Sun Pharmaceutical Industries (SUNP)

Pharmaceuticals | 2QFY24 Result Update

BUY

CMP: Rs1,117 | Target Price (TP): Rs1,345 | Upside: 20%

November 1, 2023

In-line operational performance

Key Points

- Sun Pharma reported 2QFY24 revenue and margins largely in line with NBIE estimate, with a beat on profitability due to lower tax outgo.
- Revenue grew by ~11% YoY on the back of growth across major geographies and ramp-up in the global specialty portfolio. EBITDA margin declined by 92bps YoY to 26.1% as strong gross margin was largely offset by higher operational overheads.
- We remain positive on Sun Pharma due to the following catalysts: (i) Ramp-up of Branded/Specialty business in the US (recently acquired Deuroxolitinib would further strengthen the Specialty pipeline) (ii) Continued growth in India business (iii) Potential inorganic opportunity given the strong BS, especially in Dermatology, Ophthalmology and Oncology Specialties (iv) Maintenance of healthy EBITDA margin at ~27% despite higher R&D spends. We maintain BUY with a revised target price (TP) of Rs1,345, valuing it at 28x Sept'25E EPS of Rs48.

Business performance: US business revenue declined by 9% QoQ to US$430mn, largely due to weak performance of US generic business including Taro which reported a revenue of US$148mn, a decline of ~7% QoQ. Ex-Taro, the company's US Generics business declined by 48% QoQ to ~US$42mn due to insignificant contribution from Revlimid in 2QFY24. The Global Specialty segment continued to ramp up growing by 3.4% QoQ to US$240mn led by growth in Ilumya, Cequa and Winlevi. India business outperformed the IPM growing by 11% YoY to Rs38.4bn, led by growth across all major therapies. The management expects in line or slightly better-than-industry growth in the domestic market each year. EM/RoW markets grew by 13.3% YoY/17.7% YoY to Rs23.4bn/Rs17bn. Gross margin improved by 187bps YoY to 77.1%, mainly driven by a better product mix. However, EBITDA margin declined by 92bps YoY to 26.1%, as strong gross margin was largely offset by higher operational overheads.

Outlook: We expect Revenue/EBITDA/PAT CAGR of 10%/12%/12% over FY23-FY25E, led by continuous strong growth in India and leveraging of its Specialty pipeline. EBITDA margin is expected to remain healthy at ~27%. Improvement in existing Specialty Products' margins and the change in mix are likely to be offset by continuous spending on the expansion of the Specialty pipeline. ROE/ROCE are expected to remain decent at 16.3%/14.9% in FY25E. FCF generation is expected to remain strong at >Rs200bn over FY24E-FY25E.

Valuation: We largely maintain our estimates due to in line operational performance. We maintain BUY with a revised TP of Rs1,345, valuing it at 28x Sept'25E EPS of Rs48.

Est Change	Maintain
TP Change	Upward
Rating Change	Maintain

Company Data and Valuation Summary

Reuters:	SUN.BO
Bloomberg:	SUNP IN Equity
Mkt Cap (Rsbn/US$bn):	2,611.9 / 31.4
52 Wk H / L (Rs):	1,170 / 922
ADTV-3M (mn) (Rs/US$):	2,438.9 / 29.4
Stock performance (%) 1M/6M/1yr:	(6.0) / 10.2 / 7.1
Nifty 50 performance (%) 1M/6M/1yr:	(3.0) / (3.3) / 5.1

Shareholding	4QFY23	1QFY24	2QFY24
Promoters	54.5	54.5	54.5
DIIs	19.2	19.8	19.7
FIIs	16.9	16.5	16.8
Others	9.4	9.3	9.1
Pro pledge	1.8	2.3	2.4

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
Sales	4,38,857	4,89,562	5,33,394	5,76,641
EBITDA	1,16,468	1,32,348	1,46,021	1,59,197
Net profit	86,296	95,759	1,08,078	1,22,392
EPS (Rs)	36.0	39.9	45.0	51.0
EPS growth (%)	*29.5*	*11.0*	*12.9*	*13.2*
EBITDA margin (%)	*26.5*	*27.0*	*27.4*	*27.6*
PER (x)	31.1	28.0	24.8	21.9
P/BV (x)	4.8	4.3	3.8	3.4
EV/EBITDA (x)	22.3	19.1	16.8	14.9
RoCE (%)	*14.6*	*14.3*	*14.9*	*15.2*
RoE (%)	*16.6*	*16.1*	*16.3*	*16.4*

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

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Exhibit 1: 2QFY24 consolidated performance

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E	FY23	FY24E
Net Sales	**1,07,618**	**1,09,523**	**1,12,410**	**1,09,307**	**1,19,408**	**1,21,924**	**1,24,444**	**1,23,785**	**4,38,857**	**4,89,562**
YoY Change (%)	*10.7*	*14.7*	*14.0*	*15.7*	*11.0*	*11.3*	*10.7*	*13.2*	*13.8*	*11.6*
Gross Profit	**78,616**	**82,442**	**84,373**	**86,805**	**91,827**	**94,053**	**94,080**	**92,284**	**3,32,235**	**3,72,243**
Margin (%)	*73.1*	*75.3*	*75.1*	*79.4*	*76.9*	*77.1*	*75.6*	*74.6*	*75.7*	*76.0*
EBITDA	**28,844**	**29,566**	**30,037**	**28,021**	**33,318**	**31,794**	**33,849**	**33,387**	**1,16,468**	**1,32,348**
YoY Change (%)	*2.2*	*15.7*	*15.2*	*19.7*	*15.5*	*7.5*	*12.7*	*19.1*	*12.8*	*13.6*
Margin (%)	*26.8*	*27.0*	*26.7*	*25.6*	*27.9*	*26.1*	*27.2*	*27.0*	*26.5*	*27.0*
Depreciation	5,880	6,100	6,600	6,715	6,513	6,328	6,438	6,547	25,294	25,826
Interest	137	194	462	927	809	493	296	247	1,720	1,845
Other income	21	852	1,739	3,733	2,044	2,936	2,582	2,228	6,345	9,791
Extraordinary Items	-	-	-	-1,715	-3,229	-	-	-	-1,715	-
PBT (bei)	**22,848**	**24,124**	**24,715**	**24,111**	**28,040**	**27,909**	**29,697**	**28,821**	**95,799**	**1,14,468**
PBT	**22,848**	**24,124**	**24,715**	**22,397**	**24,811**	**27,909**	**29,697**	**28,821**	**94,084**	**1,14,468**
Tax	1,890	1,523	2,834	2,229	4,681	3,901	5,049	4,684	8,476	18,315
ETR (%)	*8.3*	*6.3*	*11.5*	*10.0*	*18.9*	*14.0*	*17.0*	*16.3*	*9.0*	*16.0*
Reported PAT	20,609	22,622	21,660	19,845	20,225	23,755	24,434	24,116	84,736	95,759
Adj. PAT	**20,609**	**22,622**	**21,660**	**21,389**	**22,845**	**23,755**	**24,434**	**24,116**	**86,296**	**95,759**
YoY Change (%)	*4.1*	*14.3*	*5.2*	*35.2*	*10.9*	*5.0*	*12.8*	*12.8*	*31.3*	*11.0*
Adj. EPS	**8.6**	**9.4**	**9.0**	**8.9**	**9.5**	**9.9**	**10.2**	**10.1**	**36.0**	**39.9**

Source: Company, Nirmal Bang Institutional Equities Research

Conference Call Highlights

India

- During 2QFY24, the company launched 8 new products in the Indian market including the Sovateltide drug under the brand name Tyvalzi used to treat acute cerebral ischemic stroke.
- The company grew higher than the IPM and has done well across all major therapy areas. Growth was volume based.
- The company intends to grow in line or slightly better than the IPM.

US

- Sales of Revlimid (lenalidomide) in 2QFY24 was not a major contributor and the same is expected to remain episodic throughout the year. Growth was also affected by plant issues at Halol and Mohali facility. Some supplies to the US have been resumed from the Mohali facility.
- The company launched 3 generic products in the US on Ex Taro basis.
- Semaglutide and Liraglutide are complex products; the company does not expect many players filing for the product.
- Three ANDAs were filed during the quarter and eight approvals were received.

Global Specialty

- Growth in Speciality business was led by Ilumya, Cequa and Winlevi.
- Prescription of Winlevi has increased, however there is scope to grow faster. Ilumya and Cequa prescription and market share is at an all-time high. Growth of Odomzo has been strong.

- In China Ilumya price approval process is ongoing. It will take a couple of quarters before being finalized.
- USFDA has accepted an application for Deuruxolitinib for 8mg strength. The drug will require continued usage by patients. The drug was manufactured by a CDMO.
- Specialty R&D was 38.2% of the total R&D spent for 2QFY24. The Specialty R&D pipeline includes six molecules that are undergoing clinical trials.

Margin

- For 2QFY24, Gross profit increased due to a better product mix.
- Other expenses increased due to higher R&D and marketing expenses.

Others

- The forex loss for 2QFY24 stood at Rs341mn.
- Taro saw one time gross-to-net adjustment. Excluding the impact, sales growth was in mid-single digits.
- In EM markets, Romania, Brazil have performed well.
- The company has repaid ~Rs50bn of debt.
- The ETR will inch up going forward.
- Nidlegy's received positive phase-3 data in patients with locally advanced fully resectable melanoma.

Exhibit 2: Actual performance vs NBIE estimates

(Rsmn)	Actual	NBIE estimate	*Var. (%)*	Consensus estimate	*Var. (%)*
Sales	1,21,924	1,20,726	*1.0*	1,21,277	*0.5*
EBITDA	31,794	31,992	*(0.6)*	32,431	*(2.0)*
EBITDA margin (%)	*26.1*	*26.5*	*(42) bps*	*26.7*	*(66) bps*
Adjusted PAT	23,755	21,939	*8.3*	23,568	*0.8*
PAT margin (%)	*19.5*	*18.2*	*131 bps*	*19.4*	*5 bps*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Revised estimates

(Rsmn)	New estimates			Old estimates			*Change (%)*		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	*FY24E*	*FY25E*	*FY26E*
Revenue	4,89,562	5,33,394	5,76,641	4,89,562	5,33,394	-	*0.0*	*0.0*	-
EBITDA	1,32,348	1,46,021	1,59,197	1,32,249	1,46,120	-	*0.1*	*(0.1)*	-
Margin (%)	*27.0*	*27.4*	*27.6*	*27.0*	*27.4*	-	*2 bps*	*(2) bps*	-
PAT	95,759	1,08,078	1,22,392	93,389	1,09,034	-	*2.5*	*(0.9)*	-
Margin (%)	*19.6*	*20.3*	*21.2*	*19.1*	*20.4*	-	*48 bps*	*(18) bps*	-
EPS	39.9	45.0	51.0	38.9	45.4	-	*2.5*	*(0.9)*	-

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Segment revenue

Revenue Break-up (Rsmn)	2QFY23	1QFY24	2QFY24	*YoY (%)*	*QoQ (%)*
India	34,600	35,604	38,425	*11.1*	*7.9*
US ($ mn)	412	471	430	*4.4*	*(8.7)*
Emerging Markets	20,704	21,452	23,449	*13.3*	*9.3*
RoW Markets	14,441	16,041	17,000	*17.7*	*6.0*
Bulk Drugs & Others	5,434	6,046	5,653	*4.0*	*(6.5)*

Source: Nirmal Bang Institutional Equities Research

Valuation and Outlook

Revenue is expected to grow at ~10% CAGR over FY23-FY25E, driven by all geographies (excluding US generics business). Domestic growth will mainly be driven by continuous strong growth in the Chronic segment. Global Speciality segment revenue is expected to grow at ~13% CAGR over FY23-FY25E mainly on the back of persistent ramp-up in Winlevi and Ilumya, which will partially be offset by heightened generic competition in Absorica. RoW and EM markets are expected to grow at 8.3% and 9.1% CAGR over FY23-FY25E. EBITDA margin is expected to remain healthy at ~27%. Net profit is expected to grow at ~12% CAGR over FY23-FY25E mainly on the back of strong operational performance.

The stock is currently trading at 28x/24.8x PE on FY24E/FY25E and 19.1x/16.8x EV/EBITDA on FY24E/FY25E. ROE and ROCE are expected to remain decent at 16.3% and 14.9%, respectively in FY25E. FCF generation is expected to remain strong at >Rs200bn over FY24E-FY25E. We remain positive on Sun Pharma on a long-term basis due to the following catalysts: (i) Ramp-up of Branded/Specialty business in the US (ii) Continued growth in India business (iii) Potential inorganic opportunity given the strong BS (iv) Maintenance of healthy EBITDA margin at ~27% despite higher R&D spends. However, additional cost and loss of revenue due to the Halol import alert and Mohali plant issues are likely to be near term concerns for Sun Pharma. We maintain BUY on Sun Pharma with a revised TP of Rs1,345, valuing it at 28x Sept'25E EPS of Rs48.

Exhibit 5: One-year Rolling Forward P/E Chart

Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 6: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	**3,86,545**	**4,38,857**	**4,89,562**	**5,33,394**	**5,76,641**
Growth (%)	*15.4*	*13.5*	*11.6*	*9.0*	*8.1*
Raw Materials	1,03,515	1,06,622	1,17,319	1,31,505	1,42,167
Employee Expenses	73,008	82,960	91,266	98,471	1,06,455
Other expenses	84,719	1,09,366	1,14,834	1,20,576	1,29,016
R&D	21,325	23,441	33,795	36,821	39,807
Total expenditure	2,82,568	3,22,389	3,57,214	3,87,373	4,17,445
Gross Profit	2,83,030	3,32,235	3,72,243	4,01,890	4,34,474
% growth	*14.1*	*17.4*	*12.0*	*8.0*	*8.1*
EBITDA	**1,03,977**	**1,16,468**	**1,32,348**	**1,46,021**	**1,59,197**
Growth (%)	*22.5*	*12.0*	*13.6*	*10.3*	*9.0*
EBITDA margin (%)	*26.9*	*26.5*	*27.0*	*27.4*	*27.6*
Other income	9,215	6,345	9,791	13,335	18,741
Interest Costs	1,274	1,720	1,845	793	793
Depreciation	21,437	25,294	25,826	26,280	27,405
Exceptional Items	-45,668	-1,715	-	-	-
PBT	**44,813**	**94,084**	**1,14,468**	**1,32,283**	**1,49,739**
% growth	*39.7*	*109.9*	*21.7*	*15.6*	*13.2*
Tax	10,755	8,476	18,315	23,811	26,953
Effective tax rate (%)	*24.0*	*9.0*	*16.0*	*18.0*	*18.0*
PAT before MI and Share for Associates	**34,058**	**85,608**	**96,153**	**1,08,472**	**1,22,786**
Income from Associates	-165	-479	-	-	-
MI	1,943	394	394	394	394
PAT (net of Minority Interest)	**31,950**	**84,736**	**95,759**	**1,08,078**	**1,22,392**
Adjusted PAT	**66,658**	**86,296**	**95,759**	**1,08,078**	**1,22,392**
Growth (%)	12.4	29.5	11.0	12.9	13.2
EPS (Rs)	**27.8**	**36.0**	**39.9**	**45.0**	**51.0**
EPS growth (%)	12.4	29.5	11.0	12.9	13.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	44,813	94,084	1,14,468	1,32,283	1,49,739
Depreciation	21,437	25,294	25,826	26,280	27,405
Net Chg in WC	15,591	(56,618)	(18,872)	(13,700)	(15,397)
Taxes	9,692	(15,098)	(18,315)	(23,811)	(26,953)
Others	(1,688)	1,931	8,170	6,261	6,188
CFO	**89,845**	**49,593**	**1,11,277**	**1,27,313**	**1,40,982**
Capex	(14,344)	(20,646)	(15,000)	(15,000)	(15,000)
Net Investments made	(34,485)	(63,294)	-	-	-
Others	(3,203)	4,503	-	-	-
CFI	**(52,032)**	**(79,437)**	**(15,000)**	**(15,000)**	**(15,000)**
Change in Share capital	-	-	-	-	-
Change in Debts	(28,718)	51,255	(50,000)	-	-
Div. & Div Tax	(21,589)	(25,197)	(28,728)	(32,423)	(36,718)
Others	(1,628)	11,155	(1,845)	(793)	(793)
CFF	**(51,935)**	**37,213**	**(80,573)**	**(33,217)**	**(37,511)**
Total Cash Generated	**(14,122)**	**7,369**	**15,704**	**79,096**	**88,471**
Cash Opening Balance	**64,455**	**50,334**	**57,703**	**73,407**	**1,52,503**
Cash Closing Balance	**50,334**	**57,703**	**73,407**	**1,52,503**	**2,40,974**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Equity	2,399	2,399	2,399	2,399	2,399
Reserves	4,77,713	5,57,555	6,24,586	7,00,241	7,85,915
Net worth	4,80,112	5,59,954	6,26,985	7,02,640	7,88,314
Minority Interest	30,549	33,201	33,595	33,988	34,382
Long term Loans	4,817	5,599	5,599	5,599	5,599
Deferred tax liabilities	-28,649	-31,326	-31,326	-31,326	-31,326
Other non-current liabilities	10,196	9,295	9,691	10,034	10,372
Total Liabilities	**4,97,026**	**5,76,724**	**6,44,545**	**7,20,935**	**8,07,341**
Net Block	1,11,689	1,13,537	1,02,711	91,431	79,026
Goodwill & Intangible Assets	1,25,777	1,80,396	1,80,396	1,80,396	1,80,396
Long Term Loans & Advances	7	6	7	7	8
Other Non Current Assets	81,409	83,021	83,021	83,021	83,021
Assets classified as held for sale	-	214	214	214	214
Inventories	89,968	1,05,131	1,16,487	1,26,322	1,36,128
Debtors	1,05,929	1,14,385	1,27,601	1,39,026	1,50,298
Cash and cash equivalents	45,083	46,237	61,941	1,41,037	2,29,508
Bank balances other than cash	5,251	11,466	11,466	11,466	11,466
Other current assets	1,03,919	1,21,401	1,24,598	1,27,363	1,30,090
Total Current Assets	**3,50,150**	**3,98,619**	**4,42,093**	**5,45,213**	**6,57,490**
Creditors	44,793	56,815	62,515	70,075	75,756
Other current liabilities/provisions	1,27,212	1,42,255	1,01,382	1,09,272	1,17,056
Total current liabilities	**1,72,006**	**1,99,070**	**1,63,897**	**1,79,346**	**1,92,813**
Net current assets	1,78,144	1,99,549	2,78,196	3,65,866	4,64,677
Total Assets	**4,97,026**	**5,76,724**	**6,44,545**	**7,20,935**	**8,07,341**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

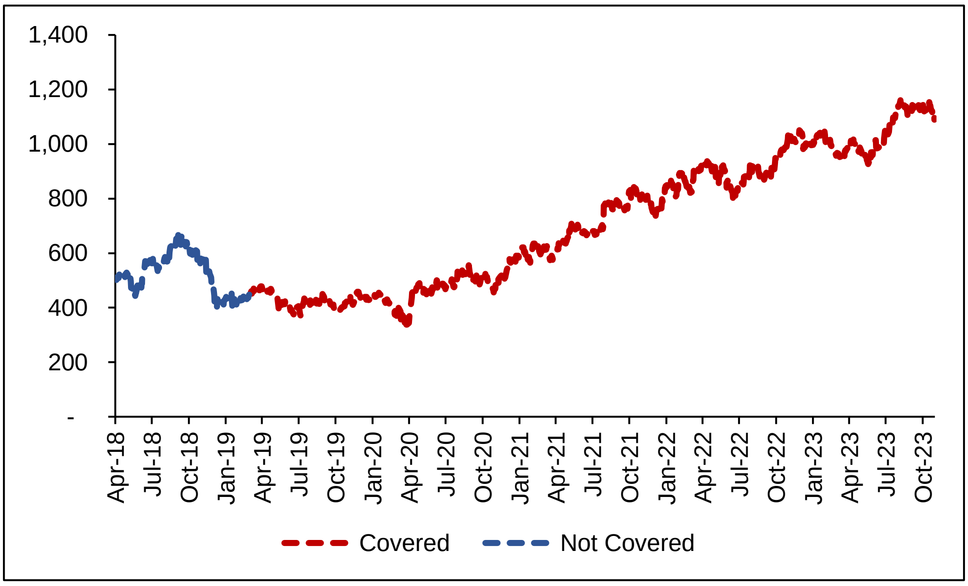
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Profitability & return ratios					
EBITDA margin (%)	26.9	26.5	27.0	27.4	27.6
Net profit margin (%)	17.2	19.7	19.6	20.3	21.2
RoE (%)	14.1	16.6	16.1	16.3	16.4
RoCE (%)	12.6	14.6	14.3	14.9	15.2
RoIC (%)	15.4	18.4	18.2	20.4	23.2
Working capital & liquidity ratios					
Receivables (days)	93	93	91	93	93
Inventory (days)	85	82	84	84	84
Payables (days)	40	43	45	46	47
Working capital (days)	139	132	130	131	130
Current ratio (x)	2.0	2.0	2.7	3.0	3.4
Quick Ratio (x)	1.5	1.5	2.0	2.3	2.7
Leverage ratios					
Net Debt/Equity (x)	-0.2	-0.1	-0.2	-0.3	-0.4
Interest Cover (x)	64.8	53.0	57.7	150.9	166.1
Net Debt/EBITDA (x)	-1.1	-0.7	-1.1	-1.6	-2.0
Valuation ratios					
EV/Sales (x)	6.6	5.9	5.2	4.6	4.1
EV/EBITDA (x)	24.7	22.3	19.1	16.8	14.9
P/E (x)	40.2	31.1	28.0	24.8	21.9
P/BV (x)	5.6	4.8	4.3	3.8	3.4

Source: Company, Nirmal Bang Institutional Equities Research

Rating Track

Date	Rating	Market price (Rs)	Target price (Rs)
5 March 2019	Buy	446	581
5 April 2019	Buy	462	581
29 May 2019	Buy	414	578
14 August 2019	Buy	438	578
23 September 2019	Buy	414	573
8 November 2019	Buy	440	517
7 February 2020	Buy	431	517
27 March 2020	Buy	339	489
23 April 2020	Buy	474	543
27 May 2020	Buy	451	543
3 August 2020	Buy	532	625
23 September 2020	Buy	509	618
29 September 2020	Buy	510	618
4 November 2020	Buy	485	618
10 December 2020	Accumulate	570	618
7 January 2021	Buy	605	701
1 February 2021	Buy	586	716
28 May 2021	Accumulate	700	710
2August 2021	Accumulate	774	831
26 September 2021	Accumulate	770	880
3 November 2021	Buy	815	939
1 February 2022	Buy	834	1,035
21 February 2022	Buy	864	1,090
11 March 2022	Buy	869	1,090
31 May 2022	Buy	888	1,082
1 August 2022	Buy	944	1,112
29 September 2022	Buy	918	1,061
2 November 2022	Buy	1,033	1,192
1 February 2023	Buy	1,035	1,202
16 March 2023	Buy	967	1,265
27 May 2023	Buy	971	1,130
9 June 2023	Buy	1,000	1,217
4 August 2023	Buy	1,141	1,315
1 November 2023	Buy	1,117	1,345

Rating Track Graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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