

India

**Neutral** (no change)

**Highlighted Companies**

**Ajanta Pharma Ltd**

ADD, TP Rs2556, Rs2289 close

A play on the branded business.

**Aurobindo Pharma**

ADD, TP Rs1340, Rs1305 close

A play on the US generics market.

**Zydus Lifesciences**

ADD, TP Rs1220, Rs1158 close

A play on complex generics in the US market.

**Summary Valuation Metrics**

P/E (x)	Mar24-A	Mar25-F	Mar26-F
Ajanta Pharma Ltd	35.92	30.85	27.15
Aurobindo Pharma	24.12	19.13	15.58
Zydus Lifesciences	30.55	26.18	24.82
P/BV (x)	Mar24-A	Mar25-F	Mar26-F
Ajanta Pharma Ltd	8.22	8.19	7.3
Aurobindo Pharma	2.56	2.29	2.02
Zydus Lifesciences	5.91	4.97	4.25
Dividend Yield	Mar24-A	Mar25-F	Mar26-F
Ajanta Pharma Ltd	2.23%	2.18%	2.18%
Aurobindo Pharma	0.46%	0.54%	0.61%
Zydus Lifesciences	0.6%	0.6%	0.6%

# Pharmaceuticals

## 1Q preview: A good start to FY25F likely

- India business should see a double-digit growth in 1QFY25F. Industry data shows a 9%+ growth (Apr and May 2024 combined).
- Margins should improve QoQ, given a weak 4QFY24 base, and strong India and US (gMirabegron launch, higher gRevlimid sales) markets.
- Strong numbers likely from Zydus Lifesciences, Torrent Pharma, Sun Pharma, Aurobindo & Lupin while Dr. Reddy's Labs may post relatively weak numbers.

### Low double-digit growth in India business likely

1QFY25F should see a double-digit growth in India for most companies under our coverage universe. Industry data shows a 9%+ growth in Apr and May 2024 (combined), led by cardiac/gastrointestinal while anti-infectives have underperformed. We build in a 9-11% YoY growth for our coverage universe, with Ajanta Pharma/Zydus Lifesciences/Sun Pharma/Torrent Pharma /Ipca Labs & Alkem Labs at the higher end of the band. The NLEM portfolio may witness moderate growth due to lack of price hikes this year.

### US biz to benefit from higher gRevlimid sales and gMirabegron launch

While on a broader basis, we expect the pricing dynamics to remain favourable for the entire pharma sector, companies like Zydus Lifesciences (US\$360m, +18% QoQ) and Lupin (US\$218m, +4% QoQ) should benefit from gMirabegron launch. Sun Pharma's US generic business should stabilize with market share gains in gPentasa and gCiprodex, while its specialty business should see marginal growth QoQ. After a US\$20m one-time hit in 4QFY24, Aurobindo Pharma's US business should recover (+5% QoQ growth). We build in some moderation in Dr. Reddy's Laboratories' US sales, given additional competition in key generic products being partly negated by a higher contribution from gRevlimid.

### API companies – still some time for their full-scale recovery

We believe a full-scale recovery in Laurus Labs is still a couple of quarters away and expect another moderate quarter for the company. For Gland Pharma, while the base business is likely to be decent, Cenexi will continue to drag overall earnings. We expect QoQ margin decline in the case of Divi's Laboratories, given that seasonally 4Q is a very strong quarter.

### Outperformers/underperformers for the quarter

**Outperformers:** Zydus Lifesciences (gMirabegron launch, higher gRevlimid sales, wellness seasonality), Lupin (gMirabegron launch), Sun Pharma (market share gains in a couple of products to arrest the fall in generics business, stable specialty business), Torrent Pharma (good growth in Brazil) and Aurobindo Pharma (US sales recovery QoQ on a weak base, PenG plant commencement). **Underperformers:** Dr. Reddy's Laboratories (market share loss in key generic products).

### Outlook

We expect the sector's outperformance to continue, led by a benign US pricing environment, recovery in India growth and margin tailwinds (lower API/logistic costs). Zydus Lifesciences, Aurobindo Pharma, Ajanta Pharma and Torrent Pharma are our top picks. Any marked reversal in the US pricing environment remains a key downside risk.

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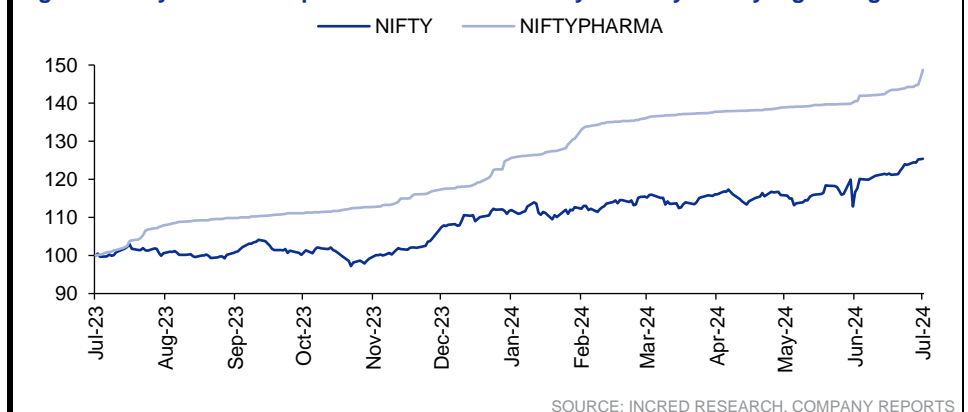
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**Figure 1: Nifty Pharma outperforms the broader Nifty index by a fairly high margin**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Pharma companies' valuation matrix

Company	Rec	Mkt Cap (US\$bn)	CMP (Rs)	Target Price (Rs)	Up/down (%)	Core EPS			Core EPS Growth (%)			P/E (x)			P/BV (x)	
						FY24A	FY25F	FY26F	FY24A	FY25F	FY26F	FY24A	FY25F	FY26F	FY25F	FY26F
Ajanta Pharma	ADD	3.4	2,267	2,556	12.8%	63.7	74.2	84.3	0.4	16%	14%	35.6	30.6	26.9	8.1	7.2
Alkem Laboratories	HOLD	7.3	5,064	5,331	5.3%	159.3	177.1	205.1	0.8	11%	16%	33.7	28.6	24.7	5.0	4.3
Aurobindo Pharma	ADD	9.1	1,304	1,340	2.8%	57.4	68.2	83.8	0.7	19%	23%	24.1	19.1	15.6	2.3	2.0
Cipla	HOLD	14.6	1,510	1,479	-2.0%	53.0	55.2	62.0	0.5	4%	12%	29.5	27.3	24.4	4.0	3.5
Divi's Laboratories	ADD	14.7	4,630	4,707	1.7%	60.3	74.0	94.1	-0.1	23%	27%	76.8	62.6	49.2	8.3	7.4
Dr Reddy's Laboratories	HOLD	13.0	6,520	6,339	-2.8%	334.6	352.6	353.5	0.2	5%	0%	19.5	18.5	18.4	3.3	2.8
Gland Pharma	REDUCE	3.6	1,840	1,768	-3.9%	46.9	56.1	70.7	-0.1	20%	26%	39.2	32.8	26.0	3.1	2.8
Ipca Laboratories	ADD	3.6	1,193	1,268	6.3%	23.3	31.1	42.3	0.3	34%	36%	55.3	38.3	28.2	4.3	3.9
Laurus Labs	REDUCE	3.1	477	307	-35.7%	3.0	7.1	11.6	-0.8	135%	64%	158.4	67.3	41.1	5.8	5.1
Lupin	ADD	9.7	1,770	1,780	0.6%	38.5	58.6	68.4	3.1	52%	17%	45.9	30.2	25.9	4.9	4.2
Sun Pharmaceutical Industries	HOLD	45.1	1,568	1,665	6.2%	42.0	46.4	55.3	0.2	11%	19%	39.3	33.8	28.4	5.2	4.6
Torrent Pharmaceuticals	ADD	11.7	2,891	2,912	0.7%	47.1	60.3	75.7	0.3	28%	25%	59.1	47.9	38.2	12.4	10.4
Zydus Lifesciences	ADD	14.0	1,162	1,220	5.0%	38.0	44.2	46.6	0.6	16%	5%	30.7	26.3	24.9	5.0	4.3

SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 3: 1QFY25F earnings for companies under our coverage

Companies	Revenue			EBITDA			EBITDA Margin			PAT		
	Rs. m	Y-o-Y (%)	Q-o-Q (%)	Rs.m	Y-o-Y (%)	Q-o-Q (%)	Margin (%)	Y-o-Y (bp)	Q-o-Q (bp)	Rs. m	Y-o-Y (%)	Q-o-Q (%)
Ajanta Pharma	11,297	11%	7%	3,173	17%	14%	28.1%	151	168	2,199	6%	8%
Alkem Labs	31,703	7%	8%	5,139	32%	28%	16.2%	309	252	4,224	47%	38%
Aurobindo Pharma	75,107	10%	-1%	15,964	39%	-5%	21.3%	445	-100	8,945	40%	-13%
Cipla	67,490	7%	10%	16,581	11%	26%	24.6%	963	322	11,354	14%	21%
Divi's Labs	20,447	15%	-11%	5,875	17%	-20%	28.7%	39	-301	4,292	21%	-20%
Dr. Reddy's Labs	70,988	5%	0%	19,638	-4%	9%	27.7%	-267	223	13,420	-4%	3%
Gland Pharma	15,945	32%	4%	3,948	34%	10%	24.8%	44	143	2,459	27%	28%
Ipca Labs	22,561	42%	11%	3,961	29%	23%	17.6%	-182	172	2,114	30%	8%
Laurus Labs	13,082	11%	-9%	2,184	31%	90%	16.7%	258	-8	533	114%	-29%
Lupin	50,640	10%	2%	10,537	62%	6%	20.8%	668	71	5,861	30%	63%
Sun Pharma	1,26,765	6%	6%	34,144	3%	10%	26.9%	-95	114	25,886	10%	-6%
Torrent Pharma	28,822	11%	5%	9,461	20%	7%	32.8%	230	66	4,803	27%	7%
Zydus Lifesciences	60,215	18%	9%	20,055	33%	23%	33.3%	386	384	14,904	35%	26%
<b>TOTAL</b>	<b>5,95,063</b>	<b>10%</b>	<b>4%</b>	<b>1,50,659</b>	<b>17%</b>	<b>11%</b>	<b>25.3%</b>	<b>139</b>	<b>158</b>	<b>1,00,994</b>	<b>18%</b>	<b>6%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly average currency rates

Quarterly Average	USD - INR	BRL - INR	EUR - INR	RUB - INR
1QFY23	77.26	15.71	82.27	1.19
2QFY23	79.82	15.19	80.37	1.33
3QFY23	82.22	15.62	84.09	1.30
4QFY23	82.26	15.83	88.25	1.13
1QFY24	82.21	16.62	89.44	1.01
2QFY24	82.65	16.95	89.97	0.88
3QFY24	83.27	16.81	89.57	0.90
4QFY24	83.04	16.78	90.19	0.91
1QFY25	83.42	16.00	89.83	0.92

SOURCE: INCRED RESEARCH, BLOOMBERG

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## Company-wise details

### Ajanta Pharma

We expect India business growth at 11% YoY, and mid-teen growth in Asia and Africa branded business. Africa institutional business should post a decline due to the preponement of shipments to 4QFY24, while the US market should see a 15-16% YoY growth. We expect 28% margins, an improvement of 170bp QoQ, given a weak 4QFY24 base.

### Alkem Laboratories

We expect India business growth at 11% YoY, 5% QoQ growth in the US market and a 5% YoY growth in RoW market on a high base. Margins should recover QoQ by 250bp to 16.2% on a weak base. The company has given guidance of flat gross margin and EBITDA margin for FY25F, led by higher R&D expenditure and CDMO plant-related costs.

### Aurobindo Pharma

The company's US business to grow to US\$452m (+US\$20m QoQ, as the 4QFY24 base was hit due to temporary plant shutdown). We expect better growth in the API segment with the commencement of the PenG plant. Margins are likely to range around 21.3%, a QoQ decline of 100bp, as PenG-related operational costs hit the base.

### Cipla

We expect a 9% YoY growth in India and flat US QoQ (at US\$228m). Volume market share in Lanreotide is stable at 19%, while for Albuterol, the market share is up at 16% (vs. 13% two-to-three months ago). We expect 24.6% margins (+320bp QoQ) on a low 4Q base.

### Divi's Laboratories

Historically, 4Q is the strongest quarter for the company with a higher contribution from the custom synthesis business, which also props up margins. We thus expect margins to decline sequentially by 300bp to 28.7%. We expect a 15% YoY revenue growth.

### Dr. Reddy's Laboratories

We expect a 2% decline in US sales to US\$386m (with market share loss in gCiprodex, gVascepa, gSuboxone and gToprol). This should be partially negated by higher gRevlimid sales. We expect a 7% YoY growth in India. We also expect a relatively weak growth in Russia (-5% YoY; 1Q is seasonally weak) while the RoW market should continue its recent momentum with a 25% YoY growth. We expect the margins to improve by 230bp QoQ due to weak base, although YoY the margins should come off by 260bp.

### Gland Pharma

While we expect the base business for Gland Pharma to do well, we believe the near-term challenges at Cenexi will persist and drag the overall numbers. We build in a 32% revenue growth (on a weak base) and margin expansion of 150bp QoQ to 24.8%.

### Ipca Laboratories

We expect a 11% YoY growth in India and a sequential growth in subsidiary Unichem. We expect the margins to improve by 180bp QoQ to 17.6%, largely led by a sequential improvement in Unichem's margins. We are not building in any scale-up in the US business yet, while we expect the international branded business to report a moderate 8% YoY growth.

**Laurus Laboratories**

We build in flat margins QoQ and expect most of the recovery to reflect from 2HFY25F. We expect a 11% YoY revenue growth.

**Lupin**

We expect a marginal growth in the US (US\$218m, +4% QoQ), led by gMirabegron. India business is likely to post around high single-digit YoY growth. Margins are likely to follow gMirabegron launch and expand by 70bp QoQ.

**Sun Pharmaceutical Industries**

The decline in its US generics business is likely to be arrested with market share gains in gCiprodex and gPentasa. We expect subsidiary Taro's sales to be flat QoQ. The specialty business is likely to marginally grow sequentially. Overall, we expect the US business (ex-Taro) to grow by 2% QoQ. India growth should be around 11% YoY. We expect QoQ margin expansion of 110bp to 26.9% (on a lower base) – margins are likely to see limited expansion in FY25F due to higher investments.

**Torrent Pharmaceuticals**

We expect QoQ improvement in the US business to US\$37m (+15% QoQ) led by oral oncology products. India business growth is likely to trend around 11% YoY while Brazil should post a 15% YoY growth on a low base. Margins should see a QoQ improvement of 60bp to 32.8%.

**Zydus Lifesciences**

We expect a strong growth QoQ led by gMirabegron launch (expect US\$55m in revenue), higher gRevlimid sales and favourable seasonality in the wellness business. We expect its India business to grow by 10% YoY. We expect margins at around 33.3%, led by gMirabegron.

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