

Zydu Lifesciences: Margin Compression Looms

May 21, 2025 | CMP: INR 883 | Target Price: INR 795

Expected Share Price Return: (10.1)% | Dividend Yield: 2.3% | Expected Total Return: (7.8)%

Sector View: Neutral

Change in Estimates	✓
Target Price Change	✓
Recommendation	✓

Company Info

BB Code	ZYDUSLIF IN EQUITY
Face Value (INR)	1.0
52 W High/Low (INR)	1,324/797
Mkt Cap (Bn)	INR 890 / \$ 10.5
Shares o/s (Mn)	1,006
3M Avg. Daily Volume	14,94,115

Change in Estimates

	FY26E			FY27E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	257.1	257.5	(0.1)	289.2	297.3	(2.7)
EBITDA	66.9	72.3	(7.6)	80.4	84.8	(5.2)
EBITDAM %	26.0	28.1	(209)bps	27.8	28.5	(74)bps
PAT	43.4	51.2	(15.3)	53.2	60.3	(11.8)
EPS	43.1	50.9	(15.3)	52.9	60.0	(11.8)

Actual vs Consensus

INR Bn	Q4FY25A	Consensus Est.	Dev. %
Revenue	65.3	64.4	1.3
EBITDA	21.3	20.3	4.9
EBITDAM %	32.6	31.4	112bps
PAT	11.7	13.7	(14.5)

Key Financials

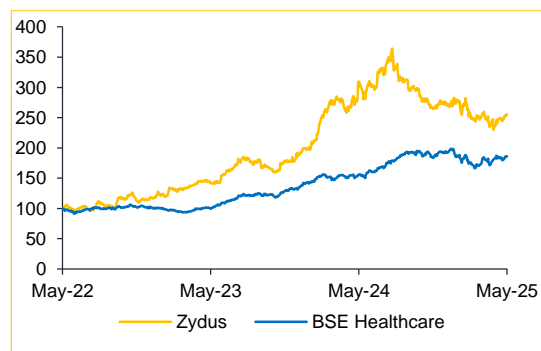
INR Bn	FY23	FY24	FY25	FY26E	FY27E
Revenue	172.4	195.5	232.4	257.1	289.2
YoY (%)	14.1	13.4	18.9	10.6	12.5
EBITDA	38.6	53.8	70.6	66.9	80.4
EBITDAM %	22.4	27.5	30.4	26.0	27.8
Adj PAT	19.6	38.6	45.3	43.4	53.2
EPS	19.4	38.3	45.0	43.1	52.9
ROE %	11.2	19.4	18.9	15.3	15.8
ROCE %	17.8	23.8	23.6	19.3	20.0
PE(x)	45.6	23.0	19.6	20.5	16.7
EV/EBITDA	23.6	16.8	12.8	14.2	11.7
BVPS	173.0	197.1	238.1	282.1	335.9
FCF	16.6	23.2	50.6	0.4	40.5

Shareholding Pattern (%)

	Mar-25	Dec-24	Sep-24
Promoters	75.00	74.98	74.98
FIIIs	7.31	7.53	7.52
DIIIs	10.95	10.61	10.59
Public	6.74	6.90	6.90

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Healthcare	85.9	87.2	19.4
MRKS	155.1	79.6	(17.5)



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US Slowdown and Margin Pressure Warrant Caution

We believe the outlook for FY26 for the company will be challenging. Management has guided for single-digit growth in the US formulations segment—a significant slowdown considering its substantial contribution to overall revenue. This, coupled with an expected 400 bps contraction in EBITDA margins, is likely to impact overall profitability.

Despite steady momentum expected in India Formulations + Consumer Wellness, and International Markets, the headwinds in the US market and margin pressures lead us to revise our FY26E/FY27E earnings estimates downward by 15.3%/11.8%, respectively. We now assign a PE multiple of 15x to FY27E EPS (revised from 17x), reflecting a reset in expectations driven by earnings downgrades and margin compression. The reduction in ROE and ROCE, stemming from the deterioration in profitability, further justifies the valuation de-rating. Accordingly, we revise our target price to INR 795 (from INR 1,240 in Q3FY25) and downgrade our rating to **SELL**.

Upside risk to our thesis includes successful high-margin product launches in the US that may cushion earnings against Revlimid tapering.

Strong Operational Performance; PAT Miss on One-Off Impact

- Revenue grew 18.0% YoY / 23.9% QoQ to INR 65.3 Bn (vs. consensus estimate: INR 64.4 Bn).
- EBITDA increased 30.4% YoY / 53.2% QoQ to INR 21.3 Bn (vs. consensus: INR 20.3 Bn); margins expanded 310 bps YoY / 623 bps QoQ to 32.6% (vs. consensus: 31.4%).
- PAT declined 0.7% YoY / 14.4% QoQ to INR 11.7 Bn (in line with consensus estimate: INR 11.7 Bn).
- Exceptional items of INR 2.2 Bn pertain to goodwill impairment in the Brazil business; adjusting for this, PAT stood at INR 13.3 Bn.

US Growth to Slow Amid Revlimid Taper and Mirabegron Litigation: Zydu's

US formulations segment grew 27.2% YoY in FY25, now accounting for 47.5% of total revenue. However, this strong performance is unlikely to sustain in FY26. Management expects growth to moderate to single digits as Revlimid contributions begin tapering, with FY25 marking the drug's peak sales. The upcoming patent expiry in Jan 2026, persistent pricing pressures, and uncertainty around the Mirabegron litigation further add to near-term headwinds.

Margins to Compress Sharply on Product Mix and R&D Spend: EBITDA margins expanded by 290 bps YoY to 30.4% in FY25, supported by product mix and cost optimization. However, management has guided for a 400 bps contraction in FY26, bringing margins closer to ~26%. This decline is attributed to the lower contribution from high-margin products like Revlimid, market share loss in Asacol, and an increase in R&D spending—expected to rise to ~8% of revenue.

Particulars (INR Mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)
Revenue	65,279	55,338	18.0	52,691	23.9
Cost of Goods Sold	16,971	16,115	5.3	15,834	7.2
Gross Margin (%)	74.0	70.9	312 bps	69.9	405 bps
Operating Expenses	27,053	22,918	35.2	22,981	30.9
EBITDA	21,255	16,305	30.4	13,876	53.2
EBITDA Margin (%)	32.6	29.5	310 bps	26.3	623 bps
Depreciation	2,379	2,053	15.9	2,290	3.9
Interest	766	346	121.4	320	139.4
PBT	18,916	15,470	22.3	11,841	59.8
Tax	4,232	3,212	31.8	1,795	135.8
PAT	13,349	11,791	13.2	10,238	30.4
EPS	13.3	11.7	13.2	10.2	30.4

Geographical Revenue	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)
India	15,394	13,806	11.5	15,145	1.6
US	31,307	25,235	24.1	24,096	29.9
Emerging Markets	5,547	4,960	11.8	5,702	-2.7
Consumer Wellness	9,081	7,755	17.1	4,488	102.3
API	1,290	1,436	-10.2	1,537	-16.1
Others	2,660	2,146	24.0	1,886	41.0

Source: Company, CEBPL

Management Call - Highlights

US Business

- US business will face pricing pressure, especially on Revlimid and Mirabegron.
- Naturel acquisition (Max Protein, Right Bite) supported wellness growth.
- FY26 EBITDA margin guidance: ~26% due to higher R&D spend and pricing pressure.
- Launched 5 new products, received 6 approvals, and filed 3 NDAs during Q4FY25.
- Portfolio includes 552 products, expanding across dosage forms & therapies, with Specialty focus on Pediatric & rare diseases space getting attention.
- Mirabegron sales continue despite litigation; next trial in Feb 2026.
- Revlimid sales were absent in Q4FY25, deferred to Q1FY26 due to negotiation delays. Expected to peak in FY25, decline expected post-exclusivity.
- FY27 base business expected to sustain USD 1 Bn without one-offs.
- 14–15 key launches planned for FY27, including complex generics & injectables.
- US business will face pricing pressure, especially on Revlimid and Mirabegron.

India Business

- The chronic segment and key therapies performed better than the market.
- Chronic portfolio now contributes 43%, a 400 bps increase over 3 years.
- Consumer Wellness segment grew 17% YoY, with 13% volume growth.
- Brands like Nycil and EverYuth saw robust double-digit growth.
- Food and nutrition business grew due to category expansion and innovation.
- Naturel acquisition (Max Protein, Right Bite) supported wellness growth.

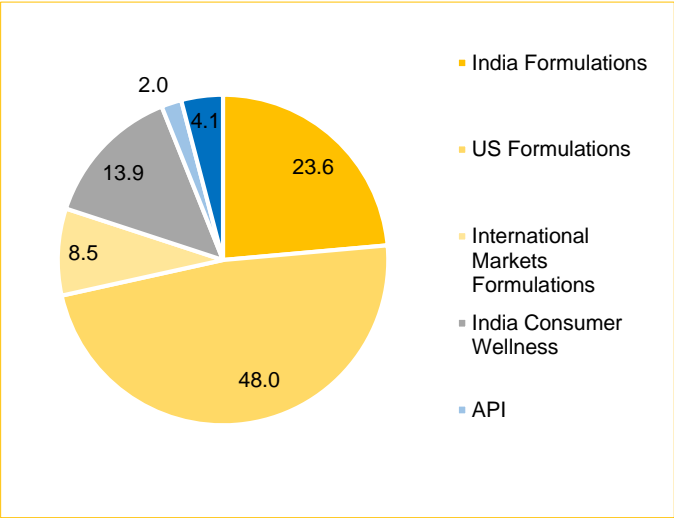
Outlook

- US business expected to grow in high single digits in FY26.
- In FY26, India to outperform IPM growth again with double-digit growth expected.
- In FY26, other markets are expected to deliver strong double-digit growth.
- FY26 EBITDA margin guidance: ~26% due to higher R&D spend and pricing pressure.
- R&D spend guided at ~8% of revenue for FY26.
- Vaccine business expected to scale in FY26 via India tenders and WHO PQ opportunities.

Others

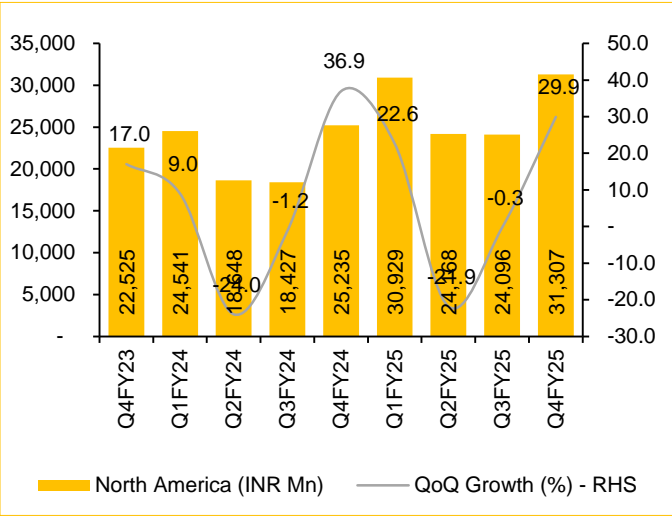
- Scaling up in countries like Egypt and regions like PAHO, UNICEF for vaccines. Tariff concerns in US being monitored; evaluating local manufacturing options.
- Brazil goodwill was impaired due to market dynamics, reflecting a strategic reset.
- Amplitude Surgical (France) acquisition marks foray into MedTech; expected to be accretive.
- GLP-1 (Semaglutide) launch planned for India and other emerging markets with novel formulation.

Q4FY25 Segment Revenue Split (INR 65.3 Bn)



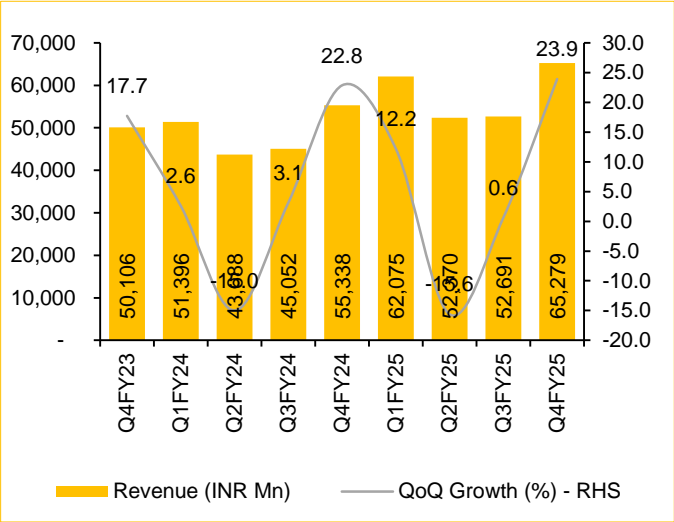
Source: Company, CEBPL

North America Rebounds on Back of New Launches



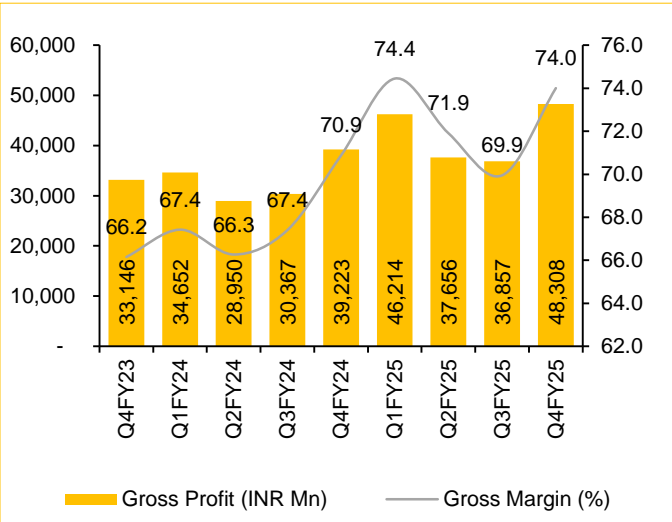
Source: Company, CEBPL

Multi-Region Growth Supports Revenue Performance



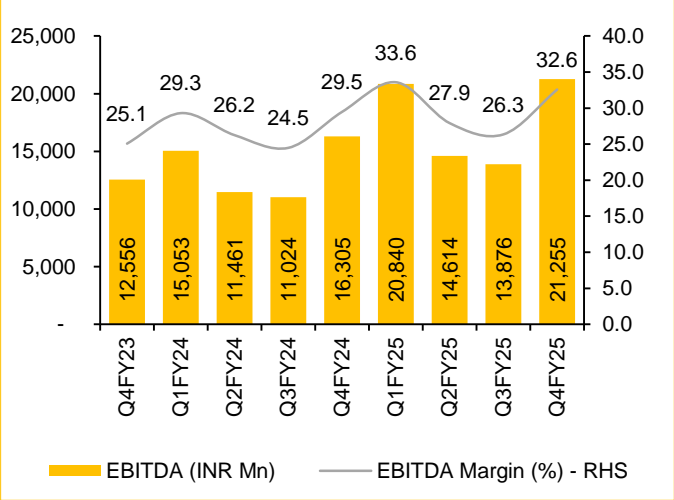
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Better Mix Aids Gross Margin Expansion



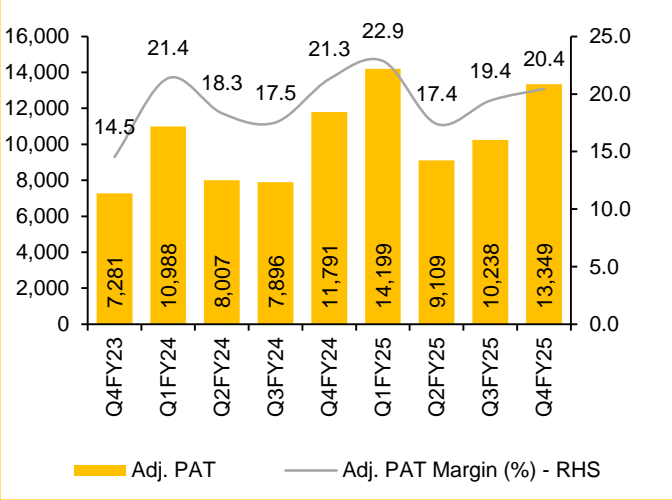
Source: Company, CEBPL

EBITDA Growth with Cost Optimization

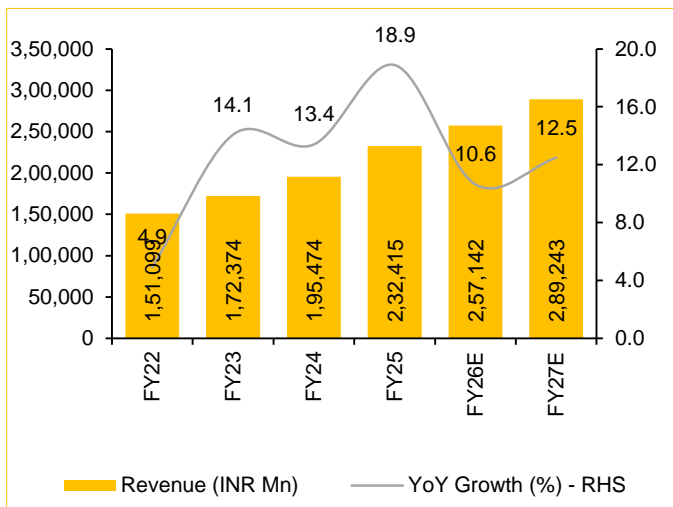


Source: Company, CEBPL

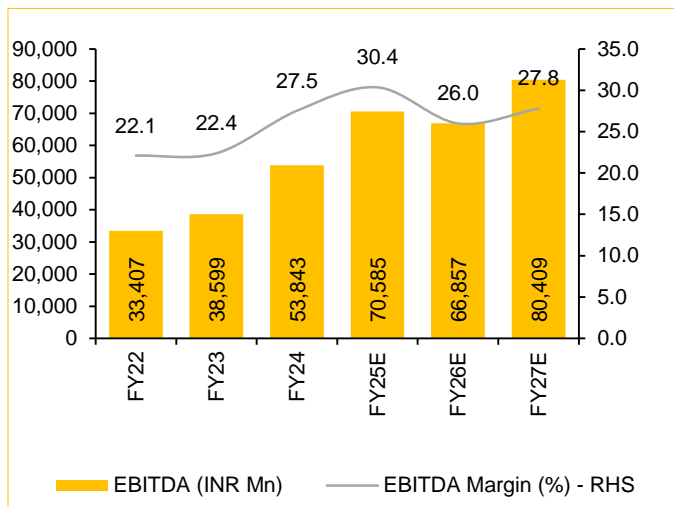
Adj. PAT Shows Strong Upside



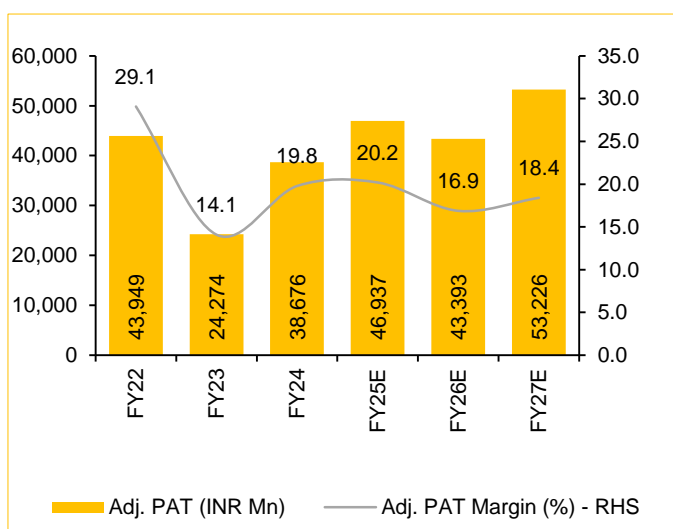
Source: Company, CEBPL

Revenue to Grow at 14.0% CAGR FY24-27E

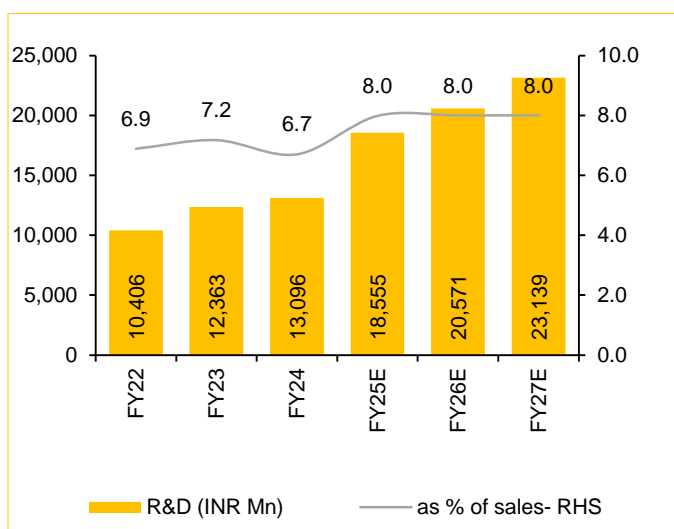
Source: Company, CEBPL

EBITDA Margin Expected to Contract Sharply

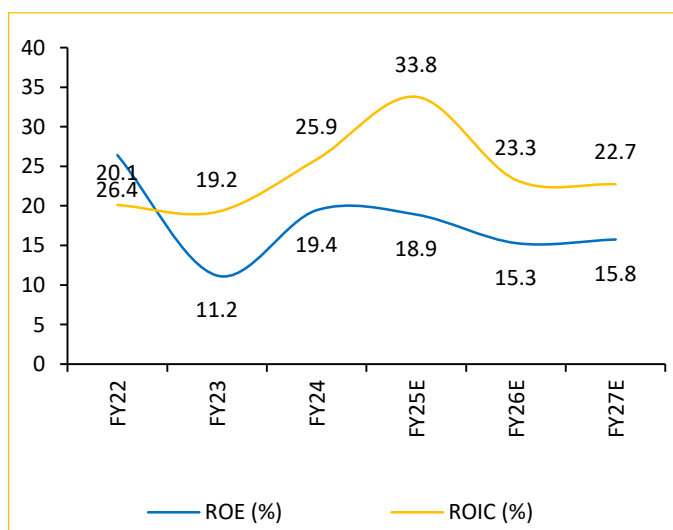
Source: Company, CEBPL

Adj. PAT Expected to Track EBITDA Downtrend

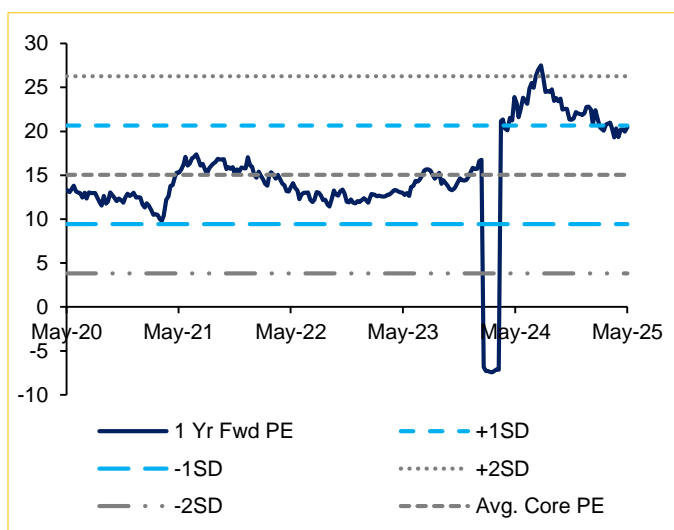
Source: Company, CEBPL

R&D Expense Uptick in Line with Company Outlook

Source: Company, CEBPL

ROE and ROIC

Source: Company, CEBPL

1 Yr Forward PE Band

Source: Company, CEBPL

Income statement (Consolidated in INR Mn)

Particular	FY23	FY24	FY25	FY26E	FY27E
Revenue	1,72,374	1,95,474	2,32,415	2,57,142	2,89,243
Gross Profit	1,09,273	1,33,192	1,69,035	1,82,571	2,08,255
EBITDA	38,599	53,843	70,585	66,857	80,409
Depreciation	7,227	7,641	9,158	10,080	11,055
EBIT	33,238	49,043	64,122	60,634	73,693
Other Income	1,866	2,841	2,695	3,857	4,339
Interest Expense	1,299	812	1,659	1,602	1,550
PBT	25,897	48,089	60,267	59,032	72,143
Reported PAT	19,603	38,563	45,255	43,393	53,226
EPS	19.4	38.3	45.0	43.1	52.9

Source: Company, CEBPL

Ratio Analysis	FY23	FY24	FY25	FY26E	FY27E
Growth Ratios					
Revenues	14.1	13.4	18.9	10.6	12.5
Gross Profit	14.2	21.9	26.9	8.0	14.1
EBITDA	15.5	39.5	31.1	(5.3)	20.3
PAT	(56.3)	96.7	17.4	(4.1)	22.7
Margins					
Gross Profit Margin	63.4	68.1	72.7	71.0	72.0
EBITDA Margin	22.4	27.5	30.4	26.0	27.8
PBT Margin	15.0	24.6	25.9	23.0	24.9
Tax Rate	22.7	20.3	23.4	25.0	25.0
PAT Margin	11.4	19.7	19.5	16.9	18.4
Profitability					
Return On Equity (ROE)	11.2	19.4	18.9	15.3	15.8
Return On Invested Capital (ROIC)	19.2	25.9	33.8	23.3	22.7
Return On Capital Employed (ROCE)	17.8	23.8	23.6	19.3	20.0
Financial leverage					
OCF/EBITDA (x)	0.8	0.8	1.2	1.0	1.1
OCF / Net profit (x)	1.3	0.8	1.5	1.2	1.3
EV/EBITDA (x)	23.6	16.8	12.8	13.5	10.9
Earnings					
EPS	24.0	38.4	46.7	43.1	52.9
Shares Outstanding	1,012.5	1,006.0	1,006.0	1,006.0	1,006.0
Working Capital					
Inventory Days	197	202	227	230	230
Receivable Days	94	97	63	60	60
Creditor Days	45	40	36	35	35
Working Capital Days	246	259	254	255	255

Source: Company, CEBPL

Balance sheet (Consolidated in INR Mn)

Particular	FY23	FY24	FY25	FY26E	FY27E
Net Worth	1,96,883	2,21,016	2,63,584	3,06,387	3,59,024
Borrowings	11,751	7,791	31,811	30,811	29,811
Trade Payables	21,250	21,267	23,058	24,657	27,736
Other Non-current Liabilities	5,374	18,373	18,017	16,715	17,711
Other Current Liabilities	22,306	24,361	35,547	22,115	23,338
Total Net Worth & Liabilities	2,57,564	2,92,808	3,72,017	4,00,686	4,57,620
Net Block	56,965	58,033	60,420	64,340	66,286
Capital WIP	11,302	11,115	13,179	13,179	13,179
Goodwill, Intangible Assets	58,949	78,770	84,657	87,881	91,427
Investments	15,466	12,205	64,078	73,780	85,423
Trade Receivables	44,168	52,202	40,247	42,270	47,547
Cash & Cash Equivalents	5,732	11,051	29,568	29,557	58,111
Other Non-current Assets	20,911	20,196	27,733	29,060	29,381
Other Current Assets	44,072	49,236	52,135	60,618	66,267
Total Assets	2,57,565	2,92,808	3,72,017	4,00,686	4,57,620

Source: Company, CEBPL

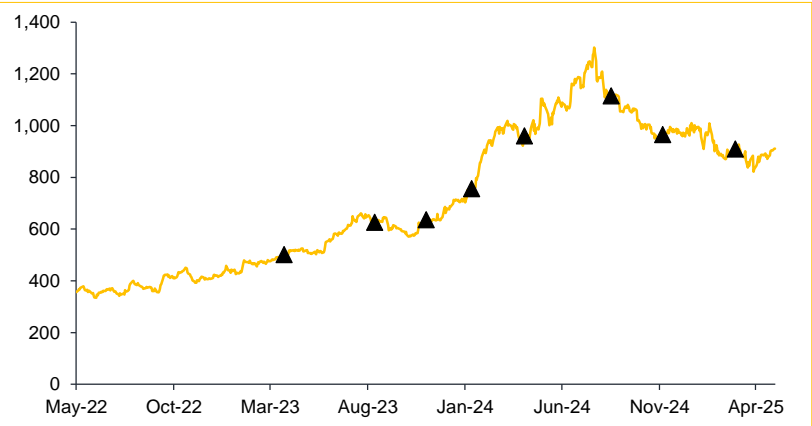
Cash Flows (INR Mn)	FY23	FY24	FY25	FY26E	FY27E
Cash Flows From Operations	26,888	32,279	67,767	52,846	70,641
Cash Flows From Investing	15,350	(14,752)	(83,723)	(26,926)	(28,189)
Cash Flows From Financing	(44,004)	(18,104)	20,142	(25,931)	(13,898)

Source: Company, CEBPL

DuPont Analysis (INR Mn)	FY23	FY24	FY25	FY26E	FY27E
ROE	11.2%	19.4%	18.9%	15.3%	15.8%
Net Profit Margin	11.4%	19.7%	19.5%	16.9%	18.4%
Asset Turnover	0.7	0.7	0.6	0.6	0.6
Financial Leverage	1.5	1.5	1.6	1.4	1.4

Source: Company, CEBPL

Historical share price chart: Zydus Lifesciences Limited



Date	Rating	Target Price
May 19, 2023	ADD	581
August 14, 2023	ADD	736
November 11, 2023	ADD	674
February 2, 2024	ADD	936
May 18, 2024	BUY	1,319
August 13, 2024	BUY	1,319
November 12, 2024	HOLD	1,049
February 6, 2025	BUY	1,240

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Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be consistent over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

*Large Cap: More Than INR 20,000Cr Market Cap
*Mid & Small Cap: Less Than INR 20,000Cr Market Cap

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