

PHARMACEUTICALS FACE REVLIMID DRAG; HOSPITALS REMAIN RESILIENT AMID CAPACITY EXPANSION

Pharmaceuticals: We expect pharmaceutical companies under our coverage to deliver a subdued performance in Q3FY26, with aggregate revenue rising 6% YoY but declining 3% QoQ to Rs 36,683 Cr. EBITDA is estimated to decline 1% YoY and 9.4% QoQ to Rs 8,297 Cr, while adjusted PAT is likely to shrink 7.6% YoY and 13.9% sequentially to Rs 5,014 Cr. Sector operating margins are expected to settle at ~22.4%, primarily impacted by the sharp earnings normalisation of the super-profitable drug gRevlimid.

US Business: gRevlimid Impact, Pricing Pressure, Limited Launches

US generics performance remained weak in Q3FY26 due to continued price erosion and the earnings drag from gRevlimid, weighing on the topline of Dr Reddy's, Aurobindo, and Cipla. While base portfolio volumes remained stable, limited new launches constrained growth momentum.

In contrast, Lupin is expected to outperform, supported by one-off opportunities such as gTolvaptan, while Biocon should benefit from new biosimilar launches, including Denosumab, Aflibercept, and Yesafili™.

Domestic Formulations: Recovery Post-GST, Chronic Therapies Lead

Domestic formulations are expected to show sequential improvement, driven by normalisation post the GST transition. Growth for our coverage universe is likely to be 10–12% YoY, supported by strong traction in chronic therapies.

During Oct–Nov'25, chronic therapies recorded ~15% YoY growth, outperforming Q1/Q2FY26, while acute therapies remained muted at ~7% YoY. Cardio and anti-diabetic segments continued to outperform the IPM, whereas overall IPM growth was impacted by weakness in anti-infectives, gastro, and select acute categories.

Margins: Pressure from Revlimid and Product Mix

Aggregate EBITDA margins are expected at 22.4%, reflecting a decline both YoY and QoQ, driven by lower contribution from gRevlimid, an unfavourable product mix, and US pricing pressure. Continued softness in API and KSM prices, particularly from China, supported gross margins, though this benefit was partly offset by US market challenges.

Outlook

We expect the sector to sustain moderate growth in H2FY26, supported by:

- Recovery in domestic formulations post-GST transition
- Volume-led growth in chronic therapies
- Margin stability aided by lower input and freight costs

The US business should gradually improve with upcoming complex generic and biosimilar launches, while API price stabilisation and a healthy pipeline should support earnings sustainability through the remainder of FY26.

Healthcare:

Within our coverage universe, the hospital sector continues to demonstrate resilience, with overall revenue growth of 16.3% YoY and a marginal decline of 0.8% QoQ. Speciality segments such as oncology, cardiology, and orthopaedics remain key growth drivers, although seasonality and festive-related disruptions impacted occupancies during the quarter.

We expect Fortis, Max, and KIMS to deliver revenue growth of 19%, 13%, and 21.6% YoY, respectively. HCG is likely to report 14% YoY revenue growth and a strong 22% EBITDA growth. In contrast, Global Health may see a ~2% EBITDA decline, impacted by the commissioning of the 550-bed Noida unit in Sep'25.

Occupancy and ARPOB Trends

We expect ~200 bps dilution in occupancies due to the addition of new beds over the year, partially offset by steady ARPOB growth of ~5% across the sector. Hospitals such as Max, Fortis, and KIMS are likely to benefit from revised CGHS rates, supporting realisations.

Notably, KIMS' EBITDA growth was constrained at 8.2% YoY due to initial reporting losses from new units in Maharashtra (Nashik) and Bangalore, partially offsetting operational leverage from existing facilities. However, the overall revenue contribution from these units supports long-term growth potential. Overall, we believe near-term margin pressure is visible in hospitals dragged by new assets, but earnings visibility is clear with growth Capex.

Margins and New Asset Impact

KIMS' EBITDA growth remained constrained at 8.2% YoY, driven by initial losses from new units in Nashik (Maharashtra) and Bangalore, partially offsetting operating leverage from mature hospitals. However, these new assets enhance the long-term growth trajectory.

Overall, near-term margin pressure is visible across hospitals due to the ramp-up of new capacities, but earnings visibility remains strong, supported by sustained growth in capex and improving utilisation.

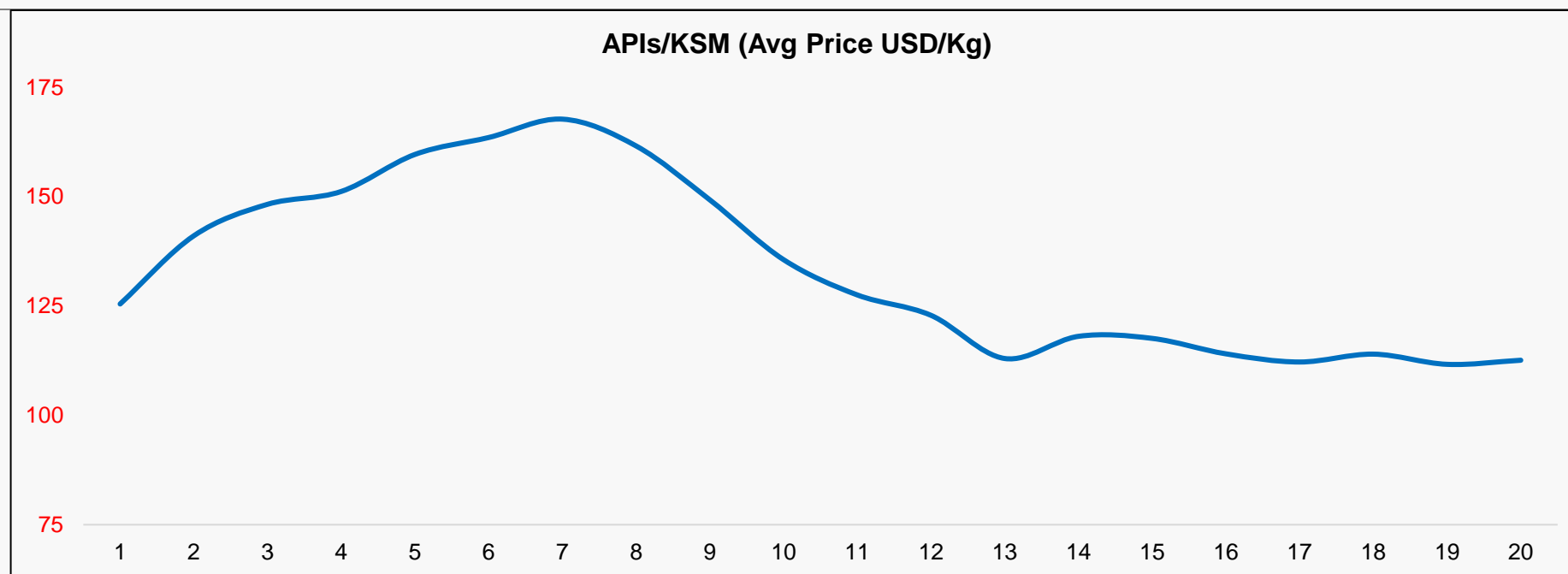
We project adjusted EBITDA growth of 14% YoY for our hospital coverage universe, with EBITDA margins at ~23.8%. PAT growth is likely at ~13% YoY, supported by stable cost structures and an improving case mix.

Overall, the hospital sector continues to exhibit strong resilience, with momentum expected to sustain into H2FY26, driven by capacity expansion and operational efficiencies.

Our Top Earnings Plays: [Lupin](#), [Biocon](#) and [Fortis](#).

API/KSM (Raw Material): The price index of API/KSM, encompassing the top 15 APIs imported from China and predominantly used as raw materials by pharma companies, indicates that aggregate API prices remain flat QoQ. For the past few quarters, API prices have shown a consistent negative variance, suggesting they have not yet bottomed out. This stabilisation trend could lead to improved gross margins for API companies in the upcoming quarters. The improvement in API prices could be driven by volume growth and supply checks from China. Furthermore, in Q3FY26, crude prices were notably down, while shipping rates remained stable, potentially pointing to flat margins for pharma companies in the near term.

API/KSM: The price index of API/KSM, which comprises the top 15 APIs imported from China (majorly used as raw material by Pharma companies), indicates that aggregate API price remained flat QoQ, but declined ~3% YoY.



Source: Pharma Compass, ASL Research

API/KSM: List of top 15 APIs imported from China. These are mainly used as raw materials by pharmaceutical companies. The price trends indicate a 6% YoY aggregate price decline in the last quarter. For the past few quarters, API prices have remained with a negative variance, suggesting they have not yet bottomed out. This stabilisation could lead to improved gross margins for API companies in the upcoming quarters.

USD/KG	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Penicillin G	29	28	33	43	33	33	33	34	32	30	29	24	28	21	34	34	34	26	21	17
Azithromycin	118	120	126	127	133	137	136	124	121	116	120	133	128	139	141	140	138	144	140	138
Ceftriaxone	70	71	71	69	73	83	96	97	80	75	71	69	62	62	69	71	71	71	71	69
Vitamin B1	91	65	75	82	61	59	68	67	66	54	42	71	49	60	64	60	51	51	54	70
Amoxicillin	179	170	171	170	169	171	181	189	181	177	194	197	186	170	200	184	174	200	187	200
Gabapentin	37	37	36	36	36	36	35	34	34	34	33	32	31	30	28	28	27	27	26	27
Artemisinin	161	169	109	193	224	267	270	250	174	150	135	123	104	100	103	106	136	141	138	129
Lamivudine	74	107	111	118	156	112	112	112	117	100	95	112	122	105	92	97	106	90	149	81
Vitamin E	15	14	17	17	16	20	17	17	17	16	18	21	16	14	16	15	17	24	24	21
Meropenem	660	875	979	1,000	1,000	1,000	1,000	996	864	790	703	594	494	591	537	508	463	450	413	455
Clarithromycin	162	146	166	164	210	214	242	224	218	211	202	216	199	206	208	207	195	206	196	213
Acyclovir	100	116	143	73	94	99	99	88	110	91	94	82	94	107	108	103	107	110	97	107
Ibuprofen	14	14	13	11	10	10	12	10	12	12	13	14	13	12	12	11	14	11	11	10
Erythromycin	64	65	69	66	67	78	80	81	79	74	72	74	81	83	74	81	77	79	77	78
Losartan	108	119	105	99	113	134	135	101	134	104	92	81	88	71	78	66	73	80	71	74
Avg. Index Price	125	141	148	151	160	164	168	162	149	136	128	123	113	118	118	114	112	114	112	113

Source: Pharma compass, ASL Research

Pharma

Year-end March (Rs Cr)	Q3FY26E	Q2FY26	QoQ (%)	Q3FY25	YoY (%)	Result Expectations
Aarti Drugs						
Revenues	623	653	-4.6%	557	11.9%	
Gross Profit	233	245	-4.7%	205	13.5%	→ API prices have declined to the lower end of the curve and are now expected to rebound.
Gross margin (%)	37.4	37.5		36.9		→ Price erosion reflecting de-growth on a YoY basis, but volume-driven growth to offset the impact.
EBITDA	78	84	-7.5%	62	26.3%	→ API Segment is expected to report 7% growth overall, and the formulation business is in line with IPM growth.
EBITDA margin (%)	12.5	12.9		11.1		
PAT	41	45	-10.3%	37	9.3%	
EPS (Rs)	4.4	4.9	-10.3%	4.0	9.3%	
Aurobindo Pharma						
Revenues	8,153	8,286	-1.6%	7,979	2.2%	→ In the US market, we expect a 7% decline in sales driven by the Revlimid patent cliff, with US revenues estimated at \$405 Mn.
Gross Profit	4,883	4,947	-1.3%	4,663	4.7%	→ EU sales are projected to grow 15% to Rs 24 Bn, supported by a stable demand environment.
Gross margin (%)	59.9	59.7		58.4		→ Growth markets are expected to expand by 9%, aided by improving market penetration.
EBITDA	1,680	1,678	0.1%	1,578	6.5%	→ Additionally, the China OSD facility is expected to reach breakeven, while the Pen-G facility continues to ramp up capacity utilisation, subject to the government's Make-MIP finalisation.
EBITDA margin (%)	20.6	20.2		19.8		
PAT	895	848	-0.3%	846	5.8%	
EPS (Rs)	14.6	14.6	-0.3%	14.6	0.0%	

Pharma (Cont'd)

Year-end March (Rs Cr)	Q3FY26E	Q2FY26	QoQ (%)	Q3FY25	YoY (%)	Result Expectations
Biocon						
Revenues	4,438	4,296	3.3%	3,821	16.1%	<ul style="list-style-type: none"> ➔ In the Research segment, we have assumed 7% YoY growth, while the Generics segment is expected to remain muted. ➔ Biosimilars are projected to deliver ~18% YoY growth, supported by new launches such as Insulin Aspart, Yesafili, Denosumab biosimilars, and Liraglutide in the UK. ➔ The Generics segment may remain under pressure due to heightened competition.
Gross Profit	2,858	2,749	4.0%	2,462	16.1%	
Gross margin (%)	64.4	64.0		64.4		
EBITDA	878	835	5.1%	752	16.8%	
EBITDA margin (%)	19.8	19.4		19.7		
PAT	188	133	41.8%	81	132.3%	
EPS (Rs)	1.6	1.1	41.8%	0.7	132.3%	
Dr Reddy's						
Revenues	8,279	8,828	-6.2%	8,381	-1.2%	<ul style="list-style-type: none"> ➔ In the US, we expect sales of ~\$310 Mn. gRevlimid limits are likely to result in a negligible contribution, creating a drag on overall growth. ➔ India remains a relative bright spot, with ~10% growth driven by strong traction in cardiac, pain management, and vaccination segments. ➔ Europe (including NRT) is expected to deliver ~7% growth, supported by steady underlying demand and portfolio traction. ➔ A key monitorable remains progress on semaglutide in the Canadian market, which could meaningfully influence medium-term growth visibility.
Gross Profit	5,705	5,705	0.0%	5,800	-1.6%	
Gross margin (%)	68.9	64.6		69.2		
EBITDA	1,822	2,010	-9.4%	2,273	-19.9%	
EBITDA margin (%)	22.0	22.8		27.1		
PAT	1,096	1,337	-18.0%	1,404	-22.0%	
EPS (Rs)	16.2	16.9	-4.3%	16.1	0.5%	
Lupin Ltd						
Revenues	6,604	7,048	-6.3%	5,768	14.5%	<ul style="list-style-type: none"> ➔ We expect US sales of \$280 Mn, with YoY growth primarily driven by the launch of Tolvaptan (under exclusivity) and continued traction in Mirabegron and gSpiriva. However, this growth is expected to be partially offset by pricing pressure in Albuterol. ➔ Overall, we expect the company to report ~15% YoY topline growth, with EBITDA expanding by ~36.7%, driven by operating leverage and an improving product mix.
Gross Profit	4,743	5,223	-9.2%	4,046	17.2%	
Gross margin (%)	71.8	74.1		70.2		
EBITDA	1,853	2,341	-20.9%	1,356	36.6%	
EBITDA margin (%)	28.1	33.2		23.5		
PAT	1,133	1,485	-23.7%	859	31.9%	
EPS (Rs)	25.0	32.8	-23.7%	19.0	31.9%	

Pharma (Cont'd)

Year-end March (Rs Cr)	Q3FY26E	Q2FY26	QoQ (%)	Q3FY25	YoY (%)	Result Expectations
Gland Pharma						
Revenues	1,620	1,487	8.9%	1,384	17.0%	<ul style="list-style-type: none"> → We expect ~17% YoY growth in Q3FY26, supported by improvement across core markets and the resumption of Cenexi operations following the annual maintenance shutdown last quarter. → Increasing capacity utilisation of GLP-1 pens and cartridges remains a critical monitorable. → During the quarter, two key products, Enoxaparin and Daptomycin, reported strong volume growth, while the broader generics portfolio also delivered healthy growth.
Gross Profit	1,039	933	11.3%	921	12.8%	
Gross margin (%)	64.1	62.8		66.5		
EBITDA	392	314	24.7%	360	8.9%	
EBITDA margin (%)	24.2	21.1		26.0		
PAT	233	184	26.6%	204	13.8%	
EPS (Rs)	15.0	11.9	26.6%	13.2	13.8%	
CIPLA						
Revenues	7,332	7,589	-3.4%	7,073	3.7%	<ul style="list-style-type: none"> → We expect base US sales of \$215 Mn, impacted by the gRevlimid patent cliff, partly offset by Albuterol and Lanreotide growth, although continued price erosion remains a headwind. → Cipla has regained momentum in Lanreotide, reaching ~24% market share, but faces incremental risk from Amneal's entry.
Gross Profit	4,845	5,092	-4.8%	4,809	0.8%	
Gross margin (%)	66.1	67.1		68.0		
EBITDA	1,595	1,895	-15.8%	1,989	-19.8%	
EBITDA margin (%)	21.8	25.0		28.1		
PAT	1,100	1,353	-18.7%	1,584	-30.5%	
EPS (Rs)	13.6	16.8	-18.7%	19.6	-30.5%	

Healthcare (Cont'd)

Year-end March (Rs Cr)	Q3FY26E	Q2FY26	QoQ (%)	Q3FY25	YoY (%)	Result Expectations
HCG						
Revenues	637	647	-1.5%	559	14.1%	
Gross Profit	449	470	-4.3%	409	9.8%	
Gross margin (%)	70.5	72.6		73.3		→ Despite the seasonally softer quarter, we expect the ramp-up of existing hospitals to continue driving topline growth.
EBITDA	108	123	-12.1%	88	22.6%	→ EBITDA is expected to grow by ~22–23%, supported by improving operating leverage.
EBITDA margin (%)	17.0	19.1		15.8		
PAT	11.4	20.7	-44.9%	7.7	47.0%	
EPS (Rs)	0.8	1.5		0.6		
KIMS						
Revenues	940	961	-2.2%	772	21.6%	
Gross Profit	745	766	-2.7%	611	21.9%	→ We expect overall revenue growth of ~22% YoY, with EBITDA growth of ~9%, aided by the operationalisation of the Thane and Bangalore hospitals, along with the ramp-up of the Kannur and Nashik units. Near-term margins are likely to remain under pressure due to ongoing bed expansion initiatives.
Gross margin (%)	79.2	79.7		79.1		
EBITDA	203	204	-0.7%	187	8.2%	→ Consolidated ARPOB is anticipated at Rs 45,000, along with a 52% overall occupancy ratio.
EBITDA margin (%)	21.6	21.2		24.2		
PAT	66.5	72	-7.6%	92.5	-28.1%	
EPS (Rs)	1.6	1.7	-7.6%	2.2	-28.1%	

Healthcare (Cont'd)

Year-end March (Rs Cr)	Q3FY26E	Q2FY26	QoQ (%)	Q3FY25	YoY (%)	Result Expectations
Global Health						
Revenues	1,082	1,099	-1.5%	943	14.7%	
Gross Profit	832	844	-1.3%	714	16.5%	→ We expect overall 10.8% YoY growth, with EBITDA increasing by 5%.
Gross margin (%)	76.9	76.8		75.7		→ We anticipate 6-7% YoY growth in ARPOB in mature hospitals, while developing hospitals would have stable ARPOB YoY.
EBITDA	234	231	1.5%	238	-1.4%	→ Higher international patient inflows are expected to support improved realisations.
EBITDA margin (%)	21.7	21.0		25.2		→ Occupancy levels are expected to remain stable in mature regions, while developing units are anticipated to see expansion.
PAT	150.4	158.4	-5.0%	139.4	7.9%	
EPS (Rs)	5.6	5.9		5.2		
Max Healthcare Institute						
Revenues	2,574	2,580	-0.3%	2,281	12.8%	→ We expect YoY growth to be driven by the ramp-up of both existing and new hospitals.
Gross Profit	1,509	1,520	-0.8%	1,398	7.9%	→ Margin pressure is likely in the near term, as new assets may take time to reach breakeven.
Gross margin (%)	59%	59%		61%		→ Overall occupancy is expected to be around ~76%, while mature assets are likely to see ARPOB growth of ~2-3%. The top line is expected to normalise post Jaypee.
EBITDA	668	677	-1.4%	601	11.1%	
EBITDA margin (%)	26%	26%		26%		
PAT	404	473	-14.7%	315	28.1%	
EPS (Rs)	4.2	4.9		3.2		

Healthcare (Cont'd)

Year-end March (Rs Cr)	Q3FY26E	Q2FY26	QoQ (%)	Q3FY25	YoY (%)	Result Expectations
Fortis Healthcare						
Revenues	2,303	2,331	-1.2%	1,928	19.4%	
Gross Profit	1,765	1,792	-1.5%	1,475	19.7%	→ We expect growth from the hospital business to be supported by diagnostics as well, driving overall revenue growth of ~15% YoY.
Gross margin (%)	77%	77%		76%		→ There remains scope for margin improvement within the hospital segment.
EBITDA	536	556	-3.7%	375	42.8%	→ Occupancy is expected to stabilise at ~67%, with ARPOB of ~Rs 70.5k.
EBITDA margin (%)	23%	24%		19%		→ Diagnostic arm, Agilus, is expected to report volume growth.
PAT	285.6	328.8	-13.1%	254.3	12.3%	
EPS (Rs)	3.78	4.36		3.37		
Rainbow Children's Medicare						
Revenues	465	445	4.5%	398	16.7%	→ Q3FY26 is expected to deliver strong growth both sequentially and on a YoY basis, despite seasonality.
Gross Profit	402	383	5.0%	344	16.7%	→ Performance is expected to be driven by occupancies of ~53–54% and a ~6% YoY increase in ARPOB.
Gross margin (%)	86%	86%		87%		→ The YoY growth is also aided by a seasonally weaker base in Q3FY25.
EBITDA	156	149	4.6%	134	15.9%	→ EBITDA margins are likely to improve to ~34% versus ~33% in Q2FY26, supported by operating leverage and improved cost efficiencies, while remaining stable YoY.
EBITDA margin (%)	34%	33%		34%		→ Overall, Q3FY26 performance is expected to remain healthy, supported by steady occupancy levels, ARPOB growth, and operating leverage, despite the seasonally softer nature of the quarter
PAT	80.7	75.6	6.7%	68.9	17.1%	
EPS (Rs)	7.91	7.41		6.76		

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HOLD	Between 10% and -10%
SELL	Less than -10%
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