

Devising medtech expansion

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Zydu Lifesciences (ZYDUSLIF IN) has announced the acquisition of Amplitude Surgical SA (EuroNext Paris: AMPLI), a France-based medtech company that manufactures orthopedic knee and hip implants. AMPLI is the second-largest in the specific business area in France and has a good presence in the EU, Brazil and Australia. Our analysis shows the equity buyout deal of EUR 300mn works out to a reasonable valuation of ~14.3x FY24 EV/EBITDA. The deal is part of ZYDUSLIF's new global medtech strategy. We believe in management's execution capabilities and view the acquisition as well as the overall medtech strategy constructively. We retain **Buy** with price target of INR 1,311.

Diversify into medtech, leverage sales & distribution network: AMPLI is the second-largest in France in the hip & knee implants space, and it is looking to expand into other markets. It also provides ancillary solutions, such as computer-assisted surgery and made-to-measure instrument systems. It is also developing a robotic solutions for knee surgery. ZYDUSLIF's global sales and distribution network should help AMPLI penetrate overseas markets rapidly. These include other EU countries, Latin America, Australia and Asia. However, management says it does not intend to enter the large US market in the near term.

Medtech – a sizable opportunity: The global medical devices market is at USD 510bn in CY24, as per ZYDUSLIF. It is a highly concentrated market with the Top 5 firms controlling >50% of the overall market. This presents a significant opportunity for new companies with innovative tech, cost-efficient solutions, and a services-oriented approach. ZYDUSLIF expects India's medical devices market to be USD 50bn by CY30, up from USD 12bn in CY24. India currently imports 80-85% of demand for medical devices; hence it is a focus area of indigenization for the Central government. The Centre has announced a PLI scheme with a financial outlay of INR 34.2bn to promote domestic manufacturing of medical devices.

Multi-pronged approach to Medtech: ZYDUSLIF has identified medical devices as a focus area for future growth. Zydu MedTech acquired Nano Therapeutics in CY24, entering the interventional cardiology space. It is establishing a dialyzer manufacturing plant at Surat to produce high-end membranes used in dialysis for renal disease patients. Through AMPLI, it is entering the global arthroplasty market as well.

AMPLI deal valuation looks reasonable: ZYDUSLIF, in the first leg, will buyout key shareholders – PAI Partners and AMPLI management – at EUR 6.25 per share, which is at an 80.6% premium over the last closing price on 11 March. Further, it plans to make an open offer to buy the remaining minority shareholders and delist the entity. The overall deal at EUR 300mn works out to be at 3.7x FY24 revenue and 14.4x FY24 EV/EBITDA. The business is growing in the mid-single digits. The deal valuation appears to be reasonable.

Retain Buy with a TP of INR 1,311: The company can fund AMPLI acquisition through existing cash on books and incremental borrowings. We expect the deal to be slightly EPS-dilutive in the first year, including amortization impact, and EPS-accretive in subsequent years. We retain our estimates. ZYDUSLIF shares trade at 20.7x FY26E core earnings and 23.1x FY27E core earnings. We retain **Buy** with the target price of INR 1,311 based on 33.0x FY27E core earnings plus cash per share.

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