

November 2, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,175		1,070	
Sales (Rs. m)	4,80,629	5,33,688	4,85,520	5,29,653
% Chng.	(1.0)	0.8		
EBITDA (Rs. m)	1,36,149	1,53,143	1,35,771	1,50,434
% Chng.	0.3	1.8		
EPS (Rs.)	42.4	47.7	42.4	47.1
% Chng.	0.1	1.2		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	387	435	481	534
EBITDA (Rs. bn)	102	119	136	153
Margin (%)	26.5	27.2	28.3	28.7
PAT (Rs. bn)	33	87	102	114
EPS (Rs.)	32.0	36.6	42.4	47.7
Gr. (%)	6.9	14.3	15.9	12.4
DPS (Rs.)	11.7	11.7	14.0	14.0
Yield (%)	1.1	1.1	1.4	1.4
RoE (%)	6.9	17.1	17.8	17.7
RoCE (%)	16.3	18.2	19.0	19.2
EV/Sales (x)	6.3	5.5	4.9	4.3
EV/EBITDA (x)	23.9	20.3	17.3	14.9
PE (x)	32.4	28.3	24.4	21.7
P/BV (x)	5.2	4.6	4.1	3.6

Key Data

SUN.BO | SUNP IN

52-W High / Low	Rs.1,049 / Rs.734
Sensex / Nifty	61,121 / 18,145
Market Cap	Rs.2,487bn/ \$ 30,072m
Shares Outstanding	2,399m
3M Avg. Daily Value	Rs.2831.49m

Shareholding Pattern (%)

Promoter's	54.48
Foreign	15.99
Domestic Institution	18.57
Public & Others	10.96
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.3	11.6	27.7
Relative	2.7	4.2	25.6

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Margin surprise

Quick Pointers:

- Global specialty revenue was up 28% YoY to \$392mn in H1FY23.
- EBITDA was beat despite miss in Taro numbers.

Sun Pharma (SUNP) reported robust revenue growth of 14% YoY in Q2FY23 aided by 1) global ramp-up of specialty products, 2) focus on domestic market and 3) steady growth in ROW market. Company's significant investments and efforts in specialty business started paying off in upward trajectory with 28% YoY growth in H1FY23. Sustained momentum in specialty will help in improving operating leverage and margins too. Domestic formulations (32% of total revenue) continue to outperform IPM. We broadly maintain our estimates and maintain our 'BUY' rating at revised TP of Rs.1175 (Rs.1070 earlier) as we roll forward, based on 26x (25x earlier) Sept 2024E earnings. SUNP remains our top pick in large cap space.

- In-line revenue despite Taro miss led by higher specialty sales:** Revenue grew 13% YoY at Rs109.5bn vs our estimates of Rs 110bn. Domestic business grew 9% YoY. US sales grew 14% YoY (down 2% QoQ) to \$412mn. Ex Taro US sales came in at \$321mn vs \$311mn in Q1FY23. SUNP global specialty portfolio stood at USD 201mn; up 5% QoQ and 27% YoY. EM sales grew strongly by 15% YoY, while ROW grew by 4%. API sales increased by 9% YoY. Revenue grew 13% YoY at Rs109.5bn vs our estimates of Rs 110bn. Domestic business grew 9% YoY on account higher new launches. US sales grew 14% YoY (down 2% QoQ) to \$412mn vs our est of \$421mn. SUNP global specialty portfolio stood at USD 201mn, up 5% QoQ. EM sales grew strongly by 15% YoY, while ROW grew by 4%. API sales increased by 9% YoY.
- Higher GMs aided EBITDA beat:** SUNP reported EBITDA of Rs32bn vs our estimate of Rs29bn, aided by better gross margins. Gross margins came in at 74.9%, up 130bps YoY and 210bps QoQ. Ex Taro GMs came in at 79.1%, up 250bps YoY. R&D cost came in Rs5.7bn, 5.2% of sales up 6% YoY. Ex R&D other expenses were up 20% YoY. OPM of 29%, up 380bps QoQ vs our est of 26%. Operating income came in higher at Rs1.4bn aided by grant from PLI scheme. There was forex loss to tune of Rs2.4bn. Adj for forex, PAT came in at Rs25bn vs our est. of Rs21bn.
- Key concall takeaways:** (1) Specialty business grew YoY and QoQ driven by Ilumya, Cequa and Winlevi. Specialty R&D was 22% of total R&D spends and likely to inch up as clinical trials go up. Doctor prescriptions reached to pre-covid levels. Slowdown in Winlevi prescriptions was a temporary blip, which should normalize in coming quarters (2) US generics - remained competitive while its growth is mainly driven by new launches, market share gain and better supply chain. Launched three products in US during Q2. Revlimid launch on track (3) Domestic formulation business grew by 11% YoY ex-covid; launched 34 new products in Q2 (4) GMs improvement was aided by better product mix given scale up in specialty revenues. (5) Other expenses increased given higher selling and distribution cost, expansion of India sales force and consolidation of Alchemy business with Taro (6) Considering the OAI status for Halol unit, resolution may take longer (7) Debt increased due to temporary borrowing against litigation settlement of Ranbaxy in the US. (8) Tax rate to go up from current levels.

Exhibit 1: 2Q23 Result Overview (Rs mn): Strong EBITDA beat despite Taro miss

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Net Sales	1,09,523	96,259	13.8	1,07,618	1.8	2,17,140	1,93,447	10.7
Raw Material	27,081	25,219	7.4	29,002	(6.6)	56,083	51,713	9.5
<i>% of Net Sales</i>	<i>24.7</i>	<i>26.2</i>		<i>26.9</i>		<i>25.8</i>	<i>26.7</i>	
Personnel Cost	20,046	18,063	11.0	20,749	(3.4)	40,794	35,650	18.0
<i>% of Net Sales</i>	<i>18.3</i>	<i>18.8</i>		<i>19.3</i>		<i>18.8</i>	<i>18.4</i>	
Others	30,416	25,915	17.4	30,480	(0.2)	60,896	51,609	18.6
<i>% of Net Sales</i>	<i>27.8</i>	<i>26.9</i>		<i>28.3</i>		<i>28.0</i>	<i>26.7</i>	
Total Expenditure	77,543	69,196	12.1	80,230	(3.4)	1,57,773	1,38,972	15.0
EBITDA	31,980	27,063	18.2	27,387	16.8	59,367	54,475	(0.1)
<i>Margin (%)</i>	<i>29.2</i>	<i>28.1</i>		<i>25.4</i>		<i>27.3</i>	<i>28.2</i>	
Depreciation	6,100	5,304	15.0	5,880	3.7	11,980	10,336	16.8
EBIT	25,881	21,759	18.9	21,507	20.3	47,388	44,139	(3.9)
Other Income	852	2,229	(61.8)	21	3,882.2	874	3,754	(98.6)
Interest	194	360	(46.1)	137	41.6	331	710	(61.0)
PBT	26,539	23,629	12.3	21,392	24.1	47,931	47,183	(9.2)
Total Taxes	1,523	1,978	(23.0)	1,890	(19.4)	3,413	5,934	(52.2)
<i>ETR (%)</i>	<i>5.7</i>	<i>8.4</i>		<i>8.8</i>		<i>7.1</i>	<i>12.6</i>	
PAT	25,016	21,651	15.5	19,502	28.3	44,518	41,249	(0.5)
Minority Interest	(21)	417		350		329	62	
Exceptional items	2,415	764		(1,457)		958	6,275	
Adj Pat	22,622	20,470	10.5	20,609	9.8	43,231	34,912	42.7

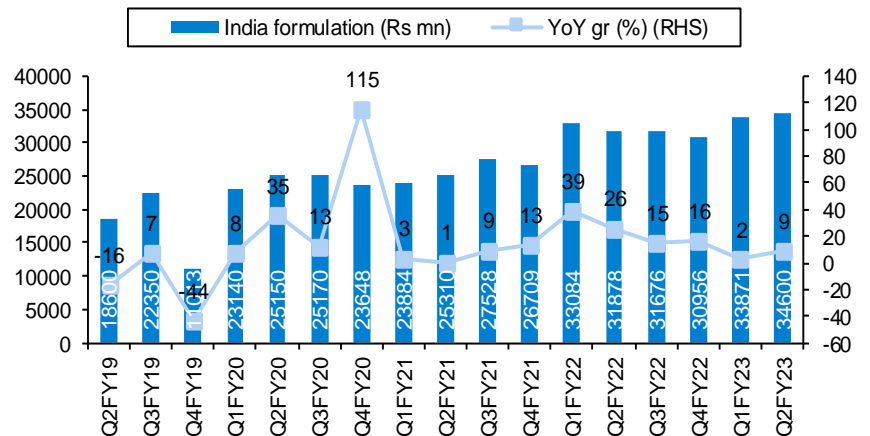
Source: Company, PL

Exhibit 2: Major Sources of Revenues

Major sources of income	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
API	4,730	4,358	8.5	5,987	(21.0)	10,717	9,507	16.3
<i>% of Net Sales</i>	<i>4.4</i>	<i>4.6</i>		<i>5.6</i>		<i>5.0</i>	<i>4.9</i>	
Formulation	1,02,637	90,582	13.3	99,897	2.7	2,02,534	1,81,399	10.0
<i>% of Net Sales</i>	<i>95.0</i>	<i>94.8</i>		<i>93.9</i>		<i>94.4</i>	<i>94.3</i>	
India	34,600	31,878	8.5	33,871	2.2	68,471	64,962	2.4
<i>% of Net Sales</i>	<i>32.0</i>	<i>33.4</i>		<i>31.8</i>		<i>31.9</i>	<i>33.8</i>	
International	68,037	58,704	15.9	66,026	3.0	1,34,063	1,16,437	14.4
<i>% of Net Sales</i>	<i>63.0</i>	<i>61.4</i>		<i>62.0</i>		<i>62.5</i>	<i>60.6</i>	
US formulations	32,913	26,773	22.9	32,437	1.5	65,350	54,773	15.8
<i>% of Net Sales</i>	<i>30.5</i>	<i>28.0</i>		<i>30.5</i>		<i>30.5</i>	<i>28.5</i>	
ROW formulations	35,125	31,931	10.0	33,589	4.6	68,714	61,664	13.0
<i>% of Net Sales</i>	<i>32.5</i>	<i>33.4</i>		<i>31.6</i>		<i>32.0</i>	<i>32.1</i>	
Others	704	627	12.4	556	26.8	1,260	1,356	(23.8)
Total Sales	1,08,071	95,567	13.1	1,06,440	1.5	2,14,511	1,92,262	10.1

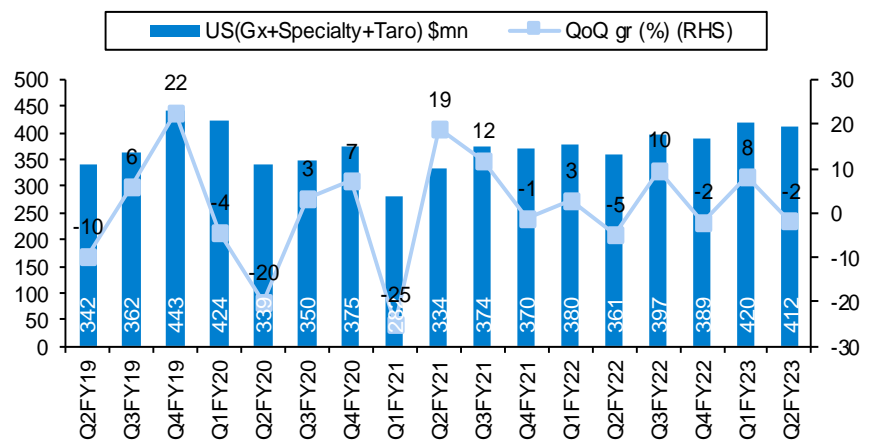
Source: Company, PL

Exhibit 3: India Formulations (Rs m): Outperform the market growth



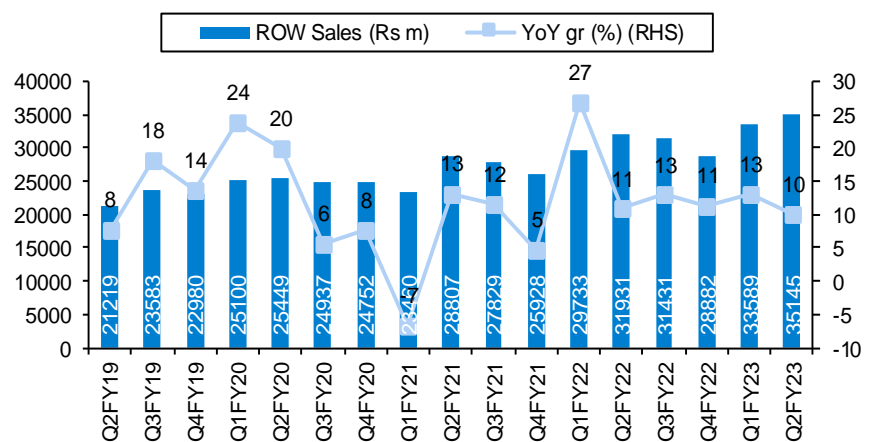
Source: Company, PL

Exhibit 4: US Gx (US\$ m): Driven by specialty portfolio



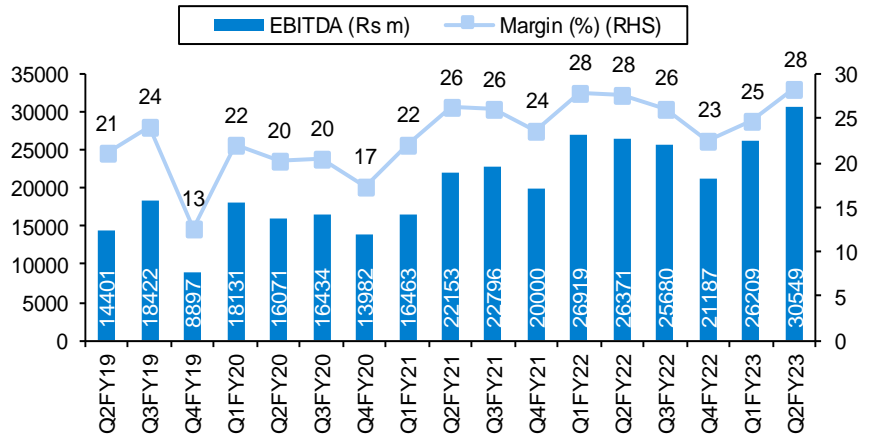
Source: Company, PL

Exhibit 5: ROW Sales (Rs m): growth backed by branded generics



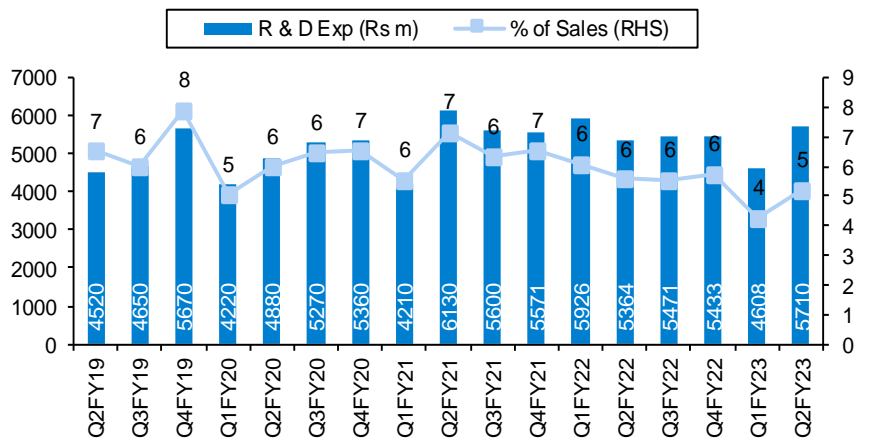
Source: Company, PL

Exhibit 6: EBITDA (Rs m) and EBITDA Margin (%): higher gross margin led to strong EBITDA



Source: Company, PL

Exhibit 7: R&D Expense (Rs m): 22% of the R&D towards Speciality in Q2



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	3,86,545	4,35,442	4,80,629	5,33,688
YoY gr. (%)	15.4	12.6	10.4	11.0
Cost of Goods Sold	1,03,515	1,13,467	1,20,967	1,30,676
Gross Profit	2,83,029	3,21,974	3,59,662	4,03,011
Margin (%)	73.2	73.9	74.8	75.5
Employee Cost	73,008	81,438	88,308	95,800
Other Expenses	1,07,584	1,22,033	1,35,205	1,54,068
EBITDA	1,02,438	1,18,504	1,36,149	1,53,143
YoY gr. (%)	21.0	15.7	14.9	12.5
Margin (%)	26.5	27.2	28.3	28.7
Depreciation and Amortization	21,437	23,257	24,749	26,339
EBIT	81,000	95,246	1,11,400	1,26,804
Margin (%)	21.0	21.9	23.2	23.8
Net Interest	1,274	724	874	924
Other Income	9,215	4,900	8,400	9,550
Profit Before Tax	88,942	99,423	1,18,926	1,35,431
Margin (%)	23.0	22.8	24.7	25.4
Total Tax	10,755	10,392	15,486	19,283
Effective tax rate (%)	12.1	10.5	13.0	14.2
Profit after tax	78,187	89,030	1,03,440	1,16,147
Minority interest	1,166	855	1,324	1,409
Share Profit from Associate	(165)	(300)	(300)	(300)
Adjusted PAT	32,727	86,917	1,01,815	1,14,438
YoY gr. (%)	12.7	165.6	17.1	12.4
Margin (%)	8.5	20.0	21.2	21.4
Extra Ord. Income / (Exp)	44,129	958	-	-
Reported PAT	76,856	87,875	1,01,815	1,14,438
YoY gr. (%)	6.9	14.3	15.9	12.4
Margin (%)	19.9	20.2	21.2	21.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	76,856	87,875	1,01,815	1,14,438
Equity Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	32.0	36.6	42.4	47.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	3,25,266	3,45,266	3,65,266	3,85,266
Tangibles	2,11,804	2,24,827	2,37,850	2,50,874
Intangibles	1,13,462	1,20,438	1,27,415	1,34,392
Acc: Dep / Amortization	1,61,270	1,84,527	2,09,276	2,35,616
Tangibles	1,10,150	1,26,035	1,42,939	1,60,929
Intangibles	51,120	58,492	66,337	74,686
Net fixed assets	1,63,996	1,60,738	1,55,989	1,49,650
Tangibles	1,01,654	98,792	94,911	89,945
Intangibles	62,342	61,946	61,078	59,705
Capital Work In Progress	7,975	7,975	7,975	7,975
Goodwill	65,495	65,495	65,495	65,495
Non-Current Investments	1,28,486	1,28,486	1,28,486	1,28,486
Net Deferred tax assets	28,649	28,649	28,649	28,649
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	89,968	1,07,685	1,19,157	1,32,422
Trade receivables	1,05,929	1,19,650	1,32,397	1,47,135
Cash & Bank Balance	50,334	90,343	1,47,711	2,16,518
Other Current Assets	55,143	55,143	55,143	55,143
Total Assets	6,69,032	7,37,393	8,14,418	9,05,096
Equity				
Equity Share Capital	2,399	2,399	2,399	2,399
Other Equity	4,77,713	5,36,555	6,04,681	6,85,430
Total Networkth	4,80,112	5,38,955	6,07,080	6,87,829
Non-Current Liabilities				
Long Term borrowings	4,817	4,817	4,817	4,817
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	8,086	8,086	8,086	8,086
Trade payables	44,793	51,450	56,931	63,268
Other current liabilities	1,29,323	1,31,030	1,32,823	1,34,706
Total Equity & Liabilities	6,69,032	7,37,393	8,14,417	9,05,096

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	80,999	95,246	1,11,400	1,26,804
Add. Depreciation	21,437	23,257	24,749	26,339
Add. Interest	1,274	724	874	924
Less Financial Other Income	9,215	4,900	8,400	9,550
Add. Other	(37,874)	(958)	-	-
Op. profit before WC changes	65,836	1,18,269	1,37,023	1,54,067
Net Changes-WC	15,591	(23,246)	(17,132)	(19,990)
Direct tax	9,692	(10,392)	(15,486)	(19,283)
Net cash from Op. activities	91,119	84,631	1,04,404	1,14,794
Capital expenditures	(14,950)	(20,000)	(20,000)	(20,000)
Interest / Dividend Income	7,942	4,177	7,527	8,627
Others	-	-	-	-
Net Cash from Inv. activities	(7,009)	(15,824)	(12,474)	(11,374)
Issue of share cap. / premium	(1,857)	-	-	-
Debt changes	(26,367)	-	-	-
Dividend paid	(21,589)	(28,075)	(33,689)	(33,689)
Interest paid	(1,274)	(724)	(874)	(924)
Others	(47,144)	-	-	-
Net cash from Fin. activities	(98,231)	(28,799)	(34,563)	(34,613)
Net change in cash	(14,121)	40,009	57,368	68,807
Free Cash Flow	76,168	64,631	84,404	94,794

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	98,631	94,468	1,07,618	1,09,523
YoY gr. (%)	11.6	10.8	10.7	13.8
Raw Material Expenses	26,406	25,396	29,002	27,081
Gross Profit	72,224	69,071	78,616	82,442
Margin (%)	73.2	73.1	73.1	75.3
EBITDA	26,169	21,794	27,387	31,980
YoY gr. (%)	12.1	5.8	(0.1)	18.2
Margin (%)	26.5	23.1	25.4	29.2
Depreciation / Depletion	5,537	5,565	5,880	6,100
EBIT	20,632	16,229	21,507	25,881
Margin (%)	20.9	17.2	20.0	23.6
Net Interest	190	373	137	194
Other Income	4,325	1,136	21	852
Profit before Tax	24,768	16,991	21,392	26,539
Margin (%)	25.1	18.0	19.9	24.2
Total Tax	3,354	1,468	1,890	1,523
Effective tax rate (%)	13.5	8.6	8.8	5.7
Profit after Tax	21,414	15,524	19,502	25,016
Minority interest	720	549	350	(21)
Share Profit from Associates	-	-	-	-
Adjusted PAT	20,588	(22,773)	20,609	22,622
YoY gr. (%)	11.1	(354.7)	42.7	10.5
Margin (%)	20.9	(24.1)	19.2	20.7
Extra Ord. Income / (Exp)	106	37,747	(1,457)	2,415
Reported PAT	20,694	14,975	19,152	25,037
YoY gr. (%)	16.2	(5.1)	(4.0)	17.9
Margin (%)	21.0	15.9	17.8	22.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	20,694	14,975	19,152	25,037
Avg. Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	8.6	6.2	8.0	10.4

Source: Company Data, PL Research

Key Financial Metrics

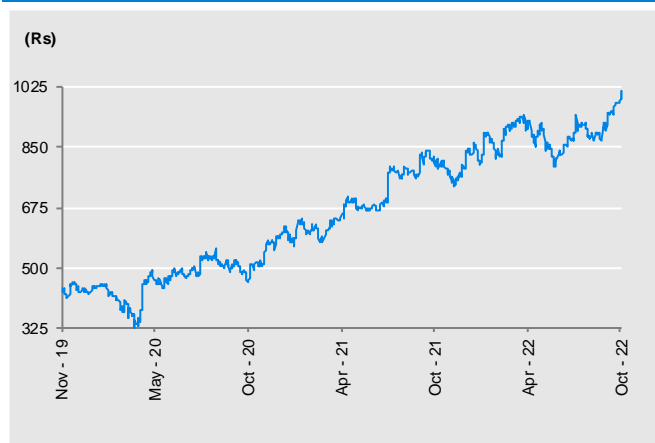
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	32.0	36.6	42.4	47.7
CEPS	22.6	45.9	52.8	58.7
BVPS	200.1	224.6	253.0	286.7
FCF	31.7	26.9	35.2	39.5
DPS	11.7	11.7	14.0	14.0
Return Ratio(%)				
RoCE	16.3	18.2	19.0	19.2
ROIC	13.1	14.7	16.7	18.4
RoE	6.9	17.1	17.8	17.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	143	147	148	148
Valuation(x)				
PER	32.4	28.3	24.4	21.7
P/B	5.2	4.6	4.1	3.6
P/CEPS	24.8	50.4	57.9	64.4
EV/EBITDA	23.9	20.3	17.3	14.9
EV/Sales	6.3	5.5	4.9	4.3
Dividend Yield (%)	1.1	1.1	1.4	1.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
India Formulations	1,27,593	1,42,337	1,58,427	1,77,439
US Formulations	1,45,906	1,73,599	1,90,968	2,03,185
ROW Formulations	89,805	1,06,059	1,15,113	1,27,352
APIs	20,958	22,794	24,409	26,153

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	1,070	945
2	31-Jul-22	BUY	1,070	943
3	07-Jul-22	BUY	1,020	838
4	31-May-22	BUY	1,020	888
5	08-Apr-22	BUY	1,050	931
6	01-Feb-22	BUY	1,050	835
7	07-Jan-22	BUY	1,000	829
8	03-Nov-21	BUY	1,000	815

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	4,391
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,110	1,131
5	Divi's Laboratories	Accumulate	4,140	3,727
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	330	266
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	358	291
11	Indoco Remedies	BUY	430	336
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,467
15	Lupin	Hold	600	721
16	Max Healthcare Institute	BUY	427	414
17	Narayana Hrudayalaya	BUY	810	715
18	Sun Pharmaceutical Industries	BUY	1,070	945
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	BUY	425	409

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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