Pharma and Healthcare

Growth momentum, margin visibility stay intact

The India Pharma & Healthcare sector is expected to see steady growth in Q3FY25E. We project sales/EBITDA growth of 11%/13% YoY for our coverage universe. Our assumptions are: (1) pharma coverage will see 10% YoY sales growth, driven by a 13% YoY increase in the India business, offset by flattish (QoQ) US sales (+5% YoY). Moderate price erosion and steady traction in key products (gSpiriva, gMyrbetriq) and the specialty scale-up will partly balance the negligible sales from gRevlimid. (2) EBITDA margins for the pharma segment are expected to expand by 50 bps YoY, driven by growth in key markets (India and US) and lower input costs (expanding gross margin by ~167 bps YoY). This will be partly offset by higher costs, including an expected increase in R&D spending and rise in freight costs (+134% YoY and -34% QoQ). (3) The hospital business is projected to grow by 19% YoY, supported by steady occupancy/ ARPOB and M&As (Max Healthcare). EBITDA margin expansion is expected for Apollo Hospital due to reduced spending on Apollo 24/7, while Max Healthcare may see a margin decline due to integration impact of acquired hospitals and drag from new hospital (at Dwarka). (4) The diagnostics segment is anticipated to deliver 11% YoY sales growth, driven by patient/test volume increases and steady margins. (5) The retail pharmacy business (Medplus and Apollo Pharmacy) is expected to see steady growth. Overall, we foresee strong performances from Lupin, Torrent, IPCA and Apollo Hospital, while Aurobindo and Max Healthcare may show more muted results.

- **US business growth to be flattish QoQ:** The US generics market is expected to remain muted QoQ due to (1) moderating price erosion, (2) new generic launches (Alkem, Lupin), (3) stable sales from key products like gSpiriva and gMyrbetriq (for Lupin and Zydus), and (4) specialty scale-up (Sun Pharma), to be offset by (a) negligible gRevlimid sales (Aurobindo, Sun Pharma, Zydus; gRevlimid sales to be flattish QoQ for Dr Reddy's) and (b) competitive pressure in key products like gAsacol HD (Zydus) and Albuterol/gSuprep (Lupin) which will impact QoQ growth. While we estimate flattish QoQ sales in the US, we project 5% YoY growth, led by launches.
- **India coverage growth is expected at 13% YoY vs IPM at ~7% for Q3FY25:** India's pharma market saw a steady growth of 7% in Q3FY25 (as per IQVIA), led by steady growth of 10% in the chronic segment, which was partly offset by ~6% growth in the acute segment (as per IQVIA). We expect our coverage universe to see 13% YoY growth in India business, led by M&As (ERIS – Biocon India business, Mankind – BSV acquisition, and Dr Reddy's– Sanofi's India vaccine business), specialty traction (Sun Pharma, Zydus), and traction in the leading chronic segment (Sun, Torrent, and Lupin) and gastro (Alkem, Torrent). On the other hand, muted growth in anti-infectives (Alkem, Mankind) could impact the overall growth momentum.
- **Healthcare coverage to see steady growth:** Hospital companies with a focus on case/payor-mix have seen an improvement in the ARPOB but occupancy will remain flat YoY. Retail pharmacy continues focusing on store expansion while balancing growth and margin. Diagnostics will see steady 11% growth on easing competition; expansion-led costs to restrict margins.
- **Stable input costs and favourable mix offset by higher R&D:** We expect gross margin expansion (~167 bps YoY) on the back of stable input costs of key raw materials and business mix (growth in India and the US); QoQ gross margin to see a dip of ~53 bps due to lower gRevlimid sales. Moreover, an increase in R&D could limit margin expansion for the coverage companies.

YE March	Rec.	TP (INR/share)
Pharma		
Alkem	ADD	6,180
Aurobindo	ADD	1,440
Dr. Reddy's	REDUCE	1,330
Eris Life	BUY	1,520
Ipca	BUY	1,800
Lupin	ADD	2,440
Mankind	ADD	2,900
Sun Pharma	BUY	2,180
Torrent Pharma	ADD	3,680
Zydus Life	ADD	1,100
Healthcare		
Apollo Hospitals	BUY	8,250
Max Healthcare	REDUCE	980
Medplus	BUY	830
Dr Lal Path labs	ADD	3,570
Metropolis	ADD	2,370

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Exhibit 1: HSIE estimates snapshot

Companies (INR mn)	Revenues			EBITDA			EBITDA Margin %			Adjusted Net Profit		
	Q3FY25E	YoY gr.	QoQ gr.	Q3FY25E	YoY gr.	QoQ gr.	Q3FY25E	YoY bps	QoQ bps	Q3FY25E	YoY gr.	QoQ gr.
Alkem Labs	35,155	6%	3%	7,101	0%	-6%	20.2	-109	-185	6,198	12%	-10%
Aurobindo	78,116	6%	0%	16,248	1%	4%	20.8	-99	72	8,671	-4%	7%
Dr. Reddy's	83,070	15%	3%	22,678	11%	5%	27.3	-81	32	14,223	9%	7%
Eris Lifesciences	7,212	48%	-3%	2,560	46%	-3%	35.5	-60	-19	887	-14%	-3%
IPCA	22,973	12%	-2%	4,365	32%	-3%	19.0	290	-11	2,371	113%	0%
Lupin	56,926	10%	0%	12,695	24%	-7%	22.3	264	-180	7,528	26%	-14%
Mankind	31,536	21%	3%	8,199	35%	-4%	26.0	274	-164	4,535	0%	-31%
Sun Pharma	1,32,439	7%	0%	36,156	8%	-5%	27.3	23	-138	27,980	13%	-5%
Torrent Pharma	29,822	9%	3%	9,603	11%	0%	32.2	40	-107	5,063	33%	8%
Zydus Life	51,238	14%	-2%	13,066	21%	-8%	25.5	154	-160	8,592	15%	-2%
Pharma Total	**5,28,487**	**10%**	**1%**	**1,32,671**	**13%**	**-3%**	**25.1**	**50**	**-81**	**86,048**	**13%**	**-4%**
Hospitals												
Apollo Hospital	55,401	14%	-1%	7,651	25%	-6%	13.8	116	-79	3,366	37%	-11%
Max Healthcare^	22,596	34%	6%	5,877	25%	4%	26.0	-193	-62	3,578	4%	-3%
Hospitals Total	**77,997**	**19%**	**1%**	**13,528**	**25%**	**-2%**	**17.3**	**74**	**-56**	**6,944**	**18%**	**-7%**
Diagnostic												
DLPL	6,022	12%	-9%	1,596	14%	-21%	26.5	41	-418	988	22%	-23%
Metropolis	3,231	11%	-8%	779	20%	-13%	24.1	183	-160	357	28%	-23%
Diagnostic Total	**9,253**	**11%**	**-8%**	**2,375**	**16%**	**-19%**	**25.7**	**91**	**-329**	**1,345**	**23%**	**-23%**
Retail Pharmacy												
MedPlus	15,881	10%	1%	1,223	33%	-2%	7.7	134	-20	295	115%	-24%
Coverage total	**6,31,618**	**11%**	**1%**	**1,49,796**	**14%**	**-3%**	**23.7**	**50**	**-81**	**94,632**	**13%**	**-5%**

Source: Companies, HSIE Research. Note: EBITDA and PAT adjusted for one-offs, ^ Max Healthcare financial includes partnered healthcare facilities

Exhibit 2: HSIE estimates for Q2FY25E – Pharma coverage…

INR mn	Q3FY24	Q2FY25	Q3FY25E	YoY ch	QoQ ch	Comments
Alkem Labs						
Revenue	33,239	34,147	35,155	6%	3%	Sales growth led by ~9% growth in India formulation business and ~10% growth in international business (ex-US). US business to grow QoQ led by traction in gSuprep and gPradaxa. Gross margin to see YoY improvement but higher costs towards growth initiatives to keep EBITDA under pressure.
EBITDA	7,076	7,528	7,101	0%	-6%	
EBITDA margin %	21.3%	22.0%	20.2%	-109 bps	-185 bps	
PAT	5,539	6,886	6,198	12%	-10%	
EPS (INR/sh)	46.3	57.6	51.8	12%	-10%	
Aurobindo Pharma						
Revenue	73,518	77,961	78,116	6%	0%	US business to see QoQ recovery in injectable business and steady growth in the OSD sales. Europe to sustain steady growth momentum. Gross margin to remain steady but EBITDA margin to decline QoQ due to opex related to recently commissioned plants (Pen-G, 6-APA, Injectable).
EBITDA	16,013	15,661	16,248	1%	4%	
EBITDA margin %	21.8%	20.1%	20.8%	-99 bps	72 bps	
PAT	9,027	8,075	8,671	-4%	7%	
EPS (INR/sh)	15.5	13.9	14.9	-4%	7%	
Dr Reddy's Lab						
Revenue	72,368	80,382	83,070	15%	3%	US business to see QoQ decline due to lower gRevlimid sales; base business to remain steady (~USD 285-290 mn). India to see 14% YoY growth on incremental sales from acquired vaccine business from Sanofi. We have factored NRT business (transaction completed in Sep'24). We expect gross margin and EBITDA margin to remain steady.
EBITDA	20,341	21,689	22,678	11%	5%	
EBITDA margin %	28.1%	27.0%	27.3%	-81 bps	32 bps	
PAT	13,025	13,281	14,223	9%	7%	
EPS (INR/sh)	15.6	15.9	17.1	9%	7%	
Eris Life						
Revenue	4,863	7,412	7,212	48%	-3%	Eris Q3FY25E sales includes Biocon's Nephro business, Swiss Parentals full quarter sales, Biocon India formulation business leading to growth. We expect base business to see single digit growth. Gross and EBITDA margin to correct due to integration impact of lower margin Biocon India formulation business.
EBITDA	1,755	2,645	2,560	46%	-3%	
EBITDA margin %	36.1%	35.7%	35.5%	-60 bps	-19 bps	
PAT	1,027	916	887	-14%	-3%	
EPS (INR/sh)	7.6	6.7	6.5	-14%	-3%	
IPCA Labs						
Revenue	20,529	23,549	22,973	12%	-2%	We assume India formulation business to see 12% YoY growth. Recovery in export formulation business led by steady institutional business, and growth in branded as well as generics business. We assume ~10% YoY growth in Unichem sales (steady growth in the US). Gross and EBITDA margin to improve YoY on better sales mix and cost controls.
EBITDA	3,305	4,498	4,365	32%	-3%	
EBITDA margin %	16.1%	19.1%	19.0%	290 bps	-11 bps	
PAT	1,111	2,378	2,371	113%	0%	
EPS (INR/sh)	4.4	9.4	9.3	113%	0%	
Lupin						
Revenue	51,974	56,727	56,926	10%	0%	US business to see steady traction from its key products like gSpiriva, and gMyrbetriq as well as recently launched gPred Forte (CGT exclusivity). This will partly offset competition in Albuterol and gSuprep. India business to see 15% YoY growth. Gross margin to remain strong (+261 bps YoY) leading to EBITDA margin expansion.
EBITDA	10,220	13,668	12,695	24%	-7%	
EBITDA margin %	19.7%	24.1%	22.3%	264 bps	-180 bps	
PAT	5,997	8,742	7,528	26%	-14%	
EPS (INR/sh)	13.1	19.2	16.5	26%	-14%	

Source: Companies, HSIE Research. Note: EBITDA and PAT adjusted for one-offs

Exhibit 3: …HSIE estimates for Q2FY25E – Pharma coverage

INR mn	Q3FY24	Q2FY25	Q3FY25E	YoY ch	QoQ ch	Comments
Mankind						
Revenue	26,070	30,765	31,536	21%	3%	Steady growth in India business led by scale-up in chronic segment and recovery in acute segment. Exports to remain flat QoQ (YoY up 15% on US supply opportunities). We have factored BSV sales (effective from Oct'24). Higher gross margin (+186 bps YoY) on improving business mix to support the EBITDA margin expansion. EBITDA may see some one-time impact of acquisition as well as integration costs related to BSV.
EBITDA	6,065	8,500	8,199	35%	-4%	
EBITDA margin %	23.3%	27.6%	26.0%	274 bps	-164 bps	
PAT	4,538	6,535	4,535	0%	-31%	
EPS (INR/sh)	11.0	15.8	11.0	0%	-31%	
Sun Pharma						
Revenue	1,23,807	1,32,914	1,32,439	7%	0%	US generic business to see QoQ decline due to negligible gRevlimid sales and steady Taro sales. Specialty sales to remain strong with growth of ~11% YoY. India to see 12%YoY growth. Gross margin expansion (+131 bps YoY) to offset by higher costs (inch-up in R&D) which will limits EBITDA margin expansion.
EBITDA	33,523	38,109	36,156	8%	-5%	
EBITDA margin %	27.1%	28.7%	27.3%	23 bps	-138 bps	
PAT	24,769	29,323	27,980	13%	-5%	
EPS (INR/sh)	10.3	12.2	11.7	13%	-5%	
Torrent Pharma						
Revenue	27,320	28,890	29,822	9%	3%	India formulation business to see growth of 8% YoY as steady traction in key therapies to partly offset by impact of ~INR 750 mn sales due to planned shutdown (in Aug'24) for insulin plant. Brazil business to see steady growth. US to remain flat QoQ and steady growth in Germany business. EBITDA margin to see YoY expansion led by higher gross margin and steady costs.
EBITDA	8,690	9,610	9,603	11%	0%	
EBITDA margin %	31.8%	33.3%	32.2%	40 bps	-107 bps	
PAT	3,812	4,681	5,063	33%	8%	
EPS (INR/sh)	11.3	13.8	15.0	33%	8%	
Zydus Life						
Revenue	45,052	52,370	51,238	14%	-2%	The US to see QoQ decline due to absence of gRevlimid and impact of generic competition in gAsacol HD, while sales from gMyrbetriq to remain steady. India business to see 9% growth. Gross margin expansion (+2600 bps YoY) to offset higher costs, leading to steady operating performance.
EBITDA	10,796	14,191	13,066	21%	-8%	
EBITDA margin %	24.0%	27.1%	25.5%	154 bps	-160 bps	
PAT	7,503	8,810	8,592	15%	-2%	
EPS (INR/sh)	7.5	8.8	8.5	15%	-2%	

Source: Companies, HSIE Research. Note: EBITDA and PAT adjusted for one-offs

Exhibit 4: HSIE estimates for Q2FY25E – Hospital companies' coverage

INR mn	Q3FY24	Q2FY25	Q3FY25E	YoY ch	QoQ ch	Comments
Apollo Hospitals						
Revenue	48,506	55,893	55,401	14%	-1%	We expect 12% YoY growth in hospital business on steady occupancy and ARPOB growth, Healthco business to see 17% YoY growth and AHLL to see 13% YoY growth. Steady improvement in hospital business margin and YoY reduction Apollo 24/7 spend (QoQ flat) to help overall EBITDA margin expansion.
EBITDA	6,137	8,155	7,651	25%	-6%	
EBITDA margin %	12.7%	14.6%	13.8%	116 bps	-79 bps	
PAT	2,453	3,788	3,366	37%	-11%	
EPS (INR/sh)	17.1	26.3	23.4	37%	-11%	
Max Healthcare						
Revenue	16,890	21,250	22,596	34%	6%	Strong sales growth is largely led by the steady growth in the company' existing network and integration of acquired hospitals (Lucknow and Nagpur) as well as Jaypee hospitals. Max Lab to see steady growth. Integration impact of lower margin acquired hospitals as well as operating loss for its recently commissioned hospital at Dwarka (Delhi) to drag down the overall margin for the company.
EBITDA	4,720	5,660	5,877	25%	4%	
EBITDA margin %	27.9%	26.6%	26.0%	-194 bps	-63 bps	
PAT	3,430	3,690	3,578	4%	-3%	
EPS (INR/sh)	3.5	3.8	3.7	4%	-3%	

Source: Companies, HSIE Research. Note: EBITDA and PAT adjusted for one-offs, Max Healthcare financial includes partnered healthcare facilities

Exhibit 5: HSIE estimates for Q2FY25E – Diagnostics companies coverage

INR mn	Q3FY24	Q2FY25	Q3FY25E	YoY ch	QoQ ch	Comments
Dr Lal Path labs						
Revenue	5,389	6,602	6,022	12%	-9%	Steady sales growth of 12% YoY (to sustain quarterly sales growth trend of 10-11%) largely led by the YoY growth in the volume and increasing bundle test business. Gross margin to sustain at 80.4% and steady margin at 26.5%.
EBITDA	1,406	2,025	1,596	14%	-21%	
EBITDA margin %	26.1%	30.7%	26.5%	41 bps	-418 bps	
PAT	813	1,292	988	22%	-23%	
EPS (INR/sh)	9.7	15.5	11.8	22%	-23%	
Metropolis						
Revenue	2,911	3,498	3,231	11%	-8%	The company to see 11% YoY growth driven by patient volume growth, test volume growth and change in product mix coupled with realization benefits. EBITDA margin to expand on account of sales growth and gross margin improvement. As per company update, B2C revenues grew at ~15% YoY for Q3FY25E.
EBITDA	648	899	779	20%	-13%	
EBITDA margin %	22.3%	25.7%	24.1%	183 bps	-160 bps	
PAT	278	465	357	28%	-23%	
EPS (INR/sh)	5.4	9.1	7.0	28%	-23%	

Source: Companies, HSIE Research. Note: EBITDA and PAT adjusted for one-offs

Exhibit 6: HSIE estimates for Q2FY25E – Retail pharmacy

INR mn	Q3FY24	Q2FY25	Q3FY25E	YoY ch	QoQ ch	Comments
Medplus						
Revenue	14,415	15,762	15,881	10%	1%	We expect steady growth in Pharmacy business (+10% YoY) as increasing private label sales to drive volume growth but lower value growth. Diagnostic business at INR 240 mn (+22% YoY). Gross margin to expand with increasing share from private label leading to EBITDA margin expansion. Operating margin (post rentals) to be at ~4.6% in Q3FY25E vs. 3.2% YoY.
EBITDA	918	1,244	1,223	33%	-2%	
EBITDA margin %	6.4%	7.9%	7.7%	134 bps	-20 bps	
PAT	137	387	295	115%	-24%	
EPS (INR/sh)	1.1	3.2	2.5	115%	-24%	

Source: Companies, HSIE Research. Note: EBITDA and PAT adjusted for one-offs

Exhibit 7: The US business to remain flat QoQ on lower sales from gRevlimid, YoY growth on back of traction in the key products and new launches

(USD mn)	US revenues								
	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25E	YoY	QoQ
Alkem	85	93	82	75	77	71	79	-4%	11%
Aurobindo	402	419	456	438	426	421	431	-5%	2%
Dr. Reddy's	390	382	403	391	462	445	435	8%	-2%
Lupin	181	213	212	209	227	220	230	8%	5%
Sun	471	430	477	476	466	517	506	6%	-2%
Torrent	36	30	33	32	31	32	34	3%	6%
Zydus	298	225	221	304	371	288	270	22%	-6%
Total	**1,862**	**1,791**	**1,884**	**1,926**	**2,060**	**1,994**	**1,985**	**5%**	**0%**

Source: Companies, HSIE Research.

Exhibit 8: India formulation business to maintain growth momentum

(INR mn)	India formulations business								
	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25E	YoY	QoQ
Alkem Labs	19,007	23,278	22,328	19,724	20,223	24,610	24,338	9%	-1%
Aurobindo	524	660	600	480	610	710	660	10%	-7%
Dr. Reddy's	11,482	11,860	11,800	11,265	13,252	13,971	13,452	14%	-4%
Eris Lifesciences	4,600	5,005	4,835	4,923	6,426	6,570	6,287	30%	-4%
IPCA Labs	7,827	8,450	7,796	6,898	8,734	9,405	8,732	12%	-7%
Lupin	16,384	16,915	17,251	16,015	19,259	20,096	19,839	15%	-1%
Mankind	22,110	23,360	22,510	20,180	24,280	25,640	26,112	16%	2%
Sun Pharma	35,604	38,425	37,785	37,078	41,445	42,652	42,320	12%	-1%
Torrent Pharma	14,260	14,440	14,150	13,800	16,350	16,320	15,276	8%	-6%
Zydus Life	12,270	13,341	14,273	13,806	13,758	14,569	15,558	9%	7%
Total	**1,44,068**	**1,55,734**	**1,53,328**	**1,44,169**	**1,64,337**	**1,74,542**	**1,72,572**	**13%**	**-1%**

Source: Companies, HSIE Research.

Exhibit 9: Gross margin to expand on favourable business mix and lower input costs

Gross margin %	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25E	YoY bps	QoQ bps
Alkem	59.6%	61.4%	60.8%	62.3%	64.5%	64.7%	64.0%	325	(72)
Aurobindo	53.9%	55.2%	57.1%	59.6%	59.4%	58.8%	59.0%	185	18
Dr. Reddys	71.3%	71.0%	69.9%	70.6%	71.7%	70.6%	70.0%	7	(56)
Eris	83.2%	81.3%	81.7%	78.5%	74.9%	74.9%	75.7%	(603)	83
IPCA Labs	67.5%	66.7%	66.0%	66.3%	69.2%	67.8%	68.0%	195	21
Lupin	65.9%	66.2%	66.8%	68.3%	68.8%	70.2%	69.4%	261	(81)
Mankind	68.2%	69.5%	68.3%	69.8%	71.9%	71.6%	71.0%	275	(56)
Sun Pharma	76.9%	77.1%	77.9%	80.1%	78.9%	79.7%	79.2%	131	(53)
Torrent Pharma	74.9%	75.2%	74.5%	75.3%	75.7%	76.5%	76.0%	151	(53)
Zydus Life	67.4%	66.3%	67.4%	70.9%	74.4%	71.9%	70.0%	260	(190)
Total Pharma gross margin	**68.4%**	**68.6%**	**68.9%**	**70.7%**	**71.4%**	**71.2%**	**70.6%**	167	(57)

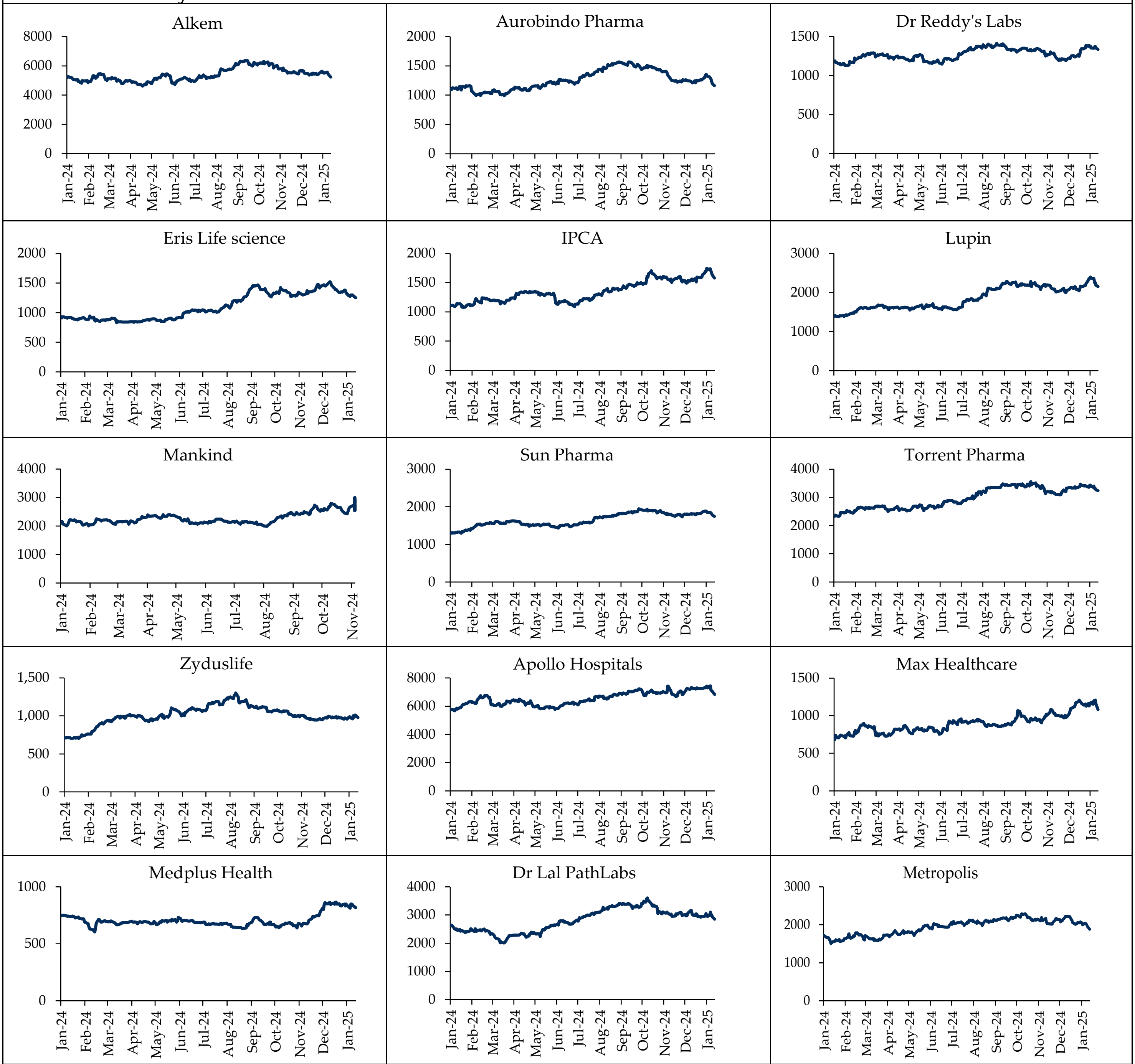
Source: Companies, HSIE Research.

Exhibit 10: Currency movement

Currency vs. INR	(Q3FY25)	% chg		(Q3FY25)	% chg	
	(Avg)	YoY	QoQ	(Spot)	YoY	QoQ
USD	84.5	2	1	85.6	3	3
RUB	0.7	2	1	0.7	3	3
BRL	14.4	-15	-10	13.9	-16	-7
ZAR	4.7	6	5	4.5	4	-1
EUR	90.0	0	0	88.6	1	-1
YEN	0.6	-3	4	0.5	-2	5
AUD	55.0	2	0	53.0	-1	-5
CAD	60.3	-2	-1	59.5	-3	-2

Source: Bloomberg

1 Yr Price history



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

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