

Sun Pharmaceutical Industries | BUY



Positive earnings surprise continue

Sun surprised the Street positively, yet again. Excluding milestone income (USD 20mn) Global specialty sales came in at USD 276mn, up USD 36mn QoQ. This was primarily led by Ilumya, Cequa and Levulan. Among geographical segments, US grew ahead of estimates, India was in line and EM/RoW disappointed on account of weaker currency. EBITDA margin of ~28% was partly driven by milestone income and forex gain adjusting for this margin was 26.1%. Reported PAT was INR 25bn, up 17% YoY (6% beat). Notably, gRevlimid contribution was lower this time around. Sun's annual operating cash flows of USD 1bn+ and potential access to Taro's rich cash reserves (if the offer sails through) creates room for bolder and bigger bets in the specialty segment (such as Concert), in our view. The key focus area remains derma and eye-care in the US. We expect Sun's specialty sales to sustain double-digit growth momentum given Ilumya's upward trajectory and Deuruxolitinib launch likely next fiscal. Also, the Street seems to be underappreciating Sun's potential in generics – it has a robust pipeline and resolution of site issues could be a positive trigger. In India, Sun's field force expansion and new launches/initiatives will continue to drive IPM outperformance. Given the robust specialty outlook, domestic leadership, strong cash position and risk-appetite for large M&As, we assume coverage with BUY and increase our multiple to 30x (vs. 28x earlier) to arrive at a Dec'24 TP of INR 1,580.

- Specialty growth sustains strong momentum:** Global specialty sales was USD 296mn (including USD 20mn milestone) and grew 24% YoY (ex-milestone) driven by Ilumya, Cequa and Levulan. Deuruxolitinib approval is a key near-term trigger. We expect it to rapidly scale up in the newly evolving Alopecia Areata market. The IL-23 shift in PsO and PsA is becoming increasingly visible as global peers also signal a positive commentary – this reaffirms our long-term growth thesis for Ilumya. The biosimilars of Humira, Stelara, etc., may not impact Ilumya's growth significantly. Ilumetri's addition to China's National Reimbursement Drug List w.e.f. 1st Jan'24 (out-licensed to CMS in Jun'19) could incrementally yield milestone/ royalty benefits. Levulan's 2H skew and Bromsite's Cigna formulary win could be immediate revenue drivers. We expect global specialty sales to deliver double-digit CAGR over FY23-26 and believe that it has achieved breakeven. Nidlegly, which recently completed Ph III studies in Europe, demonstrated positive data for skin cancer (not fully factored into Street estimates).
- US regulatory challenges overshadowed by specialty/ gRevlimid:** US business ex-Taro grew 15% YoY to INR 31.6bn (5% beat) with minimal contribution from gRevlimid. SUNP's specialty growth and gRevlimid contribution w.e.f. 4Q23 has mitigated the impact of Halol/ Mohali. Any resolution of site issues is a key positive. The Street seems to be underappreciating Sun's generic pipeline and execution capabilities. The company launched three products (ex-Taro) during the quarter.
- India growth intact:** SUNP maintained its guidance of growing in line or ahead of the IPM (9M growth ~9%) for FY24. India revenue grew 11% YoY to INR 37.8bn (1% beat). SUNP launched 28 new products in India during the quarter. The company believes it can

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,580
Upside/(Downside)	11.4%
Previous Price Target	1,440
Change	9.7%

Key Data – SUNP IN

Current Market Price	INR1,418
Market cap (bn)	INR3,403.3/US\$41.0
Free Float	41%
Shares in issue (mn)	2,399.0
Diluted share (mn)	2,399.0
3-mon avg daily val (mn)	INR2,587.3/US\$31.2
52-week range	1,439/922
Sensex/Nifty	71,752/21,726
INR/US\$	83.0

Price Performance

%	1M	6M	12M
Absolute	12.6	24.1	37.1
Relative*	13.4	15.0	13.8

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	384,264	432,788	480,636	539,865	609,283
Sales Growth (%)	16.0	12.6	11.1	12.3	12.9
EBITDA	103,977	116,467	132,879	149,795	173,370
EBITDA Margin (%)	26.9	26.5	27.2	27.3	28.0
Adjusted Net Profit	78,562	86,450	98,105	112,187	130,807
Diluted EPS (INR)	32.7	36.0	40.9	46.8	54.5
Diluted EPS Growth (%)	32.5	10.0	13.5	14.4	16.6
ROIC (%)	20.4	20.9	20.1	22.4	25.7
ROE (%)	16.6	16.6	16.6	17.0	17.7
P/E (x)	43.3	39.3	34.7	30.3	26.0
P/B (x)	7.1	6.1	5.4	4.9	4.4
EV/EBITDA (x)	31.9	28.7	24.8	21.5	18.2
Dividend Yield (%)	0.5	0.6	0.8	1.0	1.2

Source: Company data, JM Financial. Note: Valuations as of 31/Jan/2024

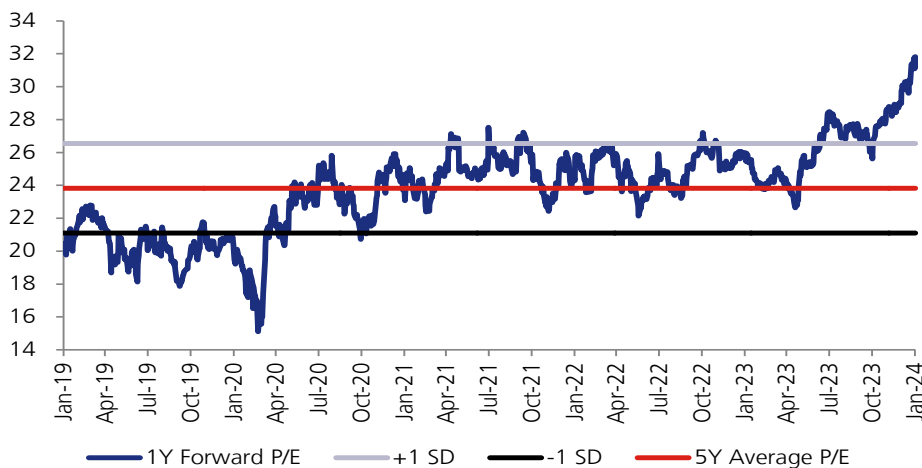
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grow in line/ ahead of the IPM and we believe 10-12% growth is achievable over the next few years. EM was broadly flat YoY (12% miss) at INR 23.5bn and was impacted by adverse currency movements while RoW grew 14% YoY to INR 17.8bn (2% beat); however, excluding milestone income, growth was tepid at 3% YoY. API business declined 10% YoY to INR 4.7bn (14% miss).

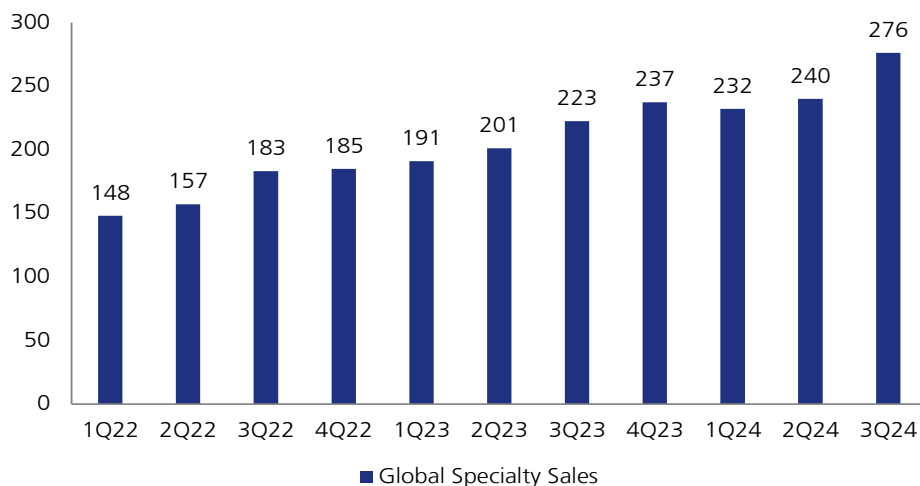
- **Bold M&As cannot be ruled out:** Sun's balance sheet strength is remarkable – it has net cash of USD 1.9bn (USD 660mn ex-Taro). Potential access to Taro's rich cash reserves (post minority buyout) will increase the risk appetite for more bolt-on acquisitions/deals. In addition to existing cash reserves, USD 1bn+ annual operating cash inflows create headroom for big-ticket M&A, in our view. These investments are likely to be in specialty assets in derma and eye-care segments in the US.
- **Key financials:** Sun's Revenue/EBITDA/Adj. PAT of INR 123.8bn/ 34.8bn/ 25.9bn grew +10%/+16%/+20% YoY and were in line/ +6%/ +9% vs. our estimates and in line/ +5%/ +7% vs. consensus estimates. Gross margin improved 280bps YoY to ~77.9% (JMFe: 76.9%), primarily due to change in product mix, contribution of higher specialty sales and milestone income of USD 20mn. EBITDA margin improved 140bps YoY to 28.1% (JMFe: 26.3%); however, this was partly driven by milestone income and forex gain, adjusted margin was 26.1%. Forex gain for the quarter stood at INR 1.2bn vs. INR 31mn (loss) in 2Q23. R&D expenses stood at INR 8.2bn (6.8% of sales) of which global specialty constituted ~39%.

Exhibit 1. Valuation



Source: Bloomberg, JM Financial

Exhibit 2. Global specialty sales



Source: Company, JM Financial; 3Q24 excludes USD 20mn milestone payment

Exhibit 3. Global specialty pipeline

Candidate	Indication	Current phase	Next milestone
Deuruxolitinib	Alopecia areata	Filed with US FDA	PDUFA date in Jul-24
Nidlegy	Skin cancer	First Phase-3 topline reported	Partner to disclose at appropriate time
Ilumya	Psoriatic arthritis	Phase-3	First topline data by late-25
MM-II	Pain in osteoarthritis	Phase-2 completed	Phase-3 to start in early-24
SCD-044	Psoriasis, atopic dermatitis	Phase 2	First topline data by end-24 (atopic dermatitis)
GL0034	Type-2 diabetes	Phase-1 completed	Phase-2 to start by early-24

Source: Company, JM Financial

Exhibit 4. Deuruxolitinib has better efficacy than peers

Particulars	Eli Lilly	Concert	Pfizer
Name	Baricitinib (Olumiant)	Deuruxolitinib	Ritlecitinib (Litfulo)
Status	Approved in Jun'22	NDA filing in CY23	Approved in 2QCY23
Duration	36 weeks	24 weeks	24 weeks
Dosage	2mg, 4mg	8mg	50mg
Efficacy	Trial AA1 2mg- 22% 4mg-35% Placebo- 5%	THRIVE-AA1 8mg- 42% 12mg-30% Placebo- 1%	ALLEGRO Phase 2b/3 trial 50mg-23% Placebo- 2%
	Trial AA2 2mg- 17% 4mg-32% Placebo- 3%	THRIVE-AA2 8mg- 38% 12mg-33% Placebo- 1%	

Source: Industry, JM Financial

Exhibit 5. Break-up of USA sales

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
US Sales	380	361	397	389	420	412	422	430	471	430	477
of which											
Taro (US)	99	88	93	96	99	82	88	92	100	93	99
Specialty (c.90% US)	133	141	165	167	172	181	203	213	209	216	248
Generic	148	131	139	127	149	149	132	124	162	121	130

Source: Company, JM Financial

Exhibit 6. 3QFY24 review sheet

Sun Pharma P&L	3Q23A	3Q24E	% YoY	3Q24E	% vs JMFe	3Q24E (cons)	% vs cons	2Q24A	% QoQ
(in INR mn)									
Total sales	1,11,001	1,21,569	10%	1,22,572	-1%			1,20,031	1%
Other op. income	1,408	2,238	59%	1,634	37%			1,893	18%
Total revenue from operations	1,12,410	1,23,807	10%	1,24,205	0%	1,23,400	0%	1,21,924	2%
Expenses									
Raw material	28,037	27,369	-2%	28,691	-5%			27,871	-2%
Gross Profit	84,373	96,438	14%	95,514				94,053	
% Gross Margin	75%	77.9%	284bps	76.9%				77%	75bps
Staff cost	20,371	23,633	16%	23,847	-1%			23,644	0%
Other expenses	33,965	38,036	12%	39,001	-2%			38,616	-2%
EBITDA	30,037	34,768	16%	32,666	6%	33,110	5%	31,794	9%
% EBITDA Margin	26.7%	28.1%	136bps	26.3%	178bps	26.8%	125bps	26.1%	201bps
Other income	1,739	2,502	44%	2,400	4%			2,936	-15%
Finance Costs	462	347	-25%	500	-31%			493	-30%
Depreciation	6,600	6,221	-6%	6,500	-4%			6,328	-2%
Profit Before Tax (PBT)	24,715	30,702	24%	28,066	9%			27,909	10%
Tax	2,834	4,323		3,929				3,901	
% Tax rate	11%	14%		14%				14%	
Minority Interest & JVs	220	443		250				253	
Exceptional income (expense)	0	(698)		0				-	
Reported Net Profit	21,660	25,238		23,887				23,755	6%
Reported EPS (INR)	9.0	10.5	17%	10.0				9.9	6%
Net Profit - Adjusted	21,660	25,936	20%	23,887	9%	24,190	7%	23,755	9%
EPS (INR) - Adjusted	9.0	10.8	20%	10.0	9%			9.9	9%
% Cost Ratios									
Raw Materials	24.9	22.1	-284bps	23.1	-99bps			22.9	-75bps
Staff Cost	18.1	19.1	97bps	19.2	-11bps			19.4	-30bps
Other expenses	30.2	30.7	51bps	31.4	-68bps			31.7	-95bps
Sales Break-up									
Domestic Formulations	33,919	37,785	11%	37,311	1%	37,400	1%	38,425	-2%
US	34,660	39,736	15%	38,064	4%			35,504	12%
- US (ex-Taro)	27,449	31,617	15%	30,274	4%			27,848	14%
Emerging Markets	21,158	20,946	-1%	23,697	-12%			23,449	-11%
RoW Formulations	15,563	17,797	14%	17,430	2%			17,000	5%
APIs	5,154	4,661	-10%	5,412	-14%			4,972	-6%
Others	548	644	18%	658	-2%			680	-5%
Total sales	1,11,001	1,21,569	10%	1,22,572	-1%			1,20,031	1%

Source: Company, JM Financial

Exhibit 7. 3Q growth trending at ~9%

BRANDS	THERAPY	MAT DEC'23	MAT DEC'23 % YoY	DEC'23	DEC'23 % YoY	3Q24	3Q24 %YoY	9M24	9M24 %YoY
SUN		1,64,440	10%	14,040	5%	42,486	9%	1,25,682	9%
ROSUVAS	CARDIAC	4,096	23%	370	14%	1,081	19%	3,155	22%
LEVIPIL	NEURO / CNS	3,954	11%	339	10%	1,031	14%	3,041	12%
VOLINI	PAIN / ANALGESICS	3,467	-2%	301	5%	930	3%	2,731	-1%
GEMER	ANTI DIABETIC	3,318	9%	265	1%	802	1%	2,528	7%
SUSTEN	GYNAEC.	2,887	6%	231	2%	694	8%	2,173	5%
PANTOCID	GASTRO INTESTINAL	2,814	10%	244	7%	737	13%	2,164	10%
PANTOCID-D	GASTRO INTESTINAL	2,588	7%	220	7%	663	10%	1,985	7%
MONTEK-LC	RESPIRATORY	2,487	13%	249	11%	741	16%	1,814	11%
MOXCLAV	ANTI-INFECTIVES	2,256	7%	203	-10%	633	-2%	1,645	-2%
SOMPRAZ-D	GASTRO INTESTINAL	2,171	19%	203	24%	574	18%	1,684	18%
RIFAGUT	GASTRO INTESTINAL	1,914	17%	150	9%	457	14%	1,472	15%
REVITAL H	VITAMINS/MINERALS/NUTRIENTS	1,867	-4%	167	13%	517	12%	1,447	-2%
ROZAVEL	CARDIAC	1,702	12%	140	-1%	426	6%	1,307	11%
SPORIDEX	ANTI-INFECTIVES	1,656	6%	136	5%	426	9%	1,281	9%
URSOCOL	HEPATOPROTECTIVES	1,629	19%	132	11%	422	16%	1,284	18%
Top 15		38,805	10%	3,349	7%	10,135	10%	29,710	9%
Top 16-25		13,417	7%	1,168	8%	3,500	12%	10,264	7%
Top 26-50		991	46%	93	36%	272	39%	770	43%

Source: IQVIA, JM Financial; Amount in INR mn

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	384,264	432,788	480,636	539,865	609,283	
Sales Growth	16.0%	12.6%	11.1%	12.3%	12.9%	
Other Operating Income	2,281	6,068	7,889	8,835	9,895	
Total Revenue	386,545	438,856	488,524	548,700	619,178	
Cost of Goods Sold/Op. Exp	103,515	106,622	110,651	125,104	140,553	
Personnel Cost	73,008	82,960	95,018	105,350	116,405	
Other Expenses	106,044	132,807	149,977	168,451	188,849	
EBITDA	103,977	116,467	132,879	149,795	173,370	
EBITDA Margin	26.9%	26.5%	27.2%	27.3%	28.0%	
EBITDA Growth	22.5%	12.0%	14.1%	12.7%	15.7%	
Depn. & Amort.	21,437	25,294	25,403	27,984	30,959	
EBIT	82,540	91,173	107,475	121,812	142,411	
Other Income	7,942	4,625	7,916	9,949	11,822	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	90,482	95,798	115,392	131,760	154,233	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	90,482	95,798	115,392	131,760	154,233	
Taxes	10,755	8,476	16,386	18,974	22,827	
Extraordinary Inc./Loss(-)	-45,668	-1,715	-3,927	0	0	
Assoc. Profit/Min. Int.(-)	1,331	873	901	600	600	
Reported Net Profit	32,728	84,735	94,178	112,187	130,807	
Adjusted Net Profit	78,562	86,450	98,105	112,187	130,807	
Net Margin	20.3%	19.7%	20.1%	20.4%	21.1%	
Diluted Share Cap. (mn)	2,399.0	2,399.0	2,399.0	2,399.0	2,399.0	
Diluted EPS (INR)	32.7	36.0	40.9	46.8	54.5	
Diluted EPS Growth	32.5%	10.0%	13.5%	14.4%	16.6%	
Total Dividend + Tax	21,692	25,197	33,586	38,384	47,980	
Dividend Per Share (INR)	7.7	8.9	11.9	13.6	17.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	44,813	94,084	115,392	131,760	154,233	
Depn. & Amort.	23,093	25,521	25,403	27,984	30,959	
Net Interest Exp. / Inc. (-)	-4,261	-2,125	2,098	1,574	1,180	
Inc (-) / Dec in WCap.	15,591	-56,618	-16,176	-12,204	-13,131	
Others	917	3,830	0	0	0	
Taxes Paid	9,692	-15,098	-16,386	-18,974	-22,827	
Operating Cash Flow	89,845	49,593	110,332	130,140	150,415	
Capex	-14,950	-20,856	-19,225	-21,595	-24,371	
Free Cash Flow	74,895	28,738	91,107	108,546	126,044	
Inc (-) / Dec in Investments	0	0	0	0	0	
Others	-42,297	-58,581	0	0	0	
Investing Cash Flow	-57,247	-79,437	-19,225	-21,595	-24,371	
Inc / Dec (-) in Capital	-1,857	0	0	0	0	
Dividend + Tax thereon	-21,692	-25,197	-33,586	-38,384	-47,980	
Inc / Dec (-) in Loans	-27,099	50,304	-15,000	-15,000	-15,000	
Others	-1,287	-1,346	-2,098	-1,574	-1,180	
Financing Cash Flow	-51,935	23,761	-50,684	-54,958	-64,160	
Inc / Dec (-) in Cash	-19,337	-6,083	40,422	53,588	61,884	
Opening Cash Balance	64,453	50,334	57,703	98,125	151,713	
Closing Cash Balance	50,333	57,703	98,125	151,713	213,596	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	480,112	559,954	624,473	698,276	781,103	
Share Capital	1,200	1,200	1,200	1,200	1,200	
Reserves & Surplus	478,913	558,754	623,273	697,076	779,903	
Preference Share Capital	0	0	0	0	0	
Minority Interest	30,549	33,201	34,102	34,702	35,302	
Total Loans	9,307	61,979	46,979	31,979	16,979	
Def. Tax Liab. / Assets (-)	0	0	0	0	0	
Total - Equity & Liab.	519,968	655,134	705,554	764,956	833,383	
Net Fixed Assets	232,573	293,933	287,755	281,366	274,778	
Gross Fixed Assets	265,634	291,118	324,847	363,078	406,086	
Intangible Assets	120,884	180,396	165,892	149,255	130,619	
Less: Depn. & Amort.	161,920	187,214	212,617	240,601	271,560	
Capital WIP	7,975	9,634	9,634	9,634	9,634	
Investments	125,825	144,407	144,407	144,407	144,407	
Current Assets	339,601	369,096	435,245	519,461	615,425	
Inventories	89,968	105,131	112,166	125,104	138,628	
Sundry Debtors	105,929	114,385	131,681	147,908	166,927	
Cash & Bank Balances	50,334	57,703	98,125	151,713	213,596	
Loans & Advances	0	0	0	0	0	
Other Current Assets	93,371	91,878	93,272	94,736	96,274	
Current Liab. & Prov.	178,031	152,302	161,853	180,278	201,227	
Current Liabilities	57,827	72,026	63,092	69,346	76,032	
Provisions & Others	120,204	80,276	98,761	110,931	125,195	
Net Current Assets	161,570	216,794	273,392	339,184	414,198	
Total - Assets	519,968	655,134	705,554	764,956	833,383	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	20.3%	19.7%	20.1%	20.4%	21.1%	
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.8	
Leverage Factor (x)	1.1	1.2	1.2	1.1	1.1	
RoE	16.6%	16.6%	16.6%	17.0%	17.7%	

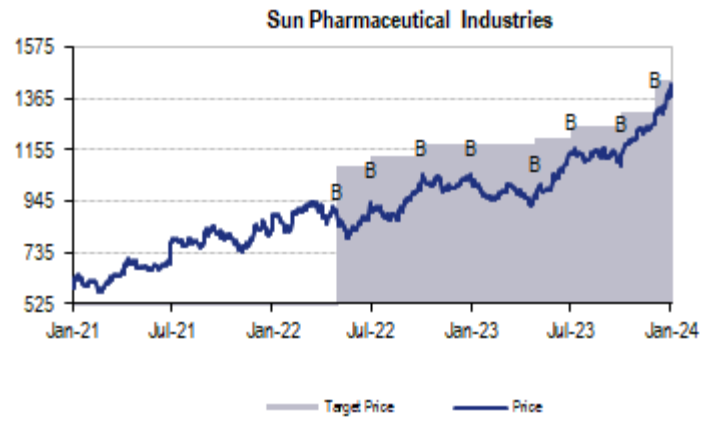
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	200.1	233.4	260.3	291.1	325.6	
ROIC	20.4%	20.9%	20.1%	22.4%	25.7%	
ROE	16.6%	16.6%	16.6%	17.0%	17.7%	
Net Debt/Equity (x)	-0.2	-0.2	-0.2	-0.3	-0.4	
P/E (x)	43.3	39.3	34.7	30.3	26.0	
P/B (x)	7.1	6.1	5.4	4.9	4.4	
EV/EBITDA (x)	31.9	28.7	24.8	21.5	18.2	
EV/Sales (x)	8.6	7.6	6.7	5.9	5.1	
Debtor days	100	95	98	98	98	
Inventory days	85	87	84	83	82	
Creditor days	58	64	49	50	50	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
31-May-22	Buy	1,090	
30-Jul-22	Buy	1,130	3.7
1-Nov-22	Buy	1,180	4.4
31-Jan-23	Buy	1,180	0.0
27-May-23	Buy	1,200	1.7
3-Aug-23	Buy	1,255	4.6
2-Nov-23	Buy	1,305	4.0
4-Jan-24	Buy	1,440	10.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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