

Sun's 2QFY26 EBITDA was ahead of the street and our estimates (by ~12%), on the back of a marginally higher gross margin and lower R&D spend. The reported EBITDA margin was again at a multi-quarter high; excluding forex gain, EBITDA was marginally ahead of expectations. The topline surprise was primarily driven by a strong beat in EM + the RoW (no one-offs, per the management), with US and domestic sales being broadly in line. We believe that 2Q performance should put to rest concerns about sustainability of Sun's double-digit domestic growth, given the scale of its domestic business (9th consecutive quarter of double-digit growth). While we admit that the lower R&D spend (which, in line with our earlier expectations, will be at the lower-end of the guidance for FY26) and forex gain have helped Sun well exceed the street's margin expectations over the last 2 quarters, Sun equally deserves credit for gross margin defense at elevated levels (which, as we have been arguing in the past, is a structural driver, given that branded share in the overall mix will continue to increase). Pessimism around specialty ramp-up should get addressed as the base specialty business continues to scale up across markets (US and excl US); Leqselvi further widens access ([refer to our note](#)), Unloxcyt is launched in 2HFY26, and Ilumya receives an approval for Psoriatic Arthritis (2HFY27). Sun's specialty portfolio will also benefit from favorable seasonality in 2HFY26. We broadly maintain our earnings estimates, and retain BUY with an unchanged TP of Rs2,000.

US and domestic sales broadly in line; EM and RoW sales ahead of estimates

Global specialty sales were up 16% YoY to USD333mn, in line with our estimate. US sales (base business as well as gRevlimid sales) were in line with expectations, with gRevlimid sales remaining flat QoQ. Domestic formulations growth (at 11% YoY vs our estimate of 9% YoY) was marginally ahead of our expectations. EM sales delivered a meaningful beat, with growth being driven by key markets including South Africa and Brazil. The RoW's outperformance was aided by growth in the generic as well as specialty portfolio.

KTAs from the earnings call

1) Ilumya has now been commercialized in 35 markets, with the product being launched in some of these markets over the last one year. 2) US specialty sales exceeded generic sales for the first time in 2Q. 3) New generic entrants in Restasis will not have an impact on Cequa's growth trajectory. 4) Leqselvi has already started seeing paid prescriptions in the commercial channel. 5) Odomzo has more than 50% share within Hedgehog inhibitors, among dermatologists in the US and Europe. 6) Salesforce for Unloxcyt is in place; costs linked to specialty salesforce, marketing, and patient support programs will continue in FY27. Sun is in the process of compiling the dossier for Unloxcyt in Europe. 7) R&D spend will be at the lower-end of the 6-8% guidance for FY26. Specialty R&D accounted for ~38% of the total R&D spend in 2Q. 8) Sun Pharma will launch Semaglutide in the first wave in India, post the innovator's loss of exclusivity.

Target Price – 12M	Sep-26
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	18.3

Stock Data	SUNP IN
52-week High (Rs)	1,910
52-week Low (Rs)	1,547
Shares outstanding (mn)	2,399.3
Market-cap (Rs bn)	4,055
Market-cap (USD mn)	45,735
Net-debt, FY26E (Rs mn)	(250,462.5)
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	3,931.5
ADTV-3M (USD mn)	44.3
Free float (%)	45.5
Nifty-50	25,597.7
INR/USD	88.7

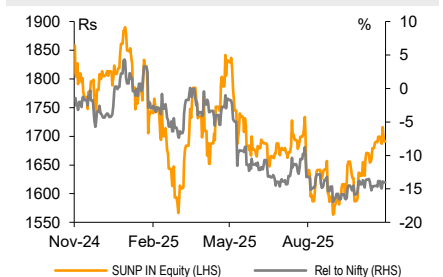
Shareholding, Sep-25

Promoters (%)	54.5
FPIs/MFs (%)	16.5/20.2

Price Performance

(%)	1M	3M	12M
Absolute	3.6	2.9	(6.6)
Rel. to Nifty	0.8	(0.6)	(12.4)

1-Year share price trend (Rs)



Sun Pharma: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	484,968	525,784	569,164	630,340	699,267
EBITDA	130,231	152,717	162,923	187,211	212,927
Adj. PAT	100,706	119,844	112,066	131,607	153,042
Adj. EPS (Rs)	42.0	50.0	46.7	54.9	63.8
EBITDA margin (%)	26.9	29.0	28.6	29.7	30.5
EBITDA growth (%)	11.8	17.3	6.7	14.9	13.7
Adj. EPS growth (%)	16.5	19.0	(6.5)	17.4	16.3
RoE (%)	16.8	17.6	14.8	15.9	16.8
RoIC (%)	18.1	21.2	19.6	21.6	24.0
P/E (x)	40.3	33.8	36.2	30.8	26.5
EV/EBITDA (x)	29.9	25.5	23.9	20.8	18.3
P/B (x)	6.4	5.6	5.1	4.7	4.2
FCFF yield (%)	2.7	3.1	1.8	3.0	3.4

Source: Company, Emkay Research

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Exhibit 1: 2QFY26 Earnings Snapshot

Sun Pharma's P&L (Rs mn)	2QFY25A	2QFY26A	YoY chg	2QFY26E	Delta vs Emkay Est	2QFY26 (consensus)	Delta vs consensus	1QFY26A	QoQ chg
Total sales	1,32,642	1,44,052	9%	1,41,340	2%			1,37,861	4%
Other op income	272	731	169%	1,394	-48%			653	12%
Total revenue from operations	1,32,914	1,44,783	9%	1,42,734	1%	1,42,448	2%	1,38,514	5%
Raw material	26,942	29,827	11%	29,546	1%			28,148	6%
Gross Profit	1,05,972	1,14,956	8%	1,13,188	2%			1,10,366	4%
- Gross Margin	79.7%	79.4%	-33bps	79.3%	10bps			79.7%	-28bps
Staff costs	24,777	27,648	12%	28,717	-4%			28,017	-1%
Other expenses	41,805	42,037	1%	43,543	-3%			39,333	7%
EBITDA	39,390	45,271	15%	40,928	11%	40,256	12%	43,017	5%
- EBITDA Margin	29.6%	31.3%	163bps	28.7%	259bps	28.3%	301bps	31.1%	21bps
Other income	3,540	4,699	33%	4,900	-4%			4,645	1%
Finance Costs	692	999	44%	423	136%			748	34%
Depreciation	6,259	7,295	17%	7,337	-1%			7,006	4%
Profit Before Tax (PBT)	35,979	41,676	16%	38,068	9%			39,908	4%
Tax	5,672	10,305	82%	8,828	17%			9,707	6%
- Tax rate	15.8%	24.7%	896bps	23.2%	154bps			24.3%	40bps
Minority Interest and JVs	(95)	191		87				240	
Exceptional income (expense)	-	-		-				(7,175)	
Reported Net Profit	30,402	31,180	3%	29,153	7%			22,786	37%
Reported EPS (Rs)	12.7	13.0	3%	12.2	7%			9.5	37%
Net Profit - Adjusted	30,402	31,180	3%	29,153	7%	28,811	8%	29,961	4%
EPS (Rs) - Adjusted	12.7	13.0	3%	12.2	7%			12.5	4%

% Cost Ratios	2QFY25A	2QFY26A	YoY chg	2QFY26E	Delta vs Emkay Est	1QFY26A	QoQ chg
Raw Materials	20.3	20.6	33bps	20.7	-10bps	20.3	28bps
Staff Cost	18.6	19.1	45bps	20.1	-102bps	20.2	-113bps
Other expenses	31.5	29.0	-242bps	30.5	-147bps	28.4	64bps

Sales Break-up	2QFY25A	2QFY26A	YoY chg	2QFY26E	Delta vs Emkay Est	1QFY26A	QoQ chg
Domestic Formulations	42,652	47,348	11%	46,490	2%	47,211	0%
US	43,274	43,288	0%	43,032	1%	40,452	7%
Emerging Markets	24,519	28,367	16%	25,858	10%	25,531	11%
RoW Formulations	16,633	20,415	23%	19,421	5%	18,736	9%
APIs	5,338	4,299	-19%	6,006	-28%	5,404	-20%
Others	226	336	48%	534	-37%	527	-36%
Total sales	1,32,642	1,44,052	9%	1,41,340	2%	1,37,861	4%

Source: Company, Bloomberg, Emkay Research

This report is intended for Team White Marquee Solutions (team.emkay@whitemarquesolutions)

Exhibit 2: Estimate Changes

Figures in Rs mn	FY26E			FY27E			FY28E		
	Old	New	change %	Old	New	change %	Old	New	change %
Domestic formulations	1,88,691	1,89,030	0%	2,11,334	2,11,713	0%	2,34,581	2,35,002	0%
% of total revenue	33.2%	33.2%		33.5%	33.6%		33.6%	33.6%	
US formulations	1,69,777	1,69,777	0%	1,87,322	1,87,322	0%	2,09,870	2,09,870	0%
% of total revenue	29.8%	29.8%		29.7%	29.7%		30.0%	30.0%	
EM + ROW formulations	1,80,103	1,83,701	2%	1,97,089	2,01,421	2%	2,15,704	2,20,868	2%
% of total revenue	31.7%	32.3%		31.3%	32.0%		30.9%	31.6%	
API	23,421	21,292	-9%	25,998	23,634	-9%	28,858	26,234	-9%
% of total revenue	4.1%	3.7%		4.1%	3.7%		4.1%	3.8%	
Net sales	5,64,120	5,65,672	0%	6,24,402	6,26,150	0%	6,92,336	6,94,239	0%
Total income	5,68,955	5,69,164	0%	6,29,962	6,30,340	0%	6,98,730	6,99,267	0%
Gross profit	4,52,888	4,52,912	0%	5,03,969	5,04,272	0%	5,60,382	5,60,812	0%
% margin	79.6%	79.6%		80.0%	80.0%		80.2%	80.2%	
EBITDA	1,57,600	1,62,923	3%	1,83,634	1,87,211	2%	2,10,667	2,12,927	1%
% margin	27.7%	28.6%		29.2%	29.7%		30.2%	30.5%	
PAT	1,11,121	1,12,066	1%	1,31,463	1,31,607	0%	1,52,786	1,53,042	0%
EPS (Rs)	46.3	46.7	1%	54.8	54.9	0%	63.7	63.8	0%

Source: Emkay Research

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Sun Pharma: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	484,968	525,784	569,164	630,340	699,267
Revenue growth (%)	10.5	8.4	8.3	10.7	10.9
EBITDA	130,231	152,717	162,923	187,211	212,927
EBITDA growth (%)	11.8	17.3	6.7	14.9	13.7
Depreciation & Amortization	25,566	25,754	29,483	31,517	33,565
EBIT	104,664	126,963	133,440	155,694	179,362
EBIT growth (%)	14.8	21.3	5.1	16.7	15.2
Other operating income	7,384	5,372	3,492	4,190	5,028
Other income	13,542	19,650	19,352	22,062	25,174
Financial expense	2,385	2,314	3,300	3,537	2,112
PBT	115,821	144,300	149,492	174,219	202,424
Extraordinary items	(4,943)	(10,553)	(7,175)	0	0
Taxes	14,395	23,946	36,625	41,813	48,582
Minority interest	(721)	(511)	(800)	(800)	(800)
Income from JV/Associates	-	-	-	-	-
Reported PAT	95,763	109,290	104,891	131,607	153,042
PAT growth (%)	13.0	14.1	(4.0)	25.5	16.3
Adjusted PAT	100,706	119,844	112,066	131,607	153,042
Diluted EPS (Rs)	42.0	50.0	46.7	54.9	63.8
Diluted EPS growth (%)	16.5	19.0	(6.5)	17.4	16.3
DPS (Rs)	12.1	15.1	19.0	22.5	26.5
Dividend payout (%)	28.8	30.2	40.7	41.0	41.5
EBITDA margin (%)	26.9	29.0	28.6	29.7	30.5
EBIT margin (%)	21.6	24.1	23.4	24.7	25.7
Effective tax rate (%)	12.4	16.6	24.5	24.0	24.0
NOPLAT (pre-IndAS)	91,656	105,894	100,748	118,327	136,315
Shares outstanding (mn)	2,399	2,399	2,399	2,399	2,399

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	2,399	2,399	2,399	2,399	2,399
Reserves & Surplus	634,268	719,781	786,266	863,895	953,364
Net worth	636,668	722,180	788,665	866,294	955,763
Minority interests	34,592	2,679	3,479	4,279	5,079
Non-current liab. & prov.	13,880	14,179	14,179	14,179	14,179
Total debt	28,457	18,696	43,671	23,671	13,671
Total liabilities & equity	713,596	757,735	849,995	908,424	988,693
Net tangible fixed assets	101,923	100,359	102,147	105,154	109,419
Net intangible assets	130,558	125,503	161,532	164,577	168,401
Net ROU assets	-	-	-	-	-
Capital WIP	11,077	12,343	12,343	12,343	12,343
Goodwill	85,690	89,394	89,394	89,394	89,394
Investments [JV/Associates]	4,426	4,426	4,426	4,426	4,426
Cash & equivalents	191,052	249,877	294,134	334,647	393,089
Current assets (ex-cash)	415,959	428,496	452,556	481,855	515,991
Current Liab. & Prov.	141,400	163,271	177,143	194,579	214,977
NWC (ex-cash)	274,559	265,225	275,413	287,276	301,013
Total assets	713,596	757,735	849,995	908,424	988,693
Net debt	(162,595)	(231,181)	(250,462)	(310,976)	(379,418)
Capital employed	713,596	757,735	849,995	908,424	988,693
Invested capital	507,041	491,088	539,092	557,007	578,834
BVPS (Rs)	265.4	301.0	328.7	361.1	398.4
Net Debt/Equity (x)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(1.2)	(1.5)	(1.5)	(1.7)	(1.8)
Interest coverage (x)	49.6	63.4	46.3	50.3	96.9
RoCE (%)	17.4	20.3	19.3	20.5	21.9

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	102,280	124,649	130,140	152,157	177,250
Others (non-cash items)	21,459	(16,860)	19,352	22,062	25,174
Taxes paid	(15,694)	(4,768)	(36,625)	(41,813)	(48,582)
Change in NWC	(14,646)	9,633	(10,188)	(11,863)	(13,737)
Operating cash flow	121,350	140,721	135,462	155,597	175,782
Capital expenditure	(15,291)	(20,401)	(67,299)	(37,569)	(41,654)
Acquisition of business	(590)	0	0	0	0
Interest & dividend income	13,542	19,650	19,352	22,062	25,174
Investing cash flow	(6,902)	(53,062)	(67,299)	(37,569)	(41,654)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(33,522)	(9,761)	24,975	(20,000)	(10,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(2,385)	(2,314)	(3,300)	(3,537)	(2,112)
Dividend paid (incl tax)	(29,007)	(36,173)	(45,581)	(53,978)	(63,574)
Others	(2,188)	(30,811)	0	0	0
Financing cash flow	(67,102)	(79,058)	(23,907)	(77,514)	(75,685)
Net chg in Cash	47,346	8,601	44,256	40,514	58,442
OCF	121,350	140,721	135,462	155,597	175,782
Adj. OCF (w/o NWC chg.)	135,996	131,088	145,649	167,460	189,519
FCFF	106,059	120,320	68,163	118,028	134,127
FCFE	117,217	137,656	84,214	136,553	157,189
OCF/EBITDA (%)	93.2	92.1	83.1	83.1	82.6
FCFE/PAT (%)	122.4	126.0	80.3	103.8	102.7
FCFF/NOPLAT (%)	115.7	113.6	67.7	99.7	98.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	40.3	33.8	36.2	30.8	26.5
P/CE(x)	32.1	27.8	28.6	24.9	21.7
P/B (x)	6.4	5.6	5.1	4.7	4.2
EV/Sales (x)	8.1	7.5	6.9	6.2	5.6
EV/EBITDA (x)	29.9	25.5	23.9	20.8	18.3
EV/EBIT(x)	37.2	30.7	29.2	25.0	21.7
EV/IC (x)	7.7	7.9	7.2	7.0	6.7
FCFF yield (%)	2.7	3.1	1.8	3.0	3.4
FCFE yield (%)	2.9	3.4	2.1	3.4	3.9
Dividend yield (%)	0.7	0.9	1.1	1.3	1.6
DuPont-RoE split					
Net profit margin (%)	20.8	22.8	19.7	20.9	21.9
Total asset turnover (x)	0.7	0.7	0.7	0.7	0.7
Assets/Equity (x)	1.2	1.1	1.1	1.1	1.0
RoE (%)	16.8	17.6	14.8	15.9	16.8
DuPont-RoIC					
NOPLAT margin (%)	18.9	20.1	17.7	18.8	19.5
IC turnover (x)	1.0	1.1	1.1	1.2	1.2
RoIC (%)	18.1	21.2	19.6	21.6	24.0
Operating metrics					
Core NWC days	206.6	184.1	176.6	166.3	157.1
Total NWC days	206.6	184.1	176.6	166.3	157.1
Fixed asset turnover	2.0	2.3	2.3	2.4	2.6
Opex-to-revenue (%)	51.2	50.5	51.0	50.3	49.8

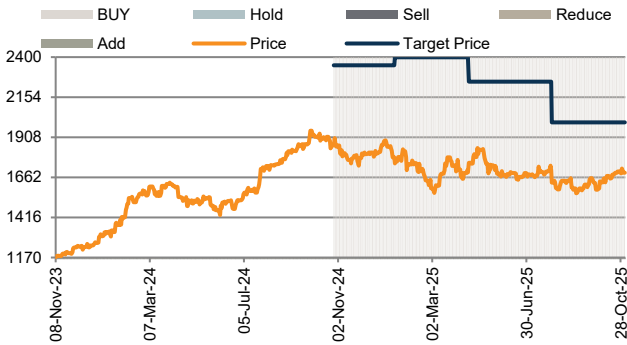
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
21-Sep-25	1,656	2,000	Buy	Shashank Krishnakumar
04-Sep-25	1,582	2,000	Buy	Shashank Krishnakumar
01-Aug-25	1,630	2,000	Buy	Shashank Krishnakumar
23-May-25	1,684	2,250	Buy	Shashank Krishnakumar
17-Apr-25	1,752	2,250	Buy	Shashank Krishnakumar
10-Apr-25	1,652	2,400	Buy	Shashank Krishnakumar
06-Mar-25	1,614	2,400	Buy	Shashank Krishnakumar
01-Feb-25	1,742	2,400	Buy	Shashank Krishnakumar
21-Jan-25	1,763	2,400	Buy	Shashank Krishnakumar
13-Jan-25	1,747	2,400	Buy	Shashank Krishnakumar
04-Nov-24	1,809	2,350	Buy	Shashank Krishnakumar
29-Oct-24	1,872	2,350	Buy	Shashank Krishnakumar
27-Oct-24	1,860	2,350	Buy	Shashank Krishnakumar

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

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ADD	5-15% upside
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SELL	>15% downside

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