

Sun Pharma

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	SUNP IN
Equity Shares (m)	2399
M.Cap.(INRb)/(USDb)	2678.1 / 32.2
52-Week Range (INR)	1170 / 922
1, 6, 12 Rel. Per (%)	0/8/3
12M Avg Val (INR M)	2478

Financials & valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	432.3	484.5	544.4
EBITDA	111.1	126.8	149.7
Adj. PAT	86.1	95.0	112.2
EBIT Margin (%)	19.9	20.7	22.3
Cons. Adj. EPS (INR)	35.8	39.5	46.6
EPS Gr. (%)	14.4	10.4	18.1
BV/Sh. (INR)	232.7	265.1	304.9

Ratios

Net D:E	0.02	-0.03	-0.13
RoE (%)	16.6	15.9	16.4
RoCE (%)	11.5	12.5	13.5
Payout (%)	12.5	14.6	14.4

Valuations

P/E (x)	31.2	28.3	24.0
EV/EBITDA (x)	23.7	20.6	16.9
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	-1.5	1.7	3.4
EV/Sales (x)	6.1	5.4	4.7

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	54.5	54.5	54.5
DII	19.7	19.8	19.7
FII	16.8	16.5	16.0
Others	9.1	9.3	9.8

FII Includes depository receipts

CMP: INR1,116 TP: INR1,310 (+17%) Buy

Superior execution drives broad-based revenue growth

R&D spending to increase in the coming quarters

- Sun Pharma (SUNP) delivered an in-line 2QFY24 financial performance. SUNP garnered healthy growth across specialty as well as branded generics businesses. It continues to implement its initiatives towards: a) an improvement in prescriptions for commercialized specialty products, and b) filing of new products as well as clinical trials for products under development.
- We retain our estimates for FY24/FY25. We continue to value SUNP at 26x 12M forward earnings to arrive at our TP of INR1,310.
- SUNP is well-positioned to reinforce its specialty franchise through the addition of new products, the expansion of its reach, and the superior implementation of its existing products. It continues to outperform both in the branded generics market of India (DF) and other emerging markets.

Reiterate BUY.

Product mix benefit more than offset by higher opex YoY

- SUNP's sales grew 11% YoY to INR120b (in line). DF sales rose 11% YoY to INR38b (32% of sales). The US sales grew 8% YoY to INR35.5b (USD430m, up 4% in CC terms; 30% of sales). The ROW sales increased 18% YoY to INR17b (14% of sales). EM sales grew 13% YoY to INR23b (20% of sales) in 2QFY24.
- Global specialty sales rose 19% YoY to USD240m for the quarter.
- Gross margin expanded 180bp YoY to 76.8% in 2QFY24.
- EBITDA margin contracted 310bp YoY to 25.2% (in line) as superior product mix was more than offset by higher opex (employee expenses/other expenses up 110bp/380bp YoY as a % of sales).
- Accordingly, EBITDA was flat YoY at INR30.2b for the quarter.
- PAT declined 3% YoY to INR24b (in line).
- For 1HFY24, sales/EBITDA/PAT grew 12%/8%/9% YoY to INR324b/INR84b/INR64b.

Highlights from the management commentary

- While specialty sales have been stable for three quarters now, the prescription trends in the US continue to gain momentum for Ilumya, Cequa and Odomzo.
- SUNP indicated an increased prescription scope for Winlevi as well going forward.
- Taro has maintained its continuity in business despite a critical situation in Israel.
- The YoY growth in the DF segment has been majorly driven by volume and partly supported by new launches/price hikes.
- SUNP has maintained its R&D guidance of 7-8% for FY24.
- The dispatches from Mohali have resumed post-implementation of the corrective measures.

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

Quarterly Performance (Consolidated)

(INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Net Revenues	106.4	108.1	110.0	106.7	117.9	120.0	122.7	124.0	431.2	484.5	120.1	-0.1
YoY Change (%)	10.1	14.0	12.1	13.7	10.7	11.0	11.6	16.2	12.4	12.4	11.1	
Total Expenditure	80.2	77.5	82.3	81.0	86.1	89.8	91.4	90.5	321.1	357.8	89.8	
EBITDA	26.2	30.5	27.6	25.7	31.7	30.2	31.3	33.5	110.1	126.8	30.3	-0.1
YoY Change (%)	-2.6	19.2	7.6	21.2	21.1	-1.0	13.2	30.5	10.7	15.2	-0.9	
Margins (%)	24.6	28.3	25.1	24.1	26.9	25.2	25.5	27.0	25.5	26.2	25.2	
Depreciation	5.9	6.1	6.6	6.7	6.5	6.3	6.6	6.9	25.3	26.4	6.6	
EBIT	20.3	24.5	21.0	19.0	25.2	23.9	24.7	26.6	84.8	100.4	23.7	
YoY Change (%)	-7.1	20.3	4.4	21.4	24.1	-2.2	17.4	40.2	8.7	18.4	-3.1	
Interest	0.1	0.2	0.5	0.9	0.8	0.5	0.8	1.2	1.7	3.3	0.8	
Net Other Income	1.2	2.3	3.1	5.8	3.6	4.8	4.2	0.6	12.4	13.2	3.8	
PBT before EO Exp	21.4	26.5	23.7	23.8	28.0	28.2	28.1	26.0	95.5	110.3	26.7	5.9
Less: EO Exp/(Inc)	-1.5	2.4	-1.0	1.4	3.2	0.3	0.0	0.1	1.4	3.6	0.0	
PBT	22.8	24.1	24.7	22.4	24.8	27.9	28.1	25.9	94.1	106.7	26.7	
Tax	1.9	1.5	2.8	2.2	4.7	3.9	3.6	2.1	8.5	14.3	2.9	
Rate (%)	8.8	5.7	11.9	9.4	16.7	13.8	13.0	8.1	8.9	13.0	11.0	
PAT (pre Minority Interest)	21.0	22.6	21.9	20.2	20.1	24.0	24.4	23.8	85.6	92.4	23.7	
Minority Interest	0.3	0.0	0.2	0.3	-0.1	0.3	0.2	0.0	-0.9	0.4	0.1	
Reported PAT	20.6	22.6	21.7	19.8	20.2	23.8	24.3	23.8	84.7	92.0	23.7	0.3
Adj Net Profit*	19.3	24.9	20.8	21.1	22.8	24.0	24.3	23.8	86.1	95.0	23.7	1.5
YoY Change (%)	-3.4	21.5	9.3	33.6	18.5	-3.4	16.7	12.9	14.4	10.4	-4.8	
Margins (%)	18.1	23.0	18.9	19.8	19.4	20.0	19.8	19.2	19.7	19.0	19.7	

Key performance Indicators (Consolidated)

Y/E March	FY23E				FY24E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Domestic formulations (INRb)	33.9	34.6	33.9	33.6	35.6	38.4	36.6	36.3	136.0	146.9	36.7
YoY Change (%)	2.4	8.5	7.1	8.7	5.1	11.1	8.0	7.8	6.6	8.0	6.0
US sales (INRb)	32.4	32.9	34.7	35.3	38.7	35.5	37.1	40.7	135.4	152.0	36.3
YoY Change (%)	15.8	22.9	16.6	20.8	19.3	7.9	7.1	15.1	19.0	12.3	10.4
ROW (INRb)	33.6	35.1	36.7	33.9	37.5	40.4	42.2	38.4	139.4	158.5	39.8
YoY Change (%)	13.0	10.1	16.8	17.5	11.6	15.1	14.8	13.2	14.3	13.7	13.3
APIs (INRb)	6.0	4.7	5.2	3.9	5.4	5.0	6.1	9.1	19.7	25.6	6.6
YoY Change (%)	16.3	8.5	9.4	-6.9	-9.9	40.0	18.0	136.8	7.5	29.6	40.0
Cost Break-up											
RM Cost (% of Sales)	27.2	25.1	25.5	21.1	23.4	23.2	23.2	23.2	25.8	23.4	23.4
Staff Cost (% of Sales)	19.5	18.5	18.5	20.4	20.4	19.7	19.6	19.2	19.2	20.4	20.4
R&D Expenses(% of Sales)	4.3	5.3	6.1	6.2	5.8	6.4	7.0	10.6	5.5	5.8	5.8
Other Cost (% of Sales)	24.3	22.9	24.8	28.2	23.5	25.4	24.7	20.6	25.0	23.5	23.5
Gross Margins(%)	72.8	74.9	74.5	78.9	76.6	76.8	76.8	76.8	74.2	76.6	76.6
EBITDA Margins(%)	24.6	28.3	25.1	24.1	26.9	25.2	25.5	27.0	25.5	26.2	25.2
EBIT Margins(%)	19.1	22.6	19.1	17.8	21.4	19.9	20.1	21.4	19.7	20.7	19.7

Key takeaways from the management interaction

- SUNP launched three ANDAs in the US market during the quarter.
- SUNP repaid debt to the tune of USD580m over the past six months.
- Specialty R&D formed 38% of the total R&D expenditure for the quarter
- Deuruxolitinib is filed with the USFDA using CMO site for manufacturing.
- Deuruxolitinib needs to be given on a continuous basis as part of the treatment.

Exhibit 1: Taro – financial snapshot

USD M	2QFY24	2QFY23	% YoY	1QFY23	% QoQ
Sales	148.2	130.5	13.6	158.9	-6.7
Growth (%)					
Cost of sales (incl Depn)	74.6	83.6	-10.8	94.8	-21.3
Gross profit	73.6	46.9	56.9	64.1	14.8
GP Margin (%)	49.7	35.9	1,372 bp	40.3	933 bp
Operating expenses:					
R&D	14.3	11.5	24.5	16.1	-11.3
R&D as a % of sales	9.7	8.8		10.2	
SG&A	54.5	42.2	29.1	55.9	-2.4
SG&A as a % of sales	36.8	32.3		35.2	
Operating Profit	4.8	-6.8	NA	-7.9	-160.3
Operating Profit Margin (%)	3.2	-5.2	844 bp	-5.0	821 bp
EBITDA	4.8	-6.8	NA	-7.9	-160.3
EBITDA margin (%)	3.2	-5.2	844 bp	-5.0	821 bp
Financial expenses	-14.0	-4.3		-10.9	
Extraordinary items incl forex	1.6	2.8		-2.1	
Other income	0.6	0.4		0.4	
PBT	17.7	-4.9	LP	5.4	225.6
Taxes	9.1	-2.1		-4.6	
Effective tax rate (%)	51.4	42.8		-84.4	
Net income before MI	8.6	-2.8	LP	10.0	-14.1
Minority interest	0.0	0.0		0.0	
Net income (Reported)	8.6	-2.8	LP	10.0	-14.1
Forex fluctuations	-1.6	-2.8		2.1	
Net income (Adjusted)	10.2	0.0	A	8.0	28.5

Source: MOFSL, Company

Exhibit 2: Global Specialty pipeline

Candidate	Indication	Current Phase	Next Milestone
Deuruxolitinib	Alopecia Areata	Filed with USFDA	PDUFA date in Jul'24
Nidlegly	Skin Cancer	First Phase-3 topline reported	Partner to disclose at appropriate time
Ilumya	Psoriatic Arthritis	Phase-3	First topline data by late-25
MM-II	Pain in Osteoarthritis	Phase-2 completed	Phase-3 to start in early-24
SCD-004	Psoriasis, atopic dermatitis	Phase-2	First topline data by end-24 (atopic dermatitis)
GL0034	Type-2 Diabetes	Phase 1 completed	Phase-2 to start by early-24

Source: Company, MOFSL

Steady work in progress across all fronts

Continued focus on increasing prescription/reach to drive specialty sales

- In 1H FY24, sales of SUNP's global specialty segment grew 21% YoY to USD472m led by healthy traction in Cequa and Ilumya. With recent formulary changes and enhanced effort, there is further scope to increase prescriptions for Winlevi.
- SUNP has completed phase-3 clinical trials of Nidlegly and Ilumya and has filed its NDA Deuruxolitinib with the USFDA. Further, SUNP is planning to expand its specialty portfolio in other emerging markets.
- During 1H FY24, the US generic sales were flat, partly due to regulatory issues at Mohali/Halol.
- We expect the specialty and generics segments to drive overall US sales CAGR of 10% to USD2b over FY23-FY25.

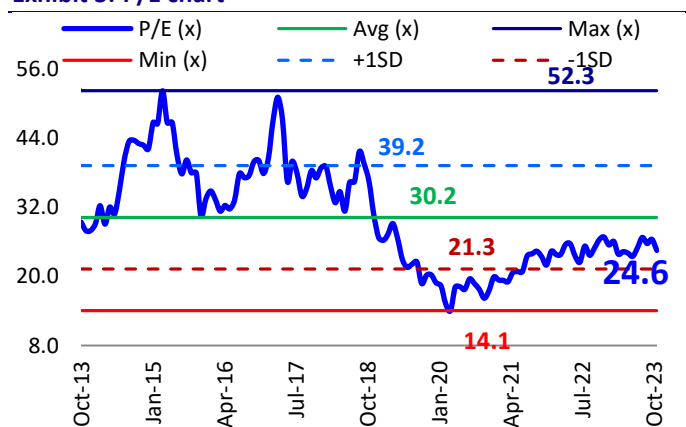
Marketing efforts to sustain industry outperformance in branded generics

- In 1H FY24, DF sales increased 8% YoY to INR74b. The growth was driven by the strong performance of key therapies and market share gains. However, this was offset by a modest performance by the Anti-infective portfolio. SUNP launched eight new products in the DF segment.
- We expect the company to deliver 10% CAGR to INR165b over FY23-25.
- Additionally, the ROW and emerging markets would witness a CAGR of 12% (in CC terms) over FY23-25 to reach USD2.2b. It is expected that growing demand for existing products, expanding reach, and focusing on specialized products will fuel the growth in these markets.

Reiterate BUY

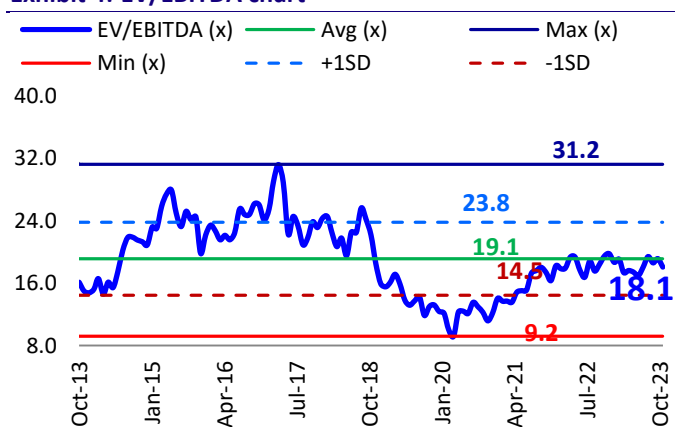
- We retain our estimates for FY24/FY25. We continue to value SUNP at 26x 12M forward earnings to arrive at our TP of INR1,310.
- SUNP is well-positioned to reinforce its specialty franchise through the addition of new products, the expansion of its reach, and the superior implementation of its existing products. It continues to outperform both in the branded generics market of India (DF) and other emerging markets. **Reiterate BUY.**

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

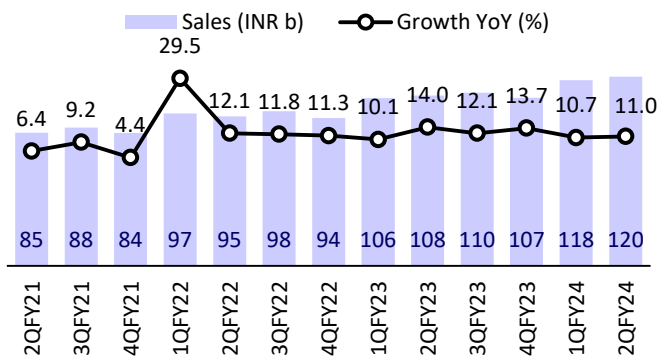
Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

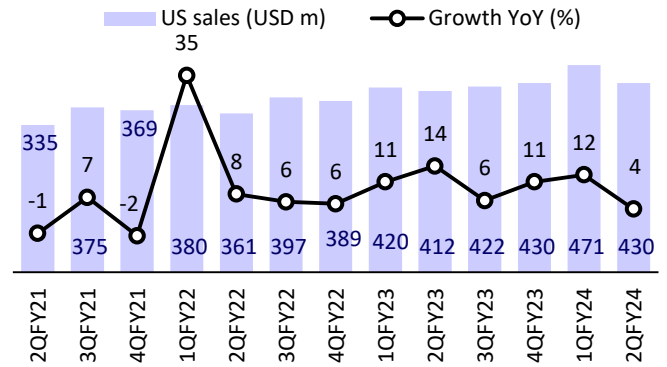
Story in charts

Exhibit 5: Revenue rose 11% YoY in 2QFY24



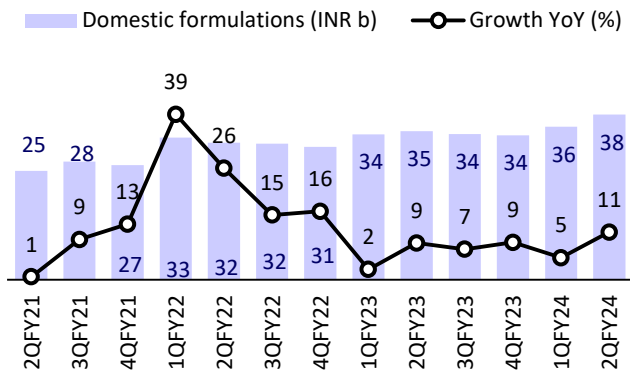
Source: Company, MOFSL

Exhibit 6: The US sales grew 4% YoY in CC terms



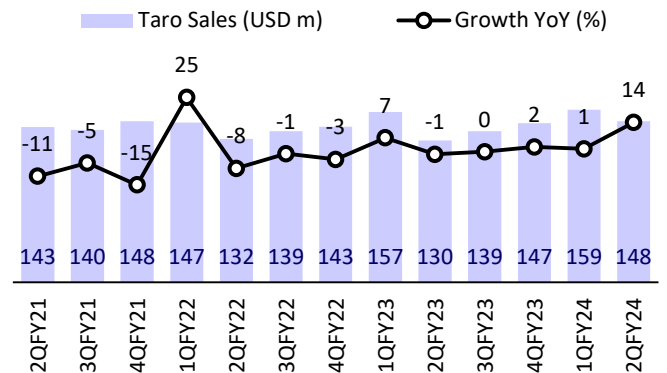
Source: Company, MOFSL

Exhibit 7: DF sales grew 11% YoY in 2QFY24



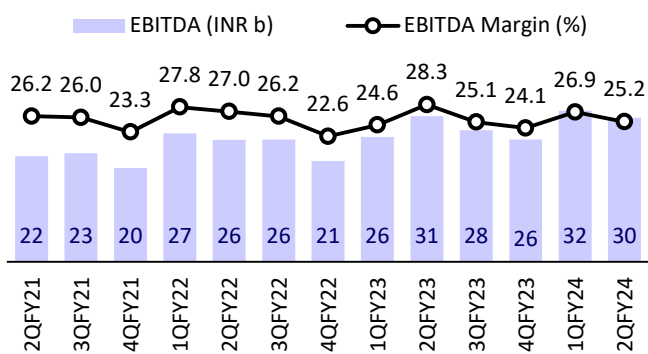
Source: Company, MOFSL

Exhibit 8: Taro sales grew 14% YoY in 2QFY24



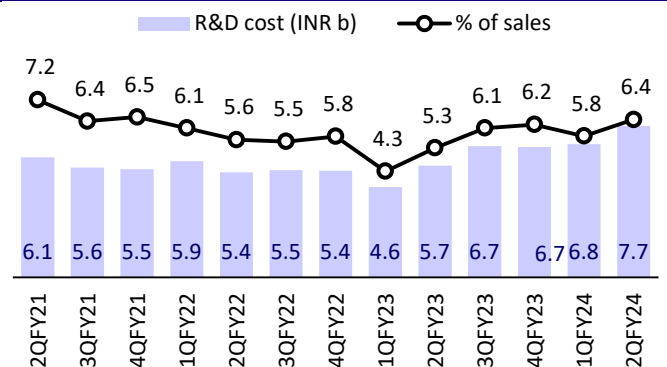
Source: Company, MOFSL

Exhibit 9: EBITDA margin declined 310bp YoY in 2QFY24

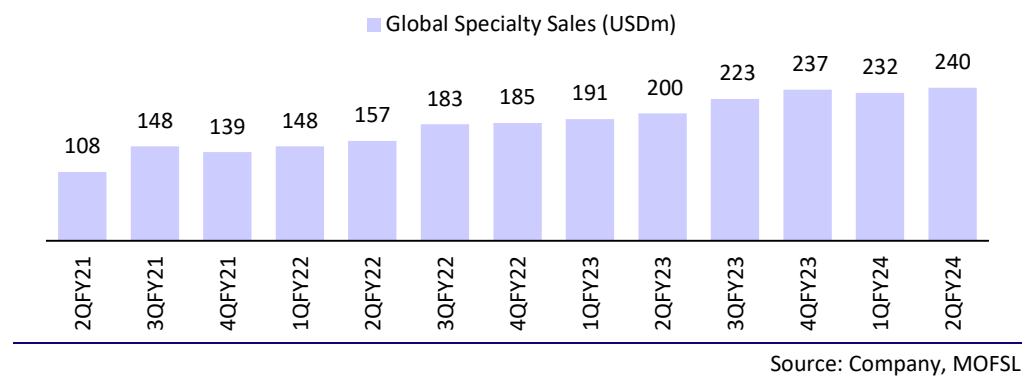
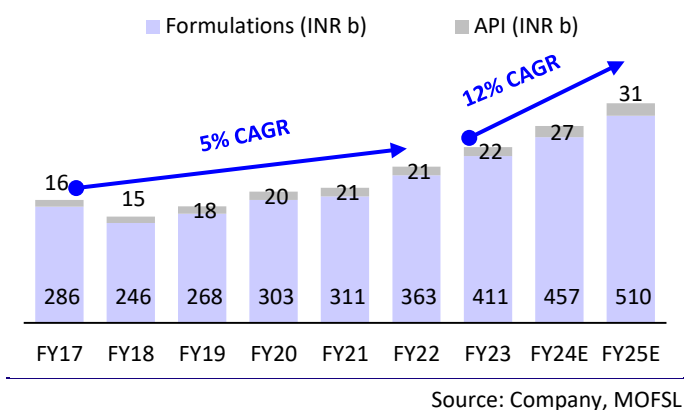
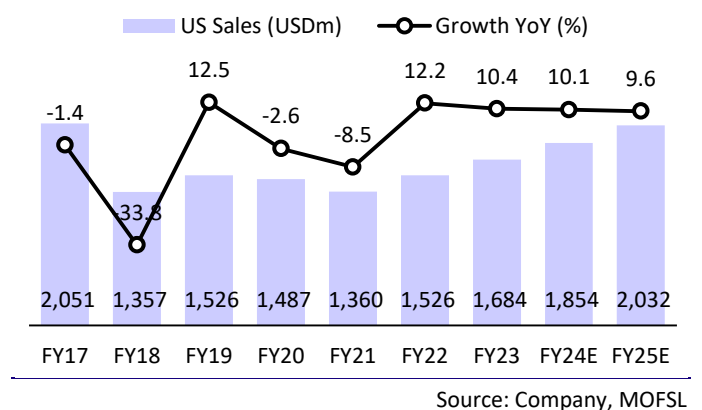
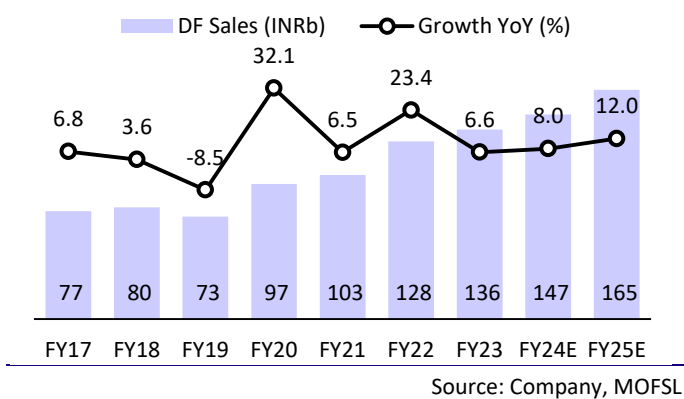
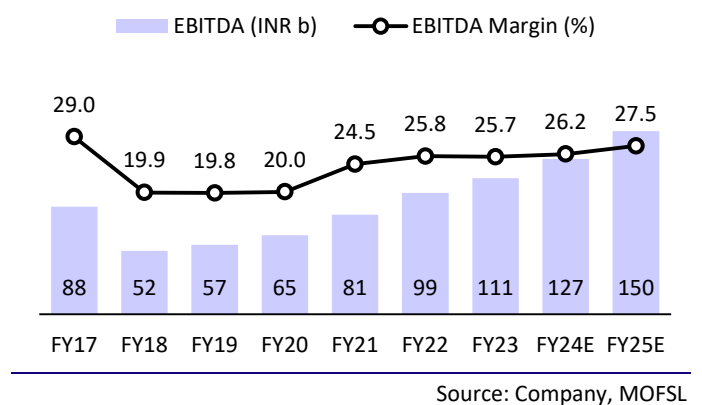
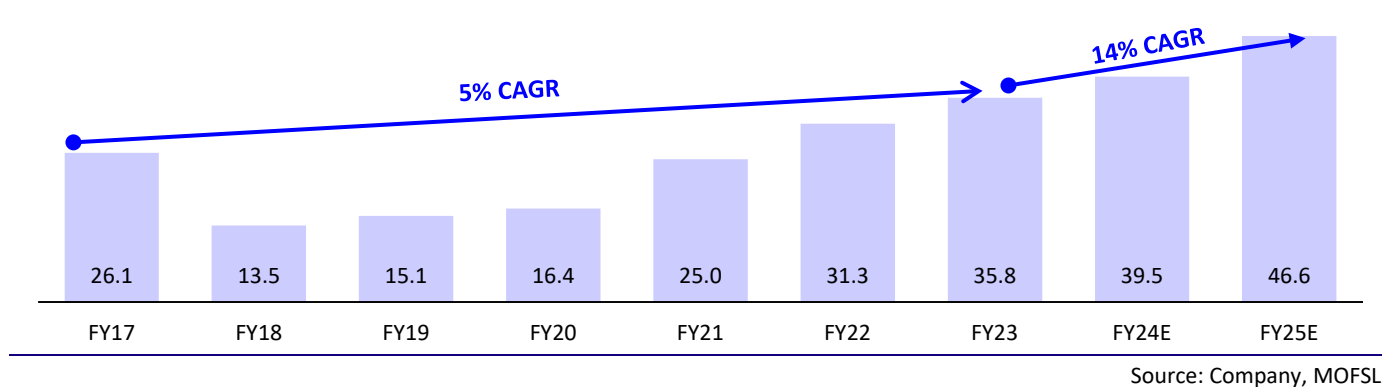


Source: Company, MOFSL

Exhibit 10: R&D cost stood at 6.4% of sales in 2QFY24



Source: Company, MOFSL

Exhibit 11: Specialty sales rose 20% YoY in 2QFY24**Exhibit 12: Expect 12% revenue CAGR over FY23-25****Exhibit 13: Expect 10% CAGR in the US sales over FY23-25****Exhibit 14: Expect DF sales CAGR of 10% over FY23-25****Exhibit 15: EBITDA margin to improve to ~27.5% by FY25E****Exhibit 16: Expect 14% EPS CAGR over FY23-25**

Financials and valuations

Income Statement							(INR b)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	260.7	286.9	323.3	331.6	383.1	432.3	484.5	544.4
Change (%)	-13.9	10.1	12.7	2.6	15.5	12.8	12.1	12.4
Total Expenditure	208.8	230.1	258.6	250.3	284.1	321.1	357.8	394.7
% of Sales	80.1	80.2	80.0	75.5	74.2	74.3	73.8	72.5
EBITDA	51.8	56.8	64.6	81.3	99.0	111.1	126.8	149.7
Margin (%)	19.9	19.8	20.0	24.5	25.8	25.7	26.2	27.5
Depreciation	15.0	17.5	20.5	20.8	21.4	25.3	26.4	28.3
EBIT	36.8	39.3	44.1	60.5	77.6	85.8	100.4	121.3
Int. and Finance Charges	5.2	5.6	3.0	1.4	1.3	1.7	3.3	3.2
Other Income - Rec.	12.6	14.1	11.5	11.8	10.2	11.3	13.2	11.5
Extra-ordinary Exp	9.5	9.7	2.5	42.8	43.2	1.4	3.6	0.0
PBT	34.8	38.1	50.1	28.0	43.3	94.1	106.7	129.6
Tax	8.5	6.0	8.2	5.1	10.8	8.5	14.3	16.2
Tax Rate (%)	24.3	15.8	16.4	18.4	24.8	9.0	13.4	12.5
Profit after Tax	26.3	32.1	41.9	22.8	32.6	85.6	92.4	113.4
Change (%)	-66.4	21.9	30.5	-45.4	42.5	162.9	7.9	22.8
Margin (%)	9.6	10.7	12.5	6.7	8.3	19.3	18.6	20.4
Less: Minority Interest	4.7	5.4	4.2	-6.2	1.3	-0.9	0.4	1.3
Reported PAT	21.6	26.7	37.6	29.0	31.2	84.7	92.0	112.2
Adjusted PAT (excl. Ex. Items)	32.4	36.3	39.5	60.2	75.3	86.1	95.0	112.2

Balance Sheet							(INR b)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Total Reserves	378.6	411.7	450.2	462.2	477.7	557.6	635.4	731.3
Net Worth	381.0	414.1	452.6	464.6	480.1	560.0	637.8	733.7
Minority Interest	38.8	33.1	38.6	30.2	30.5	33.2	33.6	34.8
Deferred Liabilities	-19.7	-24.5	-31.2	-35.1	-28.6	-31.3	-31.3	-31.3
Total Loans	97.5	98.9	75.8	33.4	11.8	67.6	47.9	34.0
Capital Employed	497.6	521.7	535.9	493.1	493.8	629.4	687.9	771.1
Gross Block	155.6	181.8	207.8	225.2	248.1	273.5	314.6	344.6
Less: Accum. Deprn.	64.0	81.6	102.1	122.9	144.3	169.6	196.0	224.3
Net Fixed Assets	91.6	100.3	105.7	102.3	103.7	103.9	118.6	120.3
Capital WIP	14.3	9.1	6.6	9.4	8.0	9.6	12.5	13.7
Goodwill	107.2	123.1	128.4	119.5	125.8	180.4	180.4	180.4
Investments	30.5	39.5	52.5	64.8	52.1	54.6	54.6	54.6
Curr. Assets	377.4	349.4	357.6	345.1	379.4	427.3	476.1	580.5
Inventory	68.8	78.9	78.7	90.0	90.0	105.1	113.4	124.8
Account Receivables	78.2	88.8	94.2	90.6	105.9	114.4	133.9	154.8
Cash and Bank Balance	99.3	72.8	64.9	64.5	50.3	57.7	66.6	125.5
L & A and Others	131.1	108.9	119.8	100.0	133.2	150.1	162.2	175.5
Curr. Liability & Prov.	123.5	99.7	114.9	148.0	175.2	146.4	154.3	178.4
Account Payables	68.3	66.1	70.1	98.9	80.0	89.4	88.8	103.0
Provisions	55.1	33.6	44.8	49.1	95.2	57.0	65.5	75.3
Net Current Assets	253.9	249.7	242.7	197.1	204.2	280.9	321.8	402.2
Appl. of Funds	497.6	521.7	535.9	493.1	493.8	629.4	687.9	771.1

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Adjusted EPS	13.5	15.1	16.4	25.0	31.3	35.8	39.5	46.6
Cash EPS	15.2	18.4	24.2	20.7	21.9	45.7	49.2	58.4
BV/Share	158.4	172.1	188.1	193.1	199.6	232.7	265.1	304.9
DPS	3.3	2.0	3.5	3.5	3.8	3.8	4.8	5.8
Payout (%)	36.5	18.0	23.5	43.0	32.8	12.5	14.6	14.4
Valuation (x)								
P/E	83.0	74.0	68.1	44.6	35.7	31.2	28.3	24.0
P/BV	7.1	6.5	5.9	5.8	5.6	4.8	4.2	3.7
EV/Sales	10.2	9.3	8.2	7.8	6.8	6.1	5.4	4.7
EV/EBITDA	51.1	46.9	40.8	31.8	26.2	23.7	20.6	16.9
Dividend Yield (%)	0.3	0.2	0.3	0.3	0.3	0.3	0.4	0.5
Return Ratios (%)								
RoE	8.7	9.1	9.1	13.1	15.9	16.6	15.9	16.4
RoCE	8.1	9.1	8.9	9.9	11.5	11.5	12.5	13.5
RoIC	8.7	8.8	9.1	12.9	15.8	17.5	16.4	18.8
Working Capital Ratios								
Asset Turnover (x)	0.5	0.5	0.6	0.7	0.8	0.7	0.7	0.7
Fixed Asset Turnover (x)	3.0	3.0	3.1	3.2	3.7	4.2	4.4	4.6
Debtor (Days)	109	113	106	100	101	97	101	104
Creditor (Days)	50	56	54	46	39	34	34	38
Inventory (Days)	96	100	89	99	86	89	85	84
Leverage Ratio								
Debt/Equity (x)	0.3	0.3	0.0	-0.1	-0.1	0.0	0.0	-0.1

Cash Flow Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) bef. Tax	42.3	47.1	62.2	38.5	55.8	109.8	123.2	149.7
Int./Dividends Recd.	12.6	14.1	11.5	11.8	10.2	11.3	13.2	11.5
Direct Taxes Paid	-6.4	-10.8	-14.9	-9.1	-4.3	-11.2	-14.3	-16.2
(Inc)/Dec in WC	-57.0	-22.3	-1.0	45.2	-21.3	-69.3	-32.0	-21.5
CF from Operations	-8.4	28.1	57.8	86.3	40.5	40.6	90.0	123.5
(inc)/dec in FA	-23.4	-36.8	-28.7	-11.3	-27.7	-81.8	-43.9	-31.2
Free Cash Flow	-31.8	-8.7	29.1	75.0	12.8	-41.1	46.1	92.2
(Pur)/Sale of Invest.	-20.9	-9.0	-12.9	-12.4	12.7	-2.4	0.0	0.0
CF from investments	-44.3	-45.8	-41.7	-23.7	-15.0	-84.2	-43.9	-31.2
Change in network	-1.2	1.1	12.0	-9.5	-6.0	7.6	0.0	0.0
(Inc)/Dec in Debt	16.6	1.4	-23.2	-42.4	-21.6	55.8	-19.7	-13.9
Interest Paid	-5.2	-5.6	-3.0	-1.4	-1.3	-1.7	-3.3	-3.2
Dividend Paid	-9.6	-5.8	-9.8	-9.8	-10.7	-10.7	-13.5	-16.3
CF from Fin. Activity	0.6	-8.9	-24.0	-63.1	-39.6	50.9	-36.5	-33.4
Inc/Dec of Cash	-52.1	-26.5	-7.9	-0.4	-14.1	7.4	9.6	58.8
Add: Beginning Balance	151.4	99.3	72.8	64.9	64.5	50.3	57.7	66.6
Closing Balance	99.3	72.8	64.9	64.5	50.3	57.7	66.6	125.5

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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