

Sun Pharmaceutical Industries (SUNP)

Pharmaceuticals | NBIE conference update

ACCUMULATE

CMP: Rs1,500 | Target Price (TP): Rs1,579 | Upside: 5.2%

June 13, 2024

Specialty to drive future growth

Key Points

- We hosted the management of Sun Pharma Ltd, represented by Dr. Abhishek Sharma, Vice President & Head of IR to gain insights into the current business outlook. Scaling up of the Global Specialty portfolio would remain the key focus area, with Ilumya and Winlevi being the main growth drivers.
- In India, the target would be to grow in line or slightly faster than the market on the back of MR addition and new launches. Growth in EM and RoW markets would be aided by leveraging of the Global Specialty portfolio.
- We remain positive about Sun Pharma due to the following catalysts: (i) Ramp-up of the Branded/Specialty business in the US, with the recently acquired Deuroxolitinib further strengthening the Specialty pipeline, along with over 20% global growth in Ilumya (ii) Continued growth in the India business (iii) Potential inorganic opportunities given the strong balance sheet, especially in Dermatology, Ophthalmology and Oncology specialties and (iv) Maintenance of a healthy EBITDA margin at ~27%. However, the recent uptick in R&D and other expenses, coupled with lower topline growth, remains a key cause of concern. Despite these issues, we are structurally very positive about the business. Therefore, we maintain our ACCUMULATE rating with a target price (TP) of ₹1,579, valuing it at 28x FY26E EPS of Rs56.40.

Financial performance: FY24 revenue increased by 10.4% to Rs477,585mn, with improved gross margin and a rise in market share from 8.3% to 8.5%.

Segment performance: India Business revenue grew by 9.5% to Rs148,893mn, maintaining the No. 1 rank in prescription volume. US Business revenue increased by 10.1% to USD1,854mn, driven by Specialty products. RoW Business sales rose by 7.8% to USD811mn.

R&D and Outlook: R&D expenses increased by 35% to Rs9,000mn, with a focus on Specialty R&D. The company projects high single-digit topline growth for FY25 with an upward bias and anticipates USFDA clearance for its Mohali plant in the coming quarters.

Est Change	Maintain
TP Change	Maintain
Rating Change	Maintain

Company Data and Valuation Summary

Reuters:	SUN.BO
Bloomberg:	SUNP IN Equity
Mkt Cap (Rsbn/US\$bn):	3,598.4 / 43.4
52 Wk H / L (Rs):	1,639 / 977
ADTV-3M (mn) (Rs/US\$):	4,560.0 / 54.2
Stock performance (%) 1M/6M/1yr:	(0.5) / 20.8 / 52.4
Nifty 50 performance (%) 1M/6M/1yr:	6.0 / 4.2 / 24.3

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	54.5	54.5	54.5
DIIIs	19.7	19.5	18.8
FIIIs	16.8	17.1	17.7
Others	9.1	8.9	9.0
Pro pledge	2.4	2.4	2.1

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Sales	438,857	484,969	550,453	617,688
EBITDA	116,468	130,231	149,017	170,192
Net profit	86,296	100,065	113,165	135,310
EPS (Rs)	36.0	41.7	47.2	56.4
EPS growth (%)	29.5	16.0	13.1	19.6
EBITDA margin (%)	26.5	26.9	27.1	27.6
PER (x)	42.8	36.9	32.7	27.3
P/BV (x)	6.6	5.8	5.2	4.6
EV/EBITDA (x)	31.0	27.2	23.2	19.7
RoCE (%)	14.6	14.7	15.1	16.0
RoE (%)	16.6	16.7	16.7	17.7

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Conference Call Highlights

Financial Highlights for FY24

- Revenue increased by 10.4% to Rs477,585mn.
- Gross margin improved by 230bps to 22% of revenue, driven by higher Specialty sales and a better product mix.
- Employee expenses accounted for 19.4% of sales, up by 50bps vs FY23 due to annual merit increases.
- Other expenses represented 32.3% of sales, up 15% primarily due to higher R&D spending, which also included some marketing & distribution expenses.
- Forex gain for the year stood at Rs130,231mn, up 11.8% vs FY23.
- Market share increased to 8.5% in FY24 from 8.3% in FY23.
- 60% of the company's growth is driven by volume.

India Business

- Revenue for FY24 increased by 9.5% to Rs148,893mn.
- For 4QFY24, revenue increased by 10.2% YoY to Rs37,078mn.
- The India Formulations business accounted for 31.4% of total consolidated sales for the quarter.
- Sun Pharma ranked No. 1 and holds an 8.5% market share in IPM, up from 8.3% in 4QFY23.
- The company has grown faster than IPM and performed well across all major therapy areas.
- Sun Pharma remains the No. 1 company in terms of prescription volume (as per SMSRC MAT Feb'24).
- It is ranked No. 1 by prescriptions across 12 different doctor categories.

US Business

- The US business grew by 10.1% to USD1,854mn in FY24. Growth was driven by Specialty products like Ilumya, Cequa, Winlevi and Hodamzo.
- The company launched two products in the US on an ex-Taro basis.
- Pricing pressure in the US remained consistent with last year.

Rest of World (RoW) Business

- Formulations sales in RoW markets for FY24 stood at USD811mn, up 7.8% over FY23.
- RoW market sales stood at USD196mn in 4QFY24, up 2.5% YoY.
- RoW accounted for ~13.8% of total consolidated sales for the quarter.

R&D

- R&D expenses increased by 35% YoY to Rs9,000mn.
- Specialty R&D accounted for 42% of total R&D spending for the quarter.
- The Specialty R&D pipeline comprised six molecules undergoing clinical studies.

Global Specialty

- Sales increased by 19.3% for FY24 to USD1,039mn.
- In FY23, Specialty sales were 16% of total revenue but now it comprises 18% of total revenue.
- In 4QFY24, global specialty sales increased by 11.1% YoY to USD271mn.
- There was strong growth in global sales of Ilumya, reaching USD580mn, up by 21.7%. This figure does not include the market share of the partner.

Guidance

- For FY25, the company expects high single-digit consolidated topline growth with an upward bias of 10-20%, which boils down to 10-11% growth (depending on IPM).
- R&D investment is projected to be 8-10% of sales in FY25.

USFDA

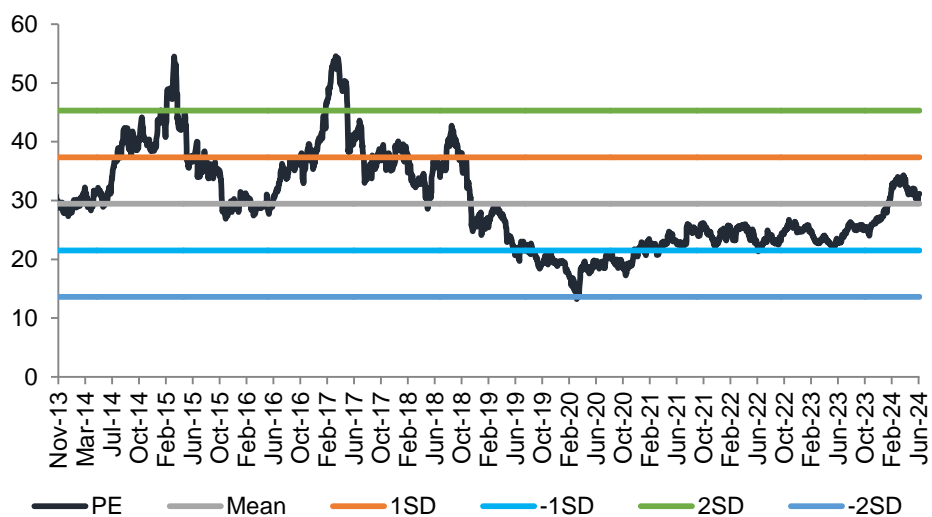
- The company is closely working with the USFDA regarding its Mohali plant and expects clearance in the coming quarters.

Valuation and Outlook

Revenue is expected to grow at ~12% CAGR over FY23-FY26E, driven by all geographies (excluding US generics business). Domestic growth will mainly be driven by continuous strong growth in the Chronic segment. Global Specialty segment revenue is expected to clock ~14% CAGR over FY23-FY26E mainly on the back of persistent ramp-up in Winlevi and Ilumya, which will partially be offset by heightened generic competition in Absorica. RoW/EM markets are expected to grow at 33%/11% CAGR over FY23-FY26E. EBITDA margin is expected to remain healthy at ~27%. Net profit is expected to grow at ~16% CAGR over FY23-FY26E mainly on the back of a strong operational performance.

The stock is currently trading at 32.7x/27.3x PE on FY25E/FY26E and 23.2x/19.7x EV/EBITDA on FY25E/FY26E. ROE/ROCE is expected to remain decent at 17.7%/16% in FY26E. FCF generation is expected to remain strong at >Rs200bn over FY24E-FY26E. We remain positive about Sun Pharma on a long-term basis due to the following catalysts: (i) Ramp-up of Branded/Specialty business in the US (ii) Continued growth in India business (iii) Potential inorganic opportunity given the strong BS (iv) Maintenance of healthy EBITDA margin at ~25%. However, additional costs and revenue loss due to the Halol import alert and Mohali plant issues are likely to be near-term concerns for Sun Pharma. Additionally, increase in R&D costs, other expenses and reduced topline growth are key concerns. We are structurally positive about the company and maintain ACCUMULATE with a TP of Rs1,579, valuing it at 28x FY26E EPS of Rs56.40.

Exhibit 1: One-year Rolling Forward P/E Chart



Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 2: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	386,545	438,857	484,969	550,453	617,688
Growth (%)	15.4	13.5	10.5	13.5	12.2
Raw Materials	103,515	106,622	106,626	122,139	137,058
Employee Expenses	73,008	82,960	94,291	101,620	114,032
Other expenses	84,719	109,366	122,045	134,249	147,674
R&D	21,325	23,441	31,776	43,427	48,732
Total expenditure	282,568	322,389	354,737	401,436	447,496
Gross Profit	283,030	332,235	378,342	428,313	480,630
% growth	14.1	17.4	13.9	13.2	12.2
EBITDA	103,977	116,468	130,231	149,017	170,192
Growth (%)	22.5	12.0	11.8	14.4	14.2
EBITDA margin (%)	26.9	26.5	26.9	27.1	27.6
Other income	9,215	6,345	13,542	13,761	20,075
Interest Costs	1,274	1,720	2,385	1,377	1,377
Depreciation	21,437	25,294	25,566	26,280	27,405
Exceptional Items	-45,668	-1,715	-4,943	-	-
PBT	44,813	94,084	110,879	135,121	161,484
% growth	39.7	109.9	17.9	21.9	19.5
Tax	10,755	8,476	14,395	21,619	25,837
Effective tax rate (%)	24.0	9.0	13.0	16.0	16.0
PAT before MI and Share for Associates	34,058	85,608	96,484	113,502	135,647
Income from Associates	-165	-479	-384	-	-
MI	1,943	394	337	337	337
PAT (net of Minority Interest)	31,950	84,736	95,764	113,165	135,310
Adjusted PAT	66,658	86,296	100,065	113,165	135,310
Growth (%)	12.4	29.5	16.0	13.1	19.6
EPS (Rs)	27.8	36.0	41.7	47.2	56.4
EPS growth (%)	12.4	29.5	16.0	13.1	19.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Equity	2,399	2,399	2,399	2,399	2,399
Reserves	477,713	557,555	634,268	713,484	808,201
Net worth	480,112	559,954	636,668	715,883	810,600
Minority Interest	30,549	33,201	34,392	34,729	35,065
Long term Loans	4,817	5,599	3,036	3,036	3,036
Deferred tax liabilities	-28,649	-31,326	-39,486	-39,486	-39,486
Other non-current liabilities	10,196	9,295	9,138	9,697	10,271
Total Liabilities	497,026	576,724	643,748	723,859	819,487
Net Block	111,689	113,537	113,001	101,720	89,315
Goodwill & Intangible Assets	125,777	180,396	172,652	172,652	172,652
Long Term Loans & Advances	7	6	9	10	11
Other Non Current Assets	81,409	83,021	93,181	93,181	93,181
Assets classified as held for sale	-	214	419	419	419
Inventories	89,968	105,131	98,683	111,674	124,487
Debtors	105,929	114,385	112,494	127,683	143,279
Cash and cash equivalents	45,083	46,237	92,857	171,246	265,919
Bank balances other than cash	5,251	11,466	12,350	12,350	12,350
Other current assets	103,919	121,401	117,948	122,282	126,733
Total Current Assets	350,150	398,619	434,331	545,236	672,769
Creditors	44,793	56,815	56,533	64,758	72,668
Other current liabilities/provisions	127,212	142,255	113,311	124,601	136,192
Total current liabilities	172,006	199,070	169,844	189,359	208,860
Net current assets	178,144	199,549	264,487	355,877	463,909
Total Assets	497,026	576,724	643,748	723,859	819,487

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
PBT	44,813	94,084	110,879	135,121	161,484
Depreciation	21,437	25,294	25,566	26,280	27,405
Net Chg in WC	15,591	(56,618)	10,621	(19,956)	(20,499)
Taxes	9,692	(15,098)	(15,694)	(21,619)	(25,837)
Others	(1,688)	1,931	(10,022)	8,890	9,091
CFO	89,845	49,593	121,350	128,716	151,644
Capex	(14,344)	(20,646)	(21,710)	(15,000)	(15,000)
Net Investments made	(34,485)	(63,294)	7,891	7,891	-
Others	(3,203)	4,503	6,916	-	-
CFI	23,469	(50,489)	92,738	106,608	121,644
Change in Share capital	-	-	-	-	-
Change in Debts	(28,718)	51,255	(36,560)	-	-
Div. & Div Tax	(21,589)	(25,197)	(29,007)	(33,950)	(40,593)
Others	(1,628)	11,155	(1,376)	(1,377)	(1,377)
CFF	(51,935)	37,213	(66,944)	(35,327)	(41,970)
Total Cash Generated	61,380	36,317	147,144	199,997	231,317
Cash Opening Balance	64,455	50,334	57,703	105,207	191,488
Cash Closing Balance	50,334	57,703	105,207	191,488	286,161

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

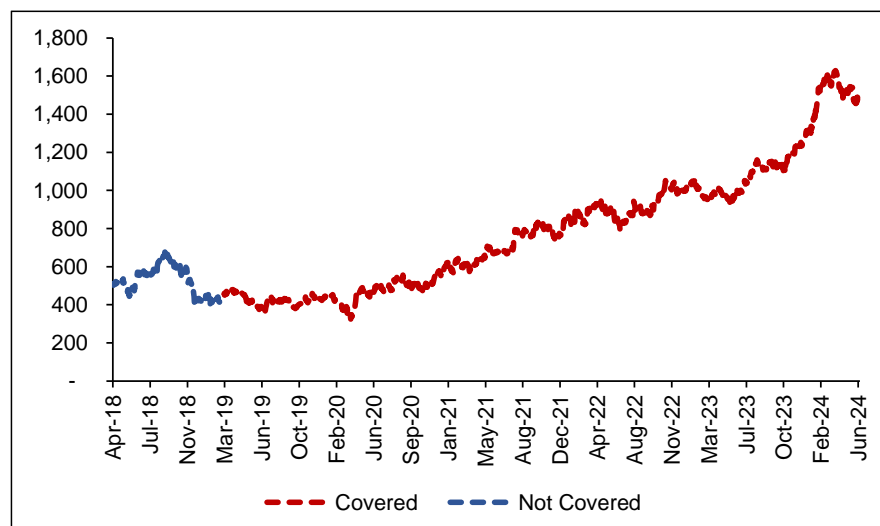
Y/E March	FY22	FY23	FY24	FY25E	FY26E
Profitability & return ratios					
EBITDA margin (%)	26.9	26.5	26.9	27.1	27.6
Net profit margin (%)	17.2	19.7	20.6	20.6	21.9
RoE (%)	14.1	16.6	16.7	16.7	17.7
RoCE (%)	12.6	14.6	14.7	15.1	16.0
RoIC (%)	15.4	18.4	19.1	21.3	25.5
Working capital & liquidity ratios					
Receivables (days)	93	93	87	81	81
Inventory (days)	85	82	78	71	71
Payables (days)	40	43	43	41	41
Working capital (days)	139	132	121	111	111
Current ratio (x)	2.0	2.0	2.6	2.9	3.3
Quick Ratio (x)	1.5	1.5	2.0	2.3	2.7
Leverage ratios					
Net Debt/Equity (x)	-0.2	-0.1	-0.2	-0.3	-0.4
Interest Cover (x)	64.8	53.0	43.9	89.1	103.7
Net Debt/EBITDA (x)	-1.1	-0.7	-1.2	-1.6	-2.0
Valuation ratios					
EV/Sales (x)	9.3	8.2	7.3	6.3	5.4
EV/EBITDA (x)	34.4	31.0	27.2	23.2	19.7
P/E (x)	55.4	42.8	36.9	32.7	27.3
P/BV (x)	7.7	6.6	5.8	5.2	4.6

Source: Company, Nirmal Bang Institutional Equities Research

Rating Track

Date	Rating	Market price (Rs)	Target price (Rs)
5 March 2019	Buy	446	581
5 April 2019	Buy	462	581
29 May 2019	Buy	414	578
14 August 2019	Buy	438	578
23 September 2019	Buy	414	573
8 November 2019	Buy	440	517
7 February 2020	Buy	431	517
27 March 2020	Buy	339	489
23 April 2020	Buy	474	543
27 May 2020	Buy	451	543
3 August 2020	Buy	532	625
23 September 2020	Buy	509	618
29 September 2020	Buy	510	618
4 November 2020	Buy	485	618
10 December 2020	Accumulate	570	618
7 January 2021	Buy	605	701
1 February 2021	Buy	586	716
28 May 2021	Accumulate	700	710
2 August 2021	Accumulate	774	831
26 September 2021	Accumulate	770	880
3 November 2021	Buy	815	939
1 February 2022	Buy	834	1,035
21 February 2022	Buy	864	1,090
11 March 2022	Buy	869	1,090
31 May 2022	Buy	888	1,082
1 August 2022	Buy	944	1,112
29 September 2022	Buy	918	1,061
2 November 2022	Buy	1,033	1,192
1 February 2023	Buy	1,035	1,202
16 March 2023	Buy	967	1,265
27 May 2023	Buy	971	1,130
9 June 2023	Buy	1,000	1,217
4 August 2023	Buy	1,141	1,315
1 November 2023	Buy	1,117	1,345
1 February 2024	Buy	1,418	1,653
23 May 2024	Accumulate	1,540	1,579
13 June 2024	Accumulate	1,500	1,579

Rating Track Graph



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ACCUMULATE -5% to 15%

SELL < -5%

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