

## India

**Overweight** (no change)**Highlighted Companies****Divi's Laboratories****ADD, TP Rs6560, Rs5912 close**

A structural story on the CDMO business.

**Torrent Pharmaceuticals Ltd****HOLD, TP Rs3450, Rs3246 close**

A play on the branded generics business.

**Zydus Lifesciences****ADD, TP Rs1150, Rs853 close**

A play on the US generics business.

**Summary Valuation Metrics**

P/E (x)	Mar25-A	Mar26-F
Divi's Laboratories	74.5	58.0
Torrent	56.9	42.5
Pharmaceuticals Ltd		
Zydus Lifesciences	18.4	18.3

P/BV (x)	Mar25-A	Mar26-F
Divi's Laboratories	10.5	9.2
Torrent	14.1	11.8
Pharmaceuticals Ltd		
Zydus Lifesciences	3.6	3.1

Dividend Yield	Mar25-A	Mar26-F
Divi's Laboratories	0.0%	0.0%
Torrent	0.9%	0.9%
Pharmaceuticals Ltd		
Zydus Lifesciences	0.8%	0.8%

# Healthcare - Overall

## 4Q: Healthy India, US biz performance likely

- India business is expected to post early-teen YoY growth. The US biz is likely to post 2-12% QoQ growth while the diagnostics biz to be a mixed bag YoY.
- We expect a 12% YoY topline growth for pharma companies in our coverage, with a 175bp YoY improvement in margin and a 15% YoY earnings growth.
- Strong results are likely from Aurobindo Pharma, Divi's Laboratories, Laurus Labs, Torrent Pharmaceuticals, and Zydus Lifesciences.

### Sluggishness in acute therapies leads to weak domestic business

During 4QFY25, the domestic market clocked only a 7-7.5% growth led by chronic therapies (high-single digit growth) which was partly offset by a lower contribution from the acute therapy portfolio (mid-single digit). The quarter is likely to witness early-teen India business growth for most coverage companies, with Sun Pharmaceutical Industries and Ipca Laboratories to post India revenue growth at the higher end of the band while Dr. Reddy's Laboratories (led by Sanofi portfolio acquisition), Cipla, Lupin and Torrent Pharmaceuticals likely to report India business growth in early teens. Alkem Laboratories and Zydus Lifesciences are likely to report high mid-single digit growth.

### Low-to-high single digit sequential growth in US business

We expect companies under our coverage to post a 2-12% sequential growth in the US business (due to higher gRevlimid sales for most companies), with a few exceptions such as Lupin (-5% - no exposure to gRevlimid) and Zydus Lifesciences (+28% - higher exposure to gRevlimid). The biggest QoQ growth is likely for Torrent Pharmaceuticals (~12%), Ajanta Pharma (7% - new launches), and Dr. Reddy's Laboratories (7% - gRevlimid-led).

### CDMO companies to post double-digit growth

For CDMO companies in our coverage, we expect double-digit YoY growth (Divi's Laboratories – 11% & Laurus Labs – 14%) except for Gland Pharma (-6% YoY). We expect 100bp+/800bp+ YoY margin growth for Divi's Laboratories and Laurus Labs (low base).

### Overall pharma sector's growth to be in double digits

We expect our pharma coverage companies to post a 12% YoY topline growth with a 170bp YoY improvement in margin. Overall, we expect a 15% YoY EPS growth in 4QFY25F.

### Diagnostics biz likely to shine despite a seasonally lean quarter

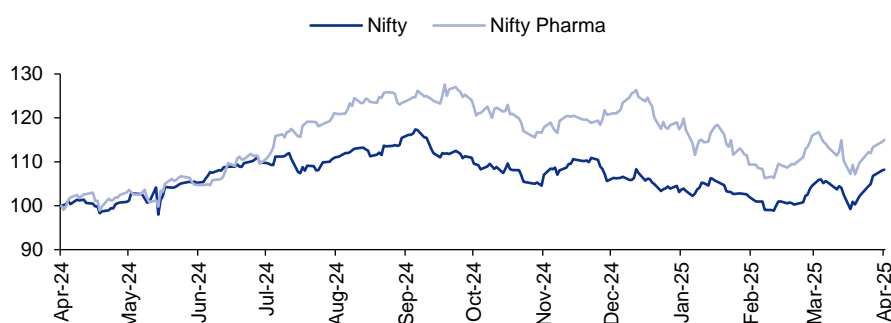
After a seasonally lean 3QFY25, we expect diagnostic companies in our coverage to register sequential (1-8%) and YoY (4-16%) growth in 4QFY25F led by volume growth (8-12%). Dr. Lal Pathlabs and Thyrocare Technologies are expected to register growth at the higher end. Our coverage companies are likely to witness an EPS growth of 6-30%.

### Likely outperformers/underperformers

**Outperformers:** Aurobindo Pharma, Divi's Laboratories, Laurus Labs, Torrent Pharmaceuticals, and Zydus Lifesciences.

**Underperformers:** Alkem Laboratories, Cipla, and Gland Pharma.

**Neutral:** Ajanta Pharma, Dr Reddy's Labs, Ipca Laboratories, Lupin, Sun Pharma, Dr Lal Pathlabs, Metropolis Healthcare and Thyrocare Technologies.

**Figure 1: Nifty Pharma Index has underperformed Nifty by 10% in YTD 2025**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Figure 2: Healthcare companies' valuation matrix

Company	Rec.	Mkt-Cap (US\$bn)	CMP (Rs)	Target Price (Rs)	Up/down (%)	Core EPS			Core EPS Growth (%)			P/E Ratio (x)			P/BV (x)	
						FY24A	FY25F	FY26F	FY24A	FY25F	FY26F	FY24A	FY25F	FY26F	FY25F	FY26F
Ajanta Pharma	ADD	3.9	2,695	3,220	19.5%	63.7	72.7	87.4	39%	14%	20%	42.3	37.1	30.8	9.7	8.6
Alkem Laboratories	ADD	6.9	4,953	6,150	24.2%	159.3	187.1	215.2	79%	17%	15%	33.0	26.5	23.0	4.9	4.2
Aurobindo Pharma	HOLD	8.0	1,172	1,300	11.0%	57.4	62.1	74.7	74%	8%	20%	21.6	18.9	15.7	2.1	1.9
Cipla	ADD	14.3	1,515	1,640	8.2%	53.0	61.7	66.4	46%	16%	8%	29.6	24.6	22.8	3.9	3.4
Divi's Laboratories	ADD	17.5	5,640	6,560	16.3%	60.3	79.4	102.0	-12%	32%	28%	93.6	71.0	55.3	10.1	8.8
Dr. Lal Pathlabs	ADD	2.7	2,714	3,600	32.6%	42.8	51.7	60.5	50%	21%	17%	63.4	52.5	44.9	10.9	9.6
Dr Reddy's Laboratories	HOLD	11.4	1,164	1,300	11.7%	66.8	67.4	64.4	24%	1%	-4%	17.4	17.3	18.1	3.2	3.0
Gland Pharma	REDUCE	2.8	1,449	1,313	-9.4%	46.9	45.5	60.1	-6%	-3%	32%	30.9	31.9	24.1	2.5	2.3
Ipca Laboratories	ADD	4.2	1,404	1,720	22.5%	23.3	35.3	44.8	25%	52%	27%	65.1	39.8	31.4	5.0	4.5
Laurus Labs	HOLD	4.0	628	640	1.9%	3.0	6.8	12.3	-79%	125%	82%	208.5	92.9	51.1	7.7	6.9
Lupin	ADD	10.4	1,937	2,329	20.2%	35.8	73.2	87.3	279%	104%	19%	54.0	26.5	22.2	5.1	4.2
Metropolis Healthcare	ADD	1.0	1,663	2,250	35.3%	25.0	32.8	40.8	-11%	31%	25%	66.6	50.7	40.7	6.3	5.6
Sun Pharmaceutical Industries	HOLD	49.2	1,752	1,900	8.5%	42.0	49.1	53.6	16%	17%	9%	43.9	35.7	32.7	5.8	5.1
Thyrocare Technologies	ADD	0.4	709	1,010	42.5%	15.4	20.7	24.9	5%	34%	20%	53.1	39.3	31.9	7.1	6.8
Torrent Pharmaceuticals	HOLD	12.9	3,255	3,450	6.0%	47.1	57.1	76.4	28%	21%	34%	66.5	57.0	42.6	14.2	11.8
Zydus Lifesciences	ADD	9.8	832	1,150	38.3%	38.0	46.4	46.6	58%	22%	1%	21.9	17.9	17.8	3.5	3.0

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 4QFY25F earnings of companies in our coverage universe

Companies	Revenue			EBITDA			EBITDA Margins			PAT		
	Rs. m	Y-o-Y (%)	Q-o-Q (%)	Rs. m	Y-o-Y (%)	Q-o-Q (%)	Margin (%)	Y-o-Y (bps)	Q-o-Q (bps)	Rs. m	Y-o-Y (%)	Q-o-Q (%)
<b>Pharmaceuticals</b>												
Ajanta Pharma	11,552	10%	1%	3,200	15%	0%	27.7%	130	-29	2,274	12%	-2%
Alkem Laboratories	31,356	7%	-7%	5,150	28%	-32%	16.4%	273	-608	4,240	44%	-32%
Aurobindo Pharma	83,700	10%	5%	18,288	8%	12%	21.8%	-41	145	9,951	10%	18%
Cipla	67,394	9%	-5%	15,258	16%	-23%	22.6%	129	-548	10,397	11%	-34%
Divi's Laboratories	25,563	11%	10%	8,436	15%	14%	33.0%	126	96	6,169	15%	5%
Dr. Reddy's Laboratories	85,555	21%	2%	22,682	26%	-1%	26.5%	108	-100	14,444	11%	2%
Gland Pharma	14,510	-6%	5%	3,457	-4%	-4%	23.8%	50	-218	2,038	6%	25%
Ipca Laboratories	22,446	10%	0%	4,572	42%	-1%	20.4%	453	-26	2,454	25%	-1%
Laurus Labs	16,484	14%	16%	4,139	71%	45%	25.1%	833	495	1,851	147%	99%
Lupin	55,217	11%	-4%	12,573	26%	-13%	22.8%	268	-239	7,552	110%	-12%
Sun Pharmaceutical Industries	1,32,662	11%	-3%	36,915	19%	-12%	27.8%	203	-283	27,624	0%	-14%
Torrent Pharmaceuticals	29,233	6%	4%	9,536	8%	4%	32.6%	45	8	4,970	11%	-1%
Zydus Lifesciences	63,993	16%	21%	20,235	24%	46%	31.6%	216	529	13,970	18%	36%
<b>TOTAL</b>	<b>6,39,665</b>	<b>12%</b>	<b>2%</b>	<b>1,64,439</b>	<b>20%</b>	<b>-2%</b>	<b>25.7%</b>	<b>175</b>	<b>-103</b>	<b>1,07,937</b>	<b>15%</b>	<b>-5%</b>
<b>Diagnostics</b>												
Dr Lal Pathlabs	6,011	10%	1%	1,562	8%	1%	26.0%	-55	18	959	13%	-1%
Metropolis Healthcare	3,438	4%	7%	820	3%	14%	23.8%	-31	154	386	6%	23%
Thyrocare Technologies	1,789	16%	8%	507	38%	2%	28.3%	455	-147	272	31%	2%
<b>TOTAL</b>	<b>11,238</b>	<b>9%</b>	<b>4%</b>	<b>2,889</b>	<b>11%</b>	<b>5%</b>	<b>25.7%</b>	<b>35</b>	<b>33</b>	<b>1,616</b>	<b>14%</b>	<b>4%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Quarterly average currency rates**

Quarterly Average	USD - INR	BRL - INR	EUR - INR	RUB - INR	GBP - INR	ZAR - INR	PHP - INR
4QFY23	82.26	15.83	88.25	1.13	99.8	4.6	1.5
1QFY24	82.21	16.62	89.44	1.01	102.9	4.4	1.5
2QFY24	82.65	16.95	89.97	0.88	104.7	4.4	1.5
3QFY24	83.27	16.81	89.57	0.90	103.3	4.4	1.5
4QFY24	83.04	16.78	90.19	0.91	105.3	4.4	1.5
1QFY25	83.42	16.00	89.83	0.92	105.3	4.5	1.4
2QFY25	83.77	15.10	92.00	0.94	108.9	4.7	1.5
3QFY25	84.45	14.48	90.13	0.84	108.2	4.7	1.5
4QFY25	86.60	14.80	91.10	0.90	109.1	4.7	1.5
QoQ Change	2.5%	2.2%	1.1%	6.7%	0.8%	0.0%	0.0%
YoY Change	4.3%	-11.8%	1.0%	-1.5%	3.6%	6.8%	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Company-wise details – Pharmaceuticals

### Ajanta Pharma

We expect its Asia and Africa branded business to grow in mid-teens, in line with its guidance, while India should see a 10% YoY growth. We expect its US business to grow 7% QoQ. We expect margin to be at 27.7% and EPS growth at 12% YoY.

### Alkem Laboratories

Overall, a weak quarter likely in sequential terms. India business growth is likely at 6.2% YoY while RoW market growth is likely to be decent at 9% YoY. The US business will see an improvement of 5% QoQ. Margin is likely to decline sequentially by 600bp due to high R&D costs and a rise in other expenses.

### Aurobindo Pharma

We expect its US business to grow 3% QoQ to US\$450m, while for the EU business we factor in sequentially flat revenue. For the API business, we expect ~10% YoY growth and 5% growth for the RoW market. We expect margin to improve by 150bp QoQ partially due to gross margin improvement of 60bp QoQ (led by higher US sales). We expect sequential EPS growth of 17.7%.

### Cipla

We expect its US business to improve due to better Lanreotide sales (has given guidance that normalcy will resume from Mar 2025F) and gRevlimid contribution. India sales should grow at a healthy 13% YoY, while EU and RoW markets to grow 9% YoY. Overall, we expect revenue to grow 9.4% YoY, and margin to improve by 130bp YoY due to healthy US sales.

### Divi's Laboratories

We expect 11% overall growth led by custom synthesis business (17% YoY growth). Favourable INR-US dollar movement should help with further marginal benefits. A 100bp sequential margin improvement is likely QoQ due to higher contribution from the custom synthesis business. We expect EPS growth of ~15% YoY/5% QoQ for the quarter.

### Dr. Reddy's Laboratories

We expect its India business to grow 13% YoY led by the Sanofi portfolio acquisition (Rs1.15bn sales expected in 4QFY25F). The US business is expected to rise 7% QoQ, with a sequential growth in gRevlimid sales, while in Europe we expect flattish revenue. We expect the NRT portfolio to grow 3% sequentially while the RoW market should see ~6% QoQ growth. We expect margin to decline by 100bp QoQ due to higher R&D expenses whereas EPS to grow 10.5% YoY.

### Gland Pharma

We expect Cenexi's run rate to improve from EUR41m to EUR42m while Cenexi's margin to improve by 280bp QoQ. Ex-Cenexi, we expect revenue growth of 5.5% QoQ and margin to decline by 500bp due to lower milestone income. Overall, we expect the EBITDA margin to decline by 220bp QoQ.

### Ipca Laboratories

We expect a 10%% revenue growth and 20.4% consolidated margin. India business is likely to grow ~14% YoY on a relatively low base. Unichem subsidiary should grow by around 22% YoY while ex-Unichem business should grow by 7% YoY. We expect Unichem's margin to remain flat QoQ and the overall margin to be also flattish on a sequential high base. We expect EPS growth of 25% YoY.

### **Laurus Labs**

We expect a healthy performance of 14.5% YoY/16.5% QoQ growth led by ramp-up in the custom synthesis business (12% QoQ growth), partly offset by the formulations business (a decline of 3% QoQ). We expect gross margin to improve by 60bp QoQ and the EBITDA margin to improve by ~500bp (at 25%) led by operating leverage benefit.

### **Lupin**

We expect a 13% YoY growth in India business whereas the US business revenue is likely to be US\$232m (-1% QoQ) led by Mirabegron, 180-day marketing exclusivity in gPred-forte and the launch of Rivaroxaban tablets. Emerging and RoW markets are expected to grow 11% each. The gross margin should improve by 30bp QoQ whereas the EBITDA margin is expected to decline sequentially by 240bp due to the rise in R&D expenses and higher other expenses.

### **Sun Pharmaceutical Industries**

We expect 2% QoQ/YoY growth in the US business to US\$485m. The global specialty business is expected to witness a sequential decline due to inventory build-up from the previous quarter and low milestone income in the RoW market. India and emerging market businesses are likely to grow 13.5% YoY, while the RoW business may witness a sequential decline of 17% as the base included a milestone income of US\$45m. We build in a rise in R&D expenses (+80bp QoQ) and higher other expenses. Accordingly, margin is expected to decline by ~300bp QoQ.

### **Torrent Pharmaceuticals**

The company's Germany business should see healthy momentum with ~10% YoY growth, Brazil business is likely to be impacted by currency problems (we expect a 2% YoY decline in constant currency or CC revenue) while the US business should improve with a ~12% sequential growth. The India business is expected to clock ~12% YoY growth. Margin is likely to improve by 10bp QoQ on a high base of 32.5%. We expect EPS growth of 11% YoY.

### **Zydus Lifesciences**

We expect its revenue to grow 15.6% YoY led by a 20% YoY growth in the US business (we estimate US\$365m revenue in 4QFY25F) resulting from higher gRevlimid contribution (nil sales in 3QFY25) and Mirabegron. We expect its India business to grow 7.5% YoY. Due to improvement in the product mix (from high specialty sales), we expect gross margin to improve by 200bp QoQ and the EBITDA margin to improve by +500bp QoQ (31.6%). We expect EPS growth of 18% YoY.

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## Company-wise details – Diagnostics

### **Dr Lal Pathlabs**

We expect a 10% YoY growth for the quarter led by ~9% volume growth and 1% realization growth. We expect gross margin to be stable at 80.3% and the overall margin at 26% (up 20bp QoQ). EPS in 4QFY25F is expected to be Rs11.5, a 13% YoY growth.

### **Metropolis Healthcare**

Due to weak acute testing volume in 4QFY25F, we expect test volume growth of 7.5% and realization growth of 3.6%. We expect an overall revenue growth of ~4% YoY, gross margin of 79.5% due to input cost pressure and overall margin of 23.8% (down 30bp YoY) due to acquisition costs. Overall, we expect EPS growth of ~6% YoY for the quarter.

### **Thyrocare Technologies**

We expect diagnostic testing services business to clock a 14.6% YoY growth led by 12% volume growth. Topline growth in 4QFY25F is expected to be 16% YoY. Margin improvement is expected to be at 28.3%. We expect EPS growth of 31% YoY for the quarter.

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### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.