

India

HOLD (no change)

Consensus ratings*: Buy 30 Hold 9 Sell 2

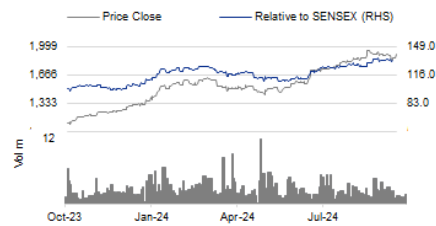
Current price: Rs1,903
 Target price: ▲ Rs2,000
 Previous target: Rs1,756
 Up/downside: 5.1%
 InCred Research / Consensus: 6.6%

Reuters:
 Bloomberg: SUNP IN
 Market cap: US\$62,874m
 Rs4,565,583m
 Average daily turnover: US\$51.8m
 Rs3760.4m
 Current shares o/s: 2,399.3m
 Free float: 45.5%

*Source: Bloomberg

Key changes in this note

- Raise our target price to Rs2,000 (Rs1,756 earlier).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.4)	11.0	71.2
Relative (%)	4.4	12.9	36.5

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

Research Analyst(s)



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Sun Pharmaceutical Industries

A steady ship

- 2Q results broadly in line led by strong India, US and weak RoW sales. The US business grew strongly QoQ, boosted by specialty business & gRevlimid.
- FY25F is likely to be an investment year for Sun Pharma and should see moderate overall growth. R&D spending should pick up in coming quarters.
- We broadly retain our FY25F/26F EPS estimates. We also maintain our HOLD rating on the stock with a higher target price of Rs2,000 (Rs1,756 earlier).

Decent 2QFY25 performance

Sun Pharmaceutical Industries' (Sun Pharma) 2QFY25 results were mixed, with a strong show in India (+11% YoY) and the US business (US\$517m vs. US\$476m expected, led by higher gRevlimid sales and specialty business), while RoW sales (-2% YoY due to price cuts in Japan) were weak. Ex-gRevlimid and specialty business, Sun Pharma highlighted a slight decline QoQ in the US market. Global specialty sales stood at US\$286m (+7.5% QoQ). EBITDA was in line with our expectations, and gross margin improvement (+80bp QoQ) was almost entirely negated by higher opex (+14% QoQ due to higher SG&A expenses). R&D costs stood at 6.1% of sales in 1HFY25 but are likely to pick up sharply in 2HFY25F; Sun Pharma has given R&D expenses guidance of 7-8% for FY25F (8-10% earlier). We have been building in lower R&D spending than its guidance and hence, there is no change in our estimates.

Busy season ahead for specialty segment

Sun Pharma has a busy season ahead in the specialty segment; with the recent approval for Deuroxolitinib (launch pending, given a preliminary injunction has been filed against the launch), potential approval of Nidlegly in Europe and topline data post phase-III trials for Ilumya in psoriasis arthritis indication in 2HCY25F. Sun Pharma expects to expand its field force on Deuroxolitinib launch. The company believes that Ilumya has a lot of headroom to grow and doesn't expect sales to peak anytime in the near term.

Other conference-call highlights

a) Specialty R&D expenses stood at 38% of the overall R&D spending. b) For Deuroxolitinib preliminary injunction, Sun Pharma will enter the market either after a favourable judgement or a settlement. c) Ilumetri had a good start in China. d) 3Q is seasonally strong for Levulan and should see good ramp-up.

Retain HOLD rating with a higher target price of Rs2,000

Our FY25F/26F earnings estimates remain broadly unchanged and we continue with our HOLD rating on the stock with a higher target price of Rs2,000 (Rs1,756 earlier). While we remain sanguine on the specialty portfolio and margin in the medium term, we believe FY25F can be a moderate year for earnings, given the ongoing investments. A faster-than-expected ramp-up in the specialty portfolio is an 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	519,817	574,620
Operating EBITDA (Rsm)	102,438	117,729	129,870	143,293	167,080
Net Profit (Rsm)	32,727	84,736	95,764	111,422	132,309
Core EPS (Rs)	32.4	36.0	42.0	46.4	55.1
Core EPS Growth	7.7%	11.4%	16.5%	10.6%	18.7%
FD Core P/E (x)	58.81	52.81	45.34	40.98	34.51
DPS (Rs)	10.0	11.5	11.5	11.5	11.5
Dividend Yield	0.53%	0.60%	0.60%	0.60%	0.60%
EV/EBITDA (x)	43.23	38.27	34.13	30.55	25.67
P/FCFE (x)	48.07	54.17	24.59	33.33	20.67
Net Gearing	(22.6%)	(15.2%)	(24.3%)	(28.9%)	(35.7%)
P/BV (x)	9.51	8.15	7.17	6.34	5.54
ROE	16.4%	16.6%	16.8%	16.4%	17.1%
% Change In Core EPS Estimates				0.13%	0.51%
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	1,09,523	1,12,410	1,09,307	1,19,408	1,21,924	1,23,807	1,19,829	1,26,528	1,32,914	9%	5%
Consumption of raw materials	27,081	28,037	22,502	27,582	27,871	27,369	23,804	26,754	26,942	-3%	1%
as % of sales	24.7%	24.9%	20.6%	23.1%	22.9%	22.1%	19.9%	21.1%	20.3%		
Employee costs	20,046	20,371	21,796	24,020	23,644	23,633	22,993	24,546	24,777	5%	1%
as % of sales	18.3%	18.1%	19.9%	20.1%	19.4%	19.1%	19.2%	19.4%	18.6%		
R&D costs	5,710	6,702	6,657	6,796	7,734	8,245	9,000	7,940	7,929	3%	0%
as % of sales	5.2%	6.0%	6.1%	5.7%	6.3%	6.7%	7.5%	6.3%	6.0%		
Other expenditure	24,706	27,232	30,059	27,713	30,541	31,037	33,116	30,706	35,157	15%	14%
as % of sales	22.6%	24.2%	27.5%	23.2%	25.0%	25.1%	27.6%	24.3%	26.5%		
EBITDA	31,980	30,069	28,293	33,297	32,135	33,523	30,915	36,581	38,109	19%	4%
Margins (%)	29.2%	26.7%	25.9%	27.9%	26.4%	27.1%	25.8%	28.9%	28.7%		
Depreciation	6,100	6,600	6,715	6,513	6,328	6,221	6,504	6,551	6,259		
Other income	-1,563	1,708	3,461	2,065	2,595	3,748	5,496	4,821	4,821		
Interest	194	462	927	809	493	347	736	615	692		
PBT	24,124	24,715	24,111	28,040	27,909	30,702	29,172	34,235	35,979	29%	5%
Total tax	1,523	2,834	2,229	4,681	3,901	4,323	1,489	5,523	5,672		
Tax rate (%)	6.3%	11.5%	9.2%	16.7%	14.0%	14.1%	5.1%	16.1%	15.8%		
PAT before MI	22,602	21,880	21,882	23,359	24,008	26,378	27,682	28,713	30,307	26%	6%
Minority interest (MI)	21	-220	-323	95	-253	-443	-120	-356	95		
Adj. PAT before extraordinary items	22,622	21,660	21,559	23,454	23,755	25,936	27,562	28,356	30,402	28%	7%
Extraordinary expenses	0	0	-1,715	-3,229	0	-698	-1,016	0	0		
Reported PAT	22,622	21,660	19,845	20,225	23,755	25,238	26,546	28,356	30,402	28%	7%
No. of shares	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3		
EPS	9.4	9.0	9.0	9.8	9.9	10.8	11.5	11.8	12.7		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margin (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	75%	75%	79%	77%	77%	78%	80%	79%	80%	259	87
EBITDA	29%	27%	26%	28%	26%	27%	26%	29%	29%	232	-24
Adj. PAT	21%	19%	20%	20%	19%	21%	23%	22%	23%	339	46
Effective tax rate	6%	11%	9%	17%	14%	14%	5%	16%	16%	179	-37

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue mix

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Total US formulations	32,913	34,660	35,343	38,709	35,504	39,736	39,544	38,894	43,274	22%	11%
% total revenue	30.1%	30.8%	32.3%	32.4%	29.1%	32.1%	33.0%	30.7%	32.6%		
India formulations	34,600	33,919	33,641	35,604	38,425	37,785	37,078	41,445	42,652	11%	3%
% total revenue	31.6%	30.2%	30.8%	29.8%	31.5%	30.5%	30.9%	32.8%	32.1%		
EM formulations	20,704	21,158	18,204	21,452	23,499	20,946	20,348	23,695	24,519	4%	3%
% total revenue	18.9%	18.8%	16.7%	18.0%	19.3%	16.9%	17.0%	18.7%	18.4%		
RoW formulations	14,441	15,563	15,744	16,041	17,000	17,797	16,290	15,814	16,633	-2%	5%
% total revenue	13.2%	13.8%	14.4%	13.4%	13.9%	14.4%	13.6%	12.5%	12.5%		
Bulk drugs	4,730	5,154	3,852	5,396	4,972	4,661	4,158	4,946	5,338	7%	8%
% total revenue	4.3%	4.6%	3.5%	4.5%	4.1%	3.8%	3.5%	3.9%	4.0%		
Others	2,135	1,957	2,522	2,207	2,523	2,883	2,411	1,734	498	-80%	-71%
% total revenue	1.9%	1.7%	2.3%	1.8%	2.1%	2.3%	2.0%	1.4%	0.4%		
Total revenue	1,09,523	1,12,410	1,09,307	1,19,408	1,21,924	1,23,807	1,19,829	1,26,528	1,32,914	9%	5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. estimates

	Actuals	IncRed Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	1,32,914	1,32,166	0.6	1,33,214	(0.2)
EBITDA (Rsm)	38,109	38,911	(2.1)	37,530	1.5
Margin (%)	28.7	29.4		28.2	
PAT (Rsm)	30,402	31,362	(3.1)	29,318	3.7

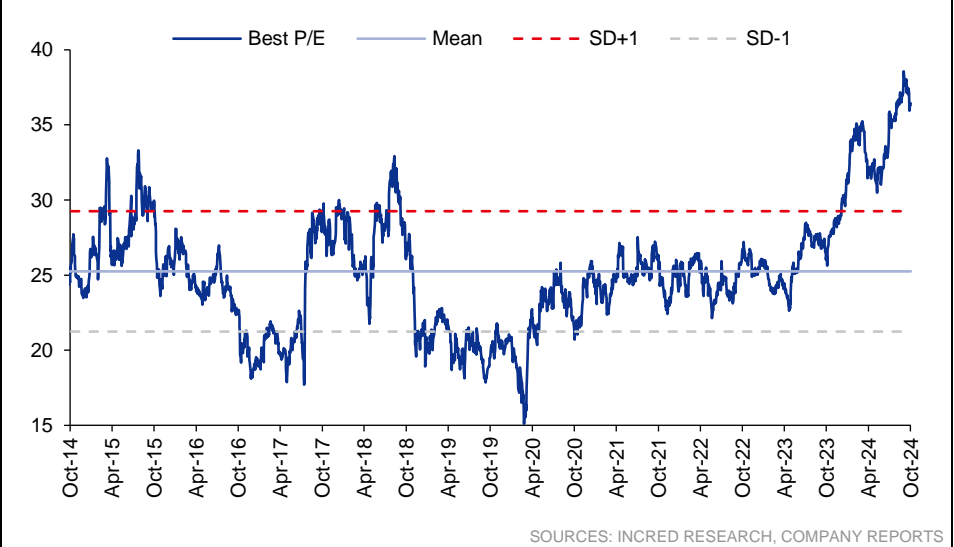
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

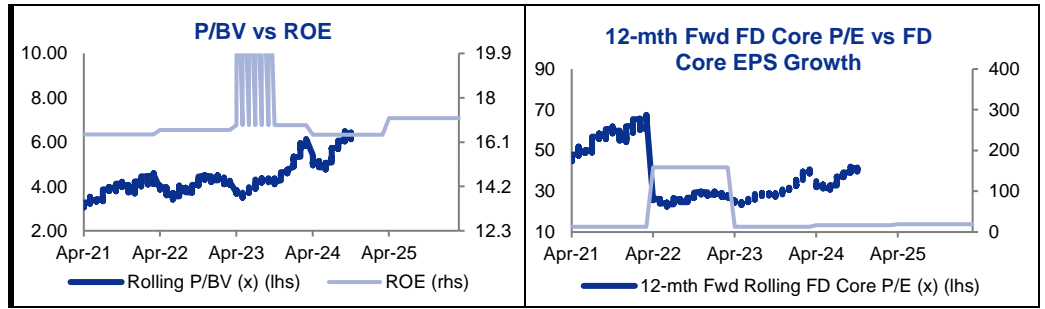
	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	5,27,602	5,19,817	-1%	5,76,722	5,74,620	0%
EBITDA (Rsm)	1,43,733	1,43,293	0%	1,66,649	1,67,080	0%
Margin (%)	27.2	27.6		28.9	29.1	
PAT (Rsm)	1,11,279	1,11,422	0%	1,31,640	1,32,309	1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Sun Pharma trading at historical high valuations significantly above SD+1



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	519,817	574,620
Gross Profit	283,030	332,235	378,342	410,655	456,823
Operating EBITDA	102,438	117,729	129,870	143,293	167,080
Depreciation And Amortisation	(21,437)	(25,294)	(25,566)	(26,500)	(28,000)
Operating EBIT	81,000	92,435	104,304	116,793	139,080
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	15,000	17,000
Profit Before Tax (pre-EI)	90,481	95,799	115,822	129,793	154,080
Exceptional Items					
Pre-tax Profit	90,481	95,799	115,822	129,793	154,080
Taxation	(11,519)	(8,476)	(14,395)	(18,171)	(21,571)
Exceptional Income - post-tax	(44,904)	(1,715)	(4,943)		
Profit After Tax	34,058	85,608	96,484	111,622	132,509
Minority Interests	(1,331)	(873)	(721)	(200)	(200)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	32,727	84,736	95,764	111,422	132,309
Recurring Net Profit	77,631	86,450	100,707	111,422	132,309
Fully Diluted Recurring Net Profit	77,631	86,450	100,707	111,422	132,309

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	102,438	117,729	129,870	143,293	167,080
Cash Flow from Invt. & Assoc.					
Change In Working Capital	15,591	(56,618)	10,621	(40,363)	(27,644)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	83,115	64,480	149,451	117,930	156,437
Net Interest (Paid)/Received	(1,274)	(1,720)	(2,385)	(2,000)	(2,000)
Tax Paid	8,004	(13,167)	(25,717)	(31,371)	(36,771)
Cashflow From Operations	89,845	49,593	121,350	84,559	117,666
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	69,559	101,666
Debt Raised/(repaid)	(28,718)	52,602	(33,899)	(17,134)	1,571
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	13,000	15,000
Cash Flow From Financing	30,059	41,380	(58,347)	(31,726)	(11,022)
Total Cash Generated	63,918	23,470	39,860	37,833	90,644
Free Cashflow To Equity	94,986	84,284	185,657	136,985	220,902
Free Cashflow To Firm	124,977	33,403	221,941	156,118	221,331

SOURCES: 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	229,536	320,180
Total Debtors	105,929	114,385	112,494	140,351	155,147
Inventories	89,968	105,131	98,683	124,756	143,655
Total Other Current Assets	25,880	27,476	31,871	33,788	40,223
Total Current Assets	350,150	398,833	434,750	528,430	659,205
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	60,340	65,143
Other Current Liabilities	119,126	80,276	84,867	96,544	104,229
Total Current Liabilities	172,006	199,070	169,844	185,328	197,816
Total Long-term Debt	4,817		13	(17,120)	(15,550)
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)	(1,838)
Total Provisions					
Total Liabilities	187,338	214,281	183,569	181,920	195,978
Shareholders Equity	480,112	559,954	636,668	720,297	824,814
Minority Interests	30,549	33,201	34,392	34,592	34,792
Total Equity	510,661	593,155	671,060	754,890	859,606

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	15.4%	13.5%	10.5%	7.2%	10.5%
Operating EBITDA Growth	21.0%	14.9%	10.3%	10.3%	16.6%
Operating EBITDA Margin	26.5%	26.8%	26.8%	27.6%	29.1%
Net Cash Per Share (Rs)	48.13	37.45	68.04	90.95	128.07
BVPS (Rs)	200.10	233.38	265.35	300.21	343.77
Gross Interest Cover	63.60	53.74	43.74	58.40	69.54
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	88.77	93.85
Inventory Days	317.24	333.94	348.84	373.55	415.84
Accounts Payables Days	149.03	173.92	194.01	195.39	194.41
ROIC (%)	17.1%	13.4%	15.1%	16.0%	18.5%
ROCE (%)	15.4%	15.7%	15.4%	15.9%	17.0%
Return On Average Assets	11.6%	11.8%	12.4%	12.6%	13.5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework	
Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.