



Powered by the Sharekhan 3R Research Philosophy

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	■	↔	■

ESG Disclosure Score

NEW

ESG RISK RATING	35.74			
Updated Nov 02, 2022				
High Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 2,44,192 cr
52-week high/low:	Rs. 1,071 / 734
NSE volume: (No of shares)	13.2 lakh
BSE code:	524715
NSE code:	SUNPHARMA
Free float: (No of shares)	109.2 cr

Shareholding (%)

Promoters	54.5
FII	16.0
DII	19.7
Others	9.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.3	17.7	24.0	41.4
Relative to Sensex	2.5	14.5	13.5	35.7

Sharekhan Research, Bloomberg

Sun Pharmaceuticals Industries Ltd
Specialty, new products to drive profitability

Pharmaceuticals

Sharekhan code: SUNPHARMA

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 1,019

Price Target: Rs. 1,300



Downgrade

Summary

- We reiterate a Buy rating and price target on Sun Pharma as we believe improved earnings visibility make it one of our top-picks in the pharma sector. Traction in the US, India and specialty segment revenues, product launches and strengthening balance sheet bode well for earnings.
- The company plans to launch specialty products in more geographies as well, which can aid growth. Sun also has four additional specialty products in various stages of clinical trials, which boosts growth prospects.
- As branded formulations and emerging markets fetch ~50% of Sun's revenues, there is lesser dependency on the US generics, whose pricing would continue to deteriorate.
- Sun Pharma has repaid debt worth \$1.38 billion in the past three years, leading to reduced debt-to-equity ratio of 0.07x as of Q2FY23 versus 0.30x it was in FY18.

Sun Pharmaceutical Industries Limited (Sun Pharma) has been witnessing an average 30.6% y-o-y growth in global specialty revenues between Q2FY22-Q2FY23 while total revenue has been growing at an average of 11.8% y-o-y over the same period versus an average y-o-y growth of 9.8% between Q4FY18 and Q2FY23. Global specialty revenues are growing strongly, and the India market is seeing consistent market share gains that are expected to continue to drive up sales growth. At the same time, it is helping the company to clock in strong gross profit margins (GPMs), which coupled with strong operating leverage should help it sustain those GPMs in the short to medium term.

- Specialty portfolio to clock in strong growth in Q3FY23E:** Since the time (since FY18) the company marked specialty revenue as an additional growth engine by developing and commercializing branded patented products (since 2014), its portfolio of over 10 specialty products has led to strong profitable revenue growth for the company over the same period. Currently, the global specialty revenue contributes 15% of revenue as of Q2FY23 versus 7% of revenue in FY18. The company's GPMs expanded by 147 bps y-o-y (up 222 bps q-o-q) to 75.3% in Q2FY23. We expect strong growth in the specialty revenue and operating efficiencies to continue to help it grow its margins gradually over short – medium term.
- Strong growth visible for specialty products and market share gains in new products to benefit the sales growth in Q3FY23 and beyond:** The company's specialty portfolio comprising of Illumya (indication for plaque psoriasis launched in 2018), Cequa (indication for dry eye disease launched in 2019), Winlevi (treatment for acne vulgaris, 2021), Absorica LD (indication for the treatment of severe recalcitrant nodular acne, 2020), Levulan Kerastick (indication with BLU-U for treatment of thick actinic keratoses of the face etc.), Odomzo (indication for locally advanced basal cell carcinoma), Yonsa (indication for metastatic castration-resistant prostate cancer 2018), Bromsite (indication for prevention of ocular pain and treatment of inflammation following cataract surgery, 2016), Xelpros (indication for reduction of elevated IOP in patients with open angle glaucoma or ocular hypertension, 2019), and Sprinkle technology of 2019 have been the growth drivers for several quarters since they have been launched. The specialty products' sales are indicating equally strong growth q-o-q in Q3FY23E. Moreover, products recently launched (in Q4FY22) such as Amphoterin B Liposome and Mesalamine are gaining volume share at a strong pace, q-o-q, in Q3FY23E. The company continues to launch these products in newer geographies, which can as well aid the revenue growth. Also, the company has four additional specialty products under pipeline at various stages of clinical trials including Illumya for new indication related to Psoriatic Arthritis, SCD – 044 for psoriasis atopic dermatitis, M-II for treatment of pain in osteoarthritis, and GLO034 for type 2 diabetes. The portfolio of specialty products is expected to drive strong profitable revenue growth for the US / global specialty segment in the quarters ahead, over short – medium term.
- Diversified revenue base to help offset any pricing pressure in the US market:** Nearly 50% of Sun Pharma's revenue accrues from branded formulations and emerging markets. This indicates lesser degree of dependency on the US oriented generic portfolio of products, which can continue to see deterioration in pricing due to increased pricing pressure in the US.
- Strong balance sheet with reduction in debt and robust cash generation:** The company has repaid debt worth USD 1.38 billion over the last three years, leading to reduced debt to equity ratio of 0.07x as of Q2FY23 versus 0.30x it was in FY18. This coupled with strong growth in net income growth have led to its ROCE growing to 17.3% in FY22 from 9.5% in FY18 and RoE growing to 16.3% in FY22 from 8.4% in FY18. The company's net cash position was at USD 2 billion as of FY22.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 1,300 : Sun Pharma's key geographies, US and India, are witnessing improved traction. Growth in the US business would be driven by sustained strong growth in the specialty business, traction from new product launches and steady growth in the US generics, while industry beating growth across therapies and field-force expansion would drive India sales. Margins are expected to continue to grow higher on the back of higher contribution from specialty business and operating leverage playing out. At CMP, the stock trades at a reasonable level of 23.6x/19.8x its FY2024E/FY2025E EPS, respectively, which is below the historical long-term average PE it has traded at. Improved earning visibility with traction in the US, India and specialty revenue with product launches and strengthening balance sheet make it one of the preferred bets in the pharmaceutical space. We maintain a Buy on the stock with an unchanged PT of Rs. 1,300.

Key Risks

1) Lower-than-expected growth in India market share and specialty segment revenue growth; 2) Currency risk; and 3) Delay in resolution of USFDA observations at its plant.

Valuation (Consolidated)

Particulars	Rs cr				
	FY2021	FY2022	FY2023E	FY2024E	FY2025E
Net sales	33,498.1	38,654.5	43,383.9	48,867.8	55,267.1
EBITDA Margin (%)	25.35	26.90	27.95	28.70	29.60
Adj. PAT	6,801.1	7,839.5	8,728.4	10,350.3	12,333.9
EPS (Rs)	28.3	32.7	36.4	43.1	51.4
PER (x)	35.9	31.2	28.0	23.6	19.8
EV/EBITDA (x)	28.5	23.2	18.0	14.8	11.9
ROCE (%)	12.7	17.3	16.8	17.2	17.7
RONW (%)	14.6	16.3	15.5	15.7	15.9

Source: Company; Sharekhan estimates

Specialty Portfolio:

Ilumya / Illumetri branded
biologic drug
(Tildrakizumab asmn)
Launched since 2018

Indication for plaque psoriasis (auto-immune inflammatory disorder of skin cells) – The global market for the treatment is projected to grow from \$26.37 billion in CY22 to USD 47.24 bn in CY29E, at a CAGR of 8.7%. New launches to push the growth further.

Competition includes **adalimumab** (Humira of AbbVie Inc.), **guselkumab** (Tremfya of Janssen Biotech), secukinumab (Cosentyx of Novartis), **ixekizumab** (Taltz of Eli Lilly and Company), **ustekinumab** (Stelara of Janssen Pharmaceuticals), **etanercept** (Enbrel of Amgen)

Cequa (cyclosporine
ophthalmic) patent protected
branded drug
Launched in 2019

Indication for dry eye disease – The global market for the treatment is projected to grow from USD 5.25 bn in CY22 to USD 7.43 bn in CY30E, at a CAGR of 4.3%.

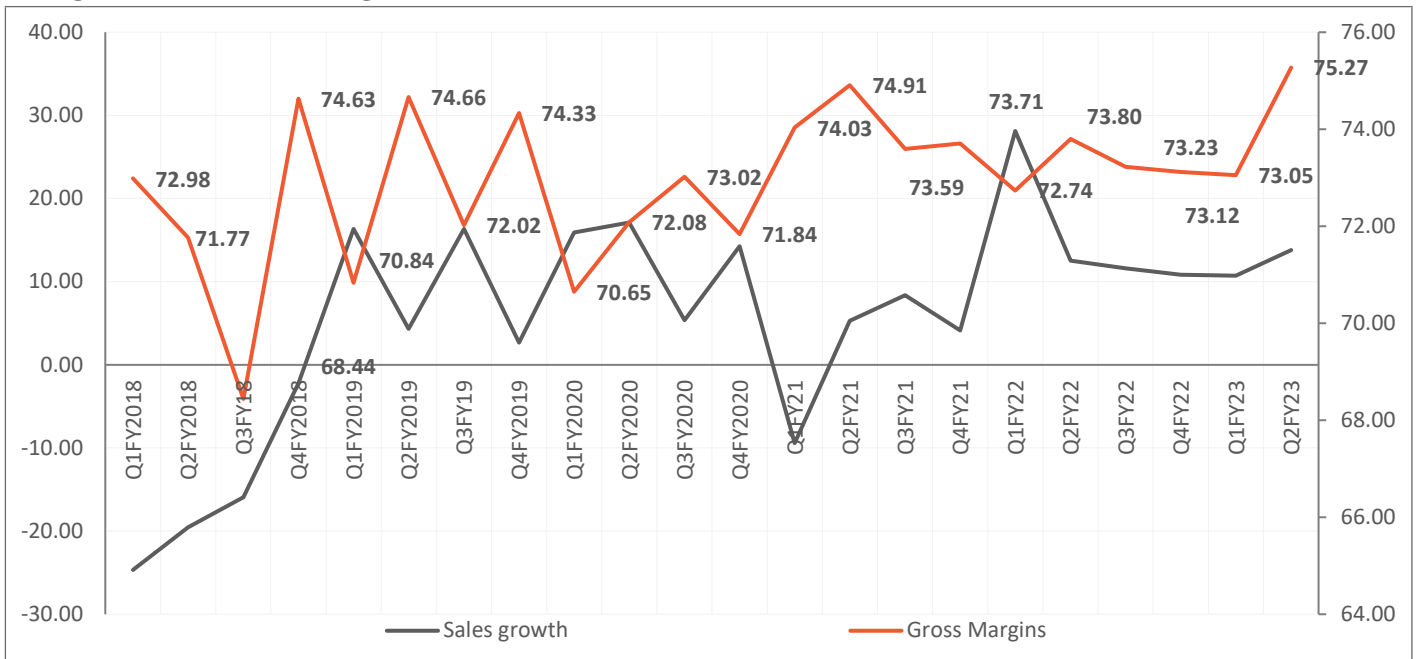
Competition includes **Tyrvaya** (Oyster Point), Restasis (Allergan), **Xiidra** (Novartis), **Eysuvis** (Kala Pharmaceuticals)

Winlevi (clascoterone)
Patent protected branded
novel drug
Launched in 2021

Indication for topical treatment of acne vulgaris in patients of 12 years of age and older. The company has the exclusive right to develop and commercialize **WINELVI in Japan, Australia, New Zealand, Brazil, Mexico, and Russia** - The global market for the treatment is projected to grow from \$9.4 billion in CY21 to \$16.9 billion in CY30E, at a CAGR of 6.7%.

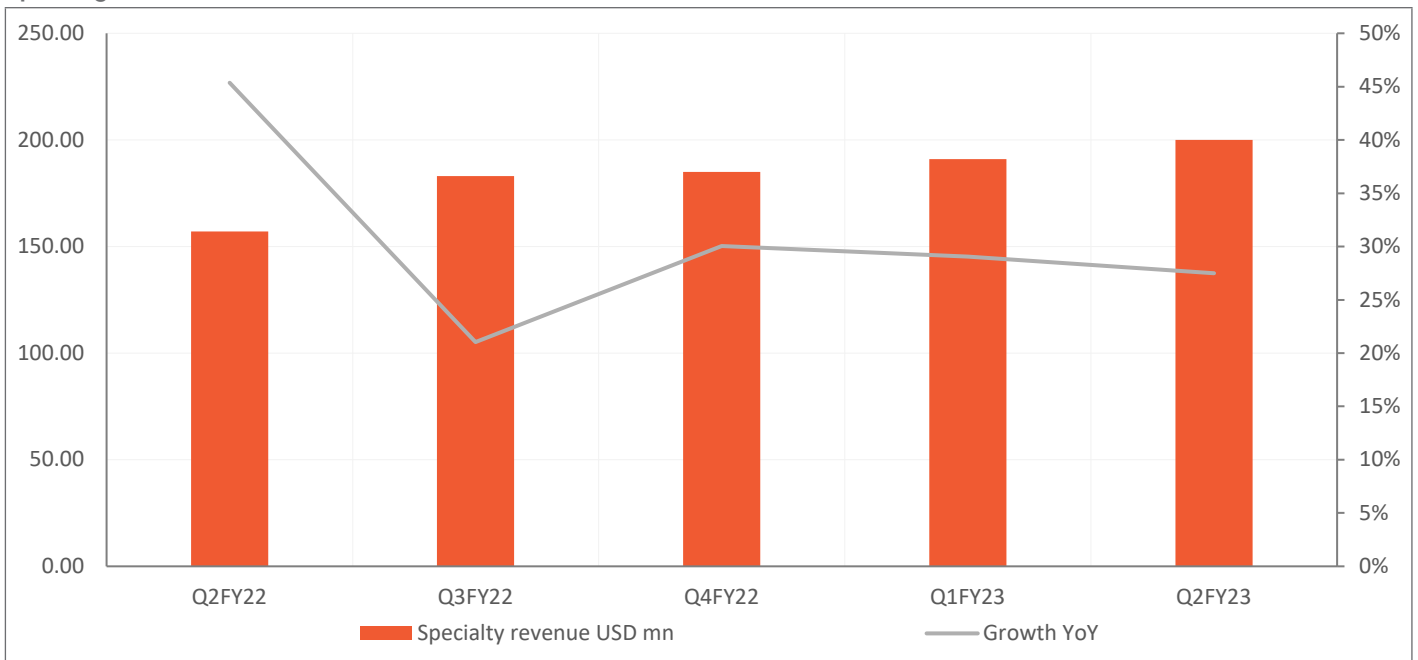
Competition includes Tyrvaya (Oyster Point), Restasis (Allergan), Xiidra (Novartis), Eysuvis (Kala Pharmaceuticals)

Sales growth YoY and Gross Margins %



Source: Company filings

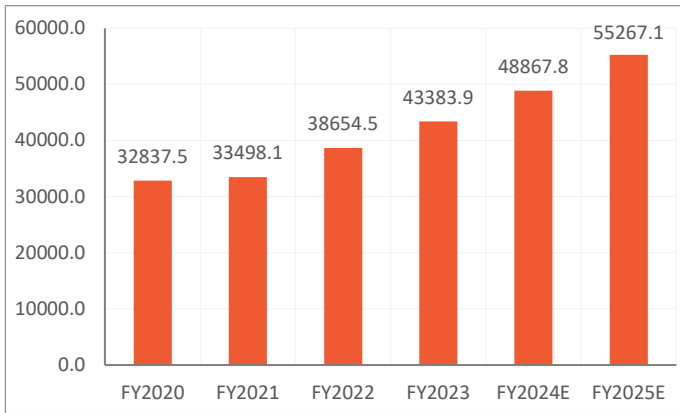
Specialty Revenue in USD mn and Growth YoY



Source: Company filings

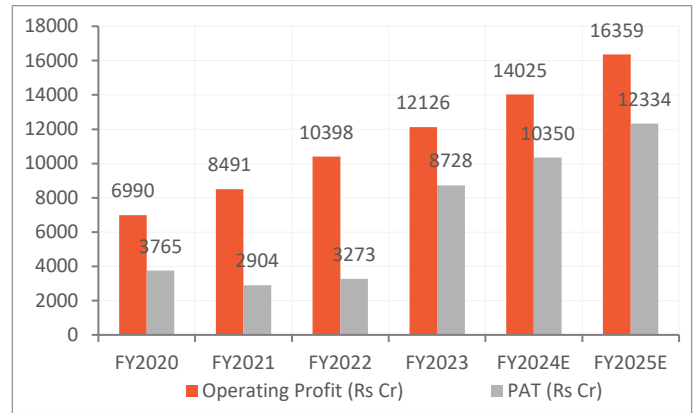
Financials in charts

Sales Trends (Rs Cr)



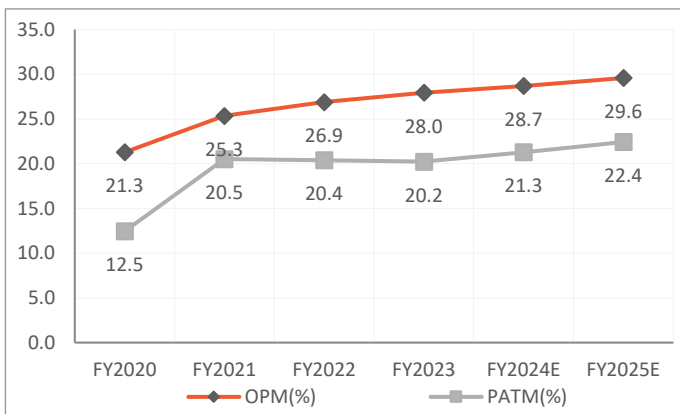
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



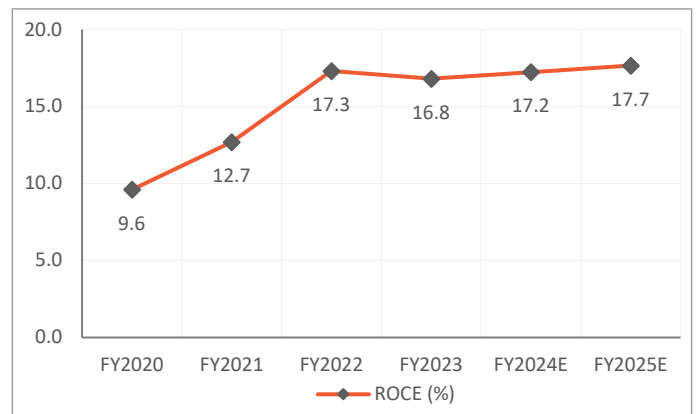
Source: Company, Sharekhan Research

Margins on an improving trend



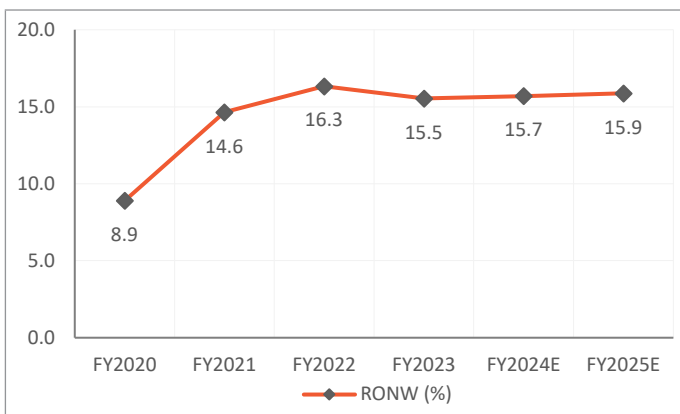
Source: Company, Sharekhan Research

ROCE (%)



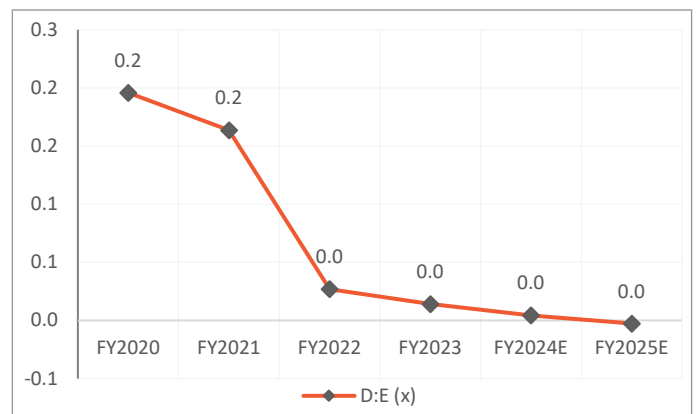
Source: Company, Sharekhan Research

Return ratios improving (RoE %)



Source: Company, Sharekhan Research

Debt : Equity (x)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Multiple growth engines ahead

The Indian Pharma market (IPM) is growing with increased consumer spend and awareness. Additionally, Indian pharmaceutical players with large market share in IPM and a strong pipeline of speciality products will help them gain market share in the US and thereby partially offset any impact of competitive pricing pressure in the US. Moreover, other factors such as faster product approvals and resolutions by the USFDA regards to plant observations and strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules, biosimilars and injectables) and commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for Indian pharma companies.

■ Company Outlook – Strong growth prospects

Sun Pharma, a global pharmaceutical company, is present across a broad spectrum of chronic and acute therapies. India and the US are its key markets and constitute ~60% of the total topline. Sun Pharma's US business is on the path to improvement, largely backed by a marked improvement in the specialty portfolio due to growth in existing geographies as well as tapping new geographies and product portfolio expansion/launches. This coupled with a strong product pipeline, which would unfold going ahead, would be the key growth driver for the US business. Domestic formulations are on a strong footing as the chronic portfolio has reported healthy growth. The acute therapies portfolio has also gathered traction and is expected to sustain the strong growth trend. The management expects the domestic formulations business to continue its strong growth on account of new launches, growth in existing business, and field force productivity improvement, and aims to outpace the industry's growth. Therefore, improved outlook across both key geographies, India and US, and increasing penetration in other geographies would drive growth for Sun Pharma.

■ Valuation – Retain Buy with a PT of Rs. 1,300

Sun Pharma's key geographies, US and India, are witnessing improved traction. Growth in the US business would be driven by sustained strong growth in the specialty business, traction from new product launches and steady growth in the US generics, while industry beating growth across therapies and field-force expansion would drive India sales. Margins are expected to continue to grow higher on the back of higher contribution from specialty business and operating leverage playing out. At CMP, the stock trades at a reasonable valuation of 23.6x/19.8x its FY2024E/FY2025E EPS, respectively, which is below the historical long-term average PE it has traded at. Improved earning visibility with traction in the US, India and specialty revenue with new product launches and strengthening balance sheet make it one of the preferred bets in the pharmaceutical space. We maintain a Buy recommendation on the stock with an unchanged PT of Rs. 1,300.

Peer comparison

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBITDA (x)			RoE (%)		
				FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Sun Pharma	1,019	239.9	2,44,468.2	31.2	28.0	23.6	23.2	18.0	14.8	16.3	15.5	15.7
Torrent Pharma	1,630	33.8	55,156.7	43.9	39.4	32.6	24.3	21.2	17.6	21.1	21.8	22.9
Cipla	1,107	81.6	90,351.4	32.6	28.2	22.5	19.4	17.2	13.9	14.6	14.2	15.5

Source: Company, Sharekhan estimates

About company

Sun Pharma, founded in 1983, at Vapi, Gujarat, is the 4th largest global specialty generic company in the world, no. 1 pharma company in India and one of the largest Indian Pharma companies in emerging markets with 43 manufacturing sites spread across the world, with presence in over 100 countries, across branded and generic markets. The company offers specialty products, branded generics, and APIs. It can manufacture injectables, sprays, ointments, creams, liquids, tablets, and capsules under its formulations segment. The company is the 8th largest generics company in the US (30% of its revenue) with presence in specialty branded and generics segments with over 560 approved products. In India (33% of its revenue) it is ranked no. 1 with 11 classes of doctor categories and commands leading position in high growth chronic therapies while it specializes in technically complex products. It has presence in around 80 emerging markets (18% of its revenue) such as Africa, Americas, Asia, and Eastern and Central Europe. Key focus markets include Romania, Russia, South Africa, Brazil, and Mexico. The company also has a presence in key markets of Western Europe, Canada, Japan, Israel, A&NZ and others under its Rest of the World (RoW, 14% of its revenue). Its corporate office is located at Goregaon, Mumbai.

Investment theme

Sun Pharma is a leading pharmaceutical company present across a broad spectrum of chronic and acute therapies with capacity to manufacture generics, branded generics, and complex drugs. India and the US are the key markets for the company and constitute around 60% of the total top-line. Nevertheless, the increasing contribution from emerging markets coupled with branded products' sales is decoupling it from any generic competitive market pressure in the US. Outlook for the US business has improved on account of a consistent growth in the US and global specialty business, which is expected to be aided further by a strong product pipeline. Domestic formulations are on a strong footing as the company continues to grow at an above industry growth thereby gaining market share. Management sees the domestic formulations business to sustain the strong growth momentum and outpace the industry's growth. While driven by the specialty segment's sales, the US business also has healthy growth prospects.

Key Risks

1) Lower than expected growth in India market share and specialty segment revenue growth; 2) Currency risk; and 3) Delay in resolution of USFDA observations at its plant.

Additional Data

Key management personnel

Israel Makov	Chairman
Dilip S. Shanghvi	Managing Director
Abhay Gandhi	CEO, North America
Kirti Ganorkar	CEO, India
C. S. Muralidharan	Chief Financial Officer
Anoop Deshpande	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.38%
2	ICICI Prudential Asset Management Co. Ltd.	2.71%
3	SBI Funds Management Ltd.	2.44%
4	Aditya Medisales Ltd.	1.67%
5	Vanguard Group Inc.	1.51%
6	BlackRock Inc.	1.36%
7	Valia Raksha Sudhir	1.20%
8	Government Pension Fund – Global	1.09%
9	Nippon Life India Asset Management Ltd.	0.83%
10	Norges Bank	0.81%

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.