

# Fundamental Research Report

## Sun Pharmaceutical Industries Ltd

Date : 08-06-2020



### BUY

CMP	: Rs.494.25
Target (Upside)	: 15% - 20%
NSE Symbol	: SUNPHARMA
BSE Code	: 524715
Market Cap	: Rs.118,587 Cr.
52 WEEK High /	: Rs.511.00 /
Low	Rs.312.00
Stock PE	: Rs.29.74
Dividend Yield	: 0.61%
Recommendation	: BUY
Book Value	: Rs.188.65
Face Value	: Rs.1.00
ROCE	: 11.19%
ROE	: 9.19%
Sales Growth (3Yrs)	: 0.67%

### Company Background:

Sun Pharmaceutical Industries Limited (SPIL) is an Indian multinational pharmaceutical company headquartered in Mumbai, Maharashtra. It was established by Mr. Dilip Shanghvi in Vapi, Gujarat, to treat five psychiatry ailments. The company manufactures and sells pharmaceutical formulations and active pharmaceutical ingredients (APIs) primarily in India and the US. The company offers formulations in various therapeutic areas such as cardiology, psychiatry, neurology, gastroenterology and diabetology. It also provides APIs such as warfarin, carbamazepine, etodolac, and clorazepate, as well as anti-cancer drugs, steroids, peptides, sex hormones, and controlled substances. Over 72% of SPIL's sales are from markets outside India, primarily in the US. The US is the single largest market, accounting for about 50% turnover. Overall, formulations or finished dosage forms account for 93% of the turnover. Manufacturing is spread across 26 locations, including plants in the US, Canada, Brazil, Mexico and Israel. In the US, the company markets a large basket of generic drugs, with a strong pipeline awaiting approval from the USFDA. In 1998, SPIL acquired a number of respiratory brands from Natco Pharma. Other notable acquisitions include Milmet Labs and Gujarat Lyka Organics (1999), Pradeep Drug Company (2000), Phlox Pharma (2004), a formulations plant in Bryan, Ohio, and ICN, Hungary, from Valeant Pharma and Able Labs (2005), respectively, and Chattem Chemicals (2008). In 2010, the company acquired a large stake in Taro Pharmaceuticals - among the

largest generic dermatology product companies in the US -with operations across Canada and Israel. In 2012, SPIL announced acquisitions of two US companies: Dusa Pharmaceuticals, a dermatology device company and generic pharmaceutical company, and URL Pharma. In 2013, the company announced a R&D joint venture for ophthalmology with a research company, Intrexon. On 6 April 2014, SPIL announced the acquisition of 100% stake in Ranbaxy Laboratories, in an all-value transaction valued at US\$4bn. After this acquisition, SPIL became the largest pharmaceutical company in India, the largest Indian pharmaceutical company in the US, and the fifth-largest generic company worldwide.



**Shareholding Pattern:**

Particulars	No. of shares (mn)	% held
<b>Promoter &amp; promoter group</b>	<b>1,304.8</b>	<b>54.4</b>
<b>Mutual funds</b>	<b>232.3</b>	<b>9.7</b>
<b>ICICI Prudential AMC</b>	<b>81.8</b>	<b>3.4</b>
<b>Foreign portfolio investors</b>	<b>356.9</b>	<b>14.9</b>
<b>Governement of Singapore</b>	<b>15.3</b>	<b>1.38</b>
<b>Financial institutions/banks</b>	<b>20.8</b>	<b>0.9</b>
<b>Insurance Companies</b>	<b>166.2</b>	<b>6.93</b>
<b>LIC</b>	<b>142.1</b>	<b>5.93</b>
<b>Non-Institutions</b>	<b>0</b>	<b>0</b>
<b>Others</b>	<b>314</b>	<b>13.17</b>

**INVESTMENT RATIONALE****Ilumya has more than a fair chance to beat expectations:**

We forecast peak sales of US\$500mn to US\$1,000mn for Ilumya in the US. Ilumya ramp-up is expected to be slower than other marketed biologics, primarily as SPIL is a new entrant and will take some time for it to garner acceptance by physicians.

**Biologic market continues to expand:**

There is still a significant unmet need Psoriasis market has the potential to grow multi-fold from the current level driven by more frequent usage of biologics. With new biologics gaining approval, there is a gradual increase in the number of patients being treated with biologics every year. Currently, around 0.15mn patients are treated with a biologic and in the US there are 0.7mn patients who have severe psoriasis (BSA > 10%). At an annual cost of US\$36,000, the potential market for biologics can expand up to US\$25bn. Biologics remain under-penetrated as topical and oral systemic agents remain the preferred choice of insurers and physicians. However, insurers and physicians are gradually adapting to the change as physician/patient expectation on the treatment outcome is getting upwardly revised with treatment outcome from new age biologics being significantly better than under the old systemic/topical agents that are widely used.





### **Most drugs have a good chance to gain a fair market share as patients need to switch:**

Psoriasis, unfortunately, is a chronic disease and patients have to keep switching from one drug to another. The length of time a patient continues with a drug is known as drug survival. Most commonly prescribed biologic medications used in the treatment of psoriasis are associated with very low drug survival based on a systematic review of literature. The median overall drug survival for Ustekinumab, Adalimumab, Infliximab and Etanercept was 38.0, 36.5, 26.6 and 24.7 months, respectively. The mean annual drug survival rate for TNF inhibitors was 70%, 57%, 51%, 45% and 41% at 1, 2, 3, 4 and 5 years, respectively.

### **Efficacy is better/comparable to most widely used drugs for psoriasis:**

Based on a cross-trial comparison, efficacy of Tildrakizumab is better/comparable to the most widely used drugs for psoriasis - Humira, Otezla and Stelara - whose market share put together add up to around 70% of psoriasis market. This should allow Tildrakizumab a fair share of the pie. While SPIL may not have comparable marketing strength as its competitors, it will only restrict the company's peak potential and lead to some delay in ramp-up.

### **Biologics are used very late in the life cycle of psoriasis patients:**

A study of patient registry indicated that the median time until initiation of conventional systemic therapy was 11.0 years and the median time until initiation of biologic therapy was 18.9 years for all patients treated from 2005 to 2015. Most patients received three different conventional antipsoriatic systemic therapies. There is a minor trend which signals that the time for initiation of biologic therapy is getting shorter as the second-half of the time period studied showed that patients were treated with only two conventional systemic agents before initiation of a biologic therapy, while in the first-half (2005-10), patients were treated with three systemic agents before initiating a biologic.

### **Initiation of a biologic therapy significantly reduces day-care admissions:**

Initiation of biologics treatment is associated with a significant decrease in (day care) admissions. The rate of day-care admissions stood at 17.7 per 100 follow-up years, two years before biologic initiation versus 8.6 per 100 follow-up years in the first two years after the start of a biologic treatment.



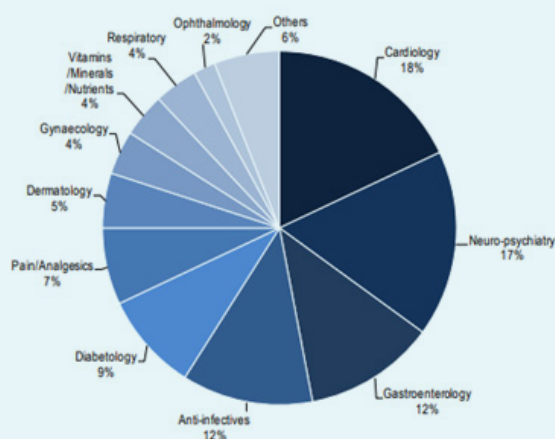
## SPIL's base business in the US:

SPIL is currently the sixth-largest generic company in the US and has a portfolio comprising 441 and 49 approved ANDAs and NDAs, respectively. 123 ANDAs and 6 NDAs are pending approval. Existing marketed ANDA portfolio of SPIL in the US is more or less commoditised with a median competitive intensity of eight players per ANDA. SPIL has just 3 ANDAs where it is the only player in the market (which are all age-old ANDAs) and around 28 ANDAs where there are two or less competitors.

Competitive intensity	# of portfolio drugs
0	3
1	9
2	16
3	14
4	11
>5	128
<b>Median competitive intensity</b>	<b>8</b>

## Domestic business:

SPIL dominates the market with leadership position SPIL is the largest player in India with 8.2% market share. It is the market leader in chronic segment. It has top 30 brands figuring in the country's top 300 brands. It also has the largest product offerings supported by a strong 9,200+ sales force covering more than 400,000 doctors. SPIL has a best-in-class sales field force with Rs8.2mn sales per medical representative or MR versus the industry average of Rs5.2mn per MR. 31% of SPIL's revenues comes from the domestic business and the company expects this business to grow faster than the industry. The Indian pharmaceutical industry is expected to post a CAGR of 9%-12% in 2018-22 to reach a size of US\$26bn-US\$30bn. Branded generic drugs account for nearly 80% of Indian pharmaceutical market in terms of sales.



## Market share of SPIL in domestic market:



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SPIL is present in 100 markets across the world. Brazil, Mexico, Russia, South Africa are some of these markets. The company has manufacturing facilities in seven countries. It has 2,300+ sales force spread across all the markets. The company, in 2016, acquired Biosinetz to enhance its presence in Russia and it has given access to the local manufacturing facility. Pharmaceutical spending in emerging markets stood at around US\$269.6bn in 2017. It is estimated to post a 6%-9% CAGR over 2018-22 to touch US\$345bnUS\$375bn in 2022. The Russian pharmaceutical market is expected to grow 10%, while overall markets are supposed to grow 6%-7%. China is the largest emerging pharmaceutical market and is pegged for 5%-8% growth.

## VALUATION

The headwinds in the US for SPIL's generic business are easing and the specialty business is positioned for a ramp-up post recent approval for specialty assets – Ilumya for psoriasis and Cequa for dry eye disease.

We anticipate a turnaround in its US business going forward as an outcome of its strategy to invest in building a specialty portfolio so as to gain immunity from steep price erosion and be able to scale up from the current level.

At CMP of 494.25, stock is trading at 30x trailing EPS which is a significant discount to historical multiples. We recommend a strong BUY to investors for Sun Pharma given its supremacy and market leadership across the globe, and future growth prospects.





## FINANCIALS

### Annual Financials

Financial Year	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Sales +	27,392	28,487	31,578	26,489	29,066	32,838
Expenses +	19,706	20,425	21,489	20,885	22,710	25,848
Operating Profit	7,686	8,062	10,089	5,605	6,356	6,990
Profit before tax	6,403	6,571	9,048	3,479	3,810	5,010
Net Profit	4,539	4,546	6,964	2,096	2,665	3,765

### Ratios

	FY15A	FY16A	FY17A	FY18A	FY19A
ROCE	-5%	-3%	0%	5%	8%
ROE	-10%	-6%	-1%	5%	8%
P/E					NM
P/B		5.4	5.6	5.3	5.2
EV/EBITDA	NM	NM	NM	NM	NM
Net debt/Equity	0.3	0.3	0.3	0.3	0.3
Debtor days	62	88	110	162	182

### Quarterly Financials

	4Q19	4Q20	YoY	3Q20	QoQ
Revenue	70,443	80,780	15%	80,387	0%
EBITDA	74,455	82,872	11%	82,747	0%
Margin	105.7%	102.6%	(311)	102.9%	(35)
PBT	11,483	11,528	0%	18,983	-39%
PAT	-288	831	NM	3,276	-75%







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