BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 1,530 | ▼ 1%

SUN PHARMA | Pharmaceuticals | 23 May 2024

Gearing for higher R&D spend

- **SUNP missed consensus EBITDA estimate by 4% as higher R&D spend offset gross margin gains; higher other income & low tax aided PAT**
- **Management guided for further pickup in R&D spend in FY25, believing it to be the investment phase for most of SUNP's businesses**
- **We pare our FY25-FY26 EBITDA estimates by 3% each and cut TP to Rs 1,530 (from Rs 1,550) on an unchanged multiple. Maintain HOLD**

Saad Shaikh
research@bobcaps.in

Strong growth in global specialty and India businesses: SUNP's performance in Q4FY24 was slightly below Bloomberg consensus estimates. Revenue/EBITDA rose +10%/+9% YoY to Rs 120bn/Rs 31bn but missed Bloomberg consensus estimates slightly by 2%/4%, respectively. Revenue growth was led by 11% YoY growth in the US to US$ 476mn and industry-beating growth in the domestic business. SUNP expects FY25 revenue to grow in the high single digits.

Specialty and Taro businesses record double-digit growth: US growth was led by double-digit revenue growth in the Taro and specialty businesses, while the US generics business grew in the mid-single digit as the company launched only two products in the US during the quarter at ex-Taro level.

Outperformed IPM in domestic market: India sales grew by 10% in Q4FY24, outperforming the Indian Pharma Market (IPM), on the back of 9 new launches in Q4FY24. 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.

FY25 to be investment year; guides for higher R&D spend: Gross margin improved 70bps/200bps YoY/QoQ to 80.1% in Q4 due to better product and geographic mix. R&D expenditure for the quarter stood at 7.5% of sales (6.7%/6.1% in Q3FY24/Q4FY23) resulting in flat EBITDA margin at 25.8% (-130bps QoQ). Management has guided for a higher R&D spend of ~200bps for FY25 to 8-10% of sales now as management has highlighted that FY25 would be an investment phase for most of its businesses.

Maintain HOLD, revise TP to Rs 1,530: We pare our FY25-FY26 EBITDA estimates by 3% each to capture higher R&D guidance and build in an EBITDA/PAT CAGR of 13%/11% over FY24-FY26E. We keep our target FY26E EV/EBITDA unchanged at 21x, an implied P/E of 30x, and reduce our TP to Rs 1,530 (from Rs 1,550). Given the limited upside potential, we maintain our HOLD rating.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SUNP IN/Rs 1,539
Market cap	US$ 44.9bn
Free float	45%
3M ADV	US$ 46.3mn
52wk high/low	Rs 1,639/Rs 929
Promoter/FPI/DII	54%/16%/20%

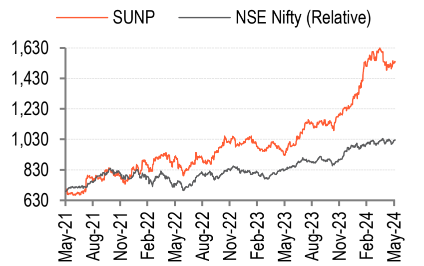
Source: NSE | Price as of 22 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	484,969	535,924	589,335
EBITDA (Rs mn)	129,884	146,831	164,411
Adj. net profit (Rs mn)	100,359	108,640	123,554
Adj. EPS (Rs)	41.8	45.3	51.5
Consensus EPS (Rs)	41.8	46.8	53.9
Adj. ROAE (%)	15.9	15.2	15.2
Adj. P/E (x)	36.8	34.0	29.9
EV/EBITDA (x)	27.3	23.9	20.9
Adj. EPS growth (%)	17.2	8.3	13.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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Fig 1 – Quarterly Performance

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Net Sales	**119,829**	**109,307**	**9.6**	**123,807**	**(3.2)**	**484,969**	**438,857**	**10.5**
EBITDA	**30,915**	**28,293**	**9.3**	**33,523**	**(7.8)**	**129,870**	**117,729**	**10.3**
Depreciation	6,504	6,715	(3.2)	6,221	4.5	25,566	25,294	-
EBIT	24,412	21,578	13.1	27,301	(10.6)	104,304	92,435	12.8
Interest	736	927	(20.7)	347	111.8	2,385	1,720	-
Other Income	6,059	3,733	62.3	2,502	142.18	13,542	6,345	-
PBT	29,735	24,383	22.0	29,456	0.9	115,461	97,060	19.0
Less: Taxation	1,489	2,229	-	4,323	-	14,395	8,476	-
Less: Minority Interest	120	323	-	443	-	721	873	-
Recurring PAT	28,126	21,831	28.8	24,690	13.9	100,346	87,711	14.4
Exceptional items	(1,580)	(1,986)	-	548	-	(4,582)	(2,976)	-
Reported PAT	**26,546**	**19,845**	**33.8**	**25,238**	**5.2**	**95,764**	**84,736**	**13.0**
Key Ratios (%)			**(bps)**		**(bps)**			**(bps)**
Gross Margin	80.1	79.4	72	77.9	224	78.0	75.7	231
EBITDA Margin	25.8	25.9	(8)	27.1	(128)	26.8	26.8	(5)
Tax / PBT	5.0	9.1	-	14.7	-	12.5	8.7	-
NPM	23.5	20.0	-	19.9	-	20.7	20.0	-
EPS (Rs)	11.7	9.1	-	10.3	-	41.8	36.6	-

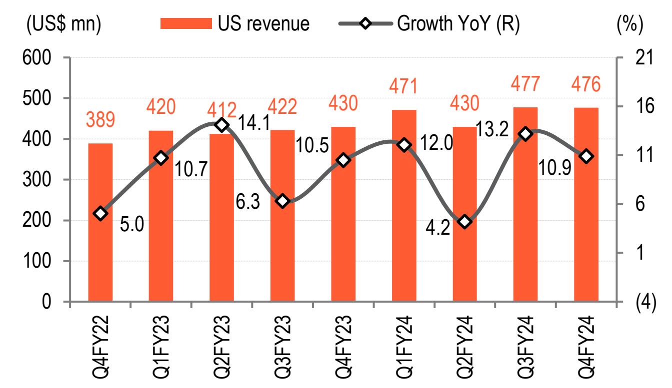
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Formulation	**113,261**	**102,932**	**10.0**	**116,264**	**(2.6)**	**455,708**	**410,786**	**10.9**
Domestic	37,078	33,641	10.2	37,785	(1.9)	148,893	136,031	9.5
Exports	76,182	69,291	9.9	78,478	(2.9)	306,815	274,755	11.7
US	39,544	35,343	11.9	39,736	(0.5)	153,493	135,353	13.4
EM	20,348	18,204	11.8	20,946	(2.9)	86,195	78,977	9.1
ROW	16,290	15,744	3.5	17,797	(8.5)	67,128	60,426	11.1
APIs and others	**4,873**	**4,324**	**12.7**	**5,305**	**(8.1)**	**21,877**	**22,003**	**(0.6)**
Net Sales	**118,133**	**107,256**	**10.1**	**121,569**	**(2.8)**	**477,585**	**432,789**	**10.4**
OOI	1,696	2,051	(17.3)	2,238	(24.2)	7,384	6,068	21.7
Revenue	**119,829**	**109,307**	**9.6**	**123,807**	**(3.2)**	**484,969**	**438,857**	**10.5**
INR/US$	83.0	82.3	0.9	83.3	(0.3)	83	80.4	3.0
US in $ terms	476	430	10.9	477	(0.2)	1,854	1,684	10.1

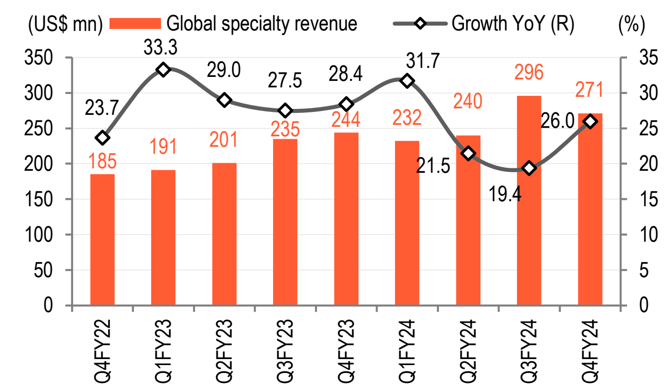
Source: Company, BOBCAPS Research

Fig 3 – US revenue



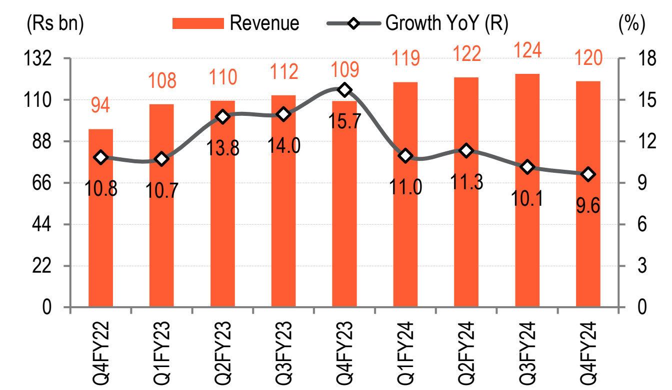
Source: Company, BOBCAPS Research

Fig 4 – Global specialty revenue



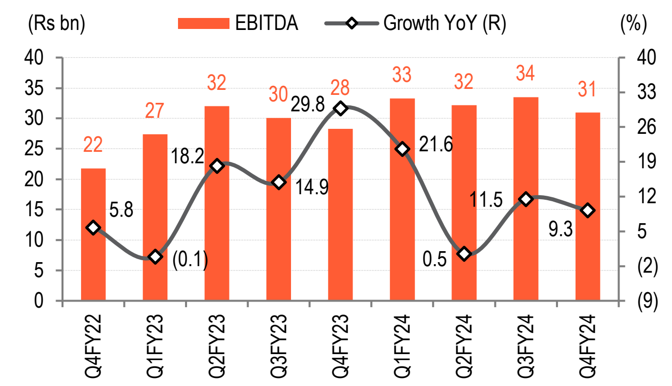
Source: Company, BOBCAPS Research

Fig 5 – Total revenue



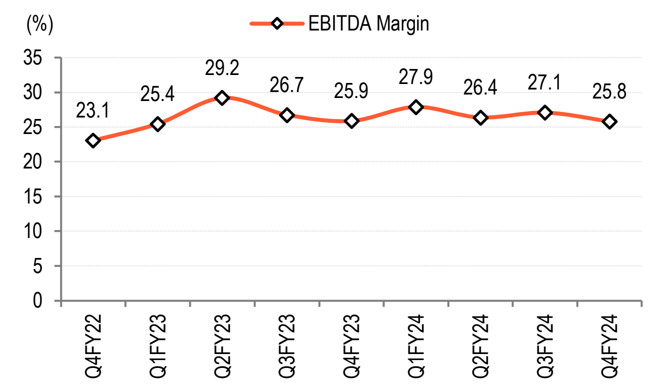
Source: Company, BOBCAPS Research

Fig 6 – EBITDA



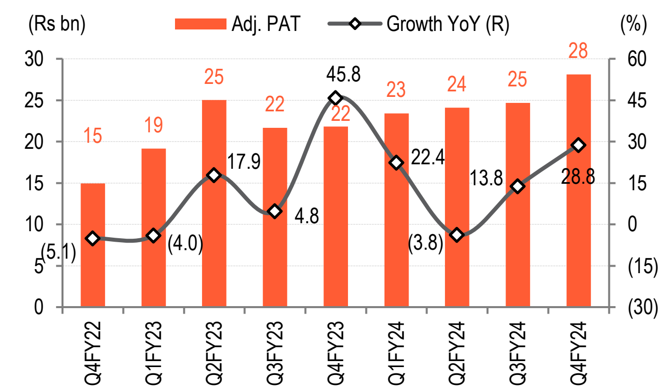
Source: Company, BOBCAPS Research

Fig 7 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 8 – Adj. PAT



Source: Company, BOBCAPS Research

Earnings call takeaways

Guidance

- Revenue for FY25 is expected to grow in high single digits.
- R&D expenditure is projected to be 8-10% of sales. FY25 will be an investment phase for most of the business. Continued investment in R&D for global generics and specialty business. Specialty R&D accounted for 42% of total R&D spending for the quarter.
- The tax rate will improve YoY.
- FY25 will be a significant investment phase.
- The pipeline for launches in FY25 is promising.

Specialty Business

- The global specialty business surpassed US$ 1bn in annual sales, with ongoing investments to expand the portfolio.
- Specialty sales grew by 11.1% to US$ 271mn in Q4.
- Prescription trends for specialty products remain strong.
- Focus to be on US market initially, with plans to expand to other regions.
- Post Taro integration, operations will continue smoothly.
- Strong growth in Winlevi and Ilumya sales, with Ilumya achieving US$ 580mn in FY24.
- Several pipeline products in various phases of development, including Nidlegy, Deuruxolitinib and Ilumya.

US Business

- US formulations business grew by 10.9% YoY to US$ 476mn.
- US sales accounted for 33.5% of total sales in Q4FY24.
- Taro's sales grew by 12.5% YoY to US$ 165mn.
- Gradual resumption of supplies from Mohali plant. Positive expectations from upcoming USFDA audits for Mohali and Dadra facilities. The company has done enough correction in Mohali and Dadra facilities, expecting a positive outcome in subsequent USFDA audits.
- Launched two new products during the quarter.
- gRevlimid contribution to sales was very small in Q4FY24, similar to Q3FY24.
- The next milestone for Deuruxolitinib is the PDUFA date, expected in Jul'24.
- Ilumya topline data expected in H2CY25.
- Topline data for SCD-044 is expected in H2CY24 and H1CY25.

India Business

- India sales grew by 10.2% in Q4FY24, accounting for 33.5% of consolidated sales.
- Sun Pharma is ranked No. 1 in India with an 8.5% market share.
- Launched 9 new products in Q4FY24.
- Aims to grow in line with or outperform the Indian pharma market in FY25.
- Focus on in-house manufacturing.

Others

- Emerging market growth was 17% YoY in Q4FY24, contributing 17.2% of total sales. Strong performance in Brazil and South Africa in local currency terms.
- Positive clinical data for Nidlegy, particularly significant for the European market.
- Forex loss of Rs 564mn in Q4FY24.
- Net cash as of 31 Mar'24 was US$ 2.4bn.
- Gross margin driver in Q4 increased by 200bps QoQ, due to product and geographic mix. On an aggregate basis gross margin had positive momentum in Q4FY24.
- Staff costs in Q4FY24 were high due to an increase in merit and headcount.

Valuation methodology

We pare our FY25-FY26 EBITDA estimates by 3% each to capture management's higher R&D guidance and build in an EBITDA/PAT CAGR of 13%/11% over FY24-FY26E. We keep our target EV/EBITDA unchanged at 21x, implied P/E of 30x, and reduce our TP to Rs 1,530 (from Rs 1,550). Given the limited upside potential, we maintain our HOLD rating.

Fig 9 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	535.9	589.3	543.5	596.4	(1.4)	(1.2)
EBITDA	146.8	164.4	152.1	169.9	(3.5)	(3.2)
EBITDA margin (%)	27.4	27.9	28.0	28.5	(59bps)	(59bps)
EPS (Rs)	45.3	51.5	46.3	52.5	(2.2)	(1.9)

Source: BOBCAPS Research

Fig 10 – Key assumptions

Revenue (Rs bn)	FY24A	FY25E	FY26E
Formulation	455.7	505.9	557.6
Domestic	148.9	166.4	182.8
Export	306.8	339.5	374.8
US	153.5	172.4	194.4
Emerging Markets	86.2	94.8	104.3
Rest of the World	67.1	72.3	76.1
API	19.2	21.1	21.9
Others	2.7	3.1	3.4
Other operating income	7.4	5.8	6.4

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- regulatory clearance
- positive results from pipeline drugs, especially Deuruxolitinib,
- 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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	3.7	2,379	2,585	BUY
Alembic Pharma	ALPM IN	2.3	955	970	HOLD
Alkem Labs	ALKEM IN	7.7	5,304	4,800	SELL
Aurobindo Pharma	ARBP IN	8.7	1,223	1,100	HOLD
Cipla	CIPLA IN	14.6	1,482	1,576	BUY
Divi's Labs	DIVI IN	13.1	4,059	3,000	SELL
Dr Reddy's Labs	DRRD IN	11.9	5,873	5,900	HOLD
Eris Lifesciences	ERIS IN	1.5	908	1,200	BUY
Glenmark Life Sciences	GLS IN	1.2	832	790	HOLD
Laurus Labs	LAURUS IN	3.0	456	305	SELL
Lupin	LPC IN	9.5	1,716	1,600	HOLD
Sun Pharma	SUNP IN	44.9	1,539	1,530	HOLD

Source: BOBCAPS Research, NSE | Price as of 22 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	**386,545**	**438,857**	**484,969**	**535,924**	**589,335**
EBITDA	104,702	121,740	129,884	146,831	164,411
Depreciation	21,437	25,294	25,566	26,769	27,652
EBIT	83,265	96,446	104,317	120,061	136,759
Net interest inc./(exp.)	(1,274)	(1,720)	(2,385)	(1,094)	(1,044)
Other inc./(exp.)	6,934	277	13,542	10,899	11,985
Exceptional items	0	0	0	0	0
EBT	88,926	95,003	115,474	129,866	147,699
Income taxes	10,755	8,476	14,395	19,480	22,155
Extraordinary items	(44,129)	(1,715)	(4,943)	0	0
Min. int./Inc. from assoc.	1,331	873	721	1,746	1,990
Reported net profit	**32,711**	**83,940**	**95,416**	**108,640**	**123,554**
Adjustments	44,129	1,715	4,943	0	0
Adjusted net profit	**76,840**	**85,654**	**100,359**	**108,640**	**123,554**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	44,793	56,815	56,533	55,324	59,423
Other current liabilities	34,479	31,628	36,579	36,734	36,904
Provisions	95,169	56,973	57,715	63,072	68,965
Debt funds	12,903	68,859	32,737	31,252	29,841
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	668,660	759,087	861,985
Shareholders' fund	510,645	592,485	671,060	761,487	864,385
Total liab. and equities	**697,989**	**806,760**	**854,622**	**947,868**	**1,059,518**
Cash and cash eq.	50,317	57,261	105,207	157,152	255,258
Accounts receivables	105,929	114,385	112,494	140,041	153,998
Inventories	89,968	105,131	98,683	124,360	136,754
Other current assets	85,817	87,984	102,335	102,335	102,335
Investments	128,486	148,301	150,258	150,258	150,258
Net fixed assets	103,721	103,670	101,917	89,992	77,185
CWIP	12,868	49,732	53,539	53,539	53,539
Intangible assets	120,884	140,297	130,191	130,191	130,191
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**697,989**	**806,760**	**854,622**	**947,868**	**1,059,518**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	**83,385**	**58,821**	**130,925**	**87,426**	**135,892**
Capital expenditures	(27,712)	(81,520)	(17,514)	(14,845)	(14,845)
Change in investments	(32,361)	(19,815)	(1,957)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(60,073)**	**(101,335)**	**(19,471)**	**(14,845)**	**(14,845)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(25,783)	55,956	(36,122)	(1,485)	(1,411)
Interest expenses	(1,274)	(1,720)	(2,385)	(1,094)	(1,044)
Dividends paid	(23,990)	(15,125)	(17,192)	(19,575)	(22,262)
Other financing cash flows	13,597	10,347	(7,810)	1,517	1,776
Cash flow from financing	**(37,450)**	**49,459**	**(63,509)**	**(20,636)**	**(22,941)**
Chg in cash & cash eq.	**(14,138)**	**6,945**	**47,945**	**51,945**	**98,106**
Closing cash & cash eq.	**50,317**	**57,261**	**105,207**	**157,152**	**255,258**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	13.6	35.0	39.8	45.3	51.5
Adjusted EPS	32.0	35.7	41.8	45.3	51.5
Dividend per share	10.0	6.3	7.2	8.2	9.3
Book value per share	200.1	233.1	265.4	302.5	344.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	9.3	8.1	7.3	6.6	5.8
EV/EBITDA	34.2	29.2	27.3	23.9	20.9
Adjusted P/E	48.1	43.1	36.8	34.0	29.9
P/BV	7.7	6.6	5.8	5.1	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	86.4	90.2	86.9	83.7	83.7
Interest burden (PBT/EBIT)	106.8	98.5	110.7	108.2	108.0
EBIT margin (EBIT/Revenue)	21.5	22.0	21.5	22.4	23.2
Asset turnover (Rev./Avg TA)	14.1	14.6	14.6	14.9	14.7
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.3	1.2
Adjusted ROAE	15.3	15.5	15.9	15.2	15.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	15.4	13.5	10.5	10.5	10.0
EBITDA	19.6	16.3	6.7	13.0	12.0
Adjusted EPS	6.6	11.5	17.2	8.3	13.7
Profitability & Return ratios (%)					
EBITDA margin	27.1	27.7	26.8	27.4	27.9
EBIT margin	21.5	22.0	21.5	22.4	23.2
Adjusted profit margin	19.9	19.5	20.7	20.3	21.0
Adjusted ROAE	15.3	15.5	15.9	15.2	15.2
ROCE	14.6	14.6	14.9	14.5	14.7
Working capital days (days)					
Receivables	93	92	85	95	95
Inventory	85	81	77	85	85
Payables	149	174	205	175	175
Ratios (x)					
Gross asset turnover	1.3	1.3	1.4	1.5	1.5
Current ratio	1.9	2.5	2.8	3.4	3.9
Net interest coverage ratio	65.4	56.1	43.7	109.8	130.9
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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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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BUY – Expected return >+15%

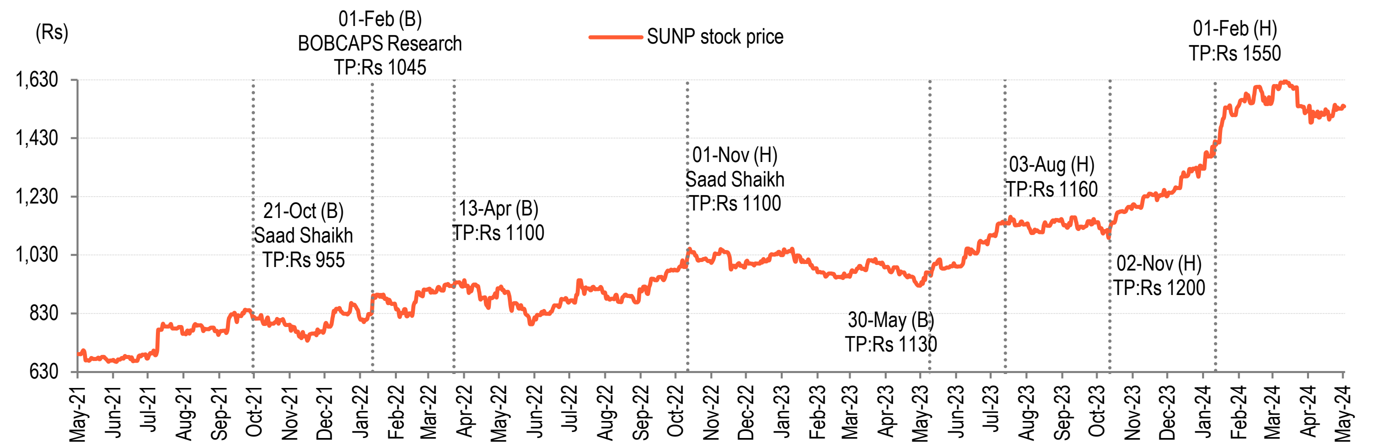
HOLD – Expected return from -6% to +15%

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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