

**HOLD**

TP: Rs 1,160 | ▲ 2%

**SUN PHARMA**

| Pharmaceuticals

| 03 August 2023

## gRevlimid buoys performance; upside capped – cut to HOLD

- Q1 revenue/EBITDA beat consensus by 2%/11%, but reported PAT missed estimates by 6% due to exceptional items
- Revenue increased 11% YoY aided by strong growth in US generics sales, particularly gRevlimid; adj. PAT grew 22%
- FY24-FY25 EBITDA estimates raised 2-3% and TP revised to Rs 1,160 (vs. Rs 1,130); cut to HOLD given a 20% rally in two months

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**Broad-based growth:** SUNP reported a healthy 11% YoY increase in Q1FY24 revenue to Rs 119bn on the back of growth across geographies, especially in the US generics business led by gRevlimid. Global specialty business declined 5% QoQ to US\$ 232mn, but Taro (up 8.4% QoQ to US\$ 159mn) and generics sales helped spur 10% QoQ growth in overall US business to US\$ 471mn. Management indicated that the ongoing drug shortage in the US did not contribute much given SUNP's small injectable portfolio. gRevlimid contribution is guided to be episodic going forward. Product filing was hit by a ransomware attack but is expected to pick up pace.

**India business sluggish; EM/ROW see healthy growth:** Domestic business underperformed the market with growth limited to 5% YoY. This could be attributed to the NLEM (National List of Essential Medicines) price cap impact and price reduction in Sitagliptin. SUNP indicated that it saw no impact on volumes and expects growth to normalise given traction in Cequa, new launches and recent field force addition. Emerging markets grew at a strong 13% YoY boosted by sales in Romania and Brazil. ROW growth for the quarter was 9% YoY.

**Lower R&D spend and gRevlimid boost margins:** Backed by gRevlimid contribution and lower R&D spend, SUNP reported 245bps YoY EBITDA margin expansion to 27.9% while gross margin climbed 385bps to 76.9%. Lower R&D spend at 5.6% (vs. 6.1% in Q4FY23) had a positive margin impact of 200bps QoQ. EBITDA/adj. PAT grew 22% YoY each to Rs 33bn/Rs 23bn. The company incurred an exceptional charge of Rs 3.2bn on account of impairment of acquired assets, Alchemy plant relocation and forex loss, affecting reported PAT (-2% YoY to Rs 20bn).

**Cut to HOLD, TP revised to Rs 1,160:** We raise our FY24-FY25 EBITDA estimates by 2-3% to capture the stronger Q1 margins. Based on an unchanged 18.5x FY25E EV/EBITDA multiple – a 25% premium to the stock's 5Y average – our TP stands revised to Rs 1,160 (vs. Rs 1,130). The stock has rallied ~20% over the past two months and is currently trading at 20.8x/18.0x FY24E/FY25E EV/EBITDA. Further price upside looks capped – we thus downgrade SUNP from BUY to HOLD.

### Key changes

Target	Rating
▲	▼

Ticker/Price	SUNP IN/Rs 1,141
Market cap	US\$ 33.3bn
Free float	45%
3M ADV	US\$ 34.5mn
52wk high/low	Rs 1,170/Rs 857
Promoter/FPI/DII	54%/16%/20%

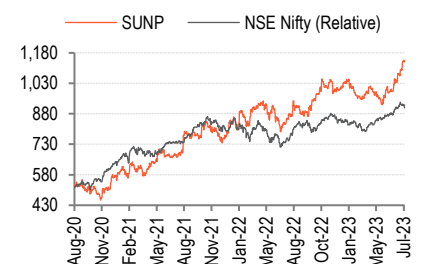
Source: NSE | Price as of 3 Aug 2023

### Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	4,32,789	4,83,062	5,32,693
EBITDA (Rs mn)	1,16,468	1,24,488	1,42,606
Adj. net profit (Rs mn)	86,451	95,801	1,11,077
Adj. EPS (Rs)	36.0	39.9	46.3
Consensus EPS (Rs)	36.0	38.0	44.4
Adj. ROAE (%)	15.7	15.1	15.4
Adj. P/E (x)	31.7	28.6	24.6
EV/EBITDA (x)	22.3	20.8	18.0
Adj. EPS growth (%)	12.5	10.8	15.9

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY24	QoQ (%)	FY23	FY22	YoY (%)
<b>Net Sales</b>	<b>1,19,408</b>	<b>1,07,618</b>	<b>11.0</b>	<b>1,09,307</b>	<b>9.2</b>	<b>4,38,857</b>	<b>3,86,545</b>	<b>13.5</b>
<b>EBITDA</b>	<b>33,297</b>	<b>27,387</b>	<b>21.6</b>	<b>28,293</b>	<b>17.7</b>	<b>1,17,729</b>	<b>1,02,438</b>	<b>14.9</b>
Depreciation	6,513	5,880	-	6,715	-	25,294	21,437	-
<b>EBIT</b>	<b>26,784</b>	<b>21,507</b>	<b>24.5</b>	<b>21,578</b>	<b>24.1</b>	<b>92,435</b>	<b>81,000</b>	<b>14.1</b>
Interest	809	137	-	927	-	1,720	1,274	-
Other Income	2,044	21	-	3,733	-	6,345	9,215	-
<b>PBT</b>	<b>28,020</b>	<b>21,392</b>	<b>31.0</b>	<b>24,383</b>	<b>14.9</b>	<b>97,060</b>	<b>88,942</b>	<b>9.1</b>
Less: Taxation	4,681	1,890	-	2,229	-	8,476	10,755	-
Less: Minority Interest	(95)	350	-	323	-	873	1,331	-
<b>Recurring PAT</b>	<b>23,434</b>	<b>19,152</b>	<b>22.4</b>	<b>21,831</b>	<b>7.3</b>	<b>87,711</b>	<b>76,856</b>	<b>14.1</b>
Exceptional items	(3,208)	1,457	-	(1,986)	-	(2,976)	(44,129)	-
<b>Reported PAT</b>	<b>20,225</b>	<b>20,609</b>	<b>(1.9)</b>	<b>19,845</b>	<b>1.9</b>	<b>84,736</b>	<b>32,727</b>	<b>158.9</b>
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
Gross Margin	76.9	73.1	385	79.4	(251)	75.7	73.2	248
EBITDA Margin	27.9	25.4	244	25.9	200	26.8	26.5	33
Tax / PBT	16.7	8.8	-	9.1	-	8.7	12.1	-
NPM	19.6	17.8	-	20.0	-	20.0	19.9	-
EPS (Rs)	9.8	8.0	-	9.1	-	36.6	32.0	-

Source: Company, BOBCAPS Research

**Fig 2 – Revenue mix**

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY24	QoQ (%)	FY23	FY22	YoY (%)
<b>Formulation</b>	<b>1,11,805</b>	<b>99,897</b>	<b>11.9</b>	<b>1,02,932</b>	<b>8.6</b>	<b>4,10,786</b>	<b>3,63,306</b>	<b>13.1</b>
Domestic	35,604	33,871	5.1	33,641	5.8	1,36,031	1,27,593	6.6
Exports	76,202	66,026	15.4	69,291	10.0	2,74,755	2,35,712	16.6
US	38,709	32,437	19.3	35,343	9.5	1,35,353	1,13,737	19.0
EM	21,452	18,911	13.4	18,204	17.8	78,977	67,432	17.1
ROW	16,041	14,678	9.3	15,744	1.9	60,426	54,545	10.8
APIs and others	6,046	6,543	(7.6)	4,324	39.8	22,003	20,958	5.0
<b>Net Sales</b>	<b>1,17,852</b>	<b>1,06,440</b>	<b>10.7</b>	<b>1,07,256</b>	<b>9.9</b>	<b>4,32,789</b>	<b>3,84,264</b>	<b>12.6</b>
OOI	1,557	1,178	32.2	2,051	(24.1)	6,068	2,281	166.0
<b>Revenue</b>	<b>1,19,408</b>	<b>1,07,618</b>	<b>11.0</b>	<b>1,09,307</b>	<b>9.2</b>	<b>4,38,857</b>	<b>3,86,545</b>	<b>13.5</b>
USDINR	82.2	77.2	6.5	82.3	(0.1)	80	74.5	7.9
US revenue (US\$ mn)	471	420	12.0	430	9.6	1,684	1,527	10.3

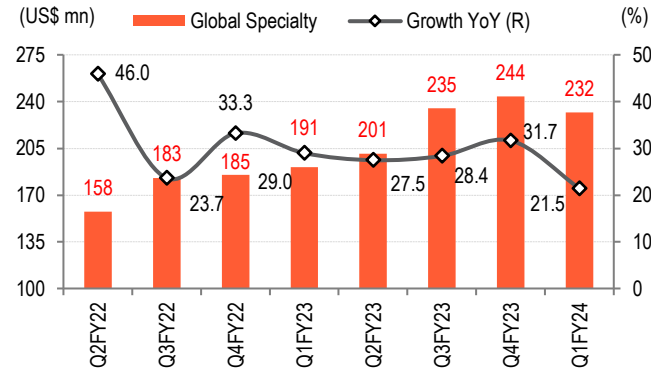
Source: Company

**Fig 3 – Specialty pipeline status**

Candidate	Indication	Current phase
Deuruxolitinib	Alopecia Areata	Phase-3 completed
Ilumya	Psoriatic Arthritis	Phase-3
MM-II	Pain in Osteoarthritis	Phase-2 completed
SCD-044	Psoriasis, Atopic Dermatitis	Phase 2
GL0034	Type-2 Diabetes	Phase-1 completed

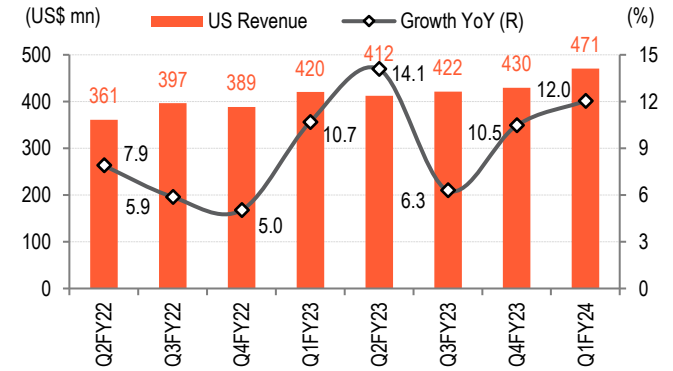
Source: Company

**Fig 4 – Global specialty revenue**



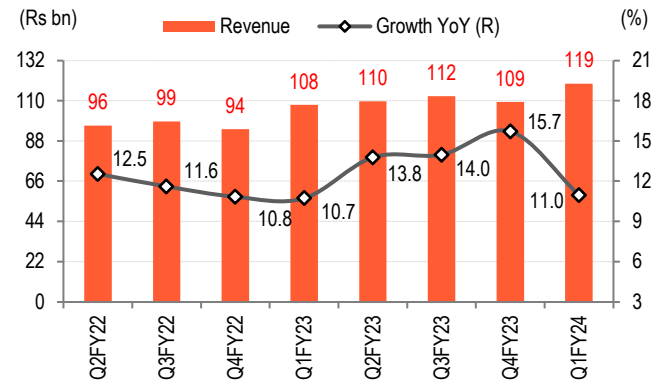
Source: Company, BOBCAPS Research

**Fig 5 – US market revenue**



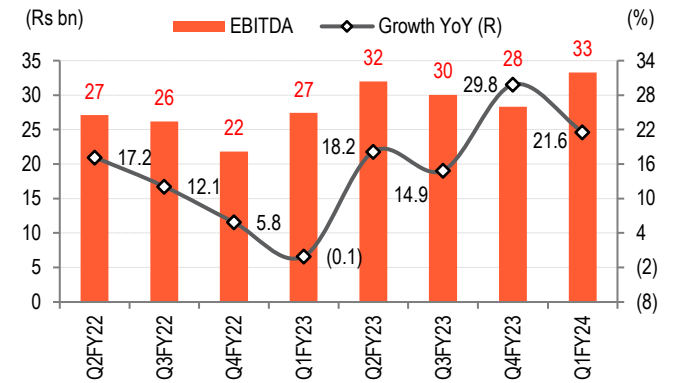
Source: Company, BOBCAPS Research

**Fig 6 – Revenue**



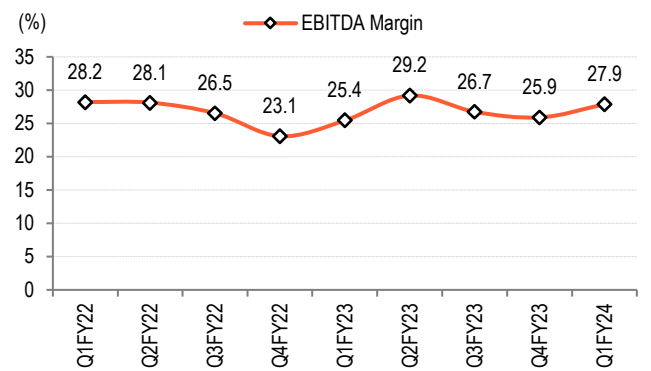
Source: Company, BOBCAPS Research

**Fig 7 – EBITDA**



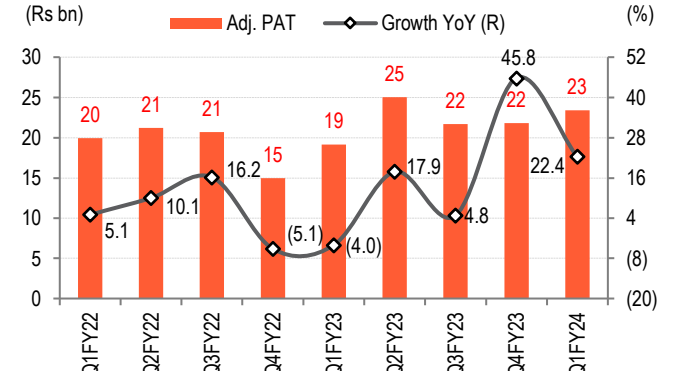
Source: Company, BOBCAPS Research

**Fig 8 – EBITDA margin**



Source: Company, BOBCAPS Research

**Fig 9 – Adj. PAT**



Source: Company, BOBCAPS Research

## Valuation methodology

We raise our FY24-FY25 EBITDA estimates by 2-3% to capture the stronger Q1FY24 margins. Based on an unchanged 18.5x FY25E EV/EBITDA multiple – a 25% premium to the stock's five-year average – our TP stands revised to Rs 1,160 (vs. Rs 1,130). The stock has rallied ~20% over the past two months and is currently trading at 20.8x/18.0x FY24E/FY25E EV/EBITDA. Further price upside looks capped – we thus downgrade SUNP from BUY to HOLD.

**Fig 10 – Revised estimates**

(Rs bn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	483.1	532.7	483.1	532.7	0.0	(0.0)
EBITDA	124.5	142.6	121.4	139.2	2.5	2.4
EBITDA margin (%)	25.8	26.8	25.1	26.1	64bps	64bps
EPS (Rs)	39.9	46.3	38.8	45.1	2.9	2.7

Source: BOBCAPS Research

**Fig 11 – Key assumptions**

Revenue (Rs bn)	FY23A	FY24E	FY25E
<b>Formulation</b>	<b>410.8</b>	<b>459.3</b>	<b>506.4</b>
Domestic	136.0	150.1	165.9
Export	274.8	309.1	340.5
US	135.4	155.2	172.9
EM	79.0	86.9	95.6
ROW	60.4	67.0	72.1
<b>API</b>	<b>19.7</b>	<b>21.3</b>	<b>23.4</b>
Others	2.3	2.5	2.9

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- clearance of the Halol and Mohali plants,
- positive results from pipeline drugs, especially Deuruxolitinib, and
- higher gRevlimid sales.

Key downside risks to our estimates are:

- continued regulatory hindrances to plants under USFDA scrutiny,
- deterioration in generic pricing environment in the US, and
- reduced market share and heightened competition for gRevlimid.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.6	1,722	1,860	BUY
Alembic Pharma	ALPM IN	1.9	781	615	HOLD
Alkem Labs	ALKEM IN	5.9	4,023	3,000	SELL
Cipla	CIPLA IN	11.4	1,166	1,250	BUY
Divi's Labs	DIVI IN	12.0	3,726	3,200	HOLD
Dr Reddy's Labs	DRRD IN	11.5	5,660	4,900	HOLD
Eris Lifesciences	ERIS IN	1.3	796	800	BUY
Glenmark Life Sciences	GLS IN	0.9	630	620	HOLD
Laurus Labs	LAURUS IN	2.5	384	340	HOLD
Lupin	LPC IN	5.7	1,035	700	HOLD
Sun Pharma	SUNP IN	33.3	1,141	1,160	HOLD

Source: BOBCAPS Research, NSE | Price as of 3 Aug 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>3,32,331</b>	<b>3,84,265</b>	<b>4,32,789</b>	<b>4,83,062</b>	<b>5,32,693</b>
EBITDA	84,913	1,02,438	1,16,468	1,24,488	1,42,606
Depreciation	20,800	21,437	25,294	26,663	28,032
EBIT	64,113	81,001	91,174	97,825	1,14,574
Net interest inc./(exp.)	(1,414)	(1,274)	(1,720)	(1,641)	(1,566)
Other inc./(exp.)	8,355	9,215	6,345	15,220	16,783
Exceptional items	0	0	0	0	0
EBT	71,054	88,942	95,799	1,11,404	1,29,791
Income taxes	5,147	10,755	8,476	13,926	16,873
Extraordinary items	(43,061)	(44,129)	(1,715)	0	0
Min. int./Inc. from assoc.	(6,191)	1,331	873	1,678	1,841
<b>Reported net profit</b>	<b>29,038</b>	<b>32,728</b>	<b>84,736</b>	<b>95,801</b>	<b>1,11,077</b>
Adjustments	43,061	44,129	1,715	0	0
<b>Adjusted net profit</b>	<b>72,099</b>	<b>76,856</b>	<b>86,451</b>	<b>95,801</b>	<b>1,11,077</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	39,737	44,793	56,815	49,308	52,199
Other current liabilities	54,349	34,479	31,628	31,660	31,695
Provisions	49,098	95,169	56,973	62,327	68,217
Debt funds	38,666	12,903	68,859	65,696	62,691
Other liabilities	0	0	0	0	0
Equity capital	2,399	2,399	2,399	2,399	2,399
Reserves & surplus	4,92,399	5,08,263	5,90,755	6,70,493	7,62,918
Shareholders' fund	4,94,798	5,10,662	5,93,154	6,72,892	7,65,317
<b>Total liab. and equities</b>	<b>6,76,667</b>	<b>6,98,005</b>	<b>8,07,429</b>	<b>8,81,883</b>	<b>9,80,119</b>
Cash and cash eq.	64,455	50,333	57,930	1,18,900	1,97,832
Accounts receivables	90,614	1,05,929	1,14,385	1,23,538	1,36,230
Inventories	89,970	89,968	1,05,131	1,13,101	1,24,721
Other current assets	1,04,305	85,817	87,984	87,984	87,984
Investments	96,125	1,28,486	1,48,301	1,48,301	1,48,301
Net fixed assets	1,02,350	1,03,721	1,03,670	1,00,030	95,023
CWIP	15,668	12,868	49,732	49,732	49,732
Intangible assets	1,13,180	1,20,884	1,40,297	1,40,297	1,40,297
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>6,76,667</b>	<b>6,98,005</b>	<b>8,07,429</b>	<b>8,81,883</b>	<b>9,80,119</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>73,544</b>	<b>83,401</b>	<b>59,617</b>	<b>1,04,829</b>	<b>1,25,143</b>
Capital expenditures	(12,192)	(27,712)	(81,520)	(23,024)	(23,024)
Change in investments	5,307	(32,361)	(19,815)	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(6,885)</b>	<b>(60,073)</b>	<b>(1,01,335)</b>	<b>(23,024)</b>	<b>(23,024)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(37,097)	(25,783)	55,956	(3,163)	(3,005)
Interest expenses	(1,414)	(1,274)	(1,720)	(1,641)	(1,566)
Dividends paid	(15,595)	(23,990)	(15,268)	(17,262)	(20,014)
Other financing cash flows	(17,535)	13,597	10,347	1,231	1,397
<b>Cash flow from financing</b>	<b>(71,641)</b>	<b>(37,450)</b>	<b>49,315</b>	<b>(20,835)</b>	<b>(23,188)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(4,983)</b>	<b>(14,122)</b>	<b>7,597</b>	<b>60,970</b>	<b>78,931</b>
<b>Closing cash &amp; cash eq.</b>	<b>64,455</b>	<b>50,333</b>	<b>57,930</b>	<b>1,18,900</b>	<b>1,97,832</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	12.1	13.6	35.3	39.9	46.3
Adjusted EPS	30.1	32.0	36.0	39.9	46.3
Dividend per share	6.5	10.0	6.4	7.2	8.3
Book value per share	193.7	200.1	233.4	266.1	304.1

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	8.0	6.8	6.0	5.4	4.8
EV/EBITDA	31.4	25.7	22.3	20.8	18.0
Adjusted P/E	38.0	35.6	31.7	28.6	24.6
P/BV	5.9	5.7	4.9	4.3	3.8

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	101.5	86.4	90.2	86.0	85.6
Interest burden (PBT/EBIT)	110.8	109.8	105.1	113.9	113.3
EBIT margin (EBIT/Revenue)	19.3	21.1	21.1	20.3	21.5
Asset turnover (Rev./Avg TA)	12.2	14.0	14.4	14.3	14.3
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
<b>Adjusted ROAE</b>	<b>14.6</b>	<b>15.3</b>	<b>15.7</b>	<b>15.1</b>	<b>15.4</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	2.8	15.6	12.6	11.6	10.3
EBITDA	15.9	20.6	13.7	6.9	14.6
Adjusted EPS	65.3	6.6	12.5	10.8	15.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	25.6	26.7	26.9	25.8	26.8
EBIT margin	19.3	21.1	21.1	20.3	21.5
Adjusted profit margin	21.7	20.0	20.0	19.8	20.9
Adjusted ROAE	14.6	15.3	15.7	15.1	15.4
ROCE	13.2	14.6	14.8	13.8	14.3
<b>Working capital days (days)</b>					
Receivables	101	93	93	93	93
Inventory	93	85	85	85	85
Payables	169	149	149	149	149
<b>Ratios (x)</b>					
Gross asset turnover	1.2	1.3	1.3	1.4	1.4
Current ratio	2.4	1.9	2.5	3.1	3.6
Net interest coverage ratio	45.3	63.6	53.0	59.6	73.2
<b>Adjusted debt/equity</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.4)</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**BUY** – Expected return >+15%

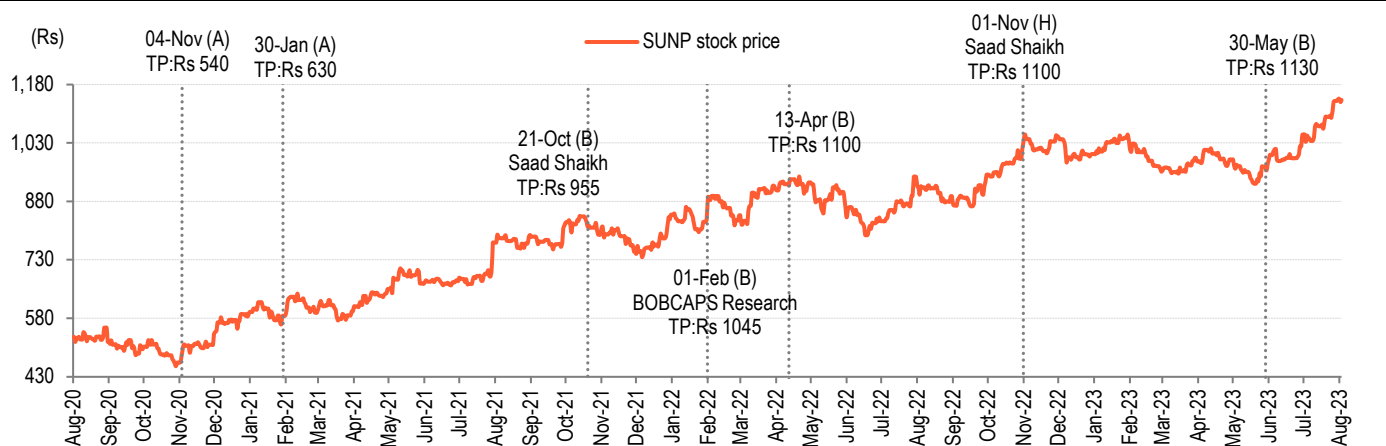
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): SUN PHARMA (SUNP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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