

HOLD

TP: Rs 2,019 | ▲ 6%

SUN PHARMA

| Pharmaceuticals

| 29 October 2024

All positives built into current valuations

- **SUNP reported 11% domestic sales growth led by 5% volume growth from ~14,000 MRs; leads in Rx count across 13 doctor categories**
- **US specialty sales to continue growth momentum driven by Levulan in 3QFY25 due to seasonality**
- **We believe lower R&D, healthy product mix can spur EBITDA margin, which is all built into the CMP. We maintain HOLD**

Foram Parekh

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Strong growth in global specialty and India businesses: SUNP’s performance in Q2FY25 was marginally above our estimates where sales/EBITDA rose 3%/4% above our estimates. Revenue growth of 9% was led by 22% YoY growth in the US to US\$ 517mn and industry-beating growth in the domestic business. We expect SUNP’s sales to grow at 8% CAGR from FY25-27 to Rs 619bn.

Levulan to contribute more in Q3 due to seasonality: US growth of 20% was led by double-digit revenue growth in the specialty businesses and higher growth in gRevlimid in Q2 vs Q1. Going forward, we believe US specialty sales growth would be driven by Winlevi, Cequa, Levulan and Ilumya. The US generics business reported sequential growth driven by two new product launches. We expect US sales to grow by 8% CAGR from FY25-27 to US\$ 2.3bn, driven by 10% CAGR growth in US specialty sales from FY25-27 to US\$ 1.17bn.

Continues to outperform IPM in terms of volume growth: SUNP’s India sales grew by 11% in Q2FY25, outperforming the Indian Pharma Market (IPM), on the back of 14 new launches in Q2FY25. During the quarter SUNP’s volume grew by 5% vs IPM growth of 0.7% driven by its number 1 position in the Rx count among 13 doctor specialists. The company aims to grow in line with or outperform the Indian Pharma Market in FY25. It is also focusing more on in-house manufacturing.

Lower R&D guidance to boost margins: During the quarter, R&D contribution was lower at 6% due to delay in clinical trials. Management expects R&D expense to ramp up in H2FY25. However, it lowered its FY25 guidance to 7-8% from the earlier 8-10% of sales. We believe lower R&D, healthy product mix and stable employee expense can increase EBITDA margin to 27.4% in FY25E vs 26.8% in FY24.

Maintain HOLD with revised TP of Rs 2,019: We believe lower R&D, healthy product mix amidst higher SG&A expense can boost EBITDA margin. However, we believe most of the positives are built into the CMP, hence, we maintain HOLD. We ascribe a higher P/E of 38x, and roll forward our valuations to Sep’26, with a new TP of Rs 2,019 (from Rs 1,530).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SUNP IN/Rs 1,903
Market cap	US\$ 54.3bn
Free float	45%
3M ADV	US\$ 41.8mn
52wk high/low	Rs 1,960/Rs 1,068
Promoter/FPI/DII	54%/16%/20%

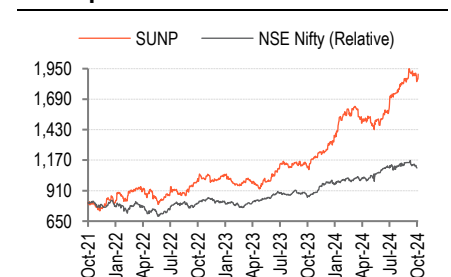
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	484,969	528,532	572,334
EBITDA (Rs mn)	129,884	144,805	159,668
Adj. net profit (Rs mn)	100,359	106,791	119,229
Adj. EPS (Rs)	41.8	44.5	49.7
Consensus EPS (Rs)	41.8	46.8	53.9
Adj. ROAE (%)	15.9	14.9	14.7
Adj. P/E (x)	45.5	42.7	38.3
EV/EBITDA (x)	34.0	30.3	27.0
Adj. EPS growth (%)	17.2	6.4	11.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Financial highlights

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY24	FY23	YoY (%)
Net Sales	132,914	121,924	9.0	126,528	5.0	484,969	438,857	10.5
Other Related Income								
Total Income						484,969	438,857	
Total Expenses	94,805	89,789		89,947		355,099	321,128	
(%) of net sales						73	73	
Raw material consumed	26,942	27,871	(3)	26,754		106,626	106,622	
(%) of net sales	20.3	23		21		22	24	
Staff cost	24,777	23,644	5	24,546	0.9	94,291	82,960	
(%) of net sales	18.6	19.4		19.4		19	19	
R&D cost	7,929	7,560	5	7,762	2.2	31,487	23,278	
(%) of net sales	6.0	6.2		6.1		6.5	5	
SG&A	35,157	30,715	14	30,884	13.8	122,695	108,268	
(%) of net sales	26.5	25.2		24.4		25	25	
EBITDA	38,109	32,135	18.6	36,581	4.2	129,870	117,729	10.3
Depreciation	6,259	6,328	(1.1)	6,551	(4.5)	25,566	25,294	
EBIT	31,850	25,807	23.4	30,029	6.1	104,304	92,435	12.8
Interest	692	493	40.3	615	12.4	2,385	1,720	
Other Income	3,540	2,936	20.6	5,326	(33.53)	13,542	6,345	
PBT	34,698	28,250	22.8	34,740	(0.1)	115,461	97,060	19.0
Less: Taxation	5,672	3,901		5,523		14,395	8,476	
Less: Minority Interest	(95)	253		356		721	873	
Recurring PAT	29,121	24,096	20.9	28,861	0.9	100,346	87,711	14.4
Exceptional items	1,281	(341)		(505)		(4,582)	(2,976)	
Reported PAT	30,402	23,755	28.0	28,357	7.2	95,764	84,736	13.0
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	79.7	77.1	259	78.9	87	78.0	75.7	231
EBITDA Margin	28.7	26.4	232	28.9	-24	26.8	26.8	-5
Tax / PBT	16.3	13.8		15.9		12.5	8.7	
NPM	21.9	19.8		22.8		20.7	20.0	
EPS (Rs)	12.1	10.0		12.0		41.8	36.6	

Source: Company, BOBCAPS Research

Fig 2 – Revenue breakdown

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY24	FY23	YoY (%)
Formulation	127,078	114,379	11.1	119,848	6.0	455,708	410,786	10.9
Domestic	42,652	38,425	11.0	41,445	2.9	148,893	136,031	9.5
Exports	84,426	75,953	11.2	78,403	7.7	306,815	274,755	11.7
US	43,274	35,504	21.9	38,894	11.3	153,493	135,353	13.4
EM	25,901	23,449	10.5	23,695	9.3	86,195	78,977	9.1
ROW	16,633	17,000	(2.2)	15,814	5.2	67,128	60,426	11.1
APIs and others	5,338	5,653	(5.6)	5,397	(1.1)	21,877	22,003	(0.6)
Net Sales	132,416	120,031	10.3	125,245	5.7	477,585	432,789	10.4
OOI	1,300	1,893	(31.3)	1,282	1.4	7,384	6,068	21.7
Revenue	133,716	121,924	9.7	126,528	5.7	484,969	438,857	10.5

Source: Company, BOBCAPS Research

Earnings call highlights

Guidance

- R&D for FY25 is expected to be 7-8% of sales.

Specialty business

- Specialty sales grew by 19.2% to US\$ 286mn in Q2.
- SUNP recently entered into a global licensing agreement with Phylogen to commercialise Fibromun.
- Growth was driven by strong growth in Winlevi, Cequa and Ilumya. Management expects Levulan to contribute in Q3 sales due to seasonality.
- Prescription trends for specialty products remain strong.
- Focus to be on US market initially, with plans to expand to other regions.
- Leqselvi is currently under litigation. If SUNP gets an unfavourable judgment and loses even on appeal, then a potential launch could be delayed.

US business

- US formulations business grew by 20.3% YoY to US\$ 517mn.
- US sales accounted for 33% of SUNP's total sales in Q2FY25.
- The underlying business and the prescription trend for the specialty business remained strong in Q2.
- SUNP had higher sales of gRevlimid in US in Q2 versus Q1.
- The US generics segment grew on a sequential basis.
- SUNP launched two new products during the quarter.
- Topline data for Ilumya is expected in H2CY25.

India business

- India sales grew by 11% in Q2FY25, accounting for 32% of consolidated sales.
- SUNP is ranked No. 1 in India with 8.1% in 2QFY25 vs 7.7% market share in 2QFY24.
- Launched 14 new products in Q2FY25.
- In the top 300 brands of IPM, SUNP has 28 brands.
- Volume growth for the quarter stood at 5.2% vs IPM growth of 0.7%.
- Medical representative count stands at ~14,000. SUNP is also ranked number one by prescription in 13 different doctor categories.

Valuation methodology

SUNP reported healthy US and domestic sales numbers, resulting in 28.7% EBITDA margin. This growth momentum is expected to continue, driven by (1) volume growth in the domestic region, (2) specialty sales uptick in the US region, (3) recovery in ROW market in H2FY25, and (4) lowering of R&D costs.

We introduce FY27 estimates and expect earnings to grow at a CAGR of 12% from FY25-27E. SUNP has a healthy cash balance of Rs 1bn which could be utilised for M&A activity. However, we believe all the positives are factored into the CMP. We do not see any incremental growth driver, and hence, maintain our HOLD recommendation but ascribe a higher P/E of 38x. We roll forward our valuations to Sep'26, with a new TP of Rs 2,019 (from Rs 1,530).

Fig 3 – Key assumptions

(Rs mn)	FY24	FY25E	FY26E	FY27E
Domestic sales	148,893	166,418	182,814	200,138
US Sales	153,493	165,061	177,593	191,175
ROW Sales	67,128	72,317	76,081	80,043
Sales	484,969	528,532	572,334	619,359
EBITDA	129,884	144,805	159,668	175,883
PAT	101,080	108,537	121,219	135,105
EPS	39.8	44.5	49.7	55.5
EBITDA Margin (%)	26.8	27.4	27.9	28.4
PAT Margin (%)	20.8	20.5	21.2	21.8

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- regulatory clearance,
- 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)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	438,857	484,969	528,532	572,334	619,359
EBITDA	121,740	129,884	144,805	159,668	175,883
Depreciation	25,294	25,566	26,769	27,652	28,534
EBIT	96,446	104,317	118,036	132,016	147,349
Net interest inc./(exp.)	(1,720)	(2,385)	(1,094)	(1,044)	(998)
Other inc./(exp.)	277	13,542	10,748	11,639	12,595
Exceptional items	0	0	0	0	0
EBT	95,003	115,474	127,691	142,611	158,947
Income taxes	8,476	14,395	19,154	21,392	23,842
Extraordinary items	(1,715)	(4,943)	0	0	0
Min. int./Inc. from assoc.	873	721	1,746	1,990	1,990
Reported net profit	83,940	95,416	106,791	119,229	133,115
Adjustments	1,715	4,943	0	0	0
Adjusted net profit	85,654	100,359	106,791	119,229	133,115

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	56,815	56,533	54,561	57,709	60,963
Other current liabilities	31,628	36,579	36,734	36,904	37,092
Provisions	56,973	57,715	63,072	68,965	75,448
Debt funds	68,859	32,737	31,252	29,841	28,501
Other liabilities	0	0	0	0	0
Equity capital	2,399	2,399	2,399	2,399	2,399
Reserves & surplus	590,086	668,660	757,571	856,923	967,659
Shareholders' fund	592,485	671,060	759,971	859,323	970,058
Total liab. and equities	806,760	854,622	945,589	1,052,742	1,172,062
Cash and cash eq.	57,261	105,207	158,520	256,870	366,680
Accounts receivables	114,385	112,494	138,110	149,556	161,843
Inventories	105,131	98,683	122,645	132,809	143,721
Other current assets	87,984	102,335	102,335	102,335	102,335
Investments	148,301	150,258	150,258	150,258	150,258
Net fixed assets	103,670	101,917	89,992	77,185	63,495
CWIP	49,732	53,539	53,539	53,539	53,539
Intangible assets	140,297	130,191	130,191	130,191	130,191
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	806,760	854,622	945,589	1,052,742	1,172,062

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	58,821	130,925	88,461	135,356	149,184
Capital expenditures	(81,520)	(17,514)	(14,845)	(14,845)	(14,845)
Change in investments	(19,815)	(1,957)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(101,335)	(19,471)	(14,845)	(14,845)	(14,845)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	55,956	(36,122)	(1,485)	(1,411)	(1,340)
Interest expenses	(1,720)	(2,385)	(1,094)	(1,044)	(998)
Dividends paid	(15,125)	(17,192)	(19,242)	(21,483)	(23,985)
Other financing cash flows	10,347	(7,810)	1,517	1,776	1,793
Cash flow from financing	49,459	(63,509)	(20,303)	(22,162)	(24,529)
Chg in cash & cash eq.	6,945	47,945	53,313	98,350	109,810
Closing cash & cash eq.	57,261	105,207	158,520	256,870	366,680

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	35.0	39.8	44.5	49.7	55.5
Adjusted EPS	35.7	41.8	44.5	49.7	55.5
Dividend per share	6.3	7.2	8.0	9.0	10.0
Book value per share	233.1	265.4	301.9	342.6	388.1

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	10.1	9.1	8.3	7.5	6.8
EV/EBITDA	36.3	34.0	30.3	27.0	24.1
Adjusted P/E	53.3	45.5	42.7	38.3	34.3
P/BV	8.2	7.2	6.3	5.6	4.9

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	90.2	86.9	83.6	83.6	83.7
Interest burden (PBT/EBIT)	98.5	110.7	108.2	108.0	107.9
EBIT margin (EBIT/Revenue)	22.0	21.5	22.3	23.1	23.8
Asset turnover (Rev./Avg TA)	14.6	14.6	14.7	14.3	13.9
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.2	1.2
Adjusted ROAE	15.5	15.9	14.9	14.7	14.6

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	13.5	10.5	9.0	8.3	8.2
EBITDA	16.3	6.7	11.5	10.3	10.2
Adjusted EPS	11.5	17.2	6.4	11.6	11.6
Profitability & Return ratios (%)					
EBITDA margin	27.7	26.8	27.4	27.9	28.4
EBIT margin	22.0	21.5	22.3	23.1	23.8
Adjusted profit margin	19.5	20.7	20.2	20.8	21.5
Adjusted ROAE	15.5	15.9	14.9	14.7	14.6
ROCE	14.6	14.9	14.3	14.2	15.0
Working capital days (days)					
Receivables	92	85	95	95	95
Inventory	81	77	85	85	85
Payables	174	205	175	175	175
Ratios (x)					
Gross asset turnover	1.3	1.4	1.4	1.5	1.6
Current ratio	2.5	2.8	3.4	3.9	4.5
Net interest coverage ratio	56.1	43.7	107.9	126.4	147.7
Adjusted debt/equity	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)

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

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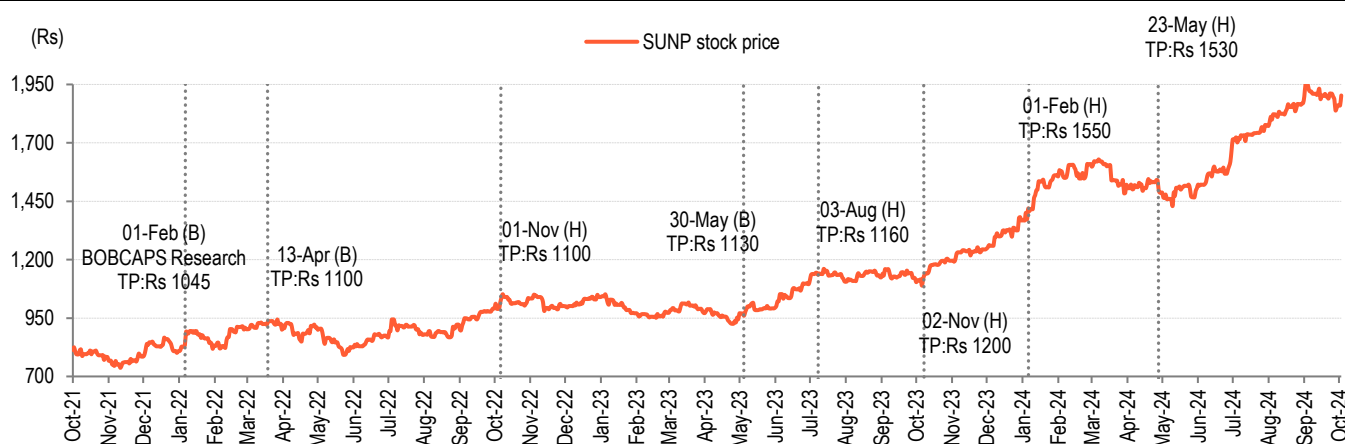
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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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