

January 9, 2020

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	REDUCE		REDUCE	
Target Price	396		396	
Sales (Rs. m)	3,21,814	3,43,170	3,21,814	3,43,170
% Chng.	-	-	-	-
EBITDA (Rs. m)	70,638	75,326	70,638	75,326
% Chng.	-	-	-	-
EPS (Rs.)	19.8	21.7	19.8	21.7
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	281	305	322	343
EBITDA (Rs. bn)	60	67	71	75
Margin (%)	21.5	22.0	22.0	22.0
PAT (Rs. bn)	30	45	48	52
EPS (Rs.)	12.4	18.9	19.8	21.7
Gr. (%)	59.3	52.3	4.6	9.4
DPS (Rs.)	2.2	2.2	2.2	2.2
Yield (%)	0.5	0.5	0.5	0.5
RoE (%)	7.5	11.3	11.7	11.5
RoCE (%)	8.8	9.2	9.6	9.7
EV/Sales (x)	3.7	3.4	3.1	2.8
EV/EBITDA (x)	17.2	15.6	14.3	12.9
PE (x)	35.3	23.2	22.2	20.3
P/BV (x)	2.5	2.7	2.5	2.2

Key Data

SUN.BO | SUNP IN

52-W High / Low	Rs.484 / Rs.345
Sensex / Nifty	40,818 / 12,025
Market Cap	Rs.1,054bn/ \$ 14,683m
Shares Outstanding	2,399m
3M Avg. Daily Value	Rs.5188.87m

Shareholding Pattern (%)

Promoter's	54.55
Foreign	14.70
Domestic Institution	18.21
Public & Others	12.23
Promoter Pledge (Rs bn)	60.01

Stock Performance (%)

	1M	6M	12M
Absolute	2.4	19.7	(2.0)
Relative	1.5	13.6	(13.6)

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ILUMYA: Peak sales unlikely to exceed USD100-130mn

Quick Pointers:

- Ilumya likely to lose out on rising competitive intensity from new IL-23 molecules which have higher efficacy
- Expect peak annual sales of US\$100-130m from Ilumya as against market estimates of USD300-350mn

We believe Ilumya will face stiff tough competition from AbbVie's Skyrizi (Risankizumab) and J&J's Tremfya (Guselkumab) because of the lower efficacy level with PASI (Psoriasis Area Severity Index) score of 75 in week 28 versus Skyrizi & Tremfya PASI of 90 in just 16 weeks. With more than 15 months' post launch of Ilumya in US, its market share has been lower than 2% in interleukin (IL) treatment for psoriasis/psoriatic arthritis, while Skyrizi and Tremfya have gained market share of more than 2% and 5% respectively. Although market expects Ilumya peak sales of US\$300-350mn, we believe strong competition from IL-23 drugs (Skyrizi and Tremfya) will restrict Ilumya peak sales at US\$100-130m. Currently, SUNP's specialty portfolio has launched eight products and with a quarterly sale of \$90-100m on \$1bn investment till date. We believe lower realization in specialty portfolio, higher overhead costs (promotion costs, employee costs of reps for brands and R&D), FDA concerns over Halol plant and corporate governance issues will remain a valuation overhang. Maintain 'Reduce' with TP Rs396.

- **Interleukin-23 (IL-23) gaining market share from TNF (Tumor necrosis factor) Alpha inhibitor--** The IL-23 molecules are the latest and improved line of treatment for psoriasis, while IL-17, IL-12/23, TNF-Alpha and conventional oral medicine are older method of treatment. IL-23 has efficacy advantage over anti -TNF molecule and this will help to expand market share at faster pace. Among the IL-23 drugs, Tremfya was the first molecule to be launched (CY17), followed by Ilumya (CY18) and Skyrizi(CY19). It is estimated that Skyrizi to be the next bestseller drug in psoriasis and likely to reach peak annual sales of US\$5bn over the years.
- **Ilumya break-even to get delayed by FY22E Vs. SUNP expectation of FY20E--** We believe Ilumya may end up being 3rd or 4th preferred choice of treatment of plaque psoriasis after Skyrizi, Tremfya and Stelara. This may lead to annual revenues of US\$100-130m and a positive EBITDA contribution from FY22E.
- **Skyrizi shakes up psoriasis market--** Within few months of launch, Skyrizi sales in Q2CY19 were US\$48m and the company expects US\$250m sales in CY19. Industry experts however more optimistic on the success of the drug as expected sales could be US\$300m in CY19E and US\$800m in CY20E. Skyrizi and Tremfya were found to have similar PASI score of 90 in just 16 weeks, though lower annual maintenance dosage of Skyrizi makes it superior choice for dermatologists. With lower efficacy level and pricing in-line with Skyrizi and Tremfya, Ilumya can may improve Rx share only by steep price reduction.

- According to the survey among dermatologists in US by Piper Jaffray, around 17% of the specialists already prescribed Skyrizi while an average of 25% of their patients are likely to be prescribed with Skyrizi. The surveyor expects the trend is poised to grow to 59% in 2-3 months as around 42% of the specialists indicate aggressive use of Skyrizi among patients.

Exhibit 1: Comparative placement of Ilumya among biologics for Psoriasis/ Psoriatic arthritis

Treatment type	Dosage and Frequency	PASI(Psoriasis Area Severity Index)	Estimate cost of treatment for initial year (\$)
IL-23 Newest Biological treatment			
Skyrizi-Risankizumab-(Abbvie)	Week 0, 4, then every 12 weeks	After 16 weeks PASI score 90	92,448
Ilumya Tildrakizumab-(Sunpharma)	Week 0 and 4, then every 12 weeks	At week 28, 74% of the patients achieved a PASI-75 response ,and at week 64, 84% of the patients sustained a PASI-75 response.	83,490
Tremfya-Guselkumab(J&J)	Week 0 and 4, then every 8 weeks	PASI 90 in week 16	1,52,026
IL-12/23 Older Interleukin molecule			
Stelara-Ustekinumab (J&J)	Week 0 and 4, then every 12 weeks	PASI 75 attained in 28 week	1,32,000
IL-17 Previous generation approved Interleukin Molecules			
Taltz Ixekizumab (Lily)	Week 0 and every 2 weeks for 3 months, then every 4 weeks	After 24 weeks PASI score 90	1,01,992
Siliq-Brodalumab (Amgen)	Week 0, 1, 2, then every 2 weeks	PASI 75 after 12 weeks of treatment	32,676
Cosentyx-Secukinumab-(Novartis)	Week 0, 1, 2, 3 and 4, then every four weeks	PASI 75 at week 16,and 90 at 52 week.	41,440
TNF-Alpha Oldest Biological treatment			
Cimzia-Certolizumab (UCB)	Week 0, 2 and 4, then every other week	79% after 48 weeks of treatment and PASI 90 after 48 weeks of treatment	1,25,483
Enbrel-Etanercept-(Amgen)	Twice weekly for 3 months, then once weekly	PASI score of 75 by week 12.	1,00,320
Humira-Adalimumab (AbbVie)	Once every other week	After 24 weeks, patients achieved 75% PASI	67,262
Remicade-Infliximab(J&J)	Week 0, 2, and 6, then every 8 weeks	Patients Achieved PASI score of 75 by 10 Week	10,503
Simponi-Golimumab (J&J)	Once every month	PASI 75 after 14 weeks of treatment	66,360

Source: Company, PL

Biologics redefine treatment for Psoriasis

- Use of Biologics drugs block the proteins in the immune system, such as tumour necrosis factor-alpha (TNF-alpha), interleukin 17-A or interleukins 12/ 23. These cells and proteins play a major role in developing psoriasis and psoriatic arthritis. First biologic drug Alefacept was approved in 2002 for the treatment of psoriatic by the USFDA. However, it was withdrawn in 2011 because of new biological products available with more efficiency. The introduction of new biologic products has taken significant advancement in treatment for psoriasis and psoriatic arthritis in recent decades with the latest launch of biologics Skyrizi claiming PASI score of 90 in just 16 weeks. The average cost of treatment for psoriasis using biologic drugs in initial year of treatment is massive \$84,000. However, the recommended first-line therapy is still dominated by oral, traditional topical and non-biological agents such as Otezla, Methotrexate and Acitretin.

Exhibit 2: Psoriasis market (ex-TNF inhibitor) Quarterly Rx (Oct-Dec CY19)

Drug	Company	Mechanism of Action	Launch Date	Method of Delivery	TRx Gr YoY(%)	TRx Mkt Share (%)
Skyrizi- Risankizumab	Abbvie	IL-23	May-19	Injection	N/A	2%
Tremfya- Guselkumab	J&J	IL-23	Jul-17	Injection	N/A	4%
Stelara-Ustekinumab	J&J	IL-12/23	Sep-09	Injection	23%	17%
Taltz-Ixekizumab	Lilly	IL-17	Mar-16	Injection	42%	16%
Cosentyx-Secukinumab	Novartis	IL-17	Jan-15	Injection	32%	29%

Source: IQVIA

Exhibit 3: SUNP Specialty Portfolio

Brand	API	Launched Date	Mkt. est. for peak Sales (\$mn)	Treatment
Bromsite	Bromfenac	Nov-16	40-50	Eye disorders
Odomzo	Sonidegib	Jan-17	80-100	Skin cancer
Yonsa	Abiraterone acetate	May-18	30-35	Prostate cancer
Ilumya	Tildrakizumab	Oct-18	250-300	Psoriasis
Xelpros	Latanoprost ophthalmic	Jan-19	50-75	Hypertension
Cequa	Cyclosporine ophthalmic solution	Oct-19	60-70	Dry Eye
Absorica	Isotretinoin	Mar-15	230-250	Acne/Skin Cancer
Levulan Kerastick	Aminolevulinic acid	Nov-12	120-130	Actinic keratosis

Source: Company, PL

- **Treatment of Psoriasis--** Finding the right combination of treatment for psoriasis can be onerous as availability of multiple therapeutic options like Biologics, conventional oral treatments, phototherapy, and topical. Conventionally doctors prescribe oral medications for new patients or mild to moderate plaque psoriasis while recommend biologics in moderate to severe category of plaque psoriasis or psoriatic arthritis.

Exhibit 4: Conventional treatments for Psoriasis (mainly oral)

Topical agents	Oral Treatments	Phototherapy
Emollients Tar and anthralin	Otezla(apremilast)	Natural Dead Sea Therapy
Dithranol Corticosteroids Vitamin D analogs	Xeljanz and Xeljanz XR (tofacitinib)	PUVA-Sol Artificial PUVA.
Tazarotene Salicylic acid	Soriatane(acitretin)	Bath PUVA
Tacrolimus/ pimecrolimus 5-fluorouracil Ascomycin derivatives	Methorexate	UVB and NB-UVB

Source: Company, PL

- **Conventional therapies to remain First-line of treatment** - We believe conventional treatments like Oral, topical agents, and phototherapy will continue to be most preferred first line of treatment for psoriasis. Amgen acquired new generation oral medication for Psoriasis, Otezla in exchange of US\$13.4bn in August CY19.
- **About Psoriasis-** There are myths that Psoriasis is just a skin disease, but the fact is psoriasis and psoriatic arthritis is a type of autoimmune disease just like Rheumatoid arthritis, Multiple sclerosis, diabetes mellitus, and few other diseases. It is caused by the overactive immune system that multiply layers of skins at a faster rate than normal and led to develop plaques of red skin, disorders of the nails, and crust on the scalp. Thirty percent of people with psoriasis develop Psoriatic arthritis (inflammatory form of arthritis).

- **Background Ilumya (Tildrakizumab)-** SUNP acquired L-23p19 inhibitor novel biologic asset called tildrakizumab (earlier MK-3222) from Merck in Sept-2014, for an upfront payment of US\$80mn and then spent another US\$250mn for developing the drug. In March 2018, SUNP announced the US FDA approval tildrakizumab, under the brand name Ilumya. The drug is used to treat moderate-to-severe plaque psoriasis.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	2,81,075	3,04,675	3,21,814	3,43,170
YoY gr. (%)	7.8	8.4	5.6	6.6
Cost of Goods Sold	78,701	80,739	85,603	91,283
Gross Profit	2,02,374	2,23,936	2,36,211	2,51,887
Margin (%)	72.0	73.5	73.4	73.4
Employee Cost	56,215	59,412	61,788	65,889
Other Expenses	21,081	25,897	27,354	29,169
EBITDA	60,431	67,029	70,638	75,326
YoY gr. (%)	16.6	10.9	5.4	6.6
Margin (%)	21.5	22.0	22.0	22.0
Depreciation and Amortization	16,578	20,698	21,890	22,575
EBIT	43,853	46,331	48,749	52,751
Margin (%)	15.6	15.2	15.1	15.4
Net Interest	3,932	3,029	3,808	3,427
Other Income	13,254	13,917	14,612	15,343
Profit Before Tax	53,175	57,218	59,553	64,666
Margin (%)	18.9	18.8	18.5	18.8
Total Tax	7,444	8,011	8,337	9,053
Effective tax rate (%)	14.0	14.0	14.0	14.0
Profit after tax	45,730	49,208	51,215	55,613
Minority interest	3,738	3,744	3,657	3,587
Share Profit from Associate	-	-	-	-
Adjusted PAT	29,848	45,464	47,558	52,026
YoY gr. (%)	59.3	52.3	4.6	9.4
Margin (%)	10.6	14.9	14.8	15.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	29,848	45,464	47,558	52,026
YoY gr. (%)	59.3	52.3	4.6	9.4
Margin (%)	10.6	14.9	14.8	15.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	29,848	45,464	47,558	52,026
Equity Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	12.4	18.9	19.8	21.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	2,46,259	2,58,259	2,71,259	2,84,259
Tangibles	1,62,426	1,69,426	1,77,426	1,85,426
Intangibles	83,834	88,834	93,834	98,834
Acc: Dep / Amortization	87,451	1,08,149	1,30,039	1,52,614
Tangibles	62,151	75,860	90,364	1,04,657
Intangibles	25,300	32,289	39,674	47,956
Net fixed assets	1,58,808	1,50,110	1,41,221	1,31,645
Tangibles	1,00,274	93,565	87,061	80,768
Intangibles	58,534	56,545	54,159	50,877
Capital Work In Progress	14,112	11,289	11,708	12,143
Goodwill	59,558	50,624	50,624	50,624
Non-Current Investments	40,476	41,001	41,678	42,380
Net Deferred tax assets	24,506	25,078	25,674	26,320
Other Non-Current Assets	37,744	32,953	33,897	34,888
Current Assets				
Investments	39,507	41,483	46,460	52,036
Inventories	78,860	81,907	85,125	88,556
Trade receivables	88,842	96,828	1,05,802	1,12,823
Cash & Bank Balance	72,756	70,444	88,727	1,16,760
Other Current Assets	23,149	24,306	25,521	26,797
Total Assets	6,46,938	6,34,451	6,65,041	7,03,810
Equity				
Equity Share Capital	2,399	2,399	2,399	2,399
Other Equity	4,11,691	3,84,975	4,26,475	4,72,443
Total Network	4,14,091	3,87,375	4,28,874	4,74,842
Non-Current Liabilities				
Long Term borrowings	15,226	13,703	12,333	11,100
Provisions	4,304	4,476	4,655	4,841
Other non current liabilities	5,713	5,827	5,943	6,062
Current Liabilities				
ST Debt / Current of LT Debt	83,708	92,078	82,871	74,583
Trade payables	41,479	47,579	48,493	51,711
Other current liabilities	48,210	46,031	41,428	37,286
Total Equity & Liabilities	6,46,938	6,34,451	6,65,041	7,03,810

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	41,031	57,218	59,553	64,666
Add. Depreciation	16,578	20,698	21,890	22,575
Add. Interest	3,932	3,029	3,808	3,427
Less Financial Other Income	13,254	13,917	14,612	15,343
Add. Other	(8,799)	(58,159)	(76,739)	(14,492)
Op. profit before WC changes	52,742	22,786	8,512	76,177
Net Changes-WC	(51,427)	(8,647)	(17,868)	(13,532)
Direct tax	(12,077)	(12,077)	(12,077)	(12,077)
Net cash from Op. activities	(10,763)	2,062	(21,434)	50,567
Capital expenditures	(20,349)	(9,178)	(13,419)	(13,435)
Interest / Dividend Income	-	-	-	-
Others	-	-	16,062	-
Net Cash from Invt. activities	(20,349)	(9,178)	2,643	(13,435)
Issue of share cap. / premium	-	-	-	-
Debt changes	14,564	11,651	46,604	-
Dividend paid	(6,058)	(6,058)	(6,058)	(6,058)
Interest paid	(3,932)	(3,029)	(3,808)	(3,427)
Others	-	-	-	-
Net cash from Fin. activities	4,573	2,564	36,738	(9,485)
Net change in cash	(26,538)	(4,552)	17,948	27,647
Free Cash Flow	(31,111)	(7,116)	(34,852)	37,132

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	12.4	18.9	19.8	21.7
CEPS	19.4	27.6	28.9	31.1
BVPS	172.6	161.5	178.7	197.9
FCF	(13.0)	(3.0)	(14.5)	15.5
DPS	2.2	2.2	2.2	2.2
Return Ratio(%)				
RoCE	8.8	9.2	9.6	9.7
ROIC	9.8	10.2	11.2	12.1
RoE	7.5	11.3	11.7	11.5
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.2)
Net Working Capital (Days)	164	157	162	159
Valuation(x)				
PER	35.3	23.2	22.2	20.3
P/B	2.5	2.7	2.5	2.2
P/CEPS	19.3	27.5	28.8	31.0
EV/EBITDA	17.2	15.6	14.3	12.9
EV/Sales	3.7	3.4	3.1	2.8
Dividend Yield (%)	0.5	0.5	0.5	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20E
Net Revenue	70,443	82,593	79,492	80,819
YoY gr. (%)	5.0	15.7	16.1	5.6
Raw Material Expenses	18,388	24,578	22,679	22,387
Gross Profit	52,055	58,015	56,813	58,432
Margin (%)	73.9	70.2	71.5	72.3
EBITDA	8,971	18,132	16,071	16,522
YoY gr. (%)	(36.7)	12.5	11.6	(20.2)
Margin (%)	12.7	22.0	20.2	20.4
Depreciation / Depletion	4,541	4,571	4,733	4,780
EBIT	4,431	13,560	11,338	11,741
Margin (%)	6.3	16.4	14.3	14.5
Net Interest	1,500	1,041	839	814
Other Income	4,012	3,281	3,750	3,563
Profit before Tax	6,942	15,801	14,249	14,490
Margin (%)	9.9	19.1	17.9	17.9
Total Tax	(288)	1,461	2,660	2,029
Effective tax rate (%)	(4.1)	9.2	18.7	14.0
Profit after Tax	7,231	14,340	11,589	12,461
Minority interest	872	1,139	1,033	774
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,359	13,875	10,641	11,687
YoY gr. (%)	(52.6)	31.2	(586.3)	(5.9)
Margin (%)	9.0	16.8	13.4	14.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,359	13,875	10,641	11,687
YoY gr. (%)	(52.6)	31.2	(586.3)	(5.9)
Margin (%)	9.0	16.8	13.4	14.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,359	13,875	10,641	11,687
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

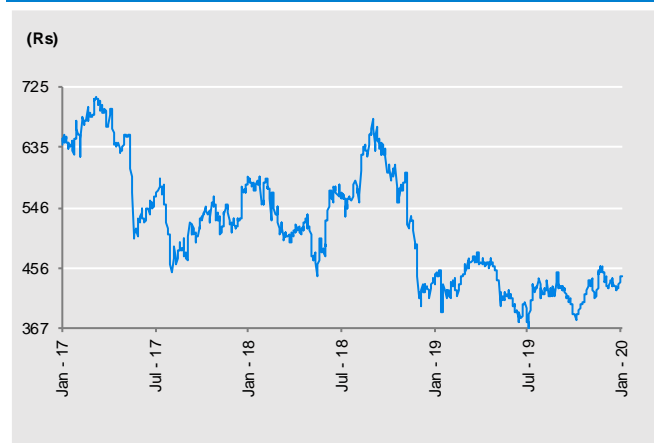
Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Formulations	2,63,902	2,85,772	3,04,098	3,24,156
India Formulations	85,914	93,646	1,01,138	1,09,229
US Formulations	95,248	1,00,821	1,04,150	1,07,982
ROW Formulations	82,741	91,305	98,810	1,06,945
APIs	16,322	18,010	19,388	20,874

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Jan-20	Reduce	396	445
2	21-Dec-19	Reduce	396	430
3	07-Nov-19	Reduce	396	441
4	05-Nov-19	Reduce	396	430
5	03-Oct-19	Reduce	396	388
6	14-Aug-19	Reduce	396	439
7	04-Jul-19	Reduce	396	392
8	05-Apr-19	Reduce	427	463
9	13-Feb-19	Reduce	427	442

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	412	460
2	Cadila Healthcare	Hold	220	260
3	Cipla	Reduce	439	470
4	Dr. Lal PathLabs	Hold	1,437	1,537
5	Dr. Reddy's Laboratories	Accumulate	2,910	2,884
6	Eris Lifesciences	Accumulate	459	490
7	Glenmark Pharmaceuticals	Reduce	335	352
8	Indoco Remedies	Hold	157	185
9	Ipca Laboratories	Accumulate	1,238	1,139
10	Jubilant Life Sciences	Reduce	433	543
11	Lupin	Hold	760	777
12	Sun Pharmaceutical Industries	Reduce	396	445
13	Thyrocare Technologies	BUY	686	533

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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