

India

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

ADD, TP Rs3220, Rs2485 close

A play on branded generics.

Cipla Ltd

ADD, TP Rs1640, Rs1415 close

Goa plant's VAI removes a key overhang,

Lupin Ltd

ADD, TP Rs2329, Rs1971 close

Healthy drug launch pipeline and visibility beyond FY26F.

Summary Valuation Metrics

P/E (x)	Mar25-F	Mar26-F
Ajanta Pharma Ltd	34.2	28.4
Cipla Ltd	22.9	21.3
Lupin Ltd	26.9	22.6

P/BV (x)	Mar25-F	Mar26-F
Ajanta Pharma Ltd	8.9	7.9
Cipla Ltd	3.7	3.2
Lupin Ltd	5.2	4.3

Dividend Yield	Mar25-F	Mar26-F
Ajanta Pharma Ltd	2.0%	2.0%
Cipla Ltd	0.4%	0.4%
Lupin Ltd	0.4%	0.4%

Pharmaceuticals

Tariff fears haven't abated

- Recent statements by Donald Trump indicates his intention to impose sharper tariffs on pharma imports; Section 232 probe is a likely plank to impose tariffs.
- We revise our stance & feel tariffs may be implemented. There's less chances of a 10% tariff; a higher tariff of 15-25% to have 2-18%/3-30% EBITDA impact.
- Reshoring to the US is unlikely. We prefer branded & domestic focused companies, diagnostics & CDMO players while being cautious on US generics.

Separate tariffs for pharmaceutical imports are likely on the horizon

The recent exclusion of the pharmaceutical (pharma) sector from US reciprocal tariffs was a positive development and aligned with our expectations ([link](#)). However, in a recent statement, US President Donald Trump has indicated his intent to impose strict tariffs on imported drugs. We believe the Trump administration may initiate a Section 232 investigation (under the Trade Expansion Act, 1962) into the pharma sector, which could serve as a plank for imposing tariffs - like the one used during 2017-18, when the US imposed 10% and 25% tariff on aluminium and steel, respectively.

Change in our stance - tariffs are now likely

We have now revised our stance and consider the likelihood of tariffs being imposed on the sector being high. A 10% tariff, if imposed, is likely to be fully passed on, limiting its impact and thus making it less probable. However, a higher tariff of **15-25%** would be challenging, as most generic players operate on a thin EBITDA margin of 15-25% in the US market. Such a move could exacerbate the ongoing drug shortage. To sustain business viability, we believe that companies may look at **passing on 50-70% of the tariff** to consumers or distribution partners. As a result, we estimate a **2-18% impact on FY26F EBITDA in a best-case (70% pass-through) scenario**, and a **3-30% impact in a worst-case (50% pass-through) scenario**.

Trump reprioritizes US manufacturing

A key detail that flew under the radar in the White House Fact Sheet was **Trump's renewed emphasis on revitalizing US manufacturing**. The document underscored the importance of maintaining a resilient domestic manufacturing base—particularly in sectors like pharma—warning that a continued loss of capacity could permanently erode US competitiveness. This signals a clear policy direction toward reshoring production and reducing the reliance on imports.

Reshoring pharma manufacturing to the US is unlikely

We see limited probability of large-scale reshoring of pharma manufacturing to the US, given the long gestation period (three-to-four years including regulatory approvals), significantly higher production costs (two-to-three times that of India), and higher capex requirement. The US currently lacks the capacity to meet generic drug demand, and so tariffs could either worsen the drug shortage or raise healthcare costs—both of which are detrimental to US consumers. We will closely monitor any capex plan from companies expanding into the US, although we believe such a move would dilute return ratios without adding to profitability.

Sector outlook

We maintain our Overweight stance on the sector, as the recent correction (BSE Healthcare index down 11% since Jan 2025) has made stock valuations attractive. Despite a 10-18% correction in companies having US generics business (factoring in most of the negatives), we maintain our cautious stance on the sub-segment due to growth headwinds post-FY26F and potential policy changes (US tariffs) which could limit any significant upside. Our preference remains firmly on branded and domestic market-focused companies, diagnostics and CDMO players. We are bullish on Ajanta Pharma, Lupin, Cipla, Ipca Laboratories, Divi's Laboratories, Metropolis Healthcare, and Dr. Lal Pathlabs.

Research Analyst(s)**Yogesh SONI**

T (91) 22 4161 1566

E yogesh.soni@incredresearch.com

Niharika AGARWAL

T (91) 02241611540

E niharika.agarwal@incredresearch.com

Figure 1: Gland Pharma, Zydus Lifesciences, Aurobindo Pharma, Dr. Reddy's Laboratories, Lupin and Cipla, which have 25-50% of US revenue, are expected to be the most impacted by tariffs

Companies	US Exposure	Likely EBITDA impact on FY26F due to tariff		Price Correction since Jan 2025
	FY26F	70% pass-on	50% pass-on	
Gland Pharma	57.9%	10-18%	18-30%	19.0%
Zydus Lifesciences	45.2%	7-12%	12-20%	11.0%
Aurobindo Pharma	44.5%	9-15%	15-25%	18.0%
Dr Reddy's Laboratories	39.4%	7-12%	12-20%	18.0%
Lupin	36.8%	7-11%	11-19%	17.0%
Sun Pharmaceutical Industries	29.7%	2-4%	4-7%	10.0%
Cipla	28.7%	5-8%	8-14%	7.0%
Ajanta Pharma	22.2%	3-6%	6-10%	17.0%
Alkem Laboratories	18.3%	4-7%	7-11%	13.0%
Torrent Pharmaceuticals	9.3%	1-2%	2-3%	3.0%

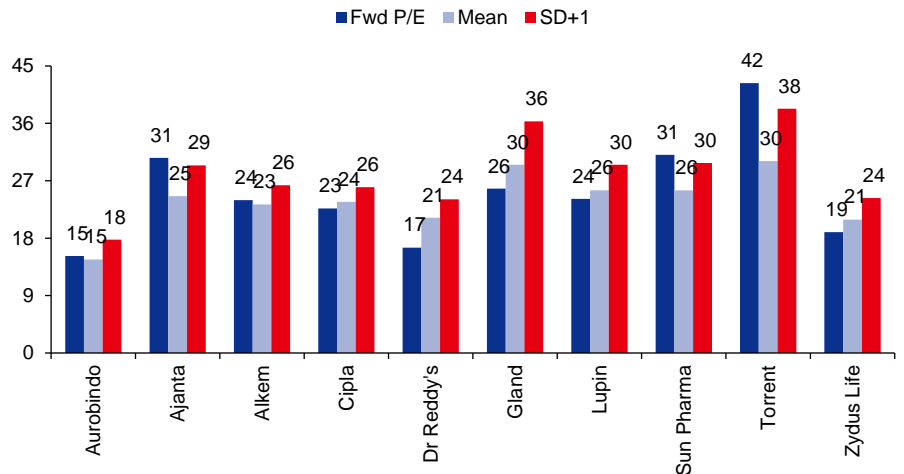
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Aurobindo Pharma, Alkem Laboratories, Cipla, Dr. Reddy's Laboratories, Lupin, and Sun Pharmaceutical Industries have manufacturing facilities in the US

Company	Facility	Type
Alkem Laboratories	S&B Pharma - California, US	R&D Centre
	S&B Pharma - California, US	API
Aurobindo Pharma	Aurolife - 2400 Route 130 north, Dayton, NJ, 08810, US	Formulations
	Aurolife - 6 Wheeling Road, Dayton, NJ, 08810, US	Formulations
	Aurolife - Unit-II, 2929 Weck Drive, Durham, NC, 27703, US	Formulations
Cipla	7 Oser Avenue, Hauppauge, NY, USA, ZIP - 11788	Formulations
	600 Old Willets, Path Hauppauge, NY, US, ZIP - 11788	Formulations
	550 South Research Place, Central Islip, NY, US, ZIP - 11722	Formulations
	927 Currant Road, Fall River, MA, US, ZIP - 02720	Formulations
Dr. Reddy's Laboratories	Shreveport, Louisiana 7110-6717, US	Formulations
	Middleburgh, New York 12122, US	API
Lupin	4006 NW 124TH Ave, Coral Springs, FL, 33065, US	Formulations
	Novel Laboratories - 400 Campus Drive, Somerset, NJ, 08873, US	Formulations
Sun Pharmaceutical Industries	Chattem Chemicals - Chattanooga, US	API
	Ohm Laboratories Inc - New Brunswick, New Jersey, US	Formulations
	Ohm Laboratories Inc - North Brunswick, NJ, New Jersey, US	Formulations
	Pharmalucence Inc - Billerica, Massachusetts, US	Formulations

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Post 10-18% price correction in companies having US generics business, they are now trading near or below their long-term mean



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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. While 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 is 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 a 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

Research Analyst or his/her relative(s) or InCred Research Services Private Limited or our associate may have any financial interest in the subject company.

Research Analyst or his/her relatives or InCred Research Services Limited or our associates may have actual or beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report.

Research Analyst or his/her relative or InCred Research Services Private Limited or our associate entities may have any other material conflict of interest at the time of publication of the Research Report.

In the past 12 months, IRSPL or any of its associates may have:

- a) Received any compensation/other benefits from the subject company,
- b) Managed or co-managed public offering of securities for the subject company,
- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- d) Received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company

We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Research Analyst may have served as director, officer, or employee in the subject company.

We or our research analyst may engage in market-making activity of the subject company.

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 on 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.

Registration granted by SEBI, membership of a SEBI recognized supervisory body (if any) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

InCred Research Services Private Limited

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

CIN: U74999MH2016PTC287535

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- 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.

Country Ratings

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.