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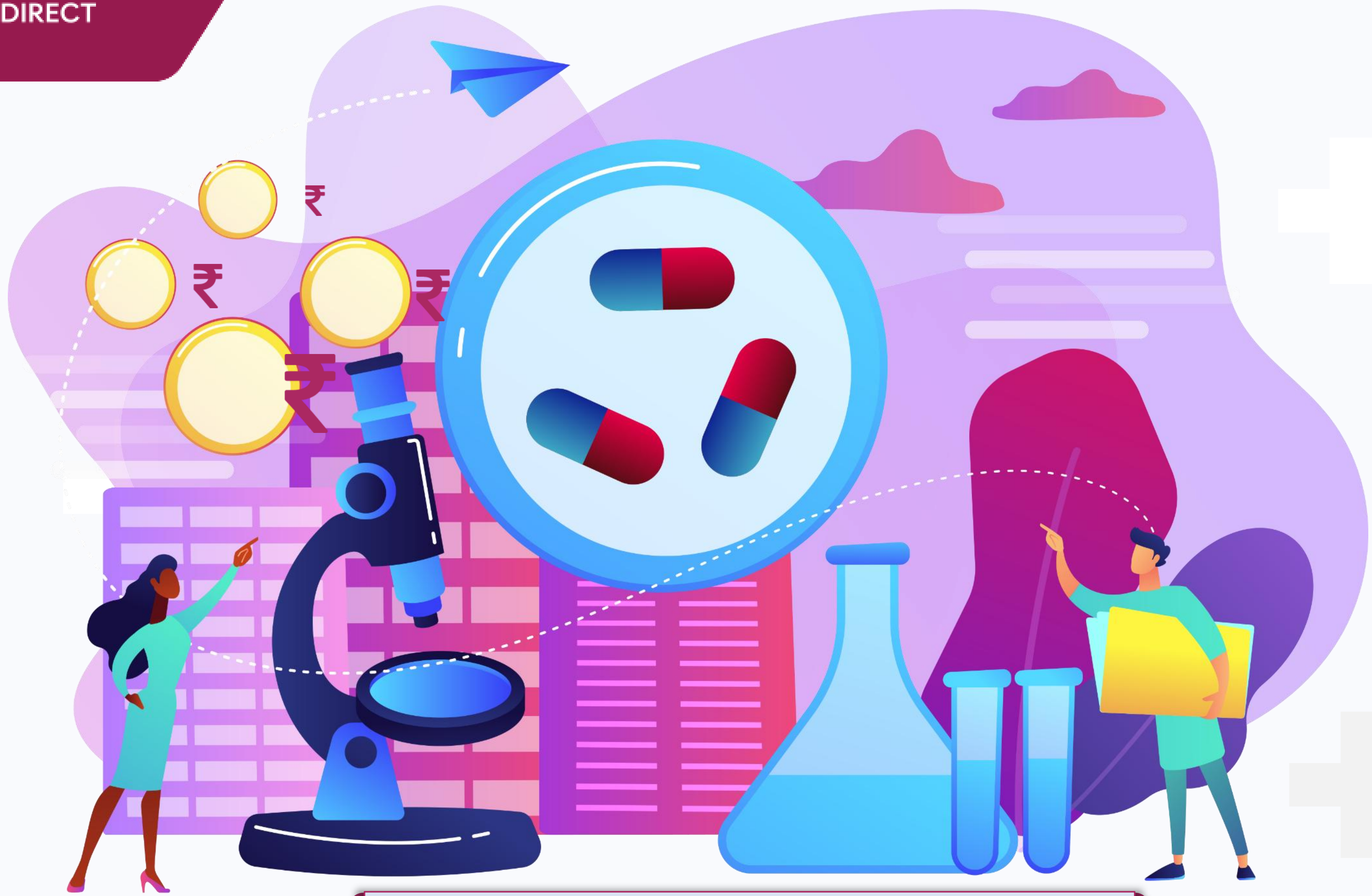

Top Conviction Ideas: Pharmaceutical & Hospitals

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Pharma & Hospital Sector: Q2FY26 Review

Q2FY26 Pharma Review – Healthcare Continues to Outperform & Pharma Impacted by US Generics

✓ Key Highlights & Financial Performance

- **The pharmaceutical universe** under coverage reported Q2FY26 growth of 11.9% YoY and 6.2% QoQ, supported by strong India business performance (+8.5% YoY). The US business remained flat, up only 1% in CC terms, led by Lupin's gTolvaptan and Emerging Markets.
- **IPM** registered 7% YoY growth in Q2FY26, with chronic therapies up 11% and acute stabilising at 5%. Sun Pharma , and Dr. Reddy's recorded strong India growth of 11% and19% YoY, respectively. The quarter saw an impact from channel destocking linked to the GST transition.
- **Gross margins** stood at 65.4%, down 183 bps YoY, with the pressure visible in the US generics segment. Revlimid's negligible revenue contribution affected the product mix, and low single-digit price erosion was also evident.
- **The healthcare sector delivered strong performance in Q2FY26,** with top-line revenue rising 19% YoY and 8% QoQ. Growth was driven by stable occupancy levels despite the addition of new beds during the year. Industry occupancy for the quarter stood at 64%, with ARPOB averaging Rs 60,300 across the sector. Operational bed days increased sharply, up 14% YoY. Higher purchasing power and deeper insurance penetration contributed to the rise in occupied beds, improving access to healthcare services and supporting overall sector growth.

Pharma Sector: Outlook – gRevlimid Cliff-off Visible

- The pharmaceutical universe under coverage reported Q2FY26 growth of 11.9% YoY and 6.2% QoQ, led by strong India business performance (+8.5% YoY). The US business was flat, up only 1% in CC terms, driven by Lupin's gTolvaptan and Emerging Markets.
- **Gross margins** stood at 65.4%, down 183 bps YoY. The impact was evident in the US generic business, as Revlimid was negligible in terms of revenue, which affected the product mix. Low single-digit price erosion was also visible.
- On a QoQ basis, the US business at $2,167 Mn showed 1% YoY growth in CC terms, aided by volume growth in the base portfolio but offset by weak performance of gRevlimid and continued price erosion. The recently launched Tolvaptan by Lupin delivered robust growth; it helped cross $300+ Mn in quarterly revenue for Lupin.
- **Lupin:** Sales stood at $315 Mn (+43% YoY), driven by higher-than-expected gTolvaptan contributions along with continued strength in gMirabegron and gSpiriva. Management expects US revenues to moderate but remain healthy at $275–300 Mn per quarter in H2FY26, despite the expiry of the 180-day gTolvaptan exclusivity in Q3, supported by limited competition due to REMS complexity and market stickiness.
- **Aurobindo:** Revenue stood at $417 Mn, with the oral solids (ex-gRevlimid) portfolio growing 6% QoQ and injectables also rising 6% QoQ, supported by new launches and supply normalisation. Europe maintained its growth trajectory, rising 18% YoY to €243 Mn, keeping the company on track to comfortably cross $1 Bn in annual revenue in the region by FY26-end.
- **Cipla:** India business delivered 8.5% YoY and 6.7% QoQ growth, largely driven by the robust performance of chronic products and strong double-digit growth in the Trade Generics business. Chronic products now contribute 61.8% of revenue, continuing to outperform the market, while the Acute segment remains affected by seasonal headwinds and brief disruption from the GST rate transition. Cipla has now entered the obesity market through a partnership with Eli Lilly for Tirzepatide (GLP-1), which is exclusive to the Indian market.
- **Biocon:** Reported a steady financial performance in Q2FY26, driven by strong contributions from the Biosimilars and Generics segments. The Biosimilars business grew 25% YoY, supported by the successful launches of four biosimilars — bUstekinumab, bAspart, bBevacizumab, and bAflibercept — across multiple geographies. The Generics segment delivered robust 24% YoY growth, aided by new product launches such as Liraglutide and Sacubitril + Valsartan.
- IPM registered 7% YoY growth in Q2FY26, with chronic therapies up 11% and acute stabilising at 5%. Sun Pharma , and Dr. Reddy's recorded strong India growth of 11% and19% YoY, respectively.. The quarter was impacted by channel destocking due to the GST transition.
- Looking ahead, a strong pipeline in biosimilars, GLP-1, and peptides is expected to drive growth over the next three years. Companies with larger chronic portfolios are outperforming IPM, supporting a positive outlook on names like Lupin and Aurobindo Pharma.

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Hospital Sector: Outlook - Bed Additions Set For Further Growth

Healthcare: Performance Driven by Bed Additions; Margins impacted by New Additions

- **The healthcare sector delivered strong growth in Q2FY26,** with top-line revenue increasing by 19% YoY and 8% QoQ. This was driven by stabilised occupancy despite the addition of new beds over the year. Industry-level occupancy for the quarter stood at 64%, with ARPOB averaging Rs 60,300 across the sector. Operational bed days also rose significantly, up 14% YoY. Higher purchasing power and increased insurance penetration contributed to the rise in occupied beds, providing greater access to healthcare services and supporting overall growth.
- **Overall industry operating margins stood at 23.9%,** down 250 bps YoY but up 100 bps QoQ, reflecting the drag of new units on operating profitability. Max Healthcare reported an operating margin of 26.2% with an ARPOB of Rs 77,300, flat YoY. Fortis, with a 23.9% margin, achieved an occupancy rate of 71%, an increase of 100 bps QoQ, largely driven by its mature hospital units in Delhi NCR and Punjab. Similarly, Medanta reported an operating margin of 21.0%, impacted by the NOIDA hospital drag. Compared to the previous year, over 2,650 operational beds were added by top players. KIMS' operational capacity increased to 4,700 beds from 4,030 last year, while Max's aggressive expansion added 811 operational beds. Fortis lagged its peers, adding only 600 beds.
- **Insurance payers contributed 32% to total revenues this quarter,** growing 16% YoY and 5% QoQ. The ongoing issue between TPAs and hospitals regarding rate revisions impacted growth momentum, but it is expected to be resolved soon. We believe insurance penetration remains relatively low, presenting significant growth potential as awareness of health coverage increases 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.
- **The CGHS rate revision is a meaningful positive for the sector,** particularly for Max Healthcare, Fortis, KIMS, and Medanta, which have sizeable CGHS and other government exposure. These updates will help align reimbursements with rising treatment costs, improving realisations and easing margin pressures. We estimate an annual revenue uplift of Rs 100–200 crore for larger players, with most of the gains flowing directly to profitability. Full benefits are expected to accrue from FY27 as the new rates are fully implemented.
- We expect the healthcare sector to sustain its growth trajectory, with annual ARPOB growth of 6–7% and a 100 bps improvement in occupancy rates. Key growth drivers include a favourable shift in the payer mix, higher surgical volumes, and increasing insurance penetration. **We remain positive on Max Healthcare Institute and Fortis Healthcare Ltd.**

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 the full year due to normalised cost inflation and moderation in US Price Erosion

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

Short and Medium-term Outlook - Hospitals

Short Term

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

Delays in commissioning beds

Medium Term

Higher occupancies & improved ARPOB across the industry.

Key therapies like Cardio & Oncology are growing by double digits.

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

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

Top Conviction Ideas: Lupin

Stock	Reco.	TP	Recommendation Rationale
Lupin Ltd	BUY	Rs 2,400*	✓ **Strong Set of Results:** Lupin reported a strong performance this quarter, driven by outperformance in the US business led by high-margin complex generics (notably gTolvaptan) and robust growth across emerging markets. Strong gross margin expansion translated into a sharp EBITDA and PAT beat. Revenue stood at Rs 7,048 Cr (+24% YoY), well above estimates, while EBITDA rose 63% YoY to Rs 2,341 Cr with margins at 33.2%. Adjusted PAT came in at Rs 1,485 Cr (+73% YoY). ✓ **US Market:** Sales stood at $315 Mn (+43% YoY), driven by higher-than-expected gTolvaptan contribution along with continued strength in gMirabegron and gSpiriva. Management expects US revenues to moderate but remain healthy at $275–300 Mn per quarter in H2FY26, despite the expiry of the 180-day gTolvaptan exclusivity in Q3, supported by limited competition due to REMS complexity and market stickiness. The company launched Glucagon in Aug'25 and Liraglutide in Oct'25. It is upscaling its portfolio towards a higher share of complex Gx (expected to rise to 55% by FY30), led by inhalation, injectables, and ophthalmics. ✓ **Upcoming Pipelines & Opportunities**: Lupin's new launch momentum remains aligned with its strategic focus on complex and higher-margin products, enhancing medium-term growth visibility. In Q2, the company gained from the ramp-up of recent US launches such as gTolvaptan and gMirabegron, while approvals for gRisperdal Consta and the launch of gGlucagon demonstrate steady progress in developing a differentiated injectable/depot portfolio. Going forward, key growth drivers include the planned launch of gVictoza in Oct'25 and the expected approval of gSaxenda, alongside progress on gDulera (targeted for H2FY27/early FY28) and platform-based inhalation filings (Respimat/Ellipta) in FY26E. The injectables pipeline of 40+ assets is expected to contribute ~$100 Mn annually over the next 3–4 years post the Nagpur facility scale-up. The biosimilars portfolio provides long-term upside, with bPegfilgrastim launch expected in FY26, followed by ophthalmology assets bRanibizumab and bAflibercept from FY27–FY29.

**** Note: Target Price is based on our Q2FY26 Result Update Report***

Top Conviction Ideas: AuroPharma

Stock	Reco.	TP	Recommendation Rationale
Aurobindo Pharma Ltd	BUY	Rs 1,345*	✓ **Growth Driven by Base Business:** Aurobindo reported revenue of Rs 8,286 Cr in Q2FY26, broadly in line with expectations. Revenue grew 6.3% YoY and 5.3% QoQ, supported by strong performance in its core base business. Consolidated growth was maintained despite limited contribution from Revlimid, which is expected to taper off entirely from Q3 onwards. Gross margins expanded by 88 bps YoY and 126 bps QoQ, reflecting a structural improvement driven by a superior formulation mix, a leaner cost structure, and an improved product mix across the U.S. and Europe. EBITDA stood at Rs 1,678 Cr, translating to a margin of 20.2%. Management reiterated its guidance of maintaining EBITDA margins in the range of 20–21% for FY26. ✓ **Ramp-up in Pen-G:** The Pen-G facility continues to progress well, currently operating at around 40–50% utilization, translating to an annualized output of approximately 6,000 MT. The company aims to gradually scale up production to 15,000 MT, contingent upon the implementation of the Minimum Import Price (MIP) policy. ✓ **New Launches:** On the new launches front, Aurobindo remains focused on strengthening its U.S. and European portfolios through a mix of complex generics and differentiated oral and injectable products. The company continues to enhance its presence in chronic therapies and hospital channels, while the Lannett acquisition is expected to meaningfully expand its footprint in the U.S. and Europe, steadily adding injectables and higher-margin Rx products. ✓ **Outlook:** Aurobindo remains well-positioned to sustain its growth momentum over the coming quarters, supported by pricing stability in the U.S. base business, continued strong traction in Europe, and healthy uptake in growth markets and ARVs. The company reiterated confidence in achieving its FY26 EBITDA margin guidance of 20%–21%, driven by an improving product mix, stronger operating leverage, and manufacturing efficiency gains. Key strategic platforms—including Pen-G backward integration, scaling of the China sterile facility, and commercialization of biosimilar and peptide portfolios—are expected to serve as meaningful value drivers over the medium term, with incremental contributions anticipated from FY27 onward. Furthermore, the Lannett acquisition is set to enhance the company's presence in the U.S. injectable and institutional channels, supporting sustained revenue visibility. Notably, no new greenfield capex is planned for the next three years, underscoring the company's focus on optimizing existing assets and driving returns on invested capital.

**** Note: Target Price is based on our Q2FY26 Result Update Report***

Top Conviction Ideas: Max Healthcare Institute Ltd

Stock	Reco.	TP	Recommendation Rationale
Max Healthcare Institute Ltd	BUY	Rs 1,425*	✓ **Strong Revenue Growth:** Max Healthcare reported net revenue of Rs 2,580 Cr, registering 21.4% YoY and 5% QoQ growth, broadly in line with expectations. The performance was supported by steady ARPOB, stable occupancy, and the addition of new beds, which together drove a 19% increase in occupied bed days. International patient revenue rose 25% YoY and now contributes 9% to overall revenue. Existing units delivered a strong 14% like-for-like revenue growth, reflecting sustained operational momentum across the network. ARPOB stood at Rs 77,300, flat YoY (with existing units delivering 3% YoY growth), while overall occupancy improved to 77% with a 19% increase in occupied bed days, and mature hospitals reported 79% occupancy. IP and OP volumes grew 22.5% and 27%, respectively. ✓ **EBITDA Margins and Profitability**: EBITDA margins expanded by 55 bps YoY to 26.2% and by 218 bps QoQ. EBITDA grew 24% YoY and 14.4% QoQ, while existing units delivered 19% like-for-like EBITDA growth. Reported PAT came in at Rs 473 Cr (+26% YoY), supported by a Rs 149 Cr favourable tax impact arising from the merger of CRL and JHL. Adjusted PAT stood at Rs 406 Cr. ✓ **Expansion-Focused Growth with Prudent Leverage:** Max Healthcare's aggressive yet capital-efficient brownfield expansion strategy supports a strong multi-year growth trajectory. The company plans to scale its bed capacity from approximately 5,000 in FY25 to 9,000–9,500 by 2028, with key brownfield additions—Nanavati Max (268 beds), Max Smart Saket (400 beds), and Max Mohali (160 beds)—either recently commissioned or coming onstream shortly. Additional projects in Lucknow and Gurgaon further strengthen the pipeline. Brownfield assets typically ramp up faster, achieve quicker EBITDA breakeven, and enhance earnings visibility. Despite deploying Rs 456 Cr toward capex in Q2, net debt remains comfortable at Rs 2,067 Cr, translating to a Net Debt/EBITDA of around 0.79x. Strong internal accruals and disciplined capital deployment are expected to keep leverage below 1x through the expansion cycle, supporting sustained growth and value creation ✓ **Outlook & Guidance:** Management reiterated guidance of 6–7% ARPOB growth in mature hospitals, supported by higher case complexity and an improving clinical mix, alongside sustained occupancy of around 80%. Developing hospitals are expected to ramp up gradually, driving incremental occupancy and revenue growth. The company remains focused on scaling oncology and international patient businesses while maintaining strong return ratios. The recent CGHS rate revision is expected to generate a revenue uplift of over Rs 200 Cr once fully implemented across CGHS and CGHS-linked schemes such as ECHS. Management indicated that 85–90% of this incremental revenue is likely to flow through to EBITDA, as the cost base for servicing these patients is already largely established. The full benefit, particularly from the newly introduced "super-specialty hospital" category, is expected to materialise from FY27 onward

Note: Target Price is based on our Q1FY26 Result Update Report

Top Conviction Ideas: Fortis Healthcare Ltd

Stock	Reco.	TP	Recommendation Rationale
Fortis Healthcare Ltd	BUY	Rs 1,070*	✓ **Strong Q2 Performance:** Fortis Healthcare reported revenue of Rs 2,331 Cr, which is in line with our expectations and supported by higher ARPOB and stabilised occupancy levels. ARPOB stood at Rs 68,800, up 5.9% YoY, while occupancy was stable at 71%, driven by a 13% YoY growth in occupied bed days. The Hospital segment's reported revenue and EBITDA margins stood at Rs 1,974 Cr and 22.9% with 27.3% EBITDA growth over the year. ✓ The rebranded Agilus Diagnostics reported revenue of Rs 358 Cr, growth of 7% YoY, and an EBITDA of Rs 104 Cr, reflecting a 29.1% margin, up 510 bps YoY. The margin improvement reflects operational recovery and efficiency gains as the business continues to scale post-rebranding. ✓ **Aggressive Capacity Expansion:** Net debt stood at Rs 2,219 Cr with Net Debt/EBITDA at 0.96x as of Sep'25, higher due to funding the acquisition of 31.5% stake in Agilus, the Fortis brand/trademark, and Shrimann Hospital, Jalandhar. 550 beds were added in H1FY26 (190 Jalandhar, 170 Greater Noida, rest organic), maintaining the FY26 target of 400–500 beds. The company signed a 15-year lease agreement for a 200-bed hospital in Greater Noida (previously O&M), which currently generates Rs 10 Cr in monthly revenue with 2–3% EBITDA, expected to reach 15% margin in six months. The annual rent for the facility is Rs 27.6 Cr. This expands the Delhi-NCR capacity to ~2,100 beds. Integration of Gleneagles O&M units is progressing well, and Fortis has forayed into Lucknow via an O&M arrangement for a 550-bedded hospital with the Ekana Group. ✓ **Outlook:** Management expects H2FY26 revenue growth to remain in line with H1 levels, supported by sustained volume expansion and continued ARPOB improvement. ARPOB is projected to rise 5–6% in FY26, led by a richer speciality mix in oncology and complex procedures such as robotic surgeries. Occupancy is likely to stay above 70% as new units like Greater Noida and Jalandhar ramp up. The company now expects FY26 EBITDA margins at 23–24%, aided by the strong Q2 margin and remains focused on achieving the long-term 25% margin target. For Agilus, volume growth is expected to move into early double digits over the next 6–8 quarters, as the base normalises post the exit from the low-ticket business and overall demand momentum sustains.

Note: Target Price is based on our Q2FY26 Result Update Report

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