

CMP: ₹ 1725

Target: ₹ 1845(7%)

Target Period: 12 months

August 2, 2024

HOLD

Domestic formulations, global specialty drive numbers...

About the stock: Sun is the world's fourth largest generics/specialty pharma company with 43 manufacturing sites at its disposal addressing segments like specialty products, branded generics, complex generics, pure generics and APIs.

- Sun is ranked No. 1 in domestic formulations. It enjoys a leadership position in 12 specialties based on prescription.
- Revenue break-up Q1FY54: US formulations~31%, Indian branded~33%, Emerging markets~19%, RoW~13%, API & Others - 4%
- The company is consciously ramping up its global specialty portfolio (Innovative products) which now accounts for ~18% of sales (spread across geographies but mainly US)

Investment Rationale:

- Q1FY25- margins strong due to higher growth in domestic and specialty segments – Revenues grew ~6% YoY to ₹ 12653 crore driven by strong India growth of 16% to ₹ 4145 crore. US growth was flat at ₹ 3889 crore due to high gRevlimid base. Excluding gRevlimid, the growth was driven by specialty and other generics. India Formulations growth was driven by new product launches (6 launches) and increased prescription share. Emerging markets grew ~9% to ₹ 2035 crore, driven by branded generics traction. RoW markets, on the other hand witnessed a de-growth of ~3% to ₹ 1581 crore, mainly due to pricing pressure in Japan. Global Specialty sales came in at US\$ 266 million, up 15% YoY. EBITDA stood at ₹ 3658 crore, up ~10% YoY, with resulting EBITDA margins of 28.9%, driven by GPM improvement (up ~200 bps to 78.9%) and lower employee cost.
- Preparing for Specialty v2 with augmented R&D spend – Sun Pharma's performance continued to thrive on remunerative businesses of global specialty (mainly US and other markets) and domestic formulations. Overall better product mix with higher domestic sales and specialty business aided margin expansion during the quarter. The India business continued to grow with a branded portfolio, leading to an increase in its market share. On the exports front, the company remains strategically focused on specialty business which is evident from a significant increase in R&D allocation towards Specialty from 24% to 45% in Q1FY25. Recent USFDA approval for Leqselvi (deuruxolitinib, a late-stage, potential best-in-class treatment for alopecia areata) in the US is yet another specialty addition in the specialty portfolio.

Rating and Target price

- Our target price is ₹ 1845 based on 35x FY26E EPS of ₹ 52.7. We assign HOLD rating as we continue to monitor progress on the Specialty front.

Key Financial Summary

Key Financials (₹ Crore)	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Sales	33498.1	38654.5	43885.5	10.1	48496.9	52873.7	58810.5	10.2
EBITDA	8491.4	10397.7	11673.8	18.6	12987.0	14919.9	16466.9	12.2
EBITDA Margins (%)	25.3	26.9	26.6		26.8	28.2	28.0	
Adj. Profit	7210.0	7667.1	8655.2	29.1	9994.4	11210.4	12641.1	13.5
Adj. EPS (₹)	30.1	32.0	36.1		41.7	46.7	52.7	
PE (x)	142.5	126.4	48.7		43.4	36.7	32.7	
EV to EBITDA (x)	48.1	38.7	34.8		30.7	26.7	23.8	
RoE (%)	15.5	16.0	15.5		15.7	15.7	15.6	
RoCE (%)	14.2	18.2	15.3		17.5	19.0	19.2	

Source: Company, ICICI Direct Research



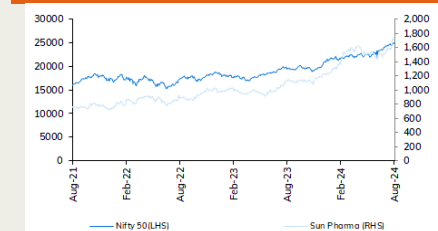
Particulars

Particular	Amount
Market Capitalisation	₹ 413828 Crore
Debt (FY24)	₹ 3272 Crore
Cash & Equivalents (FY24)	₹ 9286 Crore
EV	₹ 407814 Crore
52 week H/L (₹)	1639/929
Equity capital	₹ 239.9 Crore
Face value	₹ 1

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	54.5	54.5	54.5	54.5
FIIIs	16.8	17.1	17.7	17.2
DIIIs	19.6	19.4	18.7	19.2
Others	9.2	9.0	9.1	9.1

Price Chart



Key risks

- Slower ramp-up in the Specialty launches due to longer than expected gestation period
- Delay in generic ramp-up due to pending Halol and Dadra USFDA embargo

Research Analyst

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Exhibit 1: Quarterly Summary

(₹ Crore)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Total Operating Income	9718.7	9625.9	9863.1	9446.8	10761.8	10952.3	11240.8	10930.7	11940.8	12192.4	12380.7	11982.9	12652.8	6.0	5.6
Raw Material Expenses	2649.4	2521.9	2640.6	2539.6	2900.2	2708.1	2803.7	2250.2	2758.2	2787.1	2736.9	2380.4	2675.4	-3.0	12.4
Gross Profit Margin (%)	72.7	73.8	73.2	73.1	73.1	75.3	75.1	79.4	76.9	77.1	77.9	80.1	78.9	195 bps	-128 bps
Employee Expenses	1758.7	1806.3	1850.9	1884.9	2074.9	2004.6	2037.1	2179.6	2402.0	2364.4	2363.3	2299.3	2454.6	2.2	6.8
% of Revenue	18.1	18.8	18.8	20.0	19.3	18.3	18.1	19.9	20.1	19.4	19.1	19.2	19.4	-72 bps	21 bps
Other Expenditure	2489.5	2667.9	2765.2	2681.9	2902.3	3283.1	3396.5	3671.6	3450.9	3827.5	3928.2	4211.6	3864.6	12.0	-8.2
% of Revenue	25.6	27.7	28.0	28.4	27.0	30.0	30.2	33.6	28.9	31.4	31.7	35.1	30.5	164 bps	-460 bps
Total Expenditure	6897.7	6996.0	7256.7	7106.4	7877.4	7995.7	8237.3	8101.4	8611.1	8978.9	9028.4	8891.4	8994.7	4.5	1.2
% of Revenue	71.0	72.7	73.6	75.2	73.2	73.0	73.3	74.1	72.1	73.6	72.9	74.2	71.1	-103 bps	-311 bps
EBITDA	2821.1	2629.9	2606.3	2340.4	2884.4	2956.6	3003.6	2829.3	3329.7	3213.5	3352.3	3091.5	3658.1	9.9	18.3
EBITDA Margin (%)	29.0	27.3	26.4	24.8	26.8	27.0	26.7	25.9	27.9	26.4	27.1	25.8	28.9	103 bps	311 bps
Depreciation	503.2	530.4	553.7	556.5	588.0	610.0	660.0	671.5	651.3	632.8	622.1	650.4	655.1	0.6	0.7
Other Income	152.5	222.9	432.5	113.6	2.1	85.2	173.9	373.2	204.4	293.6	250.2	605.9	532.6	160.5	-12.1
PBIT	2470.4	2322.5	2485.2	1897.5	2298.5	2431.8	2517.5	2531.0	2882.9	2874.3	2980.3	3047.1	3535.5	22.6	16.0
Interest	35.1	36.0	19.0	37.3	13.7	19.4	46.2	92.7	80.9	49.3	34.7	73.6	61.5	-23.9	-16.4
Less: Exceptional Items	631.1	0.0	0.0	3935.8	0.0	0.0	0.0	171.4	322.9	0.0	69.8	101.6	0.0		
PBT	1804.2	2286.5	2466.2	-2075.6	2284.8	2412.4	2471.3	2266.9	2479.1	2825.0	2875.8	2871.9	3474.0	40.1	21.0
Total Tax	395.6	197.8	335.4	146.8	189.0	152.3	283.4	222.9	468.1	390.1	432.3	148.9	552.3	18.0	270.8
PAT before MI	1408.7	2088.7	2130.8	-2222.4	2095.9	2260.2	2187.9	2044.0	2011.0	2434.9	2443.5	2723.0	2921.7	45.3	7.3
Minority Interest	-40.1	39.3	67.5	49.9	32.5	-6.3	14.7	-1.6	-16.9	9.6	36.8	4.2	24.9	-247.4	498.3
PAT after MI	1448.8	2049.4	2063.3	-2272.2	2063.3	2266.5	2173.1	2045.5	2027.9	2425.3	2406.7	2718.8	2896.8	42.8	6.5
Profit from Associates	-4.6	-2.4	-4.5	-5.0	-2.5	-4.3	-7.3	-33.8	-7.4	-15.7	-7.5	-7.9	-10.7		
PAT	1444.2	2047.0	2058.8	-2277.3	2060.9	2262.2	2165.8	2011.7	2020.5	2409.6	2399.2	2711.0	2886.1	42.8	6.5
Adjusted PAT	1979.2	2047.0	2058.8	1582.1	2060.9	2262.2	2165.8	2166.3	2284.5	2375.5	2583.5	2750.8	2835.6	24.1	3.1
Adjusted EPS (₹)	8.2	8.5	8.6	6.6	8.6	9.4	9.0	9.0	9.5	9.9	10.8	11.5	11.8		

Source: Company, ICICI Direct Research

Q1FY25 Results / Conference call highlights

- In the domestic formulations, growth across therapies is being led by Volume and prescription.
- Effective tax rate is expected to increase ahead.
- Remediation of the Halol plant is in process and the company will invite USFDA for a re-inspection once the remediation is completed.
- As per management, there are no critical products filing from Halol / Mohali / Dadra.
- Sales in the US excluding gRevlimid actually grown during the quarter. The company launched 5 new products.
- In Q1 FY25 the company received USFDA approval for Leqselvi 8 mg tablets. However, a motion seeking a preliminary injunction has been filed in a US court to prevent the launch of Leqselvi.
- R&D expenses are expected to be stepped up in the coming quarters, 8-10% of Sales.
- Specialty R&D spend accounted for 45.2% of total R&D spend. There are 6 products undergoing clinical trials in the pipeline.
- Global specialty sales are up 14.7% to ₹2228.4 crore.
- European Medicines Agency validated the submission for the marketing authorization application of Nidlegly. It is the first marketing authorization application of Nidlegly and the treatment of locally advanced fully resectable melanoma as potential first indication.
- The company has a net cash balance of more than US\$ 2.4 billion crore as of June'24.
- The company completed its acquisition of all outstanding ordinary shares of Taro (other than shares already held by the Group) for a consideration of US\$ 347.7 million.

Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Revenues	43,885.5	48,496.9	52,873.7	58,810.5
Growth (%)	13.5	10.5	9.0	11.2
Raw Material Expenses	10,662.1	10,662.6	11,524.0	12,644.3
Employee Expenses	8,296.0	9,429.1	10,297.7	11,468.1
Other Expenditure	13,253.5	15,418.2	16,132.0	18,231.3
Total Operating Expenditure	32,211.7	35,509.9	37,953.8	42,343.6
EBITDA	11,673.8	12,987.0	14,919.9	16,466.9
Growth (%)	12.3	11.2	14.9	10.4
Depreciation	2,529.4	2,556.6	2,618.4	2,689.4
Interest	172.0	238.5	262.2	235.7
Other Income	634.4	1,354.2	1,325.1	1,740.2
PBT	9,606.8	11,546.1	13,364.5	15,282.1
Less: Exceptional Items	171.4	494.3	0.0	0.0
Total Tax	847.6	1,439.5	2,035.8	2,597.9
PAT before MI	8,587.8	9,612.3	11,328.7	12,684.1
Minority Interest	39.4	33.7	24.9	0.0
PAT	8,500.6	9,540.3	11,260.8	12,641.1
Adjusted PAT	8,655.2	9,994.4	11,210.4	12,641.1
Growth (%)	12.9	15.5	12.2	12.8
EPS (Adjusted)	36.1	41.7	46.7	52.7

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	7898.6	9518.5	11260.8	12641.1
Depreciation	2529.4	2556.6	2618.4	2689.4
(Inc)/Dec in Current Assets	-2371.2	567.8	-2873.3	-2842.3
(Inc)/Dec in Current Liabilities	-3290.6	494.3	170.4	1163.6
Others	193.1	-1002.2	262.2	235.7
CF from operation Activities	4959.3	12135.0	11438.5	13887.6
Purchase of Fixed Assets	-2064.6	-2171.0	-1500.0	-1500.0
(Inc)/Dec in Investments	-6329.4	768.4	-4000.0	-4000.0
Others	449.7	712.9	-3317.9	-473.7
CF from Investing Activities	-7944.3	-689.6	-8817.9	-5973.7
Inc / (Dec) in Loan Funds	4995.0	-3686.4	-300.0	-300.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Dividend and dividend tax	-2519.7	-2900.7	-3358.6	-3358.6
Other Financial Activities	-99.2	-123.1	-262.2	-235.7
CF from Financing Activities	2376.1	-6710.2	-3920.8	-3894.3
Cash generation during the	-608.9	4735.2	-1300.1	4019.6
Op bal Cash & Cash equival	5232.0	4623.1	9285.7	7985.5
Closing Cash/ Cash Equival	4623.1	9358.4	7985.5	12005.1
Free Cash Flow	2894.8	9964.0	9938.5	12387.6

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	239.9	239.9	239.9	239.9
Reserve and Surplus	55,755.5	63,426.8	71,329.0	80,611.6
Total Shareholders funds	55,995.4	63,666.8	71,569.0	80,851.5
Total Debt	6,885.9	3,272.3	2,972.3	2,672.3
Deferred Tax Liability	31.7	155.1	165.9	177.5
Minority Interest	3,320.1	3,439.2	564.1	564.1
Other LT Liabilities & LT Provi	929.5	915.2	979.2	1,047.8
Total Liabilities	67,162.6	71,448.5	76,250.5	85,313.2
Gross Block - Fixed Assets	34,406.6	35,868.3	36,868.3	37,868.3
Accumulated Depreciation	18,699.2	21,255.8	23,874.2	26,563.6
Net Block	15,707.4	14,612.4	12,994.1	11,304.7
Capital WIP	4,973.2	5,353.9	5,853.9	6,353.9
Total Fixed Assets	20,680.6	19,966.3	18,847.9	17,658.6
Investments	14,830.1	15,025.8	19,025.8	23,025.8
Deferred tax assets	3,164.2	4,103.7	4,390.9	4,698.3
Goodwill on Consolidation	8,712.7	8,599.0	8,599.0	8,599.0
LT Loans, Advances & Asset:	2,845.3	2,877.8	3,079.2	3,294.7
Cash	4,623.1	9,285.7	7,985.5	12,005.1
Debtors	11,438.5	11,249.4	13,573.6	15,097.6
Loans and Advances	41.3	65.0	69.6	74.4
Inventory	10,513.1	9,868.3	10,103.3	11,085.4
Other current assets	3,894.1	4,422.1	4,731.7	5,062.9
Total Current Assets	30,510.1	34,890.4	36,463.6	43,325.4
Creditors	5,681.5	5,653.3	5,209.5	5,715.9
Provisions & other current lia	7,898.9	8,361.0	8,946.3	9,572.5
Total Current Liabilities	13,580.4	14,014.3	14,155.8	15,288.4
Net Current Assets	16,929.7	20,876.1	22,307.8	28,037.0
Application of Funds	67,162.6	71,448.6	76,250.6	85,313.3

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Adjusted EPS	36.1	41.7	46.7	52.7
BV per share	233.4	265.4	298.3	337.0
Dividend per share	11.5	13.5	14.0	14.0
Cash Per Share	19.3	38.7	33.3	50.0
Operating Ratios (%)				
Gross Margin	75.7	78.0	78.2	78.5
EBITDA Margin	26.6	26.8	28.2	28.0
PAT Margin	19.7	20.6	21.2	21.5
Inventory days	360	338	320	320
Debtor days	95	85	94	94
Creditor days	194	194	165	165
Asset Turnover	1.3	1.4	1.4	1.6
EBITDA Conversion rate	42.5	93.4	76.7	84.3
Return Ratios (%)				
RoE	15.5	15.7	15.7	15.6
RoCE	15.3	17.5	19.0	19.2
RoIC	20.3	23.6	25.9	27.7
Valuation Ratios (x)				
P/E	48.7	43.4	36.7	32.7
EV / EBITDA	34.8	30.7	26.7	23.8
EV / Net Sales	9.3	8.2	7.5	6.7
Market Cap / Sales	9.4	8.5	7.8	7.0
Price to Book Value	7.4	6.5	5.8	5.1
Solvency Ratios				
Debt / EBITDA	0.6	0.3	0.2	0.2
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.9	1.8	2.0	2.0
Working Capital Cycle	261	229	249	249

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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