

India

Neutral (no change)

Highlighted Companies

Ajanta Pharma Ltd

ADD, Rs2136 close

Ajanta Pharma is a play on the branded business.

Aurobindo Pharma

ADD, TP Rs1178, Rs1120 close

Aurobindo Pharma is a play on the US generics market.

Sun Pharmaceutical Industries

ADD,

Sun Pharmaceutical Industries is a play on the specialty business.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Ajanta Pharma Ltd	33.7	28.56	25.06
Aurobindo Pharma	20.99	16.68	13.88
Sun Pharmaceutical Industries	39.9	33.56	29.17
P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Ajanta Pharma Ltd	7.34	6.79	6.11
Aurobindo Pharma	2.22	1.98	1.76
Sun Pharmaceutical Industries	6.12	5.38	4.7
Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Ajanta Pharma Ltd	2.39%	2.34%	2.34%
Aurobindo Pharma	0.54%	0.62%	0.71%
Sun Pharmaceutical Industries	0.72%	0.72%	0.72%

Pharmaceuticals

4QFY24 Preview: Seasonal weakness likely

- 4Q is seasonally a weak quarter for India-focused companies. Industry data shows ~7.9% growth (Jan and Feb 2024 combined).
- Margins are likely to decline QoQ, given India seasonality. Logistics costs to be higher this quarter, although it won't impact full-year estimates materially.
- Strong numbers likely from Aurobindo, Zydus Lifesciences, Torrent Pharma & Laurus Labs (YoY terms) while we expect QoQ moderation in Alkem and Cipla.

Seasonally weak quarter for India business

4Q is a seasonally weak quarter for India business. Industry data shows ~7.9% growth in Jan and Feb 2024 (combined), led by cardiac/dermatology/CNS therapies while the acute therapy segment underperformed. We expect high single-digit to low double-digit YoY growth for companies under our coverage universe. We expect Ajanta Pharma to rebound strongly from a weak 3QFY24 performance, by growing 15% YoY in 4QFY24F while Zydus Lifesciences is likely to underperform its peers with an 8% growth. For most other companies, we build in a 9-11% YoY growth.

Some moderation in the US market as well

We expect some moderation in Sun Pharma's US generics business while Aurobindo Pharma is likely to be impacted by a supply hit amounting to US\$20m due to plant closure. Zydus Lifesciences should benefit from resumption of gRevlimid sales. We expect broadly flat sales for Cipla and Dr Reddy's Laboratories. Post favourable seasonality in 3QFY24, we build in a marginal moderation in Sun Pharma's US specialty sales. In the case of Ipca Labs, we expect a flat quarter QoQ for Unichem.

API companies likely to post QoQ growth

We expect a strong quarter for Laurus Labs, given the order book and deliveries in 4QFY24, which should drive strong QoQ margin expansion. For Gland Pharma, while the base business is likely to be decent, Cenexi will continue to drag its overall earnings. We expect a QoQ margin expansion in the case of Divi's Laboratories, given that seasonally 4Q is a very strong quarter, but it may still fall short of the elevated consensus FY25F/26F expectations.

Outperformers/underperformers for the quarter

Overall, we expect a 4% QoQ decline in EBITDA with a 95bp fall in margins.

Outperformers: Zydus Lifesciences (resumption of gRevlimid sales, seasonally strong quarter for the wellness business), Aurobindo Pharma (strong base business despite a one-time hit of US\$20m), Laurus Labs (higher contribution from animal health contract, order book delivery). **Underperformers:** Cipla and Alkem Laboratories (4Q is seasonally weak).

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.

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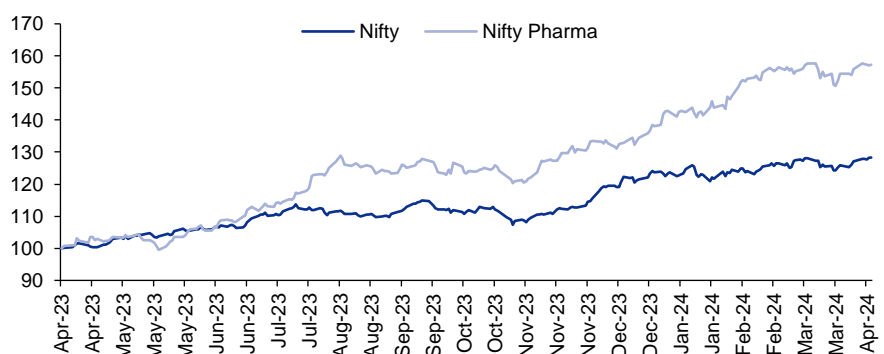
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Figure 1: Nifty Pharma outperforms the broader Nifty index by a huge margin



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Pharma companies' valuation matrix

Company	Rec	Mkt. Cap. (US\$ bn.)	Price (Rs.)	Target Price (Rs.)	Up/down (%)	EPS (Rs.)			EPS Growth (%)			P/E (x)			P/BV (x)	
						FY23A	FY24F	FY25F	FY23A	FY24F	FY25F	FY23A	FY24F	FY25F	FY24F	FY25F
Ajanta Pharma	ADD	3.3	2,182	2,400	10.0%	45.9	63.4	74.8	-0.2	0.4	0.2	47.5	34.4	29.2	8.2	7.5
Alkem Laboratories	HOLD	7.1	4,913	5,553	13.0%	89.0	159.8	186.3	-0.4	0.8	0.2	59.7	32.4	26.4	6.5	5.8
Aurobindo Pharma	ADD	7.9	1,124	1,178	4.8%	32.9	54.5	67.1	-0.3	0.7	0.2	34.2	21.1	16.7	2.5	2.2
Cipla	HOLD	14.0	1,449	1,479	2.0%	36.3	52.4	54.8	0.1	0.4	0.0	41.7	28.6	26.4	5.0	4.4
Divi's Laboratories	REDUCE	11.9	3,748	3,333	-11.1%	68.7	55.3	65.8	-0.4	-0.2	0.2	54.6	67.8	56.9	7.8	7.4
Dr Reddy's Laboratories	HOLD	12.4	6,179	6,339	2.6%	270.8	335.4	350.0	0.4	0.2	0.0	22.8	18.4	17.7	4.5	3.7
Gland Pharma	REDUCE	3.5	1,755	1,768	0.8%	50.0	48.7	59.8	-0.3	0.0	0.2	37.0	36.0	29.3	3.6	3.3
Ipca Laboratories	HOLD	4.0	1,315	1,203	-8.5%	18.6	20.6	30.5	-0.5	0.1	0.5	70.8	58.7	43.0	5.7	5.4
Laurus Labs	REDUCE	2.8	439	307	-30.1%	14.7	3.7	8.0	0.0	-0.7	1.2	30.0	118.6	54.7	5.9	5.9
Sun Pharmaceutical Industries	ADD	46.3	1,609	1,665	3.5%	36.0	40.1	47.7	0.1	0.1	0.2	45.6	40.1	33.8	6.9	6.2
Torrent Pharmaceuticals	ADD	10.5	2,577	2,912	13.0%	36.8	46.7	59.1	0.1	0.3	0.3	70.1	53.1	43.6	14.1	12.3
Zydus Lifesciences	ADD	12.2	1,007	974	-3.2%	24.0	37.2	38.5	0.0	0.5	0.0	51.8	27.1	26.1	5.8	4.9

SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 3: 4QFY24F 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	10,122	15%	-8%	2,632	76%	-16%	26.0%	907	-242	1,835	50%	-13%
Alkem Labs	32,735	13%	-2%	4,459	26%	-37%	13.6%	145	-767	3,300	90%	-49%
Aurobindo Pharma	73,278	13%	0%	15,463	54%	-3%	21.1%	562	-68	8,585	70%	-8%
Cipla	62,304	9%	-5%	13,225	13%	-24%	21.2%	78	-524	8,685	65%	-19%
Divi's Labs	19,931	2%	7%	5,558	14%	14%	27.9%	289	153	4,058	26%	13%
Dr. Reddy's Labs	70,906	13%	-2%	18,499	22%	-8%	26.1%	206	-173	13,012	36%	-6%
Gland Pharma	15,501	97%	0%	3,604	114%	1%	23.3%	180	18	2,218	64%	16%
Ipca Labs	20,250	34%	-1%	3,119	72%	-6%	15.4%	343	137	1,033	29%	-8%
Laurus Labs	13,821	0%	16%	2,783	-3%	153%	20.1%	-55	495	964	-6%	313%
Sun Pharma	1,19,893	10%	-3%	31,217	10%	-7%	26.0%	15	-104	22,638	5%	-13%
Torrent Pharma	27,246	9%	0%	8,635	19%	-1%	31.7%	251	-12	4,329	51%	22%
Zydus Lifesciences	53,571	8%	14%	15,764	26%	43%	29.4%	407	496	11,791	31%	54%
	5,19,557	12%	0%	1,24,958	23%	-4%	24.1%	218	-95	82,450	32%	-5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly average currency rates

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

SOURCE: INCRED RESEARCH, BLOOMBERG

Company-wise details

Ajanta Pharma

We expect its India business growth to recover to 15% YoY while Africa branded business growth may be hit by the Red Sea issue. Asia should track guidance of low-teen growth for the full year. We expect margins at 26%, led by a marginal cost hike in shipping costs. We expect a tax rate of 25% in 4QFY24F.

Alkem Laboratories

4Q is a seasonally weak quarter. We expect India business growth at 10% and 25% growth in ROW market. The US business is likely to be flat QoQ. We expect the EBITDA margin at 13.6% and FY24F margin should be around 17.4%, in our view (Guidance: 17%).

Aurobindo Pharma

The impact of US\$20m hit to be felt during the quarter, which will accordingly hit margins as well as US revenue. We expect a 3% QoQ growth in the US market (US\$442m) excluding this hit. The EU market is seasonally weak. Margins are likely to be around 21%, per our estimate.

Cipla

4Q is a seasonally weak quarter for India business. We expect a 10% YoY growth in India and flat US growth QoQ. Volume market share in Lanreotide is stable at 18%, while for Albuterol also it is stable at close to 13% (peak of 18%). Other income is likely to moderate QoQ, as the base included a forex gain in 3QFY24.

Divi's Laboratories

Historically, 4Q is the strongest quarter for Divi's Laboratories, with a higher contribution from the custom synthesis business and we expect the trend to continue this time around too. Margins are likely to be around 28%, an expansion of ~150bp largely on account of a better product mix. The Red Sea issue is likely to lead to higher logistic cost or else margin expansion would have been higher.

Dr. Reddy's Laboratories

We expect broadly flattish US sales and a 10% decline in India sales YoY due to a one-time income from brand divestments last year. Excluding this, we expect a 10% YoY growth in India. We expect margins to come off QoQ due to seasonality. We have assumed flat Revlimid sales QoQ.

Gland Pharma

While we expect the base business for Gland Pharma to do well, barring ROW market (guidance of weak 4Q), we expect the near-term challenges at Cenexi to persist and drag the overall numbers.

Ipca Laboratories

4Q is a seasonally weak quarter. We expect a 13% YoY growth in India business and a sequentially flat quarter for Unichem. We also expect the margins to remain broadly flattish QoQ for Unichem, but it should see a strong margin upmove in FY25F.

Laurus Laboratories

We build in a recovery in margins to 20% led by strong order book and deliveries. 4QFY24F will also see a relatively higher contribution from the animal health contract and oncology business.

Sun Pharmaceutical Industries

We build in some moderation in the US generics business as well as Taro, as reflected in the secondary data. We also expect a marginal moderation in the specialty business after a strong 3QFY24, which benefitted from seasonality. India business growth should be around 11% YoY. We expect some moderation in margins, in line with the sequential moderation in specialty sales.

Torrent Pharmaceuticals

We expect around 12% growth in India business. 4Q is also seasonally strong for Brazil. Margins should sustain QoQ. We build in a higher other income with the likely reversal of the forex loss reported in 3QFY24 (Rs350m).

Zydus Lifesciences

We expect strong growth QoQ led by gRevlimid sales in the US and seasonality in the wellness business. We expect India growth to lag expectations and factor in around 8% YoY growth. We expect the US business at around US\$295m, with around US\$60m gRevlimid revenue for the quarter. YoY, we expect flat growth for the wellness business. We expect margins at 29%+, and the full-year margins at 27%, in line with management's guidance.

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