

India

Neutral (no change)

Highlighted Companies

Ajanta Pharma Ltd

ADD, TP Rs2800, Rs3345 close

A play on the branded generics business.

Divi's Laboratories

ADD, TP Rs5649, Rs6142 close

A play on the CDMO business.

Summary Valuation Metrics

P/E (x)	Mar24-A	Mar25-F	Mar26-F
Ajanta Pharma Ltd	52.5	43.11	36.69
Divi's Laboratories	101.91	83	65.24

P/BV (x)	Mar24-A	Mar25-F	Mar26-F
Ajanta Pharma Ltd	12.01	11.83	10.34
Divi's Laboratories	12.02	11.06	9.76

Dividend Yield	Mar24-A	Mar25-F	Mar26-F
Ajanta Pharma Ltd	1.52%	1.49%	1.49%
Divi's Laboratories	0%	0%	0%

Pharmaceuticals

2Q preview: Mixed performance likely

- India business should post a 7-11% YoY growth in 2QFY25F. Industry data indicates a 7-8% growth for the industry in the same period.
- Margins are likely to be flat QoQ, led by the flattish US market & relatively weak India growth. Currency movement has been sharp and can influence margins.
- Strong results likely from Cipla, Alkem, Ipca Labs, Ajanta Pharma & Divi's Labs. Laurus Labs, Gland and Dr. Reddy's Labs may witness a relatively weak 2Q.

We expect 7-11% growth in India business

2QFY25F should see between 7-11% growth for most companies, with Ajanta Pharma, Torrent Pharma, Ipca Labs, Sun Pharmaceutical Industries (Sun Pharma) and Lupin to post earnings at the higher end of the band while Zydus Lifesciences, Cipla, Alkem Laboratories and Dr. Reddy's Laboratories likely to report earnings at the lower end of the band. Industry data suggests a 7-8% growth in 2QFY25F, with strong growth in cardiac/gastrointestinal segments and some pick-up in anti-infectives. The NLEM portfolio is likely to witness moderate growth due to lack of price hikes this year.

US business is likely to be flat-to-marginally negative

On a broader basis, we expect the pricing dynamics to remain favourable for the entire sector but 2QFY25F will likely reflect lower gRevlimid sales (Zydus Lifesciences) and market share loss in a few products (Dr. Reddy's Labs, Lupin). We expect the largest decline QoQ in Zydus Lifesciences (US\$285m, -23% QoQ due to zero gRevlimid sales), while Lupin (US\$222m, -2% QoQ; loss of market share in Albuterol/Suprep) and Dr. Reddy's Labs (US\$450m, -2% QoQ; market share loss in gCiprodex/gSuboxone/gVascepa/gToprol). Sun Pharma's US generic business should stabilize with market share gains in gPentasa/gCiprodex, while its specialty business should be flattish QoQ. Cipla should have relatively stronger US earnings (we expect US\$245m vs. guidance of US\$235-240m) led by market share gains in gAlbuterol and gLanreotide. Aurobindo Pharma is likely to report a flat US business QoQ at US\$430m (+1% QoQ).

There is still some time for a full-scale recovery of API companies

We believe a full-scale recovery in Laurus Labs is still a couple of quarters away and so we expect another moderate quarter for the company. For Gland Pharma also, we expect a weak quarter, given the planned shutdown at Cenexi. Export trends suggest that Divi's Labs should post a relatively better 2QFY25F.

Likely outperformers/underperformers for the quarter

Outperformers: Cipla, Ipca Labs, Alkem Labs, Ajanta Pharma and Divi's Labs.

Underperformers: Dr. Reddy's Labs, Laurus Labs and Gland Pharma.

Neutral: Torrent Pharma, Sun Pharma, Lupin, Zydus Lifesciences and Aurobindo Pharma.

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/logistics costs).

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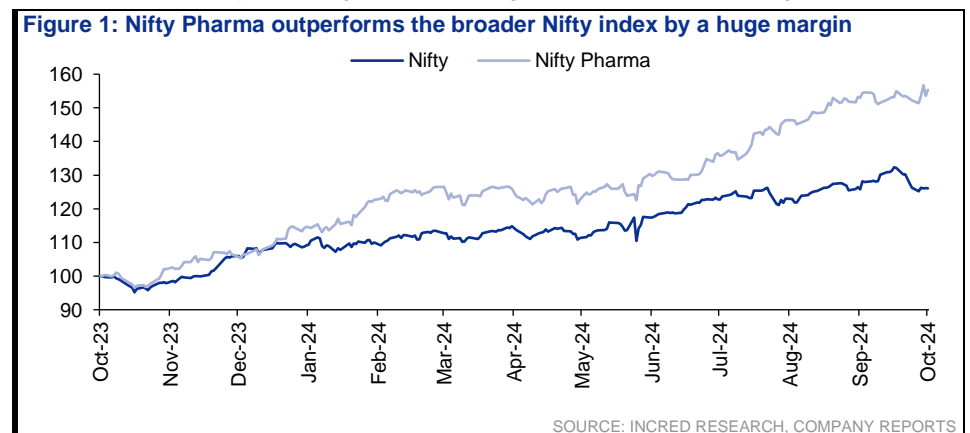


Figure 2: Pharma companies' valuation matrix

Company	Rec	MktCap (US\$bn)	Price	Target Price	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 Ltd	ADD	5.8	3,345	2,800	-16.3%	63.7	77.6	91.2	0.4	22%	17%	52.5	43.1	36.7	11.8	10.3
Alkem Laboratories Ltd	HOLD	10.2	6,191	5,935	-4.1%	159.3	186.3	212.1	0.8	17%	14%	41.2	33.2	29.2	6.1	5.2
Aurobindo Pharma	ADD	12.0	1,496	1,610	7.6%	57.4	68.3	83.9	0.7	19%	23%	27.6	21.9	17.8	2.6	2.3
Cipla Ltd	HOLD	17.7	1,596	1,643	3.0%	53.0	57.4	63.4	0.5	8%	10%	31.1	27.8	25.2	4.2	3.6
Divi's Laboratories	ADD	22.5	6,142	5,649	-8.0%	60.3	74.0	94.1	-0.1	23%	27%	101.9	83.0	65.2	11.1	9.8
Dr Reddy's Laboratories Ltd	HOLD	15.2	6,599	7,150	8.3%	334.6	362.8	356.2	0.2	8%	-2%	19.7	18.2	18.5	3.3	2.8
Gland Pharma Ltd	REDUCE	3.9	1,699	1,768	4.1%	46.9	59.0	79.4	-0.1	26%	35%	36.2	28.8	21.4	2.9	2.5
Ipca Laboratories Ltd	REDUCE	5.8	1,655	1,279	-22.7%	23.3	30.4	42.6	0.3	30%	40%	76.7	54.5	38.8	6.0	5.4
Laurus Labs	REDUCE	3.5	474	307	-35.3%	3.0	4.7	9.8	-0.8	57%	107%	157.4	100.0	48.4	6.0	5.4
Lupin Ltd	ADD	14.0	2,225	2,329	4.7%	33.5	65.3	78.6	2.5	95%	20%	66.4	34.1	28.3	6.0	5.0
Sun Pharmaceutical Industries	HOLD	62.8	1,902	1,756	-7.7%	42.0	46.4	54.9	0.2	10%	18%	47.7	41.0	34.7	6.3	5.5
Torrent Pharmaceuticals Ltd	HOLD	16.3	3,497	3,171	-9.3%	47.1	59.5	75.5	0.3	26%	27%	71.5	58.8	46.3	15.1	12.6
Zydus Lifesciences	ADD	14.7	1,064	1,330	25.0%	38.0	46.1	50.9	0.6	21%	10%	28.1	23.1	20.9	4.5	3.8

SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 3: 2QFY25F earnings of companies in our coverage universe

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	11,663	13%	2%	3,373	16%	2%	28.9%	65	6	2,400	23%	-2%
Alkem Labs	35,807	4%	18%	7,909	6%	30%	22.1%	38	201	6,606	6%	21%
Aurobindo Pharma	77,204	7%	2%	16,151	15%	0%	20.9%	148	-48	9,223	22%	0%
Cipla	70,705	6%	6%	18,372	6%	7%	26.0%	23	35	12,808	13%	9%
Divi's Labs	21,336	12%	1%	6,358	33%	2%	29.8%	471	43	4,650	34%	8%
Dr. Reddy's Labs	78,535	14%	2%	21,529	8%	1%	27.4%	-145	-30	14,837	0%	7%
Gland Pharma	13,939	1%	-1%	2,444	-25%	-8%	17.5%	-606	-133	1,406	-28%	-2%
Ipca Labs	23,487	15%	12%	4,694	46%	20%	20.0%	419	122	2,627	81%	37%
Laurus Labs	12,515	2%	5%	1,758	-6%	3%	14.0%	-130	-28	178	-52%	41%
Lupin	54,961	19%	11%	11,503	77%	15%	20.9%	437	-204	6,715	48%	87%
Sun Pharma	1,32,166	8%	4%	38,911	21%	6%	29.4%	308	53	31,362	32%	11%
Torrent Pharma	29,450	11%	3%	9,387	14%	4%	31.9%	86	26	4,751	23%	4%
Zydus Lifesciences	52,841	19%	-15%	12,218	7%	-41%	23.1%	-263	-1,045	8,374	4%	-41%
TOTAL	6,14,611	10%	3%	1,54,606	16%	0%	25.2%	126	-84	1,05,938	19%	5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly average currency rates

Quarterly Average	USD - INR	BRL - INR	EUR - INR	RUB - INR
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
2QFY25	83.77	15.10	92.00	0.94

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Company-wise details

Ajanta Pharma

We expect around 11% YoY growth in India, 17% YoY growth in Africa and 12% YoY growth in Asia branded business in 2QFY25F. We expect its margins to remain flat QoQ, as promotional spending picks up. There was a one-off expenditure of Rs300m in 1QFY25 (gratuity-related), which shouldn't recur. The tax rate is likely to be higher as Ajanta Pharma usually receives dividend from its subsidiaries in 2Q.

Alkem Laboratories

2Q is seasonally strong for anti-infectives. We expect India growth at 8% YoY. ROW markets should also fare well, given supply problems in 1QFY25 and normalization thereafter. We expect a marginal ramp-up in the US business (+5% QoQ) led by gSuprep. We expect the company's margins to ramp up to 22% with operating leverage.

Aurobindo Pharma

1QFY25 had one-off expenditure of Rs1bn, of which we expect around Rs300-400m normalization in 2QFY25F (we build in remediation expenses amounting to US\$4m vs. US\$9m in 1Q). We expect the PenG business to get optimized from 3QFY25F, although 2QFY25F margins are likely to be impacted due to lower yields at the PenG plant. We expect US sales to be largely flattish at US\$430m (+1% QoQ).

Cipla

We expect its US sales at US\$245m in 2QFY25F, led by market share gains in gLanreotide and gAlbuterol. Approval for the Hydrocortisone Succinate injection is also likely to aid US sales, as Cipla is the only approved generic. We expect India business growth to lag at around 7%YoY on a high base. Margins are likely to remain strong at 26% (+40bp QoQ).

Divi's Laboratories

Export data suggests good traction, and this should reflect in QoQ growth in 2QFY25F, thereby driving operating leverage as well (29.8% margins, +40bp QoQ).

Dr. Reddy's Laboratories

We expect a 2% QoQ decline in its US business at US\$450m in 2QFY25F, led by market share loss in key products (gCiprodex, gVascepa, gSubozone and gToprol). We expect India business (ex-Sanofi portfolio acquisition) to be weak at around 6% YoY (+15% YoY including Sanofi portfolio). We expect its margins to decline by 30bp QoQ (at 27.4%), led by weak India and US markets.

Gland Pharma

2QFY25F performance may be hit due to the planned shutdown at Cenexi. We expect margins to decline by 140bp QoQ, led by negative operating leverage. After a weak 1QFY25 performance, we expect some normalization in its US business.

Ipca Laboratories

We expect a strong performance in 2QFY25F, led by a 12% growth in India business and generics exports due to deferred supplies from 1QFY25, while branded exports are likely to remain muted at 5% YoY and the API segment is likely to post a YoY decline on a high base. We expect its margins at 20% (+120bp

QoQ), led by operating leverage benefits. We build in 10% margins for its subsidiary Unichem and 23% for the standalone entity.

Laurus Laboratories

2QFY25F performance should be quite similar to 1QFY25 and we expect a meaningful improvement from 4QFY25F, once the animal health contract starts ramping up. We build in a marginal increase in revenue, although we expect its margins to decline by 30bp QoQ on negative operating leverage.

Lupin

2QFY25F to reflect the impact of higher R&D expenditure (Rs18bn guidance for FY25F vs. Rs3.5bn in 1QFY25) - we thus build in around 20.9% margins (-210bp QoQ). We expect a 2% QoQ decline in the US business due to gSuprep, gSpiriva and gAlbuterol sales cooling off. India business is likely to continue the strong traction it gained from 1QFY25, and we expect a 13% YoY growth here. 1QFY25 had one-off expenses of Rs750m relating to gGlumetza, which should normalize.

Sun Pharmaceutical Industries

We expect a 3% QoQ growth in the US business in 2QFY25F, led by flattish volume for Ilumya and some growth in Winlevi QoQ as well as market share gains in gCiprodex and gPentasa. We expect its India business to grow by around 10% YoY. We expect its margins to show an uptick of 50bp QoQ.

Torrent Pharmaceuticals

We expect India growth of 12%YoY and flattish revenue for Brazil in 2QFY25F, largely because of the currency impact (we expect a 10% YoY growth in Brazil in constant currency or CC terms). We expect the German business to remain flat QoQ, as benefits from new tenders will reflect from 2HFY25F. We expect its margins to marginally improve by 30bp QoQ to 31.9%. 1QFY25 had one-off cost of Rs200m, which won't recur.

Zydus Lifesciences

We expect lower US business QoQ in 2QFY25F, given zero gRevlimid sales (US\$285m vs. US\$371m in 1QFY25). We expect the impact of higher competition in gAsacol and gMirabegron from 3QFY25F. India business is likely to grow by 7% YoY, although the wellness business may post a QoQ decline due to seasonality. We expect its margins at 23%. 1QFY25 had a one-off cost of Rs1.25bn, which should also see some normalization.

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