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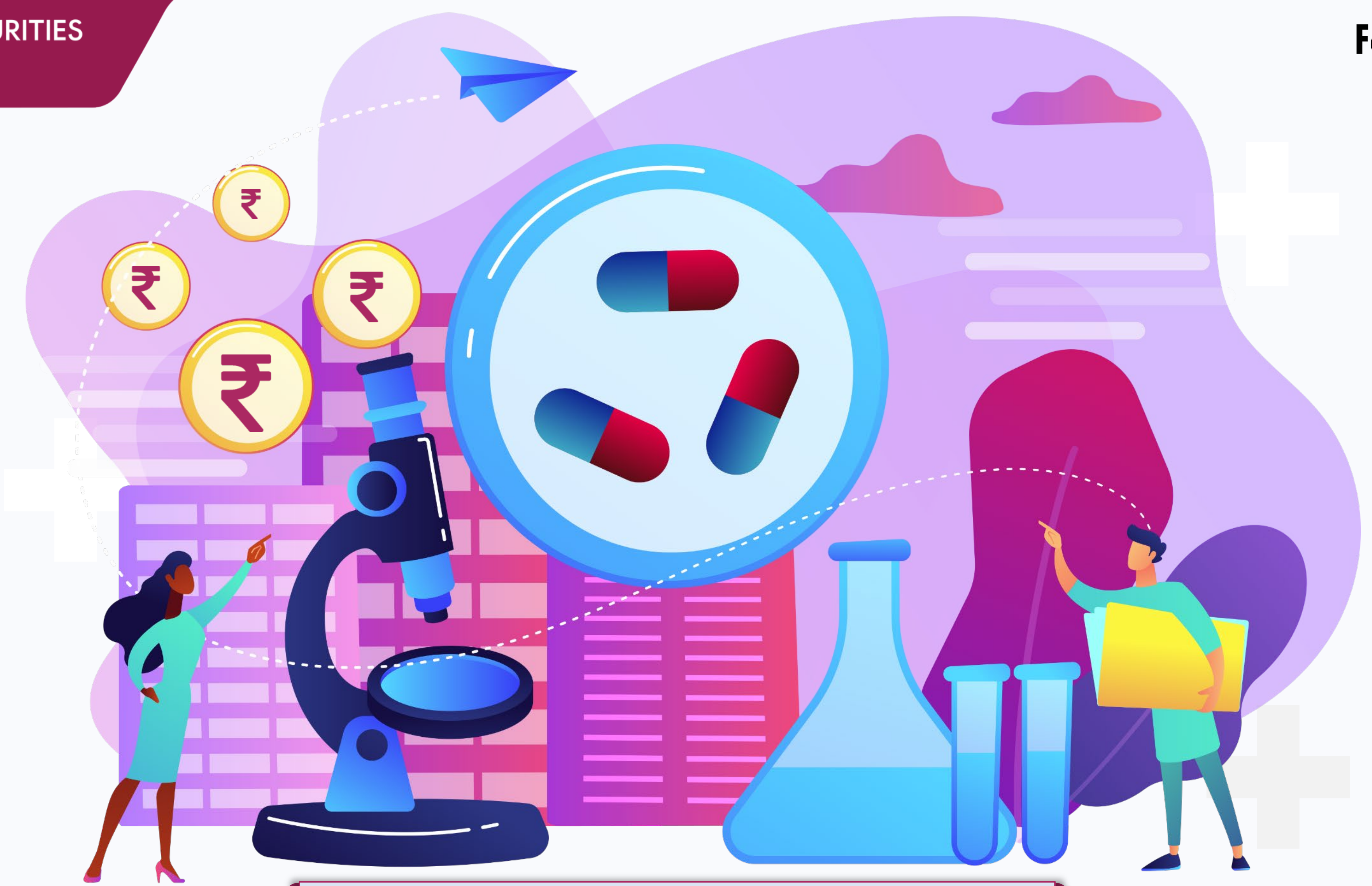

Top Conviction Ideas: Pharmaceutical & Hospitals

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Pharma & Hospital Sector: Q3FY25 Review

Q3FY25 Pharma Review – Stability in Hospitals; Growth Momentum in Pharma

✓ *Key Highlights & Financial Performance*

- The pharmaceutical universe under our coverage reported Q3FY25 growth of 10.2% YoY and 2.3% QoQ, driven by strong growth in the India business (11.2% YoY) and stability in the US business despite a decline in gRevlimid sales.
- In the domestic market, the Indian Pharmaceutical Market (IPM) recorded 8% YoY growth in Q3FY25. Chronic therapies grew by 9%, while acute therapies saw a modest 4% growth, primarily due to a weak season for acute segments.
- Gross margins improved to 65.7%, reflecting a 152 bps increase YoY but a decline of 18 bps QoQ. This improvement was supported by the launch of niche products, low single-digit price erosion, a higher proportion of Indian business in the product mix, and stable raw material prices.
- The healthcare sector delivered robust growth in Q3FY25, with top-line revenue increasing by 23% YoY and 2% QoQ. This growth was driven by improved occupancy rates, which rose by 215 bps YoY, while ARPOB grew by 5% YoY.

Pharma Sector: Outlook

Pharma Back on Growth Track

- The pharmaceutical universe under our coverage reported Q3FY25 growth of 10.2% YoY and 2.3% QoQ, driven by strong growth in the India business (9.8% YoY) and stability in the US business despite a decline in gRevlimid sales.
- Gross margins improved to 65.7%, reflecting a 152 bps increase YoY but a decline of 18 bps QoQ. This improvement was supported by the launch of niche products, low single-digit price erosion, a higher proportion of India business in the product mix, and stable raw material prices. EBITDA margins stood at 25.2%, up 71 bps YoY but stable QoQ, despite the impact of lower gRevlimid sales in the US.
- On a QoQ basis, the US business, at $2107 Mn, remained nearly flat due to lower gRevlimid contributions (Cipla, Dr. Reddy, Aurobindo). Additionally, competition in gSuprep and gDoxycycline (Lupin) and the expected 3%-5% price erosion in the base business also contributed. Aurobindo’s injectable business was affected by the WL issued for its Eugia III facility.
- In the domestic market, our universe reported 11.2% growth, while the IPM recorded 8% YoY growth in Q3FY25. Chronic therapies grew by 9%, while acute therapies saw a modest 4% growth, primarily due to a weak season for acute segments.
- Overall, we anticipate a strong pipeline in segments such as biosimilars, GLP-1, and peptides for pharmaceutical companies over the next three years. Companies with a higher proportion of chronic portfolios are outperforming the IPM. Consequently, **we maintain a positive outlook on companies like Lupin and Abbott India.**

Hospital Sector: Outlook

Healthcare: Robust Momentum led by Higher occupancies & Payor Mix

- In our coverage, the healthcare sector delivered strong growth in Q3FY25, with top-line revenue increasing by 23% YoY and 2% QoQ. This was driven by improved occupancy rates, which rose by 215 bps YoY, alongside a 5% YoY increase in ARPOB, averaging Rs 57,080 across the industry. Higher purchasing power and increased insurance penetration contributed to the rise in occupied beds, providing greater access to healthcare services and driving growth.

- Operating margins stood at 24.1%, down 50 bps YoY and 150 bps QoQ, indicating stability in operating profitability. Max reported an operating margin of 26.3%, an increase of 65 bps QoQ, with an ARPOB of Rs 75,900, up 1% YoY. Fortis, with a 19.5% margin, achieved an occupancy rate of 67%, an increase of 300 bps YoY, largely driven by its mature hospital unit in Gurgaon. Similarly, Medanta reported an operating margin of 25.6%, higher than the industry average.

- Insurance payers contributed 34% to total revenues this quarter, growing 30% YoY and 5% QoQ. However, insurance penetration remains relatively low, presenting significant growth potential as awareness of health coverage rises and purchasing power improves. Additionally, high-growth therapies such as cancer and cardiac care continue to drive double-digit growth, further boosting ARPOB and occupancy rates.

- We expect the healthcare sector to sustain its growth trajectory, with annual ARPOB growth of 6% and an improvement of 100 bps in occupancy rates. Key growth drivers include a favorable shift in the payer mix, higher surgical volumes, and increasing insurance penetration. **We remain positive on Max Healthcare Institute and Fortis Healthcare Ltd.**

Pharma Sector: Volatility Amid U.S. Tariff Uncertainty

- It is expected that the Indian Pharma Industry will need to wait for the tariff issue to be resolved. The products supplied by the Indian Pharma Industry to the U.S. fulfill a crucial role in helping the U.S. government control healthcare costs. There is a high possibility that certain high-value drugs, which are essential, could be exempted from tariffs. However, it is expected that generic pharma products will likely be spared, as the generic business has already experienced significant price erosion over the past few years.

- In the event that tariffs are imposed, it is expected that most of them will be passed on to consumers. Therefore, we do not foresee a significant negative impact on the industry. India's competitive advantage in this sector is long-term—it won't disappear overnight. Even if new pharma manufacturing is initiated elsewhere, it takes at least 5 to 7 years to establish a new facility, get products approved, and begin production. This is a long-term process. As a result, we do not expect any immediate short-term impact from tariffs on the pharma industry.

- The Indian Pharma Industry's manufactured products fulfill an important healthcare need in the U.S., so they are expected to be excluded from the scope of tariffs. Even if tariffs are imposed, most of them will likely be passed on to consumers. The exact impact on business is difficult to predict, but its essential role in the industry gives confidence that, if there is any negative effect, it will be minimal. **We look forward to more clarity in the coming months from the U.S. Trump Administration, as tariffs have not yet been announced. We believe generics could be spared from the implementation of tariffs. In case tariffs are introduced, considering the important role of these products, the impact will be minimal.**

- **We believe there could be volatility in Indian Pharma stocks until there is more clarity on tariffs.**

Short and Medium-term Outlook - Pharma

Short Term

Trend in price erosion after the normalisation of drug shortages supply in the US

India: Weak acute season and NLEM impacted growth

Medium Term

Better sales growth was led by gRevlimid and the launch of new products GLP-1 & Peptides

Field force expansion to drive growth in India

Better margins for full year due to normalized cost inflation and moderation in US Price Erosion

Key Monitorables – Price Erosion, Margins Expansion, and Launch of New Products

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Short and Medium-term Outlook - Hospitals

Short Term

Intense competition among peer hospitals and oversupplying of beds in micro markets.

Delay in commissioning beds.

Medium Term

Higher Occupancies & improved ARPOB Across the industry.

Key therapies Like Cardio & Oncology growing by double digit.

Insurance payor, Purchasing Power, and Surgical mix pacing momentum are key drivers.

Key Monitorables – Improved Occupancies; Insurance penetration; New Hospital projects

Top Conviction Ideas: Max Healthcare

Stock	Reco.	TP	Recommendation Rationale
Max Healthcare	BUY	Rs 1,315*	• Max Healthcare reported revenue of Rs 2,281 Cr, surpassing expectations, driven by a marginal decline in occupancies and steady ARPOB, aided by new hospitals. ARPOB stood at Rs 75,900, flat YoY, while occupancy improved to 75%, up 200 bps YoY on a like-to-like basis, supported by an 8% YoY increase in occupied bed days. The top line grew 34% YoY, with strong contributions from both mature and developing hospitals. EBITDA margins stood at 26.3%, down 136 bps YoY but improving sequentially by 65 bps. Adjusted PAT was Rs 390 Cr, reflecting 15% YoY growth, driven by operational efficiencies and cost control. • Developing hospitals showed a steady ramp-up, with revenue growth of 22% YoY. Occupancies improved by 800/400 bps QoQ/YoY, leading to a 14.5% rise in occupied bed days, although ARPOB remained subdued due to a shift in the payer mix. Max Dwarka achieved EBITDA breakeven within six months, reporting Q3 revenue of Rs 59 Cr, while Max Lucknow and Max Nagpur delivered EBITDA growth of 58% and 50% YoY, respectively. • Mature hospitals continued strong performance, delivering 16% YoY revenue growth, with occupancies rising by 200/400 bps QoQ/YoY and ARPOB improving by 7% YoY. Growth was supported by higher realisations from existing hospitals and an improved therapy mix. EBITDA margins for mature hospitals expanded by 70 bps YoY to 28.6%, benefiting from scale efficiencies. • **Outlook:** Max Healthcare's revenue mix remains well-balanced, with continued growth in institutional and international patient segments. The recent increase in institutional business share is expected to stabilise as higher-value payer segments expand. The short-term margin impact from new hospital ramp-ups should gradually ease as these facilities scale operations. Lucknow and Nagpur are expected to witness further profitability expansion, driven by higher occupancy rates and the introduction of new clinical programs.

** Note: Target Price is based on our Q3FY25 Result Update Report*

Top Conviction Ideas: Lupin

Stock	Reco.	TP	Recommendation Rationale
Lupin Ltd	BUY	Rs 2,500*	• **Lupin reported strong results, exceeding expectations**, with revenue growing 11% YoY. Growth was led by the India and US businesses, which expanded by 11.9% and 12.3% YoY, respectively, while the EMEA business recorded a robust 20.9% YoY growth. However, the Emerging Markets segment declined by 4.7% YoY, while the API business gradually recovered with a 4% YoY increase. • **Gross margins improved by 330 bps YoY** and remained flat QoQ, supported by a favourable product mix, lower input costs, a reduced share of in-licensed products, and enhanced cost efficiencies. EBITDA margins improved by 350 bps YoY, remaining stable QoQ. Reported PAT grew 40.1% YoY, surpassing expectations. • **North America Business**: Lupin's US sales stood at $235 Mn, reflecting a 10.8% YoY growth in constant currency. Overall, the segment reported revenue of Rs 2,121 Cr, up 12.3% YoY. Growth was driven by volume expansion in inline products and new product contributions, although pricing pressure and competition in gSuprep and gAlbuterol impacted performance. • **Outlook:** Lupin has a strong pipeline of niche products that could drive double-digit growth in the US market. Injectable products such as Glucagon and Dalbavancin, with a combined market opportunity of $500 Mn, are expected to launch within six months. Additionally, Liraglutide and Risperidone could contribute to revenue in FY27E. Lupin is also exploring opportunities in biosimilars, including Ranibizumab and Aflibercept, while Tolvaptan is expected to enhance its generic portfolio.

Note: Target Price is based on our Q3FY25 Result Update Report

Top Conviction Ideas: Fortis Healthcare Ltd

Stock	Reco.	TP	Recommendation Rationale
Fortis Hospital Fortis Healthcare Ltd	BUY	Rs 860*	• Fortis Healthcare reported revenue of Rs 1,928 Cr, in line with expectations, driven by higher ARPOB and improved occupancy levels. ARPOB stood at Rs 67,123, up 9.9% YoY, while occupancy improved to 67% (up 300 bps YoY), supported by a 4.3% YoY increase in occupied bed days. Hospital segment EBITDA margins stood at 20%, up 200 bps YoY. The rebranded Agilus Diagnostics reported muted growth of 5.2% YoY, with EBITDA of Rs 49 Cr, reflecting a 16.1% margin, up 450 bps YoY. • The company's topline grew by 14.8% YoY, while overall EBITDA margins stood at 19.5%, down 241 bps QoQ but showing an annual improvement of 255 bps. The reported PAT was Rs 254 Cr, including an exceptional gain of Rs 24 Cr from the divestment of Richmond Road Hospital, Bangalore. Adjusted PAT grew 71.6% YoY, supported by operational efficiencies and cost control. • The 9.9% rise in ARPOB was largely driven by an improved payer and case mix. The international patient segment generated revenue of Rs 132 Cr during the quarter, up 17% YoY, contributing 8% to total revenue. Key specialties performed strongly, accounting for 62% of total hospital revenue (up from 61% YoY). Oncology grew 30% YoY, led by a 44% increase in haematology and bone marrow transplants, while neurosciences saw 18% growth. Robotic surgeries surged 77%, underscoring the company's focus on advanced procedures. Other key specialties, including cardiac sciences, gastroenterology, orthopaedics, and renal sciences, also exhibited robust expansion. • **Outlook:** Fortis Healthcare remains focused on profitable growth through brownfield expansions, operational efficiencies, and portfolio optimisation. The company targets 14-15% revenue growth in the hospital business, with ARPOB expected to grow at 5-6% YoY. Hospital EBITDA margins are projected at 20.5% for FY25, with a long-term goal of reaching 25% through higher occupancy and an improved specialty mix..

Note: Target Price is based on our Q3FY25 Result Update Report

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