

India

Overweight (no change)

Highlighted Companies

Ipca Laboratories Ltd ADD, TP Rs1720, Rs1588 close A play on the domestic business space.
Lupin Ltd ADD, TP Rs2329, Rs2155 close A play on the US generics space with better product visibility,
Torrent Pharmaceuticals Ltd HOLD, TP Rs3450, Rs3252 close A play on the branded generics space.

Summary Valuation Metrics

P/E (x)	Mar25-F	Mar26-F
Ipca Laboratories Ltd	49.48	36.98
Lupin Ltd	29.28	24.24
Torrent Pharmaceuticals Ltd	54.58	43.48
P/BV (x)	Mar25-F	Mar26-F
Ipca Laboratories Ltd	5.76	5.11
Lupin Ltd	5.67	4.69
Torrent Pharmaceuticals Ltd	14.01	11.74
Dividend Yield	Mar25-F	Mar26-F
Ipca Laboratories Ltd	0.31%	0.31%
Lupin Ltd	0.39%	0.39%
Torrent Pharmaceuticals Ltd	0.92%	0.92%

Healthcare - Overall

3Q: Mixed India, US biz performance likely

- India business should post high-single to mid-teen YoY growth. US biz likely to post flat-to-negative while the diagnostics biz to post double-digit YoY growth.
- We expect 10% YoY topline growth for our coverage pharma companies with an 80bp YoY improvement in margin and 19% YoY earnings growth.
- Strong results are likely from Ipca Laboratories, Lupin and, Torrent Pharmaceuticals whereas Cipla and Alkem Laboratories may underperform.

Weak domestic biz due to low contribution from acute therapies

During 3QFY25, the domestic market clocked only a 6-7% growth, impacted by lower contribution from the acute therapy portfolio. The quarter is likely to witness high single-digit to mid-teen India business growth for most companies, with Dr. Reddy's Laboratories (led by Sanofi portfolio acquisition), Torrent Pharmaceuticals, Lupin and Ipca Laboratories to post India revenue growth at the higher end of the band while Alkem Laboratories, Cipla and Zydus Lifesciences are likely to report India business growth at the lower end of the band. Companies like Ajanta Pharma and Sun Pharmaceutical Industries are expected to continue their healthy growth in 3QFY25F, with a double-digit growth in India business.

US business to be flat-to-negative despite being seasonally strong

Despite 3Q being a seasonally strong quarter for US generic companies, we expect companies in our coverage universe to post flat-to-negative growth, with a few exceptions. On a broader basis, we expect competition in a few key products to impact US revenue. The biggest QoQ decline is likely for Cipla (US\$220m, impacted by lower Lanreotide sales) of 7% and Zydus Lifesciences (US\$275m, due to competition in Asacol HD and Mirabegron) of 4.5%. Lupin (US\$ 232m, cephalosporin sales (seasonality) and 180-day marketing exclusivity in Pred-forte) is expected to post its highest sequential growth of 5%. Aurobindo Pharma (US\$430m), Dr. Reddy's Laboratories (US\$450m), and Sun Pharmaceutical Industries (US\$520m) are likely to post low single-digit sequential growth.

Overall pharma sector's growth to be in double digits

We expect our pharma coverage companies to post a 10% YoY topline growth with an 80bp YoY improvement in margin. Overall, we expect a 19% YoY EPS growth in 3QFY25F.

Diagnostics biz likely to shine despite a seasonally lean quarter

3Q, being a festive season-led quarter, is a seasonally weak quarter for diagnostic companies. Despite this, we expect our coverage companies to post high-single to double-digit YoY growth for the quarter. A similar growth rate is expected on the volume front, which is mostly driving the momentum. Our coverage companies are likely to witness a 70-120bp rise in margin, with 20%+ YoY growth in EPS.

Likely outperformers/underperformers

Outperformers: Ipca Laboratories, Lupin and Torrent Pharmaceuticals.

Underperformers: Cipla and Alkem Laboratories.

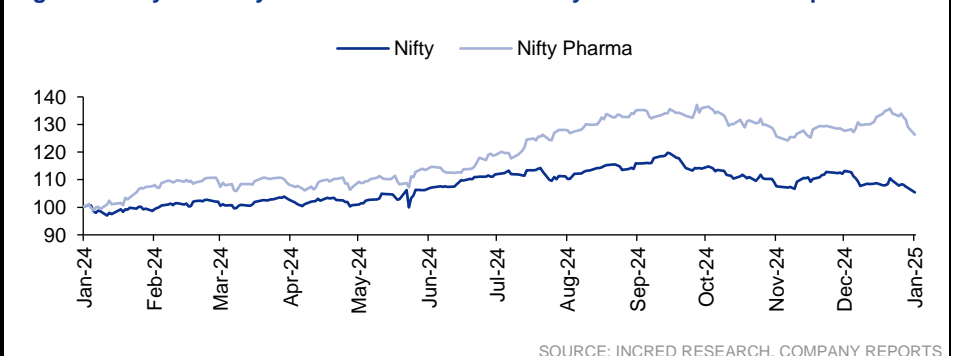
Neutral: Ajanta Pharma, Aurobindo Pharma, Divi's Labs, Dr Reddy's Labs, Gland Pharma, Laurus Labs, Sun Pharma, Torrent Pharma, Zydus Lifesciences, Dr Lal Pathlabs, Metropolis Healthcare and Thyrocare Technologies.

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

Figure 1: Nifty and Nifty Pharma indices corrected by ~8% in the last one quarter



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: : Healthcare companies' valuation matrix

Company	Rec.	Mkt-cap		Target Price (Rs)	Up/down (%)	Core EPS			Core EPS Growth (%)			P/E (x)		P/BV (x)		
		(US\$bn)	CMP (Rs)			FY24A	FY25F	FY26F	FY24A	FY25F	FY26F	FY24A	FY25F	FY26F	FY25F	FY26F
Ajanta Pharma	ADD	4.8	2,776	3,220	16.0%	63.7	76.9	90.1	39%	21%	17%	43.6	36.1	30.8	9.8	8.6
Alkem Laboratories	ADD	8.6	5,227	6,150	17.6%	159.3	189.2	215.2	79%	19%	14%	34.8	27.6	24.3	5.1	4.4
Aurobindo Pharma	HOLD	9.3	1,161	1,368	17.8%	57.4	63.3	76.0	74%	10%	20%	21.5	18.3	15.3	2.0	1.8
Cipla	ADD	16.0	1,439	1,640	14.0%	53.0	57.1	65.7	46%	8%	15%	28.1	25.2	21.9	3.8	3.3
Divi's Laboratories	ADD	21.0	5,733	6,560	14.4%	60.3	74.0	97.8	-12%	23%	32%	95.1	77.5	58.6	10.3	9.1
Dr. Lal Pathlabs	ADD	3.3	2,850	3,600	26.3%	42.8	52.5	63.0	50%	23%	20%	66.6	54.3	45.2	11.4	9.9
Dr Reddy's Laboratories	HOLD	15.3	1,335	1,365	2.2%	66.8	72.2	70.0	24%	8%	-3%	20.0	18.5	19.1	3.6	3.3
Gland Pharma	HOLD	3.8	1,695	1,768	4.3%	46.9	52.8	79.2	-6%	13%	50%	36.1	32.1	21.4	2.9	2.6
Ipca Laboratories	ADD	5.5	1,580	1,720	8.9%	23.3	32.1	42.9	25%	38%	34%	73.2	49.2	36.8	5.7	5.1
Laurus Labs	HOLD	4.2	559	455	-18.6%	3.0	4.9	9.7	-79%	62%	100%	185.6	114.6	57.4	7.0	6.4
Lupin	ADD	13.5	2,154	2,329	8.1%	35.8	73.6	88.9	279%	105%	21%	60.1	29.3	24.2	5.7	4.7
Metropolis Healthcare	ADD	1.3	1,885	2,460	30.5%	25.0	35.0	42.4	-11%	40%	21%	75.5	53.9	44.5	7.1	6.2
Sun Pharmaceutical Industries	HOLD	57.7	1,747	2,000	14.5%	42.0	46.4	55.1	16%	11%	19%	43.8	37.6	31.7	5.8	5.1
Thyrocare Technologies	ADD	0.6	824	1,010	22.6%	15.4	19.2	23.0	5%	25%	20%	61.7	45.3	36.8	8.2	7.8
Torrent Pharmaceuticals	HOLD	15.1	3,235	3,450	6.6%	47.1	59.6	74.8	28%	27%	26%	66.1	54.3	43.2	13.9	11.7
Zydus Lifesciences	ADD	13.5	975	1,150	17.9%	38.0	43.2	47.7	58%	14%	10%	25.7	22.6	20.4	4.2	3.6

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

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 (%)
Pharmaceuticals												
Ajanta Pharma	11,506	4%	-3%	3,209	2%	3%	27.9%	-53	167	2,374	13%	10%
Alkem Laboratories	34,338	3%	1%	7,348	4%	-2%	21.4%	11	-65	6,551	10%	-5%
Aurobindo Pharma	78,393	7%	1%	16,135	1%	3%	20.6%	-120	49	8,722	-7%	7%
Cipla	69,819	7%	-1%	18,104	4%	-4%	25.9%	-53	-81	12,444	16%	-4%
Divi's Laboratories	23,188	25%	-1%	7,323	50%	2%	31.6%	522	96	5,182	45%	2%
Dr. Reddy's Laboratories	86,182	19%	8%	22,647	13%	10%	26.3%	-154	65	15,721	14%	25%
Gland Pharma	15,104	-2%	7%	3,332	-7%	12%	22.1%	-100	93	1,963	2%	20%
Ipca Laboratories	22,668	10%	-4%	4,218	27%	-4%	18.6%	247	-14	2,116	89%	-8%
Laurus Labs	13,083	9%	7%	2,262	25%	27%	17.3%	211	272	526	125%	164%
Lupin	56,368	11%	-1%	13,309	48%	2%	23.6%	590	55	8,252	68%	-3%
Sun Pharmaceutical Industries	1,33,936	8%	1%	36,999	10%	-3%	27.6%	55	-105	28,853	11%	-5%
Torrent Pharmaceuticals	29,929	10%	4%	9,796	13%	4%	32.7%	92	23	5,153	45%	14%
Zydus Lifesciences	52,415	16%	0%	14,377	30%	-2%	27.4%	296	-48	10,074	31%	11%
TOTAL	6,26,928	10%	1%	1,59,059	14%	1%	25.4%	81	-4	1,07,931	19%	3%
Diagnostics												
Dr Lal Pathlabs	5,884	9%	-11%	1,591	13%	-21%	27.0%	94	-364	972	20%	-25%
Metropolis Healthcare	3,232	11%	-8%	760	17%	-15%	23.5%	123	-219	354	30%	-24%
Thyrocare Technologies	1,570	16%	-11%	414	19%	-18%	26.4%	66	-223	229	24%	-22%
TOTAL	10,686	11%	-10%	2,765	15%	-19%	25.9%	98	-303	1,555	23%	-24%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly average currency rates

Period	USD - INR	BRL - INR	EUR - INR	RUB - INR	GBP - INR	ZAR - INR	PHP - INR
3QFY23	82.22	15.62	84.09	1.30	96.4	4.7	1.4
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
QoQ change	0.8%	-4.1%	-2.0%	-10.2%	-0.6%	0.0%	0.0%
YoY change	1.4%	-13.9%	0.6%	-6.0%	4.7%	6.8%	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Company-wise details - Pharmaceuticals

Ajanta Pharma

We expect Asia and Africa branded business to grow in mid-teens, in line with its guidance, while India should see a 11% YoY growth. We expect flat US business QoQ. We expect its margin to normalize to 27.9% (2QFY25 margin had a notional mark-to-market or MTM loss of Rs256m).

Alkem Laboratories

Overall, a weak quarter in terms of revenue. India business growth is likely at 6.5% YoY and ROW growth is also likely to languish at 7% YoY on a high base. The US business will see some improvement QoQ, given supply chain problems in 2QFY25, and the company had also given guidance of a CGT product launch in 3Q. Margin is likely to marginally decline QoQ, in line with growth moderation.

Aurobindo Pharma

We expect its US business to grow 2% QoQ to US\$430m led by market share gains in OSD and OTC products, while the injectables portfolio is likely to be flat QoQ. However, the EU business should continue its momentum. On PenG, we believe the yields have still not stabilized fully although operating losses (Rs800m last quarter) should decline marginally. We expect its margin to improve slightly by 50bp QoQ.

Cipla

We expect its US business to be impacted by lower Lanreotide sales due to supply problems (as guided in the 2QFY25 conference-call) and market share loss in Diclofenac, while India sales should grow at a moderate 6.5% YoY, in line with the weak acute therapy seasonality. We expect its margin to contract by 80bp QoQ, led by lower Lanreotide sales.

Divi's Laboratories

We expect 25% overall growth, with marginal benefits from a favourable INR-US dollar movement. A 100bp margin improvement is likely QoQ. 3Q is seasonally strong for Divi's Laboratories. Please note that Unit-3 has started commercial operations in Dec 2024.

Dr. Reddy's Laboratories

India business to be boosted by Sanofi portfolio acquisition (Rs1.1bn sales expected in 3QFY25F), excluding which we expect an organic growth of 8% YoY. The US business is expected to be up 1% QoQ, with growth in the base business, while we have assumed flat Revlimid sales QoQ. ROW market should see contribution from the recently acquired NRT portfolio (Rs6.4bn sales in 3QFY25F, as per our estimate). We expect its margin to go up by 70bp QoQ, partially led by lower R&D spending (on a high sales base due to acquisitions).

Gland Pharma

We expect Cenexi's run rate to improve from EUR37m to EUR42m, which should partially support margin and lead to a QoQ improvement of 100bp. Ex-Cenexi, we expect its margin to remain largely flat QoQ. Cenexi, in our view, should see a marked improvement from 4QFY25F.

Ipca Laboratories

We expect a 10% revenue growth and 18.6% consolidated margin. India business is likely to grow 12% on a relatively low base, while Unichem should grow by around 10%. We expect its subsidiary Unichem's margin to improve further to 14% (vs. 12% QoQ), which should drive the overall margin to around 18.6% (flat QoQ).

Laurus Labs

We expect a marginal earnings recovery, with some pick-up in CDMO revenue (animal health contract to commence supplies), although a meaningful shift in earnings will get reflected from 4QFY25F. Nevertheless, with better operating leverage, we expect its margin to improve by 270bp QoQ.

Lupin

We expect a 13% YoY growth in India business led by sustenance of strong growth in the institutional business. The US business revenue is likely to be US\$232m (+5% QoQ) led by higher Cephalosporin sales (seasonality), 180-day marketing exclusivity in Pred-forte and marginal gains in Mirabegron 50mg (recently launched). The QoQ margin should improve by 50bp as the base included a one-off provision of Rs585m. We expect the tax rate to inch up in line with its stated guidance of 20-21% for FY25F (vs. ~19% in 1H).

Sun Pharmaceutical Industries

We expect a largely flattish US business, with the decline in US generics business led by lower sales of gPentasa, gCiprodex and amphetamine offset by traction in Cequa. We expect US sales at US\$520m. India business is likely to grow 11% YoY, continuing the outperformance, while ROW business should decline by 5% YoY as the base included a milestone income of US\$20m. We build in higher R&D spending (+100bp QoQ) and, accordingly, margin is expected to decline by 110bp QoQ. We, however, caution that the company's R&D spending has been lagging its guidance and thus, margin can be positively influenced if R&D expenditure continues to be lower than its guidance.

Torrent Pharmaceuticals

The company's Germany business should see momentum with recent tender wins, Brazil business is likely to be impacted by currency problems (we expect a 3% YoY decline in reported revenue) while the US business should marginally improve with the resumption of operations at its plant in Dec 2024 (was shut down in 2Q); 4QFY25F should see a full recovery in the US business. India business is likely to grow 15% YoY. Margin is likely to be broadly flattish QoQ.

Zydus Lifesciences

We build in a decline in its US sales to US\$275m due to competition in Asacol HD and Mirabegron. India sales to grow 7% YoY. We expect a marginal decline in margin, with a relatively lower contribution from Asacol and Mirabegron.

Company-wise details - Diagnostics

Dr Lal Pathlabs

We expect a 9% YoY growth during the quarter led by an 8% volume growth. As guided in 2QFY25, the margin in 2HFY25F to be lower than in 1H due to capex and investments. We expect its margin to be at 27% (360bp down QoQ). We expect a 19% YoY growth in EPS in 3QFY25F.

Metropolis Healthcare

Despite 3Q being a seasonally lean quarter, we expect its volume growth to be ~11%. With a healthy growth of 15% in the B2C business (led by wellness and bundling), we expect its margin to improve by 120bp YoY. Overall, we expect EPS growth of ~30% for the quarter.

Thyrocare Technologies

We expect diagnostic testing services business to clock a 16.5% YoY growth led by 13.5% volume growth. Topline growth in 3QFY25F is expected to be 16.5%. Margin improvement is expected to continue, with a 60bp YoY improvement to 26.4%. We expect EPS growth of 24% for the quarter.

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Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

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- 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.

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- 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.
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