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Chronic and generics carry the growth, freight caps the margin

1. Domestic growth is volume-led and chronic-heavy, which we see as durable. Chronic grew ~20% against a ~17% market, and Zerodol is growing 8-9% on volume, keeping 12-13% domestic growth well supported.
2. Generics growth is broad-based across five geographies, but institutional is set to fall ~21-33% YoY in 2HFY27. We therefore expect FY27F growth to land mid-range in the 14-16% guidance, not at the top.
3. The margin path is intact but freight is the swing factor. Unichem's margin slipped to ~11.3% on a ~Rs300mn freight hit, so we see the guided 100-125bps annual margin gain as achievable but not beatable near term.

Chronic and Zerodol keep domestic growth ahead of the market

a) Domestic formulations grew 14% YoY to Rs11.57bn in 2QFY27 and ~13% in 1HFY27, ahead of the 12-13% guidance. Market share rose to 2.11% from 2.09%, with the IQVIA rank holding at 16.

b) The quality of growth is better than the headline suggests. Chronic grew ~20% against a ~17% market, while acute grew ~11%, only in line with the market, as anti-malarials declined and anti-bacterials and cough & cold barely grew.

c) Pain management, Ipca's largest franchise, grew ~16% YoY to ~Rs6.28bn in 2QFY27 and ~14% to ~Rs12.16bn in 1HFY27. Zerodol has crossed Rs15bn as an umbrella brand and is now the fourth-largest brand in the IPM, with Zerodol-SP rising to rank 8 from 11.

d) Management splits Zerodol's growth into 8-9% volume and 4-4.5% price, and expects 14-15% growth for the next three to four years. We find this credible, as pain grew ~13% in 1QFY27 and ~16% in 2QFY27 and domestic growth has picked up from ~10.5% in FY26.

e) The main risk is price. A 4-4.5% price contribution is high for a mature brand, and any price control or trade generic pressure would cut it. The acute drag should fade, though, as anti-malarials are now only ~1% of sales.

Figure 1: Geography-wise revenue growth

(Rs bn)	2QFY27	2QFY26	YoY	1QFY27	QoQ
India	13.57	11.63	17%	12.29	10%
Outside India	15.53	13.94	11%	15.59	flat
Total	**29.10**	**25.57**	**14%**	**27.88**	**4%**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly results snapshot

(Rs bn)	2QFY27	2QFY26	YoY	1QFY27	QoQ
Revenue from operations	29.10	25.57	14%	27.88	4%
Gross profit	20.96	17.75	18%	19.91	5%
Gross margin (%)	72.0%	69.4%	+260bps	71.4%	+63bps
EBITDA	6.73	5.45	24%	6.70	1%
EBITDA margin (%)	23.1%	21.3%	+183bps	24.0%	-87bps
Adj. EBITDA (before forex)	6.68	5.54	21%	6.38	5%
Adj. EBITDA margin (%)	23.0%	21.7%	+129bps	22.9%	+9bps
PAT	3.75	2.83	33%	4.02	-7%
PAT margin (%)	12.9%	11.1%	+184bps	14.4%	-152bps
Adj. PAT (ex-exceptional)	3.88	3.13	24%	4.02	-3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Generics growth is broad-based, institutional is not

a) Export formulations grew 32% YoY to Rs6.53bn, led by generics up 36% to Rs3.64bn. The growth was broad-based, with Europe up ~23%, ANZ ~24%, the US ~31%, Canada ~45% and South Africa ~46%, so it does not hinge on one market.

b) The UK turnaround is a pricing reset rather than share gain. The old portfolio lost ~GBP2.5mn last year selling below cost, while supply shortages have now restored prices and the UK subsidiary is profitable. This helps margin but could reverse once supply normalises.

c) Institutional reached Rs2.36bn in 1HFY27 against the ~Rs3bn full-year guidance. Management now sees Rs3.25-3.4bn, implying 2HFY27F sales of only ~Rs0.9-1.0bn, down ~21-33% from Rs1.32bn in 2HFY26, and a possible decline in FY28F.

d) Management reports branded growth of ~22% in 1HFY27 excluding West Asia, where delayed shipments caused a ~3% decline. Reported branded growth was a lower ~18%, which is still ahead of the 15-16% guidance it maintained.

e) API is lumpy rather than weak. Export API fell 7% YoY in 2QFY27 but grew ~10% in 1HFY27, while domestic API rose 56%. Total API grew ~17% in 1HFY27, so we would not read the quarter as a demand slowdown.

Figure 3: Business segment revenue growth

(Rs bn)	2QFY27	2QFY26	YoY	1QFY27	QoQ
Domestic formulations	11.57	10.19	14%	10.82	7%
Export branded formulations	1.73	1.45	19%	1.43	20%
Export institutional formulations	1.16	0.80	45%	1.20	-3%
Export generic formulations	3.64	2.68	36%	3.40	7%
Domestic API	1.36	0.87	56%	0.91	48%
Export API	2.99	3.21	-7%	3.32	-10%
Other operating income	0.11	0.11	5%	0.10	11%
Standalone revenue	**22.56**	**19.30**	**17%**	**21.19**	**6%**
Subsidiaries	6.54	6.26	5%	6.69	-2%
Consolidated revenue	**29.10**	**25.57**	**14%**	**27.88**	**4%**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs consensus estimates

(Rs bn)	Actuals	Consensus	Variance (%)
Revenue	29.10	28.24	3.0%
EBITDA	6.73	6.63	1.6%
EBITDA margin (%)	23.1%	23.5%	-33bps
PAT	3.75	4.01	-6.6%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Freight masks an improving Unichem

a) Unichem's EBITDA margin was ~11.3% in 2QFY27, below its 12-13% guidance. Freight added ~Rs300mn of cost as other expenses rose to ~Rs1.89bn from ~Rs1.42bn, with air shipments rising to ~25% of volumes from 5-6% on longer sea transit times.

b) The underlying business is improving. Gross margin is ~58%, which management sees as sustainable within 1-2ppt. Brazil has turned profitable after losses, and Europe is doing well. On our estimate, adding back the freight would lift the margin by ~4-5ppt.

c) We would not add it back yet. Freight costs rose through 1HFY27 with no sign of easing, and management itself guides to 11-13% while costs stay high. We see Unichem near the lower half of that range in 2HFY27F, with the 18-20% medium-term target a longer-dated story.

d) In the US, Unichem's own portfolio grew ~9% in dollar terms to ~US$38.5mn, while the Ipca portfolio it sells grew ~74% to ~US$5.8mn. The Ipca ramp is the real US lever, but at ~13% of combined US sales it is still too small to move the group.

e) All subsidiaries except Pisgah, the US API unit, are now profitable. Management expects Pisgah to improve in FY28F on its API order book, which removes a small drag rather than adding a driver.

Guidance holds as 2H growth slows to low teens

a) Management reiterated its FY27F guidance of 14-16% revenue growth and a ~23% consolidated EBITDA margin. 1HFY27 grew 17% at a 22.9% adj. EBITDA margin, so 2HFY27F needs only ~11-15% growth to stay within range.

b) We expect 2HFY27F growth of ~12-13%. Chronic and generics strength will be partly offset by the ~Rs0.3-0.4bn institutional decline, with 2QFY27 growth ex-institutional already at ~13%. This points to FY27F growth of ~14.5-15%, the middle of the range.

c) Management targets a 100-125bps annual gain in consolidated EBITDA margin, and ~150bps at the standalone level. The pace is consistent with history, as the consolidated margin rose ~120bps in FY26 to 20.5%, and the standalone margin reached 26.6% in 2QFY27 (+115bps YoY).

d) We see ~23% for FY27F as fair rather than conservative. The 2QFY27 gross margin was helped by an Rs853mn inventory build, freight is still rising and Unichem is below its guidance, so near-term upside to the margin guidance looks limited.

e) Against consensus, EBITDA was ~2% ahead while PAT was ~7% below. The PAT miss came from a Rs243mn exceptional provision at Niche, a higher 28.4% tax rate and a larger minority share. Ex-exceptional PAT was only ~3% short.

f) We maintain ADD. Domestic chronic growth and broad-based generics give durable mid-teens growth, though institutional normalisation and freight limit the scope for near-term upgrades.

Figure 5: Strong growth supports sustained forward valuation above historical average



SOURCES: INCRED RESEARCH, COMPANY REPORTS

*P.S. As it's a Quick Take, the document is not edited/formatted.

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Thanks and Regards,

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