

CMP: ₹ 1480

Target: ₹ 1530(3%)

Target Period: 12 months

HOLD

May 23, 2024

Decent quarter; cautious guidance...

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 FY24: US formulation~32%, Indian branded~31%, Emerging markets~18%, RoW~14%, API & Others - 5%
- 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:

- Q4FY24- India, US, EMs drive growth; Specialty strong – Revenues grew ~10% YoY to ₹ 11983 crore driven by US and India. US formulations grew ~12% YoY to ₹ 3954 crore driven by specialty portfolio amid demand uptick for Cequa, Ilumya, Winlevi and Odomzo among others. Taro also contributed to the US growth (14% YoY growth). India Formulations witnessed YoY growth of ~10% to ₹ 3708 crore driven by new product launches (9 launches) and increased market share. RoW markets, on the other hand witnessed growth of just 3.5% to ₹ 1629 crore. Global Specialty sales came in at US\$271 million, up 11% YoY. Emerging markets grew ~12% to ₹ 2035 crore. EBITDA stood at ₹ 3092 crore, up ~9% YoY, with resulting EBITDA margin of 25.8%.
- Preparing for Specialty v2 with augmented R&D spend – The performance continued to thrive on remunerative businesses of US (along with Global Specialty) and domestic formulations. Overall better product mix with higher specialty business aided growth during the quarter. The India business continued to grow with a branded portfolio, leading to an increase in its market share. It remains strategically focused on Specialty business which is evident from a significant increase in R&D allocation towards Specialty from 24% to 42% in Q4. Overall R&D spend will also be higher at 8-10% going ahead. However, management's conservative guidance of high single digit revenue growth for FY25 together with R&D jack up does indicate that current lot of Specialty products are approaching peak and the company intend to invest in a new lot.

Rating and Target price

- Our target price is ₹ 1530 based on 30x FY26E EPS of ₹ 51.1. We assign HOLD rating as we continue to monitor progress on the Specialty launches and R&D front.



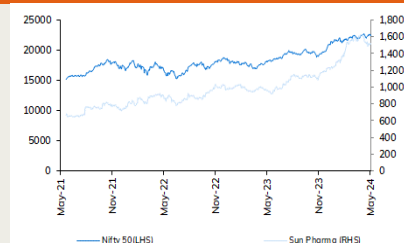
Particulars

Particular	Amount
Market Capitalisation	₹ 355052 Crore
Debt (FY24)	₹ 3272 Crore
Cash & Equivalents (FY24)	₹ 9286 Crore
EV	₹ 349039 Crore
52 week H/L (₹)	1639/929
Equity capital	₹ 239.9 Crore
Face value	₹ 1

Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	54.5	54.5	54.5	54.5
FII's	16.5	16.8	17.1	17.7
DII's	19.7	19.6	19.4	18.7
Others	9.4	9.2	9.0	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

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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	53041.2	58554.8	10.1
EBITDA	8491.4	10397.7	11673.8	18.6	12987.0	14851.5	16102.6	11.3
EBITDA Margins (%)	25.3	26.9	26.6		26.8	28.0	27.5	
Adj. Profit	7210.0	7667.1	8655.2	29.1	9994.4	10962.8	12268.0	12.3
Adj. EPS (₹)	30.1	32.0	36.1		41.7	45.7	51.1	
PE (x)	127.2	112.9	43.5		38.7	33.7	30.1	
EV to EBITDA (x)	42.8	34.4	31.0		27.3	23.7	21.4	
RoE (%)	15.5	16.0	15.5		15.7	15.4	15.3	
RoCE (%)	14.2	18.2	15.3		17.5	17.8	18.2	

Source: Company, ICICI Direct Research

Exhibit 1: Quarterly Summary

(₹ Crore)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Total Operating Income	8523.0	9718.7	9625.9	9863.1	9446.8	10761.8	10952.3	11240.8	10930.7	11940.8	12192.4	12380.7	11982.9	9.6	-3.2
Raw Material Expenses	2240.8	2649.4	2521.9	2640.6	2539.6	2900.2	2708.1	2803.7	2250.2	2758.2	2787.1	2736.9	2380.4	5.8	-13.0
Gross Profit Margin (%)	73.7	72.7	73.8	73.2	73.1	73.1	75.3	75.1	79.4	76.9	77.1	77.9	80.1		
Employee Expenses	1677.5	1758.7	1806.3	1850.9	1884.9	2074.9	2004.6	2037.1	2179.6	2402.0	2364.4	2363.3	2299.3	5.5	-2.7
% of Revenue	19.7	18.1	18.8	18.8	20.0	19.3	18.3	18.1	19.9	20.1	19.4	19.1	19.2		
Other Expenditure	2556.3	2489.5	2667.9	2765.2	2681.9	2902.3	3283.1	3396.5	3671.6	3450.9	3827.5	3928.2	4211.6	14.7	7.2
% of Revenue	30.0	25.6	27.7	28.0	28.4	27.0	30.0	30.2	33.6	28.9	31.4	31.7	35.1		
Total Expenditure	6474.5	6897.7	6996.0	7256.7	7106.4	7877.4	7995.7	8237.3	8101.4	8611.1	8978.9	9028.4	8891.4	9.8	-1.5
% of Revenue	76.0	71.0	72.7	73.6	75.2	73.2	73.0	73.3	74.1	72.1	73.6	72.9	74.2		
EBITDA	2048.5	2821.1	2629.9	2606.3	2340.4	2884.4	2956.6	3003.6	2829.3	3329.7	3213.5	3352.3	3091.5	9.3	-7.8
EBITDA Margin (%)	24.0	29.0	27.3	26.4	24.8	26.8	27.0	26.7	25.9	27.9	26.4	27.1	25.8		
Depreciation	553.5	503.2	530.4	553.7	556.5	588.0	610.0	660.0	671.5	651.3	632.8	622.1	650.4	-3.1	4.5
Other Income	111.0	152.5	222.9	432.5	113.6	2.1	85.2	173.9	373.2	204.4	293.6	250.2	605.9	62.4	142.2
PBIT	1606.0	2470.4	2322.5	2485.2	1897.5	2298.5	2431.8	2517.5	2531.0	2882.9	2874.3	2980.3	3047.1	20.4	2.2
Interest	30.1	35.1	36.0	19.0	37.3	13.7	19.4	46.2	92.7	80.9	49.3	34.7	73.6	-20.7	111.8
Less: Exceptional Items	672.8	631.1	0.0	0.0	3935.8	0.0	0.0	0.0	171.4	322.9	0.0	69.8	101.6		
PBT	903.0	1804.2	2286.5	2466.2	-2075.6	2284.8	2412.4	2471.3	2266.9	2479.1	2825.0	2875.8	2871.9	26.7	-0.1
Total Tax	55.0	395.6	197.8	335.4	146.8	189.0	152.3	283.4	222.9	468.1	390.1	432.3	148.9	-33.2	-65.6
PAT before MI	848.0	1408.7	2088.7	2130.8	-2222.4	2095.9	2260.2	2187.9	2044.0	2011.0	2434.9	2443.5	2723.0	33.2	11.4
Minority Interest	-51.7	-40.1	39.3	67.5	49.9	32.5	-6.3	14.7	-1.6	-16.9	9.6	36.8	4.2	-365.0	-88.7
PAT after MI	899.7	1448.8	2049.4	2063.3	-2272.2	2063.3	2266.5	2173.1	2045.5	2027.9	2425.3	2406.7	2718.8	32.9	13.0
Profit from Associates	-5.6	-4.6	-2.4	-4.5	-5.0	-2.5	-4.3	-7.3	-33.8	-7.4	-15.7	-7.5	-7.9		
PAT	894.2	1444.2	2047.0	2058.8	-2277.3	2060.9	2262.2	2165.8	2011.7	2020.5	2409.6	2399.2	2711.0	34.8	13.0
Adjusted PAT	1343.1	1979.2	2047.0	2058.8	1582.1	2060.9	2262.2	2165.8	2166.3	2284.5	2375.5	2583.5	2750.8	27.0	6.5
Adjusted EPS (₹)	5.6	8.2	8.5	8.6	6.6	8.6	9.4	9.0	9.0	9.5	9.9	10.8	11.5		
Share Capital (cr)	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9		

Source: Company, ICICI Direct Research

Q4FY24 Results / Conference call highlights

US-

- Supplies from Mohali plant have resumed but the ramp-up is gradual.
- gRevlimid contribution during the quarter not significant.
- According to the management price erosion in the US Gx space is highly product-specific.
- Launched two new products during the quarter (ex-Taro).
- The company filed 11 ANDA's and received two approvals during the quarter.

India-

- Launched 9 products in India during the quarter.
- As per SMSRC MAT Feb-2024 report, Sun was ranked No.1 by prescriptions with 12 different doctor categories.
- The management expects India growth to be in line or better than IPM growth.

Emerging Markets-

- Constant Currency growth was ~17% during the quarter.
- Growth driven by Brazil, South Africa among others.

Global Specialty-

- Growth driven by demand uptick for Cequa, Ilumya, Winlevi and Odomzo among others.
- Deuruxolitinib PDUFA review is scheduled in July 2024.
- Ilumya grew ~22% in FY24 to US\$ 570 million.
- Winlevi has witnessed a strong pickup in Q4FY24; the momentum will likely continue in FY25E.

Other aspects

- FY25 Revenue growth guidance – high single digit growth
- FY25 R&D spend 8-10% of sales
- FY24 R&D- ~42% spent on Specialty products.
- Net Cash at the Consolidated level- US\$ 2.40 billion.
- Effective Tax rate- 13% in FY24, to increase gradually over the years.

Financial Tables

Exhibit 3: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Revenues	43,885.5	48,496.9	53,041.2	58,554.8	
Growth (%)	13.5	10.5	9.4	10.4	
Raw Material Expenses	10,662.1	10,662.6	11,669.1	12,589.3	
Employee Expenses	8,296.0	9,429.1	10,343.0	11,418.2	
Other Expenditure	13,253.5	15,418.2	16,177.6	18,444.8	
Total Operating Expenditure	32,211.7	35,509.9	38,189.6	42,452.3	
EBITDA	11,673.8	12,987.0	14,851.5	16,102.6	
Growth (%)	12.3	11.2	14.4	8.4	
Depreciation	2,529.4	2,556.6	2,627.9	2,699.2	
Interest	172.0	238.5	216.6	194.7	
Other Income	634.4	1,354.2	1,044.7	1,729.9	
PBT	9,606.8	11,546.1	13,051.7	14,938.5	
Less: Exceptional Items	171.4	494.3	0.0	0.0	
Total Tax	847.6	1,439.5	1,957.8	2,539.6	
PAT before MI	8,587.8	9,612.3	11,093.9	12,399.0	
Minority Interest	39.4	33.7	99.7	99.6	
PAT	8,500.6	9,540.3	10,962.8	12,268.0	
Adjusted PAT	8,655.2	9,994.4	10,962.8	12,268.0	
Growth (%)	12.9	15.5	9.7	11.9	
EPS (Adjusted)	36.1	41.7	45.7	51.1	

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	71,031.0	79,940.4	
Total Shareholders funds	55,995.4	63,666.8	71,271.0	80,180.4	
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	3,538.9	3,638.5	
Other LT Liabilities & LT Provi	929.5	915.2	979.2	1,047.8	
Total Liabilities	67,162.6	71,448.5	78,927.4	87,716.5	
Gross Block - Fixed Assets	34,406.6	35,868.3	36,868.3	37,868.3	
Accumulated Depreciation	18,699.2	21,255.8	23,883.8	26,583.0	
Net Block	15,707.4	14,612.4	12,984.5	11,285.3	
Capital WIP	4,973.2	5,353.9	5,853.9	6,353.9	
Total Fixed Assets	20,680.6	19,966.3	18,838.4	17,639.2	
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	10,588.8	14,540.4	
Debtors	11,438.5	11,249.4	13,595.0	15,008.3	
Loans and Advances	41.3	65.0	69.6	74.4	
Inventory	10,513.1	9,868.3	10,230.4	11,037.2	
Other current assets	3,894.1	4,422.1	4,731.7	5,062.9	
Total Current Assets	30,510.1	34,890.4	39,215.5	45,723.2	
Creditors	5,681.5	5,653.3	5,275.1	5,691.0	
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	14,221.3	15,263.6	
Net Current Assets	16,929.7	20,876.1	24,994.2	30,459.6	
Application of Funds	67,162.6	71,448.6	78,927.4	87,716.5	

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	10962.8	12268.0	
Depreciation	2529.4	2556.6	2627.9	2699.2	
(Inc)/Dec in Current Assets	-2371.2	567.8	-3021.9	-2556.1	
(Inc)/Dec in Current Liabilities	-3290.6	494.3	236.0	1073.2	
Others	193.1	-1002.2	216.6	194.7	
CF from operation Activities	4959.3	12135.0	11021.4	13679.1	
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	-343.0	-374.2	
CF from Investing Activities	-7944.3	-689.6	-5843.0	-5874.2	
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	-216.6	-194.7	
CF from Financing Activities	2376.1	-6710.2	-3875.2	-3853.3	
Cash generation during the ye	-608.9	4735.2	1303.2	3951.6	
Op bal Cash & Cash equivaler	5232.0	4623.1	9285.7	10588.8	
Closing Cash/ Cash Equivaler	4623.1	9358.4	10588.8	14540.4	
Free Cash Flow	2894.8	9964.0	9521.4	12179.1	

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	45.7	51.1
BV per share	233.4	265.4	297.1	334.2
Dividend per share	11.5	13.5	14.0	14.0
Cash Per Share	19.3	38.7	44.1	60.6
Operating Ratios (%)				
Gross Margin	75.7	78.0	78.0	78.5
EBITDA Margin	26.6	26.8	28.0	27.5
PAT Margin	19.7	20.6	20.7	21.0
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	1.5
EBITDA Conversion rate	42.5	93.4	74.2	84.9
Return Ratios (%)				
RoE	15.5	15.7	15.4	15.3
RoCE	15.3	17.5	17.8	18.2
RoIC	20.3	23.6	25.7	27.1
Valuation Ratios (x)				
P/E	43.5	38.7	33.7	30.1
EV / EBITDA	31.0	27.3	23.7	21.4
EV / Net Sales	8.3	7.3	6.6	5.9
Market Cap / Sales	8.4	7.6	7.0	6.3
Price to Book Value	6.6	5.8	5.2	4.6
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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