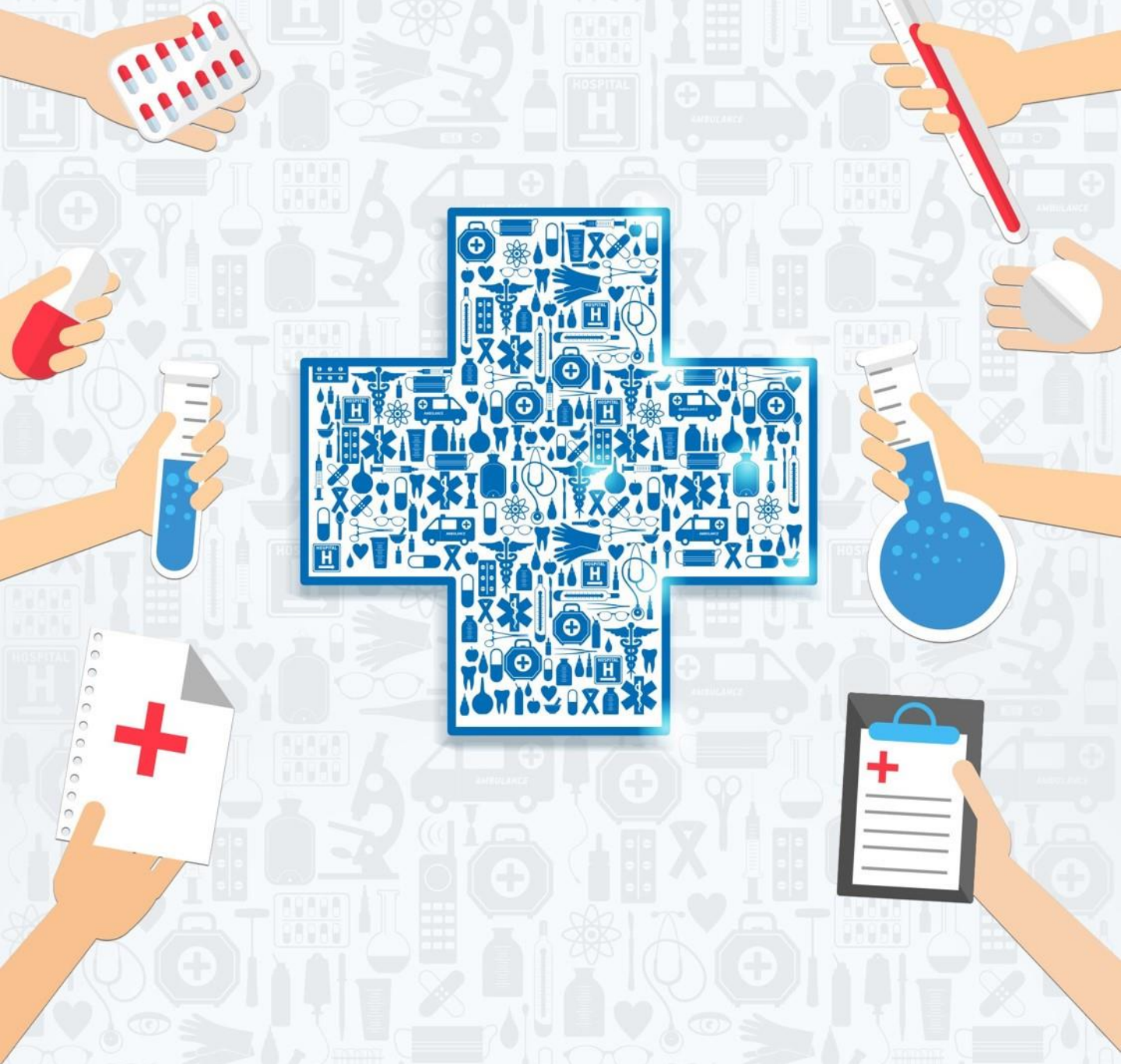


# Sun Pharmaceutical Industries Ltd.



# Sun Pharmaceutical Industries Ltd. **Strong performance from the specialty business drive the profitability**

CMP <b>INR 960</b>	Target <b>INR 1,172</b>	Potential Upside <b>22.2%</b>	Market Cap (INR Mn) <b>INR 23,67,608</b>	Recommendation <b>BUY</b>	Sector <b>Pharmaceuticals</b>
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## Result Highlights of Q4FY23

- In Q4FY23, Sun Pharma reported total revenue of INR 109,307 mn, representing a YoY growth of 15.7% and declined by 2.8% QoQ.
- India formulation sales reached INR 33,641 mn, grew by 8.7%. US formulation sale were reported at USD 430 mn, grew by 10.5% YoY.
- Emerging markets formulation segment reached USD 221 mn, demonstrating a growth of 7.5% compared to Q4 of the previous year. ROW formulation segment were reported at USD 191 mn, indicating a growth of 7.4% compared to Q4 of the previous year.
- Global specialty sales amounted to USD 244 mn, including a milestone payment of USD 6.8 mn received in Q4. Excluding milestone, it showed a growth of 28% compared to Q4FY22. Global specialty sales (ex-milestone), accounted for 18.2% of overall sales in Q4FY23.
- The EBITDA margin for Q4FY23 stood at 25.9% against 23.1% and 26.7% on a YoY and QoQ, respectively. The net profit for the quarter was reported at INR 19,845 mn, showing a decline of 8.4% on a year-on-year basis and a significant decrease of 187.1% on a QoQ
- Taro reported sales of USD 147 mn in Q4FY23, margin increased by 2.3% on a YoY basis and net profit stood at USD 6.9 mn.

### MARKET DATA

Shares outs (Mn)	2,399
Equity Cap (INR Mn)	2,399
Mkt Cap (INR Mn)	23,67,608
52 Wk H/L (INR)	1,072/790
Volume Avg (3m K)	2,225
Face Value (INR)	1
Bloomberg Code	SUNP IN

### KEY FINANCIALS

INR mns	FY21	FY22	FY23	FY24E	FY25E
Revenue	3,34,981	3,86,545	4,38,857	4,81,252	5,26,219
EBITDA	84,677	1,02,438	1,17,729	1,27,532	1,44,710
Adj PAT	72,100	76,856	87,711	97,162	1,12,495
Adj. EPS (INR)	30.1	32.0	36.6	40.5	46.9
EBITDA Margin	25.3%	26.5%	26.8%	26.5%	27.5%
Adj. NPM	21.5%	19.9%	20.0%	20.2%	21.4%

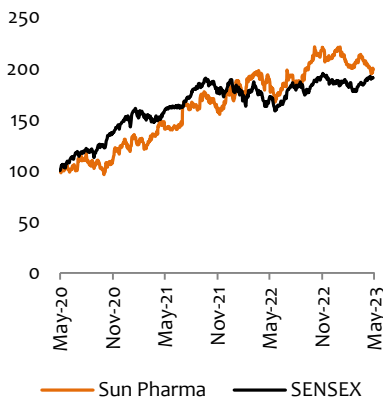
Source: Company, KRChoksey Research

**Resilient topline growth led by global specialty business:** Sun Pharma’s reported revenue grew 15.7% YoY (-2.8% QoQ) to INR 109,307 mn. This was primarily driven by strong growth momentum in the US, India and Emerging Market (EM), ROW. In INR term, the US revenue grew at 20.8% YoY (+2.0% QoQ) (33% of the total revenue), India revenue increased by 8.7% YoY (-0.8% QoQ) (31.4% of the total revenue), Emerging Market revenue grew at 17.6% YoY (-14.0% QoQ), ROW revenue grew by 17.4% YoY (-1.2% QoQ). The main driving factor behind the growth of the formulation segment in the US was the specialty business, primarily fueled by products like Ilumya, Cequa, and Winlevi. Furthermore, the introduction of gRevlimid in the Q4FY23 significantly contributed to the revenue in the US market. The management expects the growth for these three products to be sustainable in upcoming quarters. The U.S generic, ex-Taro generic business, continues to demonstrate strong growth YoY due to launch of new products such as gRevlimid, although this was partially offset by steep price erosion in the dermatology therapy. The company's growth will be further supported by the launch of new products and the development of existing ones for different medical indications. The U.S generic pipeline remains healthy, with 13 NDAs and 97 ANDAs awaiting clearance from the USFDA. Additionally, the specialty R&D pipeline includes five molecules currently undergoing clinical trials. The company anticipates increasing investments in R&D for both Specialty and Generic businesses in the future.

In FY23, Domestic Formulation (DF) experienced a 10% YoY increase in sales and 6% volume growth, excluding COVID-related sales, outperforming the industry average in the DF category, which experienced flat volume growth. The company's growth can be attributed to new product launches and price increases, contributing to a 2%-3% YoY growth. This growth can be attributed to the top three therapy areas i.e. Cardiac, Anti-infective, and gastrointestinal, partially offset by a decline in sales within the Anti-Diabetic.

**The gross margin improvement drives overall growth in profits:** Gross Profits Margins (GPM) improved by 630 bps YoY (+436 bps QoQ) to 78.9% in Q4FY23 on account of better product mix. Strong performance from the global specialty business led to better profitability. However, higher R&D expenditure and selling and distribution cost in the branded segment during the year offset some benefits. The management guided for increase in R&D expenditure to 7-8% in FY24 compared to 6% of its sales in Q4FY23 to emphasize the development of more innovative products, particularly in the specialty segment.

### SHARE PRICE PERFORMANCE

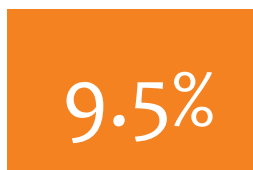


### MARKET INFO

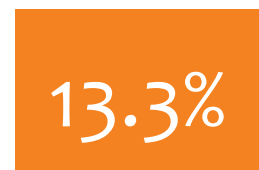
SENSEX	62,969
NIFTY	18,640

### SHARE HOLDING PATTERN (%)

Particulars	Mar-23 (%)	Dec-22 (%)	Sept-22 (%)
Promoters	54.5	54.5	54.5
FIIs	16.9	16.9	16.0
DIIs	19.2	19.1	19.7
Others	9.4	9.5	9.8
Total	100	100	100



Revenue CAGR between FY23 and FY25E



Adjusted Net Income CAGR between FY23 and FY25E

# Sun Pharmaceutical Industries Ltd.

**Valuation and view:** Q4FY23 witnessed a strong performance led by global specialty businesses. The global specialty segment was up 28% YoY. The growth of the U.S. formulations segment was primarily driven by the products Ilumya, Cequa, and Winlevi. However, we are optimistic about the strong growth traction in the specialty segment going ahead, led by the new product pipelines. In India's formulations, the company continues to outperform average industry growth, which has increased the overall market share. As guided by the management, we have slightly increased our estimates for R&D expenses considering the company will continue to invest in developing a new product pipeline. EBITDA margins are expected to be 26.5-27.5% on account of increased contribution from the high-margin specialty segment. **We expect a 9.5% and 13.3% CAGR growth in its revenue and adjusted net income, respectively, over FY23-FY25E. The stock is currently trading at 23.7x/20.5x of our estimated FY24E/FY25E EPS. We maintain our P/E multiple of 25.0x on FY25E EPS of INR 46.9 to arrive at a Target Price (TP) of INR 1,172 (earlier TP INR 1,229) and maintain the BUY recommendation, as the upside potential is 22.1% from its CMP of INR 960.**

Segment Result (INR Mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Revenue from operations</b>	<b>93,861</b>	<b>1,06,440</b>	<b>1,08,092</b>	<b>1,11,001</b>	<b>1,07,256</b>
<b>Formulations</b>	<b>89,084</b>	<b>99,897</b>	<b>1,02,658</b>	<b>1,05,299</b>	<b>1,02,932</b>
India	30,956	33,871	34,600	33,919	33,641
US	29,246	32,437	32,913	34,660	35,343
EM	15,475	18,911	20,704	21,158	18,204
Row	13,407	14,678	14,441	15,563	15,744
<b>API</b>	<b>4,137</b>	<b>5,987</b>	<b>4,730</b>	<b>5,154</b>	<b>3,852</b>
Others	641	556	704	548	471

Segment Performance (% YoY)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Revenue from operations</b>	<b>11.3%</b>	<b>10.1%</b>	<b>13.1%</b>	<b>13.1%</b>	<b>14.3%</b>
<b>Formulations</b>	<b>11.9%</b>	<b>10.0%</b>	<b>13.3%</b>	<b>13.4%</b>	<b>15.5%</b>
India	15.9%	2.4%	8.5%	7.1%	8.7%
US	8.5%	15.8%	22.9%	16.6%	20.8%
EM	10.4%	17.8%	15.0%	18.2%	17.6%
Row	12.5%	7.3%	3.7%	15.0%	17.4%
<b>API</b>	<b>-5.1%</b>	<b>16.3%</b>	<b>8.5%</b>	<b>9.4%</b>	<b>-6.9%</b>
Others	71.1%	-23.8%	12.4%	-9.7%	-26.4%

Revenue Mix (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Revenue from operations</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Formulations</b>	<b>94.9%</b>	<b>93.9%</b>	<b>95.0%</b>	<b>94.9%</b>	<b>96.0%</b>
India	33.0%	31.8%	32.0%	30.6%	31.4%
US	31%	30%	30.4%	31.2%	33.0%
EM	16.5%	17.8%	19.2%	19.1%	17.0%
Row	14.3%	13.8%	13.4%	14.0%	14.7%
<b>API</b>	<b>4.4%</b>	<b>5.6%</b>	<b>4.4%</b>	<b>4.6%</b>	<b>3.6%</b>
Others	0.7%	0.5%	0.7%	0.5%	0.4%

Research & Development Activity	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>R&amp;D Spend (INR Mn)</b>	<b>5,433</b>	<b>4,608</b>	<b>5,710</b>	<b>6,701</b>	<b>6,656</b>
<b>% of Revenue</b>	<b>5.8%</b>	<b>4.3%</b>	<b>5.3%</b>	<b>5.8%</b>	<b>5.8%</b>

Source: Company, KRChoksey Research

# Sun Pharmaceutical Industries Ltd.

## Key Concall Highlights:

- The company experienced strong performance across all markets, including the USA, India, emerging economies, and the global market. In the Q4FY23, consolidated sales reached INR 1,07,256 Mn, representing a YoY growth of 14.3%.
- The strong performance of specialty sales in Q4FY23 was primarily driven by top products such as Ilumya, Winlevi, and Cequa and expect momentum to continue. Among these, Ilumya is expected to experience the highest growth in absolute terms.
- The company reported a 6% volume growth in FY23, outperforming the industry average in the DF category, which experienced flat volume growth. The company's growth can be attributed to new product launches and price increases, contributing to a 2%-3% YoY growth.
- The increase in goodwill in the H1FY23 is mainly attributed to the acquisition of Concert Pharma.
- Higher other expenses can be attributed to increased distribution and promotional costs for the branded generics segment.
- Sun Pharma plans to submit Deuruxolitinib 8 mg in the H2FY24. However, due to a partial clinical hold on the 12 mg dose, the company is reevaluating the filing date and considering whether to submit only the 8 mg version or both the 8 mg and 12 mg versions. There is a possibility that only the 8 mg version will be marketed.
- Winlevi's coverage improved in Q4FY23, and the management expects an even greater increase in coverage in FY24. Although a change in co-pay affected Winlevi's prescriptions, the management anticipates a quick improvement.
- Sezaby targets a niche market, and the company is currently approaching hospitals and formularies for its promotion.
- Sun Pharma launched gRevlimid in Q4FY23, and it made a significant contribution to the company's performance.
- The management stated that the Mohali plant has received an EIR, and taking up efforts for ramping up of commercial production.
- The management expects significant price erosion to continue in the Taro business.
- The psoriatic arthritis trial for Ilumya is expected to be completed after FY24.
- The company's generic pipeline consists of 13 NDAs and 97 ANDAs awaiting clearance from the USFDA. Additionally, the Specialty R&D pipeline includes five molecules currently undergoing clinical trials. The company anticipates increasing investments in R&D for both Specialty and Generic businesses in the future.
- The company is facing some challenges in the gastro and ortho portfolio, but improvement was seen in the most recent quarter.
- The management anticipates high single-digit growth in consolidated sales for FY24, driven by increased business momentum across all segments and the expansion of the global specialty market. R&D expenditure is expected to account for 7-8% of sales in FY24, with increased investments in both the specialty and generic markets.

# Sun Pharmaceutical Industries Ltd.

## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E
<b>Revenues</b>	<b>3,34,981</b>	<b>3,86,545</b>	<b>4,38,857</b>	<b>4,81,252</b>	<b>5,26,219</b>
COGS	86,901	1,03,515	1,06,622	1,12,132	1,18,399
<b>Gross profit</b>	<b>2,48,081</b>	<b>2,83,030</b>	<b>3,32,235</b>	<b>3,69,120</b>	<b>4,07,820</b>
Employee cost	68,622	73,008	82,960	97,213	1,05,244
Other expenses	94,781	1,07,584	1,31,546	1,44,376	1,57,866
<b>EBITDA</b>	<b>84,677</b>	<b>1,02,438</b>	<b>1,17,729</b>	<b>1,27,532</b>	<b>1,44,710</b>
<b>EBITDA Margin</b>	<b>25.3%</b>	<b>26.5%</b>	<b>26.8%</b>	<b>26.5%</b>	<b>27.5%</b>
Depreciation & amortization	20,800	21,437	25,294	25,025	25,785
<b>EBIT</b>	<b>63,878</b>	<b>81,000</b>	<b>92,435</b>	<b>1,02,507</b>	<b>1,18,925</b>
Interest expense	1,414	1,274	1,720	1,620	1,620
Other income	8,592	9,215	6,345	8,663	9,472
Exceptional Items	43,061	44,129	1,261	0	0
<b>PBT</b>	<b>27,994</b>	<b>44,813</b>	<b>95,799</b>	<b>1,09,549</b>	<b>1,26,777</b>
Tax	5,147	10,755	8,476	12,050	13,946
Share of profit/(Loss) of associates	-123	-165	-479	-400	-400
Minority interest	-6,315	1,166	394	-63	-63
<b>PAT</b>	<b>29,038</b>	<b>32,727</b>	<b>86,450</b>	<b>97,162</b>	<b>1,12,495</b>
<b>Adj. PAT</b>	<b>72,100</b>	<b>76,856</b>	<b>87,711</b>	<b>97,162</b>	<b>1,12,495</b>
EPS (INR)	12.1	13.6	36.0	40.5	46.9
Adj. EPS (INR)	30.1	32.0	36.6	40.5	46.9

Source: Company, KRChoksey Research

### Exhibit 2: Cash Flow Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	21,965	65,548	61,704	89,845	46,972
Net Cash Flow from/(used in) Investing Activities	(6,812)	(25,888)	5,362	(57,247)	(39,246)
Net Cash Flow from Financing Activities	(27,305)	(57,151)	(59,805)	(51,935)	(21,997)
Net Inc/Dec in cash equivalents	(12,153)	(17,492)	7,261	(19,337)	(14,272)
Opening Balance	79,065	70,623	56,766	62,730	45,083
Adj.	3,712	3,635	(1,297)	1,689	0
Closing Balance Cash and Cash Equivalents	70,623	56,766	62,730	45,083	30,811

Source: Company, KRChoksey Research

### Exhibit 3: Key Ratios

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	21.3%	25.3%	26.5%	27.0%	27.3%
Tax rate (%)	16.4%	18.4%	24.0%	9.2%	11.0%
Net Profit Margin (%)	12.3%	21.5%	19.9%	20.3%	21.0%
RoE (%)	8.2%	14.6%	15.1%	16.0%	17.2%
RoCE (%)	9.8%	13.7%	17.3%	16.7%	18.5%
Current Ratio (x)	2.02	1.89	2.04	2.26	2.43
EPS (INR)	15.7	12.1	13.6	36.8	43.9
Adj EPS (INR)	16.8	30.1	32.0	37.2	43.9

Source: Company, KRChoksey Research

# Sun Pharmaceutical Industries Ltd.

## Exhibit 4: Balance Sheet

INR Mn	FY21	FY22	FY23	FY24E	FY25E
<b>Non-current assets</b>					
Property, plant and equipment	1,05,674	1,02,350	1,03,714	1,08,105	1,14,677
Capital work-in-progress	6,589	9,365	7,975	8,200	8,200
Goodwill (Net)	64,815	62,876	65,495	70,415	70,415
Other intangible assets	57,980	50,304	55,389	56,000	56,000
Intangible assets under development	5,614	6,303	4,893	5,800	5,800
Investments in associates	2,154	2,327	2,321	2,400	2,400
Investments in joint ventures	276	278	340	365	365
<b>Financial assets</b>					
Investments	50,028	62,218	49,486	48,348	55,110
Loans	8	7	7	8	9
Other financial assets	1,049	958	1,259	1,741	1,984
Deferred tax assets (Net)	31,753	35,564	28,967	36,400	41,491
Income tax assets (Net)	33,843	34,328	25,115	22,000	22,000
Other non-current assets	6,201	5,367	2,888	3,000	3,000
<b>Total non-current assets</b>	<b>3,65,983</b>	<b>3,72,247</b>	<b>3,47,849</b>	<b>3,62,782</b>	<b>3,81,451</b>
<b>Current assets</b>					
Inventories	78,750	89,970	89,968	1,02,300	1,16,607
<b>Financial assets</b>					
Investments	48,974	31,301	76,339	85,000	90,000
Trade receivables	94,212	90,614	1,05,929	1,20,448	1,37,294
Cash and cash equivalents	56,766	62,730	45,083	30,811	36,928
Bank balances other than above	8,109	1,725	5,251	5,251	8,000
Loans	1,484	560	1,700	1,700	1,700
Other financial assets	9,293	8,759	7,025	7,957	9,070
Other current assets	18,953	18,762	18,856	22,000	22,000
Assets classified as held for sale	0	0	0	0	0
<b>Total current assets</b>	<b>3,16,542</b>	<b>3,04,421</b>	<b>3,50,150</b>	<b>3,75,467</b>	<b>4,21,598</b>
<b>TOTAL ASSETS</b>	<b>6,82,525</b>	<b>6,76,667</b>	<b>6,97,999</b>	<b>7,38,249</b>	<b>8,03,049</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	2,399	2,399	2,399	2,399	2,399
Other equity	4,50,245	4,62,229	4,77,713	5,23,916	5,79,039
Equity attributable to the equity shareholders	4,52,645	4,64,628	4,80,112	5,26,316	5,81,439
Non-controlling interests	38,602	30,171	30,549	30,625	30,725
<b>Total equity</b>	<b>4,91,247</b>	<b>4,94,798</b>	<b>5,10,661</b>	<b>5,56,941</b>	<b>6,12,164</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
<b>Financial liabilities</b>					
Borrowings	20,289	8,981	2,299	500	500
Other financial liabilities	424	196	2,518	2,518	2,518
Provisions	5,110	3,271	3,691	3,691	3,691
Deferred tax liabilities (Net)	581	445	319	319	319
Other non-current liabilities	7,809	7,519	6,506	6,506	6,506
<b>Total non-current liabilities</b>	<b>34,213</b>	<b>20,413</b>	<b>15,332</b>	<b>13,533</b>	<b>13,533</b>
<b>Current liabilities</b>					
<b>Financial liabilities</b>					
Borrowings	55,494	24,449	8,086	40,000	40,000
Trade payables	40,937	39,737	44,793	50,539	56,908
Other financial liabilities	12,448	42,374	18,833	17,519	19,727
Other current liabilities	6,463	7,280	7,034	7,936	8,936
Provisions	39,702	45,827	91,478	50,000	50,000
Current tax liabilities (Net)	2,020	1,791	1,781	1,781	1,781
<b>Total current liabilities</b>	<b>1,57,064</b>	<b>1,61,456</b>	<b>1,72,006</b>	<b>1,67,775</b>	<b>1,77,353</b>
<b>Total liabilities</b>	<b>1,91,278</b>	<b>1,81,869</b>	<b>1,87,338</b>	<b>1,81,308</b>	<b>1,90,886</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>6,82,525</b>	<b>6,76,667</b>	<b>6,97,999</b>	<b>7,38,249</b>	<b>8,03,049</b>

Source: Company, KRChoksey Research

# Sun Pharmaceutical Industries Ltd.

Sun Pharmaceutical Industries Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
31-May-23	960	1,172	BUY	Buy	More than 15%
03-Nov-22	1,052	1,229	BUY		
01-Aug-23	919	1,114	BUY	Accumulate	5% – 15%
31-May-22	861	1,074	BUY		
02-Feb-22	891	1,074	BUY	Hold	0 – 5%
03-Nov-21	788	864	ACCUMULATE		
02-Aug-21	774	827	ACCUMULATE	Reduce	-5% – 0
30-June-21	675	706	HOLD		
01-June-21	666	706	ACCUMULATE	Sell	Less than – 5%
17-Mar-21	602	645	ACCUMULATE		

## ANALYST CERTIFICATION:

I, Abhishek Agarwal (CA, CFA L3 cleared, B.com), Research Analyst author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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