



Sun Pharmaceutical Industries Limited

Specialty business to pave growth path

Pharmaceuticals | Sharekhan code: SUNPHARMA | Company Update

3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 610	
Price Target: Rs. 700	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 1,46,560 cr
52-week high/low:	Rs. 654 / 339
NSE volume: (No of shares)	87.9 lakh
BSE code:	524715
NSE code:	SUNPHARMA
Free float: (No of shares)	109.2 cr

Shareholding (%)

Promoters	54.5
FII	12.8
DII	20.5
Others	12.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.1	2.5	20.5	77.8
Relative to Sensex	0.7	-2.0	-8.8	0.8

Sharekhan Research, Bloomberg

Summary

- We retain a Buy recommendation on Sun Pharmaceutical Industries (Sun Pharma) with an unchanged PT of Rs. 700.
- Sun Pharma's specialty business is on a strong footing and traction is expected to improve further backed by rising prescriptions and geographical expansion.
- Sun Pharma has a strong new product pipeline in the US with 90 ANDAs and 8 NDAs awaiting USFDA approval and growth in the base business would result in healthy growth of the US business.
- Strong position in the chronic as well as acute therapies, double digit growth expected for IPM and increasing field force productivity and geographic penetration would be the key drivers for the India business

Sun Pharmaceutical Industries (Sun Pharma's) specialty business is on the path to improvement and is expected to gain traction. Two of its existing specialty products - Ilumya and Cequa are witnessing a rise in the prescription numbers and the sales have almost doubled over the past year, attributable to a strong growth in the US, while expansion in Europe and strengthening presence in Japan have also supported the growth. Also the company is working on expanding the geographical presence for the specialty portfolio, which would further drive the growth. Sun Pharma has a strong new product pipeline in the US with 90 ANDAs and 8 NDAs awaiting approval from the USFDA and is expected to unfold in the near term. This coupled with growth in the base business would drive the US sales higher. The domestic formulations business is on a strong footing backed by sturdy growth in the chronic therapy. Given Sun Pharma's leadership position in chronics segment which is likely to sustain and the expected pick up in the acute therapy coupled with higher field force productivity and expanding geographical reach and penetration would drive growth in the domestic business and would enable the company to outperform the markets. Collectively, the US and India constitute around 60% of the company's overall revenues and a strong growth outlook across both the geographies augurs well from a growth perspective. On the back of a favorable mix, margins are expected to expand and result in a CAGR of 23% over FY20-FY23E in PAT.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 700: Sun Pharma's specialty business is expected to stage a strong growth ahead driven by growth in existing portfolio and geographic expansion. Backed by a sturdy pipeline of 90 ANDAs and 8 NDAs awaiting approval from USFDA and a pick-up in the specialty portfolio, the US business is likely to grow at a healthy pace. Strong position in chronic and acute therapy segments, improving field force productivity and geographic expansion provide ample growth visibility on the India business. A favorable mix is expected to support margin expansion and would result in a strong 23% PAT CAGR over FY2020-FY2023E. At the CMP, the stock trades at an attractive valuation of 22.1x/19.6x its FY2022E/FY2023E EPS. Strong outlook for specialty portfolio, improved growth prospects, healthy balance sheet and improving return ratios are key positives. Over the past six months, the stock has underperformed the BSE Sensex by 8.8% and stock price has corrected by around 5% in the past three months, which provides a good entry point for investors. We retain a Buy recommendation on the stock with an unchanged PT of Rs. 700.

Key Risks

- Regulatory compliance risk including delay in product approvals.
- Currency risk.

Valuation (Consolidated)

Particulars	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Net sales	29065.9	32837.5	35878.1	38919.7	42337.0
Operating profit	6307.6	6989.8	8790.1	9574.2	10584.3
OPM(%)	21.70	21.29	24.50	24.60	25.00
Adj. PAT	3879.8	4025.6	5755.9	6629.7	7453.4
EPS (Rs)	16.2	16.8	24.0	27.6	31.1
PER (x)	37.7	36.4	25.4	22.1	19.6
EV/Ebitda (x)	23.8	21.3	16.4	14.4	12.4
ROCE (%)	10.0	9.6	13.0	12.8	13.0
RONW (%)	9.4	8.9	12.3	12.5	12.5

Source: Company; Sharekhan estimates

Specialty business to pick up backed by improving traction:

Recently, Sun Pharma has been focusing on growing its specialty portfolio across geographies. The company has invested substantial resources (~\$1 billion) on building a strong portfolio of specialty products in addition to investments on building a field force for the same. The company has launched few products in the specialty segment and is now looking at increasing the geographical penetration. The products already launched are gaining traction and are likely to aid the revival. Sun has a healthy portfolio of specialty products, which is expected to gain traction.

Specialty Product Portfolio

Product	Indication	Geographies Present
Ilumya	Plaque Psoriasis	US, Australia, Japan & China (out licensed to CMS)
Cequa	Dry Eye disease	US, China (through CMS)
Absorica	Severe recalcitrant nodular acne	US
Levulan	Minimal to moderately thick actinic keratoses of the face, scalp, or upper extremities.	US
Odomzo	LABCC (locally advanced basal cell carcinoma)	US, Germany, France, Denmark, Switzerland, Australia, Isreal
Yonsa	Prostate Cancer	US
Bromsite	prevention of ocular pain & treatment of inflammation following cataract surgery	US
Xelpros	For elevated IOP in Patients with Glucoma	US
Infusmart	Chemotherapy	Europe, US

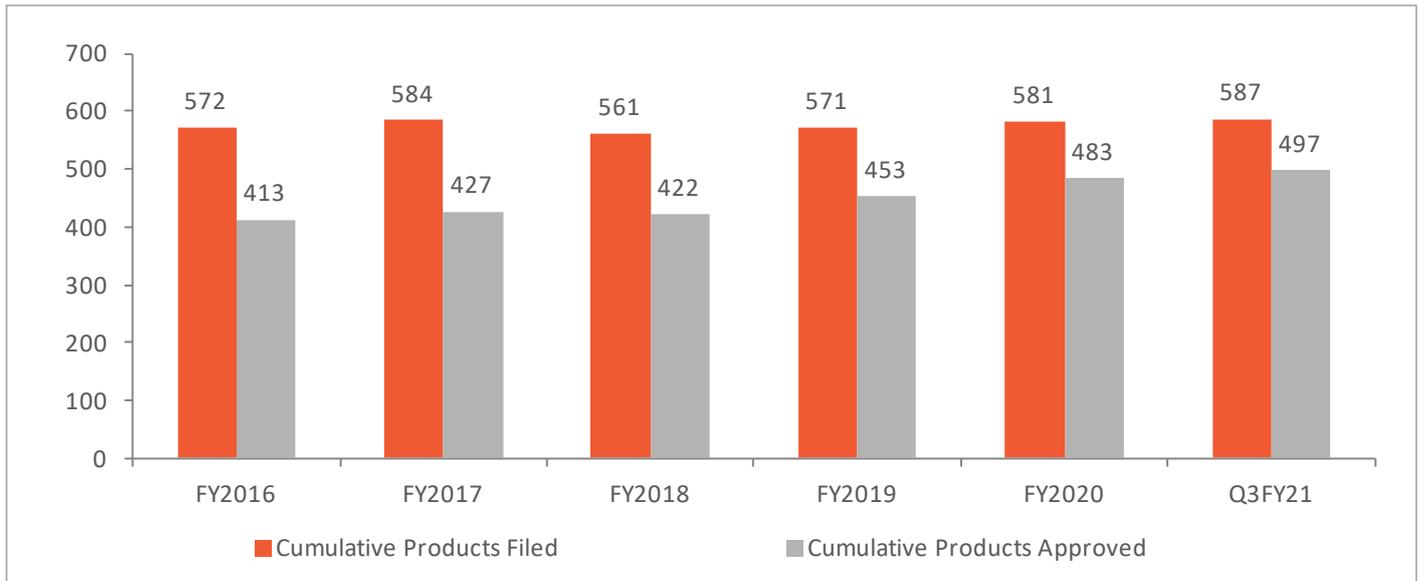
Source: Company, Sharekhan

The overall performance of the specialty segment had been impacted during the pandemic times, however the same have improved recently post beginning of H2FY21. Going ahead, sales momentum is expected to pick up with the medical practitioners resuming OPD consultations, patient footfalls expected to improve, thus translating in to higher prescriptions generated. Existing products such as Ilumya and Cequa have witnessed remarkable improvement in prescription levels, with sales almost doubling as compare to the previous year. On a m-o-m basis as well, sales have been growing in high single digits, pointing at an improved traction, attributable to a strong growth in the US while expansion in Europe and strengthening presence in the Japan have supported growth. In addition to this, the company also has been able to shift a chunk of its Absorica prescriptions in favour of new formulation – Absorica LD, thus paving the growth in the Absorica brand as well. In addition to the strengthening sales of the existing specialty products, the company is also looking to expand the geographic presence / increase the penetration for its specialty portfolio, which also would be one of the key factors to fuel the growth of the segment. Over the long term, the company is evaluating Ilumya for other indications like Joint and Skin Symptoms as the Phase II data shows a good potential. If approved for other indications, Ilumya sales could scale up sizably.

US business growth to be driven by pickup in the specialty business and a strong product pipeline

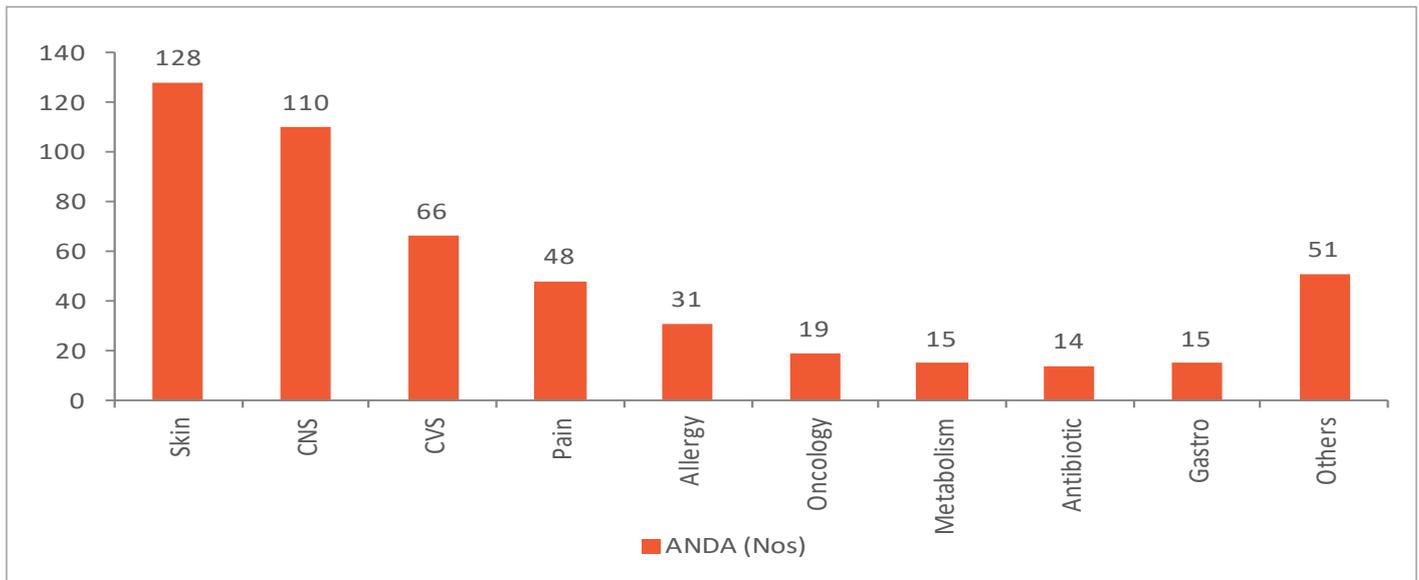
Sun Pharma's US formulations accounts for ~33% of overall sales for the company as of FY2020 and the business is largely spread across the generic and the specialty space. The company has a strong presence in the dermatology segment and is ranked 2nd by prescriptions in the US dermatology market. The US sales have shown signs of a pick up largely attributable to the revival in the Specialty business, attributable to an expected rise in the prescriptions as patient footfalls increase. In addition to this, Sun Pharma has a strong product pipeline in US markets with ~90 ANDAs and 8 NDAs awaiting approval from USFDA. In addition to this the company has a very large base business in the US which is reflected in a large basket of 497 approved products in the US as of Q3FY2021. Therefore, a revival in the US specialty business coupled with a strong product pipeline would unfold going ahead, which would be the key growth driver for the US business.

ANDAs filed and approved



Source: Company, Sharekhan Research

Therapy wise ANDA approvals

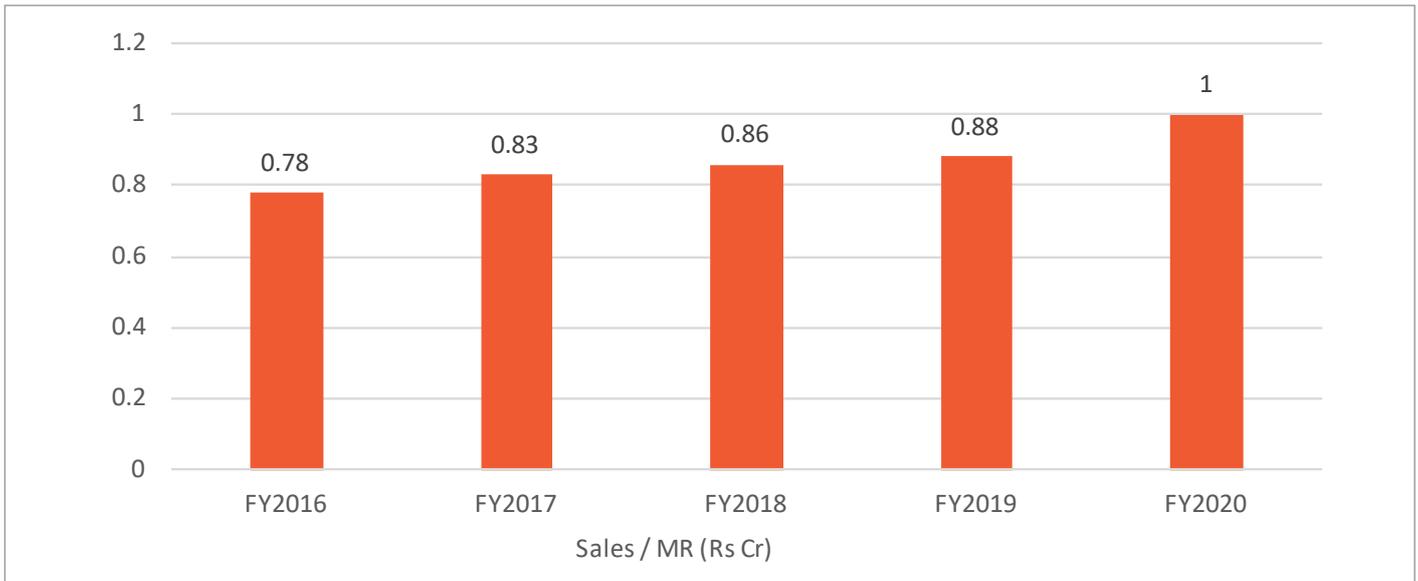


Source: Company, Sharekhan Research

Better productivity of field force, strong position in chronics & acute therapies to aid India sales growth:

Sun Pharma is amongst the leading pharmaceutical company in India commanding a market share of ~8.2% in the branded generics market as of 12 months ended December 2020. Sun Pharma enjoys a leadership position with 9 different classes of doctors in India. The company’s 30 brands are a part of the top 300 pharmaceutical brands in the country and this points to its strong and established presence in India. Sun Pharma’s India formulations business constitutes around 31% of its FY2020 revenues and is expected to stage a healthy growth going ahead driven by productivity improvement of the field force and an expected double digit growth in the IPM in FY22E. As of December 2020 the company had a total field force of 10,900 and has expanded the same so as to augment the geographical as well as doctor reach, which in turn could drive the prescriptions upwards. The company has one of the highest field force productivity among its peers with the sales per medical representative improving to Rs 1 cr (FY2020) as compared to Rs. 0.78 crore as of FY2016.

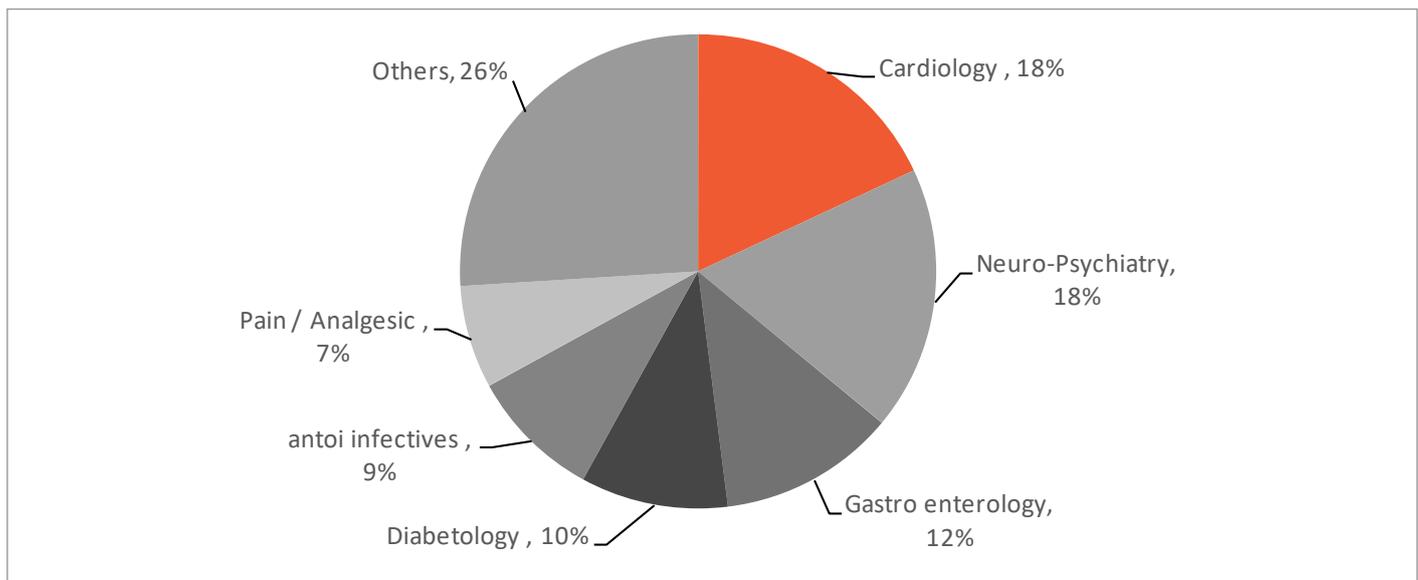
Field Force Productivity - Sales per Medical representative (MR):



Source: Company, Sharekhan Research

Secondly, the company has a leadership position in the chronics segment coupled with a stronger position in the acute segment as well in India markets. Going ahead industry reports suggests that the IPM (Indian pharmaceutical market's) growth is expected to be in double digits in FY22E backed by a sustained pricing growth, share of new products and could complemented by a pick-up in volumes as well. As Sun Pharma commands an 8.2% market share of the branded generics market, we believe expectations of a double digit growth could have a positive rub-off effect for the company's India business as well. Further, Sun Pharma has launched 27 new products as of Q3FY2021, which would add to the topline. Collectively, strong position in the chronic as well as acute therapies, double-digit growth expected for IPM going ahead and increasing field-force productivity and geographic penetration would be the key drivers for the India business.

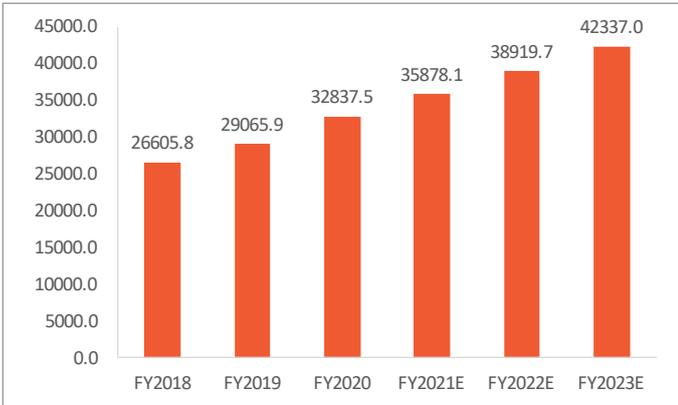
India Business - Therapy-wise revenue mix (%):



Source: Company, Sharekhan Research

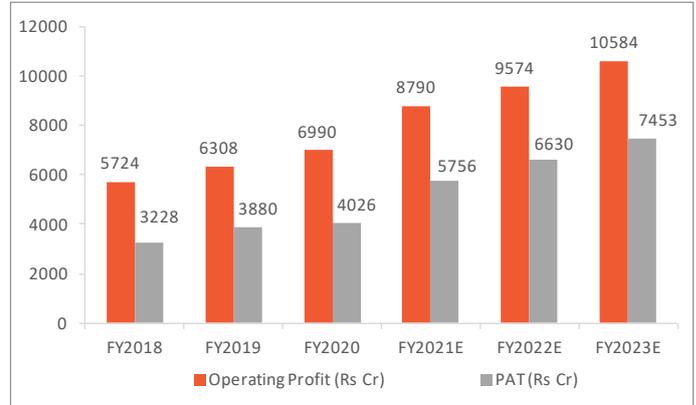
Financials in charts

Sales Trends Rs Cr



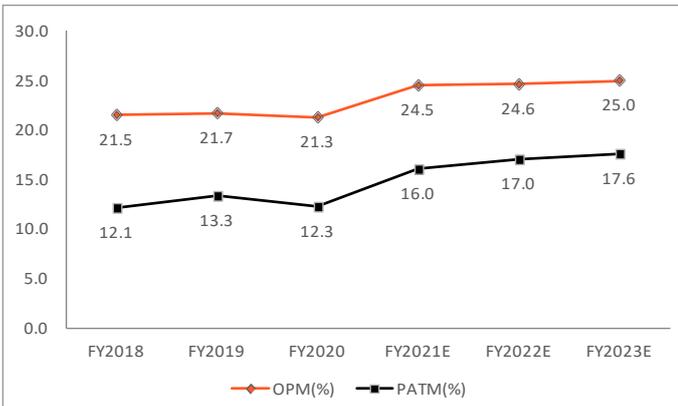
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



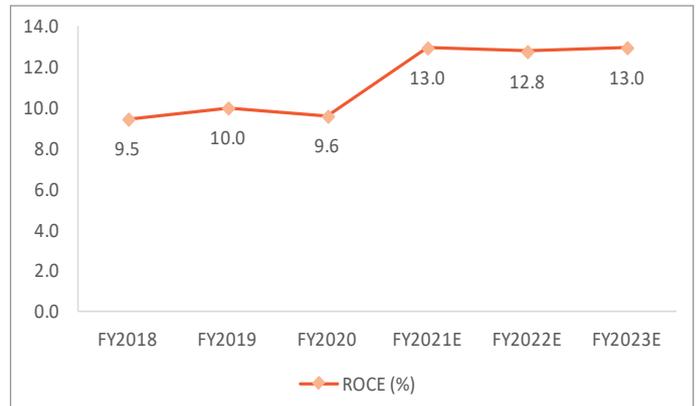
Source: Company, Sharekhan Research

Margins on an improving trend



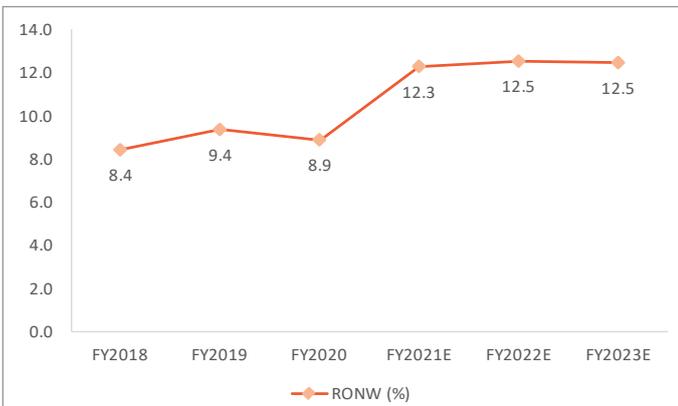
Source: Company, Sharekhan Research

ROCE (%)



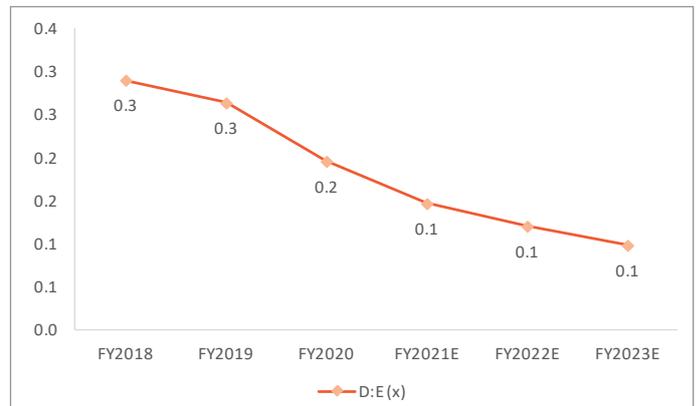
Source: Company, Sharekhan Research

Return ratios improving (RoE %)



Source: Company, Sharekhan Research

Debt : Equity (x)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Robust growth outlook:

Indian pharmaceutical companies are better-placed to harness opportunities and post healthy growth going ahead. Indian companies are among the most competitive ones globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in the US generics market), rise in product approvals by the USFDA and strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by the strong capabilities developed by Indian companies (leading to shift towards complex molecules and biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this points towards a strong growth potential going ahead for pharmaceutical companies.

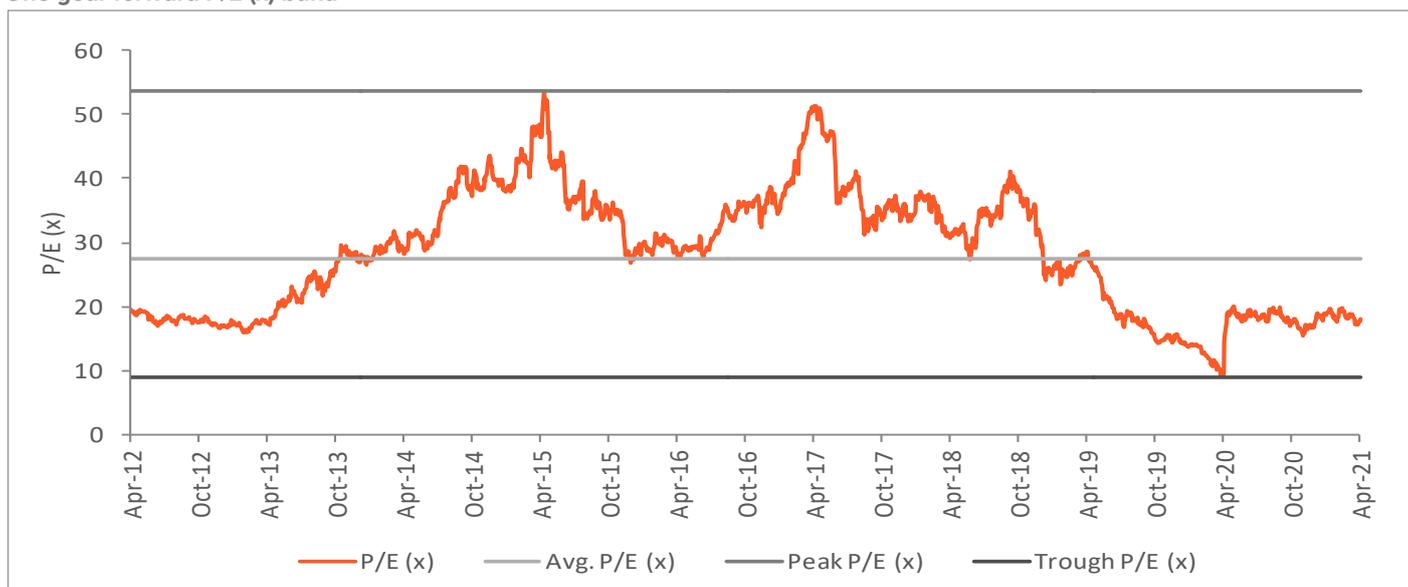
■ Company outlook - Improving growth prospects:

Sun Pharma is a leading pharmaceutical company present across a broad spectrum of chronic and acute therapies, which include generics, branded generics, and complex drugs. India and US are the key markets for the company and constitute around 60% of the total topline. Sun Pharma's US business is on the path to revival largely backed by a marked improvement in the specialty portfolio due to growth in existing business and geographical expansion. The outlook for the US business has improved on account of a likely revival in the US specialty business coupled with a strong product pipeline, which would unfold going ahead, and would be the key growth driver for the US business. Domestic formulations are on a strong footing as the chronic portfolio (50% of India sales) has reported healthy growth. The acute therapies portfolio is also expected to recover and stage a healthy growth. The management expects the domestic formulations business to bounce back on account of new launches, revival in the IPM and improvement in field force productivity. Therefore, improved outlook across both key geographies and increasing penetration in other geographies would drive growth for Sun Pharma.

■ Valuation - Retain Buy with an unchanged PT of Rs. 700:

Sun Pharma's specialty business is expected to stage a strong growth ahead driven by growth in existing portfolio and geographic expansion. Backed by a sturdy pipeline of 90 ANDAs and 8 NDAs awaiting approval from USFDA and a pick-up in the specialty portfolio, the US business is likely to grow at a healthy pace. Strong position in chronic and acute therapy segments, improving field force productivity and geographic expansion provide ample growth visibility on the India business. A favorable mix is expected to support margin expansion and would result in a strong 23% PAT CAGR over FY2020-FY2023E. At the CMP, the stock trades at an attractive valuation of 22.1x/19.6x its FY2022E/FY2023E EPS. Strong outlook for specialty portfolio, improved growth prospects, healthy balance sheet and improving return ratios are key positives. Over the past six months, the stock has underperformed the BSE Sensex by 8.8% and stock price has corrected by around 5% in the past three months, which provides a good entry point for investors. We retain a Buy recommendation on the stock with an unchanged PT of Rs. 700.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBITDA (x)			RoE (%)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Sun Pharma	610.0	239.9	1,46,560.0	36.4	25.4	22.1	21.3	16.4	14.4	8.9	12.3	12.5
Aurobindo	881	58.6	58476	17.7	15.8	13.6	11.1	8.9	7.2	19.0	16.3	15.1
Lupin	1028	45.2	46633	131.9	43.0	25.2	22.1	16.8	11.5	2.8	8.0	11.9

Source: Company, Sharekhan Research

About company

Sun Pharma is the fourth largest specialty generic pharmaceutical company in the world. Founded in 1983, Sun Pharma has grown to become India's largest pharmaceutical company with global revenue of over \$4 billion. The company manufactures and markets a large basket of pharmaceutical formulations, covering a broad spectrum of chronic and acute therapies, which include generics, branded generics, complex or difficult-to-make technology-intensive products, over-the-counter (OTC) products, anti-retroviral (ARVs), APIs, and intermediates. The company's global presence is supported by over 40 manufacturing facilities. India and the US are predominant markets, accounting for nearly 65% of revenue.

Investment theme

Sun Pharma is a leading pharmaceutical company present across a broad spectrum of chronic and acute therapies, which include generics, branded generics, and complex drugs. India and US are the key markets for the company and constitute around 60% of the total topline. After four quarters of a decline in US revenue, the company reported growth in Q2FY2021, largely backed by pick-up in the specialty business and likely pick-up in new product launches. The outlook for the US business has improved on account of a likely revival in the US specialty business coupled with a strong product pipeline, which would unfold going ahead and would be the key growth driver for the US business. Moreover, the price erosion is largely stable in the US generic business. Domestic formulations are on a strong footing as the chronic portfolio (50% of India sales) has reported healthy growth. The acute portion of the portfolio has been impacted, but it is showing signs of revival. Management sees the domestic formulations business to bounce back on account of new launches and gradual improvement.

Key Risks

Regulatory compliance risk; 2) Delay in product approvals; 3) Currency risk;

Additional Data

Key management personnel

Israel Makov	Chairman
Dilip S. Shanghvi	Managing Director
Abhay Gandhi	CEO, North America
C. S. Muralidharan	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.56
2	ICICI Prudential Asset Management	3.29
3	SBI Funds Management Pvt Ltd	1.81
4	Vanguard Group Inc/The	1.53
5	Nippon Life India Asset Management	1.48
6	Lakshdeep Investments and Finance	1.37
7	BlackRock Inc	1.02
8	HDFC Asset Management Co Ltd	0.92
9	Norges Bank	0.91
10	Aditya Birla Sunlife Asset Management Co	0.58

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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