

India

**Neutral** (no change)

**Highlighted Companies**

**Aurobindo Pharma**

**ADD, TP Rs1178, Rs1123 close**

Aurobindo Pharma is a play on the US generics market.

**Divi's Laboratories**

**REDUCE, TP Rs3150, Rs3903 close**

There are elevated margin expectations in respect of Divi's Laboratories.

**Gland Pharma Ltd**

**HOLD, TP Rs1675, Rs1909 close**

Gland Pharmaceuticals is a beneficiary of injectables shortage in the US.

**Summary Valuation Metrics**

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Aurobindo Pharma	20.94	17.16	
Divi's Laboratories	65.49	51.1	
Gland Pharma Ltd	32.16	26.08	
P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Aurobindo Pharma	2.23	1.99	
Divi's Laboratories	7.64	7.01	
Gland Pharma Ltd	3.52	3.1	
Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Aurobindo Pharma	0.53%	0.62%	
Divi's Laboratories	0%	0%	
Gland Pharma Ltd	0%	0%	

# Pharmaceuticals

## 3QFY24 results preview

- The recovery in the industry's sales growth (~9.7% growth in Oct and Nov 2023 combined) should drive strong India growth for most companies in the sector.
- Margins should be flat QoQ, with most drivers largely sustaining (gRevlimid, lower API/logistic costs and a benign US pricing environment).
- Strong numbers likely from Aurobindo Pharma & Gland Pharma while Laurus and Divi's Labs may disappoint due to high street hopes on margin recovery.

### India growth to recover after a dull 1HFY24 performance

From a 4% average growth in 1HFY24, IPM's (Indian pharmaceutical market) growth has recovered smartly and posted an average of 9.7% growth for Oct/Nov 2023 combined. This should reflect in strong India growth in 3QFY24F for the companies in our coverage universe. Barring Ajanta Pharma and Dr. Reddy's Laboratories, we expect double-digit growth for all domestic market-focused companies under our coverage.

### Expect US growth to be largely flattish sequentially

Barring Aurobindo Pharma, which will benefit from gRevlimid launch in Oct 2023, and Sun Pharmaceutical Industries or Sun Pharma, which is likely to see better US generics sales QoQ led by gVynase contribution, we expect most companies to report a flattish growth in the US market. gRevlimid will continue to be an important driver, but its contribution will keep fluctuating QoQ. For Dr. Reddy's Laboratories, we expect ex-gRevlimid US sales to decline QoQ by 3%, led by lower sales of gCiprodex (seasonality effect) and gSuboxone (price erosion).

### Key things to watch out for

We expect Aurobindo Pharma to surprise positively led by gRevlimid contribution as well as the strong base business momentum. Commentary on FY25F margins will also be important; our margin expectations for FY25F are 150bp above street estimate and we expect an upgrade here. We believe margin expectations for Divi's Laboratories are elevated and expect the street to tone down its expectations; we will watch out for management commentary here. Other companies to watch out for are Cipla (comments on the warning letter), Laurus Labs (ramp-up/contribution from the animal health project), Sun Pharma (ramp-up of its specialty portfolio), Alkem Laboratories (margin trajectory under the new CEO), Ipca Labs (progress on its Unichem portfolio) and Gland Pharmaceuticals (Cenexi ramp-up).

### 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). Aurobindo Pharma (a play on US generics), Ajanta Pharma and Torrent Pharmaceuticals (branded generic plays) are our top picks. Any marked reversal in the US pricing environment remains a key downside risk to our call.

**Research Analyst(s)**



**Praful BOHRA**  
 T (91) 22 4161 1552  
 E praful.bohra@incredresearch.com

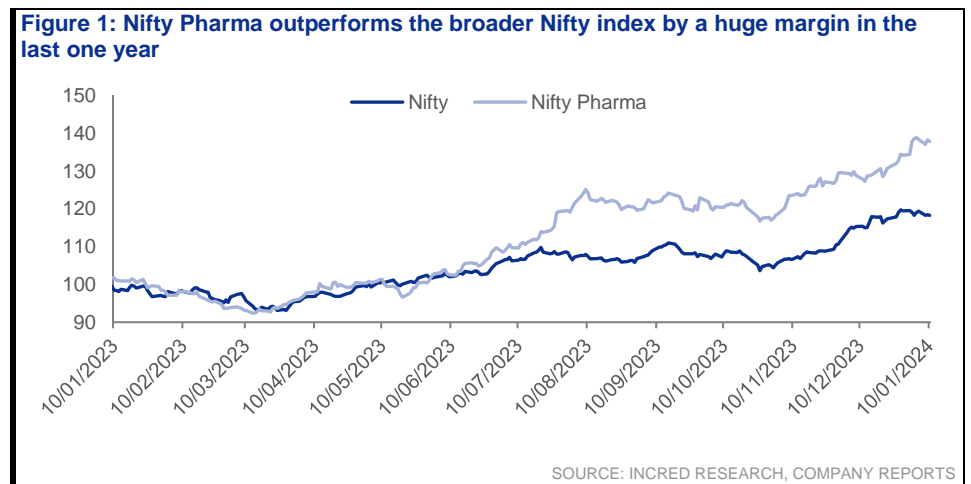


Figure 2: Pharma companies' valuation matrix

Company	Rec.	Market Capitalization (US\$bn)	CMP (Rs)	Target Price (Rs)	Up/down (%)	EPS			EPS Growth (%)			P/E (x)			P/BV (x)	
						FY23A	FY24F	FY25F	FY23A	FY24F	FY25F	FY23A	FY24F	FY25F	FY24F	FY25F
						Ajanta Pharma	ADD	3.4	2,233	1,964	-12.0%	45.9	63.4	75.7	-20	40
Alkem Laboratories	HOLD	7.5	5,241	4,046	-22.8%	89.0	144.1	161.9	-40	60	10	63.7	37.4	32.4	6.9	6.2
Aurobindo Pharma	ADD	7.7	1,091	1,178	7.9%	32.9	54.8	65.4	-30	70	20	33.2	20.4	16.7	2.4	2.2
Cipla	ADD	12.6	1,300	1,291	-0.7%	36.3	50.3	58.2	10	40	20	37.4	25.8	22.3	4.5	3.9
Divi's Laboratories	REDUCE	12.8	4,031	3,150	-21.8%	68.7	59.6	76.4	-40	-10	30	58.7	67.6	52.8	8.4	7.9
Dr Reddy's Laboratories	HOLD	11.9	5,932	5,415	-8.7%	270.8	333.4	323.2	50	20	0	21.9	17.8	18.4	4.3	3.6
Gland Pharma	HOLD	4.0	2,031	1,675	-17.5%	50.0	59.3	73.2	-30	20	20	42.8	34.2	27.8	4.2	3.7
Ipca Laboratories	HOLD	3.4	1,110	1,067	-3.9%	18.6	23.1	35.6	-50	20	50	59.8	48.1	31.2	4.8	4.4
Laurus Labs	REDUCE	2.8	430	307	-28.5%	14.7	6.9	12.4	-10	-50	80	29.3	61.8	34.7	5.7	5.5
Sun Pharmaceutical Industries	HOLD	37.4	1,299	1,154	-11.1%	36.0	38.0	43.8	10	10	20	36.8	34.2	29.6	5.6	5.0
Torrent Pharmaceuticals	ADD	9.6	2,351	2,266	-3.6%	36.8	48.3	60.8	20	30	30	63.9	48.7	38.7	12.8	11.2
Zydus Lifesciences	HOLD	8.6	710	625	-12.0%	24.0	35.2	35.4	0	50	0	36.6	20.2	20.1	4.1	3.5

SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 3: 3QFY24F earnings for companies under our coverage

(Rs m)	Revenue Growth			EBITDA			EBITDA Margin			PAT		
	Revenue	YoY (%)	QoQ (%)	(Rs m)	YoY (%)	QoQ (%)	Margins	YoY (bp)	QoQ (bp)	(Rs m)	YoY (%)	QoQ (%)
Ajanta Pharma	10,587	9%	3%	2,868	39%	-1%	27.1%	584	-117	2,058	53%	5%
Alkem Labs	33,028	9%	-4%	6,082	2%	-19%	18.4%	-128	-329	4,943	9%	-27%
Aurobindo Pharma	74,470	16%	3%	15,520	63%	11%	20.8%	595	140	8,563	74%	13%
Cipla	65,999	14%	-1%	16,240	15%	-6%	24.6%	38	-135	10,631	33%	-6%
Divi's Labs	20,701	21%	8%	5,806	42%	21%	28.0%	414	296	4,215	37%	21%
Dr. Reddy's Labs	69,095	2%	0%	19,275	-6%	-3%	27.9%	-248	-105	13,568	9%	-8%
Gland Pharma	15,434	64%	12%	4,170	44%	29%	27.0%	-385	342	2,952	27%	52%
Ipca Labs	21,334	38%	5%	3,496	51%	9%	16.4%	139	59	1,738	61%	20%
Laurus Labs	12,245	-11%	12%	2,187	-46%	116%	17.9%	-826	252	585	-71%	58%
Sun Pharma	1,22,318	9%	0%	32,185	7%	0%	26.3%	-44	-4	23,384	8%	-2%
Torrent Pharma	26,866	8%	1%	8,329	15%	1%	31.0%	194	-1	4,010	42%	4%
Zydus Lifesciences	45,282	4%	2%	11,010	15%	-4%	24.3%	240	-144	7,817	26%	-2%
<b>TOTAL</b>	<b>5,17,358</b>	<b>11%</b>	<b>2%</b>	<b>1,27,169</b>	<b>13%</b>	<b>1%</b>	<b>24.6%</b>	<b>48</b>	<b>-10</b>	<b>84,465</b>	<b>20%</b>	<b>-1%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

---

## Company-wise forecasts

### Ajanta Pharma >

We expect India growth to taper off for the quarter to 8% YoY while the Asian market should see strong growth, partly led by deferred sales from 2QFY24. We expect Africa branded business growth to pick up, in line with the annual guidance of low-teen growth for FY24F, while the US market is likely to be flat QoQ. We expect the company's margins to decline by 120bp QoQ led by higher SG&A expenses.

### Alkem Laboratories >

We expect India growth to recover sharply to 11% for the quarter, after a weak 1HFY24, while the ROW market is likely to continue its strong growth momentum, as per the guidance given in the 2QFY24 earnings call. We expect a 3% QoQ decline in the US business, at US\$90m. While the margins are likely to decline in QoQ, as 2Q was aberrational, we believe the full-year margins can tread above management's guidance of 16.5% for FY24F. We will watch out for management commentary on the same.

### Aurobindo Pharma >

We expect strong growth in the US market QoQ for the quarter, led by gRevlimid launch. We have built in US\$30m in revenue from gRevlimid. Consequently, we estimate Aurobindo Pharma's US sales at around US\$440m (+7.5% QoQ). We also expect a 20% growth in the RoW market, largely due to the Indonesian acquisition. We expect its margins to expand by 140bp QoQ to 20.8%, largely reflecting the contribution from gRevlimid.

### Cipla >

We expect US market sales for the quarter at US\$222m (-3%QoQ), in line with its guidance of US\$220-225m. Cipla's market share in Albuterol and Lanreotide is stable at 13% each while there is no material share gain yet in Lupron. We build in a 10% growth in India business while the margins are likely to decline by 135bp QoQ and track Cipla's FY24F guidance of 23-24%.

### Divi's Laboratories >

2H is seasonally stronger than 1H and we build in an 8% QoQ growth (+21% YoY) for Divi's Laboratories for the quarter. We expect margins at around 28%, ~300bp up QoQ, in line with the revenue recovery. Nevertheless, we believe consensus margin estimates for FY25F/26F are on the higher side and warrant a cut; we will watch out for management commentary on the same.

### Dr. Reddy's Laboratories >

We expect Dr. Reddy's Laboratories' US sales for the quarter to be impacted by seasonality in gCiprodex, pricing pressure in gSuboxone and a decline in gRevlimid, all of which should lead to a 3% decline in US sales QoQ to US\$371m. This should exert pressure on overall margins (we expect 27.9%, -105bp QoQ). We expect India growth at 9% YoY.

### Gland Pharmaceuticals >

We expect a QoQ improvement in Gland Pharmaceuticals' revenue and margins for the quarter, led by normalization of Cenexi sales at EUR 55m (was shut down in 2QFY24 for one month) and RoW sales (impacted due to uneven procurement). We build in margins at 27%, a 340bp improvement QoQ. The tax rate was higher in 2QFY24 due to Cenexi losses and, we believe, it should normalize to 22.5%.

### **Ipca Laboratories**➤

We expect Ipca Laboratories to post strong growth in India business (+13% YoY) and international branded markets for the quarter, in line with its guidance. We build in a 60bp QoQ margin improvement, largely led by Unichem and one-offs in the 2QFY24 base.

### **Laurus Laboratories**➤

With commercialization of its animal health project, we expect Laurus Laboratories' growth in the synthesis business for the quarter to recover sharply QoQ. This should also drive a QoQ margin expansion (17.9%, +250bp).

### **Sun Pharmaceutical Industries**➤

We expect ex-Taro US business of Sun Pharmaceutical Industries or Sun Pharma for the quarter to grow QoQ, led by the contribution from gVynanse. The specialty segment should be stable, led by marginal growth in Ilumya and market share growth in Cequa (now at 7.5% of the cyclosporine market). We expect flattish sales for Taro QoQ. We expect the total US sales to be US\$438m (vs. US\$429m in 2QFY24). India business should post a healthy 12% growth. Margins are likely to be flattish QoQ, as product mix benefits are likely to be offset by increased R&D expenditure.

### **Torrent Pharmaceuticals**➤

We expect another stable quarter for Torrent Pharmaceuticals, with India growth at 15% YoY, including Curatio (the base quarter had only part sales of Rs550-600m from Curatio). We expect the EU performance to largely sustain with the recent tender wins while the US market is likely to remain muted at US\$30m (flat QoQ) with the recent discontinuation of low-margin products. We expect margins at around 31%, flat QoQ.

### **Zydus Lifesciences**➤

We expect Zydus Lifesciences to post flattish sales QoQ in the US market (no gRevlimid revenue in 3QFY24) as well as in its wellness portfolio. India business growth should recover to around 12% YoY, in line with the industry recovery. We build in a 140bp decline in margins as Zydus Lifesciences gave guidance of a higher opex for 2HFY24F.

---

## DISCLAIMER

---

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

**Analyst declaration**

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.