

BUY

TP: Rs 2,109 | ▲ 22%

SUN PHARMA

| Pharmaceuticals

| 28 April 2026

Big Bold Acquisition

- Sun acquired Organon at a ~24% premium at USD 14/share, valuing the company at an EV of USD 11.75 bn and 1.9x EV/Sales on CY25
- Combined entity to augment innovative portfolio to USD3.3bn (27% of sales) from current 1bn (21% contribution).
- We foresee 17% EPS accretion to Rs 15 from year 1 of operation for Sun, thus implying an ascribed PE of 31x on combined entity

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Sun Pharma's high ticket Organon acquisition – In an all-cash deal, Sun Pharma signs a definitive agreement to acquire Organon. Sun Pharma to acquire outstanding shares of Organon for USD 14 per share, valuing the company at an EV of USD 11.75bn and 1.9x EV/Sales and 6.18x EV/EBITDA for CY2025.

Leverage led acquisition – Sun Pharma has acquired many companies in the past, including Ranbaxy, which was then similar to Sun's size. At the time of Ranbaxy's acquisition, Sun was net cash, and the peak leverage ratio was in 2019, with net debt to EBITDA of 1.9x. Sun Pharma has taken an aggressive step by acquiring Organon, which would require it to acquire debt of USD 9bn, stretching net debt/EBITDA to 2.3x (one of the highest globally). However, the company is positive about repayment of the debt within a few years, as the combined entity is expected to generate FCF of USD 2.5bn annually.

Sun to strengthen its Non-US portfolio – Sun's current key geographies are the US and India (33% of sales each); however, the combined entity is expected to reduce its dependence on the US and have the US, EMS, and RoW contribute ~27–29% each. Organon has a presence in 140 countries, which can be leveraged for licensing opportunities.

Sun's innovative portfolio to increase from 20% to ~27% of sales – Sun's current innovative portfolio contributes ~20% of sales from 27 products. The portfolio of 27 products is largely either licensed or acquired. Acquiring Organon's portfolio to result in the innovative portfolio scaling to 27% of total sales from 49 products, and reaching USD 3.34bn from the current ~USD 1bn in 9MFY26.

Our View - The combination of Organon and Sun is expected to create a mammoth in the pharma industry. We see ~17% EPS accretion in year 1 of execution and arrive at a combined entity EPS of Rs 68 for FY28. On the combined entity, the stock is valued at 26x P/E on FY28 EPS, and we retain our PT of Rs 2,109, implying an ascribed P/E of 31x (vs. 34x before the acquisition), thus making the company attractively valued.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SUNP IN/Rs 1,734
Market cap	US\$ 44.1bn
Free float	45%
3M ADV	US\$ 63.8mn
52wk high/low	Rs 1,851/Rs 1,548
Promoter/FPI/DII	54%/16%/20%

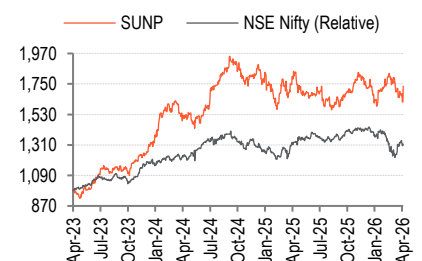
Source: NSE | Price as of 27 Apr 2026

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	525,785	582,654	639,439
EBITDA (Rs mn)	153,869	170,433	193,436
Adj. net profit (Rs mn)	118,260	110,164	125,148
Adj. EPS (Rs)	49.3	45.9	52.2
Consensus EPS (Rs)	49.3	48.3	55.3
Adj. ROAE (%)	16.9	14.2	14.3
Adj. P/E (x)	35.2	37.7	33.2
EV/EBITDA (x)	28.6	26.3	23.6
Adj. EPS growth (%)	16.2	(6.8)	13.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



One of the most aggressive leverage-led deals in the global pharma sector

Sun Pharma has taken a bold step in acquiring a company of its own size (USD 6bn) through leverage. Though inorganic activity in the pharma sector is common, and large-ticket acquisitions for innovative portfolios are also common, Sun stretching its balance sheet for growth has set a strong and serious example. Indian companies are realizing the need to chase growth at the cost of comfortable leverage (e.g., Eris has stretched its net debt/EBITDA to 3–3.5x), with Sun’s net debt/EBITDA at 2.3x for a ~USD 50bn combined entity market cap. Globally, large innovator companies also take on high leverage for acquisitions; however, as their revenues are healthier, the leverage ratio appears less stressful

Fig 1 – global big ticket size deals and its leverage ratio

Deals	Deal Size (USD bn)	Year	CY2025			MCAP (USD bn)
			Net debt (USD mn)	EBITDA (USD mn)	Net Debt/EBITDA (x)	
Novartis - Avidity Bioscience	12	2025	15484	23967	0.6	296
Merck-Verona Pharma	10	2025	35969	30737	1.2	276
J&J Intra Cellular thrtspies	15	2025	29231	27664	1.1	548
Pfizer Seagen	43	2023	53820	26063	2.1	154
Novo Catenlent	17	2024	103996	147481	0.7	296
BMS Karuna therapy	14	2024	36070	19286	1.9	120

Source: , Bloomberg, BOBCAPS Research

However, Sun Pharma has also done slew of acquisition in the past but has always maintained healthy leverage ratios.

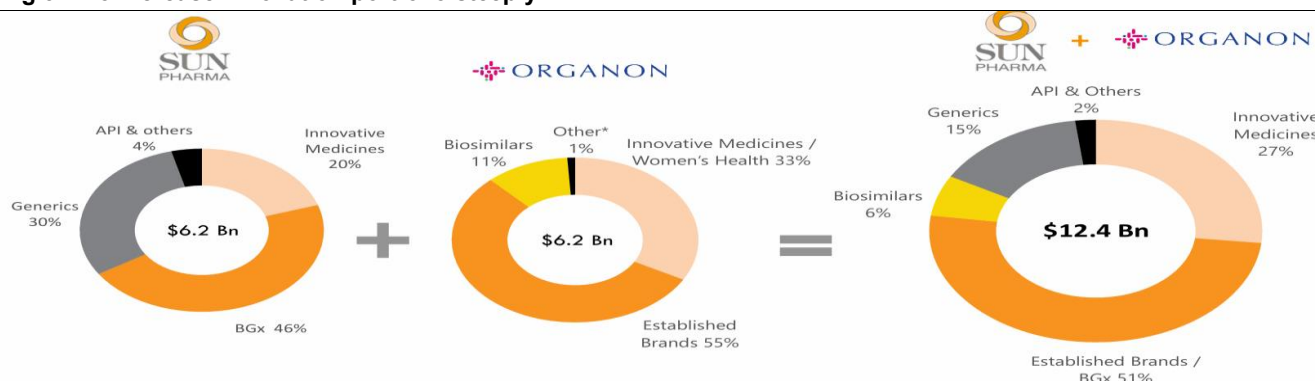
Fig 2 – Sun's 10 years net debt to EBITDA trend

(Rs mn)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Debt	25610	89960	84970	98320	103850	195140	83150	38690	12900	68860	32740	23620
cash	75900	109980	131820	151410	99290	72760	64880	64460	50330	57700	105210	113220
NET DEBT	(50290)	(20020)	(46850)	(53090)	4560	122380	18270	(25770)	(37430)	11160	(72470)	(89600)
EBITDA	70030	78940	81740	101020	56310	63770	69830	84700	102580	116500	130180	151140
Net debt/EBITDA	(0.7)	(0.3)	(0.6)	(0.5)	0.1	1.9	0.3	(0.3)	(0.4)	0.1	(0.6)	(0.6)

Source: Company, BOBCAPS Research

Reason for bold move is

Fig 3 – To increase innovation portfolio steeply



Source: Company, BOBCAPS Research

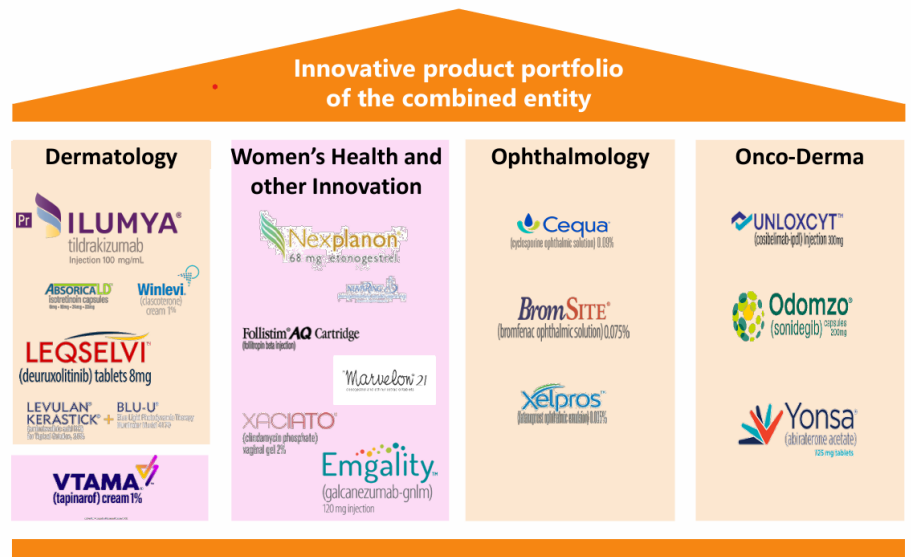
Revenue Synergies from the acquisition

The Sun Organon acquisition to double Sun’s revenue potential. Sun to get access to 8 biosimilar assets and 22 innovative products, which on an average takes 7- 8 years to develop. During development, the likelihood of successful progression from one phase to another is also low; thus, acquiring assets through leverage is a viable option for doubling the revenue size on a high base within a year

Innovative portfolio to triple in size

Sun’s innovative portfolio contribution was 20% of the total sales from 27 products. Out of the total product portfolio, Ilumya (with one indication) contributes 50% of the innovative portfolio at ~600 mn. Within the innovative space, Sun is primarily present in derma, ophthalmology, and onco-derma therapies, where ~90% of innovative sales come from the US market. The current deal provides access to women’s health therapy, which is a USD 35bn opportunity growing at a 6–10% CAGR. Organon has 100+ products under development, which are complex and difficult to develop thus restricting competition. Organon’s innovative contribution is ~30% of sales (higher than Sun) from 22 products (fewer than Sun), thus enabling Sun’s innovative portfolio to increase to 27% for the combined entity. Sun has expertise in derma therapy and can therefore strengthen the commercialization of Organon’s key derma brands like Vtama

Fig 4 – Sun's combined innovative portfolio



Source: Company

On a standalone basis, Sun achieves ~80–90% of its innovative portfolio sales from the US; however, as Organon has a strong foothold in the RoW and EM markets, both Sun’s existing as well as Organon’s products would be commercialized in these markets as well. One of the untapped market opportunities is China (USD 150 bn market size), which is aggressively moving towards innovation. Despite the large-ticket acquisition, Sun is looking to continue pursuing licensing deals for innovative products.

Sustained inorganic push driving double-digit CAGR

Sun has a history of inorganic activity, including acquiring companies and in-licensing brands, to strengthen its innovative portfolio in the US market. Sun’s acquisitions have aided it in achieving a sales CAGR of 14.4% and an EBITDA CAGR of 13% from FY10–25, withstanding disruptions such as the global recession and COVID lockdowns.

Fig 5 – History of doing in licensing deals post big ticket size acquisition



Source: Company

Sun’s branded portfolio to widen

Sun’s current branded business is of USD 2bn (domestic portfolio) from 100+ scaled generic products with Rosuvas, Levipil etc. as the leading brands.

Fig 6 – Sun's branded products



Source: Company

While Organon has only 50 established brands across CVS and bone health, it clocked USD 3bn in sales, with 15 brands falling under the USD 100 mn+ category

Fig 7 – Organon's branded generics portfolio



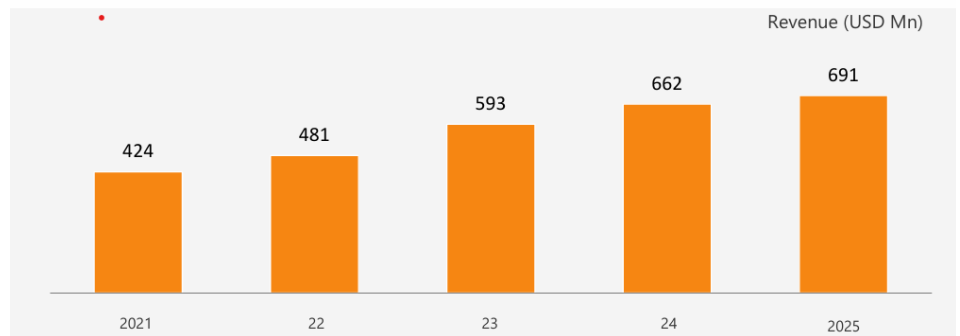
Source: Company

Foray into biosimilars segment

Sun was missing out on the biosimilars opportunity as developing a biosimilar takes 7–8 years along with significant cost, thus it is prudent to acquire a company with a strong biosimilars portfolio. Organon has strong biosimilars portfolio with sales of USD 691 mn, growing at a CAGR of 13% over a period of 5 years. Organon has a portfolio of 8 products, where Renflexis and Hadlima are the key products. On average, Organon clocks USD ~80 mn in sales per biosimilar.

Fig 8 – Organon’s biosimilars portfolio

Organon Biosimilar Revenue: 13%+ CAGR over L5Y



Source: Company

Organon’s biosimilars portfolio ranks 7th globally, with 8 products commercialized through its front end. Sun can leverage Organon’s commercial team to further in-license biosimilars across 140 countries from current USD 20bn biosimilars market. By 2035, Biologic drugs worth USD 350 bn in sales are expected to go off patent, resulting in a USD 70 bn biosimilars opportunity, thus enabling Sun to participate in the biosimilars wave without missing on the opportunity.

Fig 9 – Organon’s biosimilars portfolio

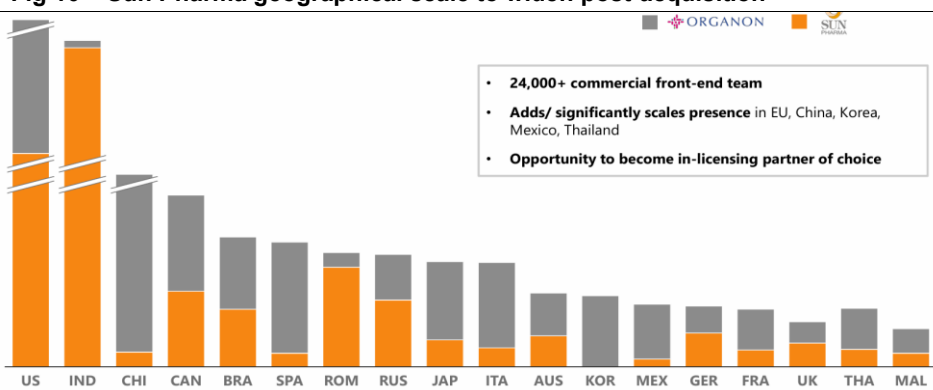


Source: Company

Sun Pharma to double the size of the business in one year

Post the closure of the Organon acquisition in 8–9 months, Sun's sales and profitability are expected to double within a year. Apart from revenue synergies, there would be cost synergies such as procurement and supplier synergies etc. Sun expects to gain cost synergies of USD 350 mn over 3–4 years. Sun Pharma has been exporting to 100+ countries, while Organon exports to 140+ countries; however, Sun Pharma's sales from EMs and RoW regions have been non-meaningful, including South Korea, from where it sources DS for Ilumya. Thus, Organon's acquisition is expected to provide access to international markets like China (USD 150 bn market size).

Fig 10 – Sun Pharma geographical scale to widen post-acquisition



Source: Company

Organon has both operational and financial deleverage. Due to the synergies, Sun Pharma's management expects Organon to grow in the high single digits from its current flattish growth, and Sun to continue growing in single digits on a high base. Thus, post-closure of the acquisition, we expect the deal to be 17% EPS accretive from year 1 of operations.

Fig 11 – Sun's combined entity pro forma financials

USD mn	SunFY28	Combined Entity
Revenue	7581	12000
Cost	1516	3600
Gross Profit	6065	8400
Gross Margin (%)	80%	70%
EBITDA	2331	3700
EBITDA M (%)	31%	31%
Dep	319	459
Amortisation		300
Finance	9	600
Other Income	10	10
PBT	2013	2351
Tax	503	588
PAT	1510	1763
PAT Rs	140407	163982
EPS Rs	59	68
EPS accretive (%)		17%

Source: Company

Pls note – We have assumed the following in the above financials

- 1) Exchange rate at RS 93 to USD
- 2) Last 3 years financials have been same for Organon, hence assuming CY27 numbers similar to given CY26 guidance
- 3) Gross Margin for Organon in CY27 to be 60%, thus bringing combined entity's Gross Margin at 70%.
- 4) Combined entity Net Deb/EBITDA guided at 2.3x, hence assumed debt to be USD8.5bn for the combined entity and 7% interest (higher than 5.5% Organon's cost of debt)

Our View

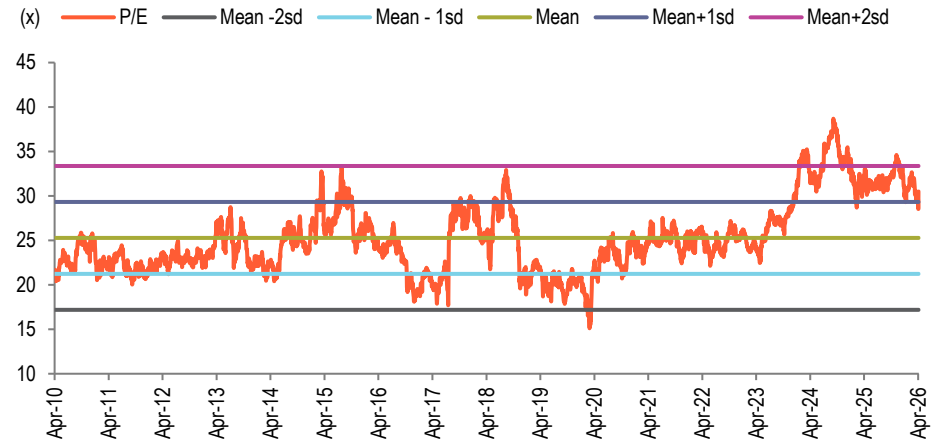
Sun Pharma has entered into a bold acquisition by acquiring Organon at a ~28% premium at USD 14 per share (closing price USD 11) in an all-cash deal, valuing the company at an EV of USD 11.75bn. Organon has a wide array of products ranging from innovative (primarily in women's therapy), branded generics, and biosimilars; however, only the biosimilars segment is reporting growth. Organon was spun off from Merck in 2021 and has since had significant debt on its books, resulting in financial deleverage for the company. As Organon has faced both operational and financial deleverage for many years, Sun has been able to secure the deal at an attractive valuation of 1.9x CY2025 EV/Sales

We believe that although Organon has flattish growth, it is better positioned than Sun Pharma, as despite being of similar size, its innovative portfolio contributes ~30% of total sales vs ~20% for Sun, and its branded generics portfolio size is ~USD 3bn vs ~USD 2bn for Sun. Organon also has a presence in the biosimilars segment vs negligible presence for Sun. Thus, we believe the Organon acquisition is a good deal for Sun, where Sun receives a quality portfolio at an attractive valuation.

However, growth has definitely come at a cost for Sun, as it will have to take on USD 9bn of debt to finance the acquisition, stretching its net debt/EBITDA to 2.3x from historically being a net cash company (even during the Ranbaxy acquisition). We believe Sun would be able to capitalize on the innovative portfolio by: (1) using Organon's field force to commercialize Sun's innovative products in non-US markets; (2) using Sun's field force to commercialize Organon's innovative products like Vtama in Derma therapy; (3) opening up the China market through Organon; (4) tapping into the biosimilars portfolio; (5) realizing peak sales from Leqselvi and Unloxyt; and (6) wide array of licensing opportunities. Sun's tariff risk is also mitigated, as Organon has three facilities in Europe (subject to ~15% tariffs) and three in EMs, along with a healthy branded generics portfolio, thus diluting the generic portfolio to ~15% of the combined entity (Sun's three key generic plants under regulatory hurdles) and increasing focus on high-margin businesses

The combination of Organon and Sun is expected to create a mammoth in the pharma industry, with EBITDA margins sustaining at ~30% which is positive. We see ~17% EPS accretion in year 1 of execution and arrive at a combined entity EPS of Rs 68 for FY28. On the combined entity, the stock is valued at 26x P/E on FY28 EPS, and we retain our PT of Rs 2,109, implying an ascribed P/E of 31x (vs. 34x before the acquisition), thus making the company attractively valued. However, we would wait for the closure of the acquisition to value the stock based on the combined entity's EPS.

Fig 12 – Sun Pharma's 10 year PE Band



Source: , BOBCAPS Research, Bloomberg

Key risks

Key downside risk to our estimates are

- No regulatory approvals for closure of transaction
- Lack of anticipated turnaround in Organon's growth due to intense competition
- Lack of desired licensing deals

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	484,969	525,785	582,654	639,439	705,051
EBITDA	129,884	153,869	170,433	193,436	216,810
Depreciation	25,566	25,736	29,264	28,279	29,647
EBIT	104,317	128,133	141,169	165,157	187,163
Net interest inc./(exp.)	(2,385)	(2,314)	(3,130)	(1,040)	(843)
Other inc./(exp.)	13,542	19,650	20,898	18,975	20,922
Exceptional items	0	0	0	0	0
EBT	115,474	145,470	158,937	183,092	207,242
Income taxes	14,395	27,720	36,913	46,084	52,163
Extraordinary items	(5,305)	(8,634)	5,844	0	0
Min. int./Inc. from assoc.	(721)	(511)	11,861	11,861	11,861
Reported net profit	96,496	109,626	116,008	125,148	143,219
Adjustments	5,305	8,634	(5,844)	0	0
Adjusted net profit	101,801	118,260	110,164	125,148	143,219

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	56,533	61,843	66,734	73,930	81,515
Other current liabilities	36,579	44,373	44,565	44,777	45,009
Provisions	57,715	66,202	72,357	79,127	86,575
Debt funds	32,737	23,622	18,612	14,855	12,037
Other liabilities	0	0	0	0	0
Equity capital	2,399	2,399	2,399	2,399	2,399
Reserves & surplus	669,546	722,460	823,888	927,563	1,046,054
Shareholders' fund	671,945	724,860	826,287	929,963	1,048,453
Total liab. and equities	855,508	920,899	1,028,555	1,142,651	1,273,590
Cash and cash eq.	98,919	116,208	182,572	255,761	329,656
Accounts receivables	112,494	130,461	132,494	143,655	158,395
Inventories	98,683	102,433	103,760	105,113	115,899
Other current assets	102,335	95,956	95,956	95,956	95,956
Investments	150,258	183,538	207,080	232,975	261,462
Net fixed assets	109,090	100,359	108,106	103,294	98,288
CWIP	53,539	66,440	73,084	80,392	88,431
Intangible assets	130,191	125,503	125,503	125,503	125,503
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	855,508	920,899	1,028,555	1,142,650	1,273,590

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	132,005	146,594	148,612	150,213	156,939
Capital expenditures	(24,688)	(37,591)	(28,994)	(30,776)	(32,680)
Change in investments	(1,957)	(33,280)	(18,354)	(20,189)	(22,208)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(26,645)	(70,872)	(47,348)	(50,965)	(54,888)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(36,122)	(9,115)	(5,010)	(3,757)	(2,818)
Interest expenses	(2,385)	(2,314)	(3,130)	(1,040)	(843)
Dividends paid	(17,387)	(19,753)	(20,903)	(22,549)	(25,806)
Other financing cash flows	(7,810)	(39,624)	6,515	1,289	1,310
Cash flow from financing	(63,703)	(70,805)	(22,527)	(26,058)	(28,156)
Chg in cash & cash eq.	41,657	4,916	78,737	73,190	73,894
Closing cash & cash eq.	98,919	103,835	182,572		

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	40.2	45.7	48.4	52.2	59.7
Adjusted EPS	42.4	49.3	45.9	52.2	59.7
Dividend per share	7.2	8.2	8.7	9.4	10.8
Book value per share	265.8	301.0	342.9	385.6	0.0

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	8.9	8.4	7.7	7.2	6.6
EV/EBITDA	33.4	28.6	26.3	23.6	21.5
Adjusted P/E	40.9	35.2	37.7	33.2	29.0
P/BV	6.5	5.8	5.1	4.5	

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	88.2	81.3	69.3	68.4	69.1
Interest burden (PBT/EBIT)	110.7	113.5	112.6	110.9	110.7
EBIT margin (EBIT/Revenue)	21.5	24.4	24.2	25.8	26.5
Asset turnover (Rev./Avg TA)	14.6	14.8	14.9	14.7	14.6
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.2	1.2
Adjusted ROAE	16.1	16.9	14.2	14.3	14.5

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	10.5	8.4	10.8	9.7	10.3
EBITDA	6.7	18.5	10.8	13.5	12.1
Adjusted EPS	18.8	16.2	(6.8)	13.6	14.4
Profitability & Return ratios (%)					
EBITDA margin	26.8	29.3	29.3	30.3	30.8
EBIT margin	21.5	24.4	24.2	25.8	26.5
Adjusted profit margin	21.0	22.5	18.9	19.6	20.3
Adjusted ROAE	16.1	16.9	14.2	14.3	14.5
ROCE	15.1	16.4	14.0	14.8	15.1
Working capital days (days)					
Receivables	85	84	83	82	82
Inventory	77	70	65	60	60
Payables	205	207	209	211	211
Ratios (x)					
Gross asset turnover	1.3	1.3	1.4	1.5	1.5
Current ratio	2.7	2.6	2.8	3.0	3.3
Net interest coverage ratio	43.7	55.4	45.1	158.8	222.1
Adjusted debt/equity	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)

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

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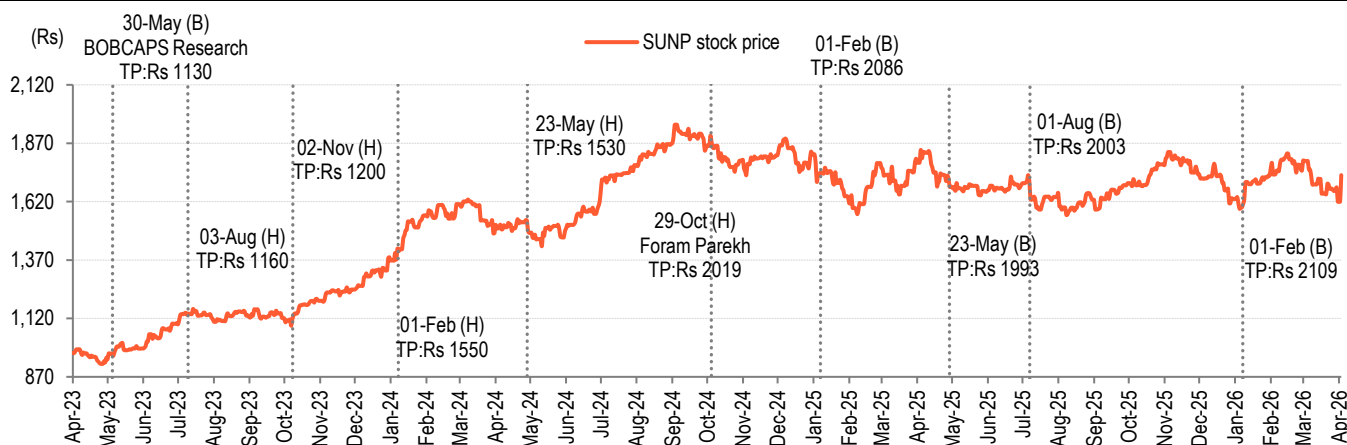
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BUY – Expected return >+15%
HOLD – Expected return from -6% to +15%
SELL – Expected return <-6%

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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