

India

ADD (no change)

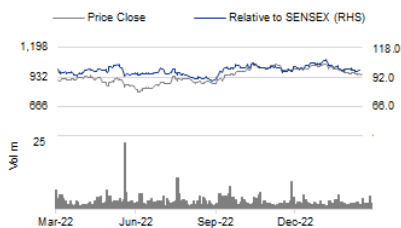
Consensus ratings*: Buy 39 Hold 4 Sell 1

Current price:	Rs957
Target price:	Rs1,187
Previous target:	Rs1,187
Up/downside:	24.0%
InCred Research/Consensus:	2.8%
Reuters:	SUN.NS
Bloomberg:	SUNP IN
Market cap:	US\$27,840m Rs2,296,589m
Average daily turnover:	US\$31.6m Rs2605.4m
Current shares o/s:	2,399.3m
Free float:	45.5%

*Source: Bloomberg

Key changes in this note

- Maintain ADD rating.
- Maintain target price of Rs1,187.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.9)	(4.3)	7.3
Relative (%)	0.6	2.1	3.3

Major shareholders	% held
Promoters	54.5
LIC	3.6
ICICI Pru MF	3.0

Analyst(s)



Bino PATHIPARAMPIL

T (91) 22 4161 1552

E bino.pathiparampil@incredcapital.com

Kashish THAKUR

T (91) 22 4161 1549

E kashish.thakur@incredcapital.com

Sun Pharmaceutical Industries

Smooth progress

- Sun Pharma participated in InCred's 'InCredible India Conference 2023'.
- The upside from recently acquired Deuruxolitinib and sustainability of Ilumya's growth were highlighted by the company.
- Sun Pharma remains one of our top picks in the pharma space. Maintain ADD rating on it with a target price of Rs1,187.

Concert Pharma's product to compete in a low-competition market

Deuruxolitinib, the key product of recently acquired ConcertPharma, will enter the market with lower competition compared to Ilumya, Sun Pharma's other major specialty product. Alopecia Areata is an area of unmet medical need and Sun Pharma targets to be the second/third player in the market. FY24F will witness R&D expenses relating to the product, but the impact on consolidated numbers will be clear only when the company gives annual guidance in its 4Q earnings call.

Ilumya has a comfortably long runway

Sun Pharma's management does not expect generic competition to Ilumya, at least for the next three years, while it is not exactly predictable after that and the likely runway is much longer. Ilumya is benefiting from the overall strong growth being witnessed in its category – IL23 inhibitors for treatment of psoriasis. We expect Sun Pharma to continue to benefit from the growth and operating leverage from the Ilumya franchise globally.

Biosimilar business – still in two minds

Sun Pharma is in the exploratory research stage for two biosimilar products that are expected to go off-patent in the 2028-30F timeframe. However, given the level of price erosion that biosimilar products are currently witnessing, Sun Pharma's management is taking a highly measured approach and has not committed significant research/manufacturing investments.

Halol operations are a work in progress

Being a very old facility built in the 1990's and grown with the rapid rise in Sun Pharma's business, Halol operations remained highly complicated. Simplification of the processes is not easy and hence, Sun Pharma's strategy is to gradually cut the dependence on it by building newer and better-designed facilities. That strategy is already playing out.

Stock remains one of the top picks in pharma space

After the recent correction, Sun Pharma trades at 27.3x FY24F core earnings. We feel the superior valuation is justified given the potential upside to our estimates from operating leverage in the specialty portfolio and better-than-estimated gRevlimid sales. We feel other segments of the business will compensate for the rise in R&D cost due to ConcertPharma buyout. Retain ADD rating with on it a target price of Rs1,187, which is 28.2x FY25F core earnings plus cash per share. Margin pressure from higher R&D cost is the downside risk.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	334,981	386,545	433,675	476,434	523,210
Operating EBITDA (Rsm)	84,677	102,438	112,947	123,547	142,309
Net Profit (Rsm)	29,038	32,727	78,620	86,849	101,350
Core EPS (Rs)	30.1	32.4	32.8	36.2	42.2
Core EPS Growth	79.1%	7.7%	1.3%	10.5%	16.7%
FD Core P/E (x)	31.85	29.58	29.21	26.44	22.66
DPS (Rs)	5.5	10.0	10.0	10.0	10.0
Dividend Yield	0.57%	1.04%	1.04%	1.04%	1.04%
EV/EBITDA (x)	27.08	21.08	19.81	17.63	14.81
P/FCFE (x)	33.88	24.18	(30.74)	13.07	11.79
Net Gearing	(6.3%)	(22.6%)	(6.7%)	(15.6%)	(23.9%)
P/BV (x)	4.94	4.78	4.30	3.85	3.41
ROE	15.7%	16.4%	15.5%	15.4%	16.0%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

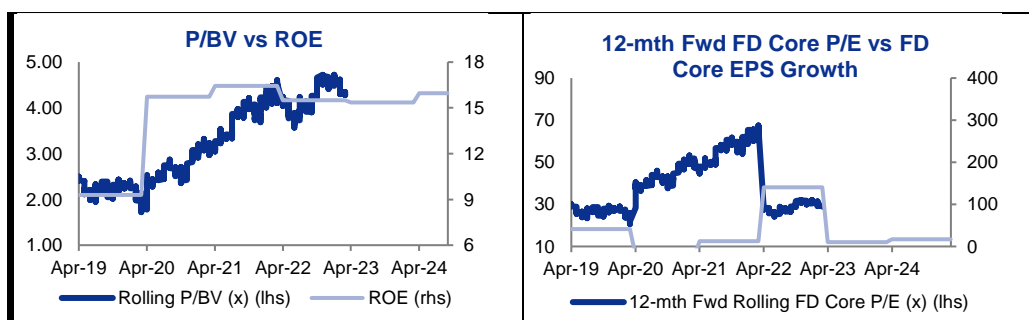
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Core valuation table

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	26.7	28.4	31.5	34.4	40.4
Core EPS growth	84.5%	6.4%	10.9%	9.0%	17.6%
Cash per share (Rs)	26.9	53.5	20.4	46.0	74.6
Current core P/E (Rs)	35.1	33.0	29.8	27.3	23.2
Core ROIC	12.7%	17.5%	22.2%	18.2%	21.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	334,981	386,545	433,675	476,434	523,210
Gross Profit	248,080	283,030	322,265	353,929	390,204
Operating EBITDA	84,677	102,438	112,947	123,547	142,309
Depreciation And Amortisation	(20,800)	(21,437)	(25,150)	(27,282)	(29,282)
Operating EBIT	63,878	81,000	87,798	96,265	113,027
Financial Income/(Expense)	(1,414)	(1,274)	(1,093)	(1,200)	(1,200)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	8,592	10,755	3,323	5,000	5,000
Profit Before Tax (pre-EI)	71,055	90,481	90,028	100,065	116,827
Exceptional Items					
Pre-tax Profit	71,055	90,481	90,028	100,065	116,827
Taxation	(5,147)	(11,519)	(10,832)	(13,008)	(15,188)
Exceptional Income - post-tax	(43,061)	(44,904)			
Profit After Tax	22,847	34,058	79,196	87,057	101,640
Minority Interests	6,191	(1,331)	(576)	(208)	(290)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	29,038	32,727	78,620	86,849	101,350
Recurring Net Profit	72,099	77,631	78,620	86,849	101,350
Fully Diluted Recurring Net Profit	72,099	77,631	78,620	86,849	101,350

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	84,677	102,438	112,947	123,547	142,309
Cash Flow from Invt. & Assoc.					
Change In Working Capital	25,641	15,591	(107,983)	(16,099)	(20,980)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	75,848	83,115	(3,121)	99,232	110,851
Net Interest (Paid)/Received	(1,414)	(1,274)	(1,093)	(1,200)	(1,200)
Tax Paid	(12,730)	8,004	(2,231)	(3,800)	(3,800)
Cashflow From Operations	61,704	89,845	(6,444)	94,232	105,851
Capex	(10,730)	(14,344)	(13,000)	(14,000)	(15,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments		(41,643)	(47,232)		
Other Investing Cashflow					
Cash Flow From Investing	50,973	33,858	(66,676)	80,232	90,851
Debt Raised/(repaid)	(44,896)	(28,718)	(1,597)	1,257	(1,980)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(15,862)	(21,692)	(23,993)	(23,993)	(23,993)
Preferred Dividends					
Other Financing Cashflow	9,364	80,469	2,231	3,800	3,800
Cash Flow From Financing	(51,394)	30,059	(23,360)	(18,936)	(22,173)
Total Cash Generated	(420)	63,918	(90,035)	61,296	68,678
Free Cashflow To Equity	67,781	94,986	(74,716)	175,721	194,723
Free Cashflow To Firm	114,091	124,977	(72,027)	175,664	197,903

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	64,455	128,373	48,997	110,293	178,971
Total Debtors	90,614	105,929	117,092	128,637	141,267
Inventories	89,970	89,968	117,092	128,637	141,267
Total Other Current Assets	59,382	25,880	82,398	90,522	99,410
Total Current Assets	304,421	350,150	365,580	458,090	560,915
Fixed Assets	111,715	111,689	99,539	86,257	71,975
Total Investments	2,327	52,147	52,147	52,147	52,147
Intangible Assets	119,483	125,777	162,349	162,349	162,349
Total Other Non-Current Assets	138,721	58,237	58,237	58,237	58,237
Total Non-current Assets	372,247	347,849	372,271	358,989	344,707
Short-term Debt	24,449	8,086	8,086	8,086	8,086
Current Portion of Long-Term Debt					
Total Creditors	39,737	44,793	54,524	59,991	64,753
Other Current Liabilities	97,271	119,126	96,218	105,866	114,270
Total Current Liabilities	161,456	172,006	158,828	173,943	187,109
Total Long-term Debt	8,981	4,817	3,220	4,477	2,497
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	11,431	10,515	10,515	10,515	10,515
Total Non-current Liabilities	20,413	15,332	13,735	14,992	13,012
Total Provisions					
Total Liabilities	181,869	187,338	172,563	188,935	200,121
Shareholders Equity	464,628	480,112	534,164	596,812	673,879
Minority Interests	30,171	30,549	31,125	31,332	31,622
Total Equity	494,798	510,661	565,289	628,145	705,501

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	2.0%	15.4%	12.2%	9.9%	9.8%
Operating EBITDA Growth	21.4%	21.0%	10.3%	9.4%	15.2%
Operating EBITDA Margin	25.3%	26.5%	26.0%	25.9%	27.2%
Net Cash Per Share (Rs)	12.93	48.13	15.71	40.73	70.18
BVPS (Rs)	193.65	200.11	222.63	248.74	280.86
Gross Interest Cover	45.17	63.60	80.36	80.22	94.19
Effective Tax Rate	7.2%	12.7%	12.0%	13.0%	13.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	100.69	92.79	93.85	94.13	94.14
Inventory Days	354.33	317.24	339.19	366.07	370.34
Accounts Payables Days	169.42	149.03	162.69	170.60	171.16
ROIC (%)	10.1%	17.1%	13.5%	14.7%	17.1%
ROCE (%)	11.7%	15.4%	16.0%	15.8%	16.7%
Return On Average Assets	9.9%	11.6%	11.1%	11.3%	11.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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