

# Sun Pharmaceutical Industries

17 September 2018

Reuters: SUN.NS; Bloomberg: SUNP IN

## Xelpros commercial opportunity constrained by generic availability

Sun Pharmaceutical Industries (SPIL) has received the US Food and Drug Administration or USFDA's approval for Xelpros - a novel drug formulation of Xalatan (latanoprost) - the most widely prescribed treatment for Glaucoma. Xalatan and its generics which belong to class of drugs called prostaglandin analogue have a 36% prescription share. Prior to genericisation, Xalatan generated peak sales of \$650mn in the US. Glaucoma is a condition in which pressure in the eyes (intraocular) remains above normal. Xalatan's patents have expired and there are multiple generic options. Xelpros is different from Xalatan and its generics as it is formulated without the commonly used preservative, benzalkonium chloride (BAK). There is evidence that long-term use of ophthalmic drugs containing BAK lead to ocular surface damage.

**The importance of BAK-free drugs in the treatment of glaucoma:** Glaucoma is a chronic condition and the drugs need to be prescribed for the long term. While BAK is a useful preservative, several studies conducted in the past have shown that long-term usage of drugs with such preservatives can lead to ocular surface changes, ocular discomfort, tear film instability, conjunctival inflammation, subconjunctival fibrosis, epithelial apoptosis, corneal surface impairment, and the potential risk of failure of further glaucoma surgery. In some cases, patients have even discontinued usage of the drugs because of discomfort. Hence a BAK-free drug is an unmet need.

**Xelpros peak sales potential:** Acceptance of BAK free agents in the US so far is not very encouraging, as they comprise just 10% of the prostaglandin market in terms of prescription volumes. The low acceptance is primarily attributable to pricing differences as Travatan Z which is the only prostaglandin analogue that is BAK free is priced multifold higher than generics. We expect Xelpros' peak sales potential to be around US\$50mn, assuming 25% market share in the single-agent BAK-free formulation market. The current market for single-agent BAK-free products in the US for treatment of glaucoma is around US\$200mn. Availability of Xelpros should also expand the market opportunity because of enhanced promotional efforts on BAK-free agents.

**Xelpros economics:** SPIL had in-licensed Xelpros from Sun Pharma Advanced Research Company (SPARC) in 2015 for an upfront fee of US\$3mn and it needs to make milestone payment up to US\$16mn. In addition, SPIL has to pay royalty on sales of Xelpros, which we believe is in the mid-teen range. We expect net margin contribution from Xelpros at peak sales to be 35%. The key assumptions are 20% spending on royalty/cost of sales and 30% on SG&A.

### Key financials

Y/E March (Rsmn)	FY14	FY15	FY16	FY17	FY18
Net sales	1,60,804	2,73,920	2,84,870	3,15,784	2,64,895
EBITDA	71,901	79,635	81,583	1,00,893	56,081
Net profit	31,415	45,394	45,457	69,644	21,616
EPS (Rs)	13.1	18.9	18.9	29.0	9.0
EPS growth (%)	(9.5)	44.5	0.1	53.2	(69.0)
EBITDA margin (%)	44.7	29.1	28.6	31.9	21.2
P/E (x)	50.8	35.2	35.1	22.9	73.8
P/BV (x)	8.6	6.2	4.8	4.4	4.2
EV/EBITDA (x)	21.5	19.6	19.0	15.1	28.4
RoCE (%)	26.3	17.5	14.9	17.6	7.8
RoE (%)	17.0	17.7	13.8	19.0	5.7

Source: Company, Nirmal Bang Institutional Equities Research

## NOT RATED

Sector: Pharmaceutical

CMP: Rs665

**Vishal Manchanda**

Research Analyst

vishal.manchanda@nirmalbang.com

+91-97374-37148

**Madhurima Kane**

Research Associate

madhurima.kane@nirmalbang.com

+91 22 6273 8168

### Key Data

Current Shares O/S (mn)	2,399.3
Mkt Cap (Rsbn/US\$bn)	1595.8/22.2
52 Wk H / L (Rs)	679/435
Daily Vol. (3M NSE Avg.)	7,814,314

### Price Performance (%)

	1 M	6 M	1 Yr
Sun Pharmaceutical Industries	10.5	27.9	26.8
Nifty Index	1.4	10.4	14.3

Source: Bloomberg

## Financial statements

### Exhibit 1: Income statement

Y/E March (Rsmn)	FY14	FY15	FY16	FY17	FY18
<b>Net sales</b>	<b>1,60,804</b>	<b>2,73,920</b>	<b>2,84,870</b>	<b>3,15,784</b>	<b>2,64,895</b>
% growth	42.3	70.3	4.0	10.9	(16.1)
Raw material costs	27,793	67,392	63,304	81,307	74,247
Staff costs	20,744	45,026	47,723	49,023	53,671
Other expenditure	40,366	81,867	92,260	84,561	80,896
Total expenditure	88,903	1,94,285	2,03,287	2,14,892	2,08,813
<b>EBITDA</b>	<b>71,901</b>	<b>79,635</b>	<b>81,583</b>	<b>1,00,893</b>	<b>56,081</b>
% growth	44.7	10.8	2.4	23.7	(44.4)
<b>EBITDA margin (%)</b>	<b>44.7</b>	<b>29.1</b>	<b>28.6</b>	<b>31.9</b>	<b>21.2</b>
Other income	3,624	4,508	6,582	6,232	8,388
Interest costs	442	5,790	5,232	3,998	5,176
<b>Gross profit</b>	<b>1,33,010</b>	<b>2,06,528</b>	<b>2,21,566</b>	<b>2,34,477</b>	<b>1,90,648</b>
% growth	44.3	55.3	7.3	5.8	(18.7)
Depreciation	4,092	11,947	10,375	12,648	14,998
<b>Profit before tax</b>	<b>70,991</b>	<b>66,407</b>	<b>72,558</b>	<b>90,479</b>	<b>44,295</b>
Exceptional items	25,174	2,378	6,852	-	9,505
<b>PBT after exceptional items</b>	<b>45,817</b>	<b>64,029</b>	<b>65,706</b>	<b>90,479</b>	<b>34,790</b>
% growth	6.2	39.8	2.6	37.7	(61.5)
Tax	7,027	9,147	9,138	12,116	8,452
Effective tax rate (%)	15.3	14.3	13.9	13.4	24.3
Share of associates & MI	7,375	9,237	11,140	8,918	4,214
<b>Net profit</b>	<b>31,415</b>	<b>45,394</b>	<b>45,457</b>	<b>69,644</b>	<b>21,616</b>
% growth	11.8	44.5	0.1	53.2	(69.0)
EPS	13.1	18.9	18.9	29.0	9.0

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY14	FY15	FY16	FY17	FY18
<b>Equity</b>	<b>2,071</b>	<b>2,071</b>	<b>2,407</b>	<b>2,399</b>	<b>2,399</b>
Reserves	1,83,178	2,54,310	3,27,418	3,63,997	3,78,606
Net worth	1,85,250	2,56,381	3,29,825	3,66,397	3,81,006
Minority interest	19,212	28,512	40,853	37,909	38,842
Deferred tax liabilities	2,757	753	1,028	3,148	2,190
Provisions/ other LT liabilities	26,108	27,187	21,055	13,418	4,627
Total loans	24,890	75,963	83,164	80,910	97,518
<b>Liabilities</b>	<b>2,58,216</b>	<b>3,88,796</b>	<b>4,75,924</b>	<b>5,01,781</b>	<b>5,24,182</b>
Net block	58,242	1,10,201	75,831	84,953	91,590
Capital work-in-progress	-	-	12,035	15,648	14,345
Goodwill & intangible assets	18,346	37,010	92,611	1,04,165	1,07,243
LT loans & advances	-	-	1,073	698	22,425
Other LT assets	30,255	51,617	74,340	79,102	91,066
Current investments	19,985	21,174	7,138	2,309	40,906
Inventories	31,230	56,680	64,225	68,328	68,807
Debtors	22,004	51,061	67,757	72,026	78,153
Cash & bank balances	75,902	1,09,980	1,31,816	1,51,408	99,294
Other current assets	37,744	50,262	28,476	35,465	29,199
Total current assets	1,86,865	2,89,157	2,99,413	3,29,537	3,16,359
Trade payables	13,283	32,865	35,829	43,954	47,662
Other current liabilities/provisions	22,210	66,323	43,549	68,367	71,184
Total current liabilities	35,493	99,189	79,378	1,12,321	1,18,846
Net current assets	1,51,372	1,89,969	2,20,034	2,17,216	1,97,513
<b>Total assets</b>	<b>2,58,216</b>	<b>3,88,796</b>	<b>4,75,924</b>	<b>5,01,781</b>	<b>5,24,182</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 2: Cash flow

Y/E March (Rsmn)	FY14	FY15	FY16	FY17	FY18
PBT	45,812	64,030	65,706	90,479	34,790
(Inc.)/dec. in working capital	71	1,796	4,514	(4,092)	(2,123)
<b>Cash flow from operations</b>	<b>45,883</b>	<b>65,826</b>	<b>70,220</b>	<b>86,387</b>	<b>32,667</b>
Other income	(2,936)	(10,001)	916	(11,639)	(6,352)
Depreciation	4,092	11,947	10,375	12,648	14,998
Interest	442	5,790	5,232	3,998	5,176
Tax paid	(7,889)	(17,404)	(19,885)	(20,571)	(7,417)
<b>Net cash from operations</b>	<b>39,592</b>	<b>56,158</b>	<b>66,859</b>	<b>70,822</b>	<b>39,072</b>
Capital expenditure	(8,971)	(22,997)	(33,329)	(35,904)	(18,943)
Net cash after capex	30,621	33,161	33,529	34,918	20,129
<b>Other investment activities</b>	<b>(14,697)</b>	<b>(5,660)</b>	<b>(10,387)</b>	<b>(6,312)</b>	<b>(14,765)</b>
<b>Cash from financial activities</b>	<b>5,066</b>	<b>(11,865)</b>	<b>(18,885)</b>	<b>(22,854)</b>	<b>(15,933)</b>
Others	34,221	50,759	4,659	559	3,399
Opening cash balance	20,691	43,587	71,835	80,317	86,424
Closing cash balance	75,902	1,09,980	80,751	86,628	79,254
Change in cash balance	55,211	66,393	8,916	6,311	(7,170)

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Key ratios

Y/E March	FY14	FY15	FY16	FY17	FY18
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	44.7	29.1	28.6	31.9	21.2
EBIT margin (%)	42.2	24.7	25.0	27.9	15.5
Net profit margin (%)	19.5	16.6	16.0	22.1	8.2
RoE (%)	17.0	17.7	13.8	19.0	5.7
RoCE (%)	26.3	17.5	14.9	17.6	7.8
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	51.6	48.7	76.1	80.8	103.5
Inventory (days)	70.9	58.6	77.5	76.6	94.5
Payables (days)	30.1	30.7	44.0	46.1	63.1
Current ratio (x)	5.3	2.9	3.8	2.9	2.7
Quick ratio (x)	4.4	2.3	3.0	2.3	2.1
<b>Valuation ratios</b>					
EV/sales (x)	9.6	5.7	5.4	4.8	6.0
EV/EBITDA (x)	21.5	19.6	19.0	15.1	28.4
P/E (x)	50.8	35.2	35.1	22.9	73.8
P/BV (x)	8.6	6.2	4.8	4.4	4.2

Source: Company, Nirmal Bang Institutional Equities Research

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 3926 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.  
 Board No. : 91 22 3926 8000/1; Fax. : 022 3926 8010