



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	■	↔	■

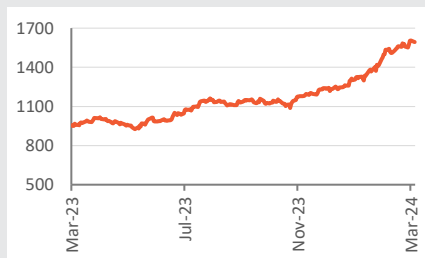
Company details

Market cap:	Rs. 3,82,060 cr
52-week high/low:	Rs. 1,627 / 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	29.1	41.0	47.6	66.9
Relative to Sensex	23.4	30.5	35.2	40.6

Sharekhan Research, Bloomberg

Sun Pharmaceutical Industries Ltd

On a strong footing

Pharmaceuticals	Sharekhan code: SUNPHARMA		
Reco/View: Buy	↔	CMP: Rs. 1,592	Price Target: Rs. 1,727
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We reiterate our Buy rating on Sun Pharma due to a strong uptick in specialty products and its dominant position in the IPM.
- Reports reveal that Sun's API unit in Ankleshwar has received an NAI (No Action indicated) status with an 'all clear' to manufacture and export products.
- As per February 2024 AWACS MAT data, Sun Pharma reported 8.8% growth (IPM growth for Feb'24 at 6.7%) while volume grew by 1.5% (IPM's volumes fell 0.3%) largely driven by key drug Rosuvastatin (23% y-o-y growth)
- As Sun Pharma's specialty portfolio continues to gain traction followed by dominant position in the IPM, we have increased our EPS estimates by 1% and 3% for FY25E and FY26E increasing price target to Rs. 1,727 for the stock (ascribing PE of 30x on FY26E).

Sun Pharma, a proxy play to specialty sales in the US is expected to continue to grow steeply despite higher base. The growth in specialty sales is largely contributed to investments in the R&D pipeline, where specialty R&D accounted for ~40% of the total R&D spends. The partner product Nidlegly is expected to file with Europe during H1CY24E, once approved, Nidlegly will enhance the company's product offerings in skin cancers and synergize well with Sun Pharma's growing Odomzo franchise in Europe. 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). In Q3FY2024, global specialty sales grew by 26% to reach \$296 million.

- Positive US trend to benefit Sun Pharma:** Sun's US Rx data reflects a positive momentum for its specialty portfolio. Sun's specialty portfolio is driven by strong growth in Cequa, Ilumya, Winlevi and Levulan. Sun Pharma has completed phase-3 clinical trials of Nidlegly and Ilumya and has filed its NDA Deuruxolitinib with the USFDA. Ilumya's upward trajectory is expected to continue as more patients opt for IL-23 treatment. As per external reports Cequa continues to gain volume despite gRestasis competition. Levulan volumes rose sharply, growing 153% Y-o-y Odomzo volume grew 47% Y-o-y while Yonsa volume declined 21% Y-o-y Absorica LD volume increased marginally (+3%QoQ/ +2%Y-o-y). Winlevi saw flattish volume growth sequentially, albeit it grew 14% Y-o-y Notably, Taro's gTretinoin continues to rise (+110% Y-o-y). SUNP has gained 12.4% market share in gVyvanse (currently under shortage) within the first 4 months of launch. We expect Sun's specialty business to grow at a CAGR of 17% to \$1.4 billion by FY26E.
- Domestic business continues to retain leadership position:** As per Feb-24 AWACS data, Sun Pharma reported a growth of 8.8% as against an IPM growth of 6.7% on MAT basis and 12.2% growth on a monthly basis (IPM growth of 9% on MTH basis). Sun's volume grew by 1.5% on MAT and 1.6% on MTH basis as against the IPM's volume decline of 0.3% on MAT and 0.2% growth on MTH basis. Sun Pharma continues to rank number 1 in the IPM Sun Pharma is also ranked No. 1 by prescription with 12 different doctor categories. Amongst Sun Pharma's three brands which are a part of the top 40 brands; On a monthly basis, Rosuvastatin grew by 23% in February'24 to Rs. 46 crore (unit growth of 17.7%), Levipil grew by 22% to Rs. 30 crore (unit growth 6.9%) but Volini declined by 13% to Rs. 27 crore (volume decline of 18.5%). Sun's IPM growth is largely volume driven and new product launches. Sun Pharma launched twenty-eight new products in the domestic market in Q3FY24 and is witnessing a strong momentum in the in licensed products. We expect the company to deliver a 14% CAGR to Rs. 19,534 crore over FY2024-FY2026E.
- Taro merger to strengthen balance sheet:** Sun has entered into a definitive agreement with Taro to acquire the minority shares at \$43 per share, subject to certain closing conditions. The agreed price of \$43 per share is poised to deliver a 48% premium to unaffected price on May 25, '23. The fully combined entity will be better positioned to service patients globally. Sun will finally complete the acquisition that began with a buyout offer in 2007, gaining full control of Taro Pharmaceutical Industries. Sun Pharma already owns 78.5% of Taro. The proposed transaction provides a compelling liquidity opportunity for shareholders. Taro has assets of \$1.3 billion, with cash and short-term bank deposits totalling \$382 million. Taro has formed a special committee of independent non-Sun Pharma directors. After 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 a higher PT of Rs. 1,727 – Sun Pharma continues to report decent earnings growth on account of strong growth in the US segment driven by specialty sales, Taro sales and strong traction in the base portfolio. Sun's domestic portfolio continues to beat IPM growth through outperformance across therapies and new product launches. As Sun Pharma has signed a licensing agreement for Deuruxolitinib with Aclaris which to further boost global specialty sales, we have increased our EPS estimates by 1% and 3% for FY25E and FY26E. We expect Sun Pharma to post healthy sales and earnings CAGR of 13% and 19%, respectively, over FY2024-FY2026E. At CMP, the stock trades at ~33x/~28x its FY2025E/FY2026E EPS. We believe superior specialty portfolio in the US market and dominant position in the India business to sustain premium valuation. Hence, we maintain a Buy rating and increased price target to Rs. 1,727 for the stock (ascribing PE of 30x on FY26E).

Key Risks

- Regulatory compliance risks, including delay in product approvals;
- Currency risk; and
- Delay in resolution of USFDA observations at the Halol plant and
- delay in normalisation of supply from Mohali plant.

Valuation (Consolidated)

Particulars	Rs cr				
	FY2022	FY2023E	FY2024E	FY2025E	FY2026E
sales	38426	43279	47420	52578	61077
EBITDA Margin (%)	26.9	26.5	27.5	28.6	29.7
Adjusted PAT	3406	8561	9418	11503	13823
EPS (Rs)	32.7	36.0	40.4	47.6	57.6
PE (x)	48.5	44.1	39.3	33.3	27.5
P/BV (x)	7.9	6.8	5.9	5.0	4.3
EV/Ebitda (x)	35.2	31.7	27.7	23.6	19.2
ROCE (%)	16.2	15.7	16.0	16.9	17.6
RONW (%)	16.6	16.6	16.0	16.2	16.7

Source: Company; Sharekhan estimates

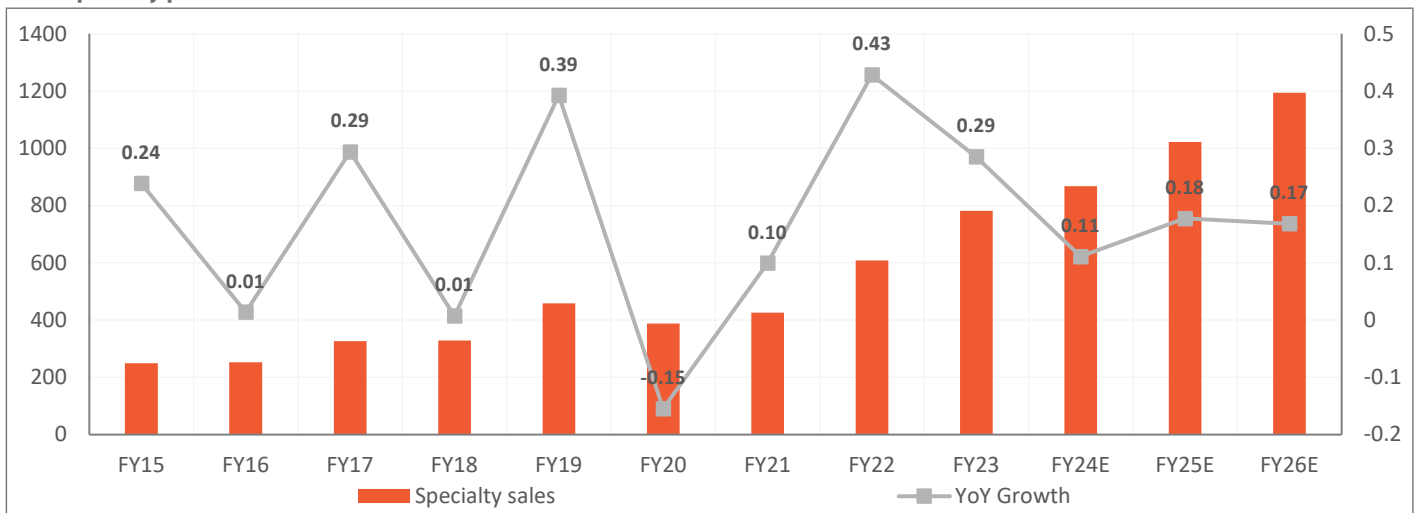
Specialty sales trend – On the verge to becoming a billion-dollar sales.

Sun's global specialty sales grew by 26% Y-o-y including milestone payment and excluding milestone payment global specialty sales grew by 24% Y-o-y to US\$ 296 mn in 3QFY24. The company's partner product, Nidlegly should be filed with Europe authorities during the H1CY24. Once approved, Nidlegly will enhance offerings in skin cancers and synergize well with growing Odomzo franchise in Europe. Phase III trials of MM-II and Phase II trials of GL0034 both early are expected to start in early 2024 are now moved with the expected start date in second half of '24. We expect specialty portfolio sales to be driven by uptick in products like Ilumya, Cequa, Winlevi, Levulan etc. hence believe specialty sales to grow at 17% y-o-y to \$1.1 billion by FY26E.

Global specialty portfolio pipeline

Candidate	Indication	Current Phase	Next Milestone
Deuruxolitinib	Alopecia Areata	Filed with USFDA	PDUFA date in Jul'24
Nidlegly	Skin Cancer	First Phase-3 topline reported	Partner to disclose at 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

Sun's specialty portfolio sales trend



Source: Sharekhan Research

Domestic sales brands

As per Feb-24 AWACS data, Sun Pharma reported a growth of 8.8% as against an IPM growth of 6.7% on MAT basis and 12.2% growth on a monthly basis (IPM growth of 9% on MTH basis). Sun's volume grew by 1.5% on MAT and 1.6% on MTH basis as against the IPM's volume decline of 0.3% on MAT and 0.2% growth on MTH basis. Sun Pharma continues to rank No. 1 in the IPM. Sun Pharma is also ranked number 1 by prescription with 12 different doctor categories. Amongst Sun Pharma's three brands which are a part of the top 40 brands; Rosuvas grew by 23% in February 2024 to Rs. 46 crore (unit growth of 17.7%), Levipil grew by 22% to Rs. 30 crore (unit growth 6.9%) but Volini declined by 13% to Rs. 27 crore (volume decline of 18.5%).

Monthly trend of Sun's top 40 brands in the IPM

Particulars	Rs cr				
	Sep'23	Oct'23	Nov'23	Jan'24	Feb'24
Rosuvas	44	46	46	50	46
Volini	36	38	36	29	27
Levipil	33	33	33	31	30

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. A 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 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 US are key markets for the company and constitute around 60% of the total topline. Sun Pharma's US business is improving, 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 strong growth traction. The 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 US, and increasing penetration in other geographies, would drive growth for Sun Pharma.

■ Valuation – Maintain Buy with increased PT of Rs. 1,727

Sun Pharma continues to report decent earnings growth on account of strong growth in the US segment driven by specialty sales, Taro sales and strong traction in the base portfolio. Sun's domestic portfolio continues to beat IPM growth through outperformance across therapies and new product launches. As Sun Pharma has signed a licensing agreement for Deuruxolitinib with Aclaris which to further boost global specialty sales, we have increased our EPS estimates by 1% and 3% for FY25E and FY26E. We expect Sun Pharma to post healthy sales and earnings CAGR of 13% and 19%, respectively, over FY2024-FY2026E. At CMP, the stock trades at ~33x/~28x its FY2025E/FY2026E EPS. We believe superior specialty portfolio in the US market and dominant position in the India business to sustain premium valuation. Hence, we maintain a Buy rating and increased price target to Rs. 1,727 for the stock (ascribing PE of 30x on FY26E).

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: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management Co.	3.38
2	Life Insurance Corporation of India	2.84
3	SBI Funds Management Limited	2.30
4	Vanguard Group Inc.	1.81
5	Aditya Medisales Limited	1.67
6	BlackRock Inc.	1.50
7	Republic of Singapore	1.15
8	Norges Bank	1.14
9	GQG Partners LLC	0.93
10	Aditya Birla Sun Life Asset Management company	0.90

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

Sharekhan

by BNP PARIBAS

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