



India

Overweight (previously Neutral)

Highlighted Companies

Cipla Ltd ADD, TP Rs1640, Rs1472 close Goa plant's VAI removes key overhang.
Lupin Ltd ADD, TP Rs2329, Rs2038 close Healthy launch pipeline and visibility beyond FY26F.

Summary Valuation Metrics

	Mar24-A	Mar25-F	Mar26-F
P/E (x)			
Cipla Ltd	28.72	25.78	22.41
Lupin Ltd	56.86	27.7	22.93
P/BV (x)			
Cipla Ltd	4.45	3.85	3.33
Lupin Ltd	6.49	5.37	4.43
Dividend Yield			
Cipla Ltd	0.37%	0.41%	0.41%
Lupin Ltd	0.37%	0.42%	0.42%

Healthcare - Overall

2QFY25 results review

- 2Q results of our pharma universe were mixed. Downgrade Aurobindo (to HOLD) & upgrade Cipla, Alkem, Ipca (to ADD) and Gland & Laurus (to HOLD).
- We prefer structural plays viz. CDMO and branded generics. US generics priced to perfection with little margin of error.
- Diagnostics companies upgraded to ADD. Reduced competitive intensity and network expansion to aid volume growth.

Pharma: Mixed 2QFY25 results

2QFY25 earnings were mixed for companies in our coverage universe, with some hits and a few misses, one downgrade, and five upgrades. Coverage companies saw a 10% YoY and ~3% QoQ revenue growth, with the margin expanding by 125bp YoY but contracting 90bp QoQ. Lupin, Ajanta Pharma, Gland Pharma, and Zydus Lifesciences posted relatively better results, while Dr. Reddy's Laboratories, Laurus Labs, Torrent Pharmaceuticals, and Aurobindo Pharma (HOLD-rated) underperformed. Diagnostic companies beat expectations. After the recent correction, we find the risk-reward ratio favourable and upgrade our sector stance to **Outperform** from **Neutral**, favouring structural themes like branded/CDMO plays, as US generics now appear fully-priced with limited margin for error.

US generics priced to perfection; India 2H to be better than 1H

In 2QFY25, our coverage universe's US revenue grew 12.3% YoY but declined 3% QoQ, impacted by lower gRevlimid sales. Price erosion remained moderate in mid-single digits. gMirabegron maintained its strong momentum, benefiting Lupin and Zydus Lifesciences despite ongoing litigations. While the US pricing dynamics remain stable, medium-term concerns linger over growth beyond Jan 2026F (post gRevlimid settlement expiry) and potential policy shifts under the new US government. However, we see bright spots in Lupin and Cipla, where we have a relative preference. India revenue grew robustly by 10% YoY and 3% QoQ, driven by trade generics and branded business. We expect stronger growth in 2HFY25F, supported by branded and trade generics as well as seasonally strong consumer healthcare demand.

Diagnostics companies ride on volume growth

Diagnostics companies in our coverage universe witnessed 10% QoQ/YoY revenue growth led by healthy double-digit volume growth (YoY). The companies witnessed fourth consecutive quarter of margin improvement (+100bp QoQ/YoY). B2C companies are strategizing network expansion (tier-3/4 cities), mostly in the northern region (to drive volume growth) and wellness packages (to drive mix). We have upgraded all three diagnostics companies' rating to ADD (Dr Lal Pathlabs, Metropolis Healthcare and Thyrocare Technologies) considering their relatively low competitive intensity, expectations of high single-digit volume growth and market share gains in core regions. We expect our coverage companies to register a 10-15% growth in FY25F/26F led by volume growth and mix.

Sector outlook

We upgrade our sector stance to **Outperform** from **Neutral**, as the recent correction has made several stocks attractive. Near-term earnings momentum in the US appears sustainable, although growth headwinds post-FY26F and potential policy changes could limit any significant upside. Our preference remains firmly on branded businesses and CDMO plays. We are bullish on Ajanta Pharma, Lupin, Cipla, Ipca Labs, and Divi's Laboratories.

Research Analyst(s)



Praful BOHRA

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

Yogesh SONI

T (91) 22 4161 1566
E yogesh.soni@incredresearch.com

Hits and misses

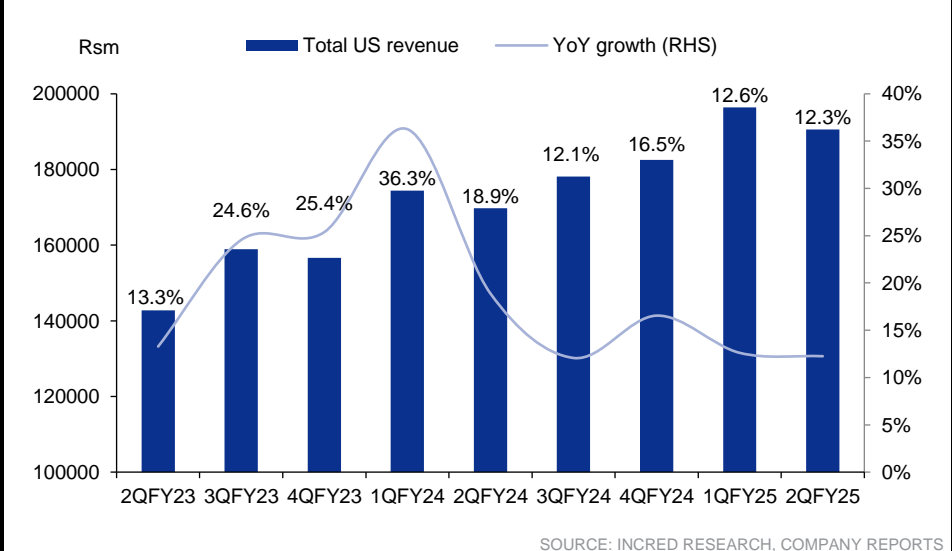
Post 2QFY25, we have one downgrade – Aurobindo Pharma’s rating to HOLD (from ADD) due to adverse risk-reward ratio and valuation, while we upgrade Alkem Labs and Ipca Labs to ADD due to favourable risk-reward scenario /Unichem synergy benefits flowing in, respectively. Enthused by strong earnings as well as a positive outlook, we have our high-conviction ADD rating on Cipla (resolution of Goa plant), and Lupin (healthy launch pipeline). In the CDMO space, we are optimistic on Divi’s Laboratories due to a pick-up in the custom synthesis business and order inflow due to the ongoing speculation regarding the Biosecure Act, while we have changed our negative stance (from REDUCE rating) on Laurus Labs and Gland Pharma to neutral (HOLD rating) due to the earnings reversal cycle & a favourable risk-reward scenario. We maintain our HOLD rating on Dr. Reddy’s Labs, Torrent Pharma and Sun Pharmaceutical Industries due to lack of product visibility /adverse risk-reward scenario /moderate earnings, respectively. Conversely, we continue our ADD rating on Ajanta Pharma and Zydus Lifesciences on account of strong branded generics growth /US market growth, respectively.

Figure 1: Most pharma companies continue to witness an improvement in gross margin and EBITDA margin led by lower input costs

	Gross Margin	Changes		EBITDA Margin	Changes	
		YoY (bp)	QoQ (bp)		YoY (bp)	QoQ (bp)
Ajanta Pharma	77.9%	285	134	26.2%	-204	-263
Alkem Laboratories	64.7%	330	21	22.0%	34	197
Cipla	67.6%	226	38	26.7%	78	111
Dr. Reddy’s Laboratories	59.6%	92	-81	25.6%	-324	-209
Divi’s Laboratories	58.6%	98	-117	30.6%	553	126
Gland Pharma	59.1%	-296	-68	21.1%	-247	227
Laurus Labs	55.2%	265	12	14.6%	-77	25
Lupin	70.2%	400	136	23.1%	474	9
Torrent Pharmaceuticals	76.5%	134	81	32.5%	149	88
Ipca Laboratories	67.8%	110	-146	18.7%	295	-2
Aurobindo Pharma	58.8%	366	-57	20.1%	65	-131
Zydus Lifesciences	71.9%	502	-254	27.9%	216	-567
Sun Pharmaceutical Ind.	79.7%	259	87	28.7%	232	-24

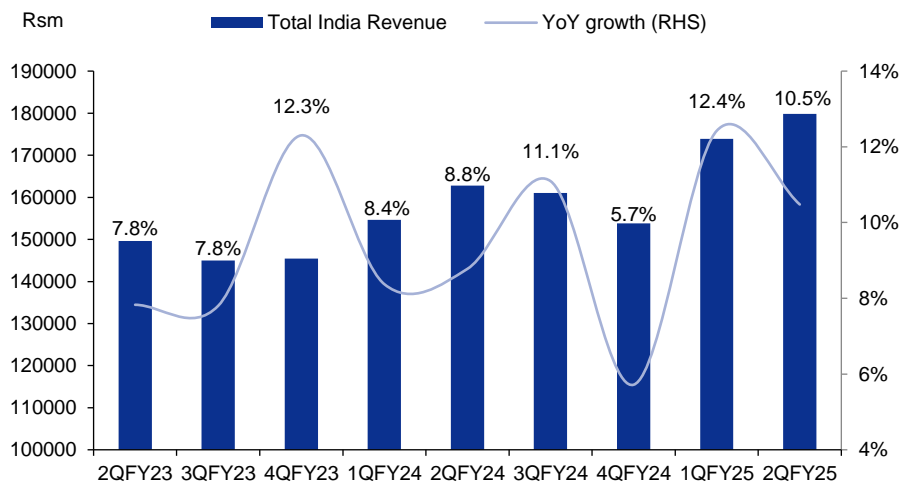
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: US business posted a growth of 12.3% YoY, but declined sequentially by 3%



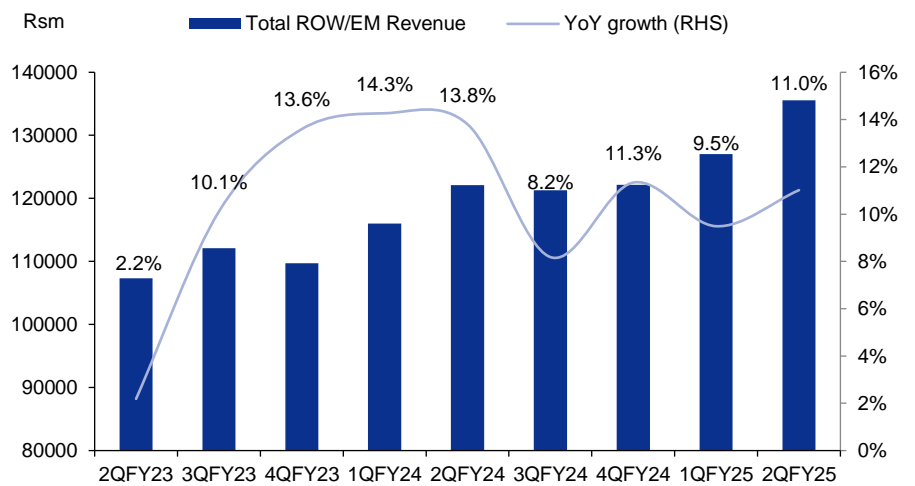
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: India business continues its growth momentum with 10% YoY growth



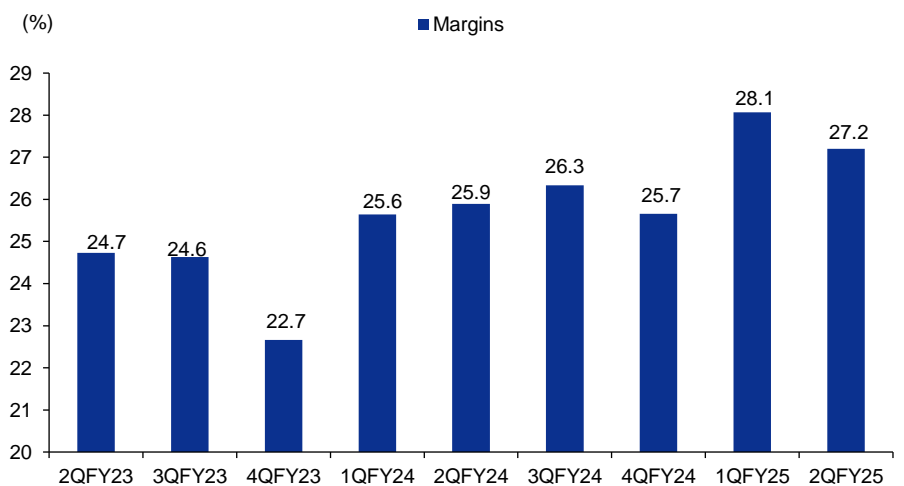
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Consistent sharp upturn in the ex-US international market in the past four quarters



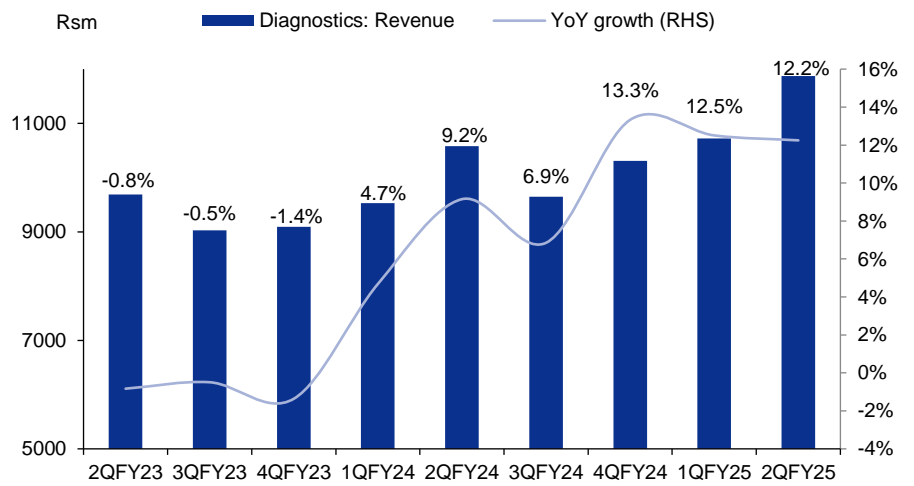
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Figure 5: Pharma business - although margin was slightly soft QoQ by 90bp, the YoY improvement was a healthy 130bp led by lower input costs



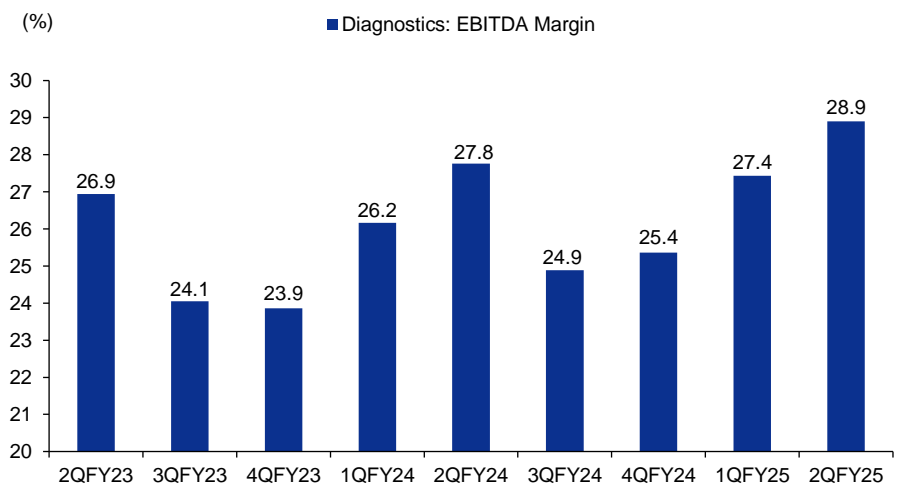
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Diagnostics companies remained on the double-digit growth path in 2QFY25



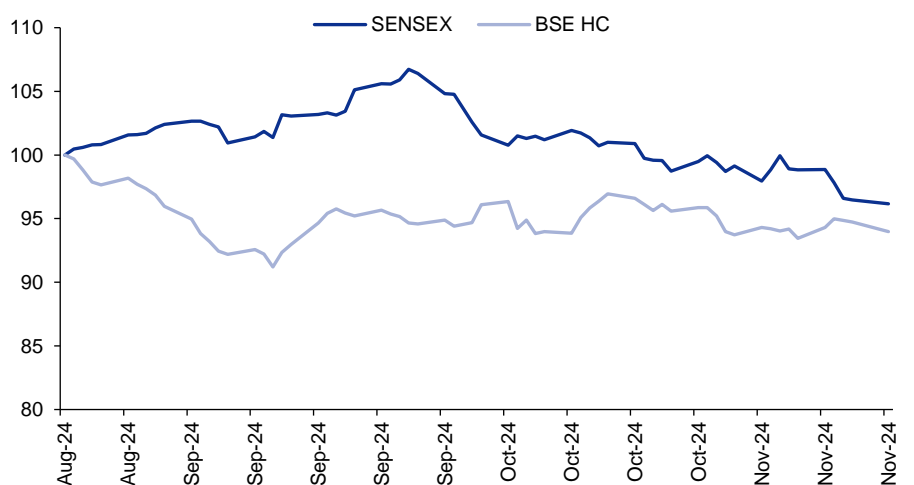
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Consistent improvement in the EBITDA margin - 2QFY25 witnessed 100/150bp rise in margin QoQ/YoY, respectively



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: BSE Healthcare Index underperforms the Sensex by 3% in the last three months



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Rating changes post 2QFY25 results

	Current Rating	Previous rating	Earnings	Commentary
Pharmaceuticals				
Ajanta Pharma	ADD	ADD		
Alkem Laboratories	ADD	HOLD		
Cipla	ADD	HOLD		
Dr. Reddy's Laboratories	HOLD	HOLD		
Divi's Laboratories	ADD	ADD		
Gland Pharma	HOLD	REDUCE		
Laurus Labs	HOLD	REDUCE		
Lupin	ADD	ADD		
Torrent Pharmaceuticals	HOLD	HOLD		
Ipca Laboratories	ADD	REDUCE		
Aurobindo Pharma	HOLD	ADD		
Zydus Lifesciences	ADD	ADD		
Sun Pharmaceutical Industries	HOLD	HOLD		
Diagnostics				
Dr Lal Pathlabs	ADD	REDUCE		
Metropolis Healthcare	ADD	HOLD		
Thyrocare Technologies	ADD	HOLD		
	Positive			
	Neutral			
	Weak			

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Earnings revision was a mixed bag with few earnings upgrades

	FY25F	FY26F
Ajanta Pharma	-0.9%	-1.2%
Alkem Laboratories	1.5%	1.5%
Cipla	-	3.9%
Dr. Reddy's Laboratories	-	-2.0%
Divi's Laboratories	-	3.9%
Gland Pharma	-10.0%	-
Laurus Labs	2.8%	-0.7%
Lupin	12.7%	13.1%
Torrent Pharmaceuticals	-	-0.9%
Ipca Laboratories	6.0%	1.0%
Aurobindo Pharma	-7.0%	-9.0%
Zydus Lifesciences	-6.0%	-6.0%
Sun Pharmaceutical Industries	-	1.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- 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.

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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.