

FIRST LIGHT

02 February 2026

RESEARCH

INDIA STRATEGY | FY27 BUDGET REVIEW

Continues to lay building blocks for the long term. Unlikely to be a short-term market catalyst

BOB ECONOMICS RESEARCH | BUDGET FY27

Analysis of Union Budget 2026-27

SUN PHARMA | TARGET: Rs 2,109 | +32% | BUY

All round beat; growth momentum to continue

SUMMARY

INDIA STRATEGY: FY27 BUDGET REVIEW

- Budget 2026 largely met muted expectations around it as much had been accomplished in and outside previous budgets
- Believe by itself it will not move earnings materially for FY27 but lays ground for better growth from a medium to long term perspective
- In 2026, paper supply will absorb domestic flows while valuation, AI driven faster earnings growth in other EMs may keep FPIs disinterested

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INDIA ECONOMICS: BUDGET FY27

To arrive at budget ratios, government makes some critical assumptions.

Government expects nominal GDP to rise by 10% in FY27, recovering from 8% growth in FY26. Overall tax revenue-GDP is estimated to remain broadly stable at 11.2% in FY27BE. Direct tax-GDP ratio is expected to increase to 6.9% from 6.8% last year. Indirect tax-GDP ratio will remain steady at 4.3% as per FY27BE. Capex is expected to rise by 11.5% in FY27BE to Rs 12.2 lakh crore following 4.2% growth registered in FY26RE (Rs 11 lakh crore). Overall size of the budget, as % of GDP, has been brought further down to 13.6% in FY27BE from 13.9% in FY26RE. Fiscal deficit ratio in FY27BE is targeted at 4.3%, down from 4.4% in FY26RE.

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SUN PHARMA

- Domestic sales growth driven by volume growth of 6.3% vs IPM volume growth of 1.2% due to leadership position across 14 categories
- Global innovative sales ex-of milestone income contributed 21% of total sales, with milestone contribution increasing to 24% of total sales
- On a strong innovative portfolio, we continue to ascribe a PE of 34x and roll forward to Dec'27 EPS to arrive at TP of Rs 2,109. Maintain BUY

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FY27 BUDGET REVIEW

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With much accomplished in and outside earlier budgets market went into the current one with low expectations: Income Tax giveaway in FY26 budget, GST rate rationalization from September 2025, Monetary easing (repo rate cut by 125bps over the last 12 months) were among those actions. After supporting capex since Feb 2021, FY26 saw a pivot towards supporting consumption. FY27 budget seems balanced.

Key asks going into the budget FY27: (1) Keep growth going at a reasonable clip through both balanced capex and consumption growth (2) support areas of the economy which have been impacted by US tariffs and also those that could drive exports through the various FTAs being signed by India (with EU, UK, etc). (3) thrust on generating employment (4) get recent depreciation of INR under control (5) keep cost of capital low by keeping 10-year G sec yields under control. They hit one year peak of ~6.7% despite repo rate cuts of 125 bps in the last 12 months.

See market likely to trade in a large range in 2026: With Nifty earnings growth expected to pick up in FY27 (~17% based on Bbg) after a lackluster FY26 (~1%), and a lower valuation premium vis-à-vis EM peers there is a widespread expectation that Indian equities will do well in 2026 relative to 2025 (Nifty up ~10.5% in local currency terms). AI/Digital driven faster and supposedly structural earnings growth for some key corporates in Taiwan, South Korea and China is likely to keep FPIs from looking at India in a meaningful way. Domestically, strong retail flows into equities have been absorbed by large supply of paper through IPOs, FPOs and QIPs. Consensus view is that 2026 is going to be as strong on this front if not stronger than 2025. We therefore think that while easing valuation premium and the structural earnings compounding story will keep the market from falling too much, the above two points will keep the market reignited. The change in taxation on Buybacks may help support stock prices.

Sectors that are likely to outperform: Prefer domestic sectors at reasonable valuations. BFSI is the only sector that fits that description. In many other domestic sectors, we believe valuations are not reasonable as they seem to be more than adequately pricing in the earnings turnaround from various fiscal and monetary policy actions and hence the need to go stock by stock.



BUDGET FY27

01 February 2026

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Economist

Glide path

- Government has committed that “starting FY27 till FY31, the Government would endeavour to keep fiscal deficit in each year such that the Central Government debt is on declining path”.
- In the speech, FM reiterated that “Central Government would target reaching a debt-to-GDP ratio of 50±1% by FY31”.
- Government aims to lower its debt-GDP ratio from 56.1% in FY26RE to 55.6% in FY27BE.
- The FY26RE print also includes the liabilities on account of investment in Special Securities of the States, under the NSSF, which are expected to be 0.7% of GDP.

Tax collections

- Gross tax collections are estimated to register significant incremental improvement in FY27BE compared with last year (Rs 3.3 lakh cr).
- This will be driven by double-digit increase in both corporate and income tax receipts.
- This also implies that corporate profitability is expected to maintain momentum.
- Indirect tax receipts are expected to come down marginally, noting the impact of rationalization of GST rates.
- This decline will be compensated by expected increase in both customs and excise collections.



BUY**TP: Rs 2,109 | ▲ 32%****SUN PHARMA**

| Pharmaceuticals

| 01 February 2026

All round beat; growth momentum to continue

- Domestic sales growth driven by volume growth of 6.3% vs IPM volume growth of 1.2% due to leadership position across 14 categories
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Earnings upbeat – Sales grew by 13% YoY to Rs 155 bn, driven by year-on-year growth of 16% in the domestic region, 28% in emerging markets (EMs), 21% in the ROW region and 6% in the US region; which was offset by 5% decline in the API sales. During the quarter, there was a milestone income of USD55mn from the ROW market (Rs4.9bn), excluding which the sales rose by 10% YoY. Healthy product mix led to an all-time high Gross Margin of 81% and EBITDA margin of 30.9%. However, excluding for the milestone income, Gross Margin was at 80.4% and EBITDA Margin at 28.6%. During the quarter, there was an exceptional item of Rs 4.8bn recorded, where Rs 3.7bn was allotted to the International Labour Code and the balance to GSMDL settlement. Adjusting against milestone and exceptional costs, PAT reported 6% decline YoY to Rs 32.1bn.

Global innovative sales on new launches – During the quarter, SUNP's global innovative sales went up by 14% YoY to USD 423 mn. Sun also witnessed a growth of 22% YoY to USD 55 mn in its milestone income from the RoW region, while ex-of milestone, global innovative sales rose by 13% to USD 368 mn. The growth was driven by new launches like Unloxcyt and Illumya in the US and domestic regions, respectively. Global innovative sales gaining traction from both US and non-US regions, thereby clocking sales of USD 1bn in 9MFY26, ex-of milestone. As both the newly launched drugs are witnessing healthy early feedback, we expect FY26E global innovative sales to report USD ~1.4bn.

Domestic region continues to grow in double digits – Domestic sales were 5% above our estimates to Rs 50bn. The growth is driven by volume growth of 6.3% vs IPM volume growth of 1.2% and 12 new launches during the quarter. Volume growth was driven by sustaining leadership position in Rx across 14 Dr's categories. This has led to increase in Sun's market share to 8.4% as on Dec'25 MAT vs the earlier market share of 8.1%. Going forward, SUNP is expected to launch Semaglutide injectables on the 1st day of LoE and expects enhanced access to the product. Given its unwavering leadership in the IPM, we expect Sun to continue surpassing IPM growth and report 12% CAGR from FY26-28E to Rs 243.5bn in FY28E.

Key changes

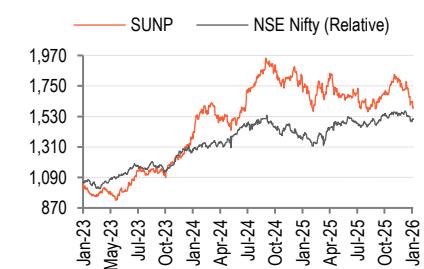
	Target	Rating
Ticker/Price	SUNP IN/Rs 1,595	
Market cap	US\$ 41.6bn	
Free float	45%	
3M ADV	US\$ 40.9mn	
52wk high/low	Rs 1,851/Rs 1,548	
Promoter/FPI/DII	54%/16%/20%	

Source: NSE | Price as of 30 Jan 2026

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	525,785	580,124	639,439
EBITDA (Rs mn)	153,869	168,339	193,436
Adj. net profit (Rs mn)	118,260	118,199	137,519
Adj. EPS (Rs)	49.3	49.3	57.3
Consensus EPS (Rs)	49.3	48.3	55.3
Adj. ROAE (%)	16.9	15.2	15.6
Adj. P/E (x)	32.4	32.4	27.8
EV/EBITDA (x)	26.5	24.6	22.0
Adj. EPS growth (%)	16.2	(0.1)	16.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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