



India

ADD (previously HOLD)

Consensus ratings*: Buy 35 Hold 4 Sell 5

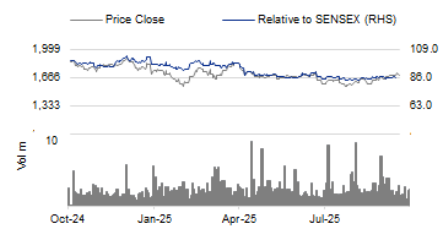
Current price:	Rs1,706
Target price: ▲	Rs2,000
Previous target:	Rs1,900
Up/downside:	17.2%
InCred Research / Consensus:	2.9%

Reuters:	SUN.NS
Bloomberg:	SUNP IN
Market cap:	US\$46,115m
	Rs4,094,125m
Average daily turnover:	US\$47.7m
	Rs4232.2m
Current shares o/s:	2,399.3m
Free float:	45.5%

*Source: Bloomberg

Key changes in this note

- Upgrade our rating to ADD from HOLD earlier.
- Raise the target price to Rs2,000 from Rs1,900 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.6	4.7	(8.2)
Relative (%)	1.2	0.5	(12.8)

Major shareholders	% held
Promoters	54.5
ICICI Pru MF	3.4
LIC	2.9

Research Analyst(s)**Yogesh SONI**

T (91) 22 4161 1566

E yogesh.soni@incredresearch.com

Sun Pharmaceutical Industries

Innovation-led growth takes shape

- Healthy 2Q results - above expectations. US biz up 5% QoQ, & innovative medicines surpass generics in the US. India biz growth stays in double digits.
- Innovative medicines to generate additional US\$200m revenue & aid margin.
- Upgrade our rating to ADD on the stock with a higher target price of Rs2,000.

Healthy 2QFY26 results beat our estimates

Sun Pharmaceutical Industries' (Sun Pharma) 2QFY25 results were healthy and above our/Bloomberg consensus (BB) estimates by ~2% on the revenue front. Margin came in at 28.3%, 30bp above our estimate and in line with the BB estimate. Notably, R&D spending was 5.4%, much below management's guidance of 6-8% for FY26F; R&D guidance now stands revised to the lower end of 6-8%, which should provide some cushion to margin from the US\$100m investment being made in sales and distribution (S&D) in FY26F. The US business saw a QoQ growth of 5% (at US\$496m vs. estimate of US\$485m) led by Ilumya, Cequa and Odomzo. The gRevlimid contribution was flat QoQ. Innovative medicine sales in the US have surpassed generics for the first time in 2QFY26. The global innovative medicines business posted a robust performance (US\$333m, +7% QoQ), led by Ilumya. Odomzo, in the hedgehog inhibitor segment, currently has 60%+ market share in the EU whereas over 50% market share in the US among dermatologist prescribers. India biz continued its double-digit growth (11% YoY growth vs. 12% estimate), largely led by volume and new launches. The emerging market business grew by 15.7% YoY (8% CC growth), while RoW market grew by 22.7% YoY led by generics and innovative medicines (Ilumya & Odomzo-led).

Innovative medicines business to aid US market growth in FY27F

Sun Pharma's global innovative medicines segment has delivered a robust 23% CAGR over the past five years, and we expect this momentum to sustain over the medium term, driven by a strong launch pipeline. The company introduced **Leqselvi** in the US during 2QFY25, which we estimate would contribute **US\$110–125m** over FY26F–27F. In addition, the planned **Unloxcyt** launch in 2HFY26F (with potential revenue of **US\$50–70m** over FY26F–27F) and dossier filings in the EU are expected to further strengthen the franchise. The anticipated launch of **Ilumya for PSA** by end-FY26F should also bolster overall Ilumya sales. Collectively, these products are expected to **offset the gRevlimid cliff** and generate nearly **US\$200m in incremental US revenue**. Given the superior margin profile of innovative medicines, we expect the **margin expansion to materialize from FY27F**.

Upgrade to ADD rating with a higher target price of Rs2,000

We upgrade **Sun Pharma's** rating to **ADD (from HOLD)**, reflecting the sustained momentum across key markets and a strong launch pipeline in the **innovative medicines** franchise. While near-term margins may remain range-bound due to elevated S&D expenses, we expect **margin expansion to resume from FY27F** as high-margin innovative products scale up. Downside risk: Slowdown in the specialty portfolio.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	438,857	484,969	525,785	573,061	625,664
Operating EBITDA (Rsm)	117,729	129,870	150,862	156,844	184,599
Net Profit (Rsm)	84,736	95,764	109,291	112,383	132,949
Core EPS (Rs)	36.0	42.0	48.4	46.8	55.4
Core EPS Growth	11.4%	16.5%	15.3%	(3.2%)	18.3%
FD Core P/E (x)	47.36	40.65	35.27	36.43	30.80
DPS (Rs)	11.5	11.5	11.5	11.5	11.5
Dividend Yield	0.67%	0.67%	0.67%	0.67%	0.67%
EV/EBITDA (x)	34.26	30.50	25.31	23.88	19.62
P/FCFE (x)	48.58	22.05	16.49	21.28	14.56
Net Gearing	(15.2%)	(24.3%)	(31.9%)	(37.7%)	(47.0%)
P/BV (x)	7.31	6.43	5.67	5.08	4.49
ROE	16.6%	16.8%	17.1%	14.7%	15.5%
% Change In Core EPS Estimates				(12.63%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	1,21,924	1,23,807	1,19,829	1,26,528	1,32,914	1,36,755	1,29,589	1,38,514	1,44,783	9%	5%
Consumption of raw materials	27,871	27,369	23,804	26,754	26,942	27,405	26,372	28,148	29,827	11%	6%
as % of sales	22.9%	22.1%	19.9%	21.1%	20.3%	20.0%	20.4%	20.3%	20.6%		
Employee costs	23,644	23,633	22,993	24,546	24,777	25,523	24,885	28,017	27,648	12%	-1%
as % of sales	19.4%	19.1%	19.2%	19.4%	18.6%	18.7%	19.2%	20.2%	19.1%		
R&D costs	7,734	8,245	9,000	7,940	7,929	8,450	8,166	7,667	7,827	-1%	2%
as % of sales	6.3%	6.7%	7.5%	6.3%	6.0%	6.2%	6.3%	5.5%	5.4%		
Other expenditure	30,541	31,037	33,116	30,706	35,157	33,453	35,916	33,957	38,515	10%	13%
as % of sales	25.0%	25.1%	27.6%	24.3%	26.5%	24.5%	27.7%	24.5%	26.6%		
EBITDA	32,135	33,523	30,915	36,581	38,109	41,924	34,249	40,726	40,966	7%	1%
Margin (%)	26.4%	27.1%	25.8%	28.9%	28.7%	30.7%	26.4%	29.4%	28.3%		
Depreciation	6,328	6,221	6,504	6,551	6,259	6,306	6,638	7,006	7,295	17%	4%
Other income	2,595	3,748	5,496	4,821	4,821	2,823	9,041	6,935	9,004	87%	30%
Interest	493	347	736	615	692	515	491	748	999	44%	34%
PBT	27,909	30,702	29,172	34,235	35,979	37,926	36,161	39,908	41,676	16%	4%
Total tax	3,901	4,323	1,489	5,523	5,672	5,589	10,937	8,702	10,305		
Tax rate (%)	14.0%	14.1%	5.1%	16.1%	15.8%	14.7%	30.2%	21.8%	24.7%		
PAT before MI	24,008	26,378	27,682	28,713	30,307	32,337	25,224	31,206	31,371	4%	1%
Minority interest (MI)	-253	-443	-120	-356	95	-142	-108	-240	-191		
Adj. PAT before extraordinary items	23,755	25,936	27,562	28,356	30,402	32,196	25,116	30,966	31,180	3%	1%
Extraordinary expenses	0	-698	-1,016	0	0	-3,162	-3,617	-8,180	0		
Reported PAT	23,755	25,238	26,546	28,356	30,402	29,034	21,499	22,786	31,180	3%	37%
No. of shares	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3	2399.3		
EPS	9.9	10.8	11.5	11.8	12.7	13.4	10.5	12.9	13.0		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	77%	78%	80%	79%	80%	80%	80%	80%	79%	-33	-28
EBITDA	26%	27%	26%	29%	29%	31%	26%	29%	28%	-38	-111
Adj. PAT	19%	21%	23%	22%	23%	24%	19%	22%	22%	-134	-82
Effective tax rate	14%	14%	5%	16%	16%	15%	30%	22%	25%	896	292

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue mix

(Rs m)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Total US formulations	35,504	39,736	39,544	38,894	43,274	40,030	40,204	40,452	43,288	0%	7%
% total revenue	29.1%	32.1%	33.0%	30.7%	32.6%	29.3%	31.0%	29.2%	29.9%		
India formulations	38,425	37,785	37,078	41,445	42,652	43,004	42,130	47,211	47,348	11%	0%
% total revenue	31.5%	30.5%	30.9%	32.8%	32.1%	31.4%	32.5%	34.1%	32.7%		
EM formulations	23,499	20,946	20,348	23,695	24,519	23,384	22,561	25,531	28,367	16%	11%
% total revenue	19.3%	16.9%	17.0%	18.7%	18.4%	17.1%	17.4%	18.4%	19.6%		
RoW formulations	17,000	17,797	16,290	15,814	16,633	21,840	17,340	18,735	20,415	23%	9%
% total revenue	13.9%	14.4%	13.6%	12.5%	12.5%	16.0%	13.4%	13.5%	14.1%		
Bulk drugs	4,972	4,661	4,158	4,946	5,338	5,678	5,330	5,403	4,299	-19%	-20%
% total revenue	4.1%	3.8%	3.5%	3.9%	4.0%	4.2%	4.1%	3.9%	3.0%		
Others	2,523	2,883	2,411	1,734	498	2,819	2,024	1,182	1,067	114%	-10%
% total revenue	2.1%	2.3%	2.0%	1.4%	0.4%	2.1%	1.6%	0.9%	0.7%		
Total revenue	1,21,924	1,23,807	1,19,829	1,26,528	1,32,914	1,36,755	1,29,589	1,38,514	1,44,783	9%	5%

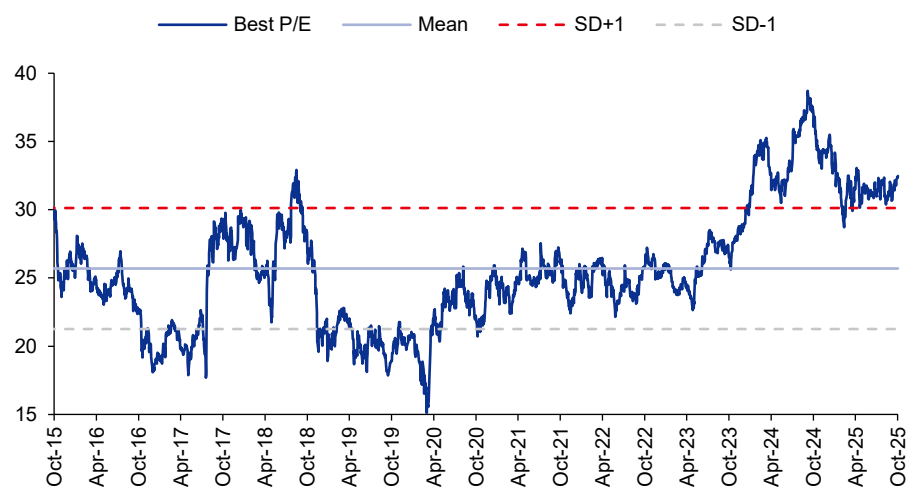
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. estimates

	Actuals	Incred Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	1,44,783	1,41,811	2.1	1,42,447	1.6
EBITDA (Rsm)	40,966	39,720	3.1	40,256	1.8
Margin (%)	28.3	28.0		28.3	
PAT (Rsm)	31,180	29,714	4.9	28,811	8.2

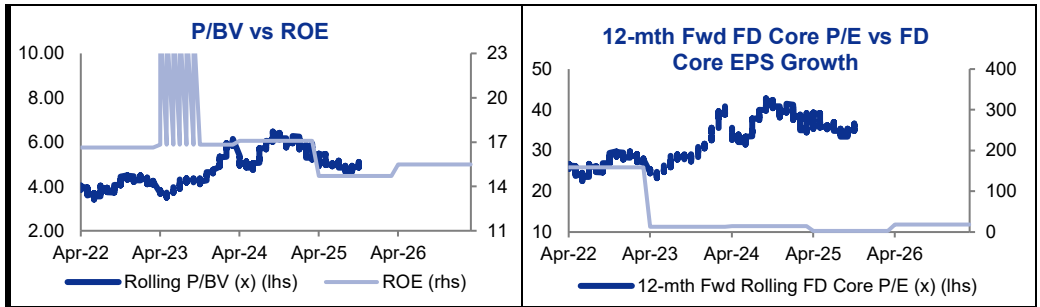
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: After the recent correction, Sun Pharma trades at a valuation near the SD+1 level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Net Revenues	438,857	484,969	525,785	573,061	625,664
Gross Profit	332,235	378,342	418,311	455,583	494,573
Operating EBITDA	117,729	129,870	150,862	156,844	184,599
Depreciation And Amortisation	(25,294)	(25,566)	(25,754)	(28,000)	(30,100)
Operating EBIT	92,435	104,304	125,108	128,844	154,499
Financial Income/(Expense)	(1,720)	(2,385)	(2,314)	(3,000)	(2,500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,084	13,903	21,506	25,000	15,000
Profit Before Tax (pre-EI)	95,799	115,822	144,300	150,844	166,999
Exceptional Items					
Pre-tax Profit	95,799	115,822	144,300	150,844	166,999
Taxation	(8,476)	(14,395)	(27,720)	(37,711)	(33,400)
Exceptional Income - post-tax	(1,715)	(4,943)	(6,779)		
Profit After Tax	85,608	96,484	109,802	113,133	133,599
Minority Interests	(873)	(721)	(511)	(750)	(650)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	84,736	95,764	109,291	112,383	132,949
Recurring Net Profit	86,450	100,707	116,069	112,383	132,949
Fully Diluted Recurring Net Profit	86,450	100,707	116,069	112,383	132,949

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
EBITDA	117,729	129,870	150,862	156,844	184,599
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(56,618)	10,621	(3,236)	(22,642)	6,300
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	64,480	149,451	162,353	159,202	205,899
Net Interest (Paid)/Received	(1,720)	(2,385)	(2,314)	(3,000)	(2,500)
Tax Paid	(13,167)	(25,717)	(19,319)	(60,461)	(46,550)
Cashflow From Operations	49,593	121,350	140,721	95,741	156,849
Capex	(20,646)	(21,710)	(20,676)	(16,000)	(17,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(46,858)	(1,433)	(2,728)		
Other Investing Cashflow					
Cash Flow From Investing	(17,911)	98,207	117,317	79,741	139,849
Debt Raised/(repaid)	52,602	(33,899)	(9,821)	16,928	(15,494)
Proceeds From Issue Of Shares		(774)	(28,999)		
Shares Repurchased					
Dividends Paid	(25,197)	(28,982)	(36,173)	(27,592)	(27,592)
Preferred Dividends					
Other Financing Cashflow	13,976	5,308	15,851	22,000	12,500
Cash Flow From Financing	41,380	(58,347)	(59,142)	11,336	(30,587)
Total Cash Generated	23,470	39,860	58,175	91,077	109,262
Free Cashflow To Equity	84,284	185,657	248,216	192,410	281,204
Free Cashflow To Firm	33,403	221,941	260,351	178,482	299,198

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	151,842	191,702	249,877	340,954	450,217
Total Debtors	114,385	112,494	130,461	148,996	156,416
Inventories	105,131	98,683	102,433	114,612	128,261
Total Other Current Assets	27,476	31,871	43,169	48,710	50,053
Total Current Assets	398,833	434,750	525,941	653,272	784,947
Fixed Assets	113,537	113,001	112,703	100,703	87,603
Total Investments	3,894	4,426	46,977	46,977	46,977
Intangible Assets	180,396	172,652	179,600	179,600	179,600
Total Other Non-Current Assets	110,776	129,800	55,786	55,786	55,786
Total Non-current Assets	408,603	419,879	395,065	383,065	369,965
Short-term Debt	61,979	28,444	18,671	35,000	20,000
Current Portion of Long-Term Debt					
Total Creditors	56,815	56,533	61,843	68,032	67,133
Other Current Liabilities	80,276	84,867	101,428	108,851	138,462
Total Current Liabilities	199,070	169,844	181,942	211,884	225,596
Total Long-term Debt		13	25	625	130
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	15,211	13,712	14,179	14,179	14,179
Total Non-current Liabilities	15,211	13,725	14,204	14,804	14,309
Total Provisions					
Total Liabilities	214,281	183,569	196,146	226,687	239,905
Shareholders Equity	559,954	636,668	722,180	806,221	910,928
Minority Interests	33,201	34,392	2,679	3,429	4,079
Total Equity	593,155	671,060	724,859	809,650	915,007

Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	13.5%	10.5%	8.4%	9.0%	9.2%
Operating EBITDA Growth	14.9%	10.3%	16.2%	4.0%	17.7%
Operating EBITDA Margin	26.8%	26.8%	28.7%	27.4%	29.5%
Net Cash Per Share (Rs)	37.45	68.04	96.35	127.26	179.25
BVPS (Rs)	233.38	265.35	300.99	336.02	379.66
Gross Interest Cover	53.74	43.74	54.08	42.95	61.80
Effective Tax Rate	8.8%	12.4%	19.2%	25.0%	20.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	91.62	85.38	84.33	89.00	89.09
Inventory Days	333.94	348.84	341.51	337.18	338.12
Accounts Payables Days	173.92	194.01	201.01	201.76	188.17
ROIC (%)	13.4%	15.1%	20.3%	20.4%	25.6%
ROCE (%)	15.7%	15.4%	17.3%	16.2%	17.4%
Return On Average Assets	11.8%	12.4%	13.3%	11.8%	12.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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InCred Research Services Private Limited

Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Mayuresh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.