

India

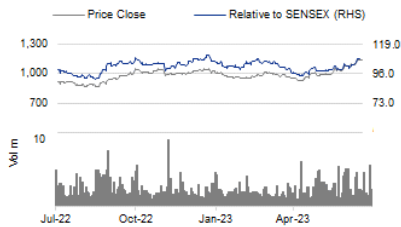
HOLD (previously ADD)

Consensus ratings*: Buy 39 Hold 0 Sell 2

Current price: Rs1,141
 Target price: ▲ Rs1,154
 Previous target: Rs1,109
 Up/downside: 1.1%
 InCred Research / Consensus: 0.8%

Reuters:
 Bloomberg: SUNP IN
 Market cap: US\$37,700m
 Rs2,737,574m
 Average daily turnover: US\$34.0m
 Rs2471.2m
 Current shares o/s: 2,399.3m
 Free float: 45.5%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.5	18.4	27.2
Relative (%)	10.9	12.1	13.7

Major shareholders	% held
Promoters	54.5
ICICI Pru MF	3.3
LIC	3.2

Analyst(s)



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Sun Pharmaceutical Industries

Higher gRevlimid sales boost 1Q earnings

- Sun Pharma's 1QFY24 EBITDA beat of 13% was led by strong gRevlimid sales and lower R&D costs. R&D spending is likely to rise in line with its guidance.
- Global specialty drug sales declined by 2% QoQ to US\$232m (excluding milestone income), largely due to seasonality in gLevulan.
- The rally in stock price over the last two months led to a rich valuation, resulting in our rating downgrade from ADD to HOLD. The new target price is Rs1,154.

Strong EBITDA beat in 1QFY24 but unlikely to sustain

The 1QFY24 EBITDA of Sun Pharmaceutical Industries (Sun Pharma) was 13% above our estimate but was largely driven by higher-than-expected gRevlimid sales (lumpy in nature) and lower R&D spending (5.7% vs. management guidance of 7-8% for FY24F), both of which are unlikely to sustain at a similar level. Despite higher gRevlimid sales during the quarter, gross margin fell by 240bp QoQ (excluding milestone income in the base), as specialty sales came off QoQ. The reported PAT at Rs20.2bn was impacted by a) impairment of intangibles worth Rs1.5bn, b) forex loss of Rs1.2bn due to Naira devaluation, and c) relocation expenses of US\$6m pertaining to the shift of Alchemee operations from California to New York.

US revenue beat on the back of gRevlimid sales but India disappoints

US sales stood at US\$471m (our estimate: US\$435m), largely driven by higher gRevlimid sales. Global specialty sales fell 2% QoQ to US\$232m (ex-milestone income). We feel the QoQ rise in US sales was almost entirely driven by gRevlimid as the base business has been hit by compliance problems at the Halol and Mohali plants. Subsidiary Taro's sales were up 12% QoQ, although the significance has now been reduced to only 11% of Sun Pharma's sales. India sales were up 5% YoY, much below that of its peers. 1QFY23 had witnessed higher sales of gSitagliptin, which has since gone off-patent, and thus the contribution has declined significantly YoY. Emerging markets or EMs and ROW market growth was healthy.

Other conference-call highlights

a) Specialty R&D expenses stood at 35% of overall R&D spending. b) Supplies from Mohali plant haven't resumed yet. c) Expects India growth to recover to market growth or slightly better. d) Retains R&D expenses guidance at 7-8% of sales, implying a sharp rise going ahead.

Downgrade rating to HOLD (from ADD) on rich valuation

The sharp rally in the stock price (10% in the last one month vs. flat returns for Nifty) since our coverage initiation ([link](#)) has now rendered its valuation expensive at 26x. While we remain sanguine on the specialty portfolio and margins in the medium term, we await a better entry point. Successful buyout of Taro will provide access to its large US\$1.3bn surplus and is a key upside risk. Slowdown in the specialty portfolio is a key downside risk.

Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	334,981	386,545	438,857	482,243	522,632
Operating EBITDA (Rsm)	84,677	102,438	117,729	130,709	145,612
Net Profit (Rsm)	29,038	32,727	84,736	91,859	106,453
Core EPS (Rs)	30.1	32.4	36.0	38.3	44.4
Core EPS Growth	79.1%	7.7%	11.4%	6.3%	15.9%
FD Core P/E (x)	37.97	35.26	31.67	29.80	25.72
DPS (Rs)	5.5	10.0	11.5	11.5	11.5
Dividend Yield	0.48%	0.88%	1.01%	1.01%	1.01%
EV/EBITDA (x)	32.29	25.39	22.74	20.03	17.42
P/FCFE (x)	40.39	28.82	32.48	20.70	12.59
Net Gearing	(6.3%)	(22.6%)	(15.2%)	(22.7%)	(31.4%)
P/BV (x)	5.89	5.70	4.89	4.39	3.89
ROE	15.7%	16.4%	16.6%	15.5%	16.0%
% Change In Core EPS Estimates				2.62%	1.64%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 1QFY24 results snapshot

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	1,07,618	1,09,523	1,12,410	1,09,307	1,19,408	11%	9%
Consumption of raw materials	29,002	27,081	28,037	22,502	27,582	-5%	23%
<i>as % of sales</i>	<i>26.9%</i>	<i>24.7%</i>	<i>24.9%</i>	<i>20.6%</i>	<i>23.1%</i>		
Employee cost	20,749	20,046	20,371	21,796	24,020	16%	10%
<i>as % of sales</i>	<i>19.3%</i>	<i>18.3%</i>	<i>18.1%</i>	<i>19.9%</i>	<i>20.1%</i>		
R&D cost	4,608	5,710	6,702	6,657	6,796	47%	2%
<i>as % of sales</i>	<i>4.3%</i>	<i>5.2%</i>	<i>6.0%</i>	<i>6.1%</i>	<i>5.7%</i>		
Other expenditure	25872	24706	27232	30059	27713	7%	-8%
<i>as % of sales</i>	<i>24.0%</i>	<i>22.6%</i>	<i>24.2%</i>	<i>27.5%</i>	<i>23.2%</i>		
EBITDA	27,387	31,980	30,069	28,293	33,297	22%	18%
<i>Margins (%)</i>	<i>25.4%</i>	<i>29.2%</i>	<i>26.7%</i>	<i>25.9%</i>	<i>27.9%</i>		
Depreciation	5,880	6,100	6,600	6,715	6,513		
Other income	1,478	-1,563	1,708	3,461	2,065		
Interest	137	194	462	927	809		
PBT	22,848	24,124	24,715	24,111	28,040	23%	16%
Total Tax	1,890	1,523	2,834	2,229	4,681		
<i>Tax Rate (%)</i>	<i>8.3%</i>	<i>6.3%</i>	<i>11.5%</i>	<i>9.2%</i>	<i>16.7%</i>		
PAT before MI	20,959	22,602	21,880	21,882	23,359	11%	7%
Minority interest (MI)	-350	21	-220	-323	95		
Adj. PAT before extraordinary items	20,609	22,622	21,660	21,559	23,454	14%	9%
Extraordinary expenses	0	0	0	-1,715	-3,229		
Reported PAT	20,609	22,622	21,660	19,845	20,225	-2%	2%
No. of shares	2399.3	2399.3	2399.3	2399.3	2399.3		
EPS	8.6	9.4	9.0	9.0	9.8		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile of Sun Pharma

Margins (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Gross	73%	75%	75%	79%	77%
EBITDA	25%	29%	27%	26%	28%
Adj. PAT	19%	21%	19%	20%	20%
Effective tax rate	8%	6%	11%	9%	17%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Geographical revenue contribution of Sun Pharma

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	Y-o-Y (%)	Q-o-Q (%)
Total US formulations	32,437	32,913	34,660	35,343	38,709	19%	10%
<i>% total revenue</i>	<i>30.1%</i>	<i>30.1%</i>	<i>30.8%</i>	<i>32.3%</i>	<i>32.4%</i>		
India formulations	33,871	34,600	33,919	33,641	35,604	5%	6%
<i>% total revenue</i>	<i>31.5%</i>	<i>31.6%</i>	<i>30.2%</i>	<i>30.8%</i>	<i>29.8%</i>		
EM formulations	18,910	20,704	21,158	18,204	21,452	13%	18%
<i>% total revenue</i>	<i>17.6%</i>	<i>18.9%</i>	<i>18.8%</i>	<i>16.7%</i>	<i>18.0%</i>		
RoW formulations	14,678	14,441	15,563	15,744	16,041	9%	2%
<i>% total revenue</i>	<i>13.6%</i>	<i>13.2%</i>	<i>13.8%</i>	<i>14.4%</i>	<i>13.4%</i>		
Bulk drugs	5,987	4,730	5,154	3,852	5,396	-10%	40%
<i>% total revenue</i>	<i>5.6%</i>	<i>4.3%</i>	<i>4.6%</i>	<i>3.5%</i>	<i>4.5%</i>		
Others	1,734	2,135	1,957	2,522	2,207	27%	-12%
<i>% total revenue</i>	<i>1.6%</i>	<i>1.9%</i>	<i>1.7%</i>	<i>2.3%</i>	<i>1.8%</i>		
Total revenue	1,07,618	1,09,523	1,12,410	1,09,307	1,19,408	11%	9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. estimates

(Rs m)	1QFY24A	Incrid Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	1,19,408	1,16,231	3%	1,17,422	2%
EBITDA	33,297	29,342	13%	29,908	11%
EBITDA margin (%)	28%	25%	264 bp	25%	241 bp
PAT	20,225	20,247	0%	21,615	-6%

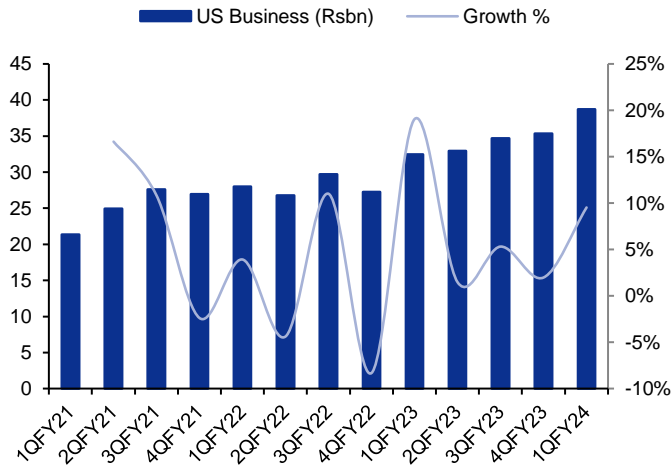
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Our revised earnings estimates

(Rs m)	Old Estimates		New Estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	4,80,740	5,21,868	4,82,243	5,22,632	0%	0%
EBITDA	1,28,389	1,44,130	1,30,709	1,45,612	2%	1%
EBITDA margin (%)	27%	28%	27%	28%	39 bp	24 bp
PAT	89,513	1,04,730	91,859	1,06,453	3%	2%

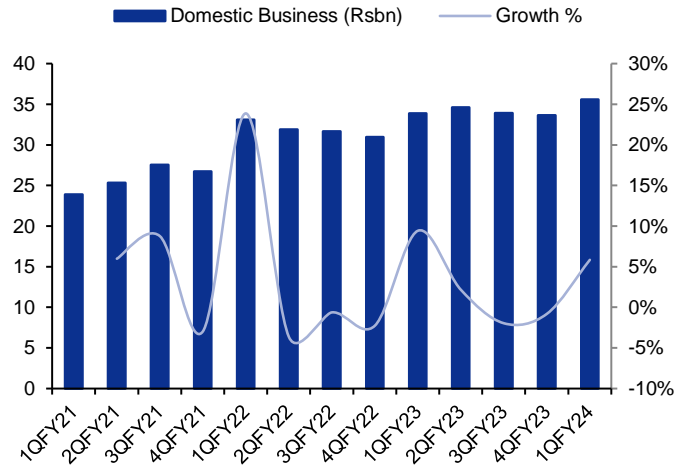
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: US revenue - declining generics business and improving specialty business revenue



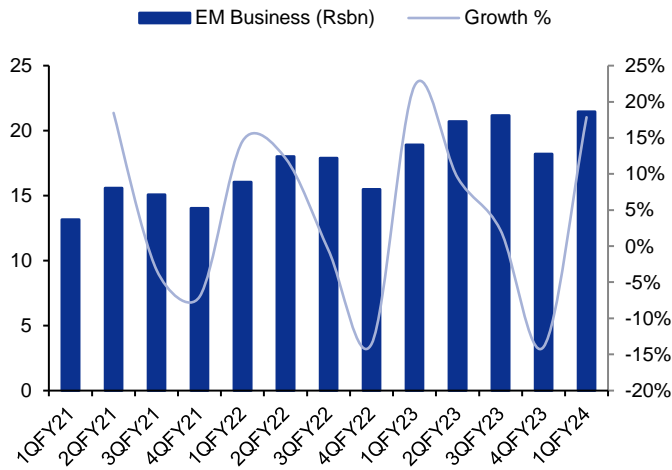
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Domestic revenue growth - maintains dominant position in India



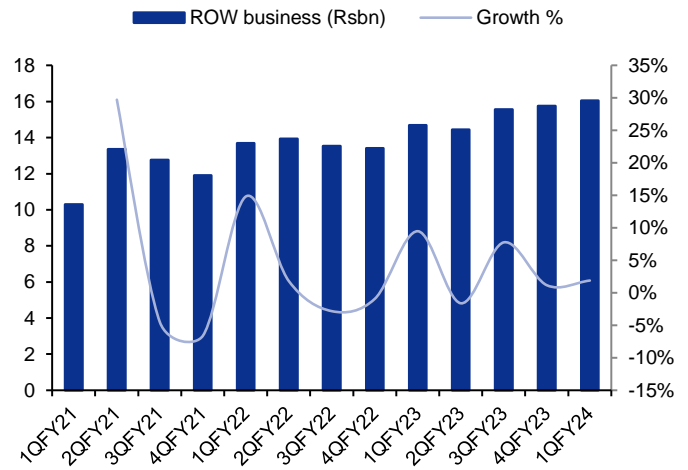
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Steady growth in emerging markets



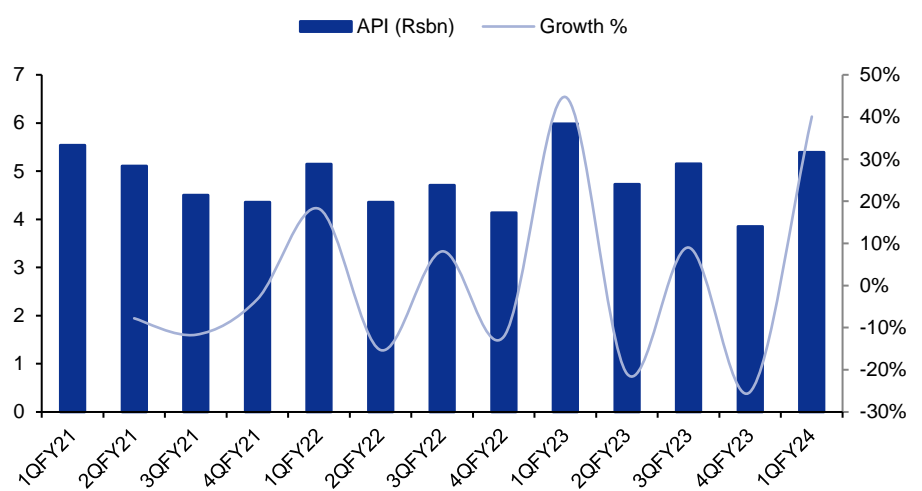
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Steady growth in RoW market



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Figure 201: APIs mostly used for captive consumption



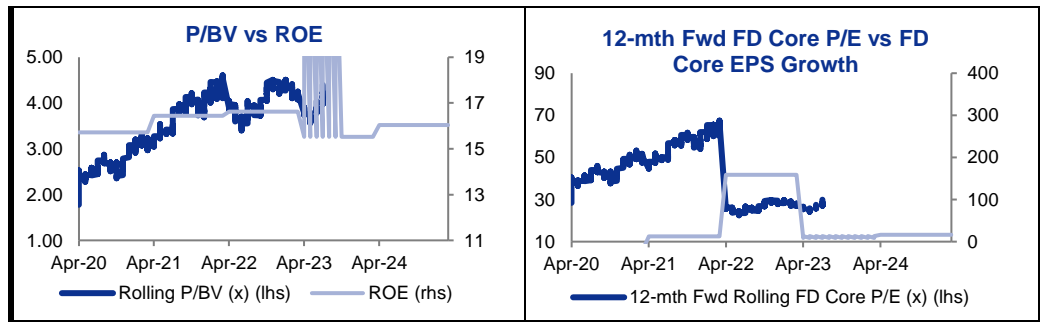
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: One year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	334,981	386,545	438,857	482,243	522,632
Gross Profit	248,080	283,030	332,235	369,064	402,237
Operating EBITDA	84,677	102,438	117,729	130,709	145,612
Depreciation And Amortisation	(20,800)	(21,437)	(25,294)	(27,483)	(30,288)
Operating EBIT	63,878	81,000	92,435	103,226	115,324
Financial Income/(Expense)	(1,414)	(1,274)	(1,720)	(3,059)	(2,000)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	8,592	10,755	5,084	6,565	9,000
Profit Before Tax (pre-EI)	71,055	90,481	95,799	106,732	122,324
Exceptional Items					
Pre-tax Profit	71,055	90,481	95,799	106,732	122,324
Taxation	(5,147)	(11,519)	(8,476)	(14,911)	(15,902)
Exceptional Income - post-tax	(43,061)	(44,904)	(1,715)		
Profit After Tax	22,847	34,058	85,608	91,821	106,422
Minority Interests	6,191	(1,331)	(873)	38	30
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	29,038	32,727	84,736	91,859	106,453
Recurring Net Profit	72,099	77,631	86,450	91,859	106,453
Fully Diluted Recurring Net Profit	72,099	77,631	86,450	91,859	106,453

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	84,677	102,438	117,729	130,709	145,612
Cash Flow from Invt. & Assoc.					
Change In Working Capital	25,641	15,591	(56,618)	(18,296)	(12,491)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	75,848	83,115	64,480	118,978	142,121
Net Interest (Paid)/Received	(1,414)	(1,274)	(1,720)	(3,059)	(2,000)
Tax Paid	(12,730)	8,004	(13,167)	(18,379)	(22,872)
Cashflow From Operations	61,704	89,845	49,593	97,539	117,249
Capex	(10,730)	(14,344)	(20,646)	(14,000)	(15,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments		(41,643)	(46,858)		
Other Investing Cashflow					
Cash Flow From Investing	50,973	33,858	(17,911)	83,539	102,249
Debt Raised/(repaid)	(44,896)	(28,718)	52,602	(48,830)	(2,104)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(15,862)	(21,692)	(25,197)	(27,592)	(27,592)
Preferred Dividends					
Other Financing Cashflow	9,364	80,469	13,976	3,506	7,000
Cash Flow From Financing	(51,394)	30,059	41,380	(72,917)	(22,697)
Total Cash Generated	(420)	63,918	23,470	10,623	79,553
Free Cashflow To Equity	67,781	94,986	84,284	132,248	217,395
Free Cashflow To Firm	114,091	124,977	33,403	184,138	221,499

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	64,455	128,373	151,842	162,465	242,018
Total Debtors	90,614	105,929	114,385	130,206	141,111
Inventories	89,970	89,968	105,131	115,738	125,432
Total Other Current Assets	59,382	25,880	27,476	31,346	33,971
Total Current Assets	304,421	350,150	398,833	439,754	542,531
Fixed Assets	111,715	111,689	113,537	100,055	84,767
Total Investments	2,327	52,147	3,894	3,894	3,894
Intangible Assets	119,483	125,777	180,396	180,396	180,396
Total Other Non-Current Assets	138,721	58,237	110,776	110,776	110,776
Total Non-current Assets	372,247	347,849	408,603	395,120	379,832
Short-term Debt	24,449	8,086	61,979	61,979	61,979
Current Portion of Long-Term Debt					
Total Creditors	39,737	44,793	56,815	57,344	61,471
Other Current Liabilities	97,271	119,126	80,276	91,750	98,354
Total Current Liabilities	161,456	172,006	199,070	211,072	221,805
Total Long-term Debt	8,981	4,817		(48,830)	(50,935)
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	11,431	10,515	15,211	15,211	15,211
Total Non-current Liabilities	20,413	15,332	15,211	(33,619)	(35,723)
Total Provisions					
Total Liabilities	181,869	187,338	214,281	177,453	186,081
Shareholders Equity	464,628	480,112	559,954	624,258	703,149
Minority Interests	30,171	30,549	33,201	33,163	33,133
Total Equity	494,798	510,661	593,155	657,421	736,282

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	2.0%	15.4%	13.5%	9.9%	8.4%
Operating EBITDA Growth	21.4%	21.0%	14.9%	11.0%	11.4%
Operating EBITDA Margin	25.3%	26.5%	26.8%	27.1%	27.9%
Net Cash Per Share (Rs)	12.93	48.13	37.45	62.23	96.27
BVPS (Rs)	193.65	200.11	233.38	260.18	293.06
Gross Interest Cover	45.17	63.60	53.74	33.75	57.66
Effective Tax Rate	7.2%	12.7%	8.8%	14.0%	13.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	100.69	92.79	91.62	92.56	94.74
Inventory Days	354.33	317.24	333.94	356.15	365.58
Accounts Payables Days	169.42	149.03	173.92	184.08	180.11
ROIC (%)	10.1%	17.1%	13.4%	14.9%	16.7%
ROCE (%)	11.7%	15.4%	15.7%	15.6%	16.3%
Return On Average Assets	9.9%	11.6%	11.8%	11.5%	12.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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