BUY

Sun Pharma

Addressing the oral IL-23 antagonist challenge to Ilumya

Pharmaceuticals ▸ Company Update ▸ **January 21, 2025**

TARGET PRICE (Rs): 2,400

J&J, in a recent investor interaction, had stated that its oral IL-23 receptor antagonist peptide (Icotrokinra) could potentially compete with existing oral as well as injectable treatment options for moderate to severe plaque psoriasis. In addition to the Stelara to Tremfya switch that it has been engineering, J&J, in our view, could seek to position Icotrokinra as a convenient oral alternative, given the expected decline in Stelara's sales after the entry of biosimilars in CY25. From an efficacy standpoint, Icotrokinra is superior to BMS's Sotyktu but inferior to Tremfya. We do not perceive Icotrokinra as a meaningful threat to Ilumya, given: 1) Ilumya's clear dominance in the Medicare Part B channel; 2) Tremfya, with superior efficacy, not impacting Ilumya's growth trajectory; 3) Sotyktu's ramp-up being much slower vs BMS's expectations. We reiterate BUY.

Sun Pharma: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	438,856	484,968	528,269	587,570	650,554
EBITDA	116,467	130,231	151,613	172,158	195,817
Adj. PAT	86,450	100,706	118,090	135,529	156,090
Adj. EPS (Rs)	36.0	42.0	49.2	56.5	65.1
EBITDA margin (%)	26.5	26.9	28.7	29.3	30.1
EBITDA growth (%)	12.0	11.8	16.4	13.6	13.7
Adj. EPS growth (%)	10.2	16.5	17.2	14.8	15.2
RoE (%)	16.6	16.8	17.4	17.7	18.2
RoIC (%)	18.4	18.1	20.9	23.5	26.3
P/E (x)	49.3	42.4	36.1	31.5	27.3
EV/EBITDA (x)	35.9	31.5	26.8	23.1	19.9
P/B (x)	7.6	6.7	5.9	5.3	4.7
FCFF yield (%)	0.1	2.6	2.7	3.1	3.6

Source: Company, Emkay Research

Icotrokinra's efficacy profile superior vs BMS's Sotyktu but inferior vs Tremfya

Icotrokinra (JNJ-2113) is an oral IL-23 receptor antagonist peptide, which has been investigated in adults and adolescents (aged 12 years and older) with moderate to severe plaque psoriasis. J&J had announced the results from its pivotal Phase-3 study of Icotrokinra in Nov-24. The study had met its co-primary endpoints – Psoriasis Area and Severity Index (PASI) 90, and Investigator's Global Assessment (IGA) scores of 0/1 at Week 16. The proportion of patients with adverse events was broadly similar across the treatment and placebo groups. Icotrokinra's efficacy profile is superior vs BMS's Sotyktu (primary competitor to Otezla - the current standard of care oral treatment for moderate to severe plaque psoriasis), but inferior vs Tremfya (refer to Exhibit 1).

Icotrokinra unlikely to pose a meaningful threat to Ilumya

Ilumya is a medical benefit product and competing plaque psoriasis drugs (except Remicade) have exited the Medicare Part B channel. Secondly, Ilumya's relatively weaker efficacy profile vs Tremfya/Skyrizi, around which concerns were raised at the time of launch, has not impacted its growth trajectory. Ilumya's growth has largely been driven by the durable response that it offers. Lastly, while Icotrokinra is likely to replace Sotyktu as the primary competitor to Otezla, Sotyktu's ramp-up has been much slower vs BMS's expectations. Its efficacy profile notwithstanding, in its first few years post-launch (CY27E), Icotrokinra could face a similar challenge of having to build a critical mass in terms of volumes via patient support programs before gaining wider formulary access.

We see limited impact of Stelara biosimilars on Ilumya's growth trajectory

We had earlier highlighted the limited risk of patients switching from Ilumya to Stelara biosimilars (*refer to our note*). IL-23 inhibitors face the lowest risk of patients switching to other treatment options vs other biologics approved for psoriasis (refer to Exhibit 3). Notably, J&J has also focused on switching patients from Stelara to Tremfya (following Abbvie's 'Humira to Skyrizi switch') with Tremfya's sales for psoriasis and psoriatic arthritis indications having already exceeded Stelara's sales for these indications.

Target Price – 12M	Dec-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	35.0
CMP (20-Jan-25) (Rs)	1,778.3

Stock Data	Ticker
52-week High (Rs)	1,960
52-week Low (Rs)	1,316
Shares outstanding (mn)	2,399.3
Market-cap (Rs bn)	4,267
Market-cap (USD mn)	49,285
Net-debt, FY25E (Rs mn)	-204,646
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	3,437.4
ADTV-3M (USD mn)	39.7
Free float (%)	45.5
Nifty-50	23,345
INR/USD	86.6
Shareholding, Sep-24	
Promoters (%)	54.5
FPIs/MFs (%)	18.0/18.6

Price Performance

(%)	1M	3M	12M
Absolute	(1.7)	(6.9)	34.1
Rel. to Nifty	(0.7)	(0.9)	23.9

1-Year share price trend (Rs)

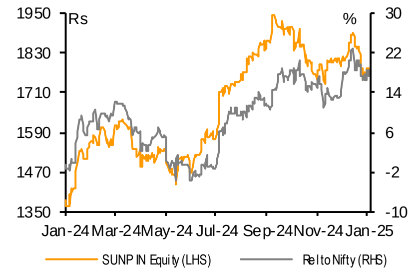

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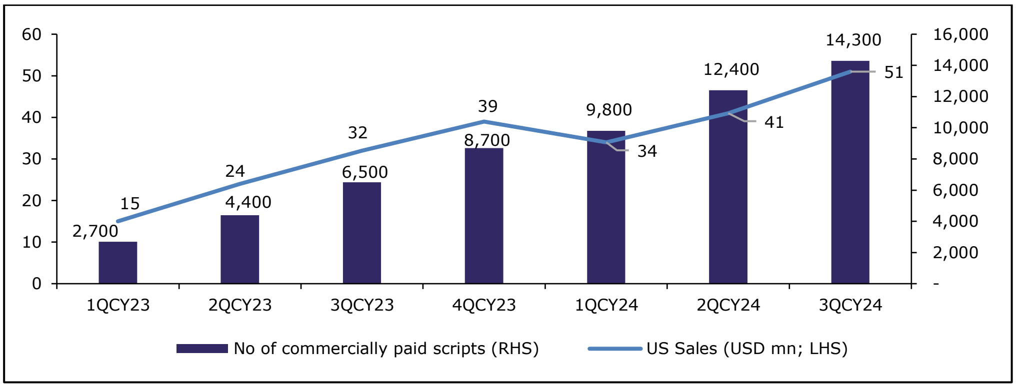
Exhibit 1: Icotrokinra's efficacy profile is superior vs BMS's Sotyktu but inferior vs Tremfya

	Icotrokinra	Tremfya		Sotyktu		Ilumya (at Week 12)	
Difference vs Placebo	**ICONIC-LEAD trial**	**VOYAGE-1 trial**	**VOYAGE-2 trial**	**POETYK PSO-1 trial**	**POETYK PSO-2 trial**	**reSURFACE-1 trial**	**reSURFACE-2 trial**
PASI 90 at Week 16	45.2%	70.4%	67.5%	31.5%	24.3%	32.0%	37.5%
IGA 0/1 at Week 16	56.4%	78.2%	75.6%	46.7%	40.9%	50.8%	50.2%

Source: Company, Emkay Research; Note: PASI - Psoriasis Area and Severity Index; PASI 90 implies an improvement of at least 90% from the baseline; IGA - Investigator's Global Assessment; IGA 0/1 implies 'clear' or 'almost clear' skin

Exhibit 2: Sotyktu's ramp-up has been much slower vs BMS's expectations; likely to fall short of BMS's guidance of ~20,000 commercially paid scripts by 4QCY24



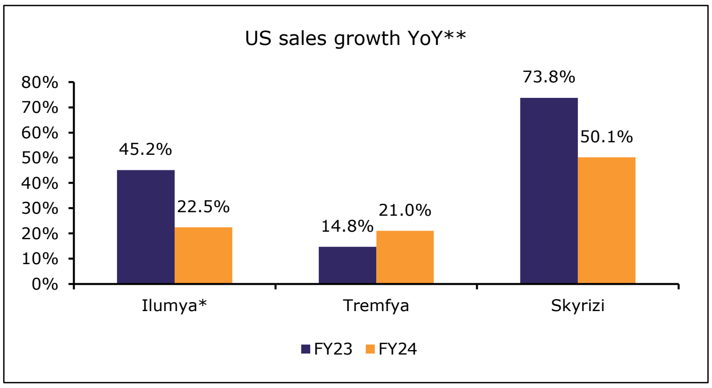
Source: Company, Emkay Research

Exhibit 3: IL-23 inhibitors face the lowest risk of patients switching to other treatment options vs other biologics approved for psoriasis

Biologic Class	Switch rate at 12 months	Switch rate at 24 months
IL-23 inhibitors	6.4%	12.7%
IL-12/23 inhibitor	13.3%	24.5%
IL-17 inhibitors	14.0%	28.3%
TNF inhibitors	24.8%	39.1%

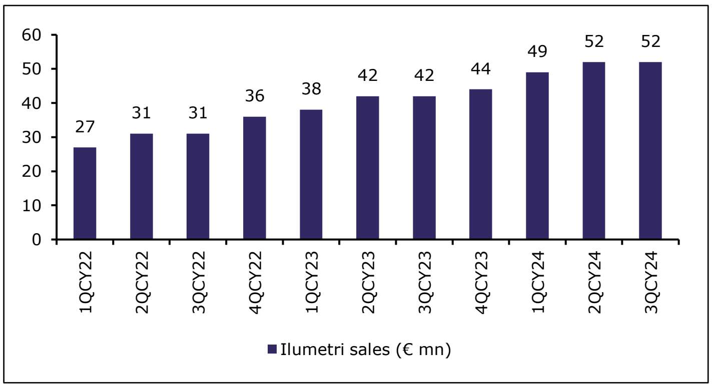
Source: Armstrong, AW et al (2023) 'Real-world switching patterns and associated characteristics in patients with psoriasis treated with biologics in the United States', Journal of Dermatological Treatment, 34(1), Emkay Research

Exhibit 4: Part of Skyrizi's growth outperformance vs Ilumya's as well as Tremfya's is attributable to the switch from Humira



*Source: Company, Emkay Research; *Estimate; **FY ending March*

Exhibit 5: Ilumetri on track to achieve peak annual sales of €250mn despite the entry of Stelara biosimilars in Europe



Source: Company, Emkay Research

Sun Pharma: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**438,856**	**484,968**	**528,269**	**587,570**	**650,554**
Revenue growth (%)	13.5	10.5	8.9	11.2	10.7
EBITDA	**116,467**	**130,231**	**151,613**	**172,158**	**195,817**
EBITDA growth (%)	12.0	11.8	16.4	13.6	13.7
Depreciation & Amortization	25,294	25,566	25,621	27,616	29,275
EBIT	**91,173**	**104,664**	**125,992**	**144,542**	**166,542**
EBIT growth (%)	10.5	14.8	20.4	14.7	15.2
Other operating income	6,068	7,384	4,061	5,077	6,346
Other income	6,345	13,542	15,848	17,627	19,517
Financial expense	1,720	2,385	2,323	2,135	1,835
PBT	**95,798**	**115,821**	**139,517**	**160,034**	**184,223**
Extraordinary items	(1,715)	(4,943)	0	0	0
Taxes	8,476	14,395	20,928	24,005	27,633
Minority interest	(873)	(721)	(500)	(500)	(500)
Income from JV/Associates	0	0	0	0	0
Reported PAT	**84,735**	**95,763**	**118,090**	**135,529**	**156,090**
PAT growth (%)	158.9	13.0	23.3	14.8	15.2
Adjusted PAT	**86,450**	**100,706**	**118,090**	**135,529**	**156,090**
Diluted EPS (Rs)	**36.0**	**42.0**	**49.2**	**56.5**	**65.1**
Diluted EPS growth (%)	10.2	16.5	17.2	14.8	15.2
DPS (Rs)	**10.5**	**12.1**	**16.0**	**19.0**	**23.0**
Dividend payout (%)	**29.7**	**30.3**	**32.5**	**33.6**	**35.3**
EBITDA margin (%)	26.5	26.9	28.7	29.3	30.1
EBIT margin (%)	20.8	21.6	23.9	24.6	25.6
Effective tax rate (%)	8.8	12.4	15.0	15.0	15.0
NOPLAT (pre-IndAS)	**83,106**	**91,656**	**107,093**	**122,861**	**141,560**
Shares outstanding (mn)	2,399.0	2,399.0	2,399.0	2,399.0	2,399.0

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	2,399	2,399	2,399	2,399	2,399
Reserves & Surplus	557,555	634,268	717,145	807,094	908,006
Net worth	**559,954**	**636,668**	**719,545**	**809,493**	**910,406**
Minority interests	33,201	34,392	2,803	3,303	3,803
Deferred tax liability (net)	15,211	13,712	13,712	13,712	13,712
Total debt	**61,979**	**28,457**	**27,444**	**23,444**	**19,444**
Total liabilities & equity	**670,345**	**713,228**	**763,503**	**849,951**	**947,364**
Net tangible fixed assets	103,904	101,923	102,554	104,485	107,648
Net intangible assets	140,297	130,191	132,770	135,261	138,254
Net ROU assets	0	0	0	0	0
Capital WIP	9,634	11,077	11,077	11,077	11,077
Goodwill	87,127	85,990	85,990	85,990	85,990
Investments [JV/Associates]	3,836	4,426	4,426	4,426	4,426
Cash & equivalents	**151,429**	**191,052**	**232,090**	**304,579**	**385,809**
Current assets (ex-cash)	398,336	415,959	432,557	458,431	485,681
Current Liab. & Prov.	137,091	141,400	151,971	168,308	185,531
NWC (ex-cash)	**261,245**	**274,559**	**280,586**	**290,123**	**300,150**
Total assets	**670,345**	**713,228**	**763,503**	**849,951**	**947,364**
Net debt	(89,450)	(162,595)	(204,646)	(281,136)	(366,365)
Capital employed	670,345	713,228	763,503	849,951	947,364
Invested capital	**505,446**	**506,673**	**515,910**	**529,869**	**546,052**
BVPS (Rs)	233.4	265.4	299.9	337.4	379.5
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)
Net Debt/EBITDA (x)	(0.8)	(1.2)	(1.3)	(1.6)	(1.9)
Interest coverage (x)	56.7	49.6	61.1	76.0	101.4
RoCE (%)	**16.2**	**17.1**	**19.2**	**20.1**	**20.7**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	95,798	115,821	139,517	160,034	184,223
Others (non-cash items)	36,196	21,627	15,818	17,528	19,478
Taxes paid	(15,098)	(15,694)	(20,928)	(24,005)	(27,633)
Change in NWC	(87,972)	(14,814)	(6,027)	(9,537)	(10,027)
Operating cash flow	**49,593**	**121,350**	**140,476**	**156,143**	**177,635**
Capital expenditure	(46,557)	(14,923)	(28,831)	(32,037)	(35,431)
Acquisition of business	(1,176)	(590)	0	0	0
Interest & dividend income	6,345	13,542	15,848	17,627	19,517
Investing cash flow	**(79,437)**	**(6,902)**	**(28,801)**	**(31,938)**	**(35,393)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	52,672	(33,522)	(1,013)	(4,000)	(4,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(1,720)	(2,385)	(2,323)	(2,135)	(1,835)
Dividend paid (incl tax)	(25,197)	(29,007)	(38,384)	(45,581)	(55,177)
Others	(1,994)	(2,188)	(28,918)	0	0
Financing cash flow	**23,761**	**(67,102)**	**(70,638)**	**(51,716)**	**(61,012)**
Net chg in Cash	(6,083)	47,346	41,037	72,490	81,229
OCF	49,593	121,350	140,476	156,143	177,635
Adj. OCF (w/o NWC chg.)	(38,379)	106,536	134,449	146,606	167,607
FCFF	3,037	106,427	111,645	124,106	142,203
FCFE	7,662	117,584	125,170	139,598	159,885
OCF/EBITDA (%)	42.6	93.2	92.7	90.7	90.7
FCFE/PAT (%)	9.0	122.8	106.0	103.0	102.4
FCFF/NOPLAT (%)	**3.7**	**116.1**	**104.3**	**101.0**	**100.5**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	49.3	42.4	36.1	31.5	27.3
P/CE(x)	38.2	33.8	29.7	26.1	23.0
P/B (x)	7.6	6.7	5.9	5.3	4.7
EV/Sales (x)	9.7	8.6	7.7	6.8	6.1
EV/EBITDA (x)	35.9	31.5	26.8	23.1	19.9
EV/EBIT(x)	45.8	39.2	32.2	27.6	23.4
EV/IC (x)	8.3	8.1	7.9	7.5	7.1
FCFF yield (%)	0.1	2.6	2.7	3.1	3.6
FCFE yield (%)	0.2	2.8	2.9	3.3	3.7
Dividend yield (%)	0.6	0.7	0.9	1.1	1.3
DuPont-RoE split					
Net profit margin (%)	19.7	20.8	22.4	23.1	24.0
Total asset turnover (x)	0.7	0.7	0.7	0.7	0.7
Assets/Equity (x)	1.2	1.2	1.1	1.1	1.0
RoE (%)	**16.6**	**16.8**	**17.4**	**17.7**	**18.2**
DuPont-RoIC					
NOPLAT margin (%)	18.9	18.9	20.3	20.9	21.8
IC turnover (x)	1.0	1.0	1.0	1.1	1.2
RoIC (%)	**18.4**	**18.1**	**20.9**	**23.5**	**26.3**
Operating metrics					
Core NWC days	217.3	206.6	193.9	180.2	168.4
Total NWC days	**217.3**	**206.6**	**193.9**	**180.2**	**168.4**
Fixed asset turnover	1.9	2.0	2.3	2.5	2.7
Opex-to-revenue (%)	49.2	51.2	50.3	49.9	49.3

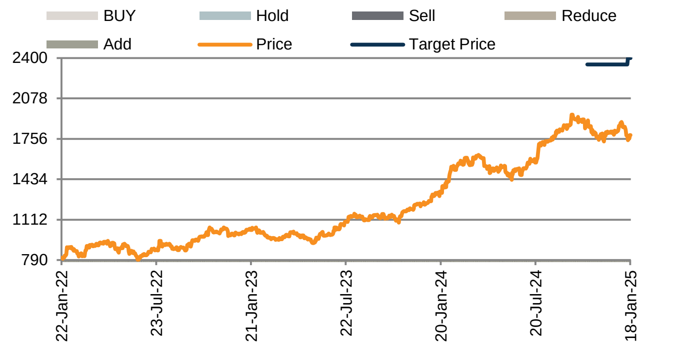
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
13-Jan-25	1,747	2,400	Buy	Shashank Krishnakumar
04-Nov-24	1,809	2,350	Buy	Shashank Krishnakumar
29-Oct-24	1,872	2,350	Buy	Shashank Krishnakumar
27-Oct-24	1,860	2,350	Buy	Shashank Krishnakumar

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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