Sun Pharmaceutical Industries Ltd.

NSE: SUNPHARMA | BSE: 524715 | Generic & specialty pharmaceuticals, India

Rating	**UNDERWEIGHT**
12-month price target	**Rs 1,500**
Current price (Sep 7)	**Rs 1,895**
Implied total return	**-21%**
Previous rating	**n.a. (initiation)**
Conviction	**Medium**

Thesis: initiating at Underweight. Sun Pharma is an excellent company priced as a story stock. The shares trade at ~34.6x FY27E EPS of Rs 54.75 - a premium multiple that assumes the specialty portfolio (Ilumya, Leqselvi, Unloxcyt) and the India business can re-accelerate EPS growth toward the high teens. The reported numbers say otherwise: FY26 EPS grew 4.9% against 11.2% revenue growth, operating margin contracted ~70bps, and free cash flow fell 26% year-over-year. We set a 12-month target of Rs 1,500, 27x FY27E EPS, a multiple consistent with ~6-8% earnings growth, implying ~21% downside.

Three things the market may be getting wrong:

- **The US business is structurally weaker than priced.** US formulations grew ~3.6% in FY26 and declined in Q1 FY27; the company has now accepted the White House's Most-Favoured-Nation (MFN) Medicaid pricing regime in exchange for deferred Section 232 tariff exposure - a durable cap on US pricing power across ~28% of revenue.
- **The $11.75bn Organon acquisition dilutes quality.** Organon generated $6.2bn of declining revenue and only $187m of 2025 net income; the implied acquisition multiple exceeds 60x earnings. A decade of balance-sheet repair (Rs 289bn net cash) is being spent on a shrinking asset.
- **Estimates embed an FY28 catch-up that requires everything to go right.** Consensus FY28 EPS of Rs 64.53 (+17.9%) needs margin recovery, Organon accretion and no tariff shock simultaneously. The FY27 EPS range across 34 analysts (Rs 45.50-62.05) is the widest in five years - revision risk is live.

Market data

Price / target	**Rs 1,895 / Rs 1,500**
52-week range	**Rs 1,548 - 2,047**
Market cap	**Rs 4.55 lakh crore**
Shares outstanding	**2.40 billion**
Avg. daily volume	**~1.6 million**
Dividend yield (FY26)	**0.83%**
Beta (1-yr)	**0.12**
Net cash (Mar-26)	**Rs 289 billion**
Next results	**Q2 FY27 - Oct 30, 2026**

In this note

Sun Pharmaceutical Industries Ltd. - Financial summary (Rs billion, fiscal year ending March)

	FY24A	FY25A	FY26A	FY27E	FY28E
Revenue	485.0	525.8	584.6	651.0	729.0
Revenue growth (%)	10.5	8.4	11.2	11.4	12.0
Operating margin (%)	21.7	24.0	23.3	n.a.	n.a.
Net income	95.8	109.3	114.8	129.7	n.a.
EPS (Rs)	39.9	45.6	47.8	54.8	64.5
EPS growth (%)	13.0	14.2	4.9	5.3	17.9
P/E at Rs 1,895 (x)	47.5	41.6	39.6	34.6	29.4
Free cash flow	75.8	82.4	59.5	~59	n.a.
Dividend yield (%)	0.85	0.93	0.91	0.87	0.77

E = consensus (S&P Global, 34 analysts); A = actual. EPS figures are adjusted. Source: company reports, S&P Global Market Intelligence via stockanalysis.com, Screener.in; independent analysis.

1. WHERE WE DIFFER FROM CONSENSUS

Consensus (34 analysts) is Buy with an average target of Rs 2,167 (+14%); the rating distribution has been deteriorating for six months (Strong Buys down from 23 to 19, Sells doubled to 3) and the lowest published target, Rs 1,830, is already below the prevailing price. We break from consensus on three counts: (i) we treat the MFN pricing agreement as structural, not transitional; (ii) we treat the Organon acquisition as capital allocation risk rather than growth; and (iii) we do not credit the FY28 consensus EPS catch-up of +17.9% until it is evidenced in margins and cash flow. Fair value of Rs 1,380-1,600 brackets our reasonable-outcome range; Rs 1,500 is the point estimate.

2. FINANCIAL SUMMARY - THE QUALITY FADE IN ONE TABLE

Metric	FY22	FY23	FY24	FY25	FY26	TTM
Revenue (Rs bn)	386.5	438.9	485.0	525.8	584.6	599.1
Revenue growth	15.4%	13.5%	10.5%	8.4%	11.2%	11.4%
Operating margin	21.1%	21.2%	21.7%	24.0%	23.3%	23.0%
Net income (Rs bn)	32.7	84.7	95.8	109.3	114.8	121.0
EPS growth	12.4%	159.6%	13.0%	14.2%	5.0%	16.5%
FCF (Rs bn)	74.9	7.9	75.8	82.4	59.5	-

- Segment mix (FY26): India Rs 193bn (+14.1%); US Rs 168bn (+3.6%, declining in Q1 FY27); Emerging Markets Rs 112bn (+18.8%); Rest of World Rs 86bn (+19.9%); API Rs 22bn. India remains the franchise asset; the concern is concentrated in the United States, the largest ex-India market at ~28% of sales.

3. THE US BUSINESS AND MFN PRICING - A STRUCTURAL CONCESSION

US formulations grew just ~3.6% in FY26 and declined year-over-year in Q1 FY27 amid intensifying generic competition. The company's September 2026 agreement with the White House - MFN pricing for Medicaid in exchange for deferred Section 232 tariff exposure - formalises what bears have argued for two years: US drug pricing is now a policy setting, not a market outcome. Two consequences follow. First, the pricing power that supported high-teens US margins in the specialty portfolio is capped for the duration of the regime; second, the tariff 'relief' is a deferral, not a removal - a future administration or a Section 232 finalisation can re-price the risk on ~28% of group revenue with little warning. We model no re-acceleration in US generics and treat specialty growth as partially offsetting, not transformative.

4. ORGANON: THE ARITHMETIC IS UNFLATTERING

Organon & Co. (2025)	Value	Comment
Revenue	$6.22 bn	Declining; legacy Merck mid-life portfolio
Net income	$187 m	Implied acquisition multiple >60x earnings
Employees	~10,000	US-centric overhead; one-third of revenue from the US
Acquisition size	$11.75 bn	Funded from Sun's net cash / new debt
Sun net cash (Mar-26)	Rs 289 bn	Erased or leveraged post-close

- The strategic case - US scale, women's health and biosimilars distribution - is intelligible, but the arithmetic is not: Sun is paying a >60x earnings multiple for a shrinking, low-margin business, diluting the very characteristics (clean balance sheet, 23% operating margin, double-digit FCF yield potential) that earned the premium multiple in the first place. Integration, litigation legacy (Medicaid fraud claims predate Sun's ownership) and divestiture execution add execution risk. Until management evidences accretion, we assume none.

5. MARGINS AND CASH FLOW - THE INFLECTION HAS BEGUN

Operating margin declined ~70bps in FY26 (24.0% to 23.3%) on higher operating costs and lower milestone income - the first contraction after several years of expansion - and management flagged continued cost pressure on the Q4 FY26 call. Free cash flow fell 26% to Rs 59.5bn; at the prevailing price the shares trade at ~48x trailing FCF (a ~1.9% FCF yield). Higher capex (Rs 36bn TTM) plus Organon integration implies FCF remains roughly flat through FY27 - the shareholder-return engine is paused precisely when the multiple is at its widest. Gross margin (78.7%) is near record levels and offers no incremental cushion from here.

6. VALUATION AND PRICE TARGET

Our Rs 1,500 target applies 27x to FY27E EPS of Rs 54.75, the multiple consistent with our assumed ~6-8% medium-term EPS growth and the sector's mid-20s to low-30s trading range. Downside scenario: 28x on the bear-case FY27 EPS of Rs 45.50 (bottom of the analyst range, a 5% EPS decline) yields ~Rs 1,270; full tariff re-imposition plus Organon dilution could test Rs 1,250. Upside scenario: if FY28 EPS of ~Rs 64.5 is delivered on schedule, the stock supports ~35x - roughly current levels. That is the point: the market is already paying for the bull case.

Scenario	EPS basis	Multiple	Target	vs. current
Bear (tariff + dilution)	Rs 45.50	28x	Rs 1,274	-33%
Base	Rs 54.75	27x	Rs 1,478	-22%
Fair-value band	Rs 54.75	25-29x	Rs 1,380-1,600	-27% to -15%
Consensus (reference)	Rs 54.75	~40x	Rs 2,167	+14%

7. CATALYSTS AND RISKS

- **Catalysts (bearish):** Q2 FY27 results (Oct 30) - a second consecutive US decline or further margin contraction; Organon funding disclosure at close; Section 232 finalisation; specialty pipeline setbacks (biosimilar entry against Ilumya; Leqselvi/Unloxcyt trajectory); downward FY27 revisions against the wide Rs 45.50-62.05 dispersion.
- **What would make us wrong:** a faster specialty ramp with FY28 EPS delivery of ~Rs 64; favourable final Section 232 terms for Indian generics; Organon integration delivering >10% EPS accretion; sustained 14%+ India growth. Two or more of these would support the current multiple and force a rating review. The macro backdrop (GDP +7.8%, CPI 4.45%, repo 5.25%, PMI 52.9) is supportive and, with a beta of 0.12, caps the pace of de-rating - hence medium, not high, conviction.

8. CERTIFICATION AND DISCLOSURES

Analyst certification (style exercise). The views expressed in this report accurately reflect the analysis underpinning the document, and no part of the author's compensation was, is, or will be directly or indirectly related to the specific views expressed herein.