JM FINANCIAL

Zydus Lifesciences | HOLD

Building for FY28 and beyond

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Zydus Lifesciences' FY25 annual report highlights strong R&D momentum, particularly in novel and specialty drugs, with Saroglitazar trials in PBC and MASH progressing well—key data is expected by end-2025. Several other novel assets are also advancing in the pipeline, targeting both the U.S. and emerging markets. In the U.S. generics segment, which remains the company's largest market, Zydus retained its 5th position by prescriptions and launched 17 new products during the year. The company is also expanding into the MedTech space, having acquired a cardiology-focused facility in Surat, initiated construction of a new dialysis membrane plant, and announced a €256.8 mn acquisition of Amplitude Surgical in France. Additionally, Zydus is making significant progress in biosimilars and vaccine segments. On the financial front, it reported a net cash position of ~INR 49 bn, generated FCF of INR 56 bn, and maintained a dividend payout ratio of 24.5%, reflecting a strong financial position. The annual report underscores Zydus's ongoing efforts to build multiple revenue streams and transition from a generics-focused company to a diversified, innovation-driven healthcare player. However, the financial impact of these initiatives is expected to materialize meaningfully from FY28 onwards, while FY27 may see negative earnings growth due to a decline in sales of gRevlimid and other key products. Hence, we maintain a 'Hold' rating at present.

- **R&D / Innovation at the forefront:** The company has made strong progress in liver diseases (MAFLD, MASH, PBC), neurological disorders, and rare conditions. The development of Saroglitazar for PBC and MASH has reached important milestones—In PBC, Patient enrolment is complete for the Phase II(b)/III trial. Data monitoring and patient follow-up are currently underway, with a comprehensive data readout expected by the end of 2025. Patient recruitment for the Phase II(b) clinical trials for MASH has also been successfully completed. Data monitoring and patient follow-up activities are underway. Phase II(a) trials for PCOS and MAFLD have been completed. Usnoflast, designed to treat CAPS, is advancing through Phase II(b) trials in the U.S. and has earned both Orphan Drug and Fast Track designations from the FDA. CUTX 101, aimed at Menkes disease, is awaiting FDA approval and could address a condition with no current treatment. Early trials (Phase II(a)) for PCOS and MAFLD have also been completed, and research efforts are expanding into ALS, Parkinson's, sickle cell disease, and ulcerative colitis.

- **Specialty, Rare Disease & Biologics:** In the specialty and rare disease area, the company has struck a licensing deal with Synthon for a novel oncology drug, with an NDA expected in 2026. It has also acquired three important rare disease treatments: NULIBRY™, Zokinvy®, and CUTX 101. A huge pipeline of 207 products is currently under development in the U.S., targeting a market estimated at USD 170bn. The company has already launched eight specialty liquid-oral drugs in the U.S. through the 505(b)(2) pathway, with three more awaiting FDA approval.

- **Ranks 5th in US Generic Rx:** The company launched 17 generics in the U.S. last year, including two first-to-file products. It filed 27 ANDAs and received 24 approvals (including five tentative ones), bringing its total U.S. product portfolio to over 225. It holds market leadership in 25% of product families and ranks among the top three in 55%. According to IQVIA, it ranks fifth in the U.S. based on prescription volume as of March 2025.

- **Biosimilars & Vaccines portfolio beefing up:** Zydus has 32 molecules in bio similars and novel biologics space. 14 of these products have already been launched in India and other emerging markets. On the vaccine front, the company has 17 approved vaccines—including for flu, rabies, measles, and Hepatitis B. Additional vaccines in development include those for Hepatitis A, Hepatitis E, MMRV, and a bivalent typhoid–paratyphoid vaccine

- Directed expansion in MedTech: The company is expanding into MedTech, focusing on cardiology, nephrology, and orthopaedics. It acquired an interventional cardiology manufacturing facility in Surat and is building a state of the art dialysis membrane plant. Additionally, it has agreed to acquire 85.6% of Amplitude Surgical in France for EUR 256.8mn, with a total deal value of around EUR 300mn including the tender offer.

- India powerbrand portfolio growing: In India, 10 brands generate over INR 1bn in sales, 20 brands fall in the INR 500mn–1bn range, and 36 brands fall between INR 250–500mn. India business grew 10% YoY in FY25. Growth has been supported through an expanded field force and stronger physician engagement. The chronic care portfolio now makes up 43% of total sales, marking a 400 bps increase over three years

- Consumer Wellness & Nutrition: Consumer wellness and nutrition saw healthy growth, with a 13% overall volume increase. Personal care brands Nycil® and Everyuth® achieved remarkable growth of over 33%. E-commerce accounts for 10% of the business, modern trade 13%, and quick commerce makes up 41.4% of total e-commerce. In the U.S., nutrition-led growth of 13% was supported by brands like Max Protein® and Rite Bite following the acquisition of Naturell.

- International Markets: The company's international presence continues to strengthen, with Mexico reporting strong double-digit growth and Brazil rebounding to a healthy growth trajectory, securing the #3 position in its pharmaceutical market. In Sri Lanka, it continues to hold the leadership position with 22%MS and maintained robust growth trajectory through strong distributor partnerships and execution excellence. In South Africa, the Company's largest market in the region registered strong growth during the year. Uganda and new markets of West and Central Africa also witnessed a strong uptick, reflecting rising demand and efficient distribution capabilities.

- Robust Manf. Infra; building up capacity in orals and biosims: Operations span 39 facilities, 16 of which are US FDA inspected. Annual production capacity includes 41bn solid-dose units, 347mn injectables, 65mn vaccines, and 1,728 KL of API. In FY25, the SEZ-2 oral solid unit became operational. Construction is underway for SEZ-3 (a highly automated plant) and Biologics Unit III (for monoclonal antibodies).

- Regulatory & Quality: In FY25, the company underwent six US FDA inspections, receiving a warning letter for its Jared facility. There were 25 drug recalls, up from 10 the previous year. However, the business is not significantly affected due to the regulatory issues.

- Subsidiaries, M&A & Restructuring: 1) Zydus Medtech Private Limited became a wholly-owned subsidiary. 2) Zydus Animal Health and Investments Limited formed a JV with Sterling Biotech to acquire an API business for INR 840mn, expected to close by September 2025. 3) Nesher (USA) was merged into ZPUI with no operational impact. 4) Zydus Wellness Limited acquired Naturell, the maker of Max Protein, for INR 3.9bn. 5) ZAHL exited Mylab, following a INR 1.06bn investment, via a put option in December 2024. 6) The acquisition of Amplitude Surgical is anticipated to be finalized by December 2025, including delisting.

- Governance & Related-Party Transactions: External audit services were provided by Deloitte and total consideration for complete audit amounted to INR 28mn. Remuneration for the MD and EDs totaled INR 510mn (Sharvil INR 360mn, Ganesh Nayak INR 150mn), and key management personnel were paid INR 600mn (up from INR 530mn in FY24). CSR spending reached INR 530mn, with an additional INR 350mn advanced to the Zydus Foundation (compared to INR 50mn in FY24). The foundation also redeemed INR 900mn (up from INR 500mn in FY24). Infrastructure services worth INR 140mn were procured from Zydus Infra, and INR 720mn was spent on goods from Oneiro Chemicals (up from INR 530mn last year).

- Cashflows improving: The company held a net cash position of INR 48.84bn, up from INR 40.27bn YoY. FCF was INR 55.8bn, compared to INR 23.34bn in FY24. The cash conversion cycle also improved, dropping from 114 days to 96 days.
- Dividend: Directors have recommended a final dividend of INR 11/sh for FY25. The final dividend, if declared by the members at the ensuing AGM, will result into cash outflow of INR 11bn. The Dividend Payout Ratio for FY25, is 24.46% of the consolidated profits.

APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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