

BUY

TP: Rs 1,993 | ▲ 16%

SUN PHARMA

| Pharmaceuticals

| 23 May 2025

Specialty launches to contribute 20% of global specialty sales

- Sales/EBITDA/APAT were lower than our estimates by 3.5%/9.6%/29.4%. ETR for 4QFY25 stood at 32.9% including 1x tax expense of Rs 3.7bn
- USD100mn cost to be incurred in FY26 towards the launch of new products, which can contribute ~20% of global specialty sales in FY27
- We cut our EPS by 10% in FY26 and 8% in FY27 on higher ETR. Maintain BUY; cash balance of USD3bn; ascribe PE of 35x onFY27E

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Weak 4Q: SUN reported a weak set of numbers on all counts where sales/EBITDA/APAT grew by 8%/10.8%/-19% respectively. Sales were driven by 14% growth in the domestic region, 11% in EMS, 6% in ROW and 2% in the US. Healthy product mix led to sustenance of gross margin at 79.6%. However, higher SG&A costs resulted in EBITDA margin being at 26.4%. During the quarter, there was an exceptional loss of Rs 3.6 bn and tax expense of Rs 3.8bn, allocated towards various litigation charges; partially offset by a gain of Rs 2.9bn from forex gains. Due to exhaustion of tax losses, ETR was higher, which led to decline in PAT by 21%; however, adjusted for exceptional items, PAT was lower by 19%.

Global specialty sales to be driven by new launches: Global specialty sales in 4QFY25 grew by 9% YoY to USD295 mn and contributed 20% of sales, and USD 1,216 mn in FY25, a growth of 17%. The growth was driven by key products like Ilumya, Cequa, Winlevi, Odomzo etc. In FY25, global Ilumya sales stood at USD 681 mn, accounting for 56% of specialty sales. Going forward, management does not expect a material change in the growth momentum of Ilumya sales amidst brands like Stella, Humaira going off patent, as it will be offset through the launch of another indication (psoriatic arthritis). Management expects to launch Leqselvi in 2QFY26, though under litigation and Unloxcyt post the completion of Checkpoint's merger. The company intends to spend USD100 mn as a launch cost, which would lead to meaningful sales and is seeking a partner to launch MM-II. Due to these launches, we expect global specialty sales to grow at 14% CAGR from FY25-27 to USD 1,580 mn in FY27E.

Domestic sales growth momentum likely to sustain: Domestic sales grew by 14% in 4QFY25, driven by volume growth and new product launches (10 products launched in 4QFY25) and higher MRs (10,000 MRs). SUN is ranked No.1 by prescription with 13 different doctor categories having 8.3% market share as on Mar'25. Going forward, growth will continue being driven by new product launches likely in the Anti-Diabetes and Weight Management space; and volume growth. Hence, we expect sales to grow at 9% CAGR from FY25-27 to Rs 200 bn in FY27E.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SUNP IN/Rs 1,719
Market cap	US\$ 47.9bn
Free float	45%
3M ADV	US\$ 53.3mn
52wk high/low	Rs 1,960/Rs 1,377
Promoter/FPI/DII	54%/16%/20%

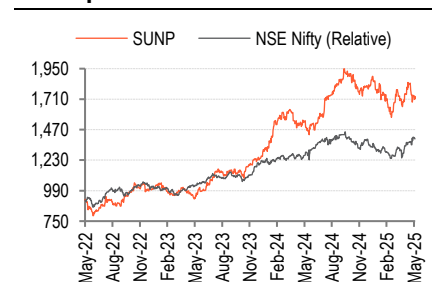
Source: NSE | Price as of 22 May 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	525,785	564,062	610,227
EBITDA (Rs mn)	153,869	160,622	182,964
Adj. net profit (Rs mn)	118,260	117,813	135,950
Adj. EPS (Rs)	49.3	49.1	56.7
Consensus EPS (Rs)	45.7	55.2	61.3
Adj. ROAE (%)	16.9	15.2	15.4
Adj. P/E (x)	34.9	35.0	30.3
EV/EBITDA (x)	25.6	24.1	20.8
Adj. EPS growth (%)	16.2	(0.4)	15.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



US sales impacted by change in insurance strategy: During 4QFY25, in CC terms, US sales declined by 3% to USD 464 mn. Out of this, US specialty sales stood at USD 266 mn; a growth of 9%. Overall US sales impacted by generic segment, due to immense competition, non-meaningful sales in gRevlimid and change in insurance strategy in Jan'25 and Feb'25. Going forward, management expects the generic segment to be competitive and specialty sales to be driven by the growth in existing products and new launches like Leqselvi, Unloxcyt and MMII. Hence, we expect sales to grow at 6% CAGR from FY25-27E.

USD100 mn launch cost to marginally dent EBITDA margin in FY26: Due to geopolitical woes of tariffs, MFN pricing and currency fluctuation, management has guided for mid-high single-digit growth; and expects a one-time cost of USD 100 mn for the launch of Leqselvi and ULOXCYT in the US market. Hence, we expect EBITDA margin to be at 28.5% in FY26e. However, after the launch, we expect these products to contribute meaningfully and SG&A cost rationalisation to aid in EBITDA margin clawing back to 30% in FY27E.

Outlook and Valuations - Considering various macro issues like tariff woes and MFN pricing in the US and currency risk, we expect the overall sales growth to be lower in FY26 than FY25. Also, management expects to incur an additional USD 100mn towards the launch of Leqselvi and Unloxcyt. Hence, we expect EBITDA margin in FY26 to be lower ~80bps YoY. Management also expects tax rate to be higher from FY26, therefore we have cut our EPS estimates by 10% to Rs 49.1 in FY26E and 8% in FY27E to Rs 56.7.

However, SUN has a huge cash balance of USD 3bn on a consolidated basis, which would be utilised towards acquiring assets and spent towards R&D. Specialty R&D contributes ~35% of the total R&D cost. We believe the launch of Leqselvi and Unloxcyt can add meaningfully to the specialty portfolio (~20% of the total global specialty sales); hence, we maintain BUY. At CMP, the stock trades at a PE of 35x on FY26 and 30x on FY27, and due to higher cash balance and strong specialty portfolio, we ascribe a PE of 35x to arrive at TP of Rs 1,993 (earlier TP Rs 2,086).

Fig 1 – Financial Highlights

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY24	FY25	FY26E	FY27E
Net Sales	129,588	119,829	8.1	136,755	(5.2)	484,969	525,785	564,062	610,227
Total Expenses	95,340	88,914		94,831		355,085	371,916	403,440	427,263
(%) of net sales						73	71	72	70
Raw material consumed	26,372	23,804	11	27,405		100,784	104,467	112,812	122,045
(%) of net sales	20.4	20		20		20.8	19.9	20.0	20.0
Staff cost	24,885	22,993	8	25,523	(2.5)	94,291	99,731	106,991	115,748
(%) of net sales	19.2	19.2		18.7		19	19	19	19
R&D cost	8,166	9,000	(9)	8,450	(3.4)	31,776	32,484	36,664	39,665
(%) of net sales	6.3	7.5		6.2		6.6	6.2	6.5	6.5
SG&A	35,917	33,116	8	33,453	7.4	128,235	135,234	146,972	149,805
(%) of net sales	27.7	27.6		24.5		26.4	25.7	26.1	24.5
EBITDA	34,249	30,915	10.8	41,924	(18.3)	129,884	153,869	160,622	182,964
Depreciation	6,638	6,504	2.1	6,306	5.3	25,566	25,736	26,977	28,279
EBIT	27,611	24,412	13.1	35,618	(22.5)	104,317	128,133	133,646	154,685
Interest	491	736	(33.2)	515	(4.6)	2,385	2,314	1,303	1,040
Other Income	6,129	6,059	1.1	4,656	31.62	13,542	19,650	16,739	18,109
PBT	33,248	29,735	11.8	39,759	(16.4)	115,474	145,470	149,082	171,753
Less: Taxation	10,937	1,489		5,589		14,395	27,720	29,816	34,351
Less: Minority Interest	107	120		141		(721)	(511)	1,452	1,452
PAT	22,204	28,126	(21.1)	34,030	(34.8)	101,801	118,260	117,813	135,950
Exceptional items	(704)	(1,580)		(4,995)		(4,943)	(6,779)	0	0
Adjusted PAT	21,499	26,546	(19.0)	29,034	(26.0)	96,857	111,482	117,813	135,950
Key Ratios (%)									
Gross Margin	79.6	80.1	(49)	80.0	(31)	79.2	80.1	80.0	80.0
EBITDA Margin	26.4	25.8	63	30.7	(423)	26.8	29.3	28.5	30.0
Tax / PBT	32.9	5.0		14.1		12.5	19.1	20.0	20.0
NPM	17.1	23.5		24.9		21.0	22.5	20.9	22.3
EPS (Rs)	9.0	11.1		12.1		42.4	49.3	49.1	56.7

Source: Company, BOBCAPS Research

Fig 2 – Revenue Mix

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY24	FY25	FY26E	FY27E
Formulation	122,235	113,261	7.9	128,258	(4.7)	455,708	497,420	532,407	576,845
Domestic	42,130	37,078	13.6	43,004	(2.0)	148,893	169,230	182,814	200,138
Exports	80,105	76,182	5.1	85,254	(6.0)	306,815	328,190	349,593	376,707
US	40,204	39,544	1.7	40,030	0.4	153,493	162,403	170,192	183,307
EM	22,561	20,348	10.9	23,384	(3.5)	86,195	94,160	102,633	111,870
ROW	17,340	16,290	6.4	21,840	(20.6)	67,128	71,627	76,767	81,530
APIs and others	5,921	4,873	21.5	6,112	(3.1)	21,877	22,994	25,547	26,773
Net Sales	128,156	118,133	8.5	134,369	(4.6)	477,585	520,413	557,954	603,618
OOI	1,433	1,696	(15.5)	2,385	(39.9)	7,384	5,372	6,108	6,608
Revenue	129,588	119,829	8.1	136,755	(5.2)	484,969	525,785	564,062	610,227

Source: Company, BOBCAPS Research

Earnings Call Highlights

Guidance

Sales – Mid-to-high single-digit consolidated top-line growth for FY26.

Other expenses - Looking to invest approximately \$100 mn additionally on the commercialisation of new specialty product.

R&D - R&D spend to be 6% to 8% of sales for FY26.

Tax Rate - ETR for Q4FY25 was 19.8% vs 5.1% in Q4FY24. Expect the tax rate to continue going up in FY26.

India Segment –

Growth – India sales grew by 13.7% YoY in 4QFY25, driven by volume growth and new product launches; launched 10 new products during the quarter.

New Launches – In FY26, expect to launch products in the Anti- Diabetes and Weight Management space.

Market share - Market share increased from 8% in FY24 to 8.3% in FY25, as per AIOCD AWACS MAT Mar25 data.

US segment

Growth - Overall US business grew by 3.6% to \$1,921 mn for FY25. The growth was driven by specialty products like Ilumya, CEQUA, WINLEVI, and ODOMZO, but offset by a decline in generics for the full year. Generic business declined due to additional competition in certain products. In Q4FY25, US sales reported growth of USD 464 mn.

Revlimid - Sales in Q4 was similar to Q3 and that was not very significant.

Price erosion - Product specific, continue to see pressure on pricing.

Specialty products

Leqselvi – Expect to launch this product in 2QFY26 in the US. They believe it is a competitive product. However, since the launch is delayed by ~3 quarters, the team will try and make up for that lost time by increasing focus and investment on the product to try and mitigate it to the extent they can.

Unloxcyt – Given that the competitors have multiple indications and Sun has only one, they will be able to give more attention and time to one single indication and try and be the best they can in the arena that they compete in.

Emerging Markets/ ROW

Growth - Underlying growth in constant currency terms was 11.5% YoY for Q4. Emerging markets accounted for 17.6% of the total consolidated revenue for Q4.

Key Markets - Amongst the larger markets in local currency terms in the emerging markets, Romania, Russia and Brazil have done well.

Global Specialty

Sales - In FY25, global specialty sales were up 17.1% to reach USD 1,216 mn. In Q4FY25, global specialty sales were up 8.6% to reach USD 295 mn.

Ilumya sales - Global Ilumya sales for the year were up 17% to USD 681 mn. With Humaira and Stellara going off patent, there will be a small impact; the product can continue to be a growth driver in the existing currency as well as with the new indication that will come in.

MM-II - Seeking a partner for future development and commercialization of MM-II in certain geographies. Management continues to believe in the product's potential.

GL0034 - Planning a trial of GL0034 in Type 2 diabetes as its first indication.

R&D

R&D Pipeline - Continue to invest in building R&D pipeline for global generics and specialty businesses. Consolidated investments towards R&D for Q4FY25 stands at 6.4% of sales. The Specialty R&D accounted for 36% of total R&D spend for the quarter.

Generic R&D - On the non-specialty side, absolute amount spent by Sun Pharma is largely, similar in last four years, about \$230 mn.

Cash – Consolidated cash on the books is USD 3bn and generating ~USD 1 bn FCF. Management continues to look at acquisitions which will help them create value.

Valuation Methodology

SUN has reported a weak set of numbers in 4QFY25, due to lower US sales affected by competition in the generic segment and higher SG&A cost; leading to EBITDA margin at 26.4%. Also, due to exceptional cost incurred towards litigation and higher tax rate due to exhaustion of tax losses, PAT lowered by 21% YoY and APAT by 19%.

Going forward, due to various macro issues like tariff woes and MFN pricing in the US and currency risk, we expect overall sales growth to be lower in FY26 than FY25. Also, management expects to incur an additional USD 100mn towards launch of Leqselvi and Unloxcyt; therefore, we expect EBITDA margin in FY26 to be lower ~80bps YoY. Management also expects tax rate to be higher from FY26; hence, we have cut our EPS estimates by 10% to Rs 49.1 in FY26E and 8% in FY27E to Rs 56.7.

However, SUN has a huge cash balance of USD 3bn on a consolidated basis, which would be utilised towards acquiring assets and spent towards R&D. Specialty R&D contributes ~35% of the total R&D cost. We believe the launch of Leqselvi and Unloxcyt can add meaningfully to the specialty portfolio (~20% of the total global specialty sales), hence, we maintain BUY. At CMP, the stock trades at a PE of 35x on FY26 and 30x on FY27, and due to higher cash balance and strong specialty portfolio, we ascribe a PE of 35x to arrive at TP of Rs 1,993 (earlier TP Rs 2,086).

Fig 3 – Change in Estimates

(Rs mn)	New		Old		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	564,062	610,227	581,224	646,918	(3.0)	(5.7)
EBITDA	160,622	182,964	170,813	1,93,354	(6.0)	(5.4)
EBITDA margin (%)	28.5	30.0	29.4	29.9	-91.25	9.44
EPS (Rs)	49.1	56.7	54.6	61.70	(10.1)	(8.2)

Source: Company, BOBCAPS Research

Key Risks

Key downside risks to our estimates:

- any regulatory hurdle affecting the completion of Checkpoint's acquisition
- continued regulatory hindrances to plants under USFDA scrutiny
- deterioration in the US generic pricing environment
- reduced market share and heightened competition for gRevlimid

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Total revenue	438,857	484,969	525,785	564,062	610,227
EBITDA	121,740	129,884	153,869	160,622	182,964
Depreciation	25,294	25,566	25,736	26,977	28,279
EBIT	96,446	104,317	128,133	133,646	154,685
Net interest inc./(exp.)	(1,720)	(2,385)	(2,314)	(1,303)	(1,040)
Other inc./(exp.)	277	13,542	19,650	16,739	18,109
Exceptional items	0	0	0	0	0
EBT	95,003	115,474	145,470	149,082	171,753
Income taxes	8,476	14,395	27,720	29,816	34,351
Extraordinary items	(1,715)	(5,305)	(8,634)	0	0
Min. int./Inc. from assoc.	873	(721)	(511)	1,452	1,452
Reported net profit	83,940	96,496	109,626	117,813	135,950
Adjustments	1,715	5,305	8,634	0	0
Adjusted net profit	85,654	101,801	118,260	117,813	135,950

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Accounts payables	56,815	56,533	61,843	64,597	70,552
Other current liabilities	31,628	36,579	44,373	44,565	44,777
Provisions	56,973	57,715	66,202	72,357	79,127
Debt funds	68,859	32,737	23,622	18,612	14,855
Other liabilities	0	0	0	0	0
Equity capital	2,399	2,399	2,399	2,399	2,399
Reserves & surplus	590,086	669,546	722,460	825,897	938,957
Shareholders' fund	592,485	671,945	724,860	828,297	941,357
Total liab. and equities	806,760	855,508	920,899	1,028,427	1,150,668
Cash and cash eq.	57,261	98,919	116,208	208,336	313,686
Accounts receivables	114,385	112,494	130,461	128,266	137,092
Inventories	105,131	98,683	102,433	100,449	100,311
Other current assets	87,984	102,335	95,956	95,956	95,956
Investments	148,301	150,258	183,538	183,538	183,538
Net fixed assets	103,670	109,090	100,359	108,106	103,294
CWIP	49,732	53,539	66,440	73,084	80,392
Intangible assets	140,297	130,191	125,503	125,503	125,503
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	806,760	855,508	920,899	1,023,239	1,139,773

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Cash flow from operations	58,821	132,005	146,594	153,991	163,601
Capital expenditures	(81,520)	(24,688)	(37,591)	(28,994)	(30,776)
Change in investments	(19,815)	(1,957)	(33,280)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(101,335)	(26,645)	(70,872)	(28,994)	(30,776)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	55,956	(36,122)	(9,115)	(5,010)	(3,757)
Interest expenses	(1,720)	(2,385)	(2,314)	(1,303)	(1,040)
Dividends paid	(15,125)	(17,387)	(19,753)	(21,228)	(24,496)
Other financing cash flows	10,347	(7,810)	(39,624)	7,044	1,818
Cash flow from financing	49,459	(63,703)	(70,805)	(20,496)	(27,476)
Chg in cash & cash eq.	6,945	41,657	4,916	104,501	105,350
Closing cash & cash eq.	57,261	98,919	103,835	208,336	313,686

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
Reported EPS	35.0	40.2	45.7	49.1	56.7
Adjusted EPS	35.7	42.4	49.3	49.1	56.7
Dividend per share	6.3	7.2	8.2	8.8	10.2
Book value per share	233.1	265.8	301.0	343.5	389.9

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
EV/Sales	9.1	8.2	7.5	6.9	6.2
EV/EBITDA	32.7	30.6	25.6	24.1	20.8
Adjusted P/E	48.1	40.5	34.9	35.0	30.3
P/BV	7.4	6.5	5.7	5.0	4.4

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Tax burden (Net profit/PBT)	90.2	88.2	81.3	79.0	79.2
Interest burden (PBT/EBIT)	98.5	110.7	113.5	111.5	111.0
EBIT margin (EBIT/Revenue)	22.0	21.5	24.4	23.7	25.3
Asset turnover (Rev./Avg TA)	14.6	14.6	14.8	14.5	14.1
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.3	1.2
Adjusted ROAE	15.5	16.1	16.9	15.2	15.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
YoY growth (%)					
Revenue	13.5	10.5	8.4	7.3	8.2
EBITDA	16.3	6.7	18.5	4.4	13.9
Adjusted EPS	11.5	18.8	16.2	(0.4)	15.4

Profitability & Return ratios (%)

EBITDA margin	27.7	26.8	29.3	28.5	30.0
EBIT margin	22.0	21.5	24.4	23.7	25.3
Adjusted profit margin	19.5	21.0	22.5	20.9	22.3
Adjusted ROAE	15.5	16.1	16.9	15.2	15.4
ROCE	14.6	15.1	16.4	14.8	16.0

Working capital days (days)

Receivables	92	85	84	83	82
Inventory	81	77	70	65	60
Payables	174	205	207	209	211

Ratios (x)

Gross asset turnover	1.3	1.3	1.3	1.4	1.4
Current ratio	2.5	2.7	2.6	2.9	3.3
Net interest coverage ratio	56.1	43.7	55.4	102.6	148.8
Adjusted debt/equity	(0.2)	(0.3)	(0.4)	(0.5)	(0.5)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

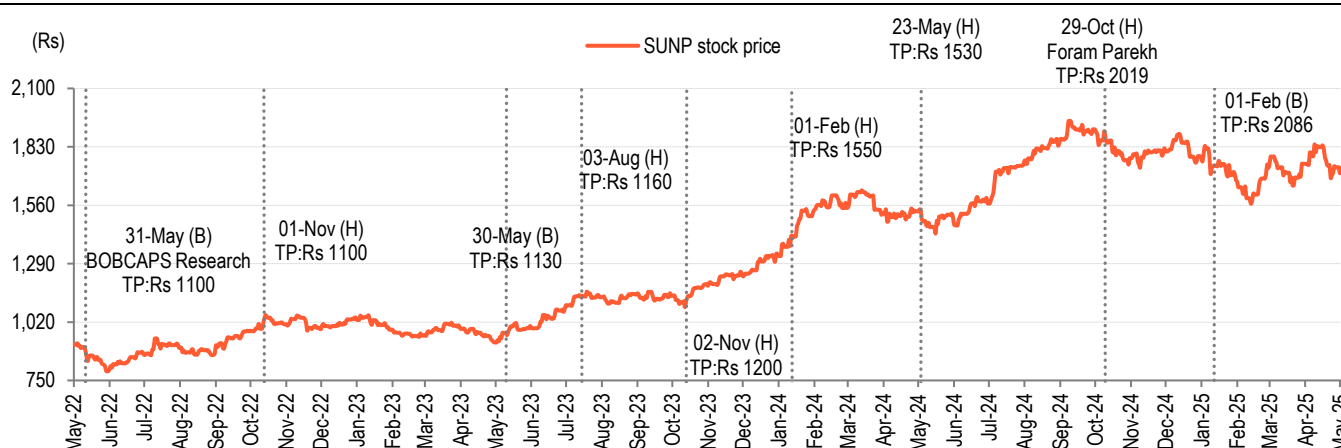
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SUN PHARMA (SUNP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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