

Sun Pharma

BSE SENSEX
63,229

S&P CNX
18,756



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Stock Info

Bloomberg	SUNP IN
Equity Shares (m)	2399
M.Cap.(INRb)/(USDb)	2366.9 / 28.8
52-Week Range (INR)	1072 / 790
1, 6, 12 Rel. Per (%)	1/-2/0
12M Avg Val (INR M)	2516
Free float (%)	45.5

Financials Snapshot (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	432.3	492.9	550.0
EBITDA	111.1	125.4	143.0
Adj. PAT	86.1	96.5	109.5
EBIT Margin (%)	19.9	20.1	20.8
Cons. Adj. EPS (INR)	35.8	40.1	45.5
EPS Gr. (%)	14.4	12.1	13.5
BV/Sh. (INR)	232.7	266.9	305.7

Ratios

Net D:E	0.02	-0.03	-0.13
RoE (%)	16.6	16.1	15.9
RoCE (%)	11.5	12.5	13.5
Payout (%)	12.5	13.8	14.7

Valuations

P/E (x)	27.6	24.6	21.7
EV/EBITDA (x)	20.5	17.9	15.2
Div. Yield (%)	0.4	0.5	0.6
FCF Yield (%)	-1.8	2.0	3.8
EV/Sales (x)	5.3	4.6	4.0

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	54.5	54.5	54.5
DII	19.3	19.1	20.0
FII	16.9	16.9	14.4
Others	9.4	9.5	11.1

FII Includes depository receipts

CMP: INR987

TP: INR1,160 (+18%)

Buy

Promising growth outlook for Specialty brands

- Sun Pharmaceutical Industries (SUNP) is well-positioned for growth due to several factors. There is an increasing pace of prescription for drugs such as Ilumya/Winlevi; the company is making ongoing efforts to expand its specialty offerings; SUNP has achieved stronger-than-average growth in the domestic formulation (DF) segment; and despite a challenging macroeconomic situation, SUNP has been able to maintain its sales run-rate for US generics.
- SUNP's favorable position is complemented by its attractive valuation of 24.7x FY24 earnings/21.8x FY25 earnings (9% below its five-year average and the five-year industry average of 25x). Furthermore, despite a flat stock performance for the past six months, we believe that SUNP is in a favorable position.
- On 13% earnings CAGR over FY23-25, we value SUNP at 25x 12M forward earnings to arrive at a price target of INR1160. Based on the substantial changes witnessed over the past two decades, we continue to maintain a positive outlook for the company. SUNP has successfully transitioned from concentrating solely on domestic branded generics to incorporating US generics/exports to EM/ROW markets. These moves have served as key growth drivers for the company. Further, strong brand franchise in developed markets for innovative products in the specialty segment provides the company with a competitive edge over its peers. We reiterate our BUY rating on the stock.

Specialty portfolio - Building robust global franchise

- Over the past 10 years, SUNP has built a global specialty portfolio franchise in the area of dermatology, ophthalmology, and onco dermatology. With investments across product development, regulatory approvals, and promotional activities, SUNP has garnered USD850m sales from specialty offerings in FY23 (from USD94m in 1QFY20).
- The prescription rates continue to remain on an uptrend, particularly for Winlevi/Ilumya. The generic competition has led to a moderation in prescription trend for Cequa/Absorica.
- SUNP is engaging in expanding its product offerings. Specifically, the company is working toward obtaining additional indications for Ilumya, conducting regulatory filings for the recently acquired Concert Pharma's product (deuroxolitinib), and progressing with clinical trials for MM-II/GL0034. We expect the company's specialty portfolio to register a sales CAGR of 20%, reaching USD1.2b over FY23-25.

DF - on track to endure superior execution

- SUNP has delivered above average growth in the DF segment, over the past four years, aided by robust off-take in gastro-intestinal, anti-infectives, cardiac and respiratory therapies.
- Even on price/volume/new launches front, the YoY growth over the past two years has been largely led by volume, implying strong brand franchise.
- SUNP has undertaken expansion of its field force, which is expected to further drive growth. Accordingly, we expect sales CAGR of 11% over FY23-25 in the DF segment.

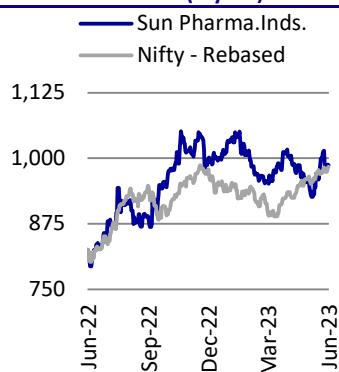
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Stock Performance (1-year)



US generics - sales stable despite multiple headwinds

- We believe, US generics (Ex-specialty portfolio) sales have been stable over the past three years at ~USD920m. This is encouraging, given that the US generics industry witnessed severe price erosion (almost high teens on a YoY basis) over the past 12-15 months. Further, SUNP faced challenges in the form of adverse regulatory situation at the Halol facility. Although the regulatory action at the Mohali facility is also expected to have some impact on SUNP's US generics business, the company remains focused on developing complex generics to gain better traction in this segment.
- Based on niche launches (such as that of g-Revlimid) and market share gain in existing products, we expect SUNP to offset the impact of price erosion and maintain its sales momentum at USD955m over FY23-25.

Reiterate BUY

- We expect 13% earnings CAGR over FY23-25, led by 20%/13%/11% sales CAGR in Specialty/EM-ROW/DF segment. The margin expansion is expected to be gradual (up 30bp over FY23-25) as we expect increased R&D expenditure on multiple projects in the specialty segment.
- We value SUNP at 25x 12M forward earnings to arrive at a price target of INR1,160. We reiterate our BUY rating on the stock.

Exhibit 1: Valuation snapshot

Company	Reco	MCap (USD B)	EPS (INR)			EPS Gr. YoY (%)		PE (x)		EV/EBITDA (x)		ROE (%)		
			FY23	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY24E	FY23	FY24E	FY25E
Ajanta Pharma	Buy	2.3	49.2	54.9	68.1	11.5	24.2	26.9	21.7	20.3	17.2	18.7	19	20.4
Alembic Pharma	Neutral	1.3	21.9	30.5	34.8	39.5	14.1	19.4	17	11.7	10.1	8.3	12.9	13.2
Alkem Lab	Neutral	4.9	106	138.4	167	30.5	20.6	24.4	20.2	20.6	17.7	14.3	17.1	18
Aurobindo Pharma	Neutral	4.9	38.4	44.4	50	15.7	12.4	15.1	13.4	8.3	7.2	8.7	9.3	9.6
Biocon	Neutral	3.5	5.4	12.9	17.7	141.5	36.5	18.5	13.6	10	8.3	4.9	8.4	10.7
Cipla	Neutral	9.6	37.8	41.7	47.7	10.5	14.2	23.5	20.5	13.7	11.9	13.3	13.1	13.2
Divi's Lab.	Neutral	11.3	64.9	70	89.9	7.8	28.4	49.8	38.8	36	28.4	14.1	13.9	16
Dr Reddy's Labs	Neutral	9.5	244.7	237	262.6	-3.2	10.8	19.8	17.9	11.5	9.9	19.3	15.9	15.3
Eris Life Science	Buy	1.1	27.2	31.7	33.8	16.4	6.7	21	19.6	12.7	10.8	18.2	18.5	17.2
Gland Pharma	Buy	2	50.4	50.5	62	0.2	22.7	19.8	16.1	11.4	8.7	11	9.9	11
Glaxosmit Pharma	Neutral	2.9	35.9	37.3	40.7	3.7	9.2	37.9	34.7	26.2	23.9	32.7	30.6	30.1
Glenmark Pharma.	Neutral	2.2	28.5	38.2	47	34	23.1	16.7	13.6	7.8	6.6	8.8	11.3	12.4
Granules India	Buy	0.8	21.6	24.6	30.1	14	22.3	11.7	9.5	7.1	5.9	19.3	19.1	19.4
Ipca Labs.	Neutral	2.3	20.8	25.4	34.3	22.2	35	28.2	20.9	16.1	11.4	9.3	10.5	12.9
Laurus Labs	Buy	2.3	14.7	13.4	18.3	-9.1	36.4	26.8	19.7	13.8	11.1	21.4	16.6	19.4
Lupin	Sell	4.5	8.6	22.8	30.8	165.2	34.8	35.9	26.6	14.8	12.3	3.2	8	10
Piramal Pharma	Buy	1.3	-0.7	1.5	3	LP	100.3	61.4	30.6	10.8	9.2	-1.2	2.6	5
Solara Active Pharma	Buy	0.2	-6.2	14.2	26.7	LP	88.4	25.2	13.4	9.6	7.7	-1.5	3.4	6.2
Sun Pharma.Inds.	Buy	28.9	35.8	40.1	45.5	12.1	13.5	24.6	21.7	18.3	15.6	16.6	16.1	15.9
Torrent Pharma.	Neutral	7.5	37.2	49.9	63.4	34.2	27.2	36.8	28.9	18.7	16	20.7	23.2	25.8
Zydus Life Science	Neutral	6.5	22.4	26.5	28.1	18.2	6.1	20.1	18.9	11.9	11	13.3	14.3	13.4

Source: MOFSL, Company

Specialty portfolio: Building robust global franchise

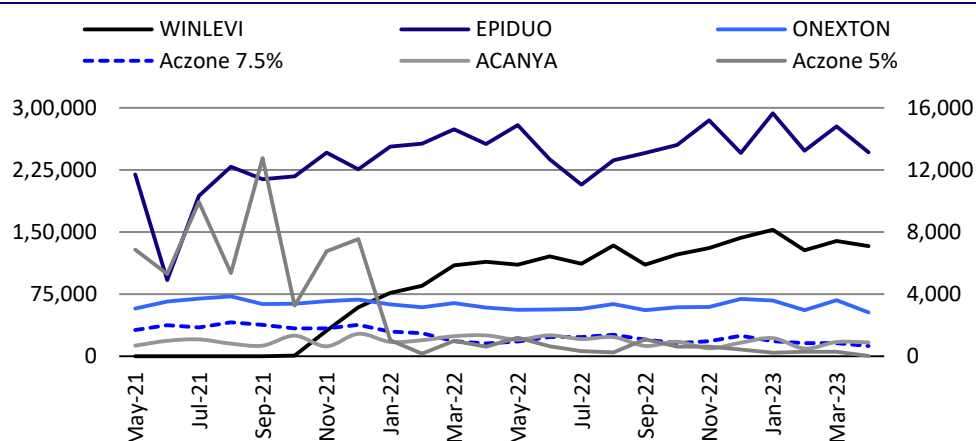
- SUNP's specialty portfolio has witnessed improved traction with sales almost doubling to USD850m over FY20-23.
- This is despite an increase in competition in certain products such as Cequa and Absorica.
- SUNP is working on multiple fronts – expanding portfolio offerings, entering newer markets, and gaining market share in existing markets to sustain the growth momentum of specialty portfolio. Likewise, we expect a 20% sales CAGR, leading to USD1.2b revenue over FY23-25.

Winlevi is gradually gaining market share since Mar'22 despite intense competition.

Winlevi: Ramp up of prescription in US and ROW market to aid growth

- Since its launch in Nov'21, Winlevi, a topical androgen receptor inhibitor used in the treatment of hormone-induced acne, has scaled up considerably in terms of prescription units in the US.
- Further, SUNP is gaining traction in the ROW market, given that it has exclusive rights for these markets as well.

Exhibit 2: Winlevi prescriptions on a strong upward trajectory in the US



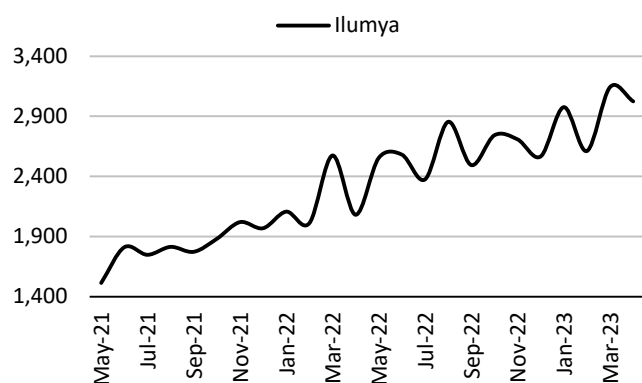
Source: MOFSL, Bloomberg

- Despite increased competition, Epiduo has been able to retain its market share with the highest number of prescriptions. Particularly, Teva has launched a generic version of Epiduo.
- We expect the sales of Winlevi to continue its strong momentum as SUNP launches the drug in newer regions, including Japan, Australia, New Zealand, Brazil, Mexico, and Russia.

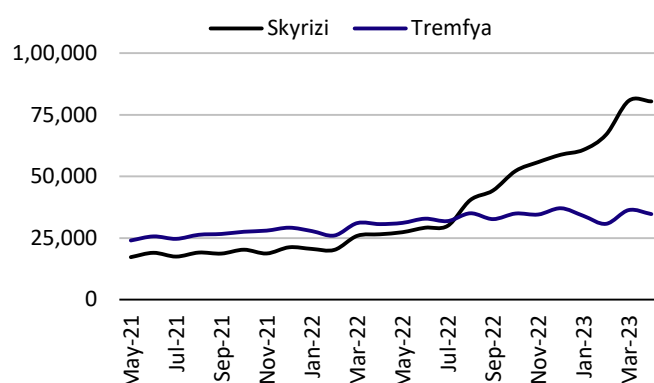
Ilumya has a steady market share in the US

- SUNP launched Ilumya in FY18 to treat Plaque psoriasis. Subsequently, the medication was launched in Japan in Sept'20 and in Canada in Oct'21.
- While SUNP continues to witness an increase in prescriptions for Plaque Psoriasis, it is ramping up the recruitment for Phase III clinical trials to explore the potential of Ilumya as a treatment for Psoriatic arthritis.

Ongoing efforts are underway to explore further uses of Ilumya.

Exhibit 3: Steady rise in prescription volume since its launch

Source: MOSL, Bloomberg

Exhibit 4: Rapid increase in prescription post Jul'22

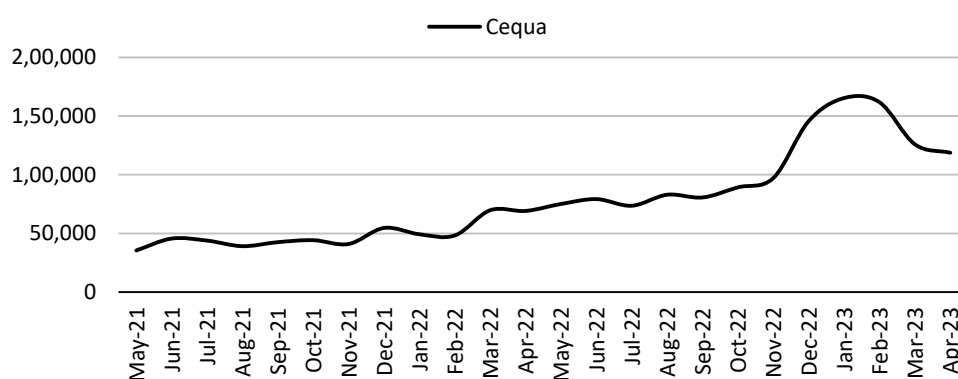
Source: MOSL, Bloomberg

- Skyrizi and Tremfya have already been approved for the treatment of Plaque Psoriasis and Psoriatic Arthritis and this has contributed to a strong trend in prescription units for both these drugs.
- Prescription rates for all the three drugs have registered a significant growth over the past 12 months.
- The Phase 3 trials of Ilumya on Psoriatic Arthritis are underway. We believe Ilumya to serve as the primary growth driver in specialty segment for SUNP.

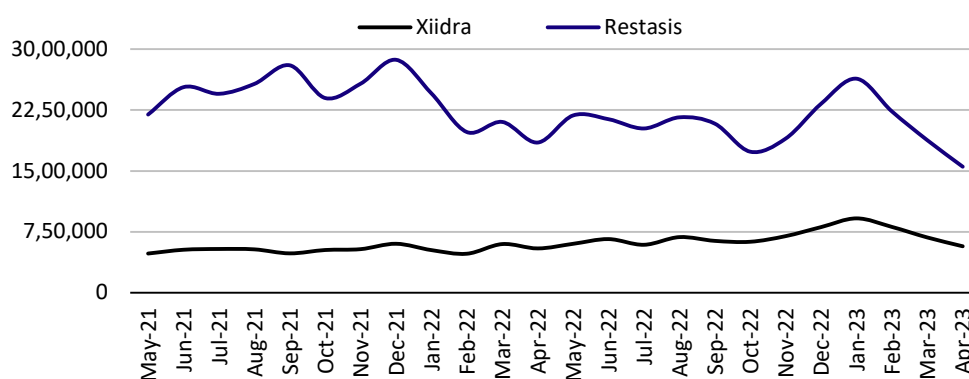
Cequa is gradually gaining the prescription market

- Cequa, a treatment for dry eye, has been steadily gaining market share in the US prescription market. Over May'21-Mar'23, it has achieved an average growth of 7% in terms of prescriptions.

Despite a decrease in off-take, it has managed to gain market share over the past year.

Exhibit 5: A sharp drop in prescription post Jan'23

Source: MOFSL, Bloomberg

Exhibit 6: A sharp drop in Restasis, due to generalization

Source: MOFSL, Bloomberg

- SUNP has consistently increased the prescription volume of Cequa, on the back of continuous and dedicated marketing efforts.
- Cequa's market growth has been slower than that of its competitor drug Restasis. This can be attributed to the availability of generic versions of Restasis at lower prices.
- The generalization of Restasis has had a significant impact on both Cequa and Restasis, leading to a sharp drop in prescription rates for both the drugs starting from Jan'23.
- Xiidra has gained market share due to its distinct advantage of providing quicker relief compared to other medications.

Exhibit 7: Qualitative aspects of drugs

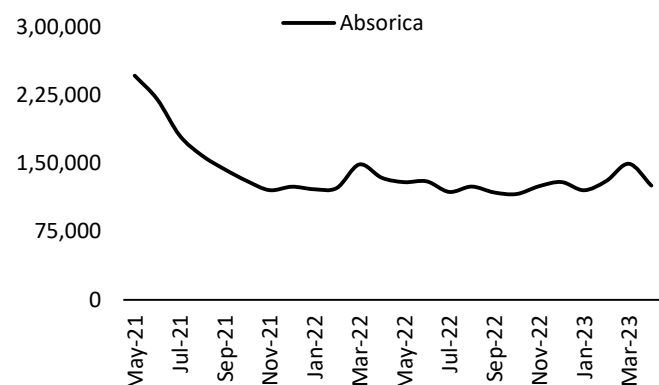
Particulars	Xiidra	Restasis	Cequa
Dosing	❖ One drop twice per day (about 12 hours apart)	❖ One drop twice per day (about 12 hours apart)	❖ One drop twice per day (about 12 hours apart)
FDA approval	❖ 2016	❖ 2002	❖ 2018
When do you start to notice a difference?	❖ May be as soon as two weeks. Usually around six to twelve week	❖ May be as soon as two months usually around six months	❖ May be as soon as two months usually around six months

Source: MOFSL, Industry

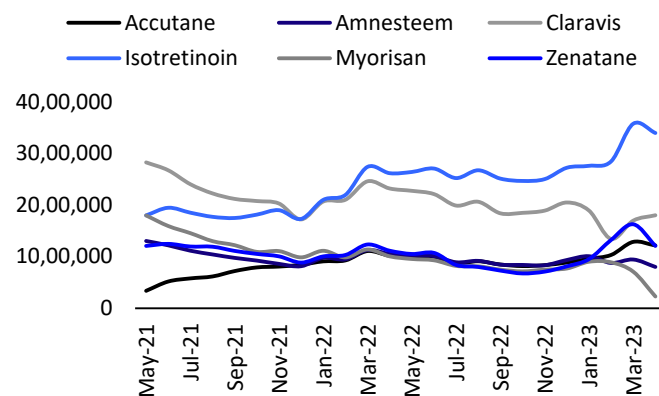
- We expect a growth in the prescription volume of Cequa, based on the market share gain, consistent marketing efforts, out-licensing opportunities, and expansion into other markets.

Market decline due to widespread adoption of Generic Absorica

- SUNP launched Absorica in Nov'19 for the treatment of severe cystic acne.
- The prescription rates started declining from May-21 onwards as the generic version was introduced in Apr'21.

Exhibit 8: Gradual decline in prescription due to generalization

Source: MOFSL, Bloomberg

Exhibit 9: Isotretinoin is slowly gaining market share

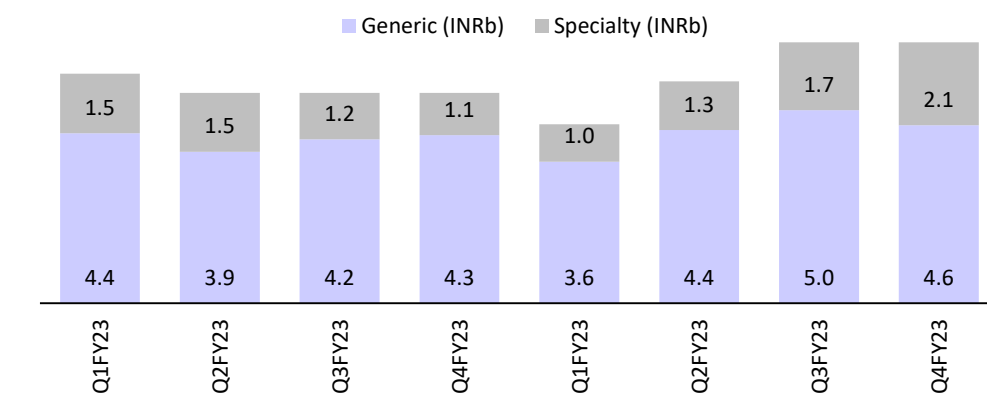
Source: MOFSL, Bloomberg

- Currently, the prescription rates of Absorica has started to stabilize, while that of isotretinoin has been on uptrend.

R&D investments focused on enhancing specialty offerings

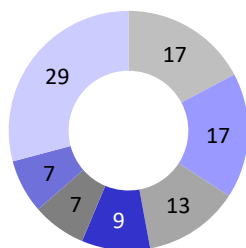
- Over the past three to four years, the R&D expenditure is spread across specialty portfolio and complex generics products, which have limited competition.
- On an absolute basis, the R&D investments have increased to INR6.7b in 4QFY23 from INR5.4b in 4QFY22.
- The R&D expenditure on specialty portfolio has increased to 32% in 4QFY23 from 20% in 4QFY22.

R&D spend on the specialty portfolio is on a rise.

Exhibit 10: Sharp increase in R&D investments for specialty offerings

Note: R&D amount in INRb, Source: MOFSL, Company

Neuro is SUNP's biggest therapy, contributing 17% to DF sales



■ Neuro/CNS
■ Cardiac
■ Gastro Intestinal
■ Anti-Infective
■ Anti-Diabetic
■ Pain
■ Others

SUNP has outperformed IPM in five therapies.

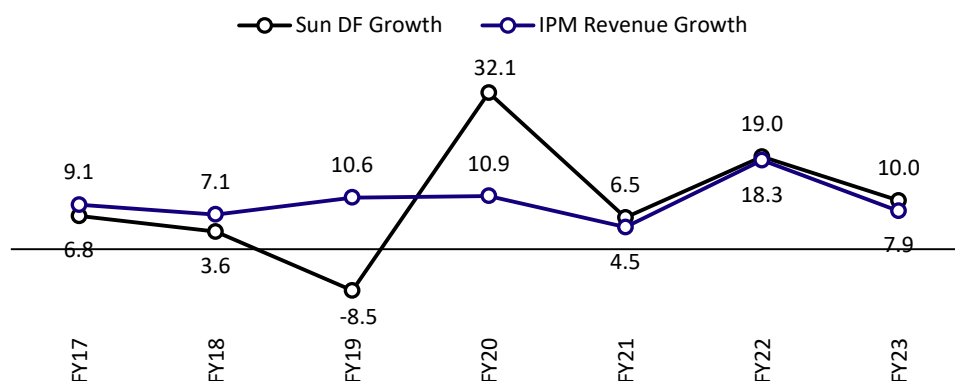
DF: on track to sustain superior execution

- SUNP's DF sales growth over the past 12 months is led by a healthy performance by top three therapies.
- The YoY growth over the past two years has been largely led by volume, implying strong brand franchise.
- SUNP has undertaken expansion of its field force, which is expected to further drive growth.
- Accordingly, we expect 11% sales CAGR in the DF segment over FY23-25.

DF business growth outperformed IPM

- SUNP significantly outperformed the industry over FY20-23 (11.7% sales CAGR on Ex-Covid basis). This is on the back of strong performance of Gastro Intestinal (GI), Anti-infective (AI) therapy, Cardiac and Respiratory.
- Additionally, growth in FY21-23 was aided by the company's increasing presence in chronic therapy and strong brand equity.

Exhibit 11: SUNP delivered 10% YoY growth in FY23 on Ex-Covid basis



Note: Growth is ex-Covid, Source: MOFSL, IQVIA, Company

- While SUNP has underperformed the IPM growth over FY17-19 partly due to the restructuring of domestic formulation business, enhanced efforts across major therapies have led SUNP on a growth revival path.

Superior performance in key therapies

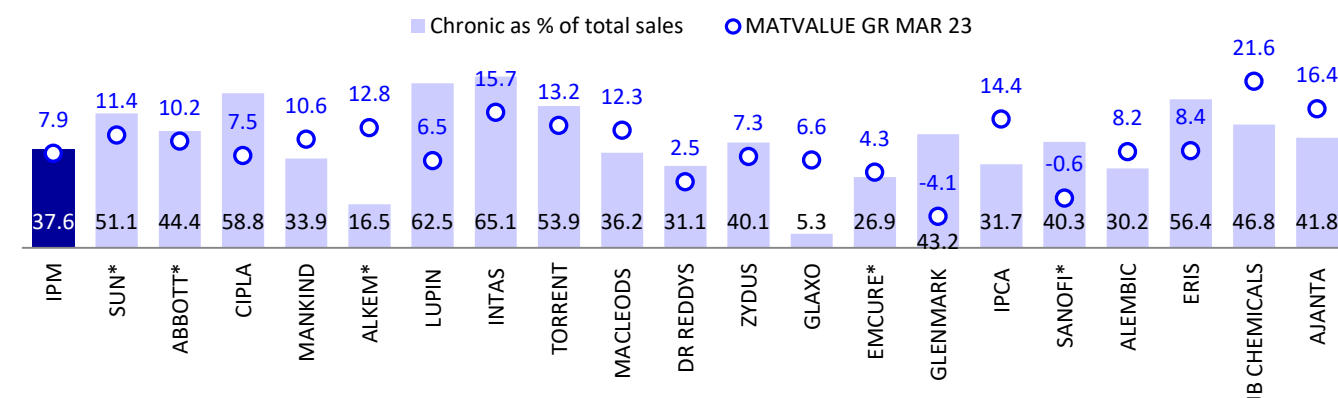
- Over the past five years, the GI therapy delivered in-line performance with the IPM. However, in FY23, GI therapy (13% of DF sales) outperformed the IPM by 410bp, driven by strong performance by key brands such as Sompraz-D.
- Anti-Infective therapy has significantly outperformed IPM (9% CAGR YoY v/s 5% CAGR YoY IPM) over the last five years. AI (9.2% of DF sales) has outperformed IPM by 910bp in FY23, led by superior performance in Moxclav brand.
- Additionally, other key therapies such as Cardiac (17% of DF sales) and Respiratory (5.4% of the DF sales) have outperformed IPM by 380bp/840bp. This outperformance was led by strong brand recall, including Rosuvas and Montek-LC.

Exhibit 12: Cardiac/GI/AI/Respiratory outperformed IPM

	Share	IPM MAT Gr (%)	SUNP MAT Gr (%)	3M*
Total	100	7.9	11.4	12.4
Neuro / Cns	17.2	11.5	11.3	11.4
Cardiac	16.9	8.7	12.5	14.8
Gastro Intestinal	12.9	12.3	16.4	15.1
Anti-Infectives	9.2	6.2	15.3	23.5
Anti Diabetic	7.3	6.8	-2	-3
Pain / Analgesics	7.3	12.4	13.2	7.5
Respiratory	5.4	7.0	15.4	26.9
Derma	4.6	6.2	4.8	4.4

Source: MOFSL, IQVIA

- Neuro/CNS delivered in-line performance against IPM in FY23 as its flagship brand Levipil underperformed the IPM as well as SUNP's growth.
- While Cardiac/GI/AI/Respiratory outperformed the IPM, Anti-diabetic underperformed the IPM. Anti-diabetic therapy (7.3% of the DF sales) underperformed the IPM by 880bp due to increased competition in brands such as Istamet and Oxra, and stable sales in brands such as Gemer franchise, which is offset by new launches.

Exhibit 13: SUNP has 51% of its sales from chronic therapies

Source: MOFSL, IQVIA

Moxclav/Sompaz-D/Rosuvastatin franchise steering the growth

- SUNP's top 10 drugs contribute about 18% to the overall DF sales. Moxclav drug, one of the flagship drugs for SUNP, outperformed the IPM growth by 30% in FY23. Moxclav drug is used to treat bacterial infection such as tonsillitis, respiratory tract infections, urinary tract infections, boils, abscesses, wound infections, and bone infections. Over the past five years, Moxclav has outperformed IPM by 6%.
- Sompraz-D brand, one of the largest brands for SUNP, leads the growth in GI therapy with 15% sales CAGR over the last five years. Sompraz-D is used to treat vomiting, bloating, heartburn, and so on. Over the past five years, Sompraz-D has grown by 15% and has outperformed the IPM.
- Rosuvastatin, the second-largest brand of SUNP, is used to lower the cholesterol levels and reduce the risk of heart disease. The brand has grown by 14% over five years. In FY23, the drug outperformed the IPM by 11.1%, driven by strong brand recall.

Exhibit 14: Moxclav and Sompraz-D driving the growth among top 10 brands

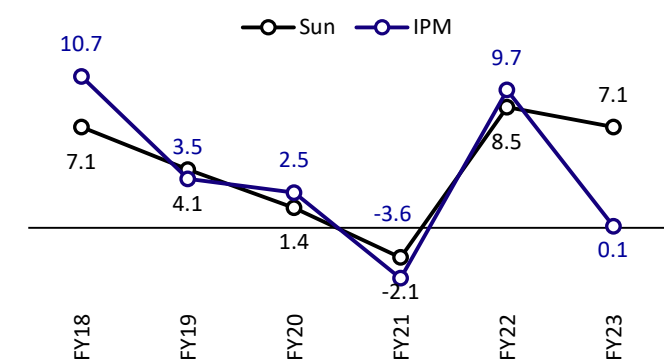
Drug	Therapy	MAT Mar'23			Growth (%)	
		Value (INR m)	Growth (%)	Market share (%)	Last 3M	Mar'23
Total		1,53,598	11.4	100.0	12.4	9.5
Levipil	Neuro/CNS	3,617	7.1	36.6	6.9	4.2
Rosuvastatin	Cardiac	3,527	19.8	28.3	26.3	22.3
Volini	Pain / Analgesics	3,485	-0.2	35.8	-4.7	-11.2
Gemer	Anti Diabetic	3,143	9.1	9.9	14.1	12.0
Susten	Gynaec	2,775	9.6	31.9	6.9	2.5
Pantocid	Gastro Intestinal	2,620	10.2	21.0	10.0	8.6
Pantocid-D	Gastro Intestinal	2,453	7.7	16.2	8.1	7.4
Montek-Lc	Respiratory	2,300	13.7	18.1	18.7	55.6
Moxclav	Anti-Infectives	2,295	41.8	5.5	47.2	20.9
Sompraz-D	Gastro Intestinal	1,916	23.9	29.7	22.7	24.2

Source: MOFSL, IQVIA

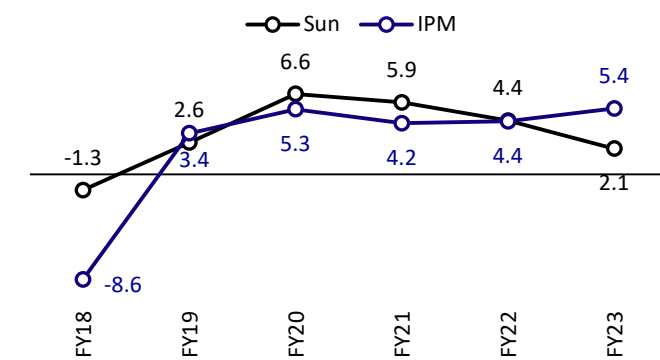
- Montek-LC, one of the leading brands of SUNP, is used to treat Allergic conditions, hay fever, dust allergies, pet allergies, and nettle rash. It has outperformed IPM by 230bp in FY23. Over the last five years, Montek-LC has grown by 14.4% v/s IPM growth of 5.3%.

Volume-led growth for SUNP over the past two years

- SUNP outperformed IPM in FY23, largely driven by volume growth (7.1% YoY growth v/s 0.1% YoY IPM growth).

Exhibit 15: Volume growth better than IPM for FY23 (%)

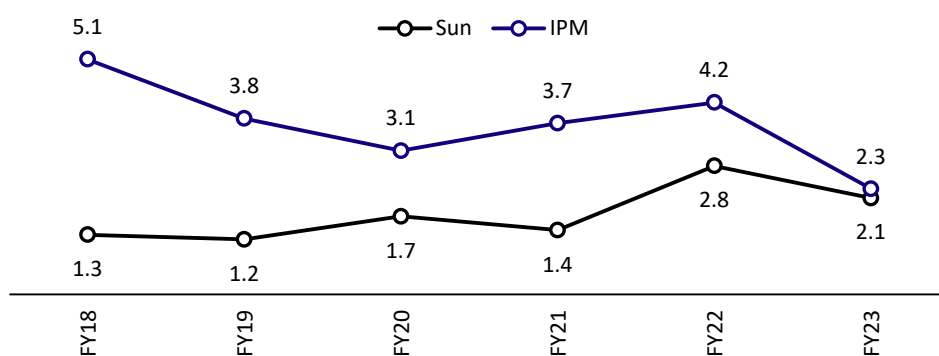
Source: MOFSL, Company

Exhibit 16: YoY price growth moderated over FY20-23 (%)

Source: MOFSL, Company

Stronger brand franchise led to outperformance against IPM, despite lower price and growth in new launches.

- Although SUNP experienced growth driven by pricing strategies, its rate of growth has been lower than the industry average.
- Also, SUNP's growth in terms of new launches has been slower than the industry average.
- Despite the lower contribution from price increases and new launches, SUNP has consistently achieved better overall YoY growth than the industry average for the past two years. This highlights the robustness of SUNP's volume off-take and the strength of its brand franchise.

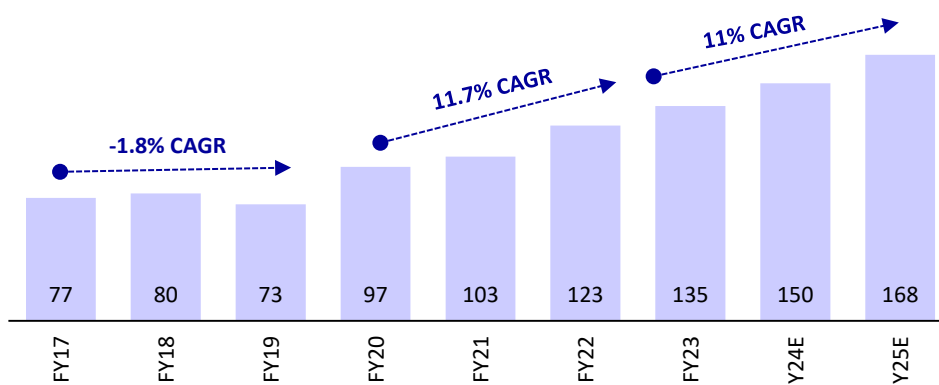
Exhibit 17: NP YoY growth underperformed IPM (%)

Source: MOFSL, Company

Key therapies and strong brand recall to sustain growth momentum in the DF segment.

Expect 11% sales CAGR over FY23-25

- DF sales grew 10% YoY to INR135b in FY23 on ex-Covid basis. SUNP has consistently outperformed IPM growth over the past 12 months, led by a healthy performance by its top therapies, which was offset by a decline in Anti-diabetic therapy. Out of its top six therapies, Gastro/Anti-infective/Cardiac/Pain have outperformed the IPM therapy growth.

Exhibit 18: Expect sales of 11% CAGR over FY23-25

Source: MOFSL, Company

- SUNP has implemented a field force expansion strategy by adding 1000 personnel in FY23, taking the total field force count to ~12700.
- We expect the company's growth to be driven by continued new launches and volume growth, on the back of MR addition. Accordingly, we expect 11% CAGR sales growth for DF to INR168b over FY23-25.

US generics: sales stable despite multiple headwinds

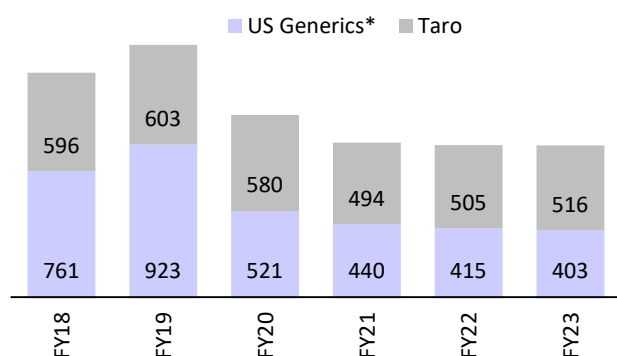
- Lack of niche launches and increased price erosion in base business had led to a slowdown in the sales momentum of US generics (Ex-Taro/Ex-specialty) over FY18-21.
- While the adverse macro factors intensified over the past two years, SUNP has been able to arrest any further decline in US-generics sales.
- With limited competition for products such as g-Revlimid and the ease of inventory in the channel, we expect a CAGR of 2% to reach USD955m sales over FY23-25.

Value rather than volume – key focus for ANDA filing

- US generic sales (Ex-specialty portfolio) have been stable over the past three years. Despite increased competitive pressures and reduced pace of launches, SUNP has been able to maintain US generics sales run-rate of ~USD920m on an annualized basis. Even Ex-Taro basis, the US generics sales has been stable at USD490m.
- Despite facing SUNP regulatory issues at the Halol (import alert) facility, its sales inched up in FY23 on a YoY basis.

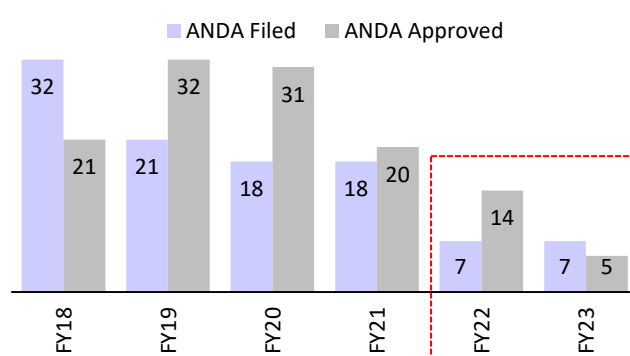
Niche approvals and launches key for US generic growth.

Exhibit 19: US generic sales are stable over FY21-23 (USD m)



*Note: Ex-Taro and Ex-Specialty sales, Source: MOFSL, Company

Exhibit 20: Decreasing ANDA filing and approval pace



Source: MOFSL, Company

- This implies considerable market share gain in existing products. Additionally, the company's 4QFY23 performance was boosted by niche launches such as g-Revlimid.

Regulatory compliance key for US business growth

- In Oct'22, USFDA issued an import alert on SUNP's Halol plant due to non-compliance with CGMP. Therefore, the supply of drugs from the Halol plant to the US was halted starting from Dec'22, with the exception of 14 drugs that were granted exemption.
- SUNP expects the impact of the import alert to be less than 3% of the revenue as the products manufactured from this plant are sold in other geographies as well.
- Efforts are currently underway to implement remediation measures at the site in order to regain compliance.

Regulatory challenges surrounding the Halol and Mohali plants impede growth opportunities in the US market.

Exhibit 21: History of regulatory inspection

Company	Facility	Classification	Date
Sun Pharma	Kanchipuram	No Action Indicated	Feb-23
Sun Pharma	Halol	Import Alert	Oct-22
Sun Pharma	Princeton	No Action Indicated	Aug-22
Sun Pharma	Mohali	Voluntary Action Indicated	Feb-20
Taro	Brampton	Voluntary Action Indicated	Sep-22

Source: MOFSL, Company

- Further, the requirement for an independent c-GMP certification at batch level has led to a temporary halt in commercialization for the US market from the Mohali site. Thus, we anticipate a gradual recovery of US sales from this site.
- Overall, we expect flat sales growth in the US generics segment (Ex-Specialty), reaching USD955m over FY23-25.

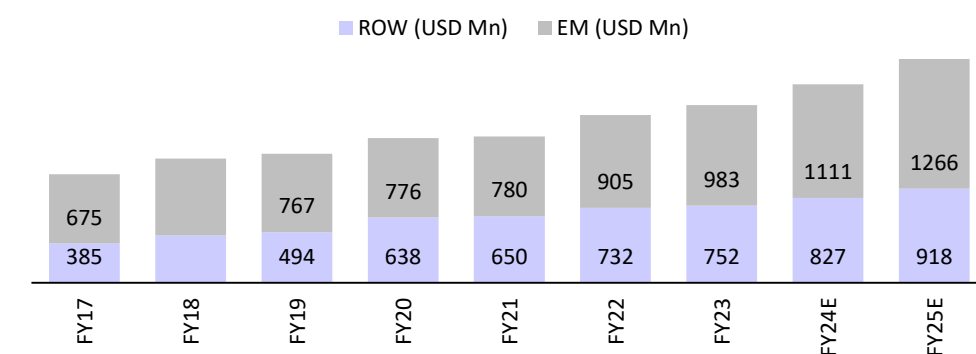
New launches/market share gain to drive EM/ROW business

- SUNP has implemented efforts toward expanding product offerings and enhancing marketing activities in EM and ROW markets.
- With the expansion of its sales force, robust brand recall, and optimization of manufacturing activities, we expect SUNP to maintain its growth momentum in emerging markets.
- Specialty portfolio, along with complex generics and increasing reach, is expected to drive better business prospects in ROW markets.
- Overall, we expect new launches and increase in market share to contribute to ~13% sales CAGR over FY23-25.

Specialty portfolio driving the growth in EM and ROW

- The EM and ROW market combined, accounting for 32% of the total revenue, has witnessed a 7% CAGR over FY20-23, on the back of new launches, increasing penetration of specialty products, and expansion into newer geographies. While in INR terms, SUNP registered 11.6% YoY growth, due to currency depreciation benefits.
- Over FY20-23, the EM has grown by 8% YoY, primarily driven by increased traction in markets such as Russia, Brazil, and Romania.
- During the same period, the ROW market has witnessed a 5.6% CAGR, driven by a gradual increase in sales in Western Europe, the ramp-up in specialty sales and the expansion of Ilumya in markets such as Japan and Australia.

Exhibit 22: EM and ROW sales to be 12% CAGR over FY23-25



Source: MOFSL, Company

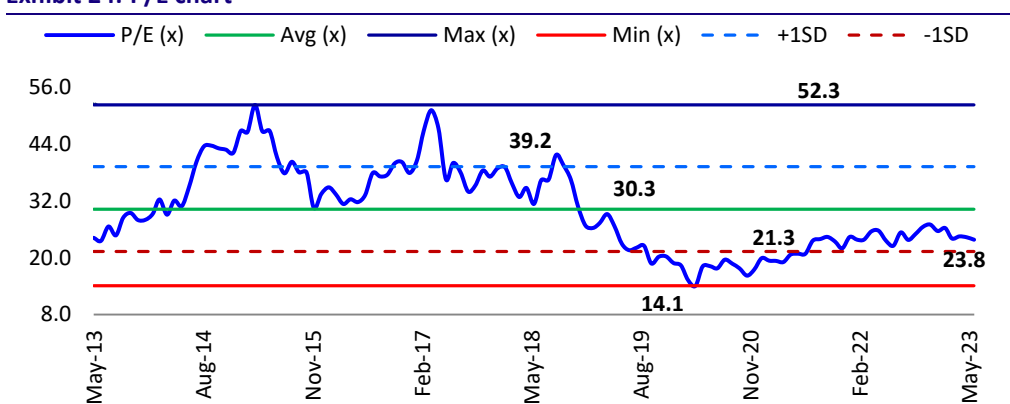
- Also, SUNP has established a strong presence in the EM with a team of 2200 medical reps. This allows the company to maintain strong relationships with doctors and medical professionals. Similarly, in the ROW market, SUNP's sales force network and local manufacturing capabilities have played a significant role in driving growth.
- We expect SUNP to deliver a growth of 12% over FY23-25 to reach USD2.2m, on the back of enhanced contribution from specialty drugs, increased product offerings in newer geographies, increased focus on complex generics, and increased market share of its existing products.

Exhibit 23: Valuation snapshot

Company	Reco	MCap (USD B)	EPS (INR)			EPS Gr. YoY (%)		PE (x)		EV/EBITDA (x)		ROE (%)		
			FY23	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY24E	FY23	FY24E	FY25E
Ajanta Pharma	Buy	2.3	49.2	54.9	68.1	11.5	24.2	26.9	21.7	20.3	17.2	18.7	19	20.4
Alembic Pharma	Neutral	1.3	21.9	30.5	34.8	39.5	14.1	19.4	17	11.7	10.1	8.3	12.9	13.2
Alkem Lab	Neutral	4.9	106	138.4	167	30.5	20.6	24.4	20.2	20.6	17.7	14.3	17.1	18
Aurobindo Pharma	Neutral	4.9	38.4	44.4	50	15.7	12.4	15.1	13.4	8.3	7.2	8.7	9.3	9.6
Biocon	Neutral	3.5	5.4	12.9	17.7	141.5	36.5	18.5	13.6	10	8.3	4.9	8.4	10.7
Cipla	Neutral	9.6	37.8	41.7	47.7	10.5	14.2	23.5	20.5	13.7	11.9	13.3	13.1	13.2
Divi's Lab.	Neutral	11.3	64.9	70	89.9	7.8	28.4	49.8	38.8	36	28.4	14.1	13.9	16
Dr Reddy's Labs	Neutral	9.5	244.7	237	262.6	-3.2	10.8	19.8	17.9	11.5	9.9	19.3	15.9	15.3
Eris Life Science	Buy	1.1	27.2	31.7	33.8	16.4	6.7	21	19.6	12.7	10.8	18.2	18.5	17.2
Gland Pharma	Buy	2	50.4	50.5	62	0.2	22.7	19.8	16.1	11.4	8.7	11	9.9	11
Glaxosmit Pharma	Neutral	2.9	35.9	37.3	40.7	3.7	9.2	37.9	34.7	26.2	23.9	32.7	30.6	30.1
Glenmark Pharma.	Neutral	2.2	28.5	38.2	47	34	23.1	16.7	13.6	7.8	6.6	8.8	11.3	12.4
Granules India	Buy	0.8	21.6	24.6	30.1	14	22.3	11.7	9.5	7.1	5.9	19.3	19.1	19.4
Ipca Labs.	Neutral	2.3	20.8	25.4	34.3	22.2	35	28.2	20.9	16.1	11.4	9.3	10.5	12.9
Laurus Labs	Buy	2.3	14.7	13.4	18.3	-9.1	36.4	26.8	19.7	13.8	11.1	21.4	16.6	19.4
Lupin	Sell	4.5	8.6	22.8	30.8	165.2	34.8	35.9	26.6	14.8	12.3	3.2	8	10
Piramal Pharma	Buy	1.3	-0.7	1.5	3	LP	100.3	61.4	30.6	10.8	9.2	-1.2	2.6	5
Solara Active Pharma	Buy	0.2	-6.2	14.2	26.7	LP	88.4	25.2	13.4	9.6	7.7	-1.5	3.4	6.2
Sun Pharma.Inds.	Buy	28.9	35.8	40.1	45.5	12.1	13.5	24.6	21.7	18.3	15.6	16.6	16.1	15.9
Torrent Pharma.	Neutral	7.5	37.2	49.9	63.4	34.2	27.2	36.8	28.9	18.7	16	20.7	23.2	25.8
Zydus Life Science	Neutral	6.5	22.4	26.5	28.1	18.2	6.1	20.1	18.9	11.9	11	13.3	14.3	13.4

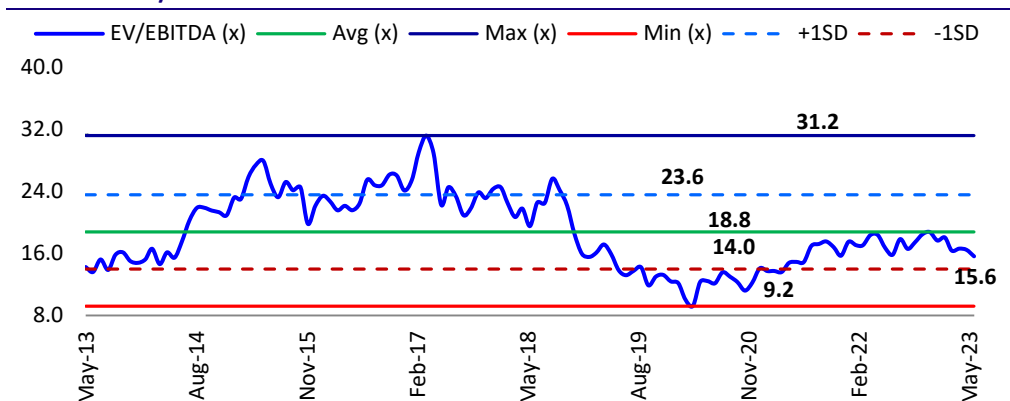
Source: MOFSL, Company

Exhibit 24: P/E chart



Source: MOFSL, Company, Bloomberg

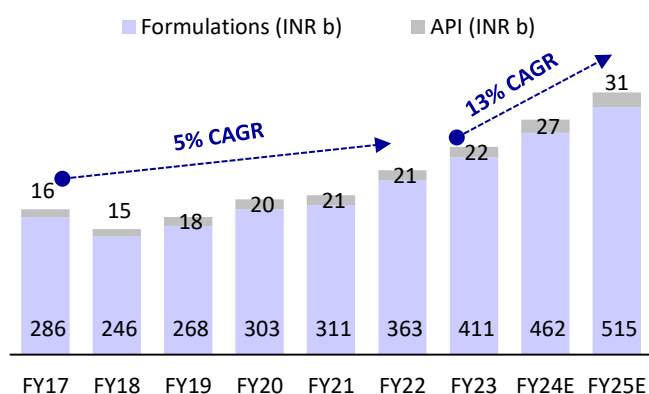
Exhibit 25: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

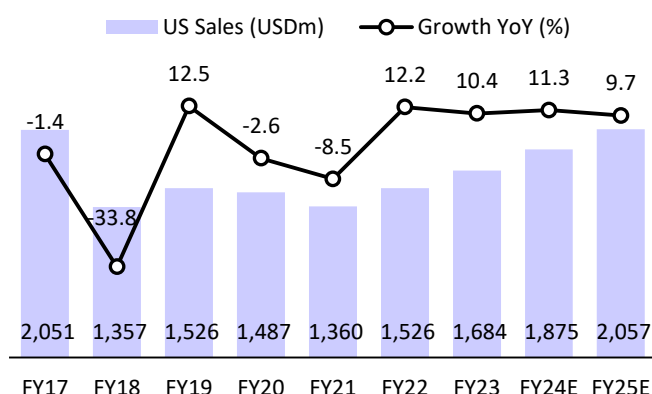
Story in charts

Exhibit 26: Expect 13% revenue CAGR over FY23-25



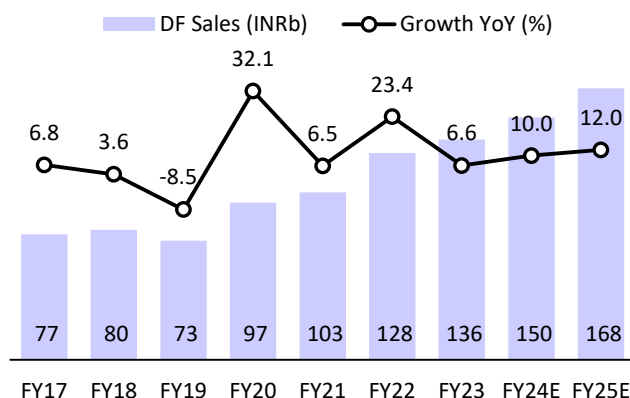
Source: Company, MOFSL

Exhibit 27: Expect 11% CAGR in US sales over FY23-25



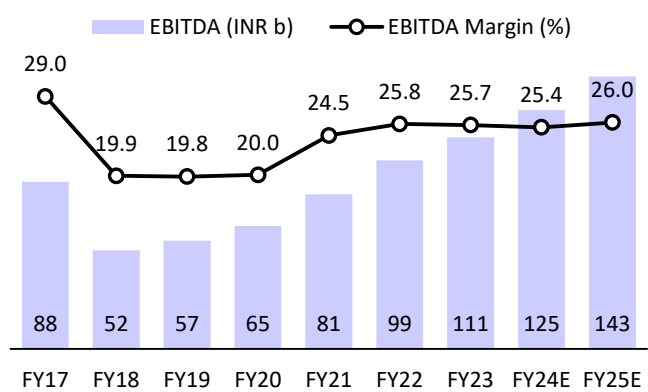
Source: Company, MOFSL

Exhibit 28: Expect DF sales CAGR of 11% over FY23-25



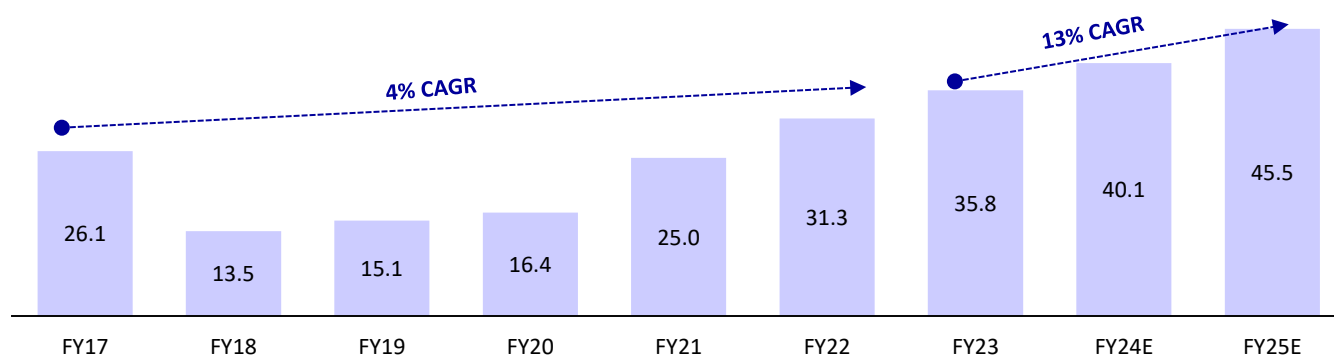
Source: Company, MOFSL

Exhibit 29: EBITDA margin to improve to ~26% by FY25



Source: Company, MOFSL

Exhibit 30: Expect 13% EPS CAGR over FY23-25



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	302.6	260.7	286.9	323.3	331.6	383.1	432.3	492.9	550.0
Change (%)	9.1	-13.9	10.1	12.7	2.6	15.5	12.8	14.0	11.6
Total Expenditure	214.9	208.8	230.1	258.6	250.3	284.1	321.1	367.5	407.0
% of Sales	71.0	80.1	80.2	80.0	75.5	74.2	74.3	74.6	74.0
EBITDA	87.8	51.8	56.8	64.6	81.3	99.0	111.1	125.4	143.0
Margin (%)	29.0	19.9	19.8	20.0	24.5	25.8	25.7	25.4	26.0
Depreciation	12.6	15.0	17.5	20.5	20.8	21.4	25.3	26.4	28.3
EBIT	75.1	36.8	39.3	44.1	60.5	77.6	85.8	99.1	114.6
Int. and Finance Charges	4.0	5.2	5.6	3.0	1.4	1.3	1.7	1.6	1.4
Other Income - Rec.	19.4	12.6	14.1	11.5	11.8	10.2	11.3	12.2	11.5
Extra-ordinary Exp	0.0	9.5	9.7	2.5	42.8	43.2	1.4	0.0	0.0
PBT	90.5	34.8	38.1	50.1	28.0	43.3	94.1	109.7	124.7
Tax	12.1	8.5	6.0	8.2	5.1	10.8	8.5	12.1	14.0
Tax Rate (%)	13.4	24.3	15.8	16.4	18.4	24.8	9.0	11.0	11.2
Profit after Tax	78.4	26.3	32.1	41.9	22.8	32.6	85.6	97.6	110.7
Change (%)	34.4	-66.4	21.9	30.5	-45.4	42.5	162.9	14.0	13.4
Margin (%)	24.3	9.6	10.7	12.5	6.7	8.3	19.3	19.3	19.7
Less: Minority Interest	8.7	4.7	5.4	4.2	-6.2	1.3	-0.9	1.2	1.3
Reported PAT	69.6	21.6	26.7	37.6	29.0	31.2	84.7	96.5	109.5
Adjusted PAT (excl. Ex. Items)	62.9	32.4	36.3	39.5	60.2	75.3	86.1	96.5	109.5

Balance Sheet								(INR b)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Total Reserves	364.0	378.6	411.7	450.2	462.2	477.7	557.6	639.9	733.1
Net Worth	366.4	381.0	414.1	452.6	464.6	480.1	560.0	642.3	735.5
Minority Interest	37.9	38.8	33.1	38.6	30.2	30.5	33.2	34.4	35.6
Deferred Liabilities	-21.8	-19.7	-24.5	-31.2	-35.1	-28.6	-31.3	-31.3	-31.3
Total Loans	80.9	97.5	98.9	75.8	33.4	11.8	67.6	47.9	34.0
Capital Employed	463.4	497.6	521.7	535.9	493.1	493.8	629.4	693.2	773.7
Gross Block	134.0	155.6	181.8	207.8	225.2	248.1	273.5	314.6	344.6
Less: Accum. Deprn.	49.0	64.0	81.6	102.1	122.9	144.3	169.6	196.0	224.3
Net Fixed Assets	85.0	91.6	100.3	105.7	102.3	103.7	103.9	118.6	120.3
Capital WIP	15.6	14.3	9.1	6.6	9.4	8.0	9.6	12.5	13.7
Goodwill	104.2	107.2	123.1	128.4	119.5	125.8	180.4	180.4	180.4
Investments	9.6	30.5	39.5	52.5	64.8	52.1	54.6	54.6	54.6
Curr. Assets	374.8	377.4	349.4	357.6	345.1	379.4	427.3	485.4	588.5
Inventory	68.3	68.8	78.9	78.7	90.0	90.0	105.1	118.5	131.4
Account Receivables	72.0	78.2	88.8	94.2	90.6	105.9	114.4	136.2	156.3
Cash and Bank Balance	151.4	99.3	72.8	64.9	64.5	50.3	57.7	68.5	125.3
L & A and Others	83.0	131.1	108.9	119.8	100.0	133.2	150.1	162.2	175.5
Curr. Liability & Prov.	125.7	123.5	99.7	114.9	148.0	175.2	146.4	158.3	183.8
Account Payables	73.5	68.3	66.1	70.1	98.9	80.0	89.4	92.8	108.4
Provisions	52.3	55.1	33.6	44.8	49.1	95.2	57.0	65.5	75.3
Net Current Assets	249.1	253.9	249.7	242.7	197.1	204.2	280.9	327.1	404.7
Appl. of Funds	463.4	497.6	521.7	535.9	493.1	493.8	629.4	693.2	773.7

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Adjusted EPS	26.1	13.5	15.1	16.4	25.0	31.3	35.8	40.1	45.5
Cash EPS	34.2	15.2	18.4	24.2	20.7	21.9	45.7	51.1	57.3
BV/Share	152.3	158.4	172.1	188.1	193.1	199.6	232.7	266.9	305.7
DPS	1.0	3.3	2.0	3.5	3.5	3.8	3.8	4.8	5.8
Payout (%)	3.7	36.5	18.0	23.5	43.0	32.8	12.5	13.8	14.7
Valuation (x)									
P/E	37.7	73.3	65.3	60.1	39.4	31.5	27.6	24.6	21.7
P/BV	6.5	6.2	5.7	5.2	5.1	4.9	4.2	3.7	3.2
EV/Sales	7.4	8.8	8.0	7.0	6.7	5.8	5.3	4.6	4.0
EV/EBITDA	25.5	44.1	40.6	35.3	27.4	22.5	20.5	17.9	15.2
Dividend Yield (%)	0.1	0.3	0.2	0.4	0.4	0.4	0.4	0.5	0.6
Return Ratios (%)									
RoE	18.1	8.7	9.1	9.1	13.1	15.9	16.6	16.1	15.9
RoCE	19.0	8.1	9.1	8.9	9.9	11.5	11.5	12.5	13.5
RoIC	23.4	8.7	8.8	9.1	12.9	15.8	17.5	16.6	17.9
Working Capital Ratios									
Asset Turnover (x)	0.7	0.5	0.5	0.6	0.7	0.8	0.7	0.7	0.7
Fixed Asset Turnover (x)	3.8	3.0	3.0	3.1	3.2	3.7	4.2	4.4	4.6
Debtor (Days)	87	109	113	106	100	101	97	101	104
Creditor (Days)	330	336	307	277	415	282	306	288	292
Inventory (Days)	82	96	100	89	99	86	89	88	87
Leverage Ratio									
Debt/Equity (x)	0.2	0.3	0.3	0.0	-0.1	-0.1	0.0	0.0	-0.1

Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) bef. Tax	87.8	42.3	47.1	62.2	38.5	55.8	109.8	125.4	143.0
Int./Dividends Recd.	19.4	12.6	14.1	11.5	11.8	10.2	11.3	12.2	11.5
Direct Taxes Paid	-3.4	-6.4	-10.8	-14.9	-9.1	-4.3	-11.2	-12.1	-14.0
(Inc)/Dec in WC	2.3	-57.0	-22.3	-1.0	45.2	-21.3	-69.3	-35.4	-20.8
CF from Operations	106.0	-8.4	28.1	57.8	86.3	40.5	40.6	90.2	119.7
(inc)/dec in FA	-36.9	-23.4	-36.8	-28.7	-11.3	-27.7	-81.8	-43.9	-31.2
Free Cash Flow	69.0	-31.8	-8.7	29.1	75.0	12.8	-41.1	46.2	88.4
(Pur)/Sale of Invest.	1.6	-20.9	-9.0	-12.9	-12.4	12.7	-2.4	0.0	0.0
CF from investments	-35.4	-44.3	-45.8	-41.7	-23.7	-15.0	-84.2	-43.9	-31.2
Change in networth	-41.8	-1.2	1.1	12.0	-9.5	-6.0	7.6	0.0	0.0
(Inc)/Dec in Debt	-2.3	16.6	1.4	-23.2	-42.4	-21.6	55.8	-19.7	-13.9
Interest Paid	-4.0	-5.2	-5.6	-3.0	-1.4	-1.3	-1.7	-1.6	-1.4
Dividend Paid	-2.9	-9.6	-5.8	-9.8	-9.8	-10.7	-10.7	-13.5	-16.3
CF from Fin. Activity	-51.0	0.6	-8.9	-24.0	-63.1	-39.6	50.9	-34.8	-31.6
Inc/Dec of Cash	19.6	-52.1	-26.5	-7.9	-0.4	-14.1	7.4	11.5	56.8
Add: Beginning Balance	131.8	151.4	99.3	72.8	64.9	64.5	50.3	57.7	68.5
Closing Balance	151.4	99.3	72.8	64.9	64.5	50.3	57.7	68.5	125.3

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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