



# Sun Pharmaceutical Industries Ltd

## A win-win deal for both

### Sun Pharma to Acquire US Biotech firm Concert Pharmaceuticals

Sunpharma will acquire U.S.-based Concert Pharmaceuticals for \$576 million in cash to gain access to an experimental drug for treating patchy baldness. Sunpharma will commence a tender offer to acquire Concert at \$8 per share, a premium of 16% to the stock's last close. Concert's lead candidate, deuruxolitinib, is currently being evaluated in a late-stage study as a treatment for autoimmune condition alopecia areata, which results in patchy hair loss and affects more than 300,000 people in the United States each year. Concert shareholders will also have contingent Value rights wherein if the sales surpasses \$100 mn by March 2027, then they will receive additional \$1 on their shares, if sales surpasses \$500 mn by mar 2029 then \$2.5 on each share held. The transaction is expected to be completed in the first quarter of CY23. Sun Pharma had net cash of \$1.6 billion as of September 30, 2022.

**About Alopecia Areata** Alopecia areata is an autoimmune disorder where T cells attack the hair follicle. Basically, your immune system is attacking your hair and the effects can range from bald spots on the scalp to the complete absence of hair over the body. Scientist believe the cause is genetic, as it tends to run in families. Alopecia areata is a common autoimmune disorder that often results in unpredictable hair loss. It affects roughly 6.8 million people in the United States and 147 million people worldwide. In most cases, hair falls out in small patches around the size of a quarter. There may be only a few patches, but alopecia areata can affect wider areas of the scalp.

### Competitive landscape

Currently there is only one USFDA approved treatment Olumiant (baricitinib) by Eli Lilly. Olumiant is also a JAK inhibitor which was first approved by USFDA for Rheumatoid arthritis and in July 2022 the regulator approved it for severe Alopecia. Baricitinib is also a JAK inhibitor and had received priority review and breakthrough designations for treating severe alopecia. The nine months sales of Olumiant as of Sept 2022 is USD 624 Mn.

### Pipeline drugs

The pipeline drugs for Alopecia areata looks quite promising where several companies are evaluating their drug candidates. Although there is only one treatment but going ahead, the market will be bit crowded. The details are as follows:

No	Drug Name	Company	Phase	MOA	ROA (Route of Administration)
1	Jaktinib	Suzhou Zelgen Biopharmaceuticals	Phase III	JAK 1,2, and 3 inhibitor	Oral
2	Ritlecitinib	Pfizer	NDA accepted by USFDA	JAK3	Oral
3	LH-8	Legacy Healthcare	Phase II/III	Undefined mechanism	Topical
4	ANB030	AnaptyBio	Phase II	PDL-1	Subcutaneous
5	SHR0302	Reystone Biopharma	Phase II	JAK-1	Oral

Source: SMIFS Research, clinicaltrials.gov

### Market Size

As per Clarivate the US market for alopecia therapies could reach \$1.7billion in 2029, with JAK drugs accounting for the biggest share.

### Valuation:

The specialty segment of the company looks attractive due to robust ANDA pipeline and ramp up in branded drugs prescriptions. The incremental benefit from the limited competition drug such as gPentasa, gSensipar, gRevlimid will fuel the revenue growth further. However, increased cost on R&D front will limit the EBITDA margins to 26% in FY23. **Based on SOTP valuation we arrive at target price of 1,080 (implied P/E multiple of 25 on its Sep 24E EPS). Accumulate.**

Rating: Accumulate Upside/(Downside): 5%  
Current Price: 1032 Target Price: 1,080

### Earlier recommendation

Previous Rating: Accumulate  
Previous Target Price: 1,016

### Market data

Bloomberg: SUNP IN  
52-week H/L (Rs): 1,048 / 734  
Mcap (Rs bn/USD bn): 2478/30  
Shares outstanding (mn): 2399  
Free float: 45.5%  
Avg. daily vol. 3mth (3M Avg.): 3 Mn  
Face Value (Rs): 1

Source: Bloomberg, SMIFS research

### Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	54.5	54.5	54.5	54.5
FIIs	16.8	16.0	14.9	14.4
DIIs	15.8	16.6	19.7	20.0
Public/others	12.9	12.9	10.9	11.1

### Promoters Pledging

Pledge share 1.9 2.5 4.0 5.5

Source: BSE

### Price performance (%) \*

YE Mar (R)	1M	3M	12M	36M
NIFTY 50	-1.7	3.4	0.9	46.5
NIFTY 500	-2.3	2.3	-0.3	52.3
SUNP IN	4.2	5.1	25.6	129.2

\* As on 20<sup>th</sup> Jan 2023; Source: AceEquity, SMIFS research

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Y/E Mar (mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY21	334,981	2.0%	84,914	25.3%	72,100	79.1%	30.1	5.0	11.3	17.5	15.5
FY22	386,545	15.4%	103,977	26.9%	78,396	8.7%	32.7	7.2	15.1	23.5	18.8
FY23E	426,329	10.3%	110,075	25.8%	82,178	4.8%	34.3	16.3	14.0	30.1	24.0
FY24E	469,357	10.1%	127,710	27.2%	95,388	16.1%	39.8	16.7	14.5	26.0	21.1
FY25E	523,521	11.5%	147,646	28.2%	111,542	16.9%	46.5	17.2	15.0	22.2	18.7

Source: Company, SMIFS research estimates

## Key Companies in the Alopecia Areata Market



### Deuruxolitinib can be a good boost to Sunpharma's revenue

Given that Sun is likely to face competition from Pfizer' JAK inhibitor Ritlecitinib, CTP-543 (phase 3 topline results aren't expected until 2022), and from Eli Lilly and Incyte's JAK inhibitor, baricitinib, we believe, Sun can easily gain 10-25% market share in the alopecia market. This would translate into revenue of \$500-\$750 Mn in alopecia areata indication by 2028-2029.

Since, Sun already has wide presence in derma space in the US, it will be easy for them to market the product through the same MR (marketing representative) force.

### Efficacy of Deuruxolitinib is better than its competitors

To evaluate the results of drugs in alopecia, an index called The Severity of Alopecia Tool (SALT) is used to determine the effectiveness of the drug. Score range: 0-100%. Higher score indicates more severe disease. Concert has completed a phase 3 evaluation of the efficacy and safety of the therapy in adults with moderate to severe alopecia and **found 41.5% of people had at least 80% scalp hair coverage after taking a high dose at Week 24 whereas Olumiant (baricitinib) has scalp coverage of 80% at week 36.** Concert has also been conducting two long-term extension studies of deuruxolitinib in North America and Europe, while assessing the candidate in other indications.

**Conclusion:** We believe this deal could add more value to Sun's specialty portfolio where it has complete focus in dermatology. If the Deuruxolitinib is approved it will further boost to Sun's revenue. Since, Concert is a small bioetch company which made a good drug but didn't had strength to fight with pharma Giant such as Eli Lilly and Pfizer. **Sun already has presence in US and is competing well in the over crowded market of auto-immune disorder. Its strong marketing skills will help them to fight with the peers. So, we believe it's a win-win deal for both the companies.**

## Outlook and Valuation

The specialty segment of the company looks attractive due to robust ANDA pipeline and ramp up in branded drugs prescriptions. The incremental benefit from the limited competition drug such as gPentasa, gSensipar and gRevlimid will fuel the revenue growth further. The India business continues to grow at high single digit with increased market share. However, increased cost on R&D front will limit the EBITDA margins to 26% in FY23.

Based on SOTP valuation we arrive at target price of 1,080 (implied P/E multiple of 25 on its Sep 24E).

**Fig 1: Key Assumptions**

Revenue in INR Mn	FY21	FY22	FY23E	FY24E	FY25E
India Formulations	103,432	127,593	137,801	148,825	1,66,684
% growth	6.5%	23.4%	8.0%	8.0%	12.0%
US Formulations	100,839	113,737	130,231	146,818	1,63,226
% growth	-4.4%	12.8%	14.5%	12.7%	11.2%
ROW Formulations	48,191	54,545	60,252	66,277	74,230
% growth	6.6%	13.2%	10.5%	10.0%	12.0%
Emerging Markets	57,834	67,432	71,791	78,252	86,860
% growth	5.1%	16.6%	6.5%	9.0%	11.0%
API	19,504	18,354	20,557	23,024	25,786
% growth	1.8%	-5.9%	12.0%	12.0%	12.0%
Others	1,593	2,604	2,734	2,871	3,095
% growth	21.4%	63.5%	5.0%	5.0%	6.8%
Other operating revenues	3,590	2,281	2,964	3,262	3,639
% growth	-29.9%	-36.5%	29.9%	10.1%	11.5%
<b>Total Revenue</b>	<b>334,981</b>	<b>386,545</b>	<b>426,329</b>	<b>469,329</b>	<b>5,23,521</b>

Source: Company, SMIFS research

Revenue in USD Mn	FY21	FY22	FY23E	FY24E	FY25E
Taro revenues	384	393	413	425	446
Specialty	332	541	643	761	892
Generics business	643	592	593	673	728
<b>Total US Business</b>	<b>1,359</b>	<b>1,526</b>	<b>1,648</b>	<b>1,858</b>	<b>2,066</b>

Source: Company, SMIFS research

**Fig2: SOTP Valuation Metrics for FY24E**

Segment in (Rs. Mn)	Sales in FY24E	% Contribution	PAT in FY24E	Forward P/E	Segment Value	Value per share (Rs)
India	1,48,825	32%	34,230	23.0	7,87,285	328
US	1,46,818	31%	66,068	23.2	15,32,780	639
ROW	66,277	14%	5,302	18.6	98,408	41
Emerging market	78,252	17%	9,390	16.0	1,50,244	63
Others	29,184	6%	1,459	16.0	23,347	10
<b>Total Sales</b>	<b>4,69,357</b>	<b>100%</b>			<b>25,92,064</b>	<b>1,080</b>

Source: Company, SMIFS Research

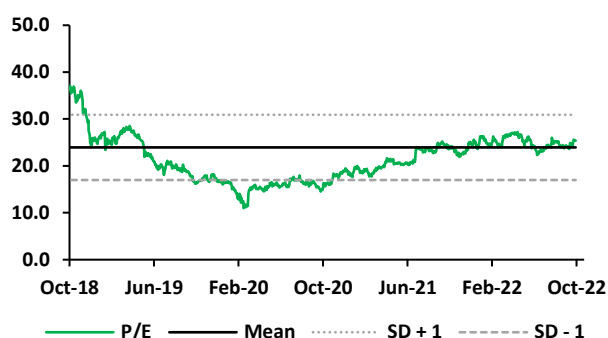
## Quarterly financials, operating metrics & key performance indicators

**Fig 3: Quarterly Financials**

Y/E March (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Sales</b>	<b>88,368</b>	<b>85,230</b>	<b>97,187</b>	<b>96,259</b>	<b>98,631</b>	<b>94,468</b>	<b>1,07,618</b>	<b>1,09,523</b>
Raw Materials	23,334	22,408	26,494	25,219	26,406	25,396	29,002	27,081
Employee Costs	17,205	16,775	17,587	18,063	18,509	18,849	20,749	20,046
Other Expenditure	23,768	25,563	24,895	26,679	27,652	26,819	29,023	32,831
<b>EBITDA</b>	<b>24,061</b>	<b>20,484</b>	<b>28,211</b>	<b>26,299</b>	<b>26,063</b>	<b>23,404</b>	<b>28,844</b>	<b>29,566</b>
Depreciation	5,319	5,535	5,032	5,304	5,537	5,565	5,880	6,100
Interest	261	301	351	360	190	373	137	194
Other Income	3,150	1,110	1,525	2,229	4,325	1,136	21	852
Exceptional items	0	6,728	6,311	0	0	39,357	0	0
<b>PBT</b>	<b>21,631</b>	<b>9,030</b>	<b>18,042</b>	<b>22,865</b>	<b>24,662</b>	<b>-20,756</b>	<b>22,848</b>	<b>24,124</b>
Tax	2,449	550	3,956	1,978	3,354	1,468	1,890	1,523
Tax rate (%)	11.3%	6.1%	21.9%	8.6%	13.6%	-7.1%	8.3%	6.3%
<b>PAT before minority</b>	<b>19,181</b>	<b>8,480</b>	<b>14,087</b>	<b>20,887</b>	<b>21,308</b>	<b>-22,223</b>	<b>20,959</b>	<b>22,602</b>
Minority Interest	656	-462	-355	417	720	549	350	-21
<b>Consol. PAT</b>	<b>18,525</b>	<b>8,942</b>	<b>14,442</b>	<b>20,470</b>	<b>20,588</b>	<b>-22,772</b>	<b>20,609</b>	<b>22,623</b>
<b>Adjusted PAT</b>	<b>18,525</b>	<b>15,670</b>	<b>20,752</b>	<b>20,470</b>	<b>20,588</b>	<b>16,585</b>	<b>20,609</b>	<b>22,623</b>
<b>YoY Growth (%)</b>								
Revenue	8.4	4.1	28.1	12.5	11.6	10.8	10.7	13.8
EBITDA	30.7	50.3	53.0	19.9	8.3	14.3	2.2	12.4
PAT	87.4	71.5	-158.0	7.2	11.1	-362.1	48.8	8.2
<b>QoQ Growth (%)</b>								
Revenue	3.3	-3.6	14.0	-1.0	2.5	-4.2	13.9	1.8
EBITDA	9.7	-14.9	37.7	-6.8	-0.9	-10.2	23.2	2.5
PAT	-1.6	-55.8	66.1	48.3	2.0	-204.3	-194.3	7.8
<b>Margin (%)</b>								
RMC/revenue (%)	26.4	26.3	27.3	26.2	26.8	26.9	26.9	24.7
Gross margin (%)	73.6	73.7	72.7	73.8	73.2	73.1	73.1	75.3
Employee cost/revenue (%)	19.5	19.7	18.1	18.8	18.8	20.0	19.3	18.3
Other expenses/revenue (%)	26.9	30.0	25.6	27.7	28.0	28.4	27.0	30.0
EBITDA margin (%)	27.2	24.0	29.0	27.3	26.4	24.8	26.8	27.0
PAT margin (%)	21.7	9.9	14.5	21.7	21.6	-23.5	19.5	20.6

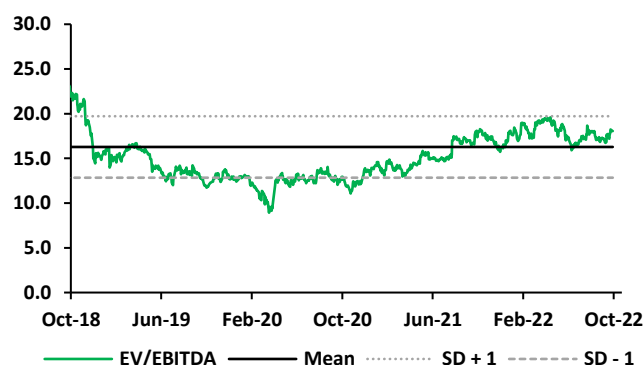
Source: Company, SMIFS research

**Fig 1: 1-year forward P/E**



Source: AceEquity, SMIFS research, EPS is excluding the one off adjustments

**Fig 2: 1-year forward EV/EBITDA**



Source: AceEquity, SMIFS research

## Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
<b>Revenues</b>	<b>3,34,981</b>	<b>3,86,545</b>	<b>4,26,329</b>	<b>4,69,357</b>	<b>5,23,521</b>
Raw Materials	86,901	1,03,515	1,10,922	1,16,523	1,29,970
% of sales	25.9	26.8	26.0	24.8	24.8
Personnel	68,622	73,008	80,439	87,626	96,178
% of sales	20.5	18.9	18.9	18.7	18.4
R&D Expenses	21,028	21,325	31,752	34,957	40,551
% of sales	6.3	5.5	7.4	7.4	7.7
Other Expenses	73,516	84,719	93,140	1,02,541	1,09,175
% of sales	21.9	21.9	21.8	21.8	20.9
<b>EBITDA</b>	<b>84,914</b>	<b>1,03,977</b>	<b>1,10,075</b>	<b>1,27,710</b>	<b>1,47,646</b>
Other Income	8,355	9,215	9,445	9,701	9,962
Depreciation & Amortization	20,800	21,437	22,785	24,182	25,580
<b>EBIT</b>	<b>72,469</b>	<b>91,755</b>	<b>96,736</b>	<b>1,13,228</b>	<b>1,32,029</b>
Finance cost	1,414	1,274	765	780	796
<b>Core PBT</b>	<b>62,700</b>	<b>81,266</b>	<b>86,526</b>	<b>1,02,748</b>	<b>1,21,271</b>
Exceptional Income/(Expense)	-43061	-45668	0	0	0
<b>PBT</b>	<b>27,994</b>	<b>44,814</b>	<b>95,971</b>	<b>1,12,448</b>	<b>1,31,233</b>
Tax-Total	5,147	10,755	12,476	15,743	18,373
Tax Rate (%) - Total	18.4	24.0	13.0	14.0	14.0
<b>PAT</b>	<b>22,847</b>	<b>34,059</b>	<b>83,495</b>	<b>96,705</b>	<b>1,12,861</b>
Share of Associates	-123	-165	-150	-150	-150
Minority Interest	-6,315	1,166	1,167	1,168	1,169
<b>Adjusted PAT</b>	<b>64,182</b>	<b>67,436</b>	<b>82,178</b>	<b>95,388</b>	<b>1,11,542</b>

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25e
<b>Growth Ratio (%)</b>					
Revenue	2.0	15.4	10.3	10.1	11.5
EBITDA	21.5	22.5	5.9	16.0	15.6
Adj PAT	61.2	5.1	21.9	16.1	16.9
<b>Margin Ratios (%)</b>					
Gross Profit	74.1	73.2	74.0	75.2	75.2
EBITDA	25.3	26.9	25.8	27.2	28.2
EBIT	21.6	23.7	22.7	24.1	25.2
Core PBT	18.7	21.0	20.3	21.9	23.2
Adj PAT	19.2	17.4	19.3	20.3	21.3
<b>Return Ratios (%)</b>					
ROE	13.0	13.4	15.2	15.7	16.3
ROCE	10.7	13.2	15.2	15.7	16.2
<b>Turnover Ratios (days)</b>					
Gross Block Asset Turnover (x)	1.1	1.2	1.3	1.3	1.4
Adj OCF / Adj PAT (%)	93.9	131.3	107.6	110.4	106.2
Inventory	92	85	86	86	86
Debtors	100	101	105	106	106
Creditors	43	42	44	45	45
Cash conversion cycle	148	143	147	147	147
<b>Solvency Ratio (x)</b>					
Debt-equity	0.1	0.0	0.0	0.0	0.0
Net debt-equity	-0.1	-0.2	-0.3	-0.3	-0.4
Gross Debt / EBITDA	0.5	0.1	0.1	0.1	0.1
Current Ratio	2.1	1.7	2.0	2.4	2.7
Interest coverage ratio	51.2	72.0	126.5	145.2	165.9
<b>Dividend</b>					
Adj DPS	7.5	10.0	8.7	10.1	11.8
Dividend Yield (%)	1.4	1.3	0.8	1.0	1.1
Dividend Payout (%)					
<b>Per share Ratios (Rs)</b>					
Basic EPS (reported)	12.1	13.6	34.3	39.8	46.5
Adjusted EPS	26.8	28.1	34.3	39.8	46.5
CEPS	35.4	37.0	43.7	49.8	57.1
BV	206.2	212.8	238.7	268.6	303.5
<b>Valuation (x)*</b>					
Adjusted P/E	20	27	30	26	22
P/BV	3	4	4	4	3
EV/EBITDA	15.5	18.8	24.0	21.1	18.7
EV / Sales	3.9	5.1	6.2	5.7	5.3
Adj Mcap / Core PBT	18.6	21.1	26.6	21.8	17.9
Adj Mcap / Adj OCF	19.3	19.4	26.0	21.3	18.4

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
<b>Sources of funds</b>					
Capital	2,399	2,399	2,399	2,399	2,399
Reserves & Surplus	4,92,399	5,08,262	5,70,235	6,42,014	7,25,784
<b>Shareholders' Funds</b>	<b>4,94,798</b>	<b>5,10,661</b>	<b>5,72,634</b>	<b>6,44,413</b>	<b>7,28,183</b>
<b>Total Loan Funds</b>	<b>38,687</b>	<b>12,903</b>	<b>12,747</b>	<b>13,001</b>	<b>13,266</b>
Other liabilities	11,431	10,515	11,014	11,553	12,135
<b>Total Liabilities</b>	<b>5,44,917</b>	<b>5,34,079</b>	<b>5,96,395</b>	<b>6,68,967</b>	<b>7,53,584</b>
<b>Application of funds</b>					
Gross Block	3,08,582	3,29,032	3,50,532	3,72,032	3,93,532
Net Block	1,68,322	1,71,971	1,65,027	1,58,552	1,53,182
<b>Investments</b>	<b>96,125</b>	<b>1,28,486</b>	<b>1,34,910</b>	<b>1,41,656</b>	<b>1,48,738</b>
<b>Other non-current assets</b>	<b>1,39,101</b>	<b>1,23,732</b>	<b>1,23,802</b>	<b>1,23,874</b>	<b>1,23,947</b>
Inventories	89,970	89,968	99,752	1,09,819	1,22,493
Sundry Debtors	90,614	1,05,929	1,21,790	1,35,359	1,50,979
Cash & Bank Balances	64,455	50,334	94,836	1,51,017	2,13,368
Other current Assets	28,081	27,580	28,131	28,694	29,268
<b>Total Current Assets</b>	<b>2,73,120</b>	<b>2,73,810</b>	<b>3,44,509</b>	<b>4,24,889</b>	<b>5,16,108</b>
<b>Sundry Creditors</b>	<b>39,737</b>	<b>44,793</b>	<b>51,036</b>	<b>57,464</b>	<b>64,095</b>
Other Current Liabilities	92,014	1,19,126	1,20,817	1,22,540	1,24,297
<b>Total Current Liabilities</b>	<b>1,31,751</b>	<b>1,63,920</b>	<b>1,71,853</b>	<b>1,80,004</b>	<b>1,88,392</b>
<b>Net Current Assets</b>	<b>1,41,369</b>	<b>1,09,891</b>	<b>1,72,657</b>	<b>2,44,885</b>	<b>3,27,717</b>
<b>Total Assets</b>	<b>5,44,917</b>	<b>5,34,079</b>	<b>5,96,395</b>	<b>6,68,967</b>	<b>7,53,584</b>

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
<b>Operating profit before WC changes</b>	<b>70,022</b>	<b>46,092</b>	<b>64,563</b>	<b>117,858</b>	<b>135,534</b>
Net chg in working capital	8985	25641	15591	-13971	-15428
Income tax Paid	65,548	61,704	89,845	91,627	104,626
<b>Cash flow from operating activities (a)</b>	<b>62520</b>	<b>60289</b>	<b>88572</b>	<b>90862</b>	<b>103846</b>
<b>Adj. OCF</b>	<b>-14,500</b>	<b>-10,730</b>	<b>-14,344</b>	<b>-15,840</b>	<b>-17,707</b>
Capital expenditure	48,021	49,559	74,228	75,022	86,139
Adj FCF	-25,888	5,362	-57,247	-22,265	-24,453
<b>Cash flow from investing activities (b)</b>	<b>-57,151</b>	<b>-59,805</b>	<b>-51,935</b>	<b>-22,070</b>	<b>-25,037</b>
Debt	-17,492	7,261	-19,337	47,292	55,136
Dividend	70,623	56,766	62,730	50,334	97,626
Interest & lease	-1,297	1,689	0	0	0
<b>Cash flow from financing activities (c)</b>	<b>64,876</b>	<b>64,455</b>	<b>50,334</b>	<b>97,626</b>	<b>152,762</b>
<b>Net chg in cash (a+b+c)</b>	<b>7,261</b>	<b>-19,337</b>	<b>44,502</b>	<b>56,181</b>	<b>62,351</b>

Source: Company, SMIFS research estimates

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