	-
<b>PBT</b>	<b>32,089</b>	<b>44,813</b>	<b>95,122</b>	<b>1,19,748</b>	<b>1,32,870</b>
% growth	-35.9	39.7	112.3	25.9	11.0
Tax	6,359	10,755	9,132	21,555	23,917
Effective tax rate (%)	19.8	24.0	9.6	18.0	18.0
<b>PAT before MI and Share for Associates</b>	<b>25,730</b>	<b>34,058</b>	<b>85,990</b>	<b>98,194</b>	<b>1,08,954</b>
Income from Associates	-123	-165	-213	-	-
MI	-6,315	1,943	560	560	560
<b>PAT (net of Minority Interest)</b>	<b>31,921</b>	<b>31,950</b>	<b>85,217</b>	<b>97,634</b>	<b>1,08,394</b>
<b>Adjusted PAT</b>	<b>59,318</b>	<b>66,658</b>	<b>85,217</b>	<b>97,634</b>	<b>1,08,394</b>
Growth (%)	50.5	12.4	27.8	14.6	11.0
<b>EPS (Rs)</b>	<b>24.7</b>	<b>27.8</b>	<b>35.5</b>	<b>40.7</b>	<b>45.2</b>
<b>EPS growth (%)</b>	<b>50.5</b>	<b>12.4</b>	<b>27.8</b>	<b>14.6</b>	<b>11.0</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Equity</b>	<b>2,399</b>	<b>2,399</b>	<b>2,399</b>	<b>2,399</b>	<b>2,399</b>
Reserves	4,62,229	4,77,713	5,47,545	6,27,552	7,16,377
Net worth	4,64,628	4,80,112	5,49,945	6,29,951	7,18,776
Minority Interest	30,171	30,549	31,109	31,669	32,229
Total Loans	8,981	4,817	4,817	4,817	4,817
Deferred tax liabilities	-35,119	-28,649	-28,649	-28,649	-28,649
Other non-current liabilities	10,986	10,196	10,710	11,086	11,480
<b>Total Liabilities</b>	<b>4,79,647</b>	<b>4,97,026</b>	<b>5,67,932</b>	<b>6,48,875</b>	<b>7,38,653</b>
Fixed assets including CWIP	1,11,715	1,11,689	1,01,505	94,475	86,455
Goodwill & Intangible Assets	1,19,483	1,25,777	1,30,696	1,30,696	1,30,696
Long Term Loans & Advances	7	7	8	9	10
Other Non Current Assets	1,05,477	81,409	81,409	81,409	81,409
Assets classified as held for sale	-	-	-	-	-
Inventories	89,970	89,968	1,02,605	1,10,839	1,19,998
Debtors	90,614	1,05,929	1,20,658	1,31,467	1,42,767
Cash and cash equivalents	62,730	45,083	71,252	1,18,595	2,04,726
Bank balances other than cash	1,725	5,251	10,648	10,648	10,648
Other current assets	59,382	1,03,919	1,17,754	1,20,568	1,23,511
<b>Total Current Assets</b>	<b>3,04,421</b>	<b>3,50,150</b>	<b>4,22,918</b>	<b>4,92,117</b>	<b>6,01,649</b>
Creditors	39,737	44,793	48,495	52,471	56,627
Other current liabilities/provisions	1,21,720	1,27,212	1,20,110	97,359	1,04,938
<b>Total current liabilities</b>	<b>1,61,456</b>	<b>1,72,006</b>	<b>1,68,605</b>	<b>1,49,831</b>	<b>1,61,566</b>
Net current assets	1,42,965	1,78,144	2,54,314	3,42,286	4,40,084
<b>Total Assets</b>	<b>4,79,647</b>	<b>4,97,026</b>	<b>5,67,932</b>	<b>6,48,875</b>	<b>7,38,653</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT</b>	<b>31,965</b>	<b>44,813</b>	<b>94,909</b>	<b>1,19,748</b>	<b>1,32,870</b>
Depreciation	20,800	21,437	25,184	22,030	23,020
Net Chg in WC	(6,051)	15,591	(23,665)	(15,066)	(16,303)
Taxes	(10,029)	9,692	(9,132)	(21,555)	(23,917)
Others	25,019	(1,688)	(40,272)	6,087	5,646
<b>CFO</b>	<b>61,704</b>	<b>89,845</b>	<b>47,025</b>	<b>1,11,245</b>	<b>1,21,317</b>
Capex	(10,730)	(14,344)	(19,920)	(15,000)	(15,000)
Net Investments made	12,553	(34,485)	(10,000)	-	-
Others	3,540	(3,203)	-	-	-
<b>CFI</b>	<b>5,362</b>	<b>(52,032)</b>	<b>(29,920)</b>	<b>(15,000)</b>	<b>(15,000)</b>
Change in Share capital	2,396	-	-	-	-
Change in Debts	(44,896)	(28,718)	31,099	(30,000)	-
Div. & Div Tax	(15,862)	(21,589)	(15,385)	(17,627)	(19,569)
Others	(9,124)	(1,628)	(1,252)	(1,276)	(616)
<b>CFF</b>	<b>(67,486)</b>	<b>(51,935)</b>	<b>14,462</b>	<b>(48,903)</b>	<b>(20,185)</b>
<b>Total Cash Generated</b>	<b>(420)</b>	<b>(14,122)</b>	<b>31,567</b>	<b>47,342</b>	<b>86,131</b>
<b>Cash Opening Balance</b>	<b>64,876</b>	<b>64,455</b>	<b>50,334</b>	<b>81,901</b>	<b>1,29,243</b>
<b>Cash Closing Balance</b>	<b>64,455</b>	<b>50,334</b>	<b>81,901</b>	<b>1,29,243</b>	<b>2,15,374</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Key ratios

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	25.3	26.9	26.8	27.4	27.7
Net profit margin (%)	17.7	17.2	19.4	20.4	20.8
RoE (%)	12.9	14.1	16.5	16.5	16.1
RoCE (%)	10.8	12.6	14.8	14.9	14.9
RoIC (%)	12.9	15.4	19.2	20.5	22.5
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	102	93	95	97	97
Inventory (days)	93	85	81	82	82
Payables (days)	42	40	39	39	39
Working capital (days)	153	139	137	140	140
Current ratio (x)	1.9	2.0	2.5	3.3	3.7
Quick Ratio (x)	1.3	1.5	1.9	2.5	3.0
<b>Valuation ratios</b>					
EV/Sales (x)	6.9	5.8	5.1	4.5	4.0
EV/EBITDA (x)	27.1	21.6	18.9	16.4	14.4
P/E (x)	39.8	35.4	27.7	24.2	21.8
P/BV (x)	5.1	4.9	4.3	3.7	3.3

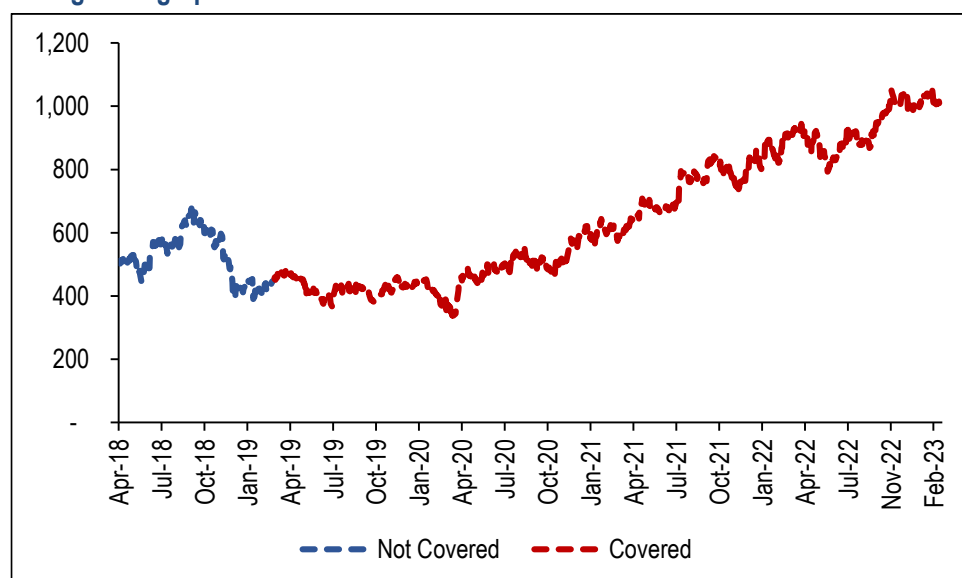
Source: Company, Nirmal Bang Institutional Equities Research

## 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
4 November 2020	Buy	485	618
10 December 2020	Accumulate	570	618
7 January 2021	Buy	605	701
1 February 2021	Buy	586	716
28 May 2021	Accumulate	700	710
2 August 2021	Accumulate	774	831
26 September 2021	Accumulate	770	880
3 November 2021	Buy	815	939
1 February 2022	Buy	834	1,035
21 February 2022	Buy	864	1,090
11 March 2022	Buy	869	1,090
31 May 2022	Buy	888	1,082
1 August 2022	Buy	944	1,112
29 September 2022	Buy	918	1,061
2 November 2022	Buy	1,033	1,192
1 February 2023	Buy	1,035	1,202
20 February 2023	Buy	984	1,202

Coverage was transferred to Mitesh Shah with effect from 29<sup>th</sup> September 2022

## Rating track graph



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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