

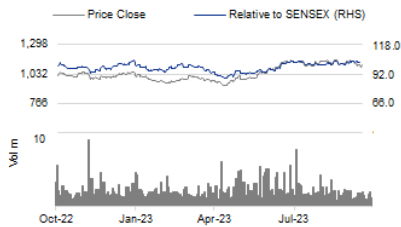
India

HOLD (no change)

Consensus ratings*: Buy 35 Hold 3 Sell 2

Current price:	Rs1,116
Target price:	Rs1,154
Previous target:	Rs1,154
Up/downside:	3.4%
InCred Research / Consensus:	-7.6%
Reuters:	SUN.NS
Bloomberg:	SUNP IN
Market cap:	US\$32,154m
	Rs2,678,072m
Average daily turnover:	US\$31.9m
	Rs2660.4m
Current shares o/s:	2,399.3m
Free float:	45.5%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.7)	(1.7)	6.1
Relative (%)	(0.3)	1.7	1.6

Major shareholders	% held
Promoters	54.5
ICICI Pru MF	3.4
LIC	2.9

Analyst(s)



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Sun Pharmaceutical Industries

In-line 2Q; specialty segment doing well

- 2Q results broadly in line. The growth was broad-based with most geographies doing well, except for US generics, which was impacted due to plant problems.
- Specialty business continues to do well; the recent acceptance of deuruxolitinib NDA by the US FDA adds to the comfort level.
- Retain our HOLD rating on the stock with a target price of Rs1,154. No major change in our earnings estimates.

Decent 2QFY24 performance

Sun Pharmaceutical Industries' (Sun Pharma) 2QFY24 EBITDA was 7% above our estimate, but in line with consensus estimate. Gross margin was sustained QoQ while R&D expenses picked up, as expected, and are likely to remain high in 2HFY24F. India business did particularly well with a 11% YoY growth (industry growth of 4% YoY and our estimate of 9% YoY) while EMs/ROW also grew at a healthy rate of 13%/18% YoY, respectively. The US business stood at US\$430m (our estimate: US\$420m) and was down 10% QoQ ex-Taro, led by weakness in the generics business, which was impacted by compliance issues at Halol and Mohali plants and lower gRevlimid sales. Sun Pharma highlighted that gRevlimid sales were not significant during the quarter, implying a sharp QoQ decline. Global specialty sales grew by 3% QoQ to US\$240m; market share gains in Cequa (7% market share), seasonality in Levulan and scale-up in Ilumya portfolio helped, in our view.

Specialty segment progressing well

The recent acceptance of deuruxolitinib NDA by the US FDA for treatment of alopecia areata and positive phase-3 data for Nidlegy provides confidence on the long runway for Sun Pharma's specialty business. The company has seen market share ramp-up in both Ilumya and Cequa. For Nidlegy, Sun Pharma alluded that it has the requisite commercial infrastructure to market the product. Prescriptions in Odomzo and Winlevi have also ramped up well YoY, as per management.

Other conference-call highlights

a) Specialty R&D expenses stood at 38% of the overall R&D spending. b) Supplies from Mohali plant have resumed, but the ramp-up will be only gradual. c) Retains R&D expenses guidance at 7-8% of sales, implying a sharp rise going ahead. d) Ensuring continuity of business in Israel along with ensuring the safety of employees in that country.

Retain HOLD rating

We broadly retain our estimates and HOLD rating on Sun Pharma with a target price of Rs1,154. 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	480,048	518,837
Operating EBITDA (Rsm)	84,677	102,438	117,729	127,004	142,498
Net Profit (Rsm)	29,038	32,727	84,736	91,068	105,161
Core EPS (Rs)	30.0	32.4	36.0	38.0	43.8
Core EPS Growth	79.1%	7.7%	11.4%	5.3%	15.5%
FD Core P/E (x)	37.15	34.50	30.98	29.41	25.47
DPS (Rs)	5.5	10.0	11.5	11.5	11.5
Dividend Yield	0.49%	0.90%	1.03%	1.03%	1.03%
EV/EBITDA (x)	31.59	24.81	22.23	20.15	17.42
P/FCFE (x)	39.51	28.20	31.78	21.63	13.02
Net Gearing	(6.3%)	(22.6%)	(15.2%)	(22.6%)	(30.7%)
P/BV (x)	5.76	5.58	4.78	4.30	3.82
ROE	15.7%	16.4%	16.6%	15.4%	15.9%
% Change In Core EPS Estimates				(0.86%)	(1.21%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 2QFY24 results snapshot

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	1,09,523	1,12,410	1,09,307	1,19,408	1,21,924	11%	2%
Consumption of raw materials	27,081	28,037	22,502	27,582	27,871	3%	1%
<i>as % of sales</i>	<i>24.7%</i>	<i>24.9%</i>	<i>20.6%</i>	<i>23.1%</i>	<i>22.9%</i>		
Employee costs	20,046	20,371	21,796	24,020	23,644	18%	-2%
<i>as % of sales</i>	<i>18.3%</i>	<i>18.1%</i>	<i>19.9%</i>	<i>20.1%</i>	<i>19.4%</i>		
R&D costs	5,710	6,702	6,657	6,796	7,734	35%	14%
<i>as % of sales</i>	<i>5.2%</i>	<i>6.0%</i>	<i>6.1%</i>	<i>5.7%</i>	<i>6.3%</i>		
Other expenditure	24706	27232	30059	27713	30541	24%	10%
<i>as % of sales</i>	<i>22.6%</i>	<i>24.2%</i>	<i>27.5%</i>	<i>23.2%</i>	<i>25.0%</i>		
EBITDA	31,980	30,069	28,293	33,297	32,135	0%	-3%
<i>Margins (%)</i>	<i>29.2%</i>	<i>26.7%</i>	<i>25.9%</i>	<i>27.9%</i>	<i>26.4%</i>		
Depreciation	6,100	6,600	6,715	6,513	6,328		
Other income	-1,563	1,708	3,461	2,065	2,595		
Interest	194	462	927	809	493		
PBT	24,124	24,715	24,111	28,040	27,909	16%	0%
Total tax	1,523	2,834	2,229	4,681	3,901		
<i>Tax Rate (%)</i>	<i>6.3%</i>	<i>11.5%</i>	<i>9.2%</i>	<i>16.7%</i>	<i>14.0%</i>		
PAT before MI	22,602	21,880	21,882	23,359	24,008	6%	3%
Minority Interest (MI)	21	-220	-323	95	-253		
Adj. PAT before extraordinary items	22,622	21,660	21,559	23,454	23,755	5%	1%
Extraordinary expenses	0	0	-1,715	-3,229	0		
Reported PAT	22,622	21,660	19,845	20,225	23,755	5%	17%
No. of shares	2399.3	2399.3	2399.3	2399.3	2399.3		
EPS	9.4	9.0	9.0	9.8	9.9		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	Y-o-Y (%)	Q-o-Q (%)
Gross	75%	75%	79%	77%	77%	2%	0%
EBITDA	29%	27%	26%	28%	26%	-10%	-5%
Adj. PAT	21%	19%	20%	20%	19%	-6%	-1%
Effective tax rate	6%	11%	9%	17%	14%	121%	-16%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue contribution

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	Y-o-Y (%)	Q-o-Q (%)
Total US formulations	32,913	34,660	35,343	38,709	35,504	8%	-8%
<i>% total revenue</i>	<i>30.1%</i>	<i>30.8%</i>	<i>32.3%</i>	<i>32.4%</i>	<i>29.1%</i>		
India formulations	34,600	33,919	33,641	35,604	38,425	11%	8%
<i>% total revenue</i>	<i>31.6%</i>	<i>30.2%</i>	<i>30.8%</i>	<i>29.8%</i>	<i>31.5%</i>		
EM formulations	20,704	21,158	18,204	21,452	23,499	13%	10%
<i>% total revenue</i>	<i>18.9%</i>	<i>18.8%</i>	<i>16.7%</i>	<i>18.0%</i>	<i>19.3%</i>		
RoW formulations	14,441	15,563	15,744	16,041	17,000	18%	6%
<i>% total revenue</i>	<i>13.2%</i>	<i>13.8%</i>	<i>14.4%</i>	<i>13.4%</i>	<i>13.9%</i>		
Bulk drugs	4,730	5,154	3,852	5,396	4,972	5%	-8%
<i>% total revenue</i>	<i>4.3%</i>	<i>4.6%</i>	<i>3.5%</i>	<i>4.5%</i>	<i>4.1%</i>		
Others	2,135	1,957	2,522	2,207	2,523	18%	14%
<i>% total revenue</i>	<i>1.9%</i>	<i>1.7%</i>	<i>2.3%</i>	<i>1.8%</i>	<i>2.1%</i>		
Total revenue	1,09,523	1,12,410	1,09,307	1,19,408	1,21,924	11%	2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. Incred and Bloomberg consensus estimates

(Rs m)	2QFY24A	Incred Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	1,21,924	1,18,881	3%	1,21,277	1%
EBITDA	32,135	30,055	7%	32,431	-1%
EBITDA Margin (%)	26%	25%	-107bp	27%	39bp
PAT	23,755	20,518	16%	23,628	1%

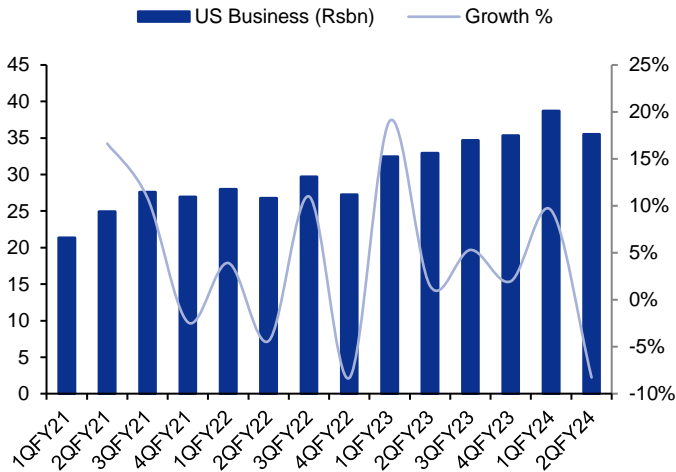
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Our revised earnings estimates

(Rs m)	Old Estimates		New Estimates		Change(%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	4,82,467	5,22,632	4,80,048	5,18,837	-1%	-1%
EBITDA	1,31,594	1,45,612	1,27,004	1,42,498	-3%	-2%
EBITDA Margin (%)	27%	28%	26%	27%	-82bp	-40bp
PAT	92,752	1,06,613	91,068	1,05,161	-2%	-1%

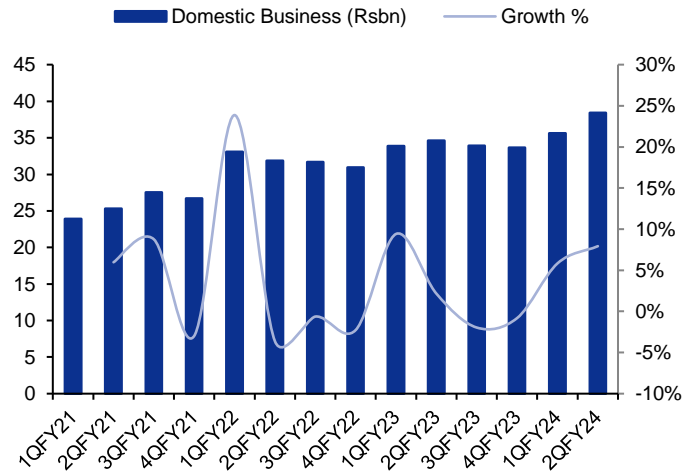
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



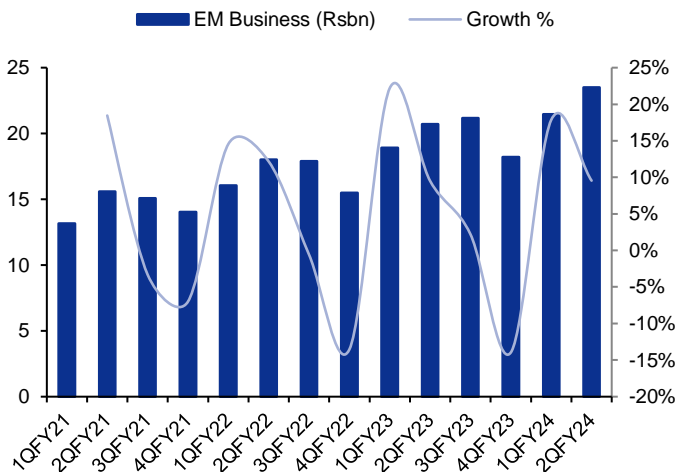
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Domestic revenue growth – maintains its dominant position in India



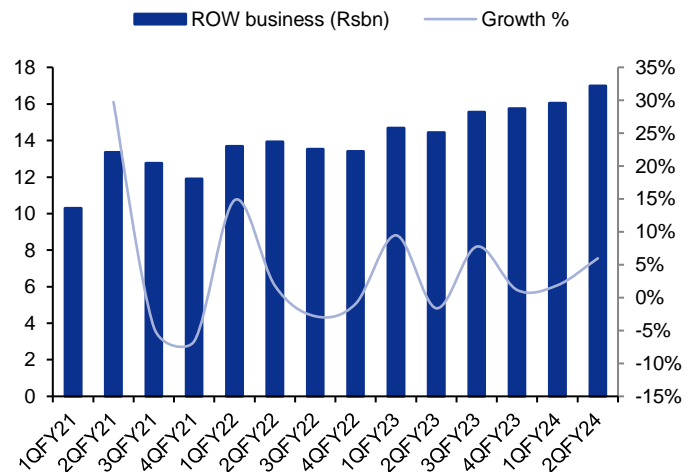
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Steady growth in emerging markets



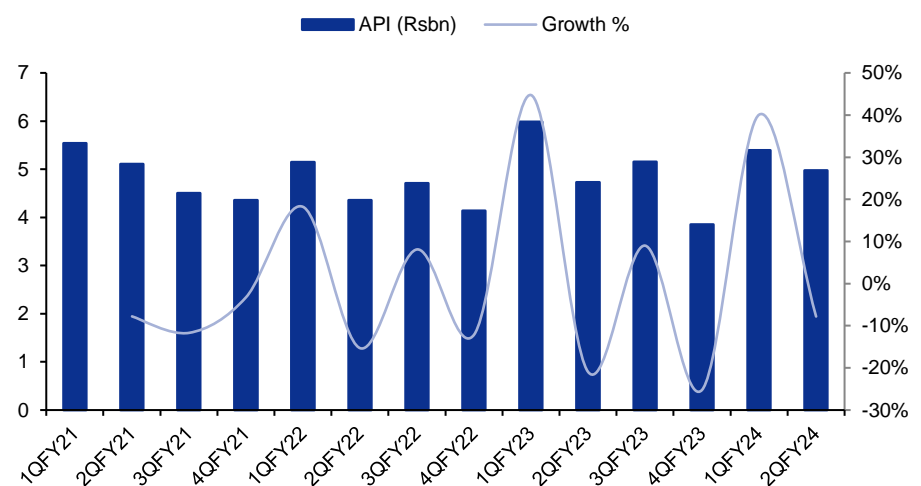
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Steady growth in ROW market



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Active pharmaceutical ingredients or APIs mostly used for captive consumption



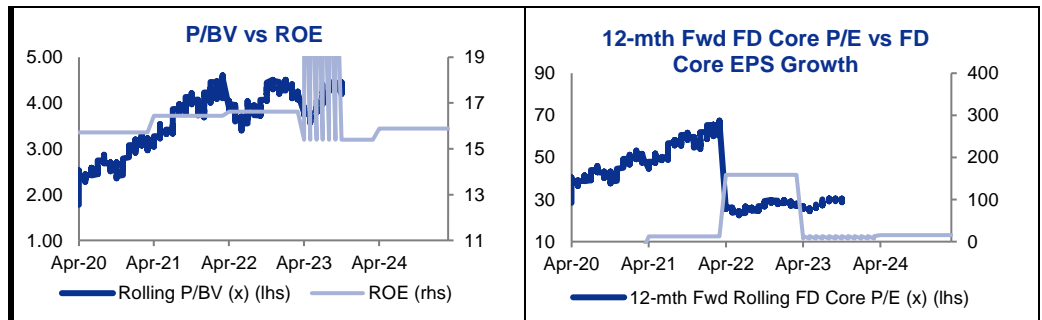
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	480,048	518,837
Gross Profit	248,080	283,030	332,235	368,050	403,469
Operating EBITDA	84,677	102,438	117,729	127,004	142,498
Depreciation And Amortisation	(20,800)	(21,437)	(25,294)	(26,821)	(28,295)
Operating EBIT	63,878	81,000	92,435	100,183	114,203
Financial Income/(Expense)	(1,414)	(1,274)	(1,720)	(2,502)	(2,000)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	8,592	10,755	5,084	9,260	10,000
Profit Before Tax (pre-EI)	71,055	90,481	95,799	106,942	122,203
Exceptional Items					
Pre-tax Profit	71,055	90,481	95,799	106,942	122,203
Taxation	(5,147)	(11,519)	(8,476)	(15,721)	(17,108)
Exceptional Income - post-tax	(43,061)	(44,904)	(1,715)		
Profit After Tax	22,847	34,058	85,608	91,221	105,094
Minority Interests	6,191	(1,331)	(873)	(152)	67
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	29,038	32,727	84,736	91,068	105,161
Recurring Net Profit	72,099	77,631	86,450	91,068	105,161
Fully Diluted Recurring Net Profit	72,099	77,631	86,450	91,068	105,161

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	84,677	102,438	117,729	127,004	142,498
Cash Flow from Invt. & Assoc.					
Change In Working Capital	25,641	15,591	(56,618)	(17,786)	(14,070)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	75,848	83,115	64,480	118,478	138,428
Net Interest (Paid)/Received	(1,414)	(1,274)	(1,720)	(2,502)	(2,000)
Tax Paid	(12,730)	8,004	(13,167)	(22,632)	(25,042)
Cashflow From Operations	61,704	89,845	49,593	93,345	111,386
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)	79,345	96,386
Debt Raised/(repaid)	(44,896)	(28,718)	52,602	(48,846)	(2,120)
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	6,758	8,000
Cash Flow From Financing	(51,394)	30,059	41,380	(69,680)	(21,712)
Total Cash Generated	(420)	63,918	23,470	9,665	74,675
Free Cashflow To Equity	67,781	94,986	84,284	123,844	205,653
Free Cashflow To Firm	114,091	124,977	33,403	175,192	209,773

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	161,507	236,182
Total Debtors	90,614	105,929	114,385	129,613	140,086
Inventories	89,970	89,968	105,131	115,212	124,521
Total Other Current Assets	59,382	25,880	27,476	31,203	33,724
Total Current Assets	304,421	350,150	398,833	437,535	534,513
Fixed Assets	111,715	111,689	113,537	100,716	87,422
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	395,782	382,487
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	57,055	60,221
Other Current Liabilities	97,271	119,126	80,276	91,287	96,354
Total Current Liabilities	161,456	172,006	199,070	210,321	218,555
Total Long-term Debt	8,981	4,817		(48,846)	(50,966)
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	(33,635)	(35,755)
Total Provisions					
Total Liabilities	181,869	187,338	214,281	176,686	182,800
Shareholders Equity	464,628	480,112	559,954	623,278	700,913
Minority Interests	30,171	30,549	33,201	33,353	33,286
Total Equity	494,798	510,661	593,155	656,631	734,200

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	2.0%	15.4%	13.5%	9.4%	8.1%
Operating EBITDA Growth	21.4%	21.0%	14.9%	7.9%	12.2%
Operating EBITDA Margin	25.3%	26.5%	26.8%	26.5%	27.5%
Net Cash Per Share (Rs)	12.93	48.13	37.45	61.84	93.85
BVPS (Rs)	193.65	200.10	233.38	259.77	292.13
Gross Interest Cover	45.17	63.60	53.74	40.05	57.10
Effective Tax Rate	7.2%	12.7%	8.8%	14.7%	14.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	100.69	92.79	91.62	92.76	94.87
Inventory Days	354.33	317.24	333.94	359.05	379.23
Accounts Payables Days	169.42	149.03	173.92	185.55	185.52
ROIC (%)	10.1%	17.1%	13.4%	14.4%	16.4%
ROCE (%)	11.7%	15.4%	15.7%	15.1%	16.1%
Return On Average Assets	9.9%	11.6%	11.8%	11.3%	12.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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