

# Sun Pharmaceutical Industries (SUNP)

Pharmaceuticals | NBIE Conference Update

**BUY**

**CMP: Rs1,192 | Target Price (TP): Rs1,371 | Upside: 15%**

**November 29, 2023**

## Global Specialty pipeline to drive growth

### Key Points

- We hosted the management of Sun Pharma Ltd, represented by Dr. Abhishek Sharma, Vice President & Head of IR to gain insights into the current business outlook. Scaling up of the Global Specialty portfolio would remain the key focus area, with Ilumya and Winlevi being the main growth drivers.
- In India, the target would be to grow in line or slightly faster than the market on the back of addition of MRs and new launches. Growth in EM and RoW markets would be aided by leveraging of the Global Specialty portfolio.
- We remain optimistic about Sun Pharma for the following reasons:
  - 1) Increasing presence in the US Specialty market, enhanced by the recent acquisition of Deuroxolitinib
  - 2) Sustained growth in the Indian market
  - 3) Potential for strategic expansion, especially in Dermatology, Ophthalmology and Onco-dermatology specialties
- It is maintaining a robust EBITDA margin of ~27% even with higher R&D investments. We have a BUY recommendation with a revised target price (TP) of Rs1,371, valuing it at 28x September'25E EPS of Rs49.

**Speciality drugs drive US business; De-risking at Taro:** Sun Pharma continues to face pricing pressure in the US market mainly in its Generics business. However, this pressure is partly mitigated by growth in Specialty drugs and new launches. Not just that, Taro primarily operates as a sales company in the US market, with facilities in Israel and Canada, and hence de-risking strategies have been put in place.

**Speciality focus to drive India growth:** It is the largest player in India with 8.5% market share in the Indian Pharmaceutical Market (IPM). Sun Pharma aims for growth beyond IPM growth going forward. The company is strategically focusing on specialist doctors. It has already added new MRs and would add more if required.

**Partners with CMS (local player) in China for Ilumya:** Sun Pharma has received the approval for Ilumya in the Chinese market and expects significant contributions in 3-4 years. Clinical trials outcome (INSPIRE phase 1 & 2) are anticipated by the end of 2025. The company is partnering with local player CMS.

Est Change	Upgrade
TP Change	Upgrade
Rating Change	Maintain

### Company Data and Valuation Summary

Reuters:	SUN.BO
Bloomberg:	SUNP IN Equity
Mkt Cap (Rsbn/US\$bn):	2,858.4 / 34.3
52 Wk H / L (Rs):	1,215 / 922
ADTV-3M (mn) (Rs/US\$):	2,198.9 / 26.4
Stock performance (%) 1M/6M/1yr:	7.2 / 22.8 / 15.1
Nifty 50 performance (%) 1M/6M/1yr:	4.0 / 2.8 / 6.8

Shareholding	4QFY23	1QFY24	2QFY24
Promoters	54.5	54.5	54.5
DII's	19.2	19.8	19.7
FII's	16.9	16.5	16.8
Others	9.4	9.3	9.1
Pro pledge	1.8	2.3	2.4

### Financial and Valuation Summary

Particulars (Rsmn)	FY22	FY23	FY24E	FY25E
Net sales	386,545	438,857	491,984	538,099
EBITDA	103,977	116,468	133,571	148,373
Net profit	66,658	86,296	96,827	110,103
EPS (Rs)	27.8	36.0	40.4	45.9
EPS growth (%)	12.4	29.5	12.2	13.7
EBITDA margin (%)	26.9	26.5	27.1	27.6
PER (x)	42.9	33.1	29.5	26.0
EV/Sales (x)	6.0	5.1	4.6	4.1
EV/EBITDA (x)	26.4	23.8	20.3	17.7
RoCE (%)	12.6	14.6	14.4	15.2
RoE (%)	14.1	16.6	16.3	16.5

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

## India Business

- Sun Pharma is the largest pharma company in India with 8.5% market share.
- It continues to grow through volume, pricing and new product launches.
- The company is focusing more on detailing to specialists and marketing specialty drugs.
- Its focus is on remaining a prescription-led, volume growth company in India rather than a price-led company.
- The company plans to grow in line with IPM or slightly faster.
- It emphasizes on sustainable growth and wants to avoid short-term gains at the expense of future.

## US market

- The US market is a mix of Generics and Specialty. A decline in Generics is offset by growth in Specialty.
- In the US, the company's core focus is on core specialties like Dermatology, Ophthalmology and Onco-dermatology.
- The company sees no change in the pricing pressure in the US market.

## Emerging Markets

- One-third of business from markets outside India is divided into EMs and other DMs.
- The company is very positive about EMs like Brazil, Romania, South Africa and Russia.
- Specialty is expected to be the main growth driver in other DMs.

## Taro's Position

- The major sales focus of Taro is the US market.
- In the midst of war, Taro is focused on employees' safety and business continuity.
- Taro has two facilities; the big one is in Israel and another one is in Canada. Hence, de-risking strategies have been put in place.
- Also, Taro's plant is in North Israel, where the impact of war has been insignificant.
- It doesn't expect disruption in the supply chain.

## Entry into China with Ilumya

- The company has received approval in China for Ilumya and it is entering the Chinese market with a local partner CMS.
- It expects gradual sales build-up over time, with China becoming a meaningful market in a couple of years.
- The company seeks to avoid price sensitivity in China by prioritizing inclusion on provincial reimbursement lists, allowing more flexibility in pricing without being subject to government-imposed price caps.

## R&D and Clinical Trials

- The company aspires to keep its R&D spending at 7% of revenue, but due to clinical trials and other filings, the R&D cost is expected to rise in future (particularly due to Specialty).
- Clinical trials for Ilumya in China are progressing well (Trial: INSPIRE 1 & 2) with the first offline data expected by the end of 2025.

## Product Portfolio and Market Trends

- The company focuses on US+ strategy, launching products first in the US and then in other countries.
- It reckons that the oral anti-diabetic market trend may shift towards GLP1 analogs and the company will alter the product portfolio accordingly.
- It expects continued growth in the new classes of anti-diabetic drugs despite increased competition.

## Sales and Marketing

- The company currently has MR strength of ~12,500-12,600.
- MR productivity has been maintained despite increased MR strength.
- The company is not adding more MRs as of now but may decide to add more MRs if business need arises.

## M&A and Licensing Strategy

- The company is prioritizing Specialty and EMs for M&A and licensing.
- It is focusing on growing the existing product pipeline and achieving scale across key markets.

## Valuation and Outlook

Revenue is expected to grow at ~10% CAGR over FY23-FY25E, driven by all geographies (excluding US Generics business). Domestic growth will mainly be driven by continuous strong growth in the chronic segment. Global Speciality segment revenue is expected to grow at ~13% CAGR over FY23-FY25E mainly on the back of persistent ramp-up in Winlevi and Ilumya, which will partially be offset by heightened generic competition in Absorica. RoW and EM markets are expected to grow at 8.7% and 9.5% CAGR, respectively over FY23-FY25E. EBITDA margin is expected to remain healthy at ~27%. Net profit is expected to grow at ~12% CAGR over FY23-FY25E mainly on the back of a strong operational performance.

The stock is currently trading at 29.5x/26x PE on FY24E/FY25E and 20.3x/17.7x EV/EBITDA on FY24E/FY25E. ROE and ROCE are expected to remain decent at 16.5% and 15.2%, respectively in FY25E. FCF generation is expected to remain strong at >Rs200bn over FY24E-FY25E. We remain positive about Sun Pharma on a long-term basis due to the following catalysts: (i) Ramp-up of Branded/Specialty business in the US (ii) Continued growth in India business (iii) Potential inorganic opportunity given the strong balance sheet (iv) Maintenance of healthy EBITDA margin at ~27% despite higher R&D spends. However, additional cost and loss of revenue due to the Halol import alert and Mohali plant issues are likely to be near term concerns for Sun Pharma. We maintain BUY on Sun Pharma with a revised TP of Rs1,371, valuing it at 26x Sept'25E EPS of Rs48.

### Exhibit 1: One-year Rolling Forward P/B Chart



Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

## Financial statements

**Exhibit 2: Income statement**

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
<b>Net Sales</b>	<b>334,981</b>	<b>386,545</b>	<b>438,857</b>	<b>491,984</b>	<b>538,099</b>
Growth (%)	2.2	15.4	13.5	12.1	9.4
Raw Materials	86,901	103,515	106,622	117,899	132,665
Employee Expenses	68,622	73,008	82,960	91,717	99,339
Other expenses	73,516	84,719	109,366	114,834	120,576
R&D	21,028	21,325	23,441	33,963	37,146
Total expenditure	250,068	282,568	322,389	358,413	389,726
Gross Profit	248,081	283,030	332,235	374,085	405,434
% growth	5.3	14.1	17.4	12.6	8.4
<b>EBITDA</b>	<b>84,914</b>	<b>103,977</b>	<b>116,468</b>	<b>133,571</b>	<b>148,373</b>
Growth (%)	22.4	22.5	12.0	14.7	11.1
EBITDA margin (%)	25.3	26.9	26.5	27.1	27.6
Other income	8,355	9,215	6,345	9,840	13,452
Interest Costs	1,414	1,274	1,720	1,845	793
Depreciation	20,800	21,437	25,294	25,826	26,280
Exceptional Items	-38,966	-45,668	-1,715	-	-
<b>PBT</b>	<b>32,089</b>	<b>44,813</b>	<b>94,084</b>	<b>115,739</b>	<b>134,752</b>
% growth	-35.9	39.7	109.9	23.0	16.4
Tax	6,359	10,755	8,476	18,518	24,255
Effective tax rate (%)	19.8	24.0	9.0	16.0	18.0
<b>PAT before MI and Share for Associates</b>	<b>25,730</b>	<b>34,058</b>	<b>85,608</b>	<b>97,221</b>	<b>110,496</b>
Income from Associates	-123	-165	-479	-	-
MI	-6,315	1,943	394	394	394
<b>PAT (net of Minority Interest)</b>	<b>31,921</b>	<b>31,950</b>	<b>84,736</b>	<b>96,827</b>	<b>110,103</b>
<b>Adjusted PAT</b>	<b>59,318</b>	<b>66,658</b>	<b>86,296</b>	<b>96,827</b>	<b>110,103</b>
Growth (%)	50.5	12.4	29.5	12.2	13.7
<b>EPS (Rs)</b>	<b>24.7</b>	<b>27.8</b>	<b>36.0</b>	<b>40.4</b>	<b>45.9</b>
<b>EPS growth (%)</b>	<b>50.5</b>	<b>12.4</b>	<b>29.5</b>	<b>12.2</b>	<b>13.7</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Balance sheet**

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Equity	2,399	2,399	2,399	2,399	2,399
Reserves	462,229	477,713	557,555	625,333	702,405
Net worth	464,628	480,112	559,954	627,733	704,805
Minority Interest	30,171	30,549	33,201	33,595	33,988
Long term Loans	8,981	4,817	5,599	5,599	5,599
Deferred tax liabilities	-35,119	-28,649	-31,326	-31,326	-31,326
Other non-current liabilities	10,986	10,196	9,295	9,710	10,071
<b>Total Liabilities</b>	<b>479,647</b>	<b>497,026</b>	<b>576,724</b>	<b>645,311</b>	<b>723,137</b>
Net Block	111,715	111,689	113,537	102,711	91,431
Goodwill & Intangible Assets	119,483	125,777	180,396	180,396	180,396
Long Term Loans & Advances	7	7	6	7	7
Other Non Current Assets	105,477	81,409	83,021	83,021	83,021
Assets classified as held for sale	-	-	214	214	214
Inventories	89,970	89,968	105,131	116,878	127,089
Debtors	90,614	105,929	114,385	128,232	140,252
Cash and cash equivalents	62,730	45,083	46,237	62,278	142,413
Bank balances other than cash	1,725	5,251	11,466	11,466	11,466
Other current assets	59,382	103,919	121,401	124,751	127,659
<b>Total Current Assets</b>	<b>304,421</b>	<b>350,150</b>	<b>398,619</b>	<b>443,605</b>	<b>548,879</b>
Creditors	39,737	44,793	56,815	62,825	70,693
Other current liabilities/provisions	121,720	127,212	142,255	101,818	110,119
<b>Total current liabilities</b>	<b>161,456</b>	<b>172,006</b>	<b>199,070</b>	<b>164,642</b>	<b>180,811</b>
Net current assets	142,965	178,144	199,549	278,962	368,068
<b>Total Assets</b>	<b>479,647</b>	<b>497,026</b>	<b>576,724</b>	<b>645,311</b>	<b>723,137</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Cash flow**

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
PBT	31,965	44,813	94,084	115,739	134,752
Depreciation	20,800	21,437	25,294	25,826	26,280
Net Chg in WC	(6,051)	15,591	(56,618)	(19,585)	(14,362)
Taxes	(10,029)	9,692	(15,098)	(18,518)	(24,255)
Others	25,019	(1,688)	1,931	8,472	6,546
<b>CFO</b>	<b>61,704</b>	<b>89,845</b>	<b>49,593</b>	<b>111,934</b>	<b>128,960</b>
Capex	(10,730)	(14,344)	(20,646)	(15,000)	(15,000)
<b>FCF</b>	<b>50,973</b>	<b>75,501</b>	<b>28,948</b>	<b>96,934</b>	<b>113,960</b>
Net Investments made	12,553	(34,485)	(63,294)	-	-
Others	3,540	(3,203)	4,503	-	-
<b>CFI</b>	<b>56,336</b>	<b>23,469</b>	<b>(50,489)</b>	<b>81,934</b>	<b>98,960</b>
Change in Share capital	2,396	-	-	-	-
Change in Debts	(44,896)	(28,718)	51,255	(50,000)	-
Div. & Div Tax	(15,862)	(21,589)	(25,197)	(29,048)	(33,031)
Others	(9,124)	(1,628)	11,155	(1,845)	(793)
<b>CFF</b>	<b>(67,486)</b>	<b>(51,935)</b>	<b>37,213</b>	<b>(80,893)</b>	<b>(33,824)</b>
<b>Total Cash Generated</b>	<b>50,553</b>	<b>61,380</b>	<b>36,317</b>	<b>112,974</b>	<b>194,096</b>
Cash Opening Balance	64,876	64,455	50,334	57,703	73,743
<b>Cash Closing Balance</b>	<b>64,455</b>	<b>50,334</b>	<b>57,703</b>	<b>73,743</b>	<b>153,879</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Key ratios**

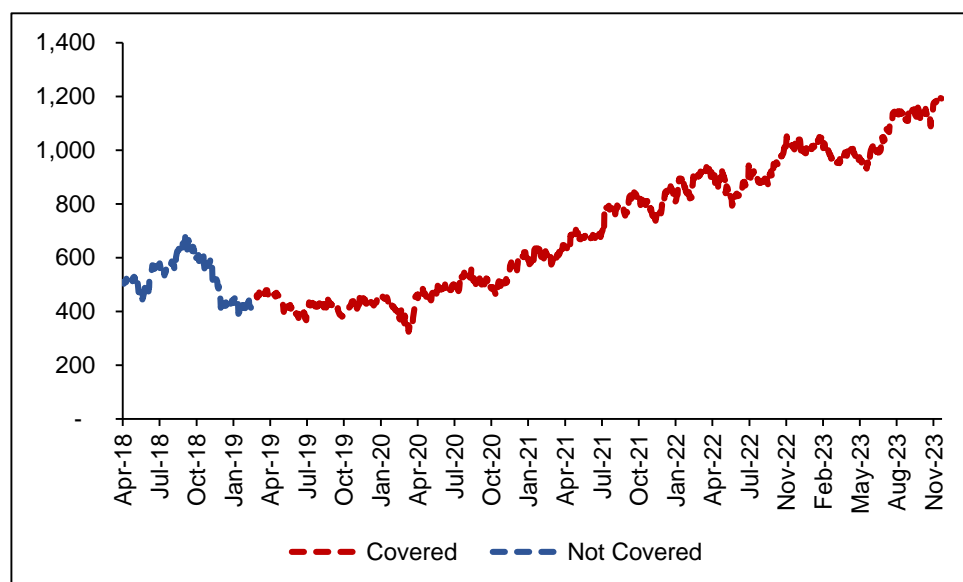
Y/E March	FY21	FY22	FY23	FY24E	FY25E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	25.3	26.9	26.5	27.1	27.6
Net profit margin (%)	17.7	17.2	19.7	19.7	20.5
RoE (%)	12.9	14.1	16.6	16.3	16.5
RoCE (%)	10.8	12.6	14.6	14.4	15.2
RoIC (%)	12.9	15.4	18.4	18.4	20.8
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	102	93	93	91	92
Inventory (days)	93	85	82	84	84
Payables (days)	42	40	43	45	46
Working capital (days)	153	139	132	130	130
Current ratio (x)	1.9	2.0	2.0	2.7	3.0
Quick Ratio (x)	1.3	1.5	1.5	2.0	2.3
<b>Valuation ratios</b>					
EV/Sales (x)	8.4	7.1	6.3	5.5	4.9
EV/EBITDA (x)	33.0	26.4	23.8	20.3	17.7
P/E (x)	48.2	42.9	33.1	29.5	26.0
P/BV (x)	6.2	6.0	5.1	4.6	4.1

Source: Company, Nirmal Bang Institutional Equities Research

## Rating Track

Date	Rating	Market price (Rs)	Target price (Rs)
5 March 2019	Buy	446	581
5 April 2019	Buy	462	581
29 May 2019	Buy	414	578
14 August 2019	Buy	438	578
23 September 2019	Buy	414	573
8 November 2019	Buy	440	517
7 February 2020	Buy	431	517
27 March 2020	Buy	339	489
23 April 2020	Buy	474	543
27 May 2020	Buy	451	543
3 August 2020	Buy	532	625
23 September 2020	Buy	509	618
29 September 2020	Buy	510	618
4 November 2020	Buy	485	618
10 December 2020	Accumulate	570	618
7 January 2021	Buy	605	701
1 February 2021	Buy	586	716
28 May 2021	Accumulate	700	710
2 August 2021	Accumulate	774	831
26 September 2021	Accumulate	770	880
3 November 2021	Buy	815	939
1 February 2022	Buy	834	1,035
21 February 2022	Buy	864	1,090
11 March 2022	Buy	869	1,090
31 May 2022	Buy	888	1,082
1 August 2022	Buy	944	1,112
29 September 2022	Buy	918	1,061
2 November 2022	Buy	1,033	1,192
1 February 2023	Buy	1,035	1,202
16 March 2023	Buy	967	1,265
27 May 2023	Buy	971	1,130
9 June 2023	Buy	1,000	1,217
4 August 2023	Buy	1,141	1,315
1 November 2023	Buy	1,117	1,345
29 November 2023	Buy	1,192	1,371

## Rating Track Graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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