

Sun Pharma

Strong show by US/Specialty portfolio

Sun Pharma's (SUNP) 2QFY25 Revenue/EBITDA/PAT was in-line with our estimates. Gross/EBITDA margin beat our estimate by 170bp/100bp respectively. Overall revenues grew ~11% YoY to Rs132.6bn (our est. Rs133bn), led by a strong growth in US formulations which grew 22% YoY (CC: 20% YoY) to Rs43bn (USD517mn). Global specialty grew 19% YoY to USD286mn (up 8% QoQ). India formulations grew 11% YoY to Rs42.6bn. Gross margin expanded 290bps YoY to 79.7% (+110bp QoQ) and EBITDA margin expanded 330bp YoY/ flat QoQ to 28.5% (our est. 27.5%). Accordingly, EBITDA/Adj. PAT grew 25%/22% YoY to Rs38bn/Rs29bn respectively (our est. Rs37bn/28bn respectively) driven by strong operating performance, lower opex partially offset by higher finance costs and lower other income. Going forward, due to delay in start of some clinical studies, SUNP has revised down its guidance of R&D expense to be 7-8% of sales in FY25E. Moreover, India segment is likely to witness volume-led growth across therapies. We raise our earnings estimates for FY25E/FY26E by 7%/6%, factoring a) superior execution in global specialty sales, b) improvement in profitability due to lower R&D expense. We roll-forward our estimates to 1HFY27E valuing SUNP on SOTP (38x Sep'26 core EPS + NPV of gRevlimid at INR31) to arrive at revised TP of Rs2300. Upgrade to BUY.

US formulations continue to drive growth

In 2QFY25, US sales grew 20% YoY to USD517mn, largely led by increased traction. Global specialty sales were USD286mn (+19% YoY; ~18% of sales). The growth was mainly contributed by continued traction in Ilumya, Winlevi and Cequa. To drive future growth, SUNP continues to invest in strengthening the product pipeline. In Jul'24, the USFDA approved Leqselvi (deuruxolitinib) 8 mg tablets. However, a motion seeking a preliminary injunction has been filed in a U.S. court by Incyte to prevent its launch. Moreover, it is conducting phase-3 trials of Ilumya while other products such as MM-II, SCD-044 and GL0034 are under various stages of trial. We expect 18% sales CAGR in US segment reaching USD3b over FY24-27E.

DF segment to continue outperforming IPM

In 2QFY25, India business grew 11% YoY to Rs42.6bn led by steady performance in chronic/ sub-chronic therapies such as Anti-diabetic, CNS, Gastro and Urology. SUNP is focusing towards increasing reach and access to gain market share while improving productivity. SUNP launched 14 products in the DF segment in the quarter. We expect DF segment to post 11% CAGR over FY24-27E.

Upgrade to BUY

SUNP focus is on gaining revenue traction, cost control/optimization, business continuity, and on the specialty basket. SUNP maintains its leadership position in the domestic market and support from ROW markets is healthy. US market will continue to be driven by specialty business. We raise our earnings estimates for FY25E/FY26E by 7%/6%, factoring a) superior execution in global specialty sales, b) improvement in profitability due to lower R&D expense. We roll-forward our estimates to 1HFY27E valuing SUNP on SOTP (38x Sep'26 core EPS + NPV of gRevlimid at INR31) to arrive at TP of Rs2300. Upgrade to BUY.

Financial and valuation summary

YE Mar (Rs mn)	2QFY25A	2QFY24A	YoY (%)	1QFY25A	QoQ (%)	FY25E	FY26E	FY27E
Revenues	1,32,642	1,20,031	10.5	1,25,245	5.9	5,48,486	6,33,579	7,07,254
EBITDA	37,837	30,242	25.1	35,298	7.2	1,55,742	1,80,608	2,02,341
EBITDA margin (%)	28.5	25.2	13.2	28.2	1.2	28.4	28.5	28.6
Adj. Net profit	29,323	24,048	21.9	28,779	1.9	1,28,847	1,45,760	1,60,583
Adj. EPS (Rs)	12.1	10.0	21.9	12.0	1.9	53.7	60.8	66.9
EPS growth (%)						29.3	13.1	10.2
PE (x)						35.4	31.3	28.4
EV/EBITDA (x)						22.6	18.9	16.3
PBV (x)						6.0	5.0	4.3
RoE (%)						18.4	17.4	16.2
RoCE (%)						17.2	16.6	15.6

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Pharma & Healthcare

28 October, 2024

BUY

Price: Rs1,903

Target Price: Rs2,300

Forecast return: 21%

Institutional Research

Market Data

Bloomberg:	SUNP IN
52 week H/L:	1,960/1,068
Market cap:	Rs4565.6bn
Shares Outstanding:	2399.3mn
Free float:	42.3%
Avg. daily vol. 3mth:	21,20,440

Source: Bloomberg

Changes in the report

Rating:	Upgrade from ADD to BUY
Target price:	Increased from Rs1900 to Rs2300

Source: Centrum Broking

Shareholding pattern

	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	54.5	54.5	54.5	54.5
FII's	18.0	17.2	17.7	17.1
DII's	18.6	19.3	18.8	19.5
Public/other	8.9	9.0	9.0	8.9

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs m)	Centrum Q2FY25	Actual Q2FY25	Variance (%)
Revenue	133,522	132,642	-1
EBITDA	36,719	37,837	3
EBITDA margin	27.5%	28.5%	100bp
Adj. PAT	27,995	29,323	5

Source: Bloomberg, Centrum Broking



Sumit Gupta

Research Analyst, Pharma & Healthcare
+91-02242159021

sumit.gupta@centrum.co.in



Varad Patil

Research Associate, Pharma & Healthcare
+91-022-4215 9021

varad.patil@centrum.co.in

Pharma & Healthcare

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E Old	FY25E New	% chg	FY26E Old	FY26E New	% chg
Revenue	5,48,486	5,48,486	0%	6,33,579	6,33,579	0%
EBITDA	1,47,515	1,55,742	6%	1,72,371	1,80,608	5%
EBITDA margin	26.9	28.4	150bp	27.2	28.5	130bp
Adj. PAT	1,20,782	1,28,847	7%	1,37,587	1,45,760	6%

Source: Centrum Broking

Sun Pharma versus NIFTY 50

	1m	6m	1 year
sunp in equity	(2.4)	26.3	71.2
Nifty 50	(7.0)	7.5	27.8

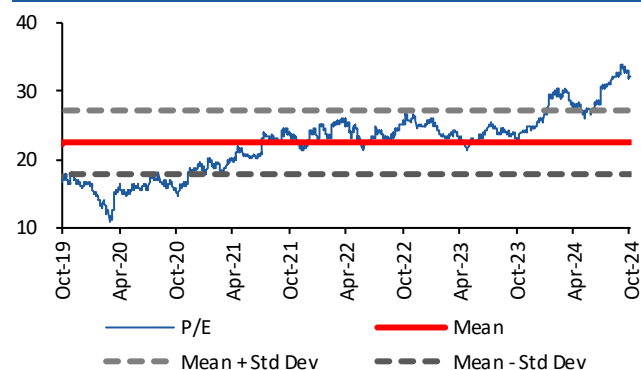
Source: Bloomberg, NSE

Valuations

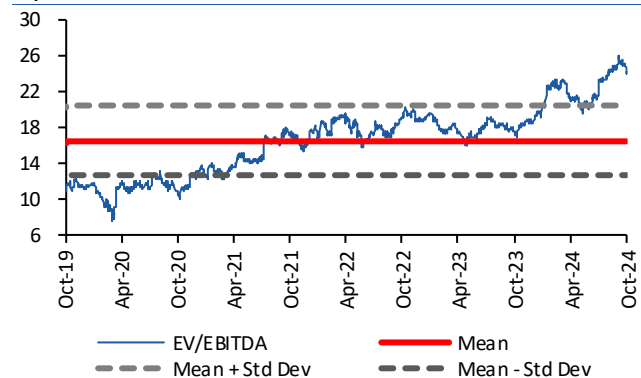
We roll-forward our estimates to 1HFY27E valuing SUNP on SOTP (38x Sep'26 core EPS + NPV of gRevlimid at INR31) to arrive at TP of Rs2300. **Upgrade to BUY.**

Valuations	Rs/share
FY26E core EPS (Rs)	60
PE Multiple	38
NPV-Revlimid (Rs)	31
Target price (Rs)	2,300

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

	Mkt Cap	CAGR (FY24-27E)			P/E (x)			EV/EBITDA (x)			RoE (%)		
	(Rs bn)	Sales	EBITDA	EPS	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
SUN PHARMA	4,566	14	18	17	35	31	28	29	25	22	18	17	16
CIPLA LTD	1,214	10	9	10	25	22	21	17	15	15	17	17	15
DR REDDY'S	1,094	16	12	8	4	3	3	13	11	10	18	18	16
TORRENT PHARMA	1,121	14	18	28	55	42	34	29	25	21	28	31	31
JB CHEM & PHARMA	290	15	18	24	40	33	27	27	24	20	23	22	21

Source: Company, Centrum Broking

Exhibit 1: Quarterly earnings update (Rs mn)

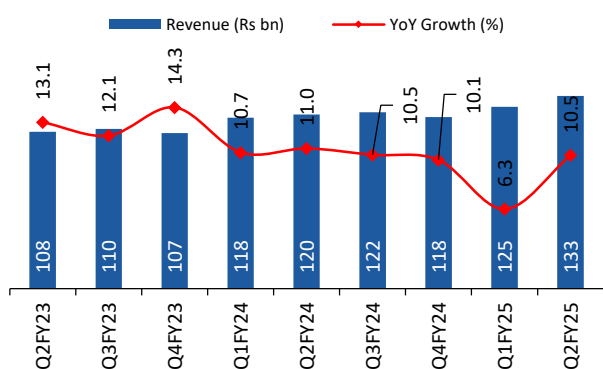
Y/E March	FY24				FY25		FY24	FY25E	Estimates	
(Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25			Q2FY25E	%var
Net Sales	1,17,852	1,20,031	1,21,569	118,133	1,25,245	1,32,642	4,77,585	5,48,486	1,33,522	-1
YoY Change(%)	10.7	11.0	10.5	10.1	6.3	10.5		14.8		
Gross Margin(%)	76.6	76.8	77.5	79.8	78.6	79.7	77.7	78.4	78.0	170bp
EBITDA	31,740	30,242	31,284	29,220	35,298	37,837	1,22,486	1,55,742	36,719	3
EBITDA Margin(%)	26.9	25.2	25.7	24.7	28.2	28.5	25.6	28.4	27.5	100bp
YoY Change(%)	21.1	-1.0	13.2	11.3	11.2	25.1		27.2		
Adjusted PAT	22,828	24,048	24,769	28,042	28,779	29,323	99,688	1,28,847	27,995	5
Net Margin(%)	19.4	20.0	20.4	23.7	23.0	22.1	20.9	23.5	21.0	
YoY Change(%)	18.5	-3.4	19.2	29.5	26.1	21.9		29.3		

Source: Centrum Broking, Company Data

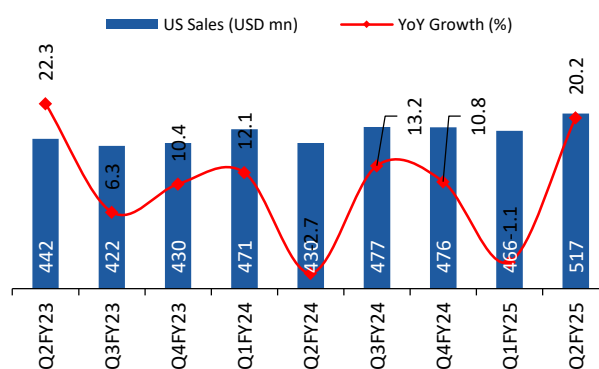
Exhibit 2: Segmental data (Rs mn)

Segment revenue	FY24				FY25		FY24	FY25E
	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25		
US	38709	35504	39736	39544	38894	43274	153493	182625
YoY Change(%)	19.3	7.9	14.6	11.9	0.5	21.9		19.0
India	35604	38425	37785	37078	41445	42652	148893	165271
YoY Change(%)	5.1	11.1	11.4	10.2	16.4	11.0		11.0
ROW	16041	17000	17797	16290	15814	16633	67128	80077
YoY Change(%)	9.3	17.7	14.4	3.5	-1.4	-2.2		19.3
Emerging Markets	21452	23449	20946	20348	23695	24519	86195	96503
YoY Change(%)	13.4	13.3	-1.0	11.8	10.5	4.6		12.0
API	5396	4972	4661	4458	4946	5338	19187	21105
YoY Change(%)	-9.9	5.1	-9.6	15.7	-8.3	7.4		10.0
Others	650	680	644	715	451	226	2690	2905
YoY Change(%)	17.1	-3.4	17.5	51.7	-30.6	-66.8		8.0

Source: Centrum Broking, Company Data

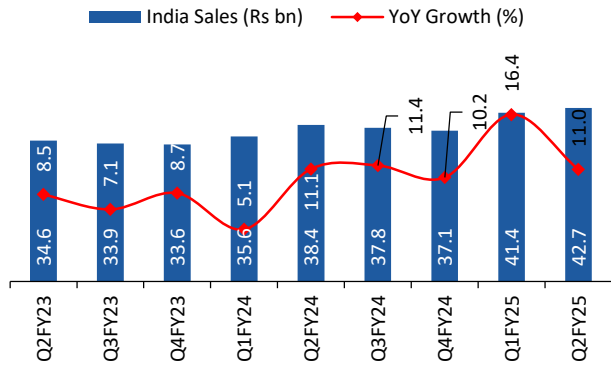
Exhibit 3: Revenue grew 10.5% YoY to Rs133bn in 2QFY25

Source: Centrum Broking, Company Data

Exhibit 4: US Sales grew 20% YoY to USD517mn in 2QFY25

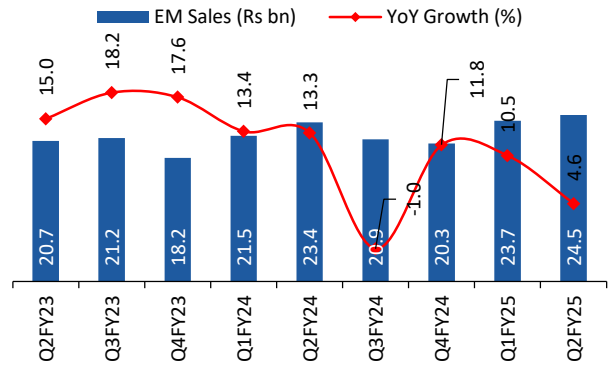
Source: Centrum Broking, Company Data

Exhibit 5: India Sales grew 11% YoY to Rs43bn in 2QFY25



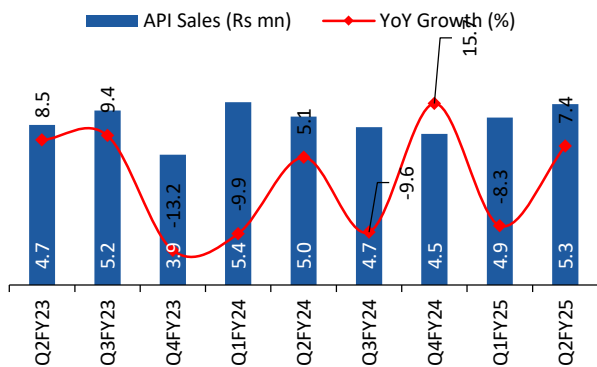
Source: Centrum Broking, Company Data

Exhibit 6: EM Sales grew 5% YoY to Rs24.5bn in 2QFY25



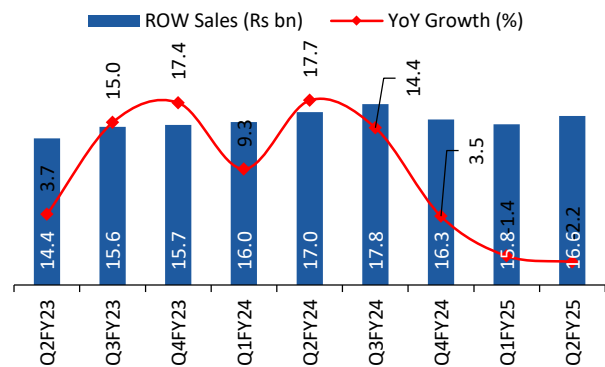
Source: Centrum Broking, Company Data

Exhibit 7: API Sales grew 7% YoY to Rs5bn in 2QFY25



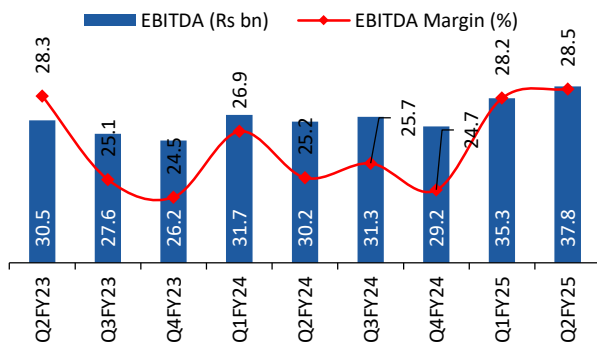
Source: Centrum Broking, Company Data

Exhibit 8: ROW Sales declined 2% YoY to Rs17bn in 2QFY25



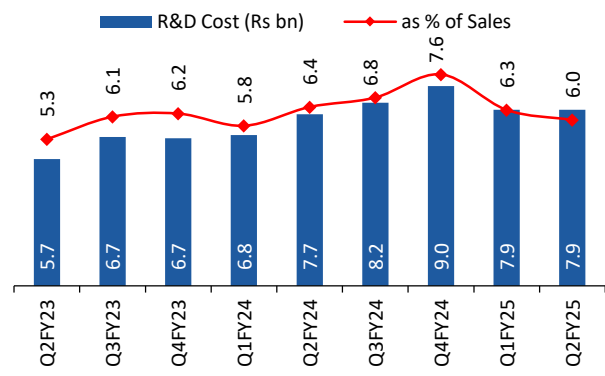
Source: Centrum Broking, Company Data

Exhibit 9: EBITDA Margin grew 330bp YoY to 28.5% in 2QFY25



Source: Centrum Broking, Company Data

Exhibit 10: R&D Cost was 6% of Sales in 2QFY25



Source: Centrum Broking, Company Data

Exhibit 11: Key concall takeaways

Centrum Quarterly Monitor	Q1FY25	Q2FY25	Our Comments
Demand environment	India sales grew 16% YoY on back of strong domestic market. RoW segment witnessing pricing pressure.	India sales grew 13% YoY outperforming IPM. US showed strong growth with generic business growing YoY. RoW faced pressure due to price cuts in Japan.	We expect the Indian domestic pharma industry continue to do well compared to other geographies. US sales to be aided by new launches and specialty sales.
Outlook and guidance	Continue to guide for R&D spend of 8-10% as % sales expects to see step-up in coming quarters	R&D spend guidance of 7-8% as % sales for FY25. Expects to see step-up in R&D spend in H2FY25.	Global specialty pipeline to continue to drive growth in the US. India to grow on the back of increased traction outperforming the IPM.
New product launch updates	1 ANDA was filed and 3 new approvals were received during the quarter. Launched 6 new products in India.	3 ANDA were filed and 1 new approval was received during the quarter. Launched 14 new products in India.	We continue to monitor new approvals and their potential market size. Await for further developments on LEQSELVI and Global Specialty pipeline
Regulatory actions	Received conclusion of warning letter from USFDA for Dadra plant.	No further updates on Dadra plant.	We await further clarification on USFDA conclusion on Dadra plant
On margins and exceptional items	Gross margin expanded to 78.6% (+200bp) and EBITDA margin expanded by 125bp to 28.2%	Gross margin expanded to 79.7% (+290bp YoY) and EBITDA margin expanded by 330bp to 28.5%	We expect EBITDA margins to expand 300bp to 28.6% by FY27E

Source: Centrum Broking, Company Data

Operational Highlights – Q2FY25

India Formulations

- Sales grew 11% YoY to Rs42.6bn accounting for 32% of sales majorly driven by volumes.
- Launched 14 new products during the quarter.
- Continues to be No.1 pharma company in IPM with 8.1% market share (up from 7.7%) as of Sep-2024 (as per AIOCD AWACS).

US Formulations

- Sales grew 22% YoY to Rs43bn and grew 20% YoY in CC terms to USD517mn, accounting for 33% of sales.
- During the quarter, 3 ANDA were filed and 1 new ANDA approvals were received. Also, 1 new NDA approval was received.

Other highlights

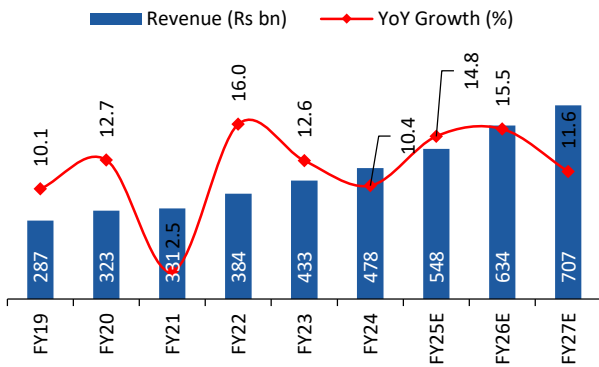
- Global Specialty sales grew 19% YoY to USD286mn accounting for 18% of sales.
- Specialty R&D pipeline includes 7 molecules undergoing clinical trials.
- R&D investments stood at Rs7.9bn up 3% YoY and was 6% of sales.

Concall Highlights

- **R&D Guidance:** SUNP revised down its guidance of FY25 R&D spend of 7-8 of sales. It expects step up in R&D spend in 2HFY25.
- **On R&D:**
 - R&D expenses below guidance due to delays in some clinical trials with H2FY25 will see pick-up in R&D expenses
 - In 2QFY25, Specialty R&D constituted 38% of total R&D spend
- It expects margins to be driven by higher share of specialty sales
- **US Business:**
 - Launched 2 generic products in US during the quarter
 - US generics business (ex-Revlimid) has grown YoY but declined QoQ. The growth was driven by robust traction in key products
- **LEQSELVI update:** Awaiting for the court judgement, difficult to state the exact timeline for launch but SUNP is ready for the launch post-verdict
- **WINLEVI:** able to achieve profitable prescriptions post strategy change and with lower base expect improvement in prescriptions sequentially
- **India:** SUNP has been driven by strong volume growth of 5.2% vs 0.2% for IPM (IQVIA data)
- Focus markets in EM segment: Brazil, Romania, South Africa, Russia and Mexico
- Management saw good response for Ilumetri product from China
- Currently, SUNP is not looking to enter products/markets where it would open SUNP in competition with the big pharma companies
- **RoW:** Revenues declined due to price cuts in Japan market which is expected to affect RoW sales for further 2 quarters
- Cash stood at USD2.6bn as of Sep 2024

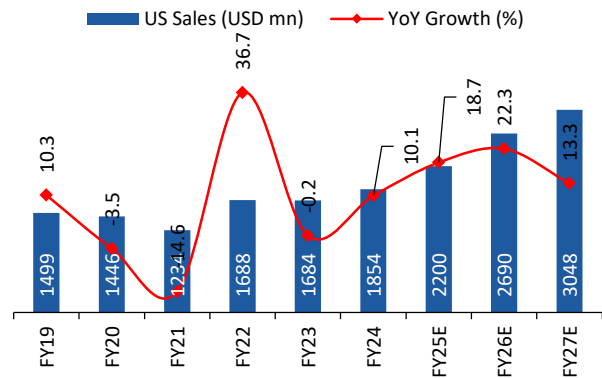
Story in charts

Exhibit 12: Revenues to exhibit 14% CAGR over FY24-27E



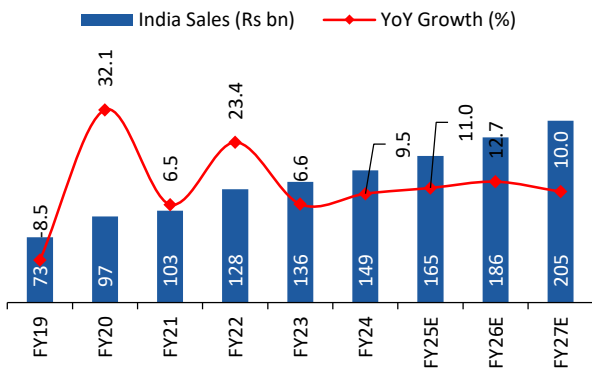
Source: Company Data, Centrum Broking

Exhibit 13: US to exhibit 18% CAGR over FY24-27E



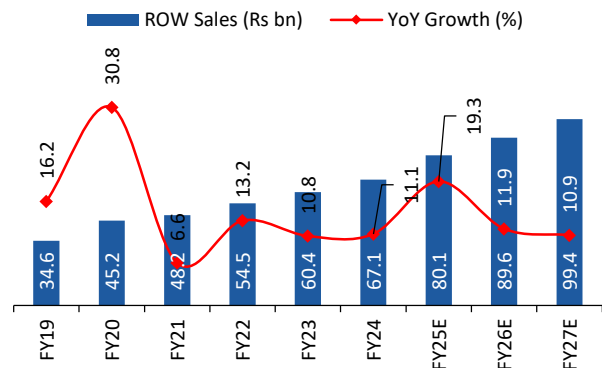
Source: Company Data, Centrum Broking

Exhibit 14: India Sales to exhibit 11% CAGR over FY24-27E



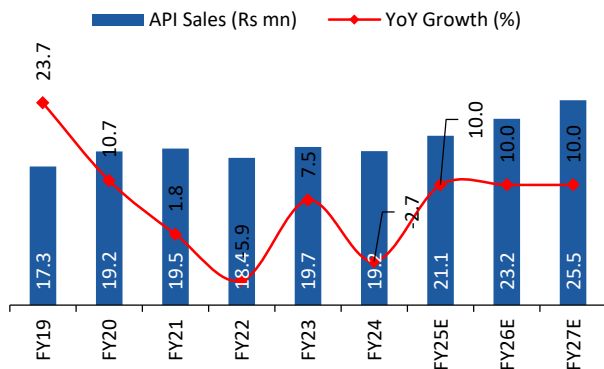
Source: Company Data, Centrum Broking

Exhibit 15: ROW to exhibit 14% CAGR over FY24-27E



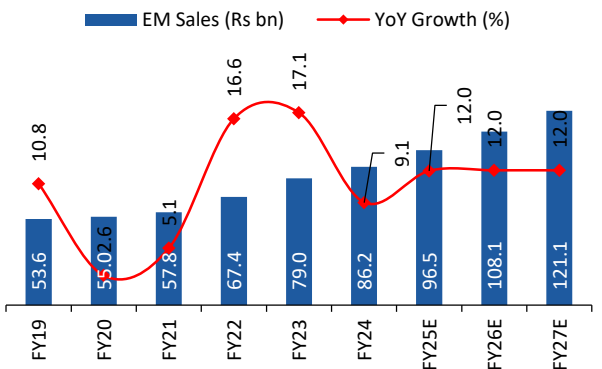
Source: Company Data, Centrum Broking

Exhibit 16: API to exhibit 10% CAGR over FY24-27E



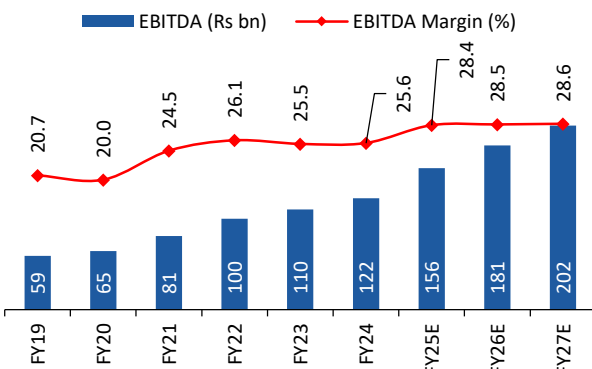
Source: Centrum Broking, Company Data

Exhibit 17: EM to exhibit 12% CAGR over FY24-27E



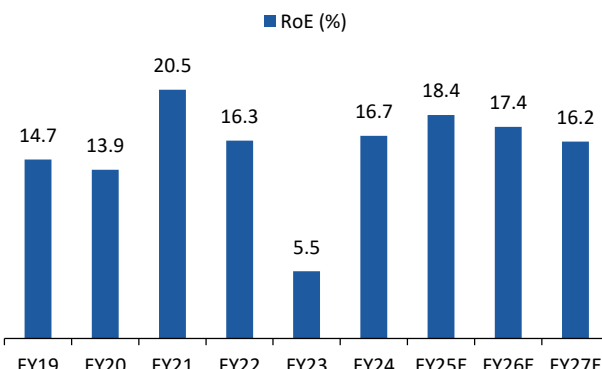
Source: Centrum Broking, Company Data

Exhibit 18: EBITDA Margin to reach 29% by FY27E



Source: Centrum Broking, Company Data

Exhibit 19: RoE to be stable at 16% by FY27E



Source: Centrum Broking, Company Data

&L					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenues	4,32,789	4,77,585	5,48,486	6,33,579	7,07,254
Operating Expense	3,22,389	3,55,099	3,92,744	4,52,971	5,04,913
Employee cost	82,960	94,291	1,01,470	1,15,311	1,28,720
Others	1,32,807	1,54,182	1,72,737	2,02,707	2,28,377
EBITDA	1,10,400	1,22,486	1,55,742	1,80,608	2,02,341
Depreciation & Amortisation	25,294	25,566	29,362	38,015	43,850
EBIT	91,173	1,04,304	1,34,607	1,52,097	1,69,100
Interest expenses	1,720	2,385	1,231	692	415
Other income	6,345	13,542	16,455	19,007	21,218
PBT	95,799	1,15,461	1,49,831	1,70,412	1,89,903
Taxes	8,476	14,395	20,227	23,858	28,485
Effective tax rate (%)	8.8	12.5	13.5	14.0	15.0
PAT	87,323	1,01,066	1,29,604	1,46,555	1,61,417
Minority/Associates	(873)	(721)	(757)	(794)	(834)
Recurring PAT	28,779	99,688	1,28,847	1,45,760	1,60,583
Extraordinary items	(1,715)	(4,943)	0	0	0
Reported PAT	84,736	95,764	1,28,847	1,45,760	1,60,583

Ratios					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Growth (%)					
Revenue	12.6	10.4	14.8	15.5	11.6
EBITDA	10.2	10.9	27.2	16.0	12.0
Adj. EPS	(62.6)	246.4	29.3	13.1	10.2
Margins (%)					
Gross	76.8	79.2	79.9	80.2	80.6
EBITDA	25.5	25.6	28.4	28.5	28.6
EBIT	20.8	21.5	24.2	23.7	23.6
Adjusted PAT	19.3	19.7	23.1	22.7	22.4
Returns (%)					
ROE	5.5	16.7	18.4	17.4	16.2
ROCE	15.0	15.1	17.2	16.6	15.6
ROIC	13.5	15.0	18.3	19.2	20.0
Turnover (days)					
Gross block turnover ratio (x)	2.0	2.1	2.2	2.7	3.2
Debtors	92	85	84	87	89
Inventory	334	349	336	346	353
Creditors	174	194	162	142	145
Net working capital	222	225	292	327	370
Solvency (x)					
Net debt-equity	0.0	(0.1)	(0.2)	(0.3)	(0.4)
Interest coverage ratio	64.2	51.4	126.5	261.0	487.8
Net debt/EBITDA	0.1	(0.6)	(1.1)	(1.5)	(2.0)
Per share (Rs)					
Adjusted EPS	12.0	41.5	53.7	60.8	66.9
BVPS	233.4	265.4	319.1	379.8	446.7
CEPS	22.5	52.2	65.9	76.6	85.2
DPS	11.5	13.5	13.5	13.5	13.5
Dividend payout (%)	31.2	95.9	32.5	26.8	23.5
Valuation (x)					
P/E	158.6	45.8	35.4	31.3	28.4
P/BV	8.1	7.2	6.0	5.0	4.3
EV/EBITDA	33.6	29.6	22.6	18.9	16.3
Dividend yield (%)	0.6	0.7	0.7	0.7	0.7

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity share capital	2,399	2,399	2,399	2,399	2,399
Reserves & surplus	5,57,555	6,34,268	7,63,116	9,08,876	10,69,459
Shareholders fund	5,59,954	6,36,668	7,65,515	9,11,275	10,71,858
Minority Interest	33,201	34,392	35,424	36,487	37,581
Total debt	68,897	32,737	17,583	9,884	5,926
Non Current Liabilities	9,574	10,689	10,154	9,647	9,164
Def tax liab. (net)	0	0	0	0	0
Total liabilities	6,71,626	7,14,485	8,28,676	9,67,293	11,24,530
Gross block	2,20,160	2,27,684	2,48,548	2,35,765	2,22,351
Less: acc. Depreciation	(1,16,226)	(1,25,760)	(1,55,122)	(1,93,137)	(2,36,987)
Net block	1,03,904	1,01,923	95,565	90,452	85,086
Capital WIP	9,634	11,077	11,077	11,077	11,077
Net fixed assets	2,93,933	2,85,653	2,80,287	2,80,049	2,80,279
Non Current Assets	79,133	88,764	64,847	74,173	82,247
Investments	3,894	4,426	4,463	4,503	4,547
Inventories	1,05,131	98,683	1,19,545	1,36,186	1,49,720
Sundry debtors	1,14,385	1,12,494	1,42,757	1,64,904	1,84,080
Cash & Cash Equivalents	57,703	1,05,207	1,91,087	2,86,914	4,05,132
Loans & advances	413	650	1,503	1,736	1,938
Other current assets	1,21,202	1,17,716	1,20,903	1,24,409	1,28,265
Trade payables	56,815	56,533	48,745	56,263	60,890
Other current liab.	25,445	30,029	38,103	41,997	45,884
Provisions	53,550	53,582	50,903	48,358	45,940
Net current assets	2,63,023	2,94,606	4,38,043	5,67,532	7,16,421
Total assets	6,71,626	7,14,485	8,28,676	9,67,293	11,24,530

Cashflow					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Profit Before Tax	1,17,760	1,10,879	1,92,613	2,22,999	2,52,141
Depreciation & Amortisation	25,294	25,566	29,362	38,015	43,850
Net Interest	1,720	2,385	1,231	692	415
Net Change – WC	(56,618)	10,621	(41,044)	(45,520)	(41,496)
Direct taxes	(15,098)	(15,694)	(20,227)	(23,858)	(28,485)
Net cash from operations	49,593	1,33,757	1,61,934	1,92,329	2,26,425
Capital expenditure	(20,676)	(21,710)	(15,397)	(28,319)	(33,675)
Acquisitions, net	0	0	0	0	0
Investments	(16,436)	9,325	(36)	(40)	(44)
Others	(42,325)	0	0	0	0
Net cash from investing	(79,437)	(12,385)	(15,433)	(28,359)	(33,719)
FCF	(29,844)	1,21,372	1,46,501	1,63,970	1,92,706
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	49,950	(35,130)	(15,154)	(7,698)	(3,958)
Dividend paid	(25,189)	(28,982)	0	(5,062)	(5,062)
Interest paid	(992)	(2,190)	(1,231)	(692)	(415)
Others	7,229	0	(44,236)	(54,691)	(65,053)
Net cash from financing	30,998	(66,302)	(60,621)	(68,143)	(74,488)
Net change in Cash	1,155	55,069	85,880	95,827	1,18,218

Source: Company, Centrum Broking

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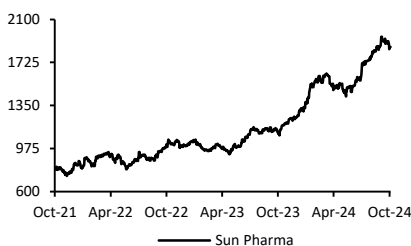
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Sun Pharma



Source: Bloomberg

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PORTFOLIO MANAGER

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Website: www.centrumbroking.com

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Ajay S Bendkhale

(022) 4215 9000/9023; Email ID: compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)**Registered and Corporate Office:**

Level -9, Centrum House, C.S.T. Road,

Vidyanagari Marg, Kalina,

Santacruz (East) Mumbai – 400098

Tel.: - +91 22 4215 9000