Sun Pharmaceutical Industries (SUNPHA)

ICICI Direct

CMP: ₹ 1730 | Target: ₹ 1960(13%) | Target Period: 12 months | HOLD

April 28, 2026

Company update

Significant step fraught with challenges...

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.
- The company is consciously ramping up its global specialty portfolio (Innovative products) which now accounts for ~24% of sales (spread across geographies but mainly the US)

Update & Investment Rationale:

- **Sun Pharma to acquire Organon & Co. -** Sun Pharma has entered into a definitive agreement to acquire Organon in all-cash transaction deal at an enterprise value of US$ 11.75 billion. Organon is a global healthcare company formed through a spinoff from Merck. Organon has six manufacturing facilities across the European Union and emerging markets. In CY25, it has reported a revenue of US$ 6.2 billion with adjusted EBITDA amounting to US$1.9 billion with 30.6% EBITDA margins. For CY25 Established brands contributed 55% of Organon revenue while Innovative medicines/ Women's health contributed 33%, Biosimilar – 11% and Others ~1%.
- **Acquisition provides scale; Growth Recovery Takes Centre Stage -** The transaction values the target at ~1.9x CY26E sales and ~6x CY26E EBITDA, with management guiding for a largely flattish CY26 outlook which seems fair. Sun Pharma will assume ~US$ 9.25-9.75 billion of debt (assuming US$2-2.5 billion payment through internal accruals), taking pro-forma Net Debt/EBITDA to ~2.3x. Prima facie, the acquisition appears strategically challenging, with execution risks and limited near-term growth levers. On the bright side, Organon commands a better margin profile than Sun Pharma. Management iterated combined synergies of in-licensing opportunities, geographical diversification (China and South Korea opening-up), US$ 350 million worth cost synergies and biosimilar portfolio addition will help the combined entity to be EPS accretive in the first 12 months post-acquisition. The combined revenues are estimated at ~US$ 12.4 billion, with the innovative portfolio contributing ~27%. Although the global aspirations are being met with this acquisition, there would be certain challenges. Note that only one-third of the portfolio (Innovative+ biosimilar) is a growth engine and the combined entity has to sweat a lot for the remaining 2/3rd (generics+ established). With significant leverage, the margin of safety is also low. Although Sun enjoys a good acquisition track record, this one is by far the most significant and hence we remain cautiously optimistic.

Rating and Target price

- We Downgrade our rating to HOLD with a target price of **₹ 1960** based on SoTP valuation.

SUN PHARMACEUTICAL INDUSTRIES LTD.

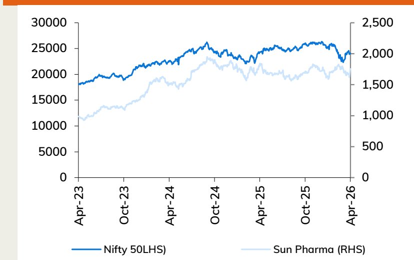
Particulars

Particular	Amount
Market Capitalisation	₹ 415027 Crore
Debt (FY25)	₹ 2360 Crore
Cash & Equivalents (FY25)	₹ 4940 Crore
EV	₹ 412446 Crore
52 week H/L (₹)	1851/1547
Equity capital	₹ 240 Crore
Face value	₹ 1

Shareholding pattern

(in %)	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	54.5	54.5	54.5	54.5
FIIs	17.3	16.6	16.1	15.9
DIIs	19.4	20.1	20.7	21.0
Others	8.9	8.8	8.7	8.6

Price Chart



Key risks

(i) Slower ramp-up in the Innovative / generics+ established portfolio

(ii) Higher than expected synergies across cost and revenue.

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ICICI Securities – Retail Equity Research

Key Financial Summary (Proforma)

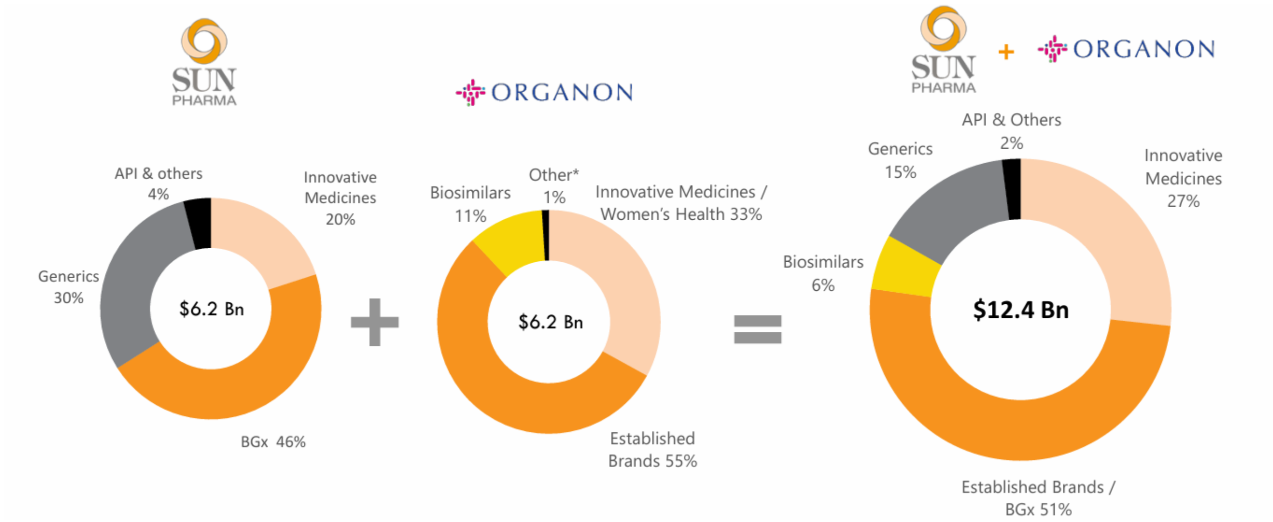
Key Financials (₹ Crore)	FY23	FY24	FY25	2 year CAGR (FY23-26E)	FY26E	FY27E	FY28E	2 year CAGR (FY26E-28E)
Net Sales	43885.5	48496.9	52578.4	9.4	57479.9	78428.1	128215.7	49.4
EBITDA	11673.8	12987.0	15086.2	12.9	16780.1	20700.3	37821.9	50.1
EBITDA Margins (%)	26.6	26.8	28.7		29.2	26.4	29.5	
Adj. Profit	8655.2	9994.4	11443.2	12.6	12368.4	12593.6	20480.5	28.7
Adj. EPS (₹)	36.1	41.7	47.7		51.6	52.5	85.4	
PE (x)	48.8	43.5	38.6		39.3	33.0	20.3	
EV to EBITDA (x)	34.9	30.8	26.4		23.5	23.8	12.8	
RoE (%)	15.5	15.7	15.8		15.9	13.9	18.5	
RoCE (%)	15.3	17.5	20.2		19.6	10.0	16.4	

Source: Company, ICICI Direct Research, *- assumed consolidation from Q4FY27

Exhibit 2: Organon portfolio of Innovative Medicines; Established Brand and Biosimilars

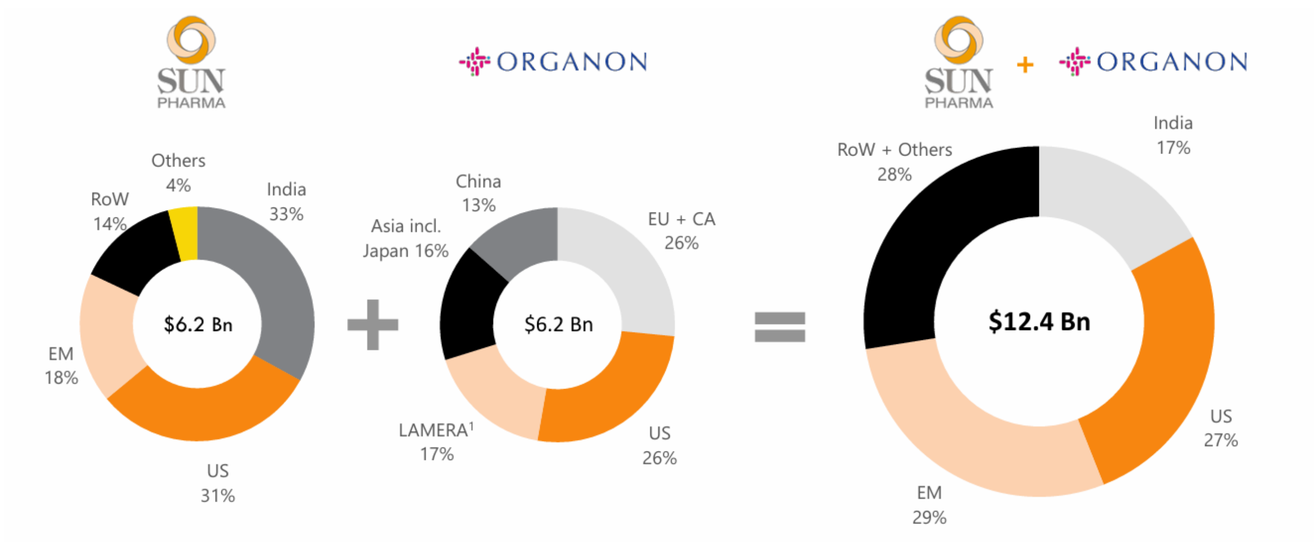
Source: Company, ICICI Direct Research

Exhibit 1: Proforma Revenue Segmentation of the combined entity



Source: Company, ICICI Direct Research

Exhibit 3: Proforma Geographic Revenue Segmentation of the combined entity



Source: Company, ICICI Direct Research

Exhibit 4: Organon Manufacturing Sites

Manufacturing Site	Specialties
Campinas, Brazil	Women's health, cardiovascular and respiratory
Cramlington, UK	Cardiovascular and respiratory
Heist, Belgium	Respiratory, dermatology and pain
Oss, Netherlands	Women's health
Pandaan, Indonesia	Cardiovascular, respiratory and dermatology
Xochimilco, Mexico	Cardiovascular and respiratory

Source: Company, ICICI Direct Research

Exhibit 5: Organon revenue mix

(in US$ million)	Metric	CY21	CY22	CY23	CY24	CY25	CAGR CY21-25E	YoY growth
Women's Health	Revenue	1612	1673	1702	1777	1752	2%	-1%
	YoY growth	4%	4%	2%	4%	-1%		
	% of sales	26%	27%	27%	28%	28%		
Biosimilars	Revenue	424	481	593	662	691	13%	4%
	% YoY growth	28%	13%	23%	12%	4%		
	% of sales	7%	8%	9%	10%	11%		
Established Brands	Revenue	4068	3874	3847	3849	3691	-2%	-4%
	% YoY growth	-10%	-5%	-1%	0%	-4%		
	% of sales	65%	63%	61%	60%	59%		
Others	Revenue	200	146	121	115	82	-20%	-29%
	% YoY growth	87%	-27%	-17%	-5%	-29%		
	% of sales	3%	2%	2%	2%	1%		
Total	Total revenues	6304	6174	6263	6403	6216	0%	-3%

Source: Company, ICICI Direct Research

Sun Pharma – Organon Merger Conference call highlights

Organon

- For Organon the net debt stands at ~US$ 7.6 billion having an interest charge of about 5.5%
- Global market of women's health stands at US$ 35 million growing with 6-10%.
- Organon has six manufacturing sites with complex product capabilities.
- Organon has stable EBITDA margin of 30% and US$ 1 billion of FCF before financing.
- Organon has ~10000 employees with 4000 in Field Force.

Innovative medicines portfolio

- Organon Innovative Medicines portfolio includes 22 products which accounts for ~33% of revenues. For Sun Pharma Innovative medicines account for 20% of the overall revenues. For the combined entity innovative portfolio will account for 27% of the revenues.
- Sun Pharma is looking for an opportunity to grow Organon innovative business via in-licensing products.

Biosimilars portfolio

- Organon acquisition will mark Sun Pharma's entry into Biosimilar Portfolio presently - company has ~8 products (~11% contribution) which can grow further. Biosimilars will account for ~6% of the combined entity.
- This portfolio has been growing with 13% CAGR over 2021-2025. (US$ 350 Billion Loss of Exclusivity by FY2035 which translates into US$ 70 billion of Biosimilar Opportunity)
- Key Brands – Renflexis, Hadlima.
- Sun Pharma plans to in license Biosimilar Portfolio and to grow it at even higher pace (base growth ~13%)

Established Brand/ Branded Generics

- Branded Generics account for 46% of Sun Pharma's portfolio where as 55% of Organon's portfolio. In the combined entity it shapes a pie of ~51%.

- For Organon, Big chunk comes from established brands like Zetia, Atozet, Arcoxia, Aizar, Kosar (50+ Products) – Sun can accelerate the growth of Organon's portfolio given a large market potential across therapy areas like cardiovascular, respiratory, bone health and dermatology.
- Sun has good experience of scaling brands in India and will also try to grow Organon established brands in India.
- Sun plans to bring Line Extensions here based on their previous experience which will help to grow this established product to the next level.
- Company aims to grow this Portfolio in Single digit going forward.

Post Merger Synergies

- Sun gains access to Second biggest Market, China (US$ 150 billion) – Organon has US$ 800 million sales in China and has 8 large brands there growing with Single Digit.
- Significant potential synergies of ~US$ 350 billion which can materialize in the next two years to four years purely from cost front.
- Key Organon Complex Development - Nexplanon, Nuvaring, Sun's Ilumya and many other innovative biologics have roots in Organon labs.
- Company is exploring how to use this ability of Organon to develop some new product going forward.
- Organon brings global commercial footprint with presence in 140 countries, Sun has presence in 100 Countries and Combined presence will be in 150 markets (there are 18 markets where revenues will be more than US$ 100 million).
- Sun can launch its innovative business using this platform, which they are out licensing to Partner.
- Sun Pharma combined will have commercial front end team of 24000 people.
- Sun can use China as an opportunity for in-licensing product for the global market.
- Sun Pharma will also venture South Korea via Organon.
- Organon's innovative business can be sold through Sun's network.

Other Deal related Aspects

- There are certain long-term debts in the nature of bonds where Sun will work with the lenders for swap of some of these.
- On combined level Sun will have better credit rating compared to Organon and therefore will Give Sun ability to have a good cost of financing comparably.
- With Organon acquisition there is a good opportunity to bring technology of long-term acting product into the market in a very short term.
- The acquisition will be EPS accretive.
- Sun key differentiator is to find a way to grow that business.
- Sun will try to pay down the debt as early as possible.
- Deal is expected to close in about six to nine months' time (by January 2027).
- Sun will utilise US$ 2-2.25 billion cash on Balance Sheet for the acquisition and balance US$ 9.25-9.75 Billion to be funded through committed financing from banks.

Exhibit 6: SoTP Valuation Summary

Particular	Value	Multiple	EV
FY28E EBITDA - Sun Pharma Base	20,633	21.0	4,33,299
FY28E EBITDA - Organon	17,189	6.0	1,03,131
Net Debt			66,131.9
Implied Market Cap			4,70,299
No Of Shares			239.9
Target Price			1,960

Source: Company, ICICI Direct Research

Proforma Financial Tables

Exhibit 7: P&L statement (Proforma*) ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Revenues	**52,578.4**	**57,479.9**	**78,428.1**	**1,28,215.7**
Growth (%)	8.4	9.3	36.4	63.5
Raw Material Expenses	10,747.4	11,673.0	19,950.6	36,543.2
Employee Expenses	9,973.1	11,116.2	14,562.8	21,796.7
Other Expenditure	16,771.8	17,910.6	23,214.4	32,053.9
Total Operating Expenditure	37,492.3	40,699.8	57,727.8	90,393.8
EBITDA	**15,086.2**	**16,780.1**	**20,700.3**	**37,821.9**
Growth (%)	16.2	11.2	23.4	82.7
Depreciation	2,575.4	2,894.7	4,661.2	9,681.4
Interest	231.4	331.4	1,484.6	4,557.7
Other Income	1,965.0	2,021.5	2,343.2	3,830.7
PBT	14,244.5	15,575.5	16,897.8	27,413.6
Less: Exceptional Items	677.9	1,307.5	0.0	0.0
Total Tax	2,772.0	3,605.2	4,224.4	6,853.4
PAT before MI	10,794.6	10,662.8	12,673.3	20,560.2
Minority Interest	27.1	33.6	0.0	0.0
PAT	10,752.2	10,567.5	12,593.6	20,480.5
Adjusted PAT	**11,443.2**	**12,368.4**	**12,593.6**	**20,480.5**
Growth (%)	14.5	8.1	1.8	62.6
EPS (Adjusted)	**47.7**	**51.6**	**52.5**	**85.4**

Source: Company, ICICI Direct Research, *assumed consolidation of Organon from Q4FY27

Exhibit 8: Cash flow statement (Proforma*) ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Profit/(Loss) after taxation	13275.3	10567.5	12593.6	20480.5
Depreciation	2575.4	2894.7	4661.2	9681.4
(Inc)/Dec in Current Assets	-1845.3	-5822.5	-13017.9	-27373.3
(Inc)/Dec in Current Liabilities	1521.8	2363.9	5634.8	10468.7
Others	-1455.0	331.4	1484.6	4557.7
CF from operation Activities	**14072.1**	**10335.0**	**11356.3**	**17815.0**
Purchase of Fixed Assets	-7396.1	-2722.0	-110600.0	-2500.0
(Inc)/Dec in Investments	-4108.4	-1189.3	12000.0	0.0
Others	869.8	1102.5	-248.2	-265.5
CF from Investing Activities	**-10634.7**	**-2808.8**	**-98848.2**	**-2765.5**
Inc / (Dec) in Loan Funds	-4064.7	2853.0	89800.0	-8200.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Dividend and dividend tax	-3617.3	-3358.6	0.0	0.0
Other Financial Activities	-223.8	-331.4	-1484.6	-4557.7
CF from Financing Activities	**-7905.8**	**-837.0**	**88315.4**	**-12757.7**
Cash generation during the year	-4345.4	6689.3	823.6	2291.8
Op bal Cash & Cash equivalents	9285.7	4940.3	10022.4	10846.0
Closing Cash/ Cash Equivalent	**4940.3**	**10022.4**	**10846.0**	**13137.7**
Free Cash Flow	**6676.0**	**7613.1**	**-99243.7**	**15315.0**

Source: Company, ICICI Direct Research, * assumed consolidation of Organon from Q4FY27

Exhibit 9: Balance Sheet (Proforma*) ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Equity Capital	239.9	239.9	239.9	239.9
Reserve and Surplus	71,978.1	77,579.8	90,173.4	1,10,653.9
Total Shareholders funds	72,218.0	77,819.7	90,413.4	1,10,893.8
Total Debt	2,359.7	5,212.7	95,012.7	86,812.7
Deferred Tax Liability	192.4	383.5	410.3	439.0
Minority Interest	267.9	306.9	306.9	306.9
Other LT Liabilties & LT Prov	872.2	1,421.7	1,521.3	1,627.7
Total Liabilities	**75,910.3**	**85,144.4**	**1,87,664.4**	**2,00,080.1**
Gross Block - Fixed Assets	42,806.6	49,256.5	1,59,356.5	1,61,356.5
Accumulated Depreciation	23,831.2	26,725.9	31,387.1	41,068.5
Net Block	18,975.4	22,530.6	1,27,969.4	1,20,288.0
Capital WIP	6,644.0	2,916.0	3,416.0	3,916.0
Total Fixed Assets	25,619.3	25,446.6	1,31,385.4	1,24,204.0
Investments	18,353.8	19,543.1	7,543.1	7,543.1
Deferred tax assets	4,407.6	3,975.3	4,253.6	4,551.4
Goodwill on Consolidation	8,939.4	9,279.0	9,279.0	9,279.0
LT Loans, Advances & Asset:	1,140.6	918.1	982.3	1,051.1
Cash	4,940.3	10,022.4	10,846.0	13,137.7
Debtors	13,046.1	15,396.0	20,757.3	33,934.4
Loans and Advances	48.4	51.7	55.3	59.2
Inventory	10,243.3	10,442.2	17,490.9	31,036.7
Other current assets	5,361.8	8,632.2	9,236.4	9,883.0
Total Current Assets	33,639.9	44,544.4	58,385.9	88,051.0
Creditors	6,184.3	6,705.6	11,478.4	21,024.9
Provisions & other current lia	10,005.9	11,856.5	12,686.5	13,574.5
Total Current Liabilities	16,190.3	18,562.1	24,164.9	34,599.4
Net Current Assets	17,449.6	25,982.4	34,221.0	53,451.6
Application of Funds	**75,910.3**	**85,144.4**	**1,87,664.5**	**2,00,080.1**

Source: Company, ICICI Direct Research, * assumed consolidation of Organon from Q4FY27

Exhibit 10: Key ratios (Proforma*)

(Year-end March)	FY25	FY26E	FY27E	FY28E
Per share data (₹)				
Adjusted EPS	47.7	51.6	52.5	85.4
BV per share	301.0	324.4	376.9	462.3
Dividend per share	14.0	14.0	0.0	0.0
Cash Per Share	20.6	41.8	45.2	54.8
Operating Ratios (%)				
Gross Margin	79.6	79.7	74.6	71.5
EBITDA Margin	28.7	29.2	26.4	29.5
PAT Margin	21.8	21.5	16.1	16.0
Inventory days	348	327	320	310
Debtor days	91	98	97	97
Creditor days	210	210	210	210
Asset Turnover	1.2	1.2	0.5	0.8
EBITDA Conversion rate	93.3	61.6	54.9	47.1
Return Ratios (%)				
RoE	15.8	15.9	13.9	18.5
RoCE	20.2	19.6	10.0	16.4
RoIC	27.0	26.4	9.8	16.3
Valuation Ratios (x)				
P/E	38.6	39.3	33.0	20.3
EV / EBITDA	26.4	23.5	23.8	12.8
EV / Net Sales	7.6	6.9	6.3	3.8
Market Cap / Sales	7.9	7.2	5.3	3.2
Price to Book Value	5.7	5.3	4.6	3.7
Solvency Ratios				
Debt / EBITDA	0.2	0.3	4.6	2.3
Debt / Equity	0.0	0.1	1.1	0.8
Current Ratio	1.8	1.9	2.0	2.2
Working Capital Cycle	228	215	207	197

Source: Company, ICICI Direct Research, * assumed consolidation of Organon from Q4FY2E, FY27E return ratios appear lower as full-year assets are compared against just one quarter of earnings

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