



India

HOLD (previously ADD)

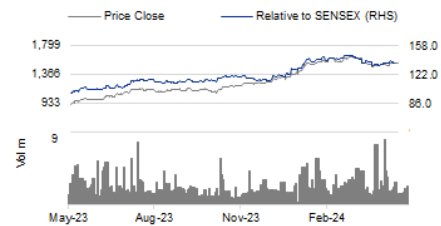
Consensus ratings*: Buy 32 Hold 6 Sell 1

Current price:	Rs1,539
Target price:	Rs1,665
Previous target:	Rs1,665
Up/downside:	8.2%
InCred Research / Consensus:	4.1%
Reuters:	SUN.NS
Bloomberg:	SUNP IN
Market cap:	US\$44,347m
	Rs3,693,206m
Average daily turnover:	US\$42.8m
	Rs3560.8m
Current shares o/s:	2,399.3m
Free float:	45.5%

*Source: Bloomberg

Key changes in this note

- Reset FY25F/26F EPS by -3%/+1%.
- Downgrade the stock's rating to HOLD.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.7	(1.4)	65.2
Relative (%)	3.0	(2.8)	38.0

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

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Sun Pharmaceutical Industries

In-line 4Q; specialty business fares well

- 4Q was broadly in line, with most geographies, excluding RoW market, doing well. Revenue guidance in high single digit for FY25F is as per expectations.
- Specialty business continues to do well led by Ilumya, Cequa, Winlevi and Odanzo. Ilumya's global sales stood at US\$580m (+21.7% YoY) in FY24.
- FY25F/26F EPS reset by -3%/+1%, due to higher R&D spending. Downgrade the stock to HOLD (from ADD) with an unchanged target price of Rs1,665.

In-line 4QFY24 performance

Sun Pharmaceutical Industries' (Sun Pharma) 4QFY24 revenue/EBITDA were in line with our estimates. Gross margin was particularly strong at 80.1% (+72bp YoY and +250bp QoQ excluding one-time milestone income in 3QFY24), led by better geography/product mix. R&D expenses picked up, as expected, and are likely to remain high in FY25F (guidance at 8-10% of sales). India business did particularly well with a 10% YoY growth while emerging markets or EMs also grew at a healthy rate of 12% YoY. The US business stood at US\$476m (our estimate: US\$460m); weakness in the generics base was offset by strong specialty sales and higher sales by Taro. The generics business declined QoQ which, we feel, was due to compliance problems at Halol and Mohali plants and lower gRevlimid sales. Sun Pharma highlighted that gRevlimid sales were not significant during the quarter. Global specialty sales dipped slightly QoQ (US\$271m vs. US\$275m in 3Q).

Update on specialty segment

a) Winlevi - 4Q saw good momentum and management expects this to continue. b) Ilumya – product launch in China is progressing well; Ilumya has <1% market share of the total US biologics psoriasis market. c) Deuruxolitinib – the product will have a five-year marketing exclusivity. Sun Pharma doesn't have any pending query. Small related costs are there but major costs have to be borne only when the product is launched.

Other conference-call highlights

a) Specialty R&D expenses stood at 42% of the overall R&D spending. b) Supplies from the Mohali plant have resumed but the ramp-up will be only gradual. c) Mohali and Dadra plants - Sun Pharma has undertaken corrective action and hopes to see a positive outcome at the upcoming audit. d) Nigeria forex loss was due to sharp currency depreciation and Sun Pharma has booked mark-to-market or MTM loss against payables.

Downgrade rating to HOLD with unchanged target price of Rs1,665

We reset FY25F/26F EPS by -3%/+1% and downgrade Sun Pharma's rating to HOLD (from ADD) with an unchanged target price of Rs1,665. While we remain sanguine on the specialty portfolio and margins in the medium term, we believe FY25F can be a moderate year for earnings. 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-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	386,545	438,857	484,969	531,389	582,940
Operating EBITDA (Rsm)	102,438	117,729	129,870	146,554	171,344
Net Profit (Rsm)	32,727	84,736	95,764	111,441	132,668
Core EPS (Rs)	32.4	36.0	42.0	46.4	55.3
Core EPS Growth	7.7%	11.4%	16.5%	10.7%	19.0%
FD Core P/E (x)	47.57	42.72	36.67	33.14	27.84
DPS (Rs)	10.0	11.5	11.5	11.5	11.5
Dividend Yield	0.65%	0.75%	0.75%	0.75%	0.75%
EV/EBITDA (x)	34.72	30.86	27.41	23.94	19.97
P/FCFE (x)	38.88	43.82	19.89	27.26	16.30
Net Gearing	(22.6%)	(15.2%)	(24.3%)	(28.4%)	(35.2%)
P/BV (x)	7.69	6.60	5.80	5.13	4.48
ROE	16.4%	16.6%	16.8%	16.4%	17.2%
% Change In Core EPS Estimates				(2.57%)	0.83%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	94,468	1,07,618	1,09,523	1,12,410	1,09,307	1,19,408	1,21,924	1,23,807	1,19,829	10%	-3%
Consumption of raw materials	25,396	29,002	27,081	28,037	22,502	27,582	27,871	27,369	23,804	6%	-13%
as % of sales	26.9%	26.9%	24.7%	24.9%	20.6%	23.1%	22.9%	22.1%	19.9%		
Employee costs	18,849	20,749	20,046	20,371	21,796	24,020	23,644	23,633	22,993	5%	-3%
as % of sales	20.0%	19.3%	18.3%	18.1%	19.9%	20.1%	19.4%	19.1%	19.2%		
R&D costs	5,433	4,608	5,710	6,702	6,657	6,796	7,734	8,245	9,000	35%	9%
as % of sales	5.8%	4.3%	5.2%	6.0%	6.1%	5.7%	6.3%	6.7%	7.5%		
Other expenditure	22995	25872	24706	27232	30059	27713	30541	31037	33116	10%	7%
as % of sales	24.3%	24.0%	22.6%	24.2%	27.5%	23.2%	25.0%	25.1%	27.6%		
EBITDA	21,794	27,387	31,980	30,069	28,293	33,297	32,135	33,523	30,915	9%	-8%
Margins (%)	23.1%	25.4%	29.2%	26.7%	25.9%	27.9%	26.4%	27.1%	25.8%		
Depreciation	5,565	5,880	6,100	6,600	6,715	6,513	6,328	6,221	6,504		
Other income	2,746	1,478	-1,563	1,708	3,461	2,065	2,595	3,748	5,496		
Interest	373	137	194	462	927	809	493	347	736		
PBT	18,602	22,848	24,124	24,715	24,111	28,040	27,909	30,702	29,172	21%	-5%
Total tax	2,232	1,890	1,523	2,834	2,229	4,681	3,901	4,323	1,489		
Tax rate (%)	12.0%	8.3%	6.3%	11.5%	9.2%	16.7%	14.0%	14.1%	5.1%		
PAT before MI	16,370	20,959	22,602	21,880	21,882	23,359	24,008	26,378	27,682	27%	5%
Minority interest (MI)	-549	-350	21	-220	-323	95	-253	-443	-120		
Adj. PAT before extraordinary items	15,822	20,609	22,622	21,660	21,559	23,454	23,755	25,936	27,562	28%	6%
Extraordinary expenses	-38,594	0	0	0	-1,715	-3,229	0	-698	-1,016		
Reported PAT	-22,772	20,609	22,622	21,660	19,845	20,225	23,755	25,238	26,546	34%	5%
No. of shares	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3		
EPS	6.6	8.6	9.4	9.0	9.0	9.8	9.9	10.8	11.5		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin summary

Margins (%)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (bp)	Q-o-Q (bp)
Gross	73%	73%	75%	75%	79%	77%	77%	78%	80%	72	224
EBITDA	23%	25%	29%	27%	26%	28%	26%	27%	26%	-8	-128
Adj. PAT	17%	19%	21%	19%	20%	20%	19%	21%	23%	328	205
Effective tax rate	12%	8%	6%	11%	9%	17%	14%	14%	5%	-414	-898

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Total US formulations	27,246	32,437	32,913	34,660	35,343	38,709	35,504	39,736	39,544	12%	0%
% total revenue	28.8%	30.1%	30.1%	30.8%	32.3%	32.4%	29.1%	32.1%	33.0%		
India formulations	30,956	33,871	34,600	33,919	33,641	35,604	38,425	37,785	37,078	10%	-2%
% total revenue	32.8%	31.5%	31.6%	30.2%	30.8%	29.8%	31.5%	30.5%	30.9%		
EM formulations	15,475	18,910	20,704	21,158	18,204	21,452	23,499	20,946	20,348	12%	-3%
% total revenue	16.4%	17.6%	18.9%	18.8%	16.7%	18.0%	19.3%	16.9%	17.0%		
RoW formulations	13,407	14,678	14,441	15,563	15,744	16,041	17,000	17,797	16,290	3%	-8%
% total revenue	14.2%	13.6%	13.2%	13.8%	14.4%	13.4%	13.9%	14.4%	13.6%		
Bulk drugs	4,137	5,987	4,730	5,154	3,852	5,396	4,972	4,661	4,158	8%	-11%
% total revenue	4.4%	5.6%	4.3%	4.6%	3.5%	4.5%	4.1%	3.8%	3.5%		
Others	3,247	1,734	2,135	1,957	2,522	2,207	2,523	2,883	2,411	-4%	-16%
% total revenue	3.4%	1.6%	1.9%	1.7%	2.3%	1.8%	2.1%	2.3%	2.0%		
Total Revenue	94,468	1,07,618	1,09,523	1,12,410	1,09,307	1,19,408	1,21,924	1,23,807	1,19,829	10%	-3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	IncRed Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	1,19,829	1,19,893	(0.1)	1,22,331	(2.0)
EBITDA (Rsm)	30,915	31,217	(1.0)	32,344	(4.4)
Margin (%)	25.8	26.0		26.4	
PAT (Rsm)	26,546	22,638	17.3	24,413	8.7

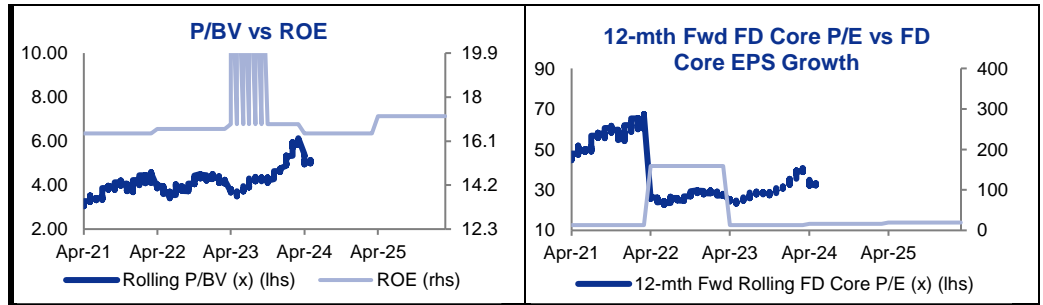
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Changes in our earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	5,31,557	5,31,389	0%	5,83,176	5,82,940	0%
EBITDA (Rsm)	1,50,505	1,46,554	-3%	1,70,566	1,71,344	0%
Margin (%)	28.3	27.6		29.2	29.4	
PAT (Rsm)	1,14,377	1,11,441	-3%	1,31,574	1,32,668	1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	386,545	438,857	484,969	531,389	582,940
Gross Profit	283,030	332,235	378,342	417,785	464,906
Operating EBITDA	102,438	117,729	129,870	146,554	171,344
Depreciation And Amortisation	(21,437)	(25,294)	(25,566)	(26,500)	(28,000)
Operating EBIT	81,000	92,435	104,304	120,054	143,344
Financial Income/(Expense)	(1,274)	(1,720)	(2,385)	(2,000)	(2,000)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	10,755	5,084	13,903	12,000	13,500
Profit Before Tax (pre-EI)	90,481	95,799	115,822	130,054	154,844
Exceptional Items					
Pre-tax Profit	90,481	95,799	115,822	130,054	154,844
Taxation	(11,519)	(8,476)	(14,395)	(18,208)	(21,678)
Exceptional Income - post-tax	(44,904)	(1,715)	(4,943)		
Profit After Tax	34,058	85,608	96,484	111,847	133,166
Minority Interests	(1,331)	(873)	(721)	(406)	(498)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	32,727	84,736	95,764	111,441	132,668
Recurring Net Profit	77,631	86,450	100,707	111,441	132,668
Fully Diluted Recurring Net Profit	77,631	86,450	100,707	111,441	132,668

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	102,438	117,729	129,870	146,554	171,344
Cash Flow from Invt. & Assoc.					
Change In Working Capital	15,591	(56,618)	10,621	(44,129)	(28,632)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	83,115	64,480	149,451	114,425	156,212
Net Interest (Paid)/Received	(1,274)	(1,720)	(2,385)	(2,000)	(2,000)
Tax Paid	8,004	(13,167)	(25,717)	(28,614)	(33,676)
Cashflow From Operations	89,845	49,593	121,350	83,811	120,536
Capex	(14,344)	(20,646)	(21,710)	(15,000)	(16,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(41,643)	(46,858)	(1,433)		
Other Investing Cashflow					
Cash Flow From Investing	33,858	(17,911)	98,207	68,811	104,536
Debt Raised/(repaid)	(28,718)	52,602	(33,899)	(17,133)	1,576
Proceeds From Issue Of Shares			(774)		
Shares Repurchased					
Dividends Paid	(21,692)	(25,197)	(28,982)	(27,592)	(27,592)
Preferred Dividends					
Other Financing Cashflow	80,469	13,976	5,308	10,000	11,500
Cash Flow From Financing	30,059	41,380	(58,347)	(34,726)	(14,516)
Total Cash Generated	63,918	23,470	39,860	34,086	90,019
Free Cashflow To Equity	94,986	84,284	185,657	135,489	226,647
Free Cashflow To Firm	124,977	33,403	221,941	154,623	227,071

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	128,373	151,842	191,702	225,788	315,808
Total Debtors	105,929	114,385	112,494	143,475	157,394
Inventories	89,968	105,131	98,683	127,533	145,735
Total Other Current Assets	25,880	27,476	31,871	34,540	40,806
Total Current Assets	350,150	398,833	434,750	531,337	659,742
Fixed Assets	111,689	113,537	113,001	101,501	89,501
Total Investments	52,147	3,894	4,426	4,426	4,426
Intangible Assets	125,777	180,396	172,652	172,652	172,652
Total Other Non-Current Assets	58,237	110,776	129,800	129,800	129,800
Total Non-current Assets	347,849	408,603	419,879	408,379	396,379
Short-term Debt	8,086	61,979	28,444	28,444	28,444
Current Portion of Long-Term Debt					
Total Creditors	44,793	56,815	56,533	61,451	65,202
Other Current Liabilities	119,126	80,276	84,867	98,322	104,324
Total Current Liabilities	172,006	199,070	169,844	188,216	197,970
Total Long-term Debt	4,817		13	(17,120)	(15,544)
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	10,515	15,211	13,712	13,712	13,712
Total Non-current Liabilities	15,332	15,211	13,725	(3,408)	(1,832)
Total Provisions					
Total Liabilities	187,338	214,281	183,569	184,808	196,138
Shareholders Equity	480,112	559,954	636,668	720,110	824,687
Minority Interests	30,549	33,201	34,392	34,798	35,296
Total Equity	510,661	593,155	671,060	754,908	859,984

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	15.4%	13.5%	10.5%	9.6%	9.7%
Operating EBITDA Growth	21.0%	14.9%	10.3%	12.8%	16.9%
Operating EBITDA Margin	26.5%	26.8%	26.8%	27.6%	29.4%
Net Cash Per Share (Rs)	48.13	37.45	68.04	89.38	126.25
BVPS (Rs)	200.10	233.38	265.35	300.13	343.71
Gross Interest Cover	63.60	53.74	43.74	60.03	71.67
Effective Tax Rate	12.7%	8.8%	12.4%	14.0%	14.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	92.79	91.62	85.38	87.91	94.19
Inventory Days	317.24	333.94	348.84	363.41	422.52
Accounts Payables Days	149.03	173.92	194.01	189.54	195.83
ROIC (%)	17.1%	13.4%	15.1%	16.3%	18.9%
ROCE (%)	15.4%	15.7%	15.4%	16.4%	17.5%
Return On Average Assets	11.6%	11.8%	12.4%	12.6%	13.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

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