Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Sun Pharmaceutical Industries Ltd

Company adds another drug to the global specialty portfolio

Pharmaceuticals	Sharekhan code: SUNPHARMA
Reco/View: Buy ↔	CMP: Rs. 1,235
	Price Target: Rs. 1,400 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Sun Pharma has entered into licensing agreement with Aclaris Therapeutics, a clinical-stage biopharmaceutical company focused on developing novel drugs for immuno-inflammatory diseases.
- Under the license agreement, Aclaris has granted Sun Pharma exclusive rights under certain patents for the use of Deuruxolitinib, Sun Pharma's JAK inhibitor, to treat alopecia areata (AA) or androgenetic alopecia (AGA).
- The agreement includes an upfront payment of $15 million, regulatory and commercial milestones, and royalties.
- As Sun Pharma has signed a licensing agreement for Deuruxolitinib with Aclaris and has a strong global specialty pipeline, we have introduced FY2026E earnings. The stock trades at ~26.3x/~22.2x its FY2025E/FY2026E EPS. We believe superior profitability and margins enable it to trade at a premium to peers. We maintain Buy and increase the PT to Rs. 1,400.

Sun Pharma, along with its subsidiary, has entered into a licensing agreement with Aclaris Therapeutics, Inc., a clinical-stage biopharmaceutical company focused on developing novel drugs for immuno-inflammatory diseases. Under the license agreement, Aclaris has granted Sun Pharma exclusive rights under certain patents for the use of Deuruxolitinib, Sun Pharma's JAK inhibitor, or other isotopic forms of Ruxolitinib, to treat alopecia areata (AA) or androgenetic alopecia (AGA). The agreement includes an upfront payment of $15 million, regulatory and commercial milestones, and royalties. Sun Pharma has submitted 8mg twice-daily regimen of Deuruxolitinib for FDA review, which the USFDA has accepted. Deuruxolitinib will be a part of global specialty treatment. It needs to be given on a constant basis as part of the chronic treatment. In Q2FY2024, global specialty sales were up by 19.3% to reach $240 million.

Global specialty sales to surpass USD1bn in FY2024E

Sun Pharma has a healthy specialty portfolio of six drugs. Sun Pharma's global specialty segment grew 21% y-o-y to USD472mn, led by healthy traction in Cequa and Ilumya. With recent formulary changes and enhanced efforts, there is further scope to increase prescriptions for Winlevi. Sun Pharma has completed phase-3 clinical trials of Nidlegy and Ilumya and has filed its NDA Deuruxolitinib with the USFDA. Recently, it has signed a licensing agreement with Aclaris for an upfront payment of USD15mn. Sun's current portfolio is gaining traction. As per IQVIA U.S. data for November 2023, Sun Pharma has reported a 10% share in gVyvanse, while Ilumya registered healthy y-o-y volume growth. The product will not require any significant additional MRs. Further, Sun Pharma is planning to expand its specialty portfolio in other emerging markets. We believe management will soon launch the product; hence, we factor USD7mn and USD15mn sales in FY2024E and FY2025E, respectively, taking the global specialty portfolio to inch up to USD280mn from USD240mn quarterly.

Domestic business growth led by higher marketing expense

In H1FY2024, domestic formulations sales increased 8% YoY to Rs. 7,402 crore. Growth was driven by the strong performance of key therapies and market share gains. However, this was offset by a modest performance by the anti-infective portfolio. Sun Pharma launched eight new products in the domestic market. Going forward, the company expects to grow in-line with the IPM. As per industrial data, Sun Pharma ranks No. 1 in the Indian pharmaceutical market (IPM) on both MAT and MTH basis for November 2023. The company reported sales growth of 7% to Rs. 1,468 crore for November 2023 and commands a market share of 8.8%. Sun Pharma has three brands as a part of the top 40 brands, where Rosuvas grew by 12% in November 2023 to Rs. 46 crore (unit growth of 7.4%), Volini grew by 3.4% to Rs. 36 crore (volume growth of 2.3%), and Levipil grew by 14.3% to Rs. 33 crore in November 2023 (unit growth -0.6%). We expect the company to deliver a 12% CAGR to Rs. 17,135.9 crore over FY2023-FY2025. Additionally, ROW and emerging markets would witness a CAGR of 12% (in CC terms) over FY2023-FY2025 to reach USD2bn. It is expected that growing demand for existing products, expanding reach, and focusing on specialized products will fuel growth in these markets.

Taro Merger to strengthen the balance sheet

Sun Pharma will finally complete an acquisition that began with a buyout offer in 2007, gaining full control of Taro Pharmaceutical Industries. Sun Pharma, which already owns 78.5% of Taro – which already makes it a subsidiary – has offered to buy up the company's remaining shares for $38 each. The deal would come to $307 million and would provide a 41.5% premium on Taro's stock price over the last 60 days, the filing said. The proposed transaction provides a compelling liquidity opportunity for the company's shareholders. Taro has assets of $1.3 billion, with cash and short-term bank deposits totalling $274 million. Taro, which does most of its business in the United States and Canada, reported $573 million during its fiscal year 2023. Taro has formed a special committee of independent non-Sun Pharma directors. Post the acquisition, Sun Pharma is expected to benefit from integration and cost synergies in the manufacturing areas and can utilise Taro's cash for Sun Pharma's M&A.

Our Call

View: Maintain Buy with increased PT of Rs. 1,400: Sun Pharma continues to report decent earnings growth on account of strong growth in the U.S., emerging markets, and RoW. This is also led by strong growth in global specialty revenue, which is rising at a robust pace. However, its cGMP compliance concerns surrounding Halol and Mohali plants can act as headwinds to its optimum sales growth potential. As Sun Pharma has signed a licensing agreement for Deuruxolitinib with Aclaris and has a strong global specialty pipeline, we have introduced FY2026E earnings. As the company registers healthy operating profitability, which is in-line with our estimates, we expect Sun Pharma to post healthy sales and earnings CAGR of 12% and 17%, respectively, over FY2024-FY2026E. The stock trades at ~26.3x/~22.2x its FY2025E/FY2026E EPS. We believe superior profitability and margins enable it to trade at a premium to peers. We maintain our Buy rating and increased price target (PT) of Rs. 1,400 for the stock.

Key Risks

1) Regulatory compliance risks, including delay in product approvals; 2) Currency risk; and 3) Delay in resolution of USFDA observations at the Halol plant.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E	FY26E
Sales	38426	43279	47409	52110	59601
EBITDA	10398	11647	13152	14986	17786
EBITDA Margin (%)	27.1	26.9	27.7	28.8	29.8
PAT	3406	8561	9749	11356	13385
NPM (%)	8.9	19.8	20.6	21.8	22.5
EPS (Rs.)	32.7	36.0	40.4	47.0	55.8
PE (x)	28.1	34.3	30.6	26.3	22.2
P/BV (x)	4.6	5.3	4.5	3.9	3.3
EV/EBITDA (x)	19.8	24.4	21.3	18.2	15.0
ROCE (%)	16.2	15.7	16.0	16.6	17.0
RONW (%)	16.6	16.6	16.0	15.9	16.2

Source: Company; Sharekhan estimates

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 31.6
Updated Dec 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

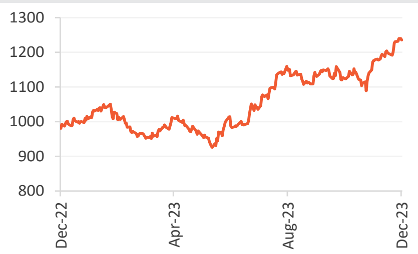
Company details

Market cap:	Rs. 2,96,430 cr
52-week high/low:	Rs. 1257 / 922
NSE volume: (No of shares)	84.6 lakh
BSE code:	524715
NSE code:	SUNPHARMA
Free float: (No of shares)	109.2 cr

Shareholding (%)

Promoters	54.5
FII	16.5
DII	16.0
Others	13.1

Price chart

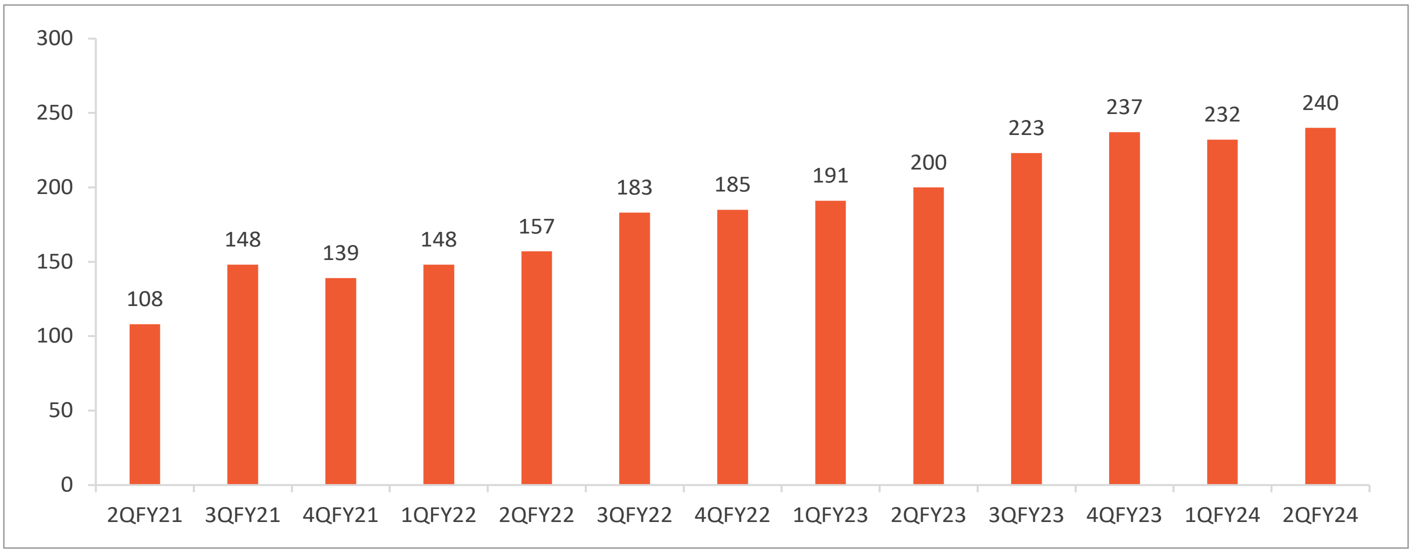


Price performance

(%)	1m	3m	6m	12m
Absolute	8.1	19.3		25.9
Relative to Sensex	2.1	12.3	5.4	14.3

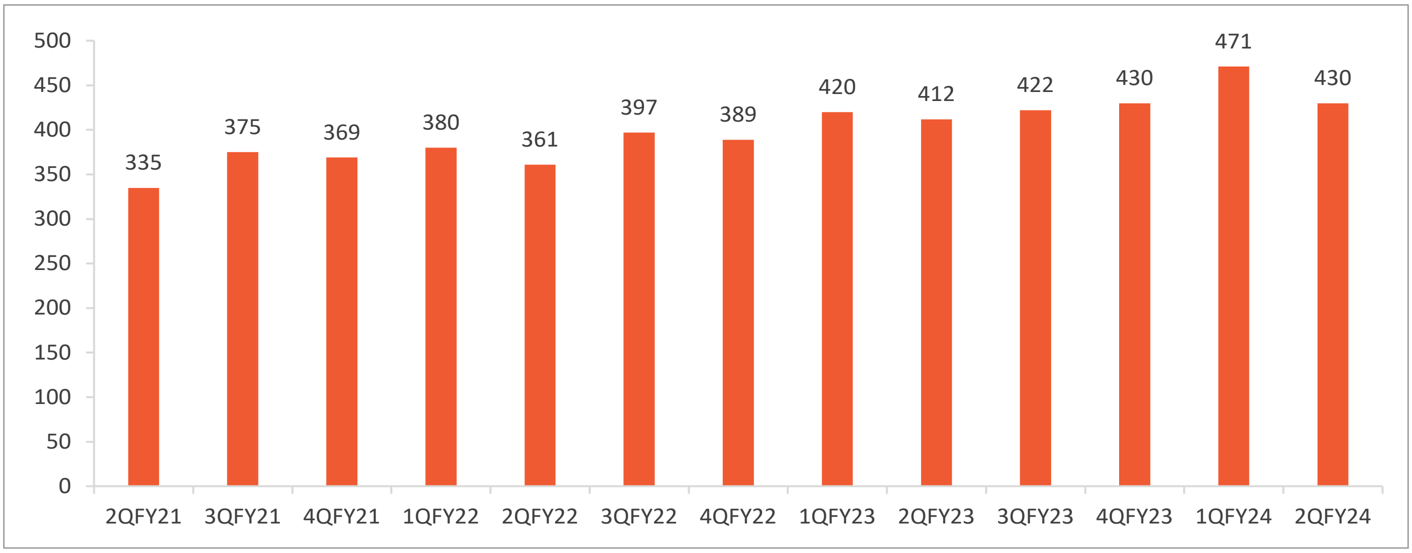
Sharekhan Research, Bloomberg

Specialty sales trend



Source: Company, Sharekhan Research

U.S. sales trend



Source: Company, Sharekhan Research

Global Specialty Pipeline

Candidate	Indication	Current Phase	Next Milestone
Deuruxolitinib	Alopecia Areata	Filed with USFDA	PDUFA date in July 2024
Nidlegy	Skin Cancer	First Phase-3 topline reported	Partner to disclose at an appropriate time
Ilumya	Psoriatic Arthritis	Phase 3	First topline data by late-25
MM-II	Pain in Osteoarthritis	Phase 2 completed	Phase-3 to start in early-24
SCD-004	Psoriasis, atopic dermatitis	Phase 2	First topline data by end-24 (atopic dermatitis
GL0034	Type-2 Diabetes	Phase 1 completed	Phase-2 to start by early-24

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Input cost easing with companies focusing on complex product launches

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global pharma companies. The confluence of other factors, including focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. The sector is witnessing easing of input cost like raw-material costs, freight, and power, which are likely to aid the sector in expanding margins. The sector is also witnessing easing of price erosion, followed by increasing contribution from new product launches. We believe the sector is in a sweet spot, where it is experiencing a healthy product mix and cost rationalisation, which increases operational profit of the companies. The sector is mainly a low-debt sector and increasing operational profit followed by experiencing the advantage of a low tax rate due to its operations in the SEZ sector; hence, overall, we stay positive on the sector.

■ Company outlook - Strong growth prospects

Sun Pharma is present across a broad spectrum of chronic and acute therapies, which include generics, branded generics, and complex drugs. India and the U.S. are key markets for the company and constitute around 60% of the total topline. Sun Pharma's U.S. 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 U.S. 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 strong growth traction. Management expects the domestic formulations business to continue its strong growth on account of new launches, growth in the existing business, and field force productivity improvement, and aims to outpace the industry's growth. Therefore, an improved outlook across both key geographies, India and U.S., and increasing penetration in other geographies, would drive growth for Sun Pharma.

■ Valuation - Maintain Buy with increased PT of Rs. 1400

Sun Pharma continues to report decent earnings growth on account of strong growth in the U.S., emerging markets, and RoW. This is also led by strong growth in global specialty revenue, which is rising at a robust pace. However, its cGMP compliance concerns surrounding Halol and Mohali plants can act as headwinds to its optimum sales growth potential. As Sun Pharma has signed a licensing agreement for Deuruxolitinib with Aclaris and has a strong global specialty pipeline, we have introduced FY2026E earnings. As the company registers healthy operating profitability, which is in-line with our estimates, we expect Sun Pharma to post healthy sales and earnings CAGR of 12% and 17%, respectively, over FY2024-FY2026E. The stock trades at ~26.3x/~22.2x its FY2025E/FY2026E EPS. We believe superior profitability and margins enable it to trade at a premium to peers. We maintain our Buy rating and increased PT of Rs. 1,400 for the stock.

Peer Comparison

Companies	CMP (Rs/ Share)	O/S Shares (Crs)	MCAP (Rs Cr)	P/E (x)			EV / EBITDA (x)			RoE (%)		
				FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Sun Pharma	1,235.0	239.9	2,96,317.9	34.3	30.6	26.3	24.4	21.3	18.2	16.6	16.0	15.9
Dr.Reddy	5763.0	166.0	9,56,658.0	23.8	18.9	17.3	12.9	11.3	9.7	19.2	20.1	18.5
Cipla	1,219.0	80.7	98,373.5	32.9	25.4	21.9	19.4	16.0	13.9	12.6	14.3	14.5

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 U.S. 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 U.S. are the key markets for the company and constitute around 60% of the total topline. Outlook for the U.S. business has improved on account of a likely revival in the U.S. specialty business coupled with a strong product pipeline, which would unfold going ahead and would be the key growth driver for the U.S. business. Moreover, price erosion is largely stable in the U.S. 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 was impacted, but it has now revived. 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 U.S. business also has healthy growth prospects.

Key Risks

1) Regulatory compliance risk; 2) Delay in product approvals; 3) Currency risk; 4) Worsening of corporate governance issues; and 5) Negative outcome of ongoing litigations in the U.S. with regards to price collusion.

Additional Data

Key management personnel

Dilip S. Shanghvi	Managing Director and Founder
Abhay Gandhi	CEO, North America
Kirti Ganorkar	EVP
C. S. Muralidharan	Chief Financial Officer
Anoop Deshpande	Company Secretary and Compliance Officer

Source: BSE; Company Website

Top 9 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management Co.	3.40
2	Life Insurance Corporation of India	2.91
3	SBI Funds Management Limited	2.39
4	Vanguard Group Inc.	1.80
5	Aditya Medisales Limited	1.67
6	BlackRock Inc.	1.40
7	Republic of Singapore	1.20
8	Norges Bank	1.14
9	NPS Trust UTI Retirement Solutions	1.13

Source: Bloomberg

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 detoriating 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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