

CMP: ₹ 1870

Target: ₹ 2185(17%)

Target Period: 12 months

BUY

October 29, 2024

## Global specialty, domestic formulations to the fore...

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 Q2FY25: US formulations~33%, Indian branded~32%, Emerging markets~18%, 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:

- **Sun Pharma Q2FY25 - US, India drive growth; margins strong** - the Revenues grew ~9% YoY to ₹ 12653 crore driven by strong US growth of ~22% to ₹ 4327 crore, driven mainly by specialty growth and possible traction from gRevlimid. India Formulations grew 11% to ₹ 4265 crore driven by new product launches (14 launches) and increased prescription share. Emerging markets grew ~3% to ₹ 2452 crore, driven by branded generics traction. RoW markets, on the other hand witnessed a de-growth of ~3.5% to ₹ 1663 crore, mainly due to pricing pressure in Japan. Global Specialty sales came in at US\$ 286 million, up 19% YoY. EBITDA stood at ₹ 3811 crore, up ~19% YoY, with resulting EBITDA margins of 28.7%, driven by GPM improvement (up ~259 bps to 79.7%) and lower employee cost. Net profit came in at ₹ 2905 crore, up 20% YoY.
- **Optical focus on Specialty with boosted 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 deliver volume-driven growth. 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 38% in H1FY25. The 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

- We upgrade to **BUY** with a target price of ₹ 2185 based on **42x** FY26E EPS of ₹ 52. Relentless pursuit towards specialty warrants premium valuation.



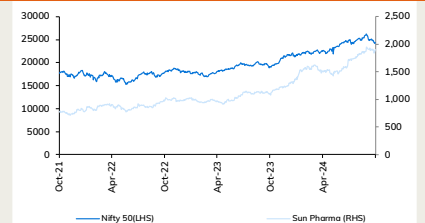
### Particulars

Particular	Amount
Market Capitalisation	₹ 448613 Crore
Debt (FY24)	₹ 3272 Crore
Cash & Equivalents (FY24)	₹ 9286 Crore
EV	₹ 442600 Crore
52 week H/L (₹)	1960/1069
Equity capital	₹ 239.9 Crore
Face value	₹ 1

### Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	54.5	54.5	54.5	54.5
FIIIs	17.1	17.7	17.2	18.0
DIIIs	19.4	18.7	19.2	18.5
Others	9.0	9.1	9.1	9.0

### 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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### 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	52769.1	58158.6	9.8
EBITDA	8491.4	10397.7	11673.8	18.6	12987.0	14979.9	16284.4	11.7
EBITDA Margins (%)	25.3	26.9	26.6		26.8	28.4	28.0	
Adj. Profit	7210.0	7667.1	8655.2	29.1	9994.4	11438.3	12480.7	13.0
Adj. EPS (₹)	30.1	32.0	36.1		41.7	47.7	52.0	
PE (x)	154.5	137.1	52.8		47.0	39.5	35.9	
EV to EBITDA (x)	52.2	42.1	37.8		33.4	28.8	26.2	
RoE (%)	15.5	16.0	15.5		15.7	16.5	16.0	
RoCE (%)	14.2	18.2	15.3		17.5	20.0	19.8	

Exhibit 1: Quarterly Summary

(₹ Crore)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Total Operating Income	9625.9	9863.1	9446.8	10761.8	10952.3	11240.8	10930.7	11940.8	12192.4	12380.7	11982.9	12652.8	13291.4	9.0	5.0
Raw Material Expenses	2521.9	2640.6	2539.6	2900.2	2708.1	2803.7	2250.2	2758.2	2787.1	2736.9	2380.4	2675.4	2694.2	-3.3	0.7
Gross Profit Margin (%)	73.8	73.2	73.1	73.1	75.3	75.1	79.4	76.9	77.1	77.9	80.1	78.9	79.7	259 bps	87 bps
Employee Expenses	1806.3	1850.9	1884.9	2074.9	2004.6	2037.1	2179.6	2402.0	2364.4	2363.3	2299.3	2454.6	2477.7	4.8	0.9
% of Revenue	18.8	18.8	20.0	19.3	18.3	18.1	19.9	20.1	19.4	19.1	19.2	19.4	18.6	-75 bps	-76 bps
Other Expenditure	2667.9	2765.2	2681.9	2902.3	3283.1	3396.5	3671.6	3450.9	3827.5	3928.2	4211.6	3864.6	4308.6	12.6	11.5
% of Revenue	27.7	28.0	28.4	27.0	30.0	30.2	33.6	28.9	31.4	31.7	35.1	30.5	32.4	102 bps	187 bps
Total Expenditure	6996.0	7256.7	7106.4	7877.4	7995.7	8237.3	8101.4	8611.1	8978.9	9028.4	8891.4	8994.7	9480.5	5.6	5.4
% of Revenue	72.7	73.6	75.2	73.2	73.0	73.3	74.1	72.1	73.6	72.9	74.2	71.1	71.3	-232 bps	24 bps
EBITDA	2629.9	2606.3	2340.4	2884.4	2956.6	3003.6	2829.3	3329.7	3213.5	3352.3	3091.5	3658.1	3810.9	18.6	4.2
EBITDA Margin (%)	27.3	26.4	24.8	26.8	27.0	26.7	25.9	27.9	26.4	27.1	25.8	28.9	28.7	232 bps	-24 bps
Depreciation	530.4	553.7	556.5	588.0	610.0	660.0	671.5	651.3	632.8	622.1	650.4	655.1	625.9	-1.1	-4.5
Other Income	222.9	432.5	113.6	2.1	85.2	173.9	373.2	204.4	293.6	250.2	605.9	532.6	354.0	20.6	-33.5
PBIT	2322.5	2485.2	1897.5	2298.5	2431.8	2517.5	2531.0	2882.9	2874.3	2980.3	3047.1	3535.5	3539.0	23.1	0.1
Interest	36.0	19.0	37.3	13.7	19.4	46.2	92.7	80.9	49.3	34.7	73.6	61.5	69.2	40.3	12.4
Less: Exceptional Items	0.0	0.0	3935.8	0.0	0.0	0.0	171.4	322.9	0.0	69.8	101.6	0.0	0.0		
PBT	2286.5	2466.2	-2075.6	2284.8	2412.4	2471.3	2266.9	2479.1	2825.0	2875.8	2871.9	3474.0	3469.8	22.8	-0.1
Total Tax	197.8	335.4	146.8	189.0	152.3	283.4	222.9	468.1	390.1	432.3	148.9	552.3	567.2	45.4	2.7
PAT before MI	2088.7	2130.8	-2222.4	2095.9	2260.2	2187.9	2044.0	2011.0	2434.9	2443.5	2723.0	2921.7	2902.6	19.2	-0.7
Minority Interest	39.3	67.5	49.9	32.5	-6.3	14.7	-1.6	-16.9	9.6	36.8	4.2	24.9	-2.8	-129.5	-111.4
PAT after MI	2049.4	2063.3	-2272.2	2063.3	2266.5	2173.1	2045.5	2027.9	2425.3	2406.7	2718.8	2896.8	2905.4	19.8	0.3
Profit from Associates	-2.4	-4.5	-5.0	-2.5	-4.3	-7.3	-33.8	-7.4	-15.7	-7.5	-7.9	-10.7	6.7		
PAT	2047.0	2058.8	-2277.3	2060.9	2262.2	2165.8	2011.7	2020.5	2409.6	2399.2	2711.0	2886.1	2912.1	20.9	0.9
Adjusted PAT	2047.0	2058.8	1582.1	2060.9	2262.2	2165.8	2166.3	2284.5	2375.5	2583.5	2750.8	2835.6	3040.2	28.0	7.2
Adjusted EPS (₹)	8.5	8.6	6.6	8.6	9.4	9.0	9.0	9.5	9.9	10.8	11.5	11.8	12.7		

Source: Company, ICICI Direct Research

### Q2FY25 Results / Conference call highlights

- Domestic formulations growth was been driven by volume, in contrast to the IPM, which has been growing primarily through price increases.
- During the quarter, Sun Pharma launched 14 new products in the domestic formulations.
- In US generics, the company launched two new products in Q2 FY25. Traction from gRevlimid was decent during the quarter with both the YoY and QoQ growth.
- Revenue decline in the Rest of World (RoW) market is attributed to price cuts in Japan, which is expected to persist over the next few quarters.
- Specialty R&D constituted 38% of total R&D spend and the R&D spend for Q2 FY25 was 6% of total revenue, lower than the 7-8% guided for the full year. This decrease is due to delays in some clinical studies; however, the company expects to meet the original guidance by the end of FY25.
- Regarding the Lexelvi (Dermatology) litigation, if the court rules against Sun Pharma before the patent expires (December 2026), the company anticipates a potential out-of-court settlement.
- For Winlevi (Dermatology), management expects quarter-on-quarter and month-on-month improvement in prescription volume.
- Resources are prioritized toward emerging markets over other regions to drive growth in both the top line and bottom line in this segment.
- For SCD-044, once phase 2 trial data for adults is received, management may consider conducting relevant studies for paediatric patients if deemed feasible.
- The increase in other expenses was mainly due to higher selling and distribution costs in the U.S. and emerging markets, particularly for the Lexelvi launch.
- Gross margins benefited from increased specialty sales, and there was a noted decrease in material costs to 20.3% due to an improved product mix.
- The company has in-licensed late-stage candidate Fibromun (cancer immunotherapy) with Philogen (same partner for skin cancer drug Nidlegly).
- As of Q2FY25, Sun Pharma has a net cash position of US\$ 2.6 billion.

## Financial Tables

Exhibit 3: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
<b>Revenues</b>	<b>43,885.5</b>	<b>48,496.9</b>	<b>52,769.1</b>	<b>58,158.6</b>	
Growth (%)	13.5	10.5	8.8	10.2	
Raw Material Expenses	10,662.1	10,662.6	11,271.1	12,504.1	
Employee Expenses	8,296.0	9,429.1	10,163.2	11,340.9	
Other Expenditure	13,253.5	15,418.2	16,354.9	18,029.2	
Total Operating Expenditure	32,211.7	35,509.9	37,789.2	41,874.2	
<b>EBITDA</b>	<b>11,673.8</b>	<b>12,987.0</b>	<b>14,979.9</b>	<b>16,284.4</b>	
Growth (%)	12.3	11.2	15.3	8.7	
Depreciation	2,529.4	2,556.6	2,635.5	2,704.6	
Interest	172.0	238.5	246.4	217.6	
Other Income	634.4	1,354.2	1,415.1	1,726.5	
PBT	9,606.8	11,546.1	13,513.2	15,088.7	
Less: Exceptional Items	171.4	494.3	0.0	0.0	
Total Tax	847.6	1,439.5	2,104.9	2,565.1	
PAT before MI	8,587.8	9,612.3	11,408.3	12,523.6	
Minority Interest	39.4	33.7	22.1	0.0	
PAT	8,500.6	9,540.3	11,360.7	12,480.7	
<b>Adjusted PAT</b>	<b>8,655.2</b>	<b>9,994.4</b>	<b>11,438.3</b>	<b>12,480.7</b>	
Growth (%)	12.9	15.5	14.4	9.1	
<b>EPS (Adjusted)</b>	<b>36.1</b>	<b>41.7</b>	<b>47.7</b>	<b>52.0</b>	

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	11360.7	12480.7	
Depreciation	2529.4	2556.6	2635.5	2704.6	
(Inc)/Dec in Current Assets	-2371.2	567.8	-1380.9	-3351.3	
(Inc)/Dec in Current Liabilities	-3290.6	494.3	1027.0	600.7	
Others	193.1	-1002.2	246.4	217.6	
<b>CF from operation Activities</b>	<b>4959.3</b>	<b>12135.0</b>	<b>13888.6</b>	<b>12652.3</b>	
Purchase of Fixed Assets	-2064.6	-2171.0	-3366.0	-1500.0	
(Inc)/Dec in Investments	-6329.4	768.4	-2717.9	-4000.0	
Others	449.7	712.9	-2217.3	-363.7	
<b>CF from Investing Activities</b>	<b>-7944.3</b>	<b>-689.6</b>	<b>-8301.2</b>	<b>-5863.7</b>	
Inc / (Dec) in Loan Funds	4995.0	-3686.4	-701.7	-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	-246.4	-217.6	
<b>CF from Financing Activities</b>	<b>2376.1</b>	<b>-6710.2</b>	<b>-4306.7</b>	<b>-3876.2</b>	
Cash generation during the year	-608.9	4735.2	-1273.1	2912.3	
Op bal Cash & Cash equivalents	5232.0	4623.1	9285.7	8012.5	
<b>Closing Cash/ Cash Equivalent</b>	<b>4623.1</b>	<b>9358.4</b>	<b>8012.5</b>	<b>10924.9</b>	
<b>Free Cash Flow</b>	<b>2894.8</b>	<b>9964.0</b>	<b>10522.7</b>	<b>11152.3</b>	

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	68,875.0	77,997.1	
Total Shareholders funds	55,995.4	63,666.8	69,114.9	78,237.0	
Total Debt	6,885.9	3,272.3	2,570.6	2,270.6	
Deferred Tax Liability	31.7	155.1	188.8	202.0	
Minority Interest	3,320.1	3,439.2	264.8	264.8	
Other LT Liabilities & LT Provision	929.5	915.2	925.1	989.9	
<b>Total Liabilities</b>	<b>67,162.6</b>	<b>71,448.5</b>	<b>73,064.2</b>	<b>81,964.2</b>	
Gross Block - Fixed Assets	34,406.6	35,868.3	38,153.5	39,153.5	
Accumulated Depreciation	18,699.2	21,255.8	23,891.3	26,595.9	
Net Block	15,707.4	14,612.4	14,262.1	12,557.6	
Capital WIP	4,973.2	5,353.9	6,434.6	6,934.6	
Total Fixed Assets	20,680.6	19,966.3	20,696.7	19,492.2	
Investments	14,830.1	15,025.8	17,743.7	21,743.7	
Deferred tax assets	3,164.2	4,103.7	4,173.6	4,465.7	
Goodwill on Consolidation	8,712.7	8,599.0	8,771.2	8,771.2	
LT Loans, Advances & Assets	2,845.3	2,877.8	1,732.2	1,853.5	
Cash	4,623.1	9,285.7	8,012.5	10,924.9	
Debtors	11,438.5	11,249.4	12,942.0	14,978.9	
Loans and Advances	41.3	65.0	47.4	50.7	
Inventory	10,513.1	9,868.3	9,935.7	10,962.5	
Other current assets	3,894.1	4,422.1	4,060.7	4,344.9	
Total Current Assets	30,510.1	34,890.4	34,998.3	41,261.9	
Creditors	5,681.5	5,653.3	5,732.5	5,652.5	
Provisions & other current liability	7,898.9	8,361.0	9,319.0	9,971.3	
Total Current Liabilities	13,580.4	14,014.3	15,051.5	15,623.9	
Net Current Assets	16,929.7	20,876.1	19,946.8	25,638.0	
<b>Application of Funds</b>	<b>67,162.6</b>	<b>71,448.6</b>	<b>73,064.2</b>	<b>81,964.3</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Per share data (₹)</b>				
Adjusted EPS	36.1	41.7	47.7	52.0
BV per share	233.4	265.4	288.1	326.1
Dividend per share	11.5	13.5	14.0	14.0
Cash Per Share	19.3	38.7	33.4	45.5
<b>Operating Ratios (%)</b>				
Gross Margin	75.7	78.0	78.6	78.5
EBITDA Margin	26.6	26.8	28.4	28.0
PAT Margin	19.7	20.6	21.7	21.5
Inventory days	360	338	322	320
Debtor days	95	85	90	94
Creditor days	194	194	186	165
Asset Turnover	1.3	1.4	1.4	1.5
EBITDA Conversion rate	42.5	93.4	92.7	77.7
<b>Return Ratios (%)</b>				
RoE	15.5	15.7	16.5	16.0
RoCE	15.3	17.5	20.0	19.8
RoIC	20.3	23.6	28.5	29.2
<b>Valuation Ratios (x)</b>				
P/E	52.8	47.0	39.5	35.9
EV / EBITDA	37.8	33.4	28.8	26.2
EV / Net Sales	10.1	8.9	8.2	7.3
Market Cap / Sales	10.2	9.3	8.5	7.7
Price to Book Value	8.0	7.0	6.5	5.7
<b>Solvency Ratios</b>				
Debt / EBITDA	0.6	0.3	0.2	0.1
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.9	1.8	1.8	1.9
Working Capital Cycle	261	229	249	249

Source: Company, ICICI Direct Research

## ANALYST CERTIFICATION

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