

May 28, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,140		1,175	
Sales (Rs. m)	4,81,515	5,33,950	4,78,229	5,31,465
% Chng.	0.7	0.5		
EBITDA (Rs. m)	1,29,166	1,49,485	1,32,019	1,51,378
% Chng.	(2.2)	(1.3)		
EPS (Rs.)	38.5	45.7	40.1	46.7
% Chng.	(3.8)	(2.0)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	387	439	482	534
EBITDA (Rs. bn)	102	118	129	149
Margin (%)	26.5	26.8	26.8	28.0
PAT (Rs. bn)	33	85	92	110
EPS (Rs.)	32.0	36.6	38.5	45.7
Gr. (%)	6.9	14.1	5.4	18.6
DPS (Rs.)	11.7	13.5	14.0	16.4
Yield (%)	1.2	1.4	1.4	1.7
RoE (%)	6.9	16.3	15.7	16.8
RoCE (%)	16.3	16.5	15.7	17.3
EV/Sales (x)	5.9	5.3	4.8	4.2
EV/EBITDA (x)	22.4	19.9	17.8	15.0
PE (x)	30.3	26.5	25.2	21.2
P/BV (x)	4.8	4.2	3.8	3.4

Key Data

SUN.BO | SUNP IN

52-W High / Low	Rs.1,072 / Rs.790
Sensex / Nifty	62,502 / 18,499
Market Cap	Rs.2,327bn/ \$ 28,182m
Shares Outstanding	2,399m
3M Avg. Daily Value	Rs.2186.83m

Shareholding Pattern (%)

Promoter's	54.48
Foreign	16.89
Domestic Institution	18.02
Public & Others	10.61
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.1)	(6.2)	7.8
Relative	(3.7)	(6.5)	(6.5)

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Specialty & gRevlimid drives the Q4 momentum

Quick Pointers:

- Adjusted for milestone income, global specialty sales were up 6% QoQ.
- Guided for high single digit revenue growth in FY24.

We reduce our FY24/FY25 earnings estimates by 4%/2%. Sun Pharma (SUNP) Q4FY23 EBITDA was 4% above our estimate, aided by gRevlimid and higher specialty sales. Overall specialty sales, GMs continue to remain healthy while other expenses remain elevated on back of higher SG&A and R&D spends. Over last few years SUNP dependency on US generics has reduced and company's growth is more functional on specialty, RoW and domestic pharma business that has strong growth visibility. Furthermore, acquisition of Concert Pharma provides visibility to SUNP's specialty pipeline beyond FY25. We maintain 'BUY' rating at TP of Rs.1140 (Rs1175 earlier) based on 25x FY25E earnings. SUNP remains our top pick in large cap space.

- Strong revenue growth of 16% YoY:** Revenue grew 16% YoY at Rs109.3bn vs our estimate of Rs106.6bn. The beat was aided by higher gRevlimid and specialty sales. Domestic formulation growth was 9%. Ex COVID growth was 10% for Q4FY23. US sales came in \$430mn (\$422mn in Q3FY23). There was one-time milestone income to tune of \$6.8mn booked in specialty sales. Ex Taro, US sales came in at \$327mn (\$324mn in Q3) vs our est of \$310mn. We believe that the company has booked +\$35mn sales from gRevlimid in US. EM and ROW growth was strong at 18%YoY. API sales were down by 7% YoY. Specialty sales were up 6% QoQ (adj for milestone income) to \$237mn.
- EBITDA beat aided by higher gRevlimid sales:** EBITDA adj for milestone came in at Rs28bn; up 30% YoY; 4% above our estimate. Adjusted GMs came in higher at 79%, up 450bps QoQ aided by high margin gRevlimid sales. R&D cost came in higher at Rs6.6bn, 6% of sales, flat QoQ. Ex R&D other expenses came in higher; up 10% QoQ. Adjusted OPM for milestone came in at 25.5%, down 50bps QoQ. Other operating income came in higher at Rs2.1bn which included PLI benefits. There was an exceptional loss of Rs2bn related to impairment charges, concert pharma acquisition.
- Key concall takeaways:** (1) Strong ramp-up in global specialty business driven by Ilumya, Cequa and Winlevi. Changes in Copay program for Winlevi have aided realization. Expect Rx to pick up from Q2/Q3FY24. Specialty R&D was 32% of total R&D spends (2) Revlimid contributed significantly during the qtr. The impact of import alert of Halol unit was off-set by new launches and market share gains in Q4. Launched four generics products in US on ex-Taro basis (3) Expect to file Deuruxolitinib in H1FY24 and remain confident about efficacy of 8mg doses (4) **Domestic formulation business** grew by 10.2% YoY for FY23 ex-Covid, witnessed good growth across therapies in chronic and sub-chronic segment in Q4. Addition of 1000 MRs and increased productivity should aid India sales. Expect to grow in line or above IPM market (5) Other expenses increased given higher selling and distribution cost on further normalization, higher R&D cost and consolidation of Alchemee business with Taro (6) R&D investments are likely to increase and guided for 7-8% of sales in FY24. Mgmt indicated that US generic continues to remain price competitive and not see any price stabilization.

Exhibit 1: 4QFY23 Result Overview (Rs mn): Sharp increase in GMs aided EBITDA

Y/e March	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	109,307	94,468	15.7	112,410	(2.8)	438,857	386,545	12.8
Raw Material	22,502	25,396	(11.4)	28,037	(19.7)	106,622	103,515	7.7
<i>% of Net Sales</i>	<i>20.6</i>	<i>26.9</i>		<i>24.9</i>		<i>24.3</i>	<i>26.8</i>	
Personnel Cost	21,796	18,849	15.6	20,371	7.0	82,960	73,008	12.9
<i>% of Net Sales</i>	<i>19.9</i>	<i>20.0</i>		<i>18.1</i>		<i>18.9</i>	<i>18.9</i>	
Others	36,716	28,429	29.2	33,934	8.2	131,546	107,584	19.8
<i>% of Net Sales</i>	<i>33.6</i>	<i>30.1</i>		<i>30.2</i>		<i>30.0</i>	<i>27.8</i>	
Total Expenditure	81,014	72,674	11.5	82,341	(1.6)	321,128	284,107	13.6
EBITDA	28,293	21,794	29.8	30,069	(5.9)	117,729	102,438	10.9
<i>Margin (%)</i>	<i>25.9</i>	<i>23.1</i>		<i>26.7</i>		<i>26.8</i>	<i>26.5</i>	
Depreciation	6,715	5,565	20.7	6,600	1.8	25,294	21,437	17.1
EBIT	21,578	16,229	33.0	23,469	(8.1)	92,435	81,000	9.4
Other Income	3,733	1,136	228.6	1,739	114.7	6,345	9,215	(67.7)
Interest	927	373	148.4	462	100.8	1,720	1,274	(11.9)
PBT	24,383	16,991	43.5	24,746	(1.5)	97,060	88,942	1.0
Total Taxes	2,229	1,468	51.9	2,834	(21.4)	8,476	10,755	(32.7)
<i>ETR (%)</i>	<i>9.1</i>	<i>8.6</i>		<i>11.5</i>		<i>8.7</i>	<i>12.1</i>	
PAT	22,154	15,524	42.7	21,912	1.1	88,584	78,187	6.0
Minority Interest	323	549		220		873	1,331	
Exceptional items	1,986	37,747		31		2,976	44,129	
Adj PAT	19,845	(22,773)	(187.1)	21,660	(8.4)	84,736	32,727	16.9

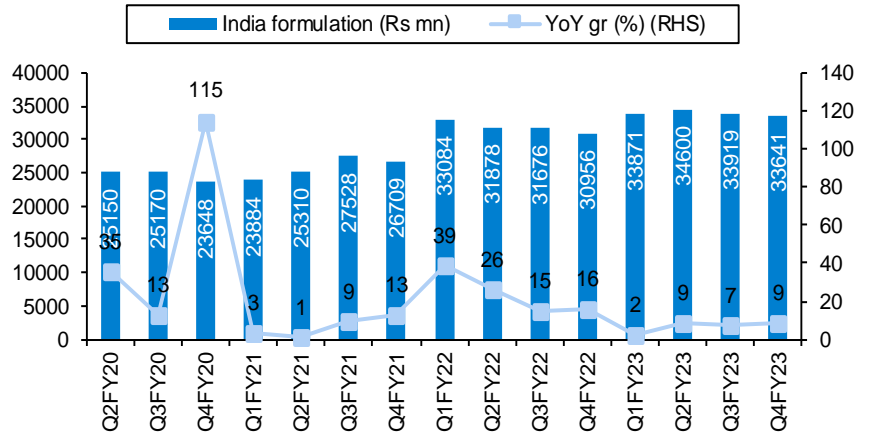
Source: Company, PL

Exhibit 2: US market growth momentum continued by Specialty Portfolio and niche launches like gRevlimid

Major sources of income	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
API	3,852	4,137	(6.9)	5,154	(25.3)	19,724	18,354	11.6
<i>% of Net Sales</i>	<i>3.6</i>	<i>4.4</i>		<i>4.6</i>		<i>4.6</i>	<i>4.8</i>	
Formulation	102,932	89,084	15.5	105,299	(2.2)	410,765	363,306	12.3
<i>% of Net Sales</i>	<i>96.0</i>	<i>94.9</i>		<i>94.9</i>		<i>94.9</i>	<i>94.5</i>	
India	33,641	30,956	8.7	33,919	(0.8)	136,031	127,593	6.0
<i>% of Net Sales</i>	<i>31.4</i>	<i>33.0</i>		<i>30.6</i>		<i>31.4</i>	<i>33.2</i>	
International	69,291	58,127	19.2	71,380	(2.9)	274,734	235,713	15.7
<i>% of Net Sales</i>	<i>64.6</i>	<i>61.9</i>		<i>64.3</i>		<i>63.5</i>	<i>61.3</i>	
US formulations	35,343	29,246	20.8	34,660	2.0	135,353	113,737	18.4
<i>% of Net Sales</i>	<i>33.0</i>	<i>31.2</i>		<i>31.2</i>		<i>31.3</i>	<i>29.6</i>	
ROW formulations	33,948	28,882	17.5	36,720	(7.6)	139,382	121,976	13.3
<i>% of Net Sales</i>	<i>31.7</i>	<i>30.8</i>		<i>33.1</i>		<i>32.2</i>	<i>31.7</i>	
Others	471	641	(26.4)	548	(14.0)	2,279	2,604	(7.9)
Total Sales	107,256	93,861	14.3	111,001	(3.4)	432,768	384,264	12.1

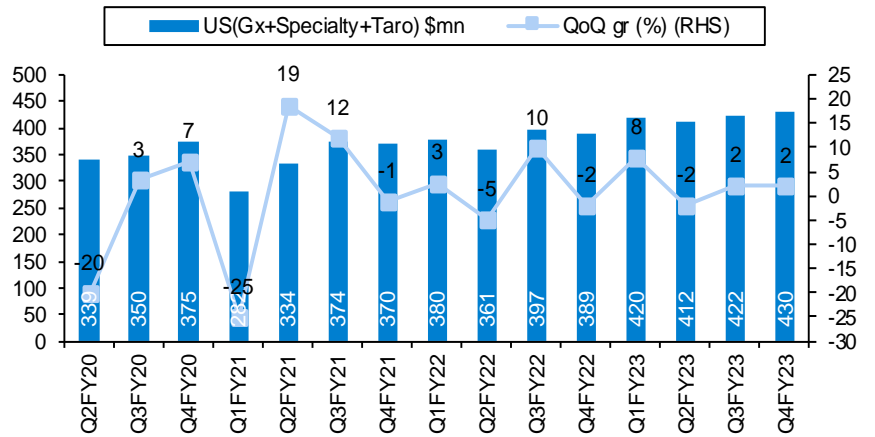
Source: Company, PL

Exhibit 3: Adjusted for CVOID growth was 10% YoY



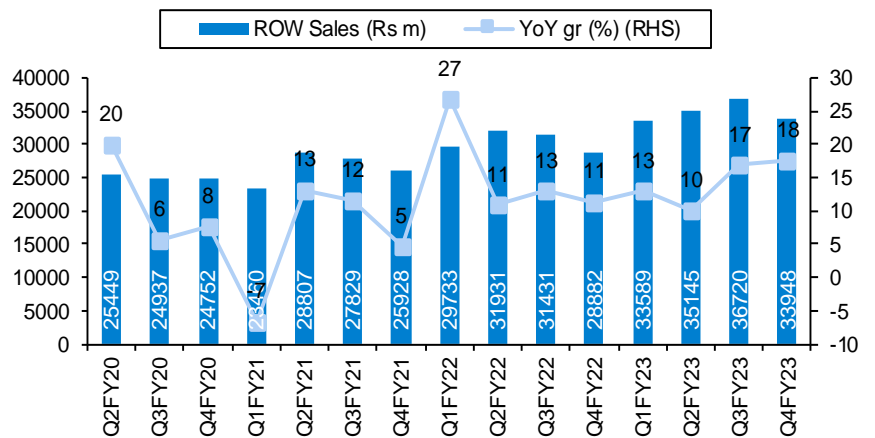
Source: Company, PL

Exhibit 4: Growth of US driven by specialty portfolio and new launches



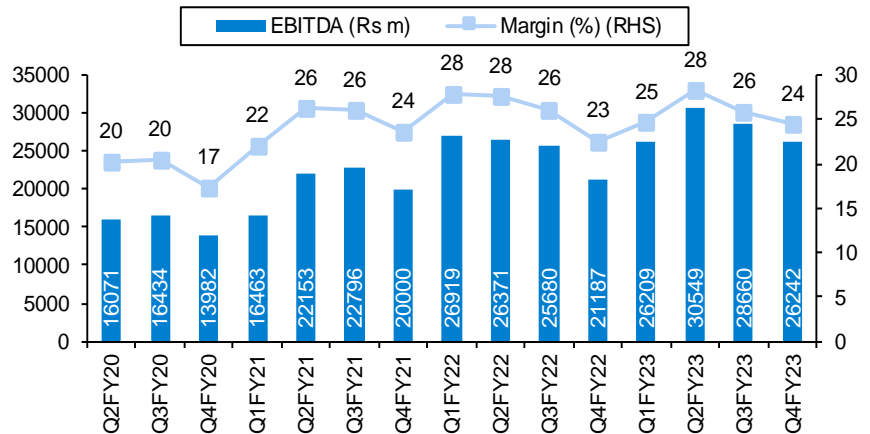
Source: Company, PL

Exhibit 5: ROW growth backed by milestone income



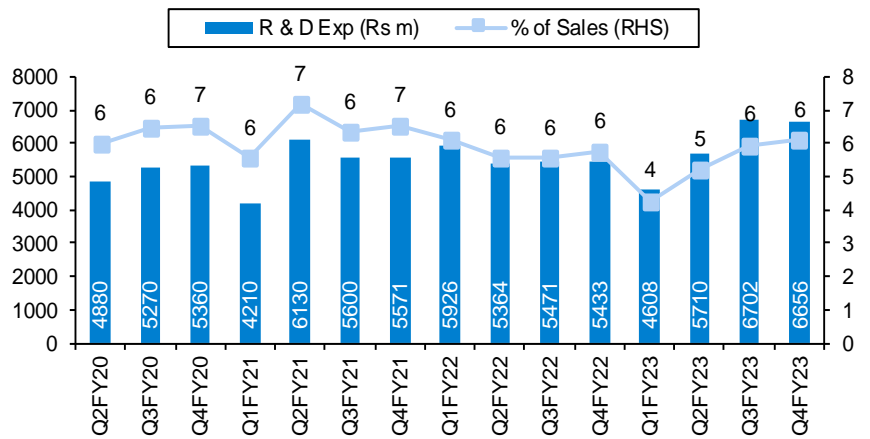
Source: Company, PL

Exhibit 6: Higher R&D and other expenses drag margins QoQ



Source: Company, PL

Exhibit 7: R&D investment remain elevated at 6.1% of sales



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	3,86,545	4,38,857	4,81,515	5,33,950
YoY gr. (%)	15.4	13.5	9.7	10.9
Cost of Goods Sold	1,03,515	1,06,622	1,17,219	1,29,015
Gross Profit	2,83,029	3,32,235	3,64,296	4,04,935
Margin (%)	73.2	75.7	75.7	75.8
Employee Cost	73,008	82,960	88,768	95,869
Other Expenses	1,07,584	1,31,546	1,46,362	1,59,581
EBITDA	1,02,438	1,17,729	1,29,166	1,49,485
YoY gr. (%)	21.0	14.9	9.7	15.7
Margin (%)	26.5	26.8	26.8	28.0
Depreciation and Amortization	21,437	25,294	26,917	28,646
EBIT	81,000	92,435	1,02,249	1,20,839
Margin (%)	21.0	21.1	21.2	22.6
Net Interest	1,274	1,720	1,050	1,100
Other Income	9,215	6,345	6,200	8,700
Profit Before Tax	88,942	97,060	1,07,399	1,28,439
Margin (%)	23.0	22.1	22.3	24.1
Total Tax	10,755	8,476	13,543	17,120
Effective tax rate (%)	12.1	8.7	12.6	13.3
Profit after tax	78,187	88,584	93,857	1,11,319
Minority interest	1,166	394	966	1,193
Share Profit from Associate	(165)	(479)	(400)	(400)
Adjusted PAT	32,727	84,736	92,491	1,09,726
YoY gr. (%)	12.7	158.9	9.2	18.6
Margin (%)	8.5	19.3	19.2	20.5
Extra Ord. Income / (Exp)	44,129	2,976	-	-
Reported PAT	76,856	87,711	92,491	1,09,726
YoY gr. (%)	6.9	14.1	5.4	18.6
Margin (%)	19.9	20.0	19.2	20.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	76,856	87,711	92,491	1,09,726
Equity Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	32.0	36.6	38.5	45.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	3,25,266	3,83,736	4,05,736	4,27,736
Tangibles	2,11,804	2,49,878	2,64,204	2,78,530
Intangibles	1,13,462	1,33,858	1,41,532	1,49,207
Acc: Dep / Amortization	1,61,270	1,86,564	2,13,481	2,42,128
Tangibles	1,10,150	1,27,426	1,45,811	1,65,377
Intangibles	51,120	59,138	67,670	76,751
Net fixed assets	1,63,996	1,97,172	1,92,255	1,85,608
Tangibles	1,01,654	1,22,452	1,18,393	1,13,153
Intangibles	62,342	74,720	73,862	72,456
Capital Work In Progress	7,975	9,634	9,634	9,634
Goodwill	65,495	87,127	87,127	87,127
Non-Current Investments	1,28,486	1,48,301	1,48,301	1,48,301
Net Deferred tax assets	28,649	31,326	31,326	31,326
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	89,968	1,05,131	1,19,004	1,32,112
Trade receivables	1,05,929	1,14,385	1,32,226	1,46,792
Cash & Bank Balance	50,334	57,703	80,283	1,24,424
Other Current Assets	55,143	55,922	55,922	55,922
Total Assets	6,69,032	7,75,794	8,25,213	8,90,427
Equity				
Equity Share Capital	2,399	2,399	2,399	2,399
Other Equity	4,77,713	5,57,555	6,16,356	6,86,779
Total Networkth	4,80,112	5,59,954	6,18,755	6,89,178
Non-Current Liabilities				
Long Term borrowings	4,817	5,599	5,599	5,599
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	8,086	63,260	48,260	33,260
Trade payables	44,793	56,815	59,502	66,056
Other current liabilities	1,29,323	88,290	89,856	91,500
Total Equity & Liabilities	6,69,032	7,75,794	8,25,213	8,90,427

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	88,941	97,060	1,07,399	1,28,439
Add. Depreciation	21,437	25,294	26,917	28,646
Add. Interest	1,274	1,720	1,050	1,100
Less Financial Other Income	9,215	6,345	6,200	8,700
Add. Other	(47,089)	(7,262)	-	-
Op. profit before WC changes	64,563	1,16,812	1,35,366	1,58,185
Net Changes-WC	15,591	(52,121)	(27,504)	(19,522)
Direct tax	9,692	(15,098)	(13,543)	(17,120)
Net cash from Op. activities	89,845	49,593	94,320	1,21,544
Capital expenditures	(22,346)	(67,714)	(22,000)	(22,000)
Interest / Dividend Income	-	-	-	-
Others	(34,485)	(10,674)	-	-
Net Cash from Inv. activities	(56,832)	(78,388)	(22,000)	(22,000)
Issue of share cap. / premium	(1,857)	-	-	-
Debt changes	(26,367)	51,297	(15,000)	(15,000)
Dividend paid	(21,589)	(25,189)	(33,689)	(39,304)
Interest paid	(1,274)	(1,720)	(1,050)	(1,100)
Others	3,951	11,777	-	-
Net cash from Fin. activities	(47,136)	36,165	(49,739)	(55,404)
Net change in cash	(14,122)	7,370	22,581	44,140
Free Cash Flow	74,895	28,737	72,320	99,544

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	1,07,618	1,09,523	1,12,410	1,09,307
YoY gr. (%)	10.7	13.8	14.0	15.7
Raw Material Expenses	29,002	27,081	28,037	22,502
Gross Profit	78,616	82,442	84,373	86,805
Margin (%)	73.1	75.3	75.1	79.4
EBITDA	27,387	31,980	30,069	28,293
YoY gr. (%)	(0.1)	18.2	14.9	29.8
Margin (%)	25.4	29.2	26.7	25.9
Depreciation / Depletion	5,880	6,100	6,600	6,715
EBIT	21,507	25,881	23,469	21,578
Margin (%)	20.0	23.6	20.9	19.7
Net Interest	137	194	462	927
Other Income	21	852	1,739	3,733
Profit before Tax	21,392	26,539	24,746	24,383
Margin (%)	19.9	24.2	22.0	22.3
Total Tax	1,890	1,523	2,834	2,229
Effective tax rate (%)	8.8	5.7	11.5	9.1
Profit after Tax	19,502	25,016	21,912	22,154
Minority interest	350	(21)	220	323
Share Profit from Associates	-	-	-	-
Adjusted PAT	20,609	22,622	21,660	19,845
YoY gr. (%)	42.7	10.5	5.2	(187.1)
Margin (%)	19.2	20.7	19.3	18.2
Extra Ord. Income / (Exp)	(1,457)	2,415	31	1,986
Reported PAT	19,152	25,037	21,691	21,831
YoY gr. (%)	(4.0)	17.9	4.8	45.8
Margin (%)	17.8	22.9	19.3	20.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,152	25,037	21,691	21,831
Avg. Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	8.0	10.4	9.0	9.1

Source: Company Data, PL Research

Key Financial Metrics

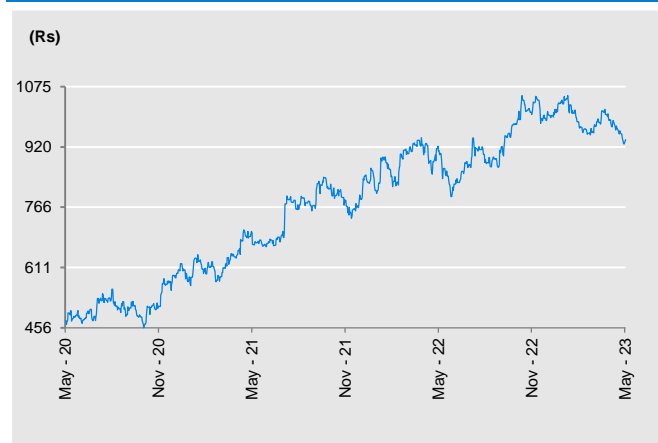
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	32.0	36.6	38.5	45.7
CEPS	22.6	45.9	49.8	57.7
BVPS	200.1	233.4	257.9	287.2
FCF	31.2	12.0	30.1	41.5
DPS	11.7	13.5	14.0	16.4
Return Ratio(%)				
RoCE	16.3	16.5	15.7	17.3
ROIC	13.1	12.9	13.7	15.8
RoE	6.9	16.3	15.7	16.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	(0.1)
Net Working Capital (Days)	143	135	145	145
Valuation(x)				
PER	30.3	26.5	25.2	21.2
P/B	4.8	4.2	3.8	3.4
P/CEPS	22.6	45.9	49.8	57.7
EV/EBITDA	22.4	19.9	17.8	15.0
EV/Sales	5.9	5.3	4.8	4.2
Dividend Yield (%)	1.2	1.4	1.4	1.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
India Formulations	1,27,593	1,36,031	1,52,355	1,70,638
US Formulations	1,13,695	1,35,353	1,43,721	1,56,757
ROW Formulations	1,21,976	1,39,402	1,56,130	1,74,866
APIs	18,354	19,724	21,301	23,432

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	1,175	997
2	01-Feb-23	BUY	1,175	1,035
3	06-Jan-23	BUY	1,175	1,015
4	01-Nov-22	BUY	1,175	1,037
5	06-Oct-22	BUY	1,070	945
6	31-Jul-22	BUY	1,070	943
7	07-Jul-22	BUY	1,020	838
8	31-May-22	BUY	1,020	888

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,201
2	Aster DM Healthcare	BUY	265	240
3	Aurobindo Pharma	BUY	565	522
4	Cipla	BUY	1,070	937
5	Divi's Laboratories	Hold	2,700	3,098
6	Dr. Reddy's Laboratories	Reduce	4,500	4,867
7	Eris Lifesciences	BUY	780	638
8	Fortis Healthcare	BUY	330	288
9	Glenmark Pharmaceuticals	Reduce	570	609
10	HealthCare Global Enterprises	BUY	375	294
11	Indoco Remedies	BUY	400	340
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,450	2,055
14	Krishna Institute of Medical Sciences	BUY	1,660	1,527
15	Lupin	Hold	730	750
16	Max Healthcare Institute	BUY	565	523
17	Narayana Hrudayalaya	BUY	980	827
18	Sun Pharmaceutical Industries	BUY	1,175	997
19	Torrent Pharmaceuticals	BUY	1,820	1,578
20	Zydus Lifesciences	Accumulate	520	508

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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