

FIRST LIGHT

04 August 2023

RESEARCH

SUN PHARMA | TARGET: Rs 1,160 | +2% | HOLD

gRevlimid buoys performance; upside capped – cut to HOLD

SUMMARY

SUN PHARMA

- 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

[Click here](#) for the full report.

Daily macro indicators

Ticker	01-Aug	02-Aug	Chg (%)
US 10Y yield (%)	4.02	4.08	5bps
India 10Y yield (%)	7.16	7.15	(1bps)
USD/INR	82.26	82.59	(0.4)
Brent Crude (US\$/bbl)	84.9	83.2	(2.0)
Dow	35,631	35,283	(1.0)
Hang Seng	20,011	19,517	(2.5)
Sensex	66,459	65,783	(1.0)
India FII (US\$ mn)	31-Jul	01-Aug	Chg (\$ mn)
FII-D	31.3	126.9	95.6
FII-E	(94.1)	3.1	97.3

Source: Bank of Baroda Economics Research

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HOLD

TP: Rs 1,160 | ▲ 2%

SUN PHARMA

Pharmaceuticals

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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%

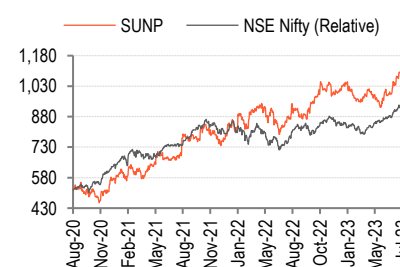
Source: NSE | Price as of 3 Aug 2023

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



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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

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