

November 2, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	1,280		1,265	
Sales (Rs.m)	4,88,063	5,40,407	4,87,626	5,38,561
% Chng.	0.1	0.3		
EBITDA (Rs.m)	1,30,989	1,50,752	1,33,134	1,52,998
% Chng.	(1.6)	(1.5)		
EPS (Rs.)	39.2	45.8	39.7	46.9
% Chng.	(1.5)	(2.3)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	439	488	540	598
EBITDA (Rs. bn)	118	131	151	173
Margin (%)	26.8	26.8	27.9	29.0
PAT (Rs. bn)	85	90	110	126
EPS (Rs.)	36.6	39.2	45.8	52.7
Gr. (%)	14.1	7.1	17.0	15.0
DPS (Rs.)	13.5	14.0	16.4	16.4
Yield (%)	1.2	1.3	1.5	1.5
RoE (%)	16.3	15.4	16.9	17.3
RoCE (%)	16.5	16.0	17.5	18.8
EV/Sales (x)	6.1	5.4	4.8	4.2
EV/EBITDA (x)	22.8	20.2	17.2	14.6
PE (x)	30.5	28.5	24.4	21.2
P/BV (x)	4.8	4.3	3.9	3.5

Key Data

SUN.BO | SUNP IN

52-W High / Low	Rs.1,170 / Rs.922
Sensex / Nifty	63,591 / 18,989
Market Cap	Rs.2,678bn/ \$ 32,154m
Shares Outstanding	2,399m
3M Avg. Daily Value	Rs.2420.05m

Shareholding Pattern (%)

Promoter's	54.48
Foreign	16.78
Domestic Institution	19.69
Public & Others	9.05
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.7)	13.0	7.7
Relative	(0.3)	8.6	3.5

Param Desai

paramdesai@plindia.com | 91-22-66322259

Kushal Shah

kushalshah@plindia.com | 91-22-66322490

In-line quarter aided by specialty and domestic formulation

Quick Pointers:

- Global specialty sales in upward trajectory at \$240mn; up 20% YoY.
- Filed for Deuruxolitinib with USFDA and likely PDUFA in July 2024. Healthy pipeline for global specialty business with six products under clinical trials

Our FY24/FY25 earnings estimates broadly remains unchanged. Sun Pharma (SUNP) Q2FY24 EBIDTA was in line with our estimate, aided by domestic formulation and specialty sales. 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.1280 (Rs1265 earlier) based on 26x Sept 2025E earnings. SUNP remains our top pick in large cap space.

Revenue growth aided by specialty and domestic formulation: Revenues came in at Rs 122bn up 11% on YoY (up 2% QoQ) in line with our estimates. Domestic formulation growth was strong at 11% YoY. US sales came in \$430mn (\$471mn in Q4FY23). Taro sales came in at \$148mn; up 14% YoY. Global specialty sales came in at \$240mn; up 3% QoQ and 20% YoY. EM and ROW growth was healthy at 13% and 18% YoY respectively. API sales were up by 5% YoY.

In-line EBIDTA; R&D cost further inch up: EBIDTA adj for one offs in Taro came in at Rs32.7bn; up 2% YoY; in line with our estimate. GMs continue to remain healthy and came in higher at 76.8%, flat QoQ. Ex Taro GMs were down by 120bps QoQ. R&D cost came in higher at Rs7.7bn, 6.3% of sales, up 35% YoY. Ex R&D other expenses came in higher; up 24% YoY and 10% QoQ. OPM adjusted for one off came in at 26.8%, down 130bps QoQ. Tax rate came in higher at 14%. Reported PAT of Rs24bn; up 5% YoY was in line with our est.

Key concall takeaways: Strong ramp-up was seen in global specialty business driven by Ilumya, Cequa and Winlevi. The QoQ decline in US sales was led by lower gRevlimid sales and facility related issues. Mgmt cited supplies from Mohali facility have resumed and expect recovery to gradual. SUNP has launched 8 new products during Q2FY24 in domestic formulation market. Launched 3 generic products in US on ex Taro basis. Mgmt cited that prescription trend for Winlevi has increased. Intends to launch Ilumya in China in CY24 post marketing partner gets approval. Specialty R&D accounted for 38% of total R&D spend for Q2. Specialty R&D pipeline includes six molecules undergoing clinical trials which have strong competitive profile. Filed deuruxolitinib under 8mg strength with USFDA and PDUFA date likely in July 2024. SUNP recently licensed specialty product Nidlegly which got positive phase 3 data. Halol plant is expected to get re-inspected soon. Other expenses included \$6.1mn one off expenses in Taro related to specialty committee charges. Tax rates are likely to inch up. Guidance for R&D remains on track.

Exhibit 1: 2QFY24 Result Overview (Rs mn): In –line EBITDA; other exps remain elevated led by higher R&D spend

Y/e March	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	1HY24	1HY23	YoY gr. (%)
Net Sales	1,21,924	1,09,523	11.3	1,19,408	2.1	2,41,333	2,17,140	11.1
Raw Material	27,871	27,081	2.9	27,582	1.0	55,453	56,083	(1.1)
<i>% of Net Sales</i>	<i>22.9</i>	<i>24.7</i>		<i>23.1</i>		<i>23.0</i>	<i>25.8</i>	
Personnel Cost	23,644	20,046	17.9	24,020	(1.6)	47,664	40,794	16.8
<i>% of Net Sales</i>	<i>19.4</i>	<i>18.3</i>		<i>20.1</i>		<i>19.8</i>	<i>18.8</i>	
Others	38,275	30,416	25.8	34,509	10.9	72,784	60,896	19.5
<i>% of Net Sales</i>	<i>31.4</i>	<i>27.8</i>		<i>28.9</i>		<i>30.2</i>	<i>28.0</i>	
Total Expenditure	89,789	77,543	15.8	86,111	4.3	1,75,901	1,57,773	11.5
EBITDA	32,135	31,980	0.5	33,297	(3.5)	65,432	59,367	10.2
<i>Margin (%)</i>	<i>26.4</i>	<i>29.2</i>		<i>27.9</i>		<i>27.1</i>	<i>27.3</i>	
Depreciation	6,328	6,100	3.7	6,513	(2.8)	12,841	11,980	7.2
EBIT	25,807	25,881	(0.3)	26,784	(3.6)	52,591	47,388	11.0
Other Income	2,936	852	244.5	2,044	43.6	4,981	874	470.1
Interest	493	194	154.2	809	(39.1)	1,302	(331)	(493.5)
PBT	28,250	26,539	6.4	28,020	0.8	56,269	48,592	15.8
Total Taxes	3,901	1,523	156.2	4,681	(16.7)	8,582	3,413	151.5
<i>ETR (%)</i>	<i>13.8</i>	<i>5.7</i>		<i>16.7</i>		<i>15.3</i>	<i>7.0</i>	
PAT	24,349	25,016	(2.7)	23,339	4.3	47,687	45,180	5.6
Minority Interest	253	(21)	(1,333.2)	(95)	NA	158	329	(52.1)
Share in loss of associates	-	-		-		-	-	
Reported PAT	24,096	25,037	(3.8)	23,434	2.8	47,530	44,851	6.0
Exceptional items	341	2,415		3,208		3,549	958	
Adj PAT	23,755	22,622	5.0	20,225	17.5	43,980	43,893	0.2

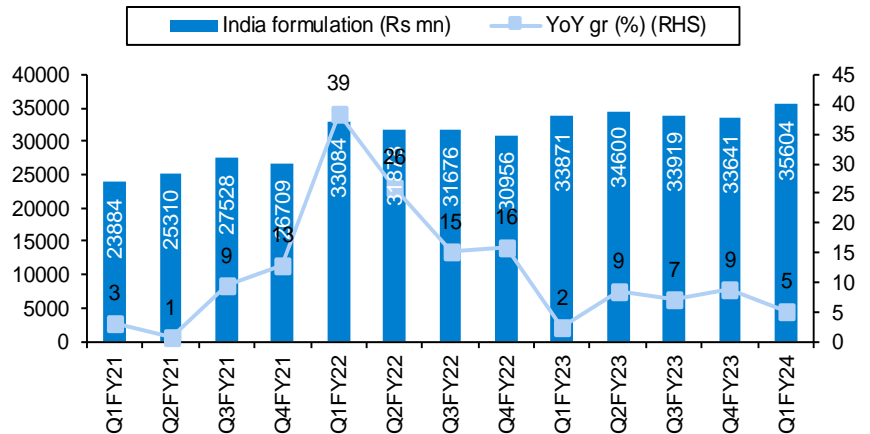
Source: Company, PL

Exhibit 2: Specialty and Domestic business drives the quarter

Major sources of income	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	1HY24	1HY23	YoY gr. (%)
API	4,972	4,730	5.1	5,396	(7.8)	10,368	10,717	(3.3)
<i>% of Net Sales</i>	<i>4.1</i>	<i>4.4</i>		<i>4.6</i>		<i>4.4</i>	<i>5.0</i>	
Formulation	1,14,379	1,02,658	11.4	1,11,805	2.3	2,26,184	2,02,555	11.7
<i>% of Net Sales</i>	<i>95.3</i>	<i>95.0</i>		<i>94.9</i>		<i>95.1</i>	<i>94.4</i>	
India	38,425	34,600	11.1	35,604	7.9	74,029	68,471	8.1
<i>% of Net Sales</i>	<i>32.0</i>	<i>32.0</i>		<i>30.2</i>		<i>31.1</i>	<i>31.9</i>	
International	75,953	68,058	11.6	76,202	(0.3)	1,52,155	1,34,084	13.5
<i>% of Net Sales</i>	<i>63.3</i>	<i>63.0</i>		<i>64.7</i>		<i>64.0</i>	<i>62.5</i>	
US formulations	35,504	32,913	7.9	38,709	(8.3)	74,213	65,350	13.6
<i>% of Net Sales</i>	<i>29.6</i>	<i>30.4</i>		<i>32.8</i>		<i>31.2</i>	<i>30.5</i>	
ROW formulations	40,449	35,145	15.1	37,493	7.9	77,942	68,734	13.4
<i>% of Net Sales</i>	<i>33.7</i>	<i>32.5</i>		<i>31.8</i>		<i>32.8</i>	<i>32.0</i>	
Others	680	704	(3.4)	650	4.6	1,331	1,260	5.7
Total Sales	1,20,031	1,08,092	11.0	1,17,852	1.8	2,37,883	2,14,531	10.9

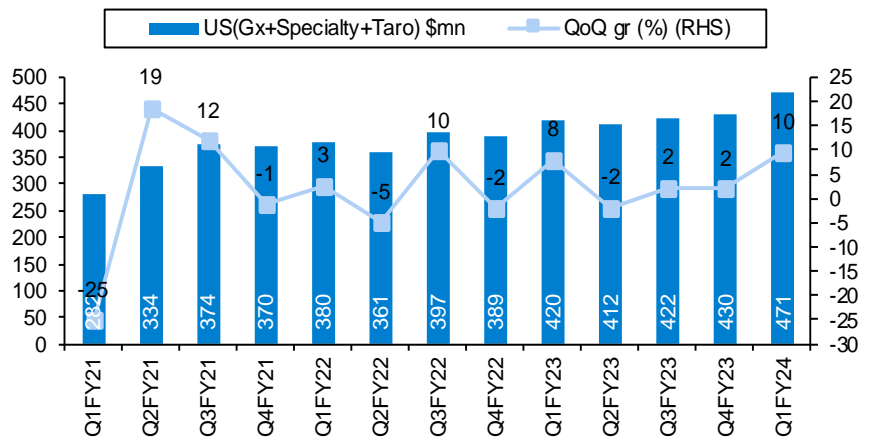
Source: Company, PL

Exhibit 3: Domestic formulation business witness recovery



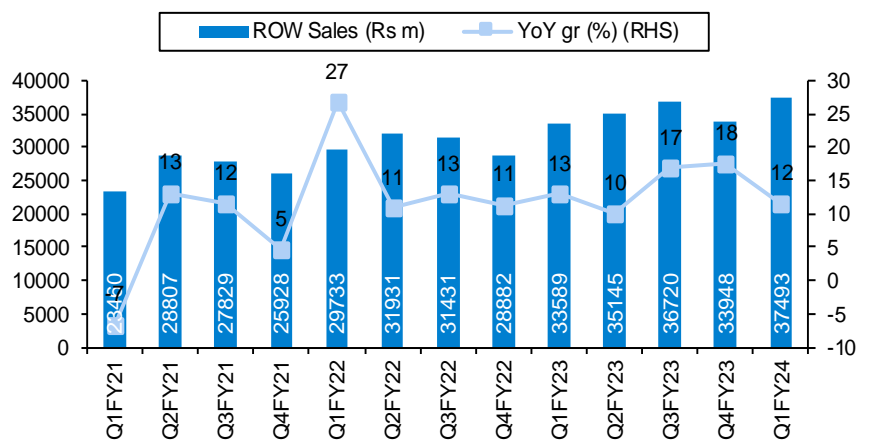
Source: Company, PL

Exhibit 4: Lower gRevlimid sales led to QoQ decline in US sales



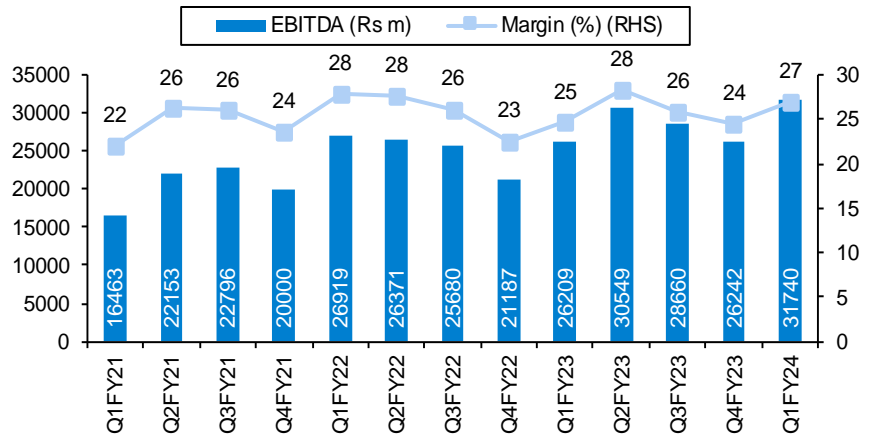
Source: Company, PL

Exhibit 5: Steady rise in ROW markets



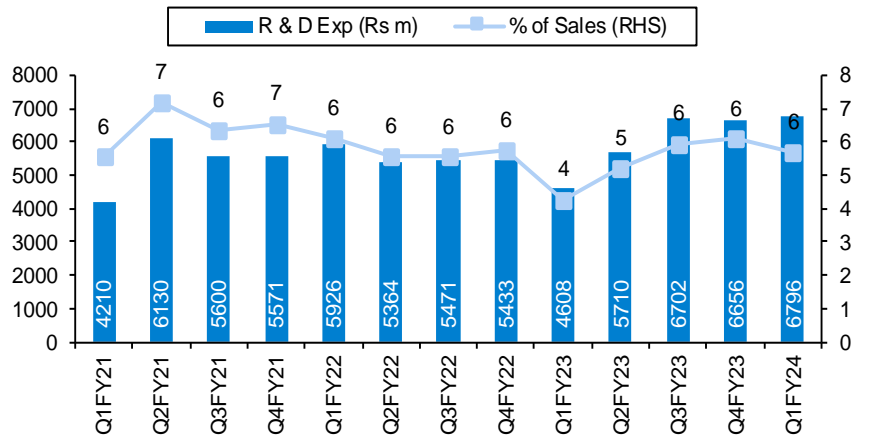
Source: Company, PL

Exhibit 6: Higher other expenses led to decline in margins QoQ



Source: Company, PL

Exhibit 7: R&D spend remain elevated at ~6% of sales



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	4,38,857	4,88,063	5,40,407	5,98,295
YoY gr. (%)	13.5	11.2	10.7	10.7
Cost of Goods Sold	1,06,622	1,13,607	1,26,000	1,37,413
Gross Profit	3,32,235	3,74,456	4,14,406	4,60,882
Margin (%)	75.7	76.7	76.7	77.0
Employee Cost	82,960	95,404	1,03,037	1,11,280
Other Expenses	1,31,546	1,48,063	1,60,618	1,76,179
EBITDA	1,17,729	1,30,989	1,50,752	1,73,424
YoY gr. (%)	14.9	11.3	15.1	15.0
Margin (%)	26.8	26.8	27.9	29.0
Depreciation and Amortization	25,294	26,738	28,265	29,879
EBIT	92,435	1,04,251	1,22,487	1,43,544
Margin (%)	21.1	21.4	22.7	24.0
Net Interest	1,720	2,000	2,200	2,400
Other Income	6,345	8,700	9,900	10,400
Profit Before Tax	97,060	1,10,951	1,30,187	1,51,544
Margin (%)	22.1	22.7	24.1	25.3
Total Tax	8,476	16,145	19,281	24,062
Effective tax rate (%)	8.7	14.6	14.8	15.9
Profit after tax	88,584	94,805	1,10,906	1,27,482
Minority interest	394	633	700	800
Share Profit from Associate	(479)	(200)	(300)	(300)
Adjusted PAT	84,736	90,423	1,09,906	1,26,382
YoY gr. (%)	158.9	6.7	21.5	15.0
Margin (%)	19.3	18.5	20.3	21.1
Extra Ord. Income / (Exp)	2,976	3,549	-	-
Reported PAT	87,711	93,972	1,09,906	1,26,382
YoY gr. (%)	14.1	7.1	17.0	15.0
Margin (%)	20.0	19.3	20.3	21.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	87,711	93,972	1,09,906	1,26,382
Equity Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	36.6	39.2	45.8	52.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	3,83,736	4,05,736	4,27,736	4,52,736
Tangibles	2,49,878	2,64,204	2,78,530	2,94,809
Intangibles	1,33,858	1,41,532	1,49,207	1,57,927
Acc: Dep / Amortization	1,86,564	2,13,302	2,41,567	2,71,446
Tangibles	1,27,426	1,45,689	1,64,994	1,85,402
Intangibles	59,138	67,613	76,573	86,044
Net fixed assets	1,97,172	1,92,434	1,86,169	1,81,290
Tangibles	1,22,452	1,18,515	1,13,535	1,09,407
Intangibles	74,720	73,919	72,634	71,883
Capital Work In Progress	9,634	9,634	9,634	9,634
Goodwill	87,127	87,127	87,127	87,127
Non-Current Investments	1,48,301	1,48,301	1,48,301	1,48,301
Net Deferred tax assets	31,326	31,326	31,326	31,326
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	1,05,131	1,13,820	1,33,552	1,47,949
Trade receivables	1,14,385	1,33,906	1,48,391	1,64,388
Cash & Bank Balance	57,703	81,763	1,18,531	1,75,069
Other Current Assets	55,922	55,922	55,922	55,922
Total Assets	7,75,794	8,23,369	8,88,134	9,70,237
Equity				
Equity Share Capital	2,399	2,399	2,399	2,399
Other Equity	5,57,555	6,14,288	6,84,891	7,71,969
Total Networkth	5,59,954	6,16,687	6,87,290	7,74,368
Non-Current Liabilities				
Long Term borrowings	5,599	5,599	5,599	5,599
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	63,260	48,260	33,260	18,260
Trade payables	56,815	60,258	66,776	73,974
Other current liabilities	88,290	89,856	91,500	93,227
Total Equity & Liabilities	7,75,794	8,23,369	8,88,134	9,70,237

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	97,060	1,10,951	1,30,187	1,51,544
Add. Depreciation	25,294	26,738	28,265	29,879
Add. Interest	1,720	2,000	2,200	2,400
Less Financial Other Income	6,345	8,700	9,900	10,400
Add. Other	(7,262)	3,549	-	-
Op. profit before WC changes	1,16,812	1,43,238	1,60,652	1,83,824
Net Changes-WC	(52,121)	(23,245)	(26,100)	(21,520)
Direct tax	(15,098)	(16,145)	(19,281)	(24,062)
Net cash from Op. activities	49,593	1,03,848	1,15,271	1,38,242
Capital expenditures	(67,714)	(22,000)	(22,000)	(25,000)
Interest / Dividend Income	-	-	-	-
Others	(10,674)	-	-	-
Net Cash from Invt. activities	(78,388)	(22,000)	(22,000)	(25,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	51,297	(15,000)	(15,000)	(15,000)
Dividend paid	(25,189)	(33,689)	(39,304)	(39,304)
Interest paid	(1,720)	(2,000)	(2,200)	(2,400)
Others	11,777	-	-	-
Net cash from Fin. activities	36,165	(50,689)	(56,504)	(56,704)
Net change in cash	7,370	31,159	36,768	56,538
Free Cash Flow	28,737	81,848	93,271	1,13,242

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	1,12,410	1,09,307	1,19,408	1,21,924
YoY gr. (%)	14.0	15.7	11.0	11.3
Raw Material Expenses	28,037	22,502	27,582	27,871
Gross Profit	84,373	86,805	91,827	94,053
Margin (%)	75.1	79.4	76.9	77.1
EBITDA	30,069	28,293	33,297	32,135
YoY gr. (%)	14.9	29.8	21.6	0.5
Margin (%)	26.7	25.9	27.9	26.4
Depreciation / Depletion	6,600	6,715	6,513	6,328
EBIT	23,469	21,578	26,784	25,807
Margin (%)	20.9	19.7	22.4	21.2
Net Interest	462	927	809	493
Other Income	1,739	3,733	2,044	2,936
Profit before Tax	24,746	24,383	28,020	28,250
Margin (%)	22.0	22.3	23.5	23.2
Total Tax	2,834	2,229	4,681	3,901
Effective tax rate (%)	11.5	9.1	16.7	13.8
Profit after Tax	21,912	22,154	23,339	24,349
Minority interest	220	323	(95)	253
Share Profit from Associates	-	-	-	-
Adjusted PAT	21,660	19,845	20,225	23,755
YoY gr. (%)	5.2	(187.1)	(1.9)	5.0
Margin (%)	19.3	18.2	16.9	19.5
Extra Ord. Income / (Exp)	31	1,986	3,208	341
Reported PAT	21,691	21,831	23,434	24,096
YoY gr. (%)	4.8	45.8	22.4	(3.8)
Margin (%)	19.3	20.0	19.6	19.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	21,691	21,831	23,434	24,096
Avg. Shares O/s (m)	2,399	2,399	2,399	2,399
EPS (Rs)	9.0	9.1	9.8	10.0

Source: Company Data, PL Research

Key Financial Metrics

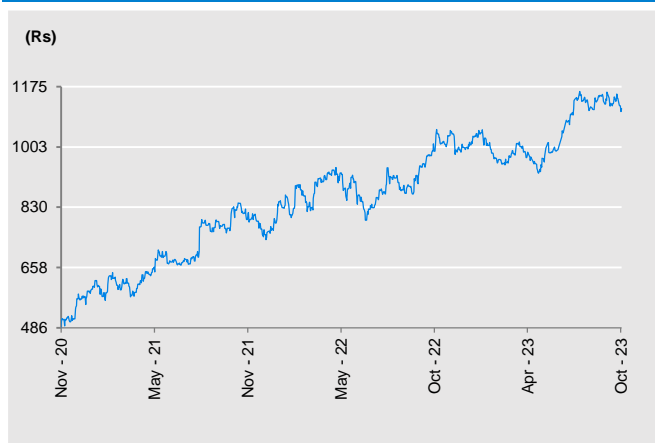
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	36.6	39.2	45.8	52.7
CEPS	45.9	48.8	57.6	65.1
BVPS	233.4	257.0	286.5	322.7
FCF	12.0	34.1	38.9	47.2
DPS	13.5	14.0	16.4	16.4
Return Ratio(%)				
RoCE	16.5	16.0	17.5	18.8
ROIC	12.9	14.1	15.9	18.1
RoE	16.3	15.4	16.9	17.3
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.2)
Net Working Capital (Days)	135	140	145	145
Valuation(x)				
PER	30.5	28.5	24.4	21.2
P/B	4.8	4.3	3.9	3.5
P/CEPS	45.9	48.8	57.6	65.1
EV/EBITDA	22.8	20.2	17.2	14.6
EV/Sales	6.1	5.4	4.8	4.2
Dividend Yield (%)	1.2	1.3	1.5	1.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
India Formulations	1,36,031	1,49,634	1,67,590	1,87,701
US Formulations	1,35,353	1,51,801	1,64,776	1,78,541
ROW Formulations	1,39,402	1,57,524	1,76,427	1,97,599
APIs	19,724	20,710	22,781	25,059

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	BUY	1,265	1,127
2	03-Aug-23	BUY	1,265	1,141
3	06-Jul-23	BUY	1,140	1,043
4	28-May-23	BUY	1,140	970
5	06-Apr-23	BUY	1,175	997
6	01-Feb-23	BUY	1,175	1,035
7	06-Jan-23	BUY	1,175	1,015

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,800	5,060
2	Aster DM Healthcare	BUY	345	327
3	Aurobindo Pharma	Accumulate	900	901
4	Cipla	BUY	1,350	1,174
5	Divi's Laboratories	Reduce	3,000	3,722
6	Dr. Reddy's Laboratories	Reduce	5,300	5,397
7	Eris Lifesciences	BUY	910	900
8	Fortis Healthcare	BUY	365	328
9	Glenmark Pharmaceuticals	Reduce	570	794
10	HealthCare Global Enterprises	BUY	385	361
11	Indoco Remedies	BUY	385	350
12	Ipca Laboratories	Hold	880	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,500	1,500
14	Krishna Institute of Medical Sciences	BUY	2,000	1,918
15	Lupin	Hold	1,010	1,155
16	Max Healthcare Institute	BUY	610	561
17	Narayana Hrudayalaya	BUY	1,110	1,092
18	Sun Pharmaceutical Industries	BUY	1,265	1,127
19	Sunteck Realty	BUY	565	436
20	Torrent Pharmaceuticals	BUY	2,250	1,877
21	Zydus Lifesciences	Accumulate	650	604

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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