

Q2FY25 Sun Pharmaceutical Industries Ltd.



Sun Pharmaceutical Industries Ltd.

US Specialty and domestic business aid strong performance

CMP INR 1,872*	Target INR 1,967	Potential Upside 5.1%	Market Cap (INR Mn) INR 4,472,360	Recommendation ACCUMULATE	Sector Pharmaceuticals
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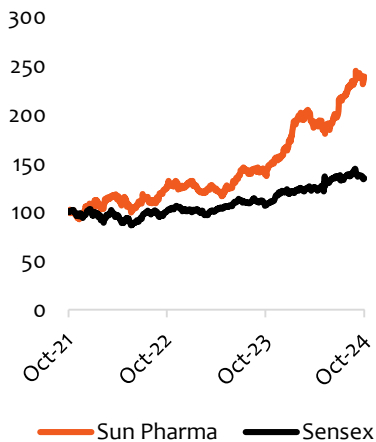
Result Highlights :

- Sun Pharma revenue came in-line with our estimates (-1.0%) whereas EBITDA was largely in-line with our estimate (-2.1%) and Adj. PAT missed our estimate due to higher-than-expected finance costs and lower-than-expected other income.
- We increase the PE multiple to 34.0x (previously: 32.0x) because we believe the US specialty business will continue to be a significant growth driver. This is supported by the strong performance of key specialty products and substantial growth potential in Lenalidomide sales in the US, along with the company solidifying its market leadership in India.
- We increase the FY26E EPS estimates to INR 57.9 (previously: INR 57.0) due to an anticipation of a favorable product mix and effective cost control measures. Therefore, we arrive at a target price of INR 1,967/share (previously: INR 1,827/share) and maintain our “ACCUMULATE” rating.

MARKET DATA

Shares outs (Mn)	2,399
Mkt Cap (INR Mn)	4,472,360
52 Wk H/L (INR)	1,960/1,068
Volume Avg (3m K)	1,975
Face Value (INR)	1
Bloomberg Code	SUNP IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	80,369
NIFTY	24,467

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	438,857	484,969	533,796	594,753	656,724
EBITDA	117,729	129,870	154,094	175,109	193,112
Adj PAT	87,711	100,346	119,474	138,808	153,715
Adj. EPS (INR)	36.6	41.8	49.8	57.9	64.1
EBITDA Margin	26.8%	26.8%	28.9%	29.4%	29.4%
Adj. NPM	20.0%	20.7%	22.4%	23.3%	23.4%

Source: Company, KRChoksey Research

Robust growth in key markets drives top-line

- For Q2FY25, the revenue increased by 9.0% YoY (5.0% QoQ) to INR 132,914 Mn. The YoY growth was driven by strong double-digit growth in India business and US business where the EM and API segments had mid-single-digit growth.
- India business (32.2% of revenue) grew by 11.0% YoY (+2.9% QoQ) to INR 42,652 Mn, primarily driven by volumes and the introduction of 14 new products during the quarter.
- US business (32.6% of revenue) grew by 21.9% YoY (+11.3% QoQ) to INR 43,274 Mn, which was attributed to good performance of major specialty products, including Ilumya, Winlevi, Odomzo, and Cequa. Additionally, increased Lenalidomide sales also contributed to the growth.
- EM (Emerging Markets, 18.5% of revenue) grew by 4.6% YoY (+3.5% QoQ) to INR 24,519 Mn, RoW (Rest of the World, 12.5% of revenue) declined by 2.2% YoY (+5.2% QoQ) to INR 16,633 Mn.

Profitability boosted by improved product mix and cost control

- Gross margins improved 259 bps YoY (+87 bps QoQ) to 79.7% due to a better product mix including a higher proportion of specialty sales and higher sales of Lenalidomide given that it is a High-margin product.
- EBITDA increased 18.6% YoY (4.2% QoQ) to INR 38,109 Mn. EBITDA margin expanded 232 bps YoY (-24 bps QoQ) to 28.7%, the growth was attributed to improved gross margins and controlled staff costs.
- Adj. Net profit increased 20.9% YoY (0.9% QoQ) to INR 29,121 Mn. The reported PAT increased 24.4% YoY to INR 30,402 Mn in Q2FY25 which includes a forex gain of INR 1,281 Mn.

SHARE HOLDING PATTERN (%)

Particulars	Sept-24	Jun-24	Mar-24
Promoters	54.5	54.5	54.5
FIIIs	18.0	17.2	17.1
DIIIs	18.6	19.2	19.5
Others	8.9	9.1	8.9
Total	100.0	100.0	100.0

*Based on the previous closing

Note: All the market data is as of previous closing

10.7%

Revenue CAGR between FY24 and FY26E

17.6%

Adj. PAT CAGR between FY24 and FY26E

Sun Pharmaceutical Industries Ltd.

Key Concall Highlights:

- Sun Pharma holds **8.1% market share** in the IPM (Indian pharmaceutical market) as per AIOCD AWACS MAT September 2024, up from **7.7%** in the previous period.
- The company has **28 brands** in the top **300 brands** of the IPM, the **highest number of brands** by any company.
- Consolidated **R&D investments** for Q2FY25 stood at **INR 7,929 Mn**, which is **6.0% of sales**. Due to **delays in starting some clinical studies**, R&D spend is trending below guidance for FY25E.
- Sun Pharma expects FY25E R&D spending to be in the **range of 7.0% to 8.0% of sales**.
- **Japan price cuts** were mentioned as an important reason for revenue **decline in the Rest of the World (RoW)** markets.
- The company expects the **pricing pressure from Japan to continue** affecting performance in the next few quarters.
- The **US Specialty business** has continued to do well in Q2FY25 which had a **strong growth of 17.9% YoY** to USD 286 Mn and the company has **launched two generic products** in the US in Q2FY25.
- Sun Pharma entered into a global **licensing agreement for commercializing Fibromun** from Philogen, which is positioned as a **promising candidate in oncology**.
- The company is awaiting a court ruling that will affect the launch of the product (Fibromun), and they are prepared to proceed with the launch after the judgment is issued.
- Management highlighted **strong growth expectations** for the specialty business, aiming to **leverage its existing products and pipeline** to achieve scale.

Valuation and view:

In Q2FY25, Sun Pharma saw strong revenue growth led by the India and US markets, driven by volume-led expansion, new product launches, and strong performance of specialty products such as Ilumya and Winlevi. Improved product mix and effective cost reduction measures boosted EBITDA growth.

Currently, the stock is trading at a PE multiple of 37.6x/32.8x, based on FY25E/FY26E EPS, respectively. We increase the PE multiple to 34.0x (previously: 32.0x) because we believe the US specialty business will continue to be a significant growth driver. This is supported by the strong performance of key specialty products and substantial growth potential in Lenalidomide sales in the US, along with the company solidifying its market leadership in India. We expect the revenue to grow at 10.7% CAGR and PAT to grow at 17.6% CAGR over FY24-FY26E. We increase the FY26E EPS estimates to INR 57.9 (previously: INR 57.0) due to an anticipation of a favorable product mix and effective cost control measures. Therefore, we arrive at a target price of INR 1,967/share (previously: INR 1,827/share) and maintain our “ACCUMULATE” rating on the stock which will have an upside potential of 5.1%.

Segment Results

Segments Result (INR Mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Revenue from operations	120,031	121,569	118,133	125,245	132,642
Formulations	114,379	116,264	113,261	119,848	127,078
India	38,425	37,785	37,078	41,445	42,652
US	35,504	39,736	39,544	38,894	43,274
EM	23,449	20,946	20,348	23,695	24,519
Row	17,000	17,797	16,290	15,814	16,633
API	4,972	4,661	4,158	4,946	5,338
Others	680	644	715	451	226

Segments Result (% YoY)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Revenue from operations	11.0%	9.5%	10.1%	6.3%	10.5%
Formulations	11.4%	10.4%	10.0%	7.2%	11.1%
India	11.1%	11.4%	10.2%	16.4%	11.0%
US	7.9%	14.6%	11.9%	0.5%	21.9%
EM	13.3%	-1.0%	11.8%	10.5%	4.6%
Row	17.7%	14.4%	3.5%	-1.4%	-2.2%
API	5.1%	-9.6%	7.9%	-8.3%	7.4%
Others	-3.4%	17.5%	51.7%	-30.6%	-66.8%

Revenue Mix (%)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Revenue from operations	100%	100%	100%	100%	100%
Formulations	95.3%	95.6%	95.9%	95.7%	95.8%
India	32.0%	31.1%	31.4%	33.1%	32.2%
US	29.6%	32.7%	33.5%	31.1%	32.6%
EM	19.5%	17.2%	17.2%	18.9%	18.5%
Row	14.2%	14.6%	13.8%	12.6%	12.5%
API	4.1%	3.8%	3.5%	3.9%	4.0%
Others	0.6%	0.5%	0.6%	0.4%	0.2%

Source: Company, KRChoksey Research

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Result Snapshot:

Particulars (Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenue from Operations	132,914	126,528	121,924	5.0%	9.0%
Total Expenditure	94,805	89,947	89,789	5.4%	5.6%
Cost of Raw Materials	16,387	15,570	16,655	5.2%	-1.6%
Purchase of Stock	8,751	9,974	10,068	-12.3%	-13.1%
Changes in Inventories	1,804	1,210	1,148	49.1%	NM
Employee Cost	24,777	24,546	23,644	0.9%	4.8%
Other Expenses	43,086	38,646	38,275	11.5%	12.6%
EBITDA	38,109	36,581	32,135	4.2%	18.6%
EBITDA Margins (%)	28.7%	28.9%	26.4%	-24 bps	232 bps
Depreciation	6,259	6,551	6,328	-4.5%	-1.1%
EBIT	31,850	30,029	25,807	6.1%	23.4%
Other Income	3,540	5,326	2,936	-33.5%	20.6%
Interest Expense	692	615	493	12.4%	40.3%
Net (gain) /loss on FX	-1,281	505	341	NM	NM
Exceptional Items	0	0	0	NM	NM
PBT	35,979	34,235	28,591	5.1%	25.8%
Tax	5,672	5,523	3,901	2.7%	45.4%
Share of Associates	67	-107	-157	NM	NM
Minority Interest	-28	249	96	NM	NM
PAT	30,402	28,356	24,437	7.2%	24.4%
PAT Margin	22.9%	22.4%	20.0%	46 bps	237 bps
Adj PAT	29,121	28,861	24,096	0.9%	20.9%
Adj. PAT Margin	21.9%	22.8%	19.8%	-90 bps	215 bps
EPS	12.7	11.8	9.9	7.6%	28.3%
Adj. EPS	12.1	12.0	10.0	0.9%	20.9%

Source: Company, KRChoksey Research

Sun Pharmaceutical Industries Ltd.

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	438,857	484,969	533,796	594,753	656,724
COGS	106,622	106,626	108,406	115,626	129,230
Gross profit	332,235	378,342	425,390	479,126	527,493
Employee cost	82,960	94,291	100,627	111,219	121,494
Other expenses	131,546	154,182	170,669	192,799	212,888
EBITDA	117,729	129,870	154,094	175,109	193,112
Depreciation	25,294	25,566	25,729	26,169	30,866
EBIT	92,435	104,304	128,365	148,940	162,246
Finance Costs	1,720	2,385	2,700	2,700	2,700
Other Income	6,345	13,542	16,547	16,950	18,717
PBT	94,084	110,879	142,212	163,190	178,263
Tax	8,476	14,395	22,668	24,777	24,957
PAT	84,736	95,764	119,474	138,808	153,715
EPS (INR)	35.3	39.9	49.8	57.9	64.1
Adj. PAT	87,711	100,346	119,474	138,808	153,715
Adj. EPS (INR)	36.6	41.8	49.8	57.9	64.1

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	49,593	121,350	131,986	141,923	165,777
CFFI	(79,437)	(6,902)	(22,973)	(33,708)	(36,633)
CFFF	23,761	(67,102)	(71,329)	(68,825)	(75,927)
Net Inc/Dec in cash	(6,083)	47,346	37,685	39,390	53,217
Opening Cash	45,083	46,237	92,857	130,542	169,932
Adjustment	7,238	(727)	0	0	0
Closing Cash	46,237	92,857	130,542	169,932	223,149

Exhibit 4: Key Ratio

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	26.8%	26.8%	28.9%	29.4%	29.4%
Tax rate (%)	9.0%	13.0%	15.9%	15.2%	14.0%
Net Profit Margin (%)	20.0%	20.7%	22.4%	23.3%	23.4%
RoE (%)	14.8%	15.0%	16.3%	17.2%	17.3%
RoCE (%)	15.0%	16.8%	19.3%	20.1%	20.0%
Current Ratio (x)	2.0	2.6	2.9	3.0	3.2
P/E(x)	51.2	44.8	37.6	32.4	29.2

Source: Company, KRChoksey Research

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	2,399	2,399	2,399	2,399	2,399
Other Equity	557,555	634,268	696,827	769,510	849,999
Total Equity	593,155	671,060	733,782	806,336	886,681
Non-Current Liabilities					
Other financial liabilities	5,599	3,023	3,023	3,023	3,023
Provisions	3,429	4,139	4,556	5,076	5,605
Other Non-Current Liabilities	6,183	6,563	6,550	6,550	6,550
Total Non-Current Liabilities	15,211	13,725	14,129	14,649	15,178
Current Liabilities					
Borrowings	63,260	29,701	18,000	18,000	18,000
Trade Paybles	56,815	56,533	57,476	61,305	68,518
Other current liabilities	78,989	83,604	97,137	106,636	117,657
Total Current Liabilities	199,064	169,838	172,614	185,941	204,175
Total Liabilities	214,275	183,569	186,742	200,589	219,352
Non-Current Assets					
Property Plants and Equipments	103,904	101,923	110,678	122,217	134,301
Goodwill (Net)	87,127	85,990	85,990	85,990	85,990
Other Non-current assets	217,572	231,966	227,425	232,450	235,303
Total Non-Current Assets	408,603	419,879	424,093	440,657	455,594
Current Assets					
Inventories	105,131	98,683	108,618	121,022	133,632
Trade Receivables	114,385	112,494	123,820	137,959	152,334
Cash and Bank	57,703	105,207	142,892	182,282	235,499
Oher current assets	121,609	117,948	121,101	125,005	128,974
Total Current Assets	398,827	434,331	496,431	566,269	650,439
Total Assets	807,430	854,629	920,524	1,006,925	1,106,033

Sun Pharmaceutical Industries Ltd.

Sun Pharmaceutical Industries Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
30-Oct-24	1,872	1,967	ACCUMULATE
13-Aug-24	1,740	1,827	ACCUMULATE
23-May-24	1,495	1,827	BUY
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

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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