

Likely to enter a lull phase; downgrade to ADD

Pharmaceuticals ▶ Result Update ▶ May 24, 2026

CMP (Rs): 1,845 | TP (Rs): 2,000

We downgrade Sun Pharma to ADD from Buy, with SOTP-based Jun-27 TP of Rs2,000 (TP revised down by ~5% from Rs2,100). Sun's 4QFY26 EBITDA (ex-forex gain) was ~7%/~10% below our/street estimates. Sustained domestic outperformance stood out as a positive. We are not too perturbed by the QoQ decline in specialty sales, given that we see no signs of a slowdown in Ilumya (besides, expansion into Psoriatic Arthritis is just round the corner) and it is still very early days for Leqselvi + Unloxcyt. We will also not read too much into the conservative high single-digit topline growth guidance for FY27. However, we note that the stock price performance will now reflect the potential trajectories of Sun's existing business as well as that of Organon. To that extent, we believe that a turnaround in Organon will not be a function of superior execution alone (which Sun has clearly demonstrated in the past) and could be contingent on external factors/the market landscape turning favorable (for instance, Medicaid-linked challenges currently impacting Nexplanon sales). Consequently, the valuation multiples will also reflect this dynamic. We believe the stock could now enter a lull phase with upside capped near our TP even as FY27 will be the year when doubts around the market potential of Leqselvi + Unloxcyt will be addressed.

US sales undershoot expectations; domestic outperformance continues

Global specialty sales were up ~20% YoY to USD354mn, below our expectations. US sales were below our estimate on account of lower specialty as well as generic sales. Domestic formulations growth (at 15% YoY vs our estimate of 13% YoY) was ahead of our expectations. EBITDA (ex-forex gain) was below our and street estimates, despite a gross margin beat, owing to higher other expenses (R&D spend was in line).

KTAs from the earnings call

1) US specialty sales surpassed USD1.1bn in FY26; global Ilumya sales stood at USD796mn in FY26. Ilumya has now been launched in 40 countries; specialty growth has also been driven by the non-Ilumya portfolio and ex-US markets (Ilumya + Odomzo). 2) Initial response from physicians on Unloxcyt's efficacy as well as its adverse event profile have been positive; Sun is focusing on ensuring availability on formularies + training to ensure proper administration. Is seeing good uptake from cancer centers with repeat purchases. 3) Heavily discounted Stelara biosimilars do not impact Medicare Part B reimbursement for Ilumya. 4) Sun's 30bps market-share gain in India in FY26 was its highest gain since the Ranbaxy acquisition. Sun has completed clinical studies for oral Semaglutide in India and aims to launch at the earliest. 5) Expects the Organon acquisition to be completed by 4QFY27; an integration management office has been established to ensure Day-1 preparedness. 6) The upcoming greenfield facility in MP will be a sterile-only facility aimed at ensuring adequate capacity for global markets (incl US). 7) R&D spend in FY27 expected at ~6-7% of sales; specialty R&D accounted for ~39% of the total R&D spend in FY26. 8) Net cash balance stands at USD3.2bn.

Target Price – 12M	Jun-27
Change in TP (%)	(4.8)
Current Reco.	ADD
Previous Reco.	BUY
Upside/(Downside) (%)	8.4

Stock Data	SUNP IN
52-week High (Rs)	1,917
52-week Low (Rs)	1,547
Shares outstanding (mn)	2,399.3
Market-cap (Rs bn)	4,426
Market-cap (USD mn)	46,243
Net-debt, FY27E (Rs mn)	(361,009.8)
ADTV-3M (mn shares)	3.2
ADTV-3M (Rs mn)	7,190.6
ADTV-3M (USD mn)	75.1
Free float (%)	45.5
Nifty-50	23,719.3
INR/USD	95.7

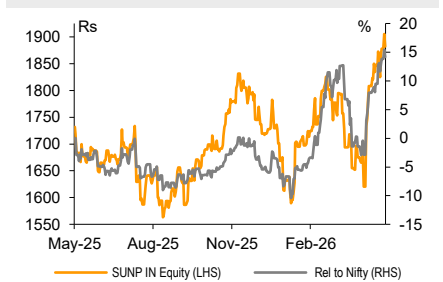
Shareholding, Mar-26

Promoters (%)	54.5
FPIs/MFs (%)	15.9/21.1

Price Performance

(%)	1M	3M	12M
Absolute	10.5	7.0	7.3
Rel. to Nifty	13.5	15.3	11.4

1-Year share price trend (Rs)



Sun Pharma: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue	525,784	584,620	647,812	711,020	781,397
EBITDA	152,717	177,314	197,259	220,061	245,749
Adj. PAT	119,844	124,015	137,132	154,534	174,363
Adj. EPS (Rs)	50.0	51.7	57.2	64.4	72.7
EBITDA margin (%)	29.0	30.3	30.5	31.0	31.5
EBITDA growth (%)	17.3	16.1	11.2	11.6	11.7
Adj. EPS growth (%)	19.0	3.5	10.6	12.7	12.8
RoE (%)	17.6	15.9	15.5	15.7	15.9
RoIC (%)	21.2	21.4	21.8	23.6	25.6
P/E (x)	36.9	35.7	32.3	28.6	25.4
EV/EBITDA (x)	27.9	24.0	21.6	19.4	17.3
P/B (x)	6.1	5.3	4.8	4.3	3.8
FCFF yield (%)	2.8	(0.2)	2.9	3.3	3.6

Source: Company, Emkay Research

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Exhibit 1: Sun Pharma - 4QFY26 earnings snapshot

Sun Pharma - P&L	4QFY25A	4QFY26A	YoY chg	4QFY26E	Delta vs Emkay est	4QFY26E (consensus)	Delta vs consensus	3QFY26A	QoQ chg
(Rs mn)									
Total sales	128,156	145,598	14%	147,369	-1%			154,691	-6%
Other op. income	1,433	520	-64%	626	-17%			515	1%
Total revenue from operations	129,588	146,118	13%	147,995	-1%	144,925	1%	155,205	-6%
Raw material	26,372	28,011	6%	29,874	-6%			29,451	-5%
Gross Profit	103,217	118,107	14%	118,122	0%			125,754	-6%
- Gross Margin	79.6%	80.8%	118bps	79.8%	102bps			81.0%	-19bps
Staff costs	24,885	29,604	19%	30,076	-2%			28,920	2%
Other expenses	41,170	48,961	19%	50,162	-2%			47,350	3%
EBITDA	37,161	39,542	6%	37,884	4%	39,462	0%	49,485	-20%
- EBITDA Margin	28.7%	27.1%	-161bps	25.6%	146bps	27.2%	-17bps	31.9%	-482bps
Other income	6,129	4,585	-25%	5,395	-15%			5,788	-21%
Finance Costs	491	859	75%	770	12%			784	10%
Depreciation	6,638	7,755	17%	7,701	1%			7,323	6%
Profit Before Tax (PBT)	36,160	35,513	-2%	34,808	2%			47,166	-25%
Tax	7,162	7,909	10%	8,610	-8%			11,476	-31%
- Tax rate	19.8%	22.3%	246bps	24.7%	-246bps			24.3%	-206bps
Minority Interest & JVs	108	97		246				323	
Exceptional income (expense)	(7,392)	(367)		-				(1,679)	
Reported Net Profit	21,499	27,140	26%	25,952	5%			33,688	-19%
Reported EPS (Rs)	9.0	11.3	26%	10.8	5%			14.0	-19%
Net Profit - Adjusted	28,890	27,507	-5%	25,952	6%	27,620	0%	35,367	-22%
EPS - Adjusted (Rs)	12.0	11.5	-5%	10.8	6%			14.7	-22%
% Cost Ratios									
Raw Material cost	20.4	19.2	-118bps	20.2	-102bps			19.0	19bps
Staff cost	19.2	20.3	106bps	20.3	-6bps			18.6	163bps
Other expenses	31.8	33.5	174bps	33.9	-39bps			30.5	300bps
Sales Break-up									
Domestic Formulations	42,130	48,359	15%	47,447	2%			49,986	-3%
US	40,204	41,997	4%	45,605	-8%			42,505	-1%
Emerging Markets	22,561	27,971	24%	27,214	3%			29,996	-7%
RoW Formulations	17,340	20,140	16%	21,123	-5%			26,394	-24%
APIs	5,330	6,739	26%	5,539	22%			5,412	25%
Others	591	393	-34%	441	-11%			399	-2%
Total sales	128,156	145,598	14%	147,369	-1%			154,691	-6%

Source: Company, Bloomberg, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

Exhibit 2: Changes in estimates

(Rs mn)	FY27E			FY28E		
	Old	New	Change	Old	New	Change
Domestic formulations	215,606	217,017	1%	239,970	241,973	1%
% of total revenue	33.1%	33.5%		33.5%	34.0%	
US formulations	192,058	189,233	-1%	209,914	205,685	-2%
% of total revenue	29.5%	29.2%		29.3%	28.9%	
EM + ROW formulations	215,576	214,340	-1%	234,978	233,631	-1%
% of total revenue	33.1%	33.1%		32.8%	32.9%	
API	22,719	22,945	1%	24,991	25,240	1%
% of total revenue	3.5%	3.5%		3.5%	3.5%	
Net sales	647,831	645,272	0%	711,911	708,353	0%
Total income	650,861	647,812	0%	715,547	711,020	-1%
Gross profit	521,990	520,841	0%	575,300	573,082	0%
- margin	80.2%	80.4%		80.4%	80.6%	
EBITDA	198,187	197,259	0%	222,177	220,061	-1%
- margin	30.5%	30.5%		31.1%	31.0%	
PAT	138,590	137,132	-1%	157,586	154,534	-2%
EPS (Rs)	57.8	57.2	-1%	65.7	64.4	-2%

Source: Emkay Research

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Sun Pharma: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue	525,784	584,620	647,812	711,020	781,397
Revenue growth (%)	8.4	11.2	10.8	9.8	9.9
EBITDA	152,717	177,314	197,259	220,061	245,749
EBITDA growth (%)	17.3	16.1	11.2	11.6	11.7
Depreciation & Amortization	25,754	29,379	33,362	36,618	39,851
EBIT	126,963	147,936	163,896	183,443	205,898
EBIT growth (%)	21.3	16.5	10.8	11.9	12.2
Other operating income	5,372	2,419	2,540	2,667	2,801
Other income	19,650	19,717	22,673	25,241	28,130
Financial expense	2,314	3,389	3,613	2,679	1,759
PBT	144,300	164,264	182,957	206,005	232,269
Extraordinary items	(10,553)	(9,221)	0	0	0
Taxes	23,946	39,398	44,824	50,471	56,906
Minority interest	(511)	(851)	(1,000)	(1,000)	(1,000)
Income from JV/Associates	-	-	-	-	-
Reported PAT	109,290	114,794	137,132	154,534	174,363
PAT growth (%)	14.1	5.0	19.5	12.7	12.8
Adjusted PAT	119,844	124,015	137,132	154,534	174,363
Diluted EPS (Rs)	50.0	51.7	57.2	64.4	72.7
Diluted EPS growth (%)	19.0	3.5	10.6	12.7	12.8
DPS (Rs)	15.1	16.4	18.0	20.0	22.0
Dividend payout (%)	30.2	31.8	31.5	31.0	30.3
EBITDA margin (%)	29.0	30.3	30.5	31.0	31.5
EBIT margin (%)	24.1	25.3	25.3	25.8	26.4
Effective tax rate (%)	16.6	24.0	24.5	24.5	24.5
NOPLAT (pre-IndAS)	105,894	112,454	123,742	138,500	155,453
Shares outstanding (mn)	2,399	2,399	2,399	2,399	2,399

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
PBT (ex-other income)	124,649	144,546	160,283	180,764	204,139
Others (non-cash items)	(16,860)	(73,236)	22,673	25,241	28,130
Taxes paid	(4,768)	(23,139)	(44,824)	(50,471)	(56,906)
Change in NWC	9,633	43,253	(13,136)	(13,367)	(14,776)
Operating cash flow	140,721	124,192	161,972	181,464	202,197
Capital expenditure	(20,401)	(133,202)	(38,716)	(42,501)	(46,716)
Acquisition of business	0	0	0	0	0
Interest & dividend income	19,650	19,717	22,673	25,241	28,130
Investing cash flow	(53,062)	(113,441)	(38,716)	(42,501)	(46,716)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(9,761)	22,120	(10,313)	(10,000)	(10,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(2,314)	(3,389)	(3,613)	(2,679)	(1,759)
Dividend paid (incl tax)	(36,173)	(39,378)	(43,182)	(47,980)	(52,778)
Others	(30,811)	(4,478)	0	0	0
Financing cash flow	(79,058)	(25,126)	(57,108)	(60,659)	(64,537)
Net chg in Cash	8,601	(14,374)	66,148	78,303	90,945
OCF	140,721	124,192	161,972	181,464	202,197
Adj. OCF (w/o NWC chg.)	131,088	80,938	175,108	194,831	216,974
FCFF	120,320	(9,010)	123,256	138,962	155,482
FCFE	137,656	7,318	142,316	161,525	181,853
OCF/EBITDA (%)	92.1	70.0	82.1	82.5	82.3
FCFE/PAT (%)	126.0	6.4	103.8	104.5	104.3
FCFF/NOPLAT (%)	113.6	(8.0)	99.6	100.3	100.0

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Share capital	2,399	2,399	2,399	2,399	2,399
Reserves & Surplus	719,781	833,302	927,252	1,033,806	1,155,391
Net worth	722,180	835,701	929,651	1,036,205	1,157,790
Minority interests	2,679	3,097	4,097	5,097	6,097
Non-current liab. & prov.	14,179	22,522	22,522	22,522	22,522
Total debt	18,696	40,816	30,504	20,504	10,504
Total liabilities & equity	757,735	902,135	986,773	1,084,327	1,196,912
Net tangible fixed assets	100,359	111,141	113,564	117,195	122,063
Net intangible assets	125,503	217,082	220,013	222,266	224,262
Net ROU assets	-	-	-	-	-
Capital WIP	12,343	13,807	13,807	13,807	13,807
Goodwill	89,394	89,394	89,394	89,394	89,394
Investments [JV/Associates]	4,426	4,426	4,426	4,426	4,426
Cash & equivalents	249,877	325,365	391,513	469,817	560,762
Current assets (ex-cash)	428,496	416,032	448,669	481,179	517,195
Current Liab. & Prov.	163,271	185,717	205,219	224,362	245,602
NWC (ex-cash)	265,225	230,315	243,450	256,817	271,593
Total assets	757,735	902,135	986,773	1,084,327	1,196,912
Net debt	(231,181)	(284,549)	(361,010)	(449,313)	(550,258)
Capital employed	757,735	902,135	986,773	1,084,327	1,196,912
Invested capital	491,088	558,537	577,027	596,277	617,918
BVPS (Rs)	301.0	348.4	387.5	431.9	482.6
Net Debt/Equity (x)	(0.3)	(0.3)	(0.4)	(0.4)	(0.5)
Net Debt/EBITDA (x)	(1.5)	(1.6)	(1.8)	(2.0)	(2.2)
Interest coverage (x)	63.4	49.5	51.6	77.9	133.0
RoCE (%)	20.3	20.7	20.2	20.6	20.9

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY25	FY26	FY27E	FY28E	FY29E
P/E (x)	36.9	35.7	32.3	28.6	25.4
P/CE(x)	30.4	28.8	26.0	23.2	20.7
P/B (x)	6.1	5.3	4.8	4.3	3.8
EV/Sales (x)	8.2	7.3	6.6	6.0	5.5
EV/EBITDA (x)	27.9	24.0	21.6	19.4	17.3
EV/EBIT(x)	33.6	28.8	26.0	23.2	20.7
EV/IC (x)	8.7	7.6	7.4	7.1	6.9
FCFF yield (%)	2.8	(0.2)	2.9	3.3	3.6
FCFE yield (%)	3.1	0.2	3.2	3.6	4.1
Dividend yield (%)	0.8	0.9	1.0	1.1	1.2
DuPont-RoE split					
Net profit margin (%)	22.8	21.2	21.2	21.7	22.3
Total asset turnover (x)	0.7	0.7	0.7	0.7	0.7
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.0
RoE (%)	17.6	15.9	15.5	15.7	15.9
DuPont-RoIC					
NOPLAT margin (%)	20.1	19.2	19.1	19.5	19.9
IC turnover (x)	1.1	1.1	1.1	1.2	1.3
RoIC (%)	21.2	21.4	21.8	23.6	25.6
Operating metrics					
Core NWC days	184.1	143.8	137.2	131.8	126.9
Total NWC days	184.1	143.8	137.2	131.8	126.9
Fixed asset turnover	2.3	2.1	2.0	2.1	2.3
Opex-to-revenue (%)	50.5	49.9	50.0	49.7	49.4

Source: Company, Emkay Research

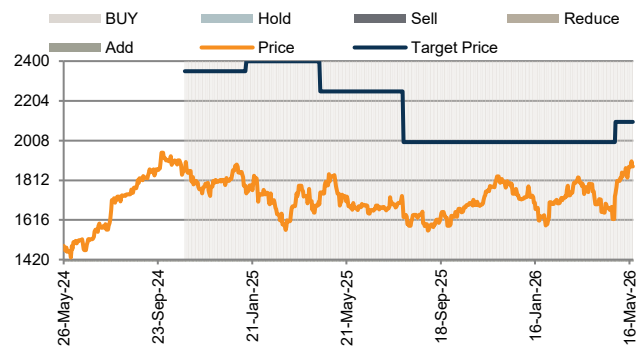
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
28-Apr-26	1,747	2,100	Buy	Shashank Krishnakumar
01-Feb-26	1,610	2,000	Buy	Shashank Krishnakumar
06-Nov-25	1,686	2,000	Buy	Shashank Krishnakumar
21-Sep-25	1,656	2,000	Buy	Shashank Krishnakumar
04-Sep-25	1,582	2,000	Buy	Shashank Krishnakumar
01-Aug-25	1,630	2,000	Buy	Shashank Krishnakumar
23-May-25	1,684	2,250	Buy	Shashank Krishnakumar
17-Apr-25	1,752	2,250	Buy	Shashank Krishnakumar
10-Apr-25	1,652	2,400	Buy	Shashank Krishnakumar
06-Mar-25	1,614	2,400	Buy	Shashank Krishnakumar
01-Feb-25	1,742	2,400	Buy	Shashank Krishnakumar
21-Jan-25	1,763	2,400	Buy	Shashank Krishnakumar
13-Jan-25	1,747	2,400	Buy	Shashank Krishnakumar
04-Nov-24	1,809	2,350	Buy	Shashank Krishnakumar
29-Oct-24	1,872	2,350	Buy	Shashank Krishnakumar
27-Oct-24	1,860	2,350	Buy	Shashank Krishnakumar

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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