

Outlook strong

5 February 2025

Zydus Lifesciences' (ZYDUSLIF IN) Q3FY25 revenue came in 2% ahead of our estimates, but lower margin led to EBITDA missing our estimates by 6%. Net profit came in 19% higher, mainly due to high forex gains. Revenue from the US was up 29% YoY in USD terms and remained flat QoQ, as expected. gMyrbetriq continued to contribute and the competition in gAsacol HD impacted the business. Management commentary suggests continued growth momentum in the US business. Growth for the India business at 5% was below expectations. We share the management's confidence of continued growth in high-single-digit. We lower our FY25E-27E core EPS estimates by 2-3% as we adjust our margin estimates. We reiterate BUY with TP unchanged at INR 1,311.

US business – Strong outlook: The US business remains the key growth driver for ZYDUSLIF. gMyrbetriq continued to contribute in Q3 and ZYDUSLIF expects it to grow further and continue for quite some time, while related patent litigation may go on. ZYDUSLIF also indicated that gRevlimid revenues may not fall YoY in FY26 despite the lack of product exclusivity for the full year. The management indicated single-digit growth in the US revenues in FY26 despite the exceptionally high base of FY25 that included gRevlimid and gMyrbetriq and gAsacol HD. Large future product launches include gAdempas and gibrance in FY27/28. While we do build in some upsides from these products, given the limited visibility, we factor in only flat US revenues in FY26 and a slight drop in FY27 (as gRevlimid and gMyrbetriq revenues wane out) in our projections. There could be upside to these if ZYDUSLIF meets its target.

Weak quarter for India business; other businesses do well: ZYDUSLIF's prescription business for India grew only 5% YoY in Q3. The management attributed the lower growth to a high base and timing difference between primary and secondary sales. We believe that the business can consistently deliver high single-digit growth, in line with guidance. ZYDUSLIF's consumer business delivered strong growth at 13% YoY. Growth for other EM/Europe businesses at 16% YoY surpassed expectations.

Margin weak in Q3: EBITDA margin in Q3 at 22.9% came in below our expectation. The management indicated some one-off expenses in Q3 that are not recurring in nature, including some legal / professional fees, GST losses and incentives related to large upsides in the US. We see no risk to the full-year guidance of 100-150bps improvement in EBITDA margin. We conservatively build in lower margin in FY26 and FY27, but upsides are likely.

Reiterate BUY with TP of INR 1,311: We lower our FY25E-27E core EPS estimates by 2-3% as we adjust our margin estimates. ZYDUSLIF trades at 22.6x FY26E and 25.2x FY27E core P/E. We reiterate BUY with TP at INR 1,311 (33x FY27E core earnings plus cash per share). Unexpected competition or regulatory setbacks in key products and approval delays in future products in the US are downside risks.

Key Financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	172,374	195,474	229,866	242,926	250,789
YoY (%)	12.9	13.4	17.6	5.7	3.2
EBITDA (INR mn)	35,654	52,891	65,530	65,851	61,070
EBITDA margin (%)	20.7	27.1	28.5	27.1	24.4
Adj PAT (INR mn)	25,590	38,365	45,038	45,502	41,190
YoY (%)	20.2	49.9	17.4	1.0	(9.5)
Fully DEPS (INR)	25.3	38.1	44.8	45.2	40.9
RoE (%)	13.4	19.5	20.4	17.3	13.6
RoCE (%)	12.2	21.7	24.7	20.9	16.4
P/E (x)	38.6	25.6	21.8	21.6	23.9
EV/EBITDA (x)	26.6	17.9	14.5	14.4	15.5

Note: Pricing as on 5 February 2025; Source: Company, Elara Securities Estimate

Rating: **Buy**

Target Price: **INR 1,311**

Upside: **34%**

CMP: **INR 977**

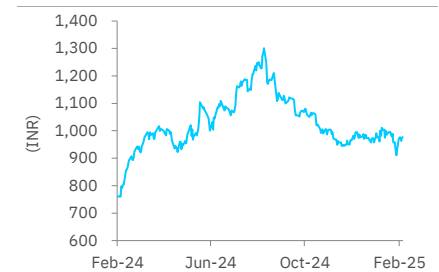
As on 5 February 2025

Key data

Bloomberg	ZYDUSLIF IN
Reuters Code	ZYDU.NS
Shares outstanding (mn)	1006
Market cap (INR bn/USD mn)	983/11243
Enterprise Value (INR bn/USD mn)	983/11243
Avg daily volume 3M (INR mn/USD mn)	1236/14
52 week high/low	1324/754
Free float (%)	25

Note: as on 5 February 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	75.0	75.0	75.0	75.0
% Pledged	-	-	-	-
FII	5.7	5.6	7.5	7.5
DII	12.7	12.7	10.8	10.7
Others	6.6	6.7	6.7	6.8

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(2.1)	(1.5)	8.8
Zydus Lifesciences	(1.2)	(20.4)	28.4
NSE Mid-cap	(3.4)	(3.0)	11.9
NSE Small-cap	(7.5)	(4.6)	4.8

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	172,374	195,474	229,866	242,926	250,789
EBITDA	35,654	52,891	65,530	65,851	61,070
Add:- Non operating Income	4,710	3,651	4,917	4,917	4,917
OPBITDA	40,364	56,542	70,447	70,768	65,987
Less :- Depreciation & Amortization	7,227	7,641	9,139	9,839	10,539
EBIT	33,137	48,901	61,308	60,929	55,448
Less:- Interest Expenses	1,299	812	1,143	200	200
PBT	31,838	48,089	60,165	60,729	55,248
Less :- Taxes	5,878	9,775	14,540	14,575	13,259
Add/Less: - Extra-ordinaries	(5,941)	-	-	-	-
Add/Less: - Minority Interest	(370)	51	(587)	(652)	(799)
Reported PAT	19,649	38,365	45,038	45,502	41,190
Adjusted PAT	25,590	38,365	45,038	45,502	41,190
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholder's Equity	175,158	198,295	239,728	278,540	311,887
Minority Interests	21,725	22,721	23,308	23,960	24,758
Borrowings	11,632	7,686	5,261	6,050	6,733
Other Non-current Liabilities	5,414	18,395	18,395	18,395	18,395
Total Liabilities	213,929	247,097	286,691	326,945	361,774
Net Fixed Assets	68,267	69,148	69,009	69,970	72,391
Intangibles and Goodwill	58,949	78,770	78,770	78,770	78,770
Investments	9,273	9,680	9,680	9,680	9,680
Cash and Cash Equivalents	11,928	13,591	41,278	77,855	110,221
Net Working Capital	44,519	54,896	66,943	69,657	69,700
Other Non-current Assets	20,993	21,012	21,012	21,012	21,012
Total Assets	213,929	247,097	286,691	326,945	361,774
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non-cash items	29,246	51,183	50,403	50,624	47,012
Add/Less : Working Capital Changes	(2,358)	(8,711)	(12,047)	(2,715)	(43)
Operating Cash Flow	26,888	42,472	38,357	47,909	46,969
Less:- Capex	(9,915)	(8,829)	(9,000)	(10,800)	(12,960)
Free Cash Flow	16,973	33,643	29,357	37,109	34,009
Financing Cash Flow	(39,646)	(14,586)	(1,670)	(531)	(1,644)
Investing Cash Flow	-	(7,201)	-	-	-
Net change in Cash	(22,673)	11,856	27,687	36,578	32,365
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	12.9	13.4	17.6	5.7	3.2
EBITDA Growth	6.7	48.3	23.9	0.5	(7.3)
PAT Growth (RHS)	13.0	64.0	16.5	1.1	(10.3)
EBITDA Margin (RHS)	20.7	27.1	28.5	27.1	24.4
Net Margin	14.8	19.6	19.6	18.7	16.4
Return & Liquidity Ratios					
Net Debt/Equity (x)	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)
ROE (%)	13.4	19.5	20.4	17.3	13.6
ROCE (%)	12.2	21.7	24.7	20.9	16.4
Per Share data & Valuation Ratios					
Diluted EPS (INR/Share)	25.3	38.1	44.8	45.2	40.9
EPS Growth (%)	13.0	64.0	16.5	1.1	(10.3)
DPS (INR/Share)	6.0	3.0	6.0	7.0	8.0
P/E Ratio (x)	38.6	25.6	21.8	21.6	23.9
EV/EBITDA (x)	26.6	17.9	14.5	14.4	15.5
EV/Sales (x)	5.5	4.8	4.1	3.9	3.8
Price/Book (x)	5.6	5.0	4.1	3.5	3.2
Dividend Yield (%)	0.6	0.3	0.6	0.7	0.8

Note: Pricing as on 5 February 2025; Source: Company, Elara Securities Estimate

Quarterly financials

Y/E Mar (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	FY24	FY23	YoY(%)
Net sales	52,691	45,052	17.0	52,370	0.6	195,474	172,374	13.4
Gross profit	36,857	30,367	21.4	37,656	(2.1)	62,282	63,101	(1.3)
Gross margins (%)	69.9	67.4	254.5	71.9	(195.4)	31.9	36.6	(474.5)
EBITDA	12,050	10,818	11.4	14,160	(14.9)	52,891	35,654	48.3
EBITDA margins (%)	22.9	24.0	(114.3)	27.0	(416.9)	27.1	20.7	637.4
Other income	2,401	583	311.8	1,136	111.4	3,651	4,710	(22.5)
Interest	320	198	61.6	251	27.5	812	1,299	(37.5)
Depreciation	2,290	1,948	17.6	2,336	(2.0)	7,641	7,227	5.7
PBT	11,841	9,255	27.9	12,709	(6.8)	48,089	31,838	51.0
Tax	1,795	2,138	(16.0)	3,731	(51.9)	9,775	5,878	66.3
Tax rate (%)	15.2	23.1	(794.2)	29.4	(1,419.8)	20.3	18.5	186.5
PAT	10,046	7,117	41.2	8,978	11.9	38,314	25,960	47.6
Minority interest	192	561	(65.8)	131	46.6	51	(370)	(113.8)
PAT	10,238	7,678	33.3	9,109	12.4	38,365	25,590	49.9
Adjusted net income	10,238	7,678	33.3	9,109	12.4	38,365	25,590	49.9
NPM (%)	19.4	17.0	238.8	17.4	203.7	19.6	14.8	478.1

Source: Company, Elara Securities Research

Exhibit 1: Valuation summary

	FY23	FY24	FY25E	FY26E	FY27E
Core EPS (INR)	21.5	35.2	41.0	41.5	37.2
Core EPS growth (%)	13.0	64.0	16.5	1.1	(10.3)
Cash per share (INR)	11.8	13.5	41.0	77.4	109.5
Current core P/E (x)	44.8	27.3	23.5	23.2	25.9
Core ROIC (%)	14.3	23.0	26.2	24.7	21.9

Source: Elara Securities Estimate

Conference call – Highlights
Financial highlights

- ▶ Revenue from operations reached INR 52.7bn, reflecting a 17% YoY increase, while EBITDA for the quarter amounted to INR 13.9bn, a 26% YoY growth. EBITDA margin for Q3 stood at 26.3%, marking an improvement of 180bps compared with the previous year.
- ▶ The sequential decline in gross margin was attributed to lower sales of gRevlimid and Asacol HD.
- ▶ EBITDA margin improved despite higher R&D expenses.
- ▶ Research & Development (R&D) investments in Q3 were INR 5.0bn, representing 9.5% of revenues. The portfolio of specialty product is ~35% of the company's total R&D spend.
- ▶ Organic capital expenditure (capex) for Q3 totaled INR 2.9bn.
- ▶ The net debt-to-equity ratio, as of 31 December 2024, was -0.14x, while net debt-to-EBITDA ratio stood at -0.47x as at end-December 2024.
- ▶ As of 31 December 2024, ZYDUSLIF had a net cash position (negative net debt) of INR 30.9bn.
- ▶ ZYDUSLIF recorded a GST loss on inventory of INR 170mn, and incurred INR 950mn in one-off expenses in Q3.
- ▶ Forex gain in Q3 was INR 1.8bn.

Domestic formulation business

- ▶ ZYDUSLIF recorded revenues of INR 15.0bn, marking a 5% YoY increase, and accounted for 29% of consolidated revenues.
- ▶ The business outpaced the market with an 8% YoY growth in secondary sales. The chronic segment led this growth, contributing significantly to the overall performance (source: IQVIA Oct – Dec 2024 quarter).
- ▶ For 9MFY25, the business grew by 9%, surpassing the market growth.
- ▶ The portfolio of innovative products has maintained strong growth momentum, driving substantial volume increases.
- ▶ ZYDUSLIF witnessed market share gain in key therapeutic areas, including Cardiology, Respiratory, Anti-infectives, and the super-specialty therapy of Oncology.
- ▶ In super-specialty segments, ZYDUSLIF continued to reinforce its leadership in Nephrology and Oncology therapies.
- ▶ The chronic portfolio's share has grown consistently in the past few years, now standing at 42.4%, an increase of 370bps in the past three years, according to IQVIA MAT December 2024 data.
- ▶ ZYDUSLIF is involved in the production of both API and finished products for Semaglutide.
- ▶ ZYDUSLIF will have an exclusive pipeline of generic and NCE drugs in the domestic market in H2FY26.

Consumer health business – Zydus Wellness

- ▶ ZYDUSLIF registered revenues of INR 4.5bn, reflecting a 13% YoY growth, with a 4.8% volume increase. This segment contributed 9% to overall revenues.
- ▶ The personal care segment, which includes *Nycil* and *Everyuth* brands, saw strong demand and achieved robust double-digit growth, continuing its positive trajectory over several quarters.
- ▶ In Q3, ZYDUSLIF completed the acquisition of Naturell (India) Pvt., a leading healthy snacking company with a portfolio of nutrition bars, protein cookies, protein chips, and health food products, marking its entry into the consumer snacking space.

NCE/ Biotech / vaccine pipeline

- ▶ ZYDUSLIF received USFDA approval to conduct Phase II(b) clinical trials of Usnoflast for the treatment of Amyotrophic Lateral Sclerosis (ALS). The study will assess the molecule's efficacy, safety, pharmacokinetics, and pharmacodynamics in adult ALS patients.
- ▶ The USFDA recently granted Orphan Drug Designation (ODD) to Usnoflast for the ALS indication.
- ▶ ZYDUSLIF has successfully completed Phase III clinical trials for one of its biosimilars.
- ▶ An application has been submitted to the DCGI requesting approval to initiate Phase III clinical trials for a biosimilar antibody-drug conjugate (ADC).
- ▶ Regarding novel biologics, ZYDUSLIF received approval from the Review Committee on Genetic Manipulation (RCGM) to begin pre-clinical studies for one of its ADCs.
- ▶ ZYDUSLIF has completed Phase I clinical trials for its Bivalent Typhoid Conjugate Vaccine (TCV).

US formulations business

- ▶ ZYDUSLIF registered revenues of INR 24.1bn, reflecting a 31% YoY growth. This business contributed 47% to consolidated revenues.
- ▶ In constant currency terms, the business generated USD 285mn in revenue.
- ▶ ZYDUSLIF filed 10 ANDAs, received approvals for three new products, and launched five new products during the period.
- ▶ New product launches included all three brands from the Sitagliptin 505(b)(2) franchise: *Zituvio*[™], *Zituvimet*[™], and *Zituvimet*[™] XR tablets.

- ▶ ZYDUSLIF entered into a partnership with CVS Caremark to add *Zituvio™*, *Zituvimet™*, and *Zituvimet™ XR* tablets to its formulary, effective from 1 January 2025.
- ▶ The USFDA accepted the NDA filing for CUTX101, a copper histidinate product candidate for the treatment of Menkes disease, and granted priority review. ZYDUSLIF is prepared for a launch upon approval, with pricing in line with other rare disease treatments. It is also working with experts to develop a diagnostic test for Menkes disease.
- ▶ In Q3, there were no sales from gRevlimid but, there was growth in base business sales and new product introductions.
- ▶ Sales of gMyrbetriq performed well, with Q3FY25 sales surpassing those in Q2FY25. The management is optimistic about the product's sustained success.
- ▶ ZYDUSLIF secured a long-term contract with the government for Sitagliptin, representing a significant opportunity.
- ▶ An additional 3-4 licenses for Sitagliptin 505(b)(2) products are expected.
- ▶ ZYDUSLIF has partnered in 505(b)(2) opportunities with profit-sharing arrangements that offer significantly high margin contributions.
- ▶ ZYDUSLIF anticipates competition from at least one additional player once CGT exclusivity expires.
- ▶ ZYDUSLIF launched its animal health business 15 months ago and has already reached the breakeven point for this segment.

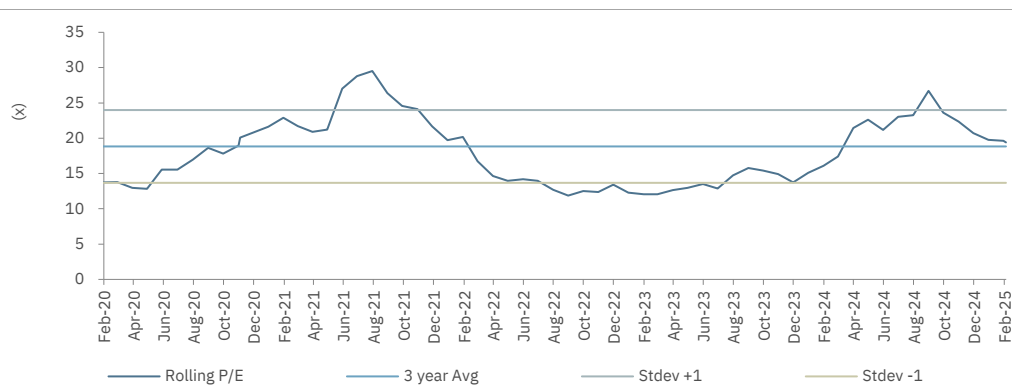
Emerging markets and EU

- ▶ ZYDUSLIF reported revenues of INR 5.7bn, reflecting a 16% YoY growth. This business contributed 11% to consolidated revenues.
- ▶ The business maintained strong growth, driven by robust demand across various markets.
- ▶ ZYDUSLIF has no plans to enter the Chinese market for Semaglutide but is considering expansion into other emerging markets.

Guidance

- ▶ ZYDUSLIF is confident of achieving its growth and profitability goals for FY25.
- ▶ For FY26, gRevlimid sales are expected to remain consistent with the current financial year.
- ▶ In the generic space, ZYDUSLIF has developed a comprehensive product portfolio across various dosage forms and therapies, with focus on streamlined execution. Looking ahead, 25-30 launches are planned, with significant growth expected in FY27 driven by high-value launches.
- ▶ In the specialty segment, growth will be driven by multiple factors such as the 505(b)(2) products portfolio, the LiqMeds portfolio, and assets in rare diseases.
- ▶ The LiqMeds portfolio will see the launch of Imatinib Oral Solution in the upcoming quarter, with one product already launched.
- ▶ For Semaglutide the management has been confident of successfully entering the Indian market from day 1.
- ▶ Expect 20-30% higher capex in the next two financial years for building various visible growth opportunities.
- ▶ For biosimilars, the management plans to focus on the Indian and emerging markets. In Mexico and Russia, ZYDUSLIF is the sole player in the generic biologics space.

Exhibit 2: One year forward P/E trading at 19.4x, 3% above its three-year average of 18.8x



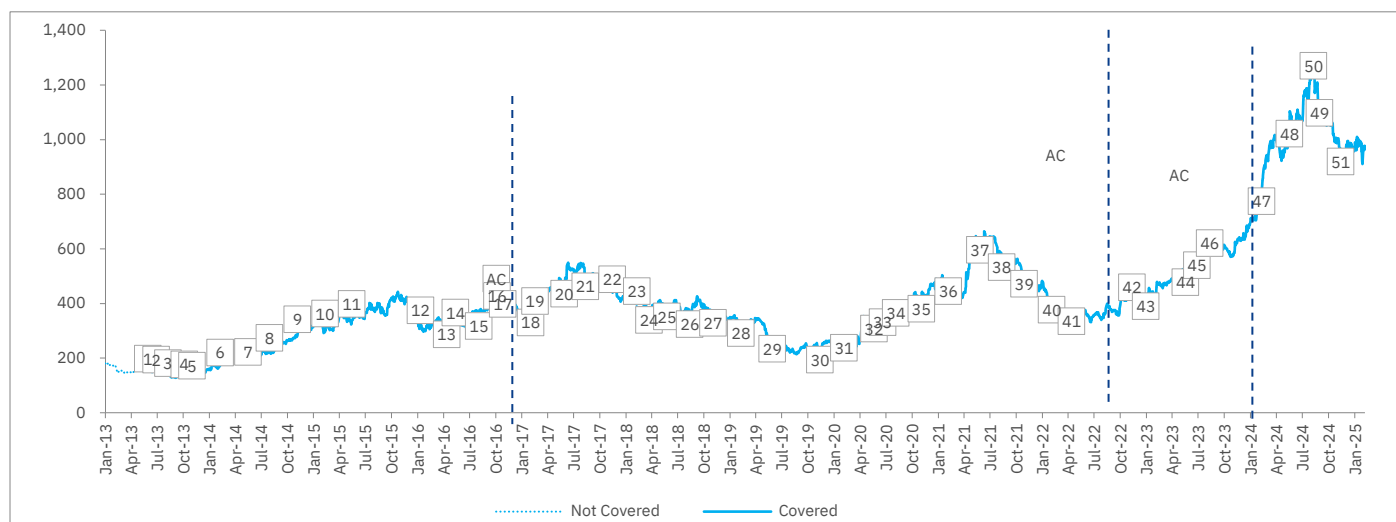
Source: Company, Elara Securities Research

Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	2,29,265	2,37,963	2,49,342	2,29,866	2,42,926	2,50,789	0.3	2.1	0.6
EBITDA	66,776	67,592	63,643	65,530	65,851	61,070	(1.9)	(2.6)	(4.0)
PAT	44,115	44,723	41,041	45,038	45,502	41,190	2.1	1.7	0.4
EPS (INR)	43.8	44.4	40.8	44.8	45.2	40.9	2.1	1.7	0.4

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
44	18-May-2023	Buy	INR 621	INR 508
45	27-Jun-2023	Buy	INR 685	INR 569
46	11-Aug-2023	Buy	INR 791	INR 651
47	9-Feb-2024	Buy	INR 977	INR 805
48	17-May-2024	Buy	INR 1,321	INR 1,051
49	9-Aug-2024	Accumulate	INR 1,497	INR 1,301
50	30-Aug-2024	Buy	INR 1,497	INR 1,128
51	12-Nov-2024	Buy	INR 1,311	INR 949

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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