

August 3, 2023

Q1FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,265		1,140	
Sales (Rs. m)	4,87,626	5,38,561	4,81,515	5,33,950
% Chng.	1.3	0.9		
EBITDA (Rs. m)	1,33,134	1,52,998	1,29,166	1,49,485
% Chng.	3.1	2.3		
EPS (Rs.)	39.7	46.9	38.5	45.7
% Chng.	3.1	2.5		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	387	439	488	539
EBITDA (Rs. bn)	102	118	133	153
Margin (%)	26.5	26.8	27.3	28.4
PAT (Rs. bn)	33	85	95	112
EPS (Rs.)	32.0	36.6	39.7	46.9
Gr. (%)	6.9	14.1	8.7	17.9
DPS (Rs.)	11.7	13.5	14.0	16.4
Yield (%)	1.0	1.2	1.2	1.4
RoE (%)	6.9	16.3	16.1	17.1
RoCE (%)	16.3	16.5	16.3	17.6
EV/Sales (x)	7.0	6.3	5.6	4.9
EV/EBITDA (x)	26.4	23.3	20.4	17.3
PE (x)	35.6	31.2	28.7	24.3
P/BV (x)	5.7	4.9	4.4	3.9

Key Data

SUN.BO | SUNP IN

52-W High / Low	Rs.1,170 / Rs.856
Sensex / Nifty	65,241 / 19,382
Market Cap	Rs.2,738bn/ \$ 33,089m
Shares Outstanding	2,399m
3M Avg. Daily Value	Rs.2825.38m

Shareholding Pattern (%)

Promoter's	54.48
Foreign	16.48
Domestic Institution	18.54
Public & Others	10.50
Promoter Pledge (Rs bn)	34.13

Stock Performance (%)

	1M	6M	12M
Absolute	10.5	11.0	27.2
Relative	10.4	3.5	13.8

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gRevlimid and lower other expenses aided EBITDA

Quick Pointers:

- Global specialty sales remain healthy at \$232mn; up 21% YoY.
- Healthy pipeline for global specialty business with five products under clinical trails.

Our FY24/FY25 earnings estimates stands increased by ~3%. Sun Pharma (SUNP) Q1FY24 EBITDA was 10% above our estimate, aided by gRevlimid and lower other expenses. Overall specialty sales, GMs continue to remain healthy. 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 along with progress of other pipelines provides visibility to SUNP's specialty pipeline beyond FY25. We maintain 'BUY' rating at TP of Rs.1265 (Rs1140 earlier) based on 27x FY25E earnings. SUNP remains our top pick in large cap space.

Revenue growth aided by higher US sales: Revenues came in at Rs 119bn up 11% on YoY vs our estimates of Rs 116bn. The beat was aided by higher US generic sales led by gRevlimid. Domestic formulation growth was muted at 5% YoY. US sales came in at \$471mn (\$430mn in Q4FY23). Taro sales came in at \$159mn; up 1% YoY. Global specialty sales came in at \$232mn; down 3% QoQ adjusted for one-time milestone. We believe that the company has booked +\$50mn sales from gRevlimid in US. EM and ROW growth was healthy at 13% and 9% YoY respectively. API sales were down by 10% YoY.

Lower other expenses aided EBITDA: EBITDA came in at Rs33.3bn; up 22% YoY; 10% above our estimate. GMs continue to remain healthy and came in higher at 76.6%, up 380bps YoY aided by high margin gRevlimid sales. R&D cost came at Rs6.8bn, 5.7% of sales, up 47% YoY. Ex R&D other expenses came in lower; up 7% YoY and down 8% QoQ. OPM came in at 28%, up 200bps QoQ and 250 bps YoY. There was an exceptional loss of Rs3.2bn related to impairment charges, forex loss towards Ranbaxy Nigeria business.

Key concall takeaways: Growth in domestic formulation business was impacted due to price erosion on account of patent expiry in Sitagliptin and impact of products under NLEM. For Q1FY24, SUNP launched 10 new products. Strong ramp-up in global specialty business driven by Ilumya, Cequa and Winlev while QoQ decline in specialty sales was due to lower Levulan sales led by seasonality. Launched two generic products in US on ex Taro basis. Specialty R&D pipeline includes five molecules undergoing clinical trials. Specialty R&D accounted for 36% of total R&D spend for Q1. In June 2023, company received approval from Health Canada for Winlevi. Reiterate its filing of Deuruxolitinib in H1FY24 and remain confident about efficacy of 8mg doses. In June 2023, SUNP presented data for Type 2 diabetic product- GL0034 and initial response has been encouraging with weight reduction up to 11% within 8 weeks duration. Company have also accelerated pace of clinical trial for its Ilumya –psoriatic arthritis indication.

Exhibit 1: 1QFY24 Result Overview (Rs mn): EBITDA above estimates aided by higher US sales

Y/e March	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Net Sales	1,19,408	1,07,618	11.0	1,09,307	9.2	4,87,626	4,38,857	11.1
Raw Material	27,582	29,002	(4.9)	22,502	22.6	1,19,479	1,06,622	12.1
<i>% of Net Sales</i>	<i>23.1</i>	<i>26.9</i>		<i>20.6</i>		<i>24.5</i>	<i>24.3</i>	
Personnel Cost	24,020	20,749	15.8	21,796	10.2	88,768	82,960	7.0
<i>% of Net Sales</i>	<i>20.1</i>	<i>19.3</i>		<i>19.9</i>		<i>18.2</i>	<i>18.9</i>	
Others	34,509	30,480	13.2	36,716	(6.0)	1,46,245	1,31,546	11.2
<i>% of Net Sales</i>	<i>28.9</i>	<i>28.3</i>		<i>33.6</i>		<i>30.0</i>	<i>30.0</i>	
Total Expenditure	86,111	80,230	7.3	81,014	6.3	3,54,492	3,21,128	10.4
EBITDA	33,297	27,387	21.6	28,293	17.7	1,33,134	1,17,729	13.1
<i>Margin (%)</i>	<i>27.9</i>	<i>25.4</i>		<i>25.9</i>		<i>27.3</i>	<i>26.8</i>	
Depreciation	6,513	5,880	10.8	6,715	(3.0)	26,917	25,294	6.4
EBIT	26,784	21,507	24.5	21,578	24.1	1,06,217	92,435	14.9
Other Income	2,044	21	9,453.3	3,733	(45.2)	7,000	6,345	10.3
Interest	809	137	490.8	927	(12.8)	1,650	1,720	(4.1)
PBT	28,020	21,392	31.0	24,383	14.9	1,11,567	97,060	14.9
Total Taxes	4,681	1,890	147.7	2,229	110.0	15,143	8,476	78.7
<i>ETR (%)</i>	<i>16.7</i>	<i>8.8</i>		<i>9.1</i>		<i>13.6</i>	<i>8.7</i>	
PAT	23,339	19,502	19.7	22,154	5.3	95,357	87,711	8.7
Minority Interest	(95)	350	(127.2)	323	NA	666	394	69.2
Share in loss of associates	-	-		-		-	-	
Reported PAT	23,434	19,152	22.4	21,831	7.3	95,357	87,711	8.7
Exceptional items	3,208	(1,457)		1,986		-	-	
Adj Pat	20,225	20,609	(1.9)	19,845	1.9	95,357	84,736	12.5

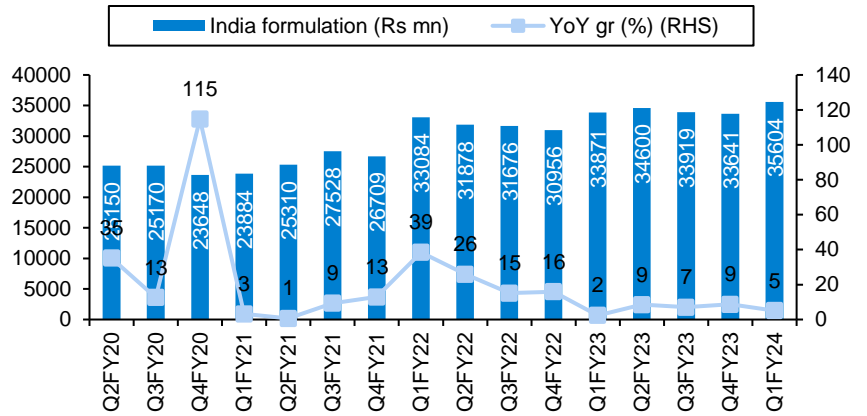
Source: Company, PL

Exhibit 2: US market growth momentum continues led by gRevlimid

Major sources of income	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
API	5,396	5,987	(9.9)	3,852	40.1	20,710	19,724	5.0
<i>% of Net Sales</i>	<i>4.6</i>	<i>5.6</i>		<i>3.6</i>		<i>4.3</i>	<i>4.6</i>	
Formulation	1,11,805	99,897	11.9	1,02,932	8.6	4,58,409	4,10,786	11.6
<i>% of Net Sales</i>	<i>94.9</i>	<i>93.9</i>		<i>96.0</i>		<i>95.2</i>	<i>94.9</i>	
India	35,604	33,871	5.1	33,641	5.8	1,49,634	1,36,031	10.0
<i>% of Net Sales</i>	<i>30.2</i>	<i>31.8</i>		<i>31.4</i>		<i>31.1</i>	<i>31.4</i>	
International	76,202	66,026	15.4	69,291	10.0	3,08,775	2,74,755	12.4
<i>% of Net Sales</i>	<i>64.7</i>	<i>62.0</i>		<i>64.6</i>		<i>64.1</i>	<i>63.5</i>	
US formulations	38,709	32,437	19.3	35,343	9.5	1,52,644	1,35,353	12.8
<i>% of Net Sales</i>	<i>32.8</i>	<i>30.5</i>		<i>33.0</i>		<i>31.7</i>	<i>31.3</i>	
ROW formulations	37,493	33,589	11.6	33,948	10.4	1,56,130	1,39,402	12.0
<i>% of Net Sales</i>	<i>31.8</i>	<i>31.6</i>		<i>31.7</i>		<i>32.4</i>	<i>32.2</i>	
Others	650	556	17.1	471	38.0	2,507	2,279	10.0
Total Sales	1,17,852	1,06,440	10.7	1,07,256	9.9	4,81,626	4,32,789	11.3

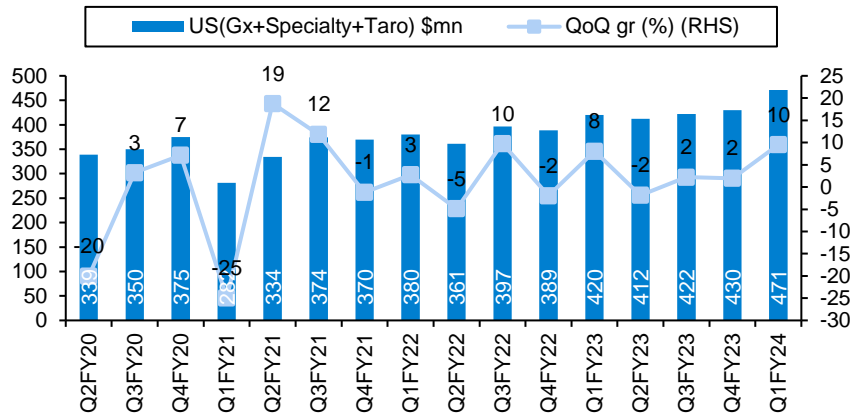
Source: Company, PL

Exhibit 3: Muted performance from Domestic formulation business



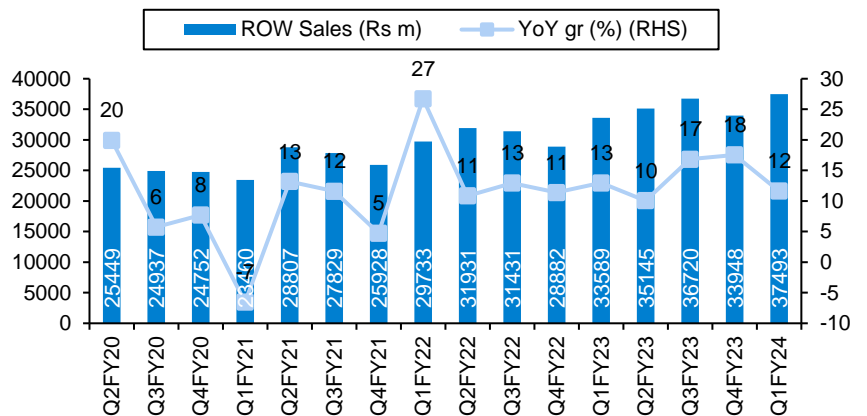
Source: Company, PL

Exhibit 4: QoQ growth was aided by gRevlimid sales



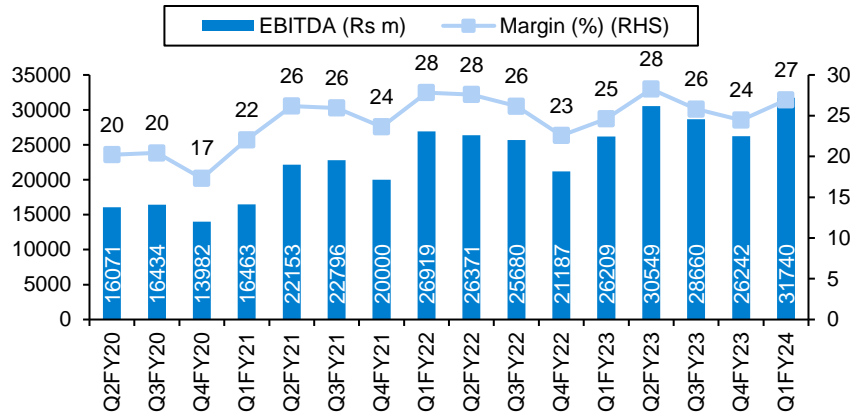
Source: Company, PL

Exhibit 5: Steady rise in ROW markets



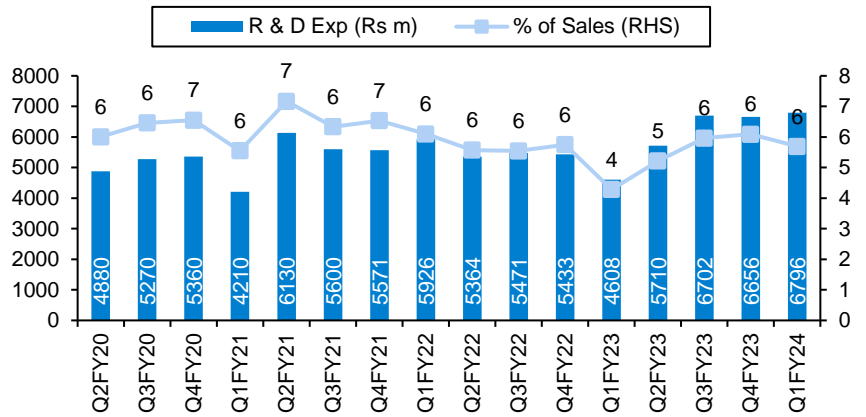
Source: Company, PL

Exhibit 6: Better product mix in US and lower other exps aided margins QoQ



Source: Company, PL

Exhibit 7: R&D spend continues at constant pace of 6% 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	4,87,626	5,38,561
YoY gr. (%)	15.4	13.5	11.1	10.4
Cost of Goods Sold	1,03,515	1,06,622	1,19,479	1,30,436
Gross Profit	2,83,029	3,32,235	3,68,146	4,08,125
Margin (%)	73.2	75.7	75.5	75.8
Employee Cost	73,008	82,960	88,768	95,869
Other Expenses	1,07,584	1,31,546	1,46,245	1,59,258
EBITDA	1,02,438	1,17,729	1,33,134	1,52,998
YoY gr. (%)	21.0	14.9	13.1	14.9
Margin (%)	26.5	26.8	27.3	28.4
Depreciation and Amortization	21,437	25,294	26,917	28,646
EBIT	81,000	92,435	1,06,217	1,24,351
Margin (%)	21.0	21.1	21.8	23.1
Net Interest	1,274	1,720	1,650	1,700
Other Income	9,215	6,345	7,000	8,700
Profit Before Tax	88,942	97,060	1,11,567	1,31,351
Margin (%)	23.0	22.1	22.9	24.4
Total Tax	10,755	8,476	15,143	17,367
Effective tax rate (%)	12.1	8.7	13.6	13.2
Profit after tax	78,187	88,584	96,423	1,13,984
Minority interest	1,166	394	666	1,144
Share Profit from Associate	(165)	(479)	(400)	(400)
Adjusted PAT	32,727	84,736	95,357	1,12,440
YoY gr. (%)	12.7	158.9	12.5	17.9
Margin (%)	8.5	19.3	19.6	20.9
Extra Ord. Income / (Exp)	44,129	2,976	-	-
Reported PAT	76,856	87,711	95,357	1,12,440
YoY gr. (%)	6.9	14.1	8.7	17.9
Margin (%)	19.9	20.0	19.6	20.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	76,856	87,711	95,357	1,12,440
Equity Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	32.0	36.6	39.7	46.9

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	1,20,406	1,33,090
Trade receivables	1,05,929	1,14,385	1,33,785	1,47,878
Cash & Bank Balance	50,334	57,703	80,590	1,28,080
Other Current Assets	55,143	55,922	55,922	55,922
Total Assets	6,69,032	7,75,794	8,28,481	8,96,148
Equity				
Equity Share Capital	2,399	2,399	2,399	2,399
Other Equity	4,77,713	5,57,555	6,19,222	6,92,359
Total Networkth	4,80,112	5,59,954	6,21,622	6,94,758
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	60,203	66,545
Other current liabilities	1,29,323	88,290	89,856	91,500
Total Equity & Liabilities	6,69,032	7,75,794	8,28,481	8,96,148

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	88,941	97,060	1,11,567	1,31,351
Add. Depreciation	21,437	25,294	26,917	28,646
Add. Interest	1,274	1,720	1,650	1,700
Less Financial Other Income	9,215	6,345	7,000	8,700
Add. Other	(47,089)	(7,262)	-	-
Op. profit before WC changes	64,563	1,16,812	1,40,134	1,61,698
Net Changes-WC	15,591	(52,121)	(29,764)	(18,837)
Direct tax	9,692	(15,098)	(15,143)	(17,367)
Net cash from Op. activities	89,845	49,593	95,227	1,25,494
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)	(1,650)	(1,700)
Others	3,951	11,777	-	-
Net cash from Fin. activities	(47,136)	36,165	(50,339)	(56,004)
Net change in cash	(14,122)	7,370	22,887	47,490
Free Cash Flow	74,895	28,737	73,227	1,03,494

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	1,09,523	1,12,410	1,09,307	1,19,408
YoY gr. (%)	13.8	14.0	15.7	11.0
Raw Material Expenses	27,081	28,037	22,502	27,582
Gross Profit	82,442	84,373	86,805	91,827
Margin (%)	75.3	75.1	79.4	76.9
EBITDA	31,980	30,069	28,293	33,297
YoY gr. (%)	18.2	14.9	29.8	21.6
Margin (%)	29.2	26.7	25.9	27.9
Depreciation / Depletion	6,100	6,600	6,715	6,513
EBIT	25,881	23,469	21,578	26,784
Margin (%)	23.6	20.9	19.7	22.4
Net Interest	194	462	927	809
Other Income	852	1,739	3,733	2,044
Profit before Tax	26,539	24,746	24,383	28,020
Margin (%)	24.2	22.0	22.3	23.5
Total Tax	1,523	2,834	2,229	4,681
Effective tax rate (%)	5.7	11.5	9.1	16.7
Profit after Tax	25,016	21,912	22,154	23,339
Minority interest	(21)	220	323	(95)
Share Profit from Associates	-	-	-	-
Adjusted PAT	22,622	21,660	19,845	20,225
YoY gr. (%)	10.5	5.2	(187.1)	(1.9)
Margin (%)	20.7	19.3	18.2	16.9
Extra Ord. Income / (Exp)	2,415	31	1,986	3,208
Reported PAT	25,037	21,691	21,831	23,434
YoY gr. (%)	17.9	4.8	45.8	22.4
Margin (%)	22.9	19.3	20.0	19.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	25,037	21,691	21,831	23,434
Avg. Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	10.4	9.0	9.1	9.8

Source: Company Data, PL Research

Key Financial Metrics

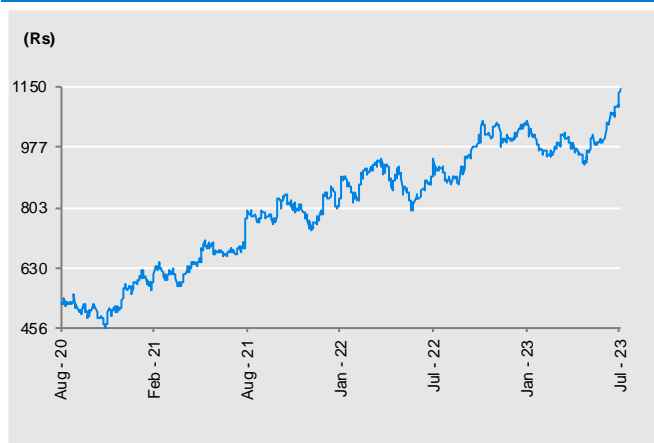
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	32.0	36.6	39.7	46.9
CEPS	22.6	45.9	51.0	58.8
BVPS	200.1	233.4	259.1	289.6
FCF	31.2	12.0	30.5	43.1
DPS	11.7	13.5	14.0	16.4
Return Ratio(%)				
RoCE	16.3	16.5	16.3	17.6
ROIC	13.1	12.9	14.2	16.2
RoE	6.9	16.3	16.1	17.1
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	(0.1)
Net Working Capital (Days)	143	135	145	145
Valuation(x)				
PER	35.6	31.2	28.7	24.3
P/B	5.7	4.9	4.4	3.9
P/CEPS	22.6	45.9	51.0	58.8
EV/EBITDA	26.4	23.3	20.4	17.3
EV/Sales	7.0	6.3	5.6	4.9
Dividend Yield (%)	1.0	1.2	1.2	1.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
India Formulations	1,27,593	1,36,031	1,49,634	1,67,590
US Formulations	1,13,695	1,35,353	1,52,644	1,64,366
ROW Formulations	1,21,976	1,39,402	1,56,130	1,74,866
APIs	18,354	19,724	20,710	22,781

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	1,140	1,043
2	28-May-23	BUY	1,140	970
3	06-Apr-23	BUY	1,175	997
4	01-Feb-23	BUY	1,175	1,035
5	06-Jan-23	BUY	1,175	1,015
6	01-Nov-22	BUY	1,175	1,037
7	06-Oct-22	BUY	1,070	945

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,300	5,283
2	Aster DM Healthcare	BUY	335	311
3	Aurobindo Pharma	BUY	660	761
4	Cipla	BUY	1,220	1,069
5	Divi's Laboratories	Hold	2,700	3,737
6	Dr. Reddy's Laboratories	Reduce	5,150	5,476
7	Eris Lifesciences	BUY	780	706
8	Fortis Healthcare	BUY	365	322
9	Glenmark Pharmaceuticals	Reduce	570	668
10	HealthCare Global Enterprises	BUY	375	326
11	Indoco Remedies	BUY	380	324
12	Ipca Laboratories	Hold	750	760
13	J.B. Chemicals & Pharmaceuticals	BUY	2,450	2,314
14	Krishna Institute of Medical Sciences	BUY	1,660	1,782
15	Lupin	Hold	730	905
16	Max Healthcare Institute	BUY	565	614
17	Narayana Hrudayalaya	BUY	1,100	1,013
18	Sun Pharmaceutical Industries	BUY	1,140	1,043
19	Torrent Pharmaceuticals	BUY	1,900	1,899
20	Zydus Lifesciences	Accumulate	520	588

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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