

Zydus Lifesciences Ltd.

BUY

Choice

Zydus reported earnings that exceeded our estimates across all metrics. Revenue increased by 20.8% YoY and 2.2% QoQ to INR 62,075 mn, driven by consistent growth across the business. EBITDA rose by 38.4% YoY and 27.8% QoQ to INR 20,840 mn, with margins expanding by 428bps YoY and slightly by 14bps QoQ to 33.6%. PAT showed strong growth of 29.2% YoY and 20.4% QoQ to INR 14,199 mn, with a margin of 23%. Management expects to achieve high-teen top-line growth in FY25.

- India Formulations:** The formulations segment generated revenue of INR 13,758 mn, reflecting a 12% YoY growth, primarily driven by strong volume growth in pillar brands and innovative products, contributing 22.8% to total sales. The company launched 10 new products, including 3 first-in-India launches, and outpaced the IPM in key therapies such as Cardiology, Gynecology, Dermatology, Respiratory, Anti-infectives, and super-specialty areas like Oncology and Nephrology. The company maintained its leadership in the Nephrology segment and remained the fastest-growing Indian company in Oncology. The food and nutrition segment also saw a recovery, posting double-digit growth. Efforts in the India formulations segment are focused on expanding presence across key therapies.
- US Formulation Business:** The company reported a 26% YoY and 22.6% QoQ increase in US business revenue, reaching INR 30,929 mn, which accounted for 51% of total sales. The company launched 7 new products, filed 5 ANDAs, and received approval for 6 ANDAs, including 2 tentative approvals. Notable new launches include Zituvimet™ (a 505(b)(2) product for metabolic disorder management) and Mirabegron ER tablets. The company plans to launch over 25 new products and anticipates healthy double-digit growth in FY25.
- Margin Performance:** The company reported a gross margin of 74.4%, marking a notable increase of 703bps YoY and a slight rise in QoQ. Similarly, EBITDA expanded by 428bps YoY and 14bps QoQ to 33.6%, driven by an improved product and market mix. The company anticipates that SG&A costs will remain stable, but expects the EBITDA margin to improve by 100-150bps in FY25 compared to FY24. Additionally, R&D expenses are projected to be 8% of sales for FY25.
- Outlook and Valuation:** The growth trajectory is supported by double-digit expansion in all key markets and a projected high-teens top-line growth for the upcoming year. This includes the launch of new products, leveraging the innovation portfolio in India, and scaling up the specialty business in the US. There is also potential for further margin improvement at the current level, especially with no competition for Asacol. The stock is valued based on a FY26E EPS of INR 55, applying a PE multiple of 24x, which results in a target price of INR 1,319. We maintain our BUY rating on the stock.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	1,51,099	1,72,374	1,95,474	2,25,738	2,57,423
Gross Profit (INR Mn.)	95,647	1,09,273	1,33,192	1,55,856	1,78,364
EBITDA (INR Mn.)	33,407	38,599	53,843	63,932	74,895
EBITDA Margin (%)	22.1	22.4	27.5	28.3	29.1
EPS (INR)	42.9	24.0	38.3	46.3	55.0

Source: Company, CEBPL

Aug 13, 2024

CMP (Rs)	1,254
Target Price (Rs)	1,319
Potential Upside (%)	5.2

Company Info

BB Code	ZYDUSLIF N
ISIN	INE010B01027
Face Value (Rs.)	1.0
52 Week High (Rs.)	1,324
52 Week Low (Rs.)	568
Mkt Cap (Rs bn.)	1,261
Mkt Cap (\$ bn.)	15
Shares o/s (Mn.)/F.Float (%)	1006/25
TTM EPS (Rs)	41.5
EPS FY26E (Rs)	55.0

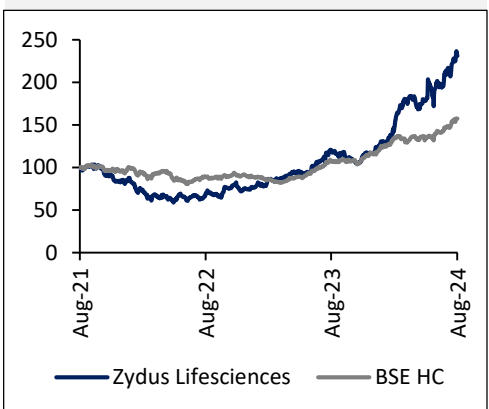
Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	74.98	74.98	74.98
FII's	5.59	5.72	4.99
DII's	12.56	12.55	12.96
Public	6.88	6.73	7.06

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Healthcare	57.4	78.1	46.8
Zydus Lifesciences	131.1	229.8	91.6

Rebased Price Performance



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Quarterly performance

Particulars (Rs. Mn.)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	62075	51396	20.8%	55338	12.2%
Cost of Goods Sold	15861	16744	-5.3%	16115	-1.6%
Gross Margin (%)	74.4%	67.4%	702.7 bps	70.9%	357.0 bps
Employee Expenses	8835	7304	21.0%	8370	5.6%
EBITDA	20840	15053	38.4%	16305	27.8%
EBITDA Margin (%)	33.6%	29.3%	428.4 bps	29.5%	410.8 bps
Depreciation	2153	1798	19.7%	2053	4.9%
EBIT	19319	13615	41.9%	15816	22.1%
Interest	322	181	77.9%	346	-6.9%
PBT	18997	13292	42.9%	15470	22.8%
Tax	4361	2161	101.8%	3212	35.8%
Adj. PAT	14199	10988	29.2%	11791	20.4%
PAT Margin (%)	22.9%	21.4%	149.5 bps	21.3%	156.7 bps
Adj. EPS	14.1	10.9	30.0	11.7	20.4

Source: Company, CEBPL

Geographical Performance

Rs. In Mn.	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
India	13758	12270	12.1	13806	(0.3)
% of sales	22.2%	23.9%	-171.0	24.9%	-278.5
US	30929	24541	26.0	25235	22.6
% of sales	49.8%	47.7%	207.6	45.6%	422.4
Ems	5309	4893	8.5	4960	7.0
% of sales	8.6%	9.5%	-96.8	9.0%	-41.1
Wellness	8366	6936	20.6	7755	7.9
% of sales	13.5%	13.5%	-1.8	14.0%	-53.7
JVs	688	499	37.9	472	45.8
% of sales	1.1%	1.0%	13.7	0.9%	25.5
API	1415	1389	1.9	1436	(1.5)
% of sales	2.3%	2.7%	-42.3	2.6%	-31.5
Other Operating Income	1610	868	85.5	1674	(3.8)
% of sales	2.6%	1.7%	90.5	3.0%	-43.1
Total Sales	62075	51396	20.8	55338	12.2

Source: Company, CEBPL

CEBPL Estimates vs Actual

Particulars (Rs mn)	Actual	Estimates	Deviation (%)
Net Sales	62,075	56,552	9.8
EBITDA	20,840	16,060	29.8
EBITDA Margin (%)	34	28	517
PAT	14,199	10,772	31.8
EPS	14.1	10.6	32.6

Source: Company, CEBPL

Change in estimates for FY25E & FY26E

Income Statement (INR Mn.)	FY25E			FY26E		
	New	Previous	Change	New	Previous	Change
Net sales	2,25,738	2,25,672	0.0%	2,57,423	2,56,731	0.3%
EBITDA	63,932	62,547	2.2%	74,895	72,451	3.4%
EBITDA margin(%)	28.3	27.7	60.6	29.1	28.2	87.3
PAT	46,589	45,957	1.4%	55,299	53,858	2.7%
EPS	46	46	1.4%	55	54	2.7%

Source: Company, CEBPL

Management Call - Highlights

India Business

- Branded formulations outperformed the market with 13% YoY growth.
- Consumer wellness saw industry-leading double-digit growth, with a 17% volume increase due to improved demand and an extended summer season.
- The business outpaced market growth in both chronic and acute segments.
- Strong performance driven by key pillar brands and innovation.
- Retained leadership in nephrology and fastest growing in oncology within the IPM.
- The chronic portfolio's contribution increased to 41.3% as of IQVIA MAT June 24.
- The personal care segment, including Nicil and Everyuth brands, continued robust performance with double-digit growth.

US Business

- Delivered strong sequential and YoY performance due to new launches and volume expansion.
- The company plans to launch 25+ new products.
- Management also aims to scale up the specialty business.
- The LiqMed acquisition, coupled with strong customer relationships and regulatory-compliant manufacturing, is expected to ensure sustained growth.

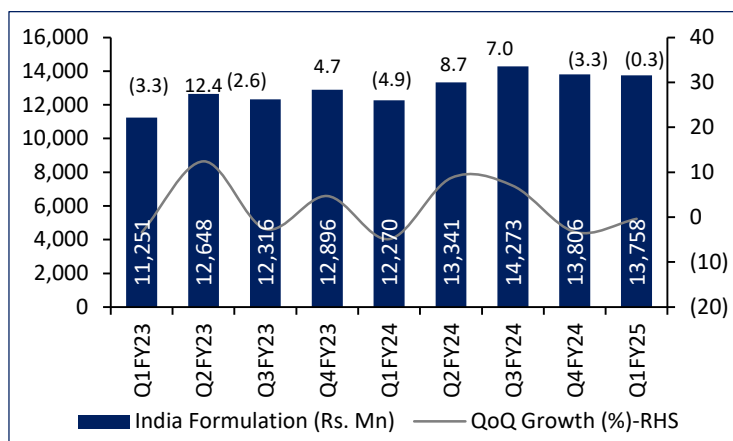
International Business

- Demand remains strong across key markets despite political and economic challenges.

Others

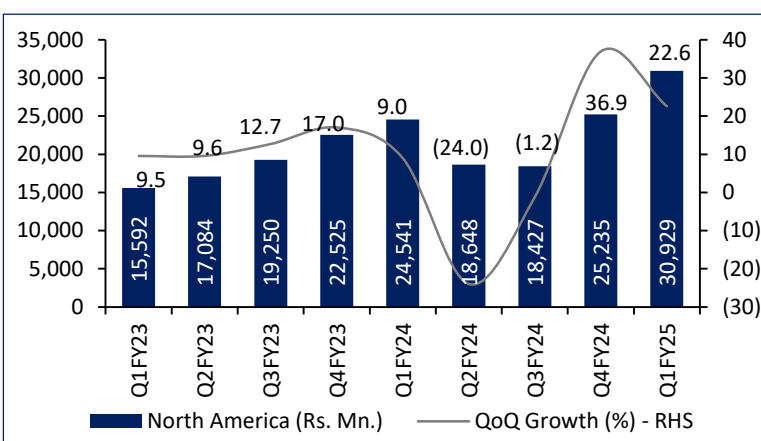
- The US FDA classified two injectable facilities in Ahmedabad SEZ and JAROD near Baroda as Official Action Indicated (OAI).
- The company is committed to strengthening its core business and exploring new opportunities for better patient outcomes.
- The company is targeting vaccine product launches in FY28.
- The capacity build-up for generic Vascepa is affected by pricing challenges.
- Zydus is focused on expanding its innovation pipeline. Recent developments include the completion of patient recruitment for several clinical trials related to new chemical entities (NCEs) and monoclonal antibodies.
- The company plans to maintain R&D spending at around 8% of sales, emphasizing the importance of innovation in driving future growth.
- Zydus aims to utilize its cash generation effectively, focusing on scaling its specialty business in the US, exploring opportunities in India, and expanding its international business.

India Formulation (Rs. mn) and QoQ Growth (%)



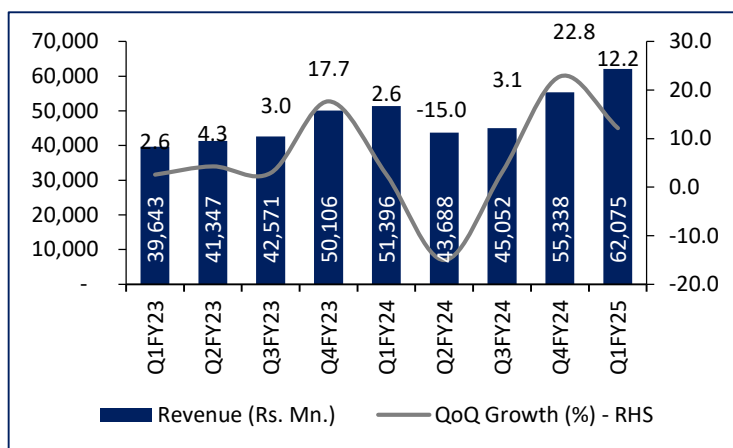
Source: Company, CEBPL

North America Formulation (Rs. mn) and QoQ Growth (%)



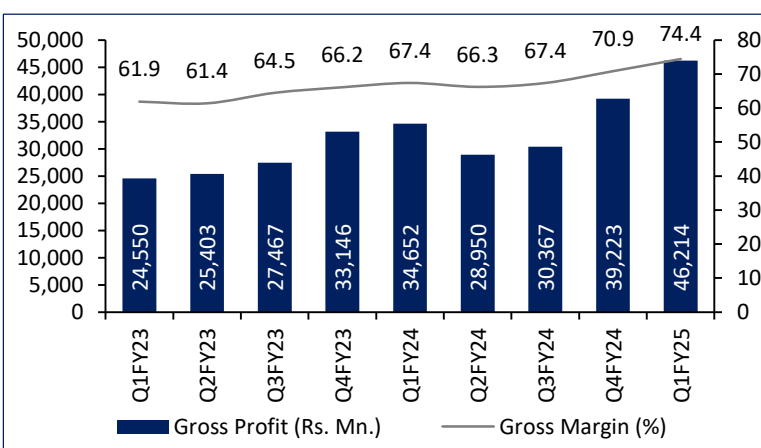
Source: Company, CEBPL

Revenue (Rs. mn) and QoQ Growth (%)



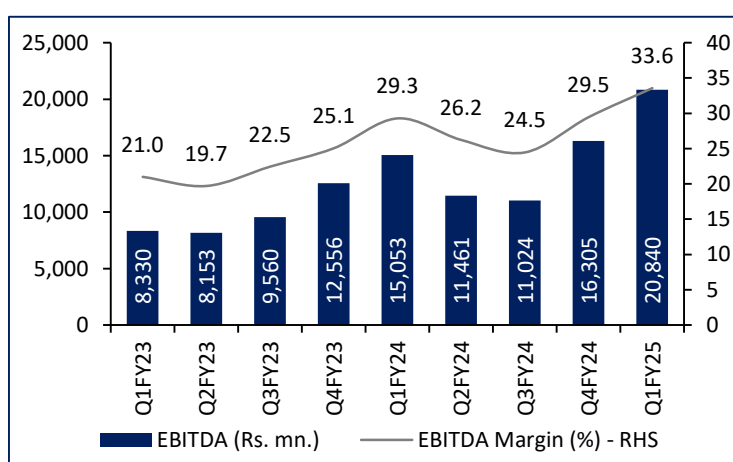
Source: Company, CEBPL

Gross Profit (Rs. mn) and Margin (%)



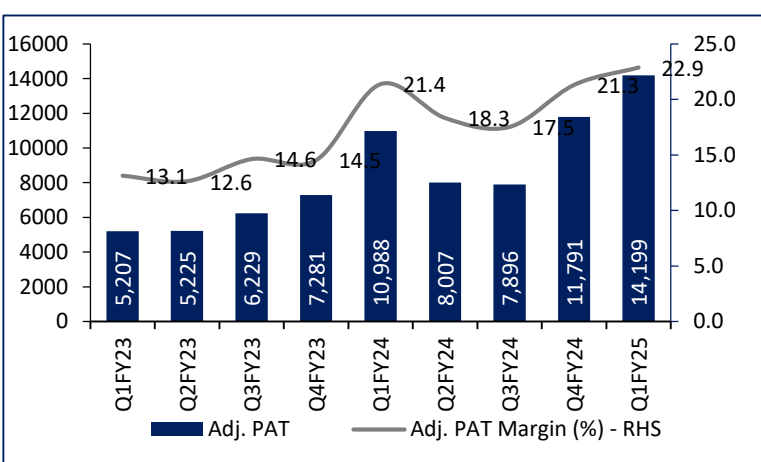
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



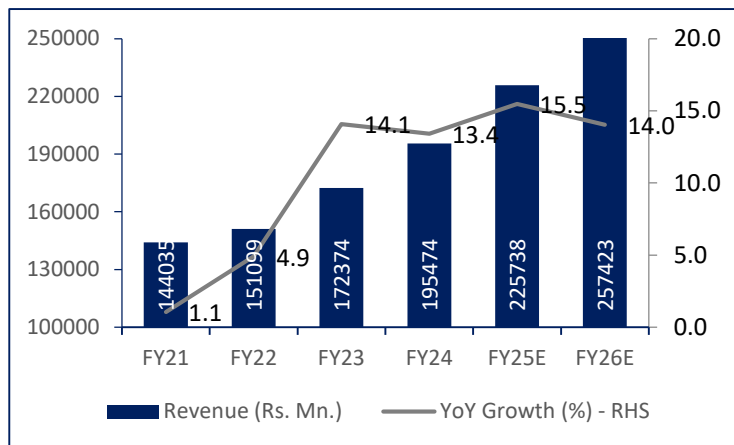
Source: Company, CEBPL

Adj. PAT (Rs. mn) and Margin (%)



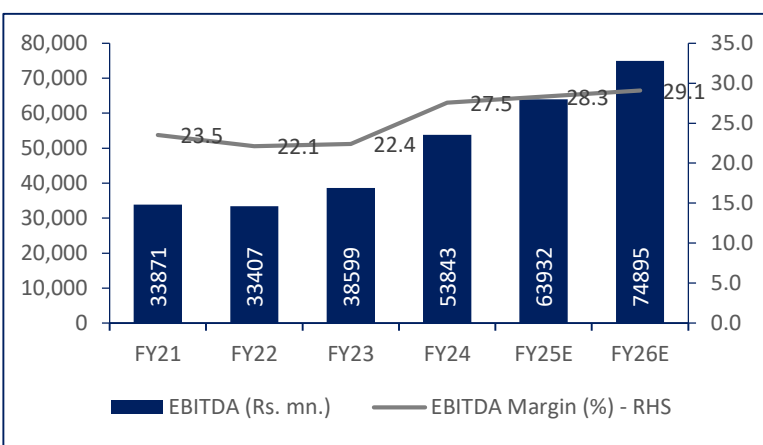
Source: Company, CEBPL

Revenue (Rs. mn) and YoY Growth (%)



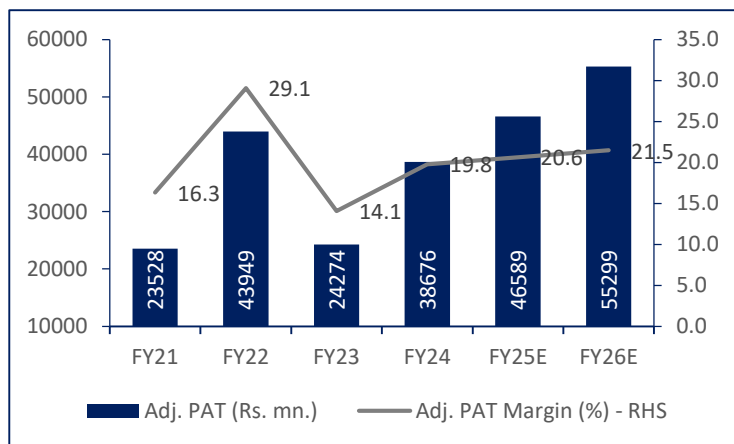
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



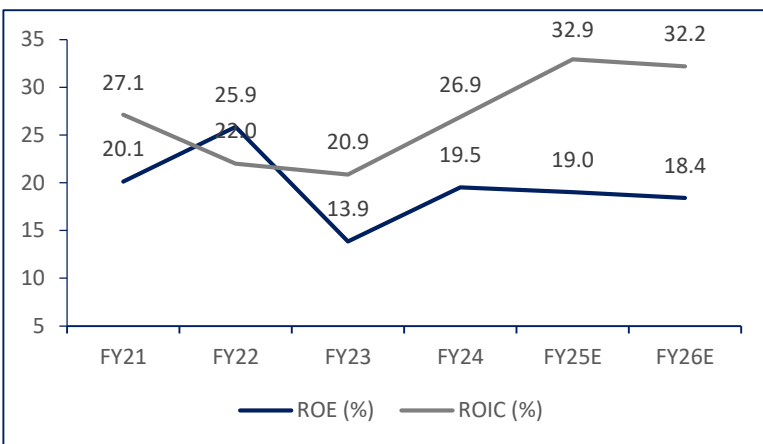
Source: Company, CEBPL

Adj. PAT (Rs. mn) and Margin (%)



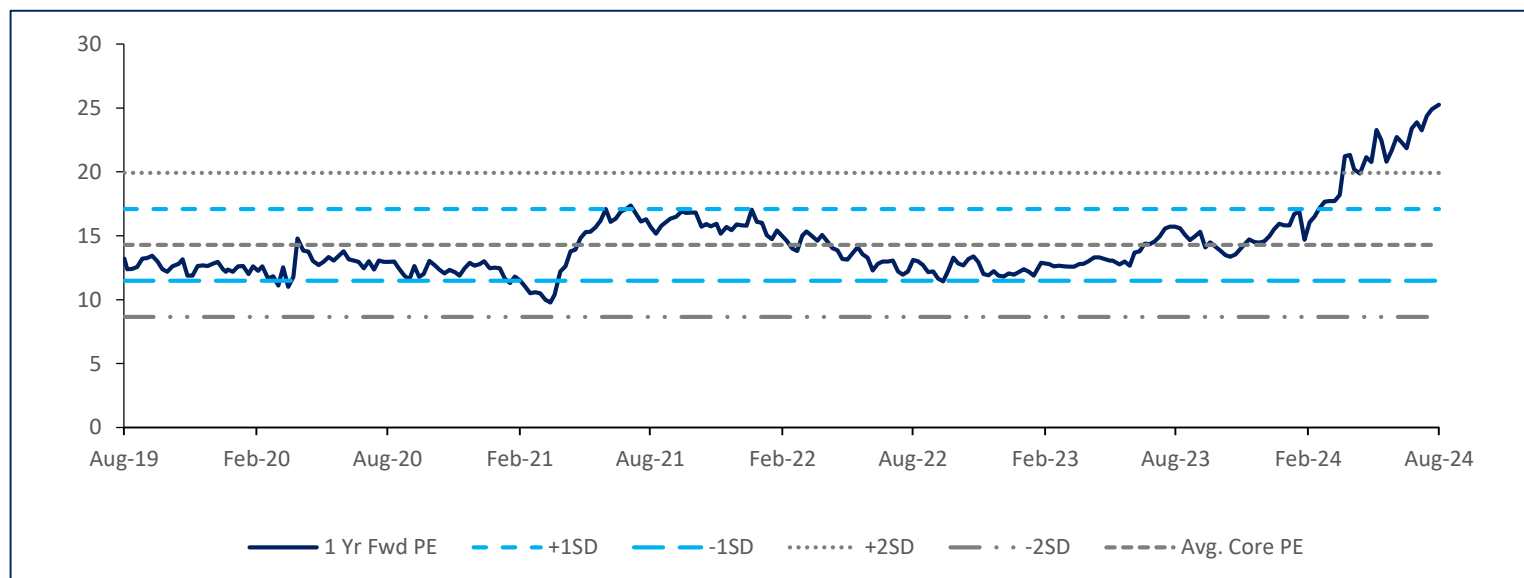
Source: Company, CEBPL

ROE (%) and ROIC (%)



Source: Company, CEBPL

1 year forward PE Band



Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,51,099	1,72,374	1,95,474	2,25,738	2,57,423
Gross profit	95,647	1,09,273	1,33,192	1,55,856	1,78,364
EBITDA	33,407	38,599	53,843	63,932	74,895
Depreciation	7,130	7,227	7,641	7,628	8,180
EBIT	28,524	33,238	49,043	59,691	70,576
Other income	2,247	1,866	2,841	3,386	3,861
Interest expense	1,270	1,299	812	654	514
PBT	28,381	25,897	48,089	59,036	70,063
Adj. PAT	43,949	24,274	38,676	46,589	55,299
Adj. EPS (INR)	42.9	24.0	38.4	46.3	55.0

Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Net worth	1,90,538	1,96,883	2,21,016	2,69,155	3,26,004
Borrowings	42,048	11,751	7,791	6,233	4,986
Trade Payables	21,378	21,250	21,267	27,831	31,737
Other current liabilities	5,401	5,374	18,373	18,930	20,958
Other non- current liabilities	18,589	22,306	24,361	28,325	31,779
Total Net Worth & liabilities	2,77,954	2,57,564	2,92,808	3,50,474	4,15,464
Net Block	57616	56965	58033	58905	59225
Capital WIP	6,610	11,302	11,115	9,615	8,115
Goodwill & intangible assets	64,918	58,949	78,770	84,263	88,699
Investments	32,880	15,466	12,205	23,702	39,901
Trade Receivables	33,403	44,168	52,202	58,754	69,116
Cash & Cash equivalents	11,069	5,731	11,051	34,810	49,925
Other non-current assets	16,848	20,911	20,196	22,165	22,798
Other current assets	54,610	44,072	49,236	58,259	77,685
Total Assets	2,77,954	2,57,564	2,92,808	3,50,474	4,15,464

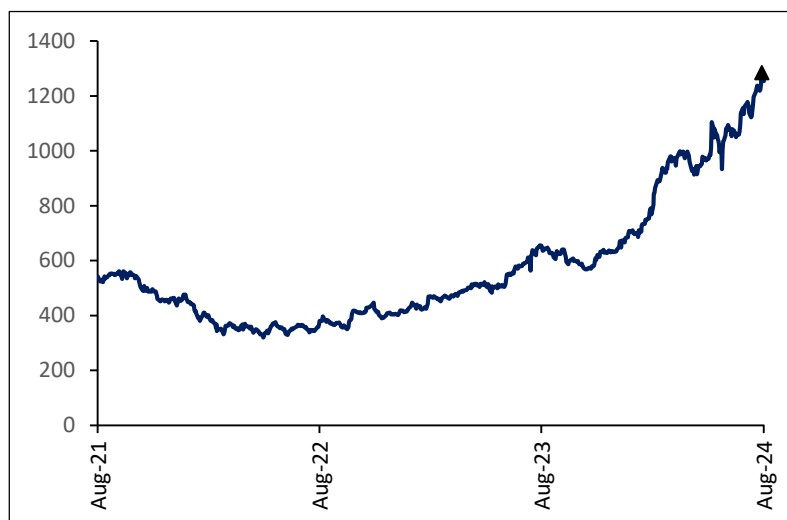
Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
CFO	21,044	26,888	32,279	66,917	51,139
CFI	(10,003)	11,403	(15,318)	(23,991)	(27,634)
CFF	(8,683)	(44,004)	(18,104)	(10,168)	(8,391)

Source: Company, CEBPL

Growth Ratios (%)	FY22	FY23	FY24	FY25E	FY26E
Revenues	4.9	14.1	13.4	15.5	14.0
Gross Profit	(0.4)	14.2	21.9	17.0	14.4
EBITDA	(1.4)	15.5	39.5	18.7	17.1
EBIT	3.2	16.5	47.6	21.7	18.2
PBT	1.0	(8.8)	85.7	22.8	18.7
Adj. PAT	86.8	(44.8)	59.3	20.5	18.7
Margins (%)					
Gross Profit	63.3	63.4	68.1	69.0	69.3
EBITDA	22.1	22.4	27.5	28.3	29.1
EBIT	18.9	19.3	25.1	26.4	27.4
PBT	18.8	15.0	24.6	26.2	27.2
Tax rate	18.0	22.7	20.3	21.0	21.0
Adj. PAT	29.1	14.1	19.8	20.6	21.5
Profitability (%)					
ROE	25.9	13.9	19.5	19.0	18.4
ROIC	22.0	20.9	26.9	32.9	32.2
ROCE	13.5	17.8	23.8	23.8	23.1
Financial leverage (x)					
Pre-tax OCF/EBITDA	0.8	0.8	0.8	1.2	0.9
OCF / Net profit	0.9	1.3	0.8	1.4	0.9
EV/EBITDA	27.2	23.5	20.9	19.5	16.4
Earnings					
EPS (Rs.)	42.9	24.0	38.4	46.3	55.0
Shares outstanding	1,024.0	1,012.5	1,006.0	1,006.0	1,006.0
Working Capital (days)					
Inventory days	90	72	64	65	70
Receivable days	81	94	97	95	98
Creditor days	52	45	40	45	45
Working Capital days	119	121	122	115	123
Current Ratio (x)	1.5	1.8	2.1	2.6	3.2

Source: Company, CEBPL

Historical recommendations and target price: Zydus Lifesciences



Zydus Lifescience

1.	30-07-2021	REDUCE,	Target Price Rs.590
2.	29-10-2021	REDUCE,	Target Price Rs.460
3.	04-02-2022	NEUTRAL,	Target Price Rs.416
4.	23-05-2022	ADD,	Target Price Rs.405
5.	06-02-2023	ADD,	Target Price Rs.5,235
6.	19-05-2023	ADD,	Target Price Rs.581
7.	14-08-2023	ADD,	Target Price Rs. 736
8.	08-11-2023	ADD,	Target Price Rs. 674
9.	16-02-2024	ADD,	Target Price Rs. 936
10.	18-05-2024	BUY,	Target Price Rs. 1,319
11.	13-08-2024	BUY,	Target Price Rs. 1,319

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security expected to show Below 0% next 12 months

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