

May 23, 2025

## Cautious guidance but momentum from margin accretive themes in tact ...

**About the stock:** Sun is the world's fourth largest generics/specialty pharma company with 43 manufacturing sites at its disposal addressing segments like specialty products, branded generics, complex generics, pure generics and APIs.

- Sun is ranked No. 1 in domestic formulations. It enjoys a leadership position in 12 specialties based on prescription.
- Revenue break-up Q4FY25: US formulations~31%, Indian branded~33%, Emerging markets~17%, RoW~13%, API & Others ~5%
- The company is consciously ramping up its global specialty portfolio (Innovative products) which now accounts for ~20% of sales (spread across geographies but mainly US)

### Investment Rationale:

- **Q4FY25- Strong numbers despite flat US growth** Revenues grew ~8% YoY to ₹ 12959 crore driven mainly by strong growth in India, specialty drugs and emerging markets. India growth was strong at 13.5% to ₹ 4213 crore. The US remained subdued with a growth of 1.7% to ₹ 4020 crore due to weakness in generics despite decent Specialty traction. Emerging markets grew ~11% to ₹ 2256 crore. RoW markets reported growth of ~6% to ₹ 1734 crore, mainly due to milestone income and volume expansion. Global Specialty sales came in at US\$ 295 million, a growth at ~9%. EBITDA stood at ₹ 3425 crore, up ~11% YoY, with resulting EBITDA margins of 26.4%, GPM dipped by ~49 bps to 79.6%. Net profit came in at ₹ 1859 crore, down 31.4% YoY.
- **Domestic Formulations, Global Specialty to remain money-spinners-** The India business continued to deliver volume-driven growth. Specialty sales were a little subdued compared to lower offtake in January and February but as per management the Rx and Inventory trend still looks promising. Besides R&D spend guidance of 6-8% of sales (1/3rd for Specialty) the management has indicated another US\$ 100 million for Specialty (additional SG&A). However, FY26 revenue growth guidance of mid to high single digit growth looks conservative given the potential of the Specialty pipeline and the expected traction in India business. The management has sighted global uncertainty and currency volatility as main reasons for a conservative guidance. That said, we expect better profitability as the growth would be driven by remunerative businesses. The company is sitting on a cash pile of US\$3 billion, which gives ample scope for the company to look out for high value assets even at tad higher valuation.

### Rating and Target price

- We maintain BUY with a target price of ₹ 1925 based on 36x FY27E EPS of ₹53.5. Premium valuation is justified on account of strong FCF generation driven by focus on margin accretive businesses.



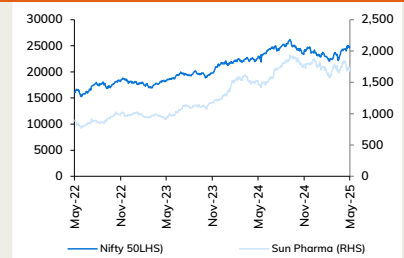
### Particulars

Particular	Amount
Market Capitalisation	₹ 393436 Crore
Debt (FY25)	₹ 2360 Crore
Cash & Equivalents (FY25)	₹ 10269 Crore
EV	₹ 385527 Crore
52 week H/L (₹)	1960/1377
Equity capital	₹ 240 Crore
Face value	₹ 1

### Shareholding pattern

(in %)	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	54.5	54.5	54.5	54.5
FII's	17.2	18.0	18.0	18.0
DII's	19.2	18.5	18.4	18.6
Others	9.1	9.0	9.1	9.0

### Price Chart



### Key risks

- Slower ramp-up in the Specialty launches due to longer than expected gestation period
- Delay in generic ramp-up due to pending Halol and Dadra USFDA embargo

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### Key Financial Summary

Key Financials (₹ Crore)	FY22	FY23	FY24	2 year CAGR (FY22-24)	FY25	FY26E	FY27E	2 year CAGR (FY25E-27E)
Net Sales	38654.5	43885.5	48496.9	12.0	52578.4	56864.8	62059.5	8.6
EBITDA	10397.7	11673.8	12987.0	11.8	15086.2	15922.1	17376.7	7.3
EBITDA Margins (%)	26.9	26.6	26.8		28.7	28.0	28.0	
Adj. Profit	7667.1	8655.2	9994.4	14.2	11443.2	11904.7	12822.8	5.9
Adj. EPS (₹)	32.0	36.1	41.7		47.7	49.6	53.5	
PE (x)	120.2	46.3	41.2		36.6	33.0	30.7	
EV to EBITDA (x)	36.7	33.1	29.2		24.6	23.0	20.7	
RoE (%)	16.0	15.5	15.7		15.8	14.7	14.2	
RoCE (%)	18.2	15.3	17.5		20.2	18.8	18.6	

Source: Company, ICICI Direct Research

## Exhibit 1: Quarterly Summary

(₹ Crore)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
Total Operating Income	9446.8	10761.8	10952.3	11240.8	10930.7	11940.8	12192.4	12380.7	11982.9	12652.8	13291.4	13675.5	12958.8	8.1	-5.2
Raw Material Expenses	2539.6	2900.2	2708.1	2803.7	2250.2	2758.2	2787.1	2736.9	2380.4	2675.4	2694.2	2740.5	2637.2	10.8	-3.8
Gross Profit Margin (%)	73.1	73.1	75.3	75.1	79.4	76.9	77.1	77.9	80.1	78.9	79.7	80.0	79.6	-49 bps	-31 bps
Employee Expenses	1884.9	2074.9	2004.6	2037.1	2179.6	2402.0	2364.4	2363.3	2299.3	2454.6	2477.7	2552.3	2488.5	8.2	-2.5
% of Revenue	20.0	19.3	18.3	18.1	19.9	20.1	19.4	19.1	19.2	19.4	18.6	18.7	19.2	1 bps	54 bps
Other Expenditure	2681.9	2902.3	3283.1	3396.5	3671.6	3450.9	3827.5	3928.2	4211.6	3864.6	4308.6	4190.3	4408.3	4.7	5.2
% of Revenue	28.4	27.0	30.0	30.2	33.6	28.9	31.4	31.7	35.1	30.5	32.4	30.6	34.0	-113 bps	338 bps
Total Expenditure	7106.4	7877.4	7995.7	8237.3	8101.4	8611.1	8978.9	9028.4	8891.4	8994.7	9480.5	9483.1	9534.0	7.2	0.5
% of Revenue	75.2	73.2	73.0	73.3	74.1	72.1	73.6	72.9	74.2	71.1	71.3	69.3	73.6	-63 bps	423 bps
EBITDA	2340.4	2884.4	2956.6	3003.6	2829.3	3329.7	3213.5	3352.3	3091.5	3658.1	3810.9	4192.4	3424.9	10.8	-18.3
EBITDA Margin (%)	24.8	26.8	27.0	26.7	25.9	27.9	26.4	27.1	25.8	28.9	28.7	30.7	26.4	63 bps	-423 bps
Depreciation	556.5	588.0	610.0	660.0	671.5	651.3	632.8	622.1	650.4	655.1	625.9	630.6	663.8	2.1	5.3
Other Income	113.6	2.1	85.2	173.9	373.2	204.4	293.6	250.2	605.9	532.6	354.0	465.6	612.9	1.1	31.6
PBIT	1897.5	2298.5	2431.8	2517.5	2531.0	2882.9	2874.3	2980.3	3047.1	3535.5	3539.0	4027.4	3373.9	10.7	-16.2
Interest	37.3	13.7	19.4	46.2	92.7	80.9	49.3	34.7	73.6	61.5	69.2	51.5	49.1	-33.2	-4.6
Less: Exceptional Items	3935.8	0.0	0.0	0.0	171.4	322.9	0.0	69.8	101.6	0.0	0.0	316.2	361.7		
PBT	-2075.6	2284.8	2412.4	2471.3	2266.9	2479.1	2825.0	2875.8	2871.9	3474.0	3469.8	3659.8	2963.1	3.2	-19.0
Total Tax	146.8	189.0	152.3	283.4	222.9	468.1	390.1	432.3	148.9	552.3	567.2	558.9	1093.7	634.4	95.7
PAT before MI	-2222.4	2095.9	2260.2	2187.9	2044.0	2011.0	2434.9	2443.5	2723.0	2921.7	2902.6	3100.9	1869.4	-31.3	-39.7
Minority Interest	49.9	32.5	-6.3	14.7	-1.6	-16.9	9.6	36.8	4.2	24.9	-2.8	1.0	4.1	-2.6	321.9
PAT after MI	-2272.2	2063.3	2266.5	2173.1	2045.5	2027.9	2425.3	2406.7	2718.8	2896.8	2905.4	3099.9	1865.4	-31.4	-39.8
Profit from Associates	-5.0	-2.5	-4.3	-7.3	-33.8	-7.4	-15.7	-7.5	-7.9	-10.7	6.7	-4.6	-6.7		
PAT	-2277.3	2060.9	2262.2	2165.8	2011.7	2020.5	2409.6	2399.2	2711.0	2886.1	2912.1	3095.4	1858.6	-31.4	-40.0
Adjusted PAT	1582.1	2060.9	2262.2	2165.8	2166.3	2284.5	2375.5	2583.5	2750.8	2835.6	3040.2	3177.4	2390.0	-13.1	-24.8
Adjusted EPS (₹)	6.6	8.6	9.4	9.0	9.0	9.5	9.9	10.8	11.5	11.8	12.7	13.2	10.0		
Share Capital (cr)	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9	239.9		

Source: Company, ICICI Direct Research

## Q4FY25 Results / Conference call highlights

### India

- Sun Pharma has a market share of 8.3% in IPM. It has done better than IPM growth led by new product launches and volume growth.
- The company launched 10 new products in Q4FY25.
- Drugs for weight management and Diabetes management are in pipeline expected to be launched going ahead.

### US

- The growth for FY25 was led by Specialty portfolio which was offset by decline in generics.
- Sun launched 2 generic products in the US in Q4FY25
- Revlimid sales in Q4FY25 was similar to Q3FY25 not very significant. We continue to see pressure on pricing.

### Global Specialty

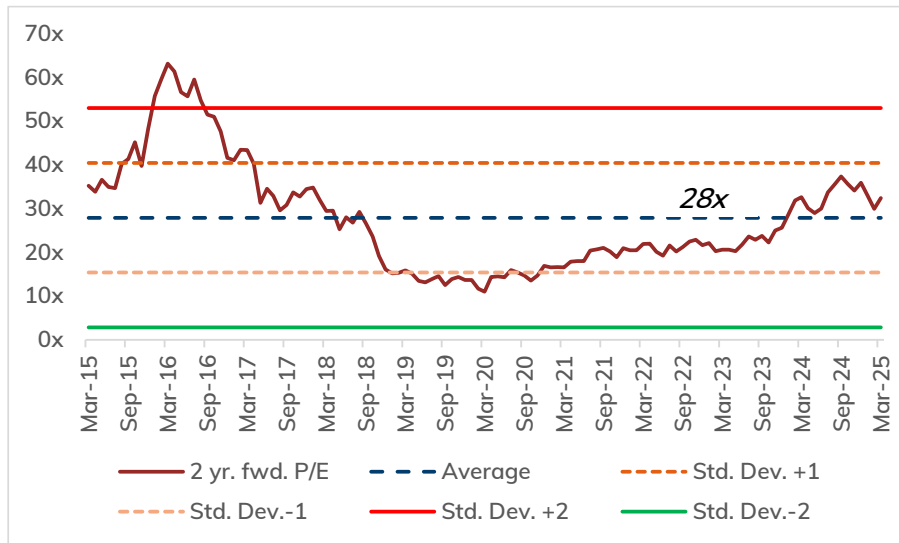
- Specialty business growth in FY25 was driven by Ilumya, Cequa, Winlevi, and Odomzo.
- Global Ilumya sales 17% up YoY to US\$681 in FY25, this doesn't include end market sales of the partner.
- Leqselvi could be launched in US in Q2FY26 which is delayed by 3 quarters. While the patent litigation is ongoing, the court has not restricted it from launching the product. In case the trial ruling comes against that of Sun, the launch may get delayed till patent expiry in December, 2026.
- The management is seeking a partner for the launch of MM-II in certain geographies.

### Others

- The management guided for a mid to high single digit revenue growth for FY26.
- The tax rate is expected to go upwards going ahead from the current levels.
- In Emerging Formulations segment Romania Brazil and Russia done well in local currencies.
- Sun is planning to spend US\$ 100 million for commercialisation of new specialty products mainly for promotion and addition of field force.

- R&D Spend for FY26 is expected to be around 6-8%
- The company's efforts for the remediation of the Mohali Plant are ongoing.
- Remediation at Sun's Halol Plant is completed and they have requested the USFDA for an inspection.

Exhibit 2: 2-year forward PE band



Source: Company, ICICI Direct Research

## Financial Tables

Exhibit 3: Profit and loss statement					₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E	
Revenues	48,496.9	52,578.4	56,864.8	62,059.5	
Growth (%)	10.5	8.4	8.2	9.1	
Raw Material Expenses	10,662.6	10,747.4	12,225.9	13,342.8	
Employee Expenses	9,429.1	9,973.1	11,088.6	12,101.6	
Other Expenditure	15,418.2	16,771.8	17,628.1	19,238.4	
Total Operating Expenditure	35,509.9	37,492.3	40,942.7	44,682.8	
<b>EBITDA</b>	<b>12,987.0</b>	<b>15,086.2</b>	<b>15,922.1</b>	<b>17,376.7</b>	
Growth (%)	11.2	16.2	5.5	9.1	
Depreciation	2,556.6	2,575.4	2,678.5	2,781.5	
Interest	238.5	231.4	201.9	172.5	
Other Income	1,354.2	1,965.0	1,688.5	1,842.8	
PBT	11,546.1	14,244.5	14,730.3	16,265.3	
Less: Exceptional Items	494.3	677.9	0.0	0.0	
Total Tax	1,439.5	2,772.0	2,798.7	3,415.7	
PAT before MI	9,612.3	10,794.6	11,931.5	12,849.6	
Minority Interest	33.7	27.1	0.0	0.0	
PAT	9,540.3	10,752.2	11,904.7	12,822.8	
<b>Adjusted PAT</b>	<b>9,994.4</b>	<b>11,443.2</b>	<b>11,904.7</b>	<b>12,822.8</b>	
Growth (%)	15.5	14.5	4.0	7.7	
<b>EPS (Adjusted)</b>	<b>41.7</b>	<b>47.7</b>	<b>49.6</b>	<b>53.5</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E	
Profit/(Loss) after taxation	9518.5	13275.3	11904.7	12822.8	
Depreciation	2556.6	2575.4	2678.5	2781.5	
(Inc)/Dec in Current Assets	567.8	-1845.3	-2851.5	-2758.6	
(Inc)/Dec in Current Liabilities	494.3	1521.8	1583.8	1426.9	
Others	-1002.2	-1455.0	201.9	172.5	
<b>CF from operation Activities</b>	<b>12135.0</b>	<b>14072.1</b>	<b>13517.4</b>	<b>14445.2</b>	
Purchase of Fixed Assets	-2171.0	-2067.6	-2000.0	-2000.0	
(Inc)/Dec in Investments	768.4	-4108.4	-4000.0	-4000.0	
Others	712.9	869.8	-346.4	-370.6	
<b>CF from Investing Activities</b>	<b>-689.6</b>	<b>-5306.2</b>	<b>-6346.4</b>	<b>-6370.6</b>	
Inc / (Dec) in Loan Funds	-3686.4	-4064.7	-300.0	-300.0	
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0	
Dividend and dividend tax	-2900.7	-3617.3	-3358.6	-3358.6	
Other Financial Activities	-123.1	-223.8	-201.9	-172.5	
<b>CF from Financing Activities</b>	<b>-6710.2</b>	<b>-7905.8</b>	<b>-3860.5</b>	<b>-3831.1</b>	
Cash generation during the year	4735.2	-2155.0	3310.4	4243.4	
Op bal Cash & Cash equivalents	4623.1	9285.7	10268.8	13579.2	
<b>Closing Cash/ Cash Equivalent</b>	<b>9358.4</b>	<b>7130.7</b>	<b>13579.2</b>	<b>17822.6</b>	
<b>Free Cash Flow</b>	<b>9964.0</b>	<b>12004.5</b>	<b>11517.4</b>	<b>12445.2</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet					₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E	
Equity Capital	239.9	239.9	239.9	239.9	
Reserve and Surplus	63,426.8	71,978.1	80,524.2	89,988.3	
Total Shareholders funds	63,666.8	72,218.0	80,764.1	90,228.3	
Total Debt	3,272.3	2,359.7	2,059.7	1,759.7	
Deferred Tax Liability	155.1	192.4	205.9	220.3	
Minority Interest	3,439.2	267.9	267.9	267.9	
Other LT Liabilities & LT Provision	915.2	872.2	933.3	998.6	
<b>Total Liabilities</b>	<b>71,448.5</b>	<b>75,910.3</b>	<b>84,230.9</b>	<b>93,474.8</b>	
Gross Block - Fixed Assets	35,868.3	37,478.1	38,978.1	40,478.1	
Accumulated Depreciation	21,255.8	23,831.2	26,509.7	29,291.2	
Net Block	14,612.4	13,646.9	12,468.4	11,186.9	
Capital WIP	5,353.9	6,644.0	7,144.0	7,644.0	
Total Fixed Assets	19,966.3	20,290.8	19,612.4	18,830.8	
Investments	15,025.8	18,353.8	22,353.8	26,353.8	
Deferred tax assets	4,103.7	4,407.6	4,716.1	5,046.2	
Goodwill on Consolidation	8,599.0	8,939.4	8,939.4	8,939.4	
LT Loans, Advances & Assets	2,877.8	1,140.6	1,220.5	1,305.9	
Cash	9,285.7	10,268.8	13,579.2	17,822.6	
Debtors	11,249.4	13,046.1	14,109.7	15,398.6	
Loans and Advances	65.0	48.4	51.8	55.4	
Inventory	9,868.3	10,243.3	11,652.6	12,717.0	
Other current assets	4,422.1	5,361.8	5,737.1	6,138.7	
Total Current Assets	34,890.4	38,968.4	45,130.3	52,132.3	
Creditors	5,653.3	6,184.3	7,035.2	7,677.8	
Provisions & other current liability	8,361.0	10,005.9	10,706.4	11,455.8	
Total Current Liabilities	14,014.3	16,190.3	17,741.5	19,133.6	
Net Current Assets	20,876.1	22,778.1	27,388.8	32,998.7	
<b>Application of Funds</b>	<b>71,448.6</b>	<b>75,910.3</b>	<b>84,230.9</b>	<b>93,474.8</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					
(Year-end March)	FY24	FY25	FY26E	FY27E	
<b>Per share data (₹)</b>					
Adjusted EPS	41.7	47.7	49.6	53.5	
BV per share	265.4	301.0	336.7	376.1	
Dividend per share	13.5	14.0	14.0	14.0	
Cash Per Share	38.7	42.8	56.6	74.3	
<b>Operating Ratios (%)</b>					
Gross Margin	78.0	79.6	78.5	78.5	
EBITDA Margin	26.8	28.7	28.0	28.0	
PAT Margin	20.6	21.8	20.9	20.7	
Inventory days	338	348	348	348	
Debtor days	85	91	91	91	
Creditor days	194	210	210	210	
Asset Turnover	1.4	1.4	1.5	1.5	
EBITDA Conversion rate	93.4	93.3	84.9	83.1	
<b>Return Ratios (%)</b>					
RoE	15.7	15.8	14.7	14	
RoCE	17.5	20.2	18.8	19	
RoIC	23.6	30.6	30.7	32	
<b>Valuation Ratios (x)</b>					
P/E	41.2	36.6	33.0	31	
EV / EBITDA	29.2	24.6	23.0	21	
EV / Net Sales	7.8	7.1	6.4	6	
Market Cap / Sales	8.1	7.5	6.9	6	
Price to Book Value	6.2	5.4	4.9	4	
<b>Solvency Ratios</b>					
Debt / EBITDA	0.3	0.2	0.1	0	
Debt / Equity	0.1	0.0	0.0	0	
Current Ratio	1.8	1.8	1.8	2	
Working Capital Cycle	229	228	228	228	

Source: Company, ICICI Direct Research

## ANALYST CERTIFICATION

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