

India

Neutral (no change)**Highlighted Companies****Ajanta Pharma Ltd**

ADD, TP Rs2556, Rs2291 close

A play on branded generics.

Aurobindo Pharma

ADD, TP Rs1340, Rs1197 close

Top-notch generics player.

Zydus Lifesciences

ADD, TP Rs1220, Rs1004 close

A play on the US generics market.

Summary Valuation Metrics

P/E (x)	Mar24-A	Mar25-F	Mar26-F
Ajanta Pharma Ltd	35.95	30.88	27.17
Aurobindo Pharma	22.12	17.55	14.29
Zydus Lifesciences	26.48	22.69	21.52

P/BV (x)	Mar24-A	Mar25-F	Mar26-F
Ajanta Pharma Ltd	8.23	8.2	7.31
Aurobindo Pharma	2.35	2.1	1.85
Zydus Lifesciences	5.12	4.31	3.69

Dividend Yield	Mar24-A	Mar25-F	Mar26-F
Ajanta Pharma Ltd	2.23%	2.18%	2.18%
Aurobindo Pharma	0.5%	0.58%	0.67%
Zydus Lifesciences	0.7%	0.7%	0.7%

Pharmaceuticals

4QFY24 results review

- The 4QFY24 results were mixed. We upgraded Divi's Labs' rating to ADD while downgrading that of Sun Pharma to HOLD.
- Sector drivers remain strong, led by the US market, recovery in India as well as margins holding up. The CDMO business is a key trend to watch out for.
- Ajanta Pharma, Aurobindo, Lupin, Torrent Pharma, Zydus Lifesciences are the other ADD-rated stocks. REDUCE ratings: Gland Pharma, Laurus Labs.

Mixed performance – one upgrade and one downgrade

The 4QFY24 earnings report card was a mixed bag for our coverage universe, with one downgrade and one upgrade. Our coverage companies' revenue grew by 13.1% YoY (flatish sequentially) while the margins expanded by 280bp YoY (slipped 80bp QoQ). Except for Alkem Labs, Gland Pharma and Laurus Labs (**where we have HOLD/REDUCE ratings**), the performance of our coverage companies was in line or above our estimates. Our broader thesis on the coverage universe remains intact, with the US business largely holding up its strong momentum, reduced raw material prices leading to improved gross margin & sustenance of operating margin, and the domestic business recovery on the cards in FY25F. The ongoing Red Sea crises led to increased freight costs and transit time; however, to mitigate potential shortages, companies are shipping through alternate routes (like air) as well as building up higher inventory.

CDMO: Substantial rise in enquiries

With the ongoing speculation around the Biosecure Act - which discourages the US companies from working with Chinese biotech service providers – as well as deferred projects since the Covid-19 pandemic which are now getting fast-tracked, there has been a substantial rise in enquiries in the CDMO business. The Biosecure Act should lead to a shift in pharma companies (big MNC pharma and niche product companies) to diversify their vendor base and because of this, Indian CDMO companies are witnessing more Request For Proposals or RFPs for late-phase projects (phase-2 & phase-3) compared to previous years. While still early days, we feel this should be one of the key trends to watch out for.

US: New launches and stable price erosion sustains positive outlook

During 4QFY24, our coverage universe's US revenue grew by 16.5% YoY (1.7% QoQ) led by new launches and stable price erosion as well as gRevlimid sales. We believe drug shortages should continue to remain high in the medium term and expect the current favourable pricing dynamics to remain so for the next three-to-four quarters. Our coverage companies have given guidance of high single-digit to double-digit growth in the US market for FY25F.

Hits and misses

Post 4QFY24, we have upgraded Divi's Labs' rating to ADD (from REDUCE) as we believe the ongoing uncertainty around the Biosecure Act may present additional opportunities in the CCS business and lead to positive surprises. We also resumed coverage on Lupin and upgraded its rating to ADD (HOLD earlier) on account of strong US market growth backed by new launches & a benign pricing environment. Conversely, we have downgraded Sun Pharmaceutical Industries' rating to HOLD (ADD earlier) as we believe FY25F can be a moderate year for earnings, despite being sanguine on the specialty portfolio and margins in the medium term. In addition, we were also enthused by Zydus Lifesciences/Aurobindo Pharma's earnings as well as outlook and continue to retain our positive stance, while Alkem Labs/lpca Labs' outlook was relatively disappointing.

Sector outlook

While we are broadly positive on the sector and expect the outperformance to largely continue, with the momentum sustaining in India/US markets as well as on the margins front, we prefer stocks where the earnings momentum is likely to remain strong in the medium term. We remain bullish on Aurobindo Pharma (the worst factored in on Eugia-III plant 483, business momentum very strong), Ajanta Pharma/Torrent Pharmaceuticals (branded business plays) and Zydus Lifesciences (can surprise positively on the US business), while Divi's Laboratories can be a dark horse, with optionality from the Biosecure Act.

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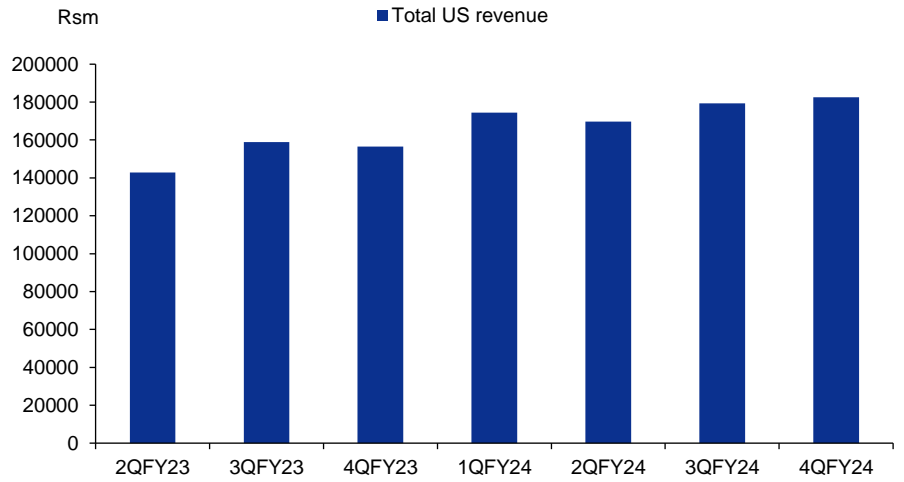
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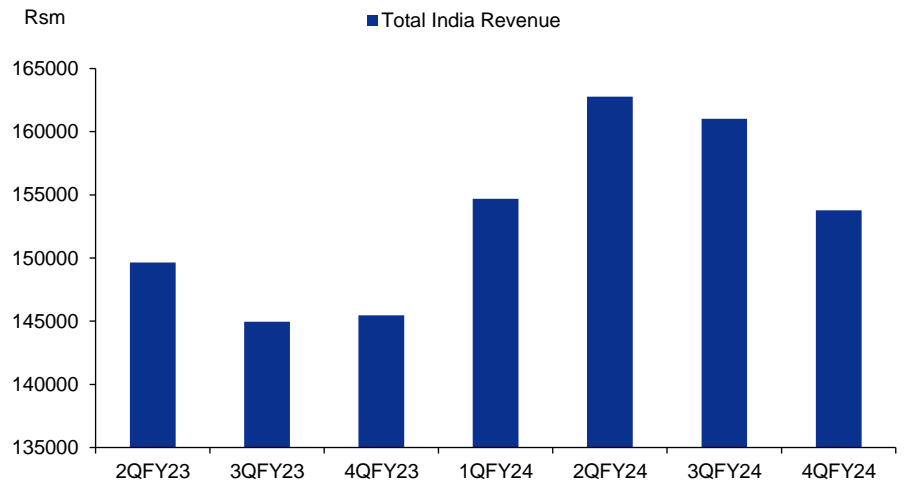
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Figure 1: US business consistently performing over the past couple of quarters



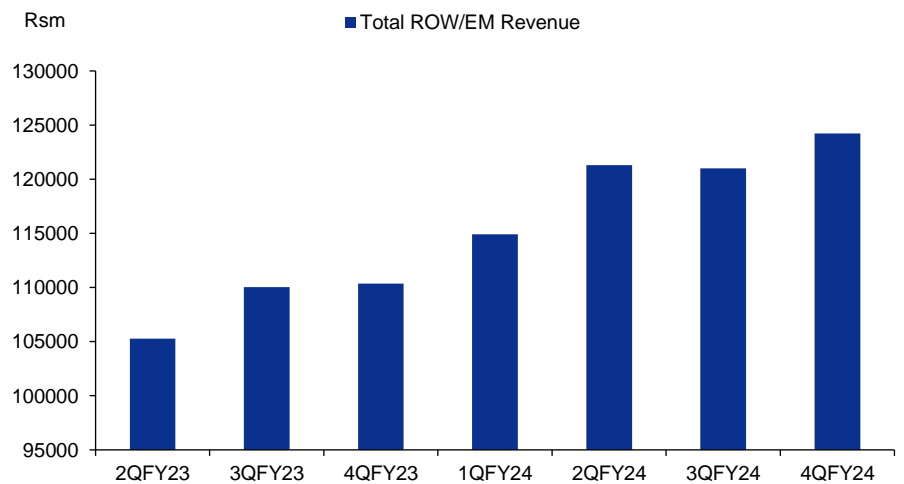
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: India business – 4Q is seasonally a weak quarter



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Sharp upturn in the ex-US international market in the past three quarters



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Quarter	Margins (%)
2QFY23	23.1
3QFY23	22.9
4QFY23	21.1
1QFY24	23.9
2QFY24	24.2
3QFY24	24.7
4QFY24	23.9

	Current Rating	Previous rating	Earnings	Commentary
Ajanta Pharma	ADD	ADD		
Alkem Labs	HOLD	HOLD		
Cipla	HOLD	HOLD		
Dr. Reddy's Labs	HOLD	HOLD		
Divis Labs	ADD	REDUCE		
Gland Pharma	REDUCE	REDUCE		
Laurus Labs	REDUCE	REDUCE		
Lupin	ADD	HOLD		
Torrent Pharma	ADD	ADD		
Ipca Labs	HOLD	HOLD		
Aurobindo Pharma	ADD	ADD		
Zydus Lifesciences	ADD	ADD		
Sun Pharma	HOLD	ADD		
	Positive			
	Neutral			
	Weak			

	FY25F	FY26F
Ajanta Pharma	-1%	-1%
Alkem Labs	-5%	-8%
Cipla	1%	4%
Divi's Labs	12%	13%
Dr.Reddy's Labs	1%	1%
Gland Pharma	-6%	-1%
Laurus Labs	-12%	-6%
Lupin	NA	NA
Torrent Pharma	2%	6%
Ipca Labs	2%	5%
Aurobindo Pharma	2%	4%
Zydus Lifesciences	15%	8%
Sun Pharma	-3%	1%

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