

Yet another strong quarter

- **3QFY25E to report another healthy quarter driven by good traction across geographies, cost rationalisation leading to margin increment**
- **Domestic sales growth for our coverage companies to grow by 10.9%, led by new product launches, surpassing IPM growth of ~7%**
- **US sales growth for our coverage companies to grow by 9.6% driven by niche, specialty and complex new product launches**

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All-round growth in 3QFY25E: We expect sales for our coverage companies to grow by 9.5% YoY, driven by 10.9% growth in the domestic region and 9.6% growth in the US region. We expect EBITDA growth of 7.4% YoY and 4.1% QoQ to be driven by healthy product mixes, EBITDA margins to increase by 60bps YoY and 21bps QoQ to 24.7%, and PAT growth of 9.1% YoY for our coverage companies. We expect DIVI to post strong yearly growth of 24.2%, followed by DRRD with yearly growth of 16%.

Chronic sales to drive domestic growth: We expect domestic sales for our coverage companies to grow by 10.9% YoY against IPM growth of 7% driven by (1) seasonality in the acute segment, (2) value growth, (3) new product launches, (4) increase in medical representative productivity, (5) pick-up in trade generics, and (6) steady traction in the chronic segment. From our coverage companies, we believe domestic sales for DRRD to be highest at 16% followed by LPC at 15%.

US sales growth to be driven by niche launches: We expect US sales for our coverage companies to grow by 9.6% YoY and -2.1 % QoQ and driven by (1) new launches in specialty and complex products and (2) easing of price erosion in generics. From our coverage companies, we expect SUNP to report 20% growth in the US driven by Ilumya sales in the specialty segment followed by 15% for DRRD. We expect US sales to decline for ALKEM by 8% due to lack of new product launches.

Margins continue to expand due to healthy product mix: We expect margins of our coverage companies to expand by 60bps YoY and 21bps QoQ to 24.7% driven by a healthy product mix. We expect ERIS to report 36% EBITDA margin due to its heavy chronic portfolio, followed by DIVI with 30%. We expect LAURUS to report 15.2% EBITDA margin due to operating deleverage.

Our preferred picks: We prefer LPC with BUY due to its healthy US sales of complex generics and attribute a SELL to AJP due to its concentrated portfolio and lack of innovation.



Fig 1 – Pharmaceuticals preview for 3QFY25E

Y/E March	Net Sales (Rs mn)			EBITDA (Rs mn)			EBITDA Margin (%)			Adjusted PAT (Rs mn)		
	Q3FY25E	YoY (%)	QoQ (%)	Q3FY25E	YoY (%)	QoQ (%)	Q3FY25E	YoY bps	QoQ bps	Q3FY25E	YoY (%)	QoQ (%)
Sun Pharma	133,804	8.1	0.7	38,134	0.0	13.8	28.5	142	(17)	28,830	14.2	(5.2)
Dr. Reddy's	81,985	13.6	2.3	19,676	0.0	0.0	27.0	(97)	22	14,135	2.5	12.6
Cipla	68,758	4.1	(2.5)	19,252	10.2	2.1	28.0	154	126	12,955	22.7	(1.2)
Lupin	57,196	10.0	0.8	13,155	28.7	0.6	23.0	334	(6)	8,032	(6.5)	29.8
Aurobindo Pharma	78,515	9.0	2.8	16,344	2.1	4.4	20.4	(22)	30	8,635	(7.8)	5.6
Ajanta	11,892	7.6	0.2	3,175	1.1	2.0	26.7	(172)	48	2,254	7.3	1.6
Alkem	34,640	14.3	1.4	6,981	14.7	(7.3)	20.2	8	(189)	6,395	17.3	(7.1)
Alembic Pharma	17,182	5.4	4.3	2,835	6.4	(0.2)	16.5	16	198	1,752	(2.9)	14.4
Eris	7,494	2.5	1.4	2,694	53.5	1.8	35.9	(15)	15	949	(7.6)	3.6
Divi's	23,048	24.2	8.8	6,914	38.3	(3.4)	30.0	305	(62)	4,816	34.5	(5.7)
Laurus Labs	12,799	7.1	4.6	1,945	7.2	9.1	15.2	2	63	277	19.7	0.4
Total	527,313	9.51	1.40	131,106	7.48	4.18	24.7	59.53	20.54	89,031	8.92	1.91

Source: Company, BOBCAPS Research

Fig 2 – Domestic sales for 3QFY25E

Rs mn	3QFY24	2QFY24	3QFY25E	YoY (%)	QoQ (%)
Sun Pharma	37,785	42,652	41,564	10	(2.6)
Dr. Reddy's	11,800	13,971	13,688	16	(2.0)
Cipla	28,590	29,480	31,163	9	5.7
Lupin	17,251	20,096	19,839	15	(1.3)
Ajanta	3,080	3,860	3,419	11	(11.4)
Alkem	22,328	25,140	24,561	10	(2.3)
Alembic Pharma	5,960	6,090	6,437	8	5.7
Total	126,794	141,289	140,670	10.9	(0.4)

Source: Company, BOBCAPS Research

Fig 3 – US sales for 3QFY25E

Rs mn	3QFY24	2QFY24	3QFY25E	YoY %	QoQ %
Sun Pharma	39736	43274.2	47683	20	10.2
Dr.Reddy's	33492	37281	38516	15	3.3
Cipla	19160	19860	20884	9	5.2
Lupin	18885	19711	19942	6	1.2
Aurobindo Pharma	31802	39856	35300	11	-11.4
Ajanta	2520	2960	2696	7	-8.9
Alkem	6838	7,080	6291	-8	-11.1
Alembic Pharma	4740	4670	5024	6.0	7.6
Total	117437	131418	128654	9.6	-2.1

Source: Company, BOBCAPS Research

Fig 4 – 3QFY25E preview

Particulars	Q3FY25E	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Comments
Sun Pharma						
Sales (Rs mn)	133,804	123,807	8.1	132,914	0.7	Sales growth to be driven by specialty sales in the US. Expect specialty to report highest-ever sales of US\$ 303mn. EBITDA margin expected at 28.5% driven by healthy product mix primarily from specialty sales growth and domestic sales expected to grow by 11% YoY, surpassing IPM growth of 7% led by volume growth.
EBITDA (Rs mn)	32,782	31,037	5.6	35,157	(6.8)	
Adj.PAT (Rs mn)	(100)	443	(122.6)	(95)	5.4	
EBITDA Margin (%)	24.5	25.1		26.5		
Adj. PAT Margin (%)	(0.1)	0.4		(0.1)		
Cipla						
Sales (Rs mn)	68,758	66,038	4.1	70,510	(2.5)	US sales expected to grow at 9% YoY driven by normalised gLanreotide sales and gRevlimid. Domestic sales expected to grow by 9% driven by One Portfolio and healthy Rx and Gx sales. Healthy US and domestic sales to lead to 28% EBITDA margin.
EBITDA (Rs mn)	19,252	17,475	10.2	18,856	2.1	
Adj.PAT (Rs mn)	12,955	10,559	22.7	13,107	(1.2)	
EBITDA Margin (%)	28.0	26.5		26.7		
Adj. PAT Margin (%)	18.8	16.0		18.6		
Dr. Reddy's						
Sales (Rs mn)	81,985	72,148	13.6	80,162	2.3	Domestic business to grow by 16% due to integration of Sanofi's vaccine portfolio. US sales growth expected at 15% YoY, driven by gRevlimid and easing of price erosion pressure. Better product mix and higher R&D cost for Horizon 2 to sustain EBITDA margin at 27%.
EBITDA (Rs mn)	22,136	16,458	34.5	21,466	3.1	
Adj.PAT (Rs mn)	14,135	13,899	1.7	13,477	4.9	
EBITDA Margin (%)	27.0	22.8		26.8		
Adj. PAT Margin (%)	17.2	19.3		16.8		
Aurobindo Pharma						
Sales (Rs mn)	78,515	72,712	8.0	76,462	2.7	Blended sales growth to be driven by rebound in the Eugia business and easing of price erosion in the oral solid business which would uplift EBITDA margin to 22%.
EBITDA (Rs mn)	16,344	16,013	2.1	15,661	4.4	
Adj.PAT (Rs mn)	8,640	9,426	(8.3)	8,167	5.8	
EBITDA Margin (%)	21	22		20		
Adj. PAT Margin (%)	11	13		11		
Eris Lifescience						
Sales (Rs mn)	7,494	4,835	55.0	7,390	1.4	Sales growth to be driven from double-digit growth in the domestic base portfolio led by Diabetes, uptick from integrated Biocon's business and continued momentum expected from Oaknet portfolio. Increasing in-house capacity utilisation ratio of derma products and healthy product mix to increase EBITDA margin to 36.3%.
EBITDA (Rs mn)	2,694	1,755	53.5	2,645	1.8	
Adj.PAT (Rs mn)	999	1,015	(1.5)	963	3.7	
EBITDA Margin (%)	35.9	36.3		35.8		
Adj. PAT Margin (%)	13.3	21.0		13.0		
Ajanta Pharma						
Sales (Rs mn)	11,892	11,052	7.6	11,866	0.2	Blended sales growth of 7.6% YoY to be driven by domestic sales of 11% vs IPM growth of 7%; however increase in costs to result in lower EBITDA margin of 26.7%.
EBITDA (Rs mn)	3,175	3,141	1.1	3,112	2.0	
Adj.PAT (Rs mn)	2,254	2,100	7.3	2,219	1.6	
EBITDA Margin (%)	26.70	28.42		26.22		
Adj. PAT Margin (%)	19.0	19.0		18.7		
Alkem						
Sales (Rs mn)	34,640	30,318	14.3	34,147	1.4	Expect yearly sales growth of 14% driven by 10% yoy growth in the domestic business vs IPM growth of 7% driven by growth in the acute business. Healthy product mix and controlled expenses to lift EBITDA margin to 21%.
EBITDA (Rs mn)	7,293	6,087	19.8	7,528	(3.1)	
Adj.PAT (Rs mn)	6,776	5,503	23.1	7,020	(3.5)	
EBITDA Margin (%)	21.1	20.1		22.05		
Adj. PAT Margin (%)	19.6	18.2		20.6		
Alembic Pharma						
Sales (Rs mn)	17,182	16,306	5.4	16,480	4.3	Sales growth expected from good traction in Specialty business in the domestic segment and new product launches in the US region. Healthy product mix and R&D cost rationalisation to result in EBITDA margin increment.
EBITDA (Rs mn)	2,835	2,664	6.4	2,393	18.5	
Adj.PAT (Rs mn)	1,743	1,805	(3.4)	1,394	25.0	
EBITDA Margin (%)	16.5	16.3		14.5		
Adj. PAT Margin (%)	10.1	11.1		8.5		

Particulars	Q3FY25E	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Comments
Divi's Laboratories						
Sales (Rs mn)	23,048	19,090	20.7	21,180	8.8	Expect sales growth to be driven by higher traction in the Custom Synthesis (CS) business. Higher CS sales, easing of price erosion in the APIs and lower employee cost to increase EBITDA margin to 30%.
EBITDA (Rs mn)	6,914	4,900	41.1	6,220	11.2	
Adj.PAT (Rs mn)	4,816	3,480	38.4	5,110	(5.7)	
EBITDA Margin (%)	30	26		29		
Adj. PAT Margin (%)	21	18		24		
Lupin						
Sales (Rs mn)	56,541	51,974	8.8	56,727	(0.3)	We expect US sales growth in constant currency terms to stand at US\$ 230mn driven by key launches like gSpiriva, gProlensa, gMyrbetriq. Domestic sales to continue growing in double digits above IPM growth at 15% post turnaround in strategy. Healthy product mix to result in EBITDA margin increment.
EBITDA (Rs mn)	13,004	10,220	27.3	13,083	(0.6)	
Adj.PAT (Rs mn)	7,942	6,187	28.4	8,595	(7.6)	
EBITDA Margin (%)	23.00	19.7		23.1		
Adj. PAT Margin (%)	14.0	11.9		15.2		
Laurus Labs						
Sales (Rs mn)	12,799	11,949	7.1	12,237	4.6	Expect sequential recovery in non ARV segments like Onco API, Others API, Formulations, Custom Synthesis, and Laurus Bio to report growth which should raise EBITDA margins.
EBITDA (Rs mn)	1,945	1,814	7.2	1,783	9.1	
Adj.PAT (Rs mn)	277	252	10.2	177	56.5	
EBITDA Margin (%)	15.2	15.2		14.6		
Adj. PAT Margin (%)	2.2	2.1		1.4		

Source: Company, BOBCAPS Research

Fig 5 – Valuation summary

Companies	Adjusted P/E (x)				P/BV (x)				EV/EBITDA (x)			
	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
AJP IN	43.6	39.0	34.3	30.5	7.0	5.8	4.8	4.1	30.2	26.7	23.6	21.0
ALPM IN	32.2	29.6	23.6	18.4	4.3	3.9	3.5	3.0	21.9	18.2	14.4	11.6
ALKEM IN	32.8	28.4	25.0	20.9	7.2	6.1	5.2	4.4	27.7	21.4	19.2	16.2
ARBP IN	20.2	17.0	14.1	12.1	2.4	2.1	1.8	1.6	11.6	9.8	8.3	7.1
CIPLA IN	27.0	25.2	21.5	18.4	4.4	3.8	3.3	2.8	18.0	16.4	13.8	11.8
DIVI IN	101.3	84.6	69.4	51.8	11.8	11.4	10.3	9.1	70.4	54.7	45.7	34.9
DRRD IN	20.0	19.6	19.0	20.4	4.1	3.4	2.9	2.6	13.8	11.8	11.3	11.6
ERIS IN	44.3	41.4	29.3	22.7	6.1	5.7	5.1	4.4	26.3	18.1	15.8	13.3
LAURUS IN	189.6	128.3	97.7	75.5	7.4	7.2	6.8	6.4	42.0	34.2	29.3	25.1
LPC IN	50.9	33.8	27.8	23.8	6.8	6.1	5.3	4.7	26.3	19.4	16.5	14.3
SUNP IN	42.3	39.8	35.6	31.9	6.7	5.9	5.2	4.6	31.5	28.1	25.0	22.3

Source: Company, BOBCAPS Research

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