



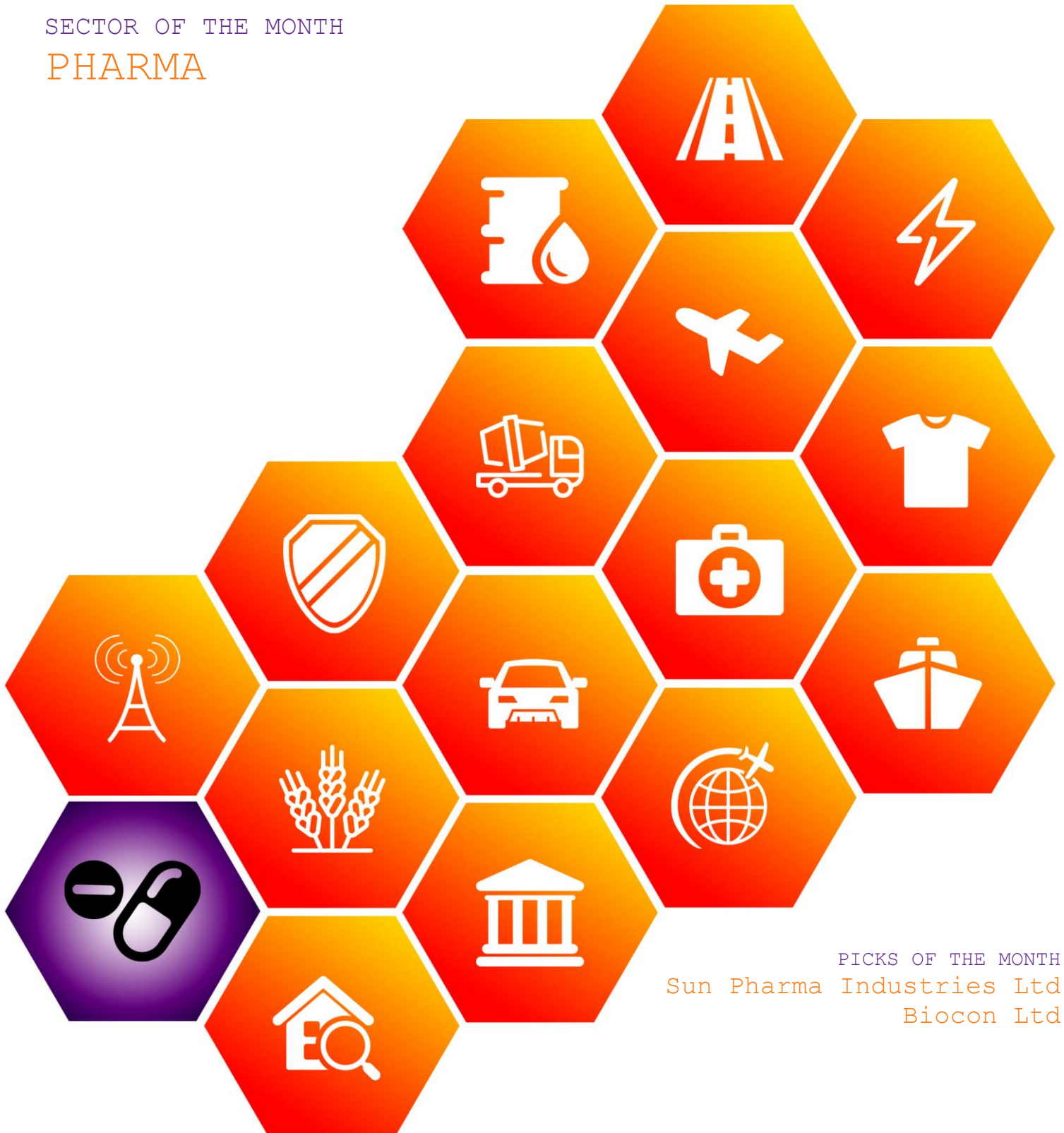
Dealmoney

World-Class Financial Services

NOVEMBER 2019

SECTOR OF THE MONTH

PHARMA



PICKS OF THE MONTH

Sun Pharma Industries Ltd

Biocon Ltd

Sector of the Month (Pharma):

Indian pharmaceutical sector industry supplies over 50 per cent of global demand for various vaccines, 40 per cent of generic demand in the US and 25 per cent of all medicine in UK. India contributes the second largest share of pharmaceutical and biotech workforce in the world. The pharmaceutical sector in India was valued at US\$ 33 billion in 2017. India's domestic pharmaceutical market turnover reached Rs 1,29,015 crore (US\$ 18.12 billion) in 2018, growing 9.4 per cent year-on-year (in Rs) from Rs 1,16,389 crore (US\$ 17.87 billion) in 2017. The Indian pharmaceuticals market stood at Rs 11,244 crore (US\$ 1.61 billion) for the month of May 2019 and recorded sales of Rs 1,32,825 crore (US\$ 19 billion) in month of June 2019. Indian pharma companies received a total of 415 product approvals in 2018 and 73 tentative approvals. Affordable medicines under the Pradhan Mantri Bhartiya Janaushadhi Pariyojana (PMBJP) have led to savings of Rs 1,000 crore (US\$ 143.08 million) for Indian citizens in FY19.

With 71 per cent market share, generic drugs form the largest segment of the Indian pharmaceutical sector. Based on moving annual turnover, Anti-Infectives (13.6 per cent), Cardiac (12.4 per cent), Gastro Intestinals (11.5 per cent) had the biggest market share in the Indian pharma market in 2018.

Indian drugs are exported to more than 200 countries in the world, with the US as the key market. Generic drugs account for 20 per cent of global exports in terms of volume, making the country the largest provider of generic medicines globally and expected to expand even further in coming years. Pharmaceutical exports from India, which include bulk drugs, intermediates, drug formulations, biologicals, Ayush & herbal products and surgicals reached US\$ 19.14 billion in FY19 and US\$ 5.17 billion in FY20 (up to August 2019). The exports are expected to reach US\$ 20 billion by 2020. In FY18, 31 per cent of these exports from India went to the US. Healthcare sector witnessed private equity investment of US\$ 1.1 billion with 27 deals in first half of 2019.

Medical devices industry in India has been growing 15.2 per cent annually and was valued at US\$ 5.2 billion in 2018 and expected to grow \$55 billion by 2020. Companies in India have witnessed higher growth in rural areas compared to urban ones. And with 12.2% of the world's population living in the villages of India, the Indian rural FMCG market cannot be ignored by investors.

The 'Pharma Vision 2020' by the government's Department of Pharmaceuticals aims to make India a major hub for end-to-end drug discovery. The sector has received cumulative FDI worth US\$ 15.98 billion between April 2000 and March 2019. Under Budget 2019-20, total allocation to the Ministry of Health and Family Welfare is Rs 62,599 crore (US\$ 8.96 billion). Rs 6,400 crore (US\$ 915 million) has been allocated to health insurance scheme Ayushman Bharat- Pradhan Mantri Jan Arogya Yojana (AB-PMJAY). As per Union Budget 2019-20, Rs 1,900 crore (US\$ 0.27 billion) have been set aside for research of the total amount and Rs 62,659 crore (US\$ 8.96 billion) allocated for Ministry of Health and Family Welfare.

As per Economic Survey 2018-19, government expenditure (as a percentage of GDP) increased to 1.5 per cent in 2018-19 from 1.2 per cent in 2014-15 for health. Indian pharmaceutical sector is expected to grow at a CAGR of 15 per cent soon and medical device market expected to grow US\$ 50 billion by 2025. FDI increased to 74 per cent in existing pharmaceutical companies and 100 per cent for new projects.

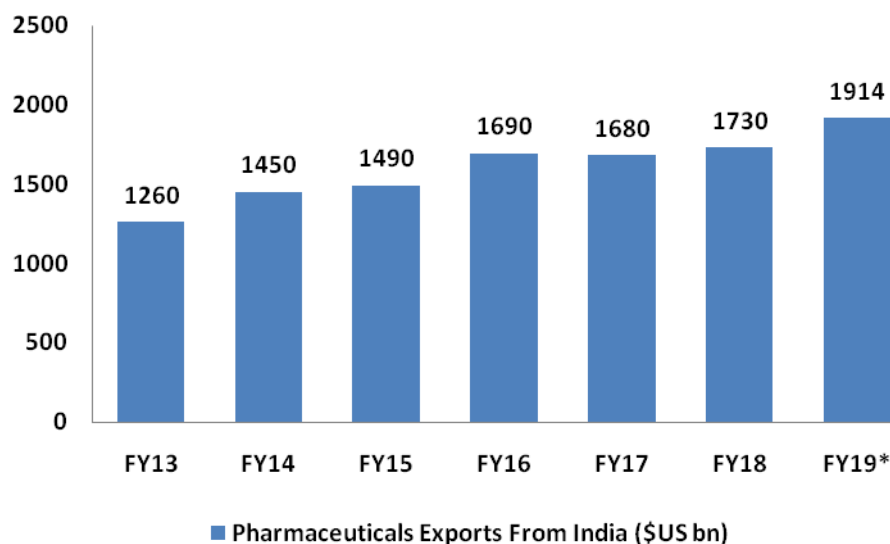
Investments and Recent Developments

The Union Cabinet has given its nod for the amendment of the existing Foreign Direct Investment (FDI) policy in the pharmaceutical sector in order to allow FDI up to 100 per cent under the automatic route for manufacturing of medical devices subject to certain conditions.

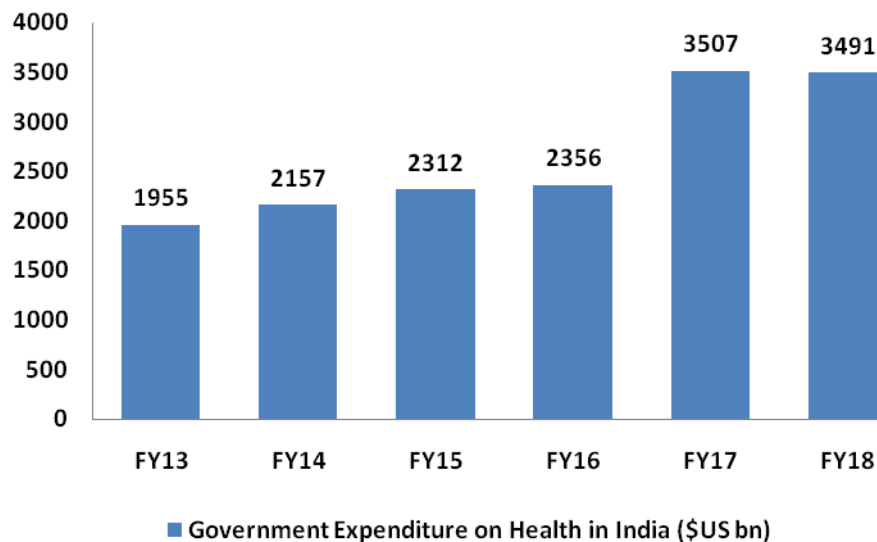
The drugs and pharmaceuticals sector attracted cumulative FDI inflows worth US\$ 15.98 billion between April 2000 and March 2019, according to data released by the Department of Industrial Policy and Promotion (DIPP).

Some of the recent developments/investments in the Indian pharmaceutical sector are as follows:

- Between Jul-Sep 2018, Indian pharma sector witnessed 39 PE investment deals worth US\$ 217 million.
- Investment (as % of sales) in research & development by Indian pharma companies* increased from 5.3 per cent in FY12 to 8.5 per cent in FY18.
- In 2017, Indian pharmaceutical sector witnessed 46 merger & acquisition (M&A) deals worth US\$ 1.47 billion
- The exports of Indian pharmaceutical industry to the US will get a boost, as branded drugs worth US\$ 55 billion will become off-patent during 2017-2019.



*Upto December 2018



Government Initiatives

Some of the initiatives taken by the government to promote the pharmaceutical sector in India are as follows:

- In October 2018, the Uttar Pradesh Government announced that it will set up six pharma parks in the state and has received investment commitments of more than Rs 5,000-6,000 crore (US\$ 712-855 million) for the same.
- The National Health Protection Scheme is largest government funded healthcare programme in the world, which is expected to benefit 100 million poor families in the country by providing a cover of up to Rs 5 lakh (US\$ 7,723.2) per family per year for secondary and tertiary care hospitalisation. The programme was announced in Union Budget 2018-19.
- In March 2018, the Drug Controller General of India (DCGI) announced its plans to start a single-window facility to provide consents, approvals and other information. The move is aimed at giving a push to the Make in India initiative.
- The Government of India is planning to set up an electronic platform to regulate online pharmacies under a new policy, in order to stop any misuse due to easy availability.
- The Government of India unveiled 'Pharma Vision 2020' aimed at making India a global leader in end-to-end drug manufacture. Approval time for new facilities has been reduced to boost investments
- The government introduced mechanisms such as the Drug Price Control Order and the National Pharmaceutical Pricing Authority to deal with the issue of affordability and availability of medicines.

Road Ahead

Medicine spending in India is projected to grow 9-12 per cent over the next five years, leading India to become one of the top 10 countries in terms of medicine spending. Going forward, better growth in domestic sales would also depend on the ability of companies to align their product portfolio towards chronic therapies for diseases such as such as cardiovascular, anti-diabetes, anti-depressants and anti-cancers that are on the rise. The Indian government has taken many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies. In addition, the thrust on rural health programmes, lifesaving drugs and preventive vaccines also augurs well for the pharmaceutical companies.

Pick of the Month (Sun Pharma Industries Ltd.) CMP: 411.7 Target: 481

Sun Pharma Industries Limited is an international speciality pharma company, with a presence in 30 markets. It also make active pharmaceutical ingredients. In branded markets, its products are prescribed in chronic therapy areas like cardiology, psychiatry, neurology, gastroenterology, diabetology and respiratory. Realizing the fact that research is a critical growth driver, it has established their research center SPARC in 1993 and this created a base of strong product and process development skills. In India, it has reached leadership in each of the therapy areas that it operates in, and are rated among the leading companies by key customers. Strengthening market share and keeping this customer focus remains a high priority area for the company. Another API plant, its Ahmednagar plant, was acquired from the multinational Knoll Pharmaceuticals in 1996, and upgraded for approvals from regulated markets, with substantial capacity addition over the years. This was the first of several sensibly priced acquisitions, each of which would bring important parts to the long-term strategy.

Concall highlights: Concall highlights: (1) Global specialty sales were flat QoQ at USD91m. Higher Ilumya sales were offset by seasonality in Absorica and Levulan on a sequential basis. (2) With respect to Absorica, SUNP intends to launch a lifecycle extension product in 4QFY20. (3) gLialda would be launched in the near term in the US market. (4) Specialty R&D formed 24% of total R&D spend for the quarter.

Inferior product mix offset by controlled cost: Gross margin contracted 280bp YoY (+130bp QoQ) to 71.5%, mainly due to the change in the product mix and the distribution transition in India. EBITDA margin shrank at a lower rate of 80bp YoY to 20% due to controlled opex with lower employee/R&D cost (-110bp/100bp YoY). EBITDA was up 11% YoY at INR16.1b. Adj. PAT increased marginally by 3% YoY to INR10.6b due to a higher tax rate.

Revenues driven by India/ROW: The company sales increased 16% YoY to Rs.79.5b in 2QFY20, mainly driven by strong growth in India and RoW sales. India sales were up 35% YoY to INR25b (32% of sales), led by the robust outperformance to industry and partially led by a low base. RoW sales were up 49% YoY to USD161m (16% of sales), led by organic growth and the integration of Pola Pharma Japan.

Valuations: The stock is trading at a valuations of 38.2x P/E FY19. We recommend **buy on Sun Pharma Industries Limited** with a price target of **Rs. 481**.

NSE / BSE Code	SUNPHARMA/524715
Sector	Pharmaceuticals
Industry	Pharmaceuticals
Face value / Book Value (₹ per share)	1 / 95.21
Dividend yield (%)	275
52 H/L (Rs.)	616.8/ 344.55
Market Cap. (Rs. Cr)	99,854
Shares Outstanding (Cr)	240

(In Rs.Cr)	Q1FY20	Q4FY19	Q3FY19	Q2FY19
Net Sales	8259.30	7044.26	7656.71	6846.48
EBITDA	1928.23	1016.79	2152.89	1531.21
PAT	1501.38	723.05	1459.19	-106.97
EBITDA %	23%	14%	28%	22%
PAT %	18%	10%	19%	-2%

(In Rs.Cr)	FY16	FY17	FY18	FY19
Net Sales	28,108.61	31,308.14	26,415.54	29,065.91
Sales Growth	2.62	11.38	-15.63	10.03
EBITDA	8,158.32	9,682.22	5,534.81	6,273.64
EBITDA Margin	30.95	33.92	12.59	13.02
PAT	7,836.30	2,567.94	3,209.32	7,836.30
NPM%	19.86	24.82	5.02	5.70
Adj. EPS (Rs. `)	18.89	29.03	8.73	11.11

	FY16	FY17	FY18	FY19
P/E (x)	43.38	23.69	56.72	43.14
P/B (x)	5.98	4.50	3.10	2.78
EV/Sales(x)	6.85	5.10	4.52	4.07
EV/EBITDA(x)	21.84	14.91	18.51	16.12
ROCE(x)	18.64	21.48	8.40	8.68
ROE(x)	19.32	22.51	6.85	8.05

Source: Ace equity, CARE, IBEF

Pick of the Month (Biocon Ltd.):

CMP: 256.7

Target: 292

Biocon Limited is India's largest and fully-integrated, innovation-led biopharmaceutical company. As an emerging global biopharmaceutical enterprise, it is committed to reduce therapy costs of chronic diseases like autoimmune, diabetes and cancer. Through innovative products and research services it is enabling access to affordable healthcare for patients, partners and healthcare systems across the globe. An innovation-led organization focused on providing affordable access, Biocon has built differentiated capabilities in the areas of biologics and complex small molecules. It has successfully developed and taken a range of Novel Biologics, Biosimilars, differentiated Small Molecules and affordable Recombinant Human Insulin and Analogs from 'Lab to Market'.

Fulphila, Ogivri & Hulio to push Earnings in FY20E: Biocon has already launched 4 biosimilars in the developed market (Fulphila (US/EU), Hulio (EU), Ogivri (EU) and Semglee (EU). Ogivri launch (US) is expected in 1HFY20E and can generate US\$19mn/US\$57mn revenue for Biocon in FY20E/21E. Ogivri to contribute equally in Europe due to limited competition among 3-4 players. Further, the European competition for Hulio (Adalimumab) is limited to 4 biosimilars in 2019.

Strong footage on capturing global biosimilars opportunity: Biologics segment (28% of FY19 in total revenues) includes biosimilars and insulin. The company is heavily spending in this space. The progress has been encouraging with approvals and launches in the US, EU, Japan, Australia and EMs. Also, Chinese biosimilar opportunities got enhanced post Mylan Upjohn merger.

Conference Call Highlights: The management has set an aspirational target of US\$1 billion of biologics sales by FY22 via the organic route. The confidence stems from future launches as well as development pipeline that included 28 molecules under development. The higher traction is expected mainly from the US followed by EU and emerging markets (Ems). Trastuzumab launch in the US is scheduled by CY19. RoCE for the biologics business was at 16% in H1FY20 vis-à-vis 11% in H1FY19. Increase in gross R&D expenses to | 123 crore (up 39% YoY) mainly to facilitate portfolio expansion.

Valuations: The stock is trading at a valuation of 85.8x P/E FY19. We recommend **buy on Biocon Limited** with a price target of **Rs. 292**.

NSE/BSECode	BIOCON/532523
Sector	Pharmaceuticals
Industry	Biotechnology
Facevalue/BookValue(` pershare)	5/59.30
Dividendyield(%)	10
52H/L(Rs.)	341.85/211.05
MarketCap.(Rs.Cr)	31,080
SharesOutstanding(Cr)	120

(InRs.Cr)	Q1FY20	Q4FY19	Q3FY19	Q2FY19
NetSales	1572.20	1465.90	1528.80	1540.80
EBITDA	402.80	437.50	403.00	380.70
PAT	263.20	235.60	254.60	230.70
EBITDA%	26%	30%	26%	25%
PAT%	17%	16%	17%	15%

(InRs.Cr)	FY16	FY17	FY18	FY19
NetSales	3,347.40	3,891.10	4,123.40	5,514.40
SalesGrowth	8.34	16.24	5.97	33.73
EBITDA	767.80	979.50	829.10	1,393.70
EBITDAMargin	25.05	28.98	25.07	27.89
PAT	587.40	671.80	431.80	1,001.70
NPM%	17.37	17.13	10.46	18.17
Adj.EPS(Rs.)	4.59	5.10	3.10	7.54

	FY16	FY17	FY18	FY19
P/E(x)	43.38	23.69	56.72	43.14
P/B(x)	5.98	4.50	3.10	2.78
EV/Sales(x)	6.85	5.10	4.52	4.07
EV/EBITDA(x)	21.84	14.91	18.51	16.12
ROCE(x)	13.93	12.59	8.92	16.10
ROE(x)	16.17	15.26	8.74	18.00

Source: Ace equity, CARE, IBEF

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