

February 11, 2024

## Q3FY24 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	855		670	
Sales (Rs. m)	2,09,417	2,22,395	2,05,166	2,17,718
% Chng.	2.1	2.1		
EBITDA (Rs. m)	55,655	56,715	51,045	51,717
% Chng.	9.0	9.7		
EPS (Rs.)	39.0	39.9	34.9	35.4
% Chng.	11.8	12.7		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,72,374	1,94,343	2,09,417	2,22,395
EBITDA (Rs. m)	35,755	52,317	55,655	56,715
Margin (%)	20.7	26.9	26.6	25.5
PAT (Rs. m)	19,649	37,147	39,438	40,376
EPS (Rs.)	19.4	36.7	39.0	39.9
Gr. (%)	(11.3)	89.1	6.2	2.4
DPS (Rs.)	4.0	4.5	5.0	5.0
Yield (%)	0.5	0.6	0.6	0.6
RoE (%)	11.4	19.5	17.6	15.7
RoCE (%)	14.3	22.2	20.6	18.4
EV/Sales (x)	4.8	4.1	3.7	3.4
EV/EBITDA (x)	22.9	15.3	14.0	13.4
PE (x)	41.4	21.9	20.6	20.2
P/BV (x)	4.6	3.9	3.4	3.0

### Key Data ZYDU.BO | ZYDUSLIF IN

52-W High / Low	Rs.821 / Rs.452
Sensex / Nifty	71,595 / 21,783
Market Cap	Rs.814bn/ \$ 9,805m
Shares Outstanding	1,012m
3M Avg. Daily Value	Rs.967.43m

### Shareholding Pattern (%)

Promoter's	74.98
Foreign	5.00
Domestic Institution	13.03
Public & Others	6.99
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	12.8	21.6	69.5
Relative	12.5	12.1	44.0

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## Margins to sustain in FY25

### Quick Pointers:

- Guided for double digit growth in US in FY24.
- OPM to sustain ~27% in case of no competition in gAsacol in FY25.

**Zydu Lifesciences (ZYDUSLIF) Q3 EBITDA of Rs10.8bn (up 27% YoY) was 5% above our estimate aided by higher GMs and domestic formulation. We believe that company's steady domestic franchise, strong balance sheet and potential new launches in US will help negate pricing pressure and likely competition in some key products like gAsacol. Moreover, ZYDUSLIF is also working on robust pipeline of complex products including injectables, transdermals, NCE, biosimilars and vaccines which are expected to materialize over next 2-3 years. Our FY25/26E EPS stands increased by ~12%. We maintain our 'Accumulate' rating with revised TP of Rs855 (Rs670 earlier), valuing at 25x (23x earlier) FY26E earnings plus Rs25/share for gRevlimid.**

- In-line revenues aided India and RoW mkts;** ZYDUSLIF showed revenue growth of 6% YoY to Rs45bn in line with our estimate. Domestic formulation showed robust growth of 16% YoY; against our estimate of 10% growth. Consumer business declined by 3% YoY; below our est. US sales came in at \$221mn (our est. of \$230mn) vs USD 226mn in Q2FY24. The quarter had negligible gRevlimid sales as expected. Emerging markets growth grew healthy by 30% YoY driven by most of its key markets. API markets witnessed decline of 24% YoY.
- Higher GMs aided EBITDA:** EBITDA including other operating income came in at Rs 10.8bn vs our estimate of Rs10.2bn. GMs were healthy at 66.2% (up 80 bps QoQ) aided by better product mix. Further other expenses also continued to remain lower at Rs11.3bn; down 6% YoY. There was a forex gain to the tune of Rs206mn. R&D expenses stood at Rs 3.2bn (7% of revenue), down 8% YoY. Reported PAT at Rs 7.7bn vs our est of Rs7bn.
- Key concall takeaways: Domestic formulation:** Enhanced market share observed in anti-diabetic and anti-infective therapies. Chronic share has increased by 150 bps in CY23, reaching 41%. Will be adding 700 MRs in FY25. Muted growth in consumer wellness due to subdued demand in rural markets. **US:** Launched 11 products, including Zituvio, the first 505(b)(2) product, and 2 transdermal products. Filed 12 ANDAs and received 6 ANDA approvals. No significant price erosion observed in base business. Company Has also filed for NDA for Sitagliptin+Metformin ER which will help them to complete offerings of Sitagliptin franchise. gAsacol- continues to enjoy limited competition. Company has strong pipeline in US with day one launches and exclusivity till FY27/28. **EM & Europe** – Strong demand persisted in Europe, while Mexico contributed to growth with double-digit expansion. Focus on scaling up niche generics and specialty products in the UK. Integration of LiqMeds on track post-transaction completion; US & UK remains key markets for oral liquids portfolio. **R&D:** Spent Rs 3.1bn (7% of sales). **Capex** stood at Rs 2.13bn in Q3FY24. In event of no incremental competition in gAsacol, margins to sustain at 27% in FY25. Guided for double digit growth in US in FY24 and given strong pipeline will help them to negate any revenue loss due to competition in key products. Other operating income came in higher aided by export incentives and license fee.

**Exhibit 1: 3QFY24 Result Overview (Rs mn): EBITDA above est aided by higher domestic biz and GMs**

Y/e March	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
<b>Net Sales</b>	<b>45,052</b>	<b>42,571</b>	<b>5.8</b>	<b>43,688</b>	<b>3.1</b>	<b>1,40,136</b>	<b>1,23,353</b>	<b>13.6</b>
Raw Material	14,685	15,104	(2.8)	14,738	(0.4)	46,167	46,141	0.1
<i>% of Net Sales</i>	<i>32.6</i>	<i>35.5</i>		<i>33.7</i>		<i>32.9</i>	<i>37.4</i>	
Personnel Cost	8,173	6,890	18.6	7,529	8.6	23,006	20,417	12.7
<i>% of Net Sales</i>	<i>18.1</i>	<i>16.2</i>		<i>17.2</i>	<i>5.3</i>	<i>16.4</i>	<i>16.6</i>	
Others	11,376	12,069	(5.7)	10,782	5.5	34,182	33,096	3.3
<i>% of Net Sales</i>	<i>25.3</i>	<i>28.4</i>		<i>24.7</i>		<i>24.4</i>	<i>26.8</i>	
Total Expenditure	34,234	34,063	0.5	33,049	3.6	1,03,355	99,654	3.7
<b>EBITDA</b>	<b>10,818</b>	<b>8,508</b>	<b>27.2</b>	<b>10,639</b>	<b>1.7</b>	<b>36,781</b>	<b>23,699</b>	<b>55.2</b>
<i>Margin (%)</i>	<i>24.0</i>	<i>20.0</i>		<i>24.4</i>		<i>26.2</i>	<i>19.2</i>	
Depreciation	1,948	1,816	7.3	1,842	5.8	5,588	5,441	2.7
<b>EBIT</b>	<b>8,870</b>	<b>6,692</b>	<b>32.5</b>	<b>8,797</b>	<b>0.8</b>	<b>31,193</b>	<b>18,258</b>	<b>70.8</b>
Other Income	583	1,437	(59.4)	1,362	(57.2)	2,034	3,832	(46.9)
Interest	198	328	(39.6)	87	127.6	466	1,022	(54.4)
<b>PBT</b>	<b>9,255</b>	<b>7,801</b>	<b>18.6</b>	<b>10,072</b>	<b>(8.1)</b>	<b>32,761</b>	<b>21,068</b>	<b>55.5</b>
Extra-Ord. Inc./Exps.	-	-		-		142	29	389.7
Total Taxes	2,138	1,952	9.5	2,264	(5.6)	6,563	4,506	45.7
<i>ETR (%)</i>	<i>23.1</i>	<i>25.0</i>		<i>22.5</i>		<i>20.0</i>	<i>21.4</i>	
<b>Minority interest</b>	<b>561</b>	<b>376</b>		<b>209</b>		<b>518</b>	<b>128</b>	
Reported PAT	7,678	6,225	23.3	8,017	(4.2)	26,574	16,661	59.5

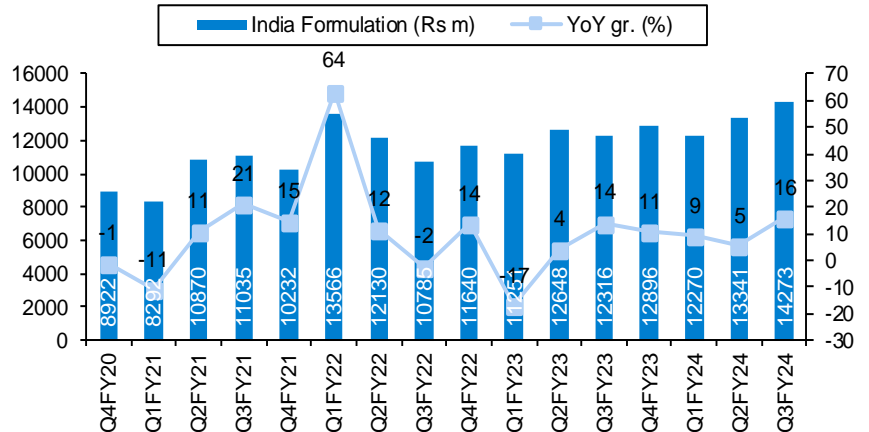
Source: Company, PL

**Exhibit 2: India and RoW markets serve as growth engines**

Y/e March	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
<b>Domestic</b>	<b>18,247</b>	<b>16,436</b>	<b>11.0</b>	<b>17,693</b>	<b>3.1</b>	<b>55,146</b>	<b>51,478</b>	<b>7.1</b>
<i>% of Net Sales</i>	<i>42.0</i>	<i>39.5</i>		<i>41.5</i>		<i>40.4</i>	<i>42.8</i>	
Formulation	14,273	12,316	15.9	13,341	7.0	39,884	36,215	10.1
<i>% of Net Sales</i>	<i>32.9</i>	<i>29.6</i>		<i>31.3</i>		<i>29.2</i>	<i>30.1</i>	
Consumer HC & Others	3,974	4,120	(3.5)	4,352	(8.7)	15,262	15,263	(0.0)
<i>% of Net Sales</i>	<i>9.1</i>	<i>9.9</i>		<i>10.2</i>		<i>11.2</i>	<i>12.7</i>	
<b>Exports</b>	<b>25,190</b>	<b>25,162</b>	<b>0.1</b>	<b>24,893</b>	<b>1.2</b>	<b>81,405</b>	<b>68,776</b>	<b>18.4</b>
<i>% of Net Sales</i>	<i>58.0</i>	<i>60.5</i>		<i>58.5</i>		<i>59.6</i>	<i>57.2</i>	
Formulation	23,364	23,033	1.4	23,152	0.9	75,950	63,327	19.9
<i>% of Net Sales</i>	<i>53.8</i>	<i>55.4</i>		<i>54.4</i>		<i>55.6</i>	<i>52.7</i>	
North America	18,427	19,250	(4.3)	18,648	(1.2)	61,616	51,926	18.7
EU & LatAM	4,937	3,783	30.5	4,504	9.6	14,334	11,401	25.7
API	1,431	1,881	(23.9)	1,402	2.1	4,222	4,222	-
JV	395	248	59.3	339	16.5	1,233	1,227	0.5

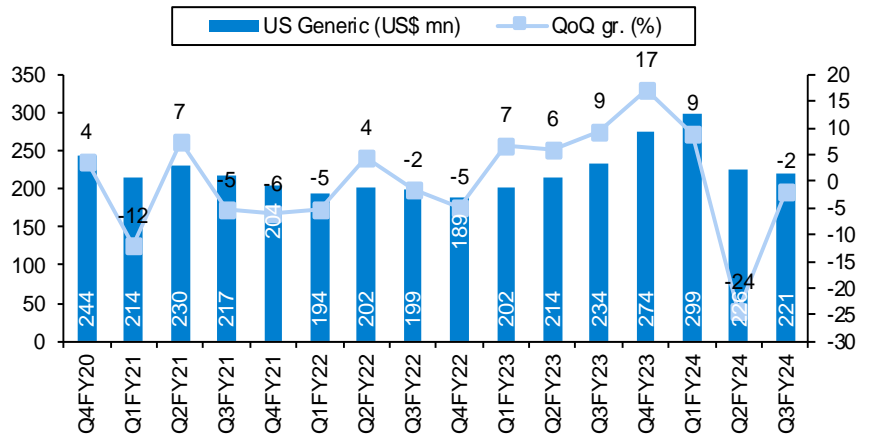
Source: Company, PL

**Exhibit 3: Chronic market share increased by 150 bps in FY24**



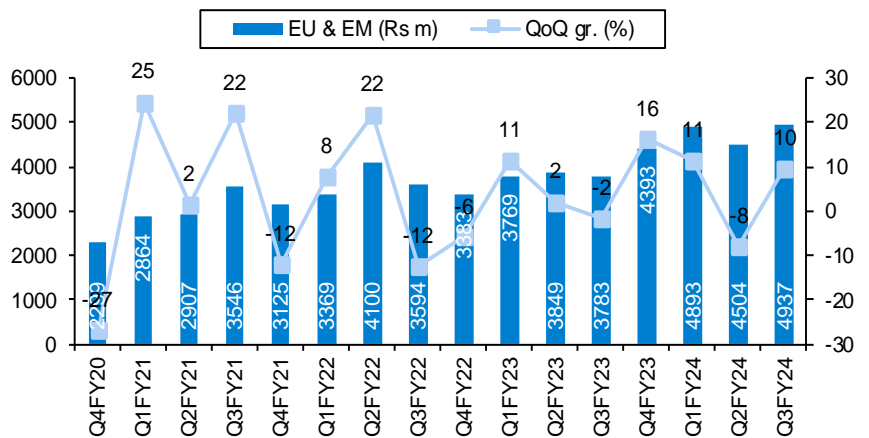
Source: Company, PL

**Exhibit 4: Steady US base business**



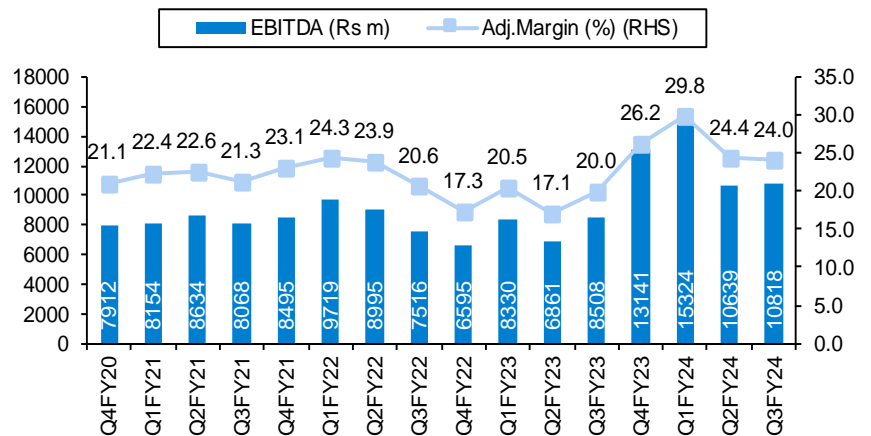
Source: Company, PL

**Exhibit 5: Strong momentum from RoW markets**



Source: Company, PL

Exhibit 6: Better product mix supported margins YoY



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>1,72,374</b>	<b>1,94,343</b>	<b>2,09,417</b>	<b>2,22,395</b>
YoY gr. (%)	14.1	12.7	7.8	6.2
Cost of Goods Sold	63,101	64,084	70,023	75,640
Gross Profit	1,09,273	1,30,259	1,39,393	1,46,755
Margin (%)	63.4	67.0	66.6	66.0
Employee Cost	27,656	31,113	34,224	37,647
Other Expenses	8,937	9,659	10,428	11,244
<b>EBITDA</b>	<b>35,755</b>	<b>52,317</b>	<b>55,655</b>	<b>56,715</b>
YoY gr. (%)	12.2	46.3	6.4	1.9
Margin (%)	20.7	26.9	26.6	25.5
Depreciation and Amortization	7,227	7,661	8,120	8,607
<b>EBIT</b>	<b>28,528</b>	<b>44,657</b>	<b>47,535</b>	<b>48,108</b>
Margin (%)	16.6	23.0	22.7	21.6
Net Interest	1,299	650	500	300
Other Income	4,710	2,507	2,200	2,600
<b>Profit Before Tax</b>	<b>25,897</b>	<b>46,372</b>	<b>49,235</b>	<b>50,408</b>
Margin (%)	15.0	23.9	23.5	22.7
Total Tax	5,878	9,274	9,847	10,082
Effective tax rate (%)	22.7	20.0	20.0	20.0
<b>Profit after tax</b>	<b>20,019</b>	<b>37,097</b>	<b>39,388</b>	<b>40,326</b>
Minority interest	1,316	1,150	1,150	1,150
Share Profit from Associate	946	1,200	1,200	1,200
<b>Adjusted PAT</b>	<b>19,649</b>	<b>37,147</b>	<b>39,438</b>	<b>40,376</b>
YoY gr. (%)	(12.4)	89.1	6.2	2.4
Margin (%)	11.4	19.1	18.8	18.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>19,649</b>	<b>37,147</b>	<b>39,438</b>	<b>40,376</b>
YoY gr. (%)	(12.4)	89.1	6.2	2.4
Margin (%)	11.4	19.1	18.8	18.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,649	37,147	39,438	40,376
<b>Equity Shares O/s (m)</b>	<b>1,012</b>	<b>1,012</b>	<b>1,012</b>	<b>1,012</b>
<b>EPS (Rs)</b>	<b>19.4</b>	<b>36.7</b>	<b>39.0</b>	<b>39.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,81,922</b>	<b>1,93,922</b>	<b>2,05,922</b>	<b>2,20,922</b>
Tangibles	93,299	99,454	1,05,608	1,13,301
Intangibles	88,623	94,468	1,00,314	1,07,621
<b>Acc: Dep / Amortization</b>	<b>66,008</b>	<b>73,669</b>	<b>81,789</b>	<b>90,396</b>
Tangibles	45,897	51,223	56,869	62,854
Intangibles	20,111	22,446	24,920	27,542
<b>Net fixed assets</b>	<b>1,15,914</b>	<b>1,20,253</b>	<b>1,24,133</b>	<b>1,30,526</b>
Tangibles	47,403	48,231	48,739	50,447
Intangibles	68,511	72,023	75,394	80,079
Capital Work In Progress	11,302	11,302	11,302	11,302
Goodwill	-	-	-	-
Non-Current Investments	15,466	15,466	15,466	15,466
Net Deferred tax assets	10,680	10,680	10,680	10,680
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	34,133	43,723	48,905	52,005
Trade receivables	44,168	44,777	48,336	51,400
Cash & Bank Balance	5,731	22,750	40,527	58,818
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>2,44,940</b>	<b>2,78,320</b>	<b>3,10,722</b>	<b>3,43,776</b>
<b>Equity</b>				
Equity Share Capital	1,012	1,012	1,012	1,012
Other Equity	1,74,146	2,05,798	2,39,135	2,73,411
<b>Total Networkth</b>	<b>1,75,158</b>	<b>2,06,810</b>	<b>2,40,147</b>	<b>2,74,423</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	6,372	6,372	6,372	6,372
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	11,632	8,632	5,632	2,632
Trade payables	21,250	25,978	28,043	29,821
Other current liabilities	19,483	19,483	19,483	19,483
<b>Total Equity &amp; Liabilities</b>	<b>2,44,940</b>	<b>2,78,320</b>	<b>3,10,722</b>	<b>3,43,776</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	37,621	54,067	57,855	59,315
Add. Depreciation	7,227	7,661	8,120	8,607
Add. Interest	1,299	650	500	300
Less Financial Other Income	4,710	2,507	2,200	2,600
Add. Other	(10,981)	(7,696)	(8,620)	(8,907)
Op. profit before WC changes	35,166	54,682	57,855	59,315
Net Changes-WC	(2,358)	(5,471)	(6,675)	(4,387)
Direct tax	(5,920)	(9,274)	(9,847)	(10,082)
<b>Net cash from Op. activities</b>	<b>26,888</b>	<b>39,937</b>	<b>41,333</b>	<b>44,847</b>
Capital expenditures	(10,309)	(12,000)	(12,000)	(15,000)
Interest / Dividend Income	-	-	-	-
Others	11,822	-	-	-
<b>Net Cash from Inv. activities</b>	<b>1,513</b>	<b>(12,000)</b>	<b>(12,000)</b>	<b>(15,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(27,944)	(4,823)	(5,005)	(5,205)
Dividend paid	(2,671)	(5,446)	(6,051)	(6,051)
Interest paid	(1,299)	(650)	(500)	(300)
Others	(1,825)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(33,739)</b>	<b>(10,918)</b>	<b>(11,556)</b>	<b>(11,556)</b>
<b>Net change in cash</b>	<b>(5,338)</b>	<b>17,019</b>	<b>17,777</b>	<b>18,291</b>
Free Cash Flow	16,579	27,937	29,333	29,847

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Net Revenue</b>	<b>50,106</b>	<b>51,396</b>	<b>43,688</b>	<b>45,052</b>
YoY gr. (%)	31.7	26.2	9.1	5.8
Raw Material Expenses	16,960	16,744	14,738	14,685
Gross Profit	33,146	34,652	28,950	30,367
Margin (%)	66.2	67.4	66.3	67.4
<b>EBITDA</b>	<b>13,141</b>	<b>15,324</b>	<b>10,639</b>	<b>10,818</b>
YoY gr. (%)	99.3	84.0	55.1	27.2
Margin (%)	26.2	29.8	24.4	24.0
Depreciation / Depletion	1,786	1,798	1,842	1,948
<b>EBIT</b>	<b>11,355</b>	<b>13,526</b>	<b>8,797</b>	<b>8,870</b>
Margin (%)	22.7	26.3	20.1	19.7
Net Interest	277	181	87	198
Other Income	378	360	540	377
<b>Profit before Tax</b>	<b>11,456</b>	<b>13,705</b>	<b>9,250</b>	<b>9,049</b>
Margin (%)	22.9	26.7	21.2	20.1
Total Tax	1,372	2,161	2,264	2,138
Effective tax rate (%)	12.0	15.8	24.5	23.6
<b>Profit after Tax</b>	<b>10,084</b>	<b>11,544</b>	<b>6,986</b>	<b>6,911</b>
Minority interest	498	252	(209)	(561)
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,573</b>	<b>11,150</b>	<b>7,195</b>	<b>7,472</b>
YoY gr. (%)	0.9	111.7	85.5	44.4
Margin (%)	7.1	21.7	16.5	16.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,573</b>	<b>11,150</b>	<b>7,195</b>	<b>7,472</b>
YoY gr. (%)	0.9	111.7	85.5	44.4
Margin (%)	7.1	21.7	16.5	16.6
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>3,573</b>	<b>11,150</b>	<b>7,195</b>	<b>7,472</b>
Avg. Shares O/s (m)	1,024	1,024	1,024	1,025
<b>EPS (Rs)</b>	<b>8.8</b>	<b>10.8</b>	<b>7.8</b>	<b>7.5</b>

Source: Company Data, PL Research

**Key Financial Metrics**

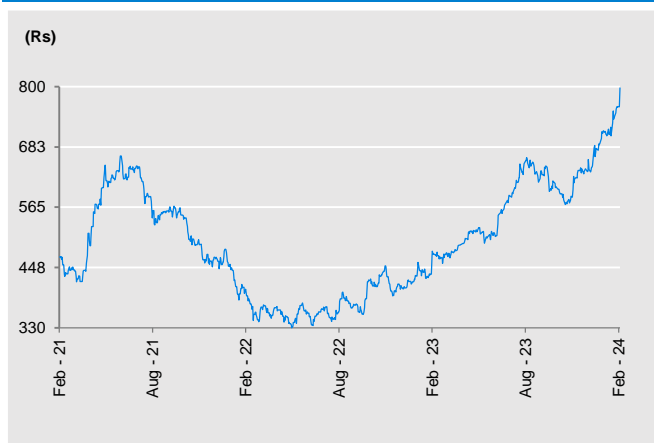
Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	19.4	36.7	39.0	39.9
CEPS	26.6	44.3	47.0	48.4
BVPS	173.1	204.4	237.3	271.2
FCF	16.4	27.6	29.0	29.5
DPS	4.0	4.5	5.0	5.0
<b>Return Ratio(%)</b>				
RoCE	14.3	22.2	20.6	18.4
ROIC	11.9	17.5	17.6	16.9
RoE	11.4	19.5	17.6	15.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	121	117	121	121
<b>Valuation(x)</b>				
PER	41.4	21.9	20.6	20.2
P/B	4.6	3.9	3.4	3.0
P/CEPS	30.3	18.2	17.1	16.6
EV/EBITDA	22.9	15.3	14.0	13.4
EV/Sales	4.8	4.1	3.7	3.4
Dividend Yield (%)	0.5	0.6	0.6	0.6

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY23	FY24E	FY25E	FY26E
US Formulations	74,451	86,553	91,006	91,656
Domestic Formulations	49,110	54,021	59,963	66,559
Consumer Healthcare	22,338	22,673	24,940	27,684
Export Formulations (ex-US)	15,794	18,902	20,822	23,287
API	5,473	5,801	6,207	6,642
Income from JVs	1,612	1,693	1,777	1,866

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	Accumulate	670	714
2	08-Nov-23	Accumulate	670	599
3	07-Oct-23	Accumulate	650	604
4	12-Aug-23	Accumulate	650	651
5	06-Jul-23	Accumulate	520	588
6	18-May-23	Accumulate	520	508
7	06-Apr-23	Accumulate	480	493

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	6,000	5,754
2	Aster DM Healthcare	BUY	430	417
3	Aurobindo Pharma	Accumulate	1,065	1,124
4	Cipla	Accumulate	1,400	1,375
5	Divi's Laboratories	Reduce	3,150	4,015
6	Dr. Reddy's Laboratories	Reduce	5,650	5,841
7	Eris Lifesciences	BUY	1,050	928
8	Fortis Healthcare	BUY	780	444
9	Glenmark Pharmaceuticals	Reduce	570	893
10	HealthCare Global Enterprises	BUY	420	371
11	Indoco Remedies	Accumulate	380	369
12	Ipca Laboratories	Hold	1,060	1,119
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,800
14	Jupiter Life Line Hospitals	BUY	1,310	1,138
15	Krishna Institute of Medical Sciences	BUY	2,200	2,078
16	Lupin	Hold	1,600	1,606
17	Max Healthcare Institute	BUY	925	799
18	Narayana Hrudayalaya	BUY	1,250	1,212
19	Sun Pharmaceutical Industries	BUY	1,640	1,415
20	Sunteck Realty	BUY	565	452
21	Torrent Pharmaceuticals	BUY	2,700	2,526
22	Zydus Lifesciences	Accumulate	670	714

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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