

Sun Pharmaceutical Industries | BUY

Double-digit growth with expanding margins

SUNP reported stellar performance with highest global specialty revenue of USD 191 mn driven by Ilumya, Cequa, Odomzo and Winlevi in a seasonally weak quarter. Revenue/EBITDA/ Adj. PAT of INR 107618 mn/ 28844 mn/ 20609 mn were +11%/+2%/+4% YoY and were +7%/+11%/+12% vs. our estimates. Overall sales growth was in healthy double digits i.e. 14% (ex-Covid). EBITDA margins increased c. 200 bps QoQ to 26.8% (+110 bps beat) amid inflationary pressures plaguing the industry, Alchemee consolidation and sales force expansion. The lower R&D spend (21% innovative) driven by trial delays will be covered in the coming quarters. The US generics business (ex-Taro) reported 24% YoY growth led by increasing market share in existing products and new launches. The US and EM businesses continued momentum despite a high Covid base. Domestic business grew 2% YoY (+13% YoY ex-Covid; +6% beat) led by healthy growth in Top 16-25 brands. API surprised positively with 16% growth (+37% beat). SUNP beats street expectations as support from domestic/specialty segments improve earnings trajectory making earnings upgrade imminent. We maintain BUY on SUNP, our top pick, at 25x 1Y forward earnings to derive a Jun'23 Price Target of INR 1130.

- **Specialty business unstoppable:** Global specialty sales for the quarter were the highest at USD 191 mn (+29% YoY; +3% QoQ) in a seasonally weak quarter led by Ilumya, Cequa, Odomzo and Winlevi. Management indicated that psoriatic arthritis trials have been delayed primarily due to on-going conflict in Russia-Ukraine. We believe Ilumya (PsO) alone could add c. USD 200 mn to FY23 topline. Winlevi grew 22% QoQ despite being a seasonally weak quarter for derma products. 10,000+ doctors have prescribed Winlevi at least once. The management believes there is no negative impact on Cequa (all segments combined) from competition. However, seasonality impacted Levulan the most while the clinics are yet to operate at pre-Covid levels.
- **All-round performance:** Domestic business continues to gain market share (8.5% MS per AOICD AWACS MAT Jun'22) as it reported a 2% YoY increase (+13% ex-Covid) to INR 33.9 bn (+6% beat) driven by new launches and normalization of chronic treatments post pandemic. The company launched 22 new products during the quarter. The US business grew 16% YoY (24% ex-Taro). This was the first full quarter of Alchemee impact (Taro sales USD 157 mn increased +6% YoY/+9% QoQ). SUNP received 3 US FDA approvals and has filings of 89 ANDAs (28 tentative approvals) and 13 NDAs. SUNP launched 2 new products ex-Taro (including Pentasa in May'22). Emerging market sales were INR 18.9 bn (+18% YoY; 14% beat) growing +16% YoY on a constant currency basis whereas ROW sales increased 7% YoY to INR 14.6 bn (4% beat). API revenues reported surprise growth of 16% YoY (37% beat) at INR 5.9 bn. The company had a net cash balance of USD 2 bn at a consolidated level and USD 860 mn (ex-Taro) as on 30 Jun'22.
- **Management guidance for FY23:** The management guides to a high single digit to low double digit top-line growth for FY23 as all business segments are poised to grow. The management stated that the global specialty portfolio shall continue to ramp up. The



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,130
Upside/(Downside)	19.8%
Previous Price Target	1,090
Change	3.7%

Key Data – SUNP IN

Current Market Price	INR943
Market cap (bn)	INR2,263.0/US\$28.6
Free Float	41%
Shares in issue (mn)	2,399.0
Diluted share (mn)	2,399.0
3-mon avg daily val (mn)	INR2,872.1/US\$36.2
52-week range	967/681
Sensex/Nifty	57,570/17,158
INR/US\$	79.3

Price Performance

%	1M	6M	12M
Absolute	12.5	14.0	34.2
Relative*	3.4	16.6	22.6

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary	(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	3,31,392	3,84,264	4,39,837	4,91,687	5,47,800
Sales Growth (%)	2.5	16.0	14.5	11.8	11.4
EBITDA	84,914	1,03,977	1,16,367	1,36,044	1,53,804
EBITDA Margin (%)	25.3	26.9	26.3	27.5	27.9
Adjusted Net Profit	59,313	78,562	90,825	1,05,421	1,17,628
Diluted EPS (INR)	24.7	32.7	37.9	43.9	49.0
Diluted EPS Growth (%)	47.3	32.5	15.6	16.1	11.6
ROIC (%)	18.7	25.8	28.9	33.2	37.5
ROE (%)	12.9	16.6	17.8	18.2	17.9
P/E (x)	38.1	28.8	24.9	21.5	19.2
P/B (x)	4.9	4.7	4.2	3.7	3.2
EV/EBITDA (x)	26.3	20.9	18.2	15.0	12.7
Dividend Yield (%)	0.6	0.8	1.1	1.3	1.4

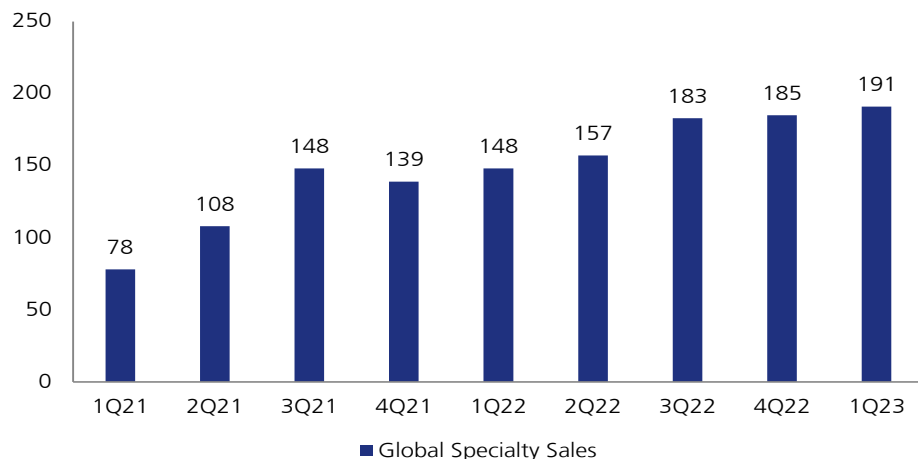
Source: Company data, JM Financial. Note: Valuations as of 29/Jul/2022

management cautions against cost escalations but remains confident of price hikes offsetting the same. The R&D guidance for the year is 7-8% as clinical trials for R&D assets ramps up. As guided by management, SUNP has expanded its field force by 10% (almost 90% achieved) to enhance domestic coverage and reflected in the P&L.

■ Key financials:

Revenue/EBITDA/Adj. PAT of INR 107618 mn/ 28844 mn/ 20609 mn were +11%/+2%/+4% YoY and were +7%/+11%/+12% vs. our estimates. Gross Margins improved c.30 bps YoY to 73.1% (c.-30 bps miss; flat QoQ). EBITDA stood at 26.8% (+110 bps beat; JMFe: 25.7%). Forex gain for the quarter stood at INR 1456 mn vs. INR 798 mn in 1QFY22. R&D expenses stood at INR 4608 mn of which global specialty constituted 21%. The company repaid USD 254 mn debt during 9MFY22.

Exhibit 1. Global specialty sales ramping up



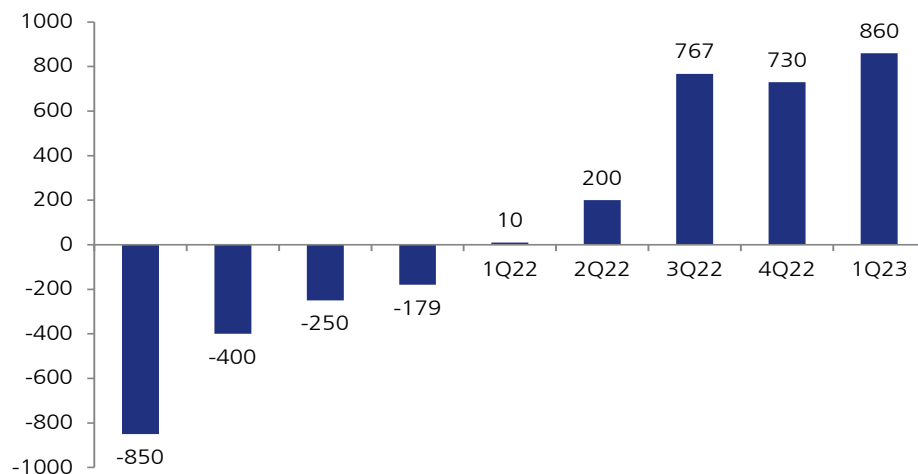
Source: Company, JM Financial

Exhibit 2. US sales break-up

	1Q22	4Q22	1Q23
US Sales	380	389	420
of which			
Taro (67% US)	98	96	105
Specialty (c.90% US)	133	167	172
Generic	148	127	143

Source: JM Financial

Exhibit 3. Strengthening Balance Sheet with Net cash position



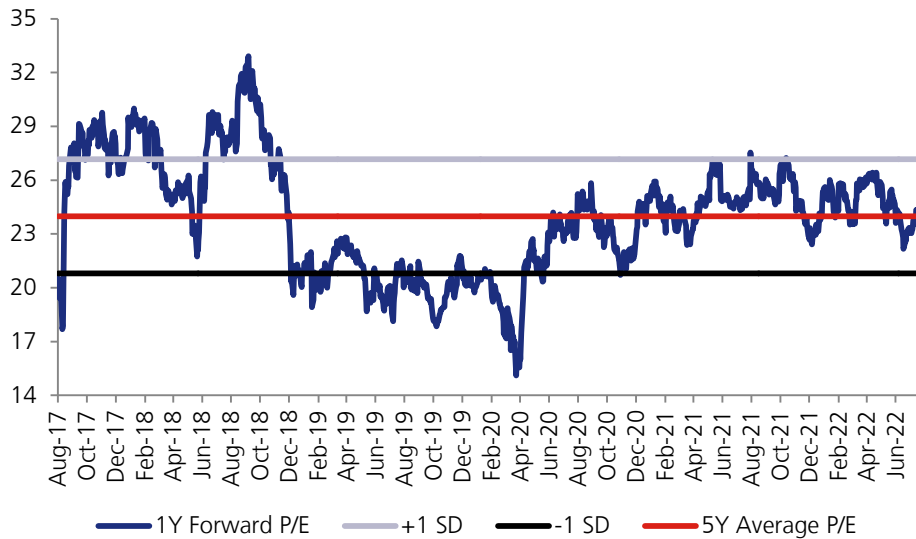
Source: Company, JM Financial

Exhibit 4. Top 16-25 brands have outperformed others during 1QFY23

Brands	Therapy	MAT JUN'22	MAT Jun'22 YoY	Apr'22	May'22	Jun'22	Apr'22 YoY	May'22 YoY	Jun'22 YoY	1QFY23 YoY
SUN		141278	12%	12439	12227	12284	4.6%	8.2%	18.4%	10.1%
VOLINI	PAIN / ANALGESICS	3521	4.9	305	306	291	6.4	3.5	-0.2	3.2%
LEVIPIL	NEURO / CNS	3433	6.8	305	292	292	3.3	5.8	12.2	6.9%
ROSUVAS	CARDIAC	3061	18.4	276	267	277	17.3	9.7	22.9	16.5%
GEMER	ANTI DIABETIC	2935	11.9	259	252	259	5.7	1.4	16.1	7.4%
SUSTEN	GYNAEC.	2623	11.3	264	246	234	13.5	16.4	11.8	13.9%
PANTOCID	GASTRO INTESTINAL	2200	5.4	195	183	190	0.6	-1.2	17.8	5.1%
ISTAMET	ANTI DIABETIC	2401	1.8	209	201	205	1.3	0.7	8.8	3.5%
PANTOCID-D	GASTRO INTESTINAL	2303	4.3	206	197	201	2.5	-3.9	16.7	4.5%
REVITAL H	VITAMINS/MINERALS/NUTRIENTS	2101	-8.0	184	173	169	-7.2	-26.3	-12.1	-15.9%
MONTEK-LC	RESPIRATORY	1883	12.6	133	129	135	-22.1	-37.7	10.8	-20.5%
MOXCLAV	ANTI-INFECTIVES	1091	20.9	88	84	102	8.5	13.8	68.7	27.2%
SOMPRAZ-D	GASTRO INTESTINAL	1633	23.5	150	148	150	18.2	19.3	35.6	23.9%
SPORIDEX	ANTI-INFECTIVES	1210	5.2	98	89	94	1.1	4.9	7.2	4.3%
RIFAGUT	GASTRO INTESTINAL	1493	19.8	141	143	147	17.4	29.4	40.6	28.6%
ROZAVEL	CARDIAC	1428	13.2	117	128	131	5.1	15.5	23.1	14.4%
Top 15		33316	9%	2931	2838	2880	4.6%	1.0%	14.4%	6.4%
Top 16-25		10986	14%	949	962	949	6.9%	12.6%	22.8%	13.7%
Top 26-50		17685	9%	1543	1523	1524	2.6%	1.1%	14.6%	5.7%

Source: IQVIA, JM Financial; Amount in INR mn

Exhibit 5. Valuations attractive- Hovering around 5Y Average 1Y Forward P/E



Source: Bloomberg, JM Financial

Exhibit 6. 1QFY23 Snapshot

Sun Pharma P&L	1Q22A	1Q23A	% YoY	1Q23E	% vs JMFe	1Q23E (cons)	% vs cons	4Q22A	% QoQ
(in INR mn)									
Total sales	96,694	1,06,440	10%	1,00,255	6%			93,861	13%
Other op. income	493	1,178	139%	656	80%			607	94%
Total revenue from operations	97,187	1,07,618	11%	1,00,911	7%	1,02,668	5%	94,468	14%
Expenses									
Raw material	26,494	29,002	9%	27,246	6%			25,396	14%
Staff cost	17,587	20,749	18%	18,971	9%			18,849	10%
Other expenses	24,895	29,023	17%	28,760	1%			26,819	8%
includes: R&D expense	5,748	4,498	-22%	6,055	-26%			5,189	-13%
EBITDA	28,211	28,844	2%	25,934	11%	27,049	7%	23,404	23%
% EBITDA Margin	29.0%	26.8%	-223bps	25.7%	110bps	26.3%		24.8%	203bps
Other income	1,525	21	-99%	1,500	-99%			1,136	-98%
Finance Costs	351	137	-61%	286	-52%			373	-63%
Depreciation	5,032	5,880	17%	5,946	-1%			5,565	6%
Profit Before Tax (PBT)	24,353	22,848	-6%	21,202	8%			18,602	23%
Tax	3,956	1,890		3,180				1,468	
% Tax rate	16%	8%		15%				8%	
Minority Interest & JVs	(355)	350		(375)				549	
Exceptional income (expense)	(6,311)	-		0				(39,358)	
Reported Net Profit	14,442	20,609		18,397				(22,773)	
Reported EPS (INR)	6.0	8.6	43%	7.7				(9.5)	
Net Profit - Adjusted	19,792	20,609	4%	18,397	12%	17,497	18%	16,585	24%
EPS (INR) - Adjusted	8.2	8.6	4%	7.7	12%			6.9	24%
% Cost Ratios									
Raw Materials	27.3	26.9	-31bps	26.6	35bps			26.9	7bps
Staff Cost	18.1	19.3	118bps	19.0	26bps			20.0	-67bps
Other expenses	25.6	27.0	135bps	27.8	-85bps			28.4	-142bps
R&D	5.9	4.2	-173bps	5.5	-132bps			5.5	-131bps
Sales Break-up									
Domestic Formulations	33,084	33,871	2%	32,091	6%			30,956	9%
US	28,000	32,437	16%	32,361	0%			29,246	11%
- US (ex-Taro)	19,538	24,276	24%	22,658	7%			20,857	16%
Emerging Markets	16,053	18,910	18%	16,534	14%			15,475	22%
RoW Formulations	13,680	14,678	7%	14,090	4%			13,407	9%
APIs	5,149	5,987	16%	4,377	37%			4,137	45%
Others	729	556	-24%	802	-31%			641	-13%
Total sales	96,694	1,06,439	10%	1,00,255	6%			93,861	13%

Source: Company, JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Net Sales	3,31,392	3,84,264	4,39,837	4,91,687	5,47,800	
Sales Growth	2.5%	16.0%	14.5%	11.8%	11.4%	
Other Operating Income	3,590	2,281	2,623	3,016	3,469	
Total Revenue	3,34,981	3,86,545	4,42,460	4,94,704	5,51,269	
Cost of Goods Sold/Op. Exp	86,901	1,03,515	1,17,252	1,28,128	1,41,125	
Personnel Cost	68,622	73,008	83,182	90,531	99,228	
Other Expenses	94,545	1,06,044	1,25,659	1,40,001	1,57,112	
EBITDA	84,914	1,03,977	1,16,367	1,36,044	1,53,804	
EBITDA Margin	25.3%	26.9%	26.3%	27.5%	27.9%	
EBITDA Growth	21.5%	22.5%	11.9%	16.9%	13.1%	
Depn. & Amort.	20,800	21,437	23,893	26,714	30,320	
EBIT	64,114	82,540	92,474	1,09,330	1,23,484	
Other Income	6,941	7,942	9,031	11,508	13,137	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	71,055	90,482	1,01,505	1,20,838	1,36,621	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	71,055	90,482	1,01,505	1,20,838	1,36,621	
Taxes	8,030	10,755	12,181	16,917	20,493	
Extraordinary Inc./Loss(-)	-40,179	-45,668	0	0	0	
Assoc. Profit/Min. Int.(-)	-6,191	1,166	-1,500	-1,500	-1,500	
Reported Net Profit	29,038	32,893	90,825	1,05,421	1,17,628	
Adjusted Net Profit	59,313	78,562	90,825	1,05,421	1,17,628	
Net Margin	17.7%	20.3%	20.5%	21.3%	21.3%	
Diluted Share Cap. (mn)	2,399.0	2,399.0	2,399.0	2,399.0	2,399.0	
Diluted EPS (INR)	24.7	32.7	37.9	43.9	49.0	
Diluted EPS Growth	47.3%	32.5%	15.6%	16.1%	11.6%	
Total Dividend + Tax	15,594	21,692	28,224	33,869	38,103	
Dividend Per Share (INR)	5.5	7.7	10.0	12.0	13.5	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Shareholders' Fund	4,64,628	4,80,112	5,42,149	6,15,183	7,00,425	
Share Capital	1,200	1,200	1,200	1,200	1,200	
Reserves & Surplus	4,63,428	4,78,913	5,40,949	6,13,983	6,99,225	
Preference Share Capital	0	0	0	0	0	
Minority Interest	30,171	30,549	29,049	27,549	26,049	
Total Loans	33,430	9,307	7,307	5,307	3,307	
Def. Tax Liab. / Assets (-)	0	0	0	0	0	
Total - Equity & Liab.	5,28,229	5,19,968	5,78,505	6,48,039	7,29,780	
Net Fixed Assets	2,24,895	2,32,573	2,26,273	2,19,227	2,10,819	
Gross Fixed Assets	2,42,832	2,65,634	2,96,302	3,31,437	3,71,626	
Intangible Assets	1,13,180	1,20,884	1,07,809	92,341	74,064	
Less: Depn. & Amort.	1,40,482	1,61,920	1,85,813	2,12,527	2,42,846	
Capital WIP	9,365	7,975	7,975	7,975	7,975	
Investments	1,78,652	1,91,616	1,91,616	1,91,616	1,91,616	
Current Assets	2,73,120	2,73,810	3,62,626	4,60,817	5,74,862	
Inventories	89,970	89,968	1,10,827	1,21,108	1,33,392	
Sundry Debtors	90,614	1,05,929	1,20,503	1,34,709	1,50,082	
Cash & Bank Balances	64,455	50,334	1,02,337	1,74,594	2,59,461	
Loans & Advances	0	0	0	0	0	
Other Current Assets	28,081	27,580	28,959	30,407	31,927	
Current Liab. & Prov.	1,48,439	1,78,031	2,02,011	2,23,621	2,47,516	
Current Liabilities	51,168	57,827	64,422	69,813	76,155	
Provisions & Others	97,271	1,20,204	1,37,589	1,53,808	1,71,361	
Net Current Assets	1,24,682	95,780	1,60,615	2,37,196	3,27,346	
Total - Assets	5,28,229	5,19,968	5,78,504	6,48,038	7,29,780	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Profit before Tax	27,993	44,813	1,01,505	1,20,838	1,36,621	
Depn. & Amort.	20,816	23,093	23,893	26,714	30,320	
Net Interest Exp. / Inc. (-)	-697	-4,261	1,146	859	644	
Inc (-) / Dec in WCap.	-25,641	15,591	-29,489	-19,779	-22,034	
Others	49,262	917	4,683	1,545	1,606	
Taxes Paid	-10,029	9,692	-12,181	-16,917	-20,493	
Operating Cash Flow	61,704	89,845	89,557	1,13,259	1,26,665	
Capex	-11,701	-14,950	-17,593	-19,667	-21,912	
Free Cash Flow	50,003	74,895	71,963	93,592	1,04,753	
Inc (-) / Dec in Investments	0	0	0	0	0	
Others	17,063	-42,297	0	0	0	
Investing Cash Flow	5,362	-57,247	-17,593	-19,667	-21,912	
Inc / Dec (-) in Capital	-1,854	-1,857	-564	1,483	5,716	
Dividend + Tax thereon	-15,594	-21,692	-28,224	-33,869	-38,103	
Inc / Dec (-) in Loans	-46,339	-27,099	-2,000	-2,000	-2,000	
Others	3,982	-1,287	10,828	13,052	14,500	
Financing Cash Flow	-59,805	-51,935	-19,960	-21,335	-19,886	
Inc / Dec (-) in Cash	7,261	-19,337	52,003	72,257	84,867	
Opening Cash Balance	64,876	64,453	50,334	1,02,337	1,74,594	
Closing Cash Balance	64,456	50,333	1,02,337	1,74,594	2,59,461	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Net Margin	17.7%	20.3%	20.5%	21.3%	21.3%	
Asset Turnover (x)	0.6	0.7	0.8	0.8	0.8	
Leverage Factor (x)	1.2	1.1	1.1	1.1	1.1	
RoE	12.9%	16.6%	17.8%	18.2%	17.9%	

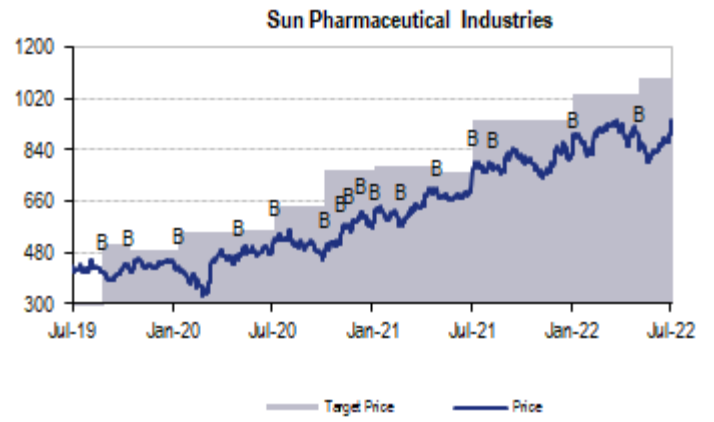
Key Ratios						
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
BV/Share (INR)	193.7	200.1	226.0	256.4	292.0	
ROIC	18.7%	25.8%	28.9%	33.2%	37.5%	
ROE	12.9%	16.6%	17.8%	18.2%	17.9%	
Net Debt/Equity (x)	-0.1	-0.2	-0.3	-0.4	-0.5	
P/E (x)	38.1	28.8	24.9	21.5	19.2	
P/B (x)	4.9	4.7	4.2	3.7	3.2	
EV/EBITDA (x)	26.3	20.9	18.2	15.0	12.7	
EV/Sales (x)	6.7	5.6	4.8	4.1	3.5	
Debtor days	99	100	99	99	99	
Inventory days	98	85	91	89	88	
Creditor days	58	58	57	56	56	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
23-Sep-19	Buy	510	
8-Nov-19	Buy	485	-4.9
7-Feb-20	Buy	550	13.4
28-May-20	Buy	555	0.9
2-Aug-20	Buy	640	15.3
3-Nov-20	Buy	770	20.3
2-Dec-20	Buy	770	0.0
15-Dec-20	Buy	770	0.0
5-Jan-21	Buy	770	0.0
31-Jan-21	Buy	785	1.9
23-Mar-21	Buy	785	0.0
28-May-21	Buy	760	-3.2
1-Aug-21	Buy	940	23.7
7-Sep-21	Buy	940	0.0
31-Jan-22	Buy	1,035	10.1
31-May-22	Buy	1,090	5.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* Large-cap stocks refer to securities with market capitalisation in excess of INR200bn. REIT refers to Real Estate Investment Trusts.

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