

HOLD
 TP: Rs 1,550 | ▲ 10%

SUN PHARMA

| Pharmaceuticals

| 01 February 2024

Strong quarter driven by specialty business

- Strong quarter with revenue/EBITDA in line and reported PAT 4% ahead of Bloomberg consensus
- High gross margin of 77.9% offset by increase in R&D and opex, keeping EBITDA margin flattish YoY at 27%
- TP raised to Rs 1,550 (vs. Rs 1,200) as we apply a higher EV/EBITDA multiple of 21x (vs. 19x) on FY26E; retain HOLD

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Specialty portfolio and milestone payment boost Q3: SUNP reported largely in-line revenue in Q3FY24 at Rs 124bn, up 10% YoY driven by North America and India businesses. North America business grew 11% QoQ CC to US\$ 477mn led by a strong performance in the specialty portfolio (especially Ilumya, Cequa and Levulan) as well as Taro business. Global specialty business at US\$ 296mn had a one-time milestone payment of US\$ 20mn, excluding which it grew 17% YoY CC. The quarter saw little contribution from gRevlimid.

India sales growth robust at 11% YoY: India business delivered strong market-beating growth of 11% YoY at a time when many of SUNP's large peers are struggling. Revenue from emerging markets dipped 1% YoY due to the impact of adverse currency movements and API (active pharma ingredient) business fell 10% YoY, whereas ROW and other markets grew at 14% and 18% YoY respectively.

Gross margin gain offset by increase in R&D and opex: SUNP's Q3 gross margin was strong at 77.9%, rising 285bps YoY (+75bps QoQ), but EBITDA margin inched up just 35bps YoY (+70bps QoQ) to 27.1%. This was on account of higher R&D spend on ongoing studies as well as increased opex. Given continued momentum in the specialty portfolio, especially Ilumya, Cequa and Winlevi, we expect the company to deliver stronger margins going forward. The launch of Deuruxolitinib (potentially in H2FY25) would offer added upside.

Earnings call highlights: (1) Good potential seen for Nidlegly in Europe with impressive data readouts; opportunity for the US being evaluated as well. (2) Completion of Taro's remaining stake is pending shareholder approval. (3) Deuruxolitinib filed with the USFDA; next milestone is the PDUFA date (expected Jul'24).

Maintain HOLD; TP revised to 1,550: We raise our FY24-FY26 EBITDA estimates 4-5% to capture the stronger 9MFY24 margins and increase our target EV/EBITDA multiple to 21x (from 19x) – 2SD above the long-term mean and an implied P/E of 29x. On rolling valuations over to FY26E, our TP stands revised to Rs 1,550 (vs. Rs 1,200) and offers 10% upside potential. We therefore maintain our HOLD rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SUNP IN/Rs 1,408
Market cap	US\$ 41.1bn
Free float	45%
3M ADV	US\$ 29.8mn
52wk high/low	Rs 1,439/Rs 922
Promoter/FPI/DII	54%/16%/20%

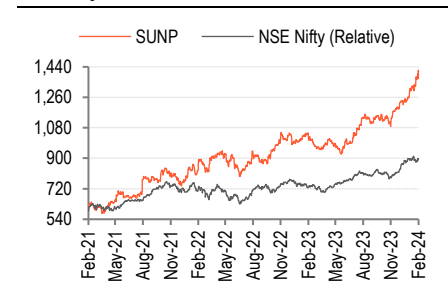
Source: NSE | Price as of 1 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	438,857	491,778	543,475
EBITDA (Rs mn)	121,740	130,959	152,100
Adj. net profit (Rs mn)	85,654	93,520	111,146
Adj. EPS (Rs)	35.7	39.0	46.3
Consensus EPS (Rs)	35.7	38.7	45.2
Adj. ROAE (%)	15.5	14.8	15.6
Adj. P/E (x)	39.4	36.1	30.4
EV/EBITDA (x)	26.6	24.6	21.1
Adj. EPS growth (%)	11.5	9.2	18.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Net Sales	123,807	112,410	10.1	121,924	1.5	365,140	329,550	10.8
EBITDA	33,523	30,069	11.5	32,135	4.3	98,955	89,436	10.6
Depreciation	6,221	6,600	(5.7)	6,328	(1.7)	19,063	18,579	-
EBIT	27,301	23,469	16.3	25,807	5.8	79,892	70,857	12.8
Interest	347	462	(24.8)	493	(29.5)	1,649	793	-
Other Income	2,502	1,739	43.9	2,936	(14.78)	7,483	2,612	-
PBT	29,456	24,746	19.0	28,250	4.3	85,725	72,677	-
Less: Taxation	4,323	2,834	-	3,901	-	12,905	6,247	-
Less: Minority Interest	443	220	-	253	-	601	550	-
Recurring PAT	24,690	21,691	13.8	24,096	2.5	72,220	65,880	9.6
Exceptional items	548	(31)	-	(341)	-	(3,002)	(989)	-
Reported PAT	25,238	21,660	16.5	23,755	6.2	69,218	64,891	6.7
Key Ratios (%)								
Gross Margin	77.9	75.1	284bps	77.1	75bps	77.3	74.5	284bps
EBITDA Margin	27.1	26.7	33bps	26.4	72bps	27.1	27.1	(4bps)
Tax / PBT	14.7	11.5	-	13.8	-	15.1	8.6	-
NPM	19.9	19.3	-	19.8	-	19.8	20.0	-
EPS (Rs)	10.3	9.0	-	10.0	-	30.1	27.5	-

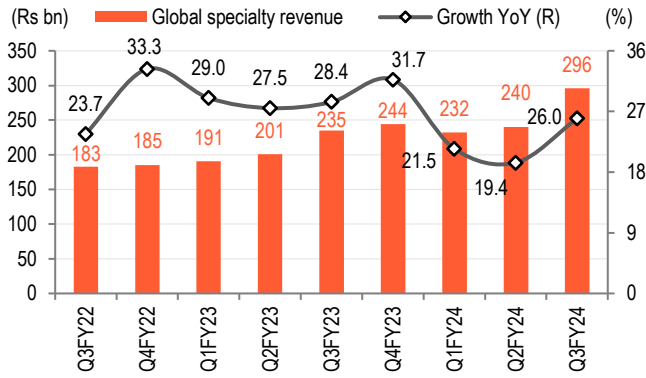
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Formulation	116,264	105,299	10.4	114,379	1.6	342,447	307,854	11.2
Domestic	37,785	33,919	11.4	38,425	(1.7)	111,814	102,390	9.2
Exports	78,478	71,380	9.9	75,953	3.3	230,633	205,464	12.2
US	39,736	34,660	14.6	35,504	11.9	113,948	100,009	13.9
EM	20,946	21,158	(1.0)	23,449	(10.7)	65,847	60,773	8.3
ROW	17,797	15,563	14.4	17,000	4.7	50,838	44,682	13.8
APIs and others	5,305	5,703	(7.0)	5,653	(6.1)	17,004	17,679	(3.8)
Net Sales	121,569	111,001	9.5	120,031	1.3	359,451	325,533	10.4
OOI	2,238	1,408	58.9	1,893	18.2	5,688	4,017	41.6
Revenue	123,807	112,410	10.1	121,924	1.5	365,140	329,550	10.8
USDINR	83.3	82.2	1.3	82.7	0.7	83	80	3.7
US revenue (US\$ mn)	477	422	13.2	430	11.1	1,378	1,254	9.9

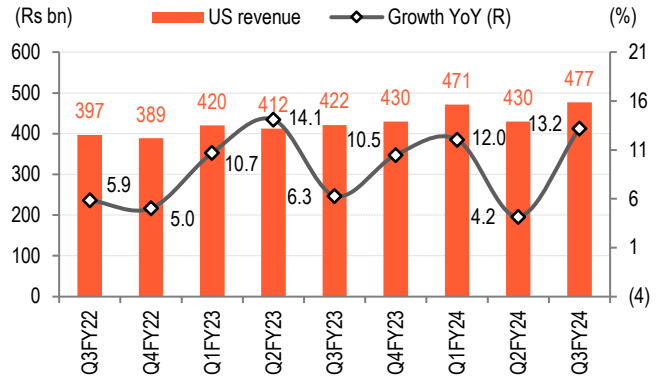
Source: Company, BOBCAPS Research

Fig 3 – Global specialty revenue



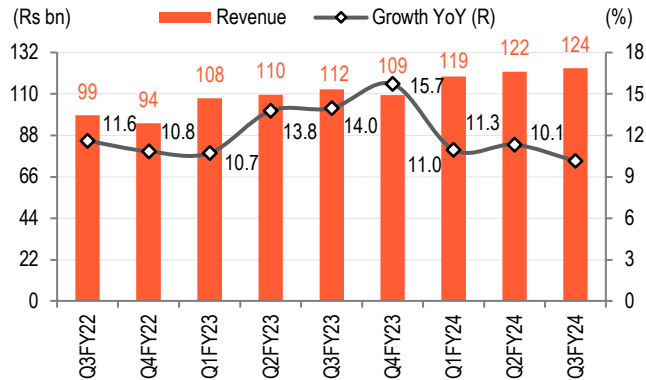
Source: Company, BOBCAPS Research

Fig 4 – US market revenue



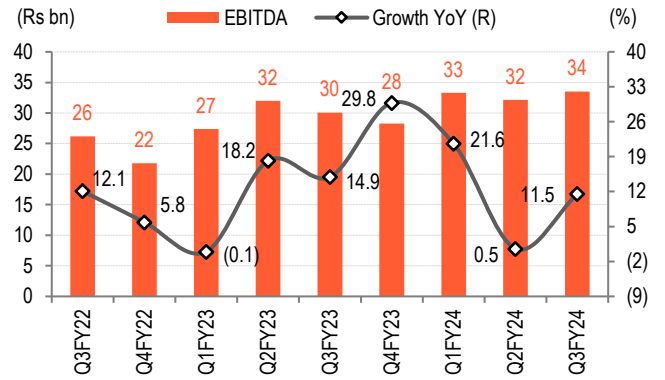
Source: Company, BOBCAPS Research

Fig 5 – Revenue



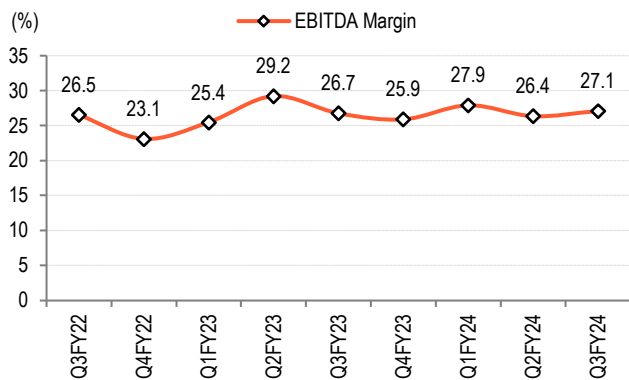
Source: Company, BOBCAPS Research

Fig 6 – EBITDA



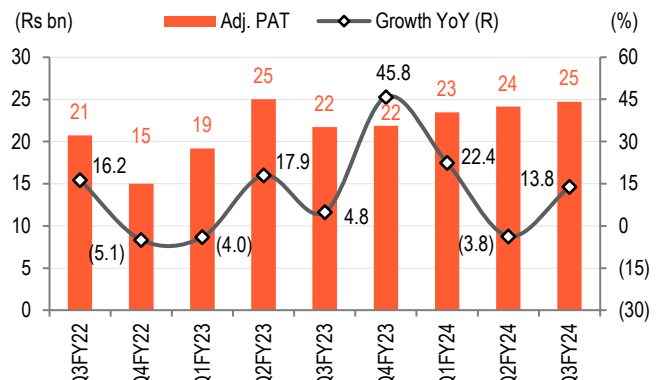
Source: Company, BOBCAPS Research

Fig 7 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 8 – Adj. PAT



Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY24-FY26 EBITDA estimates by 4-5% to capture the stronger 9MFY24 margins and build in an EBITDA/PAT CAGR of 12%/14% over FY23-FY26. Further, to incorporate continued momentum in the specialty portfolio and upside potential from the upcoming launch of Deuruxolitinib, we increase our target EV/EBITDA multiple to 21x (from 19x) – 2SD above the stock’s long-term mean. Upon rolling valuations over to FY26E, our TP stands revised to Rs 1,550 (vs. Rs 1,200) and offers 10% upside potential. We therefore maintain our HOLD rating.

Fig 9 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	492	544	596	485	535	585	1.3	1.5	2.0
EBITDA	131	152	170	125	145	162	4.7	4.7	5.2
EBITDA margin (%)	26.6	28.0	28.5	25.8	27.1	27.6	86bps	86bps	86bps
EPS (Rs)	39.0	46.3	52.5	40.5	47.0	53.0	(3.8)	(1.4)	(1.0)

Source: BOBCAPS Research

Fig 10 – Key assumptions

Parameter (Rs bn)	FY23	FY24E	FY25E	FY26E
Formulation	410.8	461.7	510.2	561.3
Domestic	136.0	151.2	167.1	182.8
Export	274.8	310.4	343.1	378.5
US	135.4	155.0	173.7	195.6
EM	79.0	88.5	97.3	107.0
ROW	60.4	67.0	72.1	75.8
API	19.7	22.1	24.3	25.3
Others	2.3	2.7	3.1	3.4

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- regulatory 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 the US generic pricing environment, and
- reduced market share and heightened competition for gRevlimid.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	386,545	438,857	491,778	543,475	596,446
EBITDA	104,702	121,740	130,959	152,100	169,907
Depreciation	21,437	25,294	26,663	28,032	29,401
EBIT	83,265	96,446	104,296	124,068	140,506
Net interest inc./(exp.)	(1,274)	(1,720)	(2,299)	(2,194)	(2,094)
Other inc./(exp.)	6,934	277	10,001	11,052	12,129
Exceptional items	0	0	0	0	0
EBT	88,926	95,003	111,997	132,926	150,541
Income taxes	10,755	8,476	16,800	19,939	22,581
Extraordinary items	(44,129)	(1,715)	(3,002)	0	0
Min. int./Inc. from assoc.	1,331	873	1,678	1,841	2,085
Reported net profit	32,711	83,940	90,518	111,146	125,875
Adjustments	44,129	1,715	3,002	0	0
Adjusted net profit	76,840	85,654	93,520	111,146	125,875

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	44,793	56,815	49,194	53,256	56,011
Other current liabilities	34,479	31,628	31,660	31,695	31,733
Provisions	95,169	56,973	62,327	68,217	74,696
Debt funds	12,903	68,859	65,696	62,691	59,836
Other liabilities	0	0	0	0	0
Equity capital	2,399	2,399	2,399	2,399	2,399
Reserves & surplus	508,246	590,086	665,493	757,974	862,775
Shareholders' fund	510,645	592,485	667,892	760,374	865,174
Total liab. and equities	697,989	806,760	876,769	976,232	1,087,451
Cash and cash eq.	50,317	57,261	110,938	190,234	282,033
Accounts receivables	105,929	114,385	125,025	138,168	151,635
Inventories	89,968	105,131	114,462	126,495	138,824
Other current assets	85,817	87,984	87,984	87,984	87,984
Investments	128,486	148,301	148,301	148,301	148,301
Net fixed assets	103,721	103,670	100,030	95,023	88,646
CWIP	12,868	49,732	49,732	49,732	49,732
Intangible assets	120,884	140,297	140,297	140,297	140,297
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	697,989	806,760	876,769	976,232	1,087,451

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	83,385	58,821	97,242	126,148	140,808
Capital expenditures	(27,712)	(81,520)	(23,024)	(23,024)	(23,024)
Change in investments	(32,361)	(19,815)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(60,073)	(101,335)	(23,024)	(23,024)	(23,024)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(25,783)	55,956	(3,163)	(3,005)	(2,855)
Interest expenses	(1,274)	(1,720)	(2,299)	(2,194)	(2,094)
Dividends paid	(23,990)	(15,125)	(16,310)	(20,027)	(22,681)
Other financing cash flows	13,597	10,347	1,231	1,397	1,644
Cash flow from financing	(37,450)	49,459	(20,541)	(23,828)	(25,985)
Chg in cash & cash eq.	(14,138)	6,945	53,677	79,296	91,799
Closing cash & cash eq.	50,317	57,261	110,938	190,234	282,033

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	13.6	35.0	37.7	46.3	52.5
Adjusted EPS	32.0	35.7	39.0	46.3	52.5
Dividend per share	10.0	6.3	6.8	8.3	9.5
Book value per share	200.1	233.1	264.1	302.0	345.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	8.5	7.4	6.6	5.9	5.3
EV/EBITDA	31.2	26.6	24.6	21.1	18.5
Adjusted P/E	44.0	39.4	36.1	30.4	26.8
P/BV	7.0	6.0	5.3	4.7	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	86.4	90.2	83.5	83.6	83.6
Interest burden (PBT/EBIT)	106.8	98.5	107.4	107.1	107.1
EBIT margin (EBIT/Revenue)	21.5	22.0	21.2	22.8	23.6
Asset turnover (Rev./Avg TA)	14.1	14.6	14.6	14.7	14.5
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.3	1.3
Adjusted ROAE	15.3	15.5	14.8	15.6	15.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	15.4	13.5	12.1	10.5	9.7
EBITDA	19.6	16.3	7.6	16.1	11.7
Adjusted EPS	6.6	11.5	9.2	18.9	13.3
Profitability & Return ratios (%)					
EBITDA margin	27.1	27.7	26.6	28.0	28.5
EBIT margin	21.5	22.0	21.2	22.8	23.6
Adjusted profit margin	19.9	19.5	19.0	20.5	21.1
Adjusted ROAE	15.3	15.5	14.8	15.6	15.5
ROCE	14.6	14.6	13.6	14.4	14.5
Working capital days (days)					
Receivables	93	93	93	93	93
Inventory	85	85	85	85	85
Payables	149	149	149	149	149
Ratios (x)					
Gross asset turnover	1.3	1.3	1.4	1.4	1.5
Current ratio	1.9	2.5	3.1	3.5	4.1
Net interest coverage ratio	65.4	56.1	45.4	56.5	67.1
Adjusted debt/equity	(0.3)	(0.2)	(0.3)	(0.4)	(0.4)

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

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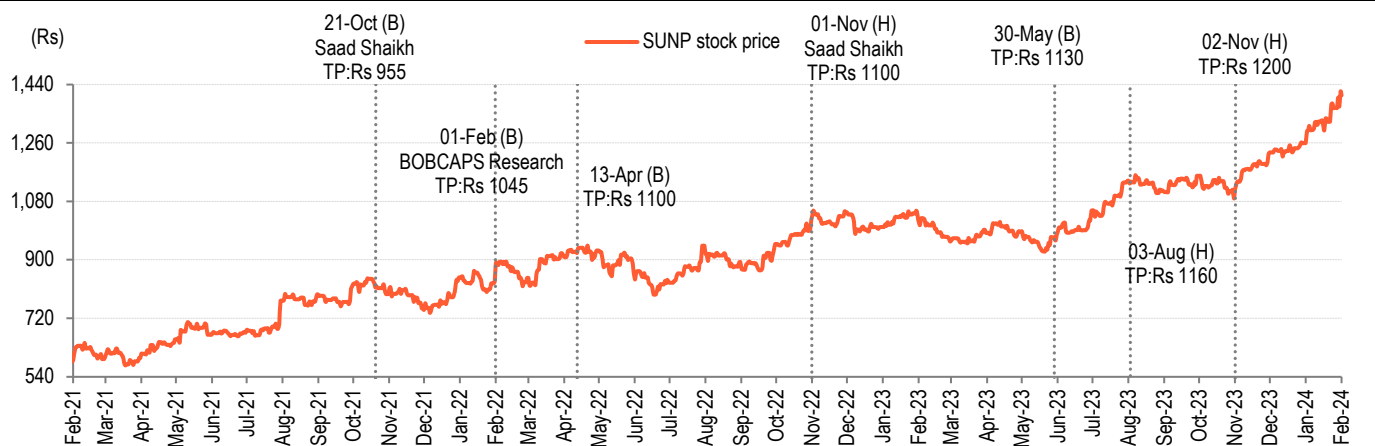
HOLD – Expected return from -6% to +15%

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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