

Sun Pharmaceuticals

India | Pharmaceuticals | Result Update | Rating Upgrade



In-line Q3

31 January 2025

Sun Pharma's (SUNP IN) Q3FY25 revenue, EBITDA and adjusted PAT came in 2%, 12% and 11% ahead of our estimates, helped by USD 45mn milestone income from a marketing partner for its specialty product. Excluding the milestone income, Q3 was broadly as estimated. Global specialty business (ex-milestone) continued with its strong growth in high-teens YoY. The US generics did poor, but was compensated by domestic and other businesses. There is no incremental clarity on the launch of Leqselvi (specialty product for alopecia) in the US. We raise our FY25E-27E core EPS by 1-2%. We revise SUNP to Accumulate from Reduce. We retain our TP at INR 1,871.

Specialty business – Growth continues; additional milestone income: Revenue from global specialty business (excluding milestone income) grew 17% YoY to USD 325mn. Additional milestone of USD 45mn took the specialty revenue to USD 370mn. We believe that Ilumya sales outside of the US were a major contributor to this performance. The management expects Ilumya to continue growing in the US. Other specialty products continued to grow as well, as per management commentary.

Wait for Leqselvi continues: Launch of SUNP's new specialty product, Leqselvi (Deuruxolitinib for alopecia areata) is temporarily held up by a patent dispute with Incyte Corp. If SUNP loses the patent litigation, either the launch could be postponed by two years or SUNP may have to enter into a settlement with Incyte Corp, under which some profit may have to be shared with it. We push out the launch to late FY26, in our projections. We estimate that Leqselvi could be a USD 200mn product in 3-4 years after the launch.

US generics – Poor show continues: SUNP's US revenue was down 1% YoY and 8% QoQ. Lower sales of *gRevlimid* partly explains this, but SUNP's generics business has remained a laggard versus peers, plagued by manufacturing quality issues at many facilities. We believe it could be 3-4 quarters before all the warning letters / import alerts by the USFDA are lifted and the business course-corrects to growth path. SUNP's generic launch pipeline is weak as well, compared with peers.

India business strong; other EMs improve: Revenue from the India business grew 14% YoY in Q3. This is commendable given SUNP's large size and muted growth in the overall market. Growth for the EM formulations business picked up to 12% in Q3, after a disappointing Q2. RoW formulations business (ex-milestone income), however, continued with the poor performance of Q1 and Q2.

Revise to Accumulate; TP maintained at INR 1,871: We raise FY25E-27E core EPS by 1-2%. SUNP trades at ~34.5x FY26E and FY27E core P/E. Loss of *gRevlimid* sales explains the poor FY27E growth. We retain our TP at INR 1,871, at 36.1x FY27E core P/E plus cash per share.

As the stock has corrected, we revise SUNP to Accumulate from Reduce. Extended delay in the US launch of Deuruxolitinib is the key downside risk and favorable legal outcome and accelerated launch of the same, key upside risks.

Key Financials

Particulars (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Rev	438,857	484,969	526,682	577,338	612,332
YoY (%)	13.5	10.5	8.6	9.6	6.1
EBITDA	117,729	129,870	150,087	163,449	165,130
EBITDA (%)	26.8	26.8	28.5	28.3	27.0
Adj PAT	81,816	88,532	104,412	115,171	116,249
YoY (%)	19.9	8.2	17.9	10.3	0.9
Fully DEPS	36.0	42.0	49.1	53.5	53.9
RoE (%)	16.9	17.0	17.5	17.0	15.3
RoCE (%)	17.7	15.9	17.8	17.7	15.9
P/E (x)	48.7	41.8	35.7	32.8	32.5
EV/EBITDA (x)	34.2	31.0	26.8	24.6	24.4

Note: Pricing as on 31 January 2025; Source: Company, Elara Securities Estimate

Rating: **Accumulate**

Target Price: **INR 1,871**

Upside: **7%**

CMP: **INR 1,744**

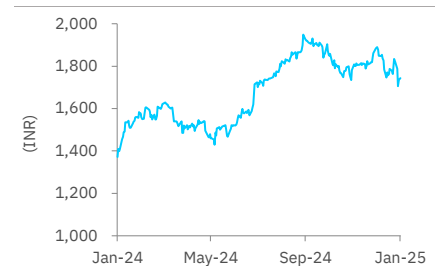
As on 31 January 2025

Key data

Bloomberg	SUNP IN
Reuters Code	SUN.NS
Shares outstanding (mn)	2399
Market cap (INR bn/USD mn)	4184/48297
Enterprise Value (INR bn/USD mn)	4011/46312
Avg daily volume 3M (INR mn/USD mn)	3537/41
52 week high/low	1960/1367
Free float (%)	46

Note: as on 31 January 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	54.5	54.5	54.5	54.5
% Pledged	2.0	1.1	0.8	0.7
FII	17.7	17.2	18.0	18.1
DII	19.1	19.5	18.8	18.8
Others	8.7	8.8	8.7	8.6

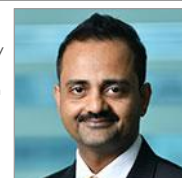
Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(2.9)	(5.8)	8.2
Sun Pharmaceuticals	(5.7)	1.4	22.9
NSE Mid-cap	(4.3)	(8.9)	10.6
NSE Small-cap	(9.1)	(11.6)	5.5

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	438,857	484,969	526,682	577,338	612,332
EBITDA	117,729	129,870	150,087	163,449	165,130
Add:- Non operating Income	5,084	13,903	15,465	15,465	15,465
OPBIDTA	122,813	143,773	165,552	178,914	180,595
Less :- Depreciation & Amortization	25,294	25,566	25,557	25,481	25,895
EBIT	97,519	118,207	139,995	153,433	154,700
Less:- Interest Expenses	1,720	2,385	2,472	2,472	2,472
PBT	95,799	115,822	137,523	150,960	152,228
Less :- Taxes	8,476	14,395	19,428	22,644	22,834
Add/Less: - Extra-ordinaries	(1,715)	(4,943)	(3,162)	-	-
Add/Less: - Minority Interest	(873)	(721)	(403)	-	-
Reported PAT	84,736	95,764	114,530	128,316	129,393
Adjusted PAT	81,816	88,532	104,412	115,171	116,249
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholder's Equity	559,954	636,668	718,404	813,129	906,533
Minority Interests	33,201	34,392	34,795	34,795	34,795
Borrowings	63,260	28,457	26,362	29,677	28,240
Other Non-current Liabilities	15,211	13,718	13,718	13,718	13,718
Total Liabilities	671,626	713,235	793,279	891,320	983,286
Net Fixed Assets	113,537	113,001	112,410	115,640	122,763
Intangibles and Goodwill	180,396	172,652	201,536	201,536	201,536
Investments	54,575	64,412	64,412	64,412	64,412
Cash and Cash Equivalents	151,842	191,702	210,918	293,292	372,564
Net Working Capital	111,181	101,235	133,770	146,207	151,778
Other Non-current Assets	60,095	70,233	70,233	70,233	70,233
Total Assets	671,626	713,235	793,279	891,320	983,286
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non-cash items	106,212	110,729	130,256	140,805	142,296
Add/Less : Working Capital Changes	(56,618)	10,621	(32,536)	(12,437)	(5,571)
Operating Cash Flow	49,593	121,350	97,721	128,368	136,724
Less:- Capex	(20,646)	(21,710)	(24,966)	(28,711)	(33,018)
Free Cash Flow	28,948	99,640	72,754	99,657	103,707
Financing Cash Flow	52,054	(68,381)	(24,655)	(17,283)	(24,435)
Investing Cash Flow	(57,532)	8,601	(28,884)	-	-
Net change in Cash	23,470	39,860	19,215	82,374	79,272
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	13.5	10.5	8.6	9.6	6.1
EBITDA Growth	14.9	10.3	15.6	8.9	1.0
PAT Growth (RHS)	19.9	8.2	17.9	10.3	0.9
EBITDA Margin (RHS)	26.8	26.8	28.5	28.3	27.0
Net Margin	18.6	18.3	19.8	19.9	19.0
Return & Liquidity Ratios					
Net Debt/Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)	(0.4)
ROE (%)	16.9	17.0	17.5	17.0	15.3
ROCE (%)	17.7	15.9	17.8	17.7	15.9
Per Share data & Valuation Ratios					
Diluted EPS (INR/Share)	36.0	42.0	49.1	53.5	53.9
EPS Growth (%)	19.9	8.2	17.9	10.3	0.9
DPS (INR/Share)	11.5	13.5	14.0	15.0	16.0
P/E Ratio (x)	48.7	41.8	35.7	32.8	32.5
EV/EBITDA (x)	34.2	31.0	26.8	24.6	24.4
EV/Sales (x)	9.2	8.3	7.6	7.0	6.6
Price/Book (x)	7.5	6.6	5.8	5.1	4.6
Dividend Yield (%)	0.7	0.8	0.8	0.9	0.9

Note: Pricing as on 31 January 2025; Source: Company, Elara Securities Estimate

Quarterly financials

Y/E Mar (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	FY24	FY23	YoY (%)
Net sales	136,755	123,807	10.5	132,914	2.9	484,969	438,857	10.5
Gross profit	109,349	96,438	13.4	105,972	3.2	378,342	332,235	13.9
Gross margins (%)	80.0	77.9	206.7	79.7	23.0	78.0	75.7	230.9
EBITDA	41,924	33,523	25.1	38,109	10.0	129,870	117,729	10.3
EBITDA margins (%)	30.7	27.1	358.0	28.7	198.4	26.8	26.8	(4.7)
Other income	2,823	3,748	(24.7)	4,821	(41.4)	13,903	5,084	173.5
Interest	515	347	48.3	692	(25.5)	2,385	1,720	38.6
Depreciation	6,306	6,221	1.4	6,259	0.7	25,566	25,294	1.1
PBT	37,926	30,702	23.5	35,979	5.4	115,822	95,799	20.9
Tax	5,589	4,323	29.3	5,672	(1.5)	14,395	8,476	69.8
Tax rate (%)	14.7	14.1	65.4	15.8	(102.9)	12.4	8.8	358.1
PAT	32,337	26,378	22.6	30,307	6.7	101,428	87,323	16.2
Minority interest	(142)	(443)	(68.0)	95	(249.2)	(721)	(873)	(17.4)
PAT	32,195	25,936	24.1	30,402	5.9	100,707	86,450	16.5
Adjusted net income	29,034	25,238	15.0	30,402	(4.5)	88,532	81,816	8.2
NPM (%)	21.2	20.4	84.6	22.9	(164.3)	18.3	18.6	(38.8)

Source: Company, Elara Securities Research

Exhibit 1: Valuation based on core earnings

	FY23	FY24	FY25E	FY26E	FY27E
Core EPS (INR)	34.1	36.9	43.5	48.0	48.5
Core EPS growth (%)	19.9	8.2	17.9	10.3	0.9
Cash per share (INR)	63.3	79.9	87.9	122.2	155.3
Current core P/E (x)	49.1	45.3	38.4	34.9	34.5
Core ROIC (%)	23.4	20.7	24.5	24.3	23.8

Source: Company, Elara Securities Estimate

Conference call highlights
Financial highlights

- ▶ Gross sales were INR 134.4bn, reflecting a 10.5% YoY growth. For 9MFY25, gross sales reached INR 392.3bn, marking a 9.1% increase. Excluding milestone payments, overall sales grew 8.9% YoY.
- ▶ Material costs accounted for 20.4% of sales, lower than those in the previous year, driven by milestone income and a favourable product mix, including higher specialty sales.
- ▶ Staff costs stood at 19% of sales, while other expenses were 31.2% of sales, declining YoY due to lower R&D and reduced selling & distribution expenses.
- ▶ Other expenses were also lower QoQ in absolute terms, primarily due to lower selling & distribution expenses.
- ▶ Forex loss of INR 1.8bn was recorded in Q3, compared with a gain of INR 1.2bn in the same period last year.
- ▶ R&D investments stood at INR 8.5bn for Q3FY25, representing 6.3% of sales, compared with INR 8.2bn in Q3FY24.
- ▶ EBITDA stood at INR 40.1bn, including other operating revenues, reflecting a 15.3% increase. EBITDA margin improved to 29.3%.
- ▶ In Q3FY25, SUNP recorded an exceptional item of INR 3.2bn related to a settlement agreement with certain plaintiffs in the US opioid litigation.
- ▶ Adjusted net profit (excluding exceptional items) for Q3FY25 was INR 32.2bn, reflecting 24.1% growth. Reported net profit stood at INR 29.0bn, up from INR 25.2bn in Q3FY24.

- ▶ As of 31 December 2024, net cash stood at USD 3bn.
- ▶ The previous quarter included prelaunch expenses for Leqselvi in the US, leading to lower distribution costs this quarter.

Domestic business

- ▶ India formulation sales reached INR 43.0bn in Q3FY25, reflecting a 13.8% YoY growth, and contributing ~32% to total consolidated sales.
- ▶ The domestic business grew by 14%, driven by contributions across all categories. Approximately 50-55% of this growth came from volume expansion and new product launches, while the remainder was price-driven.
- ▶ SUNP holds the No. 1 ranking, with its market share rising from 7.8% to 8.2% in the INR 2,214bn Indian Pharmaceutical Market (IPM), according to the AIOCD AWACS MAT Dec-2024 report.
- ▶ The company's growth is primarily driven by higher volumes and new product development.
- ▶ As per SMSRC (July-Oct 2024) report, SUNP ranks No. 1 in prescriptions across 12 different doctor categories.
- ▶ About 12 new products were introduced in the Indian market in Q3FY25.
- ▶ Revenue from the trade generics business remains negligible within the domestic segment.
- ▶ As of March 2024, the medical representative (MR) workforce stood at 14,000.

US business

- ▶ US business reported USD 474mn sales in Q3FY25 reflecting a 0.7% decline YoY, and contributing ~30% to total consolidated sales.
- ▶ Sales of *gRevlimid* were lower in Q3 compared with Q2FY25. However, excluding *gRevlimid*, the decline in the base generic business was minimal.
- ▶ Four new generic products were introduced in the US market in Q3FY25.
- ▶ 9MFY25 performance: Sales for the first nine months of FY25 stood at USD 1,457mn, reflecting a 5.7% growth.
- ▶ SUNP has filed Para IV to Semaglutide in the US.

Global specialty business

- ▶ Global Specialty sales reached USD 370mn, including a USD 45mn milestone from the ROW market. Excluding milestones, sales grew by 17.5%.
- ▶ The US specialty business continues to perform well, with strong underlying growth and prescription trends for key brands such as *Ilumya*, *Cequa*, *Odomzo*, and *Winlevi*.
- ▶ The US remains the largest contributor to the specialty segment.
- ▶ SUNP has seven novel entities in clinical trials as part of its specialty R&D pipeline.
- ▶ Specialty R&D accounted for 41% of the company's total R&D spend in Q3.
- ▶ Q3 is typically the strongest quarter for the US specialty business.

Emerging markets

- ▶ Emerging Markets formulation sales reached USD 277mn in Q3FY25, reflecting a 10.1% YoY growth, and contributing ~17% to total consolidated sales.
- ▶ All major markets performed well in local currency terms.
- ▶ 9MFY25 sales totalled USD 854mn, marking a 7.2% rise compared with the same period last year.
- ▶ SUNP's OTC business in emerging markets generates ~USD 200mn in revenue.
- ▶ The emerging markets segment includes major markets such as Brazil, Romania, South Africa, Russia, and Mexico.

Rest of the world

- ▶ Rest of World (ROW) Formulation sales reached USD 259mn in Q3FY25, reflecting a 21.0% YoY growth, and contributing ~16% of total consolidated sales.
- ▶ 9MFY25 sales totalled USD 647mn, marking a 5.2% rise compared with the same period last year.
- ▶ Ilumya is performing strongly in China.
- ▶ *Novartis* brands, acquired in Japan in 2016, have experienced a price decrease of 5-7% depending on the product. In Japan, the company's primary focus is on growing the Illumia business.

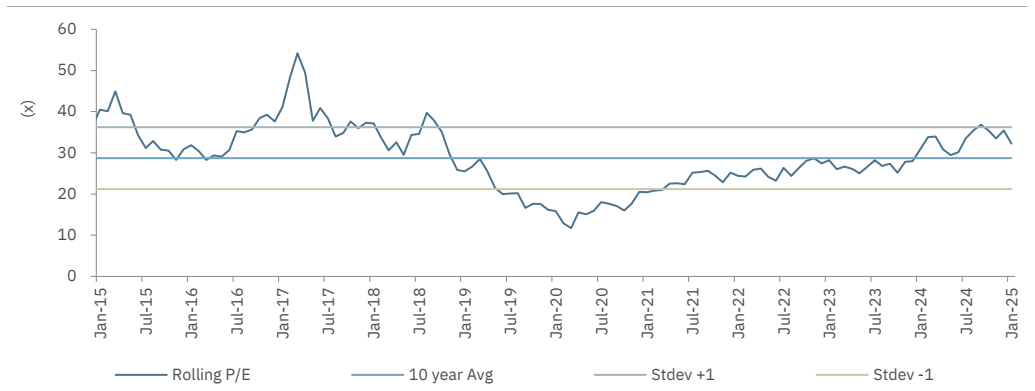
Clinical and Filing updates

- ▶ MM-II (Osteoarthritis Pain) Phase 2 trials have been completed, with Phase 3 studies expected to commence in H2 CY25.
- ▶ GL0034 (Type 2 Diabetes & Obesity) Phase 1 trials are complete, but Phase 2 trials have been postponed to H1CY25.
- ▶ Nidlegly (Melanoma and Non-Melanoma Skin Cancers): SUNP has filed with the EMA (EU) for approval in the treatment of locally advanced, fully resectable melanoma in the neoadjuvant setting.
- ▶ SCD-044 (Atopic Dermatitis & Psoriasis): Phase 2 trials have been completed, with topline data expected in H1CY25.
- ▶ Leqselvi (Severe Alopecia Areata – US) is facing patent infringement lawsuits and motions for a temporary restraining order and preliminary injunction filed by Incyte Corporation and Incyte Holdings Corporation in the US District Court for the District of New Jersey. Oral arguments begin in April 2025, after which the company will await the court's judgment. If the ruling is unfavorable, SUNP will need to wait for patent expiry in December 2026 before proceeding with the launch.

Guidance

- ▶ FY25 R&D spend is expected to be below 7% of sales.
- ▶ SUNP will continue to prioritize Dermatology and Ophthalmology in the coming years.
- ▶ Specialty products remain the top priority for capital deployment.
- ▶ Tax rate is expected to increase for the next couple of quarters.
- ▶ SUNP has invited the USFDA to inspect its Halol plant.
- ▶ Next quarter's specialty revenue is anticipated to be lower than Q3FY25.

Exhibit 2: SUNP – Rolling P/E trading at 13% premium to 10-year average of 28.5x



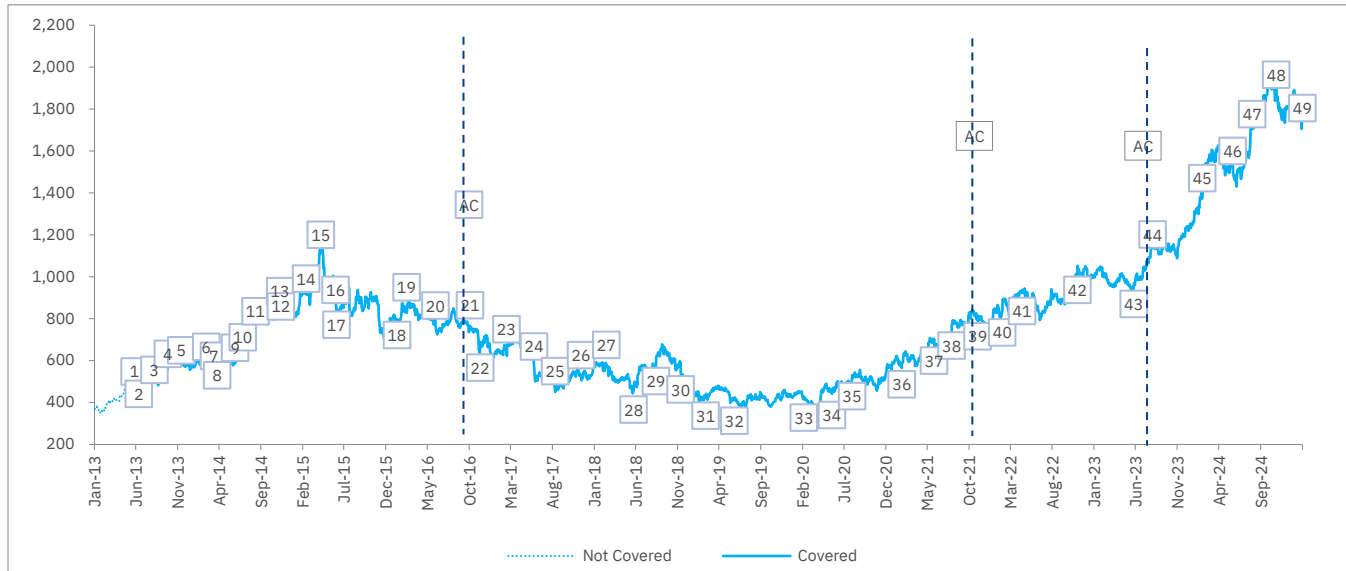
Source: Bloomberg, Company, Elara Securities Research

Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	5,30,123	5,81,952	6,13,023	5,26,682	5,77,338	6,12,332	(0.6)	(0.8)	(0.1)
EBITDA	1,49,686	1,62,111	1,59,511	1,50,087	1,63,449	1,65,130	0.3	0.8	3.5
PAT	1,16,670	1,27,215	1,24,653	1,14,530	1,28,316	1,29,393	(1.8)	0.9	3.8
EPS (INR)	48.6	53.0	52.0	49.1	53.5	53.9	0.9	0.9	3.8
Rating	Reduce			Accumulate					

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
43	26-May-2023	Accumulate	INR 1,134	INR 970
44	3-Aug-2023	Accumulate	INR 1,246	INR 1,141
45	31-Jan-2024	Accumulate	INR 1,524	INR 1,351
46	22-May-2024	Accumulate	INR 1,637	INR 1,539
47	1-Aug-2024	Accumulate	INR 1,871	INR 1,715
48	28-Oct-2024	Reduce	INR 1,871	INR 1,903
49	31-Jan-2025	Accumulate	INR 1,871	INR 1,744

AC=Analyst change

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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