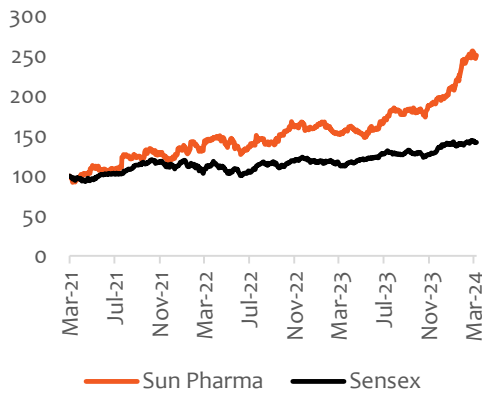


Sun Pharmaceuticals Ltd.
Global Specialty sales to get a boost from addition of Australian geography

| | | | | | |
|-----------|-----------|------------------|---------------------|----------------|--------|
| CMP* | Target | Potential Upside | Market Cap (INR Mn) | Recommendation | Sector |
| INR 1,548 | INR 1,827 | 18.0% | 37,13,931 | BUY | Pharma |

MARKET DATA

| | |
|-------------------|------------|
| Shares O/S (Mn) | 2,399 |
| Mkt Cap (INR Mn) | 37,13,931 |
| 52 Wk H/L (INR) | 1,627/ 922 |
| Volume Avg (3m K) | 2,260 |
| Face Value (INR) | 1 |
| Bloomberg Code | SUNP IN |

SHARE PRICE PERFORMANCE

MARKET INFO

| | |
|--------|--------|
| SENSEX | 72,012 |
| NIFTY | 21,817 |

SHARE HOLDING PATTERN (%)

| Particulars | Dec-23 | Sep-23 | Jun-23 |
|-------------|--------|--------|--------|
| Promoters | 54.5 | 54.5 | 54.5 |
| FIIIs | 17.1 | 16.8 | 16.5 |
| DIIIs | 19.5 | 19.7 | 19.7 |
| Others | 8.9 | 9.0 | 9.3 |
| Total | 100.0 | 100.0 | 100.0 |

Sun Pharma Ltd. has announced that the Australian Therapeutic Goods Administration (TGA) has granted regulatory approval for Winlevi (clascoterone cream 1%). Winlevi is a topical treatment of acne Vulgaris in patients of 12 years of age and older. The approval from Australian health authority enables Sun Pharma to exclusively sell the product in Australia from June 24 (Q1FY25). The company has the rights to sell it in the US and Canada, since FY22. The company has exclusive rights from Cassiopeia SpA to develop and commercialize WINLEVI in the US, Japan, Australia, New Zealand, Brazil, Mexico and Russia.

Winlevi is one of the prominent products besides Ilumya (plaque psoriasis), Cequa (dry eye), Levulan (actinic keratoses), Absorica (severe recalcitrant nodular acne), Odomzo (basal cell carcinoma), Bromsite (postoperative inflammation), Xelpros (ophthalmic), Yonsa (prostate cancer), and Sezaby (neonatal seizures) for the company, which drives growth in sales of the global specialty portfolio.

Global Specialty sales to get a boost from addition of Australian marketing rights:

The company's ensuing sales of Winlevi in additional geographies such as Australia since Q1FY25 can boost the growth for Global Specialty sales (19.2% of sales in Q3FY24 vs. 11.1% in Q2FY21) further. As per Statista, the skin treatment market in Australia and OCEANIA is expected to grow at 6.0% CAGR during FY24-FY28 (vs. US market size of USD 4.14 Bn vs. USD 19.39 Bn in for the World in 2024) to USD 610 Mn. Global specialty sales grew by 26.1% YoY to USD 296 Mn for Q3FY24 for Sun Pharma. This includes a milestone payment from Almiral of USD 20 Mn, received in Q3FY24. If the milestone payment is excluded the growth will be 24.2%. Sun Pharma out-licensed Ilumetri (Ilumya) in Europe to Almiral in 2016. The US Food and Drug Administration (FDA) had authorized Winlevi as a new medication having a distinct mode of action for the topical treatment of acne in individuals of 12 years of age and older. As the first new mode of action for acne approved by the USFDA since 1982, it is a first-in-class topical androgen receptor inhibitor that addresses the androgen hormone component of acne. As of June 2023, IQVIA MAT reports that over 15,000 U.S. health care providers, or 88% of all dermatological professionals prescribed Winlevi, making it the most prescribed branded topical acne medication in the US.

We expect the Sun Pharma's global specialty segment sales growth to get a boost from the recent additional marketing approval for Winlevi in Australia. We therefore increase Sun Pharma's sales and net income estimates to 10.9% and 16.0% CAGR, respectively from 10.6% and 15.3% CAGR, respectively. We also increase the valuation multiple by 10% to 32x on FY26E EPS. The company has been seeing steady growth in revenue and net income over the last few quarters on the back of strong growth witnessed in specialty revenue, which now corresponds to 19.2% of overall sales as of Q3FY24 vs. 16.5% it was in Q3FY23 and 16.4% it was in Q2FY24 and market outperforming growth in IPM. The stock is currently trading at 39.8x/32.5x/27.1x of our estimated FY24E/FY25E/FY26E EPS. We assign a P/E multiple of 32.0x (earlier 29.0x) on FY26E EPS of INR 57.1 to arrive at a Target Price (TP) of INR 1,827 (earlier TP INR 1,627) and maintain BUY on it.

| INR Millions | FY22 | FY23 | FY24E | FY25E | FY26E |
|----------------|----------|----------|----------|----------|----------|
| Revenue | 3,86,545 | 4,38,857 | 4,87,159 | 5,38,947 | 5,98,741 |
| EBITDA | 1,02,438 | 1,17,729 | 1,28,109 | 1,51,756 | 1,80,319 |
| Adj PAT | 76,856 | 87,711 | 93,322 | 1,14,219 | 1,36,964 |
| Adj. EPS (INR) | 32.0 | 36.6 | 38.9 | 47.6 | 57.1 |
| EBITDA Margin | 26.5% | 26.8% | 26.3% | 28.2% | 30.1% |
| Adj. NPM | 19.9% | 20.0% | 19.2% | 21.2% | 22.9% |

Source: KR Choksey

*Based on today's closing

Sun Pharmaceuticals Ltd.

KEY FINANCIALS

| INR Millions | FY22 | FY23 | FY24E | FY25E | FY26E |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | 3,86,545 | 4,38,857 | 4,87,159 | 5,38,947 | 5,98,741 |
| COGS | 1,03,515 | 1,06,622 | 1,09,796 | 1,20,226 | 1,33,187 |
| Gross profit | 2,83,030 | 3,32,235 | 3,77,363 | 4,18,722 | 4,65,554 |
| Employee cost | 73,008 | 82,960 | 95,701 | 1,03,336 | 1,11,600 |
| Other expenses | 1,07,584 | 1,31,546 | 1,53,552 | 1,63,630 | 1,73,635 |
| EBITDA | 1,02,438 | 1,17,729 | 1,28,109 | 1,51,756 | 1,80,319 |
| EBITDA Margin | 26.5% | 26.8% | 26.3% | 28.2% | 30.1% |
| Depreciation & amortization | 21,437 | 25,294 | 25,332 | 25,331 | 28,141 |
| EBIT | 81,000 | 92,435 | 1,02,777 | 1,26,426 | 1,52,179 |
| Interest expense | 1,274 | 1,720 | 1,899 | 1,575 | 1,575 |
| Other income | 9,215 | 6,345 | 9,948 | 10,892 | 12,100 |
| Exceptional Items | 44,129 | 2,976 | 3,927 | 0 | 0 |
| PBT | 44,813 | 94,084 | 1,06,900 | 1,35,742 | 1,62,704 |
| Tax | 10,755 | 8,476 | 16,522 | 19,559 | 23,444 |
| Share of profit/(Loss) of associates | -165 | -479 | -381 | -300 | -300 |
| Minority interest | 1,166 | 394 | 603 | 1,665 | 1,997 |
| PAT | 32,727 | 84,736 | 89,395 | 1,14,219 | 1,36,964 |
| Adj. PAT | 76,856 | 87,711 | 93,322 | 1,14,219 | 1,36,964 |
| EPS (INR) | 13.6 | 35.3 | 37.3 | 47.6 | 57.1 |
| Adj. EPS (INR) | 32.0 | 36.6 | 38.9 | 47.6 | 57.1 |

Source: Company, KRChoksey Research

| INR Millions | FY22E | FY23E | FY24E | FY25E | FY26E |
|---|----------|----------|----------|----------|----------|
| Net Cash Generated From Operations | 89,845 | 49,593 | 91,614 | 1,21,243 | 1,44,443 |
| Net Cash Flow from/(used in) Investing Activities | (57,247) | (79,437) | (26,058) | (31,309) | (35,031) |
| Net Cash Flow from Financing Activities | (51,935) | 23,761 | (87,744) | (57,986) | (66,821) |
| Net Inc/Dec in cash equivalents | (19,337) | (6,083) | (22,188) | 31,948 | 42,591 |
| Opening Balance | 62,730 | 45,083 | 46,237 | 24,049 | 55,997 |
| Adj. | 1,689 | 7,238 | 0 | 0 | 0 |
| Closing Balance Cash and Cash Equivalents | 45,083 | 46,237 | 24,049 | 55,997 | 98,587 |

Source: Company, KRChoksey Research

| Key Ratio | FY22E | FY23E | FY24E | FY25E | FY26E |
|-----------------------|-------|-------|-------|-------|-------|
| EBITDA Margin (%) | 26.5% | 26.8% | 26.3% | 28.2% | 30.1% |
| Tax rate (%) | 24.0% | 9.0% | 15.5% | 14.4% | 14.4% |
| Net Profit Margin (%) | 19.9% | 20.0% | 19.2% | 21.2% | 22.9% |
| RoE (%) | 15.1% | 14.8% | 14.6% | 16.3% | 0.0% |
| RoCE (%) | 17.3% | 15.0% | 17.1% | 19.1% | 0.0% |
| Current Ratio (x) | 2.04 | 2.00 | 2.39 | 2.56 | 0.00 |
| EPS (INR) | 13.6 | 35.3 | 37.3 | 47.6 | 57.1 |
| Adj EPS (INR) | 32.0 | 36.6 | 38.9 | 47.6 | 57.1 |

Source: Company, KRChoksey Research

Sun Pharmaceuticals Ltd.

KEY FINANCIALS

| INR Millions | FY22 | FY23 | FY24E | FY25E | FY26E |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Non-current assets | | | | | |
| Property, plant and equipment | 1,03,714 | 1,03,904 | 1,12,440 | 1,23,501 | 1,35,789 |
| Capital work-in-progress | 7,975 | 9,634 | 9,634 | 9,634 | 9,634 |
| Goodwill (Net) | 65,495 | 87,127 | 87,127 | 87,127 | 87,127 |
| Other intangible assets | 55,389 | 53,170 | 42,453 | 31,674 | 19,699 |
| Intangible assets under development | 4,893 | 40,098 | 40,098 | 40,098 | 40,098 |
| Investments in associates | 2,321 | 3,532 | 3,152 | 2,852 | 2,553 |
| Investments in joint ventures | 340 | 362 | 362 | 362 | 362 |
| Financial assets | | | | | |
| Investments | 49,486 | 50,681 | 53,588 | 59,284 | 65,861 |
| Loans | 7 | 6 | 7 | 7 | 8 |
| Other financial assets | 1,259 | 1,653 | 1,930 | 2,135 | 2,372 |
| Deferred tax assets (Net) | 28,967 | 31,642 | 40,345 | 44,634 | 49,586 |
| Income tax assets (Net) | 25,115 | 23,070 | 25,609 | 28,331 | 31,475 |
| Other non-current assets | 2,888 | 3,724 | 4,134 | 4,573 | 5,080 |
| Total non-current assets | 3,47,849 | 4,08,603 | 4,20,877 | 4,34,212 | 4,49,643 |
| Current assets | | | | | |
| Inventories | 89,968 | 1,05,131 | 1,16,702 | 1,29,108 | 1,43,432 |
| Financial assets | | | | | |
| Investments | 76,339 | 93,726 | 93,726 | 93,726 | 93,726 |
| Trade receivables | 1,05,929 | 1,14,385 | 1,26,975 | 1,40,473 | 1,56,058 |
| Cash and cash equivalents | 45,083 | 46,237 | 24,049 | 55,997 | 98,587 |
| Bank balances other than above | 5,251 | 11,466 | 11,466 | 11,466 | 11,466 |
| Loans | 1,700 | 413 | 413 | 413 | 413 |
| Other financial assets | 7,025 | 7,645 | 8,819 | 9,757 | 10,839 |
| Other current assets | 18,856 | 19,617 | 21,776 | 24,090 | 26,763 |
| Assets classified as held for sale | 0 | 208 | 208 | 208 | 208 |
| Total current assets | 3,50,150 | 3,98,827 | 4,04,133 | 4,65,237 | 5,41,492 |
| TOTAL ASSETS | 6,97,999 | 8,07,430 | 8,25,010 | 8,99,450 | 9,91,135 |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Equity share capital | 2,399 | 2,399 | 2,399 | 2,399 | 2,399 |
| Other equity | 4,77,713 | 5,57,555 | 6,04,363 | 6,64,171 | 7,35,888 |
| Equity attributable to the equity shareholders | 4,80,112 | 5,59,954 | 6,06,763 | 6,66,570 | 7,38,287 |
| Non-controlling interests | 30,549 | 33,201 | 33,803 | 35,468 | 37,465 |
| Total equity | 5,10,661 | 5,93,155 | 6,40,566 | 7,02,039 | 7,75,752 |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Financial liabilities | | | | | |
| Borrowings | 2,299 | 0 | 0 | 0 | 0 |
| Other financial liabilities | 2,518 | 5,599 | 5,599 | 5,599 | 5,599 |
| Provisions | 3,691 | 3,429 | 3,807 | 4,211 | 4,678 |
| Deferred tax liabilities (Net) | 319 | 317 | 317 | 317 | 317 |
| Other non-current liabilities | 6,506 | 5,866 | 5,866 | 5,866 | 5,866 |
| Total non-current liabilities | 15,332 | 15,211 | 15,589 | 15,993 | 16,460 |
| Current liabilities | | | | | |
| Financial liabilities | | | | | |
| Borrowings | 8,086 | 63,260 | 20,000 | 18,000 | 18,000 |
| Trade payables | 44,793 | 56,815 | 58,507 | 64,064 | 70,971 |
| Other financial liabilities | 18,833 | 15,931 | 16,469 | 18,034 | 19,978 |
| Other current liabilities | 7,034 | 6,427 | 7,461 | 8,169 | 9,050 |
| Provisions | 91,478 | 53,544 | 63,331 | 70,063 | 77,836 |
| Current tax liabilities (Net) | 1,781 | 3,087 | 3,087 | 3,087 | 3,087 |
| Total current liabilities | 1,72,006 | 1,99,064 | 1,68,855 | 1,81,418 | 1,98,922 |
| Total liabilities | 1,87,338 | 2,14,275 | 1,84,443 | 1,97,411 | 2,15,383 |
| TOTAL EQUITY AND LIABILITIES | 6,97,999 | 8,07,430 | 8,25,010 | 8,99,450 | 9,91,135 |

Source: Company, KRChoksey Research

Sun Pharmaceuticals Ltd.

Sun Pharmaceutical Industries Ltd.

| Date | CMP (INR) | TP (INR) | Recommendation |
|-----------|-----------|----------|----------------|
| 19-Mar-24 | 1,548 | 1,827 | BUY |
| 02-Feb-24 | 1,408 | 1,627 | BUY |
| 17-Nov-23 | 1,190 | 1,300 | ACCUMULATE |
| 25-Aug-23 | 1,118 | 1,256 | ACCUMULATE |
| 31-May-23 | 960 | 1,172 | BUY |
| 03-Nov-22 | 1,052 | 1,229 | BUY |
| 01-Aug-23 | 919 | 1,114 | BUY |
| 31-May-22 | 861 | 1,074 | BUY |

Rating Legend (Expected over a 12-month period)

| Our Rating | Upside |
|------------|----------------|
| Buy | More than 15% |
| Accumulate | 5% – 15% |
| Hold | 0 – 5% |
| Reduce | -5% – 0 |
| Sell | Less than – 5% |

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