

01 February 2024

India | Equity Research | Q3FY24 results review

## Sun Pharma

Pharma

### Decent print; steep valuation to limit upside

Sun Pharma (Sun)'s Q3FY24 results, after adjusting for the milestone income of USD 20mn, were in-line with our expectations. Specialty business rose a massive 23% QoQ to USD 291mn led by traction in Ilumya, Cequa and Levulan while India grew at a faster pace of 11.4%. The company is likely to file Nidlegly in Europe in H2CY24, which will likely further boost specialty sales in the near term. In India, the new MRs are helping Sun gain market share and boost volume growth while the company had launched 28 products in Q3. Management maintains its single-digit growth guidance for FY24. We broadly maintain our FY25E earnings estimate. We lower our rating on the stock to **HOLD** (Add earlier) due to pricey valuation, though raise our target price to INR 1,400 based on 27x FY26E earnings.

### In-line quarter; higher R&D curbs margins

Revenues grew 9.7% YoY/0.2% QoQ to INR 122.1bn (I-Sec: INR 121.2bn), led by healthy growth in US and India. Gross margins rose 280bps YoY/50bps QoQ to 77.6%, driven by product mix and lower material cost. EBITDA grew 14.1% YoY to INR 33.1bn. EBITDA margins expanded 110bps YoY/100bps QoQ to 27.1% (I-Sec:27.6%), impacted by higher R&D (up 26% YoY). Adj. PAT at INR 24.4bn (I-Sec: INR 25.9bn) rose 17.7% YoY.

### Traction driven by specialty business and India

US revenue grew 10.9% QoQ to USD 477mn. Taro revenues rose 6% QoQ/12.9% YoY to USD 157mn, while ex-taro revenues grew 5% QoQ to USD 296mn (Sun's generic business was flat QoQ). Global specialty business jumped 23.3% QoQ/33% YoY at USD 296mn. We expect overall US sales CAGR at 10.3% over FY23-FY26E to ~USD 2.3bn driven by ramp up in Ilumya and Winlevi. India business grew at 11.4% YoY/0.2% QoQ driven by better volumes across therapies. It launched 28 new brands in Q3FY24. We expect domestic business CAGR of 8.6% over FY23-FY26E. EMs registered a decline of 1% YoY/10% QoQ at INR 20.9bn. RoW, after adjusting for the USD 20mn milestone income, was up 11% YoY (-5.1% QoQ) at INR 16.1bn. API sales declined 7% YoY/6.1% QoQ to INR 5.3bn. Management maintains its single-digit revenue growth guidance for FY24E and R&D is likely to stay at 7%. In our view cash on balance sheet maybe used to pursue inorganic opportunities.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	4,37,271	4,75,696	5,16,198	5,60,219
EBITDA	1,14,882	1,27,378	1,47,021	1,64,197
EBITDA Margin (%)	26.3	26.8	28.5	29.3
Net Profit	84,853	90,027	1,07,801	1,22,306
EPS (Rs)	35.4	37.5	44.9	51.0
EPS % Chg YoY	160.3	4.0	24.7	13.5
P/E (x)	40.9	39.4	31.6	27.8
EV/EBITDA (x)	28.9	25.5	21.5	18.6
RoCE (%)	14.3	13.5	14.8	14.9
RoE (%)	16.3	15.1	15.9	15.9

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#### Market Data

Market Cap (INR)	3,403bn
Market Cap (USD)	40,978mn
Bloomberg Code	SUNP IN
Reuters Code	SUN.BO
52-week Range (INR)	1,439 /922
Free Float (%)	45.0
ADTV-3M (mn) (USD)	31.2

Price Performance (%)	3m	6m	12m
Absolute	30.3	24.1	37.1
Relative to Sensex	18.0	16.2	16.6

Earnings Revisions (%)	FY24E	FY25E
Revenue	(0.1)	0.2
EBITDA	(1.5)	0.3
EPS	(1.3)	0.7

#### Previous Reports

02-11-2023: [Q2FY24 results review](#)

04-08-2023: [Q1FY24 results review](#)

## Valuation and risks

Sun's impressive run in specialty and India business in Q3FY24 failed to lift its gross and EBITDA margins in a meaningful way. Its ex-Taro sales in US rose 5% QoQ, mainly driven by its specialty business while the sales contribution from gRevlimid and supplies from Mohali were a tad lower-than-anticipated. The company has filed deuruxolitinib with USFDA while Nidlegly will also be filed in Europe, these assets are expected to rope in sizeable delta in earnings in quarters ahead. Besides, its branded generics across markets, including India, would ensure that momentum in revenue and margins is maintained.

We expect 8.6% revenue and 13% adj. PAT CAGRs over FY23-FY26E. We see EBITDA margin improving to 29.3% with improving revenue mix towards specialty. The stock currently trades at a pricey at 31.6x FY25E and 27.8x FY26E earnings and EV/EBITDA multiple of 21.5x FY25E and 18.6x FY25E, which curbs potential upside from current levels. We downgrade the stock to **HOLD** with a higher target price of INR 1,400 (earlier INR 1,210) based on 27x FY26E EPS (27x FY25E earlier).

**Key downside risks:** Higher-than-expected pricing pressures in the US and regulatory hurdles.

**Key upside risks:** Faster ramp-up in specialty assets in US and M&A.

## Q3FY24 conference call: Highlights

### India

- In Q3, it launched 28 new products in India.
- Better volume growth is helping Sun grow its India business faster-than-market.
- Ahead, India business' growth will be in-line, or ahead of market growth rate.
- The company may in-license GLP-1 product from innovator. Its owned GLP-1 product is currently in clinical trial.

### US generics

- Illumya, Cequa and Levulan were the key driver of growth for specialty biz in US.
- Ex-Taro, generic business in US was flat QoQ.
- In Q3, it launched 3 products in US generics segment (ex-Taro).
- It filed 5 ANDAs in Q3 and received 3 approvals.
- Pipeline includes 95 ANDAs and 13 NDAs awaiting approval of the USFDA
- gRevlimid was a small contributor to Q3 sales.
- Pickup in sales of products from Mohali plant will happen gradually.

### Specialty

- 39.2% of overall R&D spend was towards specialty business.
- Marketing application of Nidlegly with European Medical Agency will be filed in H1CY24. The product will be marketed along with Odomzo.
- Specialty R&D pipeline comprises of 6 molecules undergoing clinical studies. Trials for MM-II and GL0034 is now shifted to H2CY24.
- Management is still evaluating for a US filing of Nidlegly.

### Emerging markets

- Brazil and Romania did well among the large RoW markets.
- RoW sales include milestone income of USD 20mn it received from Almirall.

### Guidance

- R&D spending in FY24 will be ~7% of sales.
- Management has maintained its high single-digit growth rate for FY24.
- The company aims to maintain dividend pay-out between 30-35% of earnings.
- Cash on balance sheet may be utilised to pursue inorganic opportunities. Confident of generating double-digit returns on any potential M&A.
- The company is closely monitoring impact of issues in Red Sea on supply chain. It will evaluate for air shipment in case if the issue escalates.

### Exhibit 1: Quarterly review

Particulars (INR mn)	Q3FY24	Q3FY23	YoY % Chg	Q2FY24	QoQ % Chg	9MFY24	9MFY23	YoY % Chg
<b>Net Sales</b>	<b>1,22,147</b>	<b>1,11,383</b>	<b>9.7</b>	<b>1,21,924</b>	<b>0.2</b>	<b>3,63,480</b>	<b>3,28,523</b>	<b>10.6</b>
Gross Profit	94,778	83,346	13.7	94,053	0.8	2,80,658	2,44,404	14.8
<b>Gross margins(%)</b>	<b>77.6</b>	<b>74.8</b>	<b>280bps</b>	<b>77.1</b>	<b>50bps</b>	<b>77.2</b>	<b>74.4</b>	<b>280bps</b>
EBITDA	33,108	29,011	14.1	31,794	4.1	98,220	87,420	12.4
EBITDA margins (%)	27.1	26.0	110bps	26.1	100bps	27.0	26.6	40bps
Other income	2,502	1,739	43.9	2,936	(14.8)	7,483	2,612	186.4
<b>PBIDT</b>	<b>35,610</b>	<b>30,749</b>	<b>15.8</b>	<b>34,730</b>	<b>2.5</b>	<b>1,05,703</b>	<b>90,032</b>	<b>17.4</b>
Depreciation	6,221	6,600	(5.7)	6,328	(1.7)	19,063	18,579	2.6
Interest	347	462	(24.8)	493	(29.5)	1,649	793	108.0
Extra ordinary income/ (exp.)	962	1,027	-	-	-	(2,267)	1,027	-
<b>PBT</b>	<b>30,004</b>	<b>24,715</b>	<b>21.4</b>	<b>27,909</b>	<b>7.5</b>	<b>82,724</b>	<b>71,687</b>	<b>15.4</b>
Tax	4,323	2,834	52.5	3,901	10.8	12,905	6,247	106.6
Minority Interest	368	147	149.6	96	283.6	295	409	(28.0)
Share of profit in JV	(75)	(73)	(157)	(157)	(306)	(140)	(140)	-
<b>Reported PAT</b>	<b>25,238</b>	<b>21,660</b>	<b>16.5</b>	<b>23,755</b>	<b>6.2</b>	<b>69,218</b>	<b>64,891</b>	<b>6.7</b>
<b>Adjusted PAT</b>	<b>24,414</b>	<b>20,751</b>	<b>17.7</b>	<b>23,755</b>	<b>2.8</b>	<b>71,015</b>	<b>63,982</b>	<b>11.0</b>

Source: I-Sec research, Company data

### Exhibit 2: Business mix

Particulars (INR mn)	Q3FY24	Q3FY23	YoY % Chg	Q2FY24	QoQ % Chg	9MFY24	9MFY23	YoY % Chg
<b>Formulations</b>	<b>1,14,604</b>	<b>1,04,272</b>	<b>9.9</b>	<b>1,14,378</b>	<b>0.2</b>	<b>3,40,787</b>	<b>3,06,828</b>	<b>11.1</b>
India	37,785	33,919	11.4	38,425	(1.7)	1,11,814	1,02,390	9.2
US	39,736	34,660	14.6	35,504	11.9	1,13,948	1,00,009	13.9
US (USD mn)	477	422	13.0	430	10.9	1,378	1,254	9.9
Emerging Markets	20,946	21,158	(1.0)	23,449	(10.7)	65,847	60,773	8.3
ROW	16,137	14,536	11.0	17,000	(5.1)	49,178	43,655	12.7
<b>APIs &amp; Others</b>	<b>5,305</b>	<b>5,703</b>	<b>(7.0)</b>	<b>5,653</b>	<b>(6.1)</b>	<b>17,004</b>	<b>17,679</b>	<b>(3.8)</b>
<b>Other Op. Income</b>	<b>2,238</b>	<b>1,408</b>	<b>58.9</b>	<b>1,893</b>	<b>18.2</b>	<b>5,688</b>	<b>4,017</b>	<b>41.6</b>
<b>Total Sales</b>	<b>1,22,147</b>	<b>1,11,383</b>	<b>9.7</b>	<b>1,21,924</b>	<b>0.2</b>	<b>3,63,479</b>	<b>3,28,524</b>	<b>10.6</b>

Source: I-Sec research, Company data

### Exhibit 3: Key growth drivers of domestic business in Q3FY24

Brands (INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	MAT DEC'23	MAT DEC'22	YoY (%)
Rosuvast	1,081	910	18.8	1,054	2.6	4,096	3,330	-18.7
Levipil	1,031	905	13.9	1,045	-1.4	3,954	3,559	-10.0
Volini	930	903	3.0	931	-0.1	3,467	3,520	1.5
Gemer	802	797	0.6	854	-6.1	3,318	3,046	-8.2
Susten	694	645	7.6	711	-2.4	2,887	2,729	-5.5
Pantocid	737	653	12.9	726	1.5	2,814	2,560	-9.0
Pantocid-D	663	603	9.9	675	-1.9	2,588	2,409	-6.9
Montek-Lc	741	640	15.8	585	26.6	2,487	2,195	-11.7
Moxclav	633	645	-1.9	585	8.1	2,256	2,099	-6.9
Sompraz-D	574	486	18.2	572	0.5	2,171	1,825	-15.9

Source: IQVIA

### Exhibit 4: Growth profile of key therapies in India

Therapies(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	MAT DEC'23	MAT DEC'22	YoY (%)
Neuro / CNS	7,350	6,693	9.8	7,305	0.6	28,545	25,804	10.6
Cardiac	7,109	6,595	7.8	7,116	-0.1	27,949	25,114	11.3
Gastro Intestinal	5,435	4,864	11.7	5,686	-4.4	21,455	19,217	11.7
Anti-Infectives	3,915	3,694	6.0	3,877	1.0	14,649	13,489	8.6
Pain / Analgesics	3,313	2,945	12.5	3,296	0.5	12,438	11,477	8.4
Anti Diabetic	3,087	2,645	16.7	3,113	-0.8	11,967	11,258	6.3
Respiratory	2,549	2,275	12.0	2,140	19.1	8,871	7,779	14.0
Derma	1,830	1,804	1.5	1,890	-3.2	7,192	7,049	2.0
Gynaec.	1,644	1,574	4.4	1,759	-6.6	6,786	6,487	4.6
Vitamins/Minerals/Nutrients	1,735	1,595	8.8	1,768	-1.9	6,725	6,563	2.5
Others	4,520	4,128	9.5	4,658	-3.0	17,864	15,603	14.5

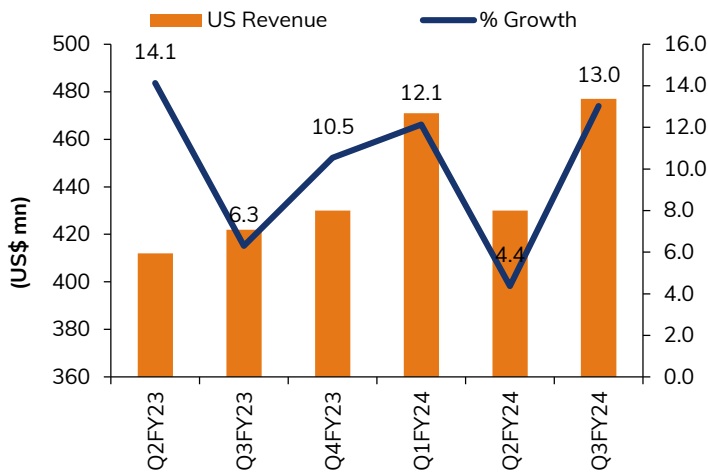
Source: IQVIA

### Exhibit 5: Sun's global specialty pipeline

Candidate	Indication	Current phase	Next milestone
deuruxolitinib	alopecia areata	Filed with US FDA	PDUFA date in Jul-24
Nidlegly <sup>TM</sup> (EU, ANZ rights with Sun)	skin cancer	Phase-3 topline data in locally advanced fully resectable melanoma released	Submission of MA application in locally advanced fully resectable melanoma to EMA during H1CY24
Ilumya	psoriatic arthritis	Phase-3	First topline data by H2FY25
MM-II	pain in osteoarthritis	Phase-2 completed	Phase-3 to start in H2FY24
SCD-044	psoriasis, atopic dermatitis	Phase 2	First topline data by HCY24 (atopic dermatitis)
GL0034	Type-2 diabetes	Phase-1 completed	Phase-2 to start by H2CY24

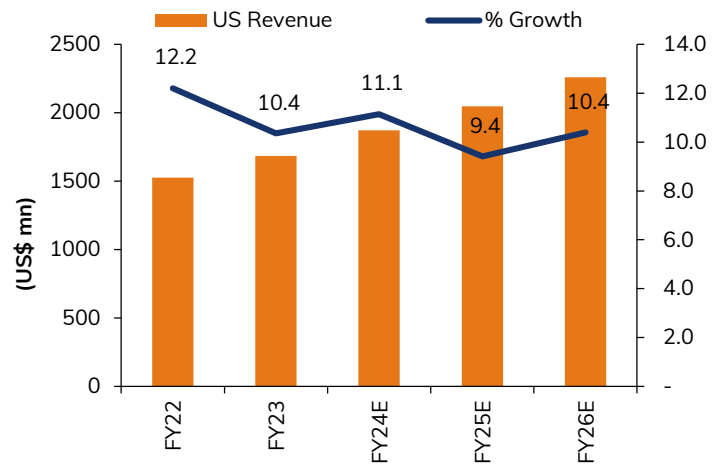
Source: Company data, I-Sec research

**Exhibit 6: Growth attributed to good performance in US portfolio**



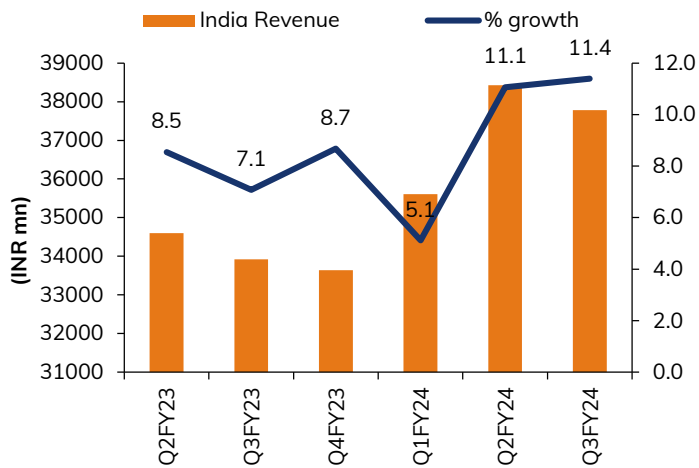
Source: I-Sec research, Company data

**Exhibit 7: US revenue to touch USD 2.3bn by FY26E**



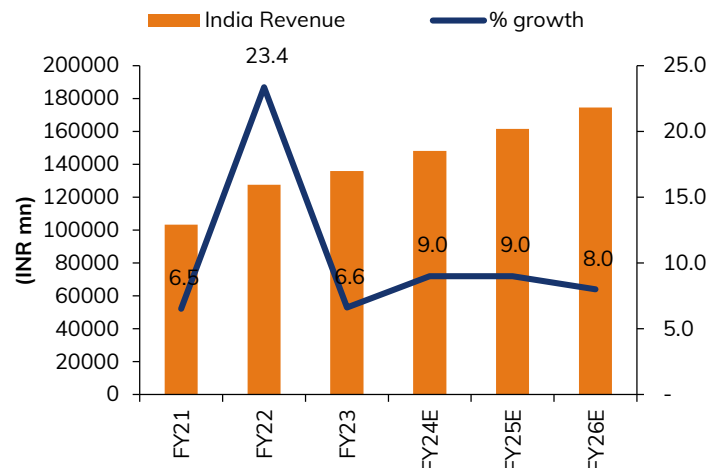
Source: I-Sec research, Company data

**Exhibit 8: Growth driven by new product launches and better volume traction**



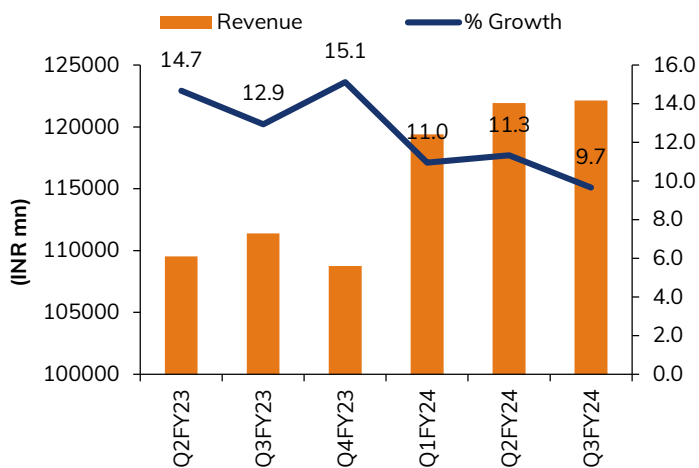
Source: I-Sec research, Company data

**Exhibit 9: MR addition and calibrated pricing to drive 8.6% CAGR growth in India**



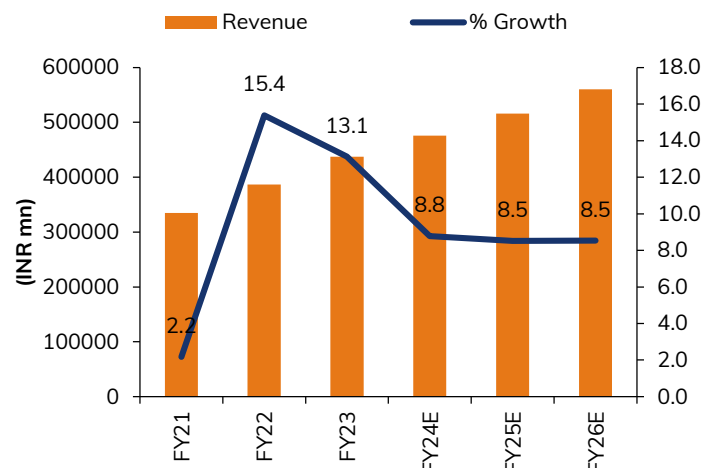
Source: I-Sec research, Company data

**Exhibit 10: Registered 9.7% YoY growth**



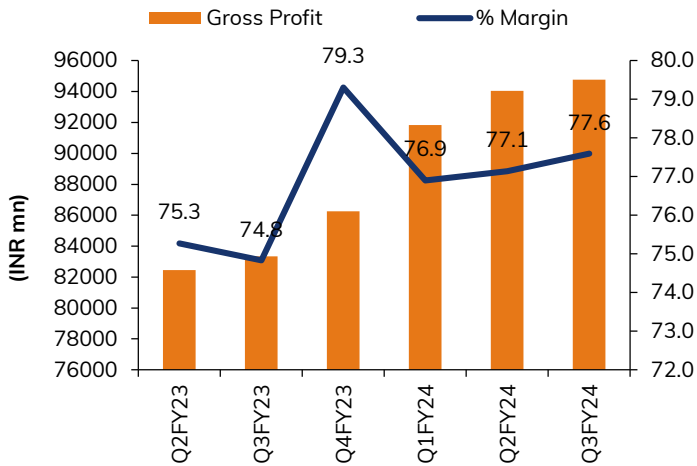
Source: I-Sec research, Company data

**Exhibit 11: Total revenue to grow 8.6% over FY23-FY26E**



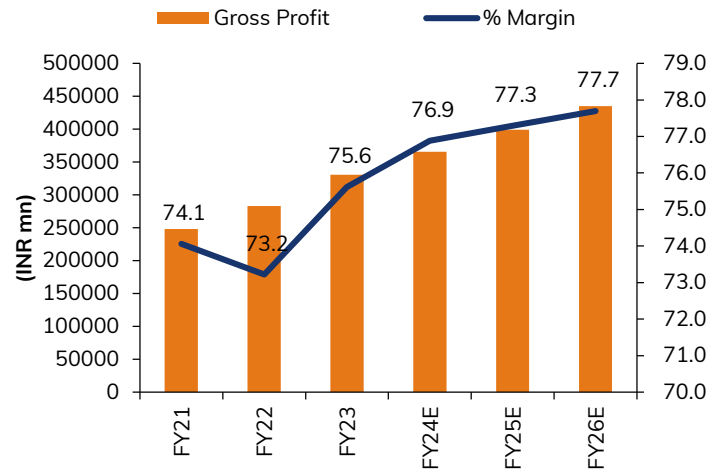
Source: I-Sec research, Company data

**Exhibit 12: Gross margin expansion due to higher revenue from specialty and India branded business**



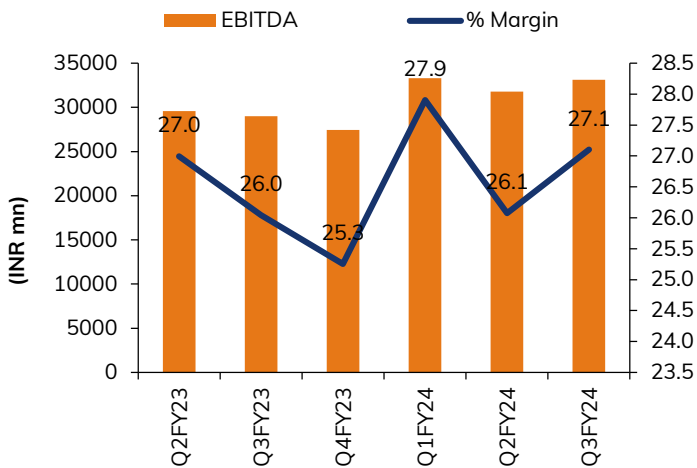
Source: I-Sec research, Company data

**Exhibit 13: Gross margin is expected to improve led by better product mix**



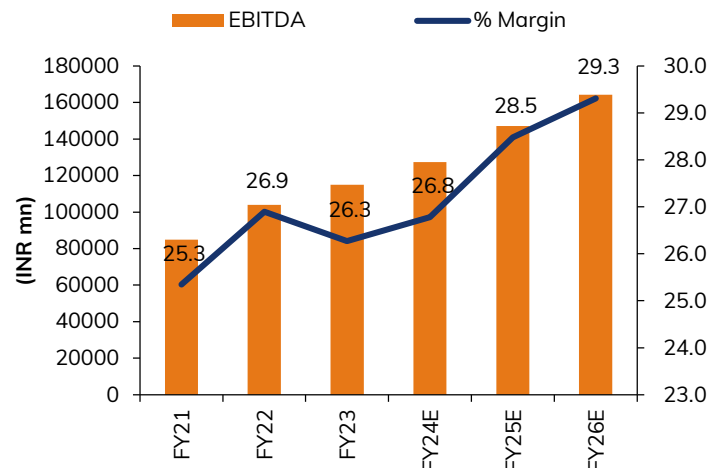
Source: I-Sec research, Company data

**Exhibit 14: Higher R&D costs impacted EBITDA margin**



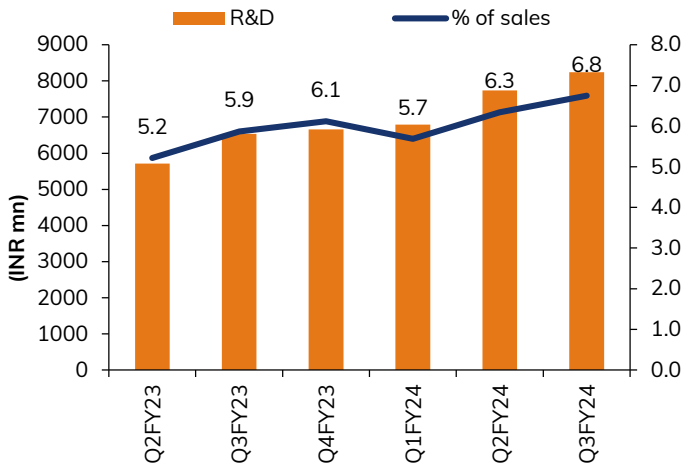
Source: I-Sec research, Company data

**Exhibit 15: Higher specialty sales contribution to drive EBITDA margin going forward**



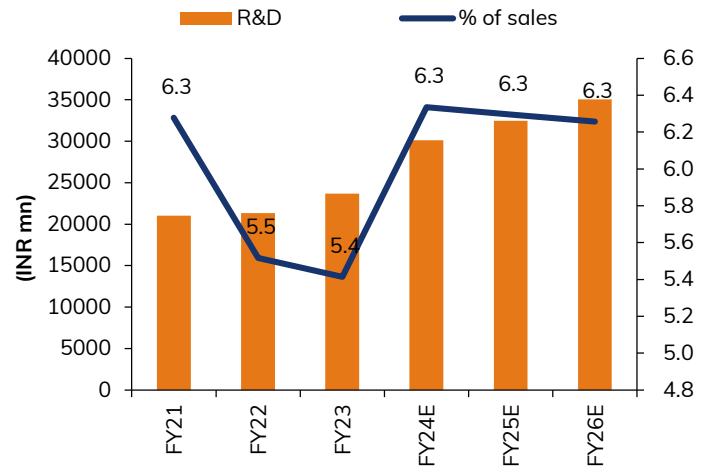
Source: I-Sec research, Company data

**Exhibit 16: R&D expense rose 26%YoY**



Source: I-Sec research, Company data

**Exhibit 17: Specialty R&D to increase going forward**



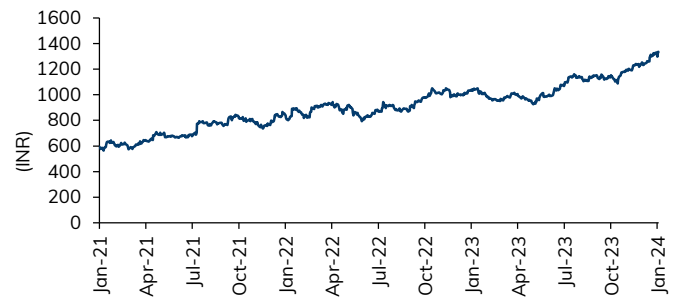
Source: I-Sec research, Company data

### Exhibit 18: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	54.5	54.5	54.5
Institutional investors	36.2	36.5	36.6
MFs and others	13.2	13.1	12.9
FIs/Banks	0.1	0.0	0.0
Insurance	5.1	5.1	5.0
FIIIs	17.9	18.3	18.6
Others	9.3	9.0	8.9

Source: Bloomberg

### Exhibit 19: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 20: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>4,37,271</b>	<b>4,75,696</b>	<b>5,16,198</b>	<b>5,60,219</b>
Operating Expenses	2,15,767	2,38,366	2,51,952	2,71,043
<b>EBITDA</b>	<b>1,14,882</b>	<b>1,27,378</b>	<b>1,47,021</b>	<b>1,64,197</b>
EBITDA Margin (%)	26.3	26.8	28.5	29.3
Depreciation & Amortization	25,294	26,619	27,374	28,484
EBIT	89,588	1,00,759	1,19,647	1,35,713
Interest expenditure	1,720	2,428	789	644
Other Non-operating Income	6,345	8,655	7,603	8,313
<b>Recurring PBT</b>	<b>94,213</b>	<b>1,06,987</b>	<b>1,26,461</b>	<b>1,43,382</b>
<b>Profit / (Loss) from Associates</b>	<b>(479)</b>	<b>(479)</b>	<b>(479)</b>	<b>(479)</b>
Less: Taxes	8,476	15,708	17,705	20,074
PAT	85,737	91,279	1,08,756	1,23,309
Less: Minority Interest	(394)	(433)	(476)	(524)
Extraordinaries (Net)	(1,715)	(3,927)	-	-
<b>Net Income (Reported)</b>	<b>83,150</b>	<b>86,440</b>	<b>1,07,801</b>	<b>1,22,306</b>
<b>Net Income (Adjusted)</b>	<b>84,853</b>	<b>90,027</b>	<b>1,07,801</b>	<b>1,22,306</b>

Source Company data, I-Sec research

### Exhibit 21: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	3,05,107	3,44,371	4,54,569	5,78,731
of which cash & cash eqv.	57,703	76,027	1,66,265	2,67,372
Total Current Liabilities & Provisions	1,35,810	1,44,527	1,55,719	1,67,803
<b>Net Current Assets</b>	<b>1,69,297</b>	<b>1,99,844</b>	<b>2,98,850</b>	<b>4,10,928</b>
Investments	1,48,301	1,48,301	1,48,301	1,48,301
Net Fixed Assets	1,03,904	92,285	79,911	66,427
ROU Assets	-	-	-	-
Capital Work-in-Progress	9,634	9,634	9,634	9,634
Total Intangible Assets	1,80,396	1,80,396	1,80,396	1,80,396
Other assets	5,377	5,377	5,377	5,377
Deferred Tax assets	54,712	54,712	54,712	54,712
<b>Total Assets</b>	<b>6,71,626</b>	<b>6,90,554</b>	<b>7,77,187</b>	<b>8,75,781</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>68,859</b>	<b>14,859</b>	<b>12,359</b>	<b>9,859</b>
<b>Deferred Tax Liability</b>	<b>317</b>	<b>317</b>	<b>317</b>	<b>317</b>
provisions	3,429	3,730	4,048	4,393
other Liabilities	5,866	5,866	5,866	5,866
Equity Share Capital	5,59,954	6,32,148	7,20,487	8,20,712
Reserves & Surplus	33,201	33,634	34,110	34,634
<b>Total Net Worth</b>	<b>5,93,155</b>	<b>6,65,782</b>	<b>7,54,597</b>	<b>8,55,346</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>6,71,626</b>	<b>6,90,554</b>	<b>7,77,187</b>	<b>8,75,781</b>

Source Company data, I-Sec research

### Exhibit 22: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Operating Cashflow</b>	<b>49,593</b>	<b>1,05,658</b>	<b>1,27,990</b>	<b>1,41,332</b>
Working Capital Changes	(9,730)	(16,732)	(13,522)	(16,138)
Capital Commitments	(78,178)	(15,000)	(15,000)	(15,000)
<b>Free Cashflow</b>	<b>1,27,771</b>	<b>1,20,658</b>	<b>1,42,990</b>	<b>1,56,332</b>
<b>Other investing cashflow</b>	<b>(1,259)</b>	-	-	-
Cashflow from Investing Activities	(79,437)	(15,000)	(15,000)	(15,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(1,720)	(2,428)	(789)	(644)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(25,197)	(15,905)	(19,462)	(22,081)
Others	64,130	(54,000)	(2,500)	(2,500)
Cash flow from Financing Activities	37,213	(72,333)	(22,752)	(25,225)
<b>Chg. in Cash &amp; Bank balance</b>	<b>7,369</b>	<b>18,325</b>	<b>90,238</b>	<b>1,01,107</b>
Closing cash & balance	57,703	76,027	1,66,265	2,67,372

Source Company data, I-Sec research

### Exhibit 23: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	34.7	36.0	44.9	51.0
Adjusted EPS (Diluted)	35.4	37.5	44.9	51.0
Cash EPS	45.9	48.6	56.3	62.8
Dividend per share (DPS)	5.3	5.5	6.7	7.6
Book Value per share (BV)	233.4	263.5	300.3	342.1
Dividend Payout (%)	15.3	15.3	15.0	15.0
<b>Growth (%)</b>				
Net Sales	13.1	8.8	8.5	8.5
EBITDA	10.5	10.9	15.4	11.7
EPS (INR)	160.3	4.0	24.7	13.5
<b>Valuation Ratios (x)</b>				
P/E	40.9	39.4	31.6	27.8
P/CEPS	30.9	29.2	25.2	22.6
P/BV	6.1	5.4	4.7	4.1
EV / EBITDA	28.9	25.5	21.5	18.6
P / Sales	7.8	7.2	6.6	6.1
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	75.6	76.9	77.3	77.7
EBITDA Margins (%)	26.3	26.8	28.5	29.3
Effective Tax Rate (%)	9.2	14.9	14.0	14.0
Net Profit Margins (%)	19.4	18.9	20.9	21.8
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.2)	(0.3)	(0.4)	(0.5)
Net Debt / EBITDA (x)	(1.2)	(1.6)	(2.1)	(2.5)
<b>Profitability Ratios</b>				
RoCE (%)	14.3	13.5	14.8	14.9
RoE (%)	16.3	15.1	15.9	15.9
RoC (%)	17.5	16.7	19.8	22.6
Fixed Asset Turnover (x)	4.2	4.8	6.0	7.7
Inventory Turnover Days	93	91	89	88
Receivables Days	101	99	99	99
Payables Days	50	47	46	45

Source Company data, I-Sec research



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