

**Company Analysis: Sun Pharma**



**Submitted to**

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**Sun Pharma**

**Industry Analysis:**

The area of focus of the generic pharmaceutical sector is to manufacture and market reasonably priced replicas of name-brand medications whose patents have expired. These businesses produce pharmaceuticals that are just as safe, effective, and full of active components as the original drugs. Unlike brand-name businesses, generic companies usually focus on manufacturing, gaining regulatory permission, and selling less expensive generic equivalents rather than making significant investments in research and development (R&D). Their main objective is to enable a greater number of people to pay and obtain necessary pharmaceuticals.

**Size of Industry:**

India's pharmaceutical industry, currently valued at $50 billion, is projected to grow to $65 billion by 2024 and $130 billion by 2030. It plays a vital role in the global pharmaceutical supply chain, exporting to over 200 countries. India meets 50% of Africa's generic drug needs, 40% of the U.S. generic demand, and 25% of the UK's medicine supply, solidifying its position as a global leader in affordable and accessible pharmaceuticals¹.

**Major Players and their market share:**

* Sun Pharmaceuticals: The company emerged to take the leading market share of 15.43% owing to aggressive global expansion and R&D investments.
* Dr. Reddy's: 14.83% - Dr. Reddy's has 14.83% on hand, given to generics, biosimilars, and international market growth.
* Cipla: Cipla tops the chart with 12.61%, well known for its respiratory, cardiovascular, and anti-infective treatments.
* Lupin: Lupin leads in cardiovascular and CNS disorders due to R&D and global expansion.
* Zydus Lifesci: Zydus Life science has 8.23%; this company is focused on biosimilars, vaccines, and innovative medicines globally.

**Industry attractiveness, past growth rate:**

* 2020: Growth rate was 11–12% as a result of higher exports and domestic demand, especially for generic medications used to treat cardiovascular and respiratory ailments.
* 2021: Growth rate was around 10%, supported by India's extensive efforts to manufacture and provide vaccines during the pandemic.
* In 2022: Growth rate was 8–10%; boosted by the introduction of sophisticated generics and biosimilars.
* Growth rate in 2023: 9–10%.
* Projected for 2024: The generic pharmaceutical market in India is predicted to increase by 12–13%, reaching a valuation of $65 billion.

1. <https://www.investindia.gov.in/sector/pharmaceuticals#:~:text=India%20is%20the%20largest%20supplier,greatest%20success%20stories%20in%20medicine>.

**Industry Attractiveness:**

The growing healthcare demand and cost advantages are driving the generic pharmaceuticals industry's growth potential, which makes it appealing. On the other hand, it must contend with issues including fierce competition, uncertain regulations, and pricing pressure. In this fiercely competitive market, businesses with effective manufacturing and a robust pipeline are better positioned for success.

**Key challenges:**

* Regulatory compliance: For smaller businesses in particular, adhering to regulatory obligations can be expensive and time-consuming.
* Price restrictions: Price controls can function as a trade barrier and can be arbitrary and unexpected.
* Research and development: Making up two thirds of the worldwide pharmaceutical market, research and development is an important area that requires focus.
* Patent problems: The home industry may have difficulties with the product patent policy.
* Manufacturing standards and quality control: These two areas present significant obstacles for the sector.

**Stage in the industry life cycle:**

The generic pharmaceutical industry is generally considered to be in the maturity stage of the industry life cycle because once a brand-name drug's patent expires, a large number of generic drug manufacturers enter the market, leading to high competition and relatively stable market share with most companies focused on maintaining their position rather than significant growth.

**Role of Regulatory Forces (India):**

* Regulatory Authority: Regulated by CDSCO or, in full form, the Central Drugs Standard Control Organization
* Price Control: The Drug Price Control Orders, or DPCO in short, has put a ceiling on the price of essential drugs, which eats into the profit margins accordingly
* Compliance: Delay in regulatory approvals can delay market entry; however, India's relatively lenient regulatory regime assists the manufacturers vis-à-vis the West  
  Recent Impact: Quality control pressures drive up the cost of compliance

**Key Drivers for Industry Growth:**

* Patent Expiries: Enhanced prospects on the back of patent losses globally of branded drugs.  
  Healthcare Demand: Increased healthcare affordability and government-related schemes such as Ayushman Bharat support demand for generics.
* Market Size: The Indian Generics market is $19.44 billion in 2023, with expected growth at 8-10% per annum.
* Growing Awareness: Increasing health awareness supported by expansions in urban and rural healthcare access.

**Defensive/Cyclical/Structural and Why?**

* Defensive Industry: The industry is defensive since the demand for lifesaving medicines is inelastic even during economic downturns.
* Cost-Effective Demand: Generics are a cheaper alternative, thus ensuring stable demand irrespective of financial fluctuation.
* Worldwide Leader: India is the world's largest producer of generics, thereby reinforcing the stability of the industry.

**Porter's Analysis (India):**

* Threat of New Entrants: Moderate; entry is easier on account of lower regulatory hurdles but requires considerable investment.
* Bargaining Power of Suppliers: Low; India is the leading country in global API production, and thus, there is minimal supplier power.
* Bargaining Power of Buyers: High; the competition is relentless, government procurement, and price control put pressure on the manufacturers.
* Threat of Substitutes: Low; the generics act as substitutes for the more expensive branded drugs.
* Industry Rivalry: High; domestic manufacturers and multinationals engage in intense price competition.

**Company Analysis**

**Story: (From a small Indian startup to a global leader)**

The name “Sun Pharma” embodies the company’s aspiration to be a constant source of life and energy, akin to the sun. This name reflects the company’s commitment to reliability and trustworthiness, aiming to provide consistently high-quality pharmaceutical products.

Founded in 1983 with just two employees and five psychiatry products, Sun Pharma has undergone a remarkable journey of growth and innovation. Initially focused on the Indian market, the company established a strong presence through its network of distributors and retail outlets. Over the years, Sun Pharma expanded its product portfolio and geographic reach through strategic acquisitions, such as Ranbaxy Laboratories and Taro Pharmaceuticals, and significant investments in research and development.

**Model: The Sun Pharma Way**

Sun Pharma’s success is rooted in its unwavering commitment to quality, innovation, customer focus, and social responsibility. The company has implemented stringent quality control measures to ensure its products meet the highest standards. By investing heavily in research and development, Sun Pharma continues to develop new products and improve existing ones. The company also prioritizes excellent customer service and strong relationships with its partners. Additionally, Sun Pharma is dedicated to corporate social responsibility, implementing various initiatives to support the communities it serves.

**Does Sun Pharma have a moat, and is it sustainable?**

Sun Pharma's moat comes from its speciality generics leadership and global scale, with FY23 revenues reaching ₹431.12 billion. Strong R&D pipeline, diversified product portfolio, and leading market position in both regulated and emerging markets provide the company with long-term competitive advantage.

**Is the business scalable?**

Sun Pharma has a highly scalable business, with operations in over 100 countries and strong growth in its specialty segment, which contributed 25% to FY23 revenues. Strategic investments in biosimilars and differentiated generics further enhance scalability, thus allowing significant growth across high-margin global markets.

**Trend Analysis Conclusion**

The trend analysis from 2020 to 2024 reveals several key insights into the company’s financial performance:

* Revenue Growth: From 2020 to 2024, revenue grew by 49%, indicating steady growth, with 2024 reaching 149% of the base year.
* Cost of Goods Sold (COGS): COGS increased slower than revenue, dropping from 127% in 2023 to 116% in 2024, reflecting better cost control.

1. **Profitability Analysis**:

* EBITDA: EBITDA decreased to 68% in 2021 but also recovered to 188% in 2024, reflecting better efficiency in operations and, consequently, profitability.
* EBT and PAT: PAT grew from 55% in 2021 to 230% in 2024, benefiting from the cost-cutting and profitability enhancement achieved.
* Total Non-Current Liabilities: The non-current liabilities ratio decreased further to 67% in 2024, showing good long-term debt reduction after it had slightly gone up in 2023.
* Current Liabilities: Current liabilities shot up as high as 174% in the year 2022 but settled at around 140%, indicating capital measures in support of recovery.
* Total Assets: Assets growth also reached 126% by year 2024, probably due to some long-term assets, such as patents, customary for pharmaceutical companies.

**Common Size Analysis: Sun Pharma**

**Key Conclusions:**

* Consistent Profitability: Profitability stabilized at 20% in 2023 and 2024, reflecting strong cost management and consistent profit generation.
* Healthy Liquidity: Current assets averaged 40% of total assets, with current liabilities around 16%, indicating a solid short-term liquidity position.
* Efficient Asset Management: Non-current assets remained stable at 50% of total assets, showing efficient management of long-term investments and resources.

**Dupont Analysis:**

* Profit Margin: Sun Pharma's profit margin recovered in 2023-24 after dipping in 2021-22, which really shows an improvement in the efficiency of conversion into profits.
* Asset Turnover Ratio: The ratio has increased from 0.44x to 0.57x, thus indicating enhanced utilization of assets and better operation effectiveness to generate sales.
* Financial Leverage: The financial leverage is reduced, lessening the dependency on debt, thereby enhancing its financial stability over time.
* ROE: As depicted in the trend, this ROE has significantly increased from 2022 to 2024 as a result of increased profit margins coupled with better asset utilization, therefore reflecting improved shareholder return.

**a). Where do you see the company in the next 5 years?**

Based on the forecasted operating income, Sun Pharma seems poised for significant growth. If the company can maintain its current growth trajectory, it could become a dominant player in the pharmaceutical industry.

**b). What are the possible things that the company could do to improve its value**

* Research and Development: Continued investment in R&D could lead to innovative products, expanding the company's market share.
* Strategic Acquisitions: Acquiring smaller pharmaceutical companies with complementary product lines could accelerate growth.
* Cost Reduction: Optimizing operations and reducing costs could improve profitability.

**c). Risks associated with your recommendation**

* Competitive Landscape: The pharmaceutical industry is highly competitive. New entrants or increased competition from existing players could impact Sun Pharma's market share and profitability.
* Regulatory Risks: Changes in government regulations, such as drug pricing or patent laws, could negatively affect the company's operations.
* Economic Factors: Economic downturns or global crises could impact demand for pharmaceutical products, affecting Sun Pharma's revenue.